volution

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Thursday 6 October 2022

VOLUTION GROUP PLC
Preliminary Full Year Results for the year ended 31 July 2022

Delivering strong growth, sustainably

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 2022.

RESULTS SUMMARY

	2022	**2021**	**Movement**
Revenue (£m)	**307.7**	272.6	+12.9%
Adjusted operating profit (£m)	**64.9**	56.9	+13.9%
Adjusted operating margin (%)	**21.1%**	20.9%	+0.2pp
Adjusted profit before tax (£m)	**60.9**	53.2	+14.5%
Adjusted EPS (pence)	**24.0**	21.0	+14.3%
Reported operating profit (£m)	**50.8**	34.2	+48.5%
Reported profit before tax (£m)	**47.2**	30.0	+57.2%
Reported basic EPS (pence)	**18.1**	10.5	+72.4%
Adjusted operating cash flow (£m)	**50.4**	56.9	(11.4)%
Net debt (£m)[1]	**85.8**	79.2	+6.6
Total dividend per share (pence)	**7.3**	6.3	+15.9%

[1] 2022 includes lease liabilities of £25.0 million (2021: £25.4 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 from reported profit after tax to adjusted profit after tax, adjusted profit before tax and adjusted operating profit, is set out in note 2 to the condensed consolidated financial statements.

Financial highlights

- Revenue up 12.9% consisting of 6.6% organic growth at constant currency (cc) and inorganic growth of 8.5% at cc, offset by adverse currency impact of 2.2%
- Good organic revenue growth in all three regions, UK, Continental Europe and Australasia, delivered through both volume and price
- Geographic diversification strategy continues: revenue from non-UK customers increases from 58.7% to 61.6% in the year
- Adjusted operating margin up 20bps to 21.1% (2021: 20.9%) underpinned by effective pricing actions and supply chain management
- Adjusted EPS of 24.0 pence, up 14.3%, delivering a compounded annual growth rate of 13.4% since IPO in 2014. Reported basic EPS up 72.4%
- Strong second half cash generation resulting in a full year adjusted operating cash flow of £50.4 million (2021: £56.9 million), a full year cash conversion of 76% (2021: 97%)
- Total dividend for the year increased by 15.9% to 7.3 pence per share (2021: 6.3 pence)

Operational highlights

- Investment in additional inventory and agile supply chain management ensured good customer service levels maintained throughout the year
- Acquisition of Energy Recovery Industries (ERI) completed in September 2021 for an initial consideration of €20 million, gives the Group a leading position in the manufacture of energy efficient heat exchangers, an integral component in all heat recovery devices
- €2 million investment commenced in capacity expansion and automation at ERI to support what we anticipate to be a strong growth area, as well as an expansion programme for our energy efficient EC3 motorised impellers in our Torin-Sifan business
- Successful first full year of operation of new Nordics facility in Växjö

Healthy air, sustainably

- Good progress against our key sustainability targets:
    - 67.2% of plastic used in own manufacturing facilities from recycled sources (2021: 59.7%)
    - 66.1% of revenue from low-carbon, energy saving products (2021: 62.1%)
- Commencement of Group Sustainability Committee as of September 2021, with attendance by our Senior Independent Director at each of the three meetings to date
- Continued investment and innovation in heat recovery categories, now over 30% of Group revenue
- Group carbon reduction targets aligned with 2040 net zero objective
- Signatories to both the CEO Water Mandate and UN Global Compact in the year

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

"We have again achieved a strong performance, with good organic revenue growth across all three of our geographies and maintaining our operating margin in the face of challenging operating conditions. We further increased the Group's product and geographic diversification in the year, with non-UK customers now representing 61.6% of our revenue. Our strategic investment in higher levels of component and finished goods inventory, a decision taken over one year ago, has helped underpin excellent service levels and we are delighted with the progress we have made in delivering "Healthy air, sustainably". I am proud of the results our committed employees have delivered in the year.

"Progress with sustainability has been equally strong. Recycled plastics content in our facilities is now up to 67.2% and low carbon content of sales, additionally boosted by the acquisition of Energy Recovery Industries, is now at 66.1%. The energy crisis has focused customers' minds on the importance of heat recovery ventilation and this category now accounts for over 30% of Group revenue. This desire to reduce heating bills, a tightening of regulations relating to carbon reduction in buildings, as well as heightened awareness of the importance of air quality to health, continues to drive demand for our innovative solutions."

Outlook

The new financial year has started well, delivering revenue and profit ahead of the same period last year. Whilst we are mindful of macroeconomic challenges, the regulatory, air quality and energy efficiency agenda throughout Europe has never been more supportive.

With our excellent levels of customer service, agile manufacturing and supply chain capability and strong balance sheet position, coupled with significant geographic revenue diversity, we are well placed to make further progress in the year ahead.

-Ends-

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A meeting for analysts will be held at 9.30am today, Thursday 6 October 2022, at the offices of Berenberg, 60 Threadneedle Street, London EC2R 8HP. Please contact connie.gibson@fticonsulting.com to register to attend or for instructions on how to connect to the meeting via conference facility.

A copy of this announcement and the presentation given to analysts will be available on our website www.volutiongroupplc.com from 9.00 am on Thursday 6 October 2022.

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, inVENTer, Ventilair, ClimaRad, rtek, ERI

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 pleased to report that Volution has made further significant progress in the year ended 31 July 2022, both in respect of its financial performance and delivering against our ESG targets and objectives. As demonstrated by these results, the resilience of Volution's business model and strategy continues to be highly effective, despite the unpredictable trading environments, supply chain challenges, and inflationary pressures experienced across our operations.

Performance and results
This strong set of results reflects the resilience and responsiveness of the business and its people, through the challenges of recent times, with the Group's revenue increasing to £307.7 million (2021: £272.6 million). Adjusted operating profit was up by 13.9% at £64.9 million (2021: £56.9 million), representing margins of 21.1% (2021: 20.9%). Reported profit before tax increased to £47.2 million (2021: £30.0 million).

Basic earnings per share for the year was 18.1 pence (2021: 10.5 pence). Our adjusted earnings per share was 24.0 pence representing a 14.3% increase over the adjusted earnings per share for the prior year of 21.0 pence. The compound annual growth rate of adjusted earnings per share since IPO in 2014 was 13.4%, demonstrating consistent delivery of double-digit earnings growth over the period.

Adjusted operating cash flow was £50.4 million (2021: £56.9 million) and net debt at the year end was £85.8 million (2021: £79.2 million), despite spending £16.5m on acquisitions during the year.

Dividends
We aim to deliver shareholder value through organic and inorganic revenue growth and reward shareholders through a progressive dividend policy. We paid an interim dividend of 2.3 pence per share in May 2022 and based on our results and financial position, the Board has recommended a final dividend of 5.0 pence per share, giving a total dividend for the financial year of 7.3 pence per share (2021: 6.3 pence per share), an increase of 15.9% on the previous year. As a consequence of this recommendation, the resulting adjusted earnings dividend cover for the year was 3.3x (2021: 3.3x). Subject to approval by shareholders at the Annual General Meeting on 14 December 2022, the final dividend will be paid on 20 December 2022 to shareholders on the register at 25 November 2022.

Strategy
The three strategic pillars of the Group are organic growth, value-adding acquisitions and operational excellence. These strategic pillars, together with our focus on sustainability, provide the platform for the implementation of the Group's purpose, to provide "healthy air, sustainably", and support the creation of long-term value for all our stakeholders.

