Embargoed until 07:00 on:
Thursday 7 October 2021

Volution Group plc

Preliminary Announcement of Final Results for the year ended 31 July 2021

Record results with significant revenue growth, achievement of our 20% adjusted operating margin target and delivering on our sustainability agenda

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 2021.

RESULTS SUMMARY

	2021	2020	Movement
Revenue (£m)	**272.6**	216.6	25.8%
Adjusted operating profit (£m)	**56.9**	33.7	68.8%
Adjusted operating margin (%)	**20.9**	15.6	5.3pp
Adjusted profit before tax (£m)	**53.2**	31.2	70.2%
Adjusted EPS (pence)	**21.0**	12.1	73.6%
Reported operating profit (£m)	**34.2**	18.2	87.7%
Reported profit before tax (£m)	**30.0**	14.6	106.3%
Reported basic EPS (pence)	**10.5**	4.9	114.3%
Adjusted operating cash flow (£m)	**56.9**	43.4	31.2%
Net debt (£m)	**79.2**[1]	74.2	5.0
Net debt (excluding lease liabilities) (£m)	**53.8**	51.1	2.7
Total dividend per share (p)	**6.3**	—	N/A

[1] 2021 includes lease liabilities of £25.4 million due to the adoption of IFRS 16 (2020: £23.1 million).

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 and net debt. 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

- Significant revenue growth up £56.0 million to £272.6 million (2020: £216.6 million; 2019 £235.7 million) including organic growth of 22.0% (20.5% at cc) and inorganic growth from the three acquisitions in the year of 3.8% (3.9% at cc)
- Achieved our 20% adjusted operating margin target six months earlier than planned with adjusted operating margin of 20.9% (2020: 15.6%; 2019: 17.8%) despite ongoing supply chain challenges and inflationary pressures faced by the Group
- Reported profit before tax £30.0 million (2020: £14.6 million)
- Business remains highly cash generative with operating cash flow up 31.2% to £56.9 million (2020: £43.4 million), and strong cash conversion of 97%, as a result of our asset light business model
- £42.2 million invested in three acquisitions in the Netherlands, Sweden and Finland further enhancing our product range and low-carbon credentials
- Net debt (excluding lease liabilities) stable at £53.8 million (2020: £51.1 million) with leverage (measured as net debt excluding lease liabilities divided by adjusted EBITDA) ending the year at 0.9x (2020 1.3x)
- Adjusted earnings per share of 21.0p with a compounded annual growth rate of 13.2% since IPO in 2014
- Dividends resumed, with total dividend for the year of 6.3 pence per share reflecting strong profitability, free cash generation and confidence in our business model to deliver continued growth

Operational highlights

- The safety and wellbeing of our employees through the ongoing Covid-19 pandemic remains our number one priority with some of our regions still experiencing local 'lockdowns'
- Three acquisitions completed in the year, ClimaRad in the Netherlands, Klimatfabriken in Sweden, and Rtek in Finland with a fourth transaction to acquire ERI Corporation signed during the year with completion in early FY22
- Relocated our principal factory in Sweden to a more energy efficient and well invested facility in Växjö with considerable capacity headroom to support our ambitions for growth in the region
- Continued investment in the most innovative and energy efficient ventilation solutions for our markets to meet the growing needs and awareness of how ventilation in buildings is critical to health and the reduction of Covid-19 transmission risks

Healthy Air, Sustainably

- Awarded the LSE Green Economy Mark – Our products save energy, reduce carbon emissions and help to build healthy sustainable homes and buildings
- Our business is committed to a Net zero roadmap and is carbon neutral for scope 1 and 2 emissions this year
- Good progress against our key sustainability targets with 59.7% (2020: 56%) of plastic used in our own manufacturing facilities from recycled sources, and 62.1% (2020: 59%) of our revenue is from low-carbon, energy saving products
- £150 million Sustainability Linked revolving credit facility established, further underlining our commitment to delivery of ESG targets

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

"I am immensely proud of our committed employees and the substantial progress we made in the year. We have delivered strong revenue growth, expanded our adjusted operating margin ahead of our 20% target and completed three acquisitions in the year with a fourth transaction completed early in the new financial year. All four acquisitions are ventilation solution providers of predominantly low-carbon solutions and a perfect fit with our purpose of providing "Healthy Air, Sustainably". We made excellent progress with our key sustainability metrics, increasing the proportion of our sales that are low-carbon solutions and a further increase in the usage of recycled plastic materials in our products. I am particularly proud of the way in which all our employees are embracing our focus on sustainability which provides positive impacts on our environment and customers.

During the year we were impacted by significant disruptions across our supply chain and input cost inflation both for materials as well as in bound and out bound logistics costs. Our agile, flexible, and capex-light business model enabled us to mitigate most of these challenges and our strong trade brands, market share and innovative and wide product portfolio have enabled us to pass on the additional costs through selling price increases.

The continuing Covid-19 pandemic, coupled with a greater focus from governments across the world in dealing with the issues of climate change, has led to a far greater awareness of the importance that indoor air quality and ventilation have on both the energy efficiency and health environment inside buildings. We expect that awareness to continue to grow in the period ahead."

Outlook

The significant interruptions to the supply chain and high levels of input cost inflation and logistics costs increases which we were faced with throughout most of FY21, particularly in the UK, have continued into the start of the new financial year. Despite these challenges, as well as recent and ongoing Covid-19 related lockdowns in our Australasian market, overall, we are providing good levels of customer service as well as securing price rises to mitigate the impact of cost inflation. Our service levels have been assisted by actions taken in FY21, notably a strategy of holding more inventory for key raw material components, which has enabled us to mitigate many of the well-publicised and industry wide supply challenges.

The new financial year has started well delivering organic revenue ahead of the same period in the prior year. With our market leading products and brands, implementation of price increases, agile approach to product assembly and supply, and the benefit of the four acquisitions executed in the last twelve months, we expect to make further good progress in the year.

-Ends-

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A conference call for analysts will be held at 9:30am today, Thursday 7 October. Please contact volutiongroup@tulchangroup.com to register and for instructions on how to connect to the conference facility.

A copy of this announcement and the presentation given to analysts will be available on our website www.volutiongroupplc.com from 7:00 am on Thursday 7 October.

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014 as amended by The Market Abuse (Amendment) (EU Exit) Regulations 2019) prior to its release as part of this announcement.

Volution Group plc Legal Entity Identifier: 213800EPT84EQCDHO768.

Note to Editors:

Volution Group plc (LSE: FAN) is a leading international designer and manufacturer of energy efficient indoor air quality solutions. Volution Group comprises 19 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, Rtek, inVENTer, Ventilair, ClimaRad, ERI Corporation.

Australasia: Simx, Ventair, Manrose.

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

I am delighted by how well Volution has recovered from a period of unprecedented global disruption and uncertainty caused by the Covid-19 pandemic. The resilience of Volution's business model and strategy is proving to be highly effective, demonstrated by the Group's financial performance during the financial year under review, despite the unpredictable trading environments in some of our regions.

The crisis has continued to demonstrate the relevance, importance and sustainability of Volution's products and solutions in improving indoor air quality, and the strength of our business model, in particular our operating cash generation and geographic and product diversity. I believe we are in a strong position to continue to manage any future disruption caused by the Covid-19 pandemic.

People and culture

The Board's first priority throughout the Covid-19 pandemic has been ensuring the safety and wellbeing of our employees and their families. Whilst we have had to manage the challenge of staff absences and shortages due to self-isolation requirements, all of our sites have kept operating throughout the year. We have provided regular testing for our production staff, coupled with enhanced cleaning and social distancing measures. The Board expresses its thanks to our employees for their commitment and contribution in ensuring a safe workplace and to the strong outperformance achieved by the business.

Performance and results

This strong set of results reflects the resilience of the business through the pandemic with the Group's revenue increasing by 25.8% compared to last year to £272.6 million (2020: £216.6 million). Adjusted operating profit was £56.9 million (2020: £33.7 million), representing 20.9% of revenue and a £23.2 million improvement compared to the prior year. Reported profit before tax increased by 106.3% to £30.0 million (2020: £14.6 million).

Basic earnings per share for the year was 10.5 pence (2020: 4.9 pence). Our adjusted earnings per share was 21.0 pence, representing a 73.6% increase over the adjusted earnings per share for the prior year of 12.1 pence. The compound annual growth rate of adjusted earnings per share since IPO in 2014 was 13.2%.

Cash generation was good with adjusted operating cash flow of £56.9 million (2020: £43.4 million). Net debt at the year end was £79.2 million (2020: £74.2 million), £5.0 million higher than last year, after having completed three acquisitions, incurring a net cash outflow of £42.2 million.

Dividends

Following the suspension of dividends during the financial year ended 31 July 2020 as a result of the impact of the Covid-19 pandemic on the business, I was pleased that the strength and performance of the business during the financial year under review enabled the Board to declare an interim dividend which was paid on 4 May 2021. The strong financial results have now led the Board to recommend a final dividend of 4.4 pence per share, giving a total dividend for the financial year of 6.3 pence per share. As a consequence of this recommendation, the resulting adjusted earnings dividend cover for the year was 3.3 times. Subject to approval by shareholders at the Annual General Meeting on 9 December 2021, the final dividend will be paid on 16 December 2021 to shareholders on the register at 19 November 2021.

Strategy

During the year the Board undertook a strategy review, which confirmed and supported that the strategic direction Volution should follow should remain unchanged. The three strategic pillars of organic growth, growth through value-adding acquisitions and operational excellence remained the optimal way to fulfil the Group's purpose and create long-term value for all our stakeholders.

Good progress was made during the year with organic growth, whilst the acquisitions of ClimaRad in the Netherlands, Klimatfabriken in Sweden and Rtek in Finland and an agreement to acquire ERI Corporation, based in North Macedonia, (completed on 9 September 2021), have further strengthened the Group's geographic and product diversification. On behalf of the Board I am delighted to welcome our new colleagues to the Group. Our dedication to operational excellence has underpinned the Group's substantial operating margin expansion to 20.9% and our strong focus on ESG improvements.

Environmental, 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. We aim to give full consideration to the long-term impact of all business operations, which means that, where feasible, our products and services are sustainably sourced.

It was pleasing that our efforts were recognised in June 2021 with Volution being awarded the Green Economy Mark by the London Stock Exchange.

Board

There were no changes to the Board during the year under review. Tony Reading has been a Board member and Senior Independent Director since IPO in June 2014 and has notified the Board of his wish to retire at the conclusion of the Annual General Meeting in December 2021, which the Board has accepted.

On behalf of the Board, I would like to thank Tony for his invaluable contribution to Board discussions over the past seven years. The Board has greatly appreciated his depth of knowledge and experience on Board matters and Tony has provided wise counsel to me personally in his capacity as Senior Independent Director. I would like to wish Tony all the very best for the future.

A search process has commenced to find a successor to Tony which is focused on increasing the diversity of the Board to better reflect our customer base and the wider population in our markets. Once the Board has approved the appointment of a new independent Non-Executive Director, an announcement will be made to the London Stock Exchange.

As part of the succession planning process the Board discussed the successor to the role of Senior Independent Director and has appointed Amanda Mellor to the role with effect from the conclusion of the Annual General Meeting in December 2021. Amanda has been a Board member since March 2018 and has also been appointed as the Board representative for ESG matters and attends the Management Sustainability Committee.

Governance

The Group continues to be 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 a member of the FTSE 250. We are fully compliant with the 2018 edition of the UK Corporate Governance Code.

During the year, a formal performance evaluation of the Board and Committees took place to assist in their development. The results of the evaluations confirmed that the Board and Committees continue to function effectively and that there are no significant concerns among the Directors about their effectiveness.

Summary

The importance of indoor air quality is now understood much better than before the pandemic and Volution is in a strong position to offer customers ventilation solutions which enhance our indoor environments. Although many of our products already demonstrate high levels of sustainability, we continue to work hard to increase the sustainability of all our products and our Annual Report will set out the strategy and actions we have set to achieve this.

Whilst the pandemic continues to create uncertainty across the globe, Volution has demonstrated the strength and resilience of its business model, helped by our geographic and product diversity. We will continue to protect the health, safety and wellbeing of our employees and the Board will make decisions to ensure the long-term success of the business.

Paul Hollingworth
Chairman
6 October 2021

Chief Executive Officer’s Review

Overview

This financial year has been a year of extraordinary progress by the Group, hugely underpinned by the considerable efforts made during the more difficult and more significantly Covid-19 impacted 2020 financial year. Whilst we continue to focus on the safety and wellbeing of our employees, customers, and wider stakeholders the preparations we made in the prior year have helped us navigate a market where we are benefitting from strong demand but also significant supply chain and Covid-19 related challenges.

In all of our markets there has been a greater recognition of the importance that indoor air quality and ventilation can have on health. In the early days of the Covid-19 pandemic the focus was on hygiene, hand washing and sanitising but as global awareness of how the virus is transmitted there has been an acute realisation of how important it is to properly ventilate inside buildings. Coupled with the growing awareness of the importance of ventilation there has been a consistent and continuing increase in demand for ventilation in refurbishment applications.

