

**Volution Group plc Annual Report 2016**

# **Excellence in ventilation**

**Registered in England and Wales**

Company number: 09041571

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**Find out more online**

— [www.volutiongroupplc.com](http://www.volutiongroupplc.com)

**Volusion Group plc is a leading supplier of ventilation products to the residential and commercial construction markets in the UK and northern Europe.**

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

Our acquisition strategy has increased the number of our key brands from seven to twelve during the year.

## Highlights

# Strong results with revenue growth of 19% and EPS up 15%

### Financial

- Four acquisitions completed in the year broadening our geographic range and routes to market.
- Revenue growth of 18.7% (18.6% at constant currency) comprised:
  - organic revenue growth of 3.0% (3.1% at constant currency); and
  - inorganic revenue growth of 15.7% (15.5% at constant currency) as a result of acquisitions.
- Adjusted operating profit growth of 10.4% to £32.5 million (10.3% at constant currency).
- As anticipated, adjusted operating profit margin declined by 1.6% as a consequence of new acquisitions. Like-for-like adjusted operating profit margin improved by 0.2 percentage points to 22.8%.
- Reported profit before tax of £18.4 million (2015: £15.5 million).
- Net debt increased as a result of four acquisitions made in the year; adjusted EBITDA ratio of 1.0x.
- Full year dividend of 3.80 pence per share, up 15.2%.
- Adjusted EPS growth of 14.5% to 12.6 pence (2015: 11.0 pence).

### Strategic

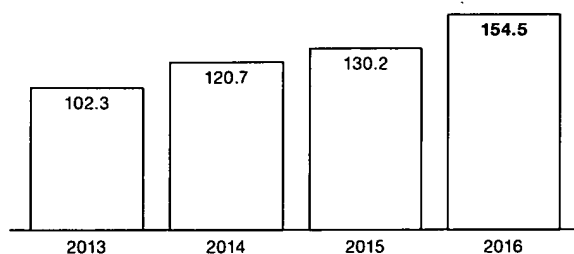
- We saw an increase in sales of high end products such as quiet, silent and energy-efficient fans and the launch of a range of app-controlled fans in the Group, driving organic growth.
- Four acquisitions completed during the year with all integration activity progressing as anticipated:
  - Ventilair provides the Group with access to markets in both Belgium and the Netherlands.
  - Energy Technique (trading as Diffusion) complements the Group's leading position in the UK with its strong position in the niche market of fan coils for heating and cooling of both commercial and residential buildings. Diffusion sells mainly into the new build market.
  - NVA Services (trading as National Ventilation and Airtech) provides the Group with additional brands and routes to the UK market. It supplies ventilation products for both residential and commercial applications.
  - Welair, a small heat recovery manufacturer in Sweden, provides the Nordic business with a wider product portfolio and greater exposure to the new build market.
- OEM (Torin-Sifan) revenue growth was assisted by growth in the Electronically Commutated (EC) motor sales category in both the heating and ventilation markets.

The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted EBITDA, adjusted operating profit, adjusted profit before tax and adjusted operating cash flow.

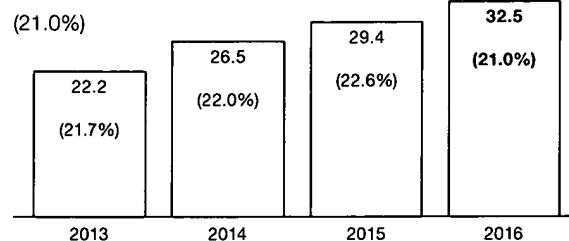
#### Notes

1. Details of adjusted operating profit and adjusted profit before tax can be found in note 10 to the consolidated financial statements.
2. For a definition of all adjusted measures see the glossary of terms in note 36 to the consolidated financial statements.

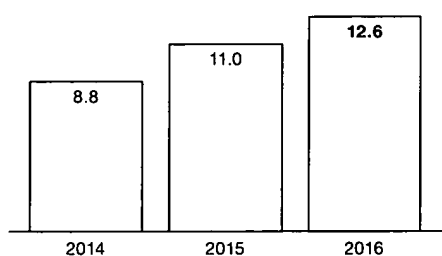
Revenue £m

**£154.5m**

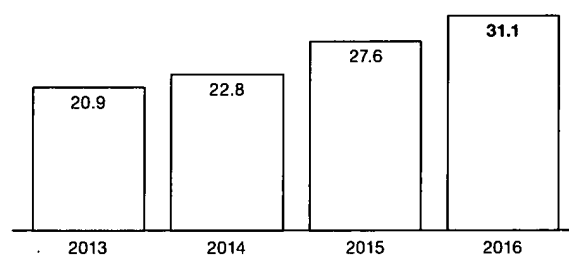
Adjusted operating profit and adjusted operating profit margin £m (% of revenue)

**£32.5m**

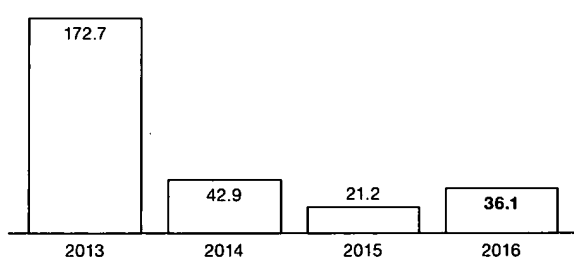
Adjusted basic and diluted EPS p

**12.6p**

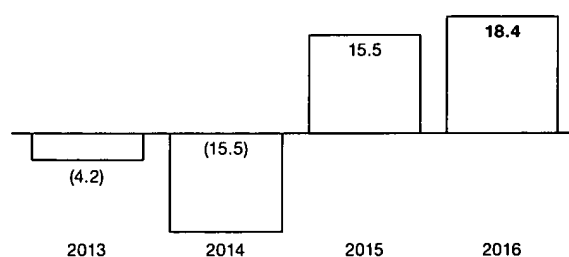
Adjusted operating cash flow £m

**£31.1m**

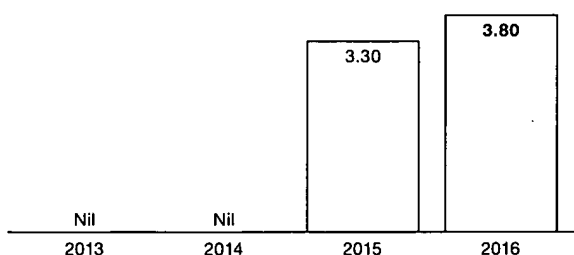
Net debt £m

**£36.1m**

Reported profit before tax £m

**£18.4m**

Dividend per share p

**3.80p**

## At a Glance

Volition Group plc is a leading supplier of ventilation products to the residential and commercial construction markets in the UK and northern Europe.

We operate through two segments: the Ventilation Group and OEM (Torin-Sifan).

### Ventilation Group segment

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

In the UK: Vent-Axia, Manrose, Diffusion, National Ventilation and Airtech

In the Nordics: Fresh, PAX and Welair

In Central Europe: Ventilair, inVENTer and Brüggemann

The Ventilation Group has market-leading positions in the UK residential ventilation products market, the Swedish residential refurbishment ventilation products market and the German decentralised heat recovery residential ventilation systems market.

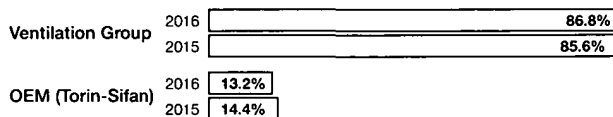
During the year, we completed acquisitions which have:

- strengthened our position in UK residential ventilation with the acquisition of NVA Services, adding the National Ventilation and Airtech brands;
- broadened our geographic spread into the Belgian and Dutch residential ventilation markets with the addition of Ventilair;
- strengthened our exposure to the UK new build commercial market with the addition of the Diffusion fan coil brand, through the acquisition of Energy Technique; and
- expanded our product capability in the Nordics into the rotary wheel heat recovery market with the acquisition of Welair.

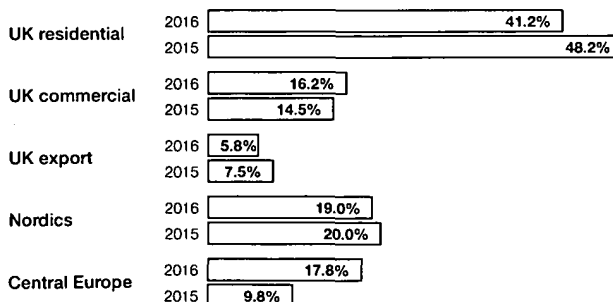
### OEM (Torin-Sifan) segment

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

% of Volition Group revenue (by sector)

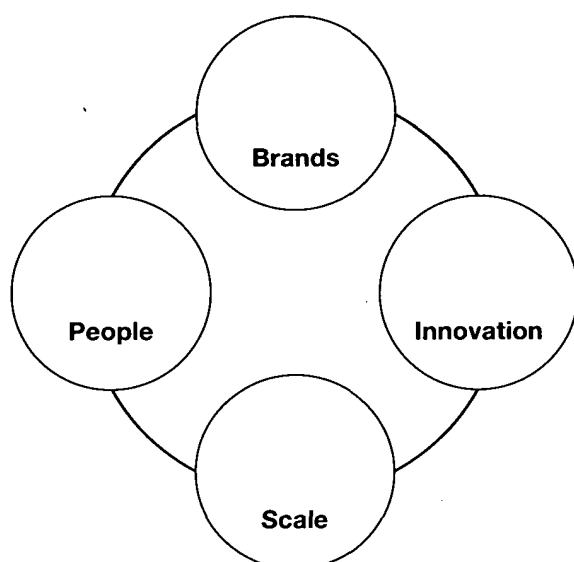


% of Ventilation Group revenue (by sector)



## Our business model

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



**Our Business Model**  
> page 12

## Our strategy

Our strategy continues to focus on three key pillars:

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*Organic growth in our core markets*

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Growth through a disciplined and value-adding acquisition strategy

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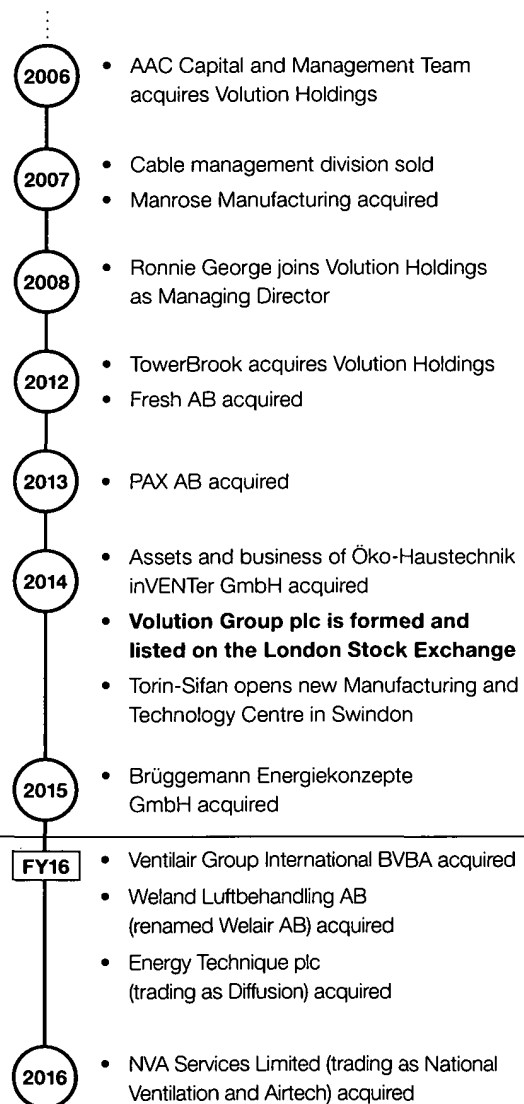
Further develop Torin-Sifan's range and build customer preference and loyalty

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**Our Strategy**  
> page 14

## Our recent history

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



**Find out more online**  
> [www.volutiongroupplc.com](http://www.volutiongroupplc.com)

## Chairman's Statement

Peter Hill, CBE

### Summary

- Strong results in line with our expectations
- Continued to deliver on all three strategic pillars
- Completed four value-adding and strategically important acquisitions
- Strong cash generation supporting ambition to grow through acquisition
- Full year dividend increased by 15.2%

“

I am proud to announce another year of strong performance.

**Peter Hill, CBE**  
Chairman

### Dear shareholder,

I am proud to announce another year of strong performance. The Group has recorded another year of revenue and underlying operating profit growth, making this the fifth consecutive year of growth.

Our strategy remains unchanged. Organic growth, combined with selective value-adding acquisitions, has supported the achievement of another year of strong performance and growth in revenues and profitability. You can find further details on the Group's three strategic pillars on pages 14 to 15.

### Results

The strong set of results reflects the strong growth achieved, both organically and through acquisitions, with Group revenue increasing by 18.7% to £154.5 million. Adjusted operating profit was £32.5 million, representing 21.0% of revenue and a £3.1 million improvement compared to the prior year. The basic and diluted earnings per share for the year was 7.8 pence (2015: 5.9 pence). Our adjusted earnings per share was 12.6 pence, a significant 14.5% increase over the adjusted earnings per share for the prior year of 11.0 pence. Cash generation was strong with adjusted operating cash flow of £31.1 million (2015: £27.6 million). Our organic growth results showed strong growth in the Nordics and UK Residential New Build offset by the disappointing performance in UK Residential RMI. Revenue from the OEM (Torin-Sifan) segment was £20.4 million, up 9.0% (8.8% at constant currency). Inorganic growth of £21.2 million during the year benefited from the acquisitions of Ventilair, Energy Technique, NVA Services and Welair. Net debt at the year end of £36.1 million (2015: £21.2 million) was only £14.9 million higher than last year, despite having completed four acquisitions costing £25.0 million.



## Acquisitions

During the year, the Group made excellent progress with its strategy of making selective value-adding and strategically important acquisitions in our ventilation segment as follows:

- Ventilair provides the Group with access to markets in both Belgium and the Netherlands.
- Energy Technique (trading as Diffusion) complements the Group's leading position in the UK with its strong position in the niche market of fan coils for heating and cooling of both commercial and residential buildings. Diffusion sells mainly into the new build market.
- NVA Services (trading as National Ventilation and Airtech) provides the Group with additional brands and routes to the UK market. It supplies ventilation products for both residential and commercial applications.
- Welair, a small heat recovery manufacturer in Sweden, provides the Nordic business with a wider product portfolio and greater exposure to the new build market.

All acquisitions were funded from the Group's existing cash and banking facilities. As a board, we evaluate each acquisition opportunity very carefully to ensure that it meets our strategic objectives as well as the financial hurdles set for investment. More details can be found in the Chief Executive Officer's Review and in the Financial Review. These acquisitions are on track to deliver revenue and profit growth for the Group and have been earnings enhancing. We very much welcome the employees of all these companies into 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 1.20 pence per share in May 2016. On the basis of our strong results, the Board has recommended a final dividend of 2.60 pence per share, giving a total dividend for the financial year of 3.80 pence per share (2015: 3.30 pence per share), an increase of 15.2% on the previous year. As a consequence of this recommendation, the resulting adjusted earnings dividend cover for the year is 3.32x (2015: 3.33x). Subject to approval by shareholders at the Annual General Meeting on 9 December 2016, the final dividend will be paid on 14 December 2016 to shareholders on the register at 18 November 2016.

## UK referendum on EU membership

Following the UK's vote to leave the European Union, the Company has been monitoring business performance closely and has not yet seen any discernible impact on trading.

Although too early to assess the implications for our business and operations over the longer term, we believe that the outcome of the referendum will not have any material near-term impact on demand for our products. Following the four acquisitions completed during the last financial year, Volution is now a more diversified and flexible business which can adjust if necessary. 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.

## 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 Corporate Governance Report on pages 46 to 53.

## 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, during the year the Board visited the facilities in Germany and Swindon in the UK. It is the Board's intention to continue to visit other facilities across the Group to build its understanding of each business unit.

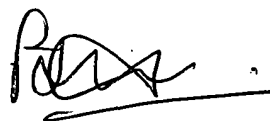
On 3 August 2016, Claire Tiney joined the Board as an independent Non-Executive Director. Claire is a highly commercial director with over 20 years of board-level experience encompassing executive and non-executive roles in blue-chip retailing, property development and the services sectors, across the UK and Continental Europe. I would like to welcome Claire to Volution Group and the Board looks forward to working with her and to benefiting from her board and commercial experience.

On behalf of the Board I would like to express our thanks to Gavin Chittick, who was our non-independent Non-Executive Director who stepped down from the Board on 18 March 2016. Gavin joined the Group in 2012 and was appointed to the Board in May 2014, just prior to IPO, as the Director representing Windmill Holdings B.V., the Group's controlling shareholder at that time. He made a valuable contribution to the Board and in particular helped steer the Group through its successful IPO in June 2014.

## People

As always, our people are extremely important to our success. They are the ones who reflect our values, run our operations and ensure we maintain good relationships with our stakeholders. All deserve to work in safe environments and reach their full potential. Volution's 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 saw a 12% decrease in all accidents in the workplace. I recommend that you read the Corporate Social Responsibility section on pages 36 to 37 for further details.

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



**Peter Hill, CBE**  
Chairman

11 October 2016

## Chief Executive Officer's Review

Ronnie George

### Summary

- Second full financial year as a listed company, again delivering both organic and inorganic revenue growth in line with our strategy
- A year of strong financial results underpinned by revenue growth of 18.7%, and an expansion of our underlying adjusted profit margin, excluding the dilution from the four acquisitions completed in the year
- Four acquisitions completed in the year, providing the Group with greater access to continental Europe as well as a more diversified exposure to the UK market
- Ongoing and significant investment in new products including, we believe, the world's first app-controlled fan in the Nordics and the market leading residential central heat recovery system product developed in the UK

### Overview

Our second full financial year as a listed company continues to build on the success of the previous year and I am pleased to report yet another year of strong results. Volution continues to make good progress in its strategy of making selective value-adding acquisitions with four acquisitions completed in the year. Ventilair, based in Belgium and the Netherlands, completed in August 2015, Energy Technique (trading as Diffusion) in the UK was completed in December 2015, Welair in Sweden also completed in December 2015 and more recently we acquired NVA Services in the UK (trading as National Ventilation and Airtech), completed in May 2016.

The integration of Ventilair was completed during the year with additional cross selling of heat recovery and domestic fan products from the UK ventilation business, as well as the recent introduction of the world's first app-controlled extractor fan from the Nordics, being sold through the new sales channels for the Group in Belgium and the Netherlands.

In the UK we achieved another year of good organic growth in the sales of higher-value ventilation systems used in new residential dwellings and of more quiet, energy efficient ventilation used for residential repair, maintenance and improvement (RMI) applications which was also underpinned by the launch of the new app-controlled fan.

Torin-Sifan delivered good organic revenue growth, despite another mild winter, and the benefits of improved customer service and reliability were delivered with the first full financial year of operation of the additional new production site in Swindon, UK.



Our second full financial year as a listed company continues to build on the success of the previous year and I am pleased to report yet another year of strong results.

**Ronnie George**  
Chief Executive Officer

#### Ventilation Group segment

The Ventilation Group's performance was encouraging, with a 20.3% increase in revenue on prior year (20.3% at constant currency). Organic growth was 1.9% (2.0% at constant currency) including the declining revenue from the disappointing results in UK Residential RMI offset by the strong organic growth in UK Residential New Build and in the Nordics.

#### United Kingdom

Sales in our UK Residential New Build sector were £19.8 million (2015: £17.2 million), growth of 15.4%, assisted in the year by the additional revenues from Diffusion, acquired in December 2015. Organic growth achieved was 7.2% with the order intake for new residential projects growing more quickly than sales. The new Kinetic Advance was successfully launched in the year and has been specified for a number of projects which will come to fruition in our financial year 2017.

The UK Residential RMI market was soft with both private refurbishment and public refurbishment volumes declining with prices remaining stable. Public refurbishment declined by 5.3% in the year (organic decline of 6.0%), the first half of the year declining by 8.7%. The public market remains difficult due to the ongoing austerity measures and government cutbacks in particular, the impact on Housing Association budgets of rent reductions for their tenants. Several initiatives are underway in an attempt to gain further market share in the future. The new product development of the Revive™ bathroom and kitchen fan was completed in the year and the product was launched in the summer of 2016.

The Revive™ is one of the most efficient, quiet and discrete bathroom and kitchen fans available to the public refurbishment market and together with the additional new product range there has been significant investment in the sales team during the year. Private refurbishment declined by 1.6% in the year (an organic decline of 3.4%) and this was exacerbated by the annual price increase being delayed until financial year 2017, against a strong comparator, which benefited from pre-price increase buying. The new Svara app-controlled fan was launched in 2016 and has already established a position with both electrical wholesalers and retailers which is expected to bring additional revenue benefit in financial year 2017.

UK Commercial grew by 33.9% in the year to £21.7 million (2015: £16.2 million) as a result of the acquisition of Diffusion. The organic decline was 7.0% which was primarily due to the RMI market which performed less well than the market for new applications. Since acquisition, Diffusion sales have performed very strongly with a number of notable project wins for the supply of fan coils, requiring us to increase the manufacturing capacity of the business to support the increasing demand.

UK Export sales were £7.8 million (2015: £6.6 million excluding sales to Ventilair which are now eliminated as intercompany sales), strong growth of 17.4%, benefiting from the additional export sales from Diffusion with an organic like-for-like growth of 3.9% (3.5% growth at constant currency). Sales to our distribution partner Simx in New Zealand performed particularly well as did sales of heat recovery systems to Eire.

## Chief Executive Officer's Review continued



Sales in Central Europe were £23.8 million, strong growth with sales more than doubling due to the acquisition of Ventilair in Belgium and the Netherlands.

**Ronnie George**  
Chief Executive Officer

### **Ventilation Group segment** continued

#### **The Nordics**

Sales in the Nordics sector were £25.5 million (2015: £22.2 million), an increase of 14.7% (15.5% at constant currency) with organic revenue growth of 10.5% (11.3% growth at constant currency). Sales of the market-leading, low-energy and near-silent ventilation products continued to grow during the year as they had in the prior year. The new Calima fan, the first app-controlled extractor fan on the market, performed very well in the year. There was also significant growth in the sales of our electric towel warmers sold under the PAX brand. Following the acquisition of Welair in December 2015, integration is progressing as expected and in the autumn of 2016 we will launch an extended range of heat recovery units in the Nordics under the Fresh brand, designed and manufactured by Welair.

#### **Central Europe**

Sales in Central Europe were £23.8 million, strong growth with sales more than doubling due to the acquisition of Ventilair in Belgium and the Netherlands. Sales in Germany were down 2.3% on the prior year although this was offset by higher gross margin generated by replacing existing products with those exclusively manufactured by Volution. This decision, whilst accretive to earnings, resulted in a small loss of sales whilst the changeover process was implemented. In June and July 2016 the sales in Germany generated strong organic growth compared to the prior year. During the year we increased the number of agents operating in Germany and now have full coverage of the market, the benefit of which we expect to see in the financial year 2017.

### **OEM (Torin-Sifan) segment**

Our OEM (Torin-Sifan) segment's revenue in the year was £20.4 million (2015: £18.7 million), an increase of 9.0% (8.8% at constant currency), with sales of EC fans growing strongly in the year despite the delays in launching the new EC3 motorised impeller range. Sales of alternating current (AC) fans also delivered growth, mainly as a result of the price increase implemented on the traditional product lines including spares for gas boilers. Whilst it was another mild winter with volumes broadly constant with the prior year, the additional price improvement increased the revenue in this category. As reported last year, the market for sales of electrically commutated direct current (EC/DC) motorised impellers continues to grow as this area is supported by regulatory drivers, both in the UK and in continental Europe. Our investment in the new EC3 motorised impeller range, whilst delayed, is expected to gain sales traction in financial year 2017.

### Three strategic pillars

Our strategy continues to focus on three key pillars:

#### organic growth in our core markets

(which now extend through Ventilair to Belgium and the Netherlands)

#### growth through a disciplined and value-adding acquisition strategy

#### further develop Torin-Sifan's range, build customer preference and loyalty

### Our Strategy

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Our core markets were greatly extended during the year and now extend to Belgium and the Netherlands with the acquisition of Ventilair, to heat recovery markets in the Nordics through the acquisition of Welair, more comprehensive commercial exposure in the UK with the acquisition of Diffusion, and greater access to the UK residential market with the acquisition of National Ventilation and Airtech. These 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) as well as the need to improve energy efficiency.

The European market remains highly fragmented and we will continue to pursue acquisition opportunities leveraging the Group capabilities in operations, procurement, distribution and finance, which we have invested in over recent years. Our Research and Development function, as well as our recently expanded procurement function, including our own sourcing team in China (a new investment in 2016), should enable us to deliver substantial synergies from both existing and potential new acquisitions.

The investment we have made in Torin-Sifan, both in new product development and a new production facility, helped underpin our improvements during the financial year 2016. The service levels from Torin-Sifan, mainly an OEM supplier of motorised impellers, significantly improved during the year. The launch of the new EC3 motorised impeller range, whilst later than planned, is now starting to gain approval and we expect to see sales commence during the financial year 2017.

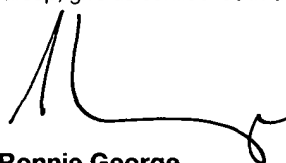
### People

I am delighted to advise that in April 2016 we launched our second internal Management Development Programme (MDP) which consists of fifteen high potential managers from across all geographic and functional areas of the Group. The programme will now run for just over a year including site visits to several of the Volution Group locations.

During the financial year 2016, we completed four acquisitions, with the integration of each of these made so much easier by the considerable hard work and dedication of our employees. Whilst focusing on the considerable benefits of integration, the efforts of our employees, their openness and collaborative approach, has ensured that all of our employees, including those in the newly acquired businesses, really do feel part of a wider Volution team. I am particularly proud of how this process has worked and would like to thank everyone across the Group for making the year a great success.

### Outlook

The new financial year has started well and notwithstanding the ongoing uncertainty in the UK post the EU referendum, our acquisitions completed in the 2016 financial year, as well as new product launches and the various sales initiatives across the Group, give us confidence in delivering further growth in 2017.



**Ronnie George**  
Chief Executive Officer

11 October 2016

## Our Business Model

### How do we create 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: Brands, Innovation, Scale and People.

### Our key differentiators

#### Brands

12

key brands across twelve operating companies

Through intercompany trading and rebranding existing product lines, as well as new product development, we have continued to leverage our strong local brands to launch 1,900 new product lines.

**Brands in Action**  
> page 16

#### Innovation

1,900

new product lines launched in 2015/16

Through constant effort to improve the customer experience, in the last year we have launched our most sophisticated fan to date, the Revive™. The innovative Multi-Vortex™ airflow technology makes it the best in class.

**Innovation in Action**  
> page 18

## Our Company values

GROWTH

INNOVATION

SERVICE

RELIABILITY

**Scale**

660,000

square feet of manufacturing facilities

With our continued growth, we have invested in a newly created role of Head of Group Procurement helping to leverage our purchasing power and increased scale.

**Scale in Action**  
 > page 20

**People**

1,337

average number of employees

Our ability to attract and retain talented people is vital to our long-term success. We continue to invest in training to support and grow our teams.

**People in Action**  
 > page 22

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

## Our Strategy

### The three strategic pillars

We will continue to build on our core strengths and strong industry track record to gain further market share in each of our core geographical 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.

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#### 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 to create upselling opportunities 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

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#### Growth through a disciplined and value-adding acquisition strategy

We will continue to seek to acquire and integrate select businesses, primarily, but not exclusively, related to the residential ventilation market. Our focus will be principally on opportunities in the UK and Europe, where there are clear synergistic benefits available.