Good progress was made during the year with organic growth, whilst the acquisition of ERI, based in North Macedonia, and Bera, based in Germany, has further strengthened the Group's geographic and product diversification. On behalf of the Board, I am delighted to welcome our new colleagues at ERI and Bera to the Group.

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.

Board Changes
As previously announced, Tony Reading, who had been a Director of Volution since the IPO in June 2014, retired at the conclusion of the Annual General Meeting in December 2021. We were very appreciative of Tony's contribution to Board discussions over his seven-year tenure. Following Tony's stepping down, a search process was instigated to find a successor and, on 10 March 2022, we were pleased to welcome Dr. Margaret Amos to the Board as an Independent Non-Executive Director, who has close to 30 years of experience at Rolls-Royce plc, and expertise in a wide range of fields including finance, business strategy, international M&A, and sustainability.

In addition, we announced the appointment of Amanda Mellor to the role of Senior Independent Director with effect from 9 December 2021. Amanda has been a Board member since March 2018 and is also the Board representative for ESG matters, attending the Management Sustainability Committee meetings of the Group.

Chairman Succession
At the end of June 2023, I will have been on the Volution Board for nine years and it will be time to step down. Amanda Mellor, our Senior Independent Director, will lead the process to find my successor and further announcements will be made in due course. On a personal note, it has been a pleasure to serve on the Volution Board and enjoy a front row seat to the continued development, progress and evolution of the Group. Long may its success continue.

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 as 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, assisted by external evaluator Independent Audit. The results of the evaluation confirmed that the Board and Committees were functioning well in terms of effective chairing, quality of discussion, and focus areas, and that there are no significant concerns among the Directors about their effectiveness.

Summary
As a Board we continue to believe that 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 sets out the strategy and actions we have set to achieve this.

This ongoing successful performance of the business is only possible due to the commitment, abilities, and drive of our people. On behalf of the Board, I would like to thank all our dedicated employees at Volution, for their continued efforts and allegiance, especially given the difficult environment of recent years due to the Covid-19 pandemic. I also want to thank Ronnie George and his executive team for steering the Group so well through what have been some very testing and turbulent times.

Whilst economic and political uncertainty prevails across the globe, Volution's performance has demonstrated the strength and resilience of its business model, helped by our geographic and product diversity.

Paul Hollingworth
Chairman
5 October 2022

Chief Executive Officer's Review

Overview

Volution has delivered another strong set of results and made excellent progress in the year. At the start of the financial year the Covid-19 pandemic was still a significant issue in all our local markets and there was considerable uncertainty about how the situation would evolve. As we finished the year the pandemic has thankfully moved very much to the background; however, the strong rebound has created an ongoing industry-wide supply chain challenge that we have navigated well. Our agile local leadership and the commitment of our colleagues have enabled us to provide good levels of customer service throughout. The plan to invest in higher than usual levels of inventory, a decision taken at the beginning of calendar year 2021, has underpinned good component part availability for our assembly facilities and we have exited the financial year 2022 in excellent operational shape.

Along with the industry at large, we have seen an unprecedented period of significant supply chain disruption and material and labour cost inflation. These inflationary risks were highlighted by us early in calendar year 2021 and we have remained vigilant, both with respect to managing these input cost risks as well as quick and transparent actions with regard to pricing to our customers.

At the start of the financial year, we were continuing to experience strong demand for private residential refurbishment applications, whilst other areas, notably public residential refurbishment and residential new build, were experiencing slower demand. We have now seen a rotation from what was a Covid-19 induced private refurbishment boom, into good organic growth in the more regulatory or energy efficiency driven areas of our market. We are confident that these trends, many of which we expect to be long-term trends related to carbon reduction and carbon efficiency, are firmly in place, as well as a longer lasting and more conscious end market connected with the long-term health risks of poor indoor air quality. The global concerns regarding energy prices, resulting in significantly higher consumer costs for heating and powering homes, are already driving more focus on air tightness and greater energy efficient ventilation. We have always argued, and continue to do so, that the most effective and cost-effective way to reduce consumer energy bills is to insulate to avoid energy losses and then structurally change the way a property is ventilated to provide fresh air with heat recovery.

Regulations have also evolved in the year supported by the accelerating focus on carbon reduction from both residential and commercial buildings. Changes to Part F and Part L of the Building Regulations in the UK were effective in June 2022. For the first time Part F covers ventilation provision for existing properties where energy efficient measures are subsequently applied in refurbishment as well as covering new build. The new regulations deliver a 30% reduction in carbon emissions over the previous regulations and shall encourage the adoption of heat recovery systems. In addition, we have seen the Social Housing Decarbonisation Fund influence the adoption of energy efficient ventilation systems in refurbishment.

We are seeing similar more supportive regulatory changes in all markets with European changes in the Energy Performance of Buildings Directive. The key changes help align to the "Fit for 55" package which aims for a 55% reduction in emissions by 2030. The aim of the changes is to help facilitate more targeted financing to investments in the building sector through the Green Deal and the EU Taxonomy supporting vulnerable consumers and fighting energy poverty. These regulatory changes and supportive local influences are anticipated to move more quickly in the coming years as our local markets adopt the changes. In Australia, we are awaiting stage 2 of the National Construction Code 2022, which covers energy efficiency and condensation provisions and which is due soon.

Results

The Group delivered revenue of £307.7 million (2021: £272.6 million), an increase of 12.9% (15.1% at cc), with organic growth of 4.6% (6.6% at cc) and inorganic growth from the two acquisitions in the year, as well as the full year effect of the acquisition in the prior year, of 8.3% (8.5% at cc). Adjusted operating margins increased from 20.9% in the prior year to 21.1% supported by our early and decisive actions on price rises, as well as the significant effort in managing the supply chain and input cost challenges. Reported profit before tax was £47.2 million (2021: £30.0 million), an increase of 57.2%.

Sustainability

This year we have made good progress with our key sustainability initiatives. Our teams have been working hard to source, trial and optimise recycled plastics and this year we hit 67.2% (2021: 59.7%) of the plastic used within our own facilities now being from a recycled source. The second half of the year was where we made our most significant step changes and the Group run rate accelerated in Q4 and was significantly ahead of the previous three-quarters giving us confidence that we are still on target for our 2025 ambition of 90%.

Revenue from our low-carbon products has increased to 66.1% in the year and is ahead of this year's target of 63.4%. We remain on track to deliver our target of 70% of all revenues from low-carbon products by the end of 2025. After the acquisition of ERI, 30.1% of our revenue is derived specifically from heat recovery systems and components. This technology is key for avoiding carbon emissions from heating and cooling of buildings.

This year we have become signatories to the CEO Water Mandate and the UN Global Compact. Although early in the process, we have started workstreams in the Direct Operations and Supply Chain and Watershed Management commitment areas of the Water Mandate, plus we are ensuring that we embed the ten principles of the UN Global Compact across our organisation. We are committed to continuous improvement in these areas and will provide greater disclosures over time.

We support the recommendations of the Task Force on Climate-related Financial Disclosures and have made more detailed disclosures in this year's report including transparent carbon reduction targets.

Strategy

Organic growth

The financial year ended 31 July 2022 was a year of good growth; we delivered an organic growth of 6.6% on a constant currency basis driven by price and volume.

Volution has a significant portion of revenue exposed to applications which are underpinned by regulatory drivers. This supports demand and also drives increased unit price as solutions need to be more energy efficient and increasingly contain smarter technology.

We can complement this opportunity and aid our organic growth through superior customer service, given Volution is more vertically integrated than most of its local competitors, and has a far greater breadth of product in its portfolio and innovation capability. Over the last five years, supported by many acquisitions and a strong conveyor belt of new product introductions, we believe that we now have one of the most comprehensive product ranges in the European and Australasian residential ventilation markets.

