**Embargoed until 07:00 on:**
**Thursday 11 October 2018**

# VOLUTION GROUP PLC

## PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2018

***Revenue growth of 11.1% and adjusted EPS up 6.6%.***

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 2018.

| **Financial Results** | **2018** | **2017** | **Movement** |
|---|---|---|---|
| Revenue (£m) | **205.7** | 185.1 | 11.1% |
| Adjusted operating profit (£m) | **37.1** | 35.6 | 4.1% |
| Adjusted profit before tax (£m) | **35.8** | 34.6 | 3.6% |
| Reported profit before tax (£m) | **16.7** | 17.9 | (6.5)% |
| Adjusted basic and diluted EPS (pence) | **14.5** | 13.6 | 6.6% |
| Reported basic and diluted EPS (pence) | **6.7** | 7.0 | (4.3)% |
| Adjusted operating cash flow (£m) | **34.4** | 35.9 | (4.4)% |
| Total dividend per share (pence) | **4.44** | 4.15 | 7.0% |
| Net debt (£m) | **77.2** | 37.0 | 40.2 |

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

- Revenue growth of 11.1% (11.1% at constant currency):
  - Organic revenue growth of 2.8% (2.4% at constant currency); and
  - Inorganic revenue growth of 8.3% (8.7% at constant currency).
- Adjusted operating profit increased by 4.1% to £37.1 million (4.1% at constant currency) driven by acquisitions.
- Adjusted operating profit margin declined by 1.3 percentage points as anticipated due to, the acquisition of businesses with lower margins than the Group, foreign exchange driven input cost inflation and a decline in higher margin UK RMI (public) sector revenue.
- Exceptional costs associated with the reorganisation of our Ventilation business in the UK, including the relocation of our facility in Reading, were significantly higher than anticipated at £5.0 million (2017: £0.6 million).
- Reported profit before tax of £16.7 million (2017: £17.9 million) down on prior year mainly as a result of higher exceptional costs.
- Adjusted operating cash inflow was good at £34.4 million (2017: £35.9 million).
- Refinancing of banking facilities. The Group now has in place a £120 million multicurrency revolving credit facility and in addition an accordion facility of up to £30 million, maturing December 2021.
- Full year dividend of 4.44 pence per share, up 7.0% (2017: 4.15 pence) reflecting continued strength of the business.

**Strategic and operational highlights**

**Acquisitions**

- Four acquisitions completed during the year, strengthening our position in existing regions and broadening our reach into new geographies, with all integration activity progressing well.

    - Simx Limited, acquired in March 2018; the market leading residential ventilation products supplier in New Zealand for both new and refurbishment applications with channel access enabling us to place many of our existing Group products into this market.

    - AirFan B.V., acquired in May 2018; a small distributor, based in the Netherlands, of primarily residential ventilation products, providing the Group with additional access to the Dutch heating, ventilation and air-conditioning market.

    - Oy Pamon Ab, acquired in July 2018; a leading designer, manufacturer and supplier of Mechanical Ventilation with Heat Recovery products primarily for the Finnish new build and refurbishment construction markets, further strengthening our leading position in the Nordics.

    - Air Connection ApS, acquired in July 2018; a leading supplier of branded ventilation products to the Danish market, increasing our exposure to the Danish ventilation market and enabling us to introduce other Group products.

- Our acquisitions have continued to increase our geographic diversity. On a pro-forma basis revenue from UK customers is now 47.4% of total Group revenue.

**Organic growth**

- Consolidation of our Slough and Reading facilities into a single new, purpose built injection moulding and fan assembly facility at Suttons Business Park in Reading, UK is nearly complete despite operational disruption during the transition. The consolidation increases our capacity headroom in RMI and Residential New Build sectors.

- Good progress in our German business with the launch of our new Xenion decentralised heat recovery ventilation system.

- Further extension of our public housing range of ventilation equipment for the refurbishment market in the UK, helping us to gain new customers in spite of the current funding cutbacks in this sector.

**OEM (Torin-Sifan)**

- OEM (Torin-Sifan) has seen a good take up of its new high-efficiency Revolution 360 range of EC fans (EC3), with further capacity investment underway to support the growth in sales.

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

*"We have made excellent progress with our strategy, with four acquisitions completed in the second half of the year. Two acquisitions in the Nordics have increased our market exposure to this attractive region as well as further enriching our product portfolio. The acquisition of our long term partner in Australasia, Simx, has integrated well with several new product launches under way and has further diversified our geographic spread of markets. In the UK, the factory rationalisation project moving from two existing facilities into our new purpose built factory in Reading, resulted in a significant level of disruption to our customer service and additional cost; however, the move was substantially completed in July and efficiency improvements continue. I believe that with this new facility we have substantial capacity headroom to underpin our further organic growth, specifically relating to the residential markets. Despite the extra costs incurred for this project, we delivered another year of good cash generation."*

**Outlook**

The new financial year has started as expected and we will continue to focus on optimising the performance at our new factory in Reading, UK, continue the integration of the four acquisitions completed in the financial year and launch several innovative new products.

Whilst being mindful of various market challenges that we continue to face, and with the uncertainty in the UK with regard to the UK leaving the European Union, we remain confident in making further good progress with our strategy in the year.

**-Ends-**

**For further information:**

**Enquiries:**


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|---|---|
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A meeting for analysts will be held at 9.30am today, Thursday 11 October, at the offices of Tulchan Communications, 85 Fleet Street, London EC4Y 1AE. Please contact volutiongroup@tulchangroup.com to register to attend or for instructions on how to connect to the meeting via conference facility.

A copy of this announcement and the presentation given to analysts will be available on our website www.volutiongroupplc.com from 7.00 am on Thursday 11 October.

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

Volution Group plc Legal Entity Identifier: 213800EPT84EQCDHO768.

**Note to Editors:**

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

The Volution Group operates through two divisions: the Ventilation Group and the OEM (Torin-Sifan) division. The Ventilation Group comprises 15 key brands - Vent-Axia, Manrose, Diffusion, National Ventilation, Airtech, Breathing Buildings, Fresh, PAX, VoltAir, Welair, Kair, Air Connection, inVENTer, Ventilair and Simx, focused primarily on the UK, the Nordic, Central European and Australasian 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.

**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

In our fourth full financial year since listing in June 2014, we have delivered another year of growth and continue to make good progress on our strategy. We completed four acquisitions in the year, in line with our strategy of making selective value-adding acquisitions, and we also continued to integrate the acquisitions made in the prior year. We have now completed fourteen acquisitions since October 2012, when we started to expand geographically, and the Group has moved from being primarily a UK ventilation provider to becoming one of the leading ventilation suppliers in Europe and, with the recent acquisition of Simx in March 2018, Australasia.

European and international ventilation remains fragmented and our ambition is to become one of the larger ventilation suppliers across a number of markets. Our strategy of acquiring leading brands will continue and during the year we made good progress in enhancing our functional support for the Group in the areas of innovation and procurement.

Revenue for the Group exceeded the £200 million threshold having exceeded the £100 million threshold in 2013, a doubling in five years. Each year since 2013 we have made good progress in growing the business both organically and inorganically.

During the year, the Group delivered organic revenue growth of 2.4% on a constant currency basis, with the majority of our market sectors delivering organic growth in the financial year. The Residential Repair, Maintenance and Improvement (RMI) market for public housing continued to decline, depressing the otherwise growing RMI Private sector in the UK. The UK commercial sector grew in the year supported by acquisitions, despite a small organic decline.

Input cost inflation has been rising, mainly as a result of higher plastics and electronics costs due to the weakness of Sterling. In mitigation a number of selling price initiatives were put in place during the year.

Torin-Sifan delivered organic revenue growth of 1.8% 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 and, as expected, commenced supply of the new motor to other Group companies.

### Ventilation Group segment

**Revenue:** £183.1 million, 89.0% of Group revenue (£183.2 million at constant currency)

(2017: £163.1 million, 88.1% of Group revenue)

**Adjusted operating profit:** £35.4 million, 95.3% of Group adjusted operating profit

(2017: £34.6 million, 97.1% of Group adjusted operating profit)

| | | Constant currency | | |
|---|---|---|---|---|
| Market sectors | **2018 £000** | **2018 £000** | 2017[1] £000 | Growth % |
| **Ventilation Group** | | | | |
| UK Residential RMI | **38,166** | **38,166** | 39,162 | (2.5)% |
| UK Residential New Build | **25,604** | **25,604** | 22,635 | 13.1% |
| UK Commercial | **33,474** | **33,474** | 32,792 | 2.1% |
| UK Export | **12,510** | **12,340** | 10,206 | 20.9% |
| Nordics | **36,692** | **37,055** | 30,829 | 20.2% |
| Central Europe | **28,466** | **27,732** | 27,460 | 1.0% |
| Australasia | **8,182** | **8,816** | — | n/a |
| **Total Ventilation Group** | **183,094** | **183,187** | 163,084 | 12.3% |

[1]During 2018 we have refined our approach to allocation of products resulting in the reallocation of sales of a small number of products between market sectors to better reflect their final application. To calculate meaningful growth rates per market sector, the 2017 sales analysis has therefore been similarly restated to reflect this reallocation. The market sector revenue, for the affected sectors, previously disclosed in the 2017 annual report and accounts were UK Residential RMI £38,444,000, UK Residential New Build £23,421,000 and UK Commercial £32,724,000.

The Ventilation Group's revenue grew by 12.3% compared to the prior year (12.3% at constant currency). Organic growth was 2.9% (2.5% at constant currency) despite the organic decline in UK Residential Public RMI and UK commercial markets.

