Monday 20 March 2017

VOLUTION GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017

Strong results with revenue growth of 26% and adjusted EPS up 14%.
Continued execution of our strategy: organic growth with strategic acquisitions.

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 unaudited interim financial results for the 6 months ended 31 January 2017.

Financial Results	**6 months to January 2017**	**6 months to January 2016**	**Movement**	**Movement in Constant Currency**
Revenue (£000)	88,478	70,142	26.1%	19.3%
Adjusted operating profit (£000)	17,134	15,207	12.7%	7.7%
Adjusted profit before tax (£000)	16,535	14,597	13.3%	8.0%
Reported profit before tax (£000)	8,815	8,040	9.6%	0.2%
Adjusted basic and diluted EPS (pence)	6.54	5.73	14.1%	7.4%
Reported basic and diluted EPS (pence)	3.61	3.64	(0.8)%	(11.4)%
Adjusted operating cash flow (£000)	16,414	11,439	43.5%	
Interim dividend per share (pence)	1.35	1.20	12.5%	
Net debt (£000)	40,621	38,988		

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 20, a reconcilation to reported measures set out in note 8.

Financial highlights

- Strong revenue growth of 26.1% (19.3% at constant currency):
  - Organic revenue growth of 8.9% (2.3% at constant currency); and
  - Inorganic revenue growth of 17.2% (17.0% at constant currency).
- Ventilation Group revenue grew organically by 10.0% (3.1% at constant currency) underpinned by strong results in the Nordics, Central Europe, Residential New Build in the UK and Exports from the UK.
- UK Residential RMI revenue grew by 11.3% helped by acquisitions; an organic decline of 4.5%.
- OEM (Torin-Sifan) revenue grew by 3.0% (decline of 2.7% at constant currency).
- Adjusted operating profit increased by 12.7% to £17.1 million (7.7% at constant currency).
- As anticipated, adjusted operating profit margin declined by 2.3 percentage points, mainly as a consequence of new acquisitions.
- Reported profit before tax of £8.8 million (H1 2016: £8.0 million).
- Adjusted operating cash inflow was very strong at £16.4 million (H1 2016: £11.4 million).
- Interim dividend of 1.35 pence per share, up 12.5% compared to H1 2016.
- Adjusted basic and diluted EPS growth of 14.1% to 6.54 pence (H1 2016: 5.73 pence).
- Reported basic and diluted EPS declined by 0.8% to 3.61 pence (H1 2016: 3.64 pence). The decline of 0.8% is mainly the result of increased amortisation of acquired intangible assets, a loss on fair valuing financial instruments of £0.2 million (H1 2016: a gain of £0.7 million) and a change in the rate of deferred tax.

Strategic highlights

- The acquisition of Breathing Buildings was completed in December 2016, widening Volution's capability with a market leader in natural and hybrid ventilation for commercial buildings, in particular focusing on new construction for Education. All integration activity is progressing in line with our internal plans.
- The acquisition of National Ventilation and Airtech, in May 2016, increased our share of the UK Residential RMI market. Integration is progressing very well with the introduction of new products from the wider Volution Ventilation Group in to their offering.
- The introduction of the new range of "Sentinel Kinetic Advance" heat recovery systems to the UK and Continental Europe is gaining traction and the development of higher airflow products to the range is underway.
- OEM (Torin-Sifan) has commenced sales, while later than planned, of the new three phase, Electronically Commutated (EC3) motors, with further momentum in sales expected in H2 2017.

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

"We have delivered another strong set of results with excellent cash generation continuing to support our strategy to grow organically and by acquisitions. Nordic and Central Europe sectors' organic growth was very pleasing and the integration of our recent acquisition of Breathing Buildings is proceeding well.

We continue to focus on developing our wide product portfolio across our increasing market reach; including our application software-controlled fan now being sold successfully in the Nordics, UK and Central Europe, and our "Sentinel Kinetic Advance" heat recovery unit is selling in both the UK and Central Europe."

Outlook

"The second half of 2017 has started in line with our expectations, and despite the uncertainty in the UK following the decision to leave the European Union and the continuing weakness in UK Public Residential RMI, we remain confident in delivering further good growth in 2017 in line with our strategy."

-Ends-

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A presentation will be held for analysts at 9.30 am today, Monday 20 March, 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.volutiongroupplc.com from 7.00 am on Monday 20 March.

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

Note to Editors:

Volution 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 Volution Group operates through two divisions: the Ventilation Group and the OEM (Torin-Sifan) division. The Ventilation Group consists of 12 key brands - Vent-Axia, Manrose, Diffusion, National Ventilation, Airtech, Breathing Buildings, Fresh, PAX, 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.volutiongroupplc.com

Cautionary statement regarding forward-looking statements

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

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

Volution continued to make good progress on its growth strategy in the first half of the year. As well as reporting further organic growth, we completed the acquisition of Breathing Buildings, in December 2016 which extended our reach in to the new-build education market in our UK commercial sector.

Our results for the six months were ahead of expectations with both organic and inorganic growth in revenue and the additional benefit of currency tailwinds. Revenue increased to £88.5 million, up by 26.1% (19.3% at constant currency) compared to H1 2016. Adjusted operating profit grew in the first six months, by 12.7% (7.7% at constant currency) to £17.1 million, representing 19.4% of revenue.

The acquisition of Breathing Buildings was completed in December 2016 and its integration is going very well and progressing to plan. Next steps include an extension of its product range now that it can access the wider Volution product portfolio.

Our organic growth was pleasing, with continuing growth in the Nordics, Central Europe, UK Export and UK Residential New Build. This was offset by the disappointing performance of the UK Residential RMI market. UK Commercial was broadly flat in the first half of the year which represents an improving trend compared to the organic decline in FY 2016.

The recent acquisitions of NVA Services ("NVA", trading as National Ventilation and Airtech), acquired in May 2016, and Energy Technique (trading as "Diffusion"), acquired in December 2015, have contributed to our inorganic growth by increasing our market share in the UK. Both businesses have grown organically compared with the corresponding pre-acquisition period, although we do not recognise this in our organic growth measure until after the first anniversary of the acquisition.

OEM (Torin-Sifan) grew in the period by 3.0% due to favourable foreign exchange rates, at constant currency OEM (Torin-Sifan) declined by 2.7% due to lower sales of residential ventilation products. OEM (Torin-Sifan) has been increasing the sales of its products inside Volution since a number of the newly acquired businesses are now sourcing motorised impellers from within the Group. We expect this insourcing to gather further momentum in the second half of 2017.

