Thursday 5 October 2023

VOLUTION GROUP PLC

Preliminary Full Year Results for the year ended 31 July 2023

Strong performance; confident of further progress in the year ahead

Volution Group plc ("Volution" or "the Group" or "the Company", LSE: FAN), a leading international designer and manufacturer of energy efficient indoor air quality solutions, today announces its audited financial results for the 12 months ended 31 July 2023.

RESULTS SUMMARY

	2023	**2022**	Movement
Revenue (£m)	328.0	307.7	6.6%
Adjusted operating profit (£m)	69.9	64.9	7.7%
Adjusted operating margin (%)	21.3%	21.1%	0.2pp
Adjusted profit before tax (£m)	65.1	60.9	6.8%
Adjusted basic EPS (pence)	25.8	24.0	7.5%
Reported operating profit (£m)	57.1	50.8	12.4%
Reported profit before tax (£m)	48.8	47.2	3.4%
Reported basic EPS (pence)	19.0	18.1	5.0%
Adjusted operating cash flow (£m)	75.7	50.4	50.2%
Dividend per share (p)	8.0	7.3	9.6%

The Group uses some alternative performance measures to manage and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS, adjusted operating cash flow, net debt and net debt (excluding lease liabilities). A definition of all the adjusted and non-GAAP measures is set out in the glossary of terms in note 25 to the condensed consolidated financial statements. A reconciliation to reported measures is set out in note 2 to the condensed consolidated financial statements.

FINANCIAL HIGHLIGHTS

- Revenue up 6.6% with organic growth of 4.6% at constant currency (cc). 60% of revenue now comes from non-UK customers
- Adjusted operating margin up 20bps to 21.3%, all three regions above 21%
- Adjusted basic EPS of 25.8p, up 7.5% and ahead of consensus, CAGR of 12.7% since IPO in 2014. Reported basic EPS up 5.0%
- Strong cash generation with adjusted operating cash flow of £75.7m (2022: £50.4m), cash conversion of 106% (2022: 76%)
- Closing leverage (excluding lease liabilities) was 0.8x, after spending ca. £30m on acquisitions during the year, leaving us well placed to continue to acquire attractive ventilation businesses
- Total proposed dividend for the year increased by 9.6% to 8.0 pence per share (2022: 7.3 pence) reflecting the strong performance and confidence in year ahead

OPERATIONAL HIGHLIGHTS

- Operating margins increased despite inflationary pressures, with continued good price discipline, robust cost control and good factory efficiency
- £29.7m invested in two European acquisitions:
  - VMI (France), initial consideration of £7.9m. Provides Volution with direct access to the French market, one of the largest ventilation markets in Europe
  - I-Vent (Slovenia and Croatia), initial consideration of £21.7m. Further extends our product portfolio and European market leadership in decentralised residential heat recovery
- Post year end, completed the acquisition of DVS (New Zealand), a direct-to-consumer supplier of whole home residential ventilation systems, for upfront consideration of £8.5m
- Successfully launched exciting new products in the year including our new Vent-Axia Econiq range of centralised heat recovery units

HEALTHY AIR, SUSTAINABLY

- Excellent progress against our key sustainability targets:
  - 76.2% of plastic used in own manufacturing facilities from recycled sources (2022: 67.2%), as we continue to develop innovative strategies to increase the utilisation and availability of recycled plastic materials
  - 70.1% of revenue from low-carbon, energy saving products (2022: 66.1%), of which 33.8% (2022: 30.1%) was from heat recovery ventilation systems
- Reduction of 9.8% in our carbon intensity, to 11.1t CO_2e per £m of revenue (2022: 12.3t)

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

"Through continued successful execution of our sustainable growth model, we have delivered a strong set of results in a year of significant headwinds. The Group's resilience is underpinned by our strong local brands, our increasingly wide geographic end market diversity and the greater proportion of our revenue generated from the refurbishment market. Exceptional customer service provided by dedicated and committed local teams, and an agile and focused approach to fulfilling customer needs, has delivered another successful year for the Group."

"Whilst we are mindful of the impact of higher interest rates on consumer confidence and new build construction, the regulatory changes in our local markets continue to drive demand for our innovative and well-positioned low carbon product technologies. In addition, our three new acquisitions completed in the last six months; our ongoing focus on operational excellence; and the depth of experience and commitment across our local teams provides resilience and gives us confidence of making further progress in the year ahead."

-Ends-

For further information:

	Enquiries:
Volution Group plc	
Ronnie George, Chief Executive Officer	+44 (0) 1293 441501
Andy O'Brien, Chief Financial Officer	+44 (0) 1293 441536
FTI Consulting	+44 (0) 203 727 1340
Richard Mountain	
Susanne Yule	

A meeting for analysts will be held at 9:30am GMT today, Thursday 5 October 2023, at the offices of Berenberg, 60 Threadneedle Street, London EC2R 8HP. Please contact FTI_Volution@fticonsulting.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 on Thursday 5 October 2023.

Volution Group plc Legal Entity Identifier: 213800EPT84EQCDHO768.

Note to Editors:

Volution Group plc (LSE: FAN) is a leading international designer and manufacturer of energy efficient indoor air quality solutions. Volution Group comprises 22 key brands across three regions:

UK: Vent-Axia, Manrose, Diffusion, National Ventilation, Airtech, Breathing Buildings, Torin-Sifan.

Continental Europe: Fresh, PAX, VoltAir, Kair, Air Connection, inVENTer, Ventilair, ClimaRad, rtek, ERI, VMI, I-Vent

Australasia: Simx, Ventair, Manrose, DVS.

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

Cautionary statement regarding forward-looking statements

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

CHAIRMAN'S STATEMENT

In this, my first statement as Chair of Volution, I am pleased to report another strong year of progress. The Group has continued to demonstrate the strength of its business model and strategy, achieving revenue growth of 6.6%, an adjusted operating margin of 21.3% with excellent cash generation during the year.

Volution is a business with a strong purpose and one that has an excellent track record of delivering value to all stakeholders. A key differentiator for Volution amongst its peers is the increase of industry regulation designed to make indoor air cleaner and decarbonise buildings. It is this regulation that has continued to be a key driver of Volution's growth this year, particularly in the UK public sector, where improving poor quality housing has become a legal requirement. It will also provide Volution with considerable resilience in a market where current high interest rates have had an adverse impact on new build construction levels and consumer confidence.

Whilst macroeconomic challenges continue, Volution's performance has demonstrated the strength and resilience of its business model, supported by our broad geographic and product diversity.

Strategy

The three strategic pillars of the Group are organic growth, value-adding acquisitions and operational excellence. These strategic pillars, together with a focus on sustainability, provide the platform for the implementation of the Group's purpose, to provide "Healthy Air, Sustainably". Solid progress was made during the year with good organic growth, whilst the acquisition of VMI, based in France, and I-Vent, based in Slovenia and Croatia, has further strengthened the Group's geographic and product diversification. The Group also acquired DVS in New Zealand, which was completed shortly after the year end.

Performance and results

Group revenue increased to £328.0 million (2022: £307.7 million) whilst adjusted operating profit was up 7.7% at £69.9 million (2022: £64.9 million), representing a margin of 21.3% (2022: 21.1%). Reported profit before tax increased to £48.8 million (2022: £47.2 million).

The Group's adjusted earnings per share was 25.8 pence, representing an increase over the prior year of 1.8 pence, up 7.5%. The compound annual growth rate of adjusted earnings per share since IPO in 2014 is 12.7%, demonstrating consistent delivery of double-digit earnings growth over the period. Basic earnings per share for the year was 19.0 pence (2022: 18.1 pence).

Adjusted operating cash flow was £75.7 million (2022: £50.4 million), and we spent £29.7 million, net of cash acquired, on two acquisitions during the year. As a result, net debt excluding lease liabilities at the year-end remained largely unchanged at £58.1 million (2022: £60.8 million).

Dividends

Recognising our strong performance in the year and our continued confidence in the business, the Board has recommended a final dividend of 5.5 pence per share, giving a total dividend for the financial year of 8.0 pence per share (2022: 7.3 pence per share), an increase of 9.6% on the previous year. This is in line with our ambition to progressively grow dividends each year. The resulting adjusted earnings dividend cover for the year was 3.2x (2022: 3.3x).

Subject to approval by shareholders at the Annual General Meeting on 13 December 2023, the final dividend will be paid on 19 December 2023 to shareholders on the register at 24 November 2023.

Environment, social and governance (ESG) objectives

Volution is committed to high standards of corporate responsibility, sustainability and employee engagement and continues to focus on its contribution to a more sustainable world through its operations, culture and ventilation solutions. The Group aims to give full consideration to the long-term impact of all business operations, which means that, wherever feasible, our products and services are sustainably sourced.

The disclosures in our Sustainability Report, including our TCFD disclosure, have been further developed this year to provide a better understanding of our Scope 3 emissions and the carbon footprint of our products. In addition, the Company has received an improved AA rating from MSCI, following improvements in Volution's decarbonisation initiatives – one of the benchmarks for ESG ratings. We are very proud of our London Stock Exchange Green Economy Mark, first received in 2021.

Our people & culture

As a Board, we understand the importance of building engagement and a good corporate culture. We regularly monitor the company culture and seek opportunities throughout the year to engage with colleagues across the Group. Claire Tiney, our designated Non-Executive Director for workforce engagement, continues to participate in two Group-wide Employee Forum events each year, enabling in-depth insights to be brought to the Board on the views, opinions and focus areas of our people. A Group-wide workforce engagement survey will be launched later this year and as a Board we look forward to the further insights that this will afford us.

Safety at work is always central to everything we do, and the Group remains focused on a zero-harm ambition. I am pleased to report good progress in the area of Health and Safety, although we saw a small increase in the reportable accident rate compared to last year, and the Company remains fully committed to further strengthening the health and safety culture across all our businesses.

Our talented people across the global business are at the heart of our continued success and essential in the execution of Group strategy. I am grateful to all Volution colleagues for their commitment and contribution. I would like to welcome our new colleagues from VMI, I-Vent and DVS to the Volution Group.

Board changes

Paul Hollingworth retired as Chairman of the Board on 23 June 2023, having served on the Volution Board for nine years. I was delighted to be appointed as Paul's successor and would like to thank Paul for his leadership and contribution to Volution during his tenure. I would also like to thank my Board colleagues for their assistance in ensuring a smooth and orderly succession process.

As part of the succession process, I stepped down from the role of Audit Chair and, on 23 June 2023, we were pleased to welcome Jonathan Davis to the Board as an Independent Non-Executive Director and Chair of the Audit Committee. With his strong financial and accounting expertise and extensive public company and international experience, I am confident that Jonathan will make a strong contribution to the Board.

Governance

The Group is committed to high levels of corporate governance, in line with its status as a company with a premium listing on the Main Market of the London Stock Exchange and as a member of the FTSE 250. We are fully compliant with the 2018 edition of the UK Corporate Governance Code.

As a Board we are responsible to the Company's shareholders for delivering sustainable shareholder value over the long term through effective management and good governance. As Non-Executive Chairman, my role is to provide strong leadership to enable the Board to operate effectively and collegiately. As a Board, it is our view that open, thorough, and robust discussion around key strategic matters, risks and opportunities faced by the Group is central to reaching our strategic goals, including with regard to our acquisition strategy. We are fortunate to have a diverse range of business experience on the Board, enabling rigorous and productive discussions.

Nigel Lingwood
Chairman
4 October 2023

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

The results we achieved this year are a clear demonstration of Volution's strengths as we benefited from our market leading positions, our wide geographic and end market diversity and our ability to upsell our products supported by industry regulations. We estimate that almost 70% of Group revenue is focused on the refurbishment, maintenance and improvement market ("RMI"), typically more resilient than new build markets in difficult economic times. Against a backdrop of high inflation, rising interest rates, and a slowdown in activity in some of our end markets, we were still able to achieve organic growth of 5.1%. Furthermore, our relentless focus on operational excellence, including strong pricing discipline, robust cost control, value engineering initiatives and good factory efficiency enabled us to expand our adjusted operating margin to 21.3%.

Our organic growth was supplemented by our continued focus on acquiring strong local brands with attractive market positions, this activity remains a key tenet of Volution's growth strategy. During the year we were delighted to acquire two businesses, VMI in France and I-Vent in Slovenia, with a third business, DVS Proven Systems, acquired post year-end. These acquisitions provide the Group with increased resilience by broadening its geographic reach and giving it access to attractive new markets. They also bring with them innovative low carbon product solutions to further expand our portfolio.

Volution is a leader in the international heating, ventilation and air conditioning market and our purpose is to provide "Healthy Air, Sustainably". Since listing in 2014 we have delivered consistent revenue and profit growth and strong operating cash flow. It is this consistent cash generation which underpins our ability to acquire businesses, which further increases our already broad geographic market, and we maintain an active pipeline of potential targets.

As we continue to grow organically, and complement our market positions with new acquisitions, our management "bench strength" is of critical importance to our success. During the year we further strengthened our team including hiring a new Operations Director, for our UK businesses and commencing a Managing Director search process for our ClimaRad business in the Netherlands. I am pleased to say that we will be holding our fourth Management Development Programme later this year and I know from experience how important this programme is for retaining and enhancing our talent pool.

As previously reported, the wider supply chain difficulties experienced by the industry in recent years have now subsided. In response to these earlier difficulties, Volution took steps to mitigate any disruption, thus ensuring we had excellent product availability for our customers throughout this period. This early action served us, and our customers, well and has resulted in an increase in our competitive advantage. There are numerous examples where we have made local market share gains due to strong customer relationships and apparent gaps in competitor product availability. The local teams are focused on consolidating these opportunities in the year ahead.

Our Markets

Volution's revenues are weighted towards the refurbishment market which now accounts for around two-thirds of sales, with the balance focused on new build applications. Both new build and refurbishment activities are increasingly regulated, with the former seeing an accelerated change as local economies focus more readily on reducing carbon emissions from new buildings.

The rapid rise in interest rates has had an adverse impact on new build construction levels and consumer confidence during the year. Whilst we are seeing lower overall unit construction output in new residential and commercial projects, ever tightening regulations (focusing on lowering carbon emissions) is supporting demand for Volution's innovative and value adding low carbon solutions, where typically the average unit value is significantly higher than the traditional ventilation solution that it replaces.

Demand in the refurbishment market has been supportive during the year, particularly in the UK where we saw demand in public refurbishment RMI benefiting from the heightened awareness of health risks associated with mould and condensation. Private RMI proved very resilient.

We believe that ventilation refurbishment is far less discretionary than other product categories in buildings. Post the pandemic, we have noticed that there is a more pressing need to replace ventilation products, compared to other elements of refurbishment that can be postponed indefinitely. We have also seen the unintended consequences of home occupiers reducing heating temperatures during the winter months in response to higher energy prices. This leads to lower temperatures in the dwelling which propagates the risk of mould and condensation problems with air holding significantly more moisture when cold, than at higher temperatures. This too makes the requirement for ensuring good ventilation more pressing.

To deliver on net zero commitments, Governments must address our buildings which, in Europe, are responsible for around 40% of our energy use and 36% of our carbon emissions. Our technology provides solutions to avoid some of those emissions, and increasing regulation is the key driver. This year we have provided more insight in the Annual Report into the regulatory position in each of our key geographies, covering both air quality and energy efficiency. Our local teams and our trade associations continue to ensure our voices are heard as the regulations provide strong tailwinds supporting the adoption of higher value ventilation solutions.

Results

The Group delivered revenue of £328.0 million (2022: £307.7 million), an increase of 6.6% (6.1% cc), with organic growth of 5.1% (4.6% cc) and inorganic growth from the two acquisitions in the year, as well as the full year effect of the acquisition in the prior year, of 1.5%. Adjusted operating margins increased from 21.1% in the prior year to 21.3%, a strong performance in the face of much higher inflation than in previous years. Reported profit before tax was £48.8 million (2022: £47.2 million), an increase of 3.4%.

