

Tuesday 10 October 2017

**VOLUTION GROUP PLC**  
**PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2017**

***Strong revenue growth of 20% and adjusted EPS up 8%.***  
***Recent acquisitions integrating well, supplementing continued organic growth.***

Volution Group plc (“Volution” or “the Group” or “the Company”, LSE: FAN), a leading supplier of ventilation products to the residential and commercial construction markets, today announces its audited financial results for the 12 months ended 31 July 2017.

<b>Financial Results</b>	<b>2017</b>	<b>2016</b>	<b>Movement</b>
Revenue (£m)	<b>185.1</b>	154.5	19.8%
Adjusted operating profit (£m)	<b>35.6</b>	32.5	9.6%
Adjusted profit before tax (£m)	<b>34.6</b>	31.3	10.3%
Reported profit before tax (£m)	<b>17.9</b>	18.4	(2.5)%
Adjusted basic and diluted EPS (pence)	<b>13.6</b>	12.6	7.9%
Reported basic and diluted EPS (pence)	<b>7.0</b>	7.8	(10.3)%
Adjusted operating cash flow (£m)	<b>35.9</b>	31.1	15.5%
Total dividend per share (pence)	<b>4.15</b>	3.80	9.2%
Net debt (£m)	<b>37.0</b>	36.1	0.9

The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted basic and diluted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 18. A reconciliation to reported measures is set out in note 2.

**Financial highlights**

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

## Strategic highlights

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

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

"I am delighted to announce these strong results today which continue our ambition of delivering consistent revenue and profit growth. We continued our successful acquisition strategy completing two acquisitions in the year, both of which extended our market reach in existing geographies and we also delivered good organic growth. These strong results translated in to excellent operational cash generation with our conversion rate exceeding the already high rate in the prior year."

## Outlook

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

**-Ends-**

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A presentation will be held for analysts at 9.30 am today, Tuesday 10 October, at the offices of Tulchan Communications, 85 Fleet Street, London, EC4Y 1AE.

A copy of this announcement and the presentation given to analysts will be available on our website [www.volusiongroupplc.com](http://www.volusiongroupplc.com) from 7.00 am on Tuesday 10 October.

Volusion Group plc Legal Entity Identifier: 213800EPT84EQCDHO768.

**Note to Editors:**

Volusion Group plc (LSE: FAN) is a leading supplier of ventilation products to the residential and commercial construction markets in the UK, the Nordics and Central Europe.

The Volusion Group operates through two divisions: the Ventilation Group and the OEM (Torin-Sifan) division. The Ventilation Group consists of 13 key brands - Vent-Axia, Manrose, Diffusion, National Ventilation, Airtech, Breathing Buildings, Fresh, PAX, VoltAir System, Welair, inVENTer, Brüggemann and Ventilair, focused primarily on the UK, the Nordic and Central European ventilation markets. The Ventilation Group principally supplies ventilation products for residential and commercial ventilation applications. The OEM (Torin-Sifan) division supplies motors, fans and blowers to OEMs of heating and ventilation products for both residential and commercial construction applications in Europe.

For more information, please go to: [www.volusiongroupplc.com](http://www.volusiongroupplc.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.*

## CHIEF EXECUTIVE OFFICER'S REVIEW

### Overview

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

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

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

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

### Ventilation Group segment

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

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

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

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

### United Kingdom

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

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

## United Kingdom (continued)

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

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

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

## Nordics

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

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

## Central Europe

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

## OEM (Torin-Sifan) segment

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

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

Market sectors	Constant currency			Growth %
	2017 £000	2017 £000	2016 £000	
<b>Total OEM</b>	<b>21,976</b>	<b>20,974</b>	20,398	2.8%

Our OEM (Torin-Sifan) segment's revenue in the year was £22.0 million (2016: £20.4 million), an increase of 7.7% (2.8% at constant currency), with a stronger performance from sales in the second half of the year. The UK had a generally mild winter and our sales volume of traditional spares for gas boilers declined slightly, mitigated by a price increase in other products. Our new EC3 motorised impeller range was launched in the second half of the year and sales to both UK and export customers are progressing well. The market for sales of EC direct current motorised impellers is expected to grow, underpinned by new construction growth and regulatory drivers, both in the UK and in Continental Europe.

## Three strategic pillars

Our strategy continues to focus on three key pillars:

- organic growth in our core markets;
- growth through a disciplined and value-adding acquisition strategy; and
- further develop Torin-Sifan's range, build customer preference and loyalty.

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

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

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

The ventilation market remains highly fragmented and we will continue to pursue acquisition opportunities leveraging the Group's capabilities in operations, procurement, distribution and finance, all of which will benefit from continued investment.

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

The investment we made during the year in the new production facility for Torin-Sifan has helped support the organic growth during the year. Sales of the new EC3 motorised impeller range are gaining traction and production of the range at this new facility is going well with dedicated space reserved for further production lines to underpin the expected growth of the range.