Ventilation Group

Revenue: £77.7 million, 87.8% of Group revenue (£73.5 million at constant currency)
(H1 2016: £59.7 million, 85.1% of Group revenue)

Adjusted operating profit: £16.3 million, 94.9% of Group adjusted operating profit
(H1 2016: £14.3 million, 94.0% of Group adjusted operating profit)

		Constant currency		
	2017	**2017**	2016	Growth
Market sectors	**£000**	**£000**	£000	%
Ventilation Group				
UK Residential RMI	**18,929**	**18,929**	17,011	11.3%
UK Residential New Build	**10,222**	**10,222**	8,333	22.7%
UK Commercial	**15,044**	**15,044**	8,246	82.4%
UK Export	**4,717**	**4,283**	2,816	52.1%
Nordics	**15,478**	**13,460**	12,433	8.3%
Central Europe	**13,328**	**11,590**	10,858	6.7%
Total Ventilation Group	**77,718**	**73,528**	59,697	23.2%

The Ventilation Group's performance was strong, with a 30.2% increase in revenue compared to H1 2016 (23.2% at constant currency). Organic growth was 10.0% (3.1% at constant currency) due to strong growth in UK Residential New Build, UK Export, Nordics and Central Europe, offset by the declining revenue in the UK Residential RMI market, primarily public.

United Kingdom

Sales in our UK Residential RMI sector were £18.9 million (H1 2016: £17.0 million), growth of 11.3% assisted in the six months by the additional revenues from NVA. Organic revenues in this sector remained weak, as private refurbishment revenue declined by 1.8% and public refurbishment revenue declined by 8.5%. The difficulties with the public market were expected and the outlook remains weak. Our new product, “Revive”, is now starting to get some sales traction and we expect further improvement in the revenues of this product in H2 2017. The integration of Airtech, has also helped us increase our market share in this sector. New products have been developed, exclusively for use by Airtech to support their growth, and although not yet included in our organic growth measure, Airtech has been achieving growth, on the prior year pre-acquisition sales.

Private UK Residential RMI demand has been weak although the long term dynamics of this market are very good. Increasing awareness of indoor air quality (IAQ) issues is apparent and despite our organic decline in H1 2017, sales of quieter, more aesthetic and energy efficient products are improving. The acquisition of National Ventilation has also increased our market share in this sector, with this extra coverage enabling us to reach in to other areas of the market, previously harder to access prior to this acquisition.

Sales in our UK Residential New Build sector were £10.2 million (H1 2016: £8.3 million), growth of 22.7%, assisted in the six months by the additional revenues from Diffusion, acquired in December 2015. Organic growth achieved was 7.7%. The new “Sentinel Kinetic Advance” is starting to gain sales traction and has been specified for a number of new projects. We were delighted that this product recently won the prestigious award for “Energy Efficient Product of the Year” from the Chartered Institution of Building Services Engineers, with the Breathing Buildings’ “NVHR” (Natural Ventilation with Heat Recycling) product also nominated in the category.

Sales in our UK Commercial sector grew by 82.4% in the six months to £15.0 million (H1 2016: £8.2 million) as a result of the acquisition of Diffusion, NVA and Breathing Buildings. The organic revenue was broadly flat, an improving trajectory compared to FY 2016. Since the acquisition of Diffusion, sales have performed very strongly with a number of notable project wins for the supply of fan coils, requiring us to increase the manufacturing capacity of the business to support the increasing demand.

UK Export sales were £4.7 million (H1 2016: £2.8 million), strong growth of 67.5% (52.1% at constant currency), benefiting from the additional export sales from Diffusion and a very strong organic like-for-like growth of 38.1% (22.5% organic growth at constant currency). UK Export sales continue to grow strongly with the supply of central systems to New Zealand, Eire and a number of continental European customers.

The Nordics

Sales in the Nordics sector were £15.5 million (H1 2016: £12.4 million), an increase of 24.5% (8.3% at constant currency) with ongoing organic revenue growth of 19.4% (3.8% growth at constant currency). The introduction of new wall inlet grilles and the first application software controlled fan have underpinned the organic growth in the Nordics.

Central Europe

Sales in the Central Europe sector were £13.3 million (H1 2016: £10.9 million), an increase of 22.7% (6.7% at constant currency). The improvement and introduction of new products in Germany have supported our organic growth. Improved product aesthetics in FY 2016 were delivered through new wall grilles and recently in FY 2017 we have improved the range of wall mounted controllers, with a number of other exciting developments coming to market in FY 2018. The investment in expanding our sales network in Germany under the inVENTer brand is also complete, the benefits being seen in H1 2017.

In Belgium and the Netherlands we have launched an extended range of products under the Vent-Axia brand. This roll out, through the wholesaler distribution channel, is also starting in Germany and is an example of where Volution can use its greater market access to leverage the sales of our comprehensive product portfolio. Further investment in our sales force is underway in Belgium and the Netherlands and whilst we expect to see further improvement in the second half of the year, this is a long term plan to grow in these markets over the coming years.

OEM (Torin-Sifan)

Revenue: £10.8 million, 12.2% of Group revenue (£10.2 million at constant currency)
(H1 2016: £10.4 million, 14.9% of Group revenue)

Adjusted operating profit: £2.1 million, 12.5% of Group adjusted operating profit
(H1 2016: £1.9 million, 12.7% of Group adjusted operating profit)

		Constant currency		
	2017	**2017**	2016	Growth
Market sectors	**£000**	**£000**	£000	%
OEM	**10,760**	**10,159**	10,445	(2.7%)
Total OEM	**10,760**	**10,159**	10,445	(2.7%)

Our OEM (Torin-Sifan) segment revenue was £10.8 million (H1 2016: £10.4 million), an increase of 3.0% (2.7% decline at constant currency). Sales of highly efficient Electrically Commutated (EC) technology products have been launched later than originally anticipated and sales volumes of traditional, less efficient, Alternating Current (AC) technology products reduced; however, price increases for these AC products supported revenue. The first deliveries of EC3 products have commenced across several new projects with a number of UK & Continental European customers. EC3 sales development activities will continue over the coming months in the UK & Europe. Sales of single phase EC fandecks and motors have performed well due to good demand from both new and existing customers. Demand for EC technology products continues to be driven by ever tighter European legislation driving the continued migration of sales from traditional AC technology to energy saving EC solutions.

Three strategic pillars

Our strategy continues to focus on three key pillars:

- Organic growth in our core markets (which has been extended to include a leading position in the UK education sector since the acquisition of Breathing Buildings);
- Growth through a disciplined and value-adding acquisition strategy; and
- Further development of OEM (Torin-Sifan's) range, to build customer preference and loyalty.

These markets, as well as the original core markets for Volution, provide the Group with the long term growth opportunities driven by a favourable regulatory backdrop that focuses on reducing carbon emissions from buildings (in particular new buildings) as well as the need to improve energy efficiency and indoor air quality.