### United Kingdom

Sales in our UK Residential New Build sector were £25.6 million (2017: £22.6 million), a strong organic growth of 13.1%, continuing an unbroken growth trend going back to 2010. Our ongoing investment in the product range, innovative new features such as application software controls and next day delivery to construction sites for most of the products in the range have enabled us to grow ahead of the new build residential construction market.

The UK Residential Public RMI market remained challenging with total revenue of £14.8 million down 10.6% compared to the prior year. Despite the difficult market and the disappointing revenue decline, we continue to invest in this important market sector to best position us for a market recovery and to grow share. During the year we improved the quality and skill base of our sales teams and increased the breadth of our offer and our new product ranges started to gain good traction in the second half of the financial year. Whilst we did not expect the decline in this market sector to be as protracted as it has been, we are confident that our initiatives will enable us to gain the market share necessary to return to growth.

The UK Private RMI market performed well in the year with revenue of £23.4 million, an increase of 3.3% supported by an increasing share of sales of "high-end", more quiet, more silent ventilation devices with more sophisticated controls. Our revenue growth was adversely affected by the service disruption that resulted from the move to our new facility in Reading, UK. Normal service and output levels are expected to be in effect by the end of the 2018 calendar year. Whilst the UK Private RMI market remains subdued we are gaining share through our three UK proprietary brands.

UK Commercial revenue grew by 2.1% in the year to £33.5 million (2017: £32.8 million) assisted by the acquisition of Breathing Buildings in December 2016. Organic revenue declined by 3.6% in the year primarily due to weaker refurbishment market demand but finished the financial year with a strong order book for fan coil systems. During the second half of the year we increased our manufacturing capacity for fan coil production, and investment has been initiated to further increase our laser metal cutting capabilities in early 2019 to underpin the growth in this sector. Within our natural and hybrid ventilation product range, a number of new product developments are in progress to capture a larger share of the growing opportunity in the education sector.

UK Export sales were £12.5 million (2017: £10.2 million), the strong growth of 22.6% (20.9% at constant currency), benefitted from the previously reported large, one-off, order for spares from Japan, without which our growth in this sector would still have been strong at 14.8%. We enjoyed good growth in UK Export for our ventilation systems for new energy efficient homes in Ireland and gained a number of new accounts elsewhere.

During the year we completed the move from our previous manufacturing facilities in Slough and Reading in to a new purpose built injection moulding, ducting extrusion and unitary fan assembly plant in a new location in Reading, UK. This was the culmination of an expansion project that we had planned since 2016 and will underpin the expected organic and inorganic revenue growth in this product category. Whilst the move was completed within the timescale anticipated and the equipment moves and new plant investments went to plan, there was considerably more disruption to production and sales during the execution phase than expected. This disruption resulted in increased costs and impacted sales, and resulted in a higher backlog of orders than normal. All of the plant and equipment moves were completed by the end of our financial year and normal service and output levels are expected to be in effect by the end of the 2018 calendar year.

Costs directly associated with the relocation and operational disruption were significantly higher than anticipated and have been disclosed separately as exceptional costs of £5.0 million (2017: £0.6 million).

Following the decision to rationalise the Reading and Slough operations into one site and given the large number of acquisitions we have made in the UK over the past few years, we reorganised our legal structure which became operational on 1 August 2018. We will continue to review, and if appropriate integrate, our UK Ventilation support functions in FY 2019, and any further costs directly associated with this reorganisation that may arise will similarly be disclosed as an exceptional charge.

**Nordics**

Sales in the Nordics sector were £36.7 million (2017: £30.8 million), an increase of 19.0% (20.2% at constant currency) with organic revenue growth of 2.9% at constant currency. With the acquisition of VoltAir System in May 2017 we now have a larger exposure to the new projects market in Sweden. Our organic growth in the Nordics was hampered by weaker demand from the Swedish trade channel in the period from April to June 2018, with July a more normal month.

Sales of the recently introduced Calima fan (sold under our Pax brand) rose during the year. We delayed the launch of the upgrade to the Intellivent range of fans (sold under our Fresh brand) until the Autumn of 2018. This may have had some impact on the trade channel sales being weaker in the second half of the financial year where customers may have postponed increasing stocks until the launch of the new, more sophisticated range.

The two acquisitions completed in July 2018, Oy Pamon in Finland and Air Connection in Denmark, provide us with greater exposure to the new construction sector in these geographical areas as well as a better platform for the cross selling of the entire ventilation group range of products.

**Central Europe**

Sales in Central Europe were £28.5 million, growth of 3.7% (1.0% at constant currency). In Belgium and the Netherlands we continued to re-profile our ranges, de-emphasising sales of out-sourced products coupled with greater focus on the professional trade channel as an important route to market. This exercise will continue in 2019, underpinned by several new residential product range launches offering solutions for both refurbishment and new build applications.

Germany was a highlight as we launched the new range of Xenion decentralised heat recovery products. These products are significantly quieter and better performing and have been very well received by the market. Development of bespoke local market product solutions (using a Xenion based platform), were also completed for Japan and South Korea where our exports are increasing. During the year we also improved the sales processes in Germany and our "pre-seller" team are helping us to capture opportunities earlier in the cycle and increase our hit rate on projects. Having launched the Xenion range of products in 2018 there are several extensions to this range due for launch during 2019.

**Australasia**

Sales in Australasia were £8.2 million since the acquisition of Simx, which was completed on 19 March 2018. Simx is the market leader for residential refurbishment ventilation in New Zealand and provides access to an attractive market in which to launch additional products from the Volution Group portfolio, including our application software controlled unitary ventilation product. Integration of Simx into Volution Group is going well.

**OEM (Torin-Sifan) segment**

**Revenue:** £22.6 million, 11.0% of Group revenue (£22.4 million at constant currency)

(2017: £22.0 million, 11.9% of Group revenue)

**Adjusted operating profit:** £3.8 million, 10.4% of Group adjusted operating profit

(2017: £3.8 million, 10.6% of Group adjusted operating profit)

| | | Constant currency | | |
|---|---|---|---|---|
| | **2018** | **2018** | 2017 | Growth |
| Market sectors | **£000** | **£000** | £000 | % |
| **Total OEM** | **22,582** | **22,371** | 21,976 | 1.8% |

Our OEM (Torin-Sifan) segment's revenue in the year was £22.6 million (2017: £22.0 million), an increase of 2.8% (1.8% at constant currency). Whilst the UK experienced a colder than normal end to the winter, the impact on the demand for boiler spares was minimal, with the distribution supply chain able to support the increased demand from existing inventories. We do however anticipate that demand in 2019 may be stronger as these stock levels were run down at the end of the last winter period.

Sales of our new EC3 motor gained traction in the second half of the financial year. New customers were added to our portfolio and supplies to other parts of the Volution Group are now increasing. We expect 2019 to see growth in sales of this new motorised impeller and the required investment in the necessary equipment to support this growth is already in place.

**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*

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

We made good progress with the strategy in the 2018 financial year, with the completion of four acquisitions. Volution Group has grown from a leading UK centric ventilation provider to a more diverse, pan-European and Australasian supplier of primarily residential and also commercial ventilation equipment.

These new markets, as well as the original core markets for Volution Group, continue to benefit from the favourable regulatory backdrop that focuses on reducing carbon emissions from buildings (in particular new buildings) and there is a notable increase in local market trends with greater focus on improving air quality, as well as the need to improve energy efficiency.

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

We will continue to provide strong central leadership in research and development to facilitate the Group's growth. During the 2018 financial year we made good progress with the leadership and co-ordination of our technical teams across the Group and the teams are now handling more innovation and development projects than at any time in our history.

The relocation of some of our UK Ventilation manufacturing capacity to our new site in Reading gives us sufficient headroom to continue with our organic growth strategy.

In Torin Sifan, whilst later than originally anticipated, we are now seeing the benefits of our investment in the new EC3 motorised impeller range. This motor, one of the most efficient solutions for use in central ventilation systems, is becoming one of the preferred solutions in customers' new product developments and demand within the rest of the Group is also expected to grow significantly during 2019.

**Dividends**

The Company aims to deliver shareholder value through organic and inorganic growth and a sustainable dividend policy. We paid an interim dividend of 1.46 pence per share in May 2018. On the basis of our results and financial position, the Board has recommended a final dividend of 2.98 pence per share, giving a total dividend for the financial year of 4.44 pence per share (2017: 4.15 pence per share), an increase of 7.0% on the previous year. As a consequence of this recommendation, the resulting adjusted earnings dividend cover for the year was 3.3x (2017: 3.3x). Subject to approval by shareholders at the Annual General Meeting on 12 December 2018, the final dividend will be paid on 18 December 2018 to shareholders on the register at 23 November 2018.

## Board

On 10 October 2017 it was announced that Adrian Barden, an independent Non-Executive Director, would be retiring from the Board at the conclusion of the Annual General Meeting on 13 December 2017. The Nomination Committee initiated a search for an independent Non-Executive Director and on 19 March 2018 the appointment of Amanda Mellor was announced. Amanda brings to the Board, a broad range of experience in mergers and acquisitions, retail, shareholder relations, strategy, governance, investment banking and as a Non-Executive Director on the board of a construction company. Combined with the deep knowledge and experience of our existing Non-Executive Directors, Amanda's experience ensures that the Board has a well-balanced array of skills and is well attuned to the Group's requirements.

The Board would like to extend its thanks to Adrian Barden, who retired after serving for nearly six years in office on the current and pre-IPO Board. Adrian provided important continuity on the Board whilst the business moved from private-equity ownership to a listed company and the Board would like to thank him for his contributions during his tenure.