## Board

As announced separately today, with the need to progressively refresh the Board, Adrian Barden will be retiring as an independent Non-Executive Director at the conclusion of the Annual General Meeting on 13 December 2017 (2017 AGM). He will not be seeking re-election from shareholders. Adrian was initially appointed to the former holding company of the Group, Windmill Topco Limited on 3 February 2012 and provided important continuity on the Board whilst the business moved from private-equity ownership to a listed company. He will have served just under six years on the current and pre-IPO Board at the time of the 2017 AGM.

The Board would like to extend their thanks to Adrian for his contributions during his tenure. To ensure an orderly succession plan, the Nomination Committee has recently initiated a search for a new Non-Executive Director and an announcement will be made in due course.

## People

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

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

## Outlook

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

**Ronnie George**

**Chief Executive Officer**

10 October 2017

## FINANCIAL REVIEW

### Trading performance summary

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

<sup>1</sup>The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted basic and diluted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 18. A reconciliation to reported measures is set out in note 2.

### Revenue

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

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

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

### Profitability

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

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

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

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

## Reconciliation of statutory measures to adjusted performance measures

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

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

The following are the items excluded from adjusted measures:

- **Amortisation of acquired intangibles**

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

- **Exceptional items**

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

- **Non-recurring items not meeting the definition of exceptional**

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

- **Fair value adjustments**

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



## Acquisitions

Two acquisitions were completed during the year:

- Breathing Buildings, based in the UK, acquired in December 2016 for a consideration of £11.6 million net of cash acquired; and
- VoltAir System, based in Sweden, acquired in May 2017 for a cash consideration of SEK 72.9 million (approximately £6.5 million) net of cash acquired. In addition there is an element of consideration which is contingent upon the level of EBITDA for the 12 months ended 31 December 2017, with a fair value of SEK 16,930,000 (approximately £1.5 million).

## Finance revenue and costs

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

## Taxation

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

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

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

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

## Operating cash flow

The Group continued to be strongly cash generative in the year with adjusted operating cash inflow of £35.9 million (2016: £31.1 million). This represents a cash conversion, after capital expenditure and movement in working capital, of 99% (2016: 95%). The Group continues to manage its working capital efficiently with operating working capital representing 10.5% of revenue (2016: 11.7%). In addition, the Group continues to invest for the future with net capital expenditure of £3.9 million (2016: £4.3 million) including investment in new product development and improved IT systems. See the glossary of terms in note 18 for a definition of adjusted operating cash flow and cash conversion.

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

## Employee Benefit Trust

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

## Net debt

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

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

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

## Bank facilities, refinancing and liquidity

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

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

## Foreign exchange

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

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

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

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

## Earnings per share

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

## Dividends

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

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

## Ian Dew

### Chief Financial Officer

10 October 2017

# Consolidated Statement of Comprehensive Income

For the year ended 31 July 2017

	Notes	2017 £000	2016 £000
<b>Revenue</b>	3	<b>185,060</b>	154,464
Cost of sales		<b>(94,023)</b>	(79,098)
<b>Gross profit</b>		<b>91,037</b>	75,366
Administrative and distribution expenses		<b>(69,236)</b>	(55,755)
<b>Operating profit before exceptional items</b>		<b>21,801</b>	19,611
Exceptional items	5	<b>(1,380)</b>	(1,209)
<b>Operating profit</b>		<b>20,421</b>	18,402
Finance revenue	6	<b>17</b>	1,164
Finance costs	6	<b>(2,540)</b>	(1,202)
<b>Profit before tax</b>		<b>17,898</b>	18,364
Income tax	7	<b>(4,021)</b>	(2,757)
<b>Profit for the year</b>		<b>13,877</b>	15,607
<b>Other comprehensive income/(expense)</b>			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		<b>922</b>	3,394
Loss on hedge of net investment in foreign operations		<b>(493)</b>	(1,469)
<b>Other comprehensive income for the year</b>		<b>429</b>	1,925
<b>Total comprehensive income for the year</b>		<b>14,306</b>	17,532
<b>Earnings per share</b>			
Basic and diluted earnings per share	8	<b>7.0p</b>	7.8p