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

The investment we have made in Torin-Sifan, both in new product development and a new production facility, has established a strong base for future revenue growth and profit improvement. The launch of the new EC3 motorised impeller range, whilst later than planned, is now starting to gain approval and we have started to make sales in the first half of FY 2017.

Operations - factory rationalisation

We have commenced a project to rationalise part of our UK manufacturing footprint into one location. Between now and mid 2018 the injection moulding facility in Reading, the fan assembly at Slough and the administration for a subsidiary operation, Manrose Manufacturing, will all have been relocated to Suttons Business Park in Reading. The project has commenced and we anticipate the total cost of the relocation will be approximately £1.75 million over the life of the project, which we have and will continue to treat as an exceptional item in the financial statements.

Dividend

The Board has declared an interim dividend of 1.35 pence per share, which represents growth of 12.5% compared to H1 2016. The interim dividend will be paid on 4 May 2017 to shareholders on the register at the close of business on 31 March 2017.

UK leaving the European Union

The weakness of sterling following the referendum to leave the EU has persisted and has led to increasing cost pressures in the UK primarily from the direct import of components. Our exposure to US dollar denominated purchases from Asia is partially hedged for the balance of the year and we continue to mitigate the effect on costs by implementing price increases and product cost reduction.

People

Our second internal Management Development Programme (MDP) will conclude in April 2017. This programme, which has been running for just under one year has visited many of the Volution Group locations. We place considerable value on this programme which has significantly assisted in the integration of new acquisitions as our high potential managers are made to feel part of a wider group network and assist in the formation of the overall Group culture. Such is the success of this programme we are already in the planning stages for the third programme which will commence early in 2018, with the selection process taking place in the autumn of this year.

During the financial year 2016, we completed four acquisitions, and have already completed one acquisition so far in FY 2017. I continue to be impressed with how quickly the newly acquired businesses become integrated into the Group. Having completed nine acquisitions since September 2012 we are building up, not just at the senior management level, but company-wide, a competence and skill of integration which will underpin our future successes.

Ronnie George
Chief Executive Officer
20 March 2017

FINANCIAL REVIEW

Trading Performance Summary

	Reported			Adjusted [1]		
	6 months to 31 January 2017	6 months to 31 January 2016	Movement	**6 months to 31 January 2017**	6 months to 31 January 2016	Movement
Revenue (£000)	88,478	70,142	26.1%	88,478	70,142	26.1%
Operating profit (£000)	9,634	7,945	21.3%	17,134	15,207	12.7%
Finance costs (£000)	(829)	(621)	33.5%	(609)	(621)	(1.9)%
Profit before tax (£000)	8,815	8,040	9.6%	16,535	14,597	13.3%
Basic and diluted EPS (p)	3.61	3.64	(0.8)%	6.54	5.73	14.1%
Interim dividend per share (p)	1.35	1.20	12.5%	1.35	1.20	12.5%
Operating cash flow (£000)	15,656	10,267	52.5%	16,414	11,439	43.5%
Net debt (£000)	40,621	38,988		40,621	38,988	

[1]The Group's reported profit before tax and adjusted measures of performance are reconciled in note 8. For a definition of all adjusted measures see the glossary of terms in note 20.

Revenue

Group revenue during the six months ended 31 January 2017 was £88.5 million (H1 2016: £70.1 million), a 26.1% increase (19.3% at constant currency). Growth was achieved both organically, 8.9% (2.3% at constant currency), and inorganically from acquisitions, 17.2% (17.0% at constant currency). The inorganic growth was a result of the full period effect of the three acquisitions, Welair in December 2015, Diffusion in December 2015 and NVA in May 2016, as well as the acquisition of Breathing Buildings in December 2016.

Profitability

Our underlying result, as measured by adjusted operating profit, was £17.1 million (H1 2016: £15.2 million), representing 19.4% of revenue (H1 2016: 21.7%), a £1.9 million improvement compared to H1 2016. At constant currency our adjusted operating profit grew by 7.7% (£1.2 million) a margin of 18.5%. At constant currency the adjusted operating profit margin of 18.5% represents a 3.2 percentage point decline in the period as a consequence of the acquisition of businesses that currently have a profit margin lower than the Group average, as well as the adverse product mix resulting from a decline in organic revenue in our UK Residential RMI sector. The Group's profitability benefited from the full period effect of the acquisitions made during the last financial year and the acquisition of Breathing Buildings in December 2016. Like-for-like adjusted operating profit margin declined by 0.7 percentage points to 21.0%.

The Group's reported operating profit in the six months was £9.6 million compared to £7.9 million in H1 2016, growth of £1.7 million, 21.3%. The reconciliation between reported and adjusted operating profit can be found in note 8.

Acquisitions

The Group's trading benefited in the six months from one acquisition completed in the period, which was financed from our existing cash reserves and bank facilities:

- On 16 December 2016 we completed the acquisition of Breathing Buildings Limited, based in the UK. The consideration was £11.9 million (£11.6 million net of cash acquired).

For further details please refer to note 14.

The Group's trading also benefited in the six months from the acquisitions completed in the second half of the prior year, which were financed from our existing cash reserves and bank facilities:

- On 10 May 2016 we completed the acquisition of NVA Services Limited (trading as National Ventilation and Airtech), based in the UK. The consideration was £6.7 million (£6.5 million net of cash acquired).

The Group's trading benefited from the full period effect of the acquisitions completed in the first half of the prior year, which were financed from our existing cash reserves and bank facilities:

- On 21 December 2015 we completed the acquisition of Energy Technique plc (trading as Diffusion, based in the UK. The consideration was £9.4 million (£8.2 million net of cash acquired);
- On 1 December 2015 we completed the acquisition of Welair AB, based in Sweden. The consideration was SEK 7.8 million (approximately £0.6 million).

Exceptional items and adjusted performance measures

Exceptional items, by virtue of their size, incidence or nature, are disclosed separately in order to allow a better understanding of the underlying trading performance of the Group. During the period ended 31 January 2017 exceptional items were £0.8 million (H1 2016: £1.0 million). Details of these exceptional items can be found in note 6.

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 reported profit before tax is detailed in note 8. In addition to exceptional items, the following are also 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 six months the amortisation charge of these intangible assets was £6.7 million (H1 2016: £6.1 million). 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.
- **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 six months we recognised a loss of £0.2 million (H1 2016: gain of £0.7 million). We exclude these gains or losses in 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.

Finance costs and finance revenue

Finance costs were £0.8 million (H1 2016: £0.6 million) including £0.2 million of net losses on revaluation of financial instruments (H1 2016: £nil).