## People

Our Group has changed markedly in recent years and it is essential to our future success that we develop and hire the best people to underpin our plans. Our third Management Development Programme commenced in early 2018 and, as with previous programmes, has been a big success. The Senior Management Team continues to be strengthened ensuring we have the capability and resource to drive the business forward as Volution Group continues to expand. We are conducting a search process for a new Managing Director and Operations Director for the UK Ventilation business and have recently appointed a new Finance Director for that part of the business. During the 2018 financial year we completed four new acquisitions in existing and new geographies. I am delighted to welcome these new employees to our Group and, as reported previously, we are finding that as our experience of acquiring new companies increases each year, we become more sensitive and aware of the cultural and local market differences.

## Outlook

The new financial year has started as expected and we will continue to focus on optimising the performance at our new factory in Reading, UK, continue the integration of the four acquisitions completed in the financial year and launch several innovative new products.

Whilst being mindful of various market challenges that we continue to face, and with the uncertainty in the UK with regard to the UK leaving the European Union, we remain confident in making further good progress with our strategy in the year.

**Ronnie George**
**Chief Executive Officer**
11 October 2018

## FINANCIAL REVIEW

### Trading performance summary

| | Reported | | | Adjusted[1] | | |
|---|---|---|---|---|---|---|
| | **Year ended 31 July 2018** | Year ended 31 July 2017 | Movement | **Year ended 31 July 2018** | Year ended 31 July 2017 | Movement |
| Revenue (£m) | **205.7** | 185.1 | 11.1% | **205.7** | 185.1 | 11.1% |
| EBITDA (£m) | **37.0** | 37.8 | (2.2)% | **41.1** | 39.2 | 4.7% |
| Operating profit (£m) | **17.5** | 20.4 | (14.2)% | **37.1** | 35.6 | 4.1% |
| Finance costs (£m) | **1.6** | 2.5 | (35.8)% | **1.3** | 1.1 | 20.1% |
| Profit before tax (£m) | **16.7** | 17.9 | (6.5)% | **35.8** | 34.6 | 3.6% |
| Basic and diluted EPS (p) | **6.7** | 7.0 | (4.3)% | **14.5** | 13.6 | 6.6% |
| Total dividend per share (p) | **4.44** | 4.15 | 7.0% | **4.44** | 4.15 | 7.0% |
| Operating cash flow (£m) | **29.1** | 34.5 | (15.7)% | **34.4** | 35.9 | (4.4)% |
| Net debt (£m) | **77.2** | 37.0 | 40.2 | **77.2** | 37.0 | 40.2 |

**Note**

[1]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 revenue continued to grow in 2018. Revenue for the year ended 31 July 2018 was £205.7 million (2017: £185.1 million), an 11.1% increase (11.1% at constant currency). Growth was achieved both organically, 2.8% (2.4% at constant currency), and inorganically, 8.3% (8.7% at constant currency). The inorganic growth was a result of the acquisitions made in the year and the full year effect of the acquisitions made in the prior year.

The Ventilation Group revenues grew by 12.3% (12.3% at constant currency), of which organic growth represented 2.9% (2.5% at constant currency). OEM (Torin-Sifan) grew, entirely organically, by 2.8% (1.8% at constant currency).

### Profitability

Our underlying result, as measured by adjusted operating profit, was £37.1 million (2017: £35.6 million), 18.0% of revenues (2017: 19.3%), delivering a £1.5 million improvement compared to the prior year. The Group benefited from the acquisition of Simx Limited in March 2018, AirFan B.V. (now renamed Vent-Axia B.V.) in May 2018, Oy Pamon Ab in July 2018 and Air Connection ApS in July 2018 as well as the full year effect of the prior year acquisitions.

On sales growth of 11.1%, adjusted profit before tax improved by £1.2 million to £35.8 million, growth of 3.6%. Our Group adjusted profit before tax margin declined by 1.3 percentage points to 17.4% as a consequence of the acquisition of businesses that operated with profit margins lower than our Group average, exchange rate linked input cost inflation in the UK and a decline in the higher margin UK RMI (public) sector revenue.

The Group's reported profit before tax in the year was £16.7 million compared to £17.9 million in 2017. The reported profit before tax for the period has declined by £1.2 million in spite of a £1.2 million increase in underlying profitability largely because:

- the cost of exceptional operating costs including costs associated with the acquisitions and also the cost of restructuring in the UK ventilation business, was £6.4 million, an increase of £5.0 million; and
- the amortisation of acquired intangible assets increased by £0.9 million in the year, as a consequence of recent acquisitions, to £14.7 million (2017: £13.8 million); and
- the Group refinanced its bank debt in December 2017, as a consequence of the refinancing, unamortised loan issue costs of £0.3 million relating to the previous loans were written off in the period.

These costs were partially offset by:

- finance revenue of £0.8 million in the year relating to the revaluation of financial instruments carried at fair value (2017: a loss of £1.4 million) which uncrystallised movement we do not include in our adjusted results; and
- the write back of an accrual for contingent consideration of £1.5 million, no longer required, relating to the acquisition of VoltAir in May 2017.

### 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 to track underlying financial performance as they exclude 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 2018 | | | Year ended 31 July 2017 | | |
|---|---|---|---|---|---|---|
| | **Reported £000** | **Adjustments £000** | **Adjusted results £000** | **Reported £000** | **Adjustments £000** | **Adjusted results £000** |
| **Revenue** | **205,676** | **—** | **205,676** | 185,060 | — | 185,060 |
| **Gross profit** | **96,623** | **—** | **96,623** | 91,037 | — | 91,037 |
| Administration and distribution costs excluding the costs listed below | **(59,523)** | **—** | **(59,523)** | (55,410) | — | (55,410) |
| Amortisation of intangible assets acquired through business combinations | **(14,670)** | **14,670** | **—** | (13,826) | 13,826 | — |
| Exceptional operating costs | **(6,417)** | **6,417** | **—** | (1,380) | 1,380 | — |
| Release of contingent consideration | **1,502** | **(1,502)** | **—** | — | — | — |
| **Operating profit** | **17,515** | **19,585** | **37,100** | 20,421 | 15,206 | 35,627 |
| Net gain/(loss) on financial instruments at fair value | **838** | **(838)** | **—** | (1,449) | 1,449 | — |
| Exceptional write off of unamortised loan issue costs upon refinancing | **(320)** | **320** | **—** | — | — | — |
| Other net finance costs | **(1,296)** | **—** | **(1,296)** | (1,074) | — | (1,074) |
| **Profit before tax** | **16,737** | **19,067** | **35,804** | 17,898 | 16,655 | 34,553 |
| Income tax | **(3,414)** | **(3,598)** | **(7,012)** | (4,021) | (3,509) | (7,530) |
| **Profit after tax** | **13,323** | **15,469** | **28,792** | 13,877 | 13,146 | 27,023 |

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 £14.7 million (2017: £13.8 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 operating costs**

  Exceptional operating costs, 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 operating costs were £6.4 million (2017: £1.4 million) and relate to the cost of making acquisitions of £1.4 million (2017: £0.8 million) and the reorganisation of the UK ventilation business £5.0 million (2017: £0.6 million). The cost of reorganisation of the UK ventilation business was mainly related to the consolidation of some UK fan assembly and all injection moulding and plastic extrusion into our new site at Reading, UK and the rationalisation of the UK Ventilation legal entity structure. The nature of these costs included; dual working, inefficiency during the transition period, when machinery, inventory and people were in process of relocating to the new facility, redundancy costs for people who decided to not relocate and legal and professional fees. Details of all these exceptional operating costs can be found in note 5 to the consolidated financial statements and further explanation of the reorganisation of the UK Ventilation business can be found in the Operational Review.

- **Reversal of contingent consideration**

  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. Part of the consideration was contingent upon the level of EBITDA achieved during the twelve months to 31 December 2017. There was a minimum level of EBITDA which had to be achieved before any contingent consideration was payable. The contingent consideration, recognised in the 31 July 2017 financial statements, was recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. The VoltAir System AB financial results for the twelve months to 31 December 2017 were such that the minimum level of EBITDA was not achieved and the contingent consideration will not be paid and therefore has been reversed in the period as an exceptional gain of £1.5 million (2017: £nil).

- **Fair value adjustments**

  At each reporting period end date, we measure the fair value of financial derivatives and recognise any gains or losses immediately in finance cost. During the year, we recognised a gain of £0.8 million (2017: loss of £1.4 million) a swing of £2.2 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.

- **Exceptional write off of unamortised loan issue costs upon refinancing**

  On 15 December 2017, the Group refinanced its bank debt (see bank facilities, refinancing and liquidity below). As a consequence of the re-finance, unamortised loan issue costs of £0.3 million (2017: £nil) relating to the previous bank facility were written off in the period.

**Acquisitions**

Four acquisitions were completed during the year:

- Simx Limited, based in the New Zealand, acquired in March 2018 for a consideration of NZ$53.7 million (approximately £28.2 million) net of cash and bank loans repaid of NZ$19.0 million (approximately £9.8 million);
- AirFan B.V., based in the Netherlands, acquired in May 2018 for a cash consideration of Euro 0.3 million (approximately £0.3 million) net of cash acquired;
- Oy Pamon Ab, based in Finland, acquired in July 2018 for an initial cash consideration of Euro 10.9 million (approximately £9.6 million) net of cash acquired. A further amount of deferred cash consideration of up to Euro 2.0 million (approximately £1.8 million) may be payable, contingent on Oy Pamon's earnings for the two years ending November 2018 and 2019; and
- Air Connection ApS, based in Denmark, acquired in July 2018 for an initial cash consideration of DKK24.1 million (approximately £2.9 million) net of cash acquired. A further amount of deferred cash consideration of up to DKK4.2 million (approximately £0.5 million) may be payable, contingent on Air Connection's earnings for the year ending 31 July 2021.

