Thursday 23 October 2014

VOLUTION GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2014

STRONG GROWTH IN LINE WITH EXPECTATIONS

Volution Group plc ("Volution" or "the Group" or "the Company", LSE: FAN), a leading supplier of ventilation products to the residential construction market, today announces its audited financial results for the 12 months to 31 July 2014.

Highlights	2014	2013	Change
Revenue (£m)	120.7	102.3	18.0%
Adjusted EBITDA [1] (£m)	28.5	23.8	19.8%
Adjusted operating profit [1] (£m)	26.5	22.2	19.4%
Adjusted profit before tax [1] (£m)	14.0	9.2	51.9%
Reported loss before tax (£m)	(15.5)	(4.2)	-
Basic and diluted EPS [2] (p)	(14.0)	(2.3)	-
Adjusted operating cash flow [3] (£m)	22.8	20.9	9.1%
Net debt [4] (£m)	42.9	172.7	£(129.8)m

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

Notes:
1. Details of adjusted EBITDA, adjusted operating profit and adjusted profit before tax can be found in note 8.
2. Details of earnings per share can be found in note 10.
3. Adjusted operating cash flow is defined as adjusted EBITDA plus or minus movements in operating working capital, less net investments in property plant and equipment and intangible assets (including cash held in escrow).
4. Net debt is defined as bank borrowings less cash and cash equivalents.

Overview

Financial highlights

- Strong growth. Results in line with expectations.
- Revenue in the year was £120.7 million, an 18.0% increase compared with the prior year.
- Revenue growth comprised of 3.2% organic revenue growth (5.2% on a like-for-like currency basis), with inorganic revenue growth of 14.8% as a result of acquisitions.
- Adjusted EBITDA increased by 19.8% to £28.5 million representing 23.6% of revenues (2013: 23.3%).
- The Group's reported pre-tax loss of £15.5 million (2013: loss of £4.2 million), was impacted by:
  - Exceptional items totaling £7.8 million (2013: £2.8 million). These related primarily to acquisition costs and IPO costs incurred during the period.
  - Amortisation and impairment of intangible fixed assets (customer base and trademarks) recognised at fair value on acquisition of the Group and of our subsidiaries of £13.1 million (2013: £10.1 million).
  - The write off of unamortised cost from three refinancing exercises of £8.3 million (2013: £0.6 million).

    - Finance expenses relating to the previous, higher level of gearing in the eleven months prior to listing.
- Net debt reduced by £129.8 million mainly as a result of the conversion of investor debt to equity and the repayment of some bank debt from the proceeds of the new shares issued.

Strategic highlights

- Acquisition of PAX in Sweden in August 2013, giving the Company a leading position in Swedish residential ventilation refurbishment market.
- Acquisition of inVENTer in Germany in April 2014; its integration is progressing in line with the anticipated timetable.
- Organic revenue growth was helped by an increase in new build residential systems sales in the UK, where the Group enjoyed an 11.2% growth.
- Strong demand for products, especially newer, higher value added ventilation systems.
- Major new project wins including the contract for Vent-Axia to supply Sentinel Kinetic Plus ventilation system units for the 414 apartments in the Saffron Square development in Croydon, London.
- The current financial year has started in line with our expectations.

Dividend policy

- The Board initially intends to target a dividend of approximately 30% of the Company's adjusted net income for each financial year. It is expected that the first dividend will be payable following publication of the Company's results for the six months ending 31 January 2015.

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

"The financial year saw the Company listed on the London Stock Exchange, as well as make important strategic acquisitions in Sweden and Germany. Our results for 2014 were strong, reflecting growth both organically and through acquisitions. Revenue was up year-on-year by 18.0% at £120.7 million and adjusted EBITDA grew strongly to £28.5 million or 23.6% of revenue, up 19.8% compared with 2013. Building on this platform, we will continue to strengthen our position as one of the leading players in the European market for ventilation products, including heat recovery systems."

-Ends-

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Notes to Editors

Volution Group plc is a leading supplier of ventilation products to the residential construction market in the UK, Sweden and Germany.

The Group sold approximately 20 million ventilation products and accessories in the financial year ended 31 July 2014. It consists of five key brands, focused primarily on the UK, Swedish and German ventilation markets - Vent-Axia, Manrose, Fresh, PAX and inVENTer - and operates through two divisions: the Ventilation Group, which principally supplies ventilation products for residential construction applications in the UK, Sweden and Germany and ventilation products for commercial construction applications in the UK; and OEM (Torin-Sifan), which supplies motors, fans and blowers to OEMs of heating and ventilation products for both residential and commercial construction applications in Europe.

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

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

I am delighted that Volution Group plc is now a fully listed public company after having had several successful years of private equity ownership. With our listing, I believe we will have an even greater opportunity to implement the strategic plan, particularly in the area of continuing international growth through acquisitions. I am also highly appreciative of the support that we have had from our principal shareholder and our new investors, and their understanding and backing of our long-term vision.

Our results for 2014 were strong, reflecting growth both organically and through acquisitions. Revenue was up year-on-year by 18.0% at £120.7 million. Adjusted EBITDA grew strongly to £28.5 million or 23.6% of revenue, up 19.8% compared with 2013.

Two acquisitions were completed during the year, significant investment was made in new products, and a new production facility acquired (and equipped) at Torin-Sifan. We also saw good organic growth, especially in the important area of higher value ventilation systems used in new residential dwellings.

Ventilation Group: UK

In the UK market, the Ventilation Group achieved sales growth in all market sectors. The UK RMI (Repair, Maintenance and Improvement) market that we split into both public and private areas of focus, continued to show recovery. Our focus on the quiet, energy efficient solutions in demand in the private market did very well for us as did our initiatives to deliver improved ventilation with greater controls and functionality for public sector social housing. This was despite a backdrop of an overall general market decline.

In the new build residential market, we are starting to benefit from the positive effects of additional house completions. The house building industry and the social housing RMI market are driven by regulation and consumer preference to construct homes that are more carbon and energy efficient. This has seen a move towards the use of centralised heating and ventilation systems that are designed to meet the required carbon emission reductions without loss of the benefits of air-tight construction. Sales growth in this area was up 11.2% in the financial year ended 2014 and we would expect this trend to continue in the coming years. As IAQ (Indoor Air Quality) becomes even more of a concern in the future, the Group with our wide range of brands and in depth industry knowledge, is well placed to bring new ventilation solutions to the market to meet these growing requirements.

Ventilation Group: International growth through acquisitions

In August 2013, we acquired PAX in Sweden for a total cash consideration of £11.5 million. We now have a leading position in the Swedish market for ventilation refurbishment in residential dwellings. The integration of PAX has been successful and we have in place a very strong combined management team under the leadership of the country manager for the Nordic region.

The synergies provided by this acquisition have allowed us to develop a stronger sales approach to the Swedish market in trade and retail accounts across both the Fresh and PAX brands. We are actively pursuing further growth opportunities in the Nordic region with investments made in our sales teams to focus their attentions in the Norwegian, Danish and Finnish markets.

In April 2014, we acquired the assets and intellectual property of inVENTer for a cash consideration of £19.1 million. This was the culmination of our strategy to find the right acquisition in Germany. inVENTer has a leading position in the lucrative and fast growing heat recovery ventilation refurbishment market. The inVENTer brand has been trading for over 15 years and provides us with the ideal platform for further growth into other areas of the residential ventilation market in Germany. The integration of inVENTer is proceeding well.