##### Actions

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

---

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

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

##### Actions

- Develop a technically superior residential motorised impeller product
- 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

### Future focus

- Range development, maximising the opportunities created by the Energy Related Product Directive
- Maximise the sales opportunities for Group products through the new businesses within the UK
- Expand the range of central heat recovery systems
- Launch of the Vent-Axia brand in the Netherlands and Germany through Ventilair

### Achievements during the year

- Completion of the acquisitions of Ventilair, Energy Technique, NVA Services and Welair
- Leveraged increased scale by establishing a centralised Group procurement function
- Continued the active integration of recent acquisitions into the Group

### 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
- Launch of Vent-Axia brand in selected new geographies utilising new acquisitions

### Achievements during the year

- Increased the number of EC3 motor variants to 36
- Launch of EC Direct Drive fan range, converting sales from AC to EC motors

### Future focus

- Continue to drive sales in EC fan decks
- Continue the integration of new EC platforms into customers' bespoke applications

## Brands in Action

# Brands

As the Group's scale continues to increase through acquisitions, we are adding new sales channels and brands. Our ability to use our brands to create new opportunities for the newly acquired businesses helps to generate value.

### Highlights

- Five new brands acquired in the year
- Launch of the Vent-Axia brand in the Netherlands with further roll-out planned in Germany
- Acquisition of Welair and relaunch of the Welair brand in Sweden
- Multi-branding of the Group's product portfolio

#### Further internationalisation of the Vent-Axia brand

Vent-Axia has long been a strong brand in the UK market and in September 2016 it celebrated its 80th anniversary. With a long history of international trading and export, the brand also has a position in over 40 countries around the world. Following the acquisition of Ventilair, we now own a business with wide distribution channels in the Netherlands and Belgium. To assist in increasing sales of products from the wider Group product portfolio, we have launched the Vent-Axia brand through the Ventilair infrastructure. The Vent-Axia brand has been launched in the Netherlands with its own local language website, literature and commercial team, in order to build additional sales from products outside the current Ventilair products portfolio.

#### Welair in Sweden

With the acquisition of Weland Luftbehandling AB, which we renamed Welair AB after its major product range, we have now gained new competency to design and manufacture air handling units for the Nordic market for both residential and commercial applications. Following the rebranding, a new website for Welair was launched. The new competency which Welair has added to the Group has enabled us to design and manufacture a new range of smaller residential and light commercial air handling units for launch through the Fresh brand sales channel. Fresh already has the brand and sales team necessary to take these products to the professional channel through wholesalers. Welair will also maintain its existing route to market.

#### Multi-branding of the Group's product portfolio

We have continued to focus on intercompany trading and making sure that we maximise our sales opportunities through all of our channels. In the last year we have introduced intercompany products to the newly acquired businesses as well as adding to the product portfolios of our more established companies. Our developing sales channels have significantly helped us open up new sales opportunities. This has led to the launch of over 1,900 new stock-keeping units (SKUs) across the Group.

Fresh MVHR unit

“

The further roll-out of the Vent-Axia brand internationally gives us an exciting opportunity to provide new propositions to customers. This enhances our revenue stream within the new geographies and ensures wider category exposure without compromising existing channel and brand positions.

**Lee Nurse**

Marketing Director, Ventilation Group

## Innovation in Action

# Innovation

As part of our continuing effort to improve the customer experience, we have recently launched our most sophisticated fan to date, the Revive™. Its innovative Multi-Vortex™ airflow technology is one of its many innovative features that make it the best in class.

### Highlights

- Launch of Revive™, the smallest compact bathroom and kitchen fan available in the UK
- Roll-out of the app-controlled Calima™ platform throughout the Group
- Launch of Kinetic Advance™ (next generation heat recovery system) in Belgium and the Netherlands
- Increased number of variants of the EC3 ,  
Torin-Sifan 3 phase motor

Torin-Sifan EC fan decks

### Developments

We have continued to roll out the app-controlled platform across our companies. The Calima™ platform alone now operates under three brands in six languages, across six markets. During the year we launched Calima™ under the PAX brand in the Nordics region and have subsequently rolled it out in the UK, Germany, Belgium and the Netherlands. The product has been launched under the inVENTer brand in Germany and under the Vent-Axia brand in the UK. With the addition of Ventilair to the Group, we also launched it under the Vent-Axia brand in the Netherlands and Belgium. Another example of the Group utilising its wide product portfolio to gain synergies across its growing sales channels.

### Technical excellence

With the launch of the app-controlled platform last year, we now have a solid platform to provide the most flexible and intuitive interface available. In addition to developing improved user interfaces for our products, we have been working hard to improve technical performance. We continue to strive to make the experience for the end user the best it can be. We continually work to improve the air movement performance of our products. In the last year our development team has developed a new motor and impeller platform which provides increased airflow and pressure with extremely low noise levels and a very compact design. The first product to include this new technology was the Revive™ fan in the UK. We have been able to improve airflow through the product significantly so that noise is reduced, providing a 32% reduction in energy consumed compared to the previous Lo-Carbon product it replaced. We are confident that these attributes make the Revive™ fan a best in class product for the UK public RMI market.

### Torin-Sifan

The range of the EC3 Torin-Sifan motor platform has now been expanded and contains 36 product variants to cater for a wider range of customer requirements. The expanded range will offer scrolled variants of our forward curved product offering opening up the number of applications for which the motor is suitable. We continue to develop customer-specific impellers to optimise performance, efficiency and noise level in specific applications, as well as creating a wider range of standard impeller and housing configurations for commercial market applications. Such applications include fan coils and constant volume software variants of our forward curved range ensuring optimal airflow performance over the lifetime of the product, as the fan adjusts to a build-up of resistance in its system.



The new Revive™ fan really does set a new standard in ventilation design. With focus on producing the smallest and quietest high pressure product possible, we have without doubt delivered an inspired product which is best in class.

**Paul Davies**

Operations Director, Ventilation Group

Vent-Axia Revive™ fan (open grille)

## Scale in Action

# Scale

With our continued focus on acquisitions, we have grown both our product portfolio and our production capability this year. We now promote more products to more customers across the Group and continue to focus on the sales synergy opportunities that increased scale brings. In the last year we have invested in our procurement team ensuring we optimise the procurement opportunities across the enlarged Group.

### Highlights

- Now shipping over 23,000 SKUs to over 12,000 shipping addresses
- Increased our manufacturing and warehouse footprint to over 660,000 square feet
- Extended the Group product proposition by over 1,900 SKUs

## Developments

### Centralised internal purchasing support

This year we created the new role Head of Group Procurement which has brought further structure and focus to our procurement processes and supply chain. With every acquisition we bring a focus and granular approach ensuring we maximise the opportunities available through the Group's size and reach. This continues to yield better relationships with our primary suppliers who see increased potential being realised through growth in the business that they transact with us.

### Increasing manufacturing footprint

With the acquisitions made during the year, we have increased our manufacturing footprint by 94,000 square feet. As we integrate new acquisitions into the Group we continue to look for ways to optimise our manufacturing capacity. For example, we are now expanding capacity in the recently acquired Diffusion business by manufacturing some Diffusion components in Dudley, UK, to assist with increased demand for Diffusion products.

“

Since joining the Volution team in this newly created role, I have further developed the Group vision for the procurement function and introduced category management strategies to deliver that vision. The procurement function is performed by a value-adding team across the Group and we've had a successful year from additional focus on business process and skills development. The basic platform has been developed for the future, enabling the team to harmonise and optimise cost saving synergies across the businesses, supporting Volution to further enhance its competitive advantage in the marketplace.

**Wayne Wignall**

Head of Group Procurement

## People in Action

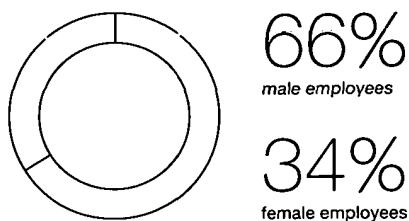
# People

Our ability to attract and retain talented people is vital to our long-term success. We continue to invest in training to support and grow our team.

### Highlights

- Launch of the latest Management Development Programme (MDP) for 2016
- English language lessons in Germany to support employees working within the wider Group
- Continued upskilling of employees across the Group





“

Being part of Volution for more than two years now, the inVENTer team is enjoying and benefiting from the new experiences inside the Group. Joint cross-border projects are widening our view and this enables us to perform in a more structured, faster and more efficient way in our projects and daily operations.

**Annett Wettig**  
Country Manager, Germany

### Management Development Programme

Many organisations rely purely on offsite training courses to develop their managers for future responsibilities. In contrast, we have chosen a blended approach. We acknowledge that a range of important managerial skills will be learned on training courses. However, real advantage for the business and for individuals comes from applying the learning gained from training courses to real-life business challenges. Our Management Development Programme is based on 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 Volution. We believe that this process provides real advantage for the business and for individuals as it applies the learning gained from the course to real-life, relevant business challenges. This year's business case focuses on further stimulating intercompany trading and supporting the business aim of maximising value from our growing sales channels.

### English language lessons

English is Volution's official business language and it is therefore important that employees are able to engage at all levels across the Group in English. To assist this, it is important that all employees are supported as far as possible with the development of their language skills. In inVENTer in Germany, the management team provided on-site English language lessons to all employees to help them integrate within the Group. This now continues as a weekly internal workshop to ensure all employees can maintain their English language skills to a high standard.

### Upskilling

With all of our businesses operating performance appraisals, we continue to focus on the development needs of each individual employee and operate both external and internal development courses. Across the Group we continue to have a number of individuals in the process of gaining qualifications. This year we have had HR employees successfully pass CIPD level 5 qualifications and have marketing employees sitting their CIM Diploma. In addition, employees in many other departments including finance, production and sales have gained professional level qualifications. At the same time we strive to engage as many employees as possible to improve their own skills by running NVQs and internal workshops.

## Technology Highlight

# Optimising Design

The Revive™ platform is a fan designed to maximise performance, whilst minimising noise and energy consumption, all within the smallest, most discreet design possible.

The secret lies within the shape of the impeller and of the plastics that lead air on to and off the impeller.

### **Bellmouth inlet**

*The aerodynamically efficient bellmouth design feature allows air to enter the fan fluidly and silently. This design feature improves efficiency and ensures the customer is not disturbed by air noise.*

### **Impeller design**

With an innovative hybrid impeller, fusing axial and mixed flow impeller technologies, our design team has developed a high pressure fan that is powerful and efficient, yet quiet. This ensures that we are not compromising on performance whilst delivering the most comfortable experience for the customer. To aid the reduction in air noise, we added a saw-tooth design to the impeller blades which breaks up the airflow and the resulting sound spectrum, reducing the air noise from the fan.

### **Octo-vortex chamber**

The eight-chamber conical cylinder straightens the air coming off the impeller to achieve greater pressure. Situated behind the impeller blades, the cylinder leads the airflow away from the fan more effectively, minimising dirt and dust build-up on the fan itself. This in turn reduces maintenance and maintains peak performance for longer.

With continued development of high end new build residential developments, we are well positioned to capitalise on the benefits that our products offer. With the acquisition of Diffusion, we now not only supply mechanical extract ventilation systems to improve indoor air quality, but also fan coils to help deliver flexible heating and cooling solutions. The synergies between the Vent-Axia and the Diffusion sales channels now provide greater representation within the supply chain, ensuring we increase our importance to specifiers through a wider solution offering. The case studies set out below are examples of where our products have been employed, and where in the future we see more integrated solutions enabling greater sales.

### Case study

#### The Corniche, London: Fan coils by Diffusion

Located in the heart of London, this exclusive riverside development is situated on the southern stretch of Albert Embankment, adjacent to the River Thames and opposite the Houses of Parliament. Designed by an internationally acclaimed architectural practice, Fosters + Partners, The Corniche offers a selection of luxurious one, two and three-bedroom apartments and penthouses, boasting magnificent views over some of London's most iconic landmarks.

Diffusion is supplying 580 Highline 270 fan coil units which will provide heating and cooling to this stunning riverside development. A mixed-use development of three towers ranging from 15 to 27 storeys in height, The Corniche provides 252 apartments, including affordable homes for senior living, offices, restaurants and a residents' club lounge with a terrace, a private screening room, a gym, an infinity pool and a spa.

The Highline 270 is an energy-efficient range of fan coil units that provide heating and cooling to both residential and commercial properties. Discreet, the fan coil units are 270mm deep and can be mounted in horizontal (ceiling), vertical (wall) and underfloor applications. In The Corniche, the fan coil units are discreetly mounted in the horizontal ceiling void. Boasting Specific Fan Power (SFP) figures as low as 0.16W/l/s, the Highline is the most efficient fan coil on the market, therefore offering the best possible energy savings.

“

We are thrilled to be part of these developments. Indoor air quality and comfort are becoming an ever increasing concern, as properties become more air-tight. Our technical expertise, experience and extensive product portfolio mean we are well placed to provide unique value-adding solutions.

**Ronnie George**  
Chief Executive Officer

### Case study

#### Aldgate Place, London: Mechanical ventilation with heat recovery by Vent-Axia

Vent-Axia is supplying 304 Sentinel Kinetic ventilation units for the first phase of the new Aldgate Place development in London. This mixed-use scheme is a flagship project which will create 463 homes in a mix of studios and one, two, three and four-bedroom apartments as well as luxury penthouses. Located in Zone 1 in London, Aldgate Place has excellent transport links and is within walking distance of the City of London. The development includes private landscaped gardens, a 24-hour concierge service and a fitness suite. Most homes feature a private balcony or winter garden to enjoy views across London, including Tower Bridge and The Shard.

The Sentinel Kinetic BH is a pioneering mechanical ventilation with heat recovery (MVHR) system designed for new build properties. A whole house, multi-room ducted solution, this MVHR system combines supply and extract ventilation in one unit. Warm, moist air is extracted from "wet" rooms through ducting and passed through the heat exchanger before being exhausted to the outside. Fresh incoming air is preheated via the integral heat exchanger which recovers more than 91% of the heat energy that would otherwise be wasted. With comfort being key for customers, the system also features a "summer bypass" to prevent warm air being reintroduced in summer months and an integral humidity sensor to control air humidity levels.

## Key Performance Indicators

### Measuring our progress

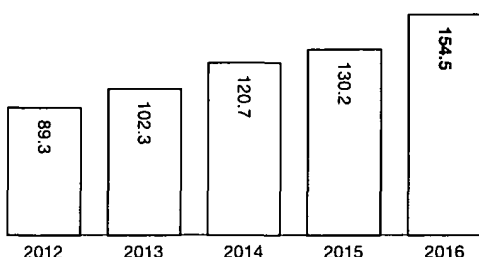
We have identified a number of financial and non-financial key performance indicators (KPIs) that reflect the internal benchmarks we use to measure the success of our business and strategy. These will enable investors and other stakeholders to measure our progress.

We discuss the KPI performance in the Financial Review on pages 40 to 43.

### Financial performance

Revenue  
£m

£154.5m



Strategic initiatives measured by this KPI

Tracks our performance against our strategic aim to grow the business

#### Comments

- Strong revenue development in the year with growth of 18.7% (18.6% on a constant currency basis)
- The recent acquisitions of Ventilair, Energy Technique, NVA Services and Welair contributed significantly to our growth: 15.7% (15.5% on a constant currency basis)
- Organic growth on a constant currency basis was 3.1%

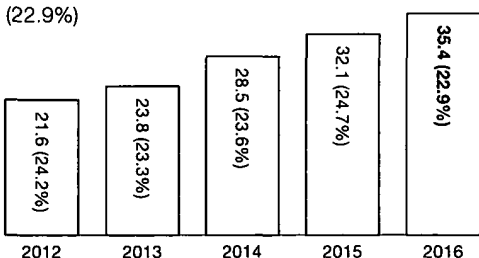
#### Link to Directors' remuneration

- ABP awards are linked directly to adjusted operating profit and adjusted EPS and LTIP awards are linked directly to measures of TSR and EPS growth, all of which can be favourably affected by increasing revenue

Adjusted EBITDA and adjusted EBITDA margin<sup>1</sup>  
£m (% of revenue)

£35.4m

(22.9%)



Strategic initiatives measured by this KPI

Tracks the underlying financial performance of the Group before depreciation and amortisation

#### Comments

- Strong growth in underlying profitability
- Margins reduced in the year as lower margin businesses were added; however, margins on a like-for-like basis improved to 24.8%

#### Link to Directors' remuneration

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

### The three strategic pillars

Organic growth in our core markets

Growth through a disciplined and value-adding acquisition strategy

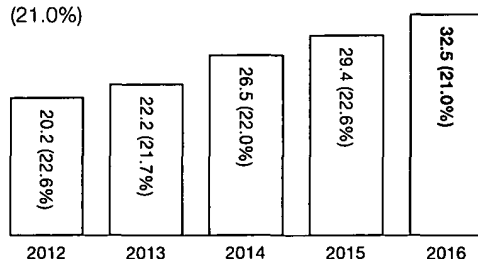
Further develop Torin-Sifan's range and build customer preference and loyalty

**We discuss the KPI performance  
in the Financial Review  
> pages 40 to 43**

### Adjusted operating profit and adjusted operating profit margin<sup>1</sup> £m (% of revenue)

**£32.5m**

(21.0%)



Strategic initiatives measured by this KPI

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 as lower margin businesses were added; however, margins on a like-for-like basis improved to 22.8%

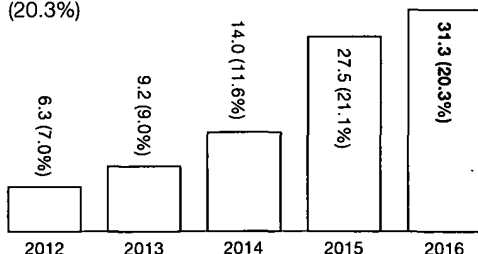
#### Link to Directors' remuneration

- ABP awards are linked directly to adjusted operating profit; LTIP awards are linked directly to TSR and EPS growth which correlate with adjusted operating profit

### Adjusted profit before tax and adjusted profit before tax margin<sup>1</sup> £m (% of revenue)

**£31.3m**

(20.3%)



Strategic initiatives measured by this KPI

Tracks the underlying financial performance of the Group

#### Comments

- Strong growth in underlying profitability
- Profit growth supported by reduced finance costs from full year effect of refinancing in February 2015; however, margins on a like-for-like basis improved to 21.9%

#### Link to Directors' remuneration

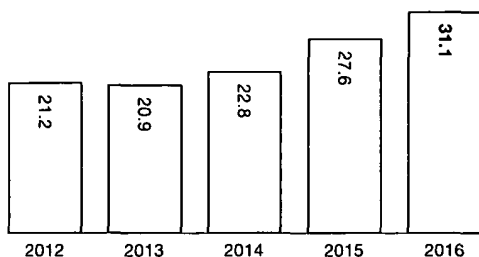
- ABP awards are linked directly to adjusted operating profit and adjusted EPS and LTIP awards are linked directly to TSR and EPS growth, all of which correlate with adjusted profit before tax

## Key Performance Indicators continued

### Financial performance continued

**Adjusted operating cash flow<sup>1</sup>**  
£m

£31.1m



Strategic initiatives 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

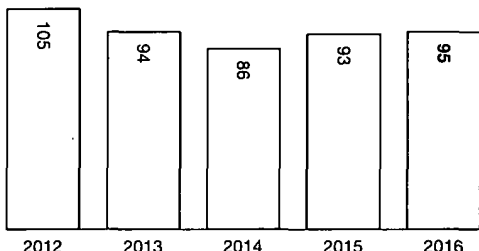
- Adjusted operating cash flow in 2016 remained strong despite capital investment of £4.3 million (2015: £5.6 million)
- Working capital remained under control at 11.7% of revenues (2015: 12.3%)

#### 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<sup>1</sup>**  
%

95%



Strategic initiatives 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

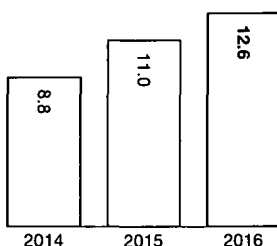
- Strong cash generation even after capital expenditure of £4.3 million (2015: £5.6 million)

#### 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)<sup>1</sup>**  
p

12.6p



Strategic initiatives measured by this KPI

To provide a measure of increasing shareholder value

#### Comments

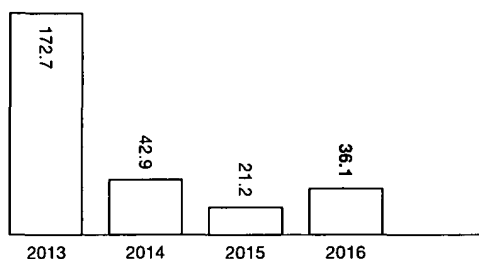
- Improved EPS resulting from improved profitability, new profitable acquisitions, reduced finance costs and a lower effective tax rate

#### Link to Directors' remuneration

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

### Net debt<sup>1</sup> £m

# £36.1m



Strategic initiatives 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 1.0x (2015: 0.7x)
- Debt increased after £25.0 million was spent on 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 %

# 90.4%

(2015: 89.0%)

Strategic initiatives measured by this KPI

### Sales of low-carbon products %

# 49%

(2015: 48%)

Strategic initiatives 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 2016

#### Link to Directors' remuneration

- ABP awards are linked directly to employee retention

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 TSR and EPS growth, all of which correlate to higher sales of low-carbon products

#### Note

1. For a definition of all adjusted measures and constant currency see the glossary of terms in note 36 to the consolidated financial statements.

## Principal Risks and Uncertainties

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 result of the UK referendum on EU membership. Whilst it is too early to judge the impact of the result on the UK economy 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 developed which will assist the Board to monitor and assess the principal risks throughout 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.

During the financial year ended 31 July 2015, the Board appointed BDO LLP 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 2016.

### 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 2014 (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 effect 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 relative ranking of these risks. For each risk there is a description of the possible impact of the risk to the Group, should it occur, together with strategic consequences and the mitigation and control processes in place to manage the risk. This list is likely to change over time as different risks take on larger or smaller significance.



### Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, 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 32 to 35 of the Annual Report and Accounts. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 July 2019.

The Directors have determined that a three year period to 31 July 2019 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 32 to 35. 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 result of the UK referendum on EU membership and, whilst it is too early to judge the impact of the result 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, increased debt from acquisitions, supply chain risk affecting gross margins and combinations of the above scenarios. 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.

Whilst this review does not consider all of the risks that the Group may face, the Directors consider that this assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

### Going concern

The financial position of the Group, its cash flows and liquidity position are set out in the Financial Statements section. Furthermore, note 30 on page 125 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 Company's budgeted cash flows and related assumptions.

## Principal Risks and Uncertainties continued

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

<b>Likelihood of risk occurring</b>  <input type="radio"/> Unlikely <input type="radio"/> Possible <input type="radio"/> Likely	<b>Potential impact</b>  <input type="radio"/> Low <input type="radio"/> Medium <input type="radio"/> High	<b>Assessment of change in risk year on year</b>  <input type="radio"/> Reducing <input type="radio"/> No change <input type="radio"/> 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.
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Risk	Impact	Strategic consequence
<b>Economic risk</b>  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 result of the UK referendum on EU membership.	Demand for our products serving the residential and commercial RMI and new build markets would decline. This would result in a reduction in revenue and profitability.	Our ability to achieve our ambition for continuing organic growth would be adversely affected.
<b>Acquisitions</b>  We may fail to identify suitable acquisition targets at an acceptable price or we may fail to consummate 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 therefore not secure possible synergies.	Our strategic ambition to grow by acquisition may be compromised.
<b>Innovation</b>  We may fail to innovate commercially or technically viable products to maintain and develop our product leadership position.	Scarce development resource may be misdirected and costs incurred unnecessarily.  Failure to innovate may result in an ageing product portfolio which falls behind that of our competition.	Our organic growth ambitions depend in part upon our ability to innovate new and improved products to meet and create market needs. In the medium term, failure to innovate may result in a decline in sales and profitability.

## Strategic consequence

Organic growth in our core markets

Growth through a disciplined and value-adding acquisition strategy

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

### Note

1. Following a review of the financial impact thresholds approved by the Board during the year, although potential financial impacts have changed for some risks, the overall risk rating has not been deemed to have changed as there has been no change in the nature of underlying risk.

Likelihood	Potential impact	Change <sup>1</sup>	Mitigation
			<p>Geographic spread from our international acquisition strategy helps to mitigate the impact of local fluctuations in economic activity.</p> <p>New product development, the breadth of our product portfolio and the strength and specialisation of our sales forces should allow us to outperform against a general decline.</p> <p>We are heavily exposed to the RMI market, which is more resilient to the effects of general economic decline.</p> <p>Our business is not capital intensive and our operational flexibility allows us to react quickly to the impact of a decline in volume.</p>
			<p>The ventilation industry in Europe is fragmented with many opportunities to court acquisition targets.</p> <p>Senior management has a clear understanding of potential targets in the industry and a track record of eight acquisitions over the past four years.</p> <p>Management is experienced in integrating new businesses into the Group.</p>
			<p>Our product innovation is driven by a deep understanding of the ventilation market and its economic and regulatory drivers. The Group starts with a clear marketing brief before embarking on product development.</p>

## Principal Risks and Uncertainties continued

Risk	Impact	Strategic consequence
<p><b>Foreign exchange risk</b></p> <p>The exchange rates between currencies that we use may move adversely.</p>	<p>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.</p>	<p>Our ambition to grow internationally through acquisition exposes us to increasing levels of translational foreign exchange risk.</p>
<p><b>Supply chain and raw materials</b></p> <p>Raw materials or components may become difficult to source because of material scarcity or disruption of supply.</p>	<p>Sales and profitability may be reduced during the period of constraint.</p> <p>Prices for the input material may increase and our costs may increase.</p>	<p>Organic growth may be reduced.</p> <p>Our product development efforts may be redirected to find alternative materials and components.</p>
<p><b>IT systems</b></p> <p>We may be adversely affected by a breakdown in our IT systems or a failure to properly implement any new systems.</p>	<p>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.</p>	<p>We could temporarily lose sales and market share and could potentially damage our reputation for customer service.</p>
<p><b>Customers</b></p> <p>A significant amount of our revenue is derived from a small number of customers and from our relationships with heating and ventilation consultants. We may fail to maintain these relationships.</p>	<p>Any deterioration in our relationship with a significant customer could have an adverse significant effect on our revenue to that customer.</p>	<p>Our organic growth ambitions would be adversely affected.</p>
<p><b>Legal and regulatory environment</b></p> <p>Changes in laws or regulation relating to the carbon efficiency of buildings or the efficiency of electrical products may change.</p>	<p>The shift towards higher value added and more energy efficient products may not develop as anticipated resulting in lower sales and profit growth.</p> <p>If our products are not compliant and we fail to develop new products in a timely manner we may lose revenue and market share to our competitors.</p>	<p>Our organic growth ambitions may be adversely affected.</p> <p>We may need to review our acquisition criteria to reflect the dynamics of a new regulatory environment.</p> <p>We may have to redirect our new product development activity.</p>
<p><b>People</b></p> <p>Our continuing success depends on retaining key personnel and attracting skilled individuals.</p>	<p>Skilled and experienced employees may decide to leave the Group, potentially moving to a competitor. Any aspect of the business could be impacted with resultant reduction in prospects, sales and profitability.</p>	<p>Our competitiveness and growth potential, both organic and inorganic, could be adversely affected.</p>

Likelihood	Potential impact	Change <sup>1</sup>	Mitigation
			<p>Significant transactional risks are hedged by using forward currency contracts to fix exchange rates for the ensuing financial year.</p> <p>Revaluation of foreign currency denominated assets and liabilities is partially hedged by corresponding foreign currency bank debt.</p>
			<p>We establish long-term relationships with key suppliers to promote continuity of supply and where possible we have alternative sources identified.</p>
			<p>Disaster recovery and data backup processes are in place, operated diligently and tested regularly.</p> <p>A significant Enterprise Resource Planning system upgrade is underway, managed by a team of experienced senior employees from the business. A disaster failover site has been implemented to cover this upgrade.</p> <p>We undertake cyber security testing.</p>
			<p>We have strong brands, recognised and valued by our end users, and this gives us continued traction through our distribution channels and with consultants and specifiers.</p> <p>We have a very wide range of ventilation and ancillary products that enhance our brand proposition and make us a convenient "one-stop-shop" supplier.</p> <p>We continue to develop new and existing products to support our product portfolio and brand reputation.</p> <p>We provide an excellent level of customer service.</p>
			<p>We participate in trade bodies that help to influence the regulatory environment in which we operate and as a consequence we are also well placed to understand future trends in our industry.</p> <p>We are active in new product development and have the resource to react to and anticipate necessary changes in the specification of our products.</p>
			<p>Regular employee appraisals allow two-way feedback on performance and ambition.</p> <p>A Management Development Programme was initiated in 2013 (with the latest launched in 2016) to provide key employees with the skills needed to grow within the business and to enhance their contribution to the business.</p> <p>The Group aims to reward and incentivise employees competitively.</p>

## Corporate Social Responsibility

Volusion Group is founded upon the excellence of its people, products and technology. 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.