# Consolidated Statement of Financial Position

At 31 July 2017

	Notes	2017 £000	2016 £000
<b>Non-current assets</b>			
Property, plant and equipment		19,590	19,130
Intangible assets – goodwill	9	81,584	68,228
Intangible assets – others	10	101,006	105,361
Deferred tax assets	14	810	450
		<b>202,990</b>	193,169
<b>Current assets</b>			
Inventories		22,737	20,156
Trade and other receivables		37,231	32,935
Other current financial assets		16	914
Cash and short-term deposits		14,499	15,744
		<b>74,483</b>	69,749
<b>Total assets</b>		<b>277,473</b>	262,918
<b>Current liabilities</b>			
Trade and other payables		(40,629)	(35,090)
Other current financial liabilities		(2,124)	—
Income tax		(3,768)	(2,472)
Provisions		(1,841)	(1,268)
Deferred tax liabilities		—	(2,395)
		<b>(48,362)</b>	(41,225)
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	13	(51,088)	(51,235)
Provisions		(134)	(671)
Deferred tax liabilities	14	(17,756)	(16,242)
		<b>(68,978)</b>	(68,148)
<b>Total liabilities</b>		<b>(117,340)</b>	(109,373)
<b>Net assets</b>		<b>160,133</b>	153,545
<b>Capital and reserves</b>			
Share capital		2,000	2,000
Share premium		11,527	11,527
Treasury shares		(2,027)	(1,533)
Capital reserve		93,855	93,855
Share-based payment reserve		1,289	649
Foreign currency translation reserve		1,891	1,462
Retained earnings		51,598	45,585
<b>Total equity</b>		<b>160,133</b>	153,545

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

On behalf of the Board

**Ronnie George**  
*Chief Executive Officer*

**Ian Dew**  
*Chief Financial Officer*

# Consolidated Statement of Changes in Equity

For the year ended 31 July 2017

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

## Treasury shares

The treasury shares reserve represents the cost of shares in Volution Group plc purchased in the market and held by the Volution Employee Benefit Trust to satisfy obligations under the Group's share 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 directly to the foreign currency translation reserve. No hedge ineffectiveness has been recognised in the statement of comprehensive income for any of the periods presented.

## Retained earnings

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

# Consolidated Statement of Cash Flows

For the year ended 31 July 2017

	Notes	2017 £000	2016 £000
<b>Operating activities</b>			
Profit for the year after tax		13,877	15,607
<b>Adjustments to reconcile profit for the year to net cash flow from operating activities:</b>			
Income tax		4,021	2,757
(Gain)/loss on disposal of property, plant and equipment		(70)	9
Exceptional items	5	1,380	1,209
Cash flows relating to exceptional items		(1,166)	(795)
Finance revenue	6	(17)	(1,164)
Finance costs	6	2,540	1,202
Share-based payment expense		531	431
Depreciation of property, plant and equipment		2,836	2,559
Amortisation of intangible assets	10	14,581	12,987
<b>Working capital adjustments:</b>			
(Increase)/decrease in trade receivables and other assets		(1,053)	572
Increase in inventories		(1,147)	(775)
Exceptional items: fair value of inventories		(81)	(332)
Increase/(decrease) in trade and other payables		2,391	(41)
Movement in provisions		(106)	186
UK income tax paid		(3,466)	(3,900)
Overseas income tax paid		(2,119)	(1,349)
<b>Net cash flow generated from operating activities</b>		<b>32,932</b>	<b>29,163</b>
<b>Investing activities</b>			
Payments to acquire intangible assets	10	(1,699)	(1,626)
Purchase of property, plant and equipment		(2,438)	(2,879)
Proceeds from disposal of property, plant and equipment		306	162
Acquisition of subsidiaries, net of cash acquired	12	(18,118)	(24,983)
Interest received		17	24
<b>Net cash flow used in investing activities</b>		<b>(21,932)</b>	<b>(29,302)</b>
<b>Financing activities</b>			
Repayment of interest-bearing loans and borrowings		(20,778)	(15,291)
Proceeds from new borrowings		17,491	28,222
Interest paid		(860)	(971)
Dividends paid		(7,864)	(6,894)
Purchase of own shares		(494)	(1,533)
<b>Net cash flow (used in)/generated from financing activities</b>		<b>(12,505)</b>	<b>3,533</b>
Net (decrease)/increase in cash and cash equivalents		(1,505)	3,394
Cash and cash equivalents at the start of the year		15,744	11,565
Effect of exchange rates on cash and cash equivalents		260	785
<b>Cash and cash equivalents at the end of the year</b>		<b>14,499</b>	<b>15,744</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 July 2017

The preliminary results were authorised for issue by the Board of Directors on 10 October 2017. The financial information set out herein does not constitute the Group's statutory consolidated financial statements for the years ended 31 July 2017 or 2016, but is derived from those accounts. Statutory consolidated financial statements for 2017 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, that relate to a particular note are described in the specific note to which they relate.

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

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

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

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

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

### **Going concern**

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Group cash flow forecasts have been produced for the period to 31 July 2020 and demonstrate that the Group will be able to meet its liabilities as and when they fall due for the foreseeable future. The Group is also forecast to remain in compliance with its banking agreement covenants at each quarter end during the forecast period.

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

### **Critical accounting judgements and key sources of estimation uncertainty**

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

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

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

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

### *Judgements*

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

#### Exceptional items

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 1. Basis of preparation (continued)

### **Critical accounting judgements and key sources of estimation uncertainty (continued)**

#### *Estimates and assumptions*

##### 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.

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

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

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

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised in the statement of comprehensive income.