Sustainability

Good progress was achieved with our sustainability initiatives. Recycled plastics content in our own production increased substantially in the year to 76.2% of total consumption. A significant proportion of the Group's injection moulding and PVC extrusion production takes place at our Reading facility in the UK and I am proud of the way in which the team developed innovative strategies in the year to increase the utilisation and availability of recycled plastic materials. This is a great example of a cross functional initiative and whilst we still have some way to go to achieve the 90% target by the end of our financial year 2025, the increase from under 60% in 2021 provides a good trajectory towards the target. Utilising recycled materials is also a significant commercial advantage for our customers with many new projects requiring a minimum recycled content in the supply of materials and we are keen to assist in the more circular economy for the supply of products into buildings.

Revenue from our low-carbon products has increased to 70.1% in the year, well ahead of this year's target of 65.6%, and two years ahead of our target of 70% by the end of 2025. We expect the growth in our low carbon product solutions to continue to be ahead of the growth of more traditional products. The recent acquisitions of VMI in France and I-Vent in Slovenia will positively assist our metric in the year ahead as they already have a high concentration of their revenue from low carbon solutions.

Our Sustainability Committee, comprising of our senior leadership team and our non-executive director, Amanda Mellor, met twice in the year, where we reviewed progress against our published targets and key initiatives for the years ahead.

Strategy

Organic Growth

We delivered organic growth of 5.1% (4.6% cc) driven by increases in both price and volume.

Volution has a long-term target to consistently deliver annual organic growth in the range of 3-5%. We have again delivered organic growth at the top end of the range, despite the more difficult trading environment in the year. As in previous years, our more vertically integrated business model, our intentional approach to holding a higher component inventory and our resulting excellent service levels have helped us to deliver this growth. Across the Group there have been notable market share gains directly attributable to superior service levels.

An acceleration of regulatory support; the impact of higher energy costs; and our strong local brands, managed by local, motivated, and empowered teams, have enabled us to deliver an above market growth performance. Our strapline, “Healthy Air, Sustainably”, which we introduced in 2020, resonates strongly across the Group.

Acquisitions

We completed two acquisitions in the year. In April we announced the completion of the acquisition of Ventilairsec (VMI) for an initial consideration of £7.9 million (€9.0 million), net of cash acquired. VMI, based in Nantes, France, designs and manufactures a range of residential ventilation systems focused on a low carbon positive input ventilation technology known as “VMI”. The acquisition provides Volution with direct access to the French market, one of the largest ventilation markets in Europe. Our position in France, whilst currently quite small, is eminently scalable in the years ahead. A new managing director was recruited and a successful handover from the owner has already been completed. We are confident that our wider ranging ventilation solutions from across the Group can assist the local team to grow more rapidly in the period ahead.

The VMI acquisition included an earn-out payment of up to €5 million, which will be calculated on the basis of the EBIDTA for the year ended 31 December 2023.

In June 2023 we completed the acquisition of I-Vent for an initial consideration of £21.7 million (€25.2 million), net of cash acquired, with further contingent consideration of up to €15 million based on stretching growth targets for the financial results for the three years up to and including 31 December 2025. I-Vent, based in Slovenia and Croatia, designs, manufactures, and supplies residential ventilation systems, primarily focused on decentralised heat recovery. Similar to the technology in InVENTer, Germany, we see complementarity in the respective ranges and our teams are already working out how we can utilise the increased strength in our product portfolio to optimise our offering.

Post year end we also completed the acquisition of DVS (Proven Systems Ltd) in New Zealand. DVS supplies directly to consumers and installs a range of energy-efficient centralised ventilation systems, incorporating positive input, heat recovery, heat transfer, and heating and cooling solutions. Their products can be installed in both new and existing properties and are sold under the DVS Home Ventilation brand. DVS will be integrated into our Australasian business and provides an additional sales channel to supply low carbon solutions.

Operational excellence

Maintaining our long-term adjusted operating margin at, or above, 20% is an important objective for Volution. In the year we delivered a 20bps margin improvement to 21.3% in the face of significant inflationary pressures across materials, labour, and infrastructure costs. Delivering a consistently strong operating profit margin is the culmination of many smaller initiatives across the entire business. Pricing discipline, long term supply chain partnerships, focus on value engineering and operational efficiency initiatives and good investment in new moulding, extrusion and other plant and equipment in 2023, helped underpin our margin.

People

A key highlight of the year was a full return to normal working practices post the pandemic. Our Group is now truly international, and the ability to freely visit all facilities was a tremendous boost. During the year we held more employee engagement meetings than in our recent past. I am privileged to lead such a diverse and talented organisation and the feedback from the people in our local companies is hugely enriching and invaluable to our decision-making processes.

I was delighted to observe lots of examples of cross border co-operation on so many levels. Our technical and procurement resources are managed functionally and provide Volution with a significant resource to support our local operating companies to outperform their local competitors. Enhancing collaboration across these and other working groups is key to our success.

We also held two group wide employee engagement and communication meetings, also attended by Claire Tiney, Non-Executive Director, and chair of the Remuneration Committee, with specific focus on sustainability at one meeting and product development and innovation at the other.

Retention and development of our talented teams is key to our success. Since 2012 we have successfully run three management development programmes across the Group. We are now planning a fourth programme for late October 2023. This current cohort will consist of eighteen high potential managers from all geographic and functional areas of the Group. I am very much looking forward to the programme kick-off, and I also know how excited the participants are to be involved. A look back at the first three management development programmes reveals a retention rate of over 70%.

I believe we have a strong culture of success at Volution, but also a culture where our teams work closely together and have a lot of fun in providing “Healthy Air, Sustainably”.

Outlook

Through continued successful execution of our sustainable growth model, we have delivered a strong set of results in a year of significant headwinds. The Group’s resilience is underpinned by our strong local brands, our increasingly wide geographic end market diversity and the greater proportion of our revenue generated from the refurbishment market. Exceptional customer service provided by dedicated and committed local teams, and an agile and focused approach to fulfilling customer needs, has delivered another successful year for the Group.

Whilst we are mindful of the impact of higher interest rates on consumer confidence and new build construction, the regulatory changes in our local markets continue to drive demand for our innovative and well-positioned low carbon product technologies. In addition, our three new acquisitions completed in the last six months; our ongoing focus on operational excellence; and the depth of experience and commitment across our local teams provides resilience and gives us confidence of making further progress in the year ahead.

Ronnie George
Chief Executive Officer

4 October 2023

United Kingdom

Market sector revenue	2023 £m	2022 £m	Change (cc) %
UK			
Residential	89.7	75.1	19.5
Commercial	30.2	31.0	(2.8)
Export	12.1	11.7	1.7
OEM	24.1	25.9	(8.0)
Total UK Revenue	156.1	143.7	8.3
Adjusted operating profit	35.3	29.3	20.6
Adjusted operating profit margin (%)	22.6	20.4	2.2pp
Reported operating profit	28.1	22.3	26.2

The UK delivered the standout performance of the year with strong revenue and profit growth. UK revenues increased from £143.7 million to £156.1 million, an 8.6 % increase (8.3% at cc), building on good organic growth delivered in the prior year. The UK saw strong demand in Residential RMI, particularly in the public sector. Alongside this, exceptional customer service, an agile and focused team, and residential market share gains helped deliver this excellent performance. Adjusted operating profit increased from £29.3 million to £35.3 million with a significant increase in the adjusted operating margin at 22.6% up 220 bps from 20.4% in the prior year. The organisational changes made in the prior year bedded in well delivering a more agile and responsive outcome across the business. Revenue growth accelerated in the second half of the year, and we are well placed to deliver further progress in the year ahead. Although high inflation and rises in interest and mortgage rates are stifling new construction activity, Volution's overall market demand continues to be underpinned by regulatory and wider consumer awareness of the importance of indoor air quality.

Residential

Sales in our Residential market sector were £89.7 million (2022: £75.1 million), an impressive organic growth of 19.5%, building on last year's strong organic growth. Moreover, we saw an acceleration of growth in the second half.

In residential new build we delivered another year of revenue growth supported by the increasing penetration of energy efficient ventilation technology in new house construction. In June 2022 revisions to Part F and Part L of the Building Regulations provided increasing support for low carbon energy efficient ventilation systems for new house building. Those changes inevitably take time to impact demand for low carbon solutions, as existing construction sites at the time of the regulatory change will continue to be constructed to the original plan. During the year we certainly benefited from these new changes, but we expect to see a greater proportion of new houses being built with more efficient technology in the year ahead. New account wins have assisted us to grow market share and our exceptional levels of customer service and full product availability to customers, at all times, have set us apart from the competition. Whilst we are confident that regulatory changes in 2022, and further changes to the Future Homes Standard planned for 2025 (delivering buildings that are net zero ready) will underpin sales of new technology solutions, the new build market faces significant challenge from the effects of high interest and mortgage rates. Housing starts reduced considerably in the year and will result in fewer completions in the period ahead. This will inevitably result in some moderation of demand for energy efficient ventilation systems. Nevertheless, the medium to long term drivers of demand remain compelling. During the year we made iterative changes to our leading ranges of energy efficient ventilation solutions. Our UK ventilation brands provide the widest product range and solutions and are well supported by new investment in injection moulding and extrusion capacity to safeguard our excellent levels of customer service and availability.

The awareness and understanding of the importance of good quality ventilation in delivering healthy air inside buildings is now widespread. The strong demand we experienced for our refurbishment solutions through the pandemic has continued, which validates our view that ventilation refurbishment is far less discretionary than other types of building refurbishment.

Our residential refurbishment category in the UK was the fastest growing area across the entire Group. Our high end, aesthetically attractive, near silent, comprehensively controlled, private refurbishment solutions continued to deliver good growth in the year.

Across our Vent-Axia, National Ventilation and Manrose brands, we have strong links to our important professional and retail distribution routes to market. We value our distribution customer relationships very highly and the sales teams worked very hard during the year to help educate and train these outlets on the important aspects of the ventilation industry and our market leading solutions.

We have a simple but relentless approach to providing excellent stock availability and customer service, at the centre of which is first class relationships with our suppliers and customers. The Group has the largest UK ventilation sales force supporting customer needs.

Public housing refurbishment demand was very strong in the year. On 9 February 2023, the Government tabled amendments to the Social Housing (Regulation) Bill to introduce 'Awaab's Law', which will require all landlords to investigate and fix reported hazards in their homes within a specified time frame, or rehouse tenants where a home cannot be made safe. 'Awaab's Law', was put in place following the death of a young boy who died due to exposure to black mould in his socially managed home which had 'inadequate ventilation". This sad event has further emphasised the importance of refurbishment in this market sector. As a result, we witnessed a sharp increase in demand for energy efficient ventilation solutions and this delivered accelerated revenue growth in the second half of the year.

Volution has been well placed to support these vital refurbishment needs. In the 2022 Annual Report we explained how we were utilising our innovative decentralised heat recovery product solutions from other parts of the Group to support the UK social housing ambition to deliver their 2030 net zero carbon targets. In the year we have been successful in supplying decentralised heat recovery ventilation solutions to projects that require a further step up in their ventilation needs following a more structural refurbishment of the dwelling. Greater air tightness through insulation, an obvious and important upgrade as part of a low carbon refurbishment, then warrants heat recovery ventilation to recover energy and keep fuel bills low. The fuel poverty crisis in the UK resulted in greater mould and condensation risks during the last winter, due to the unintended consequence of turning down heating thermostats to save costs. Colder air temperatures means less moisture can be held in the air; the resultant issue is water droplets forming at lower temperatures which leads to greater condensation and mould. The impact of 'Awaab's Law', the lower property temperatures, and consumers investigating how to solve their condensation problems, resulted in a significant increase in demand for "Positive Input Ventilation" technologies. Utilising our strong relationships with our distribution customers, we were able to ensure that contractors could source the exact products they required to service this strong demand. During the latter part of 2023 we further enhanced our product range and have ensured that our customers are well placed to service the expected strong market demand in the year ahead.

Commercial

Sales in our UK Commercial sector were £30.2 million (2022: £31.0 million), an organic decline of 2.8%. Volution has a relatively small share of the larger commercial ventilation market, albeit with a leading share in the niche area of fan coil ventilation. The year finished strongly, and saw an increase in second half revenue, following a decline in the first half. Excellent progress with our enhanced range of fan coil ventilation enabled us to make good progress with the supply of products to the main market of new London commercial offices. Whilst the commercial office market has generally been more subdued, we are seeing a growing trend and need for more desirable working environments. Employees are demanding brighter, more energy efficient work places and we see a good pipeline of work for both new build and refurbishment needs for fan coil units. During the year we completed key new developments for products that provide commercial heat recovery or commercial heat recycling. This delivered some success in the second half of the year and puts us in a stronger position to gain market share in the year ahead. Our investment in more advanced metal cutting capability at our Dudley facility provides the capacity to support any increase in demand.

Export

Sales in our UK Export sector were £12.1 million (2022: £11.7 million), an organic growth rate of 1.7% at constant currency. Export revenues had declined in the first half of the year, largely due to a significant customer de-stocking exercise, but performed well in the second half, growing at close to 10% on a constant currency basis. Our long-term collaborative relationship with our distributor in Eire delivered another year of growth and given the stronger Irish housing market, we see good underpinning of demand for energy efficient heat recovery solutions in the year ahead.

OEM

Third party Sales in our OEM sector were disappointing at £24.1 million (2022: £25.9 million), an organic decline of 8.0% at constant currency. This was linked to a reduction in customer demand for motorised impellers utilised in products focusing on the new build market. However we delivered a significant increase in the internal supply of our EC3 motorised impellers in the year with several new initiatives underway to capture more of our internal needs in the year ahead. A huge strength of the Group is the vertical integration of moulding, extrusion, and component supply capability and this has been particularly beneficial in recent years where we have faced supply chain challenges. Our strategic intention is to greater utilise our OEM capability to capture more of the internal demand. This initiative is particularly relevant as we foresee ongoing weakness of demand for motorised impellers due to more subdued end market demand for new construction.

Continental Europe

Market sector revenue	2023 £m	2022 £m	Change (cc) %
Continental Europe			
Central Europe	75.4	65.1	12.7
Nordics	49.1	53.3	(5.7)
Total Continental Europe revenue	124.5	118.4	4.4
Adjusted operating profit	28.4	29.6	(4.0)
Adjusted operating profit margin (%)	22.8	25.0	(2.2)pp
Reported operating profit	25.1	23.2	7.9

Our Continental Europe revenues increased from £118.4 million to £124.5 million, growth of 4.4% at constant currency, within which organic growth was 0.6% on a constant currency basis. The sector benefited from the acquisition of VMI in April 2023, I-Vent in June 2023 and the full-year effect of the acquisition of ERI in September 2021. Adjusted operating profit was down 4.0% at £28.4 million versus a prior year of £29.6 million. The adjusted operating profit margin declined in the year by 220bps to 22.8%, partly due to the dilutionary impact of the acquisitions, but also due to the changing mix of revenues with both the higher margin Nordic and German market revenues declining at a higher rate than the growth areas such as ERI in North Macedonia.

Central Europe

Sales in the Central Europe region grew 12.7% at constant currency to £75.4 million compared to the prior year of £65.1 million. Organic revenue growth was 5.9% on a constant currency basis, with inorganic growth coming from the acquisition of VMI, I-Vent and the full-year effect of the acquisition of ERI.