At the time of the acquisition of inVENTer we were aware of a decline in sales to a small number of its larger customers. The purchase consideration was reduced accordingly. After acquisition, sales to these customers continued to decline, necessitating an impairment of our intangible asset, customer base (recognised at fair value at the time of acquisition). We have had growth in sales to other customers that were not included in the valuation of our customer base. Recovery of sales in the affected regions, the appointment of new sales agents, and the roll out of a new range of centralised heat recovery systems is an area of focus for us during the current financial year.

OEM (Torin-Sifan)

Torin-Sifan had a more challenging year due to the mild winter with our sales of gas boiler combustion motors declining from the prior year. This area of the business will continue to be important to us.

Over the last two years, we have made a significant investment in developing a new range of high performing air movement products that meet the energy efficiency demands placed on this industry. With these new EC (Electronically Commutated) products and the Group's investment in a modern production site close to the well-established Torin-Sifan Swindon headquarters, we believe we are in a good position to ensure our long-term future growth.

Three Strategic Pillars

Our strategy continues to focus on three key pillars:

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

In our core markets, we expect to continue to benefit from a favourable regulatory backdrop that focuses on reducing carbon emissions from buildings; the need for improving energy efficiency and the emerging understanding of the importance of indoor air quality in the developed world. The Group will continue to gain from these market developments with our specialised approach to each market area. By building on our internal resources and focusing on product management and product development, this will enable us to deliver product and system solutions to meet customers' needs.

The ventilation market in Europe remains highly fragmented and we intend to continue to explore selective acquisition opportunities to increase our international footprint. Our track record over the last two years of making acquisitions and successfully integrating them into our Group shows our ability to add new competencies and to expand into new markets and this serves us well for future acquisitions in the coming years.

I would like to acknowledge the dedication and hard work demonstrated by our employees along with our management teams from across our Group companies. Our people are key to the success of the Group. I would like to thank them all for their support during this historic year and for their continued contribution to our success.

Outlook

While we are mindful of the mixed economic backdrop in some of the economies in which we operate, the current year has started in line with our expectations. We remain focused on delivering profitable growth and to making further progress during this financial year.

Ronnie George

Chief Executive Officer

23 October 2014

FINANCIAL REVIEW

Trading Performance

Group Revenue in the year was £120.7 million an 18.0% increase compared with the prior year. This comprised 3.2% organic growth (5.2% on a like for like currency basis), with 14.8% the result of acquisitions.

Our Ventilation segment's revenue was £101.3 million in the year, a 23.1% increase on prior year (25.7% on a like-for-like currency basis). Inorganic growth came substantially from the acquisition of PAX in Sweden which was completed in August 2013 and was supported by the full year effect of the Fresh acquisition in October 2012, and the more recent acquisition of inVENTer in Germany, in April 2014.

The Group is enjoying strong demand for our ventilation products, especially newer, higher value added ventilation systems. Organic growth was helped by an increase in new build residential systems sales in the UK with an 11.2% growth in new build residential applications. Growth in the UK residential refurbishment sector was 2.8%, in the UK commercial sector growth was 5.2% and exports from the UK grew by 2.0%.

Our OEM (Torin-Sifan) segment revenue was £19.4 million in the year and has declined by 2.9% mainly as a consequence of lower sales of spare parts for non-condensing boilers during the recent mild winter. There is a correlation between mild winters and lower sales of these replacement parts.

Our underlying result, as measured by adjusted EBITDA, was £28.5 million, 23.6% of revenues, a £4.7 million improvement compared to the prior year, as the Group benefited from the recent acquisitions in the Ventilation segment. The new acquisitions all contributed to profit. In addition, cost reductions and other synergy benefits were secured in our newly acquired Swedish businesses.

The Group's reported loss before tax in the year was £15.5 million compared to a loss of £4.2 million in the prior year. The reported result for the year has been significantly impacted by:

Exceptional items:

- Costs directly related to the IPO process, £5.5 million (2013: nil);
- Expenses incurred as a consequence of the two acquisitions in 2014, £1.1 million (2013: £1.9 million);
- Restructuring, integration of acquisitions and other exceptional costs, £1.2 million (2013: £0.9 million); and

Other significant costs:

- Amortisation of intangible fixed assets (customer base, trademarks and patents) recognised at fair value on acquisition of the Group and of our subsidiaries, £11.1 million (2013: £10.1 million);
- The impairment, in inVENTer, of the value of our intangible asset customer base, £1.9 million;
- The cost of two refinancing exercises in 2014 and the write off of unamortised costs from refinancing in December 2013, £8.3 million (2013: £0.6 million); and
- Finance expenses relating to the higher level of gearing in the eleven months prior to listing which will substantially reduce in the coming financial year.

The reconciliation of the Group's reported loss before tax to adjusted measures of performance is summarised in the table below and in detail in note 8.

Explanation of adjusted measures of profitability

	2014 £m	2013 £m
Reported loss before tax	**(15.5)**	**(4.2)**
Exceptional items	7.8	2.8
Amortisation of financing costs and other finance costs	8.6	0.5
Amortisation and impairment of intangibles (customer base, trademarks and patents)	13.1	10.1
Adjusted profit before tax	**14.0**	**9.2**
Net interest payable	12.5	13.0
Adjusted operating profit	**26.5**	**22.2**
Depreciation and other amortisation	2.0	1.6
Adjusted EBITDA	**28.5**	**23.8**

Acquisitions

The Group's trading benefitted in the year from the full year effect of the acquisition of Fresh in Sweden, acquired in October 2012, and from the acquisitions in the year of PAX in Sweden and inVENTer in Germany. The effect of the acquisitions was additional gross sales of £16.4 million (before rebates and settlement discounts), representing 14.8% inorganic growth in revenue.

In October 2012, Fresh was acquired for a total cash consideration of £7.5 million. Fresh is one of Sweden's leading suppliers of residential ventilation products, including fans, systems, wall vents, ducting systems and fittings. Fresh products are distributed primarily through Swedish retail DIY outlets. During the financial year ended 2013, Fresh was consolidated into the Group result for ten months.

In August 2013, PAX was acquired for a total cash consideration of £11.5 million. PAX is a leading supplier of ventilation products, towel rails and oil filled radiators in the Swedish market primarily through the trade wholesale channel. In the financial year ended 2014 PAX was consolidated into the Group result for eleven months.

In April 2014, inVENTer was acquired for a cash consideration of £19.1 million. inVENTer is a leading supplier of decentralised heat recovery ventilation systems for new build and refurbishment applications in residential dwellings in Germany. In 2014, inVENTer was consolidated into the Group result for three months.

During the year, continuing integration of the Swedish businesses and associated operational and organisational synergies have enhanced revenue, profitability and margins.

Exceptional Items

Exceptional items, by virtue of their size, incidence or nature, are disclosed separately in order to allow a better understanding of the underlying trading performance of the Group. These items, which totalled £7.8 million in 2014 (2013: £2.8 million) include costs incurred as a consequence of the IPO, costs associated with the acquisitions of Fresh, PAX and inVENTer, costs associated with inventory fair value adjustments at the time of acquisitions and costs associated with the reorganisation of businesses following acquisition. Details of these and other exceptional items can be found in note 6.