In this financial year we have gained share through our vertical integration, providing continuity of supply for finished products in our markets. This is most notable in residential refurbishment and new build where several product lines have gained greater traction than anticipated as we have gained share from our competitors. We have also won a significant new account in the UK housebuilding sector and the revenue will commence in this financial year.

In summary, we are benefiting from accelerating regulatory support, a portfolio of strong local brands, a comprehensive and well serviced product portfolio and decentralised and empowered local leadership teams motivated to gain share and grow well organically. Providing healthy air continues to be our priority and following on from the Covid-19 induced increased awareness of the importance of indoor air quality, we see many new and emerging opportunities as landlords and homeowners place greater importance on this topic.

Acquisitions

We completed two acquisitions in the year. In September we announced the completion of the acquisition of Energy Recovery Industries (ERI) for an initial consideration of €20.0 million. 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 ERI acquisition included an earn-out through to the end of the financial year 2024. The team has ambitious plans for growth, and we are making good progress with our previously advised factory extension and capital plant investment. Once finalised, towards the end of calendar year 2023, the available capacity to manufacture energy efficient heat exchanger cells will be double that in place at the time of the acquisition. Increasing automation at our plant in Bitola, North Macedonia, is key to increasing output at the same time as significantly increasing plant efficiency. Heat exchangers are an integral part of all heat recovering ventilation devices with strong structural growth drivers.

In July we completed the acquisition of Bera, a long-term partner for our inVENTer business and an important route to market for our business in southern Germany. This transaction was triggered due to the retirement of the owner of Bera and was important for us to secure access to our long-term contractor customers.

Operational excellence

Having delivered an adjusted operating profit margin of 20.9% in the previous financial year, in line with our long-term operating margin target of greater than 20%, we have achieved an adjusted operating profit margin of 21.1% in this year. We strongly believe in a culture of efficiency, elimination of waste wherever possible and local ownership of the many streamlining and efficiency initiatives that we drive across the business every year. With significant labour and material inflation, our initiatives and our medium-term target to achieve 90% of all of our plastic injection moulding and extrusion from recycled content, are becoming ever more important in underpinning our market leading operating margins.

In the year we benefited from the first full financial year operating from our new facility in Växjö, Sweden, where the plant commissioning was completed in the early part of calendar year 2021. In the UK we continued to bed down the consolidated finance function with a substantial step taken towards the end of this financial year.

People

As anticipated in last year's report we have seen a return to more "normal" working practices. Where it makes sense, we are applying some hybrid working arrangements and the autonomy and implementation of these practices is the responsibility of local teams. There have been some clear gains, such as working on important innovation projects, where engineers partly working from home for periods of the project have seen some efficiency gains with this approach. We also appreciate that there is a huge community spirit within our Company, and we have again enjoyed being fully face to face with our colleagues this year. During the year there have been some lunchtime gatherings where senior management in the UK have rotated the monthly meetings to attend different sites and hold an employee wide lunch, with everyone getting to know each other so much more and informal Q&A sessions providing greater engagement between colleagues.

A key appointment during the year was Michelle Dettman joining as Group Head of HR. Initial emphasis has been on the UK area which now runs as one senior, flatter management team across all areas of the UK. This has improved employee engagement and we are excited about how we can further step up our employee engagement in the year ahead. We also hold our employee engagement and communication meetings, attended by Claire Tiney, Non-Executive Director and chair of the Remuneration Committee.

I am mindful that we have emerged from the Covid-19 pandemic in excellent shape and am hugely grateful to all of our colleagues for their dedication and commitment to providing our customers with healthy air, sustainably.

Outlook

The new financial year has started well, delivering revenue and profit ahead of the same period last year. Whilst we are mindful of macroeconomic challenges, the regulatory, air quality and energy efficiency agenda throughout Europe has never been more supportive.

With our excellent levels of customer service, agile manufacturing and supply chain capability and strong balance sheet position, coupled with significant geographic revenue diversity, we are well placed to make further progress in the year ahead.

Ronnie George
Chief Executive Officer
5 October 2022

Market by market

United Kingdom

Market sector revenue	**31 July 2022 £m**	31 July 2021 £m	Growth (cc) %
UK			
Residential	**75.1**	70.2	6.9
Commercial	**31.0**	31.1	(0.4)
Export	**11.7**	10.1	18.1
OEM	**25.9**	24.5	7.5
Total UK revenue	**143.7**	135.9	6.2
Adjusted operating profit	**29.3**	27.8	5.3
Adjusted operating profit margin (%)	**20.4**	20.4	—
Reported operating profit	**22.3**	17.7	26.1

In the UK our revenues increased from £135.9 million to £143.7 million, a 5.7% increase (6.2% at cc) helped by price increases across the brands. Adjusted operating profit increased from £27.8 million to £29.3 million with an adjusted operating margin remaining above the target of 20% at 20.4% (2021: 20.4%). We continued to build on the organisational changes implemented in the prior year by developing a more functional focused team covering all aspects of both the UK ventilation and OEM activities where significant logistics and supply chain experience underpinned a normalising of good customer service and product availability throughout the year. Having delivered a step up to the Group adjusted operating profit margin target in the prior year we are delighted to have maintained margins, despite the significant inflationary pressure experienced in the year.

Sales in our Residential market sector were £75.1 million (2021: £70.2 million), an organic growth of 6.9%, with revenue growth accelerating in the second half of the year. Our residential sales activities consist of both new build housing and refurbishment. New build residential systems delivered much stronger revenue in the second half of the year. As reported at the interim results for FY22 we experienced site call-off delays in the first half of the year with the order book continuing to grow. In the second half of the year revenue for residential new build systems, including a substantial element of mechanical ventilation with heat recovery, experienced strong demand. In June 2022 Part F and Part L of the Building Regulations were updated and provide further regulatory support for energy efficient ventilation to be specified in new homes. Reducing carbon emissions from new homes is an ongoing objective of these Building Regulations and the most recent changes will see a further step up in insulation and air tightness, making the application of heat recovery more compelling in the design process. We also won a new significant housebuilder account although the revenue benefits will start early in the financial year 2023. As energy costs continue to increase, we predict that home buyers will place even greater emphasis on airtight, well insulated and low-cost-to-run new dwellings and this will provide further tailwinds for our market leading range of new build residential system products.

In our residential refurbishment markets, we witnessed a rotation in demand from private refurbishment, which continued to grow organically but at a lower rate than in 2021, with public housing refurbishment demand growing strongly in the second half of the year as the backlog of work not undertaken during the Covid-19 pandemic was released. In private refurbishment a key initiative is to increase the proportion of our revenue that provides silent, more energy efficient solutions. Progress in the year has now delivered almost 30% of our private refurbishment through this premium range of products and there is further scope to increase this in the coming years. Ventilation in refurbishment can be more silent, less intrusive and more energy efficient and we work closely with our distribution partners to deliver a greater proportion of sales in this important category.

In public refurbishment we made substantial progress. Our agile approach to the market wide shortages of electronic components has enabled us to gain share. These share gains are expected to be retained in the coming months and with our capability for continuous running ventilation, positive input ventilation and decentralised heat recovery, we have an unrivalled range of products to support housing associations with their net zero carbon objectives for 2030. In July 2022 we arranged for approximately 20 UK colleagues to meet with their German colleagues, the sole objective being to establish how we could further enhance our offer to the UK public housing market by utilising our leading technology from Germany. These cross-selling initiatives had been more difficult through the Covid-19 pandemic, and it has been a pleasure and a source of considerable inspiration that these are firmly back on the agenda. Our objective is to further develop the UK public housing solution, tailor-made to assist with 2030 net zero carbon targets, by providing the market with leading technology.