### Overview

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

### 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 Volusion 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.

A "Speak-Up" facility was introduced during 2015 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. Web-based anti-bribery and corruption training was also launched during 2015 and is carried out by all employees in areas of the business where risk is deemed to be highest.

### Environment

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

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

Our 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.

### Sales of the Lo-Carbon range of products > page 29

### 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 and thoroughly 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.

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 saw a 12% decrease in all accidents in the workplace.

### 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.volusiongroupplc.com](http://www.volusiongroupplc.com).

### Diversity

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.

The Board supports the aims, objectives and recommendations outlined in Lord Davies' report "Women on Boards" and recognises the need to recruit more women to the Board, to which it is committed over time. Progress on this commitment is set out in the Nomination Committee report on pages 54 to 55. We are committed to developing the potential of women throughout the Group.

The Group's split between male and female employees is shown below:

	Female	%	Male	%	Total
Directors	1	14.3	6	85.7	7
Senior managers <sup>1</sup>	2	15.4	11	84.6	13
All other employees	463	34.0	897	66.0	1,360
Total	466	33.8	914	66.2	1,380

#### 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.

#### 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.

#### 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.

#### Human rights

Human rights is 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.

#### 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 2016

Emissions from	2016 CO <sub>2</sub> e tonnes	2015 CO <sub>2</sub> e tonnes
Electricity, gas and other fuels	3,325	3,572
Petrol and diesel vehicle fuels	968	746
Refrigerants	55	121
<b>Total footprint</b>	<b>4,348</b>	<b>4,439</b>
Greenhouse gas emissions intensity ratio: CO <sub>2</sub> e tonnes per £m of revenue	28.14	34.10

Note that:

- data collected is in respect of the years ended 31 July 2015 and 31 July 2016. The conversion factors used are those published by DEFRA; and
- some extrapolation or estimation techniques have been used to calculate the Group footprint, specifically regarding the calculation of emissions from cooling units.

## Operational Review

### The Ventilation Group segment

The Ventilation Group has market-leading positions in the UK residential ventilation products market, the Swedish residential refurbishment ventilation products market and the German decentralised residential heat recovery ventilation systems market.

During the year, we completed acquisitions which have:

- strengthened our position in UK residential ventilation with the acquisition of NVA Services, adding the National Ventilation and Airtech brands;
- broadened our geographic spread into the Belgian and Dutch residential ventilation markets with the addition of Ventilair;
- strengthened our exposure to the UK new build commercial market with the addition of the Diffusion fan coil brand, through the acquisition of Energy Technique; and
- expanded our product capability in the Nordics into the rotary wheel heat recovery market with the acquisition of Welair.

#### Highlights for Ventilation Group segment

##### Revenue

£134.1 million, 86.8% of Group revenue (£134.0 million at constant currency) (2015: £111.5 million, 85.6% of Group revenue)

##### Adjusted operating profit

£31.6 million, 97.3% of Group adjusted operating profit (2015: £28.9 million, 98.3% of Group adjusted operating profit)

##### Average number of employees

1,108 (2015: 800)

#### Revenue

Revenue within the Ventilation Group grew strongly, by 20.3% (20.3% at constant currency), of which 1.9% was organic and 18.4% the result of acquisitions.

Market sectors	Constant currency			
	2016 £000	2016 £000	2015 £000	Growth %
<b>Ventilation Group</b>				
UK Residential RMI	<b>35,427</b>	<b>35,427</b>	36,574	(3.1)%
UK Residential New Build	<b>19,818</b>	<b>19,818</b>	17,180	15.4%
UK Commercial	<b>21,677</b>	<b>21,677</b>	16,188	33.9%
UK Export	<b>7,803</b>	<b>7,775</b>	8,374	(7.2)%
Nordics	<b>25,521</b>	<b>25,692</b>	22,241	15.5%
Central Europe	<b>23,820</b>	<b>23,653</b>	10,904	116.9%
<b>Total Ventilation Group</b>	<b>134,066</b>	<b>134,042</b>	111,461	20.3%

Overall, our UK Residential RMI sector declined by 3.1%. Within this, sales of products for the Private sub-sector declined by 1.6%. The difficult market for the Public sub-sector in UK Residential RMI continued in the year. The rate of decline for Public Residential RMI sales slowed in the second half of the financial year and a recent new product launch specifically designed for this sector should assist in its recovery (the Revive™ fan).

We enjoyed strong growth in UK Residential New Build, UK Commercial, Nordics and Central Europe, all assisted by recent acquisitions, including the full year effect of the acquisition of Brüggemann in Central Europe, acquired in April 2015.

UK Export sales declined by 7.2% at constant currency due to sales in to the Belgian residential heat recovery market now being intercompany through Ventilair and eliminated on consolidation. On a like-for-like basis UK Export revenue grew organically by 3.5% at constant currency and inorganically by 13.5% at constant currency.

Revenue in the Nordics grew organically by 11.3% at constant currency, with particularly strong performance in sales to the Swedish professional and wholesale market. During the financial year, the final government subsidies for residential refurbishment boosted sales in the first half and the launch of a new app-controlled bathroom fan primarily for the Nordic markets continued the favourable trend in the second half.

Central Europe grew by 116.9% at constant currency from the full year effect of the acquisition of Brüggemann in April 2015, a strong second half performance from inVENTer and the acquisition of Ventilair in August 2015. During the year, we continued to extend our sales area coverage in the German market.

The continuing strong growth of sales in the UK Residential New Build sector has been supported by increased production of heat recovery units at our Dudley site in the UK, together with the introduction of a night shift to allow greater utilisation of the production facility. This will underpin further growth in this market sector as sales of these products increase across Europe. The Kinetic Advance™ assembly cell was also established in the year in Dudley, UK and allows greater flexibility for customers' bespoke language and control option requirements with an end of production line control logic programming station.



A similar end of production line programming facility, installed in the Hälleforsnäs facility in Sweden, producing the new Calima™ app-controlled fan, allows programming of controls appropriate to the country of destination. This flexibility is crucial to the product's increasing sales across the Group.

Diffusion, the recently acquired fan coil unit business based in West Molesey in the UK, has been able to take advantage of existing Group capacity at our Dudley facility to assist in the production and assembly of steel cases on a short lead time basis to support the increased demand for Diffusion products.

During the year, resources were committed to the successful implementation of a new business Enterprise Resource Planning (ERP) system across two UK locations. The current roll-out plan will

be completed during the 2017 financial year with an implementation across two further UK locations. Following implementation in the UK, the business will have a modern ERP platform to help drive further business improvements.

With four acquisitions completed in the year, there has been significant focus on the process of integrating these companies into the Volution Group. The Head of Group Procurement, a new role created in the year, is adding significant value during integration of new businesses and generally through the optimisation of procurement across the enlarged Group.

The Vent-Axia business achieved the environmental standard certification ISO14001 and both inVENTer and Ventilair are now working to achieve the ISO9001:2015 quality standard.

## OEM (Torin-Sifan) segment

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

### Highlights for OEM (Torin-Sifan) segment

#### Revenue

£20.4 million, 13.2% of Group revenue (£20.4 million at constant currency) (2015: £18.7 million, 14.4% of Group revenue)

#### Adjusted operating profit

£3.3 million, 10.0% of Group adjusted operating profit (2015: £2.5 million, 8.5% of Group adjusted operating profit)

#### Average number of employees

229 (2015: 226)

#### Revenue

Revenue within the OEM segment grew by 8.8% at constant currency.

Market sectors	Constant currency			
	2016 £000	2016 £000	2015 £000	Growth %
OEM	20,398	20,358	18,717	8.8%
<b>Total OEM</b>	<b>20,398</b>	<b>20,358</b>	<b>18,717</b>	<b>8.8%</b>

The OEM (Torin-Sifan) business revenue growth of 8.8% has been delivered through improved efficiency of our existing manufacturing capacity without significantly increasing manning levels during the year. In 2014 we opened our new Manufacturing and Technology Centre in Swindon, UK, to support the increased demand for electronically commutated motors. We benefited in the year from the additional capacity arising from a full year of production from the new facility and from a general increase in operational efficiency of 3%. Our increased focus on manufacturing efficiencies and the deployment of improved production planning methods have allowed us to meet the increased demand for our products.

The business benefited from strong growth within its Commercial segment due to both existing account management and new business development in the UK and export markets. Revenue growth was also achieved for products addressing residential applications. Progress was made during the course of the year in securing technical approval from a number of customers for our new EC3 motor platform. As a result, sales of this new product platform are expected to increase as we move through the 2017 financial year.

The EC3 motor platform has been delayed due to longer than anticipated customer technical approval processes and an extended accelerated life test programme.

An upgrade to our production planning methodology and investment in our continuous quality improvement drive have allowed us to develop and maintain excellent levels of customer service, resulting in an on-time-in-full delivery performance of 97%. The business has also delivered significant cost reduction improvements through several initiatives relating to procurement, value-engineering and logistics. Investment in resources to support a structured approach to discovering potential failures that may exist within the design of a product or production process has resulted in design and process improvement and enhanced engagement with, and training of, our employees.

## Financial Review

Ian Dew

### Key highlights

- Strong revenue growth of 18.7% (18.6% at constant currency)
- Strong growth in adjusted profit before tax of 13.9% (13.8% at constant currency)
- Four acquisitions completed in the year
- Adjusted operating cash inflow of £31.1 million (2015: £27.6 million)
- Closing debt leverage of 1.0x

### Revenue

The Group continued its strong revenue growth during 2016. Revenue for the year ended 31 July 2016 was £154.5 million (2015: £130.2 million), an 18.7% increase (18.6% at constant currency). Growth was achieved both organically, 3.0% (3.1% at constant currency), and inorganically from acquisitions, 15.7% (15.5% at constant currency). The inorganic growth was a result of the four acquisitions made in the year and the full year effect of the acquisition of Brüggemann in April 2015.

The Ventilation Group revenues grew by 20.3% (20.3% at constant currency), of which organic growth represented 1.9% (2.0% at constant currency). OEM (Torin-Sifan) grew, entirely organically, by 9.0% (8.8% at constant currency).

Despite the significant weakening of Sterling in June 2016, the movements in foreign currency exchange rates for the year as a whole have had a minimal effect on the reported revenue of our business. If we had translated the full year revenue of our business at our 2015 exchange rates, the reported Group revenues would have been £154.4 million, less than 0.1% lower.

### Profitability

Our underlying result, as measured by adjusted operating profit, was £32.5 million (2015: £29.4 million), 21.0% of revenues (2015: 22.6%), delivering a £3.1 million improvement compared to the prior year. The Group benefited from the effect of the acquisitions of Ventilair in August 2015, Energy Technique in December 2015, NVA Services in May 2016 and the full year effect of the prior year acquisition of Brüggemann in April 2015.

## Trading performance summary

	Reported			Adjusted <sup>1</sup>		
	Year ended 31 July 2016	Year ended 31 July 2015	Movement	Year ended 31 July 2016	Year ended 31 July 2015	Movement
Revenue (£m)	154.5	130.2	18.7%	154.5	130.2	18.7%
EBITDA (£m)	33.9	31.4	8.2%	35.4	32.1	10.2%
Operating profit (£m)	18.4	17.2	7.0%	32.5	29.4	10.4%
Finance costs (£m)	1.2	2.2	45.6%	1.2	2.0	39.9%
Profit before tax (£m)	18.4	15.5	18.3%	31.3	27.5	13.9%
Basic and diluted EPS (p)	7.8	5.9	32.5%	12.6	11.0	14.5%
Total dividend per share (p)	3.80	3.30	15.2%	3.80	3.30	15.2%
Operating cash flow (£m)	31.1	27.6	12.6%	31.1	27.6	12.6%
Net debt (£m)	36.1	21.2	14.9	36.1	21.2	14.9

### Note

1. The reconciliation of the Group's reported profit before tax to adjusted measures of performance is summarised in the table above and in detail in note 10 to the consolidated financial statements. For a definition of all adjusted measures see the glossary of terms in note 36.

On sales growth of 18.7%, adjusted profit before tax improved by £3.8 million to £31.3 million, growth of 13.9%. Our Group adjusted profit before tax margin of 20.3% declined by 0.8 percentage points in the year as a consequence of the acquisition of businesses that operated with profit margins lower than our Group average. Our like-for-like adjusted profit before tax margins (of the organic portion of our business) improved by 0.8% to 21.9% of revenues.

The Group's reported profit before tax in the year was £18.4 million compared to £15.5 million in 2015. The reported profit before tax for the period has benefited from:

- increased organic operating profits and margins;
- a reduction in finance costs to £1.2 million (2015: £2.2 million), from the full year effect of our refinancing in February 2015 of the prior financial year; and
- recent acquisitions.

### Acquisitions

The Group's trading benefited in the year from the full year effect of the acquisition of Brüggemann in Germany, acquired in April 2015.

A further four acquisitions were completed during the year:

- Ventilair, based in Belgium and the Netherlands, acquired in August 2015 for a consideration of €14.3 million (approximately £10.0 million net of cash acquired), €16.3 million including settlement of the target's debt on acquisition;
- Welair, based in Sweden, acquired in December 2015 for a consideration of SEK 7.8 million (approximately £0.6 million);
- Energy Technique (trading as Diffusion), based in the UK, acquired in December 2015 for a consideration of £9.4 million (£8.2 million net of cash acquired); and
- NVA Services (trading as National Ventilation and Airtech), based in the UK, acquired in May 2016 for a consideration of £6.7 million (£8.4 million including net debt acquired).

All four acquisitions were funded in full from the Group's existing cash and banking facilities.

### Exceptional items and adjusted performance measures

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 £1.2 million (2015: £0.7 million) and relate solely to the cost of the four acquisitions made in the year. Details of these exceptional items can be found in note 8 to the consolidated financial statements.

The Board believes that the performance measures, adjusted operating profit and adjusted profit before tax, stated before deduction of exceptional items, give a clearer indication of the underlying performance of the business. A reconciliation of these measures of performance to profit before tax is detailed in note 10. In addition to exceptional items, the following are also excluded from adjusted measures, as reconciled in note 10:

- **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 £12.7 million (2015: £11.5 million) as a consequence of recent acquisitions.
- **Fair value adjustments:** at each reporting period end date, we measure the fair value of financial derivatives and recognise any gains or losses immediately in finance cost. During the year, we recognised a gain of £1.1 million (2015: gain of £0.4 million).

## Financial Review continued

### Finance revenue and costs

Finance costs of £1.2 million (2015: £2.2 million) have reduced during the year, largely as a consequence of the full year effect of refinancing our bank debt in February 2015 resulting in lower interest rates during the period.

### Taxation

As a result of the Summer Finance Bill 2015, which achieved royal assent during the period, future UK corporation tax rates were reduced to 19% effective from 1 April 2017 and 18% effective from 1 April 2020. We have large deferred tax liabilities on our consolidated statement of financial position, arising on recognition of identifiable intangible fixed assets acquired, and these liabilities have been recalculated as a consequence of the tax rate changes. As a result the deferred tax liability has decreased, with a one-off credit of £1.6 million recognised in the income statement. This has reduced our effective tax rate in the period to 15.0% (2015: 23.8%). Our underlying effective tax rate, before the effect of this adjustment to deferred tax liabilities, was 20.0% (2015: 20.1%).

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

### Net debt

Year-end net debt was £36.1 million (2015: £21.2 million), comprised of bank borrowings of £51.8 million (2015: £32.8 million), offset by cash and cash equivalents of £15.7 million (2015: £11.6 million). The net debt of £36.1 million represents leverage of 1.0x adjusted EBITDA.

### Movements in net debt position for the year ended 31 July 2016

	£m
<b>Opening net debt 1 August 2015</b>	<b>(21.2)</b>
Movements from normal business operations:	
– Adjusted operating cash flow	31.1
– Interest paid net of interest received	(1.0)
– Income tax paid	(5.2)
– Exceptional items	(1.0)
– Dividend paid	(6.9)
– Purchase of own shares	(1.5)
– FX on foreign currency loans/cash	(5.4)
Movements from acquisitions:	
– Acquisition consideration net of cash acquired	(25.0)
<b>Closing net debt 31 July 2016</b>	<b>(36.1)</b>

### Operating cash flow

The Group continued to be strongly cash generative in the year with adjusted operating cash inflow of £31.1 million (2015: £27.6 million). This represents a cash conversion, after capital expenditure and movement in working capital, of 95% (2015: 93%). The Group continues to manage its working capital efficiently with operating working capital representing 11.7% of revenue (2015: 12.3%). In addition, the Group continues to invest for the future with net capital expenditure of £4.4 million (2015: £4.6 million) including investment in new product development and improved IT systems. See the glossary of terms in note 36 for a definition of adjusted operating cash flow and cash conversion.

### Employee Benefit Trust

In the period the Group loaned £1.5 million to the Volusion Employee Benefit Trust for the exclusive purpose of purchasing shares in Volusion 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 916,878 shares at an average price of £1.67 per share in the period, an aggregate consideration of £1.5 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.

### 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 2016, we had £38.2 million of undrawn, committed bank facilities and £15.7 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 have limited our transactional foreign exchange risk by purchasing the majority of our forecast US Dollar requirements for, and in advance of, the 2017 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 Fresh and PAX with £15.9 million of borrowings denominated in SEK (2015: £13.4 million). We have partially hedged our risk of translation of the net assets of inVENTer, Brüggemann and Ventilair by having Euro-denominated bank borrowings in the amount of £22.0 million as at 31 July 2016 (2015: £8.3 million). The Sterling value of our foreign currency-denominated loans increased by £5.4 million in the year as a consequence of exchange rate movements, in particular the significant weakening of Sterling in June 2016. 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 minimal effect on the reported revenue and profitability of our business. If we had translated the full year performance of our business at our 2015 exchange rates, our reported Group revenues would have been £154.4 million or less than 0.1% lower and adjusted operating profit would have been £32.5 million or 0.1% lower.

At the end of the financial year the weakening of Sterling increased the value of foreign currency-denominated working capital by £0.9 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 7.8 pence (2015: 5.9 pence). Our adjusted basic and diluted earnings per share was 12.6 pence (2015: 11.0 pence), a significant 14.5% increase.

### Dividends

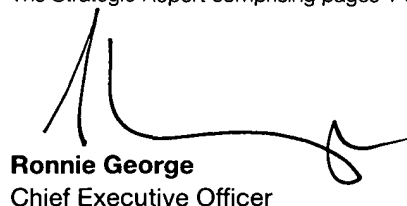
In May 2016 the Group paid an interim dividend of 1.20 pence per share.

The Board has proposed a final dividend of 2.60 pence per share. Subject to approval at our Annual General Meeting of shareholders on 9 December 2016, the recommended final dividend will be paid on 14 December 2016 to shareholders who are on the register on 18 November 2016.



**Ian Dew**  
Chief Financial Officer  
11 October 2016

The Strategic Report comprising pages 1 to 43 was approved and signed on behalf of the Board on 11 October 2016.



**Ronnie George**  
Chief Executive Officer

## Board of Directors

### Committee membership

- ☐ Audit Committee  
☐ Nomination Committee  
☐ Remuneration Committee  
☒ Chairman of Committee

	<b>Peter Hill, CBE</b> Non-Executive Chairman	<b>Ronnie George</b> Chief Executive Officer	<b>Ian Dew</b> Chief Financial Officer
<b>Appointed</b>	23 June 2014	15 May 2014	15 May 2014
<b>Committees</b>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>		
<b>Term of office</b>	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.
<b>Experience</b>	Peter has extensive experience of this role, currently acting as non-executive chairman of Keller Group plc and having 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 and Oxford Instruments 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.
<b>External appointments</b>	Peter is currently non-executive chairman of Keller Group plc, and a non-executive director of Essentra plc and of the Royal Air Force.	None	None

<b>Anthony Reading, MBE</b> Senior Independent Non-Executive Director	<b>Adrian Barden</b> Independent Non-Executive Director	<b>Paul Hollingworth</b> Independent Non-Executive Director	<b>Claire Tiney</b> Independent Non-Executive Director
23 June 2014	23 June 2014	23 June 2014	3 August 2016
<b>A N R</b>	<b>A N R</b>	<b>A N R</b>	<b>A N R</b>
Tony joined the Board on listing as Senior Independent Non-Executive Director and Chairman of the Remuneration Committee.	Adrian joined in 2012 as an independent Non-Executive Director of our then holding company, Windmill Topco.	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.
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 at a number of UK listed public companies, including Thomas Cook Group plc, Mondi Group, BPB plc, De La Rue plc and Ransomes plc.	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.	Paul is currently a non-executive director and chairman of the audit committee at Electrocomponents plc.	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

### Supporting the Group's strategy

#### Dear shareholder,

I am pleased to introduce the 2016 Governance Report on behalf of the Board. This review and the reports of the Audit, Remuneration and Nomination Committees that follow summarise the Board's activities during the year.

As Chairman I am committed to ensuring that your Board operates in an effective, transparent and ethical manner, and that we make our decisions based only on what we believe is likely to be for the benefit of shareholders by promoting and maintaining the long-term success of the Company and its reputation, having regard, amongst other things, to the interests of our employees and stakeholders.

#### 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 September 2014 (the Code). A copy of the Code can be found at [www.frc.gov.uk](http://www.frc.gov.uk).

#### Board changes

There were two changes to the Board during the year. Claire Tiney joined the Board as an independent Non-Executive Director on 3 August 2016, 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. Gavin Chittick, our non-independent Non-Executive Director, stepped down from the Board on 18 March 2016.

Claire Tiney has actively engaged with the Group through her induction, and will no doubt provide fresh insight and new perspectives to the Board's discussions. Combined with the deep knowledge and experience of our existing Non-Executive Directors, this gives us a Board that has a well balanced array of skills and is well attuned to the Group's requirements.

#### Diversity

We take diversity seriously and the Board continues to bear in mind Lord Davies' recommendations about gender diversity. Our policy is to recruit the right people based on merit, so that the Board has the diversity of skills and experience it needs. In this regard, 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.

#### Evaluating the Board's effectiveness

Each year, the Board undertakes a formal evaluation of its effectiveness. This year we carried out an internal evaluation, using tailored questionnaires, followed by conversations between individual Directors and me as appropriate and by Board discussions, to drill down into particular issues that arose in the questionnaires and individual discussions.

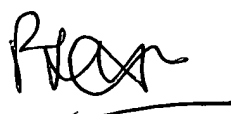
The results of the Board evaluation confirmed that the Board continues to function effectively and that there are no significant concerns among the Directors about its effectiveness. During the financial year ending 31 July 2017, the Board will be undergoing an externally facilitated evaluation for the first time and I look forward to being able to share the findings from that exercise with you next year. More information on the Board evaluation can be found on page 51.

#### Appointment and re-election of Directors

Following the internal performance evaluation of Directors during the year, I can confirm that all Directors continue to be effective and committed to their roles and have sufficient time available to perform their duties. Accordingly, as recommended by the Nomination Committee, all Directors will be offering themselves for annual election at the Company's Annual General Meeting to be held on 9 December 2016, in accordance with the Code. Shareholder approval will also be sought for the election of our new independent Non-Executive Director, Claire Tiney. Further information on the appointment of Directors can be found on page 78 of the Directors' Report.

#### 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

11 October 2016



# 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 September 2014 (the Code), which applies to financial years beginning on or after 1 October 2014 and is available at [www.frc.org.uk](http://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 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

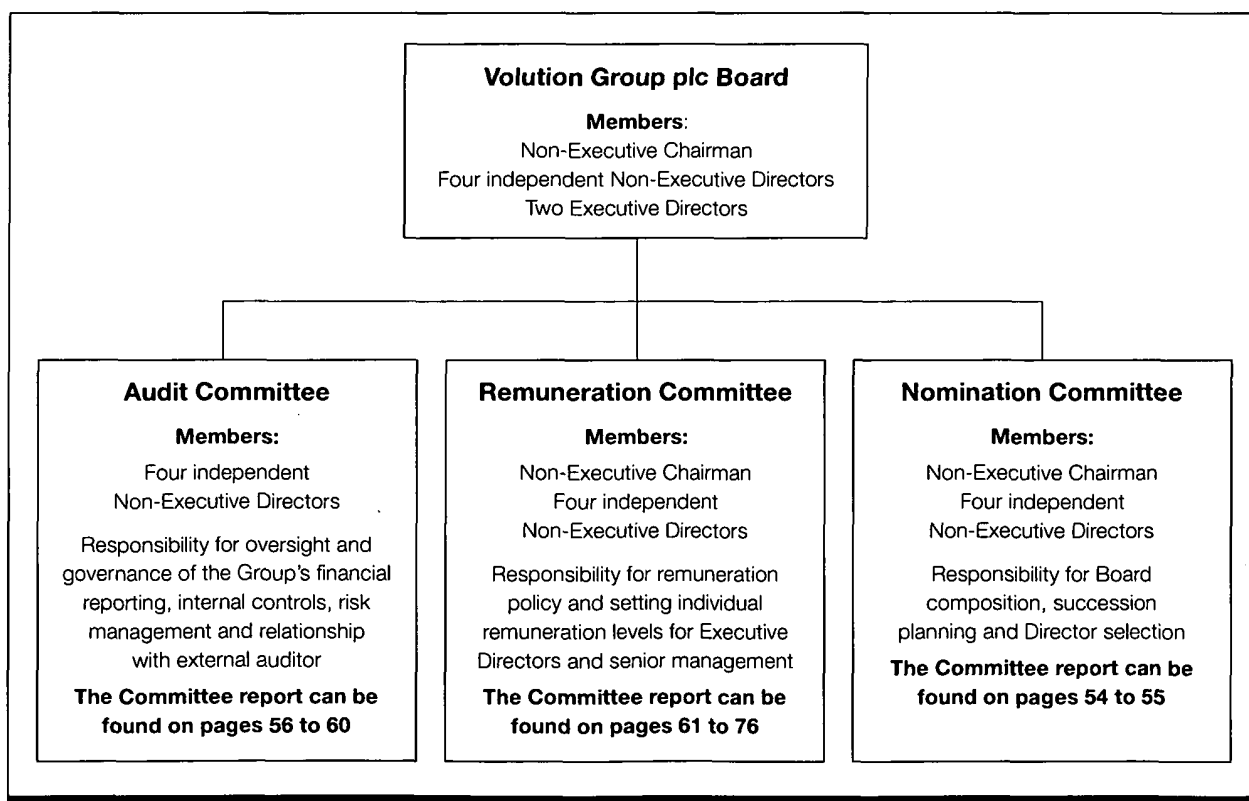
The Board considers that it and the Company have, throughout the year, complied with the provisions of the UK Corporate Governance Code (September 2014), which is the version of the Code which applies to the Company for its financial year ended 31 July 2016.

## Board 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 the next page.

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](http://www.volutiongroupplc.com).