The Board believes that the performance measures adjusted EBITDA, adjusted operating profit and adjusted profit before tax, stated before deduction of exceptional items, give a clearer indication of the underlying performance of the business. A reconciliation of these measures of performance to profit before tax is summarised in the adjacent table and detailed in note 8.

In addition to exceptional items, four other categories of expense are highlighted in order to clarify the underlying performance of the Group:

- On acquisition of a business, we obtain an independent valuation of identifiable acquired intangible fixed assets such as trademarks and customer base and recognise these assets in our consolidated statement of financial position; we then amortise them over their useful lives. In the year the amortisation charge of these intangible assets was £11.1 million;
- As a consequence of a decline in sales to our larger customers in inVENTer, the value of our intangible asset customer base, was reassessed to be £5.4 million as at 31 July 2014; an impairment of £1.9 million. Actions are in place to recover sales in affected areas and sales growth in our smaller customers is partly offsetting the decline in our larger customers;
- As a consequence of the refinancing at the time of listing we expensed, as part of finance cost, £8.3 million (2013: £0.6 million) of third party bank refinancing costs incurred in relation to capital restructurings in February 2012, December 2013 and June 2014. Details can be found in note 7; and
- At each reporting period date we re-measure the fair value of financial derivatives and recognise any gains or losses immediately in Finance Cost. In the year we recognised a cost of £0.2 million (2013: £0.4 million). Details can be found in note 7.

Finance Revenue and Cost

Finance costs of £21.2 million in the year (2013: £14.1 million) largely reflect the interest cost of the pre-listing financial structure prior to June 2014. Prior to listing the business was under private equity ownership and was predominantly financed by bank borrowings and senior unsecured debt (investor loan notes). On listing we undertook an extensive capital restructuring: all investor loan notes totalling £91.7 million were converted to equity and £61.9 million of the proceeds from the issue of new shares was used to repay bank debt, thus reducing the interest cost significantly for the last six weeks of the year and for future periods.

Finance costs include the write off of accumulated third party bank financing costs, mentioned above, of £8.3 million.

Taxation

The net income tax credit of £1.3 million (2013: £2.1 million credit) consists of current income tax expense arising from the standard rate of corporation tax in each country where our businesses are incorporated and tax resident, as adjusted for permanent and temporary timing differences and the effect of changes in tax rate.

As a consequence of establishing, at the time of acquisition, the fair value of our identifiable intangible assets (trademarks and customer base) we also recognised a corresponding deferred tax credit which is credited against income tax expense in line with the corresponding amortisation of the intangible assets to which it relates.

Operating Cash Flow

The Group continued to be cash generative in the year with adjusted operating cash inflow of £22.8 million (2013: £20.9 million). This represents a cash conversion, after capital expenditure of 86% (2013: 94%). The decrease in cash conversion is largely explained by an increase in capital expenditure on an ERP system upgrade of £0.8 million (2013: £0.5 million) which is currently underway and significant new product development projects. The Group continues to manage its working capital efficiently with operating working capital representing 15.3% of revenue (2013: 13.9%). The increase in working capital percentage of revenue can be largely explained by the additional working capital of inVENTer with only three months of corresponding revenue.

Net Debt and Refinancing

Net debt as at 31 July 2014 was £42.9 million (2013: £172.7 million) made up of bank borrowings of £53.9 million (2013: bank borrowings £71.6 million, investor loan notes £117.0 million) offset by cash and cash equivalents of £11.0 million (2013: £15.9 million).

During the year there was a considerable amount of capital restructuring.

In December 2013, the debt facilities were extended by £41.1 million, which we drew down to repay a portion of the loan notes held by the principal shareholder (Windmill Holdings B.V.) and certain of our other shareholders and directors on a pro rata basis (£40.0 million was repaid, using a combination of these new borrowings (net of fees) and £2.8 million of cash on balance sheet).

In April 2014, £10.6 million of our bank acquisition facility was drawn upon and £8.0 million of additional investor loan was secured in order to partly finance the acquisition of inVENTer.

On listing in June 2014, the Group converted all of its £91.7 million investor debt into share capital and premium. Also on listing, the proceeds of the primary offer of £72.0 million were used to pay fees associated with the listing (£7.5 million paid in the year, of which £5.1 million was disclosed as part of exceptional items and £2.4 million treated as a deduction from share premium) and repay £61.9 million of bank borrowings, leaving an additional £2.6 million of cash on the balance sheet to provide additional finance headroom. Following the capital restructuring at listing, Group debt is exclusively third party bank borrowings and our closing net debt to adjusted EBITDA ratio is 1.5x.

Movements in Net Debt position

	£m
Opening net debt	**(172.7)**
Movements from normal business operations	
adjusted operating cash flow	22.8
interest paid/accrued	(12.6)
income tax paid	(3.2)
exceptional items	(0.8)
other	(1.9)
Movements from acquisitions	
acquisition consideration	(29.8)
acquisition costs	(0.9)
Movements from the IPO	
conversion of investor debt to equity	91.7
share issue proceeds	72.0
IPO costs	(7.5)
Closing net debt	**(42.9)**

Bank Facilities and Liquidity

The Group's bank facilities, post listing, consist of fully drawn term loans of £53.9 million, a revolving credit facility (RCF) of £13.0 million (of which £1.5 million is allocated to cover bank guarantees, letters of credit and foreign exchange) and an unutilised approved acquisition facility of £20.0 million. The RCF must be cleared down to £9.0 million for five days once every twelve months. The term loans are repayable in full in February 2019. As at 31 July 2014 we had £11.5 million of undrawn, committed bank facilities and a £20.0 million acquisition facility in addition to £11.0 million cash and cash equivalents on the balance sheet.

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 largely balanced by Euro expenditure. For US Dollars we have little income but significant expenditure. Our policy is to limit our transactional foreign exchange risk by purchasing the majority of our forecast US Dollar requirements for, and in advance of, the ensuing 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 have hedged against the translation risk for Fresh and PAX by redenominating £20.5 million of our bank borrowings to SEK (value at 31 July 2014 was £17.8 million). We have partially hedged our translational risk for inVENTer by having Euro denominated bank borrowings in the amount of £10.0 million as at 31 July 2014. We do not hedge the results of overseas subsidiaries.

During the year the exchange rate between GBP and Swedish Krone moved adversely compared to 2013, from 10.23 to 10.76. This had a negative effect on the reported Revenue and profitability of our Swedish operating companies when translated to GBP for consolidation. If we had translated the 2014 performance of our Swedish businesses at the 2013 exchange rate our reported Group revenues would have been £1.9 million higher.

Equity Structure

Immediately prior to listing, the Group implemented a capital reorganisation. The existing shareholdings of the Group were converted to one class of share in Volution Group plc. Investor loan notes, and associated accrued interest, were converted to shares in Volution Group plc and a further 48 million new shares were issued for sale to new investors. The proceeds of the primary issue of 48 million shares at £1.50 each was £72.0 million. This was used primarily to pay down our bank borrowings and pay for the costs of the listing.

Immediately upon listing, the equity structure consisted of 200 million ordinary shares with a nominal value of £0.01 each. Following listing, Volution Group plc underwent a court approved capital reduction to cancel £57.6 million of share premium and create a corresponding amount of distributable reserves. This was completed before the end of the financial year.