Volution benefits in its key markets from having one of the most innovative and comprehensive ranges of products to suit customer needs. At the same time, we are seeing an ongoing and favourable regulatory backdrop across all our markets as countries look to decarbonise their buildings and meet their long-term net zero carbon targets. The focus on reaching net zero carbon will undoubtedly result in a steady stream of new regulations across each of our markets continuing to favour low-carbon, energy efficient and in many cases heat recovery ventilation products. In simple terms, building more efficiently, better insulated and more airtight results in a need to significantly increase the quality and controls provided by ventilation and we are well placed with one of the leading ranges of residential products in the market.

With strong demand in all markets throughout the year the most notable challenge has been managing our supply chain, material, and freight cost inflation. We anticipated this early in the year when demand recovered very quickly. There have been occasions during the year when our service has been impacted, however we have in the main provided continuity of supply and a full range of products throughout.

Our teams have responded with agility and flexibility, with solutions ranging from redesigning electronic printed circuit boards to mitigate the non-availability of components, substituting plastic materials and in some cases accelerating the application of a greater recycled content and a strategic decision to hold greater stocks of key raw materials across our facilities. This has enabled us to capitalise with a strong revenue progression in each of our three geographic areas.

Working arrangements throughout the pandemic have varied in each region. In New Zealand, where the success in locking out the pandemic has been heralded throughout, we have seen mostly near normal working arrangements with all staff attending our facilities. Until recently, we have seen limited impact on our working arrangements.

In the UK and across Europe there have been various approaches including more flexible working and hybrid arrangements with employees being in our facilities or working from home. The priority as always is the safety and wellbeing of our employees and to minimise the risk of the virus transmission. Our employees have again been truly inspirational throughout and their dedication throughout the year is evidenced in the strong financial results we have delivered.

The Group delivered revenue of £272.6 million (2020: £216.6 million), an increase of 25.8% (24.4% at cc). Adjusted operating margins increased from 15.6% in the prior year to 20.9% in the year achieving our short-term target to improve operating margins to 20%.

During the year we made good progress with our Operational Excellence initiatives, resulting in consistent delivery of an adjusted operating margin of greater than 20%. In Sweden we relocated the Nordic headquarters and injection moulding and assembly facility from its original location in Gemla to a more modern, energy efficient and better laid out facility in Växjö. This project was delivered on time, without any customer disruption and provides significant headroom for growth and further opportunity for efficiency gains.

Sustainability

We are building on the progress we have made in our ESG initiatives, and this year have added ambitious carbon reduction targets and will report our performance and continue to lead by example. We have set out our roadmap to Net zero carbon and 2021 is our first year as a carbon neutral business. I can report that our chosen measure of carbon intensity (CO2 tonnes per £ million of revenue) has reduced by a further 25.5% and is now 60.8% lower than it was when we started reporting in 2014.

We support the recommendations of the Taskforce on Climate Related Financial Disclosures and have made detailed disclosures in this report which we will continue to develop and set clear targets and report performance against.

Our low-carbon content of total revenue has increased to 62.1% in the year, and we remain on track to deliver our target of 70% of all revenues from low-carbon products by the end of 2025. Recycled plastics content in our production also increased in the year to 59.7% although greater progress was hampered due to the availability of materials. During the year we have moved all consumption of PVC (Polyvinyl chloride) for extrusion purposes to recycled sources and finished the year with HIPS (High Impact Polystyrene) consumption at more than 90% recycled content. Trials also took place throughout the year experimenting with the application of recycled ABS (Acrylonitrile butadiene styrene). I am delighted to advise that the trials performed excellently, and we expect to roll out a significant proportion of recycled content in our production during the year 2022. Whilst we have set a stretching target to achieve 90% recycled content in our plastics production by the end of 2025, I am confident that the strides made in 2021 put us on the right track to deliver against this important sustainability objective.

I am proud of the work we have made in our facilities to reduce our carbon emissions and apply low-carbon building technologies to our facilities. We continue to work across all facilities on this important initiative and I am delighted with the way in which our employees have embraced the opportunity to improve our low-carbon credentials.

To embed our targets even further we have for the first time introduced sustainability related performance criteria in the long-term incentive plans of our senior management to ensure that they are incentivised to continue to deliver excellent financial results, sustainably. As a result of our actions to date we were delighted to receive the LSE Green Economy Mark – one of the first in our industry.

Acquisitions

We completed three acquisitions in the year, ClimaRad, the market leader for decentralised heat recovery ventilation in the Netherlands, Klimatfabriken in Sweden, a high-end provider of premium ventilation for refurbishment and Rtek in Finland, a supplier of heat recovery ventilation systems for both new and refurbishment applications. A fourth transaction, ERI Corporation, was signed at the end of the year, with completion taking place on 9 September 2021 at the start of financial year 2022. These acquisitions, coupled with our existing range of products, positions us with one of the most comprehensive ranges of ventilation products in the market and well placed to benefit from the more impinging regulations that will be issued in the coming years. The increasing focus of governments in achieving their local net zero carbon targets, the International Building Regulation response plus key recommendations made recently in the "Fit for 55"[1] announcement are all structural growth drivers for the use of energy efficient ventilation solutions including heat recovery.

Whilst the Covid-19 pandemic is still impacting the way in which we work, the supply chain difficulties are continuing and material and freight inflation is an ongoing risk to input costs, our strong trade brands with significant pricing power are well placed to capitalise on the ongoing requirements for ventilation in both new and refurbished buildings. Our increasing geographic and product diversity, ongoing investment in new and innovative ventilation solutions, the drive to increase recycled plastics content in production and our dedicated employees position us well to make further progress with our clear strategy for growth.

[1]Fit for 55 is the European Commission legislative package supporting its commitment to reduce net greenhouse gas emissions by at least 55% by 2030

United Kingdom

Market sector revenue	**31 July 2021 £m**	31 July 2020 £m	Growth (cc) %
UK			
Residential RMI	**44.1**	33.4	32.3
New Build Residential Systems	**26.1**	21.9	18.7
Commercial	**31.1**	27.3	14.3
Export	**10.1**	8.6	17.0
OEM	**24.5**	20.3	20.0
Total UK revenue	**135.9**	111.5	21.8
Adjusted operating profit	**27.8**	15.6	77.7
Adjusted operating profit margin (%)	**20.4**	14.0	6.4pp
Reported operating profit	**17.7**	4.8	262.3

In the UK our revenues increased from £111.5 million to £135.9 million, a 21.9% increase (21.8% at cc). Adjusted operating profit increased from £15.6 million to £27.8 million with an adjusted operating margin increasing by 6.4pp from 14.0% to 20.4%. Our adjusted operating margin benefitted from the Operational Excellence and Streamlining initiatives which were largely completed in the prior year. The full integration of the three UK acquisitions that had been made since listed in 2014 delivered efficiency gains in our indirect cost base and a strong and scalable platform for the UK business to support future organic growth.

With a greater dependence on our UK manufacturing from around the Group we took the opportunity to reorganise our UK management structure to provide greater focus on the functional elements of sales, marketing, and manufacturing. Paul Kilburn, previously Managing Director for our OEM activities in Torin-Sifan took on a larger role as UK Managing Director combining both the OEM and Ventilation activities. Paul has been with Volution for 17 years and his experience is invaluable in this enlarged role. The Group Technical Director also took on the responsibility for manufacturing in the UK ventilation business with both roles reporting directly to the Chief Executive. These changes provide additional bandwidth and experience as we look to further improve our UK Operational Excellence and achieve the price rises necessary to mitigate inflation.

Sales in our UK New Build Residential Systems sector were £26.1 million (2020: £21.9 million), an organic growth of 18.7%. Whilst this sector recovered very well in the year revenues are still below our peak year of £27.8 million in 2019. During the year we observed that completions materially outpaced new starts as housebuilders focussed their activity on servicing the strong demand for the supply of new housing. Our activity was much stronger in the second half of the year and the outlook remains positive as housebuilders ramp up output to service the ongoing strong demand. As well as the underlying strong demand for new house supply, we continue to benefit from regulations to reduce carbon emissions from new buildings. The revisions to Part F and Part L (the English and Welsh Building Regulations for Ventilation and Conservation of Fuel and Power respectively) will again provide a tailwind for higher value, more energy efficient continuous running ventilation systems. As well as this regulatory driver we are witnessing a greater awareness from potential new build homeowners about the benefits of whole house heat recovery ventilation systems with indoor air quality awareness significantly greater now in this sector.

New product development and innovation has been essential for us to maintain our market leading position in this sector. During the year we made good progress with extending our range of mechanical ventilation with heat recovery, and further efficiency and airflow performance improvements with our decentralised mechanical extract ventilation products. Both solutions are now entering the tooling stage and will be introduced to the market during 2022. In the UK we benefit from having three leading brands that provide solutions for this market. Vent-Axia, the leading provider of ventilation systems into the new project market, National Ventilation a specialist provider to the self-build and small project market and our Manrose brand providing the ducting and accessories essential for a system that is essentially plumbed into the building during the construction phase.

Sales in our UK Residential RMI sector were £44.1 million (2020: £33.4 million), an organic growth of 32.3% and over 12% ahead of our previous peak revenue year of 2019. Volution is very well positioned in the UK refurbishment market with four different brands each serving slightly different areas of the market. This multi brand approach to the UK market enables us to position our solutions to provide coverage for all consumer requirements.

Since listing in 2014 we have made tremendous progress in upselling our solutions towards greater high end, silent and improved controls. These products with greater functionality and increased consumer benefits are sold at a higher price point and deliver a higher gross margin and now represent over 25% of our solutions sold into the private refurbishment market. Cross selling of products from the Nordics as well as a new range of product launched at the end of 2020 have underpinned this positive trend. Since acquiring Klimatfabriken earlier in the year we have worked on another new introduction which is being launched under the National Ventilation brand in the first quarter of 2022.

Whilst 2021 was a more difficult year for face-to-face customer interactions our distribution sales teams worked effectively through virtual meetings to materially increase the number of stockists for our higher end solutions. We have developed our private refurbishment propositions to become the “must have” products for our stockists. The investments we made in our new Reading factory in 2018 have enabled us to support a significant increase on our previous peak year of revenue and we are well placed to service the market as additional growth initiatives roll out in 2022.

Good progress was also made with the public refurbishment market in the year despite the cautious approach from social housing landlords as a result of the Covid-19 pandemic. Our market intelligence suggests that major refurbishment projects have been side-lined and that there is a large volume of catch-up required in this sector to deal with the poor quality of some of the housing stock.

Sales in our UK Commercial sector were £31.1 million (2020: £27.3 million), an organic growth of 14.3% and a good recovery from the prior year but still below 2019 sales level. Activity was markedly better in the second half of the year and the project order book at the end of 2021 was strong with good coverage throughout the early part of the financial year 2022.

Our project business is focussed on both commercial offices and new school builds. With the greater realisation that Covid-19 transmission risks are primarily airborne, and that ventilation strategies in buildings will have a huge impact of mitigating these risks, we see the outlook for these markets as attractive. At the midpoint of 2021 we kicked off a new product development project to upgrade and simplify the production of our leading range of ventilation fan coils. We also made good progress with our leading range of Natural Ventilation with Heat Recycling (NVHR) and during the year 2022 there will be new innovative products added to both ranges.

In the commercial refurbishment sector we experienced strong demand for replacement products where we have a very significant existing estate of previously supplied products that may require updating or replacing. This refurbishment demand is expected to continue as advice to ventilate is becoming more prescriptive with landlords and tenants increasingly aware of the importance of ventilation.

Sales in our UK Export sector were £10.1 million (2020: £8.6 million), an organic growth of 17.0% at constant currency. Our main export markets Eire and France, both performed well. In Eire we are benefitting from further tightening of building regulations in the residential new build space. Addition regulations were introduced in the year to do with the way in which ventilation systems, particularly Mechanical Extract Ventilation (“MEV”) perform in a building. This change in regulations was well met by the launch of a new range of MEV products and we have also secured a strong project order book for 2022. In France we provide an OEM range of solutions to a leading ventilation group and those products were refreshed and upgraded in the year.

Sales in our OEM sector were £24.5 million (2020: £20.3 million), an organic growth of 20.0% at constant currency. Our EC3 motorised impellor proposition delivered good growth in the year both in the UK and export markets. We continue to invest to extend the power wattage range of these products and with supply chain difficulties across all areas of the market we were able to gain new accounts in the year.

Continental Europe

Market sector revenue	**31 July 2021 £m**	31 July 2020 £m	Growth (cc) %
Nordics	**51.6**	41.6	20.1
Central Europe	**43.9**	33.1	31.8
Total Continental Europe revenue	**95.5**	74.7	25.3
Adjusted operating profit	**25.4**	15.3	65.5
Adjusted operating profit margin (%)	**26.6**	20.5	6.1pp
Reported operating profit	**18.1**	12.1	49.5

Our Continental Europe activities had a very strong year, and we delivered excellent progress on the prior year, which had experienced only a modest impact in revenue due to the covid-19 pandemic.

Sales in Continental Europe were £95.5 million (2020: £74.7 million), growth of 25.3% at constant currency, within which organic growth was 14.2% on a constant currency basis. The sector also benefited from the acquisition of ClimaRad BV in the Netherlands in December 2020, Klimatfabriken in Sweden in February 2021 and Rtek in Finland in May 2021. Adjusted operating profit was £25.4 million versus a prior year of £15.3 million, and adjusted operating margins increased by 6.1pp to 26.6%.