Revenues in Germany in the second half of the year were much weaker than the prior year. Unlike the usual 70%/30% Group wide split of revenues between refurbishment and new build, we have a high concentration of German revenue focused on the new build market. New build construction was much weaker in the second half of the year, coupled with inconsistencies around government subsidies supporting low carbon technologies. Germany has been a strong contributor to our organic growth since 2019 and a revenue decline in the year was unusual. In recent months we have refocused our selling efforts on the significant refurbishment opportunities in the market. Germany, alongside every other country is working out how to achieve its net zero carbon targets. Local government is now providing more clarity on subsidies for various low carbon technologies, and we had some good successes towards the end of the year. Strong pricing management, excellent cost controls and some innovative new product solutions enabled us to maintain our local gross margins. Whilst the new build outlook remains fragile, the medium-term dynamic of heat recovery technology demand in Germany, both in new build and increasingly in refurbishment, remains compelling.

In the Netherlands, ClimaRad delivered strong organic growth, accelerating in the second half of the year. Our “total cost of ownership” model is reaping significant dividends as we demonstrate the substantial savings that a ClimaRad decentralised heat recovery system can deliver in a structural refurbishment. The Netherlands market is one of the most progressive in Europe with a focus on decarbonising buildings and an established approach to the future ban of gas boiler installations in the new build market.

This is a hugely supportive change in the market increasing the utilisation of heat pump technology and an increased investment in greater insulation for residential buildings. This positions our decentralised heat recovery technology in ClimaRad very well. The project orderbook remains strong and we remain confident that we will make further inroads in the market with our compelling solution in the year ahead.

In Belgium we delivered organic growth, however, the introduction of our new extended range of higher airflow heat recovery systems was delayed until the end of the financial year 2023. Our Econiq range of heat recovery is the culmination of a significant product development investment, and our new application software technology will materially aid commissioning and an improved user experience. Whilst a much later than planned introduction to the market, we are excited about the opportunity to regain lost share in the new financial year.

Nordics

Sales in the Nordics region were £49.1 million (2022: £53.3 million), an organic decline of 5.7% at constant currency compared to the previous year. The Nordics market was especially challenging in the second half of the year with weaker demand and significant customer destocking resulting in a revenue decline. Strong pricing discipline in the Nordics, a moderating of input cost inflation, and the increasing benefits of our new production facility in Växjö, helped us to maintain a strong gross margin performance. Customer de-stocking is largely completed and whilst the local markets, as with all of our markets, are grappling with the higher cost of borrowing, we believe that demand reached its low point in H2 2023. Our Nordic activities are weighted around 65% to refurbishment, which is similar to the rest of the Group, the balance being new build construction. Whilst new build markets are likely to continue to be subdued whilst interest rates remain at elevated levels, we continue to exploit opportunities in refurbishment for higher value adding solutions such as the significant growth in decentralised heat recovery from a low start point. Volution is the European leader for the supply of decentralised heat recovery in residential buildings and this is a key area of focus for the period ahead.

Acquisitions

Energy Recovery Industries ("ERI"), a leading provider of aluminium heat exchanger cells for heat recovery applications delivered another year of strong revenue growth. In line with our original investment plan to increase our manufacturing capacity in North Macedonia and boost efficiency, we have also invested in new equipment during the year enabling us to shorten lead times and deliver efficiency benefits which further enhanced our operating profit margin. The long-term growth drivers for heat recovery ventilation are strong and we plan to make further investments to enhance our manufacturing facility and capacity in the year ahead.

In April 2023 we acquired VMI in France. Whilst a relatively small player in the French market we are delighted to now have a structural presence in this important market. VMI has an experienced and passionate team of ventilation experts and coupled with the access to our wider portfolio of existing and new product developments we see an opportunity to deliver good organic growth in the French market. Specialising in energy efficient positive input ventilation technology, VMI will benefit from enhancing its product range and new customer relationships.

In June 2023 we completed the acquisition of I-Vent, a provider of decentralised heat recovery ventilation systems in Slovenia and Croatia. The acquisition gives the Group access to fast growing new markets, and I-Vent's innovative Low Carbon product solutions will further enrich our Group's expansive product portfolio, particularly in decentralised heat recovery. Retro-fitting heat recovery into existing residential dwellings is a key strategic focus for the Group across Europe. With the majority of existing revenue arising in Slovenia, the Croatian market position, although much smaller, provides potentially a faster growing opportunity due to our lower market penetration.

Australasia

Market sector revenue	2023 £m	2022 £m	Change (cc) %
Total Australasia revenue	47.4	45.6	3.6
Adjusted operating profit	11.3	9.9	13.9
Adjusted operating profit margin (%)	23.9	21.8	2.1pp
Reported operating profit	10.7	8.8	22.0

Sales in our Australasia region were £47.4 million, with organic growth of 3.6% at constant currency. Adjusted operating margins improved to 23.9% versus 21.8% in the prior year. Following a period of substantial organic growth in Australia, organic growth rates moderated in the year as expected. Pricing discipline and excellent cost control enabled us to further increase operating profit margins to 23.9% a significant improvement over the prior year.

Simx in New Zealand delivered a good performance. Revenue has increased beyond the high levels of previous years when demand had been boosted by the Healthy Homes Act. New Zealand has a structural demand for additional new residential construction, however, as with other markets, higher interest and mortgage costs are stifling demand. Similar to the wider group, our revenue focus is predominantly refurbishment led and we continue to see opportunities to introduce more innovative technology to this market.

The post year end acquisition of DVS Proven Systems, completed on 4 August 2023, further strengthens our position in the residential "Smart Vent" market. With DVS Proven Systems' unique consumer focused approach to ventilation in the local market, we see huge potential to increase sales our value-added solutions. Through direct consumer marketing, we are confident that we can encourage greater penetration of both central and de-central heat recovery systems in New Zealand.

In Australia we continue to make good progress and the launch of our Sky Fan DC range of ceiling fans was particularly successful in the year. We launched our Manrose brand into the DIY sector in the year and we plan to extend this range in the coming months. Ventair has been part of the Group since 2019 and we are delighted that over four years after the successful introduction to the Group we have secured a long-term agreement with the founder and other members of the senior team, so we can continue to work together to further grow our market penetration in Australia. Important elements of our success are the key supplier relationships that we have fostered since the business was founded and the increasing strength of the local team, which is well positioned to capitalise on these relationships.

FINANCIAL REVIEW

Volution delivered another strong financial performance for the year, with good organic revenue growth, adjusted operating margins maintained ahead of our 20% target, and robust growth in adjusted EPS (up 7.5% to 25.8 pence) despite the adverse impacts of higher interest rates on our financing costs.

I am also pleased to report that the Group delivered an excellent cash generation performance, with a working capital net inflow of £2.8 million (2022: £17.7 million outflow) contributing to a cash conversion for the year of 106%, well above our stated 90% target.

Reported and adjusted results

	Reported			**Adjusted[1]**		
	Year ended 31 July 2023	Year ended 31 July 2022	Movement	**Year ended 31 July 2023**	Year ended 31 July 2022	Movement
Revenue (£m)	**328.0**	307.7	6.6%	**328.0**	307.7	6.6%
EBITDA (£m)	**78.3**	74.2	5.5%	**79.3**	73.9	7.4%
Operating profit (£m)	**57.1**	50.8	12.4%	**69.9**	64.9	7.7%
Net finance costs (£m)	**6.4**	2.0	216.7%	**4.8**	3.4	44.1%
Profit before tax (£m)	**48.8**	47.2	3.4%	**65.1**	60.9	6.8%
Basic EPS (p)	**19.0**	18.1	5.0%	**25.8**	24.0	7.5%
Dividend per share (p)	**8.0**	7.3	9.6%	**8.0**	7.3	9.6%
Operating cash flow (£m)	**74.7**	50.8	47.1%	**75.7**	50.4	50.2%
Net debt (£m)[2]	**89.3**	85.8	(3.5)	**89.3**	85.8	(3.5)
ROIC (%)	**27.4%**	28.8%	(1.4)pp	**27.4%**	28.8%	(1.4)pp

[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 EPS, adjusted operating cash flow, net debt and net debt (excluding lease liabilities). The reconciliation of the Group's reported profit before tax to adjusted measures of performance is summarised in the table below and in detail in note 2 to the consolidated financial statements. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 25 to the consolidated financial statements.

[2] Net debt, excluding lease liabilities of £31.2 million (2022: £25.0 million) would be £58.1 million (2022: £60.8 million).

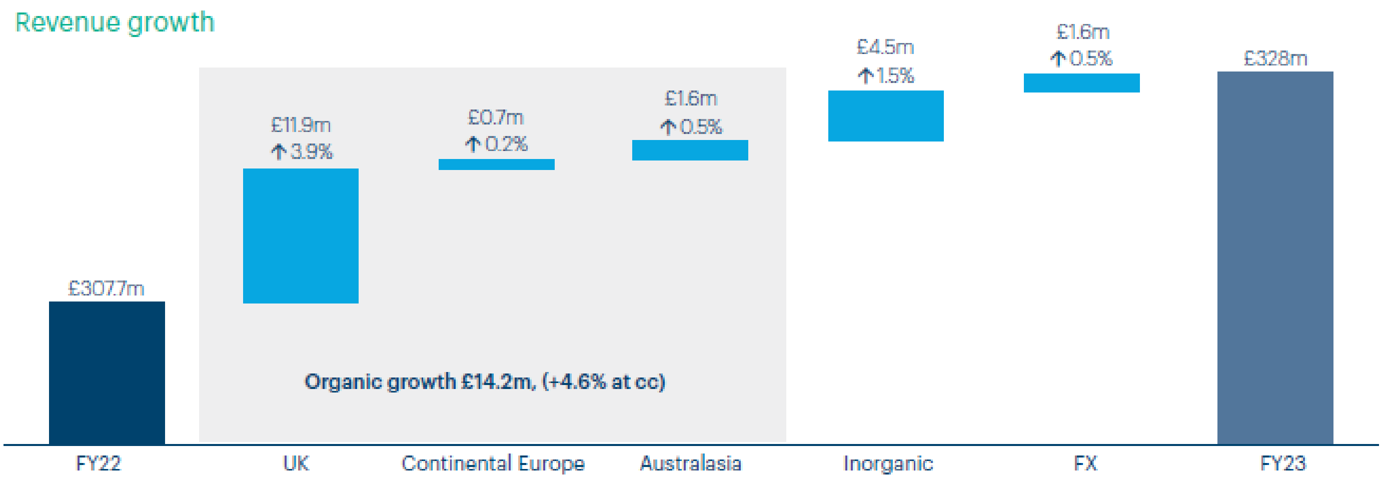
Good organic growth, particularly in the UK

Revenue for the year to 31 July 2023 was £328.0 million, up 6.6% (2022: £307.7 million) within which organic growth accounted for 4.6% (cc) and inorganic growth 1.5%, with a benefit of 0.5% from currency translation impacts.

Our strongest performing region was the UK (up 8.3%), with residential revenue very strong (up 19.5%) fuelled by high public RMI demand as housing providers and tenants became increasingly aware of the health risks associated with mould and condensation. Private RMI also performed well underpinned by both price and volume increases and demonstrating the less "discretionary" nature of our RMI demand. Our more challenging sectors in the UK were in OEM and Commercial, though the latter did return to growth in the second half of the year.

A more mixed picture in Continental Europe saw us report organic revenue growth (cc) of 0.6%. Good performances in ClimaRad and ERI were offset by challenging market conditions in Germany and the Nordics, linked to weak new build residential markets, and in the case of Germany to the withdrawal of some previously available subsidy programs for energy efficiency investments. Inorganic growth in Continental Europe (3.8%) reflected one month of ERI revenue in September 2022, and then the impact of our new acquisitions in France and Slovenia towards the end of the second half.

Australasia revenue grew 3.6% (cc) after a number of years of very strong growth, a solid performance given relatively subdued market conditions and weaker consumer confidence levels.

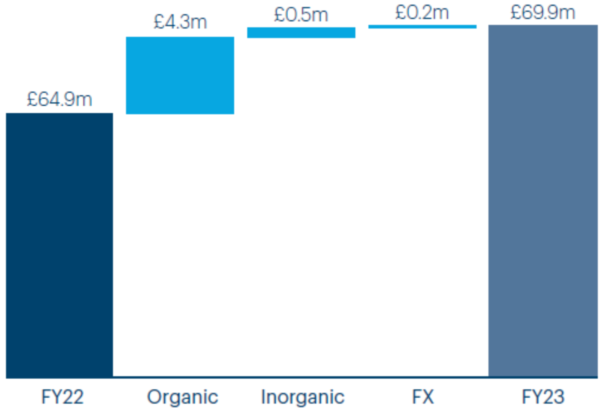


Adjusted operating margin of 21.3%

Adjusted operating profit increased by 7.7% in the year to £69.9 million (2022: £64.9 million). The increase of £5.0 million in adjusted operating profit consisted of £4.3 million from organic growth, £0.5 million from acquisitions, and £0.2 million from favourable currency movements.

Inflationary cost pressures on materials diminished through the year. This contrasted with the picture for staff costs, property costs and other categories of overhead costs which continued to experience inflationary pressures. Coupled with good factory performance, efficient customer service and continued judicious selling price management, this enabled us to deliver a 60bps improvement in gross margins to 48.4% (2022: 47.8%) and a 20bps improvement in adjusted operating margin to 21.3% (2022: 21.1%).

Adjusted operating profit



Adjusted profit before tax of £65.1 million was 6.8% higher than 2022 (£60.9 million). Reported profit before tax was £48.8 million (2022: £47.2 million) and is after charging:

- £11.1 million in respect of amortisation of intangible assets (2022: £14.5 million);
- £1.7 million (2022: credit of £0.4 million) of other costs of business combinations, of which:
  - £1.0 million relates to costs associated with business combinations (2022: £0.2 million); and
  - £0.7 million in respect of contingent consideration in ERI (2022: reduction £0.6 million)
- £1.6 million loss due to the fair value measurement of financial instruments (2022: gain of £1.4 million); and
- £1.9 million re-measurement of future consideration relating to ClimaRad (2022: £1.0 million).

Higher financing costs

Despite leverage (excl. leases) remaining below 1.0x at both the half year and the full year as a result of our strong cash generation, the Group's adjusted financing costs nevertheless increased by 44.1% to £4.8 million (2022: £3.4 million) as a consequence of the significant increase in bank base rates through the period. Our weighted average interest rates on gross debt in the year was 4.44% (2022: 2.02%).

	Year ended 31 July 2023			Year ended 31 July 2022		
	Reported £m	**Adjustments £m**	**Adjusted results £m**	Reported £m	Adjustments £m	Adjusted results £m
Revenue	**328.0**	**—**	**328.0**	307.7	—	307.7
Gross profit	**158.9**	**—**	**158.9**	147.1	—	147.1
Administration and distribution costs excluding the costs listed below	**(89.0)**	**—**	**(89.0)**	(82.2)	—	(82.2)
Amortisation of intangible assets acquired through business combinations	**(11.1)**	**11.1**	**—**	(14.5)	14.5	—
Contingent consideration[1]	**(0.7)**	**0.7**	**—**	0.6	(0.6)	—
Costs of business combinations[2]	**(1.0)**	**1.0**	**—**	(0.2)	0.2	—
Operating profit	**57.1**	**12.8**	**69.9**	50.8	14.1	64.9
Re-measurement of financial liability	**0.1**	**—**	**0.1**	(0.6)	—	(0.6)
Re-measurement of future consideration[3]	**(1.9)**	**1.9**	**—**	(1.0)	1.0	—
Net loss on financial instruments at FV[4]	**(1.6)**	**1.6**	**—**	1.4	(1.4)	—
Other net finance costs	**(4.9)**	**—**	**(4.9)**	(3.4)	—	(3.4)
Profit before tax	**48.8**	**16.3**	**65.1**	47.2	13.7	60.9
Income tax	**(11.3)**	**(3.0)[5]**	**(14.3)**	(11.5)	(2.1)	(13.6)
Profit after tax	**37.5**	**13.3**	**50.8**	35.7	11.6	47.3

Notes

1. £0.7 million in respect of a contingent consideration in ERI (2022: reduction of £0.6 million).
2. £1.0 million relates to costs associated with business combinations (2022: £0.2 million).
3. £1.9 million re-measurement of future consideration relating to the business combination of ClimaRad (2022: £1.0 million).
4. £1.6 million loss was due to the fair value measurement of financial instruments (2022: gain of £1.4 million).
5. £3.0 million tax adjustment relates to the tax on the adjusted items above.