Earnings per Share

The basic and diluted loss per share for the year was 14.0 pence. This reflects the capital structure under previous ownership, which was highly indebted for the majority of the year, and the substantial exceptional cost in the year, incurred largely as a result of the listing of the Company on the London Stock Exchange.

Ian Dew

Chief Financial Officer

23 October 2014

Consolidated statement of comprehensive income

For the year ended 31 July 2014

	Notes	*2014* *£000*	*2013* *£000*
Revenue	4	120,709	102,262
Cost of sales		(63,748)	(56,245)
Gross profit	5	56,961	46,017
Distribution costs		(16,657)	(12,380)
Administrative expenses		(26,857)	(21,593)
Operating profit before exceptional items		13,447	12,044
Exceptional items	6	(7,783)	(2,778)
Operating profit		5,664	9,266
Finance revenue		7	630
Finance costs	7	(21,183)	(14,099)
Loss before tax		(15,512)	(4,203)
Income tax	9	1,254	2,139
Loss for the year		(14,258)	(2,064)
Other comprehensive (expense)/income:			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(497)	138
Gain on hedge of net investment in foreign operation		172	444
Other comprehensive (expense)/income for the year		(325)	582
Total comprehensive expense for the year		(14,583)	(1,482)
Loss per share			
Basic and diluted, pence per share	10	(14.0)p	(2.3)p

Consolidated statement of financial position

at 31 July 2014

	Notes	2014 £000	2013 £000	As at 1 August 2012 £000
Non-current assets				
Property, plant and equipment		15,915	10,793	10,192
Intangible assets – goodwill	11	50,127	46,488	45,668
Intangible assets – other	12	113,651	108,392	111,340
Deferred tax assets	9	732	99	464
		180,425	165,772	167,664
Current assets				
Inventories		15,922	12,751	12,597
Trade and other receivables		25,422	21,326	19,192
Income tax		1,093	-	-
Other current financial assets		422	68	-
Cash and short term deposits		10,987	15,943	14,957
		53,846	50,088	46,746
Total assets		234,271	215,860	214,410
Current liabilities				
Trade and other payables		(22,821)	(19,888)	(18,097)
Other current financial liabilities		(467)	-	(104)
Income tax		-	(934)	(1,173)
Interest bearing loans and borrowings	15	-	(3,540)	(2,746)
Provisions		(1,018)	(719)	(793)
		(24,306)	(25,081)	(22,913)
Non-current liabilities				
Interest bearing loans and borrowings	15	(53,903)	(181,482)	(176,512)
Other non-current financial liabilities		(122)	(494)	(913)
Provisions		(600)	(550)	(550)
Deferred tax liabilities	9	(22,090)	(21,801)	(25,588)
		(76,715)	(204,327)	(203,563)
Total liabilities		(101,021)	(229,408)	(226,476)
Net assets /(liabilities)		133,250	(13,548)	(12,066)
Capital and reserves				
Share capital		2,000	3	3
Share premium		11,527	2,098	2,098
Capital reserve		92,325	-	-
Foreign currency translation reserve		257	582	-
Retained earnings		27,141	(16,231)	(14,167)
Total equity		133,250	(13,548)	(12,066)

The consolidated financial statements of Volution Group plc (registered number 09041571) were approved by the Board of Directors and authorised for issue on 23 October 2014.

On behalf of the board

Ronnie George
Chief Executive Officer

Ian Dew
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 July 2014

	Share capital £000	*Share premium £000*	*Capital reserve £000*	*Foreign currency translation reserve £000*	*Retained earnings £000*	*Total £000*
At 1 August 2012	3	2,098	-	-	(14,167)	(12,066)
Loss for the year	-	-	-	-	(2,064)	(2,064)
Other comprehensive income	-	-	-	582	-	582
Total comprehensive income/(expense)	-	-	-	582	(2,064)	(1,482)
At 31 July 2013	3	2,098	-	582	(16,231)	(13,548)
Loss for the year	-	-	-	-	(14,258)	(14,258)
Other comprehensive expense	-	-	-	(325)	-	(325)
Total comprehensive expense	-	-	-	(325)	(14,258)	(14,583)
Net adjustment to reserves arising from group re-organisation	(3)	(2,098)	-	-	-	(2,101)
Share for share exchange as part of the group reorganisation	1,520	-	92,325	-	-	93,845
Issue of new ordinary shares on stock market listing	480	71,520	-	-	-	72,000
Share issue costs	-	(2,363)	-	-	-	(2,363)
Capital reduction	-	(57,630)	-	-	57,630	-
At 31 July 2014	2,000	11,527	92,325	257	27,141	133,250

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.

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 ineffectiveness has been recognised in the statement of comprehensive income for any of the periods presented.

These two items are the only items in other comprehensive income.

Consolidated statement of cash flows

For the year ended 31 July 2014

	Notes	*2014* *£'000*	*2013* *£'000*
Operating activities			
Loss for the year after tax		(14,258)	(2,064)
Adjustments to reconcile loss for the year to net cash flow from operating activities:			
Income tax for the year		(1,254)	(2,139)
Gain on disposal of property, plant and equipment		(15)	(48)
Exceptional items	6	7,783	2,778
Cash flows relating to exceptional costs		(6,847)	(1,354)
Finance revenue		(7)	(630)
Finance costs	7	21,183	14,099
Depreciation of property, plant and equipment		1,932	1,588
Amortisation of intangible assets	12	11,201	10,186
Impairment of intangible assets	12	1,949	-
Working capital adjustments:			
Increase in trade receivables and other assets		(1,803)	(1,415)
Movement in inventories		(1,370)	1,097
Exceptional costs: fair value of inventories		(201)	(845)
Increase in trade payables and other payables		1,450	18
Movement in provisions		299	(74)
Withholding tax paid on loan note interest		(34)	-
UK income tax paid		(2,650)	(2,883)
Overseas income tax paid		(475)	(276)
Net cash flow from operating activities		16,883	18,038
Investing activities			
Payments to acquire intangible assets	12	(1,664)	(850)
Purchase of property, plant and equipment		(2,930)	(1,758)
Proceeds from disposal of property, plant and equipment		62	109
Acquisition of subsidiaries, net of cash acquired		(29,795)	(7,955)
Interest received		7	40
Net cash flow used in investing activities		(34,320)	(10,414)

Consolidated statement of cash flows (continued)

For the year ended 31 July 2014

	2014	*2013*
	£'000	*£'000*
Financing activities		
Repayment of interest bearing loans and borrowings	(106,106)	(3,375)
Proceeds from new borrowings	59,479	-
Receipt of compensation from bondholders	-	1,653
Issue costs of new borrowings	(4,652)	(182)
Interest paid	(5,900)	(4,736)
Costs on issue of new shares	(2,363)	-
Proceeds from issue of new shares	72,000	-
Net cash flow generated from/(used in) financing activities	12,458	(6,640)
Net (decrease)/increase in cash and cash equivalents	(4,979)	984
Cash and cash equivalents at the start of the period	15,943	14,957
Effect of exchange rates on cash and cash equivalents	23	2
Cash and cash equivalents at the end of the year	10,987	15,943

1. Publication of non-statutory accounts

The preliminary results were authorised for issue by the Board of Directors on 23 October 2014. The financial information set out herein does not constitute the Group's statutory accounts for the years ended 31 July 2014 or 2013, but is derived from those accounts. Statutory accounts for 2014 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 237 (2) or (3) of the Companies Act 2006.