## Our Governance framework

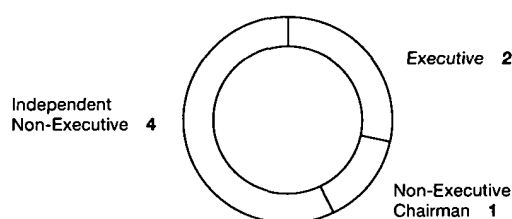


# Corporate Governance continued

## 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. From the beginning of the financial year until 18 March 2016 the Company's Board consisted of a Non-Executive Chairman, three independent Non-Executive Directors, one non-independent Non-Executive Director appointed by Windmill Holdings B.V., our controlling shareholder until 8 April 2016, and two Executive Directors. On 18 March 2016 Gavin Chittick, the non-independent Non-Executive Director, stepped down from the Board and on 3 August 2016 Claire Tiney was appointed to the Board as an independent Non-Executive Director. Accordingly, the Company's Board now consists of a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors. A list of the Directors is provided on pages 44 to 45. Accordingly, the composition of the Board has remained in compliance with the Code throughout the financial year ended 31 July 2016.

## Board composition



## 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 2016

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 all Board meetings

- Management accounts including current trading and financial performance against budget and forecast
- Operations and new product development updates
- Merger and acquisition update
- 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

#### Matters considered during 2015/16

Area	Agenda items
<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Review and approval of Group strategy</li> </ul>
<b>Financial reporting</b>	<ul style="list-style-type: none"> <li>• Approval of Annual Report and Accounts, AGM Notice and associated documentation for the year ended 31 July 2015</li> <li>• Approval of interim financial statements for the six months ended 31 January 2016</li> <li>• Approval of Trading Update in August 2015</li> <li>• Dividend payment/recommendation (as appropriate)</li> </ul>
<b>Budget</b>	<ul style="list-style-type: none"> <li>• Review and approval of three year financial plan including budget for 2016/17</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>• Approval of acquisition of Ventilair, Energy Technique, NVA Services and Welair and their integration plans</li> <li>• Consideration of risk framework, significant risks and risk appetite (in conjunction with the Audit Committee)</li> <li>• Review of Viability Statement</li> <li>• Property matters</li> <li>• Consideration of construction market updates</li> <li>• Appointment of new financial PR adviser</li> </ul>
<b>Shareholder engagement</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Independent feedback from joint brokers following full and half-year investor roadshows</li> <li>• AGM 2015 proxy results and review of shareholder voting</li> </ul>
<b>Board</b>	<ul style="list-style-type: none"> <li>• Visit to facilities at inVENTer in Germany and Torin-Sifan in Swindon, UK, and presentations on the businesses</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• Board composition and the appointment of Claire Tiney</li> <li>• Consideration of Board performance evaluation results</li> <li>• Governance, legislation and regulatory updates</li> <li>• Market Abuse Regulations briefings and appropriate approvals</li> <li>• Approval of Modern Slavery Act Statement</li> <li>• Updates from Board Committee chairmen as appropriate</li> </ul>

## Corporate Governance continued

### Chairman and Chief Executive Officer

The Company has established a clear division between the respective responsibilities of the Non-Executive Chairman of the Board and the Chief Executive Officer. The Non-Executive Chairman is Peter Hill, who is responsible for leading the Board's discussions and decision-making. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. The Chief Executive Officer is Ronnie George, who, through delegation from the Board, is responsible for executing the strategy and leading the Company's operating performance and day-to-day management of the Group. This separation of responsibilities between the Chairman and the Chief Executive Officer, coupled with the schedule of reserved matters described on page 48, ensures that no individual has unfettered powers of decision-making.

### Senior Independent Director

The Code recommends that the board of directors of a company with a premium listing should appoint one of the non-executive directors as a *senior independent director* to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns, when contact through the normal channel of the chief executive officer has failed to resolve, or for which such contact is inappropriate. Tony Reading has been appointed as the Senior Independent Director and has considerable experience of acting as an independent non-executive director on listed company boards. Prior to joining the Company, he was a non-executive director of Taylor Wimpey plc, Laird PLC, e2v Technologies plc, Spectris plc and George Wimpey plc. He was also an executive director of Tomkins plc, and chairman and chief executive of Tomkins Corp. USA.

### 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.

Gavin Chittick stepped down from the Board on 18 March 2016 and prior to that was not considered independent due to his position in TowerBrook Capital Partners L.P. and its relationship with our then controlling shareholder, Windmill Holdings B.V. Our controlling shareholder prior to listing controlled the Company and following a disposal of the Company's ordinary shares on 8 April 2016 now holds ordinary shares totalling 22.38% of the total issued share capital. So long as Windmill Holdings B.V. holds at least 15% of the share capital or voting rights, the Relationship Agreement remains in place and it has the right to nominate one person to be a Director of the Company.

### Company Secretary

The Company Secretary 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. Together with the Chairman, the Company Secretary keeps under review the governance processes adopted by the Company to ensure they remain fit for purpose and considers any improvements that could strengthen the governance of the Company. All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. The Company Secretary 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. Michael Anscombe has been Company Secretary since August 2014.

### Board meetings

The Board met regularly during the year, holding eight 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
<b>Meetings held</b>	8	3	3	4
<b>Meetings attended</b>				
Peter Hill	8	—	3	4
Adrian Barden	8	3	3	4
Gavin Chittick <sup>1</sup>	6	—	—	—
Ian Dew	8	—	—	—
Ronnie George	8	—	—	—
Paul Hollingworth	8	3	3	4
Tony Reading	8	3	3	4

#### Notes

1. Gavin Chittick stepped down from the Board on 18 March 2016.

2. 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 2015.

### Appointment and tenure

The appointment dates of Directors are shown on pages 44 to 45.

The Board believes that all Directors are effective and committed to their roles and have sufficient time available to perform their duties. Accordingly, all members of the Board will be offering themselves for election at the Company's Annual General Meeting to be held on 9 December 2016.

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 61 to 76. 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 78. Under the Relationship Agreement, Windmill Holdings B.V., which was our controlling shareholder from listing until 8 April 2016, has the right to nominate one person to the Board of the Company for so long as its shareholding is at least 15% of the Company's ordinary shares.

### Board evaluation and effectiveness

The effectiveness and performance of the Board is vital to our continuing success. This was the second year of a three-year cycle and an internal evaluation of the performance of the Board and its Committees was carried out during the year. The process of evaluating the performance was facilitated by the Chairman, assisted by the Company Secretary. A tailored, high level questionnaire was distributed for the Directors to complete.

This was structured to provide Directors with an opportunity to express their views about:

- the performance of the Board and its Committees, including how the Directors work together as a whole;
- the balance of skills, experience, independence and knowledge of the Directors; and
- the Board processes and operation.

The responses to the evaluation of the Board and its Committees were reviewed with the Chairman and then considered by the Board and the Committees. The results of the Board evaluation indicated that the Board is working well and that there are no significant concerns among the Directors about its effectiveness. Actions were agreed as a result of the exercise and these will be progressed over the coming year. These will include the Board adopting a more formal process for evaluating the performance of the Chief Executive Officer and Chief Financial Officer and further detailed reviews of senior management succession planning.

## Corporate Governance continued

### Board evaluation and effectiveness continued

In the Annual Report 2015 the main actions from the evaluation process completed in the financial year 2014/15 were set out, which were for more visits to business units to broaden understanding of the business and more exposure to members of the Senior Management Team through being invited to present at more Board meetings. These actions were addressed during the year.

The Senior Independent Director met with the other Non-Executive Directors in the absence of the Chairman, to assess the Chairman's effectiveness. After considering and discussing the tasks undertaken by the Chairman during the period under review, the Non-Executive Directors 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.

The performance of individual Directors was evaluated by the Chairman, with input from the Committee chairmen and other Directors.

The Board intends to comply with Code guidance that the evaluation process should be externally facilitated at least every three years and having now completed internal evaluations for two years, an external independent consultant will be engaged next year to evaluate the Board's effectiveness.

### Induction

Following the appointment of Claire Tiney on 3 August 2016, a formal personalised induction programme was developed in line with the Code, to ensure that Claire would receive 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 teams); 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. Any future Non-Executive Director appointed to the Board would have a similar induction programme personalised according to their individual experience and background and to their own requirements.

### Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association allow the Board to authorise such potential conflicts, and there is in place a procedure to deal with any actual or potential conflict of interest. The Board deals with each appointment on its individual merit and takes into consideration all the circumstances. All potential conflicts approved by the Board are recorded in a conflicts of interest register, which 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 44 to 45.

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 30 to 35, 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 60.

The Audit Committee Report on pages 56 to 60 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, such as:

<b>August 2015</b>	Trading Update Consultation on remuneration with major shareholders and principal investor advisory groups
<b>October 2015</b>	Full Year Results Announcement and analyst presentation Institutional broker sales desk briefings UK shareholder roadshow
<b>November 2015</b>	Annual Report and Accounts and Notice of AGM posted to shareholders and placed on website
<b>December 2015</b>	Annual General Meeting
<b>March 2016</b>	Half-year Results Announcement and analyst presentation Institutional broker sales desk briefings UK shareholder roadshow
<b>May 2016</b>	Investor and sell-side analyst perception review
<b>July 2016</b>	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;
- review of the Annual Report and Accounts by senior management to ensure consistency and overall balance; and
- the Audit Committee reviewed the Annual Report and Accounts and its compliance with the requirements, concluded that they had been met and recommended its approval by the Board as fair, balanced and understandable.

### Annual General Meeting

The Annual General Meeting (AGM) of the Company will take place at 12.00 noon on Friday 9 December 2016 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 (chair)

Adrian Barden

Paul Hollingworth

Tony Reading

Claire Tiney



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.

**Peter Hill, CBE**

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

The Committee met four times during the year with attendance disclosed on page 51. The Committee will meet formally at least once a year and at such other times as the Board or the Committee chairman requires.



### Nomination Committee activities during 2015/16

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

- evaluated the balance of skills, experience, independence, diversity and knowledge on the Board;
- conducted a process leading to the appointment to the Board of Claire Tiney as an independent Non-Executive Director;
- reviewed succession planning for the Executive Directors and the Senior Management Team;
- reviewed and approved the recommendations to be made to shareholders for the election 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 2016.

### Election of Directors

On the recommendation of the Committee and in line with the Code and the Company's Articles of Association, all of the Company's Directors will stand for election at the Annual General Meeting 2016. The biographical details of the Directors can be found on pages 44 to 45. The Committee considers that the performance of each of the Directors standing for election at the Annual General Meeting 2016 continues to be effective and each demonstrates commitment to their role.

### Board changes

On 18 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. They produced a long list of candidates for review by the Committee. The list of suitable candidates was discussed by the Committee followed by an interview process that included meetings with the Chairman, the Senior Independent Director, independent Directors and the Executive Directors. The candidates remaining on the short list were then discussed by the Committee resulting in a recommendation of the preferred candidate to the Board.

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 development companies and in the services sector, across the UK and Continental Europe. Her key strengths are in HR and in implementing business strategy, with a particular focus on strategic and business development, marketing and change management. Claire will no doubt provide fresh insight and new perspectives to the Board's discussions and, combined with the deep knowledge and experience of our existing Non-Executive Directors, this gives us a Board that has a well balanced array of skills and is well attuned to the Group's requirements.

### Diversity

The Board supports the aims, objectives and recommendations outlined in Lord Davies' Report "Women on Boards" and recognises the need to recruit more women to the Board, to which it is committed over time.

Following the appointment of Claire Tiney to the Board 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 be considered as and when the other Board members need to be replaced, given that they were only appointed on listing in June 2014 and the Board is considered to be the right size at the current time. The Committee and the Board understand the importance of a diverse Board membership as well as throughout the Company, and recognise that diversity encompasses not only gender but also background, ethnicity and disability. The Company's policy is to make appointments based on merit and against objective criteria, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board.

### Committee performance evaluation

During the year, the Committee carried out an evaluation of its performance through completion of a confidential questionnaire by the Committee members within the context of the wider Board performance evaluation review. This process concluded that the Committee had fulfilled its role effectively.

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



**Peter Hill, CBE**

Chairman of the Nomination Committee

11 October 2016

## Audit Committee Report

**Paul Hollingworth**

Chairman, Audit Committee

**Audit Committee members**

Paul Hollingworth (chair)

Adrian Barden

Tony Reading

Claire Tiney

“

I am able to confirm, on behalf of the Board, that the Annual Report and Accounts 2016, taken as a whole, is fair, balanced and understandable.

**Paul Hollingworth**

Chairman, Audit Committee

**Dear shareholder,**

I am pleased to present the report on the activities of the Audit Committee for the year ended 31 July 2016, and to be able to confirm; on behalf of the Board, that the Annual Report and Accounts 2016, taken as a whole, is fair, balanced and understandable.

This report has been written to offer shareholders an insight into the activities of the Committee during the year and provide an overview of how the Committee has reviewed the work of the external auditor and the effectiveness of the Group's risk management and internal control systems.

In September 2014, the Financial Reporting Council updated the UK Corporate Governance Code (the Code), applying to all companies with shares listed on the London Stock Exchange for financial reporting periods beginning on or after 1 October 2014 and therefore is applicable to the financial year ended 31 July 2016. The principle behind the updated Code is to ensure that risk management and internal control are embedded in the business process by which a company pursues its objectives.

Since Volusion became a listed company, the Committee has focused on the integrity of the Group's financial reporting, risk management and internal controls, and the quality of the internal and external audit processes. BDO LLP (BDO) has continued to perform the internal audit function on behalf of the Group and the three-year internal audit plan continues to give the Committee assurance on internal controls.

During the financial year ending 31 July 2017, the Committee will continue to look in detail at the Group's business operations, with a further six 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.

In line with the new Code, there is a requirement to assess the Company's prospects and viability over a longer period of time than is required under the Going Concern provisions. Accordingly, the Committee has reviewed and recommended to the Board the Company's Viability Statement, which can be found on page 31.

On behalf of the Committee, I would like to thank everyone for their hard work over the past year, including Ernst & Young LLP (EY) as our external auditor, BDO as our internal auditor and the finance teams across the businesses.

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



**Paul Hollingworth**

Chairman of the Audit Committee

11 October 2016

### Audit Committee activities during 2015/16

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

#### Financial statements and reports

- reviewed the Preliminary Results Announcement, Annual Report and Accounts, Half-year Results Announcement, received reports from the external auditor, 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, significant areas of accounting estimates and judgements (including exceptional items, intangible assets and rebates);
- reported to the Board on the appropriateness of accounting policies and practices; and
- reviewed the draft Viability Statement and stress testing.

#### Risk management

- 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; and
- monitored and reviewed the current risk management and internal control processes to determine the key enhancements required to ensure compliance with the UK Corporate Governance Code requirements for disclosure in the Annual Report and Accounts.

#### Internal audit

- reviewed regular reports from BDO as Group internal auditor and reviewed its three-year plan;
- reviewed management responses to BDO's internal audit reports issued during the year; and
- monitored the Group's Code of Conduct and Anti-Bribery and Corruption Policy, including external independent whistleblowing provider reports from the facility 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 2016;
- 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.

### Membership and meetings

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 Tinney. 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 44 to 45. 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 51.

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.

# Audit Committee Report continued

## 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; and
- 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.

In relation to the external audit:

- 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 has discussed and debated the critical accounting judgements and key sources of estimation uncertainty as set out in note 4 to the consolidated financial statements. As a result of its review, the Committee has identified the following issues that require particular judgement or have significant impact on interpretation of this Annual Report and Accounts 2016:

- **Exceptional items:** exceptional items on a pre-tax basis of £1.2 million (2015: £0.7 million) represent a material item in the profit and loss account and solely consist of costs associated with acquisitions (see note 8 to the consolidated financial statements).
- **Intangible assets:** as a result of a number of recent acquisitions, intangible assets, both goodwill and others, are the biggest single asset in the balance sheet. At 31 July 2016 intangible assets relating to goodwill, customer base and trademarks amounted to £172.4 million. The value of goodwill and other intangible assets has been reviewed for impairment using a value in use model using cash flow and discount rates as set out in note 19 to the consolidated financial statements. All acquisitions are showing reasonable headroom on their goodwill calculations (see note 19 to the consolidated financial statements).
- **Rebate agreements:** 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, the Directors make estimates of the amount of rebate that will become both payable and due to the Group under these agreements based upon their best estimates of volumes and product mix that will be bought or sold over each individual rebate agreement period. The total rebate payable provision at 31 July 2016 within trade and other payables was £5,414,000 (2015: £5,017,000).

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

## 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 is 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 partner every five years in order to protect auditor independence and objectivity. Accordingly, Andy Glover will act as lead partner until 31 July 2017 after which a new lead partner will be introduced to the business.

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 2016 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 reviewed recent tendering and rotation provisions from the EU and the Competition and Markets Authority, and the satisfactory outcome of the evaluation of EY and the external

audit process. The result was that the Committee will not be 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 2016 and the Board accepted and endorsed this recommendation.

The Committee routinely meets EY without executive management present. It was confirmed that the external auditor had been able to offer rigorous and constructive challenge to executive management during the year.

### 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 either must, or 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.

During the year, EY charged the Group £25,000 (2015: £25,000) for non-audit related services relating to the half-year review. A breakdown of the fees paid to EY during the year is set out in note 13 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, which may include 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.

During the financial year ended 31 July 2015, the Board appointed BDO 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 to confirm that the control environment was appropriate particularly in recently acquired companies.

### How we manage risk

As outlined on page 30, the Group has a robust risk management process that follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities. 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 30 to 35.

## Audit Committee Report continued

### 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 guidance published in September 2014 entitled "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting". This process was in place throughout the year and post year end up to the date of approval of this Annual Report and Accounts.

### Code of Conduct, anti-bribery and whistleblowing

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

The Company has a Group-wide Code of Conduct and Anti-Bribery and Corruption Policy. These policies set out clearly the Group's values and the importance that is placed on honest, ethical and lawful conduct in all business dealings. All Group employees, agents and suppliers are asked to confirm that they do and will continue to comply with them. 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. Should any disclosures be made, the Company Secretary will initiate an investigation to include all necessary parties, then the Committee is notified and monitors their resolution. The Committee also has the power to conduct further enquiries itself or any other additional actions it sees fit.

### Committee performance evaluation

The Board conducted an internal review of Committee effectiveness during the year and concluded that the Committee had acted in accordance with its terms of reference and carried out all of its responsibilities effectively. No significant items were identified for 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 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.

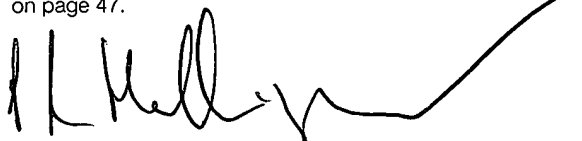
The review of the Annual Report and Accounts took the form of a detailed assessment of the collaborative drafting process, which involves the Senior Management Team, Group Finance, the Company Secretary and Group Marketing with guidance and input from external advisers. It ensured that there is a clear 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 particular, the Committee:

- reviewed all material matters, as reported elsewhere in this Annual Report and Accounts;
- ensured that it correctly reflected the Group's performance in the reporting year;
- ensured that it correctly 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 2016.

The outcome of that review was that the Committee confirmed to the Board that the Annual Report and Accounts 2016 met the requirements of the Code and the Board's formal statement to that effect, to meet the requirements of the Code, is set out on page 47.



**Paul Hollingworth**  
Chairman of the Audit Committee  
11 October 2016

# Directors' Remuneration Report

## **Anthony Reading, MBE**

Chairman, Remuneration Committee

### **Remuneration Committee members**

Tony Reading (chair)

Adrian Barden

Peter Hill

Paul Hollingworth

Claire Tiney



Whilst shareholders will not be asked to vote on a Remuneration Policy at our 2016 AGM, to help shareholders assess the reported remuneration in the context of the Policy we have set out in full the Remuneration Policy, which was approved by shareholders at the 2014 AGM.

## **Anthony Reading, MBE**

Chairman, 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 2016. At the Annual General Meeting in December 2015 (2015 AGM), the Annual Report on Remuneration received strong support from shareholders with 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 continue to operate under this. However, for the 2016/17 LTIP grant onwards we are introducing a two-year holding period following the end of the three-year performance period, further strengthening the alignment between our Executive Directors and shareholders. This feature will be fully incorporated in the Policy to be tabled for shareholder approval at the 2017 AGM in line with the required three-year cycle.

The Committee believes that the Remuneration Policy approved at the 2014 AGM continues to appropriately support our remuneration principles, which are to:

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

Whilst shareholders will not be asked to vote on a Remuneration Policy at our 2016 AGM, to help shareholders assess the reported remuneration in the context of the Policy we have set out in full the Remuneration Policy, which was approved by shareholders at the 2014 AGM, in this Directors' Remuneration Report.

## Directors' Remuneration Report continued

### Performance in 2015/16 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 64% of salary to Ronnie George and 64% 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 Directors' 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 72.

As the earliest vesting date for awards made under the LTIP since its introduction is 29 October 2017, no LTIP awards vested during the year.

### Remuneration decisions for 2016/17

The Committee has recently undertaken a review of the remuneration arrangements for our Executive Directors, with assistance from the Committee's advisers, Deloitte LLP. Aside from the introduction of a holding period for new LTIP awards, we believe that the framework remains broadly fit for purpose and so are not proposing any significant changes.

As part of the review, we assessed the base salaries of the Chief Executive Officer and the Chief Financial Officer. Since Volution listed in June 2014, the Executive Directors have only been awarded one salary increase of 1%. Over the same period, the Company has grown in complexity, successfully completed a number of key acquisitions, and delivered strong results. To ensure base salaries remain competitive, the Committee awarded a salary increase of 10% to the Chief Executive Officer and 5% to the Chief Financial Officer with effect from 1 August 2016. These new salaries also reflect the development and performance of Ronnie George and Ian Dew as executive directors of a public company. In reaching this position, the Committee has been mindful of the impact of adjusting salary levels purely as a result of market data and the ratcheting impact this can have. It should be noted that the revised salaries would still be positioned below the median when compared to other UK listed companies of a similar size. We have communicated with our major shareholders on these changes.

Following the review it was determined that the annual bonus maximum levels and the performance measures continue to be appropriate. The Committee will continue its policy of setting stretching annual bonus 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.

As noted earlier in this letter, the Committee is introducing a two-year holding period following the end of the three-year performance period under the LTIP. This change will extend time horizons such that the combined performance and holding period will be five years for awards granted from 2016/17. This further strengthens the alignment between our Executive Directors and shareholders. The performance measures used for LTIP awards made during the 2015/16 financial year remain appropriate, and as a result, LTIP awards to be granted during the 2016/17 financial year will be consistent with the awards made in 2015/16, other than the introduction of the two-year holding period.

During 2016/17, the Committee will be reviewing the Remuneration Policy prior to submitting it for formal approval by shareholders at the Annual General Meeting in 2017 in line with the required three-year cycle. The Committee will consult with major shareholders in advance if significant changes are to be proposed.

### Annual General Meeting 2016

On behalf of the Board I would like to thank shareholders for their continued support and do hope that you will support the resolution requesting approval of the Annual Report on Remuneration at this year's Annual General Meeting on 9 December.



**Anthony Reading, MBE**  
Chairman of the Remuneration Committee  
11 October 2016



## Directors' Remuneration Policy Report

This section of the Directors' Remuneration Report sets out the Remuneration Policy for Executive and Non-Executive Directors, which shareholders approved at the Annual General Meeting in 2014 and was brought into effect from 17 December 2014. In practice the Remuneration Policy has been applied since the beginning of the financial year on 1 August 2014. The Remuneration Policy will remain binding until the Annual General Meeting in 2017. The Remuneration Policy Report has been updated to show new chart illustrations of the application of the Remuneration Policy to reflect the revised Executive Director salaries for 2016/17.

### Remuneration Policy table

Operation	Maximum opportunity	Performance metrics
<b>Base salary</b>		
<b>Purpose and link to strategy:</b> 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: <ul style="list-style-type: none"> <li>• salary levels at companies of a similar size and complexity;</li> <li>• Company performance and external market conditions;</li> <li>• pay and conditions elsewhere in the Group; and</li> <li>• role, experience and personal performance.</li> </ul> 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 increase, 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.
<b>Pension</b>		
<b>Purpose and link to strategy:</b> The Company aims to provide competitive retirement benefits for the role.		
Executive Directors may receive an employer's pension contribution to a personal or Group pension scheme and/or cash allowance.	15% of base salary.	N/A

# Directors' Remuneration Report continued

## Directors' Remuneration Policy Report continued

### Remuneration Policy table continued

Operation	Maximum opportunity	Performance metrics
<b>Annual Bonus Plan (ABP)</b>		
<b>Purpose and link to strategy:</b> To incentivise Executive Directors to achieve specific, pre-determined goals during a one-year period. Rewards achievement of objectives linked to the Company's strategy.		
<p>Annual bonus payment is determined by the Committee after the financial year end, based on annual performance against targets set at the start of the year.</p> <p>Normally, 50% of any annual bonus payment above the target incentive (which will be 60% of the maximum opportunity) earned by the Executive Directors will be deferred into awards over the Company's shares which normally vest after at least two years.</p> <p>Dividend equivalent payments (cash and/or shares) may be payable on awards to the extent that they vest.</p>	<p>100% of base salary.</p>	<p>Performance measures are determined with reference to the Company's key strategic business objectives for the year.</p> <p>No less than 50% of the bonus will be dependent on financial measures and the remainder will be based on non-financial measures that are aligned to the strategic priorities of the business.</p> <p>At threshold performance up to 25% of the maximum pays out. Below this level of performance, no bonus pays out.</p>
<b>Long Term Incentive Plan (LTIP)</b>		
<b>Purpose and link to strategy:</b> To incentivise the delivery of key strategic objectives over the longer term and align the interests of Executive Directors with those of our shareholders.		
<p>Typically a contingent award of shares or nil-cost options is made on an annual basis. Vesting of the awards is dependent on the achievement of performance targets, typically measured over a three-year period.</p> <p>Dividend equivalent payments (cash and/or shares) may be payable on awards to the extent that they vest.</p>	<p>The Committee intends initially to make awards of 100% of base salary, with the ability to make awards of up to 175% of base salary as permitted by the plan rules.</p>	<p>Awards vest based on challenging financial, operational or share price targets.</p> <p>At least 50% will be based on financial measures.</p> <p>No more than 25% vests at threshold with 100% of awards vesting at maximum performance.</p>
<b>Other benefits</b>		
<b>Purpose and link to strategy:</b> To provide a market-competitive package of benefits consistent with the role.		
<p>Various cash/non-cash benefits are provided to Executive Directors which may include (but are not limited to) a company car (or cash equivalent), life assurance, expatriate benefits, private medical insurance and relocation benefits.</p> <p>Executive Directors would also be able to participate in any all-employee share plans on the same basis as other eligible employees, should such plans be implemented by the Company.</p>	<p>Although the Committee does not consider it appropriate to set a maximum benefits level, they are set at an appropriate level for the specific nature of the role.</p>	<p>N/A</p>

Operation	Maximum opportunity	Performance metrics
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### 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 100% of their base salary within a period of four years from listing on the London Stock Exchange, which was 23 June 2015, or, if later, within four years of the new Director becoming subject to such guidelines.	100% of base salary.	N/A
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### Chairman and Non-Executive Director fees

**Purpose and link to strategy:** To enable the Company to attract and retain Non-Executive Directors of the required calibre by offering market-competitive fees.