Finance revenue was negligible (H1 2016: £0.7 million) including £nil net gains on revaluation of financial instruments (H1 2016: £0.7 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 which was enacted on 15 September 2016.

Our adjusted effective tax rate, before the effect of this adjustment to deferred tax liabilities, was 21.3% (H1 2016: 21.6%). The Group has large UK deferred tax liabilities on its consolidated statement of financial position and the liabilities have been recalculated as a consequence of these tax rate changes. As a result the UK deferred tax liability has decreased, with a one off credit of £0.4 million recognised in the income statement in the period to 31 January 2017. This has reduced our effective tax rate in the period to 18.5% (H1 2016: £1.1m exceptional deferred tax credit reducing the effective tax rate to 9.6%).

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 period, with adjusted operating cash inflow of £16.4 million (H1 2016: £11.4 million). This represents a cash conversion, after capital expenditure and movement in working capital, of 94.0% (H1 2016: 74.6%). The Group continues to manage its working capital efficiently with operating working capital representing 22.3% of half year revenue (H1 2016: 27.5%). See the glossary of terms in note 20 for a definition of adjusted operating cash flow and cash conversion.

Employee Benefit Trust

The Trustees of the Volution Employee Benefit Trust did not purchase any shares during the period (H1 2016: 528,000) and no shares (H1 2016: no shares) were released from the Trust to satisfy the Company's obligations under its Long Term Incentive Plan and Deferred Share Bonus Plan. As at 31 January 2017 the Employee Benefit Trust held 916,878 shares (31 July 2016: 916,878). The Employee Benefit Trust has been consolidated into our results and the shares purchased have been treated as treasury shares deducted from shareholders' funds.

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 US dollar expenditure. We have limited our transactional foreign exchange risk by purchasing the majority of our forecast US dollar requirements for, and in advance of, the 2017 financial year.

We are also exposed to translational currency risk as the Group consolidates foreign currency-denominated assets, liabilities, income and expenditure into sterling, the Group's functional currency. We hedge the translation risk of the net assets in Fresh and PAX with £16.4 million of borrowings denominated in Swedish krona (31 July 2016: £15.9 million). We have partially hedged our risk of translation of the net assets of inVENTer, Brüggemann and Ventilair by having Euro-denominated bank borrowings in the amount of £22.4 million as at 31 January 2017 (31 July 2016: £22.0 million). The sterling value of our foreign currency-denominated loans, net of cash, increased by £0.8 million (H1 2016: £2.6 million) as a consequence of exchange rate movements. We do not hedge the translational exchange rate risk to the results of overseas subsidiaries.

During the six months, 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 H1 2017 performance of the Group at our 2016 exchange rates, the reported Group revenues would have been £83.7 million, £4.8 million lower, and adjusted operating profit would have been £16.4 million, £0.7 million lower.

At the end of the half year the weakening of sterling increased the value of foreign currency-denominated working capital by £0.2 million compared to the foreign exchange rates applying at the beginning of the half year.

Net debt

Net debt as at 31 January 2017 was £40.6 million (H1 2016: £39.0 million), comprised of bank borrowings of £54.3 million (H1 2016: bank borrowings of £54.9 million), offset by cash and cash equivalents of £13.7 million (H1 2016: £15.9 million). The net debt of £40.6 million represents leverage of 1.1x adjusted EBITDA on a trailing 12 month basis.

Movements in net debt position for the six months ending 31 January 2017

	2017 £m	**2016 £m**
Opening net debt 1 August	**(36.1)**	**(21.2)**
Movements from normal business operations:		
Adjusted EBITDA	18.9	16.5
Movement in working capital	(0.9)	(2.5)
Share-based payments	0.3	-
Capital expenditure	(1.9)	(2.6)
Adjusted operating cash flow	16.4	11.4
– Interest paid net of interest received	(0.6)	(0.5)
– Income tax paid	(2.3)	(2.1)
– Exceptional items	(0.4)	(0.3)
– Other	-	0.3
– Dividend paid	(5.2)	(4.5)
– FX on foreign currency loans/cash	(0.8)	(2.6)
– Purchase of own shares	-	(1.0)
Movements from acquisitions:		
– Acquisition consideration net of cash acquired	(11.6)	(18.5)
Closing net debt 31 January	**(40.6)**	**(39.0)**

Bank facilities, refinancing and liquidity

The Group's bank facilities, at 31 January 2017, consisted of a £90 million revolving credit facility, maturing in April 2019.

As at 31 January 2017, the Group had £35.7 million of undrawn, committed bank facilities and £13.7 million of cash and cash equivalents on the consolidated statement of financial position.

UK leaving the European Union

Since the UK referendum on EU membership the weakness of sterling against foreign currencies has persisted. The positive and negative effects of this weakness in sterling on our trading are described elsewhere in this report. Other than these currency effects, the business has seen no other effects on trading that can be attributed to the decision to leave the EU. We continue to monitor our business closely for any such effects but believe that the decision to leave the EU will not have any material near-term impact on demand for our products.

Earnings per share

Our adjusted basic and diluted EPS grew by 14.1% to 6.54 pence (H1 2016: 5.73 pence).

The basic and diluted earnings per share for the six months ended 31 January 2017 was 3.61 pence (H1 2016: 3.64 pence) a decline of 0.8%. The decline is mainly the result of increased amortisation of acquired intangible assets, a loss on fair valuing financial instruments of £0.2 million (H1 2016: a gain of £0.7 million) and a change in the rate of deferred tax which resulted in an unusually low tax charge in H1 2016. A reconciliation of reported profit after tax to adjusted profit after tax is set out in note 8.

Ian Dew
Chief Financial Officer
20 March 2017

PRINCIPAL RISKS AND UNCERTANTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report for the year ended 31 July 2016. These risks are summarised below, and how the Group seeks to mitigate these risks is set out on pages 30 to 35 of the Annual Report 2016 which can be found at www.volutiongroupplc.com.

A summary of the nature of the risks currently faced by the Group is as follows:

Economic risk
A decline in general economic activity and/or a specific decline in activity in the construction industry, including, but not exclusively, an economic decline caused by the result of the UK referendum on EU membership, would result in a decline in demand for our products serving the residential and commercial RMI and new build markets. This would result in a reduction in revenue and profitability.

Foreign exchange risk
The exchange rates between currencies that we use may move adversely. The commerciality of transactions denominated in currencies other than the functional currency of our businesses and/or the perceived performance of foreign subsidiaries in our sterling denominated consolidated financial statements may be adversely affected by changes in exchange rates.

