volution

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Thursday 8 October 2020

Volution Group plc

Preliminary Announcement of Final Results for the year ended 31 July 2020

Record cash generation in 2020 and strong start to new financial year

Volution Group plc ("Volution" or "the Group" or "the Company", LSE: FAN), a leading international designer and manufacturer of energy efficient indoor air quality solutions, today announces its audited financial results for the 12 months ended 31 July 2020.

Financial Results	2020	2019	Movement
Revenue (£m)	**216.6**	235.7	(8.1)%
Adjusted operating profit (£m)	**33.7**	42.1	(19.8)%
Adjusted profit before tax (£m)	**31.2**	39.9	(21.6)%
Adjusted EPS (pence)	**12.1**	16.0	(24.4)%
Reported operating profit (£m)	**18.2**	24.7	(26.1)%
Reported profit before tax (£m)	**14.6**	23.1	(37.1)%
Reported basic EPS (pence)	**4.9**	9.2	(46.7)%
Adjusted operating cash flow (£m)	**43.4**	36.9	17.5%
Net debt (£m)	**74.2**[1]	74.6	0.4
Net debt (excluding lease liabilities(£m))	**51.1**	74.6	23.5
Total dividend per share (pence)	–	4.90	(100)%

[1] 2020 includes lease liabilities of £23.1 million due to adoption of IFRS 16

The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 20. A reconciliation to reported measures is set out in note 2.

Financial highlights

- Adjusted operating cash generation of £43.4 million, the highest recorded in the Group's history benefiting from geographic diversity and asset light business model
- Like-for-like net debt reduced by £23.5 million from £74.6 million to £51.1 million
- Adjusted operating margins expanded strongly pre COVID-19 and still delivered a full year margin of 15.6% despite pandemic
- Revenue fell by 8.1% impacted by COVID-19 in the second half
  - UK revenue hardest hit by COVID-19 resulting in 17.6% (cc) fall, but with good recovery through June and July
  - Organic revenue growth of 7.5% constant currency (cc) in Central Europe and 3.9% (cc) in Australasia
- Inventory initiatives delivered £3.8 million improvement, £1.8 million from our OEM business

Operational highlights

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

Sustainability highlights

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

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

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

"Our financial year 2020 started very well, however the second half of the year was dominated by the global pandemic and the effects on demand from COVID-19. Our priority throughout has been and will continue to be the safety and wellbeing of our employees, customers and suppliers. We reacted with speed and agility to the impact of COVID-19 with uninterrupted supply of our essential products and services. We were proud to provide ventilation solutions at the rapidly converted Nightingale Hospital at the Excel, as well as several other similar projects around the UK. Whilst revenues were lower in the second half of the financial year, our asset-light flexible model, wide geographic diversity coupled with our decisive actions enabled us to deliver a record operating cash generation in the year.

Whilst the lower revenues in the second half of the year resulted in a lower level of profitability, we accelerated the implementation of pre-planned and new initiatives to improve our cost base in line with our target to improve operating margins to 20%. Excellent progress has been made with these initiatives and we are confident of delivering the expansion in operating margins delivered through our focus on Operational Excellence.

On behalf of the Board I want to thank our outstanding and committed employees. Their flexibility and adjustment throughout the global pandemic as well as an unwavering attention to providing first class customer service has provided a strong footing from which to move forwards."

Outlook

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

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

-Ends-

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A virtual presentation will be held at 9.30am today, Thursday 8 October. Please contact volutiongroup@tulchangroup.com to register and for instructions on how to connect to the conference.

A copy of this announcement and the presentation given to analysts will be available on our website www.volutiongroupplc.com from 7.00 am on Thursday 8 October.

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

Volution Group plc Legal Entity Identifier: 213800EPT84EQCDHO768.

Note to Editors:

Volution Group plc (LSE: FAN) is a leading international designer and manufacturer of energy efficient indoor air quality solutions.

Volution Group comprises 16 key brands across three regions:

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

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

Cautionary statement regarding forward-looking statements

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

CHAIRMAN'S STATEMENT

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

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

We do expect further political and economic uncertainty ahead, as a consequence of the UK's departure from the European Union and dependent on whether a trade deal is agreed between the UK and the European Union by 31 December 2020. However, we are an international business with 57.2% of our revenue being generated outside the UK and we remain confident in the long-term prospects for the Group due to our geographic diversification, value-adding business model and clear growth strategy.

People and culture

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

Performance and results

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

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

Dividends

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

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

Board

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

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

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

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

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

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

Governance

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

During the year, a formal performance evaluation of the Board and Committees took place to assist in their development. The results of the evaluations confirmed that the Board and Committees continue to function effectively and that there are no significant concerns among the Directors about their effectiveness.

Summary

As society begins to better understand the importance of air quality, Volution is in a strong position to offer customers ventilation solutions which are becoming more sustainable and help lead to healthier lives. We also believe that as a business, we can demonstrate more dynamically how sustainable our products already are and articulate better our sustainability strategy and vision.

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

Paul Hollingworth
Chairman
8 October 2020

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

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

Early on in the second half of the financial year it became clear that all of our markets were going to be impacted by the global pandemic in varying degrees. I have been genuinely impressed by the dexterity and improvisation of our teams to ensure that we could continue to operate our business model and provide high levels of customer service and support, whilst also taking maximum precautions to keep our employees safe and protected from COVID-19 as far as we possibly could. Across all areas of the Group we moved sales support teams and back office staff to a home working situation as quickly as possible whilst maintaining good customer service. Social distancing and improved hygiene and cleaning regimes were introduced at all of our facilities. Where efficiency gains have been made, we will look to lock these in as part of normal practice post the crisis. Our employees have been truly inspirational, and I would like to thank each and every one of them for their commitment and dedication to our business at this most difficult time.

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

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

As well as the increased usage of recycled materials and the considerable initiatives to reduce packaging materials in the supply of our ventilation solutions to the market, we are embarking on an intense focus on improving our sustainability across all aspects of the business.

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

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

We expect further political and economic uncertainty ahead, as a consequence of the UK's departure from the European Union and dependent on whether a trade deal is agreed between the UK and the European Union by 31 December 2020. However, the Group is now a truly international business with over 57% of our revenue being generated outside the UK which, coupled with our value-adding business model and clear growth strategy, gives us confidence in the long-term prospects for the Group.