<p>Fees are determined by the Board.</p> <p>The Chairman is paid an all-inclusive fee for all Board responsibilities.</p> <p>Non-Executive Directors receive a basic Board fee.</p> <p>Neither the Chairman nor Non-Executive Directors are eligible to participate in any of the Company's incentive arrangements or receive any pension provision.</p> <p>Additional fees may be payable for additional Board responsibilities such as chairmanship or membership of a committee or performing the Senior Independent Director role.</p> <p>The Committee reviews the fees paid to the Chairman and the Board reviews the fees paid to the Non-Executive Directors, periodically, with reference to the time commitment of the role and market levels in companies of comparable size and complexity.</p> <p>Non-Executive Directors shall be entitled to have reimbursed all expenses that they reasonably incur in the performance of their duties.</p>	<p>Fees are set within the aggregate limits set out in the Company's Articles of Association.</p> <p>Non-Executive Directors are eligible for fee increases during the three-year period that the policy operates to ensure they continue to appropriately recognise the time commitment of the role and fee levels in companies of a similar size and complexity.</p>	N/A
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## Directors' Remuneration Report continued

### Directors' Remuneration Policy Report continued

#### Choice of performance measures and approach to setting

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

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

The long-term performance metrics relating to the LTIP awards will be set at the time of each grant but will normally include at least 50% based on financial 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.

#### Committee discretion

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

- before the Remuneration Policy came into effect; or
- 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 variable remuneration.

The Committee will operate the LTIP and Deferred Share Bonus Plan (DSBP) in accordance with the respective rules, the Remuneration Policy set out above and the Listing Rules where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following:

- the Committee may settle an award in cash;
- in the event of a variation of share capital, demerger, delisting, special dividend or any other exceptional event which, in the reasonable opinion of the Committee, may affect the current or future value of the Company's shares, the Committee may (i) adjust the terms of the awards and (ii) make amendments to the plan rules in accordance with the terms of the plan; and
- a performance condition may be amended or substituted if one or more events occur which cause the Committee to consider that it would be more appropriate and would not be materially less difficult to satisfy.

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 awards granted under the LTIP and the DSBP 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 delivery of the shares to the individual.

#### Takeover or other corporate event

In the event of a change of control, outstanding deferred share bonus awards will vest in full as soon as practicable after the date of the event, unless the Committee determines otherwise.

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

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, 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.

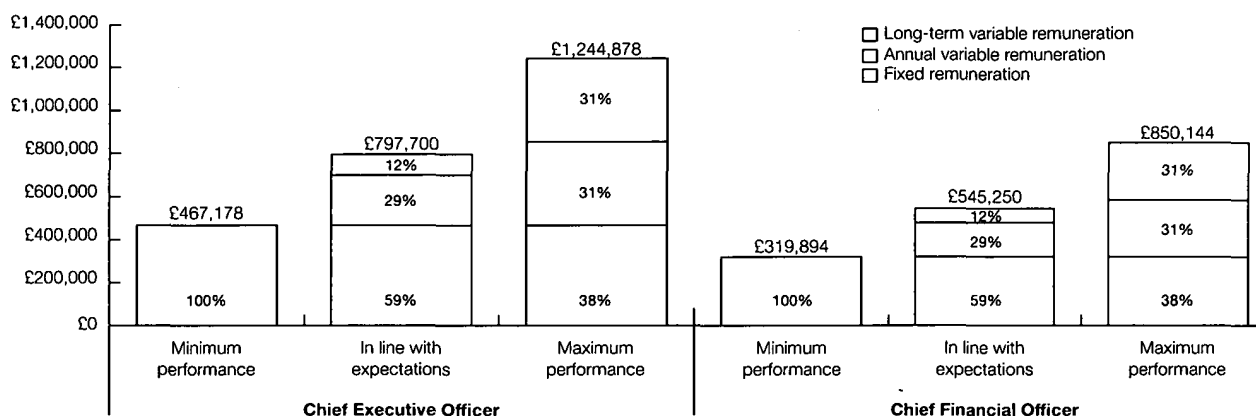
#### Minor changes

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

### Illustrations of the application of the Remuneration Policy

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

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



The assumptions used for these charts are as follows:

Levels of performance		Assumptions
Fixed pay	All scenarios	<ul style="list-style-type: none"> <li>Total fixed pay comprises base salary, benefits and pension</li> <li>Base salary – effective as at 1 August 2016</li> <li>Benefits – effective as at 1 August 2016</li> <li>15% of base salary pension contributions</li> </ul>
	Below threshold performance	<ul style="list-style-type: none"> <li>No cash payout under the ABP</li> <li>No vesting under the LTIP</li> </ul>
	In line with expectations	<ul style="list-style-type: none"> <li>60% of the maximum potential payout under the ABP (i.e. 60% of base salary)</li> <li>25% vesting under the LTIP (i.e. 25% of base salary), assuming awards equivalent to 100% of base salary are granted</li> </ul>
Variable pay	Maximum performance	<ul style="list-style-type: none"> <li>100% of the maximum potential payout under the ABP (i.e. 100% of base salary)</li> <li>100% vesting under the LTIP (i.e. 100% of base salary), assuming awards equivalent to 100% of base salary are granted</li> </ul>

#### Note

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

### External appointments of Executive Directors

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

### Approach to recruitment

The Committee will aim to set a new Executive Directors' remuneration package in line with the Remuneration 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) on appointment will be in line with the maximum Remuneration 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.

## Directors' Remuneration Report continued

### Directors' Remuneration Policy Report continued

#### Approach to recruitment continued

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 Remuneration Policy in force at that time. The length of service and notice periods shall 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 standard Remuneration 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 an initial three-year term which is renewable and is terminable by the Company or the individual on one month's written notice.

Under a Relationship Agreement between the Company and our major shareholder, Windmill Holdings B.V., one Non-Executive Director (who shall be deemed non-independent) can be appointed to the Board on behalf of the major shareholder. Gavin Chittick was the nominated Director from listing on 23 June 2014 until he stepped down from the Board on 18 March 2016. Windmill Holdings B.V. has not had a representative Director on the Board since that date and up to the date of this report.

The terms of the Non-Executive Directors' positions are subject to their election by the Company's shareholders at the Annual General Meeting 2016. 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 Annual General Meeting 2016.

#### 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 Remuneration 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 the specified 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. The Executive Directors are obliged to seek alternative income during the notice period and to notify the Company of any income so received. The Company would then reduce the monthly instalments to reflect such alternative income.

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 paid in cash and normally 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, awards will normally vest to the extent that the Committee determines, taking into account the satisfaction of the relevant performance conditions and, unless the Committee determines otherwise, the period of time that has elapsed between grant and the date of leaving. Awards will normally vest at the original vesting date, unless the Committee decides that awards should vest at the time of leaving.

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 Remuneration Policy for Executive Directors compared to other employees**

The Committee has regard to pay structures across the wider Group when setting the Remuneration 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 Remuneration 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 Remuneration Policy set out in this report.

#### **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.

## **Annual Report on Remuneration**

This section provides details of how the Remuneration Policy was implemented during the year and how the Remuneration Committee (the Committee) intends to apply the Policy in the financial year 2016/17. 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 Annual General Meeting 2016.

#### **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](http://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 on 3 August 2016), and the Chairman of the Board, Peter Hill.

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

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

#### **Meetings**

The Committee met three times during the year and has had two meetings to date in 2016/17. Committee member attendance can be found in the table on Board and Committee attendance on page 51.

#### **Committee activity and key decisions during the year ended 31 July 2016**

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

- reviewed outcomes and approved payments for Executive Director and Senior Management Team bonuses for 2014/15;
- considered and approved the Directors' Remuneration Report 2014/15;
- reviewed and approved the Remuneration Policy and arrangements in the light of market trends for the 2015/16 Directors' Remuneration Report and reviewed and confirmed the Remuneration Policy remained appropriate for 2016/17;
- reviewed and approved the parameters of the ABP, including performance measures and targets for 2015/16 for the Executive Directors and Senior Management Team;

# Directors' Remuneration Report continued

## Annual Report on Remuneration continued

### Committee activity and key decisions during the year ended 31 July 2016 continued

- considered and approved the LTIP awards to the Executive Directors and Senior Management Team for 2015/16;
- reviewed market trends and developments in executive remuneration in advance of considering Executive Director and Senior Management Team remuneration proposals for 2016/17;
- reviewed and approved the Executive Director and Senior Management Team salaries for 2016/17;
- reviewed and approved the parameters of the ABP, including performance measures for 2016/17 for the Executive Directors and Senior Management Team;
- reviewed and approved the performance measures to be used for any LTIP awards made during 2016/17;
- agreed the process for consultation with shareholders on Remuneration Policy;
- reviewed the Committee's terms of reference;
- evaluated the performance of the Committee; and
- reviewed and approved the Committee's rolling annual agenda.

### Committee performance evaluation

The Board conducted an internal review of Committee effectiveness during the year and concluded that the Committee has acted in accordance with its terms of reference and carried out all of its responsibilities effectively.

### 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 £21,825 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 tax and transaction related services 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 2016 and 31 July 2015.

	Salary and fees		Benefits <sup>1</sup>		Pension <sup>2</sup>		Annual bonus <sup>3</sup>		Long-term incentives <sup>4</sup>		Other		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
<b>Chairman</b>														
Peter Hill	135	135	—	—	—	—	—	—	—	—	—	—	135	135
<b>Executive Directors</b>														
Ronnie George	353	350	12	12	47	53	226	228	—	—	—	—	638	643
Ian Dew	253	250	12	12	34	38	162	163	—	—	—	—	461	463
<b>Non-Executive Directors</b>														
Adrian Barden <sup>5</sup>	45	45	—	—	—	—	—	—	—	—	—	—	45	45
Gavin Chittick <sup>6</sup>	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Paul Hollingworth	55	55	—	—	—	—	—	—	—	—	—	—	55	55
Tony Reading	60	60	—	—	—	—	—	—	—	—	—	—	60	60

#### Notes

- Benefits include an annual car allowance, life assurance equivalent to four times annual salary and permanent health insurance.
- 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.
- The annual bonus for 2015/16 relates to annual incentive payments for performance in that financial year. The calculation of this amount is set out on page 71. 50% of the 2015/16 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 £6,981 and Ian Dew will be awarded shares equivalent to £4,987.
- 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 have a performance period that ends on 31 July 2017. As a result, this column has a zero figure in 2015 and 2016.
- Adrian Barden's fees were paid through Blue Burgee Limited up until 5 April 2016.
- 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.



### Annual Bonus Plan (ABP) (audited)

The operation of the ABP during the year ended 31 July 2016 was consistent with the framework set out in the Remuneration 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.

Measure	Strategic objective	Weighting	Threshold	Target	Maximum	Actual performance	Payment (% of maximum)	Payment (% of base salary)
Adjusted operating profit	To increase profit	50%	£30.4m	£32.1m	£33.8m	£32.5m	39.8%	19.88%
Adjusted EPS	Creation of shareholder value	35%	11.4p	12.0p	12.6p	12.56p	97.3%	34.07%
Working capital management	Delivering efficiency of working capital and cash generation	10%	£21.0m	£20.7m	£19.7m	£18.0m	100%	10.0%
Group employee retention	To continue to retain our skilled employees	5%	93.5%	94.0%	95.0%	90.4%	0%	0%
<b>Total</b>							<b>63.95%</b>	

#### Note

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

### Share awards granted during the year (audited)

#### Long Term Incentive Plan (LTIP)

##### 2015/16 Awards

During the year the Committee made awards under the LTIP in accordance with the Remuneration 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 2018, 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 <sup>1</sup> (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting)	Maximum (100% vesting)
TSR vs Direct Peer Group index <sup>2</sup>	25%	Below index	Equal to index	Index + 8% p.a.
TSR vs FTSE companies of a similar size <sup>3</sup>	25%	Less than median	Median	Upper quartile
Cumulative average EPS growth	50%	Below 6% p.a.	6% p.a.	15% p.a.

#### Notes

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

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 19 November 2015 were as follows:

Executive Director	Number of shares	Base price	Face value <sup>1</sup>	% of base salary	Vesting date	Expiry date
Ronnie George	188,533	£1.875	£353,499	100%	19 November 2018	19 November 2025
Ian Dew	134,666	£1.875	£252,499	100%	19 November 2018	19 November 2025

#### Note

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

## Directors' Remuneration Report continued

### Annual Report on Remuneration continued

#### Share awards granted during the year (audited) continued

##### Deferred Share Bonus Plan (DSBP)

##### 2015/16 Awards (audited)

As set out in the Remuneration 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 19 November 2015, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2014/15 annual bonus. The value of these shares was included in the annual bonus figure in the 2015/16 single total figure of remuneration. No further performance conditions apply to these shares.

The DSBP awards made on 19 November 2015 were as follows:

Executive Director	Number of shares	Base price	Face value £'	Vesting date
Ronnie George	4,666	£1.875	8,749	19 November 2018
Ian Dew	3,333	£1.875	6,249	19 November 2018

##### Note

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

#### Equity incentives (audited)

Details of the awards granted 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 2015	Share awarded during the year	Shares lapsed during the year	Shares vested/exercised during the year	Number of share awards at 31 July 2016	Face value at date of grant £'	Earliest vesting date	Expiry date
<b>Ronnie George</b>									
LTIP 2014	29/10/2014	243,325	—	—	—	<b>243,325</b>	349,998	29/10/2017	29/10/2024
LTIP 2015	19/11/2015	—	188,533	—	—	<b>188,533</b>	353,499	19/11/2018	19/11/2025
DSBP 2015	19/11/2015	—	4,666	—	—	<b>4,666</b>	8,749	19/11/2018	N/A
<b>Total</b>		<b>243,325</b>	<b>193,199</b>	<b>—</b>	<b>—</b>	<b>436,524</b>	<b>712,246</b>		
<b>Ian Dew</b>									
LTIP 2014	29/10/2014	173,804	—	—	—	<b>173,804</b>	249,999	29/10/2017	29/10/2024
LTIP 2015	19/11/2015	—	134,666	—	—	<b>134,666</b>	252,499	19/11/2018	19/11/2025
DSBP 2015	19/11/2015	—	3,333	—	—	<b>3,333</b>	6,249	19/11/2018	N/A
<b>Total</b>		<b>173,804</b>	<b>137,999</b>	<b>—</b>	<b>—</b>	<b>311,803</b>	<b>508,747</b>		

##### 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 and £1.875 for the LTIP 2015 and DSBP 2015.

#### Employee Benefit Trust

The Volution Employee Benefit Trust (EBT) currently holds 916,878 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 the Company has implemented share ownership guidelines which state that Executive Directors are expected to achieve and retain a holding of the Company's shares equal to 100% of their base salary within a period of four years from listing or, if later, within four years of the new Director becoming subject to such guidelines. It should be noted that both the Executive Directors currently have shareholdings well in excess of 100% 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 2016 (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 2016 and the date of this report.

	Shares held beneficially at 1 August 2015 <sup>1</sup>	Shares held beneficially at 31 July 2016 <sup>1</sup>	Beneficial shareholding at 31 July 2016 (% of salary)	Target shareholding achieved? <sup>2</sup>	LTIP awards (unvested awards subject to performance) <sup>3</sup>	DSBP awards (unvested awards, not subject to performance)
<b>Chairman</b>						
Peter Hill	35,333	<b>35,333</b>	N/A	N/A	—	—
<b>Executive Directors</b>						
Ronnie George	5,622,833	<b>5,622,833</b>	2,465%	Yes	431,858	4,666
Ian Dew	855,327	<b>855,327</b>	525%	Yes	308,470	3,333
<b>Non-Executive Directors</b>						
Adrian Barden	97,725	<b>107,725</b>	N/A	N/A	—	—
Paul Hollingworth	19,333	<b>19,333</b>	N/A	N/A	—	—
Tony Reading	40,000	<b>60,000</b>	N/A	N/A	—	—

#### Notes

- Includes any shares held by Persons Closely Associated.
- The target shareholding achieved has been calculated based on shares held beneficially as at 31 July 2016 using the share price on that date of 155.0 pence per share.
- LTIP awards in this column consist of the 2015 LTIP award described elsewhere in this report and the 2014 LTIP award (consisting of 243,325 shares for Ronnie George and 173,804 shares for Ian Dew). 2014 LTIP awards are structured as nil-cost options subject to the same performance conditions as the 2015 LTIP awards (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 years to 31 July 2017. The 2014 LTIP awards have a normal vesting date of 29 October 2017 and the last date of exercise for the nil-cost options shall be 29 October 2024.

### Payments to past Directors

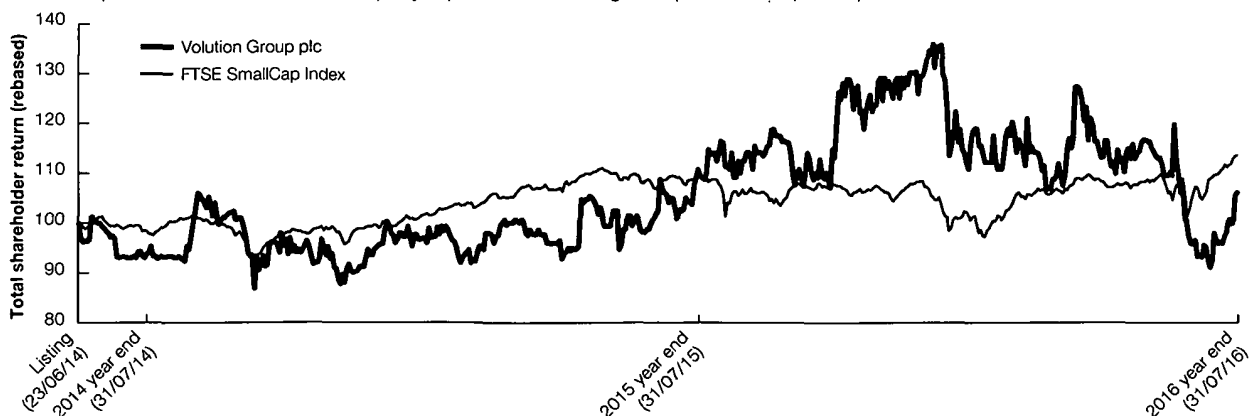
There were no payments to past Directors in the year.

### Payments for loss of office

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

### Performance graph and Chief Executive Officer remuneration table (audited)

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



## Directors' Remuneration Report continued

## Annual Report on Remuneration continued

## Performance graph and Chief Executive Officer remuneration table (audited) continued

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.

	2016	2015	2014	2013
Chief Executive Officer's single total figure of remuneration (£000)	<b>638</b>	643	1,061	428
Annual bonus payout (as a % of maximum opportunity)	<b>64%</b>	65%	100%	54.8%
LTIP vesting (as a % of maximum opportunity)	<b>N/A</b>	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 <sup>1</sup>
Base salary	1.0%	3.4%
Benefits <sup>2</sup>	0.0%	(1.1)%
Total annual bonus	(0.9)%	5.0%

## 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.

	2016 £m	2015 £m	% change
Employee remuneration costs	<b>38.3</b>	31.5	21.6
Distributions to shareholders <sup>1</sup>	<b>6.9</b>	2.1	228.6
Adjusted operating profit	<b>32.5</b>	29.4	10.4

## Note

1. The Company commenced dividend payments in the 2015 financial year with an interim payment only. A final and interim dividend were paid in the 2016 financial year.

## Statement of implementation of Remuneration Policy for the financial year ending 31 July 2017

The Remuneration 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 for the 2016/17 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. Since Volusion listed in June 2014, the Executive Directors have only been awarded one salary increase of 1%. Over the same period, the Company has grown in complexity and has successfully completed a number of key acquisitions. To ensure base salaries remain competitive, the Committee awarded a salary increase of 10% to the Chief Executive Officer and 5% to the Chief Financial Officer with effect from 1 August 2016, taking the base salary for Ronnie George to £388,850 and for Ian Dew to £265,125. These new salaries reflect the development and performance of Ronnie George and Ian Dew as Executive Directors of a public company. In reaching this position, the Committee has been mindful of the impact of adjusting salary levels purely as a result of market data and the ratcheting impact this can have. It should be noted that the revised salaries would still be positioned below the median when compared to other UK listed companies of a similar size. We have communicated with our major shareholders on these changes.

### 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 permanent health insurance.

### Annual Bonus Plan (ABP)

Following the review, it was determined that there would be no change to the maximum percentage payable for Executive Director annual bonuses which would be up to a maximum of 100% of base salary. In addition it was determined that the performance measures and weightings would remain the same as for the year ended 31 July 2016, being adjusted operating profit (50%), adjusted EPS (35%), working capital management (10%), and Group employee retention (5%). The targets set for the 2016/17 financial year will be disclosed in the next Annual Report on Remuneration, unless they remain commercially sensitive.

### Long Term Incentive Plan (LTIP)

Following the review, it was determined that the LTIP framework would remain unchanged for the year ended 31 July 2017, except for the introduction of a holding period as described below. Performance measures to be used for the LTIP awards will remain the same as for the year ended 31 July 2016, being TSR vs Direct Peer Group index (25%), TSR vs FTSE companies of a similar size (25%) and EPS growth (50%).

The Committee is introducing a two-year holding period following the end of the three-year performance period under the LTIP. This change will extend time horizons such that the combined performance and holding period will be five years for awards granted from 2016/17. This further strengthens the alignment between our Executive Directors and shareholders. This will be applied to awards granted from the 2016/17 financial year onwards. It is the Committee's intention that this new arrangement will be fully incorporated in the Remuneration Policy that will be put forward for shareholder approval at the 2017 AGM.

# Directors' Remuneration Report continued

## Statement of implementation of Remuneration Policy for the financial year ending 31 July 2017 continued

### 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 set when the Company listed on the London Stock Exchange on 23 June 2014 and have not changed since that date.

Following a review in July 2016 it was determined that the basic fees should be increased by 3% with effect from 1 August 2016. No changes are being made to the supplementary fees paid.

The fees with effect from 1 August 2016 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 Remuneration 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 2015 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	183,934,721	100	0	0	5,534,882

### Approval

This Directors' Remuneration Report was approved by the Board of Directors on 11 October 2016 and signed on its behalf by the Remuneration Committee chairman.

  
**Anthony Reading, MBE**

Chairman of the Remuneration Committee

11 October 2016

# Directors' Report

## Introduction

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 31 July 2016.

This Directors' Report includes additional information required to be disclosed under the Companies Act 2006, the Code, the 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 43;
- the Governance Report on pages 44 to 80;
- information relating to financial instruments, as set out in note 25 to the consolidated financial statements; and
- related party transactions as set out in note 31 to the consolidated financial statements.

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

## Corporate structure

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

## Results and dividend

The Group's results for the year are shown in the statement of comprehensive income on page 90.

An interim dividend of 1.20 pence per share was paid to shareholders on 5 May 2016 and the Directors are recommending a final dividend in respect of the financial year ended 31 July 2016 of 2.60 pence per share. If approved, the final dividend will be paid on 14 December 2016 to shareholders on the register on 18 November 2016. The total dividend paid and proposed for the year amounts to 3.80 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 2016.

As at 31 July 2016 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 2016 are shown in note 28 to the consolidated financial statements.

## Powers of the Directors

The Directors may exercise all the powers of the Company including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares. During the financial year ended 31 July 2016, 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 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 78.

The Company has in place certain share incentive plans and details can be found on pages 71 to 72. 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 71 to 72.

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 2016 and as at the date of this report, there were 916,878 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 28 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
Windmill Holdings B.V.	44,751,087	22.38%
PrimeStone Capital LLP	22,733,783	11.37%
Baillie Gifford & Co	11,343,105	5.67%
Standard Life Investments (Holdings) Limited	10,033,103	5.02%
Polar Capital European Forage Fund Limited	7,986,906	3.99%
UBS Global Asset Management	6,413,511	3.21%

### Relationship Agreement

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

On 8 April 2016, Windmill Holdings B.V. reduced its shareholding to 22.38% of the Company's share capital and accordingly is no longer a controlling shareholder. The Board can confirm that from the start of the financial year until 8 April 2016, the Company complied with the independence provisions in the Relationship Agreement and, so far as the Board is aware, the independence provisions were also complied with by the Company's then controlling shareholder and its associates.

### Directors

The Directors of the Company and their biographies are set out on pages 44 to 45. Their interests in the ordinary shares of the Company are shown in the Directors' Remuneration Report on page 73. Claire Tiney was appointed as an independent Non-Executive Director following the financial year end and her biography is set out on page 45.

### 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) holds 15% or more of the voting rights over the Company's shares. Currently no representative Director sits 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 31 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 describes 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 26 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 31.

#### **Viability Statement**

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, 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 31.

#### **Annual General Meeting**

The Annual General Meeting will be held at 12.00 noon on Friday 9 December 2016 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

11 October 2016

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.

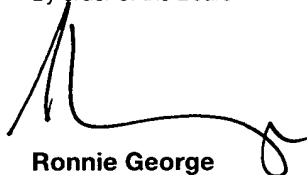
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### 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

11 October 2016



**Ian Dew**  
Chief Financial Officer

11 October 2016

# Independent Auditor's Report

## to the members of Volusion Group plc

### Our opinion on the financial statements

In our opinion:

- Volusion Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2016 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 (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Overview of our audit approach

#### We have identified the following risks of material misstatement

- Impairment of goodwill and other intangible assets, including the re-assessment of cash generating units ('CGUs').
- Inappropriate revenue recognition, including accounting for sales rebates.
- Management override in respect of:
  - the recognition and valuation of judgemental provisions, specifically debtors, credit notes, inventory and warranty provisions; and
  - the presentation of recurring items as exceptional.

#### The scope of our audit

- We performed an audit of the complete financial information of four components and audit procedures on specific balances of a further seven components.
- The components where we performed full or specific audit procedures accounted for:
  - 99% of normalised pre-tax earnings;
  - 95% of revenue; and
  - 94% of total assets.

#### Materiality applied in performing our procedures

- Final Group materiality is £979k (FY 15: £812k), which represents 5% of normalised pre-tax earnings (i.e. profit before tax after adding back non-recurring exceptional items).

### What we have audited

We have audited the Annual Report and Accounts of Volusion Group plc for the year ended 31 July 2016, which comprise the following:

#### In respect of the Group financial statements:

The consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes 1 to 36.

#### In respect of the Parent Company financial statements:

The statement of financial position, statement of changes in equity, statement of cash flows and the related notes 1 to 18.

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

# Independent Auditor's Report continued

## to the members of Volusion Group plc

### Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below, which were designed in the context of the financial statements as a whole and consequently, we do not express an opinion on these individual areas.

#### Impairment of goodwill and other intangible assets, including the assessment of CGUs.

The Group's assets include £68.2 million (FY 15: £51.7 million) of goodwill and £105.4 million (FY 15: £101.0 million) of other intangible assets.

#### Our evaluation of the risk profile of the Group:

The risk profile has remained stable.

We determined that the impairment of goodwill and other intangible assets contains a risk of material misstatement as these balances make up 66% of the Group's total assets, and the impairment review involves a number of subjective assumptions. 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. The identification of CGUs is an important judgement in ascertaining whether the carrying value of goodwill and other intangible assets is recoverable.

Summary of the nature of the risk	Our planned procedures in response to the risk identified included the following	Our conclusion to the Audit Committee
<p><b>Goodwill</b></p> <p>The Group is required to perform an impairment assessment of goodwill, which involves comparing each CGU's value in use with its carrying amount.</p> <p>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.</p> <p><b>Other intangible assets</b></p> <p>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.</p> <p><b>CGUs</b></p> <p>The Group re-assessed and adjusted its CGUs during the year, which requires disclosure in the Annual Report and Accounts.</p>	<p>We ensured that 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.</p> <p>We also performed the following:</p> <ul style="list-style-type: none"> <li>• We obtained forecasts underlying the impairment review and agreed these to budgets approved by the Board;</li> <li>• We assessed the reasonableness of terminal growth rates used in the model for the period beyond the approved budgets;</li> <li>• We reviewed key assumptions including sales and EBITDA against actual performance and ascertained the historical accuracy of forecasting;</li> <li>• We made enquiries of the appropriate finance and commercial personnel where forecasted performance significantly deviated from historic performance levels, observable trends or our expectations;</li> <li>• We also performed sensitivity analysis on key assumptions;</li> <li>• We determined whether the discount rates applied were appropriate with support from our internal valuation experts;</li> <li>• We considered whether the associated financial statement disclosures were appropriate;</li> <li>• We reviewed management's assessment of whether indicators of impairment exist for other non-current assets and challenged key judgements and sensitivities in management's goodwill impairment model; and</li> <li>• We evaluated the judgements made by management in reassessing its CGUs, and ensured the associated financial statement disclosures were appropriate.</li> </ul> <p>The procedures set-out above were carried out by the Group audit team.</p>	<p>We concluded:</p> <ul style="list-style-type: none"> <li>• the carrying value of goodwill and intangible assets to be supportable;</li> <li>• management's identification of CGUs to be reasonable and in accordance with changes to the Group from new acquisitions; and</li> <li>• the associated financial statement disclosures are appropriate.</li> </ul>

Supporting references in the Annual Report and Accounts:  
The Audit Committee Report (page 58);

Accounting policies (page 97); and  
Note 19 of the Consolidated Financial Statements (page 115).

