Volution Group plc Annual Report 2017

Excellence in ventilation

Excellence in ventilation

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

Strategic Report

Governance Report

Financial Statements

Additional Information

Front cover:

inVENTer®
simply fresh air

The Pulsar fan launched in Germany under the inVENTer brand based on a Group fan platform developed jointly by Sweden and the UK.

Find out more online

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www.volutiongroupplc.com

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

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

Total locations

21

Locations

Acquisitions in FY2017

UK & Ireland

Ten locations
Seven brands

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

Central Europe

Four locations
Four brands

- INVENTER simply fresh air
- BRÜGGEMANN ENERGIEKONZEPTE
- Ventilair GROUP
- Vent-Axia

Nordics

Seven locations
Four brands

- Fresh
- PAX
- welair
- VoltAir LUFTBEHANDLING

Highlights

Strong revenue growth of 20% and adjusted EPS up 8%.

Recent acquisitions integrating well, supplementing continued organic growth.

Financial

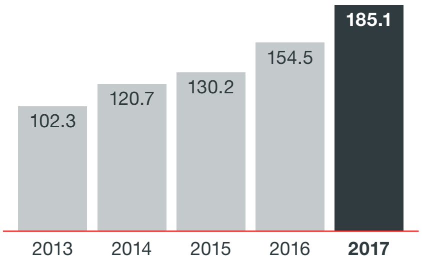
- Strong revenue growth of 19.8% (14.5% at constant currency):
  - organic revenue growth of 7.3% (2.1% at constant currency); and
  - inorganic revenue growth of 12.5% (12.4% at constant currency).
- Adjusted operating profit increased by 9.6% to £35.6 million (4.2% at constant currency).
- As anticipated, adjusted operating profit margin declined by 1.7 percentage points, partly as a consequence of new acquisitions.
- Reported profit before tax declined by 2.5% to £17.9 million (2016: £18.4 million), resulting predominantly from the increased amortisation of acquired intangible assets and a movement in the fair value of derivative financial instruments.
- Adjusted operating cash flow was very strong at £35.9 million (2016: £31.1 million).
- Net debt to adjusted EBITDA ratio of 0.9x after two acquisitions completed in the year.
- Adjusted basic and diluted EPS growth of 7.9% to 13.6 pence (2016: 12.6 pence).
- Reported basic and diluted EPS declined by 10.3% to 7.0 pence (2016: 7.8 pence).
- Full year dividend of 4.15 pence per share, up 9.2%.

Strategic

- Two acquisitions completed during the year, strengthening our position in existing geographies, with all integration activity for recent acquisitions progressing well.
  - Acquisition of Breathing Buildings Limited completed in December 2016. Breathing Buildings has been pioneering natural and hybrid ventilation systems since 2006, with which it has become very successful within the new build education sector. The acquisition has widened our capability with a leader in natural and hybrid ventilation for commercial buildings, strengthened our product range and broadened our channel to market.
  - Acquisition of VoltAir System AB completed in May 2017. VoltAir System has a strong presence in the residential and commercial new build ventilation markets in Sweden in the growing market for energy-efficient air handling units. The business is highly complementary to our strong position in the Nordic residential refurbishment ventilation products market.
- OEM (Torin-Sifan) launched its new high-efficiency Revolution 360 range of EC fans into volume production during the year, which offers benefits in both high efficiency and low noise to the European heating, ventilation and air conditioning industry.

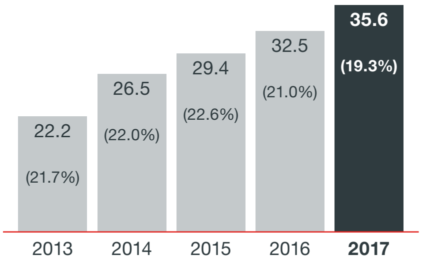
Revenue £m

£185.1m



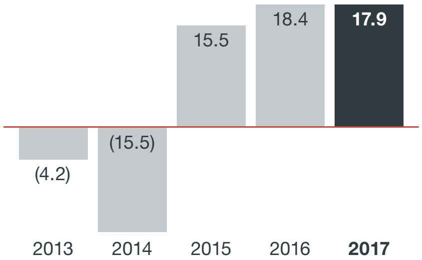
Adjusted operating profit and adjusted operating profit margin
£m (% of revenue)

£35.6m (19.3%)



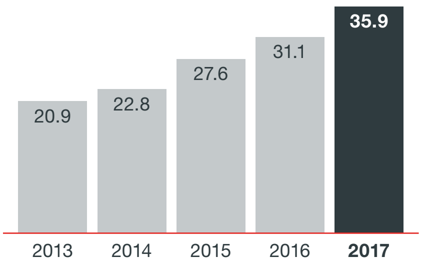
Reported profit before tax £m

£17.9m



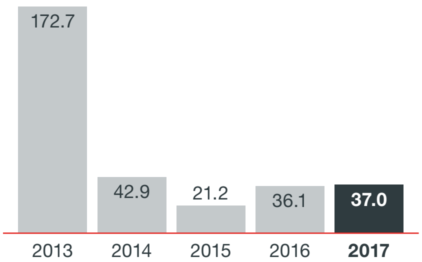
Adjusted operating cash flow £m

£35.9m



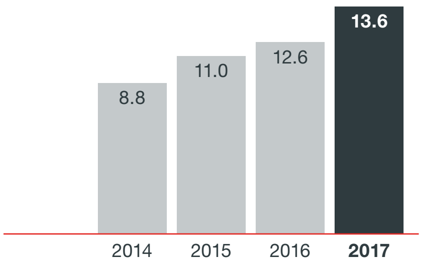
Net debt £m

£37.0m



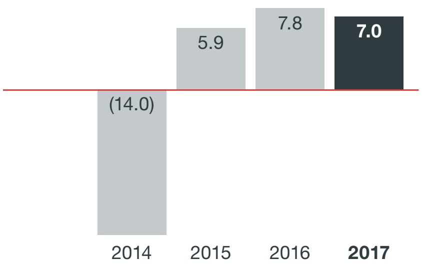
Adjusted EPS (basic and diluted) p

13.6p



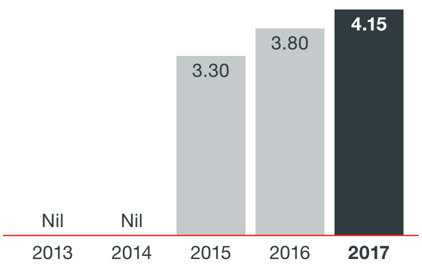
Reported EPS (basic and diluted) p

7.0p



Dividend per share p

4.15p



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

At a Glance

Excelling in residential and commercial markets across two business segments.

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

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

Ventilation Group

The Ventilation Group consists of 13 key brands, focused primarily on the UK, Swedish, Norwegian, German, Belgian and Dutch ventilation markets:

In the UK:	Vent-Axia, Manrose, Breathing Buildings, Diffusion, National Ventilation and Airtech
In the Nordics:	Fresh, PAX, VoltAir System and Welair
In Central Europe:	Ventilair, inVENTer, Brüggemann and Vent-Axia

The Ventilation Group has sector-leading positions in the UK, Sweden, Germany and Belgium.

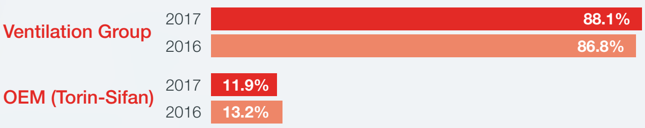
During the year, we completed the following acquisitions, enhancing and widening the Group's capability:

- Breathing Buildings: a leader in natural and hybrid ventilation for commercial buildings.
- VoltAir System: a strong player in the residential and commercial new build ventilation markets in Sweden in the growing market for energy-efficient air handling units.

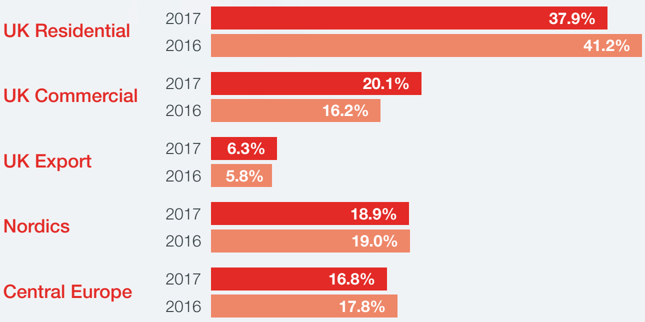
OEM (Torin-Sifan)

Torin-Sifan is a leading supplier of motors, motorised impellers, fans and blowers for the heating, ventilation and air conditioning industry worldwide. The majority of Torin-Sifan's products are sold into the residential and commercial heating and ventilation products markets.

% of Volution Group revenue (by segment)



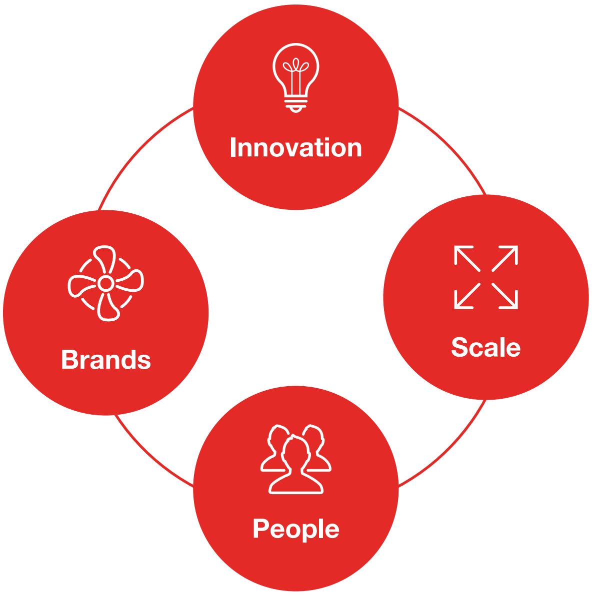
% of Ventilation Group revenue (by sector)



Find out more online
> **www.volutiongroupplc.com**

Our business model

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



Our Business Model
> **page 16**

Our strategy

Our strategy continues to focus on three key pillars:

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

Our Strategy
> **page 18**

Our recent history

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

2006
- AAC Capital and Management Team acquires Volution Holdings

2007
- Cable Management division sold
- Manrose Manufacturing acquired

2008
- Ronnie George joins Volution Holdings as Managing Director

2012
- TowerBrook acquires Volution Holdings
- Fresh AB acquired

2013
- PAX AB acquired

2014
- Assets and business of Öko-Haustechnik inVENTer GmbH acquired
- **Volution Group plc is formed and listed on the London Stock Exchange**
- Torin-Sifan opens new Manufacturing and Technology Centre in Swindon, UK

2015
- Brüggemann Energiekonzepte GmbH acquired
- Ventilair Group International BVBA acquired
- Weland Luftbehandling AB (renamed Welair AB) acquired
- Energy Technique plc (trading as Diffusion) acquired

2016
- NVA Services Limited (trading as National Ventilation and Airtech) acquired

FY2017

2017
- Breathing Buildings Limited acquired
- VoltAir System AB acquired

Find out more online
> **www.volutiongroupplc.com**

Chairman's Statement

Peter Hill, CBE

Strong results created through excellence in ventilation.

Summary

- A further set of strong results in line with our expectations
- Completed two value-adding acquisitions, enhancing our strategic positioning
- Strong cash generation which supports our continuing strategy to grow through acquisition
- Full year dividend increased by 9.2%
- Product innovation receiving industry accolades and underpinning our growth

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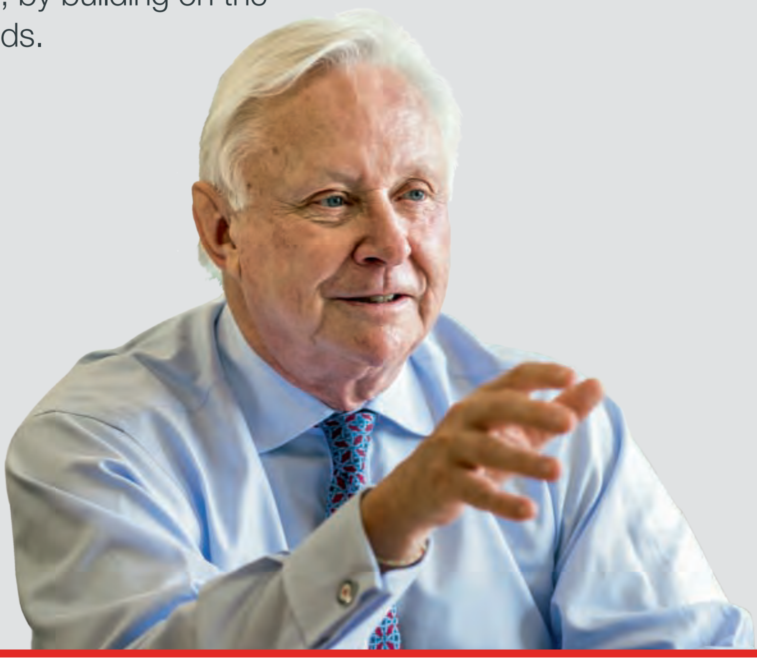
It was a historic year in which Vent-Axia, the UK's leading ventilation company, celebrated 80 years of innovation since the brand was founded by Joe Akester in 1936. Since then Volution has gone from strength to strength, by building on the heritage of our brands.

Peter Hill, CBE
Chairman



Dear shareholder,

I am pleased to present our Annual Report and Accounts for the year ended 31 July 2017, a year in which we have continued to make strong progress in building a more valuable Volution Group. This was despite the vote for the UK to leave the European Union and the resulting devaluation of Sterling against both the US Dollar and the Euro. While we expect some uncertainty ahead as the UK negotiates the terms of Brexit, we remain confident in the long-term prospects for the Group based on our clear strategy of building our brand portfolio while diversifying in markets and geographies. Our businesses performed well with excellent trading performance during the year with 19.8% growth in revenue, an increase in adjusted operating profit of 9.6% to £35.6 million and strong cash generation, making this the sixth consecutive year the business has recorded revenue and underlying operating profit growth.

During the year the Group made further progress with its strategy of making selective value-adding and strategically important acquisitions in our ventilation segment, acquiring Breathing Buildings in the UK and VoltAir System in Sweden. This strategic pillar, acquiring selective value-adding acquisitions, together with organic growth, has supported the achievement of another year of strong performance and growth. You can find further details on the Group's three strategic pillars on pages 18 to 19.

Performance and results

Another strong set of results reflects the growth achieved, both organically and through acquisitions, with the Group's revenue increasing by 19.8% to £185.1 million. Adjusted operating profit was £35.6 million, representing 19.3% of revenue and a £3.1 million improvement compared to the prior year. Reported profit before tax declined by 2.5% to £17.9 million (2016: £18.4 million), driven by the increased amortisation of acquired intangible assets and the movement in the fair value of financial instruments.

The basic and diluted earnings per share for the year was 7.0 pence (2016: 7.8 pence). Our adjusted earnings per share was 13.6 pence, representing a 7.9% increase over the adjusted earnings per share for the prior year (2016: 12.6 pence).

Revenue from the ventilation segment grew by 21.6% (16.3% at constant currency) to £163.1 million. Strong organic growth in the Nordics and the UK Residential New Build sector was partly offset by the continued challenging performance in the UK Residential Repair, Maintenance and Improvement (RMI) sector. Revenue from the OEM (Torin-Sifan) segment grew by 7.7% (2.8% at constant currency) to £22.0 million. The Group's inorganic revenue growth of 12.5% benefited from the full year effect of the prior year acquisitions and the acquisitions of Breathing Buildings in the UK and VoltAir System in Sweden during the year.

Cash generation was strong with adjusted operating cash flow of £35.9 million (2016: £31.1 million). Net debt at the year end of £37.0 million (2016: £36.1 million) was only £0.9 million higher than last year, despite having completed two acquisitions incurring a net cash outflow of £18.1 million.

Acquisitions

The acquisition of Breathing Buildings widens Volution's capability with a market leader in natural and hybrid ventilation for commercial buildings, in particular focusing on new construction in the UK education sector. VoltAir System is a strong player in the residential and commercial new build ventilation markets in Sweden in the growing market for energy-efficient air handling units.

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

Dividends

We aim to deliver shareholder value through organic and inorganic growth and a sustainable dividend policy. We paid an interim dividend of 1.35 pence per share in May 2017. On the basis of our strong results, the Board has recommended a final dividend of 2.80 pence per share, giving a total dividend for the financial year of 4.15 pence per share (2016: 3.80 pence per share), an increase of 9.2% on the previous year. As a consequence of this recommendation, the resulting adjusted earnings dividend cover for the year is 3.3x (2016: 3.3x). Subject to approval by shareholders at the Annual General Meeting on 13 December 2017, the final dividend will be paid on 18 December 2017 to shareholders on the register at 24 November 2017.

Innovation

It was a historic year in which our subsidiary Vent-Axia, the UK's leading ventilation company, celebrated 80 years of innovation since the brand was founded by Joe Akester in 1936 when he invented the world's first electrically operated window fan. Vent-Axia has been a leading British manufacturer ever since and the brand has become a household name featuring annually in the UK Superbrands league table and holding the prestigious Royal Warrant. This ethos of innovation has continued and we were delighted when Vent-Axia celebrated winning three separate awards during the year, two for the Kinetic Advance mechanical ventilation with heat recovery unit and one for the Revive fan. More information on these awards can be found in the Chief Executive Officer's Review on pages 9 to 11. This spirit of innovation and continuous improvement is applied across our brand portfolio.

During the year we commenced a project to rationalise part of our UK manufacturing footprint into one location. The facilities in Reading and Slough are being relocated to a newly built facility at Suttons Business Park in Reading, with the move to be complete by the middle of 2018. This new facility is state of the art and is aligned with our ethos of innovation and "Excellence in Ventilation".

UK leaving the European Union

Since the UK's vote to leave the European Union, the Group has continued to monitor business performance closely. Although it is still too early to assess the implications for our business and operations over the longer term, we do not believe that there will be any material near-term impact on demand for our products. However, the weakness of Sterling against foreign currencies has persisted and has led to increasing cost pressures in the UK, primarily from the direct import of components whose costs are tied to the US Dollar. Our exposure to US Dollar-denominated purchases from Asia is substantially hedged for the balance of the 2018 financial year and we continue to mitigate the effect on costs by implementing price increases and product cost reductions.

Following the completion of ten acquisitions since September 2012, Volution is now a more diversified and flexible business. With our proven track record of performing well in challenging trading environments and our strong balance sheet, we are confident about delivering on our strategy over time.

Chairman's Statement continued

Peter Hill, CBE

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. Details of our processes and approach, including those relating to the role and effectiveness of the Board, and compliance with the UK Corporate Governance Code, are set out in the Governance Report on pages 50 to 57.

Board

As part of the Board's ongoing remit to set the right tone from the top and build its understanding of Volution's business, the Board visited the Hälleforsnäs facility in Sweden, following its visit to our German operations in 2016. It is the Board's intention to continue to visit other facilities across the Group to build its understanding of each business unit.

As previously reported in August 2016, we welcomed Claire Tiney to the Board as an independent Non-Executive Director. Claire has over 20 years of board-level experience encompassing executive and non-executive roles in blue-chip retailing, property development and the services sectors, across the UK and Continental Europe. The Board has welcomed Claire's contribution since her appointment reflecting her board experience.

In June 2017 we celebrated three years as a listed company. At that time the four Non-Executive Directors who were appointed at listing (Tony Reading, Paul Hollingworth, Adrian Barden and me) were re-appointed as Non-Executive Directors following the end of the three-year term of office. Adrian Barden was initially appointed to the former holding company of the Group, Windmill Topco Limited, on 3 February 2012 and provided important continuity on the Board whilst the business moved from private-equity ownership to a listed company. With the need to progressively refresh the Board and given that Adrian will have served just under six years on the current and pre-IPO Board at the time of the 2017 Annual General Meeting, he will be retiring at the AGM and will not be seeking re-election from shareholders. I would like to extend my thanks to Adrian for his contributions during his tenure. To ensure an orderly succession plan, the Nomination Committee has recently initiated a search for a new Non-Executive Director and an announcement will be made in due course. Further information can be found in the Nomination Committee Report on pages 58 to 59.

People

It has been another year of growth for the Group with the addition and integration of two new businesses and the Volution team has performed well against this continued backdrop of change. Our strategy would not succeed were it not for the positive attitude and sheer hard work of our people in adapting to the constant change across the Group. Volution has a clear idea of where it is going and how to get there and we also have excellent leadership in our management teams.

Our second internal Management Development Programme concluded during the year. We place considerable value on this programme which, as well as helping to develop the effectiveness and scope of our people, has significantly assisted in the integration of new acquisitions as our high potential managers are made to feel part of a wider group network and assist in the formation of the overall Group culture. Given its success, a third programme is due to commence later in 2017.

In accordance with the relevant regulations, the Directors' Remuneration Policy will be put to a shareholder vote at the forthcoming Annual General Meeting and a number of changes have been proposed to reflect current best practice. The proposed changes are set out in the Directors' Remuneration Report on pages 67 to 84.

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

Peter Hill, CBE
Chairman
10 October 2017

Using our knowledge to create excellence in ventilation.

Summary

> Revenue of £185.1 million achieved by both organic and inorganic growth totalling 19.8%

> Another year of strong financial results with adjusted operating profit of £35.6 million, an increase of 9.6% over the prior year

> Two acquisitions completed in the year have further diversified the Group's market exposure, which now extends to new construction in the Nordics and a greater exposure to commercial projects in the UK

> Continuing investment in new product development including the upgraded offer to public housing refurbishment in the UK and a further extension of our market-leading residential heat recovery systems range

> The completion of our second Management Development Programme, developing our managers and leaders of tomorrow

Overview

I am pleased to report another year of strong results as we continue to build on the success of the past. We completed two acquisitions in the year, in line with our strategy of making selective value-adding acquisitions, and also successfully integrated the acquisitions made in the prior year. The acquisition of Breathing Buildings, a natural and hybrid ventilation system provider to the education sector in the UK was completed in December 2016 and more recently VoltAir System, a Swedish producer of heat recovery ventilation solutions for primarily the commercial new build market was completed in May 2017.

The integration of the National Ventilation and Airtech brands was completed in the year with a significant increase in their operating margins through the pre-planned product "swap-out" initiatives, product upgrades and the closure of the small manufacturing assembly operation in Lasham, Hampshire. The closure of the Lasham facility (part of our factory relocation project) was made possible through a product range development initiative, which resulted in the integration of the product supply inside the existing UK manufacturing footprint. I am also pleased to advise that all ten factory operatives at the facility were able to find alternative, local employment post closure.

The Group delivered organic revenue growth of 2.1% on a constant currency basis, in spite of the weakness in the Residential Public Repair, Maintenance and Improvement (RMI) market and the small decline in the UK commercial sector; all of our other market sectors across the Group delivered organic growth in the financial year. Input cost inflation has been rising, largely as a result of the weakness of Sterling versus the US Dollar; in mitigation we achieved more traction on our selling price initiatives towards the end of the financial year.

Torin-Sifan, after a decline in revenue in the first half of our financial year, delivered a full year organic revenue growth of 2.8% on a constant currency basis, assisted by the sales of the new, more energy-efficient and quieter electronically commutated (EC) 3 phase motorised impeller range.

Chief Executive Officer's Review continued

Ronnie George

Ventilation Group segment

The Ventilation Group's performance resulted in a 21.6% increase in revenue on prior year (16.3% at constant currency). Organic growth was 7.3% (2.0% at constant currency) including the organic decline in revenue from the UK Residential Public RMI market, offset by the continuing strong organic growth in the UK Residential New Build market and in the Nordics.

United Kingdom

Sales in our UK Residential New Build sector were £23.4 million (2016: £19.8 million), growth of 18.2%, assisted in the year by the additional revenues from National Ventilation, acquired in May 2016. Organic growth achieved was 8.3% with continuing growth in the order book. The Kinetic Advance, initially launched in 2016, is now gaining good revenue traction and is now being widely specified in a number of residential new projects for our financial year 2018. This product won "Energy Efficient Product of the Year" at the widely acclaimed Chartered Institution of Building Services Engineers Building Performance Awards in February 2017 together with "Domestic Ventilation Product of the Year" at the prestigious Heating and Ventilation News Awards in April 2017.

The UK Residential Public RMI market remained challenging with total revenue of £15.8 million up 10.1% on the prior year assisted by the acquisition of Airtech in May 2016. In this market, although our overall share has increased as a result of this acquisition, we experienced an organic decline of 9.2% in the year. The Revive, one of the most efficient, quiet and discreet bathroom and kitchen fans available to the public market sector, established itself during the year as did the upgraded Airtech product range. The Revive also won an award in the Air Movement category at the Heating and Ventilation News Awards in April 2017. Further new product launches are planned for later in 2017 and we have now combined the public housing resources of the acquired Airtech business with that of the Vent-Axia team, to provide a more diverse and compelling offer to the public market sector.

The UK private refurbishment sector performed better in the year with revenue of £22.7 million, an increase of 7.4% on prior year mainly due to the acquisition of National Ventilation. The second half of the financial year delivered an organic growth of 1.6% having declined in the first half of the year, resulting in a flat performance overall. Despite the market being subdued, we gained some significant new accounts towards the end of our financial year and have had greater success with price increase delivery in recent months. These successes, together with upselling our silent range of products across all our UK brands, give us a more optimistic outlook for revenue growth in this market sector for our financial year 2018.

UK Commercial revenue grew by 51.0% in the year to £32.7 million (2016: £21.7 million) mainly as a result of the acquisition of Breathing Buildings in December 2016 and the full year effect of Diffusion, acquired in the prior year. Organic revenue declined by 0.3% in the year. Since the acquisition of Diffusion in December 2015, sales have performed very strongly, requiring us to increase the manufacturing capacity of the business to support the increasing demand. The acquisitions of Diffusion and Breathing Buildings have improved our access to the attractive new build commercial projects market and provide us with a more balanced exposure in the UK to both the new and refurbishment opportunities in the commercial sector.

UK Export sales were £10.2 million (2016: £7.8 million), strong growth of 30.8% (20.7% at constant currency), benefiting from the additional export sales from Diffusion with an organic growth of 21.0% (10.8% growth at constant currency). Sales of our market-leading residential heat recovery products and our fan coil range have performed particularly well in Eire with exports from the UK also benefiting from weaker Sterling.

Nordics

Sales in the Nordics sector were £30.8 million (2016: £25.5 million), an increase of 20.8% (8.8% at constant currency) with organic revenue growth of 16.5% (5.1% growth at constant currency). Sales of the Calima fan, the first app-controlled extractor fan on the market, have developed well in the year extending our leadership position in the Nordic RMI market for high end, near silent, energy-efficient solutions. Welair, acquired in December 2015, has provided us with the capability to manufacture heat recovery ventilation systems for the new construction market in the Nordics and our focus on this market has been enhanced with the acquisition of VoltAir System in May 2017.

VoltAir System has a capability to supply highly configurable, specialised solutions for heat recovery ventilation in new construction projects. A modular system that can be completed onsite enables us to supply ventilation products for applications where our competitors are restricted due to the size and configuration of their units. VoltAir System had a strong order intake following its acquisition and this strong forward order book provides us with confidence for the year ahead.

Central Europe

Sales in Central Europe were £27.5 million, growth of 15.3% (1.3% at constant currency). Sales in Germany grew 17.6% on the prior year (3.3% at constant currency) with stronger performance towards the end of the financial year. We have continued to invest in new product development, marketing and the sales team in Central Europe in order to support the targeted higher organic growth in the future. In Belgium, where we are a leading supplier of heat recovery ventilation systems for the new build market, the Kinetic Advance has started to gain traction in sales and further enhancements to the range are to be added in the financial year 2018.

OEM (Torin-Sifan) segment

Our OEM (Torin-Sifan) segment's revenue in the year was £22.0 million (2016: £20.4 million), an increase of 7.7% (2.8% at constant currency), with a stronger performance from sales in the second half of the year. The UK had a generally mild winter and our sales volume of traditional spares for gas boilers declined slightly, mitigated by a price increase in other products. Our new EC 3 motorised impeller range was launched in the second half of the year and sales to both UK and export customers are progressing well. The market for sales of EC direct current motorised impellers is expected to grow, underpinned by new construction growth and regulatory drivers, both in the UK and in Continental Europe.

Three strategic pillars

Our strategy continues to focus on three key pillars:

Organic growth in our core markets

Growth through a disciplined and value-adding acquisition strategy

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

Our core markets were again extended in the 2017 financial year as we acquired Breathing Buildings in the UK and VoltAir System in the Nordics. Both businesses focus on the new construction markets and improve our product portfolio, which now has a more diversified mix of RMI and new construction.

The acquisitions made in the 2016 financial year have all been progressing well and, although not classed as delivering organic growth until one year after acquisition, did grow revenue in their first year. The expected synergies from the acquisition of NVA Services (National Ventilation and Airtech brands) were largely delivered in the year. Further synergies are expected resulting from more recent changes including the closure of the Lasham production facility and launch of new upgraded products manufactured at our other UK production facilities.

These new markets, as well as the original core markets for Volution, continue to benefit from the favourable regulatory backdrop that focuses on reducing carbon emissions from buildings (in particular new buildings) and improving air quality, as well as the need to improve energy efficiency.

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

We will continue to provide strong central leadership in research and development to facilitate the Group's growth. Investment in our own sourcing team in China is delivering good value to the procurement efforts around the enlarged Group.

The investment we made during the year in the new production facility for Torin-Sifan has helped support the organic growth during the year. Sales of the new EC 3 motorised impeller range are gaining traction and production of the range at this new facility is going well with dedicated space reserved for further production lines to underpin the expected growth of the range.

People

As our Group becomes more complex and more diverse through acquisition and organic growth, it is essential that we have a talent pool to support our development plans. In April 2017 we completed our second internal Management Development Programme (MDP), which consisted of 15 high potential managers from across the Group. Such has been the success of this programme that we have decided not to wait a further year before commencing the next programme and will be starting our third MDP in November 2017. The programme itself is always oversubscribed and this time will consist of 18 delegates.

During the year we completed two new acquisitions in existing Volution geographies. The integration of new acquisitions has become easier as our experience of this process grows. I am extremely proud of the dedication and commitment of our talented group of employees, who show a great deal of sensitivity when new acquisitions join the Group, and as a result of these actions and behaviour we have been able to successfully build a more geographically and market diverse Group since listing in 2014. I would like to take this opportunity to thank each and every one of our employees for their part in this success.

Outlook

The new financial year has started well with organic growth ahead of that achieved in the same period in the prior year. Our significant investment in new product development as well as specific initiatives in both public and private RMI are translating into benefits as anticipated. As a result, the Board is confident of delivering good progress in this financial year.

Ronnie George
Chief Executive Officer
10 October 2017

> "Another year of progress with good organic growth and inorganic growth from our new acquisitions, and an overall strong year of results and cash generation.

Ronnie George
Chief Executive Officer

The acquisition of Breathing Buildings enhances our commercial proposition by providing unique natural and hybrid product solutions.

Breathing Buildings

Hybrid and natural ventilation systems can **help reduce energy consumption** by up to 60% for a building that would otherwise be mechanically ventilated and air conditioned.

Breathing Buildings was formed in 2006 following a major research programme between the University of Cambridge and the Massachusetts Institute of Technology resulting in the development of a proprietary e-stack mixing ventilation system. The technology was initially patented by the University of Cambridge, with Breathing Buildings having exclusive rights to the intellectual property. Since then, Breathing Buildings' technology has influenced how designers and consultants choose to ventilate buildings. The company is now the UK's leading provider of controlled hybrid and natural ventilation systems, which can help reduce energy consumption by up to 60% for a building that would otherwise be mechanically ventilated and air conditioned.

By joining the Volution Group in December 2016, Breathing Buildings has greatly widened its market potential.