##### Impairment of other intangible assets

The Group's accounting policy for impairment of other intangible assets is set out above. The Group records all assets and liabilities acquired in business combinations at fair value. Intangible assets are reviewed for impairment annually if events or changes in circumstances indicate that the carrying amount may not be recoverable.

##### Provisions for inventory obsolescence

Provisions for inventory obsolescence are made with reference to the inventory balances and usage. Management also consider sales history and to the latest sales forecasts to determine whether the amounts are recoverable.

##### Rebates payable

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

At the reporting date, the Directors make estimates of the amount of rebate that will become payable by the Group under these agreements, based upon their best estimates of volumes and product mix that will be sold over each individual rebate agreement period. Where the respective customer has been engaged with the Group for a number of years, historical settlement trends are also used to assist in ensuring an appropriate estimate is recorded at the reporting date and that appropriate internal approvals and reviews take place before rebates are recorded.

The total rebate payable provision at 31 July 2017 included within trade and other payables is £5,061,000 (2016: £5,414,000). The sales rebate provision is recognised within trade payables, rather than trade receivables, as a significant proportion of the agreements across the Group do not provide for credit notes to be raised against receivable balances. Rather, cash payment of the rebate amount due is expected. Furthermore, the majority of rebate agreements do not contain a clause which provides a legally enforceable right to offset invoiced amounts.

The total rebate provision of £5,061,000 included within trade and other payables is based on the Directors' best estimate of customer sales over the rebate agreement period. The provision as at 31 July 2017 is based on the Directors' sales estimate based on prior-year trading and results. Given that the rebate provision represents an estimate within the financial statements, there is a risk that the Directors' estimate of the potential liability may be incorrect.



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 2. Adjusted earnings

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

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

For definitions of terms referred to above see note 18, Glossary of terms.

## 3. Revenue

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

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

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 4. Segmental analysis

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

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 18 for definition) from external customers for each operating segment. Gross profit and the analysis below segment profit is additional voluntary information and not "segment information" prepared in accordance with IFRS 8.

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

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

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

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 4. Segmental analysis (continued)

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

## Geographic information

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

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

## Information about major customers

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 5. Exceptional items

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

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

### **Acquisition related costs, including inventory fair value adjustments**

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

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

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

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

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

### **Factory relocation**

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

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

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

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 6. Finance revenue and costs

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

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.

## 7. Income tax

### (a) Income tax charges against profit for the year

	2017 £000	2016 £000
<b>Current income tax</b>		
Current UK income tax expense	4,623	4,588
Current foreign income tax expense	2,209	1,592
Tax (credit)/charge relating to the prior year	(171)	73
<b>Total current tax</b>	<b>6,661</b>	<b>6,253</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(2,820)	(1,876)
Effect of changes in the tax rate	(351)	(1,105)
Tax charge/(credit) relating to the prior year	531	(515)
<b>Total deferred tax</b>	<b>(2,640)</b>	<b>(3,496)</b>
<b>Net tax charge reported in the consolidated statement of comprehensive income</b>	<b>4,021</b>	<b>2,757</b>

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

	2017 £000	2016 £000
Increase in deferred tax asset on share-based payments	(109)	(37)
<b>Net tax credit reported in equity</b>	<b>(109)</b>	<b>(37)</b>

### (c) Reconciliation of total tax

	2017 £000	2016 £000
Profit before tax	17,898	18,364
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.67% (2016: 20.00%)	3,521	3,673
Adjustment in respect of previous years	394	(442)
Expenses not deductible for tax purposes	303	556
Effect of changes in the tax rate (see explanation below)	(351)	(1,105)
Non-taxable income	(43)	(39)
Higher overseas tax rate	318	114
Other	(121)	—
<b>Net tax charge reported in the consolidated statement of comprehensive income</b>	<b>4,021</b>	<b>2,757</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 7. Income tax (continued)

The Finance Act 2016 was enacted at 15 September 2016 which reduced the headline rate from 18% to 17% to apply from 1 April 2020 and the impact of this rate change has been included in these financial statements, leading to a credit of £351,000 to the tax charge. The Finance Act (No. 2) 2015 was enacted on 18 November 2015 and introduced reductions in the headline rate of corporation tax to 19% and 18% to apply from 1 April 2017 and 1 April 2020 respectively. The implications of the rate changes were incorporated within the financial statements for the year ended 31 July 2016, which lead to a credit of £1,105,000 to the tax charge.

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

## 8. Earnings per share (EPS)

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are no dilutive potential ordinary shares for the years ended 31 July 2017 and 2016.