## Our assessment of risk of material misstatement continued

<b>Inappropriate revenue recognition, including accounting for sales rebates.</b>  During the year the Group recognised revenue of £154.5 million (FY 15: £130.2 million).	<b>Our judgement on the risk profile of the Group:</b>  The risk profile has remained stable.
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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.

Summary of the nature of the risk	Our planned procedures in response to the risk identified included the following	Our conclusion to the Audit Committee
<p>The risk of inappropriate revenue recognition arises from the following:</p> <ul style="list-style-type: none"> <li>• inappropriate application of sales cut-off;</li> <li>• revenue not being recognised in line with Group policy; and</li> <li>• judgemental sales rebate provisions.</li> </ul>	<p>We tested the correct application of the timing of revenue recognition through substantive testing.</p> <p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>• We developed an understanding of the sales cycle and obtained details of transactions occurring immediately prior to, and following, the reporting date. We selected a sample of transactions for testing and obtained the terms specific to the transaction. We developed an expectation of the correct period in which revenue should be recognised and compared our expectation to the actual period of recognition;</li> <li>• We selectively tested manual journal entries to revenue, credit notes issued subsequent to the year-end and the appropriate recognition of rebates;</li> <li>• We also performed analytical review procedures to identify significant fluctuations and trends and obtained explanations for unusual variances in revenue;</li> <li>• For a sample of rebates, we obtained agreements and re-computed the rebate accrual;</li> <li>• We performed a retrospective review of accruals made in the previous year with actual payments to determine whether this indicates a history of over or underproviding;</li> <li>• In performing our revenue testing, we assessed whether any rebate clauses exist and if so, determined whether the provision recorded at year-end is complete and whether appropriate authorisation was obtained for accrued rebates; and</li> <li>• We gained comfort on the completeness of the rebate provision through recalculating agreed amounts, verifying the percentage of the prior year provision that materialised and reviewing transactions selected for revenue testing for the existence of unidentified rebates.</li> </ul> <p>Instructions to perform the above were issued to all full and specific scope locations, which covered 95% of consolidated revenue.</p>	<p>We concluded:</p> <ul style="list-style-type: none"> <li>• the application of sales cut-off to be appropriate;</li> <li>• revenue was recognised in line with Group policy;</li> <li>• judgemental sales rebate provisions were appropriate; and</li> <li>• appropriate disclosure of the nature of rebates is included in the financial statements.</li> </ul>

Supporting references in the Annual Report and Accounts:  
The Audit Committee Report (page 58);

Accounting policies (page 95); and  
Note 6 of the Consolidated Financial Statements (page 103).

# Independent Auditor's Report continued

## to the members of Volusion Group plc

### Our assessment of risk of material misstatement continued

<b>Management override arising from the recognition and valuation of judgemental provisions and the recording of unauthorised, non-standard journal entries.</b>	<b>Our judgement on the risk profile of the Group:</b> The risk profile has remained stable.
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The Group's trading transactions principally comprise 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.

Summary of the nature of the risk	Our planned procedures in response to the risk identified included the following	Our conclusion to the Audit Committee
<p>We identified risk to be present in the following:</p> <ul style="list-style-type: none"> <li>judgemental provisions, specifically debtors, credit notes, inventory and warranty provisions; and</li> <li>unauthorised non-standard journal entries (including manual journal entries).</li> </ul>	<p>Judgemental provisions:</p> <ul style="list-style-type: none"> <li>We obtained management's calculations and assumptions used for calculating judgemental provisions and assessed if the methodology is appropriate;</li> <li>Where management did apply judgement to the provision amounts calculated, we have enquired of management for the basis to ensure the rationale is valid; and</li> <li>In order to verify the accuracy of the methodology used by management, we performed a retrospective review of prior year provisions.</li> </ul> <p>Unauthorised non-standard journal entries:</p> <ul style="list-style-type: none"> <li>We reviewed unusual journal entries at the subsidiary and Group levels;</li> <li>We enquired of management of the risks of fraud and the controls put in place to address management override; and</li> <li>We assessed the possibility of fraud arising as a result of errors identified during our audit.</li> </ul> <p>Instructions to perform the above were issued to all full and specific scope locations.</p>	<p>We concluded that provision balances and the methodology applied were acceptable.</p> <p>We concluded that the bases for recognising judgemental provisions were appropriate.</p> <p>Our testing of journal entries raised at subsidiary and Group levels did not uncover any unusual or unauthorised journal entries.</p>
Supporting references in the Annual Report and Accounts: Accounting policies (page 99); and	Notes 21, 22 and 27 of the Consolidated Financial Statements (pages 121 and 124).	

**Our assessment of risk of material misstatement** continued

<b>Management override arising from the presentation of recurring items as exceptional.</b>  £1.2 million (FY 15: £0.7 million) of costs incurred in the year are classified as exceptional.	<b>Our evaluation of the risk profile of the Group:</b>  The risk profile has remained stable.
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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 exceptional costs.

Summary of the nature of the risk	Our planned procedures in response to the risk identified included the following	Our conclusion to the Audit Committee
Costs could inappropriately be presented as exceptional to enhance underlying earnings.	<p>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.</p> <p>We verified whether the supporting disclosure in the Annual Report and Accounts is consistent with the costs being reported as exceptional.</p> <p>The audit of judgements made in classifying costs as exceptional was performed by the Group team.</p>	We concluded that the presentation of items as exceptional is acceptable.

Supporting references in the Annual Report and Accounts: The Audit Committee Report (page 58);	Accounting policies (page 99); and Note 8 of the Consolidated Financial Statements (page 105).
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The following risks of material misstatement were presented in our FY 15 Audit Report. However, these are not considered relevant for FY 16 and have therefore been removed:

- Inappropriate accounting for the legal entity restructuring; and
- Incorrect accounting for the refinancing.

Incorrect accounting for share-based payments has also been removed as we have concluded the likelihood of occurrence of an error has decreased from the prior year.

**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, these enable us to form an opinion on the consolidated financial statements. In allocating a scope to individual components we took into account size, the organisation of the Group and effectiveness of Group-wide controls and changes in the business environment.

The Group structure includes 30 components spread across seven countries. In line with the Group's operating model the individual components typically operate in a decentralised manner. 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, we selected 11 components covering entities within the United Kingdom, Sweden, Germany, Belgium and the Netherlands ('Benelux'), which represent the principal business units within the Group.

Of the 11 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 seven components ("specific scope components"), we performed audit procedures on specific accounts that we determined 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.

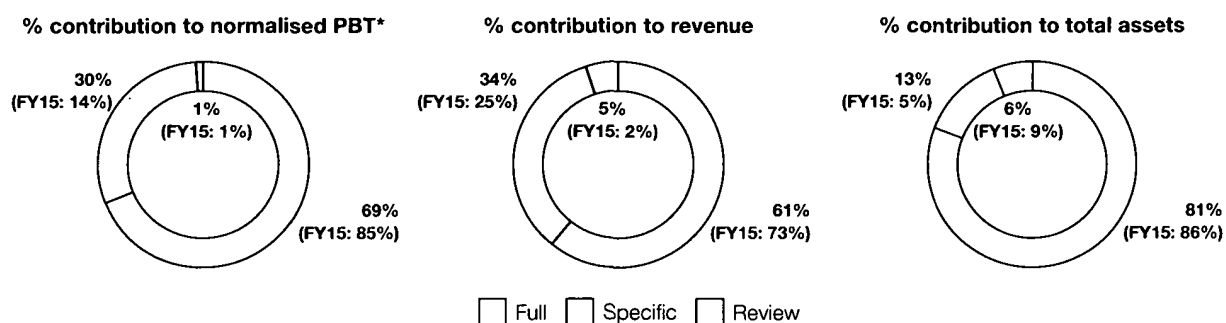
## Independent Auditor's Report continued

### to the members of Volusion Group plc

#### The scope of our audit continued

#### Tailoring the scope continued

The charts below summarise the reporting components and the coverage from our audit procedures:



\* Normalised pre-tax earnings (i.e. profit before tax after adding back non-recurring exceptional items).

The audits of these components were performed at a materiality level calculated as a proportion of Group materiality appropriate to the relative scale and risk of the location.

Full scope locations were subject to an audit of the entire balance sheet and income statement. Specific scope locations were not significant enough to require a full scope audit; our procedures therefore focused on individual balances or procedures that are significant to the Group either based on their size or risk. Limited review locations were subject to analytical procedures, testing of entity level controls at Group level and review of the Group financial statement close process.

Changes to our scoping from the prior year arose due to differing contributions of components to the Group's results and additional components from acquisitions during the year. The percentage coverage from full scope components has decreased as acquisitions made in the year were allocated specific scope, due to their contribution to the Group being for part of the year. These components may increase in scope next year when they make a full year contribution to the Group.

#### Involvement with component audit teams

In establishing our overall approach to the Group audit, we determined the nature of work that needed to be undertaken at each of the components by us, as the Group team, or by component auditors from other EY global network firms operating under our instruction. Audit procedures were performed on all

four full scope components by the Group team. For the seven specific scope components, where the work was performed by component audit teams, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

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

We held an audit planning meeting, which all component audit teams were required to attend. 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 16 £000	FY 15 £000	Explanatory narrative
Materiality	979	812	A
Performance materiality	734	406	B
Reporting threshold	49	40	C

#### A Materiality

This is defined as 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.

Our calculation of materiality is summarised below:

	£000
Statutory pre-tax earnings	18,364
Add back: Non-recurring acquisition costs	1,209
Normalised pre-tax earnings	19,573
Normalised pre-tax earnings x 5%	979

During our audit planning, we determined materiality for the Group to be £942,000, which was 5% of forecast normalised pre-tax earnings. During our year-end procedures we updated materiality based on actual results.

FY 15 materiality was £812,000. Whilst there has been no change to the basis of calculating materiality, the amount has increased due to the increase in FY 16 earnings, including the results of the new acquisitions.

Based on the operations of the Group, we believe that normalised pre-tax earnings is the most relevant performance measure for management and users of the financial statements.

#### B Performance materiality

This is defined in 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 at our planning stage was that performance materiality was 75% (FY 15: 50%) of materiality, calculated at £706,000 (FY 15: £376,000). Final performance materiality was £734,000.

We set performance materiality at 75% of planning materiality in FY 16 due to the active implementation of controls and procedures to address comments raised in the internal auditor's reports and our internal control observations; we also gave consideration to our low expectation of audit differences based on recent experience.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £130,000 to £160,000 (2015: £75,000 to £169,000).

#### C Reporting threshold

This is defined as an amount below which identified misstatements are considered as being clearly trivial.

At planning, we agreed with the Audit Committee that we would report all uncorrected audit differences in excess of £47,000 (FY 15: £38,000), 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 updated the reporting threshold to £49,000. There was an increase in our reporting threshold due to higher normalised earnings, as explained in the previous two sub-sections.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion and concluded the impact of unadjusted audit differences to be immaterial.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

# Independent Auditor's Report continued

## to the members of Volusion Group plc

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 80, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

### Opinion 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; and
- 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.

### Matters on which we are required to report by exception

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report and Accounts is:</p> <ul style="list-style-type: none"> <li>• materially inconsistent with the information in the audited financial statements; or</li> <li>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>• otherwise misleading.</li> </ul> <p>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.</p>	We have no exceptions to report.
<b>Companies Act 2006 reporting</b>	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• certain disclosures of directors' remuneration specified by law are not made; or</li> <li>• we have not received all the information and explanations we require for our audit.</li> </ul>	We have no exceptions to report.
<b>Listing Rules review requirements</b>	<p>We are required to review:</p> <ul style="list-style-type: none"> <li>• the directors' statement in relation to going concern, which is set-out on page 31; and the longer-term viability, which is set out on page 31; and</li> <li>• 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.</li> </ul>	We have no exceptions to report.

**Opinion on other matters prescribed by the Companies Act 2006** continued**Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity****ISAs (UK and Ireland) reporting**

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the Annual Report and Accounts 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 disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated;
- the directors' statement 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; and
- the directors' explanation in the Annual Report and Accounts 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.

We have nothing material to add or to draw attention to.

*Ernst & Young LLP*

**Andy Glover (Senior Statutory Auditor)**

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

11 October 2016

**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 2016

	Notes	2016 £000	2015 £000
<b>Revenue</b>	6	<b>154,464</b>	130,178
Cost of sales		<b>(79,098)</b>	(67,019)
<b>Gross profit</b>		<b>75,366</b>	63,159
Distribution costs		<b>(22,500)</b>	(18,052)
Administrative expenses		<b>(33,255)</b>	(27,174)
<b>Operating profit before exceptional items</b>		<b>19,611</b>	17,933
Exceptional items	8	<b>(1,209)</b>	(731)
<b>Operating profit</b>	12	<b>18,402</b>	17,202
Finance revenue	9	<b>1,164</b>	533
Finance costs	9	<b>(1,202)</b>	(2,209)
<b>Profit before tax</b>		<b>18,364</b>	15,526
Income tax	14	<b>(2,757)</b>	(3,691)
<b>Profit for the year</b>		<b>15,607</b>	11,835
<b>Other comprehensive income/(expense)</b>			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		<b>3,394</b>	(533)
Loss on hedge of net investment in foreign operations		<b>(1,469)</b>	(187)
<b>Other comprehensive income/(expense) for the year</b>		<b>1,925</b>	(720)
<b>Total comprehensive income for the year</b>		<b>17,532</b>	11,115
<b>Profit per share</b>			
Basic and diluted earnings per share	15	<b>7.8p</b>	5.9p

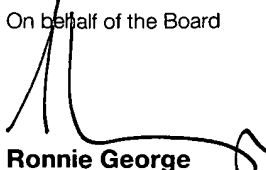

# Consolidated Statement of Financial Position

## At 31 July 2016

	Notes	2016 £000	2015 £000
<b>Non-current assets</b>			
Property, plant and equipment	16	19,130	16,047
Intangible assets – goodwill	17	68,228	51,725
Intangible assets – others	18	105,361	100,951
Deferred tax assets	14	450	394
		<b>193,169</b>	169,117
<b>Current assets</b>			
Inventories	21	20,156	15,019
Trade and other receivables	22	32,935	26,271
Other current financial assets	25	914	—
Cash and short-term deposits	23	15,744	11,565
		<b>69,749</b>	52,855
<b>Total assets</b>		<b>262,918</b>	221,972
<b>Current liabilities</b>			
Trade and other payables	24	(35,090)	(25,295)
Other current financial liabilities	25	—	(225)
Income tax		(2,472)	(1,411)
Provisions	27	(1,268)	(855)
Deferred tax liabilities	14	(2,395)	—
		<b>(41,225)</b>	(27,786)
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	26	(51,235)	(31,867)
Provisions	27	(671)	(600)
Deferred tax liabilities	14	(16,242)	(19,273)
		<b>(68,148)</b>	(51,740)
<b>Total liabilities</b>		<b>(109,373)</b>	(79,526)
<b>Net assets</b>		<b>153,545</b>	142,446
<b>Capital and reserves</b>			
Share capital	28	2,000	2,000
Share premium		11,527	11,527
Treasury shares		(1,533)	—
Capital reserve		93,855	92,325
Share-based payment reserve		649	181
Foreign currency translation reserve		1,462	(463)
Retained earnings		45,585	36,876
<b>Total equity</b>		<b>153,545</b>	142,446

The consolidated financial statements of Volusion Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 11 October 2016.

On behalf of the Board


  
**Ronnie George** **Ian Dew**  
 Chief Executive Officer Chief Financial Officer

## Consolidated Statement of Changes in Equity

For the year ended 31 July 2016

	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
<b>At 1 August 2014</b>	2,000	11,527	—	92,325	—	257	27,141	133,250
Profit for the year	—	—	—	—	—	—	11,835	11,835
Other comprehensive expense	—	—	—	—	—	(720)	—	(720)
Total comprehensive (expense)/income	—	—	—	—	—	(720)	11,835	11,115
Share-based payment	—	—	—	—	181	—	—	181
Dividends paid	—	—	—	—	—	—	(2,100)	(2,100)
<b>At 31 July 2015</b>	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 <sup>1</sup>	—	—	—	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)
<b>At 31 July 2016</b>	<b>2,000</b>	<b>11,527</b>	<b>(1,533)</b>	<b>93,855</b>	<b>649</b>	<b>1,462</b>	<b>45,585</b>	<b>153,545</b>

**Note**

1. The adjustment relates to a correction to the deferred tax on fair value adjustments made on acquisitions in prior years.

**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.

**Treasury shares**

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

**Share-based payment reserve**

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration. Refer to note 34 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 Volusion Group, Volusion Group plc, had distributable retained earnings at 31 July 2016 of £64,368,000.

# Consolidated Statement of Cash Flows

For the year ended 31 July 2016

	Notes	2016 £000	2015 £000
<b>Operating activities</b>			
Profit for the year after tax		15,607	11,835
<b>Adjustments to reconcile profit for the year to net cash flow from operating activities:</b>			
Income tax		2,757	3,691
Loss/(gain) on disposal of property, plant and equipment		9	(19)
Exceptional costs	8	1,209	731
Cash flows relating to exceptional costs		(795)	(89)
Finance revenue	9	(1,164)	(533)
Finance costs	9	1,202	2,209
Share-based payment expense		431	181
Depreciation of property, plant and equipment	16	2,559	2,536
Amortisation of intangible assets	18	12,987	11,646
<b>Working capital adjustments:</b>			
Decrease/(increase) in trade receivables and other assets		572	(895)
Movement in inventories		(775)	453
Exceptional costs: fair value of inventories		(332)	—
(Decrease)/increase in trade and other payables		(41)	750
Movement in provisions		186	(164)
UK income tax paid		(3,900)	(2,313)
Overseas income tax paid		(1,349)	(770)
<b>Net cash flow from operating activities</b>		<b>29,163</b>	<b>29,249</b>
<b>Investing activities</b>			
Payments to acquire intangible assets	18	(1,626)	(1,723)
Purchase of property, plant and equipment	16	(2,879)	(3,880)
Proceeds from disposal of property, plant and equipment		162	979
Acquisition of subsidiaries, net of cash acquired	20	(24,983)	(1,521)
Interest received		24	66
<b>Net cash flow used in investing activities</b>		<b>(29,302)</b>	<b>(6,079)</b>
<b>Financing activities</b>			
Repayment of interest-bearing loans and borrowings		(15,291)	(57,060)
Proceeds from new borrowings		28,222	39,760
Issue costs of new borrowings		—	(968)
Interest paid		(971)	(2,004)
Dividends paid		(6,894)	(2,100)
Purchase of own shares		(1,533)	—
<b>Net cash flow generated from/(used in) financing activities</b>		<b>3,533</b>	<b>(22,372)</b>
Net increase in cash and cash equivalents		3,394	798
Cash and cash equivalents at the start of the year		11,565	10,987
Effect of exchange rates on cash and cash equivalents		785	(220)
<b>Cash and cash equivalents at the end of the year</b>	23	<b>15,744</b>	<b>11,565</b>

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# Notes to the Consolidated Financial Statements

## For the year ended 31 July 2016

### 1. General information

The consolidated financial statements present the results of Volution Group plc (the Company) and its subsidiaries (collectively referred to as the Group) for the year ended 31 July 2016. A list of subsidiaries and their countries of incorporation is presented in note 32.

From a trading perspective, the Group is engaged in the following:

- the design, manufacture and distribution of unitary and systems ventilation products and equipment. These include a number of respected brands in the ventilation industry; and
- the design, manufacture and distribution of a range of motors and components for use in air movement applications and gas boilers.

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. 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 for the foreseeable future.

Group cash flow forecasts have been produced for the period to 31 July 2019 and demonstrate that the Group will be able to meet its liabilities as and when they fall due for the foreseeable future. The Group is also forecast to remain in compliance with its banking agreement covenants at each quarter end during the forecast period.

The Directors confirm that, after making appropriate enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

### 3. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

#### 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 below.

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. The areas involving a higher degree of judgement or complexity, and areas where assumptions and estimates are significant to the consolidated financial statements, are set out in note 4.

The consolidated financial statements are presented in GBP and all values are rounded to the nearest thousand (£000), except as otherwise indicated.

#### Basis of consolidation

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. Subsidiaries are consolidated from the date on which control is transferred and cease to be consolidated from the date on which control no longer exists.

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.



### 3. Accounting policies continued

#### Business combinations

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.

Business combinations are set out in note 20.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates 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 all the following conditions are satisfied:

- the Group has transferred ownership of the goods when the significant risks and rewards have passed to the buyer, usually on the delivery of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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, the Directors make estimates of the amount of rebate that will become both payable 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. Where the respective customer or supplier 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.

##### Rendering of services

Revenue from the provision of services 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 cost for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of expenses recognised that are recoverable.

## Notes to the Consolidated Financial Statements continued

### For the year ended 31 July 2016

#### 3. Accounting policies continued

##### Revenue recognition continued

###### Finance revenue

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

##### Segmental analysis

The method of identifying 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 Company.

For management purposes, the Group is organised into two reportable segments: Ventilation Group and Original Equipment Manufacturer (OEM (Torin-Sifan)). Each reportable segment is managed separately as they require different marketing approaches.

##### 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 in 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.

##### Income taxes

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.

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.

### 3. Accounting policies continued

#### Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated 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 method 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:

Freehold 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, as set out in note 12, or if the amount is deemed significant within exceptional items, as set out in note 8.

#### Intangible assets

##### 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 costs

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 definitive 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	–	5–11 years
Trademarks	–	20–25 years
Patents	–	20–25 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.

##### 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 definite 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.

## Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2016

### 3. Accounting policies continued

#### Intangible assets continued

##### Impairment of tangible and intangible assets excluding goodwill continued

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.

During the year the Group has reviewed its cash generating units. The previously identified cash generating units, used for the impairment review of tangible and intangible assets during the year ended 31 July 2015, were as follows:

Residential Repair, Maintenance and Improvement (RMI)

Residential New Build

Commercial

UK Export

Nordics Residential

Germany Residential

Original Equipment Manufacturer (OEM (Torin-Sifan))

As a result of the changes to the Group during the year, the following cash generating units have now been identified:

UK Ventilation

Diffusion

Nordics

Germany

Benelux

Original Equipment Manufacturer (OEM (Torin-Sifan))

These are used in the impairment review of tangible and intangible assets for the year ended 31 July 2016 and will be used for future periods.

#### 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.

#### Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- raw materials: purchase cost on a first in, first out basis; and
- work in progress and finished goods: cost of direct materials and labour and an appropriate portion of fixed and variable overhead expenses based on normal operating capacity, but excluding borrowing costs.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### Trade and other receivables

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.

#### Cash and cash equivalents

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.

### 3. Accounting policies continued

#### Provisions

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. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. 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.

#### Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group. 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.

#### 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.

#### Financial liabilities

##### Interest-bearing loans and borrowings

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.

All transaction costs relating to the refinancing which occurred during 2012/13 have been expensed in the prior year. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### 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 25 and 30.

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 investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for as follows: gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is reclassified to profit or loss.

The Group uses borrowings in local currencies as a hedge of its exposure to foreign exchange risk on its investments in foreign operations.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2016

## 3. Accounting policies continued

### Fair value measurement

The Group measures certain financial instruments, such as derivatives, at fair value at each reporting date. The Group also measures assets and liabilities (for example, intangible assets) acquired in a business combination at fair value on initial recognition. The fair values of financial instruments measured at amortised cost are disclosed in note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible by the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, based on a multi-criteria approach, the following valuation techniques can be used for the same class of assets:

- discounted cash flow using the following inputs: net current inflow, terminal value and discount rate; and
- yield methodology using market values capitalised with a market capitalisation rate.

The resulting valuations are cross-checked against the initial yields and the fair market values derived from actual market transactions.

If the fair value is not reliably determinable, the asset is measured at cost model until such time as the fair value can be reliably measured.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### 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.

### Leasing commitments

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.

### 3. Accounting policies continued

#### 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.

#### Dividends

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.

### 4. 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 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.

#### Judgements

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

##### Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group mainly relating to acquisition costs, inventory fair value adjustments as a result of acquisitions and restructuring costs following acquisitions. 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. See note 8 for details of exceptional items.

##### Estimates and assumptions

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

##### Fair value of assets acquired during business combinations

Judgements and estimates are required in assessment of fair value of the consideration and net assets acquired, including the identification and valuation of intangible assets. In valuing certain intangible assets management has made assumptions about the retention rate of customers and cash flow forecasts used to determine the fair value of the assets at the date of acquisition. Note 20 provides details on business combinations.

##### Impairment of goodwill and other intangible assets

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The cash flows are derived from the 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 19.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement. Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows. Further details of the CGUs identified by the Group are contained in note 3.

The Group's accounting policy for impairment of other intangible assets is set out in note 3. 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. Further details are included in note 18.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 4. Critical accounting judgements and key sources of estimation uncertainty continued

#### Estimates and assumptions continued

##### Taxation

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. A breakdown of the deferred tax asset is included in note 14. 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.

##### 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, the Directors make estimates of the amount of rebate that will become both payable 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. Where the respective customer or supplier 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 2016 included within trade and other payables is £5,414,000 (2015: £5,017,000).

##### Provisions for warranties, bad debts and inventory obsolescence

Provisions for warranties are made with reference to recent trading history and historic warranty claim information, and the view of management as to whether warranty claims are expected.

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

### 5. New standards and interpretations

No new accounting standards or amendments have been adopted during the period.

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.

Standard or interpretation	Title	Effective for accounting periods beginning on or after
IAS 1	Disclosure initiative – Amendments to IAS 1	1 January 2016
IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 14	Regulatory Deferral Accruals	1 January 2016
IAS 7	Disclosure initiative – Amendments to IAS 7	1 January 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018
IFRS 16	Leases	1 January 2019



## 6. Revenue

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

	2016 £000	2015 £000
Sale of goods	150,986	127,652
Rendering of services	3,478	2,526
<b>Total revenue</b>	<b>154,464</b>	<b>130,178</b>
<b>Market sectors</b>	<b>2016 £000</b>	<b>2015 £000</b>
<b>Ventilation Group</b>		
UK Residential RMI	35,427	36,574
UK Residential New Build	19,818	17,180
UK Commercial	21,677	16,188
UK Export	7,803	8,374
Nordics <sup>1</sup>	25,521	22,241
Central Europe <sup>2</sup>	23,820	10,904
<b>Total Ventilation Group</b>	<b>134,066</b>	<b>111,461</b>
<b>Original Equipment Manufacturer (OEM (Torin-Sifan))</b>		
OEM (Torin-Sifan)	20,398	18,717
<b>Total revenue</b>	<b>154,464</b>	<b>130,178</b>

### Notes

1. Represents revenue of Fresh AB and its subsidiaries, PAX AB, Volution Norge AS and Welair AB.
2. Represents revenue of inVENTer GmbH, Brüggemann Energiekonzepte GmbH, Ventilair Group Belgium BVBA, Ventilair Group Netherlands B.V. and Ventilair SARL.