Our three residential product assembly facilities in Crawley, Dudley and Reading are to be commended for their flexibility and agility in respect of servicing our customer base in the year as well as the way in which we successfully navigated the supply chain challenges that have persisted throughout. Whilst material availability continues to be a challenge the exit of the year left us with a handful of well managed issues and we start the new financial year in excellent shape to provide good levels of availability and customer service.

Sales in our UK Commercial sector were £31.0 million (2021: £31.1 million), an organic decline of 0.4%. Whilst commercial revenue was broadly flat in the year, we made good progress with our fan coil production facility in West Molesey. As a leading provider of fan coil ventilation systems utilised for heating and cooling buildings, we were awarded significant new orders at the end of the year. One notable contract, a fan coil project for a prestigious new commercial building in London, resulted in the most sizeable order of the year, c.£2 million, with deliveries due to start before the end of calendar year 2022. During the year we made good progress with key new product developments, both in our range of fan coils and in enhancements to our natural ventilation with heat recycling (NVHR). These new developments, coupled with an investment in new, semi-automated metal cutting capability at our Dudley facility, put us in a strong position for this financial year.

Sales in our UK Export sector were £11.7 million (2021: £10.1 million), an organic growth of 18.1% at constant currency. Our main export market in Eire performed very well. Our distribution partnerships in Eire are long established and collaborative and together we have a leadership position for the specification and supply of energy efficient heat recovery ventilation and for the supply of energy efficient fan coils. The Irish market has embraced heat recovery technology at a faster rate than in the UK and our mechanical extract ventilation and mechanic ventilation with heat recovery solutions are well placed to benefit from further changes underway.

Sales in our OEM sector were £25.9 million (2021: £24.5 million), an organic growth of 7.5% at constant currency. Our EC3 motorised impeller proposition delivered good growth in the year both in the UK and export markets. In October 2021 we commenced an investment plan to substantially increase our output capability for the manufacture of low energy consuming motorised impellers. This additional capacity came online in the fourth quarter of FY22 and there are further initiatives underway to increase output. Some of our competitors are struggling for component availability, we believe our agile approach to this market and the strong structural underpinning of EC3 motorised impeller demand due to regulatory changes will support further good growth in the new year.

Continental Europe

Market sector revenue	**31 July 2022 £m**	31 July 2021 £m	Growth (cc) %
Nordics	**53.3**	51.6	8.1
Central Europe	**65.1**	43.9	54.5
Total Continental Europe revenue	**118.4**	95.5	29.4
Adjusted operating profit	**29.6**	25.4	16.6
Adjusted operating profit margin (%)	**25.0**	26.6	(1.6)pp
Reported operating profit	**23.2**	18.1	28.5

Our Continental Europe activities had a very strong year and we delivered excellent progress with sales at £118.4 million (2021: £95.5 million), growth of 29.4% at constant currency, within which organic growth was 5.0% on a constant currency basis. The sector benefited from the acquisition of ERI in September 2021 and the full year effect of the acquisitions from the prior year 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 up 16.6% at £29.6 million versus a prior year of £25.4 million. Adjusted operating profit margins declined in the year by 1.6pp to 25.0%, partly due to the dilutionary impact of the Rtek and ERI acquisitions. Whilst ERI achieves an operating margin in line with the Group’s 20% operating margin target it is at a lower rate than the 26.6% operating margin delivered in Continental Europe in the prior year.

Sales in the Nordics region were £53.3 million (2021: £51.6 million), an increase of 8.1% at constant currency compared to the previous year. Organic growth was 1.0% on a constant currency basis, with inorganic growth from the full year effect of the acquisitions of Klimatfabriken in Sweden in February 2021 and Rtek in Finland in May 2021. Nordics refurbishment demand was exceptionally strong in the prior year, and we were pleased to deliver organic growth against this strong comparator period. In the early part of the year in Finland we experienced some Covid-19 related delays to project orders with the situation markedly better in the second half. Our Nordics business has established a strong export market in South America and this area was also impacted by Covid-19 delays in the year hampering our organic growth. The new acquisitions of Klimatfabriken and Rtek have now been fully integrated into our Nordics activities in line with our investment plan during the year.

Sales in the Central Europe region were £65.1 million compared to the prior year of £43.9 million, growth of 54.4% on a constant currency basis. Organic revenue growth was 9.7% on a constant currency basis, with inorganic growth coming from the acquisition of ERI in September 2021 and the full year effect of the acquisition of ClimaRad BV in the Netherlands in December 2020.

Germany again delivered a strong performance in the year with our market leading range of decentralised heat recovery. Further improvements in the specification selling process enabled us to again nudge up our market share and with the nervousness in Germany around spiralling energy prices and gas supply, we see a positive outlook for our product range in the market. As homeowners seek to improve the energy efficiency of their dwellings, we expect further refurbishment projects to grow. The root to this is through air tightness and often the installation of a heat pump for heating demand. This is an ideal scenario for us, supporting the specifying of decentralised, retrofittable heat recovery ventilation.

In the Netherlands, ClimaRad had a slow start to the year with activity much stronger in the second half. The team in the Netherlands has developed a new range of heat recovery products that have a compelling argument for major refurbishments through a total cost of ownership model (TCO). With gas boilers prohibited in new build applications in the market we have a solution that works well as a heat emitting device coupled to a heat pump, with heat recovery ventilation in the same solution. A common theme in our markets is that with increasing energy costs the payback period for our solutions has been dramatically reduced.

In Belgium we delayed the launch of our new higher airflow heat recovery ventilation systems, now scheduled to launch in the first quarter of FY23. These new ranges have been in development for over two years and will provide us with a full range of ventilation system units for the residential new build market. We also continued to make good progress with our Vent-Axia brand sales to the wholesalers.

In September 2021 the acquisition of Energy Recovery Industries (“ERI”), a leading manufacturer of aluminium heat exchanger cells, was completed. The transaction was agreed with an “earn-out” arrangement and the leadership team is making good progress with the investment plan to materially increase our output capacity. ERI performed well in the year and in line with our investment plan. The order book lengthened in the year because of strong demand for our leading heat cell ranges and the constraint that we currently have on our output capacity. When finally completed, towards the end of calendar year 2023, we expect to have significant extra capacity headroom, some of which will come online towards the midpoint of the new financial year.

Australasia

Market sector revenue	**31 July 2022 £m**	31 July 2021 £m	Growth (cc) %
Total Australasia revenue	**45.6**	41.2	11.4
Adjusted operating profit	**9.9**	8.9	11.3
Adjusted operating profit margin (%)	**21.8**	21.7	0.1pp
Reported operating profit	**8.8**	4.5	96.1

Sales in our Australasia region were £45.6 million, with strong organic growth of 11.4% at constant currency. Adjusted operating margins improved to 21.8% versus 21.7% in the prior year. Since first acquiring Simx in March 2018 and subsequently Ventair in March 2019, we have established a strong presence in the Australasian residential ventilation market.

Simx in New Zealand experienced a more difficult year. Covid-19 related lockdowns in Auckland persisted through the early part of the year and led to reduced demand. The prior year had been particularly strong, buoyed by the Healthy Homes Act and the related Covid-19 induced private refurbishment boom. Further regulatory changes have occurred in the market, the first step towards a more European style of energy efficient ventilation, with our Group product ranges placing us firmly in pole position as the market develops.