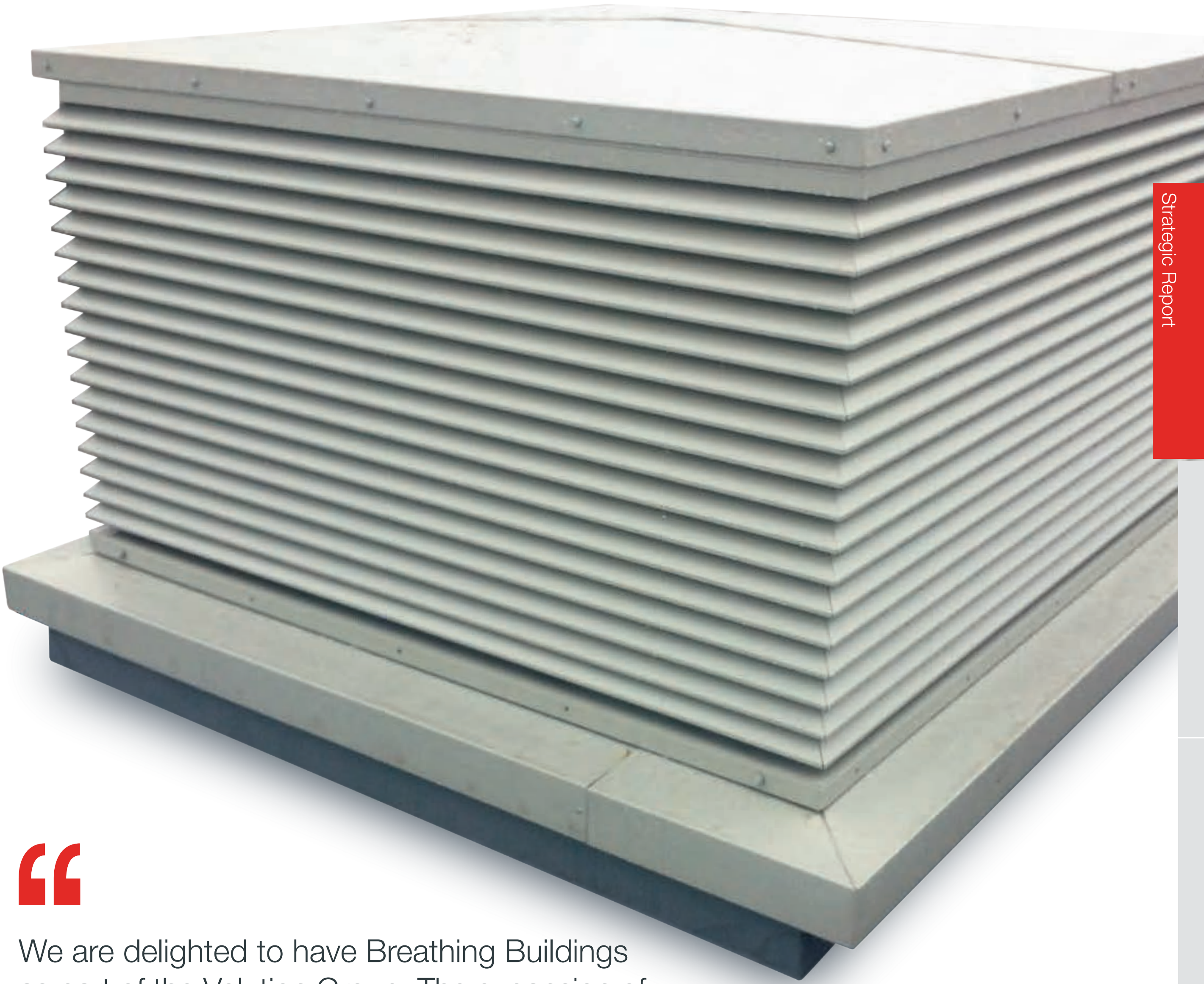
What does it mean for customers?

From the moment a customer has a query about how to ventilate their building, they are supported by a team of MEng and PhD engineers who help clients design low-energy buildings with stimulating environments, superb air quality and thermal comfort. Our consulting engineers work with the design team to discuss the different ventilation options and provide in-depth analysis to ensure their buildings do not overheat. Breathing Buildings can provide the whole range of tools to model ventilation in buildings: dynamic thermal modelling, computational fluid dynamics, water-bath modelling, zonal modelling, analytical modelling and bespoke energy modelling. The widening of its product range to include mechanical systems helps to ensure that the tool kit available to Breathing Buildings continues to develop and that we provide the widest range of solutions available.

Monkseaton High School, Tyne and Wear, UK
Bespoke design with specific energy targets: four-storey building with central atrium housing a sports hall, two gymnasiums and school hall, plus 22 classrooms.

Up to

Breathing Buildings Penthouse Louvre



“

We are delighted to have Breathing Buildings as part of the Volution Group. The expansion of our commercial proposition and sales channels will lead to further synergies and opportunities for both market development and sales growth.

Ronnie George
Chief Executive Officer

60% more efficient

The acquisition of VoltAir System strengthens our product solutions by offering unique air handling unit design to deliver high efficiencies.

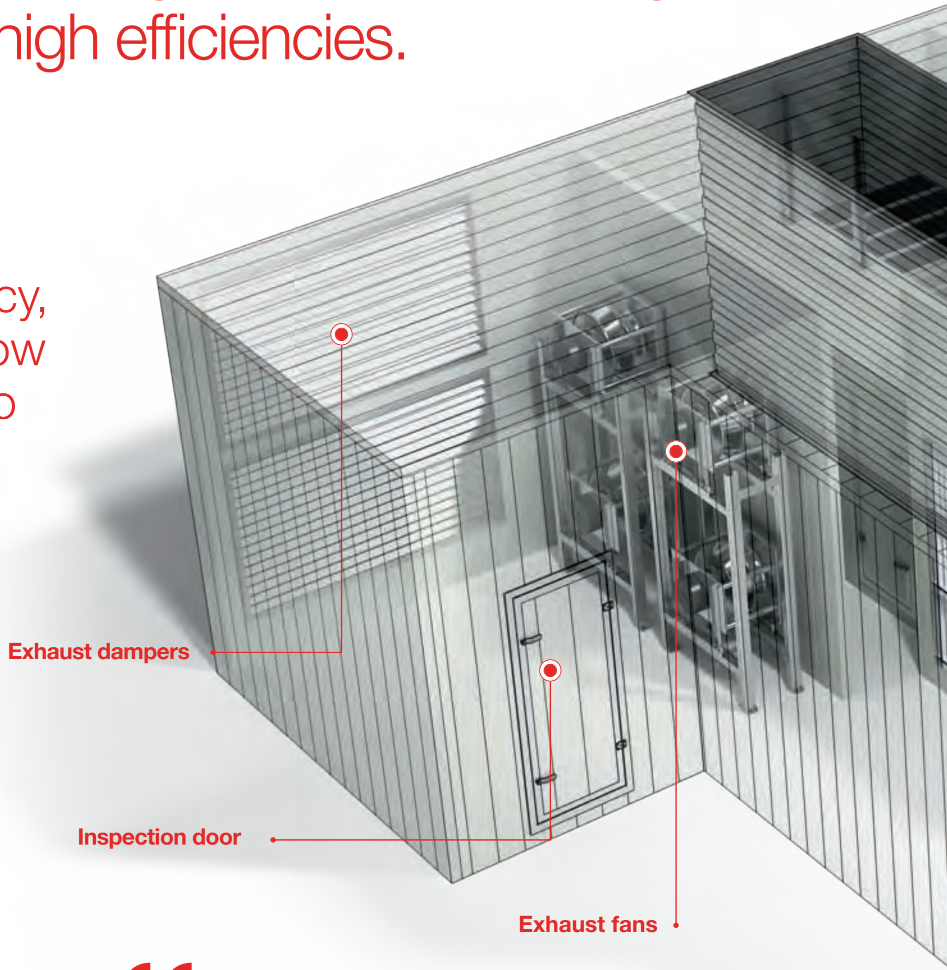
VoltAir® LUFTBEHANDLING

High heat recovery efficiency, flexible configuration and low power consumption lead to the lowest life cycle cost on the market.

VoltAir System was formed in 2006 with the purpose of developing an efficient and cost effective heat recovery system that could be flexible in configuration and was a superior alternative to the rotary wheel solution which was then preferred in the cold, dry climate of the Nordic region. The VoltAir System solution incorporates a patented cross-flow heat exchanger specifically designed with high thermal efficiency, and to eliminate cross-contamination of airflows. The VoltAir System is designed to be inherently resistant to frosting and can therefore compete with rotary wheel systems in this regard in the extreme cold of a Nordic winter.

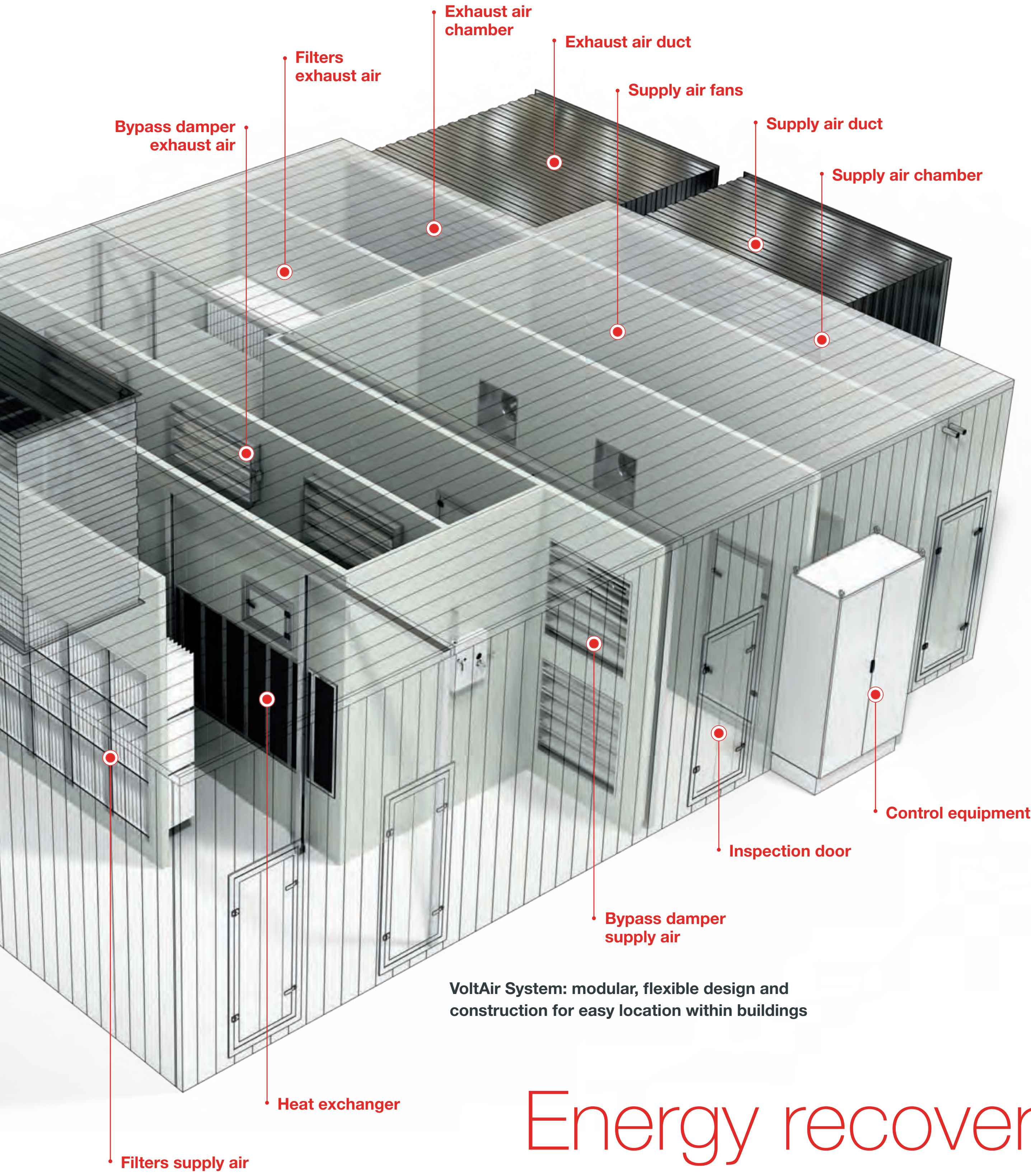
What does this mean for customers?

The specific characteristics of the VoltAir System heat exchanger mean that dirt and ice adhere poorly to the heat exchanger's surface, which contributes to the product's high resistance to freezing. The design, with low air velocities, laminar flow and a large heat exchange surface, means the product provides high efficiencies of up to 90% without the need for defrosting. This makes them highly suitable for colder climates without the issues associated with rotary heat exchangers and provides VoltAir System with a unique and marketable benefit. In addition, VoltAir System is capable of designing highly flexible configurations for its modular systems. This means that installation in difficult to access locations in a building or the use of lower value, sub-optimal shaped rooms for the ventilation equipment become possible. This can be attractive in building consultants' calculations of whole life costs for VoltAir System products.



"VoltAir System has market-leading flexible products which have low environmental impact and provide good, healthy indoor climates. We are delighted to have VoltAir System as part of the Volution Group, which is highly complementary to our strong position in the Nordic residential refurbishment ventilation products market and further develops our commercial proposition.

Ronnie George
Chief Executive Officer



VoltAir System: modular, flexible design and construction for easy location within buildings

Energy recovery of up to 90%

A business model which creates value.

The Volution Group is committed to building on the strength of our successful business model. We continuously develop the four key differentiators that are central to our success: Innovation, Scale, People and Brands.

Our key differentiators

Innovation

Developing our connectivity strategy

We have continued to develop our connectivity strategy and this year at the Elfack Exhibition in Sweden, we introduced our first smart towel rail which works in conjunction with our Calima fan, forming the start of the Volution Group ecosystem.

Innovation in Action
> page 20

Scale

Value-adding acquisitions and continuous expansion

With selective value-adding acquisitions, we have continued to increase our footprint in the commercial market, helping to leverage our product range into new channels.

Scale in Action
> page 22

Our Company values

GROWTH	INNOVATION	SERVICE	RELIABILITY

People

Engaging with our employees

Participants in this year's Management Development Programme reflected our increasing geographic range with representatives from all geographical areas across our Group. The next programme, due to start in late 2017, will continue to help develop our leaders of tomorrow.

People in Action
> **page 24**

Brands

Growth opportunities for our brands

Extension of our brands into new channels and new geographies continues to provide growth opportunities.

Brands in Action
> **page 26**

INTEGRITY | **COMMITMENT** | **FUN** | **PROFESSIONALISM**

The three strategic pillars.

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

Organic growth in our core markets

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

Actions

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

Growth through a disciplined and value-adding acquisition strategy

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

Actions

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

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

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

Actions

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

Achievements during the year

> Continued growth in our value-added product lines including Silent and app-controlled fans

> Roll-out of the Calima platform in the Nordics and wider Group channels

> Launch of the Vent-Axia brand in the Netherlands and Germany through Ventilair

Future focus

> Range development, maximising the opportunities arising from our expanding geographic and market sector range

> Maximise the sales opportunities for Group products through the new businesses within the UK and in Continental Europe

> Expand the range of central heat recovery systems

> Widening the Kinetic Advance platform to increase airflow

Achievements during the year

> Completion of the acquisitions of Breathing Buildings and VoltAir System

> Expansion of the centralised Group procurement function by establishing a team in China through the China–Britain Business Council

> Continued the active integration of recent acquisitions into the Group

> Expansion of the Vent-Axia brand internationally through newly acquired businesses

Future focus

> Continued integration of the new acquisitions into the Group

> Continue to search and pursue new acquisition opportunities

> Maximise synergies available through our growing scale

> Further grow intercompany sales to widen product categories served internationally

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

Achievements during the year

> Launch of the EC 3 motor platform

> Optimisation of electronics, reducing energy usage and improving specific fan power for customers

Future focus

> Continue to drive sales in EC fan decks

> Continue the expansion of EC platforms into applications using more than 90 watts of power

Innovation in Action

In recent years we have been developing the connectivity of our product lines enabling customers to interact with them in ways that were once not possible. This year we have started to evolve the Volution Group ecosystem. Our ambition is for all of our products in your home to work intuitively with each other to improve comfort and health.

Future developments

- Launch of the new Intellivent Sky fan in the Nordics
- Launch of the smart Momento II controller for towel rails
- Range expansion of Torin-Sifan EC 3 motor platform

Intellivent Sky

Developing our connectivity strategy

Developments for Momento II

The new Momento II towel rail controller is being designed to enable the home owner to control their towel rail through the Group's application software (app). It will allow the customer to set the length of operation as well as the heat output level as desired. In addition the Momento II will also link with other devices in the bathroom enabling both the Calima fan and Momento II to communicate to optimise their effect. An example would be if the fan detects high levels of humidity from a shower, the towel rail would automatically activate to ensure the towel is warmed ready for when you have finished your shower. The warmed towel rail will then help evaporate water from the towel and ensure the fan exhausts the resulting humidity. These relationships between our products will continue to deliver optimised performance and automation, therefore increasing value over time.

Demonstrating technical excellence through Intellivent Sky

We have continued to focus on product excellence this year, and nowhere more so than in the Nordics, where the new Intellivent Sky was previewed at the Elfack exhibition in Gothenburg, Sweden. This introduced a new generation of the Intellivent fan, which is our most sophisticated to date. With built-in touch controls and smart capability, it has been designed to provide the owner with the most discreet, flexible and intelligent fan to date. New functions such as cruise control, which ensures that the fan delivers the required airflow constantly, along with reduced noise whilst delivering 40% more pressure, will make this fan our most innovative to date. In addition, the Intellivent Sky was also nominated for an Elfack Design Award due to its innovative interface and modern aesthetics.

Expanding the horizon for the Torin-Sifan EC 3 motor

To supplement the extensive range of electronically commutated (EC) motors, motorised impellers, fans and blowers officially launched at the ISH Exhibition in Frankfurt in 2017, Torin-Sifan has made further advances in the area of energy efficiency. By working closely with customers and understanding the input options they have to drive the new EC 3 fans, Torin-Sifan is able to adjust the specification of the printed circuit board by removing redundant energy using electrical components, thereby enhancing the Specific Fan Power (SFP) of the EC 3 fan in our customer applications. Low SFP is a critical consideration within residential ventilation units. Torin-Sifan has also worked very closely with a customer in the design of an application-specific EC 3 motorised impeller, further improving the energy efficiency of the fan in application. This particular application is one of the most efficient ventilation units in its class.

Extending the power capability of the current EC 3 product platform above our current capability of 90 watts is being developed to satisfy the requirements of commercial market applications.

"

The Intellivent Sky will set new standards of Nordic design and will continue to build on our successful Intellivent range. With focus on the customer experience, we have developed a discreet high performance fan targeted to provide a compelling DIY and trade proposition.

Eva Thunholm
Managing Director, Ventilation Group Nordics

Scale

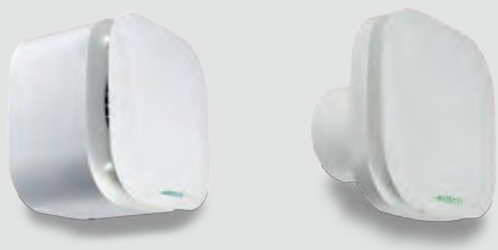
This year our acquisitions have grown our commercial footprint. We have added complementary businesses in both the UK and the Nordics which will help us develop our sales channels and optimise sales across the new businesses.

Highlights

> Acquisition of Breathing Buildings and the launch of a range of mechanical ventilation products under that brand to extend its product offering

> Acquisition of VoltAir System, improving our commercial and new build residential sales channels in the Nordics

> Extending Group product ranges through the National Ventilation (including Monsoon) and Airtech brands



Airtech range extension

National Ventilation range extension

Value-adding acquisitions and continuous expansion

Launching a range of mechanical ventilation products through Breathing Buildings

Breathing Buildings provides customers with unique natural and hybrid ventilation product solutions. Its relationships in the specification of ventilation systems for schools provide an excellent channel to also market the Group's wider mechanical ventilation systems. Since the acquisition, we have introduced the first of what is expected to be a line of mechanical ventilation product ranges. This will ensure we can supply a broader range of solutions to our customers.

Acquisition of VoltAir System

VoltAir System provides a unique air handling unit design that delivers high efficiencies of up to 90% in cold climates. The technology behind the highly efficient heat recovery lies in a patented heat exchanger with unique features that provide long, economical and trouble-free ownership.

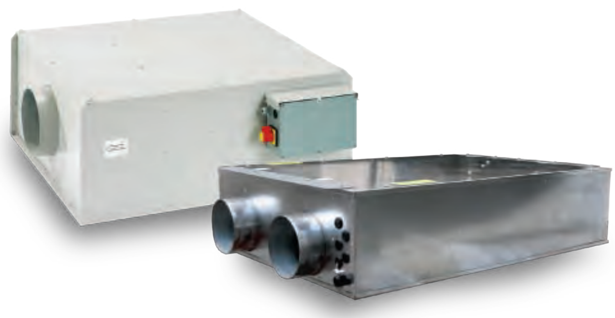
The VoltAir System application is applied, designed and installed in a modular way. The flexible design means a solution can be created to fit into any building, no matter how it is configured. The technology can therefore be used in residential buildings, offices, schools, hospitals, nursing homes and industry, all with great results. This unique approach is often preferred by customers as the VoltAir System units are significantly easier to accommodate in a building.

The integration of VoltAir System into our Nordics business will help deliver efficiencies of scale, expose us to the attractive new build market in the Nordics and broaden our product offering in the region.

Launching Group products through our National Ventilation (including Monsoon) and Airtech brands

The integration of both the National Ventilation and Airtech brands has progressed as planned during the year. Rationalisation of fan platforms has ensured continued cost optimisation as well as range extension across both new businesses. This not only assists with production and purchasing efficiencies, but has also assisted in the extension of product ranges across our sales channels.

VoltAir System air handling unit



Breathing Buildings range extension

> Breathing Buildings has been a pioneer in the development of hybrid ventilation strategies. Joining the Volution Group has enabled us to extend our product portfolio to include a wider range of products. This has helped ensure we continue to provide unique, intelligent and value-added solutions to our customers.

Dr Shaun Fitzgerald
CEO, Breathing Buildings

People

The latest Management Development Programme concluded in April 2017 and had representation from all geographical areas across our Group. We maintain our commitment to developing and retaining talent within the organisation.

Highlights

- Completion of the latest Management Development Programme
- Torin-Sifan graduate training programme
- Staff wellbeing and health checks introduced in the UK

Launch of the Management Development Programme II in 2016

Engaging with our employees

The Management Development Programme

As reported last year, the Management Development Programme (MDP) started in April 2016 and ran over a twelve-month period. It is based around four learning modules: personal effectiveness, managing business finance, managing change and coaching and development. These modules are taken over a twelve-month period and run in parallel with a real life business case that applies directly to our business. It concludes with a presentation to the Senior Management Team and an award to the “Best Participant”. This year’s intake was the most international to date and represented all of our businesses. The programme has not only assisted in developing new managers and leaders for the future, but also ensured that participants have built strong networks across the organisation and a better understanding of our diverse businesses. These new networks mean that implementation of synergies across businesses flows more freely as colleagues have already met and discussed their businesses in that context. The next MDP will start later in 2017 with the selection process complete.

Torin-Sifan’s graduate training programme

We have previously reported on Torin-Sifan’s commitment to engaging with young people and our ongoing support of the Engineering Development Trust. This commitment continues through to our employees. Torin-Sifan runs a three-year graduate training programme and currently has eight graduate engineers enrolled on the programme. The programme is a combination of self-study and practical goals. To complete the training programme the graduates must demonstrate competence and commitment against the five core elements: Knowledge and Understanding; Application to Practice; Leadership and Personal Responsibility; Interpersonal Skills; and Professional Conduct.

Staff wellbeing

The health, safety and wellbeing of everyone affected by our business activities has continued to be a high priority for Volution. The implementation of wellbeing activities across our businesses has had renewed focus this year. In the UK we have introduced wellbeing and health checks, and improved onsite occupational health support, helping to support healthy lifestyle choices.

Our values

We have the following values:

Grow

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

Innovate

Our products, services and solutions.

Customer service

Strive for quality and excellence in everything we do.

Professional and reliable

With customers, suppliers, colleagues, shareholders and all relationships.

Integrity

Environmentally, socially and in our governance.

Commitment

100% every day, everywhere.

Fun

Enjoying what we do, respecting those around us.

“

The MDP provided me with a new level of self-confidence. The programme took me out of my comfort zone but showed me what I was capable of. In addition, the network I formed across the Group proved a great advantage when I was later promoted to the role of Group Procurement Manager. The skills I learnt have helped me achieve greater results both personally and for the Group.

Emily Shortte
Group Procurement Manager

Brands

With the acquisitions completed during the year, we have strengthened our position in both the UK and Nordic commercial sectors. Integration of these businesses provides both new brands and sales channels for the Group.

Highlights

> Extension of Breathing Buildings' product range to include mechanical ventilation

> Launch of the Vent-Axia brand into the distribution market in Germany

> Multi-branding of selected parts of the Group's product range

UK & Ireland	Nordics	Central Europe
Vent-Axia	Fresh	inVENTer simply fresh air
MANROSE	PAX	BRÜGGEMANN ENERGIEKONZEPTE
DIFFUSION	welair	Ventilair GROUP, COMAIR
AIRTECH	VoltAir LUFTBEHANDLING	Vent-Axia
NATIONAL VENTILATION, monsoon		
Breathing Buildings		
torin-sifan		

Growth opportunities for our brands

Launch of our wider product portfolio through Breathing Buildings

Breathing Buildings has been pioneering natural and hybrid ventilation systems since 2006, with which it has become very successful within the new build education sector. The acquisition of Breathing Buildings has strengthened the Group's product range and broadened its channels to market. In addition, Breathing Buildings now has access to the Group's entire portfolio of products making it possible for it to offer a more comprehensive project solution to customers when all aspects of a building's ventilation cannot be met by natural and hybrid systems. We are now capable of quoting for more parts of every project in line with our ambition to ensure that we can provide our customers with more of their ventilation needs for every project.

Continued internationalisation of the Vent-Axia brand

Following the acquisition of the Ventilair Group in 2015, we have been extending the product range and the coverage of the Vent-Axia brand that we offer in the Benelux region and Germany. Last year we reported on the roll-out of the Vent-Axia brand in the Netherlands and this year we have continued with the roll-out in Germany. To support this activity, over the last twelve months we have further developed the Vent-Axia website to be an international platform with consistent branding across multiple geographies. The site enables us to activate appropriate products across the platform by geography. Geolocation then enables us to direct searches as appropriate. The consistent branding, literature style and web platform enable us to optimise product launches and manage content and printed materials.

Multi-branding of the Group product portfolio

We continue to focus on leveraging our product portfolio across our many strong brands and on making sure that we maximise our sales opportunities through all of our channels. For example, in the last year we have introduced a number of the Group's mechanical ventilation with heat recovery (MVHR) units across more of our brands. We continue to provide differentiation for each of our brands through advanced controls, modified functionality and other added value features. Centralised platform development then allows cost optimisation and leverage across product development projects. The extension of product ranges continues to provide new revenue opportunities, helping to grow market share through our existing sales channels.

Multi-branding of Group products

> "The international roll-out of the Vent-Axia brand gives us an exciting opportunity to provide new propositions to customers. This allows us to grow brands in new geographies and ensures wider product category exposure without compromising on existing channel and brand positions.

Lee Nurse
Marketing Director, Ventilation Group

Key Performance Indicators

Measuring our performance.

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

The three strategic pillars

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

Note

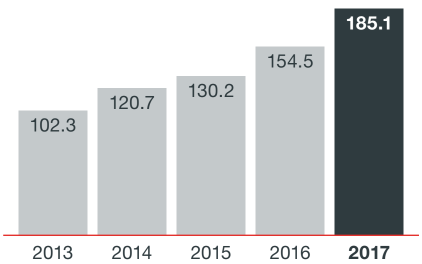
1. For a definition of all adjusted measures and constant currency see the glossary of terms in note 34 to the consolidated financial statements.

We discuss the KPI performance in the Financial Review
> pages 42 to 45

Financial performance

Revenue £m

£185.1m



Strategic pillars measured by this KPI

TS

Tracks our performance against our strategic aim to grow the business

Comments

> Strong revenue development in the year with growth of 19.8% (14.5% on a constant currency basis)

> The acquisitions of Breathing Buildings and more recently VoltAir System, in addition to a full year of acquisitions completed in the prior year, contributed significantly to our growth: 12.5% (12.4% on a constant currency basis)

> Organic growth of 7.3% (2.1% on a constant currency basis)

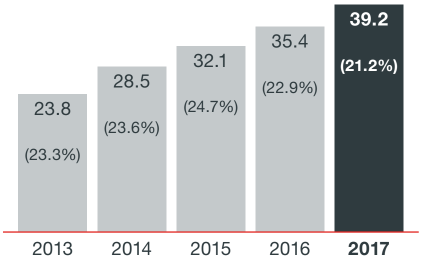
Link to Directors' remuneration

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

Adjusted EBITDA and adjusted EBITDA margin[1]

£m (% of revenue)

£39.2m (21.2%)



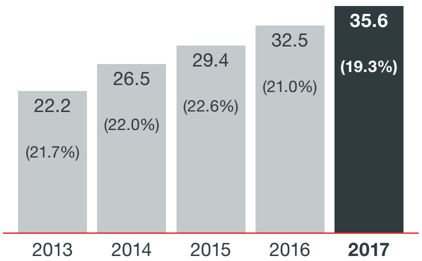
Strategic pillars measured by this KPI

TS

Adjusted operating profit and adjusted operating profit margin[1]

£m (% of revenue)

£35.6m (19.3%)



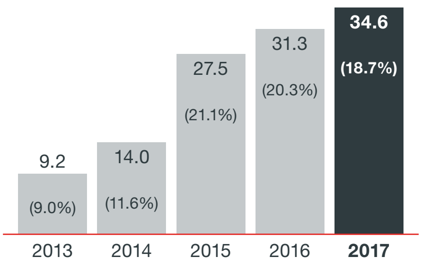
Strategic pillars measured by this KPI

TS

Adjusted profit before tax and adjusted profit before tax margin[1]

£m (% of revenue)

£34.6m (18.7%)



Strategic pillars measured by this KPI

TS

Tracks the underlying financial performance of the Group

Comments

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

Link to Directors' remuneration

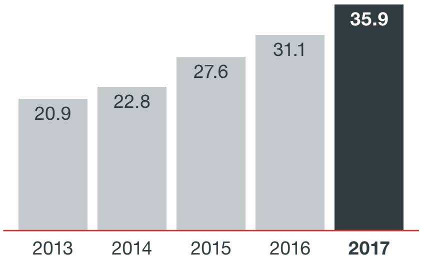
- ABP awards are linked directly to adjusted operating profit and adjusted EPS and LTIP awards are linked directly to EPS growth and TSR, all of which correlate with adjusted EBITDA, adjusted operating profit and adjusted profit before tax

Key Performance Indicators continued

Financial performance continued

Adjusted operating cash flow[1] £m

£35.9m



Strategic pillars measured by this KPI

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

Comments

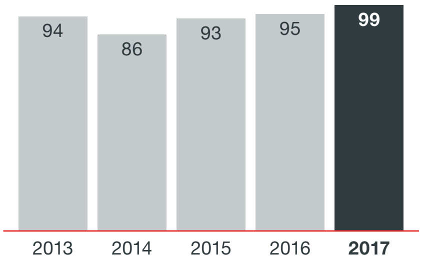
- Adjusted operating cash flow in 2017 remained strong despite capital investment of £3.9 million (2016: £4.3 million)
- Working capital remained under control at 10.4% of revenues (2016: 11.7%)

Link to Directors' remuneration

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

Adjusted operating cash flow conversion[1] %

99%



Strategic pillars measured by this KPI

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

Comments

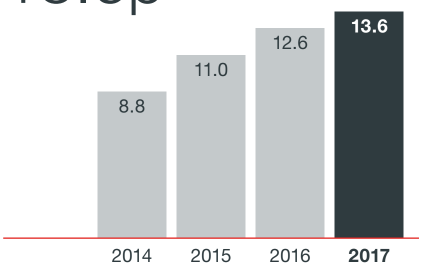
- Strong cash generation even after capital expenditure of £3.9 million (2016: £4.3 million)

Link to Directors' remuneration

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

Adjusted earnings per share (basic and diluted)[1] p

13.6p



Strategic pillars measured by this KPI

To provide a measure of increasing shareholder value

Comments

- Improved EPS resulting from improved profitability and new profitable acquisitions

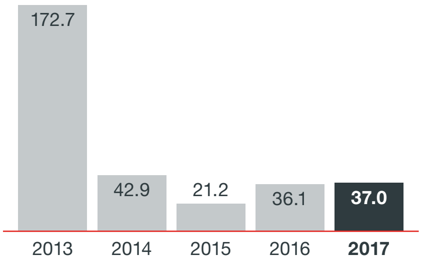
Link to Directors' remuneration

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

Note
1. For a definition of all adjusted measures and constant currency see the glossary of terms in note 34 to the consolidated financial statements.

Net debt[1] £m

£37.0m



Strategic pillars measured by this KPI

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

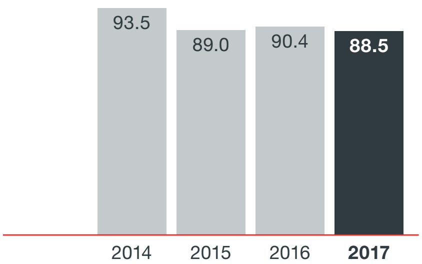
Comments
- Strong cash generation from operations
- Leverage (expressed as a ratio of net debt to adjusted EBITDA) was 0.9x (2016: 1.0x)
- Small increase in debt despite £18.1 million net cash outflow as a result of acquisitions

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

Non-financial performance

Employee retention %

88.5%



Strategic pillars measured by this KPI

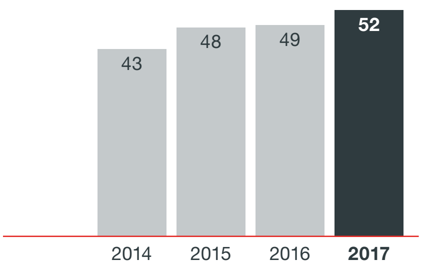
To ensure we continue to retain employees, we monitor the number of voluntary resignations from our businesses and calculate the percentage retention as a function of total average full-time equivalent employees

Comments
- The high level of staff retention continued in 2017

Link to Directors' remuneration
- ABP awards for the 2017 financial year were linked directly to employee retention

Sales of low-carbon products %

52%



Strategic pillars measured by this KPI

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

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

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

We are committed to protecting and enhancing the Group's reputation and assets.