## 7. Segmental analysis

In identifying its operating segments, management follows the Group's product markets. The Group is considered to have two reportable segments: Ventilation Group and Original Equipment Manufacturer (OEM (Torin-Sifan)). Each reportable segment is managed separately as they require different marketing approaches.

Operating segments that provide ventilation services have been aggregated as they have similar economic characteristics, assessed by reference to the gross margins of the segments. In addition the segments are similar in relation to the nature of products, services and production processes, type of customer, method for distribution and regulatory environment.

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 36 for definition) 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.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 7. Segmental analysis continued

Transfer prices between operating segments are on an arm's length basis on terms similar to transactions with third parties.

Year ended 31 July 2016	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
<b>Revenue</b>						
External customers	134,066	20,398	—	154,464	—	154,464
Inter-segment	15,999	982	—	16,981	(16,981)	—
<b>Total revenue</b>	<b>150,065</b>	<b>21,380</b>	<b>—</b>	<b>171,445</b>	<b>(16,981)</b>	<b>154,464</b>
<b>Gross profit</b>	<b>69,170</b>	<b>6,196</b>	<b>—</b>	<b>75,366</b>	<b>—</b>	<b>75,366</b>
<b>Results</b>						
<b>Adjusted segment EBITDA</b>	<b>33,859</b>	<b>3,780</b>	<b>(2,246)</b>	<b>35,393</b>	<b>—</b>	<b>35,393</b>
Depreciation and amortisation of developments costs, software and patents	(2,217)	(524)	(147)	(2,888)	—	(2,888)
<b>Adjusted operating profit/(loss)</b>	<b>31,642</b>	<b>3,256</b>	<b>(2,393)</b>	<b>32,505</b>	<b>—</b>	<b>32,505</b>
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)
<b>Operating profit/(loss)</b>	<b>19,733</b>	<b>1,898</b>	<b>(3,229)</b>	<b>18,402</b>	<b>—</b>	<b>18,402</b>
<b>Unallocated expenses</b>						
Net finance cost	—	—	(38)	(38)	—	(38)
<b>Profit/(loss) before tax</b>	<b>19,733</b>	<b>1,898</b>	<b>(3,267)</b>	<b>18,364</b>	<b>—</b>	<b>18,364</b>
Year ended 31 July 2015	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
<b>Revenue</b>						
External customers	111,461	18,717	—	130,178	—	130,178
Inter-segment	11,834	1,249	—	13,083	(13,083)	—
<b>Total revenue</b>	<b>123,295</b>	<b>19,966</b>	<b>—</b>	<b>143,261</b>	<b>(13,083)</b>	<b>130,178</b>
<b>Gross profit</b>	<b>57,702</b>	<b>5,457</b>	<b>—</b>	<b>63,159</b>	<b>—</b>	<b>63,159</b>
<b>Results</b>						
<b>Adjusted segment EBITDA</b>	<b>31,117</b>	<b>2,977</b>	<b>(1,979)</b>	<b>32,115</b>	<b>—</b>	<b>32,115</b>
Depreciation and amortisation of developments costs, software and patents	(2,176)	(477)	(31)	(2,684)	—	(2,684)
<b>Adjusted operating profit/(loss)</b>	<b>28,941</b>	<b>2,500</b>	<b>(2,010)</b>	<b>29,431</b>	<b>—</b>	<b>29,431</b>
Amortisation of intangible assets acquired through business combinations	(10,140)	(1,358)	—	(11,498)	—	(11,498)
Exceptional items	6	(24)	(713)	(731)	—	(731)
<b>Operating profit/(loss)</b>	<b>18,807</b>	<b>1,118</b>	<b>(2,723)</b>	<b>17,202</b>	<b>—</b>	<b>17,202</b>
<b>Unallocated expenses</b>						
Net finance cost	—	—	(1,676)	(1,676)	—	(1,676)
<b>Profit/(loss) before tax</b>	<b>18,807</b>	<b>1,118</b>	<b>(4,399)</b>	<b>15,526</b>	<b>—</b>	<b>15,526</b>

The Group overhead costs are not allocated to individual operating segments. Likewise, certain exceptional costs have not been allocated to individual operating segments.

Inter-segment revenues are eliminated on consolidation.

## 7. Segmental analysis continued

	2016 £000	2015 £000
<b>Geographic information</b>		
<b>Revenue from external customers by destination</b>		
United Kingdom	87,536	79,936
Europe (excluding United Kingdom and Sweden)	44,716	31,131
Sweden	19,500	16,663
Rest of the world	2,712	2,448
<b>Total revenue</b>	<b>154,464</b>	<b>130,178</b>
<b>Non-current assets excluding deferred tax</b>		
United Kingdom	150,239	142,957
Europe (excluding United Kingdom and Nordics)	27,970	13,787
Nordics	13,360	11,979
<b>Total</b>	<b>191,569</b>	<b>168,723</b>

### Information about major customers

Annual revenue from no individual customer accounts for more than 10% of Group revenue. In the year ended 31 July 2015 one customer accounted for annual revenue of £13,607,000, which represented 10.5% of Group revenue.

## 8. Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group. Exceptional costs are summarised below:

	Notes	2016 £000	2015 £000
Inventory fair value adjustment arising on business combinations	(a)	332	—
Acquisition costs	(b)	877	875
Restructuring and acquisition integration		—	128
Profit on disposal of property, plant and equipment		—	(261)
Costs associated with the stock market listing of the Group		—	(11)
		<b>1,209</b>	<b>731</b>
Total tax credit for the year	(c)	(80)	(26)
		<b>1,129</b>	<b>705</b>

(a) As set out in note 20, inventory acquired on acquisitions was recognised at fair value, which is based on selling price less costs of disposal and a profit allowance for selling efforts. In line with the Group's definition of exceptional costs, inclusion of the inventory fair value adjustment within trading results would not be reflective of ongoing business performance. The inventory fair value adjustment has therefore been presented separately.

The relevant inventory was disposed of in the same period it was acquired.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 8. Exceptional items continued

(b) Acquisition costs relate to professional fees incurred in respect of the business combinations disclosed in note 20:

	2016 £000	2015 £000
Brüggemann Energiekonzepte GmbH	—	134
Ventilair Group International BVBA	85	559
Fresh AB and its subsidiaries	—	49
Energy Technique plc	603	—
Weland Luftbehandlung AB	22	—
NVA Services Limited	167	—
Aborted acquisitions	—	133
	<b>877</b>	<b>875</b>

(c) It was deemed that the items allowable for or chargeable to tax were approximately £332,000 (2015: £128,000) with a potential tax benefit of £80,000 (2015: £26,000).

### 9. Finance revenue and costs

	2016 £000	2015 £000
<b>Finance revenue</b>		
Net gain on financial instruments at fair value	1,139	467
Interest receivable	25	66
<b>Total finance revenue</b>	<b>1,164</b>	<b>533</b>
<b>Finance costs</b>		
Interest payable on bank loans	(915)	(2,004)
Amortisation of finance costs	(232)	(102)
Other interest	(55)	—
<b>Total interest expense</b>	<b>(1,202)</b>	<b>(2,106)</b>
Net loss on financial instruments at fair value	—	(103)
<b>Total finance costs</b>	<b>(1,202)</b>	<b>(2,209)</b>
<b>Net finance costs</b>	<b>(38)</b>	<b>(1,676)</b>

Included in the interest payable on bank loans is £nil (2015: £106,000) relating to breakage costs of the interest rate swaps.

## 10. Adjusted earnings

	2016 £000	2015 £000
<b>Profit after tax</b>	<b>15,607</b>	11,835
<b>Add back:</b>		
Exceptional items	1,209	731
Other non-recurring items not meeting the definition of exceptional	236	—
Breakage costs of interest rate swaps	—	106
Net gain on financial instruments at fair value	(1,139)	(364)
Amortisation and impairment of intangible assets acquired through business combinations	12,658	11,498
Tax effect of the above	(3,496)	(1,838)
<b>Adjusted profit after tax</b>	<b>25,075</b>	21,968
<b>Add back:</b>		
Adjusted tax charge	6,253	5,529
<b>Adjusted profit before tax</b>	<b>31,328</b>	27,497
<b>Add back:</b>		
Interest payable on bank loans and amortisation of financing costs	1,202	2,000
Finance revenue	(25)	(66)
<b>Adjusted operating profit</b>	<b>32,505</b>	29,431
<b>Add back:</b>		
Depreciation of property, plant and equipment	2,559	2,536
Amortisation of development costs, software and patents	329	148
<b>Adjusted EBITDA</b>	<b>35,393</b>	32,115

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

## 11. Staff costs

	2016 £000	2015 £000
Wages and salaries	32,338	26,759
Social security costs	4,303	3,407
Other pension costs	1,268	1,174
Share-based payment charge (see note 34)	431	181
	<b>38,340</b>	31,521

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 2015/16 but based on actual salary levels in 2016/17.

## Average monthly number of employees in the year

	2016 Number	2015 Number
Production	714	586
Sales and administration	623	450
	<b>1,337</b>	1,036

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 11. Staff costs continued

#### Directors' remuneration

	2016 £000	2015 £000
<b>Amounts paid in respect of qualifying services</b>		
Aggregate Directors' emoluments	1,018	1,011
Aggregate Directors' pension scheme contributions	81	91
<b>In respect of the highest paid Director</b>		
Aggregate Directors' emoluments	591	588
Aggregate Directors' pension scheme contributions	47	53

The number of Directors accruing benefits under Group money purchase pension arrangements was two (2015: two).

The Group also incurred costs of £295,000 (2015: £295,000) from Peter Hill, Tony Reading, Paul Hollingworth and Adrian Barden for their services as Non-Executive Directors.

### 12. Other operating expenses

Cost of sales, distribution costs and administrative expenses include the following:

	2016 £000	2015 £000
<b>Cost of sales</b>		
Costs of inventories recognised as expenses	77,122	65,050
Operating lease expense	882	847
Depreciation of property, plant and equipment	1,094	1,122
<b>Distribution costs</b>		
Depreciation of property, plant and equipment	579	436
<b>Administrative expenses</b>		
Research and development costs	1,507	1,485
Depreciation of property, plant and equipment	886	978
Amortisation and impairment of intangible assets	12,987	11,646
Operating lease expense	493	74
Net foreign exchange differences	382	(483)
Loss/(gain) on disposal of property, plant and equipment	9	(19)

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.

### 13. 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:

	2016 £000	2015 £000
<b>Audit services</b>		
Fees for the audit of the parent and Group financial statements	127	120
Fees for local statutory audits of subsidiaries	177	136
<b>Non-audit services</b>		
Fees payable for interim review	25	25
	329	281

## 14. Income tax

### (a) Income tax recognised in profit for the year

	2016 £000	2015 £000
<b>Current income tax</b>		
Current UK income tax expense	4,588	4,451
Current foreign income tax expense	1,592	1,178
Tax charge/(credit) relating to the prior year	73	(100)
<b>Total current tax</b>	<b>6,253</b>	<b>5,529</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(1,876)	(2,002)
Effect of changes in the tax rate	(1,105)	26
Tax (credit)/charge relating to prior years	(515)	138
<b>Total deferred tax</b>	<b>(3,496)</b>	<b>(1,838)</b>
<b>Net tax charge reported in the consolidated statement of comprehensive income</b>	<b>2,757</b>	<b>3,691</b>

### (b) Income tax recognised in equity for the year

	2016 £000	2015 £000
Increase in deferred tax asset on share-based payments	(37)	—
<b>Net tax credit reported in equity</b>	<b>(37)</b>	<b>—</b>

### (c) Reconciliation of total tax

	2016 £000	2015 £000
Profit before tax	18,364	15,526
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20.0% (2015: 20.67%)	3,673	3,209
Adjustment in respect of previous years	(442)	38
Expenses not deductible for tax purposes	556	401
Effect of changes in the tax rate (see explanation below)	(1,105)	26
Non-taxable income	(39)	(38)
Higher overseas tax rate	114	55
<b>Net tax charge reported in the consolidated statement of comprehensive income</b>	<b>2,757</b>	<b>3,691</b>

The Finance Act (No. 2) 2015 was enacted on 18 November 2015 and introduced a 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 are incorporated within the financial statements, leading to a credit of £1,105,000 to the tax charge. A further reduction in the headline rate to 17% to apply from 1 April 2020 was included in the Finance Bill 2016. As the Finance Bill 2016 had not been enacted at 31 July 2016, the impact of this rate change has not been included in these financial statements.

### (d) Unrecognised deferred tax assets

At 31 July 2016, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 relating to management expenses (2015: £nil), capital losses of £3,975,000 arising in UK subsidiaries and gross tax losses of £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 2016, the Group had no deferred tax liability (2015: £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.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 14. Income tax continued

#### (e) Deferred tax balances

Deferred tax assets and liabilities arise from the following:

	1 August 2015 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2016 £000
<b>2016</b>						
<b>Temporary differences</b>						
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)
<b>2015</b>						
<b>Temporary differences</b>						
Depreciation in advance of capital allowances	(58)	(618)	—	—	—	(676)
Fair value movements of derivative financial instruments	122	(77)	—	—	—	45
Customer base, trademark and patent	(21,050)	2,241	587	(54)	(18,276)	
Losses	560	(57)	33	—	536	
Untaxed reserves	(617)	82	67	—	(468)	
Other temporary differences	(315)	267	8	—	(40)	
	(21,358)	1,838	695	(54)	(18,879)	
Deferred tax asset	732	(378)	40	—	394	
Deferred tax liability	(22,090)	2,216	655	(54)	(19,273)	
	(21,358)	1,838	695	(54)	(18,879)	
Deferred tax asset					2016 £000	2015 £000
Non-current					450	394
Deferred tax liability					2016 £000	2015 £000
Current					2,395	—
Non-current					16,242	19,273
					18,637	19,273



### 15. 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 2016 and 2015.

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

	2016 £000	2015 £000
Year ended 31 July		
Profit attributable to ordinary equity holders	15,607	11,835
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares for basic earnings per share and diluted earnings per share	199,627,253	200,000,000
<b>Earnings per share</b>		
Basic and diluted	7.8p	5.9p
	<b>2016 £000</b>	<b>2015 £000</b>
Year ended 31 July		
Adjusted profit attributable to ordinary equity holders	25,075	21,968
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares for adjusted basic earnings per share and adjusted diluted earnings per share	199,627,253	200,000,000
<b>Adjusted earnings per share</b>		
Basic and diluted	12.6p	11.0p

See note 36, Glossary of terms, for explanation of the adjusted basic and diluted earnings per share calculation.

## Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2016

## 16. Property, plant and equipment

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
<b>2016</b>				
<b>Cost</b>				
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)	—
<b>At 31 July 2016</b>	<b>12,897</b>	<b>5,418</b>	<b>9,201</b>	<b>27,516</b>
<b>Depreciation</b>				
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)	—
<b>At 31 July 2016</b>	<b>2,641</b>	<b>2,051</b>	<b>3,694</b>	<b>8,386</b>
<b>Net book value</b>				
<b>At 31 July 2016</b>	<b>10,256</b>	<b>3,367</b>	<b>5,507</b>	<b>19,130</b>
<b>2015</b>				
<b>Cost</b>				
At 1 August 2014	12,477	2,998	5,461	20,936
On acquisition	—	—	51	51
Additions	265	1,113	2,502	3,880
Disposals	(611)	(76)	(1,058)	(1,745)
Net foreign currency exchange differences	(651)	(281)	(346)	(1,278)
Transfers	—	—	(95)	(95)
<b>At 31 July 2015</b>	<b>11,480</b>	<b>3,754</b>	<b>6,515</b>	<b>21,749</b>
<b>Depreciation</b>				
At 1 August 2014	1,980	718	2,323	5,021
Charge for the year	432	552	1,552	2,536
Disposals	(252)	(72)	(852)	(1,176)
Net foreign currency exchange differences	(78)	(273)	(343)	(694)
Transfers	—	—	15	15
<b>At 31 July 2015</b>	<b>2,082</b>	<b>925</b>	<b>2,695</b>	<b>5,702</b>
<b>Net book value</b>				
<b>At 31 July 2015</b>	<b>9,398</b>	<b>2,829</b>	<b>3,820</b>	<b>16,047</b>

**17. Intangible assets – goodwill**

	£000
<b>Cost and net book value</b>	
At 1 August 2014	50,127
Adjustment to goodwill relating to inVENTer and its subsidiaries	473
On acquisition of Brüggemann Energiekonzepte GmbH	1,395
Net foreign currency exchange differences	(270)
<b>At 31 July 2015</b>	<b>51,725</b>
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 Luftbehandlung AB	12
On acquisition of NVA Services Limited and its subsidiaries	3,415
Net foreign currency exchange differences	2,265
<b>At 31 July 2016</b>	<b>68,228</b>

**18. Intangible assets – other**

	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents £000	Other £000	Total £000
<b>2016</b>							
<b>Cost</b>							
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
<b>At 31 July 2016</b>	<b>2,232</b>	<b>5,587</b>	<b>110,973</b>	<b>40,481</b>	<b>573</b>	<b>300</b>	<b>160,146</b>
<b>Amortisation</b>							
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
<b>At 31 July 2016</b>	<b>165</b>	<b>1,880</b>	<b>45,580</b>	<b>6,930</b>	<b>52</b>	<b>178</b>	<b>54,785</b>
<b>Net book value</b>							
<b>At 31 July 2016</b>	<b>2,067</b>	<b>3,707</b>	<b>65,393</b>	<b>33,551</b>	<b>521</b>	<b>122</b>	<b>105,361</b>

Included in software costs are assets under construction of £86,000 (2015: £2,441,000), which are not amortised.

Included in development costs are assets under construction of £1,514,000 (2015: £1,395,000), which are not amortised.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 18. Intangible assets – other continued

2015	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents £000	Total £000
<b>Cost</b>						
At 1 August 2014	1,029	2,973	100,066	38,182	927	143,177
Additions	637	1,086	—	—	—	1,723
Disposals	—	(5)	—	—	—	(5)
On acquisition	—	—	208	—	—	208
Transfers	—	271	(360)	—	(176)	(265)
Net foreign currency exchange differences	(21)	—	(2,070)	(922)	(272)	(3,285)
At 31 July 2015	1,645	4,325	97,844	37,260	479	141,553
<b>Amortisation</b>						
At 1 August 2014	40	1,576	24,212	3,691	7	29,526
Charge for the year	25	97	9,904	1,594	26	11,646
Disposals	—	(4)	—	—	—	(4)
Transfers	—	—	—	—	(15)	(15)
Net foreign currency exchange differences	—	—	(382)	(167)	(2)	(551)
At 31 July 2015	65	1,669	33,734	5,118	16	40,602
<b>Net book value</b>						
At 31 July 2015	1,580	2,656	64,110	32,142	463	100,951

The remaining amortisation periods for acquired intangible assets at 31 July 2016 are as follows:

	Customer base	Trademark	Patent
Volusion Holdings Limited and its subsidiaries	6 years	21 years	—
Fresh AB and its subsidiaries	3 years	16 years	—
PAX AB and PAX Norge AS	5 years	17 years	—
inVENTer GmbH	7 years	18 years	18 years
Brüggemann Energiekonzepte GmbH	4 years	—	—
Ventilair Group International BVBA and its subsidiaries	7 years	9 years	—
Energy Technique Limited and its subsidiaries	8 years	20 years	—
Weland Luftbehandlung AB	4 years	—	—
NVA Services Limited and its subsidiaries	10 years	15 years	—

## 19. Impairment assessment of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to cash generating units. These represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

During the year the Group has reviewed its cash generating units. The previously identified cash generating units, used for the impairment review of tangible and intangible assets during the year ended 31 July 2015 were updated as a result of the changes to the Group (see note 20) during the year ended 31 July 2016.

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 <sup>1</sup>	140,141	31,995	52,182	12,144	2,556	7,046

Applying the same CGUs to the 31 July 2015 goodwill gives the following headroom:

31 July 2015	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Germany £000	Benelux £000	Diffusion £000
Carrying value of goodwill	40,672	4,996	2,303	3,754	N/A	N/A
CGU value in use headroom <sup>1</sup>	154,744	18,823	36,843	18,393	N/A	N/A

The table below was disclosed in the 31 July 2015 financial statements using the previously identified CGUs:

31 July 2015	Residential RMI £000	Residential New Build £000	Commercial £000	UK Export £000	OEM (Torin-Sifan) £000	Nordics Residential £000	Germany Residential £000
Carrying value of goodwill	21,195	7,143	8,744	3,590	4,996	2,303	3,754
CGU value in use headroom <sup>1</sup>	72,267	33,946	31,985	16,546	18,823	36,843	18,393

### Note

- Headroom is calculated by comparing the Value in use (VIU) of a CGU to the carrying amount of its asset, which includes the net book value of fixed assets (tangible and intangible), goodwill and operating working capital (current assets and liabilities).

### Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of three years, which has been established using pre-tax discount rates of 11.7% to 14.8% 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 historic 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 historic 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 11.7% to 14.8%.
- 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. No reasonably possible change in the above key assumptions would cause the carrying value of the cash generating units to materially exceed their recoverable value.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 20. Business combinations

#### 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 2016 were £85,000 (2015: £559,000) 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	—	(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
<b>Total identifiable net assets</b>	<b>1,121</b>	<b>3,447</b>	<b>4,568</b>
Goodwill on acquisition			5,426
			<b>9,994</b>
<b>Discharged by:</b>			
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 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.

If the combination had taken place as at 1 August 2015, the Group's revenue would have been £154,464,000 and the profit before tax would have been £18,364,000.

## 20. 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 provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Provisional fair value £000
Intangible assets	—	156	156
Deferred tax	—	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
<b>Total identifiable net assets</b>	<b>597</b>	<b>(12)</b>	<b>585</b>
Goodwill on acquisition			12
			597
<b>Discharged by:</b>			
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.

If the combination had taken place as at 1 August 2015, the Group's revenue would have been £154,997,000 and the profit before tax would have been £18,368,000.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 20. 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 provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Provisional fair value £000
Intangible assets	9	4,221	4,230
Deferred tax	(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
<b>Total identifiable net assets</b>	<b>2,147</b>	<b>3,390</b>	<b>5,537</b>
Goodwill on acquisition			3,859
			<b>9,396</b>
<b>Discharged by:</b>			
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.

If the combination had taken place as at 1 August 2015, the Group's revenue would have been £158,911,000 and the profit before tax would have been £17,868,000.



## 20. 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 provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Provisional 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
<b>Total identifiable net assets</b>	<b>1,608</b>	<b>1,674</b>	<b>3,282</b>
Goodwill on acquisition			3,415
			6,697
<b>Discharged by:</b>			
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.

If the combination had taken place as at 1 August 2015, the Group's revenue would have been £161,936,000 and the profit before tax would have been £18,583,000.

### Acquisition in the year ended 31 July 2015

#### Brüggemann Energiekonzepte GmbH

On 14 April 2015, Volution Management Holdings GmbH acquired the entire issued share capital of Brüggemann Energiekonzepte GmbH. The transaction was funded from the Group's existing revolving credit facility. The Group acquired Brüggemann as it offered a channel to sell existing ventilation products in a new region.

Total consideration for the transaction was cash consideration of €2,280,000 (£1,649,000).

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 20. Business combinations continued

#### Acquisition in the year ended 31 July 2015 continued

##### Brüggemann Energiekonzepte GmbH continued

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	208	208
Deferred tax	—	(54)	(54)
Property, plant and equipment	63	(12)	51
Inventory	8	—	8
Trade and other receivables	23	—	23
Trade and other payables	(110)	—	(110)
Cash and cash equivalents	128	—	128
<b>Total identifiable net assets</b>	<b>112</b>	<b>142</b>	<b>254</b>
Goodwill on acquisition			1,395
			1,649
<b>Discharged by:</b>			
Consideration satisfied in cash			1,649

The fair value of the acquired customer base was identified and included in intangible assets.

Goodwill of £1,395,000 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.

Brüggemann Energiekonzepte GmbH generated revenue of £719,000 and generated a profit after tax of £55,000 in the period from acquisition to 31 July 2015 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2014, the Group's revenue would have been £132,539,000 and the profit before tax from continuing operations would have been £15,705,000.

Cash outflows arising from business combinations are as follows:

	2016 £000	2015 £000
<b>Ventilair Group International BVBA</b>		
Cash consideration	9,960	—
Less: cash acquired with the business	(270)	—
<b>Weland Luftbehandlung AB</b>		
Cash consideration	597	—
Less: cash acquired with the business	(9)	—
<b>Energy Technique Limited</b>		
Cash consideration	9,396	—
Less: cash acquired with the business	(1,210)	—
<b>NVA Services Limited</b>		
Cash consideration	6,697	—
Less: cash acquired with the business	(178)	—
<b>Brüggemann Energiekonzepte GmbH</b>		
Cash consideration	—	1,649
Less: cash acquired with the business	—	(128)
	<b>24,983</b>	<b>1,521</b>

**21. Inventories**

	2016 £000	2015 £000
Raw materials and consumables	10,015	7,545
Work in progress	1,432	1,212
Finished goods and goods for resale	8,709	6,262
	<b>20,156</b>	<b>15,019</b>

During 2016, £258,000 (2015: £331,000) was recognised as a cost of sales for inventories written off in the year.

**22. Trade and other receivables**

	2016 £000	2015 £000
Trade receivables	30,591	24,818
Allowance for doubtful debts	(893)	(1,185)
	<b>29,698</b>	<b>23,633</b>
Other debtors	687	311
Prepayments	2,550	2,327
	<b>32,935</b>	<b>26,271</b>

Movement in the allowance for doubtful debts is set out below.

	2016 £000	2015 £000
At the start of the year	(1,185)	(926)
Charge for the year	(239)	(864)
Amounts utilised	620	599
Foreign currency adjustment	(89)	6
<b>At the end of the year</b>	<b>(893)</b>	<b>(1,185)</b>

Gross trade receivables are denominated in the following currencies:

	2016 £000	2015 £000
Sterling	22,756	19,725
US Dollar	7	36
Euro	4,014	2,285
Swedish Krona	3,043	2,180
Other	771	592
	<b>30,591</b>	<b>24,818</b>

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 22. Trade and other receivables continued

Net trade receivables are aged as follows:

	2016 £000	2015 £000
<b>Neither past due nor impaired</b>	<b>23,952</b>	21,056
<b>Past due but not impaired</b>		
Overdue 0–30 days	4,491	1,721
Overdue 31–60 days	883	687
Overdue 61–90 days	223	123
Overdue more than 90 days	149	46
	<b>29,698</b>	23,633

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.

### 23. Cash and cash equivalents

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:

	2016 £000	2015 £000
Cash and short-term deposits	15,744	11,565

Cash and cash equivalents are denominated in the following currencies:

	2016 £000	2015 £000
Sterling	9,705	6,070
Euro	4,078	3,729
US Dollar	525	201
Swedish Krona	1,243	1,187
Other	193	378
	<b>15,744</b>	11,565

### 24. Trade and other payables

	2016 £000	2015 £000
Trade payables	18,205	10,629
Social security and staff welfare costs	1,786	1,234
Accrued expenses	15,099	13,432
	<b>35,090</b>	25,295

**25. Other financial assets and liabilities**

	2016 Current £000	2015 Current £000
<b>Financial assets</b>		
FX forward contracts	914	—
	<b>914</b>	—
<b>Financial liabilities</b>		
Interest rate swap	—	(73)
FX forward contracts	—	(152)
	—	(225)

**26. Interest-bearing loans and borrowings**

	2016		2015	
	Current £000	Non-current £000	Current £000	Non-current £000
<b>Unsecured – at amortised cost</b>				
Revolving credit facility	—	51,869	—	32,733
Cost of arranging bank loan	—	(634)	—	(866)
	—	<b>51,235</b>	—	31,867

Interest-bearing borrowings at 31 July 2015 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 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%
<b>Total</b>	<b>51,869</b>			

**Revolving credit facility – at 31 July 2015**

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	11,000	30 April 2019	One payment	Libor + 1.25%
Euro	8,283	30 April 2019	One payment	Euribor + 1.25%
Swedish Krona	13,450	30 April 2019	One payment	Stibor + 1.25%
<b>Total</b>	<b>32,733</b>			

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 2015, 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 2015 and therefore the margin for the first period of the year ended 31 July 2016 was 1.00%. At the half year the consolidated leverage level increased to between 1.0:1 and 1.5:1 and therefore the margin for the second period of the year ended 31 July 2016 was 1.25%; this rate will continue into the first period of the year ended 31 July 2017.