United Kingdom

Revenue:	£111.5 million, 51.5% of Group revenue
	(2019: £135.5 million, 57.5% of Group revenue)
Adjusted operating profit:	£15.6 million, 46.3% of Group adjusted operating profit
	(2019: £24.1 million)

Market sector revenue	**2020 £000**	2019 £000	Growth (cc) %
UK Residential RMI	**33,358**	39,355	(15.2)
UK New Build Residential Systems	**21,947**	27,795	(21.0)
UK Commercial	**27,251**	34,856	(21.8)
UK Export	**8,600**	9,924	(12.8)
OEM	**20,332**	23,606	(13.6)
Total UK revenue	**111,488**	135,537	(17.6)
Adjusted operating profit	**15,637**	24,128	(32.9)
Adjusted operating profit margin (%)	**14.0**	17.8	(3.8)pp
Reported operating profit	**4,878**	12,198	(60.3)

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

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

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

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

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

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

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

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

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

Continental Europe

Revenue: £74.7 million, 34.5% of Group revenue
(2019: £78.0 million, 33.1% of Group revenue)

Adjusted operating profit: £15.3 million, 45.5% of Group adjusted operating profit
(2019: £16.7 million)

Market sector revenue	**2020 £000**	2019 £000	Growth (cc) %
Nordics	**41,579**	46,995	(9.4)
Central Europe	**33,120**	30,990	7.5
Total Continental Europe revenue	**74,699**	77,985	(2.7)
Adjusted operating profit	**15,343**	16,654	(7.9)
Adjusted operating profit margin (%)	**20.5**	21.4	(0.9)pp
Reported operating profit	**12,106**	12,358	(2.0)

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

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

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

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

Andreas Lofstrand was promoted to sole Managing Director for our Nordic area having run a joint leadership with Eva Thunholm, who advised us of her intentions to leave in February 2020. A number of significant Operational Excellence initiatives are underway including the move of our Nordic headquarters from the existing site in Gemla, Sweden, to a new more efficiently laid out facility in Växjö in Sweden. These changes are again intended to underpin our margin expansion plans targeting a short term return to 20% operating margins.

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

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

Australasia

Revenue:	£30.4 million, 14.0% of Group revenue
	(2019: £22.2 million, 9.4% of Group revenue)
Adjusted operating profit:	£4.6 million, 13.7% of Group adjusted operating profit
	(2019: £3.9 million)

Market sector revenue	**2020 £000**	2019 £000	Growth (cc) %
Total Australasia revenue	**30,453**	22,176	42.6
Adjusted operating profit	**4,623**	3,925	22.3
Adjusted operating profit margin (%)	**15.2**	17.7	(2.5)pp
Reported operating profit	**3,495**	2,905	20.1

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

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

Strategy

Organic growth

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

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

Indoor air quality is inextricably linked to health. COVID-19 has heightened people’s awareness of what indoor air quality means with practically all local governments having encouraged citizens to meet in “well ventilated spaces”. Whilst the impact will not be immediate, we are seeing a noticeable difference in how local customers think about ventilation in buildings and the consequences for health. During the year enquiries for ventilation solutions that can specifically help reduce the risk of COVID-19 transmission were a common theme and we have already developed some niche solutions that can help reduce the risk, as well as providing more general guidance on how to properly ventilate indoor spaces. Overheating in buildings is also an increasing theme that we are helping customers with as well as the need to reduce noise ingress and provide quieter ventilation solutions. All of these trends

are evident in the markets in which we trade and we expect to see more regulations prescribing a more sympathetic and energy efficient ventilation solution to be applied, mainly in new build developments but also swiftly followed by the refurbishment sector.

Acquisitions

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

When the impacts of the global pandemic were first evident on revenues, towards the end of March, we focused for a short period of time on cash conservation and mitigation measures. As we moved to the end of the financial year, the recovery in activity was clearly evident and we are now continuing to fully engage with our ongoing plans to grow by acquisition. We believe that the ventilation markets in which we operate remain fragmented and fully expect to continue our successful track record of adding new brands and market positions to the Group's portfolio.

Operational excellence

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

People

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

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

Outlook

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

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

Ronnie George
Chief Executive Officer
8 October 2020

FINANCIAL REVIEW

Trading performance summary

Group revenue for the year ended 31 July 2020 was £216.6 million, representing a 7% reduction at constant currency (cc) versus the prior year (2019: £235.7 million). Inorganic growth of £8.2 million (£8.6 million at cc) came from having a first full year of ownership of our Ventair business in Australia, with organic revenue of £208.4 million (£210.6 million at cc) representing a 10.7% (cc) reduction. Following a first half year in which we delivered 5.0% (cc) revenue growth, with a 1.4% organic reduction offset by inorganic growth in Australasia, our second half felt the impact of the COVID-19 pandemic. Second half revenues fell by 18.5% (cc) with the most profound impact being in the UK (down 31.8%). In Continental Europe second half revenues fell by a modest 4.9% (cc), with most markets such as the Netherlands, Belgium and Finland seeing a level of downturn in demand, but with some of our key markets such as Germany and Sweden continuing to operate at broadly similar levels of activity to those observed pre-COVID-19. In Australasia, despite a comprehensive national lockdown in New Zealand for almost all of the month of April, during which time only very small scale activity occurred, we were still able to deliver 10.2% (cc) growth for the second half, with organic revenue growth in Australasia for H2 of 1.8% (cc).

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

	Reported			Adjusted[1]		
	Year ended 31 July 2020	Year ended 31 July 2019	Movement	**Year ended 31 July 2020**	Year ended 31 July 2019	Movement
Revenue (£m)	**216.6**	235.7	(8.1)%	**216.6**	235.7	(8.1)%
EBITDA (£m)	**41.0**	44.6	(8.1)%	**41.4**	46.5	(10.9)%
Operating profit (£m)	**18.2**	24.7	(26.1)%	**33.7**	42.1	(19.8)%
Net finance costs (£m)	**3.7**	1.5	(141.1)%	**2.5**	2.1	(18.4)%
Profit before tax (£m)	**14.5**	23.1	(37.1)%	**31.2**	39.9	(21.6)%
Basic EPS (p)	**4.9**	9.2	(46.7)%	**12.1**	16.0	(24.4)%
Total dividend per share (p)	—	4.90	(100)%	—	4.90	(100)%
Operating cash flow (£m)	**43.0**	34.9	23.0%	**43.4**	36.9	17.5%
Net debt (£m)	**74.2**	74.6	0.4	**74.2**	74.6	0.4
Like-for-like net debt (£m) [2]	**51.1**	74.6	23.5	**51.1**	74.6	23.5

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 2 to the consolidated financial statements. For a definition of all adjusted measures see the glossary of terms in note 20 to the consolidated financial statements.
2. Pre-IFRS 16 basis, excludes lease liabilities (£23.1 million)

Reported and adjusted results

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

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

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

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

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

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

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

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

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

Currency impacts

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

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

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

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

Finance revenue and costs

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

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

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

Tax rate increased by 3.0pp due to geographic mix

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

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

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

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

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

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

Capital expenditure of £4.3 million (2019: £5.7 million) focused primarily on new product development programmes (£1.3 million) as we continue to develop and expand our product offering across the Group. We also continued to invest in IT systems including ERP development and roll-out (£0.4 million) which has been a key enabler of our streamlining and re-organisation of the UK businesses.

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

Tax paid of £5.8 million was £3.5 million lower than the prior year (2019: £9.3 million), reflecting the reduction in profit before tax as a result of the pandemic. Whilst the UK Government did allow companies to defer VAT payments relating to the period March to June 2020 until 31 March 2021 as part of the package of support for businesses in the wake of the COVID-19 crisis, we did not make use of this deferral and fully paid our VAT liabilities in the year.