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

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

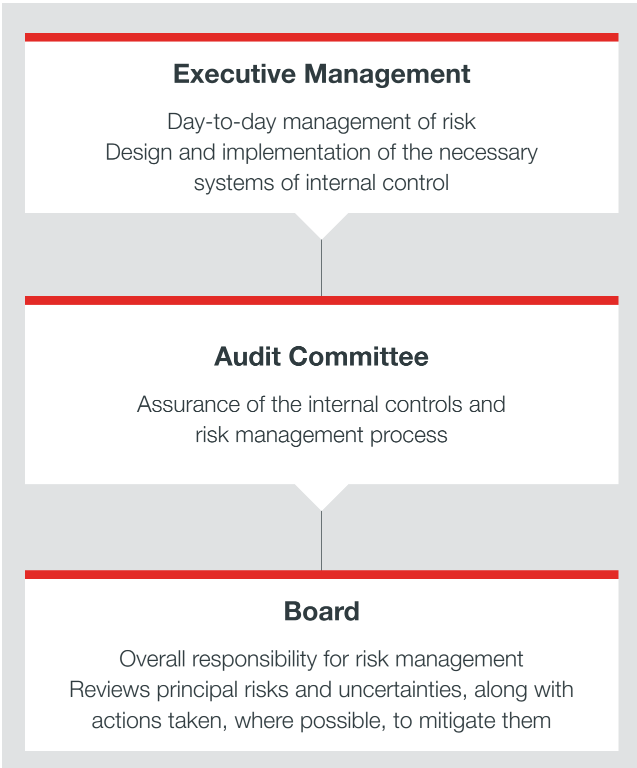
The risks and uncertainties facing the Group have also been considered in the context of the UK leaving the European Union. Whilst negotiations continue between the UK and the European Union, it is still too early to judge the long-term implications, and at the current time we consider that the principal risks affecting the Group are unchanged. The Board will, however, continue to closely monitor market conditions and will react accordingly.

Our approach

Risk management and maintenance of appropriate systems of control to manage risk are the responsibilities of the Board and are integral to the ability of the Group to deliver on its strategic priorities. The Board has developed a framework of risk management which is used to establish the culture of effective risk management throughout the business by identifying and monitoring the material risks, setting risk appetite and determining the overall risk tolerance of the Group. This framework of risk management has been enhanced this year and additional processes have been introduced across the Group which will assist the Board to monitor and assess the principal risks throughout the year. In addition, to enhance risk awareness, embed risk management and gain greater participation in managing risk across the Group, a programme of employee communication commenced during the year.

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

BDO LLP (BDO) continued to act in the capacity of internal auditor and provide independent assurance that the Group's risk management, governance and internal control processes are operating effectively. BDO continued to act in this capacity throughout the financial year ended 31 July 2017.



Identifying and monitoring material risks

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

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

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

Our principal risks and uncertainties

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

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

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the next three-year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 34 to 37 of the Annual Report and Accounts. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 July 2020.

The Directors have determined that a three-year period to 31 July 2020 is an appropriate period over which to provide its viability statement given the dynamic nature of the sector and as it is in line with our business planning cycle.

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

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

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

Going concern

The financial position of the Group, its cash flows and liquidity position are set out in the Financial Statements section. Furthermore, note 28 on page 134 to the consolidated financial statements includes the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

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

Risk Management and Principal Risks continued

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

Strategic consequence

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

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

Likelihood of risk occurring

- Unlikely
- Possible
- Likely

Potential impact

- Low
- Medium
- High

Assessment of risk direction

- Reducing
- No change
- Increasing

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

Likelihood	Potential impact	Risk direction	Mitigation
		Trading patterns during the year have remained stable including any which may be attributed to the decision to leave the EU.	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 are heavily exposed to the RMI market, which is more resilient to the effects of general economic decline affecting the construction industry. This remains true even under current circumstances where conditions specific to the public RMI market mean that our sales in that sector have recently declined. Our business is not capital intensive and our operational flexibility allows us to react quickly to the impact of a decline in volume.
		We continue to implement our strategy, completing two acquisitions during the year.	The ventilation industry in Europe is 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 ten acquisitions over the past five years. Management is experienced in integrating new businesses into the Group. Our policy of rigorous due diligence prior to acquisition and a structured integration process post acquisition has been maintained.
		Our policy on foreign currency risk has remained unchanged. Our exposure to the translation effect of foreign earnings has increased following the acquisition of VoltAir System in Sweden during the year.	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.

Risk Management and Principal Risks continued

Risk	Impact	Strategic consequence
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.
Customers A significant amount of our revenue is derived from a small number of customers and from our relationships with heating and ventilation consultants. We may fail to maintain these relationships.	Any deterioration in our relationship with a significant customer could have an adverse significant effect on our revenue from that customer.	Our organic growth ambitions would be adversely affected.
Legal and regulatory environment Changes in laws or regulation relating to the carbon efficiency of buildings, the efficiency of electrical products, or compliance may change.	The shift towards higher value-added and more energy-efficient products may not develop as anticipated resulting in lower sales and profit growth. If our products are not compliant and we fail to develop new products in a timely manner we may lose revenue and market share to our competitors. Failure to manage certain compliance risks adequately could lead to death or serious injury of an employee or third party, and/or penalties for non-compliance in health and safety, anti-bribery, data protection or competition law.	TS 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.	Sales and profitability may be reduced during the period of constraint. Prices for the input material may increase and our costs may increase.	TS Organic growth may be reduced. Our product development efforts may be redirected to find alternative materials and components.
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.	TS 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.
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.	TS Our competitiveness and growth potential, both organic and inorganic, could be adversely affected.

Likelihood	Potential impact	Risk direction	Mitigation
		We believe there is an increasing risk as the frequency and sophistication of cyberattacks on businesses has been increasing.	Disaster recovery and data backup processes are in place, operated diligently and tested regularly. A significant Enterprise Resource Planning system upgrade is underway for several key sites, managed by a dedicated team of experienced senior employees from the business. 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 the increasingly sophisticated worldwide cyber threats. We also undertake regular cyber security testing.
		Our underlying risk of losing the revenue of any one customer continues unchanged; however, our recent acquisitions have further served to diversify our customer base.	We have strong brands, recognised and valued by our end users, and this gives us continued traction through our distribution channels and with consultants and specifiers. We have a very wide range of ventilation and ancillary products that enhance our brand proposition and make us a convenient “one-stop-shop” supplier. We continue to develop new and existing products to support our product portfolio and brand reputation. We provide an excellent level of customer service.
		There has been no significant new legislation or regulation, or changes to current legislation or regulation, which has had, or could have, a material impact on the business.	We participate in trade bodies that help to influence the regulatory environment in which we operate and as a consequence we are also well placed to understand future trends in our industry. We are active in new product development and have the resource to react to and anticipate necessary changes in the specification of our products. We employ internal specialist expertise, supported where needed by suitably qualified and experienced external providers. Local operational compliance audits are undertaken. We have training and awareness programmes in place such as health and safety and anti-bribery. We have a whistleblowing hotline managed by an independent third party providing employees with a process to raise non-compliance issues.
		Our pattern of purchasing and relationships with our long-term supplier base remains unchanged. Our policy of ensuring a resilient supply base remains a priority.	We establish long-term relationships with key suppliers to promote continuity of supply and where possible we have alternative sources identified.
		We continue to demonstrate innovation with new product launches, and a number of awards were received during the year.	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.	Regular employee appraisals allow two-way feedback on performance and ambition. A Management Development Programme was initiated in 2013 (with the latest to be launched in late 2017) to provide key employees with the skills needed to grow within the business and to enhance their contribution to the business. The Group aims to reward and incentivise employees competitively.

Volution Group is founded upon the excellence of its people.

- People
- Human rights
- Community
- Environment

Overview

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 the wider public.

As part of our commitment to corporate social responsibility 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.

People

Business and ethics

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

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

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

Health and safety

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

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

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

Diversity

Although the Group has no specific gender and diversity targets as we believe that appointments should be based on merit, we strongly support diversity throughout the workforce. We employ a diverse workforce and pride ourselves on providing equal opportunities for all. High value is placed on rewarding our people for their commitment, their integrity and their service. We aim to ensure that no employee is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic or national origins, sexual orientation or gender, marital status, disability, religion or belief, being part time, or age. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflects our customer base and the wider population in our markets.

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

Diversity

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.

Directors

6 – 85.7%
Male

1 – 14.3%
Female

Senior managers[1]

8 – 72.7%
Male

3 – 27.3%
Female

All other employees

979 – 67.9%
Male

463 – 32.1%
Female

Human rights

Breaches of human rights are not considered to be a material risk for the business owing to the fact that our activities are substantially carried out in developed countries that have strong legislation governing human rights. We support human rights as set down by:

- International Labour Organisation standards;
- the United Nations Global Compact (covering the areas of human rights, labour, the environment and anti-corruption); and
- the United Nations Universal Declaration of Human Rights.

Modern Slavery Act

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

Community

Each company within the Group understands the importance of being a contributing member of society and its impact on the long-term development and sustainability of the business. Each business takes responsibility for managing its relationship with its local community. This responsibility involves the positive engagement with, and support of, worthwhile projects and programmes as a company, as well as the volunteering activities and efforts of its employees. Support is given to local initiatives such as manufacturing and business forums and talks and training are given to local groups. Our policy on donations and community involvement is to support local educational and charitable causes.

We continue to work with the Engineering Development Trust to help inspire children and young people to choose a future career in science and engineering. In addition, we support initiatives creating opportunities for work experience within our Group.

Environment

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

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

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

Greenhouse gas emissions

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

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

Emissions data for the year ended 31 July 2017

Emissions from	**2017** **CO_2e tonnes**	2016 CO_2e tonnes
Electricity, gas and other fuels	**3,513**	3,325
Petrol and diesel vehicle fuels	**1,147**	968
Refrigerants	**57**	55
Total footprint	**4,717**	4,348
Greenhouse gas emissions intensity ratio: CO_2e tonnes per £m of revenue	**25.49**	28.14

Note that:

- data collected is in respect of the years ended 31 July 2016 and 31 July 2017. The conversion factors used are those published by DEFRA; and
- some extrapolation or estimation techniques have been used to calculate the Group footprint, specifically regarding the calculation of emissions from cooling units.

Sales of the Lo-Carbon range of products
> **page 31**

Operational Review

The Ventilation Group segment

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

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

> Breathing Buildings in the UK has been pioneering natural and hybrid ventilation systems since 2006, with which it has become very successful within the new build education sector. The acquisition has widened our capability into this new niche, strengthened our product range and broadened our channel to market; and

> VoltAir System has a strong presence in the commercial and residential new build ventilation markets in Sweden where demand is increasing for energy-efficient air handling units. The business is highly complementary to our strong position in the Nordic residential refurbishment ventilation products market.

Highlights for Ventilation Group segment

Revenue

£163.1 million, 88.1% of Group revenue (£155.9 million at constant currency) (2016: £134.1 million, 86.8% of Group revenue)

Adjusted operating profit

£34.6 million, 97.1% of Group adjusted operating profit (2016: £31.6 million, 97.3% of Group adjusted operating profit)

Average number of employees

1,155 (2016: 1,108)

Revenue

Revenue within the Ventilation Group grew strongly, by 21.6% (16.3% at constant currency), of which 7.3% was organic and 14.3% the result of acquisitions.

		Constant currency		
Market sectors	**2017 £000**	**2017 £000**	2016 £000	Growth %
Ventilation Group				
UK Residential RMI	**38,444**	**38,444**	35,427	8.5%
UK Residential New Build	**23,421**	**23,421**	19,818	18.2%
UK Commercial	**32,724**	**32,724**	21,677	51.0%
UK Export	**10,206**	**9,415**	7,803	20.7%
Nordics	**30,829**	**27,757**	25,521	8.8%
Central Europe	**27,460**	**24,139**	23,820	1.3%
Total Ventilation Group	**163,084**	**155,900**	134,066	16.3%

During the year a project was commenced to consolidate the UK Ventilation Group's plastic injection moulding facility and its main plastic fan assembly facility into a single site in order to improve logistical efficiency and provide capacity for expansion. The new leased facility is located at Suttons Business Park in Reading in the UK and construction of the purpose built premises is well underway. The relocation will begin in early 2018.

In May 2017 the Vent-Axia business successfully implemented a new Enterprise Resource Planning (ERP) business management system. Amongst the many benefits, the new system allows greater transparency of the customer order book and allows the business to further improve its on-time delivery performance. In the same month Fresh in the Nordics migrated to a common ERP platform for the Nordics region.

The plastic injection moulding facility located in Gemla in Sweden benefited from an investment programme which enabled the installation of a new, highly efficient injection moulding machine together with a pair of pick and pack robots, enabling lights-out night-time operation to increase capacity and reduce cost.

In line with the Group's philosophy of striving to achieve the highest standards of quality across the business, both inVENTer and Ventilair achieved accreditation to the quality standard, ISO 9001, for their facilities in Germany, Belgium and the Netherlands.

The Diffusion business located in West Molesey in the UK has continued to benefit from strong demand for its products in the fan coil market. To enable production to meet demand, a satellite assembly unit was opened and Diffusion moved to a 24-hour shift pattern.

The Vent-Axia facility in Dudley in the UK continued to grow its output of mechanical ventilation with heat recovery units to supply the New Build Residential ventilation market. Sales of the Kinetic Advance MVHR product are growing and a second assembly cell is in the process of being installed at the facility to ensure sufficient capacity to support growing demand.

Breathing Buildings in Cambridge in the UK, acquired in December 2016, has been integrated into the Group and is benefiting from cost optimisation of its supply chain. The Group technical resource is also leading a number of new product development initiatives.

VoltAir System in Torsby in Sweden, acquired in May 2017, has expanded our ventilation product portfolio in the Nordic region into the new build market and especially the market for large ventilation projects. We expect to benefit from new product development, operational leverage, procurement effectiveness and from higher sales resulting from the combination of VoltAir System's highly energy-efficient and tailor-made air handling units with Welair's high quality conventional technology units.

OEM (Torin-Sifan) segment

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

Highlights for OEM (Torin-Sifan) segment

Revenue

£22.0 million, 11.9% of Group revenue (£21.0 million at constant currency) (2016: £20.4 million, 13.2% of Group revenue)

Adjusted operating profit

£3.8 million, 10.6% of Group adjusted operating profit (2016: £3.3 million, 10.0% of Group adjusted operating profit)

Average number of employees

223 (2016: 229)

Revenue

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

Market sectors	**2017 £000**	Constant currency **2017 £000**	Constant currency 2016 £000	Constant currency Growth %
Total OEM	**21,976**	**20,974**	20,398	2.8%

Overall, our OEM (Torin-Sifan) business enjoyed strong demand for both traditional AC and EC motor technology, particularly during the second half of the year, with sales growth in the year of 7.7%.

Sales within the residential market grew by 2.8% on a constant currency basis, with a particularly strong performance in the combined production of EC fans and spares for AC fans for gas boilers. Our residential sales were also strengthened by the launch of our new high-efficiency Revolution 360 range of EC fans into volume production during the year. This new product range was officially launched at the 2017 ISH Exhibition in Frankfurt (the world's leading exhibition for building, ventilation and plumbing solutions) and offers benefits in both high efficiency and low noise to the European heating, ventilation and air conditioning industry. Interest in the new EC fans has been strong and the product line has already moved to two-shift production, operating 18 hours a day within our EC Manufacturing & Technology Centre in Swindon in the UK.

Sales within the commercial market have remained stable, with some sales erosion in traditional AC technology fans due to energy-related product legislation changes being offset by high growth within our EC Fandeck product family, particularly within the fan coil industry. Our range of large EC blowers has also performed well within the fan refurbishment and OEM production segments.

The sustained demand in the second half of the year has created some productivity and service challenges with initiatives in place aimed at ensuring the necessary production capacity and component supply. Cost pressures in the year caused by adverse exchange rates on imports and inflation in commodity materials have been managed effectively through a combination of cost saving initiatives and sales price re-alignment. Investment in enhanced management capability in both engineering and procurement has been made to ensure optimisation of production costs through design and supply chain activities.

During the year, resources have been committed to ensure the successful implementation of a new ERP system within Torin-Sifan, which is scheduled to be fully implemented in early 2018.

Financial Review

Ian Dew

Organic growth, two acquisitions and strong cash generation created through excellence in ventilation.

Summary

- Strong revenue growth of 19.8% (14.5% at constant currency)
- Strong growth in adjusted profit before tax of 10.3% (4.7% at constant currency)
- Two acquisitions completed in the year
- Adjusted operating cash inflow of £35.5 million (2016: £31.1 million)
- Closing debt leverage of 0.9x

"

I am proud to announce another year of strong financial performance.

Ian Dew
Chief Financial Officer

Revenue

The Group continued its strong revenue growth during 2017. Revenue for the year ended 31 July 2017 was £185.1 million (2016: £154.5 million), a 19.8% increase (14.5% at constant currency). Growth was achieved both organically, 7.3% (2.1% at constant currency), and inorganically, 12.5% (12.4% at constant currency). The inorganic growth was a result of the two acquisitions made in the year and the full year effect of the four acquisitions made in the prior year.

The Ventilation Group revenues grew by 21.6% (16.3% at constant currency), of which organic growth represented 7.3% (2.0% at constant currency). OEM (Torin-Sifan) grew, entirely organically, by 7.7% (2.8% at constant currency).

Due to the significant weakening of Sterling in June 2016 and its low value throughout the financial year, the movements in foreign currency exchange rates for the year as a whole have had a favourable translation effect on the reported revenue of our overseas businesses. If we had translated the full year revenue of our business at our 2016 exchange rates, the reported Group revenues would have been £176.9 million.

Profitability

Our underlying result, as measured by adjusted operating profit, was £35.6 million (2016: £32.5 million), 19.3% of revenues (2016: 21.0%), delivering a £3.1 million improvement compared to the prior year. The Group benefited from the acquisition of Breathing Buildings in December 2016 and VoltAir System in May 2017 and the full year effect of the prior year acquisitions.

On sales growth of 19.8%, adjusted profit before tax improved by £3.3 million to £34.6 million, growth of 10.3%. Our Group adjusted profit before tax margin declined by 1.6 percentage points to 18.7% as a consequence of the acquisition of businesses that operated with profit margins lower than our Group average, exchange rate linked inflation in the UK and a decline in the profitable UK RMI (public) sector revenue.

The Group's reported profit before tax in the year was £17.9 million compared to £18.4 million in 2016. The reported profit before tax for the period has declined by £0.5 million in spite of a £3.3 million increase in underlying profitability largely because:

- in the reported results there was a finance cost of £1.4 million in the year relating to the revaluation of financial instruments carried at fair value (2016: a gain of £1.1 million) which uncrystallised movement we do not include in our adjusted results; and
- the amortisation of acquired intangible assets increased by £1.1 million in the year, as a consequence of recent acquisitions, to £13.8 million (2016: £12.7 million).

Trading performance summary

	Reported			Adjusted[1]		
	Year ended 31 July 2017	Year ended 31 July 2016	Movement	**Year ended 31 July 2017**	Year ended 31 July 2016	Movement
Revenue (£m)	**185.1**	154.5	19.8%	**185.1**	154.5	19.8%
EBITDA (£m)	**37.8**	33.9	11.5%	**39.2**	35.4	10.8%
Operating profit (£m)	**20.4**	18.4	11.0%	**35.6**	32.5	9.6%
Finance costs (£m)	**2.5**	1.2	111.3%	**1.1**	1.2	(10.6)%
Profit before tax (£m)	**17.9**	18.4	(2.5)%	**34.6**	31.3	10.3%
Basic and diluted EPS (p)	**7.0**	7.8	(10.3)%	**13.6**	12.6	7.9%
Total dividend per share (p)	**4.15**	3.80	9.2%	**4.15**	3.80	9.2%
Operating cash flow (£m)	**34.5**	29.7	15.6%	**35.9**	31.1	15.5%
Net debt (£m)	**37.0**	36.1	0.9	**37.0**	36.1	0.9

Note

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

Reconciliation of statutory measures to adjusted performance measures

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

	Year ended 31 July 2017			Year ended 31 July 2016		
	Reported £000	**Adjustments £000**	**Adjusted results £000**	Reported £000	Adjustments £000	Adjusted results £000
Revenue	**185,060**	**—**	**185,060**	154,464	—	154,464
Gross profit	**91,037**	**—**	**91,037**	75,366	—	75,366
Administration and distribution costs excluding the costs listed below	**(55,410)**	**—**	**(55,410)**	(42,861)	—	(42,861)
Amortisation of intangible assets acquired through business combinations	**(13,826)**	**13,826**	**—**	(12,658)	12,658	—
Exceptional items	**(1,380)**	**1,380**	**—**	(1,209)	1,209	—
Non-recurring items not meeting the definition of exceptional	**—**	**—**	**—**	(236)	236	—
Operating profit	**20,421**	**15,206**	**35,627**	18,402	14,103	32,505
Net (gain)/loss on financial instruments at fair value	**(1,449)**	**1,449**	**—**	1,139	(1,139)	—
Other net finance costs	**(1,074)**	**—**	**(1,074)**	(1,177)	—	(1,177)
Profit before tax	**17,898**	**16,655**	**34,553**	18,364	12,964	31,328
Income tax	**(4,021)**	**(3,509)**	**(7,530)**	(2,757)	(3,496)	(6,253)
Profit after tax	**13,877**	**13,146**	**27,023**	15,607	9,468	25,075

The following are the items excluded from adjusted measures:

> **Amortisation of acquired intangibles**
On acquisition of a business, where appropriate, we value identifiable intangible fixed assets acquired such as trademarks and customer base and recognise these assets in our consolidated statement of financial position; we then amortise these acquired intangible assets over their useful lives. In the year the amortisation charge of these intangible assets increased to £13.8 million (2016: £12.7 million) as a consequence of recent acquisitions. We exclude this accounting adjustment in the calculation of our adjusted earnings because it is a cost associated with acquisitions, not the underlying trading of the businesses.

Financial Review continued

Reconciliation of statutory measures to adjusted performance measures continued

> **Exceptional items**
Exceptional items, by virtue of their size, incidence or nature, are disclosed separately in order to allow a better understanding of the underlying trading performance of the Group. During the year, exceptional items were £1.4 million (2016: £1.2 million) and relate to the cost of acquisitions £0.8 million (2016: £1.2 million) and the factory relocation £0.6 million (2016: £nil). Details of these exceptional items can be found in note 5 to the consolidated financial statements.

> **Non-recurring items not meeting the definition of exceptional**
These are items of expense incurred by the Group which are non-recurring but do not meet the IFRS definition of exceptional items; they have been adjusted to give a fairer representation of the underlying performance of the business. There were no such costs this year (2016: £0.2 million).

> **Fair value adjustments**
At each reporting period end date, we measure the fair value of financial derivatives and recognise any gains or losses immediately in finance cost. During the year, we recognised a loss of £1.4 million (2016: gain of £1.1 million). We exclude these gains or losses from our measures of adjusted earnings because they are accounting adjustments which will reverse in future periods and do not reflect the underlying trading of the business.

Acquisitions

Two acquisitions were completed during the year:

> Breathing Buildings, based in the UK, acquired in December 2016 for a consideration of £11.6 million net of cash acquired; and

> VoltAir System, based in Sweden, acquired in May 2017 for a cash consideration of SEK 72.9 million (approximately £6.5 million) net of cash acquired. In addition there is an element of consideration which is contingent upon the level of EBITDA for the twelve months ended 31 December 2017, with a fair value of SEK 16,930,000 (approximately £1.5 million).

Finance revenue and costs

Net finance costs of £2.5 million (2016: £nil) increased in the year as a consequence of the loss of £1.4 million in the fair value of financial derivatives in the year (2016: gain of £1.1 million) as discussed above. Our net finance cost before these revaluations has decreased slightly in the year to £1.1 million (2016: £1.2 million).

Taxation

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

The effective tax rate for the year was 22.5% (2016: 15.0%), the prior year benefited from a one-off deferred tax credit of £1.6 million, mainly arising from the changes to the UK corporation tax rates mentioned above.

Our underlying effective tax rate, on adjusted profit before tax, was 21.8% (2016: 20.0%). The increase of 1.8 percentage points, over the prior year, was partly as a result of a higher proportion of our profits, in the year, being earned in jurisdictions with higher tax rates (an expense of £0.2 million) and partly because the prior year's adjusted tax charge benefited from a £0.4 million one-off deferred tax credit, part of the £1.6 million credit outlined above.

The Group's medium-term adjusted effective tax rate is expected to remain around 21% of the Group's adjusted profit before tax.

Operating cash flow

The Group continued to be strongly cash generative in the year with adjusted operating cash inflow of £35.9 million (2016: £31.1 million). This represents a cash conversion, after capital expenditure and movement in working capital, of 99% (2016: 95%). The Group continues to manage its working capital efficiently with operating working capital representing 10.5% of revenue (2016: 11.7%). In addition, the Group continues to invest for the future with net capital expenditure of £3.9 million (2016: £4.3 million) including investment in new product development and improved IT systems. See the glossary of terms in note 34 to the consolidated financial statements for a definition of adjusted operating cash flow and cash conversion.

Reconciliation of adjusted operating cash flow

	2017 £m	2016 £m
Net cash flow generated from operating activities	**32.9**	29.1
Net capital expenditure	**(3.9)**	(4.3)
UK and overseas tax paid	**5.6**	5.2
Cash flows relating to exceptional items	**1.2**	0.8
Exceptional items: fair value of inventories	**0.1**	0.3
Adjusted operating cash flow	**35.9**	31.1

Employee Benefit Trust

In the period the Group loaned £0.5 million to the Volution Employee Benefit Trust for the exclusive purpose of purchasing shares in Volution Group plc in order to partly fulfil the Company's obligations under its Long Term Incentive Plan and Deferred Share Bonus Plan. The Employee Benefit Trust acquired 250,000 shares at an average price of £1.95 per share in the period for an aggregate consideration of £0.5 million. The Employee Benefit Trust has been consolidated into our results and the shares purchased have been treated as treasury shares deducted from shareholders' funds.

Net debt

Year-end net debt was £37.0 million (2016: £36.1 million), comprised of bank borrowings of £51.5 million (2016: £51.8 million), offset by cash and cash equivalents of £14.5 million (2016: £15.7 million). The net debt of £37.0 million represents leverage of 0.9x adjusted EBITDA.

Movements in net debt position for the year ended 31 July 2017

	£m
Opening net debt 1 August 2016	**(36.1)**
Movements from normal business operations:	
– Adjusted operating cash flow	35.9
– Interest paid net of interest received	(0.8)
– Income tax paid	(5.6)
– Exceptional items	(1.3)
– Dividend paid	(7.9)
– Purchase of own shares	(0.5)
– FX on foreign currency loans/cash	(2.4)
– Other	(0.2)
Movements from acquisitions:	
– Acquisition consideration net of cash acquired	(18.1)
Closing net debt 31 July 2017	**(37.0)**

Bank facilities, refinancing and liquidity

The Group's bank facilities at the year end consisted of a £90 million revolving credit facility, maturing April 2019.

As at 31 July 2017, we had £37.0 million of undrawn, committed bank facilities and £14.5 million of cash and cash equivalents on the consolidated statement of financial position.

Foreign exchange

The Group is exposed to the impact of changes in the foreign currency exchange rates on transactions denominated in currencies other than the functional currency of our operating businesses. We have significant Euro income in the UK which is mostly balanced by Euro expenditure in the UK. We have little US Dollar income but significant expenditure. We limited our transactional foreign exchange risk by purchasing the majority of our forecast US Dollar requirements for the 2017 financial year in advance, and similarly we have purchased the majority of our forecast US Dollar requirements in advance of the 2018 financial year.

We are also exposed to translational currency risk as the Group consolidates foreign currency-denominated assets, liabilities, income and expenditure into Group reporting denominated in Sterling. We hedge the translation risk of the net assets in the Nordics with £23.2 million of borrowings denominated in SEK (2016: £15.9 million). We have partially hedged our risk of translation of the net assets in Belgium, the Netherlands and Germany by having Euro-denominated bank borrowings in the amount of £23.3 million as at 31 July 2017 (2016: £22.0 million). The Sterling value of our foreign currency-denominated loans and cash increased by £2.4 million in the year as a consequence of exchange rate movements. We do not hedge the translational exchange rate risk to the results of overseas subsidiaries.

During the year, movements in foreign currency exchange rates have had a favourable effect on the reported revenue and profitability of our business. If we had translated the full year performance of our business at our 2016 exchange rates, our reported Group revenues would have been £8.2 million or 4.4% lower and adjusted operating profit would have been £1.8 million or 4.9% lower.

At the end of the financial year the weakening of Sterling increased the value of foreign currency-denominated working capital by £0.3 million compared to the foreign exchange rates applying at the beginning of the year.

Earnings per share

The basic and diluted earnings per share for the year was 7.0 pence (2016: 7.8 pence). Our adjusted basic and diluted earnings per share was 13.6 pence (2016: 12.6 pence), an increase of 7.9%.

Dividends

In May 2017 the Group paid an interim dividend of 1.35 pence per share.

The Board has proposed a final dividend of 2.80 pence per share. Subject to approval at our Annual General Meeting of shareholders on 13 December 2017, the recommended final dividend will be paid on 18 December 2017 to shareholders who are on the register on 24 November 2017.

Ian Dew
Chief Financial Officer
10 October 2017

The Strategic Report comprising pages 1 to 45 was approved and signed on behalf of the Board on 10 October 2017.

Ronnie George
Chief Executive Officer

Board of Directors

Committee membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- X Chairman of Committee

Peter Hill, CBE
Non-Executive Chairman

Ronnie George
Chief Executive Officer

Ian Dew
Chief Financial Officer

	Peter Hill, CBE	Ronnie George	Ian Dew
Appointed	23 June 2014	15 May 2014	15 May 2014
Re-appointed	23 June 2017	N/A	N/A
Committees	N R		
Term of office	Peter joined the Board on listing as Non-Executive Chairman and Chairman of the Nomination Committee.	Ronnie joined in 2008 as Managing Director of Vent-Axia Division (now the Ventilation Group) and a director of our then holding company, Volution Holdings Limited, and was appointed our CEO and a director of our then holding company, Windmill Topco, in February 2012.	Ian joined in 2012 in Consultant Services before being appointed Business Improvement Director and subsequently our CFO in January 2014, becoming a director of our then holding company, Windmill Topco, in April 2014.
Key strengths	Wide ranging public company experience and extensive international business experience gained in both executive and non-executive roles.	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.	Financial and accounting expertise together with extensive merger and acquisition experience, both in the UK and internationally.
Experience	Peter has extensive experience of this role, currently acting as non-executive chairman of Keller Group plc and Imagination Technologies Group plc. In addition, Peter acted as non-executive chairman of Alent plc for three years until December 2015. He has previously acted as non-executive director on the boards of Cookson Group plc, Meggitt PLC, Oxford Instruments plc and Essentra plc, and was a non-executive board member of UK Trade and Investment. He also has substantial experience in executive roles, having been chief executive of Laird PLC from 2002 until late 2011, an executive director of Costain Group plc and a senior executive at BTR plc (subsequently Invensys plc).	Ronnie has over 25 years' experience in industry and, prior to joining us, served as the managing director of Draka UK, a £200 million turnover business with c.450 employees focusing on electric cable production for construction, where he had full financial and operational responsibility for the UK business. Latterly, he also served as the president of Draka's global marine, oil and gas division.	Ian has over 25 years' experience in industry and, prior to joining us, held the position of group finance director (industry and speciality group) at Draka Holding N.V., where he had previously been divisional financial controller in the company's marine, oil and gas division. He has also served as finance director of Draka UK and Transplastix Limited.
External appointments	Peter is currently non-executive chairman of Keller Group plc and Imagination Technologies Group plc, and a non-executive director of the Royal Air Force.	None.	None.

			
Anthony Reading, MBE **Senior Independent Non-Executive Director**	**Adrian Barden** **Independent Non-Executive Director**	**Paul Hollingworth** **Independent Non-Executive Director**	**Claire Tiney** **Independent Non-Executive Director**
23 June 2014	23 June 2014*	23 June 2014	3 August 2016
23 June 2017	23 June 2017	23 June 2017	N/A
A N R	A N R	A N R	A N R
Tony joined the Board on listing as Senior Independent Non-Executive Director and Chairman of the Remuneration Committee.	* Adrian joined the Group in February 2012 as an independent Non-Executive Director of our then holding company, Windmill Topco. He was then appointed on 23 June 2014 to Volution Group plc on listing.	Paul joined the Board on listing as an independent Non-Executive Director and Chairman of the Audit Committee.	Claire joined the Board in August 2016 as an independent Non-Executive Director.
Extensive public company experience and wide ranging international business experience gained in both executive and non-executive roles.	In-depth business development experience and extensive knowledge of the building products industry.	Financial and accounting expertise together with extensive public company experience; wide ranging international business experience, particularly in manufacturing environments.	Extensive board-level experience with key strengths in business strategy and turnaround, strategic development and change management.
Tony has extensive board experience, having been a non-executive director of Taylor Wimpey plc, Laird PLC, e2v technologies plc, Spectris plc and George Wimpey plc. He was previously an executive director of Tomkins plc and chairman and chief executive of Tomkins Corp. USA.	Adrian was previously chairman of the Construction Products Association and chief business development officer of Wolseley plc as well as a board member of Sanitec Corporation.	Paul previously headed the finance function and served on the boards of a number of UK listed public companies, including Thomas Cook Group plc, Mondi Group plc, BPB plc, De La Rue plc and Ransomes plc. He recently retired as a non-executive director and chairman of the audit committee of Electrocomponents plc, having served nine years on its Board.	Claire has over 30 years' experience in large PLCs and has spent half of her career as an executive director in businesses including WH Smith Group plc, Mothercare plc and McArthurGlen Ltd, the developer and owner of designer outlet villages throughout Europe. She now runs her own consultancy business working with executive teams as a coach and facilitator.
None.	Adrian is currently a board member of Van Elle Limited and Quinn Industrial Holdings Limited.	None.	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.

Introduction to Governance

High standards of governance.

"

The Board remains committed to maintaining high standards of corporate governance as we believe this underpins the achievement of the Group's strategy and also creates and maintains value for shareholders and other stakeholders.