Acquisitions
We may fail to identify suitable acquisition targets at an acceptable price or we may fail to consummate or properly integrate the acquisition. The impact could include: revenue and profitability which may not grow in line with management's ambitions and investor expectations; a failure to properly integrate a business may distract senior management from other priorities and adversely affect revenue and profitability; financial performance by failure to integrate acquisitions and therefore not secure possible synergies.

Innovation
We may fail to innovate commercially or technically viable products to maintain and develop our product leadership position. Scarce development resource may be misdirected and costs incurred unnecessarily. Failure to innovate may result in an ageing product portfolio which falls behind that of our competition.

Supply chain and raw materials
Raw materials or components may become difficult to source because of material scarcity or disruption of supply. Sales and profitability may be reduced during the period of constraint. Prices for the input material may increase and our costs may increase.

IT systems
We may be adversely affected by a breakdown in our IT systems or a failure to properly implement any new systems. Failure of our IT and communication systems could affect any or all of our business processes and have significant impact on our ability to trade, collect cash and make payments.

Customers
A significant amount of our revenue is derived from a small number of customers and from our relationships with heating and ventilation consultants. We may fail to maintain these relationships. Any deterioration in our relationship with a significant customer could have an adverse significant effect on our revenue from that customer.

Legal and regulatory environment
Changes in laws or regulation relating to the carbon efficiency of buildings or the efficiency of electrical products may change. The shift towards higher value-added and more energy-efficient products may not develop as anticipated resulting in lower sales and profit growth. If our products are not compliant and we fail to develop new products in a timely manner we may lose revenue and market share to our competitors.

People
Our continuing success depends on retaining key personnel and attracting skilled individuals. Skilled and experienced employees may decide to leave the Group, potentially moving to a competitor. Any aspect of the business could be impacted with resultant reduction in prospects, sales and profitability.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that to the best of their knowledge:

The condensed consolidated set of financial statements has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union and that the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period; and any changes in the related party transactions described in the Annual Report 2016 that could do so.

The Directors of Volution Group plc are listed in the Company's Annual Report for the year ended 31 July 2016 and can also be found on the Company's website at www.volutiongroupplc.com.

By order of the Board

Ronnie George	**Ian Dew**
Chief Executive Officer	Chief Financial Officer
20 March 2017	20 March 2017

INDEPENDENT REVIEW REPORT TO VOLUTION GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2017 which comprises the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flows and the related notes 1 to 20. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
20 March 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 January 2017

	Notes	*2017* *Unaudited* *£000*	*2016* *Unaudited* *£000*
Revenue	4	88,478	70,142
Cost of sales		(44,885)	(35,521)
Gross profit		43,593	34,621
Distribution costs		(13,333)	(9,679)
Administrative expenses		(19,868)	(16,021)
Operating profit before exceptional items		10,392	8,921
Exceptional items	6	(758)	(976)
Operating profit		9,634	7,945
Finance revenue	7	10	716
Finance costs	7	(829)	(621)
Profit before tax		8,815	8,040
Income tax	9	(1,629)	(769)
Profit for the period		7,186	7,271
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		661	1,708
Loss on hedge of net investment in foreign operation		(493)	(832)
Other comprehensive income for the period		168	876
Total comprehensive income for the period		7,354	8,147
Earnings per share			
Basic and diluted, pence per share	10	3.61	3.64

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 January 2017

	Notes	*31 January 2017 Unaudited £000*	*31 July 2016 Audited £000*
Non-current assets			
Property, plant and equipment	11	19,034	19,130
Intangible assets – goodwill	12	75,216	68,228
Intangible assets – other	13	103,991	105,361
Deferred tax assets		655	450
		198,896	193,169
Current assets			
Inventories		21,563	20,156
Trade and other receivables		32,448	32,935
Other current financial assets	15	694	914
Cash and short term deposits		13,672	15,744
		68,377	69,749
Total assets		267,273	262,918
Current liabilities			
Trade and other payables		(34,271)	(35,090)
Income tax		(3,595)	(2,472)
Provisions		(1,202)	(1,268)
Deferred tax Liabilities		-	(2,395)
		(39,068)	(41,225)
Non-current liabilities			
Interest bearing loans and borrowings	16	(53,775)	(51,235)
Provisions		(683)	(671)
Deferred tax liabilities		(17,710)	(16,242)
		(72,168)	(68,148)
Total liabilities		(111,236)	(109,373)
Net assets		156,037	153,545
Capital and reserves			
Share capital		2,000	2,000
Share premium		11,527	11,527
Capital reserve		93,855	93,855
Treasury shares at cost		(1,533)	(1,533)
Share-based payment reserve		963	649
Foreign currency translation reserve		1,630	1,462
Retained earnings		47,595	45,585
Total equity		156,037	153,545

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 January

	Share capital £000	*Share premium £000*	*Capital reserve £000*	*Treasury shares at cost £000*	*Share-based payment reserve £000*	*Foreign currency translation reserve £000*	*Retained earnings £000*	*Total £000*
At 1 August 2015 (Audited)	2,000	11,527	92,325	-	181	(463)	36,876	142,446
Profit for the period	-	-	-	-	-	-	7,271	7,271
Other comprehensive income	-	-	-	-	-	876	-	876
Total comprehensive income	-	-	-	-	-	876	7,271	8,147
Purchase of own shares	-	-	-	(987)	-	-	-	(987)
Share-based payment	-	-	-	-	185	-	-	185
Dividends paid	-	-	-	-	-	-	(4,500)	(4,500)
At 31 January 2016 (Unaudited)	2,000	11,527	92,325	(987)	366	413	39,647	145,291
Profit for the period	-	-	-	-	-	-	8,336	8,336
Other comprehensive income	-	-	-	-	-	1,049	-	1,049
Total comprehensive income	-	-	-	-	-	1,049	8,336	9,385
Fair value adjustment[1]	-	-	1,530	-	-	-	(4)	1,526
Purchase of own shares	-	-	-	(546)	-	-	-	(546)
Share-based payment	-	-	-	-	283	-	-	283
Dividends paid	-	-	-	-	-	-	(2,394)	(2,394)
At 31 July 2016 (Audited)	2,000	11,527	93,855	(1,533)	649	1,462	45,585	153,545
Profit for the period	-	-	-	-	-	-	7,186	7,186
Other comprehensive income	-	-	-	-	-	168	-	168
Total comprehensive income	-	-	-	-	-	168	7,186	7,354
Share-based payment	-	-	-	-	314	-	-	314
Dividends paid	-	-	-	-	-	-	(5,176)	(5,176)
At 31 January 2017 (Unaudited)	2,000	11,527	93,855	(1,533)	963	1,630	47,595	156,037

Note

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Capital reserve

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

Treasury shares at cost

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 plans.