In Australia we delivered strong organic growth and a further step up in our adjusted operating profit margin. Key initiatives in the year included the roll-out of supply to a market leading distributor for DIY customers and the successful launch of a new range of low energy ceiling fans. As well as launching several new product ranges there was a substantial investment in strengthening the team. Our objective is to become one of the significant players in the Australian ventilation market and equipping the team with the bandwidth, skills and capabilities to deliver this is key, with good progress in the year.

Finance Review

Volution has delivered a strong set of financial results for the year ended 31 July 2022, exceeding all bar one of the Group's key financial targets and demonstrating the strength of our financial model. Of particular note was our operating margin performance, with a Group adjusted operating margin of 21.1% (2021: 20.9%) delivered against a background of significant inflationary cost pressures.

The one financial target that we missed was cash conversion (target >90%) where a decision to increase our inventory levels to protect against supply chain unreliability resulted in Group working capital increasing by £17.7 million compared with 31 July 2021. The investment in working capital occurred during the first half of the financial year, and good second half cash generation meant we closed the year with a cash conversion of 76%. As at 31 July 2022 closing leverage, measured as net debt (excluding lease liabilities) to adjusted EBITDA, stands at 0.9x (2021: 0.9x), and our strong balance sheet position gives us flexibility and capability to continue to invest in growth.

Revenue for the year ended 31 July 2022 was £307.7 million, an increase of 12.9%, with organic growth of 6.6% at constant currency (cc), inorganic growth of 8.5% (cc) and adverse foreign exchange impact of 2.2%.

Adjusted operating profit increased by 13.9% in the year to £64.9 million (2021: £56.9 million), with Group adjusted operating margins of 21.1% (2021: 20.9%). Early price action and disciplined cost management enabled us to offset the impacts of significant input cost inflation and expand margins by 20bps in the year. The increase of £8.0 million in adjusted operating profit consisted of £4.6 million from organic growth, £5.0 million from inorganic growth, with adverse currency impacts of £1.6 million.

Reported and adjusted results

	Reported			**Adjusted**[1]		
	Year ended 31 July 2022	Year ended 31 July 2021	Movement	**Year ended 31 July 2022**	Year ended 31 July 2021	Movement
Revenue (£m)	**307.7**	272.6	12.9%	**307.7**	272.6	12.9%
EBITDA (£m)	**74.2**	59.3	25.2%	**73.9**	65.2	13.3%
Operating profit (£m)	**50.8**	34.2	48.5%	**64.9**	56.9	13.9%
Net finance costs (£m)	**2.0**	2.9	(29.2)%	**3.4**	3.2	4.7%
Profit before tax (£m)	**47.2**	30.0	57.2%	**60.9**	53.2	14.5%
Basic EPS (p)	**18.1**	10.5	72.4%	**24.0**	21.0	14.3%
Total dividend per share (p)	**7.3**	6.3	15.9%	**7.3**	6.3	15.9%
Operating cash flow (£m)	**50.8**	51.0	(0.4)%	**50.4**	56.9	(11.4)%
Net debt (£m)	**85.8**	79.2	6.6	**85.8**	79.2	6.6

Notes

1. The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS, adjusted operating cash flow, net debt and net debt (excluding lease liabilities. The reconciliation of the Group's reported profit before tax to adjusted profit measures of performance is summarised in the table below and in detail in note 2 to the consolidated financial statements. For a definition of all the adjusted and non-GAAP measures, see the glossary of terms in note 25 to the consolidated financial statements.
2. Pre-IFRS 16 basis, excludes lease liabilities of £25.0 million (2021: £25.4 million).

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 that 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 £60.9 million was 14.5% higher than 2021 (£53.2 million). Reported profit before tax was £47.2 million (2021: £30.0 million) and is after charging:

- £14.5 million in respect of amortisation of intangible assets (2021: £16.8 million);
- Credit balance of £0.4 million (2021: debit of £4.2 million) of other costs of business combinations of which:
  - £0.2 million relates to costs associated with business combinations (2021: £0.9 million); and
  - Credit balance of £0.6 million was in respect of contingent consideration reduction in ERI due to amendment to the terms of the contingent consideration payment (2021: £3.3 million);
- £1.4 million gain due to the fair value measurement of financial instruments (2021: gain of £0.3 million); and
- £1.0 million re-measurement of future consideration relating to the business combination of ClimaRad (2021: £0.8 million).

	Year ended 31 July 2022			Year ended 31 July 2021		
	Reported £m	**Adjustments £m**	**Adjusted results £m**	Reported £m	Adjustments £m	Adjusted results £m
Revenue	**307.7**	**—**	**307.7**	272.6	—	272.6
Gross profit[1]	**147.1**	**—**	**147.1**	131.6	1.7	133.3
Administration and distribution costs excluding the costs listed below	**(82.2)**	**—**	**(82.2)**	(76.4)	—	(76.4)
Amortisation of intangible assets acquired through business combinations	**(14.5)**	**14.5**	**—**	(16.8)	16.8	—
Contingent consideration[2]	**0.6**	**(0.6)**	**—**	(3.3)	3.3	—
Costs of business combinations[3]	**(0.2)**	**0.2**	**—**	(0.9)	0.9	—
Operating profit	**50.8**	**14.1**	**64.9**	34.2	22.7	56.9
Re-measurement of financial liability	**(0.6)**	**—**	**(0.6)**	—	—	—
Re-measurement of future consideration[4]	**(1.0)**	**1.0**	**—**	(0.8)	0.8	—
Net gain on financial instruments at FV[5]	**1.4**	**(1.4)**	**—**	0.3	(0.3)	—
Other net finance costs	**(3.4)**	**—**	**(3.4)**	(3.7)	—	(3.7)
Profit before tax	**47.2**	**13.7**	**60.9**	30.0	23.2	53.2
Income tax	**(11.5)**	**(2.1)[6]**	**(13.6)**	(9.2)	(2.4)	(11.6)
Profit after tax	**35.7**	**11.6**	**47.3**	20.8	20.8	41.6

Notes

1. £nil adjustments in 2022 impacting gross profit (2021: £1.7 million amortisation of acquired inventory fair value adjustments).
2. Credit balance of £0.6 million was in respect of contingent consideration reduction in ERI (2021: £3.3 million was in respect of contingent consideration increase related to Ventair).
3. £0.2 million costs of business combination relating to professional fees (2021: £0.9 million).
4. £1.0 million revaluation relating to the re-measurement of future consideration in ClimaRad (2021: £0.8 million).
5. £1.4 million gain due to the fair value of financial derivatives (2021: £0.3 million gain).
6. £2.1 million tax adjustment relates to the tax on the adjusted items above (2021: £2.4 million)

Currency impacts

Aside from Sterling, the Group's key trading currencies for our non-UK businesses are the Euro, representing approximately 23.5% of Group revenues, Swedish Krona (approximately 10.3%), New Zealand Dollar (approximately 7.2%) and Australian Dollar (approximately 7.7%). We do not hedge the translational exchange risk arising from the conversion of the results of overseas subsidiaries, although we do denominate some of our borrowings in 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 2022 of £71.9 million (2021: £57.3 million) and Swedish Krona denominated borrowings of £2.4 million (2021: £16.0 million). The Sterling value of these foreign currency denominated loans net of cash decreased by £0.9 million as a result of exchange rate movements (2021: decreased by £5.0 million).