**Finance revenue and costs**

Net finance costs of £0.8 million (2017: £2.5 million) decreased in the year as a consequence of the gain of £0.8 million in the fair value of financial derivatives in the year (2017: loss of £1.4 million) as discussed above. Our net finance cost before these revaluations has increased in the year to £1.3 million (2017: £1.1 million) due to higher UK interest rates in the second half of the year and higher levels of debt. Debt increased in the year despite good adjusted operating cash inflow of £34.4 million (2017: £35.9 million) following the four acquisitions in the year, the exceptional cost of reorganisation in the UK ventilation business and increased capital expenditure of £6.3 million (2017: £3.9 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 19.5% (2017: 22.5%).

Our underlying effective tax rate, on adjusted profit before tax, was 19.2% (2017: 21.8%) including a benefit arising from patent box of £0.2 million. The decrease of 2.6 percentage points in underlying rate, over the prior year, was partly as a result of the total patent box credits, a full year effect of the lower UK tax rate and the reassessment of deferred tax offset by a higher rate applicable to profits in recently acquired businesses.

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

**Operating cash flow**

The Group continued to be cash generative in the year with adjusted operating cash inflow of £34.4 million (2017: £35.9 million). This represents a cash conversion, after capital expenditure and movement in working capital, of 90% (2017: 99%). The Group continues to manage its working capital efficiently with operating working capital representing 11.3% of revenue albeit an increase over the very low levels at the start of the year (2017: 10.5%). In addition, the Group increased its investment for the future with net capital expenditure of £6.3 million (2017: £3.9 million) including investment in the new production facility in Reading, UK; new product development and improved IT systems. See the glossary of terms in note 18 to the consolidated financial statements for a definition of adjusted operating cash flow and cash conversion.

**Reconciliation of adjusted operating cash flow**

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Net cash flow generated from operating activities** | **25.8** | 32.9 |
| Net capital expenditure | **(6.3)** | (3.9) |
| UK and overseas tax paid | **8.9** | 5.6 |
| Cash flows relating to exceptional items | **5.4** | 1.2 |
| Exceptional items: fair value of inventories | **0.6** | 0.1 |
| **Adjusted operating cash flow** | **34.4** | 35.9 |

**Employee Benefit Trust**

No loans were made in the year to the Volution Employee Benefit Trust. In the prior year 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 Volution Employee Benefit Trust acquired no shares in the year (2017: 250,000 shares at an average price of £1.95 per share) and 37,013 (2017: nil) were released by the trustees with a value of £65,000 (2017: £Nil). The Volution Employee Benefit Trust has been consolidated into our results and the shares purchased have been treated as treasury shares deducted from shareholders' funds.

**Net debt**

Year-end net debt was £77.2 million (2017: £37.0 million), comprised of bank borrowings of £95.4 million (2017: £51.5 million), offset by cash and cash equivalents of £18.2 million (2017: £14.5 million). The net debt of £77.2 million represents leverage of 1.9x adjusted EBITDA.

***Movements in net debt position for the year ended 31 July 2018***

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Opening net debt 1 August** | **(37.0)** | (36.1) |
| Movements from normal business operations: | | |
| Adjusted EBITDA | **41.1** | 39.2 |
| Movement in working capital | **(0.9)** | 0.1 |
| Share-based payments | **0.5** | 0.5 |
| Capital expenditure | **(6.3)** | (3.9) |
| Adjusted operating cash flow | **34.4** | 35.9 |
| – Interest paid net of interest received | **(0.9)** | (0.8) |
| – Income tax paid | **(8.9)** | (5.6) |
| – Exceptional items | **(6.0)** | (1.3) |
| – Dividend paid | **(8.5)** | (7.9) |
| – Purchase of own shares | **—** | (0.5) |
| – FX on foreign currency loans/cash | **1.6** | (2.4) |
| – Issue costs of new borrowings | **(0.9)** | — |
| – Other | **—** | (0.2) |
| Movements from acquisitions: | | |
| – Acquisition consideration net of cash acquired and debt repaid | **(51.0)** | (18.1) |
| **Closing net debt 31 July** | **(77.2)** | (37.0) |

**Bank facilities, refinancing and liquidity**

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility and in addition, an accordion facility of up to £30 million, maturing in December 2021, with the option to extend the termination of the facility by a period of 12 months. This new facility is provided under standard Loan Market Association terms and replaces the Group's previous facility. The new facility is provided at a slightly lower interest rate than the facility refinanced.

As at 31 July 2018, we had £24.6 million of undrawn, committed bank facilities and £18.2 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 managed our transactional foreign exchange risk by purchasing the majority of our forecast US Dollar requirements for the 2018 financial year in advance, and similarly we have purchased the majority of our forecast US Dollar requirements in advance of the 2019 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 £24.5 million of borrowings denominated in SEK (2017: £23.2 million). We have partially hedged our risk of translation of the net assets in Belgium, the Netherlands, Germany and Finland by having Euro-denominated bank borrowings in the amount of £40.0 million as at 31 July 2018 (2017: £23.3 million). The acquisition of Simx in New Zealand was financed using mainly sterling denominated debt to rebalance our debt with our strong sterling cash flow. The sterling value of our foreign currency denominated loans and cash decreased by £1.6 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 minor effect on the reported revenue and profitability of our business. If we had translated the full year performance of our business at our 2017 exchange rates, our reported Group revenues would have been £0.1 million or 0.1% lower and adjusted operating profit would not have changed.

At the end of the financial year the Sterling value of foreign currency denominated working capital decreased by £0.7 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 6.7 pence (2017: 7.0 pence). Our adjusted basic and diluted earnings per share was 14.5 pence (2017: 13.6 pence), an increase of 6.6%.

**Dividends**

In May 2018 the Group paid an interim dividend of 1.46 pence per share.

The Board has proposed a final dividend of 2.98 pence per share. Subject to approval at our Annual General Meeting of shareholders on 12 December 2018, the recommended final dividend will be paid on 18 December 2018 to shareholders who are on the register on 23 November 2018.

**Ian Dew**
**Chief Financial Officer**
11 October 2018

# Consolidated Statement of Comprehensive Income

For the year ended 31 July 2018

| | Notes | **2018 £000** | 2017 £000 |
|---|---|---|---|
| **Revenue** | 3 | **205,676** | 185,060 |
| Cost of sales | | **(109,053)** | (94,023) |
| **Gross profit** | | **96,623** | 91,037 |
| Administrative and distribution expenses | | **(74,193)** | (69,236) |
| **Operating profit before exceptional items** | | **22,430** | 21,801 |
| Exceptional operating costs | 5 | **(6,417)** | (1,380) |
| Release of contingent consideration | 5 | **1,502** | — |
| **Operating profit** | | **17,515** | 20,421 |
| Finance revenue | 6 | **852** | 17 |
| Finance costs | 5, 6 | **(1,630)** | (2,540) |
| **Profit before tax** | | **16,737** | 17,898 |
| Income tax | 7 | **(3,414)** | (4,021) |
| **Profit for the year** | | **13,323** | 13,877 |
| **Other comprehensive (expense)/income** | | | |
| Items that may subsequently be reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(2,075)** | 922 |
| Gain/(loss) on hedge of net investment in foreign operations | | **1,691** | (493) |
| **Other comprehensive (expense)/income for the year** | | **(384)** | 429 |
| **Total comprehensive income for the year** | | **12,939** | 14,306 |
| **Earnings per share** | | | |
| Basic earnings per share | 8 | **6.7p** | 7.0p |
| Diluted earnings per share | 8 | **6.7p** | 7.0p |

# Consolidated Statement of Financial Position

At 31 July 2018

| | Notes | **2018 £000** | 2017 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **22,611** | 19,590 |
| Intangible assets – goodwill | 9 | **112,682** | 81,584 |
| Intangible assets – others | 10 | **104,124** | 101,006 |
| Deferred tax assets | 14 | **—** | 810 |
| | | **239,417** | 202,990 |
| **Current assets** | | | |
| Inventories | | **30,136** | 22,737 |
| Trade and other receivables | | **38,873** | 37,231 |
| Other current financial assets | | **302** | 16 |
| Cash and short-term deposits | | **18,221** | 14,499 |
| | | **87,532** | 74,483 |
| **Total assets** | | **326,949** | 277,473 |
| **Current liabilities** | | | |
| Trade and other payables | | **(45,689)** | (40,629) |
| Other current financial liabilities | | **—** | (2,124) |
| Income tax | | **(1,410)** | (3,768) |
| Provisions | | **(1,004)** | (1,841) |
| | | **(48,103)** | (48,362) |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 13 | **(94,605)** | (51,088) |
| Other current financial liabilities | | **(1,144)** | — |
| Provisions | | **(384)** | (134) |
| Deferred tax liabilities | 14 | **(17,500)** | (17,756) |
| | | **(113,633)** | (68,978) |
| **Total liabilities** | | **(161,736)** | (117,340) |
| **Net assets** | | **165,213** | 160,133 |
| **Capital and reserves** | | | |
| Share capital | | **2,000** | 2,000 |
| Share premium | | **11,527** | 11,527 |
| Treasury shares | | **(1,962)** | (2,027) |
| Capital reserve | | **93,855** | 93,855 |
| Share-based payment reserve | | **1,836** | 1,289 |
| Foreign currency translation reserve | | **1,507** | 1,891 |
| Retained earnings | | **56,450** | 51,598 |
| **Total equity** | | **165,213** | 160,133 |

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 11 October 2018.