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

Reconciliation of adjusted operating cash flow

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

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

	2020 £m	2019 £m
Opening net debt at 1 August	**(74.6)**	(77.2)
Movements from normal business operations:		
Adjusted EBITDA	**41.4**[1]	46.5
Movement in working capital	**6.1**	(4.7)
Share-based payments	**0.2**	0.9
Capital expenditure	**(4.3)**	(5.8)
Adjusted operating cash flow:	**43.4**	36.9
– Interest paid net of interest received	**(2.2)**	(1.9)
– Income tax paid	**(7.5)**	(9.3)
– Income tax refund	**1.7**	—
– Exceptional items	—	(1.4)
– Non-exceptional adjustments	**(0.4)**	(0.1)
– Dividend paid	**(6.5)**	(9.1)
– Purchase of own shares	**(0.8)**	(1.2)
– FX on foreign currency loans/cash	**(0.3)**	(0.1)
– Issue costs of new borrowings	—	(0.2)
– IFRS 16 long term lease liabilities adjustment	**(23.2)**	—
– IFRS 16 payment of lease liabilities	**(2.9)**	—
Movements from acquisitions:		
– Acquisition consideration net of cash acquired and debt repaid	**(0.9)**	(11.0)
Closing net debt at 31 July	**(74.2)**	(74.6)

Note

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

Funding facilities and liquidity

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

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

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

Employee Benefit Trust

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

New Reporting Standards

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

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

Earnings per share

Our reported basic earnings per share for the year is 4.9 pence (2019: 9.2 pence).
Our adjusted basic earnings per share for the year is 12.1 pence (2019: 16.0 pence).

Dividends

In December 2019 the Group paid a final dividend of 3.30 pence per share in respect of the previous financial year.
There will be no dividends in respect of the financial year ended 31 July 2020.

Andy O'Brien
Chief Financial Officer
8 October 2020

DIRECTORS' RESPONSIBILITIES IN RESPECT OF 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 Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face. We consider the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The contents of this announcement, including the responsibility statement above, have been extracted from the annual report and accounts for the year ended 31 July 2020 which may be found at www.volutiongroupplc.com and will be despatched to shareholders on 22 October 2020. Accordingly this responsibility statement makes reference to the financial statements of the Company and the group and to the relevant narrative appearing in that annual report and accounts rather than the contents of this announcement.

On behalf of the Board

Ronnie George
Chief Executive Officer
8 October 2020

Andy O'Brien
Chief Financial Officer
8 October 2020

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2020

	Notes	**2020 £000**	2019 £000
Revenue from contracts with customers	3	**216,640**	235,698
Cost of sales		**(117,312)**	(124,619)
Gross profit		**99,328**	111,079
Administrative and distribution expenses		**(84,505)**	(84,616)
Other operating income	5	**3,404**	—
Operating profit before exceptional items		**18,227**	26,463
Exceptional operating costs	6	**—**	(1,801)
Operating profit		**18,227**	24,662
Finance revenue	7	**87**	621
Finance costs	7	**(3,757)**	(2,143)
Profit before tax		**14,557**	23,140
Income tax	8	**(4,892)**	(4,913)
Profit for the year		**9,665**	18,227
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(2,604)**	2,303
(Loss)/gain on hedge of net investment in foreign operations		**(202)**	(303)
Other comprehensive income/(expense) for the year		**(2,806)**	2,000
Total comprehensive income for the year		**6,859**	20,227
Earnings per share			
Basic earnings per share	9	**4.9p**	9.2p
Diluted earnings per share	9	**4.9p**	9.2p

Consolidated Statement of Financial Position

At 31 July 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment		**21,514**	23,758
Right-of-use assets	14	**22,074**	—
Intangible assets – goodwill	10	**116,778**	118,183
Intangible assets – others	12	**79,813**	95,126
		240,179	237,067
Current assets			
Inventories		**31,909**	35,585
Right of return assets	3	**274**	430
Trade and other receivables		**35,613**	42,199
Other financial assets		—	907
Cash and short-term deposits		**18,493**	11,547
		86,289	90,668
Total assets		**326,468**	327,735
Current liabilities			
Trade and other payables		**(31,274)**	(38,807)
Refund liabilities	3	**(8,636)**	(7,529)
Income tax		**(1,654)**	(279)
Other financial liabilities		**(574)**	(318)
Interest-bearing loans and borrowings	15	**(2,994)**	—
Provisions		**(1,802)**	(1,398)
		(46,934)	(48,331)
Non-current liabilities			
Interest-bearing loans and borrowings	15	**(89,211)**	(85,391)
Other financial liabilities		**(1,468)**	(1,501)
Provisions		**(272)**	(384)
Deferred tax liabilities	16	**(13,028)**	(16,019)
		(103,979)	(103,295)
Total liabilities		**(150,913)**	(151,626)
Net assets		**175,555**	176,109
Capital and reserves			
Share capital		**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(2,401)**	(2,030)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**1,410**	1,745
Foreign currency translation reserve		**701**	3,507
Retained earnings		**68,463**	65,505
Total equity		**175,555**	176,109

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

On behalf of the Board

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 July 2020

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

Treasury shares

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

Capital reserve

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

Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration.

Foreign currency translation reserve

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

Retained earnings

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

Consolidated Statement of Cash Flows

For the year ended 31 July 2020

	Notes	2020 £000	2019 £000
Operating activities			
Profit for the year after tax		**9,665**	18,227
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		**4,892**	4,913
(Gain)/loss on disposal of property, plant and equipment		**(21)**	(76)
Exceptional items	6	—	1,801
Cash flows relating to exceptional items		—	(1,486)
Finance revenue	7	**(87)**	(621)
Finance costs	7	**3,757**	2,143
Share-based payment expense		**200**	895
Depreciation of property, plant and equipment		**3,260**	3,272
Depreciation of right-of-use assets	14	**3,129**	—
Amortisation of intangible assets	12	**16,403**	16,594
Working capital adjustments:			
Decrease in trade receivables and other assets		**6,739**	10
Decrease/(Increase) in inventories		**3,336**	(2,756)
(Decrease)/increase in trade and other payables		**(4,337)**	(1,955)
Movement in provisions		**311**	221
Cash generated by operations		**47,247**	41,182
UK income tax paid		**(2,250)**	(3,900)
UK income tax refund		**1,657**	—
Overseas income tax paid		**(5,251)**	(5,422)
Net cash flow generated from operating activities		**41,403**	31,860
Investing activities			
Payments to acquire intangible assets	12	**(1,760)**	(1,836)
Purchase of property, plant and equipment		**(2,790)**	(4,180)
Proceeds from disposal of property, plant and equipment		**256**	218
Acquisition of subsidiaries, net of cash acquired	13	**(856)**	(8,417)
Interest received		**87**	16
Net cash flow used in investing activities		**(5,063)**	(14,199)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(51,285)**	(29,609)
Proceeds from new borrowings		**34,500**	17,500
Issue costs of new borrowings		—	(180)
Interest paid		**(2,316)**	(1,913)
Payment of principal portion of lease liabilities		**(2,878)**	—
Dividends paid		**(6,530)**	(9,084)
Purchase of own shares		**(804)**	(1,199)
Net cash flow (used in)/generated from financing activities		**(29,313)**	(24,485)
Net (decrease)/increase in cash and cash equivalents		**7,027**	(6,824)
Cash and cash equivalents at the start of the year		**11,547**	18,221
Effect of exchange rates on cash and cash equivalents		**(81)**	150
Cash and cash equivalents at the end of the year		**18,493**	11,547

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

Notes to the Consolidated Financial Statements

For the year ended 31 July 2020

The preliminary results were authorised for issue by the Board of Directors on 8 October 2020. The financial information set out herein does not constitute the Group's statutory consolidated financial statements for the years ended 31 July 2020 or 2019, but is derived from those accounts. Statutory consolidated financial statements for 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies under the relevant notes.