Peter Hill, CBE
Chairman

Dear shareholder,

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

The Board remains committed to maintaining high standards of corporate governance as we believe this underpins the achievement of the Group's strategy and also creates and maintains value for shareholders and other stakeholders. We make our decisions based on what we believe is likely to be for the benefit of shareholders and other stakeholders by promoting and maintaining the long-term success of the Company and its reputation.

Compliance with the UK Corporate Governance Code

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

Composition of the Board

In August 2016 we welcomed Claire Tiney to the Board as an independent Non-Executive Director, bringing with her over 20 years of board-level experience encompassing executive and non-executive roles in blue-chip retailing, property development and the services sector, across the UK and Continental Europe.

After serving just under six years in office on the current and pre-IPO Board, Adrian Barden will be retiring from the Board at the conclusion of the Annual General Meeting on 13 December 2017. Adrian provided important continuity on the Board whilst the business moved from private-equity ownership to a listed company and I would like to thank him for his contributions during his tenure. To ensure an orderly succession plan, the Nomination Committee has initiated a search for an independent Non-Executive Director and an announcement will be made in due course.

Further information on these changes to the Board is set out in the Nomination Committee Report on pages 58 to 59.

Succession planning and diversity

This year we have continued to review Board and senior management succession planning. Although the Group has no specific gender and diversity targets as we believe that appointments should be based on merit, we strongly support diversity throughout the workforce. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflects our customer base and the wider population in our markets. Our recruitment of Claire Tiney has expanded the Board's diversity by adding board-level experience across executive and non-executive roles in blue-chip retailing, property development and the services sector, across the UK and Continental Europe, in addition to improving gender diversity. Further information on the Group's diversity and inclusion is provided on pages 38 to 39.

Evaluating the Board's effectiveness

Each year, the Board undertakes a formal evaluation of its effectiveness. This year, for the first time since the IPO in June 2014, we carried out an externally facilitated evaluation in accordance with the provisions of the Code. 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. A number of actions were identified to further enhance the Board's effectiveness and these can be found on page 55.

Appointment and re-election of Directors

In accordance with the Code Provisions and following performance evaluation of those Directors standing for re-election at the Annual General Meeting, I can confirm that they all continue to be effective, committed to their roles and have sufficient time available to perform their duties. Accordingly, as recommended by the Nomination Committee, all Directors, except Adrian Barden, will be offering themselves for re-election at the Company's Annual General Meeting to be held on 13 December 2017, in accordance with the Code. Further information on the Directors can be found in the Directors' biographies on pages 46 to 47 and in the Directors' Report on page 86.

Remuneration Policy review

During 2017 a review of Volution's Remuneration Policy was completed and a revised Policy has been designed to operate for three years. The Policy is being proposed for approval by shareholders at the Annual General Meeting on 13 December 2017. Further details are provided in the Directors' Remuneration Report, which can be found on pages 67 to 84.

Annual General Meeting

I look forward to meeting any shareholders who can join us at our Annual General Meeting in December and extend my thanks to you all for your continued support as we look forward to the year ahead.

Peter Hill, CBE
Chairman
10 October 2017

Corporate Governance

Overview

The Board fully supports the principles laid down in the UK Corporate Governance Code as issued by the Financial Reporting Council in April 2016 (the Code), which applies to financial years beginning on or after 17 June 2016 and is available at www.frc.org.uk.

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

Compliance with the UK Corporate Governance Code

The Board considers that it and the Company have, throughout the year, complied with the provisions of the UK Corporate Governance Code (April 2016), which is the version of the Code which applies to the Company for its financial year ended 31 July 2017.

The role of the Board and its Committees

Board

Strategy development, growing shareholder value, oversight and corporate governance

The Board is appointed by shareholders, who are the owners of the Company. The Board's principal responsibility is to act in the best interests of shareholders as a whole, within the legal framework of the Companies Act 2006. It is also collectively responsible to shareholders for the long-term success of the Company. It agrees the strategic direction and governance structure that will help achieve this long-term success and deliver shareholder value. The Board oversees areas such as strategy, financial policy and making sure we maintain a sound system of internal control, and focuses primarily on strategic policy and governance issues. The Board's main responsibilities are included in a schedule of matters reserved for the Board, as set out on page 52.

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 58 to 59

Audit Committee

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

Members:
Four independent Non-Executive Directors

The Committee report can be found on pages 60 to 66

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 67 to 84

Board responsibilities

Role	Main responsibilities
Chairman of the Board **Peter Hill, CBE**	> Manages and provides leadership to the Board of Directors > Acts as a direct liaison between the Board and the management of the Company, through the Chief Executive Officer > Ensures that the Directors are properly informed and that sufficient information is provided to enable the Directors to form appropriate judgements > In concert with the Chief Executive Officer and the Company Secretary, develops and sets the agendas for meetings of the Board > Recommends an annual schedule of 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 **Ian Dew**	> Responsible for financial planning and record-keeping, as well as financial reporting to the Board and shareholders > Ensures effective compliance and control and responding 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 which contact through the normal channel of the Chief Executive Officer has failed to resolve, or for which such contact is inappropriate
Independent Non-Executive Directors **Adrian Barden, Paul Hollingworth, Claire Tiney**	> Provide constructive challenge to the Executive Team > Help develop proposals on strategy > Scrutinise management's performance in meeting agreed goals and objectives > Monitor performance reports > Satisfy themselves on the integrity of financial information and that controls and risk management systems are robust and defensible > Determine appropriate levels of remuneration for Executive Directors, appointing and removing Executive Directors, and succession planning

Corporate Governance continued

Board responsibilities continued

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

The matters reserved for the Board include:

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

Board activities and priorities during the year ended 31 July 2017

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

Matters considered at regular Board meetings

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

Other matters considered during the year

Area	Agenda items
Strategy	> Review and approval of Group strategy (last fully considered in the 2015/16 financial year)
Financial reporting	> Review and approval of Annual Report and Accounts, AGM Notice and associated documentation for the year ended 31 July 2016 > Review and approval of interim financial statements for the six months ended 31 January 2017 > Review and approval of Trading Update in August 2016 > Review and declaration of interim dividend and recommendation of final dividend
Budget	> Review and approval of three-year financial plan including budget for the year ended 31 July 2018
Operations	> Review and approval of acquisition of Breathing Buildings Limited and VoltAir System AB > Post-acquisition review of Ventilair, Energy Technique, NVA Services and Welair > Consideration of risk framework, significant risks and risk appetite (in conjunction with the Audit Committee) > Review and approval of Viability Statement > Property matters > Consideration of construction market updates
Shareholder engagement	> Broker presentation on the Company's shareholder profile and market perception following the share disposals by the Company's major shareholder, Windmill Holdings B.V. > Independent feedback from joint corporate brokers following full and half-year investor roadshows > AGM 2016 proxy results and review of shareholder voting
Board governance	> Presentations on the UK Ventilation Group > Board composition and the appointment of Claire Tiney > Board performance evaluation results presented by Lintstock > Governance, legislation and regulatory updates > Review and approval of the Group's Modern Slavery Act Statement > Updates from Board Committee chairmen as appropriate

Corporate Governance continued

Board meetings

The Board met regularly during the year, holding seven Board meetings. A number of Board Committee meetings were also held during the year. Details of attendance at Board and Committee meetings are shown in the table below.

	Board	Audit	Remuneration	Nomination
Meetings held	7	3	4	3
Meetings attended				
Peter Hill	7	—	4	3
Adrian Barden	7	3	4	3
Ian Dew	7	—	—	—
Ronnie George	7	—	—	—
Paul Hollingworth	7	3	4	3
Tony Reading	7	3	4	3
Claire Tiney	7	3	4	3

Note
Where a Director is not a member of the Committee, this is indicated as a dash. During the year, certain Directors who were not Committee members attended meetings of the Audit Committee, Remuneration Committee and Nomination Committee by invitation. These details have not been included in the table.

Agendas for the Board meetings are set out at the beginning of the year and new items are added to this as and when appropriate. All Directors receive papers in advance of Board meetings. These include a business and market update report with updates from the Chief Executive Officer and the Chief Financial Officer. Members of the Group's Senior Management Team may also be invited to present at Board meetings as appropriate so that Non-Executive Directors keep abreast of developments in the Group. All Directors attended the Annual General Meeting in 2016.

Board balance and independence

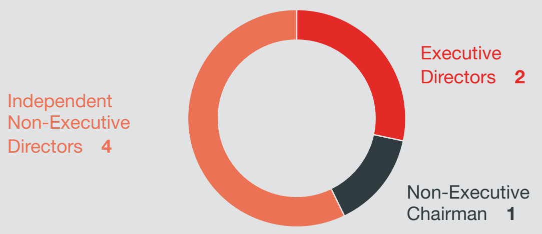
The Code recommends that at least half the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. For the first two days of the financial year, the Company's Board consisted of a Non-Executive Chairman, three independent Non-Executive Directors and two Executive Directors. On 3 August 2016 Claire Tiney was appointed to the Board as an independent Non-Executive Director. Accordingly, the Company's Board since then has consisted of a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors. A list of the Directors is provided on pages 46 to 47. Accordingly, the composition of the Board has remained in compliance with the Code throughout the financial year ended 31 July 2017.

Appointment and tenure

The appointment dates of Directors are shown in their biographies on pages 46 to 47.

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, except for Adrian Barden, who is retiring from the Board at the conclusion of the Annual General Meeting, will be offering themselves for re-election at the Company's Annual General Meeting to be held on 13 December 2017.

Board composition



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 67 to 84. 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 other than the Relationship Agreement, further details of which can be found on page 86. Under the Relationship Agreement, Windmill Holdings B.V., which was our controlling shareholder from listing until 8 April 2016, had the right to nominate one person to the Board of the Company for so long as its shareholding was at least 15% of the Company's ordinary shares. This right expired when Windmill Holdings B.V. disposed of its remaining holding of ordinary shares in the Company on 31 October 2016, when the Relationship Agreement also ended.

Non-Executive Directors and independence

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

From listing until 8 April 2016, the Group had a controlling shareholder, Windmill Holdings B.V. On 31 October 2016 Windmill Holdings B.V. disposed of its remaining holding of ordinary shares in Volution Group and until that disposal, under a Relationship Agreement with the Company, had the right to nominate one person to be a Director of the Company. Their nominated Director from listing until 18 March 2016 was Gavin Chittick, and following his resignation, Windmill Holdings B.V. had no representative Director on the Board.

Board evaluation and effectiveness

Process for Board and Committee evaluation

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

Questionnaire results used to facilitate face-to-face discussion between Lintstock and each Director

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

Reports discussed at the Board meeting and action plans formulated

Since listing in June 2014, two internal Board and Committee performance evaluations have been conducted. The main recommendations from each of these evaluations were set out in the Annual Report and addressed during each year. During the 2017 financial year, an external evaluation of the performance of the Board and its Committees was carried out.

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

The evaluation process involved Lintstock engaging with the Chairman and the Company Secretary to discuss and agree the scope and to develop a series of comprehensive 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. All respondents were then interviewed by Lintstock during which their responses to the questionnaire were reviewed. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank exchange of views.

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

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

Corporate Governance continued

2017 Board evaluation recommendations

> Enhancing information to enable more in-depth Board focus on the strategic agenda, including Volution's potential acquisition pipeline and growth opportunities, the industry, market dynamics and competition.

> Ensuring the Non-Executive Directors could explore opportunities to further grow their understanding of the business, in particular as Volution's presence in Continental Europe grows.

> Devoting further Board time to discussions concerning talent management and Executive and Non-Executive succession planning, ensuring that the Board is exposed to the Senior Management Team and rising stars as part of the annual cycle of presentations and dinners.

> Further enhancing the Board's understanding of the new products being developed by the Group.

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

Director induction

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

Directors' conflicts of interest

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

External directorships

The Board allows Executive Directors to accept one external commercial non-executive director appointment provided the commitment is compatible with their duties as an Executive Director. The Executive Director concerned may retain fees paid for these services which will be subject to approval by the Board. Currently, neither of the Executive Directors holds an external directorship. Details of all Directors' significant directorships can be found in their biographies on pages 46 to 47.

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 34 to 37, being those risks which could threaten our business model, future performance, solvency or liquidity and mitigation measures are detailed against each risk. The Audit Committee, on behalf of the Board, carried out a review of the effectiveness of the Group's risk management and system of internal control together with a robust assessment of the risks facing the Group. Details can be found on page 65.

The Audit Committee Report on pages 60 to 66 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.

Shareholder engagement

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 2016	Trading Update Consultation on remuneration with major shareholders and principal investor advisory groups
October 2016	Full Year Results Announcement and analyst presentation Institutional broker sales desk briefings UK shareholder roadshow
November 2016	Annual Report and Accounts and Notice of AGM posted to shareholders and placed on website
December 2016	Annual General Meeting
March 2017	Half-year Results Announcement and analyst presentation Institutional broker sales desk briefings UK shareholder roadshow US shareholder roadshow

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

> one-to-one meetings and telephone briefings for analysts and investors; and

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

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

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

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

Fair, balanced and understandable

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

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

> a verification process dealing with the factual content of the reports and to ensure consistency across the various sections;

> a review of the Annual Report and Accounts by senior management to ensure consistency and overall balance; and

> the Audit Committee reviewed the Annual Report and Accounts and its compliance with the requirements, concluded that they had been met and recommended its approval by the Board as fair, balanced and understandable.

Annual General Meeting

The Annual General Meeting (AGM) of the Company will take place at 12.00 noon on Wednesday 13 December 2017 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ, United Kingdom. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The Notice of AGM can be found in a circular which is being posted at the same time as this Annual Report and Accounts. The Notice of AGM sets out the business of the meeting and explanatory notes on all resolutions. Separate resolutions are proposed in respect of each substantive issue. The Chairman and all Directors will be present at the AGM and will be available to answer shareholders' questions.

Nomination Committee Report

Peter Hill, CBE
Chairman, Nomination Committee

Nomination Committee members

Peter Hill (chairman)
Adrian Barden
Paul Hollingworth
Tony Reading
Claire Tiney (from 3 August 2016)

"I would like to extend my thanks to Adrian Barden, who will be retiring from the Board at the conclusion of the Annual General Meeting on 13 December 2017.

Peter Hill, CBE
Chairman of the Nomination Committee

Dear shareholder,

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

Role and responsibilities

The key responsibilities of the Committee are:

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

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

Membership and attendance

The Code recommends that a majority of the members of a nomination committee should be independent non-executive directors. As the Committee is chaired by me, and its other members are Adrian Barden, Paul Hollingworth, Tony Reading and Claire Tiney, all of whom are independent Non-Executive Directors, the Company complies with this Code recommendation. Claire Tiney was appointed to the Board and as a Committee member on 3 August 2016 and Adrian Barden will retire from the Board and the Committee at the conclusion of the Annual General Meeting on 13 December 2017.

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

The Committee met three times during the year with attendance disclosed on page 54. The Committee will meet formally at least once a year and at such other times as the Board or the Committee chairman requires.

Board composition

In March 2016, Gavin Chittick, our non-independent Non-Executive Director, stepped down from the Board. This led to a search for an additional independent Non-Executive Director which was led by an independent external search firm, Ingenium. Following due process, which was set out in the Nomination Committee Report 2016, the Committee recommended the preferred candidate to the Board and on 3 August 2016, Claire Tiney was appointed to the Board. Claire is a highly experienced director with over 20 years' experience of board-level roles encompassing executive and non-executive positions in blue-chip retailing and property

Nomination Committee activities during the year

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

> evaluated the size and composition of the Board including the balance of skills, experience, independence, diversity and knowledge on the Board;
> commenced a process to find a new independent Non-Executive Director;
> reviewed succession planning for the Executive Directors and the Senior Management Team;
> considered the re-appointment of those Directors appointed at IPO in June 2014;
> reviewed and approved the recommendations to be made to shareholders for the re-election of Directors at the Annual General Meeting;
> reviewed the results of the Committee performance evaluation; and
> reviewed the Committee's report in the Annual Report and Accounts and recommended approval to the Board.

After the year end, the Committee considered the outcome of the performance evaluations when discussing the effectiveness of the Non-Executive Directors seeking re-election at the Annual General Meeting 2017.

development companies and in the services sector, across the UK and Continental Europe. Combined with the deep knowledge and experience of our existing Non-Executive Directors, Claire's experience ensures that the Board has a well-balanced array of skills and is well attuned to the Group's requirements.

I would like to extend my thanks to Adrian Barden, who will be retiring from the Board at the conclusion of the Annual General Meeting on 13 December 2017 after serving just under six years in office on the current and pre-IPO Board. Adrian provided important continuity on the Board whilst the business moved from private-equity ownership to a listed company and I would like to thank him for his contributions during his tenure. To ensure an orderly succession plan, the Committee has initiated a search for an independent Non-Executive Director and an announcement will be made in due course.

Board diversity

Volution believes that diversity throughout the business is important in order to reflect the varied nature of the communities that it operates in and its customer base. The Board continues to be supportive of the need for diversity of its members to provide the necessary range of background, experience, values and diversity of thinking and perspectives to optimise the decision-making process. The recent reports by the Parker Review Committee on the ethnic diversity of UK boards, the Hampton-Alexander Review, focused on senior women below the company board, and the McGregor-Smith Review by Baroness McGregor-Smith, considering the issues affecting black and minority ethnic groups in the workplace, have also been noted. Gender and ethnicity are important aspects of diversity which the Chairman and the Committee will consider when deciding upon the most appropriate composition of the Board including Executive Director succession planning.

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

Following the appointment to the Board during the year of Claire Tiney as an independent Non-Executive Director, I am pleased to report that the Company is now progressing towards the voluntary gender diversity target set in the Lord Davies Report published in October 2015. The Board's continued commitment towards achievement of the voluntary target will form part of the considerations in the decision to appoint any new Directors to the Board as and when existing members step down from the Board.

Re-election of Directors

On the recommendation of the Committee and in line with the Code and the Company's Articles of Association, all of the Company's Directors, except for Adrian Barden, will stand for re-election at the Annual General Meeting 2017. The biographical details of the Directors can be found on pages 46 to 47. The Committee considers that the performance of each of the Directors standing for re-election at the Annual General Meeting continues to be effective and each demonstrates commitment to their role.

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman in compliance with the Code. Further details can be found in the Governance Report on page 55. 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.

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

Peter Hill, CBE
Chairman of the Nomination Committee
10 October 2017

Audit Committee Report

Paul Hollingworth
Chairman, Audit Committee

Audit Committee members

Paul Hollingworth (chairman)
Adrian Barden
Tony Reading
Claire Tiney (from 3 August 2016)

"During the year, the Committee's focus has, as in previous years, centred on the integrity of the Group's financial reporting and ensuring an effective system of risk management and internal controls is in place.

Paul Hollingworth
Chairman of the Audit Committee

Dear shareholder,

I am pleased to introduce the Audit Committee Report for the year ended 31 July 2017, which outlines the activities of the Committee during the year.

During the year, the Committee's focus has, as in previous years, centred on the integrity of the Group's financial reporting and ensuring an effective system of risk management and internal controls is in place. The Committee has continued to follow a detailed programme of work and to respond to the increasing depth of review and reporting that is now required of audit committees. The Committee can also confirm, on behalf of the Board, that the Annual Report and Accounts 2017, taken as a whole, is fair, balanced and understandable.

The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties and responsibilities and the Board considers the Committee members' financial experience to be recent and relevant for the purposes of the 2016 edition of the UK Corporate Governance Code (the Code). Further, in accordance with the Code, the Board has determined that the current composition of the Committee as a whole has competence relevant to the sector in which the Group operates. Claire Tiney was appointed to the Board and as a Committee member on 3 August 2016 and Adrian Barden will retire from the Board and the Committee at the conclusion of the Annual General Meeting on 13 December 2017.

BDO LLP (BDO) has continued to perform the internal audit function on behalf of the Group in accordance with an agreed strategic internal audit plan. This plan continues to provide the Committee with a means of assessing the level and effectiveness of controls across the Group. In addition, the Committee reviews the results of a biannual internal assessment of internal controls carried out by management across all businesses. During the financial year ending 31 July 2018, the Committee will continue to look in detail at the Group's business operations, with a number of internal audits planned to take place during the period, with particular focus on recent acquisitions. These will cover internal control and compliance areas and be undertaken across functions in the UK and European business units.

Andy Glover, having completed five years as lead audit partner, and in line with FRC's partner rotation policy, will be replaced by Andy Smyth on completion of the 2017 financial year audit. On behalf of the Committee I would like to mark our appreciation of the work completed by Andy Glover as lead audit partner over the last five years, especially during the period when Volution transitioned from a private-equity owned business to a listed company. Andy Smyth has over 25 years of audit and accounting advisory experience with EY and has spent the last nine years as a partner reporting on listed multinational businesses across a number of industry sectors. I would like to welcome Andy Smyth and on behalf of the Committee we look forward to working with him.

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

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

Paul Hollingworth
Chairman of the Audit Committee
10 October 2017

Audit Committee activities during the year

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

Financial statements and reports

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

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

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

> reported to the Board on the appropriateness of accounting policies and practices; and

> reviewed the Viability Statement and associated stress testing.

Risk management

> reviewed and recommended to the Board the revised Group Risk Policy and Risk Management Procedures and Plans to further embed risk awareness and management across the business;

> considered the Group Risk Register, which identified, evaluated and set out mitigation of risks, and reviewed the principal risks and uncertainties disclosed in the Annual Report and Accounts, in particular macroeconomic and cyber risk; and

> monitored and reviewed the risk management and internal control processes to ensure compliance with the UK Corporate Governance Code for disclosure in the Annual Report and Accounts.

Internal audit

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

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

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

External auditor and non-audit work

> reviewed the recent tendering and rotation provisions from the EU and the Competition and Markets Authority;

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

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

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

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

Compliance

> met with the external auditor without executive management being present; and

> reviewed the Committee terms of reference and evaluated its performance.

Audit Committee Report continued

Membership and attendance

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

Accordingly, the Committee comprises four members who are independent Non-Executive Directors, Paul Hollingworth as Committee chairman, considered by the Board to have recent and relevant financial and accounting experience, Tony Reading, Adrian Barden 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 46 to 47. As such, the Committee complies with the Code recommendations.

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

Members and their attendance at meetings during the year are set out in the Governance Report on page 54.

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

Minutes of each Committee meeting are provided to Board members.

Role and responsibilities

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

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

Significant accounting matters

In reviewing the financial statements with management and the external auditor, the Committee discussed and debated the critical accounting judgements and key sources of estimation uncertainty. As a result of its review, the Committee identified the following issues that required particular judgement or had significant impact on interpretation of this Annual Report and Accounts 2017:

Area of focus	Why was this significant?	How did the Committee address this area?
Impairment of goodwill and other intangible assets	The Group's policies on accounting for separately acquired intangible assets and goodwill on acquired businesses is set out in notes 13 and 14 to the consolidated financial statements. At 31 July 2017 intangible assets relating to goodwill and other intangible assets amounted to £182.6 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 15 to the consolidated financial statements and no impairment provision is required. The Committee has also reviewed the allocation of goodwill and other intangible assets to the appropriate cash generating units (CGUs) and the level of CGUs at which the impairment testing is completed and considers it reasonable.
Rebates payable and receivable	The Group has a number of customer and supplier rebate agreements that are recognised as a reduction from sales or a reduction of cost of sales as appropriate (collectively referred to as rebates). Rebates are based on an agreed percentage of revenue or purchases, which will increase with the level of revenue achieved or purchases made. These agreements typically run to a different reporting period to that of the Group with some of the amounts payable and receivable being subject to confirmation after the reporting date. At the reporting date, management makes estimates of the amount of rebate that will become both payable by and due to the Group under these agreements based upon their best estimates of volumes and product mix that will be bought or sold over each individual rebate agreement period.	The 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 their approach.
Exceptional items	Exceptional items on a pre-tax basis of £1.4 million (2016: £1.2 million) represent a material item in the profit and loss account. Full details are set out in note 5 to the consolidated financial statements. Included in this year's results is a charge of £0.8 million relating to the costs associated with acquisitions (2016: £1.2 million) and factory relocation £0.6 million (2016: £nil).	The Committee reviewed the inclusion of costs shown as re-organisation and acquisition costs by virtue of their size, nature or occurrence, and received updates on the level and nature of these costs. In particular, exceptional costs relating to the consolidation of two UK production facilities in Reading and Slough into one new site in Reading were reviewed. The Committee believes that the treatment of re-organisation costs and costs associated with acquisitions has been applied consistently, and that separate disclosure enables the reader more clearly to understand the headline financial and operating performance of the Group.
	In addition, the Committee reviewed policy and provisions with respect to warranty, doubtful debts and inventory.	

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 2017 financial year was Andy Glover, whose appointment in this role also commenced with the audit for the financial year ended 31 July 2013. Andy Glover had no previous involvement with the Group in any capacity. In accordance with current professional standards, the external auditor is required to change the lead audit partner every five years in order to protect auditor independence and objectivity. Accordingly, Andy Glover acted as lead audit partner until the 2017 financial year audit was completed, following which a new lead audit partner, Andy Smyth, was formally appointed. In preparation for the role, Andy Smyth shadowed Andy Glover during the 2017 financial year audit.

The Committee assessed the effectiveness of EY and the external audit process using a checklist and questionnaire issued to senior management across the Group and involvement of senior management in the detailed stages of the audit process. A summary of the findings was prepared for consideration by the Committee at its October 2017 meeting. The Committee was satisfied with EY's performance, the external audit process and that it had employed an appropriate level of professional challenge in fulfilling its role. There were no significant findings from the evaluation process.

The Committee has reviewed the tendering and rotation provisions in the EU Audit Directive and Regulation and the Companies Act 2006, which state that there should be a public tender every ten years and a change of external auditor at least every 20 years. The Company is not obliged to tender for audit services until 2024 (ten years from listing). These provisions, together with the satisfactory outcome of the evaluation of EY and the external audit process, have led the Committee to conclude that there is no current intention of placing the external audit out to tender during the next financial year, subject to any other changes to the regulatory regime and continued satisfaction with the effectiveness of the auditor, which is evaluated annually. Accordingly, the Committee recommended to the Board that a resolution to re-appoint EY be proposed to shareholders at the Annual General Meeting in December 2017 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, as published by the UK Competition and Markets Authority (CMA Order). In addition, the Committee confirms that, at the appropriate time, it will put the external audit out to tender to meet the requirements under the CMA Order.

The Committee routinely meets EY without executive management present.

Non-audit services

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

During the year, EY charged the Group £25,000 (2016: £25,000) for non-audit services relating to the half-year review, which represents 8.3% of the average of the external audit fee over the last three financial years, significantly below the 70% cap set by the EU Audit Directive and Regulation. A breakdown of the fees paid to EY during the year is set out in note 9 to the consolidated financial statements.

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

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

Internal control and risk management

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

Internal control environment

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

> an appropriate organisational structure with clear lines of responsibility;
> an experienced and qualified finance function which regularly assesses the possible financial impact of the risks facing the Group;
> a comprehensive annual strategic and 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 rolling forecast system, which includes regular monitoring, variance analysis, key performance indicator reviews and risk and opportunity assessments at Board level;
> procedures by which the consolidated financial statements are prepared, which are monitored and maintained through the use of internal control frameworks addressing key financial reporting risks arising from changes in the business or accounting standards;
> established policies and procedures setting out expected standards of integrity and ethical standards which reinforce the need for all employees to adhere to all legal and regulatory requirements;
> an annual compliance checklist; and
> BDO acting as the internal auditor.

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

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

How we manage risk

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

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

Review of effectiveness

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

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

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 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 was updated at the beginning of the financial year to address the Group's policy on anti-slavery and human trafficking, in accordance with the Modern Slavery Act 2015. Group employees, agents and suppliers are asked, where relevant, to confirm that they do and will continue to comply with these policies. A gifts and hospitality register is operated by each business unit to ensure transparency where items are over a certain monetary threshold. In addition, all employees who are considered the most likely to be exposed to bribery and corruption are given web-based anti-bribery and corruption training.

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

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman in compliance with the Code. Further details can be found in the Governance Report on page 55. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Fair, balanced and understandable

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

The review of the Annual Report and Accounts took the form of a detailed assessment of the collaborative drafting process, which involves the Board members, the Senior Management Team, Group Finance, the Company Secretary and Group Marketing, with guidance and input from external advisers. It ensured that there is a clear and unified link between this Annual Report and Accounts and the Group's other external reporting, and between the three main sections of the Annual Report and Accounts – the Strategic Report; the Governance Report; and the Financial Statements. In addition, the Committee receives a report 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 2017. The outcome of that review was that the Committee confirmed to the Board that the Annual Report and Accounts 2017 met the requirements of the Code and the Board's formal statement to that effect is set out on page 50.

Paul Hollingworth
Chairman of the Audit Committee
10 October 2017

Remuneration Committee members

Tony Reading (chairman)
Adrian Barden
Peter Hill
Paul Hollingworth
Claire Tiney (from 3 August 2016)

"The Remuneration Policy has been updated to incorporate a number of best practice features and to further align the Executive Directors with shareholders.

Anthony Reading, MBE
Chairman of the Remuneration Committee

Dear shareholder,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2017.

At the Annual General Meeting in December 2016 (2016 AGM), the Annual Report on Remuneration received strong support from shareholders with just under 100% of the votes cast being in favour of the resolution.

Our Remuneration Policy was approved by shareholders at the Annual General Meeting in 2014 (2014 AGM) and we continued to operate under this during the year under review. We are seeking approval to renew the Remuneration Policy at the Annual General Meeting 2017 (2017 AGM), in line with the required three-year cycle.

Review of remuneration arrangements

During the year, the Committee reviewed the Remuneration Policy and the implementation of the Policy to ensure they remained appropriate going forward and 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 their personal and collective achievements;
- provide incentives that help to maintain commitment over the longer term and align the interests of senior management with those of shareholders; and
- ensure that a significant percentage of the overall package of the Executive Directors and senior management remains at risk dependent on performance, and that their pay and benefits adequately take account of reward versus risk.

As part of this, the Committee also reviewed total remuneration as a whole. When Volution listed in 2014, the remuneration packages for the Executive Directors were set conservatively to reflect Volution's status as a newly listed company. Over the period since IPO, Volution has smoothly transitioned from a private company to an established public company, and the CEO and CFO have developed into the role of Executive Directors of a listed company.

The Remuneration Policy has been updated (see pages 69 to 75 for more detail) to incorporate a number of best practice features and to further align the Executive Directors with shareholders. These changes include:

- **increase to the annual bonus deferral requirements –** one-third of the total bonus will now be deferred into shares;
- **increase to the share ownership guidelines –** increased to 200% of salary;
- **more stringent malus and clawback provisions –** clawback extended to the cash part of the annual bonus; and

Review of remuneration arrangements continued

> **holding period incorporated –** the Policy has been updated to reflect the introduction of the two-year holding period under the Long Term Incentive Plan (LTIP) which was introduced for 2016/17 LTIP grants.

As part of the Policy review, the Committee discussed the variable incentive limits, as set out in the Policy, in light of the performance of the Group since IPO and the strategic priorities of the business going forward. Taking this into account, the Committee believes an increase to the maximum bonus opportunity to 150% of salary (from 100% of salary), along with the best practice features set out above, is appropriate. Whilst the maximum bonus opportunity permissible under the proposed Policy will be increased from 100% to 150% of salary, it is the Committee's intention that the total variable pay (annual bonus plus LTIP) maximum opportunity will remain the same at 275% of salary, as it is in the previous Policy. These changes will provide the Committee with flexibility to change the annual bonus and LTIP balance, if appropriate, subject to an overall maximum of 275% of salary.

Performance in 2016/17 and remuneration outcomes

It has been another strong year for Volution Group. Adjusted operating profit, adjusted EPS, working capital management and Group employee retention were the key measures used by the Committee to measure performance towards achieving the Group's strategic objectives and, accordingly, were the performance measures used in the Annual Bonus Plan (ABP). Performance against these measures resulted in the Committee awarding an annual bonus of 87.8% of salary to Ronnie George and 87.8% of salary to Ian Dew. We have provided full retrospective disclosure of the ABP targets as well as the actual performance against them. In accordance with the existing Remuneration Policy, 50% of the annual bonus payment above the target incentive (which was 60% of the maximum opportunity) has been deferred into awards over the Company's shares which will vest after three years. Further details can be found on page 79.

The 2014 LTIP award, being the first grant after our IPO, had a performance period ending on 31 July 2017 and is due to vest in October 2017. Due to strong EPS growth and total shareholder return performance over the period, the 2014 LTIP awards will vest at 72% of maximum for both Ronnie George and Ian Dew. Further details can be found on page 78.

Remuneration decisions for 2017/18

As part of the review of remuneration arrangements set out above, we assessed the base salaries of the Chief Executive Officer and the Chief Financial Officer. The Committee determined that they should both be awarded an increase in base salary in line with the wider workforce equal to 2% with effect from 1 August 2017.

Since listing in June 2014, the Company has grown in complexity, successfully completed seven important acquisitions and delivered strong financial results. To ensure the Chief Executive Officer and Chief Financial Officer are incentivised to continue the successful execution of the Group strategy and ensure continued strong financial results, as well as taking into account the development and performance of the CEO and the CFO as Executive Directors of a listed company, the Committee is proposing an increase to the 2017/18 maximum annual bonus opportunity and to the 2017/18 LTIP award, in line with the Remuneration Policy being put forward at the 2017 AGM. These changes are in addition to the best practice features that have also been introduced.

The Chief Executive Officer's maximum annual bonus opportunity for 2017/18 will be 125% of base salary, with one-third to be deferred into shares to be held for at least two years after payment. The CEO's award of shares under the LTIP will be 150% of base salary and the two-year holding period following the end of the three-year performance period will apply as it did last year. The Chief Financial Officer's maximum annual bonus opportunity for 2017/18 will be 125% of base salary with one-third to be deferred into shares to be held for at least two years after payment. The CFO's award of shares under the LTIP will be 125% of base salary and the two-year holding period following the end of the three-year performance period will apply as it did last year.