2. Accounting policies

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

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

Basis of preparation

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

The preparation of the consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are set out in note 3.

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

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In the years presented, the Group generated a loss mainly due to the high levels of interest payable under the private equity capital structure that existed for the majority of the reporting period until the stock market listing in June 2014. Following the listing, these loans were repaid, new bank loans raised and funds raised from the issue of shares, resulting in the group having £133.3m of net assets at 31 July 2014.

Group cash flow forecasts have been produced for the period to 31 January 2016 and demonstrate that the Group will be able to meet its liabilities as and when they fall due for the foreseeable future. The group is also forecast to remain in compliance with its banking agreement covenants at each quarter-end during the forecast period.

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

Capital reorganisation during 2014

Windmill Newco plc was incorporated on 15 May 2014 and subsequently changed its name to Volution Group plc on 4 June 2014. With effect from 23 June 2014, Volution Group plc became the legal parent of Windmill Topco Limited, the previous holding company of the group, and its subsidiary undertakings through a Group reorganisation, which was accounted for as a common control transaction. The consolidated financial statements have therefore been prepared as a continuation of the existing Group using the pooling of interest method. For all periods up to and including the year ended 31 July 2013, Windmill Topco Limited prepared its consolidated financial statements in accordance with UK Generally accepted accounting principles (UK GAAP). As the consolidated financial statements of Volution Group plc have been prepared as a continuation of the existing group, these financial statements have been prepared as through the group is a first time adopter of IFRS. Refer to note 17 for information on how the group adopted IFRS. The difference in share capital and reserves arising from the use of the pooling of interest method was recorded in a capital reserve.

2. Accounting policies (continued)

Basis of consolidation

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

Subsidiaries are controlled by the parent (in each relevant period) regardless of the amount of shares owned. Control exists when the parent has the power, either directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred and cease to be consolidated from the date on which control no longer exists.

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

Business combinations

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

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

Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date, with changes in fair value recognised either in profit or loss or as a change in other comprehensive income (‘OCI’). The determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

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

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

Business combinations are set out in note 14.

Intangible assets

Intangible assets acquired in a business combination

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

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

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

Research and development costs

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

2. Accounting policies (continued)

Development costs

In the first set of financial statements prepared applying IFRS, the Group had been unable to capitalise development costs in full for historical periods. Retrospective application of IFRS does not permit the use of hindsight to conclude whether the development costs recognition and measurement criteria were met in historical periods. In order to retrospectively apply IFRS and capitalise development costs prior to periods presented, the Group would have had to revisit the research and development costs incurred, and reconstruct a development cost that would be compliant with IFRS criteria, as the current records do not separate research and development costs based on the IFRS criteria. For example, staff costs were not divided between specific projects. The Group has therefore determined that most of the development costs for the historical periods could not be capitalised without the use of hindsight, and therefore all development costs relating to staff costs have been expensed as incurred for the respective periods. The Group has now put a procedure in place to monitor all future development spending and staff costs to assess whether the criteria are met.

Subsequent measurement of intangible assets

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

Development costs	–	10 years
Software costs	–	5 years
Customer base	–	7 - 11 years
Trademarks	–	20 - 25 years
Patents	–	20 - 25 years

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

Impairment of tangible and intangible assets excluding goodwill (continued)

The Group has identified the following cash generating units. These are used in the impairment review of tangible and intangible assets.

Residential repair, maintenance and improvement (RMI)
Residential New Build
Commercial
UK Export
Nordics Residential
Germany Residential
Original Equipment Manufacturer (OEM (Torin Sifan))

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Judgments

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

Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group mainly relating to the IPO, acquisition cost and restructuring costs following acquisitions. The Group identifies an item of expense of income as exceptional, when in managements judgment, the underlying event giving rise to the exceptional item is deemed to be non-recurring in its nature, size or incidence such that group results would be distorted without specific reference to the event in question. To enable the full impact of an exceptional item to be understood, the tax impact is disclosed and they are presented separately in the statement of cash flows.

Development costs

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

Estimates and assumptions

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

Fair value of assets acquired during business combinations

Judgements and estimates are required in assessment of fair value of the consideration and net assets acquired, including the identification and valuation of intangible assets.

Impairment of goodwill and other intangible assets

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The cash flows are derived from the budget for the following five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The Group records all assets and liabilities acquired in business acquisitions, at fair value. Intangible assets are reviewed for impairment annually if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Taxation

The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by tax authorities of the respective countries in which it operates. The amount of such provisions are based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible authority.

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. A breakdown of the deferred tax asset is included in note 9. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Rebates payable and receivable

The Group has a number of customer and supplier rebate agreements, with the amounts payable and receivable often being subject to negotiation after the reporting date. At the reporting date, the Directors make estimates of the amount of rebate that will become both payable and due to the Group under these agreements based upon prices, volumes and product mix. The total rebate charge for the year is £8,461,000 (2013: £7,607,000).

4. Revenue

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

	2014	*2013*
	£000	*£000*
Sale of goods	117,924	99,284
Rendering of services	2,785	2,978
Total revenue	120,709	102,262

	2014	*2013*
	£000	*£000*
Market Sectors		
Ventilation Group		
UK Residential RMI	43,437	42,254
UK Residential New Build	15,745	14,157
UK Commercial	17,897	17,017
UK Export	7,282	7,140
Nordics	23,705	10,839
Germany	3,493	-
Rebates and settlement discount	(10,255)	(9,136)
Total Ventilation Group	101,304	82,271
Original Equipment Manufacturer (OEM (Torin-Sifan))		
OEM (Torin-Sifan)	19,248	20,027
Rebates and settlement discount	157	(36)
Total OEM (Torin-Sifan)	19,405	19,991
Total revenue	120,709	102,262

5. Segmental analysis

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

Certain operating segments have been aggregated into a single operating segment where these operating segments have similar economic characteristics, and the operating segments are similar in relation to the nature of products, services, production processes, type of customer, method for distribution and regulatory environment.

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted EBITDA (see note 8 for definition) and exceptional items 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 2014	*Ventilation Group*	*OEM*	*Unallocated*	*Total*	*Rebates and settlement discount and eliminations*	*Consolidated*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Revenue						
External customers	111,559	19,248	-	130,807	(10,098)	120,709
Inter-segment	6,775	1,185	-	7,960	(7,960)	-
Total revenue	118,334	20,433	-	138,767	(18,058)	120,709
Gross profit	52,044	5,984	-	58,028	(1,067)	56,961
Results						
Segment profit/(loss)	28,540	3,057	(3,773)	27,824	705	28,529
Depreciation, amortisation and impairment	(13,394)	(1,729)	-	(15,123)	41	(15,082)
Exceptional items	(686)	(133)	(6,964)	(7,783)	-	(7,783)
Operating profit/(loss)	14,460	1,195	(10,737)	4,918	746	5,664
Unallocated expenses:						
Net finance cost	-	-	(21,176)	(21,176)	-	(21,176)
Profit/(loss) before tax	14,460	1,195	(31,913)	(16,258)	746	(15,512)

The Group overhead costs of £3,773,000 are not allocated to individual operating segments. Likewise, exceptional costs which include the re-organisation costs and IPO costs have not been allocated to individual operating segments.