It was another busy year with initiatives, the most important and successfully delivered in the first half of the year, being the closure of our older, less well laid out facility in Gemla, Sweden, to a more modern facility in Växjö. This change of location was timed to coincide with the lease expiry at our old facility and will underpin further efficiency gains in the Nordic business into the new financial year. These streamlining and efficiency initiatives, coupled with strong indirect cost control, selling price and enhancing our various product ranges, enabled us to deliver an adjusted operating margin of 26.6%.

Sales in the Nordics region were £51.6 million (2020: £41.6 million), an increase of 20.1% at constant currency compared to the previous year. Organic growth was 17.6% on a constant currency basis, with inorganic growth from the acquisition Klimatfabriken in Sweden in February 2021 and Rtek in Finland in May 2021.

The Nordic refurbishment demand was strong in all countries through both our retail and trade routes to market. In Denmark we greatly benefitted from being in full control of our distribution arrangements following the small acquisition of Nordic Line we made in the prior year, and we see the potential for further market share gains in the new financial year. Prices were increased to mitigate the impact of cost inflation and we continue to enjoy a significant market share in the high-end refurbishment market, complemented by the acquisition of Klimatfabriken during the year.

The project business supplying into the new build market benefitted from an improved product range and stronger co-ordination of our offer. Our approach is to offer a co-ordinated comprehensive range of heat recovery products suitable for both the residential and light commercial applications. That range was enhanced further with the acquisition of Rtek in Finland in the second half of the year.

Sales in Central Europe region were £43.9 million compared to the prior year of £33.1 million, growth of 31.8% on a constant currency basis, helped by the acquisition of ClimaRad BV in the Netherlands in December 2020. Organic revenue growth was 10.0% on a constant currency basis and represents growth of 41.6% compared to FY19.

In Germany we delivered another strong performance building on the record performance of 2020. Our market leading range of decentralised heat recovery is utilised in new and refurbishment applications. Regulations in Germany are increasingly supportive and our product range developments in the year have further underpinned our leadership position. Our Xenion range of decentralised heat recovery is widely recognised as the best performing products available and the quieter sound versus our competitors are a significant advantage in winning new projects. Our wireless control infrastructure is now fully available to the market and will further enhance our selling approach in the New Year.

In the Netherlands we added the ClimaRad proposition, a similar approach to how we provide heat recovery ventilation in Germany, with the integration into the group going well. We believe that the only sensible way to refurbish a residential or commercial building to attain high levels of efficiency and maximise the reduction of carbon emissions is to equip the facility with either a central or decentralised heat recovery system. Our Ventilair and Vent-Axia brands also performed very well in the Netherlands and in Belgium. In all our markets there has been a growing trend of indoor quality awareness that has accelerated since the Covid-19 pandemic.

Australasia

Market sector revenue	**31 July 2021 £m**	31 July 2020 £m	Growth (cc) %
Total Australasia revenue	**41.2**	30.4	31.5
Adjusted operating profit	**8.9**	4.6	95.7
Adjusted operating profit margin (%)	**21.7**	15.2	6.5pp
Reported operating profit	**4.5**	3.5	28.4

Sales in our Australasia region were £41.2 million, with growth of 31.5% at constant currency. Adjusted operating margins improved to 21.7% versus 15.2% in the prior year.

Since first acquiring Simx in March 2018 and complemented by the acquisition of Ventair in March 2019, Volution has established itself as one of the leading providers of residential ventilation solutions in the Australasian market.

Our New Zealand business enjoyed strong demand for refurbishment solutions, driven both by consumer spend and savings being directed to home improvements as people were locked down due to Covid-19 and the continuing underpinning from the Healthy Homes Act prescribing a minimum standard for ventilation in rental properties. The cross selling and product portfolio enhancements in the region because of the Ventair acquisition have also supported our revenue growth. In Australia we launched an innovative and market leading range of energy efficient EC ceiling fans and acquired a new, sizeable building products distribution account that will commence rolling out our products in the first half of 2022. The nature of our well invested Australasian footprint and infrastructure is a scalable business where the incremental revenue requires limited additional indirect cost to support the growth. This helped to secure a 21.7% adjusted operating profit margin in the year.

As with all our markets we are seeing a good progression with the focus on regulations. In New Zealand the next step is to move closer to whole house ventilation systems, with or without heat recovery and we also anticipate a similar upshift in focus for Australia.

Strategy

Organic growth

The financial year ended 31 July 2021 was a year of strong recovery and where we delivered an organic growth of 20.5% on a constant currency basis. This organic growth was delivered because of strong recovery in demand from our end markets and significant share gains from the many new product launches and other initiatives.

Volution targets to grow ahead of its local competitors utilising the increasing strength or our product portfolio and new product introductions from our innovation pipeline. Completed in 2020 we finalised the development of a new range of interchangeable parts for the preparation of a wide range of residential refurbishment products. This more versatile range of parts has enabled us to increase our refurbishment ventilation sales across our different geographies, supported by the investments in our Reading and Växjö production facilities. There are more exciting new innovations going through the development stage, and our cross-selling initiatives, whilst still delivering improvements in the year 2021, would benefit hugely from greater cross border face to face interaction, something we expect to return to in the years ahead.

As well as the volume gains we have benefitted from in the last year, we are facing extraordinary times with respect to material, logistics, energy, and other cost inflation. Our leading local brands have strong pricing power, and we are implementing price increases commensurate with recovering our cost inflation. It is very likely that this recent increase in frequency of price rises will continue into the new financial year.

Every year we talk about the regulatory underpinning in all our markets. In the last twelve months we have seen a marked increase in global awareness of the need to reduce carbon emissions with governments setting new, more stretching targets to deliver the reduction. In Volution we provide solutions that improve the quality of the air indoors, and that integrated with other strategies for the building, such as air tightness and insulation, can deliver very substantial reductions in carbon emissions. We expect to see an acceleration of regulations in this regard if the targets set by national governments are to be met.

Healthy air has always been our priority and with the ongoing global Covid-19 pandemic, we see the air quality agenda inside buildings receiving more attention than ever. The transmission risk of the virus is airborne and whilst opening windows in the summer is an eminently sensible solution there are more sophisticated, energy efficient and elegant solutions that we sell and which can provide better ventilation in the winter months.

Acquisitions

During the year we completed three acquisitions and signed an agreement to complete a fourth in the financial year 2022. Growing by acquisition is an integral part of our strategy and we have a track record of completing several key acquisitions each year. Acquiring 75% of ClimaRad in the Netherlands in December 2020 was the largest transaction in the year. This was followed by acquiring Klimatfabriken in Sweden in the second half of the year, the assets of Rtek, a competitor of Pamon in Finland and finally the signing of the transaction to acquire ERI Corporation in North Macedonia in July 2021.

The ventilation markets that we operate in remain fragmented and our strong operating cash conversion and diligent approach to cash generation leaves us well placed to continue to acquire profitable and growing businesses in the future. Our track record as one of the most acquisitive companies in our industry and our culture of successfully integrating companies into the Group, we believe makes us an attractive home for these companies. Earn outs and similar structures in many of our transactions offer the opportunity for sharing of upside with the previous owners, and help ensure retention and motivation of management teams. A good example is our Ventair transaction signed in March 2019 where together with the previous founder we have delivered significant revenue and profit growth in the last two and half years, with revenues up 70.7% compared to the pre-acquisition period.

Operational Excellence

In the year we delivered our adjusted operating profit margin target of 20%. All three regions made substantial progress in the year building on the progress that we had made in the first half of 2020, prior to the Covid-19 pandemic. As we said at the end of FY20, we are confident that the many streamlining and efficiency initiatives that we have implemented, will support the business in delivering a long term adjusted operating profit margin of not less than 20%. Our sustainability initiatives will also help underpin our waste elimination and efficiency programmes and thereby will also lead to growing profitability.

People

The year delivered a strong performance both financially and with the focus on our sustainability initiatives. The year was punctuated by the ongoing Covid-19 pandemic and many of our employees are having to adapt to new ways of working. I am immensely proud of the way in which our valued employees are driving both our low-carbon revenue growth initiative and our focus on utilising increased proportions of recycled plastic materials. We held two employee engagement and communication meetings in the year, on each occasion through video conferencing, and it is great to see so many examples of sustainability in action across our company.

In the year 2022 we expect to see a slow return to more “normal’ working practices, however the efficiency gains and experience through the pandemic will help us employ more flexible working practices for the good of both the company and our colleagues. It has been a really strong year for the company, and I am hugely appreciative of the great commitment and dedication of our employees.

Outlook

The significant interruptions to the supply chain, high levels of input cost inflation and logistics costs increases which we were faced with throughout most of FY21, particularly in the UK, have continued into the start of the new financial year. Despite these challenges, as well as recent and ongoing Covid-19 related lockdowns in our Australasian market, overall, we are providing good levels of customer service as well as securing price rises to mitigate the impact of cost inflation. Our service levels have been assisted by actions taken in FY21, notably a strategy of holding more inventory for key raw material components, which has enabled us to mitigate many of the well-publicised and industry wide supply challenges.

The new financial year has started well delivering organic revenue ahead of the same period in the prior year. With our market leading products and brands, implementation of price increases, agile approach to product assembly and supply, and the benefit of the four acquisitions executed in the last twelve months, we expect to make further good progress in the year.

Ronnie George
Chief Executive Officer
6 October 2021

FINANCIAL REVIEW

Trading performance summary

Group revenue for the year ended 31 July 2021 was £272.6 million, an increase of £56.0 million (25.8%) within which £3.1 million (1.4%) was attributable to foreign exchange, £8.4 million (3.9%) came from inorganic growth due to acquisitions in the year, and £44.5 million (20.5%) resulted from organic growth across all three regions.

Whilst the strong recovery in customer demand from the low points of spring and early summer 2020 has helped underpin our organic revenue performance in the year, the speed of recovery across both our markets and the wider economy more generally has resulted in a year where supply chain challenges have been pronounced. This has manifested in both interruptions to material supply (most particularly in the first half of our financial year) and significant inflationary cost increases ranging from plastics, motors, electronics and metal through to freight and logistics in the second part of the year. We have responded to this with price increases, which coupled with our continued focus on cost optimisation through our operational excellence focus has seen us achieve an adjusted operating margin of 20.9%, up 5.3pp in the year and ahead of our stated target of 20% for the Group. Adjusted operating profit increased by 68.8% in the year to £56.9 million (2020: £33.7 million).

	Reported			**Adjusted**[1]		
	Year ended 31 July 2021	Year ended 31 July 2020	Movement	**Year ended 31 July 2021**	Year ended 31 July 2020	Movement
Revenue (£m)	**272.6**	216.6	25.8%	**272.6**	216.6	25.8%
EBITDA (£m)	**59.3**	41.0	44.6%	**65.2**	41.4	57.4%
Operating profit (£m)	**34.2**	18.2	87.7%	**56.9**	33.7	68.8%
Net finance costs (£m)	**2.9**	3.7	(21.7)%	**3.2**	2.5	26.5%
Profit before tax (£m)	**30.0**	14.5	106.3%	**53.2**	31.2	70.2%
Basic EPS (p)	**10.5**	4.9	114.3%	**21.0**	12.1	73.6%
Total dividend per share (p)	**6.3**	—	—	**6.3**	—	—
Operating cash flow (£m)	**51.0**	43.0	18.7%	**56.9**	43.4	31.2%
Net debt (£m)	**79.2**	74.2	5.0	**79.2**	74.2	5.0
Net debt (excluding lease liabilities) (£m)[2]	**53.8**	51.1	2.7	**53.8**	51.1	2.7

Notes

1. 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 measures see the glossary of terms in note 25 to the consolidated financial statements.
2. Pre-IFRS 16 basis, excludes lease liabilities £25.4 million (2020: £23.1million).

Reported and adjusted results

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

Adjusted profit before tax of £53.2 million was 70.2% higher than 2020 (£31.2 million). Reported profit before tax was £30.0 million (2020: £14.5 million) and is after charging:

- £16.8 million in respect of amortisation of intangible assets (2020: £15.1 million)
- £1.7 million relating to the amortisation of acquired inventory fair value adjustment (2020: £nil)
- £4.2 million (2020: £nil) other acquisition related costs of which:
  - £3.3 million in respect of contingent consideration (2020: £nil)
  - £0.9 million relates to costs associated with business combinations (2020: £nil)
- £0.3 million gain due to the fair value measurement of financial instruments (2020: loss of £1.2 million)
- £0.8 million in respect of Re-measurement of future consideration relating to the business combination of ClimaRad

The contingent consideration charge of £3.3 million relates to our Ventair business in Australia, where the strong performance in the year enabled the business to achieve its maximum earn out targets.