The Committee is mindful of the fact that the fixed elements of the remuneration package remain conservatively positioned against the market – however, we are of the view that greater emphasis should be given to the variable pay arrangements in order to manage the fixed costs and to ensure executives only benefit if the Company performs well against the targets set.

Taking into account feedback from shareholders and the current focus of the Group, the Committee is also proposing to make some changes to the annual bonus and LTIP performance measures, further detail of which can be found on page 83.

The Committee will continue its policy of setting stretching targets which take into account a number of internal and external factors and disclose performance against targets and associated payouts unless the Committee considers them to be commercially sensitive.

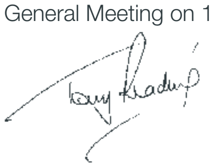
We have communicated with our major shareholders on the proposed changes to the Remuneration Policy together with the changes set out above on the remuneration decisions for 2017/18 and we have been pleased with the broad support for the proposals.

Sharesave Scheme

In addition to the above, we are also implementing an all-employee Sharesave Scheme, which is being put forward for shareholder approval at the 2017 AGM, to enable employees to invest in the future of the Group and encourage wider share ownership.

Annual General Meeting 2017

On behalf of the Board I would like to thank shareholders for their continued support and do hope that you will support the resolutions requesting approval of the new Remuneration Policy and the Annual Report on Remuneration at this year's Annual General Meeting on 13 December.



Anthony Reading, MBE
Chairman of the Remuneration Committee
10 October 2017

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 2017. Subject to the passing of that resolution, the Policy will become effective on 13 December 2017.

Key changes made to the Policy that was approved by shareholders at the 2014 AGM are as follows, with more detail set out in the Chairman's letter and the Annual Report on Remuneration:

> an increase in the maximum opportunity available under the Annual Bonus Plan (notwithstanding that the total variable pay (ABP plus LTIP) will be subject to an overall cap in line with the previous Directors' Remuneration Policy, being 275% of salary);

> an increase in the annual bonus deferral requirements;

> an increase in share ownership guidelines;

> a strengthening of the current malus and clawback provisions; and

> formally incorporating the holding period, which was introduced last year, into the Policy.

In addition to the above, minor changes have been made to align the Policy with evolving investor guidance and to clarify the scope of the practical operation of the Policy (in particular in respect of the clawback provisions) to reflect market practice.

Remuneration Policy table

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

Directors' Remuneration Policy Report continued

Remuneration Policy table continued

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

Remuneration Policy table continued

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

Choice of performance measures and approach to setting

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

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

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

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

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

Directors' Remuneration Policy Report continued

Legacy arrangements

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

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

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

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

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

Common award terms

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

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

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

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

> be settled in cash at the Committee's discretion; and

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

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

Malus and clawback

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

Takeover or other corporate event

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

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

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

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

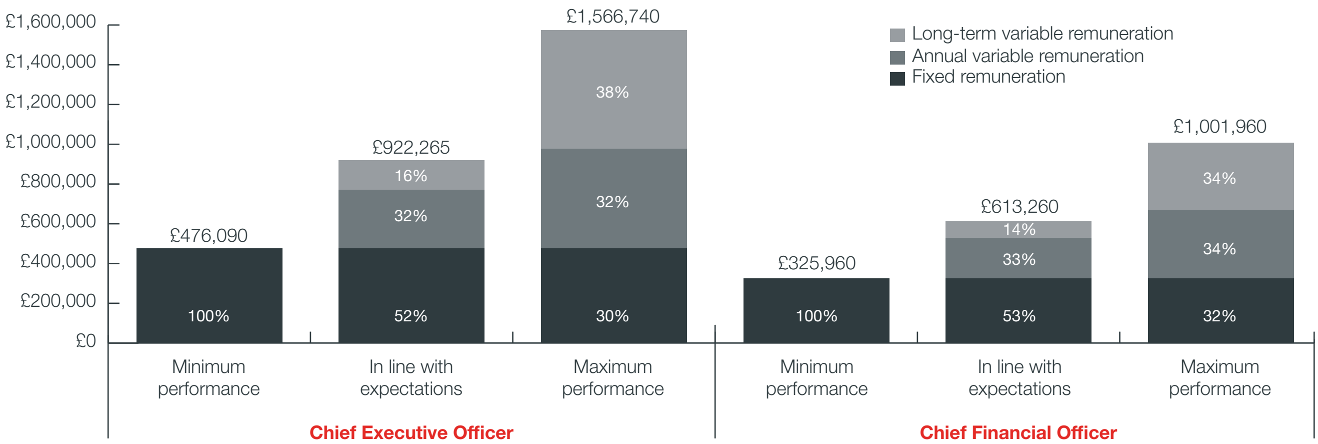
Minor changes

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

Illustrations of the application of the Remuneration Policy

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

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



The assumptions used for these charts are as follows:

Levels of performance		Assumptions
Fixed pay	All scenarios	> Total fixed pay comprises base salary, benefits and pension > Base salary – effective as at 1 August 2017 > Benefits – as set out in the single figure table for the 2016/17 year > 15% of base salary pension contributions
Variable pay	Below threshold performance	> No payout under the ABP > No vesting under the LTIP
	In line with expectations	> 60% of the maximum potential payout under the ABP > 25% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively
	Maximum performance	> 100% of the maximum potential payout under the ABP (i.e. 125% of base salary) > 100% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively

Note

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

External appointments of Executive Directors

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

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Approach to recruitment

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

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

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

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

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

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

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

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

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

> an interim appointment is made to fill an Executive Director role on a short-term basis; and

> exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis.

Service agreements and letters of appointment

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

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

The terms of the Non-Executive Directors' positions are subject to their election by the Company's shareholders at the Annual General Meeting 2017. No contractual payments would become due on termination.

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

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

> materially breached a term of their letter of appointment;

> committed a serious or repeated breach of his duties to the Company;

> been found guilty of fraud, dishonesty or certain criminal offences;

> acted in a way likely to bring the Company into disrepute or which is materially adverse to the Company;

> been declared bankrupt; or

> been disqualified from acting as a director.

The Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and will be available at the 2017 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 may be paid in monthly instalments over the length of the notice period. Payments are subject to mitigation in the event alternative employment is taken up during the notice period.

Policy on Directors leaving the Group continued

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

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

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

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

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

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

Differences in Policy for Executive Directors compared to other employees

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

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

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

Statement of consideration of employment conditions elsewhere in the Group

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

Consideration of shareholder views

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

Annual Report on Remuneration

This section provides details of how the Remuneration Policy (the Policy) was implemented during the year and how the Remuneration Committee (the Committee) intends to apply the new Policy submitted to the 2017 AGM for shareholder approval, in the financial year 2017/18. 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 2017 AGM.

Role of the Committee

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

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

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

> determine the remuneration, including pension arrangements, of the Executive Directors;

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

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

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

> select and appoint the external advisers to the Committee.

Membership

The Committee currently comprises four independent Non-Executive Directors, Tony Reading, Adrian Barden, Paul Hollingworth and Claire Tiney (appointed to the Board and Committee on 3 August 2016), and the Chairman of the Board, Peter Hill.

Adrian Barden will retire from the Board and the Committee at the conclusion of the Annual General Meeting on 13 December 2017.

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

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

Meetings

The Committee met four times during the year and has had two meetings to date in 2017/18. Committee member attendance can be found in the table of Board and Committee attendance on page 54.

Committee activity and key decisions during the year ended 31 July 2017

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

> reviewed the Policy which was last approved by shareholders at the 2014 AGM and recommended a new Policy for approval by shareholders at the 2017 AGM;

> considered and approved the Directors' Remuneration Report 2015/16;

> reviewed outcomes and approved payments for Executive Director and Senior Management Team bonuses for 2015/16;

> reviewed and approved the parameters of the ABP, including performance measures and targets for 2016/17 for the Executive Directors and Senior Management Team;

> considered and approved the LTIP awards to the Executive Directors and Senior Management Team for 2016/17;

> reviewed market trends and developments in executive remuneration in advance of considering Executive Director and Senior Management Team remuneration proposals for 2017/18;

> reviewed and approved the Executive Director and Senior Management Team salaries for 2017/18;

> reviewed and approved the parameters of the ABP, including performance measures for 2017/18 for the Executive Directors and Senior Management Team;

> reviewed and approved the performance measures to be used for any LTIP awards made during 2017/18;

> agreed the process for consultation with shareholders on the Policy;

> considered and approved the introduction of an all-employee Sharesave Scheme; and

> evaluated the performance of the Committee.

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman in compliance with the Code. Further details can be found in the Governance Report on page 55. 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 have served as advisers to the Committee since listing and throughout the year. Total fees for advice provided to the Committee during the year by Deloitte LLP were £27,550 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 IFRS2 valuation advice and all-employee share plan advice during the year.

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

Single total figure of remuneration (audited)

The audited table below sets out the total remuneration for the Directors in the years ended 31 July 2017 and 31 July 2016.

	Salary and fees		Benefits[1]		Pension[2]		Annual bonus[3]		Long-term incentives[4]		Other		Total	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Chairman														
Peter Hill	**139**	135	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**139**	135
Executive Directors														
Ronnie George	**389**	353	**22**	12	**51**	47	**341**	226	**355**	—	**—**	—	**1,158**	638
Ian Dew	**265**	253	**18**	12	**35**	34	**232**	162	**254**	—	**—**	—	**804**	461
Non-Executive Directors														
Adrian Barden[5]	**46**	45	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**46**	45
Gavin Chittick[6]	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Paul Hollingworth	**56**	55	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**56**	55
Tony Reading	**61**	60	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**61**	60
Claire Tiney[7]	**46**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**46**	—

Notes

1. Benefits include an annual car allowance, life assurance equivalent to four times annual salary and private medical insurance.
2. An employer's pension contribution of 15% of base salary was paid to each of the Executive Directors until 31 October 2015. From 1 November 2015, a cash payment in lieu of employer's pension contribution, equivalent to 15% of base salary was paid to each of the Executive Directors.
3. The annual bonus for 2016/17 relates to annual incentive payments for performance in that financial year. The calculation of this amount is set out on page 78. 50% of the 2016/17 annual bonus above target (which is 60% of the maximum) is deferred into shares for a minimum period of two years. Ronnie George will be awarded shares equivalent to £54,030 and Ian Dew will be awarded shares equivalent to £36,839.
4. Long-term incentives: this column relates to the value of long-term awards whose performance period ends in the year under review. The first long-term incentive awards granted post-listing had a performance period that ended on 31 July 2017, and this has been included in the table above. This award is due to vest in October 2017 and therefore the value included in the table above represents an estimated value using the average share price of 192.47 pence over the three months to 31 July 2017. As a result of no LTIP awards having a performance period ending in 2016, there is a zero figure in the 2016 column.
5. Adrian Barden's fees were paid through Blue Burgee Limited up until 5 April 2016.
6. Gavin Chittick was the non-independent Non-Executive Director appointed by the Company's major shareholder, Windmill Holdings B.V., under a Relationship Agreement dated 18 June 2014 between the Company and Windmill Holdings B.V. He was not entitled to receive any fees for the services he provided to the Company. Gavin Chittick stepped down from the Board on 18 March 2016.
7. Claire Tiney joined the Board on 3 August 2016.

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 2017 was consistent with the framework set out in the Policy. The maximum annual bonus potential for the Executive Directors during the year was 100% of base salary, and bonus for on-target performance was 60% of base salary. 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. In the 2016 Directors' Remuneration Report we stated that the weightings of the annual bonus performance measures for the year ending 31 July 2017 would be the same as the previous year. However, when the performance targets were set at the beginning of the year, the Remuneration Committee decided to decrease the weighting on adjusted operating profit to 43% (from 50%) and increase the weighting on adjusted EPS to 42% (from 35%). This was considered appropriate to ensure that the annual bonus performance measures were suitably balanced, given that both adjusted operating profit and adjusted EPS are key strategic measures for the Company and closely monitored by shareholders. The actual 2016/17 weightings continue to be consistent with our Policy.

Measure	Strategic objective	Weighting	Threshold	Target	Maximum	Actual performance	Payment (% of maximum)	**Payment (% of base salary)**
Adjusted operating profit	To increase profit	43%	£32.6m	£34.3m	£36.0m	£35.3m	83.2%	**35.8%**
Adjusted EPS	Creation of shareholder value	42%	12.5p	12.95p	13.4p	13.6p	100%	**42.0%**
Working capital management	Delivering efficiency of working capital and cash generation	10%	£23.7m	£23.3m	£22.3m	£18.8m	100%	**10.0%**
Group employee retention	To continue to retain our skilled employees	5%	93.5%	94.0%	95.0%	88.5%	0%	**0%**
						Total		**87.8%**

Note
All measures exclude unbudgeted acquisitions completed during the year except adjusted EPS.

Long Term Incentive Plan vesting of 2014 Awards

The LTIP values included in the single total figure of remuneration table for 2017 relate to the 2014 LTIP award, being the first LTIP award granted after our IPO. Awards with a face value of 100% of salary were granted to the Executive Directors in October 2014, and following a three-year performance period ending on 31 July 2017, are due to vest in October 2017. Performance against the performance targets is set out below:

	Weighting (% of total award)[1]	Below threshold (0% vesting)	Threshold (25% vesting)	Maximum (100% vesting)	Actual performance outcome	**Vesting (% of maximum)**
TSR vs Direct Peer Group index[2]	25%	Below index	Equal to index	Index + 8% p.a.	Below index	**0%**
TSR vs FTSE companies of a similar size[3]	25%	Less than median	Median	Upper quartile	Ranked 12.5 out of 41 companies	**89%**
Cumulative average EPS growth	50%	Below 6% p.a.	6% p.a.	15% p.a.	15.5% p.a.	**100%**
Total vesting (% of maximum)						**72%**

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

Share awards granted during the year (audited)

Long Term Incentive Plan (LTIP)

2016/17 Awards

During the year the Committee made awards under the LTIP in accordance with the Policy. The LTIP awards were made in the form of nil-cost options which will vest following the Committee's determination of the extent to which performance conditions, measured over three financial years to 31 July 2019, have been met.

As described in last year's Annual Report on Remuneration, the Committee approved the following performance conditions which were used for these awards.

	Weighting[1] (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting)	Maximum (100% vesting)
TSR vs Direct Peer Group index[2]	25%	Below index	Equal to index	Index + 8% p.a.
TSR vs FTSE companies of a similar size[3]	25%	Less than median	Median	Upper quartile
Cumulative average EPS growth	50%	Below 6% p.a.	6% p.a.	15% p.a.

Notes
1. Awards will vest on a straight line basis between these points.
2. Direct Peer Group index is an unweighted index comprised of Polypipe, Tyman, Topps Tiles, Marshalls, Safestyle, Epwin Group and Norcros.
3. The companies of a similar size represent the group of 50 companies above and below the Company in terms of market capitalisation (excluding financial services and oil and gas companies).

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

The LTIP awards made on 17 November 2016 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	228,735	£1.70	£388,850	100%	18 October 2021	17 October 2026
Ian Dew	155,955	£1.70	£265,125	100%	18 October 2021	17 October 2026

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

Deferred Share Bonus Plan (DSBP)

2016/17 Awards (audited)

As set out in the Policy, under the Company's Annual Bonus Plan, 50% of any bonus payment above the target incentive (which is 60% of the maximum opportunity) earned by the Executive Directors will normally be deferred into awards of the Company's shares. On 17 October 2016, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2015/16 annual bonus. The value of these shares is included in the annual bonus figure in the 2016/17 single total figure of remuneration. No further performance conditions apply to these shares.

The DSBP awards made on 17 October 2016 were as follows:

Executive Director	Number of shares	Base price	Face value[1]	Vesting date
Ronnie George	4,106	£1.70	£6,981	17 October 2019
Ian Dew	2,933	£1.70	£4,987	17 October 2019

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.

Annual Report on Remuneration continued

Equity incentives (audited)

Details of the awards granted and outstanding 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 2016	Share awarded during the year	Shares lapsed during the year	Shares vested/ exercised during the year	**Number of share awards at 31 July 2017**	Face value at date of grant £[1]	Earliest release date[2]	Expiry date
Ronnie George									
LTIP 2014[3]	29/10/2014	243,325	—	—	—	**243,325**	349,998	29/10/2017	29/10/2024
LTIP 2015	19/11/2015	188,533	—	—	—	**188,533**	353,499	19/11/2018	19/11/2025
LTIP 2016	17/10/2016	—	228,735	—	—	**228,735**	388,850	18/10/2021	18/10/2026
DSBP 2015	19/11/2015	4,666	—	—	—	**4,666**	8,749	19/11/2018	N/A
DSBP 2016	17/10/2016	—	4,106	—	—	**4,106**	6,981	17/10/2019	N/A
Total		436,524	232,841	—	—	**669,365**	1,108,077		
Ian Dew									
LTIP 2014[3]	29/10/2014	173,804	—	—	—	**173,804**	249,999	29/10/2017	29/10/2024
LTIP 2015	19/11/2015	134,666	—	—	—	**134,666**	252,499	19/11/2018	19/11/2025
LTIP 2016	17/10/2016	—	155,955	—	—	**155,955**	265,125	18/10/2021	18/10/2026
DSBP 2015	19/11/2015	3,333	—	—	—	**3,333**	6,249	19/11/2018	N/A
DSBP 2016	17/10/2016	—	2,933	—	—	**2,933**	4,987	17/10/2019	N/A
Total		311,803	158,888	—	—	**470,691**	778,859		

Note

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 £1.4384 for LTIP 2014, £1.875 for the LTIP 2015 and DSBP 2015 and £1.70 for the LTIP 2016 and DSBP 2016.
2. LTIP 2016 awards were granted with a three-year performance period and an additional two-year holding period.
3. LTIP 2014 awards had a performance period ending on 31 July 2017. 72% of the award will vest in October 2017, with further detail set out on page 78.

Employee Benefit Trust

The Volution Employee Benefit Trust (EBT) currently holds 1,166,878 shares in the Company. It is the Company's intention to use shares currently held in the EBT to satisfy all awards made so far under the Long Term Incentive Plan and Deferred Share Bonus Plan. Dividends arising on the shares held in the EBT are waived on the recommendation of the Company.

Funding of future awards under the Share Incentive Plans

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

Statement of Directors' shareholding 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 100% of their base salary. As set out in the new proposed Remuneration Policy, this is being increased to 200% of salary. It should be noted that both the Executive Directors currently have shareholdings well in excess of 200% of base salary. The Chairman and the Non-Executive Directors are also encouraged to hold shares in the Company in order to align their interests with those of shareholders. Directors' interests in ordinary shares held as at 31 July 2017 (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 2017 and the date of this report.

	Shares held beneficially at 1 August 2016[1]	**Shares held beneficially at 31 July 2017[1]**	Beneficial shareholding at 31 July 2017 (% of salary)	Target shareholding achieved?[2]	LTIP awards (unvested awards subject to performance)[3]	DSBP awards (unvested awards, not subject to performance)
Chairman						
Peter Hill	35,333	**35,333**	N/A	N/A	—	—
Executive Directors						
Ronnie George	5,622,833	**5,622,833**	2,751%	Yes	660,593	8,772
Ian Dew	855,327	**855,327**	614%	Yes	464,425	6,266
Non-Executive Directors						
Adrian Barden	107,725	**107,725**	N/A	N/A	—	—
Paul Hollingworth	19,333	**19,333**	N/A	N/A	—	—
Tony Reading	60,000	**70,000**	N/A	N/A	—	—
Claire Tiney	—	**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 2017 using the share price on that date of 190.25 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 subject to the same performance conditions (being TSR vs Direct Peer Group index, TSR vs FTSE companies of a similar size and cumulative average EPS growth), with performance measured over three financial years.

Payments to past Directors

There were no payments to past Directors in the year.

Payments for loss of office

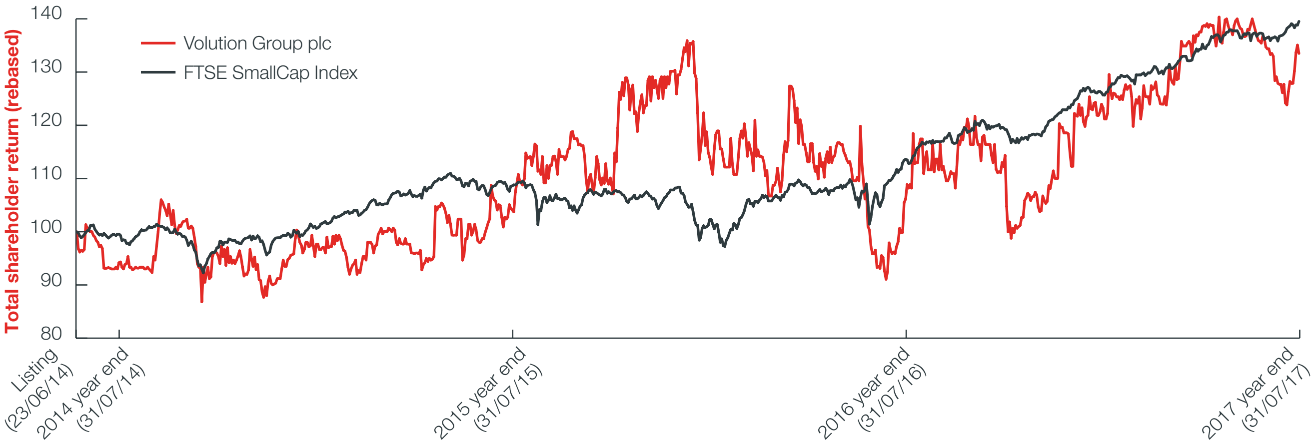
There were no payments for loss of office in the year.

Directors' Remuneration Report continued

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.

	2017	2016	2015	2014	2013
Chief Executive Officer's single total figure of remuneration (£000)	**1,158**	638	643	1,061	428
Annual bonus payout (as a % of maximum opportunity)	**87.8%**	64%	65%	100%	54.8%
LTIP vesting (as a % of maximum opportunity)	**72.1%**	N/A	N/A	N/A	N/A

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

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

% change	Chief Executive Officer	All employees[1]
Base salary	10.0%	4.8%
Benefits[2]	66.7%	(1.9)%
Total annual bonus	46.5%	24.3%

Notes

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

Relative importance of the spend on pay (audited)

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

	2017 £m	2016 £m	% change
Employee remuneration costs[1]	**47.6**	38.3	24.2
Distributions to shareholders	**7.9**	6.9	14.1
Adjusted operating profit	**35.6**	32.5	9.6

Note

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

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2018

As set out in the Remuneration Committee Chairman's letter, the Committee has recently undertaken a review of the remuneration arrangements for our Executive Directors, with assistance from the Committee's advisers, Deloitte LLP. The following conclusions were reached by the Committee on implementation of the Remuneration Policy (the Policy) for the 2017/18 financial year.

Executive Director base salaries

As part of the review, the Committee assessed the base salaries of the Chief Executive Officer and the Chief Financial Officer. The Committee determined that they should both be awarded an increase in base salary in line with the wider workforce equal to 2% with effect from 1 August 2017, taking the base salary for Ronnie George to £396,600 and for Ian Dew to £270,400.

Pension and other benefits

The Executive Directors will continue to receive a cash payment in lieu of an employer's pension contribution, equivalent to 15% of base salary. Other benefits received comprise of an annual car allowance paid in cash of £20,000 per annum for the Chief Executive Officer and £15,000 per annum for the Chief Financial Officer, life assurance equivalent to four times annual salary and private medical insurance.

Annual Bonus Plan (ABP) and Long Term Incentive Plan (LTIP)

Award levels and time horizons

Following the review, it was recognised that since listing in June 2014 the Company had grown in complexity, successfully completed seven important acquisitions and delivered strong financial results. To ensure the Chief Executive Officer and Chief Financial Officer are incentivised to continue the successful execution of the Group strategy and ensure continued strong financial results, the Committee is proposing to increase the annual bonus maximum opportunity for 2017/18 to 125% of salary for both the CEO and the CFO (in line with the proposed new Policy), and the 2017/18 LTIP awards to 150% of salary for the CEO and 125% of salary for the CFO.

At the same time, the Committee is increasing the annual bonus plan deferral requirements so that one-third of the total bonus is now deferred into shares. This will result in significantly more of the bonus being deferred into shares, creating further alignment with shareholders. The LTIP will continue to be subject to a two-year holding period following the end of the three-year performance period.

Annual Bonus Plan performance measures

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

The targets set for the year ended 31 July 2018 will be disclosed in the next Annual Report on Remuneration, unless they remain commercially sensitive.

Long Term Incentive Plan performance measures

Following the review and feedback from shareholders, it was determined that the LTIP framework would remain the same but the performance measures would be changed for the year ended 31 July 2018, in order to further align the interests of the Executive Directors with shareholders. The performance measures to be used for the LTIP awards will give much greater emphasis to EPS growth (75%) and will use a single measure of Total Shareholder Return, TSR vs Direct Peer Group (25%). The Total Shareholder Return measure of TSR vs FTSE companies of a similar size used last year will no longer be used. The Committee determined that the TSR vs Direct Peer Group was the more appropriate measure to retain as it measures the performance of Volution against our peer group. Again, these changes simplify the incentive arrangements in place by reducing the number of performance measures from three to two.

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2018 continued

Share ownership guidelines

Share ownership guidelines are to be increased to 200% of salary (from 100% of salary) to improve the alignment between Executive Directors and shareholders.

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 2016 and the next review is due in July 2018. Accordingly, they will remain unchanged for the year ended 31 July 2018.

The fees with effect from 1 August 2017 are summarised in the table below:

Chairman fee covering all Board duties	£139,050
Non-Executive Director basic fee	£46,350
Supplementary fees to Non-Executive Directors covering additional Board duties:	
– Senior Independent Director	£5,000
– Audit Committee Chairman	£10,000
– Remuneration Committee Chairman	£10,000

Statement on shareholder voting

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

The following table sets out the voting by shareholders at the Annual General Meeting in December 2016 in respect of our Annual Report on Remuneration.

Resolution	Votes cast for	% of votes cast	Votes cast against	% of votes cast	Votes withheld
Approval of Annual Report on Remuneration	167,666,621	99.99	30	0.01	8,978,259

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 10 October 2017 and signed on its behalf by the Remuneration Committee chairman.

Anthony Reading, MBE
Chairman of the Remuneration Committee
10 October 2017

Directors' Report

Introduction

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 31 July 2017.

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

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

- the Strategic Report on pages 1 to 45;
- the Governance Report on pages 46 to 87;
- information relating to financial instruments, as set out in note 23 to the consolidated financial statements; and
- related party transactions as set out in note 29 to the consolidated financial statements.

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

Corporate structure

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 98.

An interim dividend of 1.35 pence per share was paid to shareholders on 4 May 2017 and the Directors are recommending a final dividend in respect of the financial year ended 31 July 2017 of 2.80 pence per share. If approved, the final dividend will be paid on 18 December 2017 to shareholders on the register on 24 November 2017. The total dividend paid and proposed for the year amounts to 4.15 pence per share.

Share capital and related matters

The Company has only one class of share and the rights attached to each share are identical. Details of the rights and obligations attaching to the shares are set out in the Company's Articles of Association which are available from the Company Secretary. The Company may refuse to register any transfer of any share which is not a fully paid share. At a general meeting of the Company, every member has one vote on a show of hands and on a poll one vote for each share held. Details of the voting procedure, including deadlines for exercising voting rights, are set out in the Notice of Annual General Meeting 2017.

As at 31 July 2017 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 2017 are shown in note 25 to the consolidated financial statements.

Powers of the Directors

The Directors may exercise all the powers of the Company including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares. At the AGM in 2016, the Company was authorised by members to purchase up to a maximum of 19,908,312 of its own shares. During the financial year ended 31 July 2017, 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. However, on 18 June 2014, the Company entered into a Relationship Agreement with our then controlling shareholder (Windmill Holdings B.V.) in connection with the exercise of its rights as principal shareholder in the Company and its right to appoint a Director to the Board. More details on the Relationship Agreement can be found on page 86.

The Company has in place certain share incentive plans and details can be found on pages 78 to 80. 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 67 to 84.

The Company also has an Employee Benefit Trust (EBT) in which to hold ordinary shares to satisfy awards under the share incentive plans. As at the financial year end on 31 July 2017 and as at the date of this report, there were 1,166,878 ordinary shares held in the EBT. The trustee of the EBT has the power to exercise the rights and powers incidental to, and to act in relation to, the ordinary shares subject to the EBT in such manner as the trustee in its absolute discretion thinks fit.

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

Directors' Report continued

Substantial shareholdings

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

Name of holder	Total holding of shares	% of total voting rights
PrimeStone Capital LLP	26,130,940	13.14%
Standard Life Aberdeen plc	13,496,183	6.78%
FMR LLC	12,731,662	6.40%
Baillie Gifford & Co	11,343,105	5.70%
Lazard Asset Management LLC	9,832,096	4.94%
UBS Global Asset Management	6,413,511	3.23%

Relationship Agreement

On 18 June 2014, prior to listing, the Company and our then controlling shareholder (Windmill Holdings B.V.) entered into a Relationship Agreement, the principal purpose of which was to ensure that the Company was capable at all times of carrying on its business independently of the controlling shareholder and its associates and to ensure all transactions and arrangements between it and the Group would be conducted at arm's length and on normal commercial terms.

On 8 April 2016, Windmill Holdings B.V. reduced its shareholding to 22.38% of the Company's share capital and accordingly ceased to be a controlling shareholder at that date. On 31 October 2016, Windmill Holdings B.V. disposed of its remaining shareholding in the Company at which point the Relationship Agreement ended. From the start of the financial year until that date, the terms of the Relationship Agreement remained unchanged.

The Board can confirm that from the start of the financial year until 31 October 2016, the Company complied with the independence provisions and, so far as the Board is aware, the independence provisions were also complied with by Windmill Holdings B.V. and its associates.

Directors

The Directors of the Company and their biographies are set out on pages 46 to 47. Their interests in the ordinary shares of the Company are shown in the Directors' Remuneration Report on page 81. Claire Tiney was appointed as an independent Non-Executive Director during the financial year and her biography is set out on page 47.

Appointment and removal of Directors

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

Under the Relationship Agreement, the Company agreed with Windmill Holdings B.V. that it may appoint and remove one Non-Executive Director to the Board for so long as the shareholder (and/or any of its associates, when taken together) held 15% or more of the voting rights over the Company's shares. The Relationship Agreement ended on 31 October 2016 and from the start of the financial year until that date, no representative Director sat on the Board of the Company.

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

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

Directors' indemnities and insurance

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

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

Transactions with related parties

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

The only material agreement with related parties in place during the year was as follows:

> the Relationship Agreement with Windmill Holdings B.V., which was our controlling shareholder from listing until 8 April 2016. This Relationship Agreement ended on 31 October 2016 and described the relationship of the Company with Windmill Holdings B.V., and subject to certain minimum shareholding requirements, the right of this shareholder to be represented on the Board and certain anti-dilution rights.

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 13 February 2015 contains provisions to enter into negotiations with the lenders to continue with the facilities set out in the agreement upon notification that there will be a change of control. Further details of the Group's banking facilities are shown in note 23 to the consolidated financial statements.

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

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

Amendments to the Company's Articles of Association

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

Political donations

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

Post-balance sheet events

There are no post-balance sheet events.

Going concern

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

Viability Statement

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

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Wednesday 13 December 2017 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ. The Notice of Annual General Meeting and an explanation of the items of non-routine business are set out in the explanatory circular that accompanies this Annual Report and Accounts.

Auditor and disclosure of information to auditor

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

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

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

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

By order of the Board

Michael Anscombe
Company Secretary
10 October 2017

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

Directors' Responsibility Statement

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

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

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

> select suitable accounting policies and then apply them consistently;

> make judgements and estimates that are reasonable and prudent;

> state whether the Group and parent company financial statements have been prepared in accordance with IFRS as adopted by the EU; and

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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

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

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

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

We confirm that to the best of our knowledge:

> the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;

> the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

> the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Ronnie George
Chief Executive Officer
10 October 2017

Ian Dew
Chief Financial Officer
10 October 2017

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

Our opinion on the financial statements
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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS);
- the parent company financial statements have been properly prepared in accordance with IFRS 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.

What we have audited
We have audited the Annual Report and Accounts of Volution Group plc for the year ended 31 July 2017 which comprise the following:

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

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union (IFRS) 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 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.

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.

Independent Auditor's Report continued

to the members of Volution Group plc

Conclusions relating to principal risks, going concern and viability statement

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

> the disclosures in the Annual Report set out on page 34 that describe the principal risks and explain how they are being managed or mitigated;

> the Directors' confirmation set out on page 33 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;

> the Directors' statement set out on page 33 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

> whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or

> the Directors' explanation set out on page 33 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	> Impairment of goodwill and other intangible assets, including the re-assessment of Cash Generating Units ("CGUs"). > Improper revenue recognition, including accounting for sales rebates. > Management override in respective of provisions and exceptional items.
Audit scope	> We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further ten components. > The components where we performed full or specific audit procedures accounted for 99% of profit before tax, 91% of revenue and 71% of total assets.
Materiality	> Overall Group materiality of £960k (FY 2016: £970k) which represents 5% of normalised pre-tax earnings (i.e. profit before tax after adding back non-recurring exceptional items).

Key audit matters

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

Key audit matters continued

Impairment of goodwill and other intangible assets, including the assessment of CGUs.	Our evaluation of the risk profile of the Group:
The Group's assets include £81.6 million (FY 2016: £68.2 million) of goodwill and £100.9 million (FY 2016: £105.4 million) of other intangible assets.	The risk profile has remained stable.