Currency impacts

Aside from Sterling, the Group's key trading currencies for our non-UK businesses are the Euro, representing approximately 25% of Group revenues, Swedish Krona (approximately 9%), New Zealand Dollar (approximately 7%) and Australian Dollar (approximately 7%). We do not hedge the translational exchange risk arising from the conversion of the results of overseas subsidiaries, although we do denominate some of our borrowings in our non-sterling trading currencies, which offsets some of the translation risk relating to net assets.

The average rates of sterling versus our principal non-sterling trading currencies are shown in the table below.

	Average rate 2023	Average rate 2022	Movement
Euro	**1.149**	**1.182**	**(2.8)%**
Swedish Krona	**12.802**	**12.229**	**4.7%**
New Zealand Dollar	**1.965**	**1.952**	**0.7%**
Australian Dollar	**1.803**	**1.825**	**(1.2)%**

The Group had Euro denominated borrowings as at 31 July 2023 of £79.4 million (2022: £71.9 million) and Swedish Krona denominated borrowings of £nil million (2022: £2.4 million). The Sterling value of these foreign currency denominated loans, net of cash, increased by £1.3 million as a result of exchange rate movements (2022: decreased by £0.9 million).

Transactional foreign exchange exposures arise principally in the form of US Dollar denominated purchases from our suppliers in China. We aim to purchase a substantial proportion of our expected requirements approximately twelve months forward, and as such, we have forward currency contracts in place for approximately 85% of our forecast average forward requirements for the 2024 financial year (approximately $19 million).

Earnings per share

Our adjusted basic earnings per share for the year was 25.8 pence (2022: 24.0 pence) and our reported basic earnings per share for the year was 19.0 pence (2022: 18.1 pence).

High returns on invested capital (ROIC)

Strong profit and cash generation is a key focus of Volution's financial model, and we look to allocate our capital to investments (both organic and inorganic) that further underpin the future growth of the business and create value for our shareholders.

Over recent years we have reported our return on acquisition investment (ROAI) KPI, measuring our success at generating returns from our inorganic growth strategy. We are pleased to introduce a new financial KPI in this year's annual report, Return on Invested Capital (ROIC), measuring the returns for the Group as a whole.

We believe ROIC is not only helpful for shareholders to monitor the returns generated by Volution on an ongoing basis, but another metric which helps demonstrate the underlying quality of the business versus our global peers and its ability to generate shareholder value.

Whilst we will continue to monitor and report the performance of individual acquisitions as they reach the three-year measurement point, we believe that the ROIC will provide a more comprehensive overall measure and so this will be adopted in our KPIs.

The Group's ROIC (pre-tax) for the financial year was 27.4%, measured as adjusted operating profit for the year divided by average net assets adding back net debt, acquisition related liabilities, and historic goodwill and acquisition related amortisation charges (net of the associated deferred tax). The measure also excludes the goodwill and intangible assets arising from the original transaction that created the Group when it was bought out via a leveraged buy-out transaction by private equity house Towerbrook Capital Partners in 2012.

Our ROIC of 27.4% for financial year 2023 is slightly lower than the prior year's 28.8%, as a result of the timing of acquisitions. Our main acquisition in the prior year (ERI) generated 11 months of operating profit in 2022 relative to two-thirds of the associated invested capital being included in the net assets as a result of our three-point average methodology. By contrast our two acquisitions in this financial year were both towards the end of the financial year and so had a very modest contribution to our operating profit. The timing impact of the acquisitions was partly offset by a benefit from both organic growth and operating margin expansion.

Importantly, our ROIC of 27.4% is significantly ahead of the Group's estimated pre-tax Weighted Average Cost of Capital of 10%. Volution continues to have exciting plans for growth, both through organic and inorganic investment. Although, at the time of entry to the Group, acquisitions will be dilutive to ROIC, our track record of improving the returns post acquisition, coupled with continued organic growth, mean we are confident of maintaining Group ROIC above 20% over the medium term while continuing to invest to grow the business.

Taxation

Our reported effective tax rate for the year was 23.4% (2022: 24.4%), the decrease of 1.0pp was driven by favourable business mix effect, increase in Patent Box relief and lower non-deductible items, offsetting the impact of the increase in UK Corporation Tax rate from 19% to 25%. The reduction in effective adjusted tax rate to 21.9% (2022: 22.4%) is lower than the reduction in reported effective tax rates primarily due to non-taxable contingent consideration. Our reported effective tax rate for the year was 23.2% (2022: 24.4%).

We expect our medium-term underlying effective tax rate to be in the range of 22% to 25% of the Group's adjusted profit before tax, depending on the business mix and the profile of acquisitions.

Capital allocation priorities

Volution aims to deliver strong financial returns and cash generation. Our capital allocation priorities, which remain unchanged, are:

- Investment for organic growth, including through capital expenditure, product development and innovation, and ongoing development of our people
- Value-adding acquisitions; and
- Regular returns to shareholders through dividends.

Strong cash generation and balance sheet

Volution's asset light business model and operations are strongly cash generative. Underpinned by a working capital inflow of £2.8 million in the year (2022: outflow of £17.7 million), the Group delivered a strong adjusted operating cash flow of £75.7 million (2022: £50.4 million). Group cash conversion, defined as adjusted operating cash flow as a percentage of adjusted earnings before interest, tax and amortisation (see the glossary of terms in note 25 to the consolidated financial statements) was 106% (2022: 76%).

A summary of the year's cash flow is shown in the tables below, with the principal outflows being in relation to acquisitions (£30.7 million including acquisitions and associated fees), dividends (£14.8 million) and tax paid (£14.0 million). Capital expenditure for the year was £7.8 million (2022: £6.9 million), focussed on new product development spend of £2.3 million and operational and capacity enhancements totalling £1.2 million in North Macedonia (ERI), Bosnia (ClimaRad) and the UK. There was also further investment in IT and our vehicle fleets which we are progressively transitioning to hybrid vehicles.

Net debt at 31 July 2023 was £89.3 million (2022: £85.8 million), and is set out in the table below. With low leverage (excluding finance leases) of 0.8x at 31 July 2023 (2022: 0.9x), our strong balance sheet and reliable high levels of cash conversion give us significant capability for future growth investment.

Value adding acquisitions

Acquisition spend in the year net of cash acquired was £29.7 million (2022: £24.4 million). We completed two acquisitions, Ventilairsec (VMI) in France, and I-Vent based in Slovenia and Croatia. We agreed a further acquisition, DVS Proven Systems (New Zealand), which was completed shortly after the year end.

VMI, based in Nantes, France, was acquired for an initial consideration of £7.9 million (€9.0 million), net of cash acquired. VMI designs and manufactures a range of residential ventilation systems focused on a low carbon positive input ventilation approach. The acquisition provides Volution with direct access to the French market, one of the largest ventilation markets in Europe. The VMI acquisition included an earn-out payment of up to €5 million Euros, which will be calculated on the basis of the EBITDA for the year ended 31 December 2023.

In June 2023 we completed the acquisition of I-Vent for an initial consideration of £21.7 million (€25.2 million), net of cash acquired, with further contingent consideration of up to €15 million based on stretching growth targets for the financial results for the three years up to and including 31 December 2025. I-Vent, based in Slovenia and Croatia, designs, manufactures and supplies residential ventilation systems, primarily focused on decentralised heat recovery.

Movements in net debt position for the year ended 31 July

	2023 £m	2022 £m
Opening net debt 1 August	**(85.8)**	(79.2)
Movements from normal business operations:		
Adjusted EBITDA1	**79.3**	73.9
Movement in working capital	**2.8**	(17.7)
Share-based payments	**1.4**	1.1
Capital expenditure	**(7.8)**	(6.9)
Adjusted operating cash flow:	**75.7**	50.4
– Interest paid net of interest received	**(3.7)**	(2.7)
– Income tax paid	**(14.0)**	(12.2)
– Cash flow relating to business combination costs	**(1.0)**	(0.2)
– Dividend paid	**(14.8)**	(13.3)
– Purchase of own shares	**(1.8)**	(1.9)
– FX on foreign currency loans/cash	**(3.1)**	0.7
– Issue costs of new borrowings	**(0.3)**	(0.3)
– IFRS 16 payment of lease liabilities	**(4.5)**	(3.2)
– IFRS 16 decrease/(increase) in lease liabilities	**(6.2)**	0.5
Movements from business combinations:		
– Business combination of subsidiaries, net of cash acquired	**(29.7)**	(16.5)
– Contingent consideration relating to Ventair from operating activities	**—**	(3.2)
– Contingent consideration relating to Ventair from investing activities	**—**	(0.9)
– Business combination of subsidiaries, debt repaid	**(0.1)**	(3.8)
Closing net debt 31 July	**(89.3)**	(85.8)

[1] A reconciliation of the Group's reported profit before tax to adjusted measures of performance are shown in detail in note 2 to the consolidated financial statements.

Reconciliation of Bank debt to Net debt

	2023 £m	2022 £m
Bank debt	**(79.4)**	(74.3)
Cash	**21.3**	13.5
Net debt (excluding lease liabilities)	**(58.1)**	(60.8)
Lease liabilities	**(31.2)**	(25.0)
Net debt	**(89.3)**	(85.8)

Reconciliation of adjusted operating cash flow

	2023 £m	2022 £m
Net cash flow generated from operating activities	**68.5**	41.7
Net capital expenditure	**(7.8)**	(6.9)
UK and overseas tax paid	**14.0**	12.2
Contingent consideration relating to the acquisition of Ventair	**—**	3.2
Cash flow relating to business combination costs	**1.0**	0.2
Adjusted operating cash flow	**75.7**	50.4

Funding facilities and liquidity

In December 2022, the Group exercised the option to extend its £150 million multicurrency "Sustainability Linked Revolving Credit Facility", together with an additional accordion of up to £30 million, by a period of twelve months. The maturity date of the facility is now 2 December 2025.

As at 31 July 2023, the Group had £70.6 million of undrawn, committed bank facilities (2022: £75.7 million) and £21.3 million of cash and cash equivalents on the consolidated statement of financial position (2022: £13.5 million).

Returns to shareholders

Adjusted earnings per share increased by 7.5% to 25.8 pence (2022: 24.0 pence). The Board is recommending a final dividend of 5.5 pence which, together with an interim dividend paid of 2.5 pence per share, gives a total dividend per share of 8.0 pence (2022: 7.3 pence), up 9.6% in total. The final dividend is subject to approval by shareholders at the AGM on 13 December 2023 and, if approved, will be paid on 19 December 2023.

Employee Benefit Trust

During the year £1.8 million of non-recourse loans (2022: £1.9 million) were made to the Volution Employee Benefit Trust for the purpose of purchasing shares in Volution Group plc to meet the Company's obligations under its share incentive plans. The Volution Employee Benefit Trust acquired 550,000 shares at an average price of £3.33 per share in the period (2022: £4.10) and 920,250 shares (2022: 402,407 shares) were released by the trustees with a value of £3,018,420 (2022: £1,114,667). 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.

Andy O'Brien
Chief Financial Officer

4 October 2023

Directors' responsibilities in respect of the financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

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

The contents of this announcement, including the responsibility statement above, have been extracted from the annual report and accounts for the year ended 31 July 2023 which may be found at www.volutiongroupplc.com and will be despatched to shareholders on or around 19 October 2023. Accordingly this responsibility statement makes reference to the financial statements of the Company and the group and to the relevant narrative appearing in that annual report and accounts rather than the contents of this announcement.

On behalf of the Board

Ronnie George
Chief Executive Officer

4 October 2023

Andy O'Brien
Chief Financial Officer

4 October 2023

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2023

	Notes	2023 £000	2022 £000
Revenue from contracts with customers	3	**328,008**	307,701
Cost of sales		**(169,149)**	(160,603)
Gross profit		**158,859**	147,098
Administrative and distribution expenses		**(100,095)**	(96,693)
Operating profit before separately disclosed items		**58,764**	50,405
Costs of business combinations		**(1,032)**	(215)
Contingent consideration		**(640)**	598
Operating profit		**57,092**	50,788
Finance revenue	5	**65**	1,333
Finance costs	5	**(6,513)**	(3,369)
Re-measurement of financial liabilities		**54**	(583)
Re-measurement of future consideration		**(1,879)**	(955)
Profit before tax		**48,819**	47,214
Income tax	6	**(11,437)**	(11,542)
Profit after tax		**37,382**	35,672
Attributable to the shareholders		**37,373**	35,610
Attributable to non-controlling interest		**9**	62
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translation of foreign operations		**(3,015)**	1,944
Loss on currency loans relating to the net investment in foreign operations		**(1,309)**	(1,744)
Other comprehensive (loss)/income for the year		**(4,324)**	200
Total comprehensive income for the year		**33,058**	35,872
Attributable to the shareholders		**33,049**	35,810
Attributable to non-controlling interest		**9**	62
Earnings per share			
Basic earnings per share	7	**19.0p**	18.1p
Diluted earnings per share	7	**18.7p**	17.8p

Consolidated Statement of Financial Position

At 31 July 2023

	Notes	2023 £000	2022 £000
Non-current assets			
Property, plant and equipment	8	**29,448**	28,235
Right-of-use assets	17	**29,902**	23,567
Intangible assets – goodwill	9	**164,873**	142,661
Intangible assets – others	11	**83,863**	87,592
		308,086	282,055
Current assets			
Inventories	13	**58,980**	57,151
Trade and other receivables	14	**52,336**	57,526
Other financial assets	15	**—**	1,091
Cash and short-term deposits		**21,244**	13,543
		132,560	129,311
Total assets		**440,646**	411,366
Current liabilities			
Trade and other payables	16	**(47,108)**	(48,837)
Refund liabilities		**(9,817)**	(10,268)
Income tax		**(4,662)**	(5,564)
Other financial liabilities	18	**(330)**	—
Interest-bearing loans and borrowings	19	**(3,754)**	(3,599)
Provisions	20	**(1,791)**	(1,684)
		(67,462)	(69,952)
Non-current liabilities			
Interest-bearing loans and borrowings	19	**(116,704)**	(104,433)
Other financial liabilities	18	**(16,597)**	(14,132)
Provisions	20	**(301)**	(319)
Deferred tax liabilities	21	**(13,337)**	(14,222)
		(146,939)	(133,106)
Total liabilities		**(214,401)**	(203,058)
Net assets		**226,245**	208,308
Capital and reserves			
Share capital		**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(2,390)**	(3,574)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**5,584**	5,058
Foreign currency translation reserve		**(1,225)**	3,099
Retained earnings		**116,894**	96,247
Total shareholders' equity		**226,245**	208,212
Non-controlling interest		**—**	96
Total equity		**226,245**	208,308

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 4 October 2023.