At 31 July 2016 the Group had £38,131,000 (2015: £57,267,000) of its multi-currency revolving credit facility unutilised.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 27. Provisions

	Product warranties £000	Property dilapidations £000	Total £000
<b>2016</b>			
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
<b>At 31 July 2016</b>	<b>1,268</b>	<b>671</b>	<b>1,939</b>
<b>Analysis:</b>			
Current	1,268	—	1,268
Non-current	—	671	671
	<b>1,268</b>	<b>671</b>	<b>1,939</b>
<b>2015</b>			
At 1 August 2014	1,018	600	1,618
Arising during the year	656	—	656
Utilised	(791)	—	(791)
Foreign currency adjustment	(28)	—	(28)
At 31 July 2015	855	600	1,455
<b>Analysis:</b>			
Current	855	—	855
Non-current	—	600	600
	<b>855</b>	<b>600</b>	<b>1,455</b>

#### 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.

### 28. Authorised and issued share capital and reserves

	Number of ordinary shares	Ordinary shares £000	Share premium £000
<b>At 31 July 2015 and 31 July 2016</b>	<b>200,000,000</b>	<b>2,000</b>	<b>11,527</b>

At 31 July 2016, a total of 916,878 (31 July 2015: nil) ordinary shares in the Company were held by the Volution EBT, all of which were under option to employees for nil consideration. During the period 916,878 ordinary shares in the Company were purchased by the trustees (31 July 2015: nil), and nil (31 July 2015: nil) were disposed of by the trustees. The market value of the shares at 31 July 2016 was £1,421,000 (31 July 2015: £nil).

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

## 29. Dividends paid and proposed

	2016 £000	2015 £000
<b>Cash dividends on ordinary shares declared and paid</b>		
Interim dividend for 2016: 1.20 pence per share (2015: 1.05 pence)	2,394	2,100
<b>Proposed dividends on ordinary shares</b>		
Final dividend for 2016: 2.60 pence per share (2015: 2.25 pence)	5,176	4,500

The interim dividend payment of £2,394,000 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 2016.

## 30. Risk management

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
- FX forward contracts and interest rate swaps.

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 and interest rate swaps to reduce its exposure to interest rate risk.

### Forward foreign currency contracts

The Group's purchases in foreign currencies, net of Group sales in those currencies, represent approximately 3% (2015: 4%) 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.

### Interest rate swaps

The Group's criteria for entering into an interest rate swap would require that the instrument must:

- be related to an asset or a liability; and
- change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

### 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.

In February 2014, the Group entered into an interest rate swap agreement with Royal Bank of Scotland plc and Bank of Ireland. Under this agreement, which matured on 31 December 2015, the Libor interest rate above the margin related to the bank loan with GE Corporate Finance Bank SAS, London branch, is subject to a fixed rate of 1.15%, replacing Libor. Following the maturing of this interest rate swap, no new interest rate swaps were entered into in the year.

The fair value of the interest rate swap at 31 July 2016 was £nil (2015: liability of £73,000).

At 31 July 2016, the Group had commitments under forward foreign exchange contracts with varying settlement dates to 24 July 2017 (2015: 6 May 2016). See note 25 for fair values.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 30. Risk management continued

#### Sensitivity analysis

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might affect the value of its derivatives and also the amounts recorded in its equity in the overseas entities and its statement of comprehensive income for the period. Therefore the Group has assessed:

- what would be reasonably possible changes in the risk variables at the end of the reporting period; and
- the effects on profit or loss and equity if such changes in the risk variables were to occur.

#### Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Group's floating rate loans and borrowings which at the relevant reporting dates are not hedged. With all other variables being constant the Group's profit before tax is affected through the impact on floating rate borrowings as follows. There is only an immaterial impact on the Group's equity.

	Increase in basis points	Effect on profit before tax £000
<b>31 July 2016</b>		
Sterling	<b>+25</b>	<b>(35)</b>
Swedish Krona	<b>+25</b>	<b>(40)</b>
Euro	<b>+25</b>	<b>(55)</b>
<b>31 July 2015</b>		
Sterling	+25	—
Swedish Krona	+25	(18)
Euro	+25	(21)

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	
		2016 £000	2015 £000
Swedish Krona	5%	<b>312</b>	240
US Dollar	5%	<b>55</b>	107
Euro	5%	<b>(127)</b>	(186)
	Change in GBP vs SEK/EUR rate	Effect on equity	
		2016 £000	2015 £000
Swedish Krona	5%	<b>(12)</b>	5
Euro	5%	<b>108</b>	(39)



### 30. 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 2016 and 2015.

	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
<b>At 31 July 2016</b>				
<b>Financial liabilities</b>				
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
	<b>32,413</b>	<b>51,869</b>	<b>—</b>	<b>84,282</b>
<b>At 31 July 2015</b>				
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings (excluding interest)	—	32,733	—	32,733
Forward foreign currency exchange outflow	8,224	—	—	8,224
Forward foreign currency exchange inflow	(8,072)	—	—	(8,072)
Interest rate swaps	73	—	—	73
Trade payables and other accrued expenses	24,061	—	—	24,061
	<b>24,286</b>	<b>32,733</b>	<b>—</b>	<b>57,019</b>

#### 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 22 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.

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 30. Risk management continued

#### Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. The Group deposits cash with reputable financial institutions, from which management believes the possibilities of loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 July 2016 and 2015 is the carrying amount. The Group's maximum exposure for derivative financial instruments is noted in either note 25 on page 123 or in the liquidity table on the previous page, respectively.

#### 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 solely comprise the derivative financial instruments in note 25. For hierarchy purposes all these 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.

### 31. Related party transactions

Transactions between Volusion 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 2016 or 31 July 2015.

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.

Other disclosures on Directors' remuneration required by the Companies Act 2006 and those specified for the audit by the Directors' Remuneration Report Regulations 2013 are included in the Directors' Remuneration Report.

Other transactions with related parties include the following:

- The Group incurred costs of £295,000 (2015: £295,000) from Peter Hill, Tony Reading, Paul Hollingworth and Adrian Barden for their services as Non-Executive Directors.
- Non-Executive Director Paul Hollingworth is also a non-executive director of Electrocomponents plc. During the year, the Group sold goods to Electrocomponents plc amounting to £223,000 (2015: £253,000). At the year end, amounts owing by Electrocomponents plc were £12,000 (2015: £44,000). During the year the Group purchased goods from Electrocomponents plc amounting to £85,000 (2015: £79,000). At the year end, amounts owed to Electrocomponents plc were £16,000 (2015: £15,000).

#### Compensation of key management personnel

	2016 £000	2015 £000
Short-term employee benefits	2,292	2,134

Key management personnel is defined as the CEO, the CFO and the nine individuals who report directly to the CEO.

### 32. Group structure details

At 31 July 2016, Volution Group plc held 100% of the voting shares of the following subsidiaries:

Group company	Principal activity	Country of incorporation
<b>Direct</b>		
Windmill Topco Limited	Intermediate holding company	England
Volution Holdings Limited	Intermediate holding company	England
Energy Technique Limited	Intermediate holding company	England
<b>Indirect</b>		
Windmill Midco Limited	Intermediate holding company	England
Windmill Cleanco Limited	Intermediate holding company	England
Windmill Bidco Limited	Intermediate holding company	England
Manrose Manufacturing Limited	Ventilation products	England
Volution Ventilation Group Limited	Intermediate holding company	England
Torin-Sifan Limited	Original equipment manufacturer	England
Anda Products Limited	Non-trading	England
Axia Fans Limited	Non-trading	England
Roof Units Limited	Non-trading	England
Torin Limited	Non-trading	England
Vent-Axia Limited	Non-trading	England
Vent-Axia Clean Air Systems Limited	Non-trading	England
Vent-Axia Group Limited	Ventilation products	England
ET Environmental Limited	Ventilation products	England
Diffusion Environmental Systems Limited	Non-trading	England
NVA Services Limited	Intermediate holding company	England
SW National Ventilation Limited	Ventilation products	England
Airtech Humidity Controls Limited	Ventilation products	England
Sens-Air Limited	Ventilation products	England
Volution Holdings Sweden AB	Intermediate holding company	Sweden
Fresh AB	Ventilation products	Sweden
Welair AB	Ventilation products	Sweden
Volution Norge AS (formerly Fresh Norge AS)	Ventilation products	Norway
Fresh Shanghai Limited	Ventilation products	China
PAX AB	Ventilation products	Sweden
inVENTer GmbH	Ventilation products	Germany
Volution Management Holdings GmbH	Intermediate holding company	Germany
Volution Deutschland Real Estate GmbH	Property holding company	Germany
Brüggemann Energiekonzepte GmbH	Ventilation products	Germany
Ventilair Group International BVBA	Intermediate holding company	Belgium
Ventilair Group Belgium BVBA	Ventilation products	Belgium
Ventilair Group Netherlands B.V.	Ventilation products	Netherlands
Ventilair France SARL	Ventilation products	France

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 July 2016

### 33. Commitments and contingencies

#### 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:

	2016 £000	2015 £000
Within one year	1,699	1,033
After one year but not more than five years	5,794	3,859
More than five years	1,856	1,212
	<b>9,349</b>	<b>6,104</b>

#### Commitments

Commitments for the acquisition of property, plant and equipment as of 31 July 2016 are £226,000 (2015: £789,000).

### 34. 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 and November 2015; 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 absolute EPS performance. 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.

	2016 Number	2015 Number
Outstanding at 1 August	563,354	—
Granted during the year	459,955	563,354
Outstanding at 31 July	<b>1,023,309</b>	<b>563,354</b>

The weighted average exercise price for all options is £nil.

Of the total number of options outstanding at 31 July 2016 none had vested or were exercisable.

The weighted average fair value of each option granted during the year was £1.90 (2015: £1.44).

The following information is relevant in the determination of the fair value of options granted during the year under the LTIP.

	2016
Option pricing model used	<b>Deloitte TSR pricing tool/Monte Carlo simulation</b>
Weighted average share price at grant date (£)	<b>1.90</b>
Exercise price (£)	<b>nil</b>
Expected life (years)	<b>3</b>
Expected volatility	<b>26%</b>
Risk-free interest rate	<b>0.9%</b>

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.

### 34. Share-based payments continued

The share-based remuneration expense comprises:

	2016 £000	2015 £000
Equity-settled schemes	431	181
	<b>431</b>	<b>181</b>

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous periods.

### 35. Events after the reporting period

There have been no material events between 31 July 2016 and the date of authorisation of the consolidated financial statements that would require adjustments of the consolidated financial statements or disclosure.

### 36. Glossary of terms

**Adjusted basic and diluted EPS** – calculated by dividing the adjusted profit/(loss) for the 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 adjusted net profit/(loss) 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 2016 and 2015.

**Adjusted EBITDA** – earnings before tax, exceptional items, other non-recurring items not meeting the definition of exceptional, net finance costs, depreciation, amortisation and impairment.

**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 (including cash held in escrow).

**Adjusted operating profit** – earnings before tax, exceptional items, other non-recurring items not meeting the definition of exceptional, amortisation and impairment of intangible assets associated with the customer base, trademarks and patents and net finance costs.

**Adjusted profit before tax** – earnings before tax, exceptional items, amortisation of financing costs, breakage costs on interest rate swaps, net gains or losses on financial instruments at fair value and amortisation and impairment of intangible assets associated with the customer base, trademarks and patents.

**Cash conversion** – calculated by dividing adjusted operating cash flow by adjusted EBITDA less depreciation.

**Change at constant currency** – to calculate the change at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2016 at the average exchange rate for the year ended 31 July 2015. In addition we have converted the UK operating companies' sales and purchase transactions in the year ended 31 July 2016, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2015.

**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.

**Net debt** – interest-bearing loans and borrowings less cash and cash equivalents.

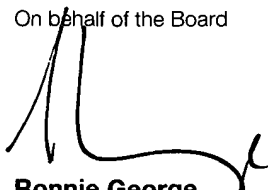
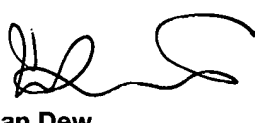
# Parent Company Statement of Financial Position

## At 31 July 2016

	Notes	2016 £000	2015 £000
<b>Non-current assets</b>			
Property, plant and equipment	8	17	1
Investments	9	199,429	189,941
Deferred tax assets	7	—	48
		<b>199,446</b>	<b>189,990</b>
<b>Current assets</b>			
Other receivables and prepayments	10	40,407	23,435
Other current financial assets	11	914	—
Income tax		—	591
Cash and short-term deposits		82	581
		<b>41,403</b>	<b>24,607</b>
<b>Total assets</b>		<b>240,849</b>	<b>214,597</b>
<b>Current liabilities</b>			
Trade and other payables	12	(19,964)	(19,158)
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	13	(51,235)	(31,867)
Deferred tax liabilities	7	(20)	—
		<b>(51,255)</b>	<b>(31,867)</b>
<b>Total liabilities</b>		<b>(71,219)</b>	<b>(51,025)</b>
<b>Net assets</b>		<b>169,630</b>	<b>163,572</b>
<b>Capital and reserves</b>			
Share capital	14	2,000	2,000
Share premium		11,527	11,527
Treasury shares		(1,533)	—
Share-based payment reserve		649	181
Capital reserve		(273)	(273)
Retained earnings		157,260	150,137
<b>Total equity</b>		<b>169,630</b>	<b>163,572</b>

The financial statements of Volusion Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 11 October 2016.

On behalf of the Board


  
**Ronnie George**      **Ian Dew**  
 Chief Executive Officer      Chief Financial Officer

# Parent Company Statement of Changes in Equity

For the year ended 31 July 2016

	Share capital £000	Share premium £000	Treasury shares £000	Share-based payment reserve £000	Capital reserve £000	Retained earnings £000	Total £000
<b>At 1 August 2014</b>	2,000	11,527	—	—	(273)	52,113	65,367
Profit for the year	—	—	—	—	—	7,233	7,233
Other comprehensive income	—	—	—	—	—	92,891	92,891
Total comprehensive income	—	—	—	—	—	100,124	100,124
Share-based payment	—	—	—	181	—	—	181
Dividends paid	—	—	—	—	—	(2,100)	(2,100)
<b>At 1 August 2015</b>	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)
<b>At 31 July 2016</b>	<b>2,000</b>	<b>11,527</b>	<b>(1,533)</b>	<b>649</b>	<b>(273)</b>	<b>157,260</b>	<b>169,630</b>

## Treasury shares

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

## Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration. Refer to note 34 of the Group financial statements for further details.

## Capital reserve

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

## Foreign currency translation reserve

Exchange differences arising on translation of the company's foreign subsidiaries into GBP are included in the foreign currency translation reserve. The Company 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 ineffectiveness has been recognised in the statement of comprehensive income for any of the periods presented.

## Retained earnings

£64,368,000 of the retained earnings balance at 31 July 2016 is available for distribution.

# Parent Company Statement of Cash Flows

For the year ended 31 July 2016

	Notes	2016 £000	2015 £000
<b>Operating activities</b>			
Profit for the year after tax		14,017	100,124
<b>Adjustments to reconcile profit for the year to net cash flow from operating activities:</b>			
Income tax for the year		(468)	(639)
Exceptional costs		428	34
Cash flows relating to exceptional costs		(428)	(34)
Finance revenue		(1,018)	(17)
Finance costs		1,250	530
Share-based payment expense		339	181
Non-cash dividends received		—	(97,743)
Depreciation of property, plant and equipment		1	—
<b>Working capital adjustments:</b>			
(Increase)/decrease in other receivables, prepayments and other current financial assets		(10,925)	717
Increase in trade and other payables		692	5,199
<b>Net cash flow generated from operating activities</b>		<b>3,888</b>	<b>8,352</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	8	(17)	(1)
Interest received		1	17
Investment in subsidiary undertaking		(9,396)	—
<b>Net cash flow (used in)/generated from investing activities</b>		<b>(9,412)</b>	<b>16</b>
<b>Financing activities</b>			
Interest paid		(915)	(428)
Repayment of interest-bearing loans and borrowings		(13,855)	(45,260)
Proceeds from new borrowings		28,222	40,435
Issue costs of new borrowings		—	(967)
Dividend paid to equity holders		(6,894)	(2,100)
Purchase of own shares		(1,533)	—
<b>Net cash flow (used in)/generated from financing activities</b>		<b>5,025</b>	<b>(8,320)</b>
Net (decrease)/increase in cash and cash equivalents		(499)	48
Cash and cash equivalents at the start of the year		581	533
<b>Cash and cash equivalents at the end of the year</b>		<b>82</b>	<b>581</b>



# Notes to the Parent Company Financial Statements

For the year ended 31 July 2016

## 1. General information

These financial statements were approved and authorised for issue by the Board of Directors of Volution Group plc (the Company) on 11 October 2016.

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. Accounting policies

### 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 note 3 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.

## 3. 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 investment. The Company based its estimation on information available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected when they occur.

# Notes to the Parent Company Financial Statements continued

## For the year ended 31 July 2016

### 4. Standards issued but not yet effective

No new accounting standards or amendments have been adopted during the period.

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.

Standard or interpretation	Title	Effective for accounting periods beginning on or after
IAS 1	Disclosure initiative – Amendments to IAS 1	1 January 2016
IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 14	Regulatory Deferral Accruals	1 January 2016
IAS 7	Disclosure initiative – Amendments to IAS 7	1 January 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018
IFRS 16	Leases	1 January 2019

### 5. Auditor's remuneration

The Company 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:

	2016 £000	2015 £000
<b>Audit services</b>		
Fees for the audit of the parent and Group financial statements	127	120
Fees for local statutory audits of subsidiaries	98	76
<b>Non-audit services</b>		
Fees payable for interim review	25	25
	<b>250</b>	<b>221</b>

### 6. Staff costs

	2016 £000	2015 £000
Wages and salaries	1,897	1,746
Social security costs	173	155
Share-based payment charge	431	181
Other pension costs	48	111
	<b>2,549</b>	<b>2,193</b>

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 2015/16 but based on actual salary levels in 2016/17.

### Average monthly number of employees in the year

	2016 Number	2015 Number
Administration	8	7

**6. Staff costs continued****Directors' remuneration**

	2016 £000	2015 £000
<b>Amounts paid in respect of qualifying services</b>		
Aggregate Directors' emoluments	1,018	1,011
Aggregate Directors' pension scheme contributions	81	91
<b>In respect of the highest paid Director</b>		
Aggregate Directors' emoluments	591	588
Aggregate Directors' pension scheme contributions	47	53

The number of Directors accruing benefits under Company money purchase pension arrangements was two (2015: two).

The Company also incurred costs of £295,000 (2015: £295,000) from Peter Hill, Tony Reading, Paul Hollingworth and Adrian Barden for their services as Non-Executive Directors.

**7. Deferred tax balances**

Deferred tax assets and liabilities arise from the following:

	1 August 2015 £000	Charged to income £000	Charged to equity £000	31 July 2016 £000
<b>Deferred tax asset/liabilities</b>				
Temporary differences	48	(105)	37	(20)

**8. Property, plant and equipment**

	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
<b>Cost</b>		
At 1 August 2015	1	1
Additions	17	17
<b>At 31 July 2016</b>	<b>18</b>	<b>18</b>
<b>Depreciation</b>		
At 1 August 2015	—	—
Charge for the year	1	1
<b>At 31 July 2016</b>	<b>1</b>	<b>1</b>
<b>Net book value</b>		
<b>At 31 July 2016</b>	<b>17</b>	<b>17</b>
At 31 July 2015	1	1

# Notes to the Parent Company Financial Statements continued

## For the year ended 31 July 2016

### 9. Investments

	£000
<b>Cost</b>	
At 1 August 2015	189,941
Acquired in the period	9,488
<b>At 31 July 2016</b>	<b>199,429</b>

For a list of the subsidiaries in which Volution Group plc held 100% of the voting shares as at 31 July 2016, see note 32 of the Group financial statements.

Energy Technique Limited and its subsidiaries were purchased during the year; for full details see note 20 of the Group financial statements.

### 10. Other receivables and prepayments

	2016 £000	2015 £000
Amounts owed by Group undertaking	40,046	23,085
Prepayments	361	350
	<b>40,407</b>	<b>23,435</b>

### 11. Other financial assets and liabilities

	2016 Current £000	2015 Current £000
<b>Financial assets</b>		
FX forward contracts	914	—
	<b>914</b>	<b>—</b>

### 12. Trade and other payables

	2016 £000	2015 £000
Trade payables	213	152
Accruals	861	1,046
Amounts owed to Group undertaking	18,890	17,960
	<b>19,964</b>	<b>19,158</b>

### 13. Interest-bearing loans and borrowings

	2016		2015	
	Current £000	Non-current £000	Current £000	Non-current £000
Unsecured – at amortised cost				
Revolving credit facility	–	51,869	–	32,733
Cost of arranging bank loan	–	(634)	–	(866)
	–	51,235	–	31,867

Interest-bearing borrowings at 31 July 2015 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 facility.

#### 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%
<b>Total</b>	<b>51,869</b>			

#### Revolving credit facility – for the year ended 31 July 2015

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	11,000	30 April 2019	One payment	Libor + 1.25%
Euro	8,283	30 April 2019	One payment	Euribor + 1.25%
Swedish Krona	13,450	30 April 2019	One payment	Stibor + 1.25%
<b>Total</b>	<b>32,733</b>			

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 2015, 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 2015 and therefore the margin for the first period of the year ended 31 July 2016 was 1.00%. At the half year the consolidated leverage level increased to between 1.0:1 and 1.5:1 and therefore the margin for the second period of the year ended 31 July 2016 was 1.25%; this rate will continue into the first period of the year ended 31 July 2017.

At 31 July 2016 the Group had £38,131,000 (2015: £57,267,000) of its multi-currency revolving credit facility unutilised.

# Notes to the Parent Company Financial Statements continued

## For the year ended 31 July 2016

### 14. 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
<b>At 31 July 2015 and 31 July 2016</b>	<b>200,000,000</b>	<b>2,000</b>	<b>11,527</b>

### 15. Dividends paid and proposed

	2016 £000	2015 £000
<b>Cash dividends on ordinary shares declared and paid</b>		
Interim dividend for 2016: 1.20 pence per share (2015: 1.05 pence)	<b>2,394</b>	2,100
<b>Proposed dividends on ordinary shares</b>		
Final dividend for 2016: 2.60 pence per share (2015: 2.25 pence)	<b>5,176</b>	4,500

The interim dividend payment of £2,394,000 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 2016.

### 16. Financial instruments

The Company's principal financial liabilities are trade payables, Group debt and the revolving credit facility. The Company's principal financial assets include investments, Group receivables and cash and cash equivalents. The Company also enters into forward foreign currency contracts. The Company is exposed to a variety of risks, including credit risk and liquidity risk. The Company's senior management oversees the management of these risks and agrees the policies for managing each of these risks. The risks are summarised as follows:

#### Forward foreign currency contracts

The Group's purchases in foreign currencies, net of Group sales in those currencies, represent approximately 3% (2015: 4%) 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.

At 31 July 2016, the Company had commitments under forward foreign exchange contracts with varying settlement dates to 24 July 2017 (2015: 6 May 2016). See note 25 to the Group financial statements for fair values.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Company is exposed to credit risk from its financing activity, including cash and cash equivalents and deposits with banks and financial institutions.

Amounts owed to/from Group undertakings are repayable on demand with no interest currently charged on the balances.

## 16. Financial instruments continued

### Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Company's floating rate loans and borrowings which at the relevant reporting dates are not fully hedged. With all other variables being constant the Company's profit before tax is affected through the impact on floating rate borrowings as follows. There is only an immaterial impact on the Company's equity.

	Increase in basis points	Effect on loss before tax £000
<b>31 July 2016</b>		
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 Company cash balances are held in bank current accounts and earn immaterial levels of interest. Management has concluded that any changes in the Libor and Euribor rates will have an immaterial impact on interest income earned on the Company cash balances. No interest rate sensitivity has been included in relation to the Company's cash balances.

### Fair values of financial assets and financial liabilities

There are no material differences between the book values and fair values for any of the Company's financial instruments carried at amortised cost.

### Liquidity risk

Liquidity risk for the Company arises from the management of working capital commitments and meeting its financial obligations as they fall due. The Company's policy is to review cash flow forecasts/projections regularly 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 Company 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 Company is expected to have sufficient liquidity to meet its financial obligations for the foreseeable future.

The tables below summarise the maturity profile of the Company's significant undiscounted financial liabilities at 31 July 2016 and 31 July 2015.

	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
<b>At 31 July 2016</b>				
<b>Financial liabilities</b>				
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 and other payables	19,964	—	—	19,964
	<b>19,050</b>	<b>51,869</b>	<b>—</b>	<b>70,919</b>
	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
<b>At 31 July 2015</b>				
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings (excluding interest)	—	32,733	—	32,733
Trade and other payables	1,198	17,960	—	19,158
	<b>1,198</b>	<b>50,693</b>	<b>—</b>	<b>51,891</b>

### Capital risk management

The Board's objectives and policies for the Company are consistent with those of the Group. Full details are provided in note 30 of the consolidated financial statements.

# Notes to the Parent Company Financial Statements continued

## For the year ended 31 July 2016

### 17. 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.

	2016		2015	
	Amounts owed by related parties £000	Amounts owed to related parties £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Related parties				
Volution Ventilation Group Limited	39,474	18,045	23,085	17,960
Energy Technique Limited	—	145	—	—
ET Environmental Limited	—	700	—	—
	<b>39,474</b>	<b>18,890</b>	23,085	17,960

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 6 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.

### 18. Share-based payments

For detailed disclosures of share-based payments granted to employees refer to note 34 of the Group financial statements.



## Glossary of Technical Terms

<b>Alternating current or AC</b>	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
<b>AC blowers</b>	a low-pressure fan with an AC motor
<b>AC motor</b>	an alternating current motor
<b>Decentralised heat recovery</b>	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
<b>EC/DC</b>	electronically commutated direct current
<b>Electronically commutated or EC</b>	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
<b>Fan Coil</b>	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
<b>HVAC</b>	heating, ventilation and air conditioning
<b>IAQ</b>	indoor air quality
<b>Lo-Carbon products</b>	a trademark used to represent our low-energy range of products
<b>MEV</b>	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
<b>Motorised impellers</b>	a motor that is supplied complete with an impeller attached to it
<b>MVHR</b>	Mechanical Ventilation with Heat Recovery: a centralised system of ventilation that collects heat from exhaust air that would otherwise be lost and re-uses such heat by transferring it to the incoming fresh air
<b>OEM</b>	original equipment manufacturer
<b>RMI</b>	repair, maintenance and improvement
<b>Specifiers</b>	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](http://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 UK public holidays).

You can access our Annual Report and Accounts and other shareholder communications through our website, [www.volutiongroupplc.com](http://www.volutiongroupplc.com).

### Company advisers

#### External independent auditor

Ernst & Young LLP

#### Joint corporate brokers

Liberum Capital Limited  
Canaccord Genuity Limited

#### Legal adviser

Norton Rose Fulbright LLP

#### Financial PR adviser

Tulchan Communications LLP

### Company Secretary and registered office

#### Michael Anscombe FCIS

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#### 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.

Volution Group's commitment to environmental issues is reflected in this annual report which has been printed on Arcoprint, an FSC® mix certified paper, which ensures that all virgin pulp is derived from well-managed forests and other responsible sources.

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