During the year Sterling strengthened on average against all four of our principal non-Sterling revenue currencies, against the Euro by 4.2%, Swedish Krona by 5.6%, New Zealand Dollar by 0.5% and Australian Dollar by 1.0%. This gave rise to an unfavourable revenue impact of £6.1 million in the year, with operating profits being impacted by £1.7 million.

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 approximately twelve months forward, and as such we have purchases in place for approximately 85% of our forecasted requirements for the 2023 financial year.

	Average rate 2022	Average rate 2021	Movement
Euro	**1.1816**	1.1343	-4.2%
Swedish Krona	**12.2289**	11.5799	-5.6%
New Zealand Dollar	**1.9522**	1.9419	-0.5%
Australian Dollar	**1.8253**	1.8081	-1.0%
US$	**1.3161**	1.3567	3.0%

Finance revenue and costs

Reported net finance costs of £2.0 million (2021: £2.9 million) include a £1.4 million net gain on the revaluation of financial instruments (2021: net gain of £0.3 million). Adjusted finance costs were £3.4 million (2021: £3.2 million), with the weighted average interest rates on gross debt at 2.02% (2021: 2.04%).

Taxation

Our effective adjusted tax rate for the year was 22.4% (2021: 21.8%). The increase of 0.6pp in the year was substantially driven by the shift in our relative profit across the Group with our companies in our Australiasia sector performing well where the tax rates are 28% to 30% compared to the current UK rate of 19%.

The rate of tax in the UK is currently 19%. Following the Finance Bill 2021, the rate of tax in the UK had been expected to increase to 25% from 1 April 2023. On 23 September 2022, the Chancellor of the Exchequer announced that the UK corporation tax rate will remain at 19% from 1 April 2023 - reversing a previously enacted measure to increase the rate to 25%. The announcement of the reversal in the tax rate from 1 April 2023 was not enacted or substantively enacted at the balance sheet date and accordingly has no impact on the tax balances at 31 July 2022.

If this tax rate change had been substantively enacted or enacted at the balance sheet date, the deferred tax liability would have decreased by approximately £1.1 million. We expect our medium-term underlying effective tax rate to be in the range of 22% to 25% of the Group's adjusted profit before tax, depending on business mix and the profile of acquisitions.

Capital allocation

Volution aims to deliver strong financial returns and to invest our strong cash flows in a disciplined manner so as to support continued and sustainable future earnings growth and cash generation. Our capital allocation policies are:

1. investment for organic growth, including through capital expenditure and investment in research and development, new products and innovation, and the ongoing development of our people;
2. value-adding acquisitions in complementary businesses in current or close adjacent market niches, expanding our market reach; and
3. regular returns to shareholders through a progressive approach to dividends, delivering regular cash returns to shareholders without impacting on our ability for investment in the growth of the business.

Investment for organic growth

The decision to increase inventory levels was a key part of our initiative to mitigate the challenges of global supply chain uncertainty, ensure good levels of customer service and product availability, and allow us to capitalise on organic revenue opportunities across our markets. As a consequence, and combined with the increase in revenue, the Group's working capital increased during the year by £17.7 million (2021: increase of £5.8 million). Our working capital as a percentage of the last twelve months' revenue stood at 18.1% (2021: 12.7%). With inventory levels in a good position across the Group by half year, the second half of the year saw working capital levels moderate and we do not expect a further increase as a percentage of revenue.

Capital expenditure of £6.9 million (2021: £4.5 million) was up on last year, including continued investment in new product development programmes (£1.2 million) as we continue to develop and expand our product offering across the Group. We also commenced our planned expansion of the manufacturing facility and capacity of ERI in North Macedonia, with £0.5 million spent in 2022 and a further £1.4 million anticipated during 2023.

Value-adding acquisitions

We completed one major acquisition in the year, Energy Recovery Industries (ERI) in September 2021 for an initial consideration of €20.0 million. Based in North Macedonia, ERI designs and manufactures a range of innovative and highly efficient aluminium heat exchanger cells for use primarily in commercial heat recovery ventilation systems. In addition, in July 2022 we purchased the assets of a long-term partner for our inVENTer business and an important route to market for our business in southern Germany. Both acquisitions are fully aligned with our strategic focus on low-carbon, high-growth market opportunities.

Total spend on business combinations of £24.4 million (2021: £43.7 million) related to the initial consideration for the acquisition of ERI (see note 13) of £16.0 million as well as payment of contingent consideration in respect of Air Connection (£0.5 million) and Ventair (£4.1 million), repayment of ERI debt acquired (£3.3 million) and part repayment of the ClimaRad vendor loan (£0.5 million).

Returns to shareholders

Adjusted earnings per share increased by 14.3% to 24.0 pence (2021: 21.0 pence). The Board is recommending a final dividend of 5.0 pence which, together with an interim dividend paid of 2.3 pence per share, gives a total dividend per share of 7.3 pence (2021: 6.3 pence), up 15.9% in total. The final dividend is subject to approval by shareholders at the AGM on 14 December 2022 and, if approved, will be paid on 20 December 2022.

Tax paid of £12.2 million was £4.1 million higher than the prior year (2021: £8.1 million).

Movements in net debt position for the year ended 31 July 2022

	2022 £m	2021 £m
Opening net debt 1 August	**(79.2)**	(74.2)
Movements from normal business operations:		
Adjusted EBITDA	**73.9**	65.2
Movement in working capital	**(17.7)**	(5.8)
Share-based payments	**1.1**	2.0
Capital expenditure	**(6.9)**	(4.5)
Adjusted operating cash flow:	**50.4**	56.9
– Interest paid net of interest received	**(2.7)**	(1.5)
– Income tax paid	**(12.2)**	(8.1)
– Cash flow relating to business combination costs	**(0.2)**	(0.8)
– Dividend paid	**(13.3)**	(3.8)
– Purchase of own shares	**(1.9)**	(2.1)
– FX on foreign currency loans/cash	**0.7**	5.0
– Issue costs of new borrowings	**(0.3)**	(1.2)
– IFRS 16 payment of lease liabilities	**(3.2)**	(3.5)
– IFRS 16 decrease/(increase) in lease liabilities	**0.5**	(2.2)
Movements from business combinations:		
– Business combination of subsidiaries, net of cash acquired	**(16.5)**	(42.2)
– Contingent consideration relating to Ventair from operating activities	**(3.2)**	—
– Contingent consideration relating to Ventair from investing activities	**(0.9)**	—
– Business combination of subsidiaries, debt repaid	**(3.8)**	(1.5)
Closing net debt 31 July	**(85.8)**	(79.2)

	2022 £m	2021 £m
Bank debt	**(74.3)**	(73.3)
Cash	**13.5**	19.5
Net debt (excluding lease liabilities)	**(60.8)**	(53.8)
Lease liabilities	**(25.0)**	(25.4)
Net debt	**(85.8)**	(79.2)

Reconciliation of adjusted operating cash flow

	2022 £m	2021 £m
Net cash flow generated from operating activities	**41.7**	52.5
Net capital expenditure	**(6.9)**	(4.5)
UK and overseas tax paid	**12.2**	8.3
Tax refund	**—**	(0.2)
Contingent consideration relating to the acquisition of Ventair	**3.2**	—
Cash flow relating to business combination costs	**0.2**	0.8
Adjusted operating cash flow	**50.4**	56.9

Funding facilities and liquidity

In December 2021, the Group exercised the option to extend its £150 million multicurrency "Sustainability Linked Revolving Credit Facility", together with an additional accordion of up to £30 million, by a period of twelve months. The maturity date of the facility is now 2 December 2024.