5. Segmental analysis (continued)

Year ended 31 July 2013	*Ventilation Group*	*OEM*	*Unallocated*	*Total*	*Rebates and Settlement discount and eliminations*	*Consolidated*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Revenue						
External customers	91,407	20,027	-	111,434	(9,172)	102,262
Inter-segment	4,910	915	-	5,825	(5,825)	-
Total revenue	96,317	20,942	-	117,259	(14,997)	102,262
Gross profit	40,433	6,142	-	46,575	(558)	46,017
Results						
Segment profit/(loss)	26,129	3,328	(4,066)	25,391	(1,573)	23,818
Depreciation and amortisation	(10,753)	(1,527)	-	(12,280)	506	(11,774)
Exceptional items	(1,292)	-	(641)	(1,933)	(845)	(2,778)
Operating profit/(loss)	14,084	1,801	(4,707)	11,178	(1,912)	9,266
Unallocated expenses:						
Net finance cost	-	-	(13,469)	(13,469)	-	(13,469)
Profit/(loss) before tax	14,084	1,801	(18,176)	(2,291)	(1,912)	(4,203)

Included in total revenue for the year ended 31 July 2014 of the Ventilation Group is £14,538,000 (2013: £10,907,000) in respect of Fresh AB and its subsidiaries and £9,197,000 relating to Pax AB & Pax Norge AS (2013: £nil)

Rebates and Settlement discount (reconciliation of management reporting to IFRS)

The Group recently converted to IFRS for financial reporting purposes, however, the Board continued to use alternative management reporting information for making operational and resource allocation decisions.

The information above requires adjustment to IFRS as part of the reconciliation to the statement of comprehensive income. Principle IFRS adjustments include the fair value of derivatives, the identification of intangible assets, fair value of inventory and recognition of deferred tax balances on acquisitions, and the reclassification of customer rebates and settlement discount to revenue, which are reflected in the IFRS adjustments column.

Inter-segment revenues are eliminated on consolidation.

5. Segmental analysis (continued)

Geographic information

	2014	*2013*
	£000	*£000*
Revenue from external customers:		
United Kingdom	76,623	75,066
Europe (excluding United Kingdom and Nordics)	21,877	15,112
Nordics	19,813	9,831
Rest of the world	2,396	2,253
Total revenue	120,709	102,262

	2014	*2013*	*As at 1 August 2012*
	£000	*£000*	*£000*
Non-current assets:			
United Kingdom	150,801	156,641	167,200
Europe (excluding United Kingdom & Nordics)	13,850	-	-
Nordics	15,042	9,032	-
Total	179,693	165,673	167,200

Non-current assets exclude deferred tax.

Information about major customers:

Annual revenue from one customer in the Ventilation Group segment accounts for more than 10% of Group revenue. In the year ended 31 July 2014, revenue from this customer was £14,340,000 (2013: £10,246,000).

6. Exceptional items

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

	2014	*2013*
	£000	*£000*
Inventory fair value adjustment arising on business combinations	201	845
Acquisition costs	850	1,071
Restructuring and acquisition integration	1,198	369
Other	-	493
Costs associated with the stock market listing of the group	5,534	-
	7,783	2,778
Total tax credit relating to the items above	(224)	(204)
	7,559	2,574

7. Finance costs

	2014	2013
	£000	£000
Finance costs:		
Interest payable on bank overdrafts and bank loans	(5,947)	(4,764)
Interest on loan notes	(6,720)	(8,267)
Amortisation of finance costs	(8,338)	(641)
Other interest	(17)	-
Total interest expense	(21,022)	(13,672)
Net loss on financial instruments at fair value	(161)	(427)
Total finance costs	(21,183)	(14,099)

The charge for amortisation of finance costs in 2014 includes £7,005,000 of unamortised finance costs written off upon refinancing of debt in December 2013. In addition, £821,000 of financing fees, relating to the new bank facility were written off during June 2014. Included in the interest payable on bank overdrafts and bank loans is £144,000 relating to breakage costs of the interest rate swap on 31 July 2014.

8. Adjusted earnings

	2014	2013
	£000	£000
Loss before tax	(15,512)	(4,203)
Add back:		
Exceptional items	7,783	2,778
Amortisation of financing costs	8,338	641
Breakage costs of interest rate swaps	144	-
Net gain or loss financial instruments at fair value	161	(163)
Amortisation and impairment of other intangibles (customer base, trademarks and patents)	13,056	10,145
Adjusted profit before tax	13,970	9,198
Add back:		
Interest payable on bank overdraft and bank loans	5,803	4,764
Interest on loan notes	6,720	8,267
Finance costs	10	(40)
Adjusted operating profit	26,503	22,189
Add back:		
Depreciation of property, plant and equipment	1,932	1,588
Amortisation of development costs, software and patents	94	41
Adjusted EBITDA	28,529	23,818

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

Adjusted operating profit is defined as earnings before tax, exceptional items, amortisation and impairment of intangible assets associated with the customer base, trademarks and patents and net finance costs.

Adjusted EBITDA is defined as earnings before exceptional costs, net finance costs, taxation, depreciation, amortisation and impairment.

9. Income taxes

(a) Income tax recognised in loss for the year:

	2014 £000	2013 £000
Current income tax:		
Current income tax expense	957	2,889
Foreign income taxes	471	80
Tax credit relating to the prior year	(330)	(201)
Total current tax	1,098	2,768
Deferred tax:		
Origination and reversal of temporary differences	(2,524)	(2,020)
Effect of changes in the tax rate	211	(2,963)
Tax expense relating to prior years	(39)	76
Total deferred tax	(2,352)	(4,907)
Net tax credit	(1,254)	(2,139)

(b) Reconciliation of total tax

	2014 £000	2013 £000
Loss before tax	(15,512)	(4,203)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 22.33% (2013 – 23.67%)	(3,463)	(995)
Adjustment in respect of previous years	(369)	(125)
Expenses not deductible for tax purposes	2,725	1,954
Effect of difference in tax rates	211	(2,963)
Utilisation of previously unrecognised tax losses	(77)	(22)
Unrelieved tax losses	1	88
Additional relief for research and development	(150)	(76)
Higher overseas tax rate	(132)	-
Net tax credit reported in the consolidated statement of comprehensive income	(1,254)	(2,139)

(c) Unrecognised deferred tax assets

At 31 July 2014, the Group had an unrecognised deferred asset of £41,000 arising in overseas entities.