On behalf of the Board

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 July 2023

	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	Shareholders' equity £000	Non-controlling interest £000	Total equity £000
At 31 July 2021	2,000	11,527	(3,739)	93,855	4,090	2,899	74,658	185,290	—	185,290
Profit for the year	—	—	—	—	—	—	35,610	35,610	62	35,672
Other comprehensive income	—	—	—	—	—	200	—	200	—	200
Total comprehensive income	—	—	—	—	—	200	35,610	35,810	62	35,872
Acquisition of businesses	—	—	—	—	—	—	—	—	34	34
Purchase of own shares	—	—	(1,900)	—	—	—	—	(1,900)	—	(1,900)
Exercise of share options	—	—	2,065	—	(1,129)	—	(749)	187	—	187
Share-based payment including tax	—	—	—	—	2,097	—	—	2,097	—	2,097
Dividends paid (note 22)	—	—	—	—	—	—	(13,272)	(13,272)	—	(13,272)
At 1 August 2022	2,000	11,527	(3,574)	93,855	5,058	3,099	96,247	208,212	96	208,308
Profit for the year	—	—	—	—	—	—	37,373	37,373	9	37,382
Other comprehensive loss	—	—	—	—	—	(4,324)	—	(4,324)	—	(4,324)
Total comprehensive income	—	—	—	—	—	(4,324)	37,373	33,049	9	33,058
Purchase of own shares	—	—	(1,834)	—	—	—	—	(1,834)	—	(1,834)
Exercise of share options	—	—	3,018	—	(1,379)	—	(1,639)	—	—	—
Share-based payment including tax	—	—	—	—	1,905	—	—	1,905	—	1,905
Dividends paid (note 22)	—	—	—	—	—	—	(14,823)	(14,823)	—	(14,823)
Acquisition of non-controlling interest	—	—	—	—	—	—	(264)	(264)	(105)	(369)
At 31 July 2023	2,000	11,527	(2,390)	93,855	5,584	(1,225)	116,894	226,245	—	226,245

Treasury shares

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

Capital reserve

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

Share-based payment reserve

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

Foreign currency translation reserve

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

Retained earnings

The parent company of the Group, Volution Group plc, had distributable retained earnings at 31 July 2023 of £131,795,000 (2022: £120,294,000).

Consolidated Statement of Cash Flows

For the year ended 31 July 2023

	Notes	2023 £000	2022 £000
Operating activities			
Profit for the year after tax		**37,382**	35,672
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		**11,437**	11,542
Gain on disposal of property, plant and equipment and intangible assets – other		**(17)**	(51)
Costs of business combinations		**1,032**	215
Contingent consideration		**640**	(598)
Cash flows relating to business combination costs		**(1,032)**	(215)
Re-measurement of financial liability relating to business combination of ClimaRad		**(54)**	583
Re-measurement of future consideration relating to business combination of ClimaRad		**1,879**	955
Finance revenue	5	**(65)**	(1,333)
Finance costs	5	**6,513**	3,369
Share-based payment expense		**1,357**	1,115
Depreciation of property, plant and equipment	8	**4,102**	3,816
Depreciation of right-of-use assets	17	**3,895**	3,612
Amortisation of intangible assets	11	**12,574**	16,026
Working capital adjustments:			
Decrease/(increase) in trade receivables and other assets		**6,925**	(6,418)
Decrease/(increase) in inventories		**310**	(9,805)
Decrease in trade and other payables		**(4,505)**	(1,235)
Movement in provisions		**89**	(242)
Cash generated by operations		**82,462**	57,008
UK income tax paid		**(4,171)**	(3,000)
Overseas income tax paid		**(9,819)**	(9,155)
Contingent consideration relating to the acquisition of Ventair	12	**—**	(3,211)
Net cash flow generated from operating activities		**68,472**	41,642
Investing activities			
Payments to acquire intangible assets	11	**(3,049)**	(2,238)
Purchase of property, plant and equipment	8	**(4,914)**	(4,773)
Proceeds from disposal of property, plant and equipment and intangible assets – other		**175**	179
Business combination of subsidiaries, net of cash acquired	12	**(29,696)**	(15,996)
Contingent consideration relating to the acquisition of Air Connection	12	**—**	(476)
Contingent consideration relating to the acquisition of Ventair	12	**—**	(952)
Interest received		**65**	4
Net cash flow used in investing activities		**(37,419)**	(24,252)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(62,240)**	(33,626)
Repayment of VMI debt acquired		**(92)**	—
Repayment of ERI debt acquired		**—**	(3,227)
Repayment of ClimaRad vendor loan		**—**	(504)
Proceeds from new borrowings		**65,950**	36,428
Issue costs of new borrowings		**(300)**	(330)
Interest paid		**(3,748)**	(2,662)
Payment of principal portion of lease liabilities		**(4,482)**	(3,202)
Dividends paid		**(14,823)**	(13,272)
Purchase of own shares		**(1,834)**	(1,900)
Net cash flow used in financing activities		**(21,569)**	(22,295)
Net increase/(decrease) in cash and cash equivalents		**9,484**	(4,905)
Cash and cash equivalents at the start of the year		**13,543**	19,456
Effect of exchange rates on cash and cash equivalents		**(1,783)**	(1,008)
Cash and cash equivalents at the end of the year		**21,244**	13,543

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

Notes to the Consolidated Financial Statements

For the year ended 31 July 2023

The preliminary results were authorised for issue by the Board of Directors on 4 October 2023. The financial information set out herein does not constitute the Group's statutory consolidated financial statements for the years ended 31 July 2023 or 2022 but is derived from those accounts. Statutory consolidated financial statements for 2023 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 Group's consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards (UK-adopted IAS). 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 July 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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, assessed for the period up until 31 January 2024.

The financial position of the Group, its cash flows and liquidity position are set out in the financial statements.

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered all of the above factors, including potential scenarios arising from the political and macroeconomic uncertainty that has arisen post-Covid and since the invasion of Ukraine early in 2022, including the actions of central banks in raising interest rates to curb inflation and the impact that this may have on housing and construction, and from its other principal risks. Under a severe but plausible downside scenario, the Group remains within its debt facilities and the attached financial covenants under the 18 months from the balance sheet date period of assessment and the Directors therefore believe, at the time of approving the financial statements, that the Company is well placed to manage its business risks successfully and remains a going concern. The key facts and assumptions in reaching this determination are summarised below.

Our financial position remains robust with committed facilities totalling £150 million, and an accordion of a further £30 million, maturing in December 2025.

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

Our base case scenario has been prepared using robust forecasts from each of our operating companies, with each considering the risks and opportunities the businesses face.

We have then applied a severe but plausible downside scenario in order to model the potential concurrent impact of:

- a general economic slowdown reducing revenue by 20% compared to plan.
- supply chain difficulties or input price increases reducing gross profit margin by 10%; and
- a significant acquisition increasing debt but with no positive cash flow contribution.

A reverse stress test scenario has also been modelled which shows a revenue contraction of c37% with no mitigations would be required to breach covenants, which is considered extremely remote in likelihood of occurring. Mitigations available within the control of management include reducing discretionary capex and discretionary indirect costs.

Over the short period of our Climate Change assessment (aligned to our Going Concern assessment) we have concluded that there is no material adverse impact of Climate Change and hence have not included any impacts in either our base case or downside scenarios of our Going Concern assessment. We have not experienced material adverse disruption during periods of adverse or extreme weather in recent years and we would not expect this to occur to a material level over the period of our Going Concern assessment.

The Directors have concluded that the results of the scenario testing combined with the significant liquidity profile available under the revolving credit facility confirm that there is no material uncertainty in the use of the going concern assumption.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2023

1. Basis of preparation (continued)

Non-controlling interest

Non-controlling interests are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the business combination and the non-controlling interest's share of changes in equity since that date. Non-controlling interests are measured at the non-controlling interest's share of the fair value of the identifiable net assets.

Where there is an obligation to purchase the non-controlling interest at a future date, the non-controlling interest will be recognised on the business combination, and subsequently when the obligation to purchase liability is recognised the amount is reclassified from equity to a financial liability and the non-controlling interest is derecognised. Any difference between the carrying value of the non-controlling interest and the liability is adjusted against retained earnings.

The financial liability for the non-controlling interest is subsequently accounted for under IFRS 9, with all changes in the carrying amount, including the non-controlling interest share of profit, recognised as a re-measurement in the income statement. When the obligation or "put liability" is exercised, the carrying amount of the financial liability at that date is extinguished by the payment of the exercise price.

Foreign currencies

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

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

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

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

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 key judgement, apart from any involving estimations, that has the most significant effect on the amounts recognised in the financial statements is the identification of the Group's cash generating units (CGUs) and the grouping of those CGUs for goodwill impairment testing purposes. This judgement could have a significant impact on the carrying value of goodwill and other intangible assets in the financial statements. Hence, the Directors have concluded that this is a key judgment under the scope of paragraph 122 of IAS1. Further details can be found in note 10 - impairment assessment of goodwill and note 11 - intangible assets other.

The Directors have concluded that there are no major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other judgements and estimates, which the directors do not believe to be critical accounting judgements or key sources of estimation uncertainty under the scope of paragraph 122 or 125 of IAS1, but for which additional disclosures have been made in the relevant notes include i) estimates and assumptions made related to: impairment assessment of goodwill (note 9), intangible assets – other (note 11), ii) estimates and assumptions relating to refund liabilities arising from retrospective volume rebates (note 3), and iii) financial liabilities relating to the business combination of ClimaRad, ERI, VMI and I-Vent (notes 12 and 18).

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

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

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

In preparing the financial statements, we have considered the impact of climate change, particularly in the context of the risks identified in the TCFD disclosure. Whilst we do not currently expect any material short and medium term impacts from climate change under the scenarios we have considered, the risks over the long term are more uncertain. However, there have been no risks of climate change identified which would have a material impact on the judgements and estimates made in preparation of these financial statements.

These are short term (less than 5 years) which is the period over which we prepare detailed bottom up plans, medium term (5-15 years) which is the period over which our continued strategy to provide healthy air sustainability under our three strategic pillars will be delivered including specific targets to reduce carbon, and long term (beyond 15 years) which is the period aligned to the useful economic life of some of our property assets and where the potential

1. Basis of preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty (continues)

impacts under different scenarios are less certain. These different periods have allowed us to assess risks and opportunities that are immediate and well defined to those which may arise over time but which are much less certain.

Separately disclosed items

The Group discloses some items on the face of the consolidated statement of comprehensive income by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group. These separately disclosed items include, but are not limited to, significant restructuring costs and significant business combination and related integration and earn-out costs.

New standards and interpretations

The standards or interpretations listed below have become effective since 1 August 2022 for annual periods beginning on or after 1 January 2022.

The following amendments became effective as at 1 January 2022:

- Amendments to IFRS3 “Reference to the Conceptual Framework”
- Amendments to IAS 16 “Property, plant and equipment – proceeds before intended use”
- Amendments to IAS37 “Onerous Contracts - Costs of Fulfilling a Contract”
- Amendments to IFRS 9 “Financial Instruments - Fees in the ‘10 per cent’ test for derecognition of financial liabilities”

At the date of authorisation of these Consolidated Financial Statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

The following amendments became effective as at 1 January 2023:

- Amendments to IAS 12 “Deferred tax related to assets and liabilities arising from a single transaction”
- Amendments to IAS 8 “Definition of accounting estimates”
- Amendments to IAS 1 and IFRS Practice Statement 2 – “Disclosure of accounting policies”

The following amendments became effective as at 1 January 2024:

- Amendments to IAS 1 “Classification of liabilities as current or non-current”
- Amendments to IFRS 16 “Lease liability in a sale and leaseback”
- Amendments to IAS 1 “Non-current liabilities with covenants”
- Amendments to IAS 7 “Supplier Finance Arrangements”

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Consolidated Financial Statements of the Group in future periods.

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 helpful as they remove items that do not reflect the day-to-day trading operations of the business and therefore their exclusion is relevant to an assessment of the day-to-day trading operations, as opposed to overall annual business performance. Such alternative performance measures are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. Likewise, these measures are not a substitute for IFRS measures of profit. A reconciliation of these measures of performance to the corresponding reported figure is shown below.

	2023 **£000**	2022 £000
Profit after tax	**37,382**	35,672
Add back:		
Contingent consideration	**640**	(598)
Cost of business combinations	**1,032**	215
Re-measurement of future consideration relating to the business combination of ClimaRad	**1,879**	955
Net gain on financial instruments at fair value	**1,599**	(1,329)
Amortisation and impairment of intangible assets acquired through business combinations	**11,088**	14,485
Tax effect of the above	**(2,788)**	(2,085)
Adjusted profit after tax	**50,832**	47,315
Add back:		
Adjusted tax charge	**14,225**	13,627
Adjusted profit before tax	**65,057**	60,942
Add back:		
Interest payable on bank loans, lease liabilities and amortisation of financing costs	**4,914**	3,369
Re-measurement of financial liabilities relating to the business combination of ClimaRad	**(54)**	583
Finance revenue	**(65)**	(4)
Adjusted operating profit	**69,852**	64,890
Add back:		
Depreciation of property, plant and equipment	**4,102**	3,816
Depreciation of right-of-use assets	**3,895**	3,612
Amortisation of development costs, software and patents	**1,486**	1,541
Adjusted EBITDA	**79,335**	73,859

For definitions of terms referred to above see note 25, Glossary of terms.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2023

3. Revenue from contracts with customers

Accounting policy

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

Sale of products

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

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

Volume rebates

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

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

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in note 20, Provisions.

Installation services

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

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

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

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. A contract asset is recognised when the Group transfers goods or services to the customer before the customer pays consideration. There is no contract asset included within the statement of financial position as revenue is recognised at a point in time, after installation. Consideration is recognised immediately as a receivable and is unconditional (only the passage of time is required before payment of consideration is due). The Group’s accounting policy on trade receivables is detailed in note 14.

Contract liabilities

There are no contract liabilities recognised in the comparative period or in the financial year ended 31 July 2023.

Estimates and assumptions

Liabilities arising from retrospective volume rebates

The Group has a number of customer rebate agreements that are recognised as a reduction from sales (collectively referred to as rebates). Rebates are based on an agreed percentage of revenue, which increases with the level of revenue achieved. These agreements typically are not coterminous with the Group’s year end and some of the amounts payable are subject to confirmation after the reporting date, of the total rebates, approximately £3.6m is non-coterminous with the year end and is based on actual revenue recorded to 31 July 2023 however, final rebate % are dependent on estimated performance to December based on the bottoms up board approved budget and managements experience and knowledge of the customers. Estimates are made as to which % band each customer will fall into.

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

Given that the rebate provision represents an estimate within the financial statements, there is a risk that the Directors’ estimate of the potential liability may be incorrect. However, the Directors do not consider it reasonably possible, at the balance sheet date, that this was a major source of estimation uncertainty that could have a significant risk of resulting in a material adjustment to the liabilities recorded under the scope of paragraph 125 of IAS1.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 July 2023

3. Revenue from contracts with customers (continued)

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

	2023 £000	2022 £000
Sale of goods	**320,808**	301,097
Installation services	**7,200**	6,604
Total revenue from contracts with customers	**328,008**	307,701

Market sectors	2023 £000	2022 £000
UK		
Residential	**89,680**	75,040
Commercial	**30,151**	31,031
Export	**12,119**	11,670
OEM (Torin-Sifan)	**24,120**	25,908
Total UK	**156,070**	143,649
Nordics[1]	**49,126**	53,303
Central Europe[2]	**75,410**	65,128
Total Continental Europe	**124,536**	118,431
Total Australasia	**47,402**	45,621
Total revenue from contracts with customers	**328,008**	307,701

Notes

1. Included in the Nordics revenue is £nil of inorganic revenue from the business combination of Klimatfabriken and Rtek (2022: £3,514,000 of inorganic revenue from the business combination of Klimatfabriken and Rtek).
2. Included in the Central Europe revenue is £4,530,000 of inorganic revenue from the business combination of ERI, VMI and I-Vent (2022: £18,950,000 of inorganic revenue from the business combination of ClimaRad BV and ERI).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2023

4. Segmental analysis

Accounting policy

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

In identifying its operating segments, management follows the Group's market sectors. These are UK including OEM (Torin-Sifan), Continental Europe (Nordics and Central Europe) and Australasia.