As at 31 July 2022, we had £75.7 million of undrawn, committed bank facilities (2021: £50.4 million) and £13.5 million of cash and cash equivalents on the consolidated statement of financial position (2021: £19.5 million).

Employee Benefit Trust

During the year £1.9 million of non-recourse loans (2021: £2.1 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 463,000 shares at an average price of £4.10 per share in the period (2021: £3.24) and 402,407 shares (2021: 401,529 shares) were released by the trustees with a value of £1,114,667 (2021: £766,920). 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 18.1 pence (2021: 10.5 pence).

Our adjusted basic earnings per share for the year is 24.0 pence (2021: 21.0 pence).

Andy O'Brien
Chief Financial Officer
5 October 2022

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 2022 which may be found at www.volutiongroupplc.com and will be despatched to shareholders on or around 21 October 2022. 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
5 October 2022

Andy O'Brien
Chief Financial Officer
5 October 2022

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2022

	Notes	**2022 £000**	2021 £000
Revenue from contracts with customers	3	**307,701**	272,588
Cost of sales		**(160,603)**	(140,939)
Gross profit		**147,098**	131,649
Administrative and distribution expenses		**(96,693)**	(93,399)
Other operating income	5	**—**	137
Operating profit before separately disclosed items		**50,405**	38,387
Costs of business combinations		**(215)**	(889)
Contingent consideration		**598**	(3,287)
Operating profit		**50,788**	34,211
Finance revenue	6	**1,333**	397
Finance costs	6	**(3,369)**	(3,272)
Re-measurement of financial liabilities		**(583)**	(491)
Re-measurement of future consideration		**(955)**	(811)
Profit before tax		**47,214**	30,034
Income tax	7	**(11,542)**	(9,198)
Profit for the year		**35,672**	20,836
Attributable to the shareholders		**35,610**	20,836
Attributable to non-controlling interest		**62**	—
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**1,944**	(3,199)
(Loss)/gain on currency loans relating to the net investment in foreign operations		**(1,744)**	5,397
Other comprehensive income for the year		**200**	2,198
Total comprehensive income for the year		**35,872**	23,034
Attributable to the shareholders		**35,810**	23,034
Attributable to non-controlling interest		**62**	—
Earnings per share			
Basic earnings per share	8	**18.1p**	10.5p
Diluted earnings per share	8	**17.8p**	10.4p

Consolidated Statement of Financial Position

At 31 July 2022

	Notes	**2022 £000**	2021 £000
Non-current assets			
Property, plant and equipment	9	**28,235**	23,908
Right-of-use assets	18	**23,567**	24,477
Intangible assets – goodwill	10	**142,661**	137,710
Intangible assets – others	12	**87,592**	85,373
		282,055	271,468
Current assets			
Inventories	14	**57,151**	44,971
Right of return assets	3	**—**	99
Trade and other receivables	15	**57,526**	47,482
Other financial assets	16	**1,091**	507
Cash and short-term deposits		**13,543**	19,456
		129,311	112,515
Total assets		**411,366**	383,983
Current liabilities			
Trade and other payables	17	**(48,837)**	(47,435)
Refund liabilities	3	**(10,268)**	(10,562)
Income tax		**(5,564)**	(4,629)
Other financial liabilities	19	**—**	(4,608)
Interest-bearing loans and borrowings	20	**(3,599)**	(3,454)
Provisions	21	**(1,684)**	(1,869)
		(69,952)	(72,557)
Non-current liabilities			
Interest-bearing loans and borrowings	20	**(104,433)**	(104,863)
Other financial liabilities	19	**(14,132)**	(6,021)
Provisions	21	**(319)**	(376)
Deferred tax liabilities	22	**(14,222)**	(14,876)
		(133,106)	(126,136)
Total liabilities		**(203,058)**	(198,693)
Net assets		**208,308**	185,290
Capital and reserves			
Share capital		**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(3,574)**	(3,739)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**5,058**	4,090
Foreign currency translation reserve		**3,099**	2,899
Retained earnings		**96,247**	74,658
Total shareholders' equity		**208,212**	185,290
Non-controlling interest		**96**	—
Total equity		**208,308**	185,290

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 5 October 2022.

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 2022

	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 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 income	—	—	—	—	—	2,198	—	2,198	—	2,198
Total comprehensive income	—	—	—	—	—	2,198	20,836	23,034	—	23,034
Acquisition of businesses	—	—	—	—	—	—	—	—	5,603	5,603
Obligation to acquire NCI	—	—	—	—	—	—	(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 1 August 2021	2,000	11,527	(3,739)	93,855	4,090	2,899	74,658	185,290	—	185,290
Profit for the year	—	—	—	—	—	—	35,610	35,610	62	35,672
Other comprehensive income	—	—	—	—	—	200	—	200	—	200
Total comprehensive income	—	—	—	—	—	200	35,610	35,810	62	35,872
Acquisition of businesses	—	—	—	—	—	—	—	—	34	34
Purchase of own shares	—	—	(1,900)	—	—	—	—	(1,900)	—	(1,900)
Exercise of share options	—	—	2,065	—	(1,129)	—	(749)	187	—	187
Share-based payment including tax	—	—	—	—	2,097	—	—	2,097	—	2,097
Dividends paid (note 23)	—	—	—	—	—	—	(13,272)	(13,272)	—	(13,272)
At 31 July 2022	2,000	11,527	(3,574)	93,855	5,058	3,099	96,247	208,212	96	208,308

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 2022 of £120,294,000 (2021: £113,143,000).

Consolidated Statement of Cash Flows

For the year ended 31 July 2022

	Notes	**2022 £000**	2021 £000
Operating activities			
Profit for the year after tax		**35,672**	20,836
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		**11,542**	9,198
Gain on disposal of property, plant and equipment		**(51)**	(2)
Costs of business combinations		**215**	889
Contingent consideration		**(598)**	3,287
Cash flows relating to business combination costs		**(215)**	(811)
Re-measurement of financial liability relating to business combination of ClimaRad		**583**	491
Re-measurement of future consideration relating to business combination of ClimaRad		**955**	811
Finance revenue	6	**(1,333)**	(397)
Finance costs	6	**3,369**	3,272
Share-based payment expense		**1,115**	1,974
Depreciation of property, plant and equipment	9	**3,816**	3,327
Depreciation of right-of-use assets	18	**3,612**	3,531
Amortisation of intangible assets	12	**16,026**	18,218
Working capital adjustments:			
Increase in trade receivables and other assets		**(6,418)**	(11,537)
Increase in inventories		**(9,805)**	(11,349)
(Decrease)/increase in trade and other payables		**(1,235)**	18,618
Movement in provisions		**(242)**	208
Cash generated by operations		**57,008**	60,564
UK income tax paid		**(3,000)**	(2,970)
UK income tax refund		**—**	196
Overseas income tax paid		**(9,155)**	(5,328)
Contingent consideration relating to the acquisition of Ventair	13	**(3,211)**	—
Net cash flow generated from operating activities		**41,642**	52,462
Investing activities			
Payments to acquire intangible assets	12	**(2,238)**	(1,068)
Purchase of property, plant and equipment	9	**(4,773)**	(3,632)
Proceeds from disposal of property, plant and equipment		**179**	196
Business combination of subsidiaries, net of cash acquired	13	**(15,996)**	(41,678)
Contingent consideration relating to the acquisition of Air Connection	13	**(476)**	—
Business combination of subsidiaries, paid into escrow	13	**—**	(507)
Contingent consideration relating to the acquisition of Ventair	13	**(952)**	—
Interest received		**4**	57
Net cash flow used in investing activities		**(24,252)**	(46,632)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(33,626)**	(88,917)
Repayment of debt relating to the business combination of ClimaRad		**—**	(1,482)
Repayment of ERI debt acquired		**(3,227)**	—
Repayment of ClimaRad vendor loan		**(504)**	—
Proceeds from new borrowings		**36,428**	98,044
Issue costs of new borrowings		**(330)**	(1,218)
Interest paid		**(2,662)**	(2,088)
Payment of principal portion of lease liabilities		**(3,202)**	(2,960)
Dividends paid		**(13,272)**	(3,762)
Purchase of own shares		**(1,900)**	(2,105)
Net cash flow used in financing activities		**(22,295)**	(4,488)
Net (decrease)/increase in cash and cash equivalents		**(4,905)**	1,342
Cash and cash equivalents at the start of the year		**19,456**	18,493
Effect of exchange rates on cash and cash equivalents		**(1,008)**	(379)
Cash and cash equivalents at the end of the year		**13,543**	19,456