On behalf of the Board

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

# Consolidated Statement of Changes in Equity

For the year ended 31 July 2018

| | Share capital £000 | Share premium £000 | Treasury shares £000 | Capital reserve £000 | Share-based payment reserve £000 | Foreign currency translation reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 August 2016** | 2,000 | 11,527 | (1,533) | 93,855 | 649 | 1,462 | 45,585 | 153,545 |
| Profit for the year | — | — | — | — | — | — | 13,877 | 13,877 |
| Other comprehensive income | — | — | — | — | — | 429 | — | 429 |
| Total comprehensive income | — | — | — | — | — | 429 | 13,877 | 14,306 |
| Purchase of own shares | — | — | (494) | — | — | — | — | (494) |
| Share-based payment including tax | — | — | — | — | 640 | — | — | 640 |
| Dividends paid | — | — | — | — | — | — | (7,864) | (7,864) |
| **At 31 July 2017** | 2,000 | 11,527 | (2,027) | 93,855 | 1,289 | 1,891 | 51,598 | 160,133 |
| Profit for the year | — | — | — | — | — | — | 13,323 | 13,323 |
| Other comprehensive expense | — | — | — | — | — | (384) | — | (384) |
| Total comprehensive income | — | — | — | — | — | (384) | 13,323 | 12,939 |
| Share-based payment including tax | — | — | 65 | — | 547 | — | — | 612 |
| Dividends paid | — | — | — | — | — | — | (8,471) | (8,471) |
| **At 31 July 2018** | **2,000** | **11,527** | **(1,962)** | **93,855** | **1,836** | **1,507** | **56,450** | **165,213** |

**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 2018 of £72,214,000 (2017: £72,781,000).

# Consolidated Statement of Cash Flows

For the year ended 31 July 2018

| | Notes | **2018 £000** | 2017 £000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year after tax | | **13,323** | 13,877 |
| **Adjustments to reconcile profit for the year to net cash flow from operating activities:** | | | |
| Income tax | | **3,414** | 4,021 |
| Loss/(Gain) on disposal of property, plant and equipment | | **218** | (70) |
| Exceptional items | 5 | **6,417** | 1,380 |
| Release of contingent consideration | | **(1,502)** | — |
| Cash flows relating to exceptional items | | **(5,368)** | (1,166) |
| Finance revenue | 6 | **(852)** | (17) |
| Finance costs | 6 | **1,310** | 2,540 |
| Exceptional write off of unamortised loan issue costs upon refinancing | 5, 6 | **320** | — |
| Share-based payment expense | | **475** | 531 |
| Depreciation of property, plant and equipment | | **3,031** | 2,836 |
| Amortisation of intangible assets | 10 | **15,605** | 14,581 |
| **Working capital adjustments:** | | | |
| Decrease/(increase) in trade receivables and other assets | | **1,104** | (1,053) |
| Increase in inventories | | **(2,193)** | (1,147) |
| Exceptional items: fair value of inventories | | **(616)** | (81) |
| Increase in trade and other payables | | **887** | 2,391 |
| Movement in provisions | | **(905)** | (106) |
| UK income tax paid | | **(4,952)** | (3,466) |
| Overseas income tax paid | | **(3,956)** | (2,119) |
| **Net cash flow generated from operating activities** | | **25,760** | 32,932 |
| **Investing activities** | | | |
| Payments to acquire intangible assets | 10 | **(1,898)** | (1,699) |
| Purchase of property, plant and equipment | | **(4,635)** | (2,438) |
| Proceeds from disposal of property, plant and equipment | | **256** | 306 |
| Acquisition of subsidiaries, net of cash acquired | 12 | **(40,985)** | (18,118) |
| Interest received | | **14** | 17 |
| **Net cash flow used in investing activities** | | **(47,248)** | (21,932) |
| **Financing activities** | | | |
| Repayment of interest-bearing loans and borrowings | | **(67,869)** | (20,778) |
| Proceeds from new borrowings | | **103,474** | 17,491 |
| Issue costs of new borrowings | | **(954)** | — |
| Interest paid | | **(843)** | (860) |
| Dividends paid | | **(8,471)** | (7,864) |
| Purchase of own shares | | **—** | (494) |
| **Net cash flow generated from/(used in) financing activities** | | **25,337** | (12,505) |
| Net increase/(decrease) in cash and cash equivalents | | **3,849** | (1,505) |
| Cash and cash equivalents at the start of the year | | **14,499** | 15,744 |
| Effect of exchange rates on cash and cash equivalents | | **(127)** | 260 |
| **Cash and cash equivalents at the end of the year** | | **18,221** | 14,499 |

# Notes to the Consolidated Financial Statements

For the year ended 31 July 2018

The preliminary results were authorised for issue by the Board of Directors on 11 October 2018. The financial information set out herein does not constitute the Group's statutory consolidated financial statements for the years ended 31 July 2018 or 2017, but is derived from those accounts. Statutory consolidated financial statements for 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

**1. Basis of preparation**

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

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

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

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

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

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

***Going concern***

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

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility, and in addition an accordion facility of up to £30 million. The facility matures in December 2021, with the option to extend the termination of the facility by a period of 12 months.

***Foreign currencies***

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

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

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

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

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

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

The significant judgements, estimates and assumptions made in these financial statements relate to: Exceptional items (note 5), Intangible assets – goodwill (note 9), Intangible assets – other (note 10), Impairment assessment of goodwill (note 11), and Rebates payable.

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

**1. Basis of preparation (continued)**

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

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

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

***New standards and interpretations***

There were no new or amended accounting standards relevant to the Group's results that are effective for the first time in 2018 that have a material impact on the Group's consolidated financial statements.

The following standards and interpretations have an effective date after the date of these financial statements.

*IFRS 9 Financial Instruments*

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

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

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018 and was adopted by the Group on 1 August 2018. IFRS 15 provides a single, principles based 5 step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. It replaces the separate models for goods, services and construction contracts currently included in IAS11 Construction Contracts and IAS 18 Revenue.

The Group has undertaken analysis of how IFRS 15 should be implemented and the resulting impact on the financial statements. As permitted by IFRS 15 we have applied the new standard using the modified retrospective method. We recognised the cumulative effect of applying the new standard at the date of initial application, 1 August 2018, with no restatement of the comparative period presented. We have also chosen to apply the new standard only to those contracts that were not considered completed contracts at 1 August 2018.

Our impact assessment has concluded that IFRS 15 does not have a significant impact on the recognition of revenue from the sale of goods due to the lack of complexity involved in these transactions. IFRS 15 impacts the timing and amount of revenue recognised which arises from the provision of services, however; as the level of revenue generated from the provision of services is not significant to the Group, our assessment is that the impact of IFRS 15 is also not material to the Group.

*IFRS 16 Leases*

IFRS 16 Leases was issued in January 2017 to replace IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 August 2019.

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

The Group has undertaken analysis of how IFRS 16 should be implemented and the resulting impact on the financial statements.

As permitted by IFRS 16 we anticipate implementing the standard using the modified retrospective approach and by adopting some of the available practical expedients which are:

- 'grandfather' our previous assessment of which existing contracts are, or contain, leases;
- not applying the new lessee accounting model to short-term or low value leases, for which we will continue to recognise the related lease payments as an expense on a straight-line basis over the lease;

When applying IFRS 16 using the modified retrospective approach, we will not restate comparative information. Instead, we will recognise the cumulative effect of initially applying the standard as an adjustment to equity at the date of initial application, 1 August 2019. Under the modified retrospective approach we will recognise the right of use (ROU) asset and the lease liability as follows:

- For leases currently classified as operating leases:
    - ROU asset – As if IFRS 16 had always been applied (but using the incremental borrowing rate, applicable to the lease, at the date of initial application)
    - Lease liability – Present value of remaining lease payments

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2018

### 1. Basis of preparation (continued)

***New standards and interpretations (continued)***

Based on the above implementation method we have assessed the impact of applying the new standard on all current leases not considered low value or short term from 1 August 2019. On transition there would be an approximate increase to non-current assets of £17.9 million, an increase in total group liabilities of £19.4 million and a decrease of £1.5 million in equity. In the year ending 31 July 2020 operating costs (excluding depreciation) would reduce by approximately £2.8 million, depreciation would increase by £2.0 million and finance costs would increase by £1.1 million. Overall, EBITDA will be £2.8 million higher as the current operating lease costs will be replaced with depreciation and interest expense. Also operating cash flows will be higher, as lease payments will be reflected within financing activities in the statement of cash flows.

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

### 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.

| | **2018 £000** | 2017 £000 |
|---|---|---|
| **Profit after tax** | **13,323** | 13,877 |
| **Add back:** | | |
| Exceptional operating costs (note 5) | **6,417** | 1,380 |
| Reversal of contingent consideration (note 5) | **(1,502)** | — |
| Net (gain) / loss on financial instruments at fair value | **(838)** | 1,449 |
| Exceptional write off of unamortised loan issue costs upon refinance (note 6) | **320** | — |
| Amortisation and impairment of intangible assets acquired through business combinations | **14,670** | 13,826 |
| Tax effect of the above | **(3,598)** | (3,509) |
| **Adjusted profit after tax** | **28,792** | 27,023 |
| **Add back:** | | |
| Adjusted tax charge | **7,012** | 7,530 |
| **Adjusted profit before tax** | **35,804** | 34,553 |
| **Add back:** | | |
| Interest payable on bank loans and amortisation of financing costs | **1,310** | 1,091 |
| Finance revenue | **(14)** | (17) |
| **Adjusted operating profit** | **37,100** | 35,627 |
| **Add back:** | | |
| Depreciation of property, plant and equipment | **3,031** | 2,836 |
| Amortisation of development costs, software and patents | **935** | 755 |
| **Adjusted EBITDA** | **41,066** | 39,218 |