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 25 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 2023	UK £000	Continental Europe £000	Australasia £000	Central/ eliminations £000	Consolidated £000
Revenue from contracts with customers					
External customers	**156,070**	**124,536**[1]	**47,402**	**—**	**328,008**
Inter-segment	**24,908**	**38,779**	**188**	**(63,875)**	**—**
Total revenue from contracts with customers	**180,978**	**163,315**	**47,590**	**(63,875)**	**328,008**
Gross profit	**74,254**	**60,616**	**23,989**	**—**	**158,859**
Results					
Adjusted segment EBITDA	**39,562**	**31,707**	**12,568**	**(4,502)**	**79,335**
Depreciation and amortisation of development costs, software and patents	**(4,277)**	**(3,283)**	**(1,239)**	**(684)**	**(9,483)**
Adjusted operating profit/(loss)	**35,285**	**28,424**	**11,329**	**(5,186)**	**69,852**
Amortisation of intangible assets acquired through business combinations	**(7,163)**	**(3,338)**	**(587)**	**—**	**(11,088)**
Business combination-related operating costs	**—**	**—**	**—**	**(1,672)**	**(1,672)**
Operating profit/(loss)	**28,122**	**25,086**	**10,742**	**(6,858)**	**57,092**
Unallocated expenses					
Net finance cost	**—**	**—**	**(90)**	**(6,358)**	**(6,448)**
Re-measurement of future consideration	**—**	**—**	**—**	**(1,879)**	**(1,879)**
Re-measurement of financial liability	**—**	**—**	**—**	**54**	**54**
Profit/(loss) before tax	**28,122**	**25,086**	**10,652**	**(15,041)**	**48,819**

Year ended 31 July 2022	UK £000	Continental Europe £000	Australasia £000	Central/ eliminations £000	Consolidated £000
Revenue from contracts with customers					
External customers	143,649	118,431[1]	45,621	—	307,701
Inter-segment	20,318	30,038	179	(50,535)	—
Total revenue from contracts with customers	163,967	148,469	45,800	(50,535)	307,701
Gross profit	62,397	61,984	22,456	—	146,837
Results					
Adjusted segment EBITDA	33,052	32,810	11,236	(3,239)	73,859
Depreciation and amortisation of development costs, software and patents	(3,799)	(3,201)	(1,292)	(677)	(8,969)
Adjusted operating profit/(loss)	29,253	29,609	9,944	(3,916)	64,890
Amortisation of intangible assets acquired through business combinations	(6,978)	(6,365)	(1,142)	—	(14,485)
Business combination-related operating costs	—	—	—	383	383
Operating profit/(loss)	22,275	23,244	8,802	(3,533)	50,788
Unallocated expenses					
Net finance cost	—	—	99	(2,135)	(2,036)
Re-measurement of future consideration	—	—	—	(955)	(955)
Re-measurement of financial liability	—	—	—	(583)	(583)
Profit/(loss) before tax	22,275	23,244	8,901	(7,206)	47,214

Note

1. Included in the Continental Europe revenue is £4,530,000 of inorganic revenue from the business combination of ERI, VMI and I-Vent (2022: £22,464,00000 of inorganic revenue from the business combination of ClimaRad BV, Klimatfabriken, Rtek and ERI).

4. Segmental analysis (continued)

Geographic information

Revenue from external customers by customer destination	**2023 £000**	2022 £000
United Kingdom	**132,507**	119,371
Europe (excluding United Kingdom and Sweden)	**119,289**	112,886
Sweden	**23,328**	24,431
Australasia	**47,668**	45,780
Rest of the world	**5,216**	5,233
Total revenue from contracts with customers	**328,008**	307,701

Non-current assets excluding deferred tax	**2023 £000**	2022 £000
United Kingdom	**121,458**	117,704
Europe (excluding United Kingdom and Nordics)	**106,502**	79,408
Nordics	**33,901**	35,930
Australasia	**46,225**	49,013
Total	**308,086**	282,055

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. Finance revenue and costs

Accounting policy

Finance revenue

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

Net financing costs

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

	2023 £000	2022 £000
Finance revenue		
Net gain on financial instruments at fair value	**—**	1,329
Interest receivable	**65**	4
Total finance revenue	**65**	1,333
Finance costs		
Net loss on financial instruments at fair value	**(1,599)**	—
Interest payable on bank loans	**(3,087)**	(1,828)
Amortisation of finance costs	**(452)**	(442)
Lease interest	**(635)**	(520)
Other interest	**(740)**	(579)
Total finance costs	**(6,513)**	(3,369)
Net finance costs	**(6,448)**	(2,036)

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. The fair value of the Group's financial derivatives can be found in note 18.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2023

6. Income tax

Accounting policy

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

The Group's deferred tax policy can be found in note 21.

(a) Income tax charges against profit for the year

	2023 £000	2022 £000
Current income tax		
Current UK income tax expense	**4,694**	4,897
Current foreign income tax expense	**8,887**	9,075
Tax credit relating to the prior year	**(638)**	(673)
Total current tax	**12,943**	13,299
Deferred tax		
Origination and reversal of temporary differences	**(2,023)**	(2,851)
Effect of changes in the tax rate	**(223)**	200
Tax charge relating to the prior year	**740**	894
Total deferred tax	**(1,506)**	(1,757)
Net tax charge reported in the consolidated statement of comprehensive income	**11,437**	11,542

(b) Income tax recognised in equity for the year

	2023 £000	2022 £000
Increase in deferred tax asset on share-based payments	**(343)**	(685)
Net tax credit reported in equity	**(343)**	(685)

(c) Reconciliation of total tax

	2023 £000	2022 £000
Profit before tax	**48,819**	47,214
Profit before tax multiplied by the standard rate of corporation tax in the UK of 21.00% (2022: 19.00%)	**10,252**	8,971
Adjustment in respect of previous years	**102**	221
Expenses not deductible for tax purposes	**1,473**	1,161
Effect of changes in the tax rate (see explanation below)	**(164)**	200
Non-taxable income	**—**	(391)
Higher overseas tax rate	**184**	1,602
Patent box	**(410)**	(330)
Other	**—**	108
Net tax charge reported in the consolidated statement of comprehensive income	**11,437**	11,542

Our reported effective tax rate for the period was 23.4% (2022: 24.4%). Our underlying effective tax rate, on adjusted profit before tax, was 21.9% (2022: 22.4%).

On 24 May 2021, legislation was passed which substantively enacted an increase in UK corporation tax rate from 19% to 25% from April 2023. Deferred tax on the balance sheet at 31 July 2023 was therefore measured at 25%.

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.

We expect our medium-term reported effective tax rate to be in the range of 29% to 35% of the Group's reported profit before tax and our underlying effective tax rate to be in the range of 22% to 25% of the Group's adjusted profit before tax.

7. 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 3,365,875 dilutive potential ordinary shares at 31 July 2023 (2022: 2,966,484).

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

Year ended 31 July	**2023** **£000**	2022 £000
Profit attributable to ordinary equity holders	**37,382**	35,672

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**197,131,650**	197,522,143
Effect of dilution from:		
Share options	**2,658,209**	2,525,713
Weighted average number of ordinary shares for diluted earnings per share	**199,789,859**	200,047,856
Earnings per share		
Basic	**19.0p**	18.1p
Diluted	**18.7p**	17.8p

Year ended 31 July	**2023** **£000**	2022 £000
Adjusted profit attributable to ordinary equity holders	**50,832**	47,315

	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	**197,131,650**	197,522,143
Effect of dilution from:		
Share options	**2,658,209**	2,525,713
Weighted average number of ordinary shares for adjusted diluted earnings per share	**199,789,859**	200,047,856
Adjusted earnings per share		
Basic	**25.8p**	24.0p
Diluted	**25.4p**	23.7p

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

Adjusted profit attributable to ordinary equity holders has been reconciled in note 2, Adjusted earnings.

See note 25, Glossary of terms, for an explanation of the adjusted basic and diluted earnings per share calculation.

8. Property, plant and equipment

Accounting policy

Property, plant and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment; when significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, except freehold land, over their estimated useful lives using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

Buildings	–	30–50 years
Plant and machinery	–	5–10 years
Fixtures, fittings, tools, equipment and vehicles	–	4–10 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income as part of administrative expenses.

The Group's impairment policy can be found in note 11.

2023	**Freehold land and buildings £000**	**Plant and machinery £000**	**Fixtures, fittings, tools, equipment and vehicles £000**	**Total £000**
Cost				
At 1 August 2022	**17,480**	**17,022**	**12,923**	**47,425**
On business combinations	**—**	**514**	**—**	**514**
Additions	**486**	**2,110**	**2,318**	**4,914**
Disposals	**(18)**	**(185)**	**(655)**	**(858)**
Net foreign currency exchange differences	**61**	**(21)**	**(506)**	**(466)**
At 31 July 2023	**18,009**	**19,440**	**14,080**	**51,529**
Depreciation				
At 1 August 2022	**5,011**	**6,493**	**7,686**	**19,190**
Charge for the year	**527**	**1,619**	**1,956**	**4,102**
Disposals	**(56)**	**(129)**	**(524)**	**(709)**
Net foreign currency exchange differences	**(46)**	**(124)**	**(332)**	**(502)**
At 31 July 2023	**5,436**	**7,859**	**8,786**	**22,081**
Net book value				
At 31 July 2023	**12,573**	**11,581**	**5,294**	**29,448**

2022	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
At 1 August 2021	15,370	13,840	11,544	40,754
On business combinations	2,046	1,739	92	3,877
Additions	341	2,237	2,195	4,773
Disposals	—	(531)	(812)	(1,343)
Net foreign currency exchange differences	(277)	(263)	(96)	(636)
At 31 July 2022	17,480	17,022	12,923	47,425
Depreciation				
At 1 August 2021	4,542	5,795	6,509	16,846
Charge for the year	517	1,339	1,960	3,816
Disposals	—	(523)	(709)	(1,232)
Net foreign currency exchange differences	(48)	(118)	(74)	(240)
At 31 July 2022	5,011	6,493	7,686	19,190
Net book value				
At 31 July 2022	12,469	10,529	5,237	28,235

9. Intangible assets – goodwill

Accounting policy

Goodwill

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

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

See note 11 for the Group's impairment assessment.

Goodwill	£000
Cost and net book value	
At 1 August 2021	137,710
On the business combination of ERI	5,134
Net foreign currency exchange differences	(183)
At 31 July 2022	**142,661**
On the business combination of VMI	4,072
On the business combination of I-Vent	19,813
On the business combination of ClimaRad	126
Net foreign currency exchange differences	(1,799)
At 31 July 2023	**164,873**

10. Impairment assessment of goodwill

Accounting policy

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

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

Judgements and estimates

Impairment of goodwill

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

The identification of the Group's cash generating units (CGUs) used for impairment testing is considered a critical judgement within the scope of paragraph 122 of IAS1. Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows.

The cash flows are derived from the business plan for the following three years. The recoverable amount is very sensitive to the discount rate used for the discounted cash flow model as well as assumptions and estimates of expected future cash flows and the growth rate used for extrapolation purposes. The current economic and political uncertainty has increased the level of estimation uncertainty as the impact on countries and markets continues to be uncertain; however, the Group has modelled a range of scenarios to consider the impact on the carrying value of its assets as described in the going concern statement in the risk management and principal risks section.

We have tested the sensitivity of our headroom calculations in relation to the above assumptions and estimates and the Group does not consider that changes in these assumptions that could cause the carrying value of the CGUs to materially exceed their recoverable value are reasonably possible, and hence are not major sources of estimation uncertainties under the scope of paragraph 125 of IAS1.

31 July 2023	**UK Ventilation £000**	**OEM (Torin-Sifan) £000**	**Nordics £000**	**Central Europe £000**	**Australasia £000**
Carrying value of goodwill	**55,899**	**5,101**	**18,637**	**63,109**	**25,673**
CGU value in use headroom[1]	**166,576**	**12,382**	**47,383**	**28,396**	**27,730**

As at 31 July 2022 calculated headroom was:

31 July 2022	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	55,899	5,101	19,022	35,165	27,474
CGU value in use headroom[1]	152,066	21,821	71,987	61,517	32,446

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).

10. Impairment assessment of goodwill (continued)

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 13.8% to 16.8% (2022: 12.1% to 15.7%) 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.

When assessing for impairment of goodwill, we have considered the impact of climate change, particularly in the context of the risks and opportunities identified in the TCFD disclosure in the Annual Report. We have not identified any material short and medium-term impacts from climate change that would impact the carrying value of goodwill. Over the long term, the risks and opportunities are more uncertain and we will continue to assess these risks at each reporting period.

Assumptions in the value in use calculation

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

- specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations;
- long-term growth rates of 2% (2022: 2%) for all CGUs have been applied to the period beyond which budgets and forecasts do not exist, based on historical macroeconomic performance and projections for the geographies in which the CGUs operate; and
- discount rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rates used for each CGU are: UK Ventilation: 14.2% (2022: 13.0%); OEM (Torin-Sifan): 15.4% (2022: 14.0%); Nordics: 13.8% (2022: 12.1%); Central Europe: 14.4% (2022: 12.2%); and Australasia: 16.8% (2022: 15.7%).

The value in use headroom for each CGU has been set out above. We have tested the sensitivity of our headroom calculations in relation to the above assumptions and the Group does not consider that changes in these assumptions that could cause the carrying value of the CGUs to materially exceed their recoverable value are reasonably possible.

11. Intangible assets – other

Accounting policy

Intangible assets acquired in a business combination

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

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

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

Research and development

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

Subsequent measurement of intangible assets

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

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

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

Judgements and estimates

Impairment of other intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its other intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified. The identification of the Group's cash generating units (CGUs) used for impairment testing is considered a critical judgement within the scope of paragraph 122 of IAS1.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2023

11. Intangible assets – other (continued)

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.

The assumptions and sensitivities in respect of the Group's other intangible assets are included in note 11 and are not considered major sources of estimation uncertainties under the scope of paragraph 125 of IAS1.

2023	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2022	**7,956**	**9,835**	**160,014**	**54,105**	**3,364**	**1,163**	**236,437**
Additions	**2,310**	**568**	**171**	**—**	**—**	**—**	**3,049**
On business combinations	**2,466**	**1**	**1,175**	**1,626**	**—**	**—**	**5,268**
Disposals	**—**	**(50)**	**—**	**—**	**—**	**—**	**(50)**
Net foreign currency exchange differences	**—**	**(77)**	**(519)**	**(471)**	**53**	**—**	**(1,014)**
At 31 July 2023	**12,732**	**10,277**	**160,841**	**55,260**	**3,417**	**1,163**	**243,690**
Amortisation							
At 1 August 2022	**2,601**	**6,282**	**114,120**	**22,678**	**2,001**	**1,163**	**148,845**
Charge for the year	**702**	**1,080**	**5,507**	**5,037**	**248**	**—**	**12,574**
Disposals	**—**	**(41)**	**—**	**—**	**—**	**—**	**(41)**
Net foreign currency exchange differences	**(37)**	**(163)**	**(698)**	**(583)**	**(70)**	**—**	**(1,551)**
At 31 July 2023	**3,266**	**7,158**	**118,929**	**27,132**	**2,179**	**1,163**	**159,827**
Net book value							
At 31 July 2023	**9,466**	**3,119**	**41,912**	**28,128**	**1,238**	**—**	**83,863**

Included in software costs are assets under construction of £54,000 (2022: £48,000), which are not amortised. Included in development costs are assets under construction of £1,505,000 (2022: £1,501,000), which are not amortised.