The Group has significant goodwill and other non-current assets, which comprise 66% of the Group's total assets, and the impairment review involves a number of subjective assumptions. The additions to goodwill of £13.4 million and other intangible assets of £7.2 million principally arose from the acquisitions of Breathing Buildings and VoltAir.

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. For intangible assets with an infinite useful life the Group is required to perform a full annual impairment review.

The identification of CGU's is an important judgement in ascertaining whether the carrying value of goodwill and other intangible assets is recoverable. The Group changed its assessment of impairment of goodwill allocated to CGU's in the year.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Goodwill The Group is required to perform an impairment assessment of goodwill annually, which involves comparing each CGU's value in use with its carrying amount. In deriving the value in use, the Group is required to make a number of subjective assumptions including price and cost inflation, discount rates and perpetuity growth rates. **Other intangible assets** 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. There is a risk that the impairment has not been recognised appropriately. **Goodwill allocated to CGUs** The Group started assessing impairment of goodwill at an aggregated regional CGU level in the current year. This is different to the grouped CGUs that were presented in the prior year. The reasons for the change have been disclosed in note 15 to the Annual Report and Accounts.	We ensured the methodology applied by management complied with the requirements of IAS 36, including the computation of carrying value and the nature of cash-flows included in determining the value in use. > We evaluated the reasons for the change in approach to assessing impairment of goodwill at an aggregated regional CGU level, which were set forth by management in their Goodwill impairment memorandum. > We challenged management's assessment by reviewing the internal management reporting of how the business is currently monitored and agreed this to management's memorandum. > We challenged the arguments in the memorandum with reference to compliance with IFRS and specifically around the impairment of goodwill allocated to CGU as indicated in IAS36. > We noted that on a historical basis the goodwill related to the CGUs would not have been impaired if the evaluation was based on the previous CGUs. > We obtained forecasts underlying the impairment review and agreed these to budgets approved by the Board and against actual performance in order to ascertained the historical accuracy of forecasting. > Our valuation specialists assessed the reasonableness of terminal growth rates and WACC rates used in the model by comparing them to similar rates which are representative of the industry in which the Group operates. > We made enquiries of the appropriate finance and commercial personnel to determine whether forecasted performance significantly deviated from historic performance levels, observable trends or our expectations. > We also performed sensitivity analysis on key assumptions including sensitivities to key drivers such as sales prices and gross margin. The procedures set out above were carried out by the Group audit team.	We concluded: > the carrying value of goodwill and intangible assets to be supportable; > management's identification of CGU's to be appropriate and in accordance with changes to the Group from new acquisitions; and > the associated financial statement disclosures are appropriate.

Supporting references in the Annual Report and Accounts:
The Audit Committee Report (page 63);
Accounting policies (page 115); and
Note 15 of the consolidated financial statements (page 118).

Independent Auditor's Report continued

to the members of Volution Group plc

Key audit matters continued

Inappropriate revenue recognition, including accounting for sales rebates.	Our judgement on the risk profile of the Group:
During the year the Group recognised revenue of £185.1 million (FY 2016: £154.5 million).	The risk profile has remained stable.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of inappropriate revenue recognition arises from the following: > inappropriate application of sales cut-off; > revenue not being recognised in line with Group policy and IAS18; and > judgemental sales rebate provisions.	We tested the correct application of the timing of revenue recognition through substantive testing a sample of revenue transactions before and after the period end to identify revenue recognised in the incorrect period. We used data analytics to identify transactions beyond our expectation of the transaction flow. We also performed the following: > Obtained an understanding of the significant classes of transactions impacting revenue and performing walkthroughs to confirm our understanding of these transactions and the controls in place. > Evaluated the adequacy of the design of the controls on the significant classes of transactions impacting revenue. > Performed overall analytical review procedures, which included comparing actual revenue against budget and prior year. > Performed revenue correlation data analytical procedures on Manrose, which is the only entity that has been on the new ERP for a full year. > Tested the application of cut-off and obtained the incoterms, supporting sales orders, proof of dispatch and proof of payment for a sample of sales transactions across all trading companies in scope. > Tested customer rebate accruals by obtaining formal agreements with a sample of customers and recalculating the expected sales rebate. We also noted that a consistent methodology was applied. > Circularised a sample of customers with rebate agreements in place to obtain direct confirmation of the sales rebate terms entered into. Instructions to perform the above were issued to all full and specific procedures scope locations, which covered 91% of consolidated revenue.	We concluded: > we identified one audit difference related to revenue, however, this was not material in the context of consolidated revenue, or the consolidated financial statements as a whole; > the application of sales cut-off to be appropriate; > revenue was recognised in line with Group policy; > judgemental sales rebate provisions were appropriate; and > appropriate disclosure of the nature of rebates is included in the financial statements.

Supporting references in the Annual Report and Accounts:
The Audit Committee Report (page 63);
Accounting policies (page 104); and
Note 3 of the Consolidated Financial Statements (page 104).

Key audit matters continued

Management override arising from the recognition and valuation of judgemental provisions and journal entries.	**Our judgement on the risk profile of the Group:** The risk profile has remained stable.

The Group's trading transactions principally comprise of non-complex transactions, which involve limited judgement. We determined that certain provisions, as set out below, contain a risk of material misstatement as this is the principal area of judgement in the Group's statement of financial position.

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
We identified risk to be present in the following: > Judgemental provisions, specifically debtors, credit notes, inventory and warranty provisions. > Unauthorised non-standard journal entries (including manual journal entries.	Judgemental provisions: > We obtained management's calculation and assumptions used for calculating judgemental provisions. We noted the methodology is appropriate and consistent with prior years. > Where management has overridden the provision amounts calculated, we have enquired of management for the basis and obtained corroborative evidence to ensure the rationale is valid. > In order to verify the accuracy of the methodology used by management, we performed a retrospective review of prior year provisions. Unauthorised non-standard journal entries: > We reviewed unusual journal entries at the subsidiary and Group levels. > We inquired of management of the risks of fraud and the controls put in place to address management override. > We assessed the possibility of fraud arising as a result of errors identified during our audit. Instructions to perform the above were issued to all full and specific scope locations.	We concluded: > provision balances and the methodology applied were acceptable; > the bases for recognising judgemental provisions were appropriate; and > our testing of unusual journal entries raised at subsidiary and Group levels did not uncover any unusual or unauthorised journal entries.

Supporting references in the Annual Report and Accounts:
The Audit Committee Report (page 63);
Accounting policies (page 131); and
Note 24 of the Consolidated Financial Statements (page 131).

Independent Auditor's Report continued

to the members of Volution Group plc

Key audit matters continued

Management override arising from the presentation of recurring items as exceptional. £1.4 million (FY 2016: £1.2 million) of costs incurred in the year are classified as exceptional.	Our evaluation on the risk profile of the Group: The risk profile has remained stable.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Costs could inappropriately be presented as exceptional to enhance underlying earnings.	We obtained an analysis of exceptional items and determined whether the underlying event was exceptional in the context of the guidance for separate presentation of 'material items' provided in IAS 1, and is consistent with the narrative sections of the Annual Report and Accounts. We challenged whether items presented as exceptional meet the definition of "material and non-recurring" and are consistent with Group accounting policy. We determined whether the disclosure of exceptional items is consistent with the nature of exceptional items as suggested in the FRC's press release from December 2013. The audit of judgements made in classifying costs as exceptional was performed by the Group team.	We concluded that the presentation of items as exceptional is acceptable.

Supporting references in the Annual Report and Accounts:
The Audit Committee Report (page 63);
Accounting policies (page 107); and
Note 5 of the Consolidated Financial Statements (page 107).

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 23 reporting components of the Group, we selected 14 components covering entities within Sweden, Belgium, Germany and the United Kingdom, which represent the principal business units within the Group.

Of the 14 components selected, we performed an audit of the complete financial information of four components ("full scope components") which were selected based on their size or risk characteristics. For the remaining ten 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 have set out below the details of our audit procedures:

	% of Group profit before tax and non-recurring exceptional items		% of Group revenue		% of Group total assets	
	2017	2016	**2017**	2016	**2017**	2016
Reporting components where we performed audit procedures	**99%**	99%	**91%**	95%	**80%**	80%
Full scope	**57%**	69%	**53%**	61%	**54%**	53%
Specific scope	**42%**	30%	**38%**	34%	**17%**	17%

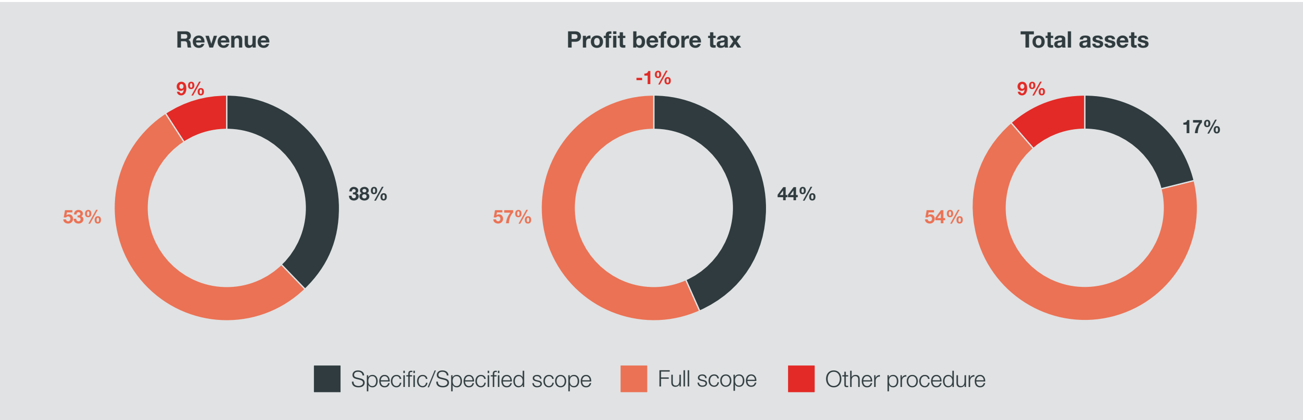
An overview of the scope of our audit continued

Tailoring the scope continued

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

Of the remaining twelve components that together represent 1.0% of the Group's profit before tax after adding back non-recurring exceptional items, none are individually greater than 1.0% of the Group's profit before tax after adding back non-recurring exceptional items. For these components, the Group Team performed other procedures, including analytical review of 'review scope' components, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

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



Changes from the prior year

The Group acquired VoltAir and Breathing Buildings during FY 2017. The Company has been assigned review scope for the 31 July 2017 Group audit. There are no other changes in Group scope from the prior year.

Involvement with component teams

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

The Group audit team continued to follow a programme that has been designed to ensure that a suitably senior member of the Group team physically participates in the closing meeting of all full scope components. During the current year's audit cycle, visits were undertaken by the primary audit team to the component team in Crawley, Bristol and Cambridge. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning and closing meetings, reviewing key audit working papers on risk areas. The full scope components are also audited by the primary team. The Group audit team also attended the German, Sweden and Benelux closing meeting by telephone.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. We held an audit planning meeting, which was attended by all component audit teams. We also issued detailed reporting instructions to component audit teams setting out our expectation of procedures to be performed, including those on areas of potential material misstatement. The above, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion. The key measures applied are illustrated and explained below:

	FY 2017 £000	FY 2016 £000	Explanatory narrative
Materiality	**960**	979	A
Performance materiality	**720**	734	B
Reporting threshold	**48**	49	C

A) Materiality

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

Financial Statements

Independent Auditor's Report continued

to the members of Volution Group plc

Our application of materiality continued

A) Materiality continued

Our calculation of materiality is summarised below:

	£000
Statutory pre-tax earnings	17,898
Add back: Non-recurring acquisition costs	1,380
Normalised pre-tax earnings	**19,278**
Normalised pre-tax earnings x 5%	960

Normalised earnings refers to our estimate of what the earnings based measure may be if certain factors affecting earnings are removed. We have used calculated materiality based on the Group's profit before tax after adding back non-recurring exceptional items.

B) Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £720k (2016: £734k). We have set performance materiality at this percentage due to the active implementation of controls and procedures to address comments raised in the internal auditor's reports and our internal control observations; we also gave consideration to our low expectation of audit differences based on recent experience.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality.

The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components ranged between £141k to £317k (2016: £130k to £160k).

C) Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £48k (2016: £47k), 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.

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report and Accounts is: > materially inconsistent with the information in the audited financial statements; or > apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or > otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report and Accounts appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required 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.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: > the Directors' statement in relation to going concern, which is set out on page 33; and the longer-term viability, which is set out on page 33; and > the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 88, the Directors are responsible for the preparation of the financial statements and for being satisfied that give a true and fair view in accordance, 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 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 management either intends to liquidate the Group or the Company or to cease operations, or has 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.

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.

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

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed as auditors by the Board of Directors and signed an engagement letter on 16 May 2016. We were appointed by the Company at the AGM on 9 December 2016 to audit the financial statements for the year ending 31 July 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 31 July 2014 to 31 July 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Ernst & Young LLP

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

10 October 2017

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 2017

	Notes	2017 £000	2016 £000
Revenue	3	**185,060**	154,464
Cost of sales		**(94,023)**	(79,098)
Gross profit		**91,037**	75,366
Administrative and distribution expenses		**(69,236)**	(55,755)
Operating profit before exceptional items		**21,801**	19,611
Exceptional items	5	**(1,380)**	(1,209)
Operating profit		**20,421**	18,402
Finance revenue	6	**17**	1,164
Finance costs	6	**(2,540)**	(1,202)
Profit before tax		**17,898**	18,364
Income tax	10	**(4,021)**	(2,757)
Profit for the year		**13,877**	15,607
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**922**	3,394
Loss on hedge of net investment in foreign operations		**(493)**	(1,469)
Other comprehensive income for the year		**429**	1,925
Total comprehensive income for the year		**14,306**	17,532
Earnings per share			
Basic and diluted earnings per share	11	**7.0p**	7.8p

Consolidated Statement of Financial Position

At 31 July 2017

	Notes	**2017 £000**	2016 £000
Non-current assets			
Property, plant and equipment	12	**19,590**	19,130
Intangible assets – goodwill	13	**81,584**	68,228
Intangible assets – others	14	**101,006**	105,361
Deferred tax assets	26	**810**	450
		202,990	193,169
Current assets			
Inventories	17	**22,737**	20,156
Trade and other receivables	18	**37,231**	32,935
Other current financial assets	19	**16**	914
Cash and short-term deposits	20	**14,499**	15,744
		74,483	69,749
Total assets		**277,473**	262,918
Current liabilities			
Trade and other payables	21	**(40,629)**	(35,090)
Other current financial liabilities	22	**(2,124)**	—
Income tax		**(3,768)**	(2,472)
Provisions	24	**(1,841)**	(1,268)
Deferred tax liabilities	26	**—**	(2,395)
		(48,362)	(41,225)
Non-current liabilities			
Interest-bearing loans and borrowings	23	**(51,088)**	(51,235)
Provisions	24	**(134)**	(671)
Deferred tax liabilities	26	**(17,756)**	(16,242)
		(68,978)	(68,148)
Total liabilities		**(117,340)**	(109,373)
Net assets		**160,133**	153,545
Capital and reserves			
Share capital	25	**2,000**	2,000
Share premium	25	**11,527**	11,527
Treasury shares		**(2,027)**	(1,533)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**1,289**	649
Foreign currency translation reserve		**1,891**	1,462
Retained earnings		**51,598**	45,585
Total equity		**160,133**	153,545

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 10 October 2017.

On behalf of the Board

Ronnie George
Chief Executive Officer

Ian Dew
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 July 2017

	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 2015	2,000	11,527	—	92,325	181	(463)	36,876	142,446
Profit for the year	—	—	—	—	—	—	15,607	15,607
Other comprehensive income	—	—	—	—	—	1,925	—	1,925
Total comprehensive income	—	—	—	—	—	1,925	15,607	17,532
Fair value adjustment	—	—	—	1,530	—	—	(4)	1,526
Purchase of own shares	—	—	(1,533)	—	—	—	—	(1,533)
Share-based payment including tax	—	—	—	—	468	—	—	468
Dividends paid	—	—	—	—	—	—	(6,894)	(6,894)
At 31 July 2016	2,000	11,527	(1,533)	93,855	649	1,462	45,585	153,545
Profit for the year	—	—	—	—	—	—	13,877	13,877
Other comprehensive income	—	—	—	—	—	429	—	429
Total comprehensive income	—	—	—	—	—	429	13,877	14,306
Purchase of own shares	—	—	(494)	—	—	—	—	(494)
Share-based payment including tax	—	—	—	—	640	—	—	640
Dividends paid	—	—	—	—	—	—	(7,864)	(7,864)
At 31 July 2017	**2,000**	**11,527**	**(2,027)**	**93,855**	**1,289**	**1,891**	**51,598**	**160,133**

Treasury shares

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

Capital reserve

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

Share-based payment reserve

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

Foreign currency translation reserve

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

Retained earnings

The parent company of the Group, Volution Group plc, had distributable retained earnings at 31 July 2017 of £72,781,000 (2016: £64,368,000).

Consolidated Statement of Cash Flows

For the year ended 31 July 2017

	Notes	2017 £000	2016 £000
Operating activities			
Profit for the year after tax		**13,877**	15,607
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		**4,021**	2,757
(Gain)/loss on disposal of property, plant and equipment		**(70)**	9
Exceptional items	5	**1,380**	1,209
Cash flows relating to exceptional items		**(1,166)**	(795)
Finance revenue	6	**(17)**	(1,164)
Finance costs	6	**2,540**	1,202
Share-based payment expense		**531**	431
Depreciation of property, plant and equipment	12	**2,836**	2,559
Amortisation of intangible assets	14	**14,581**	12,987
Working capital adjustments:			
(Increase)/decrease in trade receivables and other assets		**(1,053)**	572
Increase in inventories		**(1,147)**	(775)
Exceptional items: fair value of inventories		**(81)**	(332)
Increase/(decrease) in trade and other payables		**2,391**	(41)
Movement in provisions		**(106)**	186
UK income tax paid		**(3,466)**	(3,900)
Overseas income tax paid		**(2,119)**	(1,349)
Net cash flow generated from operating activities		**32,932**	29,163
Investing activities			
Payments to acquire intangible assets	14	**(1,699)**	(1,626)
Purchase of property, plant and equipment	12	**(2,438)**	(2,879)
Proceeds from disposal of property, plant and equipment		**306**	162
Acquisition of subsidiaries, net of cash acquired	16	**(18,118)**	(24,983)
Interest received		**17**	24
Net cash flow used in investing activities		**(21,932)**	(29,302)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(20,778)**	(15,291)
Proceeds from new borrowings		**17,491**	28,222
Interest paid		**(860)**	(971)
Dividends paid		**(7,864)**	(6,894)
Purchase of own shares		**(494)**	(1,533)
Net cash flow (used in)/generated from financing activities		**(12,505)**	3,533
Net (decrease)/increase in cash and cash equivalents		**(1,505)**	3,394
Cash and cash equivalents at the start of the year		**15,744**	11,565
Effect of exchange rates on cash and cash equivalents		**260**	785
Cash and cash equivalents at the end of the year	20	**14,499**	15,744

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 2017

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, that relate to a particular note 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.

We have simplified the presentation in the consolidated statement of comprehensive income this year compared with the prior year by amalgamating administrative and distribution costs.

Going concern

The Group's Strategic Report on page 33 shows the Directors' assessment of the Group's ability to continue as a going concern. The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, for the period not less than twelve months from the date of this report.

Foreign currencies

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

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The significant judgements, estimates and assumptions made in these financial statements relate to: Exceptional items (note 5), Intangible assets – goodwill (note 13), Intangible assets – other (note 14), Impairment assessment of goodwill (note 15), Inventories (note 17) and Rebates payable (note 21).

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

1. Basis of preparation continued

Critical accounting judgements and key sources of estimation uncertainty continued

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

The Group based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

New standards and interpretations

There were no new or amended accounting standards relevant to the Group's results that are effective for the first time in 2017 that have a material impact on the Group's consolidated financial statements.

The following standards and interpretations have an effective date after the date of these financial statements. The Group plans to adopt them from the effective dates adopted by the EU and is currently completing an impact assessment to be able to quantify the effect the new standards will have on the Group financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 has been endorsed by the EU and is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 August 2018.

IFRS 9 will impact the classification and measurement of the Group's financial instruments and will require certain additional disclosures. IFRS 9 also introduces changes to impairments of financial assets, which will result in the Group moving from an incurred loss model to an expected loss model. Although the new standard will impact the way in which bad debt provisions are calculated, the Group does not anticipate that the impact of this change will be significant.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was issued in May 2014 and has been endorsed by the EU. The subsequent amendments, Clarifications to IFRS 15 issued in April 2016, have not yet been endorsed by the EU. IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group, subject to EU endorsement, on 1 August 2018.

The Directors do not consider IFRS 15 to have a significant impact on the recognition of revenue from the sale of goods. However, revenue which arises from the provision of services will be impacted by the changes in the new standard.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 to replace IAS 17 Leases. IFRS 16 has not yet been endorsed by the EU. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group, subject to EU endorsement, on 1 August 2019.

IFRS 16 will require most leases to be recognised in the statement of financial position effectively ending the distinction between finance and operating leases for lessees. The new standard will require the Group to recognise a right-of-use asset and a corresponding lease liability.

The Group is still assessing the impact of the new standard. However, the Directors do anticipate material changes to the following areas:

> Operating leases would be recognised as right-of-use assets in the statement of financial position. Currently no lease assets are included on the Group's consolidated statement of financial position for operating leases.

> Lease liabilities would be recognised in the statement of financial position for future lease payments. Currently liabilities are generally not recorded for future operating lease payments. Lease obligations are instead disclosed as commitments (see note 31).

> Depreciation expenses for right-of-use assets and interest on lease liabilities would be recognised in the consolidated statement of comprehensive income. The interest expense will generally be higher in the early stages of the lease and reduce over the lease term. Currently operating lease rentals are expensed on a straight line basis over the lease term and included within operating expenses (see note 8).

> Lease cash flows would be recorded as cash flows from financing activities in the consolidated statement of cash flows, to reflect the repayment of lease liabilities and related interest. Currently payments for operating leases are included within operating cash flows.

Other new standards or interpretations in issue, but not yet effective, are not expected to have a material impact on the Group's net assets or results.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

2. Adjusted earnings

The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit and adjusted profit before tax. These measures are deemed more appropriate as they remove income and expenditure which is not directly related to the ongoing trading of the business. Such alternative performance measures are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. Likewise, these measures are not a substitute for IFRS measures of profit. A reconciliation of these measures of performance to the corresponding reported figure is shown below.

	2017 £000	2016 £000
Profit after tax	**13,877**	15,607
Add back:		
Exceptional items	**1,380**	1,209
Other non-recurring items not meeting the definition of exceptional	**—**	236
Net loss/(gain) on financial instruments at fair value	**1,449**	(1,139)
Amortisation and impairment of intangible assets acquired through business combinations	**13,826**	12,658
Tax effect of the above	**(3,509)**	(3,496)
Adjusted profit after tax	**27,023**	25,075
Add back:		
Adjusted tax charge	**7,530**	6,253
Adjusted profit before tax	**34,553**	31,328
Add back:		
Interest payable on bank loans and amortisation of financing costs	**1,091**	1,202
Finance revenue	**(17)**	(25)
Adjusted operating profit	**35,627**	32,505
Add back:		
Depreciation of property, plant and equipment	**2,836**	2,559
Amortisation of development costs, software and patents	**755**	329
Adjusted EBITDA	**39,218**	35,393

For definitions of terms referred to above see note 34, Glossary of terms.

3. Revenue

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates (see note 21) and other similar allowances that are calculated based upon the price of goods, volumes and product mix purchased by the customer. Revenue is stated net of settlement discounts, VAT, other sales taxes and duties.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards have passed to the buyer, usually on the delivery of the goods, and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Rendering of services

Revenue from the provision of services arises from the installation of products and is recognised by reference to the stage of completion. The stage of completion is measured by reference to costs incurred to date as a percentage of total expected costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of expenses recognised that are considered to be recoverable.

3. Revenue continued

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

	2017 £000	2016 £000
Sale of goods	**182,502**	150,986
Rendering of services	**2,558**	3,478
Total revenue	**185,060**	154,464

Market sectors	2017 £000	2016 £000
Ventilation Group		
UK Residential RMI	**38,444**	35,427
UK Residential New Build	**23,421**	19,818
UK Commercial	**32,724**	21,677
UK Export	**10,206**	7,803
Nordics	**30,829**	25,521
Central Europe	**27,460**	23,820
Total Ventilation Group	**163,084**	134,066
Original Equipment Manufacturer (Torin-Sifan)		
OEM (Torin-Sifan)	**21,976**	20,398
Total revenue	**185,060**	154,464

4. Segmental analysis

Accounting policy

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

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

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 34 for definition) from external customers 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

4. Segmental analysis continued

Year ended 31 July 2017	**Ventilation Group £000**	**OEM £000**	**Unallocated £000**	**Total £000**	**Eliminations £000**	**Consolidated £000**
Revenue						
External customers	**163,084**	**21,976**	**—**	**185,060**	**—**	**185,060**
Inter-segment	**17,070**	**1,179**	**—**	**18,249**	**(18,249)**	**—**
Total revenue	**180,154**	**23,155**	**—**	**203,309**	**(18,249)**	**185,060**
Gross profit	**84,265**	**6,772**	**—**	**91,037**	**—**	**91,037**
Results						
Adjusted segment EBITDA	**37,167**	**4,347**	**(2,296)**	**39,218**	**—**	**39,218**
Depreciation and amortisation of development costs, software and patents	**(2,558)**	**(578)**	**(455)**	**(3,591)**	**—**	**(3,591)**
Adjusted operating profit/(loss)	**34,609**	**3,769**	**(2,751)**	**35,627**	**—**	**35,627**
Amortisation of intangible assets acquired through business combinations	**(12,468)**	**(1,358)**	**—**	**(13,826)**	**—**	**(13,826)**
Other non-recurring items not meeting the definition of exceptional	**—**	**—**	**—**	**—**	**—**	**—**
Exceptional items	**(1,380)**	**—**	**—**	**(1,380)**	**—**	**(1,380)**
Operating profit/(loss)	**20,761**	**2,411**	**(2,751)**	**20,421**	**—**	**20,421**
Unallocated expenses						
Net finance cost	**(297)**	**—**	**(2,226)**	**(2,523)**	**—**	**(2,523)**
Profit/(loss) before tax	**20,464**	**2,411**	**(4,977)**	**17,898**	**—**	**17,898**

Year ended 31 July 2016	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
Revenue						
External customers	134,066	20,398	—	154,464	—	154,464
Inter-segment	15,999	982	—	16,981	(16,981)	—
Total revenue	150,065	21,380	—	171,445	(16,981)	154,464
Gross profit	69,170	6,196	—	75,366	—	75,366
Results						
Adjusted segment EBITDA	33,859	3,780	(2,246)	35,393	—	35,393
Depreciation and amortisation of development costs, software and patents	(2,217)	(524)	(147)	(2,888)	—	(2,888)
Adjusted operating profit/(loss)	31,642	3,256	(2,393)	32,505	—	32,505
Amortisation of intangible assets acquired through business combinations	(11,300)	(1,358)	—	(12,658)	—	(12,658)
Other non-recurring items not meeting the definition of exceptional	(236)	—	—	(236)	—	(236)
Exceptional items	(373)	—	(836)	(1,209)	—	(1,209)
Operating profit/(loss)	19,733	1,898	(3,229)	18,402	—	18,402
Unallocated expenses						
Net finance cost	—	—	(38)	(38)	—	(38)
Profit/(loss) before tax	19,733	1,898	(3,267)	18,364	—	18,364

4. Segmental analysis continued

Geographic information

Revenue from external customers by customer destination	2017 £000	2016 £000
United Kingdom	**105,426**	87,536
Europe (excluding United Kingdom and Sweden)	**54,580**	44,716
Sweden	**21,470**	19,500
Rest of the world	**3,584**	2,712
Total revenue	**185,060**	154,464

Non-current assets excluding deferred tax	2017 £000	2016 £000
United Kingdom	**151,732**	150,239
Europe (excluding United Kingdom and Nordics)	**28,226**	27,970
Nordics	**22,222**	13,360
Total	**202,180**	191,569

Information about major customers

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

5. Exceptional items

Accounting policy

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group. Exceptional items include, but are not limited to, significant restructuring costs, acquisition and related integration and earn-out costs, fair value adjustments as a result of acquisitions and material gains or losses on disposal of property, plant and equipment.

Critical accounting judgements and key sources of estimation uncertainty

The Group identifies an item of expense or income as exceptional when, in management's judgement, the underlying event giving rise to the exceptional item is deemed to be non-recurring in its nature, size or incidence such that Group results would be distorted without specific reference to the event in question. To enable the full impact of an exceptional item to be understood, the tax impact is disclosed and it is presented separately in the statement of cash flows.

Exceptional items	2017 £000	2016 £000
Acquisition related costs, including inventory fair value adjustments	**831**	1,209
Factory relocation costs	**549**	—
	1,380	1,209
Total tax relating to exceptional items for the year	**(172)**	(80)
	1,208	1,129

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

5. Exceptional items continued

Acquisition related costs, including inventory fair value adjustments

Inventory fair value adjustments relate to the requirement to uplift the finished goods of the acquired entities on acquisition by the addition of value not ordinarily considered when accounting for inventory. When these goods are subsequently sold the additional expense to the statement of comprehensive income is classified as exceptional. The cost of £81,000 in the period relates to Breathing Buildings Limited. Inventory fair value adjustments in the prior year were £332,000.

Professional fees incurred in respect of the acquisition of Breathing Buildings Limited, which completed on 16 December 2016, totalled £207,000 and fees incurred in respect of the acquisition of VoltAir System AB, which completed on 29 May 2017, totalled £117,000. Professional fees incurred in respect of prior year and potential acquisitions totalled £58,000.

The acquisition costs in the prior year relate to the acquisitions of Energy Technique Limited (£603,000), Ventilair Group International BVBA (£85,000), Weland Luftbehandling AB (£22,000) and NVA Services Limited (£167,000).

Acquisition related restructuring costs relate to two of the senior management team within Energy Technique plc who have decided to leave the business. Within the terms of their employment, at acquisition, there was a clause which provided that, on a change of ownership, they could leave the business on enhanced terms. Both have now tendered their resignation and therefore triggered the clause at a cost of £264,000. The remaining balance relates to PAYE payable to HMRC in respect of fees invoiced to Energy Technique plc by its former chairman prior to acquisition.

It was deemed that the items allowable for or chargeable to tax were approximately £883,000 (2016: £332,000), with a potential tax benefit of £172,000 (2016: £80,000).

Factory relocation

The cost of the factory relocation relates to a project to rationalise manufacturing capacity which commenced in 2017. The affected UK manufacturing locations are Reading, Slough and Lasham.

A relocation project team has been established and has recruited the expertise of a professional project manager with experience in managing industrial relocations. A breakdown of the costs are as follows:

	2017 £000
Legal and professional fees	**179**
Project manager	**112**
Redundancy related costs	**131**
Stock write-off	**89**
Fixed asset write-off	**24**
Site clearance and closure	**14**
Total	**549**

The project to relocate the factories to the new facility will last until mid-2018 when we expect to finalise the production move. It is our intention that all costs associated with the project will similarly be treated as exceptional, given their size in aggregate and the unusual (one-off) nature of the project. We anticipate that the revenue expenditure associated with the project will cost, in aggregate, around £1.75 million.

6. Finance revenue and costs

Accounting policy

Finance revenue

Finance revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Net financing costs

Net financing costs comprise interest income on funds invested, gains/losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and finance leases, 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.

	2017 £000	2016 £000
Finance revenue		
Net gain on financial instruments at fair value	—	1,139
Interest receivable	17	25
Total finance revenue	17	1,164
Finance costs		
Interest payable on bank loans	(766)	(915)
Amortisation of finance costs	(231)	(232)
Other interest	(94)	(55)
Total interest expense	(1,091)	(1,202)
Net loss on financial instruments at fair value	(1,449)	—
Total finance costs	(2,540)	(1,202)
Net finance costs	(2,523)	(38)

The net loss or gain on financial instruments at each year-end date relates to the measurement of fair value of the financial derivatives and the Group recognises any finance losses or gains immediately within net finance costs. The fair value of the Group's financial derivatives can be found in notes 19 and 22.

7. Staff costs

Accounting policy

Pensions

Contributions to defined contribution schemes are recognised in the statement of comprehensive income in the period they become payable. The cost charged to the statement of comprehensive income of providing retirement pensions for employees represents the amounts paid by the Group to various defined contribution pension schemes operated by the Group in the financial period.

Staff costs	2017 £000	2016 £000
Wages and salaries	40,227	32,338
Social security costs	5,218	4,303
Other pension costs	1,630	1,268
Share-based payment charge (see note 32)	531	431
	47,606	38,340

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 2016/17 but based on actual salary levels in 2017/18.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

7. Staff costs continued

Average monthly number of employees in the year

	2017 Number	2016 Number
Production	**662**	714
Sales and administration	**716**	623
	1,378	1,337

Note
Distribution staff in certain locations have historically been included within the production category. During FY 2017 these staff have been included within the sales and administration category for consistency across the Group.

Directors' remuneration

	2017 £000	2016 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' emoluments	**1,876**	1,018
Aggregate Directors' pension scheme contributions	**86**	81
In respect of the highest paid Director		
Aggregate Directors' emoluments	**1,107**	591
Aggregate Directors' pension scheme contributions	**51**	47

The number of Directors accruing benefits under Group money purchase pension arrangements was nil (2016: two).

The Group also incurred costs of £349,000 (2016: £295,000) from Peter Hill, Tony Reading, Paul Hollingworth, Adrian Barden and Claire Tiney for their services as Non-Executive Directors.