9. Income taxes (continued)

(d) Deferred tax balances

Deferred tax assets and liabilities arise from the following:

2014	1 August 2013 £000	(Charged)/ credited to income £000	Translation difference £000	On Acquisition £000	31 July 2014 £000
Temporary differences:					
Depreciation in advance of capital allowances	(76)	18	-	-	(58)
Fair value movements of derivative financial instruments	73	49	-	-	122
Customer base, trademark and patent	(21,449)	2,168	-	(1,769)	(21,050)
Temporary differences	(250)	117	101	(340)	(372)
	(21,702)	2,352	101	(2,109)	(21,358)
Deferred tax asset	99	633		-	732
Deferred tax liability	(21,801)	1,719	101	(2,109)	(22,090)
	(21,702)	2,352	101	(2,109)	(21,358)

2013	1 August 2012 £000	(Charged)/ credited to income £000	Translation difference £000	On Acquisition £000	31 July 2013 £000
Temporary differences:					
Depreciation in advance of capital allowances	189	(265)	-	-	(76)
Fair value movements of derivative financial instruments	221	(148)	-	-	73
Customer base, trademark and patent	(25,553)	5,358	-	(1,254)	(21,449)
Temporary differences	19	(38)	(16)	(215)	(250)
	(25,124)	4,907	(16)	(1,469)	(21,702)
Deferred tax asset	464	(365)	-	-	99
Deferred tax liability	(25,588)	5,272	(16)	(1,469)	(21,801)
	(25,124)	4,907	(16)	(1,469)	(21,702)

10. Earnings per share (EPS)

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are no dilutive potential ordinary shares for the years ended 31 July 2014 and 2013.

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

	Year ended 31 July	
	2014	*2013*
	£000	*£000*
Loss attributable to ordinary equity holders	(14,258)	(2,064)
	No.	No.
Weighted average number of ordinary shares for basic earnings per share and diluted earnings per share*	102,205,228	90,840,698
Earnings per share		
Basic and diluted	(14.0)p	(2.3)p

*The weighted average number of ordinary shares identified above used for the calculation of earnings per share relate to the following deemed parent entity for each of the periods presented:

- Year ended 31 July 2014 – Volution Group plc
- Year ended 31 July 2013 – Windmill Topco Limited

The weighted number of shares has been calculated assuming the share for share exchange took place as from 1 August 2012. The share for share exchange, gives effect to the sales of the entire share capital (after the reorganisation) of the Windmill Topco Limited shares in exchange for new Ordinary shares of Volution Group plc.

11. Intangible assets – goodwill

	£000
Cost and net book value	
At 1 August 2012	45,668
On acquisition of Fresh AB	765
Net foreign currency exchange differences	55
As 31 July 2013	46,488
At 1 August 2013	46,488
Adjustment to goodwill relating to Fresh AB	15
On acquisition of PAX AB and PAX AS	2,211
On acquisition of inVENTer	2,138
Net foreign currency exchange differences	(725)
At 31 July 2014	50,127

12. Intangible assets – other

2014	*Development costs*	*Software costs*	*Customer base*	*Trademark*	*Patents*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£000*	*£'000*
Cost:						
At 1 August 2013	446	2,133	88,314	33,961	-	124,854
Additions	583	840	-	-	241	1,664
On acquisition	-	-	13,120	4,798	730	18,648
Net foreign currency exchange differences	-	-	(1,368)	(577)	(44)	(1,989)
At 31 July 2014	1,029	2,973	100,066	38,182	927	143,177
Amortisation:						
At 1 August 2013	9	1,520	12,912	2,021	-	16,462
Charge for the year	31	56	9,424	1,683	7	11,201
Impairment	-	-	1,949	-	-	1,949
Net foreign currency exchange differences	-	-	(73)	(13)	-	(86)
At 31 July 2014	40	1,576	24,212	3,691	7	29,526
Net book value:						
At 31 July 2014	989	1,397	75,854	34,491	920	113,651
At 31 July 2013	437	613	75,402	31,940	-	108,392

The impairment loss of £1,949,000 represents the write-down of the customer base relating to the Residential German CGU, within the Ventilation segment, as the value in use was deemed to be below the book value at which it was valued on acquisition. This arose as a result of reduced levels of revenues of existing customers since the acquisition. The impairment charge is recorded within administrative expenses in the statement of comprehensive income.

13. Impairment assessment of goodwill

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

31 July 2014	*Residential RMI*	*Residential New Build*	*Commercial*	*UK Export*	*OEM (Torin Sifan)*	*Nordics Residential*	*Germany Residential*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Carrying value of goodwill	20,759	6,377	8,562	3,506	4,996	4,197	1,730	50,127
CGU value in use headroom*	51,031	17,198	21,054	8,643	11,971	33,564	6,406	149,867

31 July 2013	*Residential RMI*	*Residential New Build*	*Commercial*	*UK Export*	*OEM (Torin Sifan*	*Nordics Residential*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Carrying value of goodwill	20,759	6,377	8,562	3,506	4,996	2,288	46,488
CGU value in use headroom*	1,784	600	726	291	3,772	385	7,558

- 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 achieved using a value-in-use calculation. A discounted cash flow ('DCF') model was used, taking a period of 5 years, which has been established using pre-tax discount rates of 13% to 17% over that period. In all periods it was concluded that the carrying amount was in excess of the value in use and all CGU's had positive headroom.

14. Business combinations

Acquisitions in the year ended 31 July 2014

InVENTer

The group completed its purchase of the assets of InVENTer GmbH on 17 April 2014; prior to this, Volution Holdings Germany was incorporated as a holding company on 5 December 2013. Two further companies were incorporated as subsidiaries of Volution Holdings Germany, being Volution Ventilation Germany, the trading company, and Volution Ventilation Property Germany, the property investment company. The Group acquired inVENTer because it significantly enlarges the range of decentralised heat recovery ventilation systems in the ventilation segment, it also offers a channel to sell existing ventilation products in a new region. The transaction was funded by bank debt.

Total consideration for the transaction was split as follows:

- Up-front cash consideration of €21,510,000 (£17,705,000), and
- Deferred consideration of €2,000,000 (£1,646,000), this was paid on 31 July 2014;

Transaction costs associated with the transaction were £702,000. The provisional fair value of the net assets acquired is set out below:

	Book value	*Fair value adjustments*	*Provisional fair value*
	£000	*£000*	*£000*
Assets			
Intangible assets	154	10,454	10,608
Property, plant and equipment	3,672	-	3,672
Inventory	2,031	99	2,130
Trade and other receivables	627	-	627
Trade and other payables	(29)	-	(29)
Total identifiable net assets	6,455	10,553	17,008
Goodwill on acquisition			2,138
			19,146
Discharged by:			
Consideration satisfied in cash			19,146
Total consideration			19,146

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

Goodwill of £2,138,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition.

The gross amount of trade receivables is £627,000. It is expected that the full contractual amounts for trade and other receivables can be collected.

InVENTer generated revenue of £3,408,000 and generated a loss after tax of £99,000 in the period from acquisition to 31 July 2014 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place as at 1 August 2013, the Groups revenue from continuing operations would have been £129,997,000 and the loss before tax from continuing operations would have been £14,939,000.

14. Business combinations (continued)

Acquisitions in the year ended 31 July 2014

Pax AB and Pax Norge AS

On 22 August 2013, Volution Holdings Sweden AB acquired the entire issued share capital of Pax AB and Pax AS. The transaction was funded by surplus cash in hand. The Group acquired Pax AB and Pax AS because it significantly enlarges our presence in Swedish and Norwegian markets. It also offers a channel to sell existing ventilation products in a new region.

Total consideration for the transaction was split as follows:

- Up-front cash consideration of SEK115,536,000 (£11,384,000), and
- Contingent consideration of SEK828,000 (£78,000). The performance criteria for payment of the contingent consideration were met and payment was made in January 2014.