	Year ended 31 July 2021			Year ended 31 July 2020		
	Reported £000	**Adjustments £000**	**Adjusted results £000**	Reported £000	Adjustments £000	Adjusted results £000
Revenue	**272,588**	**—**	**272,588**	216,640	—	216,640
Gross profit	**131,649**	**1,727**	**133,376**	99,328	—	99,328
Administration and distribution costs excluding the costs listed below	**(76,423)**	**—**	**(76,423)**	(68,995)	—	(68,995)
Other operating income	**—**	**—**	**—**	3,404	—	3,404
Amortisation of intangible assets acquired through business combinations	**(16,839)**	**16,839**	**—**	(15,124)	15,124	—
Contingent consideration	**(3,287)**	**3,287**	**—**	—	—	—
Costs of business combinations	**(889)**	**889**	**—**	—	—	—
Former CFO compensation	**—**	**—**	**—**	(386)	386	—
Operating profit	**34,211**	**22,742**	**56,953**	18,227	15,510	33,737
Net gain/(loss) on financial instruments at fair value	**340**	**(340)**	**—**	(1,219)	1,219	—
Re-measurement of future consideration relating to the business combination of ClimaRad	**(811)**	**811**	**—**	**—**	**—**	**—**
Other net finance costs	**(3,706)**	**—**	**(3,706)**	(2,451)	—	(2,451)
Profit before tax	**30,034**	**23,213**	**53,247**	14,557	16,729	31,286
Income tax	**(9,198)**	**(2,426)**	**(11,624)**	(4,892)	(2,504)	(7,396)
Profit after tax	**20,836**	**20,787**	**41,623**	9,665	14,225	23,890

Currency impacts

Aside from Sterling, the Group's key trading currencies for our non-UK businesses are the Euro, representing approximately 18.6% of Group revenues, Swedish Krona (approximately 12.3%), New Zealand Dollar (approximately 8.9%) and Australian Dollar (approximately 6.3%). 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 both Euro and Swedish Krona which offsets some of the translation risk relating to net assets. We had Euro denominated borrowings as at 31 July 2021 of £57.3 million (2020: £40.3 million) and Swedish Krona denominated borrowings of £16.0 million (2020: £23.3 million). The Sterling value of these foreign currency denominated loans net of cash decreased by £5.0 million as a result of exchange rate movements (2020: increased by £0.3 million).

During the year Sterling weakened on average against all four of our principal non-Sterling trading currencies, against the Euro by 0.5%, Swedish Krona by 4.5%, New Zealand Dollar by 2.2% and Australian Dollar by 3.9%. This gave rise to a favourable revenue impact of £3.1 million in the year, with operating profits being impacted by £0.1 million.

	Average rate 2021	Average rate 2020	Movement
Euro	**1.1343**	1.1399	(0.5)%
Swedish Krona	**11.5799**	12.1266	(4.5)%
New Zealand Dollar	**1.9419**	1.9865	(2.2)%
Australian Dollar	**1.8081**	1.8819	(3.9)%

Transactional foreign exchange exposures arise principally in the form of US Dollar denominated purchases from our suppliers in China. We aim to purchase 80–90% of our expected requirements twelve to eighteen months forward, and as such we have purchases in place for approximately 85% of our forecasted requirements for the 2022 financial year. Whilst our forward purchasing means that the impacts of foreign exchange movements are smoothed out compared to spot buying, the strengthening of sterling versus Dollar over the past twelve months means that we will benefit from a favourable movement in rates in the new financial year. The average rate on our Dollar purchases in financial year 2022 is expected to be approximately 2% better than in financial year 2021.

Finance revenue and costs

Reported net finance costs of £2.9 million (2020: £3.7 million) include £0.3 million net gain on the revaluation of financial instruments (2020: net loss of £1.2 million). Adjusted finance costs were £3.2 million (2020: £2.5 million), which included £0.4 million in relation to the charging of unamortised costs associated with the Group's previous £120 million revolving credit facility which was replaced in December 2020.

Following the acquisition of ClimaRad our leverage increased above 1.5x as at 31 January 2021, leading to the interest rate margin on the RCF in the second half of financial year 2021 being 0.25pp higher. Despite investing £42.2 million in acquisitions our strong operating cash generation throughout the year meant our net debt only increased by £5.0 million). As at 31 July 2021 our gross debt, comprising both bank debt and operating lease liabilities, stood at £98.7 million (2020: £92.7 million) offset by cash and cash equivalents of £19.5 million (2020: £18.5 million).

Excluding IFRS 16	**2021**	2020
Average gross debt (£m)	**76.9**	88.3
Weighted average interest rates on gross debt	**2.04%**	2.24%
Average cash balance (£m)	**16.3**	23.2
Weighted average interest rates on cash	**0.35%**	0.28%
Average net debt balance (£m)	**60.6**	65.1
Weighted average interest rates on net debt	**2.49%**	2.94%

Tax rate reduced by 1.9pp due to geographic mix
Our effective adjusted tax rate for the year was 21.8% (2020: 23.7%). The reduction of 1.9pp in the year was substantially driven by regional profit mix with an increased proportion of the Group's profits for the year arising in the UK, where the current rate is 19%, as opposed to our Continental European and Australasian businesses where rates range from 20%-30%. The current rates in our principal countries of operation are shown below:

UK	19.0%
Sweden	20.9%
Norway	22.0%
Denmark	22.0%
Finland	20.0%
Germany	28.3%
Belgium	26.7%
Netherlands	25.0%
New Zealand	28.0%
Australia	30.0%

The rate of tax in the UK is currently 19%. In the Budget speech on 4 March 2021, the Chancellor announced an increase in the main UK corporation tax rate to 25% from 1 April 2023. The change in the rate to 25% was substantively enacted in the Finance Bill 2021 on 24 May 2021, UK deferred tax assets and liabilities that are expected to reverse after 1 April 2023 have been calculated at 25% and those expected to be utilised before at 19%. 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, driven by the increased rate in the UK and a higher rate of inorganic growth outside of the UK.

Strong cash generation, with cash conversion of 97%, and £42.2 million deployed to acquisitions
Our asset light business model with modest capital expenditure requirements and our disciplined approach to working capital management ensure that Volution consistently generates strong operating cash inflows. Our operating cash conversion has been at or above 90% in all bar one of the last five financial years, with financial year 2021 cash conversion at 97% (2020: 124%).

Capital expenditure of £4.5 million (2019: £4.3 million) was broadly flat on the prior year. Within this we continued to invest in new product development programmes (£0.8 million) as we continue to develop and expand our product offering across the Group. Our Nordics business has performed very strongly through the year, and we were excited to invest £1.1 million in a successful move and upgrade of our principal production facility in Sweden to a new, larger, and more efficient facility which will support our growth ambitions in the region.

Working capital increased by £3.8 million (2021: reduction of £6.1 million) due to the substantial growth in activity and revenue in the year, coupled with a deliberate decision to increase certain strategic inventories during the second half of the year in order to mitigate the risks of supply chain interruptions. Our working capital as a percentage of last twelve months revenue stood at 12.7% (2020: 12.8%, 2019: 13.5%).

Volution recognises the importance of dividends to shareholders, and as previously communicated we were pleased to resume dividends in financial year 2021 with an interim dividend of 1.90 pence declared and paid in the year, and a final dividend of 4.40 pence declared which will be paid in December 2021. Dividend payments of £3.8 million (2020: £6.5 million), represent the payment of the interim dividend of 1.90 pence.

Tax paid of £8.1 million was £2.2 million higher than the prior year (2020: £5.9 million), reflecting the reduction in profit before tax as a result of the pandemic. Tax payments were maintained in normal course through the pandemic, and we did not avail of any of the deferrals permitted due to COVID.

We completed three acquisitions in the year at a net cash spend of £42.2 million, the largest being 75% of the shares of ClimaRad BV in the Netherlands for £37.1 million with a commitment for Volution to acquire the remaining 25% shareholding on or before 28 February 2025. The future consideration for the purchase of the remaining 25% shareholding is set at 25% of 13 times the EBITDA of ClimaRad for the financial year ended 31 December 2024, plus the non-controlling share of profits earned in the periods up to and including 31 December 2024. In the Nordics we completed two smaller "bolt-on" transactions in the year, adding Klimatfabriken to our residential premium fan portfolio in Sweden, whilst Rtek in Finland complements our existing Pamon commercial heat recovery position. All three are fully aligned with our strategic focus on low-carbon, high growth market opportunities.

Shortly after the year end on 2 August we also announced an agreement to acquire ERI Corporation, a leading manufacturer and supplier of low-carbon, energy efficient heat exchanger cells, for an initial consideration of €23.4 million on a debt-free cash-free basis, 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 2023. This acquisition was subsequently completed on 9 September 2021.

Reconciliation of adjusted operating cash flow

	2021 £m	2020 £m
Net cash flow generated from operating activities	**52.5**	41.4
Net capital expenditure	**(4.5)**	(4.3)
UK and overseas tax paid	**8.3**	7.6
Tax refund	**(0.2)**	(1.7)
Cash flows relating to non-exceptional items	**—**	0.4
Cash flow relating to business combination costs	**0.8**	—
Adjusted operating cash flow	**56.9**	43.4

Movements in net debt position for the year ended 31 July 2021

	2021 £m	2020 £m
Opening net debt 1 August	**(74.2)**	(74.6)
Movements from normal business operations:		
Adjusted EBITDA	**65.2**	41.4
Movement in working capital	**(5.8)**	6.1
Share-based payments	**2.0**	0.2
Capital expenditure	**(4.5)**	(4.3)
Adjusted operating cash flow:	**56.9**	43.4
– Interest paid net of interest received	**(1.5)**	(2.1)
– Income tax paid	**(8.3)**	(7.6)
– Income tax refund	**0.2**	1.7
– Cash flow relating to business combination costs	**(0.8)**	—
– Non-exceptional adjustments	**—**	(0.4)
– Dividend paid	**(3.8)**	(6.5)
– Purchase of own shares	**(2.1)**	(0.8)
– FX on foreign currency loans/cash	**5.0**	(0.3)
– Issue costs of new borrowings	**(1.2)**	—
– IFRS 16 long term lease liabilities adjustment on translation	**—**	(23.2)
– IFRS 16 payment of lease liabilities	**(3.5)**	(2.9)
– IFRS 16 increase in lease liabilities	**(2.2)**	—
Movements from business combinations:		
– Business combination of subsidiaries, net of cash acquired	**(42.2)**	(0.9)
– Business combination of subsidiaries, debt repaid	**(1.5)**	—
Closing net debt 31 July	**(79.2)**	(74.2)

Reconciliation of net debt

	2021 £m	2020 £m
Non-current Interest-bearing loans and borrowings	**(104.9)**	(89.2)
Current Interest-bearing loans and borrowings	**(3.4)**	(3.0)
ClimaRad vendor loan	**10.6**	—
Cost of arranging bank loans	**(1.0)**	(0.5)
Cash and short-term deposits	**19.5**	18.5
Net Debt	**(79.2)**	(74.2)

Funding facilities and liquidity

During the year we completed a successful refinancing of our Group revolving credit facility, in the form of a £150 million multicurrency Sustainability Linked Revolving Credit Facility, together with an additional accordion of up to £30 million. The maturity date of the facility is 2 December 2023 but with option to extend for a further two years to 2 December 2025. As at 31 July 2021, we had £76.7 million of undrawn, committed bank facilities (2020: £50.4 million) and £19.5 million of cash and cash equivalents on the consolidated statement of financial position (2020: £18.5 million).

The financial covenants under the RCF are tested twice yearly, at 31 January and 31 July, and require us to maintain leverage (excluding lease liabilities) of not more than three times pro-forma LTM (last twelve months) EBITDA, and to maintain an interest cover of not less than four times. At 31 July 2021 leverage was 0.9 times (2020: 1.3X) and interest cover continued to be substantially ahead of the covenant requirement at 23.4 times.

Employee Benefit Trust

During the year £2.1 million of non-recourse loans (2020: £0.8 million) were made to the Volution Employee Benefit Trust for the purpose of purchasing shares in Volution Group plc in order to meet the Company's obligations under its share incentive plans. The Volution Employee Benefit Trust acquired 650,000 shares at an average price of £3.24 per share in the period (2019: £2.00) and 401,529 shares (2020: 276,655 shares) were released by the trustees with a value of £766,920 (2020: £490,666). 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.

Earnings per share

Our reported basic earnings per share for the year is 10.5 pence (2020: 4.9 pence).

Our adjusted basic earnings per share for the year is 21.0 pence (2020: 12.1 pence).