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 sterling 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 ineffectiveness has been recognised in the statement of comprehensive income for any of the periods presented. These two items are the only items in other comprehensive income.

Retained earnings

The parent company of the Volution Group, Volution Group plc, had distributable retained earnings at 31 January 2017 of £66,400,000.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 January

	Notes	*2017 Unaudited £'000*	*2016 Unaudited £'000*
Operating activities			
Profit for the period after tax		7,186	7,271
Adjustments to reconcile profit for the period to net cash flow from operating activities:			
Income tax		1,629	769
Gain on disposal of property, plant and equipment		(53)	(6)
Exceptional items	6	758	976
Cash flows relating to exceptional items		(414)	(92)
Finance revenue		(10)	(716)
Finance costs		829	621
Share based payment expense		314	185
Depreciation of property, plant and equipment		1,464	1,199
Amortisation of intangible assets		7,075	6,209
Working capital adjustments:			
Decrease in trade and other receivables		2,487	153
Increase in inventories		(750)	(1,038)
Exceptional costs: fair value of inventories		(81)	(333)
Decrease in trade payables and other payables		(2,532)	(1,321)
(Decrease)/increase in provisions		(54)	29
UK income tax paid		(1,284)	(1,400)
Overseas income tax paid		(1,025)	(653)
Net cash flow from operating activities		15,538	11,853
Investing activities			
Payments to acquire intangible assets		(832)	(891)
Purchase of property, plant and equipment		(1,097)	(1,750)
Proceeds from disposal of property, plant and equipment		83	71
Acquisition of subsidiaries, net of cash acquired	14	(11,631)	(18,513)
Interest received		10	11
Net cash flow used in investing activities		(13,467)	(21,072)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

for the six months ended 31 January

	2017	*2016*
	Unaudited	*Unaudited*
	£'000	*£'000*
Financing activities		
Repayment of interest bearing loans and borrowings	(10,000)	(1,436)
Proceeds from new borrowings	11,540	20,622
Interest paid	(609)	(463)
Dividends paid	(5,176)	(4,500)
Purchase of own shares	-	(987)
Net cash flow (used in) / from financing activities	(4,245)	13,236
Net (decrease)/increase in cash and cash equivalents	(2,173)	4,017
Cash and cash equivalents at the start of the period	15,744	11,565
Effect of exchange rates on cash and cash equivalents	101	366
Cash and cash equivalents at the end of the period	13,672	15,948

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENT

1. Corporate Information

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

The interim results were authorised for issue by the Board of Directors on 20 March 2017. The financial information set out herein does not constitute the statutory accounts and is unaudited.

2. Accounting policies

Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2016 annual report. The financial information for the half years ended 31 January 2017 and 31 January 2016 do not constitute statutory within the meaning of Section 434(3) of the Companies Act 2006 and is unaudited.

The annual financial statements of Volution Group plc are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The comparative financial information for the year ended 31 July 2016 included within this report does not constitute the full statutory accounts for that period. The Annual Report 2016 has been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report 2016 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under section 498(2) and 498(3) of the Companies Act 2006.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed consolidated financial statements.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the Group's latest annual audited financial statements. No new accounting standards and amendments have been adopted during the period. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Employee Benefit Trust

The Company has an Employee Benefit Trust (EBT) which is used in connection with the operation of the Company's Long Term Incentive Plan (LTIP) and Deferred Share Bonus Plan. The Company's own shares held by the Volution EBT are treated as treasury shares and deducted from shareholders' funds until they vest unconditionally with employees.

At 31 January 2017, a total of 916,878 (31 July 2016: 916,878) ordinary shares in the Company were held by the Volution EBT, all of which were under option to employees for nil consideration. During the period no ordinary shares in the Company were purchased by the trustees (H1 2016: 528,000), and no shares (H1 2016: no shares) were disposed of by the trustees. The market value of the shares at 31 January 2017 was £1,595,000 (31 July 2016: £1,421,000).

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

3. 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.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Judgements

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

Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group. The Group identifies an item or expense of income as exceptional, when in management's judgment, the underlying event giving rise to the exceptional item is deemed to be non-recurring in its nature, size or incidence such that the 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 they are presented separately in the statement of cash flows. The following categories of expenditure are deemed to be exceptional in the period: acquisition costs, including inventory fair value adjustments; restructuring and factory consolidation. See note 6 for details of the amounts included in the above categories.

Development costs

Development costs that are directly attributable to the development of a product are capitalised using management's assessment of the likelihood of a successful outcome for each product being released to market, this is based on management's judgement that the product is technologically, commercially and economically feasible in accordance with IAS 38 'Intangible assets'.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair value of assets acquired during business combinations

Judgements and estimates are required in assessment of fair value of the net assets acquired. In valuing certain intangible assets management has made assumptions about the retention rate of customers and cash flow forecasts used to determine the fair value of the assets at the date of acquisition.

Impairment of goodwill and other intangible assets

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The cash flows are derived from the budget for the following five years. The recoverable amount is most 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 Group records all assets and liabilities acquired in business acquisitions, 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.

See notes 12 and 13 for details of the carrying values of goodwill and other intangible assets.

Rebates payable and receivable

The Group has a number of customer and supplier rebate agreements that are recognised as a reduction from sales or a reduction of cost of sales as appropriate (collectively referred to as rebates). Rebates are based on an agreed percentage of revenue or purchases, which will increase with the level of revenue achieved or purchases made. These agreements typically run to a different reporting period to that of the Group with some of the amounts payable and receivable being subject to confirmation after the reporting date.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

At the reporting date, the Directors make estimates of the amount of rebate that will become both payable and due to the Group under these agreements based upon their best estimates of volumes and product mix that will be bought or sold over each individual rebate agreement period. Where the respective customer or supplier has been engaged with the Group for a number of years, historical settlement trends are also used to assist in ensuring an appropriate estimate is recorded at the reporting date and that appropriate internal approvals and reviews take place before rebates are recorded. The total customer rebate provision, included in trade and other payables, at 31 January 2017 is £5,885,000 (31 July 2016: £5,414,000), the total supplier rebate due is an immaterial balance at both 31 January 2017 and 31 July 2016.

Provisions for warranties, bad debts and inventory obsolescence

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

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

The total warranty provision at 31 January 2017 is £1,885,000 (31 July 2016: £1,957,000). The total provision for bad debts at 31 January 2017 is £1,293,000 (31 July 2016: £893,000). The total provision for inventory obsolescence at 31 January 2017 is £3,040,000 (31 July 2016: £2,884,000).