Transaction costs of £499,000 were expensed during the year ended 31 July 2013 and an additional £39,000 in the year ended 31 July 2014. The fair value of the net assets acquired was finalised in the year and is set out below:

	Book value	*Fair value adjustments*	*Fair value*
	£000	*£000*	*£000*
Assets			
Intangible assets	-	8,040	8,040
Property, plant and equipment	789	-	789
Inventory	1,086	102	1,188
Trade and other receivables	1,797	-	1,797
Cash and cash equivalents	1,037	-	1,037
	4,709	8,142	12,851
Liabilities			
Trade and other payables	(1,378)	-	(1,378)
Provisions	(113)	-	(113)
Deferred tax	(340)	(1,769)	(2,109)
	(1,831)	(1,769)	(3,600)
Total identifiable net assets	2,878	6,373	9,251
Goodwill on acquisition			2,211
			11,462
Discharged by:			
Consideration satisfied in cash			11,462
Total consideration			11,462

The fair value adjustments arose in aligning PAX accounting policies to those of the Group and in the recognition of intangible assets, net of the associated deferred tax liability. Goodwill reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition. The fair value of the acquired trademarks and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £1,797,000. It is expected that the full contractual amounts for trade and other receivables can be collected.

PAX generated revenue of £9,159,000 and generated a profit after tax of £1,094,000 in the period from acquisition to 31 July 2014 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place as at 1 August 2013, the Groups revenue from continuing operations would have been £121,404,000 and the loss before tax from continuing operations would have been £15,814,000.

15. Interest bearing loans and borrowings

	Current 2014 £000	Non-current 2014 £000	Current 2013 £000	Non-current 2013 £000	Current As at 1 August 2012 £000	Non-current As at 1 August 2012 £000
Unsecured – at amortised cost						
Loans from related parties	-	-	-	117,048	-	108,354
Secured – at amortised cost						
GE Corporate Finance bank loan	-	53,903	4,200	67,411	3,375	71,625
Cost of arranging bank loan	-	-	(660)	(2,977)	(629)	(3,467)
	-	53,903	3,540	181,482	2,746	176,512

GE Corporate Finance bank loan – year ended 31 July 2014

Element	*Principal* £000	*Amount outstand-ing* £000	*Repay-ment dates*	*Repay-ment frequency*	*rate* %
Term B	26,100	26,100	February 2019	One payment	LIBOR + 3%
Term B1	20,500	17,818	February 2019	One payment	SEK LIBOR + 3.75%
Term B2	10,600	9,985	February 2019	One payment	EURO LIBOR + 3%

At the year end the Group had two credit facilities: the acquisition facility (£20,000,000), which matures in February 2018, and a revolving facility (£13,000,000), which matures in February 2018. Part of the revolving facility relates to ancillaries (£1,500,000), which was used at the 31 July 2014 for an amount of £502,000.

GE Corporate Finance bank loan - year ended 31 July 2013

Element	*Principal* £000	*Amount outstand-ing* £000	*Repay-ment dates*	*Repay-ment frequency*	*Rate* %
Term A	30,000	26,625	2012-2018	Twice yearly	LIBOR + 4.75%
Term B	45,000	36,000	February 2019	One payment	LIBOR + 5.25%
Term B1	9,000	8,986	February 2019	One payment	SEK LIBOR + 6%

The facilities agreement gives GE Corporate Finance Bank SAS, London Branch, as security agent, for itself and any other bank which participates in the facilities, a fixed and floating charge over the assets of the Company and its subsidiaries.

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 are disclosed below.

No related party balances exist at 31 July 2014. In December 2013, the group repaid £40,006,000 of the loan notes back to the holders principle £34,628,000 and interest of £5,378,000. Immediately prior to admission to the London Stock Exchange in June 2014 the remaining Loan notes issued by Windmill Midco Limited were novated to Windmill Topco Limited and then subsequently converted into shares in Windmill Topco Limited. The Deposits held by Windmill Holdings BV and Windmill Holdings Cooperatief UA were repaid in July 2014.

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.

31 July 2013 *Related parties*	*Loan*	*Deposit*	*Interest*	*Amounts owed by related parties*	*Amounts owed to related parties*
	£000	*£000*	*£000*	*£000*	*£000*
Windmill Holdings BV	103,354	-	12,673	-	116,027
A Barden	73	-	10	-	83
M Klepfisch	49	-	6	-	55
C Lebeer	492	-	60	-	552
R George	295	-	36	-	331
Windmill Holdings BV	-	10	-	10	-
Windmill Holdings Cooperatief U A	-	10	-	10	-
Total	104,263	20	12,785	20	117,048

The amounts disclosed above represent the historic carrying value of loan amounts owed to related parties. The Deposits are held by Windmill Holdings BV and Windmill Holdings Cooperatief UA and do not carry any repayment terms.

Other transactions with related parties include the following:

- The Group incurred costs of £168,000 (2013: £114,000) from Windmill Holdings BV (the direct controlling party) and Windmill Cooperatief U A (an intermediate parent undertaking) for management services;
- The Group incurred costs of £246,000 from 1 Aug 2013 to 22 Jun 2014 (2013: £294,000) from M Klepfisch, A Barden and C Lebeer for their services as non-executive directors. Following the reorganisation and the listing on the London Stock Exchange the Group board of directors changed, the Group incurred a further cost from 23 Jun 2014 to 31 Jul 2014 of £36,000 from P Hill, A Reading, P Hollingworth and A Barden for their services as non-executive directors.

Non-executive director Paul Hollingworth is also a non-executive director of Electrocomponents plc. During the year, the group sold goods to Electrocomponents plc amounting to £194,000 (2013: £170,000). At the year end, amounts owing by Electrocomponents plc were £35,000 (2013: £2,000). During the year the group purchased goods from Electrocomponents plc amounting to £99,000 (2013: £87,000). At the year end, amounts owed to Electrocomponents plc were £13,000 (2013: £12,000).

16. Related party transactions (continued)

1 August 2012

Parties	*Loan*	*Deposit*	*Interest*	*Amounts owed by related parties*	*Amounts owed to related parties*
	£000	*£000*	*£000*	*£000*	*£000*
Windmill Holding BV	103,846	-	4,074	-	107,920
Windmill Holdings BV	-	10	-	10	-
Windmill Holdings Cooperatief U A	-	10	-	10	-
A Barden	73	-	4	-	77
M Klepfisch	49	-	2	-	51
R George	295	-	11	-	306
Total	104,263	20	4,091	20	108,354

Compensation of key management personnel

	2014	*2013*
	£000	*£000*
Short term employee benefits	2,697	709
Termination benefits	203	-
	2,900	709

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

17. Transition to IFRS

The year ended 31 July 2014 is the first set of financial information the Group has prepared under IFRS as adopted in the European Union. Accordingly, the Group's opening balance sheet at 1 August 2012 and the last set of financial statements filed for the year ended 31 July 2013 were restated. Key changes arising from the adoption of IFRS as adopted by the European Union arose as follows:

A Presentation of capitalised software
B Amortisation of goodwill and accounting for acquisition costs
C Recognition of intangible assets on business combinations
D Accounting for goods in transit
E Revenue recognition
F Use of FX spot rates
G Accounting for derivatives
H Accounting for long-term contracts
I Presentation for rebates and discounts
J Presentation of exceptional items
K Deferred tax