Andy O'Brien
Chief Financial Officer
6 October 2021

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 2021 which may be found at www.volutiongroupplc.com and will be despatched to shareholders on 21 October 2021 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
6 October 2021

Andy O'Brien
Chief Financial Officer
6 October 2021

Consolidated Statement of Comprehensive Income
For the year ended 31 July 2021

	Notes	**2021 £000**	2020 £000
Revenue from contracts with customers	3	**272,588**	216,640
Cost of sales		**(140,939)**	(117,312)
Gross profit		**131,649**	99,328
Administrative and distribution expenses		**(93,399)**	(84,505)
Other operating income	5	**137**	3,404
Operating profit before separately disclosed items		**38,387**	18,227
Costs of business combinations		**(889)**	—
Contingent consideration payable		**(3,287)**	—
Operating profit		**34,211**	18,227
Finance revenue	6	**397**	87
Re-measurement of financial liabilities	12	**(491)**	—
Re-measurement of future consideration	12	**(811)**	—
Finance costs	6	**(3,272)**	(3,757)
Profit before tax		**30,034**	14,557
Income tax	7	**(9,198)**	(4,892)
Profit for the year		**20,836**	9,665
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(3,199)**	(2,604)
Gain/(loss) on currency loans relating to the net investment in foreign operations		**5,397**	(202)
Other comprehensive income/(expense) for the year		**2,198**	(2,806)
Total comprehensive income for the year		**23,034**	6,859
Earnings per share			
Basic earnings per share	8	**10.5p**	4.9p
Diluted earnings per share	8	**10.4p**	4.9p

Consolidated Statement of Financial Position

At 31 July 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	9	**23,908**	21,514
Right-of-use assets	18	**24,477**	22,074
Intangible assets – goodwill	10	**137,710**	116,778
Intangible assets – others	12	**85,373**	79,813
		271,468	240,179
Current assets			
Inventories	14	**44,971**	31,909
Right of return assets	3	**99**	274
Trade and other receivables	15	**47,482**	35,613
Other financial assets	16	**507**	—
Cash and short-term deposits		**19,456**	18,493
		112,515	86,289
Total assets		**383,983**	326,468
Current liabilities			
Trade and other payables	17	**(47,435)**	(31,274)
Refund liabilities	3	**(10,562)**	(8,636)
Income tax		**(4,629)**	(1,654)
Other financial liabilities	19	**(4,608)**	(574)
Interest-bearing loans and borrowings	20	**(3,454)**	(2,994)
Provisions	21	**(1,869)**	(1,802)
		(72,557)	(46,934)
Non-current liabilities			
Interest-bearing loans and borrowings	20	**(104,863)**	(89,211)
Other financial liabilities	19	**(6,021)**	(1,468)
Provisions	21	**(376)**	(272)
Deferred tax liabilities	22	**(14,876)**	(13,028)
		(126,136)	(103,979)
Total liabilities		**(198,693)**	(150,913)
Net assets		**185,290**	175,555
Capital and reserves			
Share capital		**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(3,739)**	(2,401)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**4,090**	1,410
Foreign currency translation reserve		**2,899**	701
Retained earnings		**74,658**	68,463
Total equity		**185,290**	175,555

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 6 October 2021.

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 2021

	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 2019	2,000	11,527	(2,030)	93,855	1,745	3,507	65,505	176,109	—	176,109
Adjustment on initial application of IFRS 16	—	—	—	—	—	—	(316)	(316)	—	(316)
At 1 August 2019	2,000	11,527	(2,030)	93,855	1,745	3,507	65,189	175,793	—	175,793
Profit for the year	—	—	—	—	—	—	9,665	9,665	—	9,665
Other comprehensive expense	—	—	—	—	—	(2,806)	—	(2,806)	—	(2,806)
Total comprehensive income	—	—	—	—	—	(2,806)	9,665	6,859	—	6,859
Purchase of own shares	—	—	(804)	—	—	—	—	(804)	—	(804)
Exercise of share options	—	—	433	—	(572)	—	139	—	—	—
Share-based payment including tax	—	—	—	—	237	—	—	237	—	237
Dividends paid (note 23)	—	—	—	—	—	—	(6,530)	(6,530)	—	(6,530)
At 1 August 2020	2,000	11,527	(2,401)	93,855	1,410	701	68,463	175,555	—	175,555
Profit for the year	—	—	—	—	—	—	20,836	20,836	—	20,836
Other comprehensive expense	—	—	—	—	—	2,198	—	2,198	—	2,198
Total comprehensive income	—	—	—	—	—	2,198	20,836	23,034	—	23,034
Business combination (note 13)	—	—	—	—	—	—	—	—	5,603	5,603
Obligation to acquire NCI (note 13)	—	—	—	—	—	—	(11,224)	(11,224)	(5,603)	(16,827)
Purchase of own shares	—	—	(2,105)	—	—	—	—	(2,105)	—	(2,105)
Exercise of share options	—	—	767	—	(1,112)	—	345	—	—	—
Share-based payment including tax	—	—	—	—	3,792	—	—	3,792	—	3,792
Dividends paid (note 23)	—	—	—	—	—	—	(3,762)	(3,762)	—	(3,762)
At 31 July 2021	**2,000**	**11,527**	**(3,739)**	**93,855**	**4,090**	**2,899**	**74,658**	**185,290**	**—**	**185,290**

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 2021 of £113,143,000 (2020: £94,295,000).

Consolidated Statement of Cash Flows

For the year ended 31 July 2021

	Notes	**2021 £000**	2020 £000
Operating activities			
Profit for the year after tax		**20,836**	9,665
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		**9,198**	4,892
Gain on disposal of property, plant and equipment		**(2)**	(21)
Costs of business combinations		**889**	—
Cash flows relating to business combination costs	16	**(811)**	—
Contingent consideration payable		**3,287**	—
Re-measurement of financial liability relating to business combination of ClimaRad	13	**491**	—
Re-measurement of future consideration relating to business combination of ClimaRad	13	**811**	—
Finance revenue	6	**(397)**	(87)
Finance costs	6	**3,272**	3,757
Share-based payment expense		**1,974**	200
Depreciation of property, plant and equipment	9	**3,327**	3,260
Depreciation of right-of-use assets	18	**3,531**	3,129
Amortisation of intangible assets	12	**18,218**	16,403
Working capital adjustments:			
(Increase)/decrease in trade receivables and other assets		**(11,537)**	6,739
(Increase)/decrease in inventories		**(11,349)**	3,336
Increase/(decrease) in trade and other payables		**18,618**	(4,337)
Movement in provisions		**208**	311
Cash generated by operations		**60,564**	47,247
UK income tax paid		**(2,970)**	(2,250)
UK income tax refund		**196**	1,657
Overseas income tax paid		**(5,328)**	(5,251)
Net cash flow generated from operating activities		**52,462**	41,403
Investing activities			
Payments to acquire intangible assets	12	**(1,068)**	(1,760)
Purchase of property, plant and equipment	9	**(3,632)**	(2,790)
Proceeds from disposal of property, plant and equipment		**196**	256
Business combination of subsidiaries, net of cash acquired	13	**(41,678)**	(856)
Business combination of subsidiaries, paid into escrow	13	**(507)**	—
Interest received		**57**	87
Net cash flow used in investing activities		**(46,632)**	(5,063)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(88,917)**	(51,285)
Repayment of debt relating to the business combination of ClimaRad (note 13)		**(1,482)**	—
Proceeds from new borrowings		**98,044**	34,500
Issue costs of new borrowings		**(1,218)**	—
Interest paid		**(2,088)**	(2,316)
Payment of principal portion of lease liabilities		**(2,960)**	(2,878)
Dividends paid		**(3,762)**	(6,530)
Purchase of own shares		**(2,105)**	(804)
Net cash flow used in financing activities		**(4,488)**	(29,313)
Net increase in cash and cash equivalents		**1,342**	7,027
Cash and cash equivalents at the start of the year		**18,493**	11,547
Effect of exchange rates on cash and cash equivalents		**(379)**	(81)
Cash and cash equivalents at the end of the year		**19,456**	18,493

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 2021

The preliminary results were authorised for issue by the Board of Directors on 6 October 2021. The financial information set out herein does not constitute the Group's statutory consolidated financial statements for the years ended 31 July 2021 or 2020, but is derived from those accounts. Statutory consolidated financial statements for 2021 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 financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies under the relevant notes.

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

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

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

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

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

Going concern

The Group's Strategic Report on page 49 shows the Directors' assessment of the Group's ability to continue as a 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 July 31 2023.

Our financial position remains robust with committed facilities totalling £150 million, and an accordion of a further £30 million, maturing in December 2023 with the option to extend for up to two additional years.

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, including those because of the Covid-19 pandemic.

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

A general economic slowdown representing the impact of a severe resurgence of Covid-19 and/or other macroeconomic uncertainty – reducing revenue by 20% compared to plan;

Supply chain difficulties as a result of the pandemic, the UKs trading relationship with the EU or global supply shortages reducing Gross Profit margin by 10%; and

A significant business combination increasing debt but with no positive cash flow contribution.

A reverse stress test scenario has also been modelled which shows a revenue contraction of 33% with no mitigations would be required to breech 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.

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

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'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 non-controlling interest and the liability is adjusted against retained earnings.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

1. Basis of preparation (continued)

Non-controlling interest (continued)

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 significant judgements, estimates and assumptions made in these financial statements relate to: Intangible assets – goodwill (note 9), Impairment assessment of goodwill (note 11), Intangible assets – other (note 12), Refund liabilities arising from retrospective volume rebates (note 3) and the financial liabilities relating to the business combination of ClimaRad (note 19).

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 Covid-19 pandemic; how these have impacted the significant judgements, estimates and assumptions in these financial statements are included under the relevant notes.

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, significant business combination and related integration and earn-out costs.

New standards and interpretations

The following new standards and amendments became effective as at 1 January 2020 and have been adopted for the financial year commencing 1 August 2020.

- Amendments to IFRS 3 Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 Definition of Material
- Amendments to References to the Conceptual Framework for Financial Reporting

1. Basis of preparation (continued)

New standards and interpretations (continued)

The following new standards and amendments became effective as at 1 June 2020 and have been adopted for the financial year commencing 1 August 2020.

- Amendments to IFRS 16 Covid-19-Related Rent Concessions

These have not had an impact on these financial statements.

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

2. Adjusted earnings

The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit and adjusted profit before tax. These measures are deemed more appropriate as they remove 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.

	2021 **£000**	2020 £000
Profit after tax	**20,836**	9,665
Add back:		
Contingent consideration payable	**3,287**	—
Costs of business combinations	**889**	—
Amortisation of acquired inventory fair value adjustment	**1,727**	—
Former CFO compensation	**—**	386
Re-measurement of future consideration relating to the business combination of ClimaRad (note 12)	**811**	—
Net gain on financial instruments at fair value	**(340)**	1,219
Amortisation and impairment of intangible assets acquired through business combinations	**16,839**	15,124
Tax effect of the above	**(2,426)**	(2,504)
Adjusted profit after tax	**41,623**	23,890
Add back:		
Adjusted tax charge	**11,624**	7,396
Adjusted profit before tax	**53,247**	31,286
Add back:		
Interest payable on bank loans, lease liabilities and amortisation of financing costs	**3,272**	2,538
Re-measurement of financial liabilities relating to the business combination of ClimaRad (note 12)	**491**	—
Finance revenue	**(57)**	(87)
Adjusted operating profit	**56,953**	33,737
Add back:		
Depreciation of property, plant and equipment	**3,327**	3,260
Depreciation of right-of-use assets	**3,531**	3,129
Amortisation of development costs, software and patents	**1,379**	1,279
Adjusted EBITDA	**65,190**	41,405

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

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 ventilation products

Revenue from the sale of ventilation 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).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

3. Revenue from contracts with customers (continued)

Accounting policy (continued)

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.

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).

Contract liabilities

There are no contract liabilities recognised in the comparative period or in the financial year ended 31 July 2021.

Critical accounting judgements and key sources of estimation uncertainty

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.

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.

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

	2021 **£000**	2020 £000
Sale of goods	**266,580**	214,000
Installation services	**6,008**	2,640
Total revenue from contracts with customers	**272,588**	216,640

3. Revenue from contracts with customers (continued)

Market sectors	2021 £000	2020 £000
UK		
Residential RMI	**44,128**	33,358
New Build Residential	**26,050**	21,947
Commercial	**31,145**	27,251
Export	**10,107**	8,600
OEM (Torin-Sifan)	**24,455**	20,332
Total UK	**135,885**	111,488
Nordics[1]	**51,584**	41,579
Central Europe[2]	**43,872**	33,120
Total Continental Europe	**95,456**	74,699
Total Australasia	**41,247**	30,453
Total revenue from contracts with customers	**272,588**	216,640

[1] included in the Nordics Revenue is £1,057,000 from the business combination of Klimatfabriken and Rtek.

[2] included in the Central Europe Revenue is £7,306,000 from the business combination of ClimaRad BV.

Right of return assets and refund liabilities	2021 £000	2020 £000
Right of return assets	**99**	274
Refund liabilities		
Arising from retrospective volume rebates	**9,960**	7,723
Arising from rights of return	**602**	913
Refund liabilities	**10,562**	8,636

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 Ventilation UK including OEM (Torin-Sifan), Ventilation Europe and Ventilation Australasia. Operating segments that provide ventilation services have been aggregated as they have similar economic characteristics, assessed by reference to the gross margins of the segments. In addition, the segments are similar in relation to the nature of products, services and production processes, type of customer, method for distribution and regulatory environment.

The 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 21 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.

4. Segmental analysis (continued)

Year ended 31 July 2021	UK £000	Continental Europe £000	Australasia £000	Central/ eliminations £000	Consolidated £000
Revenue from contracts with customers					
External customers	**135,885**	**95,456**[1]	**41,247**	**—**	**272,588**
Inter-segment	**20,580**	**9,885**	**195**	**(30,660)**	**—**
Total revenue from contracts with customers	**156,465**	**105,341**	**41,442**	**(30,660)**	**272,588**
Gross profit	**60,502**	**50,839**	**20,418**	**(110)**	**131,649**
Results					
Adjusted segment EBITDA	**31,453**	**28,120**	**10,116**	**(4,499)**	**65,190**
Depreciation and amortisation of development costs, software and patents	**(3,667)**	**(2,732)**	**(1,183)**	**(655)**	**(8,237)**
Adjusted operating profit/(loss)	**27,786**	**25,388**	**8,933**	**(5,154)**	**56,953**
Amortisation of intangible assets acquired through business combinations	**(10,115)**	**(5,566)**	**(1,158)**	**—**	**(16,839)**
Amortisation of acquired inventory fair value adjustments	**—**	**(1,727)**	**—**	**—**	**(1,727)**
Business combination related operating costs	**—**	**—**	**(3,287)**	**(889)**	**(4,176)**
Operating profit/(loss)	**17,671**	**18,095**	**4,488**	**(6,043)**	**34,211**
Unallocated expenses					
Net finance cost	**—**	**—**	**—**	**(2,875)**	**(2,875)**
Re-measurement of future consideration	**—**	**—**	**—**	**(811)**	**(811)**
Re-measurement of financial liability	**—**	**—**	**—**	**(491)**	**(491)**
Profit/(loss) before tax	**17,671**	**18,095**	**4,488**	**(10,220)**	**30,034**

[1] included in the Continental Europe Revenue is £8,363,000 from the business combination of ClimaRad BV, Klimatfabriken and Rtek.