8. Other operating expenses

Accounting policy
The Group's research and development concentrates on the development of new products. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are disclosed in the table above.

Cost of sales, distribution costs and administrative expenses include the following:

	2017 £000	2016 £000
Cost of sales		
Costs of inventories recognised as expenses	**92,156**	77,122
Operating lease expense	**701**	882
Depreciation of property, plant and equipment	**1,166**	1,094
Administrative and distribution expenses		
Research and development costs	**3,025**	1,507
Depreciation of property, plant and equipment	**1,670**	1,465
Amortisation and impairment of intangible assets	**14,581**	12,987
Operating lease expense	**1,359**	493
Net foreign exchange differences	**270**	382
(Gain)/loss on disposal of property, plant and equipment	**(70)**	9

9. Auditor's remuneration

The Group paid the following amounts to its auditor, Ernst & Young LLP, and its member firms in respect of the audit of the financial statements and for other services provided to the Group:

	2017 £000	2016 £000
Audit services		
Fees for the audit of the parent and Group financial statements	**143**	127
Fees for local statutory audits of subsidiaries	**197**	177
Non-audit services		
Fees payable for interim review	**25**	25
	365	329

10. Income tax

Accounting policy

Current income tax assets and liabilities are measured at the amount expected to be recovered from, or payable to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date.

The Group's deferred tax policy can be found in note 26.

(a) Income tax charges against profit for the year

	2017 £000	2016 £000
Current income tax		
Current UK income tax expense	**4,623**	4,588
Current foreign income tax expense	**2,209**	1,592
Tax (credit)/charge relating to the prior year	**(171)**	73
Total current tax	**6,661**	6,253
Deferred tax		
Origination and reversal of temporary differences	**(2,820)**	(1,876)
Effect of changes in the tax rate	**(351)**	(1,105)
Tax charge/(credit) relating to the prior year	**531**	(515)
Total deferred tax	**(2,640)**	(3,496)
Net tax charge reported in the consolidated statement of comprehensive income	**4,021**	2,757

(b) Income tax recognised in equity for the year

	2017 £000	2016 £000
Increase in deferred tax asset on share-based payments	**(109)**	(37)
Net tax credit reported in equity	**(109)**	(37)

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

10. Income tax continued

(c) Reconciliation of total tax

	2017 £000	2016 £000
Profit before tax	**17,898**	18,364
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.67% (2016: 20.00%)	**3,521**	3,673
Adjustment in respect of previous years	**394**	(442)
Expenses not deductible for tax purposes	**303**	556
Effect of changes in the tax rate (see explanation below)	**(351)**	(1,105)
Non-taxable income	**(43)**	(39)
Higher overseas tax rate	**318**	114
Other	**(121)**	—
Net tax charge reported in the consolidated statement of comprehensive income	**4,021**	2,757

The Finance Act 2016 was enacted on 15 September 2016 which reduced the headline rate from 18% to 17% to apply from 1 April 2020 and the impact of this rate change has been included in these financial statements, leading to a credit of £351,000 to the tax charge. The Finance Act (No. 2) 2015 was enacted on 18 November 2015 and introduced reductions in the headline rate of corporation tax to 19% and 18% to apply from 1 April 2017 and 1 April 2020 respectively. The implications of the rate changes were incorporated within the financial statements for the year ended 31 July 2016, which lead to a credit of £1,105,000 to the tax charge.

The higher overseas tax rates relates to the Group's profits from subsidiaries which are subject to tax jurisdictions with a higher rate of tax compared to the standard rate of corporation tax in the UK (see note 30 for subsidiary locations).

11. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are no dilutive potential ordinary shares for the years ended 31 July 2017 and 2016.

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

Year ended 31 July	2017 £000	2016 £000
Profit attributable to ordinary equity holders	**13,877**	15,607

	Number	Number
Weighted average number of ordinary shares for basic earnings per share and diluted earnings per share	**199,050,930**	199,627,253
Earnings per share		
Basic and diluted	**7.0p**	7.8p

11. Earnings per share (EPS) continued

Year ended 31 July	**2017 £000**	2016 £000
Adjusted profit attributable to ordinary equity holders	**27,023**	25,075

	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share and adjusted diluted earnings per share	**199,050,930**	199,627,253
Adjusted earnings per share		
Basic and diluted	**13.6p**	12.6p

The weighted average number of ordinary shares has declined as a result of treasury shares purchased by the Volution Employee Benefit Trust (EBT) during the year (see note 25 for details). The shares are excluded when calculating the reported and adjusted EPS.

See note 34, Glossary of terms, for explanation of the adjusted basic and diluted earnings per share calculation.

12. Property, plant and equipment

Accounting policy

Property, plant and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, except freehold land, over their estimated useful lives using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

Buildings	–	30–50 years
Plant and machinery	–	5–10 years
Fixtures, fittings, tools, equipment and vehicles	–	4–10 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income as part of administrative expenses, or if the amount is deemed significant within exceptional items, as set out in note 5.

The Group's impairment policy can be found in note 14.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

12. Property, plant and equipment continued

2017	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
At 1 August 2016	**12,897**	**5,418**	**9,201**	**27,516**
On acquisition	**428**	**149**	**131**	**708**
Additions	**192**	**1,008**	**1,238**	**2,438**
Disposals	**(84)**	**(440)**	**(1,202)**	**(1,726)**
Net foreign currency exchange differences	**331**	**155**	**298**	**784**
Transfers	**—**	**2,087**	**(2,087)**	**—**
At 31 July 2017	**13,764**	**8,377**	**7,579**	**29,720**
Depreciation				
At 1 August 2016	**2,641**	**2,051**	**3,694**	**8,386**
Charge for the year	**480**	**1,100**	**1,256**	**2,836**
Disposals	**(26)**	**(388)**	**(1,057)**	**(1,471)**
Net foreign currency exchange differences	**61**	**111**	**207**	**379**
Transfers	**—**	**193**	**(193)**	**—**
At 31 July 2017	**3,156**	**3,067**	**3,907**	**10,130**
Net book value				
At 31 July 2017	**10,608**	**5,310**	**3,672**	**19,590**

During the year ended 31 July 2017 tooling which was previously included within fixtures, fittings, tools, equipment and vehicles was transferred to plant and machinery, as this category better represented the true nature of the assets.

2016	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
At 1 August 2015	11,480	3,754	6,515	21,749
On acquisition	570	624	738	1,932
Additions	61	478	2,340	2,879
Disposals	—	(227)	(737)	(964)
Net foreign currency exchange differences	786	482	652	1,920
Transfers	—	307	(307)	—
At 31 July 2016	12,897	5,418	9,201	27,516
Depreciation				
At 1 August 2015	2,082	925	2,695	5,702
Charge for the year	434	663	1,462	2,559
Disposals	—	(213)	(580)	(793)
Net foreign currency exchange differences	125	369	424	918
Transfers	—	307	(307)	—
At 31 July 2016	2,641	2,051	3,694	8,386
Net book value				
At 31 July 2016	10,256	3,367	5,507	19,130

13. Intangible assets – goodwill

Accounting policy

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Goodwill is reviewed for impairment annually or more frequently if there is an indication of impairment. Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying value of the cash generating unit to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of goodwill

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The test aims to ensure that goodwill is not carried at a value greater than the recoverable amount, which is considered to be the higher of fair value less costs of disposal and value in use.

The cash flows are derived from the business plan for the following three years. The recoverable amount is very sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are explained further in note 15.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement (see note 15). Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows.

Goodwill	£000
Cost and net book value	
At 1 August 2015	51,725
Fair value deferred tax adjustment relating to prior year acquisitions	1,526
On acquisition of Ventilair Group International BVBA and its subsidiaries	5,426
On acquisition of Energy Technique Limited and its subsidiaries	3,859
On acquisition of Weland Luftbehandling AB	12
On acquisition of NVA Services Limited and its subsidiaries	3,415
Net foreign currency exchange differences	2,265
At 31 July 2016	68,228
On acquisition of Breathing Buildings Limited	6,688
On acquisition of VoltAir System AB	5,527
Net foreign currency exchange differences	1,141
At 31 July 2017	**81,584**

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14. Intangible assets – other

Accounting policy

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

The fair value of patents, trademarks and customer base acquired and recognised as part of a business combination is determined using the relief-from-royalty method or multi-period excess earnings method.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Research and development

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete the asset; and the ability to reliably measure the expenditure during development.

Subsequent measurement of intangible assets

Intangible assets with a finite life are amortised on a straight line basis over their estimated useful lives as follows:

Development costs	–	10 years
Software costs	–	5 years
Customer base	–	5–15 years
Trademarks	–	15–25 years
Patents	–	5–25 years
Other	–	5 years

The estimated useful life and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised in the statement of comprehensive income.

Impairment of other intangible assets

The Group's accounting policy for impairment of other intangible assets is set out above. The Group records all assets and liabilities acquired in business combinations at fair value. Intangible assets are reviewed for impairment annually if events or changes in circumstances indicate that the carrying amount may not be recoverable.

14. Intangible assets – other continued

2017	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents £000	Other £000	Total £000
Cost							
At 1 August 2016	**2,232**	**5,587**	**110,973**	**40,481**	**573**	**300**	**160,146**
Additions	**350**	**1,328**	**—**	**—**	**21**	**—**	**1,699**
On acquisitions	**—**	**55**	**3,682**	**1,246**	**1,646**	**576**	**7,205**
Disposals	**—**	**(19)**	**—**	**—**	**—**	**—**	**(19)**
Net foreign currency exchange differences	**44**	**34**	**1,462**	**441**	**51**	**20**	**2,052**
At 31 July 2017	**2,626**	**6,985**	**116,117**	**42,168**	**2,291**	**896**	**171,083**
Amortisation							
At 1 August 2016	**165**	**1,880**	**45,580**	**6,930**	**52**	**178**	**54,785**
Charge for the year	**206**	**530**	**11,521**	**1,792**	**200**	**332**	**14,581**
Net foreign currency exchange differences	**8**	**14**	**596**	**84**	**6**	**3**	**711**
At 31 July 2017	**379**	**2,424**	**57,697**	**8,806**	**258**	**513**	**70,077**
Net book value							
At 31 July 2017	**2,247**	**4,561**	**58,420**	**33,362**	**2,033**	**383**	**101,006**

Included in software costs are assets under construction of £148,000 (2016: £86,000), which are not amortised. Included in development costs are assets under construction of £217,000 (2016: £1,514,000), which are not amortised.

2016	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents £000	Other £000	Total £000
Cost							
At 1 August 2015	1,645	4,325	97,844	37,260	479	—	141,553
Additions	522	1,104	—	—	—	—	1,626
On acquisitions	—	114	9,561	2,145	—	300	12,120
Net foreign currency exchange differences	65	44	3,568	1,076	94	—	4,847
At 31 July 2016	2,232	5,587	110,973	40,481	573	300	160,146
Amortisation							
At 1 August 2015	65	1,669	33,734	5,118	16	—	40,602
Charge for the year	95	207	10,812	1,668	27	178	12,987
Net foreign currency exchange differences	5	4	1,034	144	9	—	1,196
At 31 July 2016	165	1,880	45,580	6,930	52	178	54,785
Net book value							
At 31 July 2016	2,067	3,707	65,393	33,551	521	122	105,361

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14. Intangible assets – other continued

The remaining amortisation periods for acquired intangible assets at 31 July 2017 are as follows:

	Customer base	Trademark	Patent
Volution Holdings Limited and its subsidiaries	5 years	20 years	—
Fresh AB and its subsidiaries	2 years	15 years	—
PAX AB and PAX Norge AS	4 years	16 years	—
inVENTer GmbH	6 years	17 years	17 years
Brüggemann Energiekonzepte GmbH	3 years	—	—
Ventilair Group International BVBA and its subsidiaries	6 years	8 years	—
Energy Technique Limited and its subsidiaries	7 years	19 years	—
Weland Luftbehandling AB	3 years	—	—
NVA Services Limited and its subsidiaries	9 years	14 years	—
Breathing Buildings Limited	9 years	14 years	4 years
VoltAir System AB	15 years	15 years	5 years

15. Impairment assessment of goodwill

Accounting policy

Intangible assets, including goodwill, that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

Goodwill acquired through business combinations has been allocated, for impairment testing purposes, to a group of cash generating units (CGUs). These grouped CGUs are: UK Ventilation, Central Europe, Nordics and OEM. This is different to the grouped CGUs that were presented in the prior year; the changes have been made as we have taken the opportunity to review what is presented and bring the level of CGUs reported in line with the level at which management regularly reviews the Group's performance. This is also the level at which management is monitoring the value of goodwill for internal management purposes, which differs from the prior year due to the recent growth of the Group.

31 July 2017	**UK Ventilation £000**	**OEM (Torin-Sifan) £000**	**Nordics £000**	**Central Europe £000**
Carrying value of goodwill	**55,899**	**5,101**	**8,805**	**11,779**
CGU value in use headroom[1]	**182,262**	**24,519**	**71,818**	**17,011**

Applying the same grouped CGUs to the 31 July 2016 goodwill gives the following headroom:

31 July 2016	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000
Carrying value of goodwill	49,211	5,101	2,887	11,029
CGU value in use headroom[1]	147,187	31,995	52,182	14,700

The table below was disclosed in the 31 July 2016 financial statements using the previously identified CGUs:

31 July 2016	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Germany £000	Benelux £000	Diffusion £000
Carrying value of goodwill	45,352	5,101	2,887	4,463	6,566	3,859
CGU value in use headroom[1]	140,141	31,995	52,182	12,144	2,556	7,046

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).

15. Impairment assessment of goodwill continued

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 11.0% to 12.9% over that period. In all CGUs it was concluded that the carrying amount was in excess of the value in use and all CGUs had positive headroom.

Key assumptions in the value in use calculation

The calculation of value in use for all CGUs is most sensitive to the following assumptions:

> Price inflation – small annual percentage increases specific to each CGU are assumed in all markets based on historical data.

> Growth in the forecast period – specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations.

> Discount rates – rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rate ranged from 11.0% to 12.9%.

> No growth rate has been used to extrapolate cash flows beyond the forecast period other than the 2% rate of inflation.

The value in use headroom, for each cash generating unit where these sensitivities would be applicable, has been set out above. We have modelled various sensitivities in relation to the above key assumptions and in all cases an adverse movement of more than 10% would be required to cause the carrying value of the cash generating units to materially exceed their recoverable value.

16. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. There have been no non-controlling interests in the business combinations to date. Acquisition costs incurred are expensed and included in exceptional items.

When the Group acquires a business it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date, with changes in fair value recognised either in profit or loss or as a change in other comprehensive income (OCI). The determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether assets or liabilities of the acquisition are assigned to those units.

Notes to the Consolidated Financial Statements continued

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16. Business combinations continued

Acquisitions in the year ended 31 July 2017

Breathing Buildings Limited

On 16 December 2016, Volution Ventilation Group Limited acquired the entire issued share capital of Breathing Buildings Limited. The transaction was funded from the Group's existing revolving credit facility. The Group acquired Breathing Buildings Limited as it extended Volution's capability with a leader in natural and hybrid ventilation for commercial buildings, in particular focusing on new construction for education.

Total consideration for the transaction was cash consideration of £11,881,000.

Transaction costs associated with the acquisition in the period ended 31 January 2017 were £207,000 and have been expensed.

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	54	4,318	4,372
Deferred tax asset	444	(240)	204
Property, plant and equipment	147	12	159
Inventory	734	61	795
Trade and other receivables	2,208	(12)	2,196
Trade and other payables	(1,917)	(86)	(2,003)
Deferred tax liabilities	—	(780)	(780)
Cash and cash equivalents	250	—	250
Total identifiable net assets	1,920	3,273	5,193
Goodwill on acquisition			6,688
			11,881
Discharged by:			
Consideration satisfied in cash			11,881

Goodwill of £6,688,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,208,000. The amounts for trade and other receivables not expected to be collected are £12,000.

Breathing Buildings Limited generated revenue of £4,918,000 and generated a profit after tax of £337,000 in the period from acquisition to 31 July 2017 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2016, the Group's revenue would have been £188,514,000 and the profit before tax from continuing operations would have been £17,239,000.

16. Business combinations continued

Acquisitions in the year ended 31 July 2017 continued

VoltAir System AB

On 29 May 2017, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of VoltAir System AB (VoltAir). The transaction was funded from the Group's existing revolving credit facility. The acquisition is in line with the Group's strategy of acquiring selective value-adding and strategically important businesses and will give Volution an enlarged presence in the new build sector in both the residential and commercial ventilation markets in Sweden and the Nordics in the growing and regulatory driven market for air handling units.

Total consideration for the transaction was cash consideration of SEK 79,711,000 (£7,091,000) and contingent consideration with a fair value of SEK 16,930,000 (£1,506,000), giving total consideration of SEK 96,641,000 (£8,597,000). The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 December 2017. 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 SEK 28,000,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2017 budget. The contingent consideration has not been discounted as the impact is considered to be immaterial. The contingent consideration is expected to be finalised and paid during FY 2018.

Transaction costs associated with the acquisition in the year ended 31 July 2017 were SEK 1,292,000 (£117,000) and have been expensed.

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	2,833	2,833
Deferred tax liability	—	(708)	(708)
Property, plant and equipment	465	84	549
Inventory	367	(64)	303
Trade and other receivables	758	(12)	746
Trade and other payables	(1,112)	(145)	(1,257)
Cash and cash equivalents	604	—	604
Total identifiable net assets	1,082	1,988	3,070
Goodwill on acquisition			5,527
			8,597
Discharged by:			
Consideration satisfied in cash			7,091
Contingent consideration			1,506

The fair value of the acquired customer base, trademark, patents and committed order book were identified and included in intangible assets. Other fair value adjustments made to the book value of assets and liabilities acquired were immaterial.

Goodwill of £5,527,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition.

The gross amount of trade and other receivables is £758,000. The amounts for trade and other receivables not expected to be collected are £12,000.

VoltAir System AB generated revenue of £515,000 and generated a profit after tax of £6,000 in the period from acquisition to 31 July 2017 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2016, the Group's revenue would have been £190,285,000 and the profit before tax from continuing operations would have been £18,780,000.

Notes to the Consolidated Financial Statements continued

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16. Business combinations continued

Acquisitions in the year ended 31 July 2016

Ventilair Group International BVBA

On 5 August 2015, Volution Ventilation Group Limited acquired the entire issued share capital of Ventilair Group International BVBA. The transaction was funded from the Group's existing revolving credit facility. The Group acquired Ventilair Group International BVBA as it offers a channel to sell existing ventilation products in a new region.

Total consideration for the transaction was cash consideration of €14,312,000 (£9,960,000) and contingent consideration with a fair value of €48,000 (£34,000).

Transaction costs associated with the acquisition in the period ended 31 July 2017 were £20,000 (2016: £85,000) and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	114	4,874	4,988
Deferred tax liability	—	(1,141)	(1,141)
Property, plant and equipment	339	(9)	330
Inventory	1,407	178	1,585
Trade and other receivables	2,574	(369)	2,205
Trade and other payables	(3,583)	(86)	(3,669)
Cash and cash equivalents	270	—	270
Total identifiable net assets	1,121	3,447	4,568
Goodwill on acquisition			5,426
			9,994
Discharged by:			
Consideration satisfied in cash			9,960
Contingent consideration			34

Goodwill of £5,426,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition. The fair value of the acquired tradename and customer base was identified and included in intangible assets; the deferred tax on these assets has been recognised separately.

The gross amount of trade and other receivables is £2,574,000. The amounts for trade and other receivables not expected to be collected are £369,000.

Ventilair Group International BVBA and its subsidiaries generated revenue of £12,737,000 and generated a profit before tax of £962,000 in the period from acquisition to 31 July 2016 that is included in the consolidated statement of comprehensive income for this reporting period.

16. Business combinations continued

Acquisitions in the year ended 31 July 2016 continued

Weland Luftbehandling AB

On 1 December 2015, Volution Holdings Sweden AB acquired the entire issued share capital of Weland Luftbehandling AB. The transaction was funded from the Group's existing revolving credit facility. The Group acquired Weland Luftbehandling AB because it provided additional manufacturing capabilities to the current Nordics group. The company changed its name on 29 December 2015 to Welair AB.

Total consideration for the transaction was cash consideration of SEK 7,808,000 (£597,000).

Transaction costs associated with the acquisition in the period ended 31 July 2016 were £22,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	156	156
Deferred tax asset	—	47	47
Property, plant and equipment	168	—	168
Inventory	412	(149)	263
Trade and other receivables	235	(1)	234
Trade and other payables	(227)	(65)	(292)
Cash and cash equivalents	9	—	9
Total identifiable net assets	597	(12)	585
Goodwill on acquisition			12
			597
Discharged by:			
Consideration satisfied in cash			597

The fair value of the acquired customer base was identified and included in intangible assets; the deferred tax on these assets has been recognised separately.

Goodwill of £12,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition.

Welair AB generated revenue of £944,000 and generated a loss before tax of £65,000 in the period from acquisition to 31 July 2016 that is included in the consolidated statement of comprehensive income for this reporting period.

Notes to the Consolidated Financial Statements continued

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16. Business combinations continued

Acquisitions in the year ended 31 July 2016 continued

Energy Technique Limited

On 21 December 2015, the Group acquired the entire issued share capital of Energy Technique Limited (ET). The transaction was funded from the Group's existing revolving credit facility. The Group acquired ET because there is a strong commercial and cultural fit between ET and the existing Group in terms of its strategies, products and service offerings. The acquisition is in line with the strategy to continue to acquire and integrate businesses with well established brands in the HVAC and ventilation market, operating in markets underpinned by favourable structural dynamics and with an emphasis on heat recovery systems.

Total consideration for the transaction was £9,396,000.

Transaction costs associated with the acquisition in the period ended 31 July 2016 were £603,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	9	4,221	4,230
Deferred tax liability	(23)	(774)	(797)
Property, plant and equipment	409	112	521
Inventory	816	(49)	767
Trade and other receivables	1,880	—	1,880
Trade and other payables	(2,154)	(120)	(2,274)
Cash and cash equivalents	1,210	—	1,210
Total identifiable net assets	2,147	3,390	5,537
Goodwill on acquisition			3,859
			9,396
Discharged by:			
Consideration satisfied in cash			9,396

The fair value of the acquired customer base, trademark, favourable contract agreements and committed order book were identified and included in intangible assets; the deferred tax on these assets has been recognised separately.

Goodwill of £3,859,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition.

The gross amount of trade and other receivables is £1,880,000. It is expected that the full contractual amounts for trade and other receivables can be collected.

ET generated revenue of £7,064,000 and generated a profit before tax of £790,000 in the period from acquisition to 31 July 2016 that is included in the consolidated statement of comprehensive income for this reporting period.

16. Business combinations continued

Acquisitions in the year ended 31 July 2016 continued

NVA Services Limited

On 10 May 2016, Volution Ventilation Group Limited acquired the entire issued share capital of NVA Services Limited (NVA). The transaction was funded from the Group's existing revolving credit facility. The Group acquired NVA because there is a strong commercial and cultural fit between NVA and the existing Group in terms of its strategies, products and service offerings. The acquisition is in line with the strategy to continue to acquire and integrate businesses with well established brands in the ventilation market.

Total consideration for the transaction was £6,697,000.

Transaction costs associated with the acquisition in the period ended 31 July 2016 were £167,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	286	2,460	2,746
Deferred tax	—	(479)	(479)
Property, plant and equipment	913	—	913
Inventory	1,181	(189)	992
Trade and other receivables	2,066	(55)	2,011
Trade and other payables	(3,016)	(63)	(3,079)
Cash and cash equivalents	178	—	178
Total identifiable net assets	1,608	1,674	3,282
Goodwill on acquisition			3,415
			6,697
Discharged by:			
Consideration satisfied in cash			6,697

The fair value of the acquired customer base, trademark and committed order book was identified and included in intangible assets; the deferred tax on these assets has been recognised separately.

Goodwill of £3,415,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition.

The gross amount of trade and other receivables is £2,066,000. The amount for trade and other receivables not expected to be collected is £55,000.

NVA generated revenue of £2,352,000 and generated a profit before tax of £119,000 in the period from acquisition to 31 July 2016 that is included in the consolidated statement of comprehensive income for this reporting period.

Notes to the Consolidated Financial Statements continued

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16. Business combinations continued

Acquisitions in the year ended 31 July 2016 continued

Cash outflows arising from business combinations are as follows:

	2017 £000	2016 £000
Breathing Buildings Limited		
Cash consideration	**11,881**	—
Less: cash acquired with the business	**(250)**	—
VoltAir System AB		
Cash consideration	**7,091**	—
Less: cash acquired with the business	**(604)**	—
Ventilair Group International BVBA		
Cash consideration	**—**	9,960
Less: cash acquired with the business	**—**	(270)
Weland Luftbehandling AB		
Cash consideration	**—**	597
Less: cash acquired with the business	**—**	(9)
Energy Technique Limited		
Cash consideration	**—**	9,396
Less: cash acquired with the business	**—**	(1,210)
NVA Services Limited		
Cash consideration	**—**	6,697
Less: cash acquired with the business	**—**	(178)
	18,118	24,983

17. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials is purchase cost on a first in, first out basis. The cost of work in progress and finished goods includes: cost of direct materials and labour and an appropriate portion of fixed and variable overhead expenses based on normal operating capacity, but excludes borrowing costs.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost to sell.

Critical accounting judgements and key sources of estimation uncertainty

Provisions for inventory obsolescence

Provisions for inventory obsolescence are made with reference to the inventory balances and usage. Management also considers sales history and the latest sales forecasts to determine whether the amounts are recoverable.

	2017 £000	2016 £000
Raw materials and consumables	**12,773**	10,015
Work in progress	**1,208**	1,432
Finished goods and goods for resale	**8,756**	8,709
	22,737	20,156

During 2017, £261,000 (2016: £258,000) was recognised as a cost of sales for inventories written off in the year.

Inventories are stated net of an allowance for excess, obsolete or slow-moving items which totalled £2,829,000 (2016: £2,882,000). This provision was split amongst the three categories: £1,526,000 for raw materials and consumables; £184,000 for work in progress; and £1,119,000 for finished goods and goods for resale.

A 10% increase in the inventory provision for raw material would increase the overall inventory provision by 5.4%. A 10% increase in the inventory provision for work in progress would increase the overall inventory provision by 0.7%. A 10% increase in the inventory provision for finished goods would increase the overall inventory provision by 4.0%.

18. Trade and other receivables

Accounting policy

Trade and other receivables are recognised when it is probable that a future economic benefit will flow to the Group. Trade and other receivables are carried at original invoice or contract amount less any provisions for discounts and doubtful debts. Provisions are made where there is evidence of a risk of non-payment taking into account ageing, previous experience and general economic conditions.

Provisions for bad debts

Provisions for bad debts are made with reference to the ageing of receivables and the view of management as to whether amounts are recoverable. Bad debt will be determined with consideration given to recent customer trading and management experience.

Rebates receivable

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

	2017 £000	2016 £000
Trade receivables	**34,111**	30,591
Allowance for doubtful debts	**(967)**	(893)
	33,144	29,698
Other debtors	**1,538**	687
Prepayments	**2,549**	2,550
	37,231	32,935

Movement in the allowance for doubtful debts is set out below:

	2017 £000	2016 £000
At the start of the year	**(893)**	(1,185)
Charge for the year	**(758)**	(239)
Amounts utilised	**702**	620
Foreign currency adjustment	**(18)**	(89)
At the end of the year	**(967)**	(893)

Gross trade receivables are denominated in the following currencies:

	2017 £000	2016 £000
Sterling	**25,332**	22,756
US Dollar	**19**	7
Euro	**3,971**	4,014
Swedish Krona	**4,130**	3,043
Other	**659**	771
	34,111	30,591

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

18 Trade and other receivables continued

Net trade receivables are aged as follows:

	2017 £000	2016 £000
Neither past due nor impaired	**27,369**	23,952
Past due but not impaired		
Overdue 0–30 days	**3,993**	4,491
Overdue 31–60 days	**1,241**	883
Overdue 61–90 days	**280**	223
Overdue more than 90 days	**261**	149
	33,144	29,698

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available; otherwise, historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required.

19. Other financial assets

	2017 Current £000	2016 Current £000
Financial assets		
Cash held in escrow	**16**	—
Foreign exchange forward contracts	**—**	914
	16	914

20. Cash and cash equivalents

Accounting policy

Cash and short-term deposits comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks. Cash and cash equivalents as shown in the statement of cash flows is equal to that in the statement of financial position as follows:

	2017 £000	2016 £000
Cash and short-term deposits	**14,499**	15,744

Cash and cash equivalents are denominated in the following currencies:

	2017 £000	2016 £000
Sterling	**7,086**	9,705
Euro	**5,561**	4,078
US Dollar	**524**	525
Swedish Krona	**1,057**	1,243
Other	**271**	193
	14,499	15,744

21. Trade and other payables

Critical accounting judgements and key sources of estimation uncertainty

Rebates payable

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

At the reporting date, the Directors make estimates of the amount of rebate that will become payable by the Group under these agreements, based upon their best estimates of volumes and product mix that will be sold over each individual rebate agreement period. Where the respective customer has been engaged with the Group for a number of years, historical settlement trends are also used to assist in ensuring an appropriate estimate is recorded at the reporting date and that appropriate internal approvals and reviews take place before rebates are recorded.

The total rebate payable provision at 31 July 2017 included within trade and other payables is £5,061,000 (2016: £5,414,000). The sales rebate provision is recognised within trade payables, rather than trade receivables, as a significant proportion of the agreements across the Group do not provide for credit notes to be raised against receivable balances. Rather, cash payment of the rebate amount due is expected. Furthermore, the majority of rebate agreements do not contain a clause which provides a legally enforceable right to offset invoiced amounts.

The total rebate provision of £5,061,000 included within trade and other payables is based on the Directors' best estimate of customer sales over the rebate agreement period. The provision as at 31 July 2017 is based on the Directors' sales estimate based on prior year trading and results. Given that the rebate provision represents an estimate within the financial statements, there is a risk that the Directors' estimate of the potential liability may be incorrect.

	2017 £000	2016 £000
Trade payables	**21,056**	18,205
Social security and staff welfare costs	**1,434**	1,786
Accrued expenses	**18,139**	15,099
	40,629	35,090

22. Other financial liabilities

	2017 Current £000	2016 Current £000
Financial liabilities		
Foreign exchange forward contracts	**536**	—
Contingent consideration	**1,588**	—
	2,124	—

The contingent consideration included within the other financial liabilities note relates to the acquisition of VoltAir System AB. The total contingent consideration payable is based on VoltAir's EBITDA performance for the twelve months to 31 December 2017. At the date of acquisition the Group estimated the EBITDA result for the twelve-month period and has recognised a liability based on this estimate. Management anticipates that the additional consideration payable will be SEK 16,930,000. This is equivalent to £1,588,000 using the spot rate as at 31 July 2017 or £1,506,000 using the spot rate on the date of acquisition (29 May 2017), as is disclosed in note 16.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

23. Interest-bearing loans and borrowings

Accounting policy

Borrowings and other financial liabilities, including loans, are initially measured at fair value, net of transaction costs.

Borrowings and other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2017		2016	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Revolving credit facility	**–**	**51,490**	–	51,869
Cost of arranging bank loan	**–**	**(402)**	–	(634)
	–	**51,088**	–	51,235

Interest-bearing borrowings at 31 July 2017 and 2016 comprise 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 is provided under the new facility.

Revolving credit facility – at 31 July 2017

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	5,000	30 April 2019	One payment	Libor + 1.00%
Euro	23,320	30 April 2019	One payment	Euribor + 1.00%
Swedish Krona	23,170	30 April 2019	One payment	Stibor + 1.00%
Total	**51,490**			

Revolving credit facility – at 31 July 2016

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	14,000	30 April 2019	One payment	Libor + 1.25%
Euro	21,973	30 April 2019	One payment	Euribor + 1.25%
Swedish Krona	15,896	30 April 2019	One payment	Stibor + 1.25%
Total	**51,869**			

The interest rate on borrowings includes a margin that is dependent on the consolidated leverage level of the Group in respect of the most recently completed reporting period. For the year ended 31 July 2016, Group leverage was between 1.0:1 and 1.5:1 and therefore the margin was 1.25%. The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2016 and therefore the margin for the first period of the year ended 31 July 2017 was 1.00%. At the half year, the consolidated leverage remained below 1.0:1 and therefore the margin for the second period of the year ended 31 July 2017 was 1.00%; this rate will continue into the first period of the year ended 31 July 2018.

At 31 July 2017, the Group had £37,010,000 (2016: £38,131,000) of its multi-currency revolving credit facility unutilised.

24. Provisions

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions for the expected costs of maintenance guarantees are charged against profits when products have been invoiced.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation taking into account the risks and uncertainties surrounding the obligation. The timings of cash outflows are by their nature uncertain and are therefore best estimates. Provisions are not discounted as the time value of money is not considered material.

Provisions for warranties and property dilapidations

Provisions for warranties are made with reference to recent trading history and historical warranty claim information, and the view of management as to whether warranty claims are expected.

Warranty provisions are determined with consideration given to recent customer trading and management experience.

Dilapidation provisions relate to dilapidation charges relating to leasehold properties. The timing of cash flows associated with the dilapidation provision is dependent on the timing of the lease agreement termination.