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2018

### 3. Revenue

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

| | 2018 £000 | 2017[1] £000 |
|---|---|---|
| Sale of goods | **200,665** | 182,502 |
| Rendering of services | **5,011** | 2,558 |
| **Total revenue** | **205,676** | 185,060 |

| **Market sectors** | 2018 £000 | 2017[1] £000 |
|---|---|---|
| **Ventilation Group** | | |
| UK Residential RMI | **38,166** | 39,162 |
| UK Residential New Build | **25,604** | 22,635 |
| UK Commercial | **33,474** | 32,792 |
| UK Export | **12,510** | 10,206 |
| Nordics | **36,692** | 30,829 |
| Central Europe | **28,466** | 27,460 |
| Australasia | **8,182** | — |
| **Total Ventilation Group** | **183,094** | 163,084 |
| **Original Equipment Manufacturer (Torin-Sifan)** | | |
| OEM (Torin-Sifan) | **22,582** | 21,976 |
| **Total revenue** | **205,676** | 185,060 |

[1]During 2018 we have refined our approach to allocation of products resulting in the reallocation of sales of a small number of products between market sectors to better reflect their final application. To calculate meaningful growth rates per market sector, the 2017 sales analysis has therefore been similarly restated to reflect this reallocation. The market sector revenue, for the affected sectors, previously disclosed in the 2017 annual report and accounts were UK Residential RMI £38,444,000, UK Residential New Build £23,421,000 and UK Commercial £32,724,000.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2018

**4. Segmental analysis**

In identifying its operating segments, management follows the Group's market sectors. These are Ventilation UK, Ventilation Nordics, Ventilation Central Europe, Ventilation Australasia 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) 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 2018 | Ventilation Group £000 | OEM £000 | Unallocated £000 | Total £000 | Eliminations £000 | Consolidated £000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External customers | **183,094** | **22,582** | **—** | **205,676** | **—** | **205,676** |
| Inter-segment | **19,332** | **1,403** | **—** | **20,735** | **(20,735)** | **—** |
| **Total revenue** | **202,426** | **23,985** | **—** | **226,411** | **(20,735)** | **205,676** |
| **Gross profit** | **89,741** | **6,882** | **—** | **96,623** | **—** | **96,623** |
| **Results** | | | | | | |
| **Adjusted segment EBITDA** | **38,168** | **4,454** | **(1,556)** | **41,066** | **—** | **41,066** |
| Depreciation and amortisation of development costs, software and patents | **(2,814)** | **(607)** | **(545)** | **(3,966)** | **—** | **(3,966)** |
| **Adjusted operating profit/(loss)** | **35,354** | **3,847** | **(2,101)** | **37,100** | **—** | **37,100** |
| Amortisation of intangible assets acquired through business combinations | **(13,312)** | **(1,358)** | **—** | **(14,670)** | **—** | **(14,670)** |
| Exceptional items | **(4,915)** | **—** | **—** | **(4,915)** | **—** | **(4,915)** |
| **Operating profit/(loss)** | **17,127** | **2,489** | **(2,101)** | **17,515** | **—** | **17,515** |
| **Unallocated expenses** | | | | | | |
| Net finance cost | **—** | **—** | **(458)** | **(458)** | **—** | **(458)** |
| Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility | **—** | **—** | **(320)** | **(320)** | **—** | **(320)** |
| **Profit/(loss) before tax** | **17,127** | **2,489** | **(2,879)** | **16,737** | **—** | **16,737** |

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2018

**4. Segmental analysis (continued)**

| Year ended 31 July 2017 | Ventilation Group £000 | OEM £000 | Unallocated £000 | Total £000 | Eliminations £000 | Consolidated £000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External customers | 163,084 | 21,976 | — | 185,060 | — | 185,060 |
| Inter-segment | 17,070 | 1,179 | — | 18,249 | (18,249) | — |
| **Total revenue** | 180,154 | 23,155 | — | 203,309 | (18,249) | 185,060 |
| **Gross profit** | 84,265 | 6,772 | — | 91,037 | — | 91,037 |
| **Results** | | | | | | |
| **Adjusted segment EBITDA** | 37,167 | 4,347 | (2,296) | 39,218 | — | 39,218 |
| Depreciation and amortisation of development costs, software and patents | (2,558) | (578) | (455) | (3,591) | — | (3,591) |
| **Adjusted operating profit/(loss)** | 34,609 | 3,769 | (2,751) | 35,627 | — | 35,627 |
| Amortisation of intangible assets acquired through business combinations | (12,468) | (1,358) | — | (13,826) | — | (13,826) |
| Exceptional items | (1,380) | — | — | (1,380) | — | (1,380) |
| **Operating profit/(loss)** | 20,761 | 2,411 | (2,751) | 20,421 | — | 20,421 |
| **Unallocated expenses** | | | | | | |
| Net finance cost | (297) | — | (2,226) | (2,523) | — | (2,523) |
| **Profit/(loss) before tax** | 20,464 | 2,411 | (4,977) | 17,898 | — | 17,898 |

*Geographic information*

| **Revenue from external customers by customer destination** | **2018 £000** | 2017 £000 |
|---|---|---|
| United Kingdom | **108,133** | 105,426 |
| Europe (excluding United Kingdom and Sweden) | **59,239** | 54,580 |
| Sweden | **26,003** | 21,470 |
| Rest of the world | **12,301** | 3,584 |
| **Total revenue** | **205,676** | 185,060 |

| Non-current assets excluding deferred tax | **2018 £000** | 2017 £000 |
|---|---|---|
| United Kingdom | **142,859** | 151,732 |
| Europe (excluding United Kingdom and Nordics) | **26,698** | 28,226 |
| Nordics | **33,227** | 22,222 |
| Australasia | **36,633** | — |
| **Total** | **239,417** | 202,180 |

***Information about major customers***

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

### 5. Exceptional items

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:

| Exceptional items | 2018 £000 | 2017 £000 |
|---|---|---|
| Acquisition related costs, including inventory fair value adjustments | **1,451** | 831 |
| UK Ventilation reorganisation including factory relocation costs | **4,966** | 549 |
| Exceptional operating costs | **6,417** | 1,380 |
| Reversal of contingent consideration | **(1,502)** | — |
| | **4,915** | 1,380 |
| Total tax relating to exceptional items for the year | **(832)** | (172) |
| | **4,083** | 1,208 |

***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. Costs of £616,000 were recognised in the period relating to the acquisition of Simx Limited. Inventory fair value adjustments in the prior year were £81,000.

Professional fees incurred in respect of acquisitions totalled £835,000. Professional fees incurred in respect of acquisitions in the prior year totalled £324,000, other fees incurred in respect of acquisitions in the prior year totalled £426,000.

***UK Ventilation reorganisation including factory relocation costs***

We have previously reported the cost of a factory relocation project, which related to rationalising of some of our manufacturing capacity in the UK and commenced in 2017, as exceptional. The affected UK manufacturing locations are Reading, Slough and Lasham. During FY 2018 we have extended the factory relocation project to be a wider reorganisation and management rationalisation of our UK Ventilation business.

A breakdown of the costs are as follows:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Legal and professional fees | **359** | 179 |
| Project manager | **153** | 112 |
| Redundancy related costs | **121** | 131 |
| Stock write-off | **76** | 89 |
| Fixed asset write-off | **85** | 24 |
| Site clearance and closure | **627** | 14 |
| Dual running costs | **1,015** | — |
| Start-up costs | **2,530** | — |
| **Total** | **4,966** | 549 |

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

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

The reorganisation of the UK Ventilation business will continue in to FY 2019. It is our intention that all costs directly associated with this will similarly be treated as exceptional, given their size in aggregate and their unusual (one-off) nature.

***Reversal of contingent consideration***

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. 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 (£1,502,000), giving total consideration of SEK 96,641,000 (£8,593,000). The contingent consideration was based on the level of EBITDA achieved during the twelve months to 31 December 2017. There was a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable. The contingent consideration, recognised in the 31 July 2017 financial statements, was recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. The financial results for the twelve months to 31 December 2017 were such that the minimum level of EBITDA was not achieved and the contingent consideration will not be paid and therefore has been reversed in the period as an exceptional item.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2018

**5. Exceptional items (continued)**

***Write off of unamortised loan issue costs upon refinancing***

In addition to the exceptional operating costs disclosed in the table above, we have incurred exceptional finance costs relating to the write off of unamortised loan issue costs upon refinancing of our bank facility as disclosed in note 6.

It was deemed that the items allowable for or chargeable to tax were approximately £4,378,000 (2017: £883,000), with a potential tax benefit of £832,000 (2017: £172,000).

**6. Finance revenue and costs**

| | **2018**<br>**£000** | 2017<br>£000 |
|---|---|---|
| **Finance revenue** | | |
| Net gain on financial instruments at fair value | **838** | — |
| Interest receivable | **14** | 17 |
| **Total finance revenue** | **852** | 17 |
| **Finance costs** | | |
| Interest payable on bank loans | **(1,017)** | (766) |
| Amortisation of finance costs | **(236)** | (231) |
| Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility | **(320)** | — |
| Other interest | **(57)** | (94) |
| **Total interest expense** | **(1,630)** | (1,091) |
| Net loss on financial instruments at fair value | **—** | (1,449) |
| **Total finance costs** | **(1,630)** | (2,540) |
| **Net finance costs** | **(778)** | (2,523) |

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility (maturing in December 2021) together with an accordion of up to £30 million, with the option to extend the termination of the facility by a period of 12 months. The old facility was repaid in full when the new multicurrency revolving credit facility was entered into. As a consequence of the re-finance, the unamortised finance costs of £320,000 relating to the previous loans were written off on 15 December 2017 see exceptional items note 5.