The preparation of the consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgement in the process of applying the Group's accounting policies. Accounting policies, including critical accounting judgements and estimates used in the preparation of the financial statements, are described in the specific note to which they relate.

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

The financial information includes all subsidiaries. The results of subsidiaries are included from the date on which effective control is acquired up to the date control ceases to exist.

Subsidiaries are controlled by the parent (in each relevant period) regardless of the amount of shares owned. Control exists when the parent has the power, either directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting periods using consistent accounting policies. All intercompany transactions and balances, including unrealised profits arising from intra-group transactions, have been eliminated on consolidation.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, for the period not less than twelve months from the date of this report.

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

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

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

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

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

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

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

Foreign currencies

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

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

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

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

1. Basis of preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty

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

The significant judgements, estimates and assumptions made in these financial statements relate to: Exceptional items (note 6), Intangible assets – goodwill (note 10), Intangible assets – other (note 12), Impairment assessment of goodwill (note 11) and Refund liabilities arising from retrospective volume rebates (note 3).

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

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

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

New standards and interpretations

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

IFRS 16 Leases

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

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

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

The Group have adopted the following available practical expedients:

- To "grandfather" the Group's assessment of contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application.
- To not apply the new lessee accounting model to leases ending within twelve months of the reporting date.
- To not apply the new lessee accounting model to short term or low-value leases, for which we will continue to recognise the related lease payments as an expense on a straight line basis over the lease.
- To exclude initial direct costs from the measurement of the right-of-use asset.
- Used hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2020

1. Basis of preparation (continued)

New standards and interpretations (continued)

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

The effect of adopting IFRS 16 is as follows:

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

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

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

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

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

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

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

	£000's
Operating lease commitments at 31 July 2019	**31,325**
Discounted using the incremental borrowing rate	25,962
Add: Finance lease liabilities recognised as at 31 July 2019	612
Less: Adjustments as a result of treatment of termination options	(185)
Less: Short-term leases recognised on a straight line basis as an expense	(67)
Less: Low value leases recognised on a straight line basis as an expense	(34)
Lease liability recognised at 1 August 2019	**26,288**
Analysis	
Current	3,465
Non-current	22,823
Lease liability recognised at 1 August 2019	**26,288**

1. Basis of preparation (continued)

New standards and interpretations (continued)

Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

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

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

Short-term leases and leases of low-value assets

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

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

2. Adjusted earnings

The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit and adjusted profit before tax. These measures are deemed more appropriate as they remove items that do not reflect the day to day trading operations of the business and therefore their exclusion is relevant to an assessment of the day to day trading operations, as opposed to overall annual business performance. Such alternative performance measures are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. Likewise, these measures are not a substitute for IFRS measures of profit. A reconciliation of these measures of performance to the corresponding reported figure is shown below.

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

For definitions of terms referred to above see note 20, Glossary of terms.

3. Revenue from contracts with customers

Accounting policy

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

Sale of ventilation products

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

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

Volume rebates

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

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

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Installation services

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

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

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

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. A contract asset is recognised when the Group transfers goods or services to the customer before the customer pays consideration. There is no contract asset included within the Statement of Financial Position as revenue is recognised at a point in time, after installation. Consideration is recognised immediately as a receivable and is unconditional (only the passage of time is required before payment of consideration is due).

Contract liabilities

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

Critical accounting judgements and key sources of estimation uncertainty

Liabilities arising from retrospective volume rebates

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

At the reporting date, the Directors make estimates of the amount of rebate that will become payable by the Group under these agreements, to estimate the variable consideration for the expected future rebates, the group applies the expected value method for contracts with more than one volume threshold. Where the respective customer has been engaged with the Group for a number of years, historical settlement trends are also used to assist in ensuring an appropriate estimate is recorded at the reporting date and that appropriate internal approvals and reviews take place before rebates are recorded. Consideration of the COVID-19 scenarios was included in making estimates for the liability arising from retrospective rebates.

Given that the rebate provision represents an estimate within the financial statements, there is a risk that the Directors' estimate of the potential liability may be incorrect.

3. Revenue from contracts with customers (continued)

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

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

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

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

4. Segmental analysis

Accounting policy

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

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

We previously reported under two operating segments:

- Ventilation Group
- OEM (Torin-Sifan)

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

- UK
- Continental Europe
- Australasia

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

Accounting policy

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

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

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 20 for definition) for each operating segment. Gross profit and the analysis below segment profit is additional voluntary information and not "segment information" prepared in accordance with IFRS 8.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2020

4. Segmental analysis (continued)

Finance revenue and costs are not allocated to individual operating segments as the underlying instruments are managed on a Group basis.

Total assets and liabilities are not disclosed as this information is not provided by operating segment to the chief operating decision maker on a regular basis.

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

Year ended 31 July 2020	UK £000	Continental Europe £000	Australasia £000	Central / Eliminations £000	Consolidated £000
Revenue from contracts with customers					
External customers	**111,488**	**74,699**	**30,453**	**—**	**216,640**
Inter-segment	**13,674**	**11,251**	**75**	**(25,000)**	**—**
Total revenue from contracts with customers	**125,162**	**85,950**	**30,528**	**(25,000)**	**216,640**
Gross profit	**45,559**	**40,334**	**13,575**	**(140)**	**99,328**
Results					
Adjusted segment EBITDA	**19,197**	**17,747**	**5,682**	**(1,221)**	**41,405**
Depreciation and amortisation of development costs, software and patents	**(3,560)**	**(2,404)**	**(1,059)**	**(645)**	**(7,668)**
Adjusted operating profit/(loss)	**15,637**	**15,343**	**4,623**	**(1,866)**	**33,737**
Amortisation of intangible assets acquired through business combinations	**(10,759)**	**(3,237)**	**(1,128)**	**—**	**(15,124)**
Former CFO compensation	**—**	**—**	**—**	**(386)**	**(386)**
Operating profit/(loss)	**4,878**	**12,106**	**3,495**	**(2,252)**	**18,227**
Unallocated expenses					
Net finance cost	**—**	**—**	**—**	**(3,670)**	**(3,670)**
Profit/(loss) before tax	**4,878**	**12,106**	**3,495**	**(5,922)**	**14,557**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2020

4. Segmental analysis (continued)

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

Geographic information

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

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

Information about major customers

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

5. Other operating income

Accounting policy

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

	2020 £000	2019 £000
Local Government coronavirus job support receipts	**3,404**	—

£1,250,000 of the coronavirus job support receipts were paid to furloughed staff working in the Group's production facilities and therefore relate to cost of sales.