2017	**Product warranties £000**	**Property dilapidations £000**	**Total £000**
At 1 August 2016	**1,268**	**671**	**1,939**
On acquisition	**120**	**12**	**132**
Arising during the year	**1,010**	**—**	**1,010**
Utilised	**(1,130)**	**—**	**(1,130)**
Foreign currency adjustment	**23**	**1**	**24**
At 31 July 2017	**1,291**	**684**	**1,975**
Analysis:			
Current	**1,291**	**550**	**1,841**
Non-current	**—**	**134**	**134**
	1,291	**684**	**1,975**

2016	Product warranties £000	Property dilapidations £000	Total £000
At 1 August 2015	855	600	1,455
On acquisition	179	67	246
Arising during the year	857	—	857
Utilised	(673)	—	(673)
Foreign currency adjustment	50	4	54
At 31 July 2016	1,268	671	1,939
Analysis:			
Current	1,268	—	1,268
Non-current	—	671	671
	1,268	671	1,939

Product warranties

A provision is recognised for warranty costs expected to be incurred in the following twelve months on products sold during the year and in prior years. Product warranties can range between one and five years; however, based on management's knowledge of the products, claims in relation to warranties after more than twelve months are rare and highly immaterial.

Property dilapidations

A provision has been recognised for dilapidations relating to obligations under leases for leasehold buildings and will be payable at the end of the lease term.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

25. Authorised and issued share capital and reserves

Accounting policy

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the period are satisfied with treasury shares.

	Number of ordinary shares	Ordinary shares £000	Share premium £000
At 31 July 2016 and 31 July 2017	**200,000,000**	**2,000**	**11,527**

At 31 July 2017, a total of 1,166,878 (2016: 916,878) ordinary shares in the Company were held by the Volution EBT, all of which were unallocated and available for transfer to participants of the Long Term Incentive Plan and Deferred Share Bonus Plan on exercise. During the year 250,000 ordinary shares in the Company were purchased by the trustees (2016: 916,878), and nil (2016: nil) were disposed of by the trustees. The market value of the shares at 31 July 2017 was £2,220,000 (2016: £1,421,000).

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

26. Deferred tax

Accounting policy

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

> where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

> in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that the Directors consider it is probable that there will be taxable profits from which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates enacted or substantively enacted by the reporting date.

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 2017, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2016: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2016: £3,975,000) arising in UK subsidiaries and gross tax losses of £385,000 (2016: £264,000) 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 2017, the Group had no deferred tax liability (2016: £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.

26. Deferred tax continued

Deferred tax assets and liabilities arise from the following:

2017	1 August 2016 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2017 £000
Temporary differences						
Depreciation in advance of capital allowances	**(365)**	**(376)**	**—**	**(4)**	**—**	**(745)**
Fair value movements of derivative financial instruments	**(108)**	**254**	**—**	**—**	**—**	**146**
Customer base, trademark and patent	**(18,158)**	**3,083**	**—**	**(223)**	**(1,375)**	**(16,673)**
Losses	**872**	**(779)**	**—**	**—**	**205**	**298**
Untaxed reserves	**(398)**	**62**	**—**	**(23)**	**(88)**	**(447)**
Other temporary differences	**(30)**	**396**	**109**	**—**	**—**	**475**
	(18,187)	**2,640**	**109**	**(250)**	**(1,258)**	**(16,946)**
Deferred tax asset	**450**	**155**	**—**	**—**	**205**	**810**
Deferred tax liability	**(18,637)**	**2,485**	**109**	**(250)**	**(1,463)**	**(17,756)**
	(18,187)	**2,640**	**109**	**(250)**	**(1,258)**	**(16,946)**

2016	1 August 2015 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2016 £000
Temporary differences						
Depreciation in advance of capital allowances	(676)	444	—	(39)	(94)	(365)
Fair value movements of derivative financial instruments	45	(153)	—	—	—	(108)
Customer base, trademark and patent	(18,276)	3,524	—	(601)	(2,805)	(18,158)
Losses	536	(133)	—	118	351	872
Untaxed reserves	(468)	25	—	45	—	(398)
Historical fair value adjustments	—	—	1,526	—	(1,526)	—
Other temporary differences	(40)	(211)	37	6	178	(30)
	(18,879)	3,496	1,563	(471)	(3,896)	(18,187)
Deferred tax asset	394	61	—	(11)	6	450
Deferred tax liability	(19,273)	3,435	1,563	(460)	(3,902)	(18,637)
	(18,879)	3,496	1,563	(471)	(3,896)	(18,187)

27. Dividends paid and proposed

Accounting policy

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when the dividend is approved by the Directors in the general meeting, and in relation to interim dividends, when paid.

	2017 £000	2016 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2017: 1.35 pence per share (2016: 1.20 pence)	**2,688**	2,394
Proposed dividends on ordinary shares		
Final dividend for 2017: 2.80 pence per share (2016: 2.60 pence)	**5,567**	5,176

The interim dividend payment of £2,688,000 is included in the consolidated statement of cash flows.

The proposed final dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2017.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

28. Risk management

Accounting policy

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk. Instruments used are principally foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are included in notes 19 and 22.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the reporting date. The resulting gain or loss is immediately recognised in the statement of comprehensive income. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the relationship is more than twelve months and as a current asset or a current liability if the remaining maturity of the relationship is less than twelve months.

No derivative contracts have been designated as hedges for accounting purposes.

Hedge of net investments

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for as follows: gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is reclassified to profit or loss.

The Group uses borrowings in local currencies as a hedge of its exposure to foreign exchange risk on its investments in foreign operations.

As a result of entering into financial instruments, the Group is exposed to market risk, credit risk, foreign exchange risk and liquidity risk. The Group's principal financial instruments are:

> interest-bearing loans and borrowings;

> trade and other receivables, trade and other payables, cash and short-term deposits; and

> foreign exchange forward contracts.

This note provides further detail on financial risk management and includes quantitative information on the specific risks the Group is exposed to.

Derivative financial instruments

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange risk.

Forward foreign currency contracts

The Group's purchases in foreign currencies, net of Group sales in those currencies, represent less than 1% (2016: 3%) of total material and component purchases. Each quarter the Group enters into forward exchange contracts for the purchase of the budgeted monthly net expenditure in US Dollars for the following rolling 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 2017, the Group had commitments under forward foreign exchange contracts with varying settlement dates to 23 July 2018 (2016: 24 July 2017). See notes 19 and 22 for fair values.

Sensitivity analysis

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might affect the value of its derivatives and also the amounts recorded in its equity in the overseas entities and its statement of comprehensive income for the period. Therefore the Group has assessed:

> what would be reasonably possible changes in the risk variables at the end of the reporting period; and

> the effects on profit or loss and equity if such changes in the risk variables were to occur.

28. Risk management continued

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 2017		
Sterling	**+25**	**(13)**
Swedish Krona	**+25**	**(58)**
Euro	**+25**	**(58)**
31 July 2016		
Sterling	+25	(35)
Swedish Krona	+25	(40)
Euro	+25	(55)

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. 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 and GBP/SEK exchange rates of +5%. 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 and Euro-denominated balances have been considered as these are the most significant non-GBP denominations used by the Group.

	Change in GBP vs USD/ SEK/EUR rate	Effect on profit before tax	
		2017 £000	2016 £000
Swedish Krona	5%	**414**	312
US Dollar	5%	**81**	55
Euro	5%	**(409)**	(127)

	Change in GBP vs SEK/EUR rate	Effect on equity	
		2017 £000	2016 £000
Swedish Krona	5%	**(84)**	(12)
Euro	5%	**(129)**	108

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

28. Risk management continued

Liquidity risk

Liquidity risk for the Group arises from the management of working capital commitments and meeting its financial obligations as they fall due. The Group's policy is to regularly review cash flow forecasts/projections as well as information regarding cash balances to ensure that it has significant cash to allow it to meet its liabilities when they become due. The Group reviews its long-term funding requirements in parallel with its long-term strategy, with an objective of aligning both in a timely manner. At the reporting date, forecasts indicate that the Group is expected to have sufficient liquidity to meet its financial obligations for the foreseeable future.

The tables below summarise the maturity profile of the Group's significant undiscounted financial liabilities at 31 July 2017 and 2016.

At 31 July 2017	**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)	**—**	**51,490**	**—**	**51,490**
Forward foreign currency exchange outflow	**15,025**	**—**	**—**	**15,025**
Forward foreign currency exchange inflow	**(14,489)**	**—**	**—**	**(14,489)**
Trade payables and other accrued expenses	**39,195**	**—**	**—**	**39,195**
	39,731	**51,490**	**—**	**91,221**

At 31 July 2016	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)	—	51,869	—	51,869
Forward foreign currency exchange outflow	12,944	—	—	12,944
Forward foreign currency exchange inflow	(13,858)	—	—	(13,858)
Trade payables and other accrued expenses	33,327	—	—	33,327
	32,413	51,869	—	84,282

Fair values of financial assets and financial liabilities

There are no material differences between the book values and fair values for any of the Group's financial instruments carried at amortised cost. Derivative financial instruments have all been valued using other techniques, for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Group is mainly exposed to credit risk from its operating activities (primarily for trade receivables – credit sales) and from cash and cash equivalents and deposits with banks and financial institutions and other financial instruments.

Trade receivables

The Group's finance function has established a credit policy under which each new customer is analysed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and credit insurance is used where applicable. The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available; otherwise, historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment/pro-forma basis.

Refer to note 18 for the table of the age of accounts receivable that are past due.

The carrying amount of accounts receivable is reduced by an allowance account and the amount of loss is recognised within the consolidated income statement. When a receivable balance is considered uncollectable, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.

The Group evaluated the concentration of credit risk with respect of trade receivables as low in view of the Group's large and diversified client base, which is located in several jurisdictions, and the Group's established credit policies.

28. Risk management continued

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. The Group deposits cash with reputable financial institutions, from which management believes the possibilities of loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 July 2017 and 2016 is the carrying amount. The Group's maximum exposure for derivative financial instruments is noted in either note 22 on page 129 or in the liquidity table on the previous page.

Capital risk management

The primary objective of the Group's capital management policy is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The Group defines its capital as its share capital (excluding treasury shares), share premium account, foreign currency translation reserves and retained earnings. In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long-term structural and subordinated debt to fund investments and acquisitions and has arranged debt facilities to allow for fluctuations in working capital requirements. There have been no changes to the capital management policy in the current period. Management manages capital on an ongoing basis to ensure that covenant requirements on third party debt are met.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

> Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities;

> Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and

> Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments carried at fair value comprise the derivative financial instruments in notes 19 and 22 and the contingent consideration in notes 16 and 22. For hierarchy purposes derivative financial instruments are deemed to be Level 2 as external valuers are involved in the valuation of these contracts. Their fair value is measured using valuation techniques including the DCF model. Inputs to this calculation include the expected cash flows in relation to these derivative contracts and relevant discount rates. Contingent consideration is deemed to be Level 3.

29. Related party transactions

Transactions between Volution Group plc and its subsidiaries, and transactions between subsidiaries, are eliminated on consolidation and are not disclosed in this note. A breakdown of transactions between the Group and its related parties is disclosed below.

No related party loan note balances exist at 31 July 2017 or 31 July 2016.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

The Companies Act 2006 and the Directors' Remuneration Report Regulations 2013 require certain disclosures of Directors' remuneration. The details of the Directors' total remuneration are provided in the Directors' Remuneration Report (see pages 67 to 84).

Compensation of key management personnel

	2017 £000	2016 £000
Short-term employee benefits	**2,714**	2,292
Share-based payment change (see note 32)	**512**	389
Total	**3,226**	2,681

Key management personnel is defined as the CEO, the CFO and the ten (2016: nine) individuals who report directly to the CEO.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

30. Group structure details

At 31 July 2017, Volution Group plc held 100% of the voting shares of the following subsidiaries:

Group company	Principal activity	Country of incorporation
Direct		
Windmill Topco Limited[1]	Intermediate holding company	England
Volution Holdings Limited[1]	Intermediate holding company	England
Energy Technique Limited[2]	Intermediate holding company	England
Indirect		
Windmill Midco Limited[1]	Intermediate holding company	England
Windmill Cleanco Limited[1]	Intermediate holding company	England
Windmill Bidco Limited[1]	Intermediate holding company	England
Manrose Manufacturing Limited[1]	Ventilation products	England
Volution Ventilation Group Limited[1]	Intermediate holding company	England
Torin-Sifan Limited[1]	Original equipment manufacturer	England
Anda Products Limited[1]	Non-trading	England
Axia Fans Limited[1]	Non-trading	England
Roof Units Limited[1]	Non-trading	England
Torin Limited[1]	Non-trading	England
Vent-Axia Limited[1]	Non-trading	England
Vent-Axia Clean Air Systems Limited[1]	Non-trading	England
Vent-Axia Group Limited[1]	Ventilation products	England
ET Environmental Limited[2]	Ventilation products	England
Diffusion Environmental Systems Limited[2]	Non-trading	England
NVA Services Limited[1]	Intermediate holding company	England
SW National Ventilation Limited[1]	Ventilation products	England
Airtech Humidity Controls Limited[1]	Ventilation products	England
Sens-Air Limited[1]	Ventilation products	England
Breathing Buildings Limited[1]	Ventilation products	England
Volution Holdings Sweden AB[3]	Intermediate holding company	Sweden
Fresh AB[3]	Ventilation products	Sweden
Welair AB[4]	Ventilation products	Sweden
VoltAir System AB[5]	Ventilation products	Sweden
PAX AB[6]	Ventilation products	Sweden
Volution Norge AS (formerly Fresh Norge AS)[7]	Ventilation products	Norway
Fresh Shanghai Limited[8]	Ventilation products	China
inVENTer GmbH[9]	Ventilation products	Germany
Volution Management Holdings GmbH[9]	Intermediate holding company	Germany
Volution Deutschland Real Estate GmbH[9]	Property holding company	Germany
Brüggemann Energiekonzepte GmbH[10]	Ventilation products	Germany
Ventilair Group International BVBA[11]	Intermediate holding company	Belgium
Ventilair Group Belgium BVBA[11]	Ventilation products	Belgium
Ventilair Group Netherlands B.V.[12]	Ventilation products	Netherlands
Ventilair France SARL[13]	Ventilation products	France

1. Fleming Way, Crawley, West Sussex RH10 9YX.
2. 47 Central Avenue, West Molesey, Surrey KT8 2QZ.
3. Gransholmsvägen 136, 35599 Gemla, Sweden.
4. Strandvägen 65, 87052 Nyland, Sweden.
5. Box 7033, 12107 Stockholm-Globen, Sweden.
6. Kattkärrsvägen 4, 64831 Hälleforsnäs, Sweden.
7. Professor Birkelands vei 24B, 1081 Oslo, Norway.
8. No. 272–3 Julu Road, Shanghai, China.
9. Ortsstraße 4a 07751 Löberschütz, Germany.
10. Uhlenhorst 149A, 21435 Stelle, Germany.
11. Pieter Verhaeghestraat 8, 8520 Kuurne, Belgium.
12. Kerver 16, 5521 DB Eersel, Netherlands.
13. Boulevard de la Liberté 130, FR-59000 Lille, France.

31. Commitments and contingencies

Accounting policy

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Operating lease commitments

The Group has entered into commercial leases on certain items of land and building and others. These leases have an average life of between five and 15 years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these contracts.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Within one year	**1,735**	1,577	**240**	122
After one year but not more than five years	**6,828**	5,687	**266**	107
More than five years	**1,864**	1,856	**12**	—
	10,427	9,120	**518**	229

Commitments

Commitments for the acquisition of property, plant and equipment as of 31 July 2017 are £495,000 (2016: £226,000).

32. Share-based payments

The Company operates a share-based incentive scheme for Directors and key employees, known as the Volution Long Term Incentive Plan (LTIP). Share options were granted in October 2014, November 2015 and October 2016; 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 50% of the awards will be determined by the Company's relative total shareholder return (TSR) performance and the other 50% by the Company's cumulative average 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.

	2017 Number	2016 Number
Outstanding at 1 August	**1,023,309**	563,354
Granted during the year	**648,788**	459,955
Forfeited during the year	**(47,269)**	—
Outstanding at 31 July	**1,624,828**	1,023,309

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2017

32. Share-based payments continued

The weighted average exercise price for all options is £nil.

Of the total number of options outstanding at 31 July 2017 none had vested or were exercisable.

The weighted average fair value of each option granted during the year was £1.70 (2016: £1.90).

The following information is relevant in the determination of the fair value of options granted during the year under the LTIP.

	2017
Option pricing model used	**Monte Carlo**
Weighted average share price at grant date (£)	**1.70**
Exercise price (£)	**nil**
Expected life (years)	**3**
Expected volatility	**29.3%**
Risk-free interest rate	**0.3%**

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of share prices since the Company listed in June 2014.

The share-based remuneration expense comprises:

	2017 £000	2016 £000
Equity-settled schemes	**531**	431
	531	431

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous periods.

33. Events after the reporting period

There have been no material events between 31 July 2017 and the date of authorisation of the consolidated financial statements that would require adjustments of the consolidated financial statements or disclosure.

34. Glossary of terms

Adjusted basic and diluted EPS – calculated by dividing the adjusted profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are no dilutive potential ordinary shares for the years ended 31 July 2017 and 31 July 2016.

Adjusted EBITDA – EBITDA removing exceptional items and other non-recurring items not meeting the definition of exceptional.

Adjusted finance costs – finance costs removing net gains or losses on financial instruments at fair value.

Adjusted operating cash flow – adjusted EBITDA plus or minus movements in operating working capital, less net investments in property, plant and equipment and intangible assets.

Adjusted operating profit – operating profit removing exceptional items, other non-recurring items not meeting the definition of exceptional and amortisation of intangible assets associated with the customer base, trademarks and patents.

Adjusted profit after tax – profit after tax removing exceptional items, other non-recurring items not meeting the definition of exceptional, net gains or losses on financial instruments at fair value, amortisation of intangible assets associated with the customer base, trademarks and patents, and the tax effect on these items.

Adjusted profit before tax – profit before tax removing exceptional items, other non-recurring items not meeting the definition of exceptional, net gains or losses on financial instruments at fair value and amortisation of intangible assets associated with the customer base, trademarks and patents.

Adjusted tax charge – the reported tax charge less the tax effect on the adjusted items.

Cash conversion – calculated by dividing adjusted operating cash flow by adjusted EBITDA less depreciation.

Constant currency – to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2017 at the average exchange rate for the period ended 31 July 2016. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2017, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2016.

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

Like for like – the performance of the Group as though the position of the Group was the same as it was in the comparative period.

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.

Other non-recurring items not meeting the definition of exceptional – these are items of expense incurred by the Group which are non-recurring but do not meet the IFRS definition of exceptional items; they have been adjusted for to give a fairer representation of the underlying performance of the business.

Parent Company Statement of Financial Position

At 31 July 2017

	Notes	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	5	**64**	17
Investments	6	**199,429**	199,429
Deferred tax asset	4	**478**	—
		199,971	199,446
Current assets			
Other receivables and prepayments	7	**51,545**	40,407
Other current financial assets	8	**—**	914
Cash and short-term deposits		**157**	82
		51,702	41,403
Total assets		**251,673**	240,849
Current liabilities			
Trade and other payables	9	**(21,866)**	(19,964)
Other current financial liabilities	10	**(531)**	—
		(22,397)	(19,964)
Non-current liabilities			
Interest-bearing loans and borrowings	11	**(51,087)**	(51,235)
Deferred tax liabilities	4	**—**	(20)
		(51,087)	(51,255)
Total liabilities		**(73,484)**	(71,219)
Net assets		**178,189**	169,630
Capital and reserves			
Share capital	12	**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(2,027)**	(1,533)
Share-based payment reserve		**1,289**	649
Capital reserve		**(273)**	(273)
Retained earnings		**165,673**	157,260
Total equity		**178,189**	169,630

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 2017 was £16.3 million (2016: £14.0 million).

The financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 10 October 2017.

On behalf of the Board

Ronnie George
Chief Executive Officer

Ian Dew
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 31 July 2017

	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 2015	2,000	11,527	—	181	(273)	150,137	163,572
Profit for the year	—	—	—	—	—	14,017	14,017
Total comprehensive income	—	—	—	—	—	14,017	14,017
Share-based payment	—	—	—	468	—	—	468
Purchase of own shares	—	—	(1,533)	—	—	—	(1,533)
Dividends paid	—	—	—	—	—	(6,894)	(6,894)
At 1 August 2016	2,000	11,527	(1,533)	649	(273)	157,260	169,630
Profit for the year	—	—	—	—	—	16,277	16,277
Total comprehensive income	—	—	—	—	—	16,277	16,277
Share-based payment	—	—	—	640	—	—	640
Purchase of own shares	—	—	(494)	—	—	—	(494)
Dividends paid	—	—	—	—	—	(7,864)	(7,864)
At 31 July 2017	**2,000**	**11,527**	**(2,027)**	**1,289**	**(273)**	**165,673**	**178,189**

Treasury shares

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

Share-based payment reserve

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

Capital reserve

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

Retained earnings

£72,781,000 of the retained earnings balance at 31 July 2017 is available for distribution (2016: £64,368,000).

Parent Company Statement of Cash Flows

For the year ended 31 July 2017

	Notes	2017 £000	2016 £000
Operating activities			
Profit for the year after tax		**16,277**	14,017
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax for the year		**(1,033)**	(468)
Exceptional costs		**136**	428
Cash flows relating to exceptional costs		**(9)**	(428)
Finance revenue		**(34)**	(1,018)
Finance costs		**2,476**	1,250
Share-based payment expense		**531**	339
Effect of exchange rates on foreign denominated loans		**771**	—
Depreciation of property, plant and equipment		**5**	1
Working capital adjustments:			
(Increase) in other receivables and prepayments		**(8,558)**	(10,925)
Increase in trade and other payables		**1,738**	692
Net cash flow generated from operating activities		**12,300**	3,888
Investing activities			
Purchase of property, plant and equipment	5	**(52)**	(17)
Interest received		**34**	1
Investment in subsidiary undertaking		**—**	(9,396)
Net cash flow used in investing activities		**(18)**	(9,412)
Financing activities			
Interest paid		**(800)**	(915)
Repayment of interest-bearing loans and borrowings		**(20,540)**	(13,855)
Proceeds from new borrowings		**17,491**	28,222
Dividend paid to equity holders		**(7,864)**	(6,894)
Purchase of own shares		**(494)**	(1,533)
Net cash flow (used in)/generated from financing activities		**(12,207)**	5,025
Net increase/(decrease) in cash and cash equivalents		**75**	(499)
Cash and cash equivalents at the start of the year		**82**	581
Cash and cash equivalents at the end of the year		**157**	82

1. General information

These financial statements were approved and authorised for issue by the Board of Directors of Volution Group plc (the Company) on 10 October 2017.

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

2. Basis of preparation

The financial statements of Volution Group plc (the Company) are presented as required by the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The financial statements are presented in Sterling (£), rounded to the nearest thousand (£000) unless otherwise stated. They have been prepared under the historical cost convention.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an income statement or a statement of comprehensive income for the Company. The profit for the year is disclosed in the statement of changes in equity.

The policies applied by the Company are consistent with those set out in the notes to the consolidated financial statements. The following additional policies are also relevant to the Company financial statements.

Investments

Investments in subsidiary undertakings are valued at cost, being the fair value of the consideration given and including directly attributable transaction costs. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Dividends received

Revenue is recognised when the Company's right to receive the payment is established, which is generally when the shareholders approve the dividend.

Financial instruments

For detailed disclosures of financial instruments refer to note 28 of the Group financial statements.

New standards and interpretations

There were no new or amended accounting standards relevant to the Company's results that are effective for the first time in 2017 that have a material impact on the Company's consolidated financial statements.

The following standards and interpretations have an effective date after the date of these financial statements. The Company plans to adopt them from the effective dates adopted by the EU and is currently completing an impact assessment to be able to quantify the effect the new standards will have on the Company financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 has been endorsed by the EU and is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Company on 1 August 2018.

IFRS 9 will impact the classification and measurement of the Company's financial instruments and will require certain additional disclosures. IFRS 9 also introduces changes to impairments of financial assets, which will result in the Company moving from an incurred loss model to an expected loss model. Although the new standard will impact the way in which bad debt provisions are calculated, the Company does not anticipate that the impact of this change will be significant.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2017

2. Basis of preparation continued

New standards and interpretations continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was issued in May 2014 and has been endorsed by the EU. The subsequent amendments, Clarifications to IFRS 15, issued in April 2016, have not yet been endorsed by the EU. IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Company, subject to EU endorsement, on 1 August 2018.

The Directors do not consider that IFRS 15 will have a significant impact on the Company.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 to replace IAS 17 Leases. IFRS 16 has not yet been endorsed by the EU. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Company, subject to EU endorsement, on 1 August 2019.

The Directors do not consider IFRS 16 to have a significant impact on the Company.

Other new standards or interpretations in issue, but not yet effective, are not expected to have a material impact on the Company's net assets or results.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions relevant to the financial statements are embedded with the relevant notes to the consolidated financial statements.

Carrying value of investments

The key source of estimation uncertainty at the reporting date that has a significant risk of causing a material adjustment to the parent company financial statements is the recoverability of the investments set out in note 9.

The recoverability is estimated based on the expected performance and value of the investments, factoring in potential expected future net cash flow to be generated from the investments. The Company based its estimation on information available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected when they occur.

3. Staff costs

	2017 £000	2016 £000
Wages and salaries	**2,237**	1,897
Social security costs	**195**	173
Share-based payment charge	**531**	431
Other pension costs	**26**	48
	2,989	2,549

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 2016/17 but based on actual salary levels in 2017/18.

3. Staff costs continued

Average monthly number of employees in the year

	2017 Number	2016 Number
Administration	**13**	8

Directors' remuneration

	2017 £000	2016 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' emoluments	**1,876**	1,018
Aggregate Directors' pension scheme contributions	**86**	81
In respect of the highest paid Director		
Aggregate Directors' emoluments	**1,107**	591
Aggregate Directors' pension scheme contributions	**51**	47

The number of Directors accruing benefits under Company money purchase pension arrangements was nil (2016: two).

The Company also incurred costs of £349,000 (2016: £295,000) from Peter Hill, Tony Reading, Paul Hollingworth, Adrian Barden and Claire Tiney for their services as Non-Executive Directors.

4. Deferred tax balances

Deferred tax assets and liabilities arise from the following:

	1 August 2016 £000	Charged to income £000	Charged to equity £000	31 July 2017 £000
Deferred tax (liabilities)/assets				
Temporary differences	(20)	389	109	**478**

5. Property, plant and equipment

2017	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2016	18	18
Additions	52	52
At 31 July 2017	**70**	**70**
Depreciation		
At 1 August 2016	1	1
Charge for the year	5	5
At 31 July 2017	**6**	**6**
Net book value		
At 31 July 2017	**64**	**64**
At 31 July 2016	17	17

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2017

5. Property, plant and equipment continued

2016	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2015	1	1
Additions	17	17
At 31 July 2016	**18**	**18**
Depreciation		
At 1 August 2015	—	—
Charge for the year	1	1
At 31 July 2016	**1**	**1**
Net book value		
At 31 July 2016	**17**	**17**
At 31 July 2015	1	1

6. Investments

	£000
Cost	
At 31 July 2017 and 31 July 2016	**199,429**

For a list of the subsidiaries in which Volution Group plc held 100% of the voting shares as at 31 July 2017, see note 30 of the Group financial statements.

7. Other receivables and prepayments

	2017 £000	2016 £000
Amounts owed by Group undertaking	**51,168**	40,046
Prepayments	**377**	361
	51,545	40,407

8. Other financial assets

	2017 Current £000	2016 Current £000
Financial assets		
Foreign exchange forward contracts	**—**	914
	—	914

9. Trade and other payables

	2017 £000	2016 £000
Trade payables	**165**	213
Accruals	**1,277**	861
Amounts owed to Group undertaking	**20,424**	18,890
	21,866	19,964

10. Other financial liabilities

	2017 Current £000	2016 Current £000
Financial liabilities		
Foreign exchange forward contracts	**531**	—
	531	—

11. Interest-bearing loans and borrowings

	2017		2016	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Revolving credit facility	**–**	**51,490**	—	51,869
Cost of arranging bank loan	**–**	**(403)**	—	(634)
	–	**51,087**	—	51,235

Interest-bearing borrowings at 31 July 2016 and 2017 comprise 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 is provided under the facility.

Revolving credit facility – for the year ended 31 July 2017

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	5,000	30 April 2019	One payment	Libor + 1.00%
Euro	23,320	30 April 2019	One payment	Euribor + 1.00%
Swedish Krona	23,170	30 April 2019	One payment	Stibor + 1.00%
Total	**51,490**			

Revolving credit facility – for the year ended 31 July 2016

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	14,000	30 April 2019	One payment	Libor + 1.25%
Euro	21,973	30 April 2019	One payment	Euribor + 1.25%
Swedish Krona	15,896	30 April 2019	One payment	Stibor + 1.25%
Total	**51,869**			

The interest rate on borrowings includes a margin that is dependent on the consolidated leverage level of the Group in respect of the most recently completed reporting period. For the year ended 31 July 2016, Group leverage was between 1.0:1 and 1.5:1 and therefore the margin was 1.25%. The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2016 and therefore the margin for the first period of the year ended 31 July 2017 was 1.00%. At the half year the consolidated leverage remained below 1.0:1 and therefore the margin for the second period of the year ended 31 July 2017 was 1.00%; this rate will continue into the first period of the year ended 31 July 2018.

At 31 July 2017 the Group had £37,010,000 (2016: £38,131,000) of its multi-currency revolving credit facility unutilised.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2017

12. Share capital and share premium

The movement in called-up share capital and share premium accounts is set out below:

	Number of ordinary shares	Share capital £000	Share premium £000
At 31 July 2016 and 31 July 2017	**200,000,000**	**2,000**	**11,527**

13. Dividends paid and proposed

	2017 £000	2016 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2017: 1.35 pence per share (2016: 1.20 pence)	**2,688**	2,394
Proposed dividends on ordinary shares		
Final dividend for 2017: 2.80 pence per share (2016: 2.60 pence)	**5,567**	5,176

The interim dividend payment of £2,688,000 is included in the consolidated statement of cash flows.

The proposed dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2017.

14. Related party transactions

The following table provides the total amount of transactions that have been entered into with subsidiary undertakings for the relevant financial period.

	2017		2016	
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	**51,168**	**18,079**	40,046	18,045
Energy Technique Limited	**—**	**145**	—	145
ET Environmental Limited	**—**	**2,200**	—	700
	51,168	**20,424**	40,046	18,890

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Compensation of key management personnel

The Executive and Non-Executive Directors are deemed to be key management personnel of Volution Group plc. It is the Board that has responsibility for planning, directing and controlling the activities of the Group. Please refer to note 7 for details of the Executive and Non-Executive Directors' remuneration.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the year, key management personnel did not owe the Company any amounts.

15. Share-based payments

For detailed disclosures of share-based payments granted to employees refer to note 32 of the Group financial statements.

Glossary of Technical Terms

Alternating current or AC	the flow of electric current which reverses direction periodically, typically at 50Hz in the UK and Europe. This is the standard type of electricity supply to domestic and commercial properties
AC blowers	a low-pressure fan with an AC motor
AC motor	an alternating current motor
AHU	a ventilation device which usually integrates air, heating and filtration into one combined unit. May also include cooling and heat recovery
Decentralised heat recovery	a system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air. Decentralised heat recovery consists of multiple units supplying and extracting from around the home
EC/DC	electronically commutated direct current
Electronically commutated or EC	a type of motor which historically used a mechanical means of reversing the current flow but which now uses an electronic device to do the same, which is more reliable and more efficient
Fan Coil	a device used to heat or cool a space which includes a water coil and fan for connection to the wider HVAC package within a building
HVAC	heating, ventilation and air conditioning
Hybrid ventilation	a method that combines both passive and mechanical means to form a mixed mode ventilation system
IAQ	indoor air quality
Lo-Carbon products	a trademark used to represent our low-energy range of products
MEV	Mechanical Extract Ventilation: a system of ventilation operated by a power-driven mechanism which extracts air from a room and discharges it only to the external air
Motorised impellers	a motor that is supplied complete with an impeller attached to it
MVHR	Mechanical Ventilation with Heat Recovery: a centralised system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air
NVHR	Natural ventilation with heat recycling
OEM	original equipment manufacturer
RMI	repair, maintenance and improvement
Rotary heat exchanger	a type of heat exchanger consisting of a circular honeycomb matrix which rotates in the air stream of a heat recovery device
Plate heat exchanger	a type of heat exchanger consisting of a series of plates which transfer the heat from one airstream to another
Specifiers	persons who may specify certain characteristics of products

Shareholder Information

Shareholder services

For any enquiries concerning your shareholding please contact our registrar:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom

Equiniti has a shareholder portal offering access to services and information to help manage your shareholdings and inform your important investment decisions. Please visit www.shareview.co.uk.

Shareholder helpline: 0371 384 2030* from the UK or +44 (0) 121 415 7047 from overseas.

* Lines are open 8.30 am to 5.30 pm, Monday to Friday (excluding public holidays in England and Wales).

You can access our Annual Report and Accounts and other shareholder communications through our website, www.volutiongroupplc.com.

Company advisers

External independent auditor
Ernst & Young LLP

Joint corporate brokers
Liberum Capital Limited
Canaccord Genuity Limited

Legal adviser
Norton Rose Fulbright LLP

Financial PR adviser
Tulchan Communications LLP

Company Secretary and registered office

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Forward-looking statements
The Annual Report and Accounts contains certain statements, statistics and projections that are or may be forward looking. The accuracy and completeness of all such statements including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Volution Group plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as “intends”, “expects”, “anticipates” and “estimates” and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Volution Group plc believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, which may be beyond the control of Volution Group plc, that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Other than as required by applicable law or the applicable rules of any exchange on which our securities may be listed, Volution Group plc has no intention or obligation to update forward-looking statements contained herein.

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