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

Year ended 31 July	2017 £000	2016 £000
Profit attributable to ordinary equity holders	<b>13,877</b>	15,607
	<b>Number</b>	Number
Weighted average number of ordinary shares for basic earnings per share and diluted earnings per share	<b>199,050,930</b>	199,627,253
<b>Earnings per share</b>		
Basic and diluted	<b>7.0p</b>	7.8p

Year ended 31 July	2017 £000	2016 £000
Adjusted profit attributable to ordinary equity holders	<b>27,023</b>	25,075
	<b>Number</b>	Number
Weighted average number of ordinary shares for adjusted basic earnings per share and adjusted diluted earnings per share	<b>199,050,930</b>	199,627,253
<b>Adjusted earnings per share</b>		
Basic and diluted	<b>13.6p</b>	12.6p

The weighted average number of ordinary shares has declined as a result of the treasury shares purchased by the Volution Employee Benefit Trust (EBT) during the year. These shares are excluded when calculating the adjusted and reported EPS.

See note 18, Glossary of terms, for explanation of the adjusted basic and diluted earnings per share calculation.

## 9. Intangible assets – goodwill

Goodwill	£000
<b>Cost and net book value</b>	
At 1 August 2015	51,725
Fair value deferred tax adjustment relating to prior year acquisitions	1,526
On acquisition of Ventilair Group International BVBA and its subsidiaries	5,426
On acquisition of Energy Technique Limited and its subsidiaries	3,859
On acquisition of Weland Luftbehandlung AB	12
On acquisition of NVA Services Limited and its subsidiaries	3,415
Net foreign currency exchange differences	2,265
At 31 July 2016	68,228
On acquisition of Breathing Buildings Limited	6,688
On acquisition of VoltAir System AB	5,527
Net foreign currency exchange differences	1,141
<b>At 31 July 2017</b>	<b>81,584</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 10. Intangible assets – other

2017	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents £000	Other £000	Total £000
<b>Cost</b>							
At 1 August 2016	2,232	5,587	110,973	40,481	573	300	160,146
Additions	350	1,328	—	—	21	—	1,699
On acquisitions	—	55	3,682	1,246	1,646	576	7,205
Disposals	—	(19)	—	—	—	—	(19)
Net foreign currency exchange differences	44	34	1,462	441	51	20	2,052
<b>At 31 July 2017</b>	<b>2,626</b>	<b>6,985</b>	<b>116,117</b>	<b>42,168</b>	<b>2,291</b>	<b>896</b>	<b>171,083</b>
<b>Amortisation</b>							
At 1 August 2016	165	1,880	45,580	6,930	52	178	54,785
Charge for the year	206	530	11,521	1,792	200	332	14,581
Net foreign currency exchange differences	8	14	596	84	6	3	711
<b>At 31 July 2017</b>	<b>379</b>	<b>2,424</b>	<b>57,697</b>	<b>8,806</b>	<b>258</b>	<b>513</b>	<b>70,077</b>
<b>Net book value</b>							
<b>At 31 July 2017</b>	<b>2,247</b>	<b>4,561</b>	<b>58,420</b>	<b>33,362</b>	<b>2,033</b>	<b>383</b>	<b>101,006</b>

Included in software costs are assets under construction of £148,000 (2016: £86,000), which are not amortised. Included in development costs are assets under construction of £217,000 (2016: £1,514,000), which are not amortised.

2016	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents £000	Other £000	Total £000
<b>Cost</b>							
At 1 August 2015	1,645	4,325	97,844	37,260	479	—	141,553
Additions	522	1,104	—	—	—	—	1,626
On acquisitions	—	114	9,561	2,145	—	300	12,120
Net foreign currency exchange differences	65	44	3,568	1,076	94	—	4,847
<b>At 31 July 2016</b>	<b>2,232</b>	<b>5,587</b>	<b>110,973</b>	<b>40,481</b>	<b>573</b>	<b>300</b>	<b>160,146</b>
<b>Amortisation</b>							
At 1 August 2015	65	1,669	33,734	5,118	16	—	40,602
Charge for the year	95	207	10,812	1,668	27	178	12,987
Net foreign currency exchange differences	5	4	1,034	144	9	—	1,196
<b>At 31 July 2016</b>	<b>165</b>	<b>1,880</b>	<b>45,580</b>	<b>6,930</b>	<b>52</b>	<b>178</b>	<b>54,785</b>
<b>Net book value</b>							
<b>At 31 July 2016</b>	<b>2,067</b>	<b>3,707</b>	<b>65,393</b>	<b>33,551</b>	<b>521</b>	<b>122</b>	<b>105,361</b>

The remaining amortisation periods for acquired intangible assets at 31 July 2017 are as follows:

	Customer base	Trademark	Patent
Volution Holdings Limited and its subsidiaries	5 years	20 years	—
Fresh AB and its subsidiaries	2 years	15 years	—
PAX AB and PAX Norge AS	4 years	16 years	—
inVENTer GmbH	6 years	17 years	17 years
Brüggemann Energiekonzepte GmbH	3 years	—	—
Ventilair Group International BVBA and its subsidiaries	6 years	8 years	—
Energy Technique Limited and its subsidiaries	7 years	19 years	—
Weland Luftbehandlung AB	3 years	—	—
NVA Services Limited and its subsidiaries	9 years	14 years	—
Breathing Buildings Limited	9 years	14 years	4 years
VoltAir System AB	15 years	15 years	5 years