A further £109,000 of relief was received in Sweden in the form of reduced social security contributions. This does not meet the accounting definition of grant income and is therefore not included above, but instead is treated as a reduction in salary costs.

6. Exceptional items

Accounting policy

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

Critical accounting judgements and key sources of estimation uncertainty

The Group identifies an item of expense or income as exceptional when, in management's judgement, the underlying event giving rise to the exceptional item is deemed to be qualitatively material in its nature or incidence or quantitatively material such that Group results would be distorted without specific reference to the event in question. To enable the full impact of an exceptional item to be understood, the tax impact is disclosed and it is presented separately in the statement of cash flows. Given the unprecedented nature of COVID-19 and its wide ranging impacts across our business and results, we have not treated any relating items as exceptional in the year and all are contained within both our adjusted and our reported results.

Exceptional items	**2020 £000**	2019 £000
Acquisition-related costs, including inventory fair value adjustments	—	546
UK Ventilation re-organisation including factory relocation costs	—	1,255
Exceptional operating costs	—	1,801
Total tax relating to exceptional items for the year	—	(375)
	—	1,426

Acquisition-related costs, including inventory fair value adjustments

In the current year we incurred no professional fees in respect of acquisitions. Professional fees incurred in respect of acquisitions in the prior year totalled £230,000 and £316,000 contingent consideration for the acquisition of Oy Pamon Ab.

UK Ventilation re-organisation including factory relocation costs

In the current year we incurred no costs relating to the UK Ventilation re-organisation. We have previously reported the cost of a factory relocation project, which related to the rationalising of some of our manufacturing capacity in the UK and commenced in 2017, as exceptional. The affected UK manufacturing locations are Reading, Slough and Lasham. During FY2018 we extended the factory relocation project to be a wider re-organisation and management rationalisation of our UK Ventilation business with exceptional costs recognised within FY2019.

A breakdown of the costs is as follows:

	2020 £000	2019 £000
Legal and professional fees	—	301
Project manager	—	45
Dual running costs	—	89
Start-up costs	—	820
Total	—	1,255

Start-up costs include costs and production variances incurred as a result of the disruption during the transition period when machinery, inventory and people were in the process of relocating to the new factory and were therefore not operating efficiently.

Legal and professional fees include fees paid to consultants to minimise disruption during the transition period and fees payable for professional advice in relation to the wider re-organisation and management rationalisation.

6. Exceptional items (continued)

Dual running costs include the duplicate costs as a result of operating three factories and a temporary warehousing facility whilst machinery, inventories and people were moving from the two existing facilities to the single new factory.

It was deemed that the items allowable for or chargeable to tax were approximately £nil (2019: £1,729,000), with a tax benefit of £nil (2019: £375,000).

7. Finance revenue and costs

Accounting policy

Finance revenue

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

Net financing costs

Net financing costs comprise interest income on funds invested, gains/losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and foreign exchange gains/losses. Interest income and expense is recognised as it accrues in the statement of comprehensive income using the effective interest method.

	2020 £000	2019 £000
Finance revenue		
Net gain on financial instruments at fair value	—	605
Interest receivable	**87**	16
Total finance revenue	**87**	621
Finance costs		
Interest payable on bank loans	**(1,749)**	(1,875)
Amortisation of finance costs	**(230)**	(230)
Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility	**(530)**	—
Other interest	**(29)**	(38)
Total interest expense	**(2,538)**	(2,143)
Net loss on financial instruments at fair value	**(1,219)**	—
Total finance costs	**(3,757)**	(2,143)
Net finance costs	**(3,670)**	(1,522)

The net loss or gain on financial instruments at each year-end date relates to the measurement of fair value of the financial derivatives and the Group recognises any finance losses or gains immediately within net finance costs.

8. Income tax

Accounting policy

Current income tax assets and liabilities are measured at the amount expected to be recovered from, or payable to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date.

The Group's deferred tax policy can be found in note 16.

(a) Income tax charges against profit for the year

	2020 £000	2019 £000
Current income tax		
Current UK income tax expense	**2,121**	3,286
Current foreign income tax expense	**5,143**	4,605
Tax credit relating to the prior year	**155**	(153)
Total current tax	**7,419**	7,738
Deferred tax		
Origination and reversal of temporary differences	**(3,353)**	(2,770)
Effect of changes in the tax rate	**909**	(115)
Tax charge relating to the prior year	**(83)**	60
Total deferred tax	**(2,527)**	(2,825)
Net tax charge reported in the consolidated statement of comprehensive income	**4,892**	4,913

(b) Income tax recognised in equity for the year

	2020 £000	2019 £000
Increase in deferred tax asset on share-based payments	**(248)**	(57)
Net tax credit reported in equity	**(248)**	(57)

8. Income tax (continued)

(c) Reconciliation of total tax

	2020 £000	2019 £000
Profit before tax	**14,557**	23,140
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**2,767**	4,396
Adjustment in respect of previous years	**72**	(93)
Expenses not deductible for tax purposes	**284**	309
Effect of changes in the tax rate (see explanation below)	**909**	(115)
Non-taxable income	**(28)**	(244)
Higher overseas tax rate	**997**	892
Patent box	**(111)**	(230)
Other	**2**	(2)
Net tax charge reported in the consolidated statement of comprehensive income	**4,892**	4,913

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. The changes were not implemented by the Government, subsequently deferred taxes in respect of UK taxes at the balance sheet date have been remeasured using the 19% UK tax rate causing the rise in effect of changes in the tax rate.

The higher overseas tax rates relate to the Group's profits from subsidiaries which are subject to tax jurisdictions with a higher rate of tax compared to the standard rate of corporation tax in the UK.

9. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 791,195 dilutive potential ordinary shares at 31 July 2020 (2019: 551,467).

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

Year ended 31 July	2020 £000	2019 £000
Profit attributable to ordinary equity holders	**9,665**	18,227
		Number
Weighted average number of ordinary shares for basic earnings per share	**198,063,746**	198,386,893
Weighted average number of ordinary shares for diluted earnings per share	**198,736,665**	198,938,360
Earnings per share		
Basic	**4.9p**	9.2p
Diluted	**4.9p**	9.2p

Year ended 31 July	2020 £000	2019 £000
Adjusted profit attributable to ordinary equity holders	**23,886**	31,658
		Number
Weighted average number of ordinary shares for adjusted basic earnings per share	**198,063,746**	198,386,893
Weighted average number of ordinary shares for adjusted diluted earnings per share	**198,736,665**	198,938,360
Adjusted earnings per share		
Basic	**12.1p**	16.0p
Diluted	**12.0p**	15.9p

The weighted average number of ordinary shares has declined as a result of treasury shares held by the Volution Employee Benefit Trust (EBT) during the year. The shares are excluded when calculating the reported and adjusted EPS. Adjusted profit attributable to ordinary equity holders has been reconciled in note 2, Adjusted earnings.