Year ended 31 July 2020	UK £000	Continental Europe £000	Australasia £000	Central/ eliminations £000	Consolidated £000
Revenue from contracts with customers					
External customers	111,488	74,699	30,453	—	216,640
Inter-segment	13,674	11,251	75	(25,000)	—
Total revenue from contracts with customers	125,162	85,950	30,528	(25,000)	216,640
Gross profit	45,559	40,334	13,575	(140)	99,328
Results					
Adjusted segment EBITDA	19,197	17,747	5,682	(1,221)	41,405
Depreciation and amortisation of development costs, software and patents	(3,560)	(2,404)	(1,059)	(645)	(7,668)
Adjusted operating profit/(loss)	15,637	15,343	4,623	(1,866)	33,737
Amortisation of intangible assets acquired through business combinations	(10,759)	(3,237)	(1,128)	—	(15,124)
Former CFO compensation	—	—	—	(386)	(386)
Operating profit/(loss)	4,878	12,106	3,495	(2,252)	18,227
Unallocated expenses					
Net finance cost	—	—	—	(3,670)	(3,670)
Profit/(loss) before tax	4,878	12,106	3,495	(5,922)	14,557

4. Segmental analysis (continued)

Geographic information

Revenue from external customers by customer destination	2021 £000	2020 £000
United Kingdom	**112,661**	92,796
Europe (excluding United Kingdom and Sweden)	**88,711**	69,537
Sweden	**26,130**	20,606
Australasia	**41,276**	30,524
Rest of the world	**3,810**	3,177
Total revenue from contracts with customers	**272,588**	216,640

Non-current assets excluding deferred tax	2021 £000	2020 £000
United Kingdom	**122,148**	164,182
Europe (excluding United Kingdom and Nordics)	**62,709**	14,119
Nordics	**37,341**	16,372
Australasia	**49,270**	45,506
Total	**271,468**	240,179

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. Other operating income

Accounting policy

Other operating income relates to government grants which are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expensed item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

	2021 £000	2020 £000
Local government coronavirus job support receipts	**137**	3,404

The Group has made no claims in the year ended 31 July 2021. The balance of £137,000 was an adjustment relating to the claims made in the financial year ended 31 July 2020.

In the year £nil (2020: £1,250,000) of the coronavirus job support receipts were paid to furloughed staff working in the Group’s production facilities and therefore are included within cost of sales.

A further £nil (2020: £109,000) of relief was received in Sweden in the form of reduced social security contributions. This does not meet the accounting definition of grant income and is therefore not included above, but instead is treated as a reduction in salary costs.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

6. 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.

	2021 £000	2020 £000
Finance revenue		
Net gain on financial instruments at fair value	**340**	—
Interest receivable	**57**	87
Total finance revenue	**397**	87
Finance costs		
Interest payable on bank loans	**(1,566)**	(1,749)
Amortisation of finance costs	**(792)**	(230)
IFRS 16 related interest	**(522)**	(530)
Other interest	**(392)**	(29)
Total interest expense	**(3,272)**	(2,538)
Net loss on financial instruments at fair value	**—**	(1,219)
Total finance costs	**(3,272)**	(3,757)
Net finance costs	**(2,875)**	(3,670)

Amortisation of finance costs include £451,000 in relation to the charging of unamortised costs associated with the Group's previous £120 million revolving credit facility which was replaced in December 2020.

The net loss or gain on financial instruments at each year-end date relates to the measurement of fair value of the financial derivatives and the Group recognises any finance losses or gains immediately within net finance costs.

7. Income tax

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 22.

(a) Income tax charges against profit for the year

	2021 £000	2020 £000
Current income tax		
Current UK income tax expense	**4,069**	2,121
Current foreign income tax expense	**7,883**	5,143
Tax credit relating to the prior year	**(84)**	155
Total current tax	**11,868**	7,419
Deferred tax		
Origination and reversal of temporary differences	**(3,957)**	(3,353)
Effect of changes in the tax rate	**1,118**	909
Tax charge relating to the prior year	**169**	(83)
Total deferred tax	**(2,670)**	(2,527)
Net tax charge reported in the consolidated statement of comprehensive income	**9,198**	4,892

(b) Income tax recognised in equity for the year

	2021 £000	2020 £000
Increase in deferred tax asset on share-based payments	**(1,366)**	(248)
Net tax credit reported in equity	**(1,366)**	(248)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

7. Income tax (continued)

(c) Reconciliation of total tax

	2021 £000	2020 £000
Profit before tax	**30,034**	14,557
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	**5,706**	2,767
Adjustment in respect of previous years	**85**	72
Expenses not deductible for tax purposes	**1,573**	284
Effect of changes in the tax rate (see explanation below)	**1,118**	909
Non-taxable income	**(341)**	(28)
Higher overseas tax rate	**1,220**	997
Patent box	**(167)**	(111)
Other	**4**	2
Net tax charge reported in the consolidated statement of comprehensive income	**9,198**	4,892

Our reported effective tax rate for the period was 30.6% (2020: 33.6%). The higher decrease in our reported effective tax rate compared to the decrease in our adjusted effective tax rate is due to the re-measurement of deferred tax balances relating to the business combinations. Our underlying effective tax rate, on adjusted profit before tax, was 21.8% (2020: 23.6%). The decrease of 1.8% percentage points in our adjusted effective tax rate compared to the prior period was as a result of a change in our relative profit mix to the UK, with a rate of 19%, from overseas jurisdictions where our average rate for the year was 25.4%.

The rate of tax in the UK is currently 19%. In his Budget speech on 4 March 2021, the Chancellor announced an increase in the main UK corporation tax rate to 25% from 1 April 2023. The change in the rate to 25% was substantively enacted in the Finance Bill 2021 on 24 May 2021, UK deferred tax assets and liabilities that are expected to reverse after 1 April 2023 have been calculated at 25% and those expected to be utilised before at 19%.

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 (see note 31 for subsidiary locations).

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, our underlying effective tax rate to be in the range of 22% to 25% of the Group's adjusted profit before tax.

8. Earnings per share (EPS)

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 3,270,467 dilutive potential ordinary shares at 31 July 2021 (2020: 672,919).

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

Year ended 31 July	**2021 £000**	2020 £000
Profit attributable to ordinary equity holders	**20,836**	9,665

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**197,821,482**	198,063,746
Weighted average number of ordinary shares for diluted earnings per share	**200,975,673**	198,736,665
Earnings per share		
Basic	**10.5p**	4.9p
Diluted	**10.4p**	4.9p

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

8. Earnings per share (EPS) (continued)

Year ended 31 July	**2021 £000**	2020 £000
Adjusted profit attributable to ordinary equity holders	**41,623**	23,886

	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	**197,821,482**	198,063,746
Weighted average number of ordinary shares for adjusted diluted earnings per share	**200,975,673**	198,736,665
Adjusted earnings per share		
Basic	**21.0p**	12.1p
Diluted	**20.7p**	12.0p

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.

9. 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

9. Property, plant and equipment (continued)

2021	**Land and buildings £000**	**Plant and machinery £000**	**Fixtures, fittings, tools, equipment and vehicles £000**	**Total £000**
Cost				
At 1 August 2020	**13,852**	**12,110**	**10,938**	**36,900**
On business combinations	**2,167**	**197**	**411**	**2,775**
Transferred to right of use assets	**(419)**	**—**	**—**	**(419)**
Additions	**66**	**2,063**	**1,503**	**3,632**
Disposals	**—**	**(464)**	**(895)**	**(1,359)**
Net foreign currency exchange differences	**(296)**	**(66)**	**(413)**	**(775)**
At 31 July 2021	**15,370**	**13,840**	**11,544**	**40,754**
Depreciation				
At 1 August 2020	**4,219**	**5,221**	**5,946**	**15,386**
Transferred to right of use assets	**(90)**	**—**	**—**	**(90)**
Charge for the year	**502**	**1,027**	**1,798**	**3,327**
Disposals	**—**	**(350)**	**(815)**	**(1,165)**
Net foreign currency exchange differences	**(89)**	**(103)**	**(420)**	**(612)**
At 31 July 2021	**4,542**	**5,795**	**6,509**	**16,846**
Net book value				
At 31 July 2021	**10,828**	**8,045**	**5,035**	**23,908**

2020	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
At 1 August 2019	13,791	11,613	11,834	37,238
On business combinations	—	—	38	38
Transferred to right-of-use assets	—	—	(2,036)	(2,036)
Additions	63	640	2,005	2,708
Disposals	—	(154)	(810)	(964)
Net foreign currency exchange differences	(2)	11	(93)	(84)
At 31 July 2020	13,852	12,110	10,938	36,900
Depreciation				
At 1 August 2019	3,698	4,378	5,404	13,480
Transferred to right-of-use assets	—	—	(617)	(617)
Charge for the year	510	938	1,812	3,260
Disposals	—	(119)	(642)	(761)
Net foreign currency exchange differences	11	24	(11)	24
At 31 July 2020	4,219	5,221	5,946	15,386
Net book value				
At 31 July 2020	9,633	6,889	4,992	21,514

10. 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 2019	118,183
On the business combination of Nordic Line AsP	104
Net foreign currency exchange differences	(1,509)
At 31 July 2020	116,778
On the business combination of ClimaRad BV	20,258
On the business combination of Klimatfabriken	2,646
On the business combination of Energent Oy	1,096
Net foreign currency exchange differences	(3,068)
At 31 July 2021	**137,710**

11. 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.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of goodwill

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

The cash flows are derived from the business plan for the following three years. The recoverable amount is very sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement. Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows. The COVID-19 pandemic 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.

31 July 2021	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	**55,899**	**5,101**	**19,548**	**30,644**	**26,518**
CGU value in use headroom[1]	**255,944**	**34,959**	**123,224**	**81,609**	**76,074**

As at 31 July 2020 calculated headroom was:

11. Impairment assessment of goodwill (continued)

31 July 2020	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	55,899	5,101	16,816	12,163	26,799
CGU value in use headroom[1]	66,947	18,692	68,362	47,689	14,959

Note

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

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 10.5% to 14.7% 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.

Key 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% (2020: 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: 10.5% (2020: 12.6%); OEM (Torin-Sifan): 11.7% (2020: 13.7%); Nordics: 12.4% (2020: 12.9%); Central Europe: 13.6% (2020: 14.4%); and Australasia: 14.7% (2020: 14.6%).

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 key assumptions and in all cases an adverse movement in base year revenue of more than 60% or an increase in discount rates of more than 15pp would be required to cause the carrying value of the CGUs to materially exceed their recoverable value.

12. 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

12. Intangible assets – other (continued)

Critical accounting judgements and key sources of estimation uncertainty

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 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.

2021	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2020	**6,023**	**9,338**	**132,376**	**46,287**	**3,542**	**1,163**	**198,729**
Additions	**788**	**279**	**—**	**—**	**1**	**—**	**1,068**
On business combinations	**—**	**149**	**17,751**	**5,906**	**—**	**—**	**23,806**
Disposals	**—**	**(4)**	**—**	**—**	**—**	**—**	**(4)**
Net foreign currency exchange differences	**(28)**	**(64)**	**(2,545)**	**(746)**	**(133)**	**—**	**(3,516)**
At 31 July 2021	**6,783**	**9,698**	**147,582**	**51,447**	**3,410**	**1,163**	**220,083**
Amortisation							
At 1 August 2020	**1,494**	**4,692**	**95,004**	**15,206**	**1,357**	**1,163**	**118,916**
Charge for the year	**547**	**832**	**13,168**	**3,290**	**381**	**—**	**18,218**
Disposals	**—**	**(4)**	**—**	**—**	**—**	**—**	**(4)**
Net foreign currency exchange differences	**(2)**	**(17)**	**(1,970)**	**(369)**	**(62)**	**—**	**(2,420)**
At 31 July 2021	**2,039**	**5,503**	**106,202**	**18,127**	**1,676**	**1.163**	**134,710**
Net book value							
At 31 July 2021	**4,744**	**4,195**	**41,380**	**33,320**	**1,734**	**—**	**85,373**

Included in software costs are assets under construction of £27,000 (2020: £19,000), which are not amortised. Included in development costs are assets under construction of £26,000 (2020: £1,559,000), which are not amortised.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

12. Intangible assets – other (continued)

2020	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2019	4,811	8,857	132,450	46,381	3,545	1,163	197,207
Additions	1,251	500	—	—	9	—	1,760
On business combinations	—	—	521	—	—	—	521
Disposals	(56)	(1)	—	—	(1)	—	(58)
Net foreign currency exchange differences	17	(18)	(595)	(94)	(11)	—	(701)
At 31 July 2020	6,023	9,338	132,376	46,287	3,542	1,163	198,729
Amortisation							
At 1 August 2019	1,021	3,880	82,344	12,682	991	1,163	102,081
Charge for the year	485	827	12,304	2,435	352	—	16,403
Disposals	(22)	(1)	—	—	—	—	(23)
Net foreign currency exchange differences	10	(14)	356	89	14	—	455
At 31 July 2020	1,494	4,692	95,004	15,206	1,357	1,163	118,916
Net book value							
At 31 July 2020	4,529	4,646	37,372	31,081	2,185	—	79,813

The remaining amortisation periods for acquired intangible assets at 31 July 2021 are as follows:

	Customer base	Trademark	Patent/ technology/ other
Volution Holdings Limited and its subsidiaries	2 years	16 years	—
Fresh AB and its subsidiaries	—	11 years	—
PAX AB and PAX Norge AS	—	12 years	—
inVENTer GmbH	2 years	13 years	13 years
Ventilair Group International BVBA and its subsidiaries	2 years	4 years	—
Energy Technique Limited and its subsidiaries	3 years	15 years	—
NVA Services Limited and its subsidiaries	5 years	10 years	—
Breathing Buildings Limited	5 years	10 years	—
VoltAir System AB	11 years	11 years	1 year
Simx Limited	12 years	22 years	—
Oy Pamon Ab	7 years	17 years	7 years
Air Connection ApS	7 years	—	—
Nordic Line ApS	—	—	—
Ventair Pty Limited	9 years	19 years	—
ClimaRad BV	8 years	15 years	1 year
Nordiska Klimatfabriken AB	5 years	10 years	—
Energent Oy	5 years	10 years	—

13. 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 assumptions used in determining the discounted cash flows take into consideration the probability of meeting each performance target and a discount factor.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units (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’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 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.