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 11. Impairment assessment of goodwill

Goodwill acquired through business combinations has been allocated, for impairment testing purposes, to a group of cash generating units (CGUs). These grouped CGUs are: UK Ventilation, Central Europe, Nordics and OEM. This is different to the grouped CGU's that were presented in the prior year; the changes have been made as we have taken the opportunity to review what is presented and bring the level of CGU's reported in line with the level at which management regularly reviews the Group's performance. This is also the level at which management is monitoring the value of goodwill for internal management purposes, which differs from the prior year due to the recent growth of the Group.

31 July 2017	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000
Carrying value of goodwill	55,899	5,101	8,805	11,779
CGU value in use headroom <sup>1</sup>	182,262	24,519	71,818	17,011

Applying the same CGUs to the 31 July 2016 goodwill gives the following headroom:

31 July 2016	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000
Carrying value of goodwill	49,211	5,101	2,887	11,029
CGU value in use headroom <sup>1</sup>	147,187	31,995	52,182	14,700

The table below was disclosed in the 31 July 2016 financial statements using the previously identified CGUs:

31 July 2016	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Germany £000	Benelux £000	Diffusion £000
Carrying value of goodwill	45,352	5,101	2,887	4,463	6,566	3,859
CGU value in use headroom <sup>1</sup>	140,141	31,995	52,182	12,144	2,556	7,046

### Note

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

### Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 11.0% to 12.9% over that period. In all CGUs it was concluded that the carrying amount was in excess of the value in use and all CGUs had positive headroom.

### Key assumptions in the value in use calculation

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

- Price inflation – small annual percentage increases specific to each CGU are assumed in all markets based on historical data.
- Growth in the forecast period – specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations.
- Discount rates – rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rate ranged from 11.0% to 12.9%.
- No growth rate has been used to extrapolate cash flows beyond the forecast period other than the 2% rate of inflation.

The value in use headroom, for each cash generating unit where these sensitivities would be applicable, has been set out above. We have modelled various sensitivities in relation to the above key assumptions and in all cases an adverse movement of more than 10% would be required to cause the carrying value of the cash generating units to materially exceed their recoverable value.



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 12. Business combinations

### Acquisitions in the year ended 31 July 2017

#### *Breathing Buildings Limited*

On 16 December 2016, Volution Ventilation Group Limited acquired the entire issued share capital of Breathing Buildings Limited. The transaction was funded from the Group's existing revolving credit facility. The Group acquired Breathing Buildings Limited as it extended Volution's capability with a leader in natural and hybrid ventilation for commercial buildings, in particular focusing on new construction for education.

Total consideration for the transaction was cash consideration of £11,881,000.

Transaction costs associated with the acquisition in the period ended 31 January 2017 were £207,000 and have been expensed.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	54	4,318	4,372
Deferred tax asset	444	(240)	204
Property, plant and equipment	147	12	159
Inventory	734	61	795
Trade and other receivables	2,208	(12)	2,196
Trade and other payables	(1,917)	(86)	(2,003)
Deferred tax liabilities	—	(780)	(780)
Cash and cash equivalents	250	—	250
<b>Total identifiable net assets</b>	<b>1,920</b>	<b>3,273</b>	<b>5,193</b>
Goodwill on acquisition			6,688
			<b>11,881</b>
<b>Discharged by:</b>			
Consideration satisfied in cash			11,881

Goodwill of £6,688,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,208,000. The amounts for trade and other receivables not expected to be collected are £12,000.

Breathing Buildings Limited generated revenue of £4,918,000 and generated a profit after tax of £337,000 in the period from acquisition to 31 July 2017 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2016, the Group's revenue would have been £188,514,000 and the profit before tax from continuing operations would have been £17,239,000.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 12. Business combinations (continued)

### VoltAir System AB

On 29 May 2017, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of VoltAir System AB. The transaction was funded from the Group's existing revolving credit facility. The acquisition is in line with the Group's strategy of acquiring selective value-adding and strategically important businesses and will give Volution an enlarged presence in the new build sector in both the residential and commercial ventilation markets in Sweden and the Nordics in the growing and regulatory driven market for Air Handling Units.

Total consideration for the transaction was cash consideration of SEK 79,711,000 (£7,091,000) and contingent consideration with a fair value of SEK 16,930,000 (£1,506,000), giving total consideration of SEK 96,641,000 (£8,597,000). The contingent consideration is based on the level of EBITDA achieved during the year to 31 December 2017. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable, the maximum amount of contingent consideration payable is SEK 28,000,000. The contingent consideration has been recognised in-line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period, Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2017 budget. The contingent consideration has not been discounted as the impact is considered to be immaterial. The contingent consideration is expected to be finalised and paid during FY 2018.