2022	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2021	6,783	9,698	147,582	51,447	3,410	1,163	220,083
Additions	1,245	238	755	—	—	—	2,238
On business combinations	6	39	12,957	2,933	19	—	15,954
Disposals	(25)	(122)	—	—	—	—	(147)
Net foreign currency exchange differences	(53)	(18)	(1,280)	(275)	(65)	—	(1,691)
At 31 July 2022	7,956	9,835	160,014	54,105	3,364	1,163	236,437
Amortisation							
At 1 August 2021	2,039	5,503	106,202	18,127	1,676	1,163	134,710
Charge for the year	620	932	9,207	4,868	399	—	16,026
Disposals	(8)	(122)	—	—	—	—	(130)
Net foreign currency exchange differences	(50)	(31)	(1,289)	(317)	(74)	—	(1,761)
At 31 July 2022	2,601	6,282	114,120	22,678	2,001	1,163	148,845
Net book value							
At 31 July 2022	5,355	3,553	45,894	31,427	1,363	—	87,592

11. Intangible assets – other (continued)

The remaining amortisation periods for acquired intangible assets at 31 July 2023 are as follows:

	Customer base	Trademark	Patent/ technology/ other
Volution Holdings Limited and its subsidiaries	1 year	15 years	—
Fresh AB and its subsidiaries	—	10 years	—
PAX AB and PAX Norge AS	—	11 years	—
inVENTer GmbH	1 year	12 years	12 years
Ventilair Group International BVBA and its subsidiaries	1 year	3 years	—
Energy Technique Limited and its subsidiaries	2 years	14 years	—
NVA Services Limited and its subsidiaries	4 years	9 years	—
Breathing Buildings Limited	4 years	9 years	—
VoltAir System AB	10 years	10 years	—
Simx Limited	11 years	21 years	—
Oy Pamon Ab	6 years	16 years	6 years
Air Connection ApS	6 years	—	—
Nordic Line ApS	—	—	—
Ventair Pty Limited	8 years	18 years	—
ClimaRad BV	7 years	14 years	—
Nordiska Klimatfabriken AB	4 years	9 years	—
Energent Oy	4 years	9 years	—
ERI	9 years	19 years	—
VMI	8 years	10 years	5 years
I-Vent	—	20 years	—

Individually material intangible assets with definite useful lives:

	Carrying amount 2023 £000	Remaining amortisation period 2023 Years
Customer base		
Simx Limited	6,102	11 years
ClimaRad BV	10,462	7 years
ERI	10,517	9 years
Trademark		
Volution Holdings Limited and its subsidiaries	16,885	15 years
ClimaRad BV	2,671	14 years
ERI	2,663	19 years

12. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at fair value on the date of the business combination. The business combination costs incurred are expensed.

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 business combination date.

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

The Group did not consider it reasonably possible, at the balance sheet date, that this was a major source of estimation uncertainty that could have a significant risk of resulting in a material adjustment to the liabilities recorded and hence is not within the scope of paragraph 125 of IAS 1.

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

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

Non-controlling interests are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the business combination and the non-controlling interest's share of changes in equity since that date. Non-controlling interests are measured at the non-controlling interest's share of the fair value of the identifiable net assets.

Where there is an obligation to purchase the non-controlling interest at a future date, the non-controlling interest will be recognised on the business combination, and subsequently when the obligation to purchase liability is recognised the amount is reclassified from equity to a financial liability and the non-controlling interest is derecognised. Any difference between the carrying value of the non-controlling interest and the liability is adjusted against retained earnings.

The financial liability for the non-controlling interest is subsequently accounted for under IFRS 9, with all changes in the carrying amount, including the non-controlling interest share of profit, recognised as a re-measurement in the income statement. When the obligation or "put liability" is exercised, the carrying amount of the financial liability at that date is extinguished by the payment of the exercise price.

Business combinations in the year ended 31 July 2023

VMI

On 4 April 2023, Volution Group plc acquired the entire share capital of Ventilairsec (VMI), a company based in Nantes, France. VMI designs and manufactures a range of residential ventilation systems focused on a low carbon positive input ventilation technology known as "VMI". The acquisition provides Volution with direct access to the French market, one of the largest ventilation markets in Europe. The acquisition of VMI is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies.

Total consideration for the purchase of the entire issued share capital was £7.9 million (€9.0 million), net of cash acquired, with a further contingent cash consideration of up to €5 million. Contingent consideration was assessed based on the current estimate of the future performance of the business for the year ended 31 December 2023 as £nil, with a range from €0 - €5,000,000, based on EBITDA performance from €1,600,000 to €3,000,000 for year ended 31 December 2023. If actual EBITDA for the year ended 31 December 2023 varies by 10% from the estimate, the contingent consideration would vary by approximately £600,000. The fair value of contingent consideration is calculated by estimating the future cash flows for the company based on management's knowledge of the business and how the current economic environment is likely to impact performance.

Transaction costs relating to professional fees associated with the business combination in the year ended 31 July 2023 were £532,000 and have been expensed as cost of business combinations separately disclosed on the face of the consolidated statement of comprehensive income above operating profit.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	1,217	2,369	3,586
Property, plant and equipment	224	—	224
Inventory	1,180	—	1,180
Trade and other receivables	1,445	—	1,445
Trade and other payables	(1,314)	213	(1,101)
Debt	(894)	—	(894)
Deferred tax liabilities	—	(592)	(592)
Cash and cash equivalents	1,371	—	1,371
Total identifiable net assets	3,229	1,990	5,219
Goodwill on the business combination			4,072
Discharged by:			
Cash consideration			9,291

Goodwill of £4,072,000 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 business combination and the experience and skill of the acquired workforce. The fair value of the acquired trade name and customer base was identified and included in intangible assets.

12. Business combinations (continued)

VMI (continued)

The gross amount of trade and other receivables is £1,445,000. The amounts for trade and other receivables not expected to be collected are £nil.

VMI generated revenue of £2,057,000 and profit after tax of £71,000 in the period from the business combination to 31 July 2023 that are included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2022, the Group's revenue would have been £8,272,000 higher and the profit after tax from continuing operations would have been £796,000 higher than reported.

I-Vent

On 22 June 2023, Volution Group plc acquired the entire share capital of I-Vent, a company based in Slovenia and Croatia. I-Vent designs, manufactures and supplies residential ventilation systems, primarily focused on decentralised heat recovery. The acquisition of I-Vent is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies.

Total consideration for the purchase of the entire issued share capital was £21.7 million (€25.2 million), net of cash acquired, with a further contingent cash consideration of up to €15.0 million. Contingent consideration was assessed based on the current estimate of the future performance of the business as £nil, with a range and performance thresholds for each of 3 years of; year 1 range from €0 - €3,000,000, based on EBITDA performance from €3,600,000 to €4,080,000 for year ended 31/12/23, year 2 range from €0 - €5,000,000, based on EBITDA performance from €4,080,000 to €5,280,000 for year ended 31/12/24, and year 3 range from €0 - €7,000,000, based on EBITDA performance from €5,280,000 to €7,5000,000 for year ended 31/12/25. If actual EBITDA for each year varies by 10% from the estimate, the contingent consideration would vary by approximately £3,000,000. The fair value of contingent consideration is calculated by estimating the future cash flows for the company based on management's knowledge of the business and how the current economic environment is likely to impact performance.

Transaction costs relating to professional fees associated with the business combination in the year ended 31 July 2023 were £98,000 and have been expensed as cost of business combinations separately disclosed on the face of the consolidated statement of comprehensive income above operating profit.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	55	1,626	1,681
Property, plant and equipment	290	—	290
Inventory	959	—	959
Trade and other receivables	290	—	290
Trade and other payables	(1,011)	—	(1,011)
Deferred tax liabilities	—	(372)	(372)
Cash and cash equivalents	3,099	—	3,099
Total identifiable net assets	3,682	1,254	4,936
Goodwill on the business combination			19,813
Discharged by:			
Cash consideration			24,749

Goodwill of £19,813,000 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 business combination, the experience and skill of the acquired workforce, and from the access to this important and growing market that the acquisition allows. The fair value of the acquired trade name and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £290,000. The amounts for trade and other receivables not expected to be collected are £nil.

I-Vent generated revenue of £621,000 and profit after tax of £31,000 in the period from the business combination to 31 July 2023 that are included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2022, the Group's revenue would have been £8,143,000 higher and the profit after tax from continuing operations would have been £2,198,000 higher than reported.

12. Business combinations (continued)

Business combinations in the year ended 31 July 2022

ERI

On 9 September 2021, Volution Group acquired ERI Corporation, a leading manufacturer and supplier of low-carbon, energy efficient heat exchanger cells, for an initial consideration of €20.0 million with a further contingent cash consideration of up to €12.4 million based on stretching targets for the financial results for the year ending 31 December 2024. The acquisition of ERI Corporation is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies.

ERI designs and manufactures a range of innovative and highly efficient aluminium heat exchanger cells for use primarily in commercial heat recovery ventilation systems. Products are manufactured in ERI's modern, high quality production facility in Bitola, North Macedonia, and are supplied to heat recovery and air handling unit manufacturers predominantly in Europe, including existing Volution Group companies. The business combination encompasses 100% of the issued share capital of ERI Corporation DOO Bitola (North Macedonia), ERI Corporation S.R.L. (Italy) and Energy Recovery Industries Trading SLU (Spain) and 51% of the issued share capital of Energy Recovery Industries Corporation Ltd (UK). For the financial year ended 31 December 2020, ERI generated revenue of €11.3 million and profit before tax of €2.0 million.

The fair value of the net assets acquired were as follows:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	418	15,536	15,954
Property, plant and equipment	3,130	747	3,877
Inventory	2,276	—	2,276
Trade and other receivables	3,626	—	3,626
Trade and other payables	(2,343)	—	(2,343)
Deferred tax liabilities	—	(1,589)	(1,589)
Bank debt	(3,227)	—	(3,227)
Cash and cash equivalents	896	—	896
Total identifiable net assets	4,776	14,694	19,470
Non-controlling interest in ERI UK			(34)
Goodwill on the business combination			5,134
Discharged by:			
Cash consideration (including deferred cash consideration)			16,892
Contingent consideration			7,678

Goodwill of £5,134,000 reflects certain intangibles that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the business combination and the experience and skill of the acquired workforce. The fair value of the acquired trademark and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £3,626,000. All of the trade receivables are expected to be collected in full. Transaction costs relating to professional fees associated with the business combination in the period ended 31 July 2022 were £126,000 and have been expensed as cost of business combinations separately disclosed on the face of the consolidated statement of comprehensive income above operating profit.

ERI generated revenue of £15,215,000 and profit after tax of £2,642,000 in the period from acquisition to 31 July 2022 that are included in the consolidated statement of comprehensive income for this reporting period. If the combination had taken place at 1 August 2021, the Group's revenue would have been £309,231,000 and the profit before tax from continuing operations would have been £47,559,000.

Cash outflows arising from business combinations are as follows:

	2023 £000	2022 £000
VMI		
Cash consideration	**9,291**	—
Less: cash acquired with the business	**(1,371)**	—
I-Vent		
Cash consideration	**24,749**	—
Less: cash acquired with the business	**(3,099)**	—
ClimaRad		
Cash consideration1	**126**	—
ERI		
Cash consideration	—	16,892
Less: cash acquired with the business	—	(896)
Ventair		
Deferred cash consideration paid	—	4,163
Air Connection		
Deferred cash consideration paid	—	476
Total	**29,696**	20,635

Note:

1. During the year Volution Group plc purchased a small proportion of shares holding of ClimaRad for £126,000.

12. Business combinations (continued)

Operating cash flows – cost of business combinations:

	2023 £000	2022 £000
VMI	**532**	—
I-Vent	**98**	—
DVS	**207**	—
ERI	—	126
Other potential or aborted business combinations	**195**	89
Total	**1,032**	215

13. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials is purchase cost on a first in, first out basis. The cost of work in progress and finished goods includes the cost of direct materials and labour and an appropriate portion of fixed and variable overhead expenses based on normal operating capacity but excludes borrowing costs.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to sell.

	2023 £000	2022 £000
Raw materials and consumables	**27,566**	24,247
Work in progress	**3,242**	3,523
Finished goods and goods for resale	**28,172**	29,381
	58,980	57,151

During 2023, £970,000 (2022: £865,000) was recognised as cost of sales for inventories written off in the year.

Inventories are stated net of an allowance for excess, obsolete or slow-moving items which totalled £5,634,000 (2022: £5,473,000). This provision was split amongst the three categories: £3,187,000 (2022: £2,926,000) for raw materials and consumables; £111,000 (2022: £146,000) for work in progress; and £2,336,000 (2022: £2,401,000) for finished goods and goods for resale.

14. Trade and other receivables

Accounting policy

Trade and other receivables are recognised when it is probable that a future economic benefit will flow to the Group. Trade and other receivables are carried at original invoice or contract amount less any provisions for discounts and expected credit losses. Provisions are made where there is evidence of a risk of non-payment taking into account ageing, previous experience and general economic conditions.

Allowance for expected credit losses

Allowance for expected credit losses is measured at an amount equal to lifetime expected credit losses (ECLs). For trade receivables the Group applies a simplified approach in calculating ECLs. Trade receivables have been grouped based on historical credit risk characteristics and the number of days from date of invoice. The expected loss rates are calculated using the provision matrix approach.

Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

Rebates receivable

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

	2023 £000	2022 £000
Trade receivables	**44,968**	53,431
Allowance for expected credit loss	**(521)**	(772)
	44,447	52,659
Other debtors	**4,323**	2,069
Prepayments	**3,566**	2,798
Total	**52,336**	57,526

Movement in the allowance for expected credit losses is set out below:

	2023 £000	2022 £000
At the start of the year	**(772)**	(553)
Charge for the year	**(39)**	(231)
Amounts utilised	**292**	19
Foreign currency adjustment	**(2)**	(7)
At the end of the year	**(521)**	(772)

14. Trade and other receivables (continued)

Gross trade receivables are denominated in the following currencies:

	2023 £000	2022 £000
Sterling	**25,361**	30,639
US Dollar	**723**	677
Euro	**8,165**	9,665
Swedish Krona	**2,713**	3,216
New Zealand Dollar	**2,946**	3,073
Australian Dollar	**3,914**	4,262
Other	**1,146**	1,899
Total	**44,968**	53,431

Net trade receivables are aged as follows:

	2023 £000	2022 £000
Neither past due nor impaired	**40,547**	41,297
Past due but not impaired		
Overdue 0–30 days	**2,500**	5,273
Overdue 31–60 days	**598**	2,283
Overdue 61–90 days	**349**	932
Overdue more than 90 days	**453**	2,874
Total	**44,447**	52,659

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available; otherwise, historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

15. Other financial assets

	2023 Current £000	2022 Current £000
Financial assets		
Foreign exchange forward contracts	**—**	**1,091**
Total	**—**	**1,091**

16. Trade and other payables

	2023 £000	2022 £000
Trade payables	**23,059**	27,715
Social security and staff welfare costs	**1,929**	1,737
Accrued expenses	**22,120**	19,385
Total	**47,108**	48,837

Trade payables are non-interest bearing and are normally settled on 60-day terms.

17. Leases

Group as a lessee

Accounting policy

The Group leases a range of assets including property, plant and equipment and vehicles. Leases of property generally have lease terms of up to 20 years, plant and machinery between three and six years and motor vehicles and other equipment between two and five years.