See note 20, Glossary of terms, for an explanation of the adjusted basic and diluted earnings per share calculation.

10. Intangible assets – goodwill

Accounting policy

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Goodwill is reviewed for impairment annually or more frequently if there is an indication of impairment. Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying value of the cash generating unit to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill	£000
Cost and net book value	
At 1 August 2018	112,682
On acquisition of Ventair Pty Limited	4,230
Net foreign currency exchange differences	1,271
At 31 July 2019	118,183
On acquisition of Nordic Line AsP	104
Net foreign currency exchange differences	(1,509)
At 31 July 2020	**116,778**

11. Impairment assessment of goodwill

Accounting policy

Intangible assets, including goodwill, that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

Goodwill acquired through business combinations has been allocated, for impairment testing purposes, to a group of cash generating units (CGUs). These grouped CGUs are: UK Ventilation, Central Europe, Nordics, Australasia and OEM. This is also the level at which management is monitoring the value of goodwill for internal management purposes.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of goodwill

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The test aims to ensure that goodwill is not carried at a value greater than the recoverable amount, which is considered to be the higher of fair value less costs of disposal and value in use.

The cash flows are derived from the business plan for the following three years. The recoverable amount is very sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement. Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows. The COVID-19 pandemic has increased the level of estimation uncertainty as the impact on countries and markets continues to be uncertain, however, the Group has modelled a range of scenarios to consider the impact on the carrying value of its assets.

31 July 2020	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	**55,899**	**5,101**	**16,816**	**12,163**	**26,799**
CGU value in use headroom[1]	**66,947**	**18,692**	**68,362**	**47,689**	**14,959**

As at 31 July 2019 calculated headroom was:

31 July 2019	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	55,899	5,101	16,586	12,273	28,324
CGU value in use headroom[1]	126,585	20,937	70,070	31,000	13,199

Note

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

11. Impairment assessment of goodwill (continued)

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 12.1% to 14.0% over that period. In all CGUs it was concluded that the carrying amount was in excess of the value in use and all CGUs had positive headroom.

Key assumptions in the value in use calculation

The calculation of value in use for all CGUs is most sensitive to the following assumptions:

- specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations;
- long-term growth rates of 2% (2019: 2%) for all CGU's has been applied to the period beyond which budgets and forecasts do not exist, based on historical macroeconomic performance and projections for the geographies in which the CGU's operate, and
- discount rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rates used for each CGU are: UK Ventilation: 12.6% (2019: 12.1%); OEM (Torin-Sifan): 13.7% (2019: 13.2%); Nordics: 12.9% (2019: 12.5%); Central Europe: 14.4% (2019: 14.0%); and Australasia: 14.6% (2019: 13.5%).

The value in use headroom for each CGU has been set out above. We have tested the sensitivity of our headroom calculations in relation to the above key assumptions and in all cases an adverse movement of more than 10% would be required to cause the carrying value of the cash generating units to materially exceed their recoverable value.

12. Intangible assets – other

Accounting policy

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

The fair value of patents, trademarks and customer base acquired and recognised as part of a business combination is determined using the relief-from-royalty method or multi-period excess earnings method.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Research and development

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete the asset; and the ability to reliably measure the expenditure during development.

Subsequent measurement of intangible assets

Intangible assets with a finite life are amortised on a straight line basis over their estimated useful lives as follows:

Development costs	–	10 years
Software costs	–	5–10 years
Customer base	–	5–15 years
Trademarks	–	15–25 years
Patents/technology	–	5–25 years
Other	–	5 years

The estimated useful life and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of other intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its other intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2020

12. Intangible assets – other (continued)

Critical accounting judgements and key sources of estimation uncertainty (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.

The assumptions and sensitivities in respect of the group's other intangible assets are included in note 11.

2020	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2019	**4,811**	**8,857**	**132,450**	**46,381**	**3,545**	**1,163**	**197,207**
Additions	**1,251**	**500**	—	—	**9**	—	**1,760**
On acquisitions	—	—	**521**	—	—	—	**521**
Disposals	**(56)**	**(1)**	—	—	**(1)**	—	**(58)**
Net foreign currency exchange differences	**17**	**(18)**	**(595)**	**(94)**	**(11)**	—	**(701)**
At 31 July 2020	**6,023**	**9,338**	**132,376**	**46,287**	**3,542**	**1,163**	**198,729**
Amortisation							
At 1 August 2019	**1,021**	**3,880**	**82,344**	**12,682**	**991**	**1,163**	**102,081**
Charge for the year	**485**	**827**	**12,304**	**2,435**	**352**	—	**16,403**
Disposals	**(22)**	**(1)**	—	—	—	—	**(23)**
Net foreign currency exchange differences	**10**	**(14)**	**356**	**89**	**14**	—	**455**
At 31 July 2020	**1,494**	**4,692**	**95,004**	**15,206**	**1,357**	**1,163**	**118,916**
Net book value							
At 31 July 2020	**4,529**	**4,646**	**37,372**	**31,081**	**2,185**	—	**79,813**

Included in software costs are assets under construction of £19,000 (2019: £105,000), which are not amortised. Included in development costs are assets under construction of £1,559,000 (2019: £1,235,000), which are not amortised.

2019	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2018	3,472	7,729	128,932	44,238	3,520	1,118	189,009
Additions	1,189	630	—	—	17	—	1,836
On acquisitions	—	80	2,872	2,032	—	—	4,984
Disposals	—	—	—	—	—	—	—
Transfer from tangible assets	180	337	—	—	—	—	517
Net foreign currency exchange differences	(30)	81	646	111	8	45	861
At 31 July 2019	4,811	8,857	132,450	46,381	3,545	1,163	197,207
Amortisation							
At 1 August 2018	630	2,820	69,286	10,615	627	907	84,885
Charge for the year	381	772	12,789	2,048	356	248	16,594
Disposals	—	—	—	—	—	—	—
Transfer from tangible assets	9	205	—	—	—	—	214
Net foreign currency exchange differences	1	83	269	19	8	8	388
At 31 July 2019	1,021	3,880	82,344	12,682	991	1,163	102,081
Net book value							
At 31 July 2019	3,790	4,977	50,106	33,699	2,554	—	95,126

12. Intangible assets – other (continued)

The remaining amortisation periods for acquired intangible assets at 31 July 2020 are as follows:

	Customer base	Trademark	Patent/ technology
Volution Holdings Limited and its subsidiaries	2 years	17 years	—
Fresh AB and its subsidiaries	—	12 years	—
PAX AB and PAX Norge AS	1 year	13 years	—
inVENTer GmbH	3 years	14 years	14 years
Ventilair Group International BVBA and its subsidiaries	3 years	5 years	—
Energy Technique Limited and its subsidiaries	4 years	16 years	—
NVA Services Limited and its subsidiaries	6 years	11 years	—
Breathing Buildings Limited	6 years	11 years	1 year
VoltAir System AB	12 years	12 years	2 years
Simx Limited	13 years	23 years	—
Oy Pamon Ab	8 years	18 years	8 years
Air Connection ApS	8 years	—	—
Nordic Line ApS	1 year	—	—
Ventair Pty Limited	9 years	19 years	—

13. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on the date of acquisition. There have been no non-controlling interests in the business combinations to date. Acquisition costs incurred are expensed and included in exceptional items.