4. Revenue

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

	For the six months ended 31 January 2017 £000	*For the six months ended 31 January 2016 £000*
Sale of goods	87,332	68,831
Rendering of services	1,146	1,311
Total revenue	88,478	70,142

Market Sectors	*For the six months ended 31 January 2017 £000*	*For the six months ended 31 January 2016 £000*
Ventilation Group		
UK Residential RMI	18,929	17,011
UK Residential New Build	10,222	8,333
UK Commercial	15,044	8,246
UK Export	4,717	2,816
Nordics[1]	15,478	12,433
Central Europe[2]	13,328	10,858
Total Ventilation Group	77,718	59,697
Original Equipment Manufacturer (OEM (Torin Sifan))		
OEM (Torin-Sifan)	10,760	10,445
Total revenue	88,478	70,142

Notes

1. Represents revenue of Fresh AB and its subsidiaries, PAX AB, Volution Norge AS and Welair AB.
2. Represents revenue of inVENTer GmbH, Brüggemann Energiekonzepte GmbH, Ventilair Group International and its subsidiaries.

5. Segmental analysis

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

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

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

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.

	Ventilation	*OEM (Torin-Sifan)*	*Unallocated*	*Total segments*	*Eliminations*	*Consolidated*
Six months ended 31 January 2017	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Revenue						
External customers	77,718	10,760	-	88,478	-	88,478
Inter-segment	8,002	465	-	8,467	(8,467)	-
Total revenue	85,720	11,225	-	96,945	(8,467)	88,478
Gross profit	39,987	3,606	-	43,593	-	43,593
Adjusted segment EBITDA	17,560	2,436	(1,065)	18,931	-	18,931
Depreciation and amortisation of development costs, software and patents	(1,304)	(287)	(206)	(1,797)	-	(1,797)
Adjusted operating profit/(loss)	16,256	2,149	(1,271)	17,134	-	17,134
Amortisation of assets acquired through business combinations	(6,063)	(679)	-	(6,742)	-	(6,742)
Exceptional items	-	-	(758)	(758)	-	(758)
Other non-recurring items not meeting the definition of exceptional	-	-	-	-	-	-
Operating profit/(loss)	10,193	1,470	(2,029)	9,634	-	9,634
Unallocated expenses:						
Net finance cost	-	-	(819)	(819)	-	(819)
Profit/(loss) before tax	10,193	1,470	(2,848)	8,815	-	8,815

5. Segmental analysis (continued)

A portion of Group overhead costs, £1,065,000 (H1 2016: £997,000), are not allocable to individual operating segments. Likewise, exceptional costs incurred by the holding companies have not been allocated to individual operating segments.

	Ventilation	OEM (Torin-Sifan)	Unallocated	Total segments	Eliminations	Consolidated
Six months ended 31 January 2016	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Revenue						
External customers	59,697	10,445	-	70,142	-	70,142
Inter-segment	7,648	436	-	8,084	(8,084)	-
Total revenue	67,345	10,881	-	78,226	(8,084)	70,142
Gross profit	31,265	3,356	-	34,621	-	34,621
Adjusted segment EBITDA	15,319	2,203	(997)	16,525	-	16,525
Depreciation and amortisation of development costs, software and patents	(1,023)	(267)	(28)	(1,318)	-	(1,318)
Adjusted operating profit/(loss)	14,296	1,936	(1,025)	15,207	-	15,207
Amortisation of assets acquired through business combinations	(5,411)	(679)	-	(6,090)	-	(6,090)
Exceptional items	-	-	(976)	(976)	-	(976)
Other non-recurring items not meeting the definition of exceptional	-	-	(196)	(196)	-	(196)
Operating profit/(loss)	8,885	1,257	(2,197)	7,945	-	7,945
Unallocated income:						
Net finance income	-	-	95	95	-	95
Profit/(loss) before tax	8,885	1,257	(2,102)	8,040	-	8,040

Geographic information	*For the six months ended 31 January 2017*	*For the six months ended 31 January 2016*
	£000	*£000*
Revenue from external customers (by destination):		
United Kingdom	49,754	39,279
Europe (excluding United Kingdom and Sweden)	26,627	19,997
Sweden	10,411	9,724
Rest of the world	1,686	1,142
Total revenue	88,478	70,142

	31 January 2017	*31 July 2016*
	£000	*£000*
Non-current assets:		
United Kingdom	157,503	151,389
Europe (excluding United Kingdom & Nordics)	27,600	27,970
Nordics	13,138	13,360
Total	198,241	192,719

Non-current assets exclude deferred tax.

6. Exceptional items

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

	For the six months ended 31 January 2017 £000	For the six months ended 31 January *2016 £000*
Acquisition related costs, including inventory fair value adjustments	563	976
Factory relocation	195	-
	758	976
Total tax credit relating to the items above	(92)	-
	666	976

Acquisition related costs, including inventory fair value adjustments

The acquisition related costs in the period are:

- Professional fees incurred in respect of the acquisition of Breathing Buildings Limited, completed on the 16 December 2016, of £218,000. The acquisition costs in the prior period relate to the acquisitions of Energy Technique plc (£552,000), Ventilair Group International (£58,000) and Weland Luftbehandling AB (£33,000).
- 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 period were £333,000.
- Acquisition related restructuring costs relating to two of the senior management team within Diffusion 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.

Factory relocation

The costs for the factory relocation relate to a project to combine manufacturing locations.

With the assistance of Colliers International (commercial estate agents) an extensive year long search has produced a suitable site – the business has now set-up a relocation project team and has recruited the expertise of a professional project manager with experience in managing industrial relocations. A breakdown of the cost is as follows:

	For the six months ended 31 January 2017 £000
Colliers – finders fee	75
Legal fees	49
Consultancy fees	22
Project manager	49
	195

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. We anticipate that the project will cost, in aggregate, c. £1.75 million.

The costs associated with this project have been and will continue to be deemed as exceptional given their size in aggregate and the unusual (one-off) nature of the project.

7. Net Finance Costs

Finance costs were £0.8 million (H1 2016: £0.6 million) including £0.2 million of net losses on revaluation of financial instruments (H1 2016: £nil).

Finance revenue was negligible (H1 2016: £0.7 million) including £nil net gains on revaluation of financial instruments (H1 2016: £0.7 million).

8. 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, 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. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 20.

	For the six months ended 31 January 2017 £000	*For the six months ended 31 January 2016 £000*
Profit after tax	7,186	7,271
Add back:		
Exceptional items	758	976
Other non-recurring items not meeting the definition of exceptional	-	196
Net loss/(gain) on financial instruments at fair value	220	(705)
Amortisation of other intangible assets on acquisition (customer base and trademarks)	6,742	6,090
Tax effect of the above	(1,895)	(2,378)
Adjusted profit after tax	13,011	11,450
Add back:		
Adjusted tax charge	3,524	3,147
Adjusted profit before tax	16,535	14,597
Add back:		
Interest payable on bank overdraft and bank loans	609	621
Finance income	(10)	(11)
Adjusted operating profit	17,134	15,207
Add back:		
Depreciation of property, plant and equipment	1,464	1,199
Amortisation of development costs, software and patents	333	119
Adjusted EBITDA	18,931	16,525

For an explanation of the adjusted terms used above please see the glossary of terms at note 20.