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

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

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

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

Set out below are the carrying amounts of right-of-use assets recognised and movements during the year:

Right-of-use assets **2023**	**Land and buildings** **£000**	**Plant and machinery** **£000**	**Fixtures, fittings, tools, equipment and vehicles** **£000**	**Total** **£000**
Cost				
At 1 August 2022	**29,069**	**327**	**3,289**	**32,685**
Additions	**2,003**	**38**	**1,376**	**3,417**
Remeasurement	**4,223**	**—**	**—**	**4,223**
Disposals	**—**	**—**	**(65)**	**(65)**
Expiration of leases	**(156)**	**(93)**	**(110)**	**(359)**
Net foreign currency exchange differences	**1,602**	**(206)**	**193**	**1,589**
At 31 July 2023	**36,741**	**66**	**4,683**	**41,490**
Depreciation				
At 1 August 2022	**7,320**	**271**	**1,527**	**9,118**
Charge for the period	**3,286**	**33**	**576**	**3,895**
Disposals	**—**	**—**	**(15)**	**(15)**
Expiration of leases	**(156)**	**(93)**	**(110)**	**(359)**
Net foreign currency exchange differences	**(713)**	**(180)**	**(158)**	**(1,051)**
At 31 July 2023	**9.737**	**31**	**1,820**	**11,588**
Net book value				
At 31 July 2023	**27,004**	**35**	**2,863**	**29,902**

17. Leases (continued)

Right-of-use assets 2022	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
At 1 August 2021	28,073	203	2,819	31,095
Additions	2,657	30	639	3,326
Disposals	—	(19)	(149)	(168)
Expiration of leases	(1,634)	(78)	(184)	(1,896)
Net foreign currency exchange differences	(27)	191	164	328
At 31 July 2022	29,069	327	3,289	32,685
Depreciation				
At 1 August 2021	5,298	139	1,181	6,618
Charge for the period	2,967	99	546	3,612
Disposals	—	(15)	(51)	(66)
Expiration of leases	(1,634)	(78)	(184)	(1,896)
Net foreign currency exchange differences	689	126	35	850
At 31 July 2022	7,320	271	1,527	9,118
Net book value				
At 31 July 2022	21,749	56	1,762	23,567

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

Lease liabilities **2023**	**Land and buildings** **£000**	**Plant and machinery** **£000**	**Fixtures, fittings, tools, equipment and vehicles** **£000**	**Total** **£000**
At 1 August 2022	**23,775**	**36**	**1,156**	**24,967**
Additions and remeasurement	**6,226**	**38**	**1,376**	**7,640**
Early termination	**—**	**—**	**(65)**	**(65)**
Interest expense	**599**	**3**	**33**	**635**
Lease payments	**(3,778)**	**(41)**	**(663)**	**(4,482)**
Foreign exchange movements	**2,352**	**(3)**	**164**	**2,513**
At 31 July 2023	**29,174**	**33**	**2,001**	**31,208**
Analysis				
Current	**3,599**	**14**	**141**	**3,754**
Non-current	**25,575**	**19**	**1,860**	**27,454**
At 31 July 2023	**29,174**	**33**	**2,001**	**31,208**

Lease liabilities 2022	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
At 1 August 2021	24,281	75	1,073	25,429
Additions to lease liabilities	2,657	30	639	3,326
Early termination	—	(19)	(149)	(168)
Interest expense	470	6	44	520
Lease payments	(3,362)	(61)	(300)	(3,722)
Foreign exchange movements	(271)	5	(151)	(418)
At 31 July 2022	23,775	36	1,156	24,967
Analysis				
Current	3,116	28	455	3,599
Non-current	20,659	8	701	21,368
At 31 July 2022	23,775	36	1,156	24,967

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

	2023 **£000**	2022 £000
Depreciation expense of right-of-use assets (cost of sales)	**2,507**	2,081
Depreciation expense of right-of-use assets (administrative expenses)	**1,388**	1,531
Interest expense	**635**	520

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2023

18. Other financial liabilities

2023	Foreign exchange forward contracts £000	ClimaRad BV £000	ERI £000	Total £000
Contingent consideration				
At 1 August 2022	**—**	**7,052**	**7,080**	**14,132**
Re-measurement of financial liability	**—**	**(54)**	**—**	**(54)**
Re-measurement of future consideration	**—**	**1,879**	**640**	**2,519**
Foreign exchange	**330**	**—**	**—**	**330**
At 31 July 2023	**330**	**8,877**	**7,720**	**16,927**
Analysis				
Current	**330**	**—**	**—**	**330**
Non-current	**—**	**8,877**	**7,720**	**16,597**
Total	**330**	**8,877**	**7,720**	**16,927**

2022	Air Connection ApS £000	Ventair Pty Limited £000	ClimaRad BV £000	Nordiska Klimatfabriken AB £000	Energent Ab £000	ERI £000	Total £000
Contingent consideration							
At 1 August 2021	483	4,070	5,514	251	256	—	10,574
Re-measurement of contractual liability to purchase remaining non-controlling interest	—	—	1,538	—	—	—	1,538
Further consideration recognised	—	—	—	—	—	7,080	7,080
Consideration paid	(476)	(4,163)	—	(240)	(256)	—	(5,135)
Foreign exchange	(7)	93	—	(11)	—	—	75
At 31 July 2022	—	—	7,052	—	—	7,080	14,132
Analysis							
Current	—	—	—	—	—	—	—
Non-current	—	—	7,052	—	—	7,080	14,132
Total	—	—	7,052	—	—	7,080	14,132

The fair value of contingent consideration is calculated by estimating the future cash flows for the acquired company. These estimates are based on management's knowledge of the business and how the current economic environment is likely to impact performance. The relevant future cash flows are dependent on the specific terms of the sale and purchase agreement. For Non-current liabilities due more than one year from the balance sheet date, the assessed contingent liability is discounted using the discount rates for the relevant CGU (note 10).

Non-current

On 17 December 2020, Volution Group plc acquired 75% of the issued share capital of ClimaRad Holding B.V. and subsidiaries (ClimaRad), a company based in the Netherlands. Total consideration for the purchase of 75% of the issued share capital was €41,100,000 (£37,100,000) with a commitment to purchase the remaining 25% on or before 28 February 2025. The future consideration for the purchase of the remaining 25% is set at 25% of 13 times the EBITDA of ClimaRad for the financial year ended 31 December 2024, plus the non-controlling interest share of profits earned in the periods up to and including 31 December 2024, and is subject to a cap of €100 million. The expected value of the future consideration is partially in the form of a vendor loan of €12,000,000 (£10,686,000) payable to certain individuals including the co-founder and management team of ClimaRad on completion of the purchase of the remaining 25% on or before 28 February 2025, and an additional element of contingent consideration. The contingent consideration was assessed based on the current estimate of the future performance of the business as £8,877,000, discounted to present value (2022: £7,052,0000). If actual EBITDA for the year ended 31 December 2024 varies by 10% from the estimate, the contingent consideration would vary by approximately £1,800,000.

On 9 September 2021, Volution Group plc acquired 100% of the issued share capital of ERI Corporation DOO Bitola (North Macedonia), ERI Corporation S.R.L. (Italy) and Energy Recovery Industries Trading SLU (Spain) and 51% of the issued share capital of Energy Recovery Industries Corporation Ltd (UK). The contingent consideration was assessed based on the current estimate of the future performance of the business as £7,720,000 (2022: £7,080,000), with a range from €0 - €12,400,000, based on EBITDA performance from €4,500,000 to €8,500,000 for year ended 31 December 2024. If actual EBITDA for the year ended 31 December 2024 varies by 10% from the estimate, the contingent consideration would vary by approximately £1,500,000.

The foreign exchange forward contracts are carried at their fair value with the gain or loss being recognised in the Group's consolidated statement of comprehensive income.

19. Interest-bearing loans and borrowings

Accounting policy

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

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

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

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

	2023		2022	
	Current £000	Non-current £000	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2025)	**—**	**79,369**	—	74,351
Cost of arranging bank loan	**—**	**(692)**	—	(843)
	—	**78,677**	—	73,508
IFRS 16 lease liabilities (note 17)	**3,754**	**27,454**	3,599	21,368
Other loans	**—**	**802**	—	—
ClimaRad vendor loan	**—**	**9,771**	—	9,557
Total	**3,754**	**116,704**	3,599	104,433

In December 2022, the Group took the option to extend its multicurrency "Sustainability Linked Revolving Credit Facility", together with an accordion of up to £30 million, by a period of twelve months; the maturity date is now December 2025.

Revolving credit facility – at 31 July 2023

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	**—**	**2 December 2025**	**One payment**	**SONIA + margin%**
Euro	**79,369**	**2 December 2025**	**One payment**	**EURIBOR + margin%**
Swedish Krona	**—**	**2 December 2025**	**One payment**	**STIBOR + margin%**
Total	**79,369**			

Revolving credit facility – at 31 July 2022

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	—	2 December 2024	One payment	SONIA + margin%
Euro	71,932	2 December 2024	One payment	EURIBOR + margin%
Swedish Krona	2,419	2 December 2024	One payment	STIBOR + margin%
Total	**74,351**			

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 2023, Group leverage was below 1.0:1 and therefore the margin will remain at 1.25%.

At 31 July 2023, the Group had £70,631,000 (2022: £75,649,000) of its multicurrency revolving credit facility unutilised, plus an unutilised accordion of up to £30,000.000.

19. Interest-bearing loans and borrowings (continued)

Changes in liabilities arising from financing activities

	1 August 2022 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	Changes due to business combination £000	Interest / other £000	31 July 2023 £000
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	74,351	3,710	1,308	—	—	—	**79,369**
Debt related to the business combination of VMI (see note 15)	—	(92)	—	—	894	—	**802**
Lease liabilities	24,967	(4,482)	2,513	7,640	—	570	**31,208**
ClimaRad vendor loan	9,557	—	214	—	—	—	**9,771**
Total liabilities from financing activities	108,875	(864)	4,035	7,640	894	570	**121,150**

	1 August 2021 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	Changes due to business combination £000	Interest / other £000	31 July 2022 £000
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	73,293	2,802	(1,744)	—	—	—	74,351
Debt related to the business combination of ERI (see note 12)	—	(3,227)	—	—	3,227	—	—
Lease liabilities	25,429	(3,202)	(418)	3,326	—	(168)	24,967
ClimaRad vendor loan	10,551	(504)	(490)	—	—	—	9,557
Total liabilities from financing activities	109,273	(4,131)	(2,652)	3,326	3,227	(168)	108,875

20. Provisions

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for the expected costs of maintenance guarantees are charged against profits when products have been invoiced.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation taking into account the risks and uncertainties surrounding the obligation. The timings of cash outflows are by their nature uncertain and are therefore best estimates. Provisions are not discounted as the time value of money is not considered material.

Provisions for warranties and property dilapidations

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

Warranty provisions are determined with consideration given to recent customer trading and management experience.

Dilapidation provisions relate to dilapidation charges relating to leasehold properties. The timing of cash flows associated with the dilapidation provision is dependent on the timing of the lease agreement termination.

2023	**Product warranties £000**	**Property dilapidations £000**	**Total £000**
At 1 August 2022	1,540	463	2,003
Arising during the year	1,873	15	1,888
Utilised	(1,811)	—	(1,811)
Foreign currency adjustment	23	(11)	12
At 31 July 2023	1,625	467	2,092
Analysis			
Current	1,381	410	1,791
Non-current	244	57	301
Total	1,625	467	2,092

20. Provisions (continued)

2022	Product warranties £000	Property dilapidations £000	Total £000
At 1 August 2021	1,787	458	2,245
Arising during the year	921	9	930
Utilised	(1,142)	—	(1,142)
Foreign currency adjustment	(26)	(4)	(30)
At 31 July 2022	1,540	463	2,003
Analysis			
Current	1,279	405	1,684
Non-current	261	58	319
Total	1,540	463	2,003

Product warranties

A provision is recognised for warranty costs expected to be incurred in the following twelve months on products sold during the year and in prior years. Product warranties are typically one to two years; however, based on management's knowledge of the products, claims in relation to warranties after more than twelve months are rare and highly immaterial.

Property dilapidations

A provision has been recognised for dilapidations relating to obligations under leases for leasehold buildings and will be payable at the end of the lease term.

21. Deferred tax

Accounting policy

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

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

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

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

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

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

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

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

However, the Group does not consider this to be an accounting judgement, apart from those involving estimations, that has a significant effect on the amount recognised in the financial statements under the scope of paragraph 122 of IAS1, nor the estimates and assumptions to be major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year under the scope of paragraph 125 of IAS 1.

At 31 July 2023, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2022: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2022: £3,975,000) arising in UK subsidiaries and gross tax losses of £nil (2022: £nil) 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 2023, the Group had no deferred tax liability (2022: £nil) to recognise for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings. Deferred tax liabilities have not been recognised as the Group has determined that there are no undistributed profits in overseas subsidiaries where an additional tax charge would arise on distribution.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 July 2023

21. Deferred tax (continued)

2023	1 August 2022 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On business combinations £000	31 July 2023 £000
Temporary differences						
Depreciation in advance of capital allowances	(1,714)	(1,180)	—	(2)	—	**(2,896)**
Fair value movements of derivative financial instruments	(182)	305	—	—	—	**123**
Customer base, trademark and patent	(16,464)	2,142	—	139	(964)	**(15,147)**
Losses	63	(62)	—	—	—	**1**
Other temporary differences	1,125	208	—	(58)	—	**1,275**
Share based payments	2,950	93	264	—	—	**3,307**
Deferred tax liability	(14,222)	1,506	264	79	(964)	**(13,337)**

2022	1 August 2021 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On business combinations £000	31 July 2022 £000
Temporary differences						
Depreciation in advance of capital allowances	(1,721)	11	—	(4)	—	(1,714)
Fair value movements of derivative financial instruments	11	(193)	—	—	—	(182)
Customer base, trademark and patent	(17,274)	2,409	—	(10)	(1,589)	(16,464)
Losses	407	(344)	—	—	—	63
Other temporary differences	1,246	(176)	—	55	—	1,125
Share based payments	2,455	50	445	—	—	2,950
Deferred tax liability	(14,876)	1,757	445	41	(1,589)	(14,222)

22. Dividends paid and proposed

Accounting policy

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

	2023 £000	2022 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2023: 2.50 pence per share (2022: 2.30 pence)	**4,942**	4,553
Proposed dividends on ordinary shares		
Final dividend for 2023: 5.50 pence per share (2022: 5.00 pence)	**10,863**	9,891

An interim dividend payment of £4,942,000 is included in the consolidated statement of cash flows (2022: £4,553,000).

A final dividend payment of £9,891,000 is included in the consolidated statement of cash flows relating to 2022 (2022: £8,719,000).

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 2023.

There are no income tax consequences attached to the payment of dividends in either 2023 or 2022 by the Group to its shareholders.

23. 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 2023 or 31 July 2022.

There were no material transactions or balances between the Company and its key management personnel or members of their close family other than the compensation shown below. 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.

Compensation of key management personnel

	2023 £000	2022 £000
Short-term employee benefits	**3,886**	3,517
Share-based payment charge	**1,003**	1,049
Total	**4,889**	4,566

Key management personnel is defined as the CEO, the CFO and the fourteen (2022: thirteen) individuals who report directly to the CEO.

24. Events after the reporting period

On 4 August 2023, Volution Group acquired the trade and assets of Proven Systems Limited ("DVS"), a market leading supplier and installer of home ventilation solutions in New Zealand, for an initial consideration of NZ$18 million with a further contingent cash consideration of up to NZ$9 million based on stretching targets for the financial results in the next 12 months and the year ending 31 March 2025.

Transaction costs relating to professional fees associated with the acquisition in the period ended 31 July 2023 were £207,000 and have been expensed as cost of business combinations separately disclosed on the face of the consolidated statement of comprehensive income above operating profit.

25. 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 3,365,875 dilutive potential ordinary shares at 31 July 2023 (2022: 2,966,484).

Adjusted EBITDA: adjusted operating profit before depreciation and amortisation.

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

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

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

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

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

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

CAGR: compound annual growth rate.

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

Constant currency: to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2023 at the average exchange rate for the year ended 31 July 2022. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2023, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2022.

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

Net debt: bank borrowings and lease liabilities 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.

ROIC: measured as adjusted operating profit for the year divided by average net assets adding back net debt, acquisition related liabilities, and historic goodwill and acquisition related amortisation charges (net of the associated deferred tax).