13. Business combinations (continued)

Business combinations in the year ended 31 July 2021

ClimaRad Holding B.V. and subsidiaries

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. The business combination of ClimaRad is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies, across the residential ventilation market and, where appropriate, in the commercial ventilation market. The integration of ClimaRad into the Volution Group will provide an opportunity for further growth in the Netherlands and the combination of its product portfolio with that of Ventilair (the Netherlands and Belgium) will enable us to enhance our offer in the European markets.

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 ending 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.

The non-controlling interest on the business combination was valued at 25% of the total identifiable net assets, at £5,603,000. On recognition of the financial liability to purchase the remaining 25%, the non-controlling interest of £5,603,000 was de-recognised from equity.

The expected value of the future consideration is partially in the form of a vendor loan ('ClimaRad vendor loan') of €12,000,000 (£10,551,000) 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.

At 31 July 2021, the financial liability for the future consideration has been re-measured to include the non-controlling interest's share in profit of ClimaRad for the period (£820,000), less interest already charged to the income statement on the ClimaRad vendor loan (£329,000), a net re-measurement of £491,000. At 31 July 2021, the financial liability for the future consideration has also been re-measured to include the net unwinding of the discounted present value of £811,000. As a result, at 31 July 2021, the contingent consideration was assessed based on the current estimate of the future performance of the business as £5,514,000, discounted to present value.

Transaction costs relating to professional fees associated with the business combination in the period ended 31 July 2021 were £506,000 and have been expensed.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	149	21,554	21,703
Property, plant and equipment	2,783	150	2,933
Inventory	2,399	1,727	4,126
Trade and other receivables	1,035	—	1,035
Trade and other payables	(948)	24	(924)
Bank debt	(1,482)	—	(1,482)
Deferred tax liabilities	—	(5,858)	(5,858)
Cash and cash equivalents	879	—	879
Total identifiable net assets	4,815	17,597	22,412
Non-controlling interest on the business combination, subsequently derecognised			(5,603)
Goodwill on the business combination			20,258

Discharged by:	
Total consideration	37,067

Goodwill of £20,258,000 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 tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £1,035,000. The amounts for trade and other receivables not expected to be collected are £nil.

Inventories recorded on the business combination were recognised at fair value. The book value of the inventories is charged to adjusted gross profit and the fair value uplift is charged to gross profit as the inventories are sold.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

13. Business combinations (continued)

Business combination in the year ended 31 July 2021

ClimaRad Holding B.V. and subsidiaries (continued)

ClimaRad generated revenue of £7,306,000 and generated a profit after tax of £2,141,000 in the period from the business combination to 31 July 2021 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2020, the Group's revenue would have been £4,502,000 higher and the profit after tax from continuing operations would have been £1,233,000 higher than reported.

Critical accounting judgements and key sources of estimation uncertainty

Financial liabilities relating to the business combination of ClimaRad

The financial liability for the non-controlling interest is sensitive to the estimation of the expected future performance of ClimaRad which is used to calculate the future amount payable – based on an EBITDA multiple. If EBITDA for the financial year ended 31 December 2024 is 10% higher than expected, contingent consideration would be £1,500,000 higher, discounted to present value.

Nordiska Klimatfabriken AB

On 3 February 2021, Volution Group plc acquired the entire share capital of Nordiska Klimatfabriken AB, a company based in Sweden. The business combination is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies, across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the purchase of the entire issued share capital was SEK40,082,000 (£3,489,000), including deferred consideration of £251,000.

Transaction costs relating to professional fees associated with the business combination in the year ended 31 July 2021 were £74,000 and have been expensed.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	49	852	901
Property, plant and equipment	69	—	69
Inventory	55	—	55
Trade and other receivables	95	—	95
Trade and other payables	(159)	—	(159)
Deferred tax liabilities	—	(188)	(188)
Cash and cash equivalents	70	—	70
Total identifiable net assets	179	664	843
Goodwill on the business combination			2,646

Discharged by:	
Total consideration	3,489

Goodwill of £2,646,000 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 tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £95,000. The amounts for trade and other receivables not expected to be collected are £nil.

Nordiska Klimatfabriken generated revenue of £604,000 and generated a profit after tax of £252,000 in the period from the business combination to 31 July 2021 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2020, the Group's revenue would have been £521,000 higher and the profit after tax from continuing operations would have been £100,000 higher than reported.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

13. Business combinations (continued)

Business combination in the year ended 31 July 2021

Energent Oy

On 28 May 2021, Volution Group plc, through one of its wholly owned subsidiaries, Oy Pamon, acquired the trade and assets of Energent Oy, known in the market as Rtek. The transaction was funded from the Group's cash reserves.

Total consideration for the transaction was cash consideration of €3,000,000 (£2,578,000), including deferred consideration of £256,000.

Transaction costs associated with the business combination in the year ended 31 July 2021 were £143,000 and have been expensed.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	1,251	1,251
Property, plant and equipment	73	—	73
Inventory	429	—	429
Trade and other payables	(21)	—	(21)
Deferred tax liabilities	—	(250)	(250)
Total identifiable net assets	481	1,001	1,482
Goodwill on the business combination			1,096

Discharged by:	
Total consideration	2,578

Goodwill of £1,096,000 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 Rtek business generated revenue of £842,000 and generated a profit after tax of £55,000 in the period from the business combination to 31 July 2021 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2020, the Group's revenue would have been £4,208,000 higher and the profit after tax from continuing operations would have been £275,000 higher than reported.

Business combination in the year ended 31 July 2020

Nordic Line ApS

On 1 April 2020, Volution Group plc, through one of its wholly owned subsidiaries, Fresh AB, acquired the trade and assets of Nordic Line ApS. The transaction was funded from the Group's cash reserves.

Total consideration for the transaction was cash consideration of €614,000 (£538,000).

Transaction costs associated with the business combination in the year ended 31 July 2020 were £20,000 and have been expensed.

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	521	—	521
Property, plant and equipment	38	—	38
Trade and other payables	(21)	—	(21)
Deferred tax liabilities	—	(104)	(104)
Total identifiable net assets	538	(104)	434
Goodwill on the business combination			104

Discharged by:	
Total consideration	538

Goodwill of £104,000 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

13. Business combinations (continued)

Cash outflows arising from business combinations are as follows:

	2021 £000	2020 £000
Nordic Line ApS		
Cash consideration	**—**	538
Less: cash acquired with the business	**—**	—
Oy Pamon Ab		
Cash consideration	**—**	318
Less: cash acquired with the business	**—**	—
ClimaRad Holding B.V.		
Cash consideration	**37,067**	—
Less: cash acquired with the business	**(879)**	—
Nordiska Klimatfabriken AB		
Cash consideration	**3,489**	—
Less: cash acquired with the business	**(70)**	—
Energent Oy		
Cash consideration	**2,578**	—
Less: cash acquired with the business	**—**	—
Total	**42,185**	856

£507,000 was paid into escrow as part of consideration but deferred relating to Nordiska Klimatfabriken AB £251,000 and Energent Oy £256,000. These amounts are included as other financial assets in note 16.

14. 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.

	2021 £000	2020 £000
Raw materials and consumables	**16,961**	12,010
Work in progress	**2,004**	1,647
Finished goods and goods for resale	**26,006**	18,252
	44,971	31,909

During 2021, £921,000 (2020: £715,000) 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 £5,165,000 (2020: £5,038,000). This provision was split amongst the three categories: £2,778,000 (2020: £1,981,000) for raw materials and consumables; £201,000 (2020: £271,000) for work in progress; and £2,186,000 (2020: £2,725,000) for finished goods and goods for resale.

15. 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 (ECL). 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.

	2021 £000	2020 £000
Trade receivables	**43,755**	33,099
Allowance for expected credit loss	**(553)**	(574)
	43,202	32,435
Other debtors	**919**	769
Prepayments	**3,361**	2,409
Total	**47,482**	35,613

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

	2021 £000	2020 £000
At the start of the year	**(574)**	(606)
Charge for the year	**(111)**	(141)
Amounts utilised	**122**	169
Foreign currency adjustment	**10**	4
At the end of the year	**(553)**	(574)

Gross trade receivables are denominated in the following currencies:

	2021 £000	2020 £000
Sterling	**24,241**	17,629
US Dollar	**945**	526
Euro	**6,807**	4,138
Swedish Krona	**3,366**	3,124
New Zealand Dollar	**3,749**	3,213
Australian Dollar	**3,016**	2,745
Other	**1,631**	1,634
Total	**43,755**	33,009

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

15. Trade and other receivables (continued)

Net trade receivables are aged as follows:

	2021 £000	2020 £000
Neither past due nor impaired	**35,999**	27,146
Past due but not impaired		
Overdue 0–30 days	**4,534**	3,477
Overdue 31–60 days	**228**	462
Overdue 61–90 days	**1,011**	453
Overdue more than 90 days	**1,430**	897
Total	**43,202**	32,435

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.

16. Other financial assets

	2021 Current £000	2020 Current £000
Financial assets		
Funds held in escrow relating to the business combination in the year (note 13)	**507**	—
Total	**507**	—

17. Trade and other payables

	2021 £000	2020 £000
Trade payables	**26,703**	14,057
Social security and staff welfare costs	**1,712**	1,669
Accrued expenses	**19,020**	15,548
Total	**47,435**	31,274

18. 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, while motor vehicles and other equipment generally have lease terms 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 12 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 2021	**Land and buildings £000**	**Plant and machinery £000**	**Fixtures, fittings, tools, equipment and vehicles £000**	**Total £000**
Cost				
At 1 August 2020	**23,069**	**201**	**2,513**	**25,783**
Transferred from property, plant & equipment	**419**	**—**	**—**	**419**
Additions	**4,938**	**—**	**557**	**5,495**
Disposals	**—**	**—**	**(244)**	**(244)**
Expiration of leases	**(508)**	**—**	**—**	**(508)**
Net foreign currency exchange differences	**155**	**2**	**(7)**	**150**
At 31 July 2021	**28,073**	**203**	**2,819**	**31,095**
Depreciation				
At 1 August 2020	**2,759**	**70**	**880**	**3,709**
Transferred from property, plant & equipment	**90**	**—**	**—**	**90**
Charge for the period	**2,964**	**71**	**496**	**3,531**
Disposals	**—**	**—**	**(167)**	**(167)**
Expiration of leases	**(508)**	**—**	**—**	**(508)**
Net foreign currency exchange differences	**(7)**	**(2)**	**(28)**	**(37)**
At 31 July 2021	**5,298**	**139**	**1,181**	**6,618**
Net book value				
At 31 July 2021	**22,775**	**64**	**1,638**	**24,477**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

18. Leases (continued)

Right-of-use assets **2020**	**Land and buildings** **£000**	**Plant and machinery** **£000**	**Fixtures, fittings, tools, equipment and vehicles** **£000**	**Total** **£000**
Cost				
IFRS 16 leases at transition	**23,408**	**193**	**229**	**23,830**
Transferred from property, plant and equipment	**—**	**—**	**2,036**	**2,036**
Additions	**144**	**10**	**330**	**484**
Disposals	**—**	**—**	**(81)**	**(81)**
Net foreign currency exchange differences	**(483)**	**(2)**	**(1)**	**(486)**
At 31 July 2020	**23,069**	**201**	**2,513**	**25,783**
Depreciation				
Charge for the period	**2,740**	**69**	**320**	**3,129**
Transferred from property, plant and equipment	**—**	**—**	**617**	**617**
Disposals	**—**	**—**	**(49)**	**(49)**
Net foreign currency exchange differences	**19**	**1**	**(8)**	**12**
At 31 July 2020	**2,759**	**70**	**880**	**3,709**
Net book value				
At 31 July 2020	**20,310**	**131**	**1,633**	**22,074**