Transaction costs associated with the acquisition in the year ended 31 July 2017 were SEK 1,292,000 (£117,000) and have been expensed.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	2,833	2,833
Deferred tax liability	—	(708)	(708)
Property, plant and equipment	465	84	549
Inventory	367	(64)	303
Trade and other receivables	758	(12)	746
Trade and other payables	(1,112)	(145)	(1,257)
Cash and cash equivalents	604	—	604
<b>Total identifiable net assets</b>	<b>1,082</b>	<b>1,988</b>	<b>3,070</b>
Goodwill on acquisition			5,527
			<b>8,597</b>
<b>Discharged by:</b>			
Consideration satisfied in cash			7,091
Contingent consideration			1,506

The fair value of the acquired customer base, trademark, patents and committed order book were identified and included in intangible assets. Other fair value adjustments made to the book value of assets and liabilities acquired were immaterial.

Goodwill of £5,527,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition.

The gross amount of trade and other receivables is £758,000. The amounts for trade and other receivables not expected to be collected are £12,000.

VoltAir System AB generated revenue of £515,000 and generated a profit after tax of £6,000 in the period from acquisition to 31 July 2017 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2016, the Group's revenue would have been £190,285,000 and the profit before tax from continuing operations would have been £18,780,000.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 12. Business combinations (continued)

	2017 £000	2016 £000
<b>Cash outflows arising from business combinations</b>		
<b>Breathing Buildings Limited</b>		
Cash consideration	11,881	—
Less: cash acquired with the business	(250)	—
<b>VoltAir System AB</b>		
Cash consideration	7,091	—
Less: cash acquired with the business	(604)	—
<b>Ventilair Group International BVBA</b>		
Cash consideration	—	9,960
Less: cash acquired with the business	—	(270)
<b>Weland Luftbehandling AB</b>		
Cash consideration	—	597
Less: cash acquired with the business	—	(9)
<b>Energy Technique Limited</b>		
Cash consideration	—	9,396
Less: cash acquired with the business	—	(1,210)
<b>NVA Services Limited</b>		
Cash consideration	—	6,697
Less: cash acquired with the business	—	(178)
	<b>18,118</b>	<b>24,983</b>

## 13. Interest-bearing loans and borrowings

	2017		2016	
	Current £000	Non-current £000	Current £000	Non-current £000
<b>Unsecured – at amortised cost</b>				
Revolving credit facility	—	51,490	—	51,869
Cost of arranging bank loan	—	(402)	—	(634)
	—	<b>51,088</b>	—	<b>51,235</b>

Interest-bearing borrowings at 31 July 2017 and 2016 comprise a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security is provided under the new facility.

### Revolving credit facility – at 31 July 2017

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	5,000	30 April 2019	One payment	Libor + 1.00%
Euro	23,320	30 April 2019	One payment	Euribor + 1.00%
Swedish Krona	23,170	30 April 2019	One payment	Stibor + 1.00%
<b>Total</b>	<b>51,490</b>			

### Revolving credit facility – at 31 July 2016

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	14,000	30 April 2019	One payment	Libor + 1.25%
Euro	21,973	30 April 2019	One payment	Euribor + 1.25%
Swedish Krona	15,896	30 April 2019	One payment	Stibor + 1.25%
<b>Total</b>	<b>51,869</b>			

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 13. Interest-bearing loans and borrowings (continued)

The interest rate on borrowings includes a margin that is dependent on the consolidated leverage level of the Group in respect of the most recently completed reporting period. For the year ended 31 July 2016, Group leverage was between 1.0:1 and 1.5:1 and therefore the margin was 1.25%. The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2016 and therefore the margin for the first period of the year ended 31 July 2017 was 1.00%. At the half year the consolidated leverage remained below 1.0:1 and therefore the margin for the second period of the year ended 31 July 2017 was 1.00%; this rate will continue into the first period of the year ended 31 July 2018.

At 31 July 2017 the Group had £37,010,000 (2016: £38,131,000) of its multi-currency revolving credit facility unutilised.

## 14. Deferred tax

At 31 July 2017, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2016: £5,195,000) relating to management expenses, capital losses of £1,789,000 (2016: £3,975,000) arising in UK subsidiaries and gross tax losses of £385,000 (2016: £264,000) arising in overseas entities as there is insufficient evidence that the losses will be utilised. These losses are available to be carried indefinitely.

At 31 July 2017, the Group had no deferred tax liability (2016: £nil) to recognise for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings. Deferred tax liabilities have not been recognised as the Group has determined that there are no undistributed profits in overseas subsidiaries where an additional tax charge would arise on distribution.