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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2018

**7. Income tax**

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

| | **2018 £000** | 2017 £000 |
|---|---|---|
| **Current income tax** | | |
| Current UK income tax expense | **2,948** | 4,623 |
| Current foreign income tax expense | **3,605** | 2,209 |
| Tax credit relating to the prior year | **(26)** | (171) |
| **Total current tax** | **6,527** | 6,661 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(3,031)** | (2,820) |
| Effect of changes in the tax rate | **(108)** | (351) |
| Tax charge relating to the prior year | **26** | 531 |
| **Total deferred tax** | **(3,113)** | (2,640) |
| **Net tax charge reported in the consolidated statement of comprehensive income** | **3,414** | 4,021 |

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

| | **2018 £000** | 2017 £000 |
|---|---|---|
| Increase in deferred tax asset on share-based payments | **(162)** | (109) |
| **Net tax credit reported in equity** | **(162)** | (109) |

*(c) Reconciliation of total tax*

| | **2018 £000** | 2017 £000 |
|---|---|---|
| Profit before tax | **16,737** | 17,898 |
| Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.67%) | **3,180** | 3,521 |
| Adjustment in respect of previous years | **1** | 394 |
| Expenses not deductible for tax purposes | **380** | 303 |
| Effect of changes in the tax rate (see explanation below) | **(108)** | (351) |
| Non-taxable income | **(357)** | (43) |
| Higher overseas tax rate | **588** | 318 |
| Patent box | **(205)** | — |
| Other | **(65)** | (121) |
| **Net tax charge reported in the consolidated statement of comprehensive income** | **3,414** | 4,021 |

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

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

### 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 413,555 dilutive potential ordinary shares at 31 July 2018 (2017: nil).

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

| Year ended 31 July | **2018 £000** | 2017 £000 |
|---|---|---|
| Profit attributable to ordinary equity holders | **13,323** | 13,877 |
| | **Number** | Number |
| Weighted average number of ordinary shares for basic earnings per share per share | **198,847,087** | 199,050,930 |
| Weighted average number of ordinary shares for diluted earnings per share | **199,144,705** | 199,050,930 |
| **Earnings per share** | | |
| Basic | **6.7p** | 7.0p |
| Diluted | **6.7p** | 7.0p |

| Year ended 31 July | **2018 £000** | 2017 £000 |
|---|---|---|
| Adjusted profit attributable to ordinary equity holders | **28,792** | 27,023 |
| | **Number** | Number |
| Weighted average number of ordinary shares for adjusted basic earnings per share | **198,847,087** | 199,050,930 |
| Weighted average number of ordinary shares for adjusted diluted earnings per share | **199,144,705** | 199,050,930 |
| **Adjusted earnings per share** | | |
| Basic | **14.5p** | 13.6p |
| Diluted | **14.5p** | 13.6p |

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

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

### 9. Intangible assets – goodwill

| **Goodwill** | £000 |
|---|---|
| **Cost and net book value** | |
| At 1 August 2016 | 68,228 |
| On acquisition of Breathing Buildings Limited | 6,688 |
| On acquisition of VoltAir System AB | 5,527 |
| Net foreign currency exchange differences | 1,141 |
| At 31 July 2017 | **81,584** |
| On acquisition of Simx Limited | 23,457 |
| On acquisition of AirFan B.V. | 289 |
| On acquisition of Oy Pamon Ab | 6,418 |
| On acquisition of Air Connection ApS | 1,956 |
| Net foreign currency exchange differences | (1,022) |
| **At 31 July 2018** | **112,682** |

**10. Intangible assets – other**

| 2018 | Development costs £000 | Software costs £000 | Customer base £000 | Trademarks £000 | Patents/ Technology £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 August 2017 | **2,626** | **6,985** | **116,117** | **42,168** | **2,291** | **896** | **171,083** |
| Additions | **925** | **949** | **—** | **3** | **21** | **—** | **1,898** |
| On acquisitions | **—** | **59** | **13,525** | **2,422** | **1,222** | **249** | **17,477** |
| Disposals | **—** | **(281)** | **—** | **—** | **—** | **—** | **(281)** |
| Net foreign currency exchange differences | **(79)** | **17** | **(710)** | **(355)** | **(14)** | **(27)** | **(1,168)** |
| **At 31 July 2018** | **3,472** | **7,729** | **128,932** | **44,238** | **3,520** | **1,118** | **189,009** |
| **Amortisation** | | | | | | | |
| At 1 August 2017 | **379** | **2,424** | **57,697** | **8,806** | **258** | **513** | **70,077** |
| Charge for the year | **264** | **647** | **12,021** | **1,897** | **371** | **405** | **15,605** |
| Disposal | **—** | **(281)** | **—** | **—** | **—** | **—** | **(281)** |
| Net foreign currency exchange differences | **(13)** | **30** | **(432)** | **(88)** | **(2)** | **(11)** | **(516)** |
| **At 31 July 2018** | **630** | **2,820** | **69,286** | **10,615** | **627** | **907** | **84,885** |
| **Net book value** | | | | | | | |
| **At 31 July 2018** | **2,842** | **4,909** | **59,646** | **33,623** | **2,893** | **211** | **104,124** |

Included in software costs are assets under construction of £nil (2017: £148,000), which are not amortised. Included in development costs are assets under construction of £420,000 (2017: £217,000), which are not amortised.

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2018

### 10. Intangible assets – other (continued)

The remaining amortisation periods for acquired intangible assets at 31 July 2018 are as follows:

| | Customer base | Trademark | Patent/ technology |
|---|---|---|---|
| Volution Holdings Limited and its subsidiaries | 4 years | 19 years | — |
| Fresh AB and its subsidiaries | 1 years | 14 years | — |
| PAX AB and PAX Norge AS | 3 years | 15 years | — |
| inVENTer GmbH | 5 years | 16 years | 16 years |
| Brüggemann Energiekonzepte GmbH | 2 years | — | — |
| Ventilair Group International BVBA and its subsidiaries | 5 years | 7 years | — |
| Energy Technique Limited and its subsidiaries | 6 years | 18 years | — |
| Weland Luftbehandling AB | 2 years | — | — |
| NVA Services Limited and its subsidiaries | 8 years | 13 years | — |
| Breathing Buildings Limited | 8 years | 13 years | 3 years |
| VoltAir System AB | 14 years | 14 years | 4 years |
| Simx Limited | 15 years | 25 years | — |
| Oy Pamon Ab | 10 years | 20 years | 10 years |
| Air Connection ApS | 10 years | — | — |

### 11. Impairment assessment of goodwill

***Accounting policy***

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

| **31 July 2018** | **UK Ventilation £000** | **OEM (Torin-Sifan) £000** | **Nordics £000** | **Central Europe £000** | **Australasia £000** |
|---|---|---|---|---|---|
| Carrying value of goodwill | **55,899** | **5,101** | **16,577** | **12,041** | **23,064** |
| CGU value in use headroom[1] | **135,759** | **32,165** | **66,844** | **25,529** | **3,649** |

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

**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 of11.4% to 13.5% 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 11.4% to 13.5%.
- 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 2018

### 12. Business combinations

***Acquisitions in the year ended 31 July 2018***

*Simx Limited*

On 19 March 2018, Volution Group plc, through one of its wholly owned subsidiaries, Chinook Limited, acquired the entire issued share capital of Simx Limited a company based in New Zealand. The transaction was funded from the Group's existing revolving credit facility. The acquisition of Simx is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was cash consideration of NZD 54,508,000 (£28,651,000).

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £332,000 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 | 3,849 | 8,246 | 12,095 |
| Deferred tax asset | 111 | 377 | 488 |
| Property, plant and equipment | 1,777 | (63) | 1,714 |
| Inventory | 4,136 | (282) | 3,854 |
| Trade and other receivables | 2,702 | — | 2,702 |
| Trade and other payables | (2,443) | (456) | (2,899) |
| Bank Debt | (9,806) | — | (9,806) |
| Deferred tax liabilities | — | (3,370) | (3,370) |
| Cash and cash equivalents | 416 | — | 416 |
| **Total identifiable net assets** | 742 | 4,452 | 5,194 |
| Goodwill on acquisition | | | 23,457 |
| | | | 28,651 |
| **Discharged by:** | | | |
| Consideration satisfied in cash | | | 28,651 |

Goodwill of £23,457,000 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 £2,702,000. The amounts for trade and other receivables not expected to be collected are £nil.

Simx Limited generated revenue of £8,182,000 and generated a profit after tax of £1,384,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £216,339,000 and the profit before tax from continuing operations would have been £18,161,000.

### 12. Business combinations (continued)

*Air Fan B.V.*

On 1 May 2018, Volution Group plc, through one of its wholly owned subsidiaries, Ventilair Group Netherlands B.V., acquired the entire issued share capital of AirFan B.V. The transaction was funded from the Group's cash reserves.

Total consideration for the transaction was cash consideration of €300,000 (£264,000).

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £29,000 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 |
|---|---|---|---|
| Property, plant and equipment | 16 | — | 16 |
| Inventory | 124 | (22) | 102 |
| Trade and other receivables | 162 | — | 162 |
| Trade and other payables | (305) | — | (305) |
| **Total identifiable net assets** | (3) | (22) | (25) |
| Goodwill on acquisition | | | 289 |
| | | | 264 |
| **Discharged by:** | | | |
| Consideration satisfied in cash | | | 264 |

Goodwill of £289,000 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 gross amount of trade and other receivables is £162,000. The amounts for trade and other receivables not expected to be collected are £nil.

**12. Business combinations (continued)**

*Oy Pamon Ab*

On 5 July 2018, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of Oy Pamon Ab. The transaction was funded from the Group's existing revolving credit facility. The acquisition of Pamon Ab is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was cash consideration of €12,258,000 (£10,854,000) and contingent consideration with a fair value of €650,000 (£575,000), giving total consideration of €12,908,000 (£11,429,000). The contingent consideration is based on the level of EBITDA achieved during the 2 years to 30 November 2018 and 2019. 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 €2,000,000. 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 2018 budget and 2019 forecast. 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 2019 and FY 2020.