When the Group acquires a business it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Contingent consideration resulting from business combinations is accounted for at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date, with changes in fair value recognised 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 used in determining the discounted cash flows take into consideration the probability of meeting each performance target and a discount factor.

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether assets or liabilities of the acquisition are assigned to those units.

Acquisitions in the year ended 31 July 2020

Nordic Line ApS

On 1 April 2019, Volution Group plc, through one of its wholly owned subsidiaries, Fresh AB, acquired the trade and assets of Nordic Line ApS. The transaction was funded from the Group's cash reserves.

Total consideration for the transaction was cash consideration of €614,000 (£538,000).

Transaction costs associated with the acquisition in the year ended 31 July 2020 were £20,000 and have been expensed.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	521	—	521
Property, plant and equipment	38	—	38
Trade and other payables	(21)	—	(21)
Deferred tax liabilities	—	(104)	(104)
Total identifiable net assets	**538**	**(104)**	**434**
Goodwill on acquisition			104
			538
Discharged by:			
Consideration satisfied in cash			538

Goodwill of £104,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce.

13. Business combinations (continued)

Acquisitions in the year ended 31 July 2019

Ventair Pty Limited

On 1 March 2019, Volution Group plc, through one of its wholly owned subsidiaries, Woomera Pty Limited, acquired the entire issued share capital of Ventair Pty Limited, a company based in Australia. The acquisition was on a debt free basis, funded from the Group's existing cash and banking facilities. The acquisition of Ventair is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies, across the residential ventilation market and, where appropriate, in the commercial ventilation market. The integration of Ventair into the Volution Group will provide an opportunity for further growth in the Australasian region and the combination of its product portfolio with that of Simx (New Zealand) will enable us to enhance our offer in both the Australian and New Zealand markets.

Total consideration for the transaction was AUD17,895,000 (£9,713,000), comprised of cash consideration of AUD16,138,000 (£8,760,000) and contingent consideration with a fair value of AUD1,757,000 (£952,000),The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2020. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is AUD7,700,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2020 budget. The contingent consideration has not been discounted as the impact is considered to be immaterial.

Transaction costs associated with the acquisition on the year ended 31 July 2019 were £173,000 and have been expensed.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	161	4,823	4,984
Deferred tax asset	—	218	218
Property, plant and equipment	543	—	543
Inventory	3,077	(250)	2,827
Trade and other receivables	2,649	—	2,649
Trade and other payables	(2,355)	(324)	(2,679)
Bank debt	(2,542)	—	(2,542)
Deferred tax liabilities	—	(1,447)	(1,447)
Cash and cash equivalents	930	—	930
Total identifiable net assets	**2,463**	**3,020**	**5,483**
Goodwill on acquisition			4,230
			9,713
Discharged by:			
Consideration satisfied in cash			8,761
Contingent consideration			952
			9,713

Goodwill of £4,230,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,770,000. The amounts for trade and other receivables not expected to be collected are £121,000.

Ventair Pty Limited generated revenue of £4,043,000 and generated a profit after tax of £170,000 in the period from acquisition to 31 July 2019 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2018, the Group's revenue would have been £243,483,000 and the profit before tax from continuing operations would have been £23,891,000.

Cash outflows arising from business combinations are as follows:

	2020 £000	2019 £000
Nordic Line ApS		
Cash consideration	**538**	—
Less: cash acquired with the business	—	—
Ventair Pty Limited		
Cash consideration	—	8,761
Less: cash acquired with the business	—	(930)
Oy Pamon Ab		
Cash consideration	**318**	586
Less: cash acquired with the business	—	—
	856	8,417

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2020

14. Leases

Accounting policy

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 6 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Right-of-use assets 2020	**Land and buildings £000**	**Plant and Machinery £000**	**Fixtures, fittings, tools, equipment and vehicles £000s**	**Total £000**
Cost				
IFRS 16 leases at transition	**23,408**	**193**	**229**	**23,830**
Transferred from property, plant and equipment	—	—	**2,036**	**2,036**
Additions	**144**	**10**	**330**	**484**
Disposals	—	—	**(81)**	**(81)**
Net foreign currency exchange differences	**(483)**	**(2)**	**(1)**	**(486)**
At 31 July 2020	**23,069**	**201**	**2,513**	**25,783**
Depreciation				
Charge for the period	**2,740**	**69**	**320**	**3,129**
Transferred from property, plant and equipment	—	—	**617**	**617**
Disposals	—	—	**(49)**	**(49)**
Net foreign currency exchange differences	**19**	**1**	**(8)**	**12**
At 31 July 2020	**2,759**	**70**	**880**	**3,709**
Net book value				
At 31 July 2020	**20,310**	**131**	**1,633**	**22,074**

Set out below are the carrying amounts of lease liabilities (included under interest bearing-loans and borrowings) and the movements during the year:

Lease liabilities 2020	**Land and buildings £000**	**Plant and Machinery £000**	**Fixtures, fittings, tools, equipment and vehicles £000s**	**Total £000**
At 1 August 2019	**25,228**	**208**	**852**	**26,288**
Additions to lease liabilities	**144**	**10**	**330**	**484**
Early termination	—	—	**(81)**	**(81)**
Interest expense	**500**	**14**	**16**	**530**
Lease payments	**(3,181)**	**(84)**	**(195)**	**(3,460)**
Foreign exchange movements	**(578)**	**(4)**	**(6)**	**(588)**
At 31 July 2020	**22,113**	**144**	**916**	**23,173**
Analysis				
Current	**2,511**	**67**	**416**	**2,994**
Non-current	**19,602**	**77**	**500**	**20,179**
At 31 July 2020	**22,113**	**144**	**916**	**23,173**

The following are amounts recognised in the statement of comprehensive income:

	Total £000
Depreciation expense of right-of-use assets (cost of sales)	**1,918**
Depreciation expense of right-of-use assets (administrative expenses)	**1,211**
Interest expense	**530**
Expenses relating to leases of low-value assets	**45**
Expenses relating to short-term leases	**74**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2020

15. Interest-bearing loans and borrowings

Accounting policy

Borrowings and other financial liabilities, including loans, are initially measured at fair value, net of transaction costs.

Borrowings and other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2020		2019	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2022)	—	**69,563**	—	86,146
Cost of arranging bank loan	—	**(531)**	—	(755)
	—	**69,032**	—	85,391
IFRS 16 lease liabilities (see note 14)	**2,994**	**20,179**	—	—
Total	**2,994**	**89,211**	—	85,391

In December 2018, the Group exercised the option to extend its multicurrency revolving credit facility by a period of twelve months at a cost of £0.2 million; the maturity date is now 15 December 2022.