Deferred tax assets and liabilities arise from the following:

	1 August 2016 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2017 £000
<b>2017</b>						
<b>Temporary differences</b>						
Depreciation in advance of capital allowances	(365)	(376)	—	(4)	—	(745)
Fair value movements of derivative financial instruments	(108)	254	—	—	—	146
Customer base, trademark and patent	(18,158)	3,083	—	(223)	(1,375)	(16,673)
Losses	872	(779)	—	—	205	298
Untaxed reserves	(398)	62	—	(23)	(88)	(447)
Other temporary differences	(30)	396	109	—	—	475
	<b>(18,187)</b>	<b>2,640</b>	<b>109</b>	<b>(250)</b>	<b>(1,258)</b>	<b>(16,946)</b>
Deferred tax asset	450	155	—	—	205	810
Deferred tax liability	(18,637)	2,485	109	(250)	(1,463)	(17,756)
	<b>(18,187)</b>	<b>2,640</b>	<b>109</b>	<b>(250)</b>	<b>(1,258)</b>	<b>(16,946)</b>

	1 August 2015 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2016 £000
<b>2016</b>						
<b>Temporary differences</b>						
Depreciation in advance of capital allowances	(676)	444	—	(39)	(94)	(365)
Fair value movements of derivative financial instruments	45	(153)	—	—	—	(108)
Customer base, trademark and patent	(18,276)	3,524	—	(601)	(2,805)	(18,158)
Losses	536	(133)	—	118	351	872
Untaxed reserves	(468)	25	—	45	—	(398)
Historical fair value adjustments	—	—	1,526	—	(1,526)	—
Other temporary differences	(40)	(211)	37	6	178	(30)
	<b>(18,879)</b>	<b>3,496</b>	<b>1,563</b>	<b>(471)</b>	<b>(3,896)</b>	<b>(18,187)</b>
Deferred tax asset	394	61	—	(11)	6	450
Deferred tax liability	(19,273)	3,435	1,563	(460)	(3,902)	(18,637)
	<b>(18,879)</b>	<b>3,496</b>	<b>1,563</b>	<b>(471)</b>	<b>(3,896)</b>	<b>(18,187)</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 15. Dividends paid and proposed

	2017 £000	2016 £000
<b>Cash dividends on ordinary shares declared and paid</b>		
Interim dividend for 2017: 1.35 pence per share (2016: 1.20 pence)	2,688	2,394
<b>Proposed dividends on ordinary shares</b>		
Final dividend for 2017: 2.80 pence per share (2016: 2.60 pence)	5,567	5,176

The interim dividend payment of £2,688,000 is included in the consolidated statement of cash flows.

The proposed final dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2017.

## 16. Related party transactions

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

No related party loan note balances exist at 31 July 2017 or 31 July 2016.

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

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

### *Compensation of key management personnel*

	2017 £000	2016 £000
Short-term employee benefits	2,714	2,292
Share-based payment charge	512	389
	<b>3,226</b>	2,681

Key management personnel is defined as the CEO, the CFO and the ten (2016: nine) individuals who report directly to the CEO.

## 17. Events after the reporting period

There have been no material events between 31 July 2017 and the date of authorisation of the consolidated financial statements that would require adjustments of the consolidated financial statements or disclosure.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2017

## 18. Glossary of terms

**Adjusted basic and diluted EPS** – is calculated by dividing the adjusted profit for the year 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 attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are no dilutive potential ordinary shares for the years ended 31 July 2017 and 31 July 2016.

**Adjusted EBITDA** – EBITDA removing exceptional items and other non-recurring items not meeting the definition of exceptional.

**Adjusted finance costs** – finance costs removing net gains or losses on financial instruments at fair value.

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

**Adjusted operating profit** – operating profit removing exceptional items, other non-recurring items not meeting the definition of exceptional, amortisation of intangible assets associated with the customer base, trademarks and patents.

**Adjusted profit after tax** – profit after tax removing exceptional items, other non-recurring items not meeting the definition of exceptional, net gains or losses on financial instruments at fair value, amortisation of intangible assets associated with the customer base, trademarks and patents and the tax effect on these items.

**Adjusted profit before tax** – profit before tax removing exceptional items, other non-recurring items not meeting the definition of exceptional, net gains or losses on financial instruments at fair value and amortisation of intangible assets associated with the customer base, trademarks and patents.

**Adjusted tax charge** – the reported tax charge less the tax effect on the adjusted items.

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

**Constant currency** – to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2017 at the average exchange rate for the period ended 31 July 2016. In addition we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2017, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2016.

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

**Like for like** – like for like is the performance of the Group as though the position of the Group was the same as it was in the comparative period.

**Net debt** – bank borrowings less cash and cash equivalents.

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

**Other non-recurring items not meeting the definition of exceptional** – these are items of expense incurred by the Group which are non-recurring but do not meet the IFRS definition of exceptional items; they have been adjusted for to give a fairer representation of the underlying performance of the business.