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 **2021**	**Land and buildings** **£000**	**Plant and machinery** **£000**	**Fixtures, fittings, tools, equipment and vehicles** **£000**	**Total** **£000**
At 1 August 2020	**22,113**	**144**	**916**	**23,173**
Additions to lease liabilities	**4,938**	**—**	**557**	**5,495**
Early termination	**—**	**—**	**(244)**	**(244)**
Interest expense	**486**	**9**	**27**	**522**
Lease payments	**(3,191)**	**(76)**	**(215)**	**(3,482)**
Foreign exchange movements	**(65)**	**(2)**	**32**	**(35)**
At 31 July 2021	**24,281**	**75**	**1,073**	**25,429**
Analysis				
Current	**2,878**	**50**	**526**	**3,454**
Non-current	**21,403**	**25**	**547**	**21,975**
At 31 July 2021	**24,281**	**75**	**1,073**	**25,429**

Lease liabilities **2020**	**Land and buildings** **£000**	**Plant and machinery** **£000**	**Fixtures, fittings, tools, equipment and vehicles** **£000**	**Total** **£000**
At 1 August 2019	25,228	208	852	26,288
Additions to lease liabilities	144	10	330	484
Early termination	—	—	(81)	(81)
Interest expense	500	14	16	530
Lease payments	(3,181)	(84)	(195)	(3,460)
Foreign exchange movements	(578)	(4)	(6)	(588)
At 31 July 2020	22,113	144	916	23,173
Analysis				
Current	2,511	67	416	2,994
Non-current	19,602	77	500	20,179
At 31 July 2020	22,113	144	916	23,173

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

	2021 **£000**	**2020** **£000**
Depreciation expense of right-of-use assets (cost of sales)	**1,983**	**1,918**
Depreciation expense of right-of-use assets (administrative expenses)	**1,369**	**1,211**
Interest expense	**503**	**530**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

19. Other financial liabilities

2021	Air Connection ApS £000	Ventair Pty Limited £000	ClimaRad BV £000	Nordiska Klimatfabriken AB £000	Energent Ab £000	Total £000
Contingent consideration						
At 1 August 2020	**508**	**960**	**—**	**—**	**—**	**1,468**
Contractual liability to purchase remaining non-controlling interest (note 13)	**—**	**—**	**5,514**	**—**	**—**	**5,514**
Further consideration recognised	**—**	**3,287**	**—**	**261**	**258**	**3,806**
Foreign exchange	**(25)**	**(177)**	**—**	**(10)**	**(2)**	**(214)**
At 31 July 2021	**483**	**4,070**	**5,514**	**251**	**256**	**10,574**
Analysis						
Current	**483**	**4,070**	**—**	**—**	**—**	**4,553**
Non-current	**—**	**—**	**5,514**	**251**	**256**	**6,021**
Total	**483**	**4,070**	**5,514**	**251**	**256**	**10,574**

2020	Oy Pamon Ab £000	Air Connection ApS £000	Ventair Pty Limited £000	Total £000
Contingent consideration				
At 1 August 2019	318	512	989	1,819
Consideration paid during the year	(318)	—	—	(318)
Further consideration recognised	—	—	—	—
Foreign exchange	—	(4)	(29)	(33)
At 31 July 2020	—	508	960	1,468
Analysis				
Current	—	—	—	—
Non-current	—	508	960	1,468
Total	—	508	960	1,468

Current

On 1 March 2019, Volution Group plc, through one of its wholly owned subsidiaries, Woomera Pty Limited, acquired the entire issued share capital of Ventair Pty Limited, a company based in Australia. Total consideration for the transaction was AUD17,895,000 (£9,713,000), comprised of cash consideration of AUD16,138,000 (£8,761,000) and contingent consideration with a fair value of AUD1,757,000 (£952,000). The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2021. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is AUD7,700,000. The contingent consideration was recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of contingent consideration payable has yet to be agreed with the sellers, for the twelve months to 31 July 2021 the EBITDA of Ventair was substantially ahead of budget, therefore, a further AUD5,943,000 (£3,287,000) consideration has been recognised in the year. At 31 July 2021, the liability assessed as £4,070,000 relates to the contingent consideration payable to Ventair Pty Limited based on its EBITDA performance achieved during the twelve months to 31 July 2021.

The remainder of the current contingent consideration of £483,000 is payable in relation to Air Connection ApS which is based on its EBITDA performance achieved during the twelve months to 31 July 2021.

Non-current

On 17 December 2021, 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. 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 £5,514,000, discounted to present value.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 July 2021

19. Other financial liabilities (continued)

On 3 February 2021, Volution Group plc acquired the entire share capital of Nordiska Klimatfabriken AB, a company based in Sweden. Total consideration for the purchase of the entire issued share capital was SEK40,082,000 (£3,489,000) including deferred consideration of £251,000.

On 28 May 2021, Volution Group plc, through one of its wholly owned subsidiaries, Oy Pamon, acquired the trade and assets of Energent Oy, known in the market as Rtek. Total consideration for the transaction was cash consideration of €3,000,000 (£2,578,000), including deferred consideration of £256,000.

	2021 £000	2020 £000
Financial liabilities		
Foreign exchange forward contracts	**55**	574
Total	**55**	574

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.

20. 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.

	2021		2020	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2023)	**—**	**73,293**	—	69,563
Cost of arranging bank loan	**—**	**(956)**	—	(531)
	—	**72,337**	—	69,032
IFRS 16 lease liabilities (note 14)	**3,454**	**21,975**	2,994	20,179
ClimaRad vendor loan (note 13)	**—**	**10,551**	—	—
Total	**3,454**	**104,863**	2,994	89,211

On 2 December 2020, the Group refinanced its bank debt. The Group now has in place a £150 million multicurrency "Sustainability Linked Revolving Credit Facility", together with an accordion of up to £30 million. The facility matures in December 2023, with the option to extend for up to two additional years. The old facility was repaid in full early, on 8 December 2020, and a new multicurrency "Sustainability Linked Revolving Credit Facility" was entered into. Interest-bearing loans at 31 July 2021 comprise this multicurrency "Sustainability Linked Revolving Credit Facility", together with an accordion, from Danske Bank A/S, HSBC, the Royal Bank of Scotland and the Bank of Ireland, with HSBC acting as agent, and are governed by a facilities agreement. No security is provided under the facility.

Bank loans at 31 July 2020 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland, with HSBC acting as agent, and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Revolving credit facility – at 31 July 2021

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	—	2 December 2023	One payment	Libor + margin%
Euro	57,304	2 December 2023	One payment	Euribor + margin%
Swedish Krona	15,989	2 December 2023	One payment	Stibor + margin%
Total	**73,293**			

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

20. Interest-bearing loans and borrowings (continued)

Revolving credit facility – at 31 July 2020

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	6,000	15 December 2022	One payment	Libor + margin%
Euro	40,285	15 December 2022	One payment	Euribor + margin%
Swedish Krona	23,278	15 December 2022	One payment	Stibor + margin%
Total	69,563			

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 2021, Group leverage was below 1.0:1 and therefore the margin will reduce to 1.25%.

At 31 July 2021, the Group had £76,707,000 (2020: £50,437,000) of its multicurrency revolving credit facility unutilised.

Changes in liabilities arising from financing activities

	1 August 2020 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	Changes due to business combination £000	Other £000	**31 July 2021 £000**
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	69,563	9,127	(5,397)	—	—	—	**73,293**
Debt related to the business combination of ClimaRad (note 13)	—	(1,482)	—	—	1,482	—	**—**
Lease liabilities	23,173	(2,960)	(35)	5,495	—	(244)	**25,429**
ClimaRad vendor loan (note 13)	—	—	(135)	—	—	10,686	**10,551**
Total liabilities from financing activities	92,736	4,685	(5,567)	5,495	1,482	10,442	**109,273**

	1 August 2019 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	Other £000	**31 July 2020 £000**
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	86,146	(16,785)	202	—	—	**69,563**
Lease liabilities	26,288	(2,878)	(588)	484	(133)	**23,173**
Total liabilities from financing activities	112,434	(19,663)	(386)	484	(133)	**92,736**

21. 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

21. Provisions (continued)

2021	**Product warranties £000**	**Property dilapidations £000**	**Total £000**
At 1 August 2020	**1,629**	**445**	**2,074**
Arising during the year	**1,367**	**61**	**1,428**
Utilised	**(1,343)**	**(107)**	**(1,450)**
Foreign currency adjustment	**134**	**59**	**193**
At 31 July 2021	**1,787**	**458**	**2,245**
Analysis			
Current	**1,453**	**416**	**1,869**
Non-current	**334**	**42**	**376**
Total	**1,787**	**458**	**2,245**

2020	Product warranties £000	Property dilapidations £000	Total £000
At 1 August 2019	1,398	384	1,782
Arising during the year	973	69	1,042
Utilised	(722)	(8)	(730)
Foreign currency adjustment	(20)	—	(20)
At 31 July 2020	1,629	445	2,074
Analysis			
Current	1,629	173	1,802
Non-current	—	272	272
Total	1,629	445	2,074

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.

22. 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.

At 31 July 2021, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2020: £5,195,000) relating to management expenses, capital losses of £3,975.000 (2020: £3,975,000) arising in UK subsidiaries and gross tax losses of £153,000 (2020: £645,000) arising in overseas entities as there is insufficient evidence that the losses will be utilised. These losses are available to be carried indefinitely.

At 31 July 2021, the Group had no deferred tax liability (2020: £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.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

2021	1 August 2020 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On business combinations £000	31 July 2021 £000
Temporary differences						
Depreciation in advance of capital allowances	**(1,028)**	**(655)**	**—**	**(4)**	**(34)**	**(1,721)**
Fair value movements of derivative financial instruments	**(9)**	**20**	**—**	**—**	**—**	**11**
Customer base, trademark and patent	**(14,409)**	**2,520**	**—**	**439**	**(5,824)**	**(17,274)**
Losses	**318**	**89**	**—**	**—**	**—**	**407**
Untaxed reserves	**1,480**	**230**	**—**	**(26)**	**(438)**	**1,246**
Other temporary differences	**620**	**469**	**1,366**	**—**	**—**	**2,455**
Deferred tax liability	**(13,028)**	**2,673**	**1,366**	**409**	**(6,296)**	**(14,876)**

22. Deferred tax (continued)

2020	1 August 2019 £000	Opening IFRS 16 adjustments £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On business combinations £000	31 July 2020 £000
Temporary differences							
Depreciation in advance of capital allowances	(1,043)	360	(347)	—	2	—	(1,028)
Fair value movements of derivative financial instruments	(115)	—	106	—	—	—	(9)
Customer base, trademark and patents	(16,669)	—	2,120	—	244	(104)	(14,409)
Losses	285	—	33	—	—	—	318
Untaxed reserves	768	—	757	—	(45)	—	1,480
Other temporary differences	755	—	(142)	7	—	—	620
Deferred tax liability	(16,019)	360	2,527	7	201	(104)	(13,028)

23. 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.

	2021 £000	2020 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2021: 1.90 pence per share (2020: £nil pence)	**3,762**	—
Proposed dividends on ordinary shares		
Final dividend for 2021: 4.40 pence per share (2020: £nil pence)	**8,707**	—

An interim dividend payment of £3,762,000 is included in the consolidated statement of cash flows (2020: £nil; the interim dividend of 1.71 pence per share was cancelled as a result of the COVID-19 crisis).

A final dividend payment of £nil is included in the consolidated statement of cash flows relating to 2020 (2020: £6,530,000; related to the final dividend of 2019).

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 2021.

24. 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 2021 or 31 July 2020.

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

	2021 £000	2020 £000
Short-term employee benefits	**4,139**	2,749
Share-based payment charge	**1,605**	58
Total	**5,744**	2,807

Key management personnel is defined as the CEO, the CFO and the eleven (2020: eleven) individuals who report directly to the CEO.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

25. Events after the reporting period

On 9h 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 €23.4 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 2023.

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

	Fair value £000
Intangible assets	65
Property, plant and equipment	3,575
Inventory	2,322
Trade and other receivables	9,962
Trade and other payables	(8,472)
Bank debt	(3,103)
Cash and cash equivalents	561
Total identifiable net assets	4,910
Goodwill on the business combination	23,310

Discharged by:	
Cash consideration (including deferred cash consideration)	20,000
Contingent consideration	8,220

The fair values on the business combination are provisional due to the timing of the business combination and will be finalised within twelve months of the business combination date

Included in the £23,310,000 of Goodwill are intangible assets related to the tradename, customer base, skilled workforce and other intangible assets that are separable and can be reliably measured, and are not yet separately disclosed. The value of these separable intangible assets will be finalised within twelve months of the business combination date. Also included in the Goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature such as the expected synergies arising from the business combination.

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 year ended 31 July 2021 were £0.1 million and have been expensed.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2021

26. 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 3,270,467 dilutive potential ordinary shares at 31 July 2021 (2020: 791,195).

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: is 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 2021 at the average exchange rate for the year ended 31 July 2020. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2021, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2020.

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.