Bank loans at 31 July 2020 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Revolving credit facility – at 31 July 2020

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	6,000	15 December 2022	One payment	Libor + margin%
Euro	40,285	15 December 2022	One payment	Euribor + margin%
Swedish Krona	23,278	15 December 2022	One payment	Stibor + margin%
Total	**69,563**			

Revolving credit facility – at 31 July 2019

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	21,500	15 December 2021	One payment	Libor + margin%
Euro	40,640	15 December 2021	One payment	Euribor + margin%
Swedish Krona	24,006	15 December 2021	One payment	Stibor + margin%
Total	**86,146**			

As at 31 July 2018 the margin was to 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate has continued throughout the year ended 31 July 2019 and H1 2020. At 31 January 2020 like-for like leverage decreased to 1.3:1 which reduced the margin to 1.15%. At 31 July 2020 the leverage remained at 1.3:1 and therefore the margin of 1.15% will continue in the first half of 31 July 2021.

At 31 July 2020, the Group had £50,437,000 (2019: £33,854,000) of its multicurrency revolving credit facility unutilised.

Reconciliation of movement of financial liabilities

	2020 £000	2019 £000
At 1 August	**86,146**	95,410
Additional loans	**34,500**	17,500
Loans acquired on acquisition	—	2,542
Repayment of loans	**(51,285)**	(29,609)
Interest charge	**1,786**	1,913
Interest paid	**(1,786)**	(1,913)
IFRS 16 lease liabilities	**20,179**	—
Foreign exchange	**202**	303
At 31 July	**89,742**	86,146

15. Interest-bearing loans and borrowings (continued)

Changes in liabilities arising from financial activities

	01 August 2019 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	Early termination £000	31 July 2020 £000
Non-current interest bearing loans and borrowings (excluding lease liabilities)	86,146	(16,785)	202	—	—	**69,563**
Lease liabilities	26,288	(2,930)	(588)	484	(81)	**23,173**
Total liabilities from financing activities	112,434	(19,715)	(386)	484	(81)	**92,736**

16. Deferred tax

Accounting policy

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that the Directors consider it is probable that there will be taxable profits from which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Deferred tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity.

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

At 31 July 2020, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2019: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2019: £3,975,000) arising in UK subsidiaries and gross tax losses of £645,000 (2019: £407,000) arising in overseas entities as there is insufficient evidence that the losses will be utilised. These losses are available to be carried indefinitely.

At 31 July 2020, the Group had no deferred tax liability (2019: £nil) to recognise for taxes that would be payable on the remittance of certain of the Group’s overseas subsidiaries’ unremitted earnings. Deferred tax liabilities have not been recognised as the Group has determined that there are no undistributed profits in overseas subsidiaries where an additional tax charge would arise on distribution.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2020

16. Deferred tax (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

2020	**1 August 2019 £000**	**Opening IFRS 16 adjustments £000**	**Credited/ (charged) to income £000**	**Credited to equity £000**	**Translation difference £000**	**On acquisition £000**	**31 July 2020 £000**
Temporary differences							
Depreciation in advance of capital allowances	**(1,043)**	**360**	**(347)**	**—**	**2**	**—**	**(1,028)**
Fair value movements of derivative financial instruments	**(115)**	—	**106**	**—**	**—**	**—**	**(9)**
Customer base, trademark and patent	**(16,669)**	—	**2,120**	**—**	**244**	**(104)**	**(14,409)**
Losses	**285**	—	**33**	**—**	**—**	**—**	**318**
Untaxed reserves	**768**	—	**757**	**—**	**(45)**	—	**1,480**
Other temporary differences	**755**	—	**(142)**	**7**	—	**—**	**620**
Deferred tax liability	**(16,019)**	**360**	**2,527**	**7**	**201**	**(104)**	**(13,028)**

2019	1 August 2018 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2019 £000
Temporary differences						
Depreciation in advance of capital allowances	(798)	(245)	—	—	—	(1,043)
Fair value movements of derivative financial instruments	(3)	(112)	—	—	—	(115)
Customer base, trademark and patent	(18,089)	3,094	—	(227)	(1,447)	(16,669)
Losses	285	—	—	—	—	285
Untaxed reserves	507	(13)	—	56	218	768
Other temporary differences	598	101	57	(1)	—	755
Deferred tax liability	(17,500)	2,825	57	(172)	(1,229)	(16,019)

17. Dividends paid and proposed

Accounting policy

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when the dividend is approved by the Directors in the general meeting, and in relation to interim dividends, when paid.

	2020 £000	2019 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2020: Nil pence per share (2019: 1.60 pence)	–	3,172
Proposed dividends on ordinary shares		
Final dividend for 2020: Nil pence per share (2019: 3.30 pence)	–	6,541

As a result of the COVID-19 crisis, the interim dividend of 1.71 pence per share was cancelled. The interim dividend payment of £nil is included in the consolidated statement of cash flows.

The proposed final dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2020.

18. Related party transactions

Transactions between Volution Group plc and its subsidiaries, and transactions between subsidiaries, are eliminated on consolidation and are not disclosed in this note. A breakdown of transactions between the Group and its related parties is disclosed below.

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

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

The Companies Act 2006 and the Directors' Remuneration Report Regulations 2013 require certain disclosures of Directors' remuneration. The details of the Directors' total remuneration are provided in the Directors' Remuneration Report.

Compensation of key management personnel

	2020 £000	2019 £000
Short-term employee benefits	**2,749**	2,816
Share-based payment change	**58**	834
Total	**2,807**	3,650

Key management personnel is defined as the CEO, the CFO and the eleven (2019: ten) individuals who report directly to the CEO.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2020

19. Events after the reporting period

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

20. Glossary of terms

Adjusted basic and diluted EPS: calculated by dividing the adjusted profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 791,195 dilutive potential ordinary shares at 31 July 2020 (2019: 551,467).

Adjusted EBITDA: adjusted operating profit before depreciation and amortisation.

Adjusted finance costs: finance costs before net gains or losses on financial instruments at fair value and the exceptional write off of unamortised loan issue costs upon refinancing.

Adjusted operating cash flow: adjusted EBITDA plus or minus movements in operating working capital, less net investments in property, plant and equipment and intangible assets.

Adjusted operating profit: operating profit before exceptional operating costs, release of contingent consideration and amortisation of assets acquired through business combinations.

Adjusted profit after tax: profit after tax before exceptional operating costs, release of contingent consideration, exceptional write off of unamortised loan issue costs upon refinancing, net gains or losses on financial instruments at fair value, amortisation of assets acquired through business combinations and the tax effect on these items.

Adjusted profit before tax: profit before tax before exceptional operating costs, release of contingent consideration, exceptional write off of unamortised loan issue costs upon refinancing, net gains or losses on financial instruments at fair value and amortisation of assets acquired through business combinations.

Adjusted tax charge: the reported tax charge less the tax effect on the adjusted items.

CAGR: compound annual growth rate.

Cash conversion: is calculated by dividing adjusted operating cash flow by adjusted EBITA.

Constant currency: to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2020 at the average exchange rate for the period ended 31 July 2019. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2020, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2019.

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

Net debt: bank borrowings less cash and cash equivalents.

Operating cash flow: EBITDA plus or minus movements in operating working capital, less share-based payment expense, less net investments in property, plant and equipment and intangible assets.