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £290,000 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 | 64 | 4,514 | 4,578 |
| Deferred tax asset | — | 91 | 91 |
| Property, plant and equipment | 130 | — | 130 |
| Inventory | 935 | (307) | 628 |
| Trade and other receivables | 604 | (107) | 497 |
| Trade and other payables | (1,209) | (44) | (1,253) |
| Deferred tax liabilities | — | (903) | (903) |
| Cash and cash equivalents | 1,243 | — | 1,243 |
| **Total identifiable net assets** | 1,767 | 3,244 | 5,011 |
| Goodwill on acquisition | | | 6,418 |
| | | | 11,429 |
| **Discharged by:** | | | |
| Consideration satisfied in cash | | | 10,854 |
| Contingent consideration | | | 575 |
| Total consideration | | | 11,429 |

Goodwill of £6,418,000 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, customer base, technology and order book was identified and included in intangible assets.

The gross amount of trade and other receivables is £604,000. The amounts for trade and other receivables not expected to be collected are £107,000.

Oy Pamon Ab generated revenue of £703,000 and generated a profit after tax of £160,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £213,607,000 and the profit before tax from continuing operations would have been £17,613,000.

**12. Business combinations (continued)**

*Air Connection ApS*

On 16 July 2018, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of Air Connection ApS. The transaction was funded from the Group's existing revolving credit facility. The Group's acquisition of Air Connection ApS is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was cash consideration of DKK 25,800,000 (£3,072,000) and contingent consideration with a fair value of DKK 4,200,000 (£500,000), giving total consideration of DKK 30,000,000 (£3,572,000). The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2021. 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 DKK 4,200,000. 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 forecast for the year to 31 July 2021. 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 2022.

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £41,000 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 | — | 804 | 804 |
| Property, plant and equipment | 197 | — | 197 |
| Inventory | 833 | — | 833 |
| Trade and other receivables | 648 | — | 648 |
| Trade and other payables | (868) | — | (868) |
| Deferred tax liabilities | (18) | (177) | (195) |
| Cash and cash equivalents | 197 | — | 197 |
| **Total identifiable net assets** | 989 | 627 | 1,616 |
| Goodwill on acquisition | | | 1,956 |
| | | | 3,572 |
| **Discharged by:** | | | |
| Consideration satisfied in cash | | | 3,072 |
| Contingent consideration | | | 500 |
| Total consideration | | | 3,572 |

Goodwill of £1,956,000 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 customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £648,000.

Air Connection ApS generated revenue of £94,000 and generated a profit after tax of £20,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £209,819,000 and the profit before tax from continuing operations would have been £17,040,000.

### 12. Business combinations (continued)

Cash outflows arising from business combinations are as follows:

| | **2018 £000** | 2017 £000 |
|---|---|---|
| **Simx Limited** | | |
| Cash consideration | **28,651** | — |
| Less: cash acquired with the business | **(416)** | — |
| **AirFan B.V.** | | |
| Cash consideration | **264** | — |
| Less: cash acquired with the business | **—** | — |
| **Oy Pamon Ab** | | |
| Cash consideration | **10,854** | — |
| Less: cash acquired with the business | **(1,243)** | — |
| **Air Connection ApS** | | |
| Cash consideration | **3,072** | — |
| Less: cash acquired with the business | **(197)** | — |
| **Breathing Buildings Limited** | | |
| Cash consideration | — | 11,881 |
| Less: cash acquired with the business | — | (250) |
| **VoltAir System AB** | | |
| Cash consideration | — | 7,091 |
| Less: cash acquired with the business | — | (604) |
| | **40,985** | 18,118 |

### 13. Interest-bearing loans and borrowings

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

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Current £000** | **Non-current £000** | Current £000 | Non-current £000 |
| **Unsecured – at amortised cost** | | | | |
| Borrowings under the revolving credit facility (maturing 2021) | **—** | **95,410** | — | — |
| Cost of arranging bank loan | **—** | **(805)** | — | — |
| **Unsecured – at amortised cost** | | | | |
| Borrowings under the revolving credit facility (maturing 2019) | **—** | **—** | — | 51,490 |
| Cost of arranging bank loan | **—** | **—** | — | (402) |
| | **—** | **94,605** | — | 51,088 |

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility, together with an accordion of up to £30 million. The facility matures in December 2021, with the option to extend the termination of the facility by a period of 12 months. The old facility was repaid in full early, on 15 December 2017, and a new multicurrency revolving credit facility was entered into. Interest bearing loans at 31 July 2018 comprise this multicurrency revolving credit facility, together with an accordion, 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.

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

***Revolving credit facility – at 31 July 2018***

| Currency | Amount outstanding £000 | Termination date | Repayment frequency | Rate % |
|---|---|---|---|---|
| GBP | 31,000 | 15 December 2021 | One payment | Libor + margin% |
| Euro | 39,943 | 15 December 2021 | One payment | Euribor + margin% |
| Swedish Krona | 24,467 | 15 December 2021 | One payment | Stibor + margin% |
| **Total** | **95,410** | | | |

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

***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 + margin% |
| Euro | 23,320 | 30 April 2019 | One payment | Euribor + margin% |
| Swedish Krona | 23,170 | 30 April 2019 | One payment | Stibor + margin% |
| **Total** | **51,490** | | | |

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 2017, Group leverage was below 1.0:1 and therefore the margin was 1.00%. The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2017 and therefore the margin for the first half of the year ended 31 July 2018 was 1.00%. On refinancing the margin was reduced to 0.9%. At the half year, the consolidated leverage was below 1.0:1 and therefore the margin continued to be 0.9% under the new facility. For the second half of the year ended 31 July 2018 the margin increased to 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate will continue into the first half of the year ended 31 July 2019.

At 31 July 2018, the Group had £24,590,000 (2017: £37,010,000) of its multi-currency revolving credit facility unutilised.

| Reconciliation of movement of financial liabilities | **2018 £000** | 2017 £000 |
|---|---|---|
| At 1 August | **51,490** | 51,869 |
| Additional loans | **103,474** | 17,491 |
| Loans acquired on acquisitions | **10,007** | — |
| Repayment of loans | **(67,869)** | (20,540) |
| Interest charge | **1,017** | 766 |
| Interest paid | **(1,017)** | (766) |
| Foreign exchange | **(1,692)** | 2,670 |
| At 31 July | **95,410** | 51,490 |

### 14. Deferred tax

Deferred tax assets and liabilities arise from the following:

| **2018** | **1 August 2017 £000** | **Credited/ (charged) to income £000** | **Credited to equity £000** | **Translation difference £000** | **On acquisition £000** | **31 July 2018 £000** |
|---|---|---|---|---|---|---|
| **Temporary differences** | | | | | | |
| Depreciation in advance of capital allowances | **(745)** | **(53)** | **—** | **—** | **—** | **(798)** |
| Fair value movements of derivative financial instruments | **146** | **(149)** | **—** | **—** | **—** | **(3)** |
| Customer base, trademark and patent | **(16,673)** | **2,915** | **—** | **137** | **(4,468)** | **(18,089)** |
| Losses | **298** | **(12)** | **—** | **(1)** | **—** | **285** |
| Untaxed reserves | **(447)** | **447** | **—** | **32** | **475** | **507** |
| Other temporary differences | **475** | **(37)** | **160** | **—** | **—** | **598** |
| | **(16,946)** | **3,111** | **160** | **168** | **(3,993)** | **(17,500)** |
| Deferred tax asset | **810** | **(810)** | **—** | **—** | **—** | **—** |
| Deferred tax liability | **(17,756)** | **3,921** | **160** | **168** | **(3,993)** | **(17,500)** |
| | **(16,946)** | **3,111** | **160** | **168** | **(3,993)** | **(17,500)** |

At 31 July 2018, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2017: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2017: £3,975,000) arising in UK subsidiaries and gross tax losses of £407,000 (2017: £385,000) 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 2018, the Group had no deferred tax liability (2017: £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.

### 14. Deferred tax (continued)

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

### 15. Dividends paid and proposed

| | **2018 £000** | 2017 £000 |
|---|---|---|
| **Cash dividends on ordinary shares declared and paid** | | |
| Interim dividend for 2018: 1.46 pence per share (2017: 1.35 pence) | **2,903** | 2,688 |
| **Proposed dividends on ordinary shares** | | |
| Final dividend for 2018: 2.98 pence per share (2017: 2.80 pence) | **5,926** | 5,567 |

The interim dividend payment of £2,903,000 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 2018.

### 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 2018 or 31 July 2017.

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***

| | **2018 £000** | 2017 £000 |
|---|---|---|
| Short-term employee benefits | **2,806** | 2,714 |
| Share-based payment change | **461** | 512 |
| **Total** | **3,267** | 3,226 |

Key management personnel is defined as the CEO, the CFO and the 10 (2017: ten) individuals who report directly to the CEO.

### 17. Events after the reporting period

There have been no material events between 31 July 2018 and the date of authorisation of the consolidated financial statements that would require adjustments of the consolidated financial statements or disclosure.

**18. Glossary of terms**

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

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 413,555 dilutive potential ordinary shares at 31 July 2018 (2017: nil).

**Adjusted EBITDA** – adjusted operating profit before depreciation and amortisation.

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

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

**Adjusted operating profit** – operating profit removing exceptional operating costs, release of contingent consideration and amortisation of assets acquired through business combinations.

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

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

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

**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 2018 at the average exchange rate for the period ended 31 July 2017. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2018, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2017.

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

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

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