9. Income taxes

The estimated average annual adjusted tax rate for the period ending 31 July 2017 is approximately 23.2% (H1 2016: 23.5%). The Finance Act (No. 2) 2015 was enacted on 18 November 2015 and introduced a reduction in the headline rate of UK corporation tax to 19% and 18% to apply from 1 April 2017 and 1 April 2020 respectively. A further reduction in the headline rate to 17% to apply from 1 April 2020 was included in the Finance Act 2016 which was enacted on 15 September 2016.

The Group has large UK deferred tax liabilities on its consolidated statement of financial position and the liabilities have been recalculated as a consequence of these tax rate changes. As a result the UK deferred tax liability has decreased, with a one off credit of £0.4 million recognised in the income statement in the period to 31 January 2017. This has reduced our effective tax rate in the period to 18.5% (H1 2016: £1.1m exceptional deferred tax credit reducing the effective tax rate to 9.6%).

The Group's effective tax rate in respect of adjusted earnings, as defined in note 8, is 21.3% (HY 2016: 21.6%).

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

10. Earnings per share (EPS)

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

Diluted earnings per share amounts are calculated by dividing the 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 periods ended 31 January 2017 and 31 January 2016.

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

	For the six months ended 31 January 2017 £000	*For the six months ended 31 January 2016 £000*
Profit attributable to ordinary equity holders	7,186	7,271
	No	No.
Weighted average number of ordinary shares for basic earnings per share and diluted earnings per share	199,083,122	199,736,000
Earnings per share:		
Basic and diluted	3.61p	3.64p

	For the six months ended 31 January 2017 £000	*For the six months ended 31 January 2016 £000*
Adjusted profit attributable to ordinary equity holders	13,011	11,450
	No.	No.
Weighted average number of ordinary shares for adjusted basic earnings per share and diluted earnings per share	199,083,122	199,736,000
Adjusted earnings per share:		
Basic and diluted	6.54p	5.73p

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

11. Property, plant and equipment

	Total
	£000
Cost	
At 31 July 2016	27,516
Additions	1,097
Disposals	(529)
On acquisition	159
Net foreign currency exchange differences	313
As 31 January 2017	28,556
Depreciation	
At 31 July 2016	8,386
Depreciation expense	1,464
Disposals	(499)
Net foreign currency exchange differences	171
As 31 January 2017	9,522
Net book value	
At 31 January 2017	19,034
At 31 July 2016	19,130

12. Intangible assets – goodwill

	Total
	£000
Cost and net book value:	
At 31 July 2016	68,228
On acquisition of Breathing Buildings	6,688
Net foreign currency exchange differences	300
As 31 January 2017	75,216

13. Intangible assets – other

	Total
	£000
Cost	
At 31 July 2016	160,146
Additions	832
On acquisition	4,372
Net foreign currency exchange differences	733
As 31 January 2017	166,083
Amortisation	
At 31 July 2016	54,785
Amortisation expense	7,075
Net foreign currency exchange differences	232
As 31 January 2017	62,092
Net book value	
At 31 January 2017	103,991
At 31 July 2016	105,361

14. Business combinations

Acquisitions in the six months ended 31 January 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 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 £218,000 and have been expensed.

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

	Book value	*Fair value adjustments*	*Provisional fair value*
	£000	*£000*	*£000*
Intangible assets	54	4,318	4,372
Deferred tax	444	(240)	204
Property, plant and equipment	147	12	159
Inventory	734	61	795
Trade and other receivables	2,208	(10)	2,198
Trade and other payables	(1,917)	(86)	(2,003)
Deferred tax liabilities	-	(780)	(780)
Cash and cash equivalents	250	-	250
Total identifiable net assets	1,919	3,275	5,194
Goodwill on acquisition			6,688
Consideration payable			11,881
Discharged by:			
Consideration satisfied in cash			11,881

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

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 £10,000.

Breathing Buildings generated revenue of £952,000 and generated a profit after tax of £78,000 in the period from acquisition to 31 January 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 £91,932,000 and the profit before tax from continuing operations would have been £8,997,000.

15. Other financial assets and liabilities

	Current *31 January 2017* *£000*	*Current* 31 July *2016* *£000*
Financial assets		
FX forward contracts	694	914

16. Interest bearing loans and borrowings

	Non-current *31 January 2017* *£000*	*Non-current* *31 July 2016* *£000*
Secured at amortised cost		
Borrowings under the revolving credit facility	54,293	51,869
Unamortised finance costs	(518)	(634)
	53,775	51,235

Interest bearing borrowings 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. No security is provided under the facility.

During the period an additional £11,540,000 was drawn down from the revolving credit facility to fund the acquisitions in the period, £10,000,000 was subsequently repaid from cash flows generated through operating activities.

17. Fair values of financial assets and financial liabilities

Derivative financial instruments are deemed to be level 2 in the fair value hierarchy as they are valued using techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly. Their fair value is measured using valuation techniques including the discounted cash flow model. Inputs to this calculation include expected cash flows in relation to these derivative contracts and relevant discount rates.

18. Related party transactions

Transactions between Volution Group plc and its subsidiaries, along with transactions between subsidiaries, are eliminated on consolidation and are not included within these financial statements.

There have been no related party transactions in the period to 31 January 2017 apart from compensation of key management personnel.

19. Dividends

The Group paid a final dividend of 2.60 pence per ordinary share during the period in respect of the year ended 31 July 2016. The Board has declared an interim dividend of 1.35 pence per ordinary share in respect of the half year ended 31 January 2017 (6 months to 31 January 2016: 1.20 pence per ordinary share) which will be paid on 4 May 2017 to shareholders on the register at the close of business on 31 March 2017. The total dividend payable has not been recognised as a liability in these accounts. The Volution EBT has agreed to waive its rights to all dividends.

20. Glossary of terms

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

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are no dilutive potential ordinary shares for the periods ended 31 January 2017 and 31 January 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.

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 period ended 31 January 2017 at the average exchange rate for the period ended 31 January 2016. In addition we have converted the UK operating companies' sale and purchase transactions in the period ended 31 January 2017, which were denominated in foreign currencies, at the average exchange rates for the period ended 31 January 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 cashflow – EBITDA plus or minus movements in operating working capital, 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.