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 2022

The preliminary results were authorised for issue by the Board of Directors on 5 October 2022. The financial information set out herein does not constitute the Group’s statutory consolidated financial statements for the years ended 31 July 2022 or 2021, but is derived from those accounts. Statutory consolidated financial statements for 2022 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 UK-adopted international accounting standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies under the relevant notes.

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

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

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

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

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

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, assessed for the period up until 31 July 2024.

Our financial position remains robust with committed facilities totalling £150 million, and an accordion of a further £30 million, maturing in December 2024 with the option to extend for an additional year.

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 and from macroeconomic uncertainty that has arisen post-Covid and since the invasion of Ukraine early in 2022,

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

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

A reverse stress test scenario has also been modelled which shows a revenue contraction of c35% with no mitigations would be required to breach covenants, which is considered extremely remote in likelihood of occurring. Mitigations available within the control of management include reducing dividends, discretionary capex and discretionary indirect costs. Including these mitigations, a revenue decline of c42% would be required to breach covenants.

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

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

1. Basis of preparation (continued)

Non-controlling interest

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

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

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

Foreign currencies

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

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

The significant judgements, estimates and assumptions made in these financial statements relate to: intangible assets – goodwill (note 10), impairment assessment of goodwill (note 11), intangible assets – other (note 12), refund liabilities arising from retrospective volume rebates (note 3) and financial liabilities relating to the business combination of ClimaRad and ERI (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 political and macroeconomic uncertainty that has arisen post-covid and since the invasion of Ukraine in early 2022 and how these have impacted the significant judgements, estimates and assumptions in these financial statements is 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 and significant business combination and related integration and earn-out costs.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2022

1. Basis of preparation (continued)

New standards and interpretations

The standards and interpretations listed below have become effective since 1 July 2021 for annual periods beginning on or after 1 January 2022.

The following amendments became effective as at 1 January 2022:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The standards and interpretations listed below have become effective since 1 July 2020 for annual periods beginning on or after 1 January 2021.

The following amendments became effective as at 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Covid-19-Related Rent Concessions beyond 30 June 2021 Amendment to IFRS 16

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.

	2022 £000	2021 £000
Profit after tax	**35,672**	20,836
Add back:		
Contingent consideration	**(598)**	3,287
Cost of business combinations	**215**	889
Amortisation of acquired inventory fair value adjustment	**—**	1,727
Re-measurement of future consideration relating to the business combination of ClimaRad	**955**	811
Net gain on financial instruments at fair value	**(1,329)**	(340)
Amortisation and impairment of intangible assets acquired through business combinations	**14,485**	16,839
Tax effect of the above	**(2,085)**	(2,426)
Adjusted profit after tax	**47,315**	41,623
Add back:		
Adjusted tax charge	**13,627**	11,624
Adjusted profit before tax	**60,942**	53,247
Add back:		
Interest payable on bank loans, lease liabilities and amortisation of financing costs	**3,369**	3,272
Re-measurement of financial liabilities relating to the business combination of ClimaRad	**583**	491
Finance revenue	**(4)**	(57)
Adjusted operating profit	**64,890**	56,953
Add back:		
Depreciation of property, plant and equipment	**3,816**	3,327
Depreciation of right-of-use assets	**3,612**	3,531
Amortisation of development costs, software and patents	**1,541**	1,379
Adjusted EBITDA	**73,859**	65,190

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).

Volume rebates

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

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

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in note 21, Provisions.

Installation services

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

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

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

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. A contract asset is recognised when the Group transfers goods or services to the customer before the customer pays consideration. There is no contract asset included within the statement of financial position as revenue is recognised at a point in time, after installation. Consideration is recognised immediately as a receivable and is unconditional (only the passage of time is required before payment of consideration is due). The Group’s accounting policy on trade receivables is detailed in note 15.

Contract liabilities

There are no contract liabilities recognised in the comparative period or in the financial year ended 31 July 2022.

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.

3. *Revenue from contracts with customers (continued)*

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

	2022 £000	2021 £000
Sale of goods	**301,097**	266,580
Installation services	**6,604**	6,008
Total revenue from contracts with customers	**307,701**	272,588

Market sectors	2022 £000	2021 £000
UK		
Residential	**75,040**	70,178
Commercial	**31,031**	31,145
Export	**11,670**	10,107
OEM (Torin-Sifan)	**25,908**	24,455
Total UK	**143,649**	135,885
Nordics[1]	**53,303**	51,584
Central Europe[2]	**65,128**	43,872
Total Continental Europe	**118,431**	95,456
Total Australasia	**45,621**	41,247
Total revenue from contracts with customers	**307,701**	272,588

Right of return assets and refund liabilities	2022 £000	2021 £000
Right of return assets	**—**	99
Refund liabilities		
Arising from retrospective volume rebates	**9,427**	9,960
Arising from rights of return	**841**	602
Refund liabilities	**10,268**	10,562

Notes

1. Included in the Nordics revenue is £3,514,000 of inorganic revenue from the business combination of Klimatfabriken and Rtek. (2021: £1,057,000 of inorganic revenue from the business combination of Klimatfabriken and Rtek).
2. Included in the Central Europe revenue is £18,950,000 of inorganic revenue from the business combination of ClimaRad BV and ERI. (2021: £7,306,000 of inorganic revenue from the business combination of ClimaRad BV).

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 25 for definition) for each operating segment. Gross profit and the analysis below segment profit is additional voluntary information and not "segment information" prepared in accordance with IFRS 8.

Finance revenue and costs are not allocated to individual operating segments as the underlying instruments are managed on a Group basis.

Total assets and liabilities are not disclosed as this information is not provided by operating segment to the chief operating decision maker on a regular basis.

Transfer prices between operating segments are on an arm's length basis on terms similar to transactions with third parties.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2022

4. Segmental analysis (continued)

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

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

Note

1. Included in the Continental Europe revenue is £22,464,000 of inorganic revenue from the business combination of ClimaRad BV, Klimatfabriken, Rtek and ERI. (2021: £8,363,000 of inorganic revenue from the business combination of ClimaRad BV, Klimatfabriken, and Rtek).
2. The movement of £1.2 million in central costs / eliminations is due to a combination of bonus and long term incentive costs as well as allocations

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 July 2022

4. Segmental analysis (continued)

Geographic information

Revenue from external customers by customer destination	2022 £000	2021 £000
United Kingdom	**119,371**	112,661
Europe (excluding United Kingdom and Sweden)	**112,886**	88,711
Sweden	**24,431**	26,130
Australasia	**45,780**	41,276
Rest of the world	**5,233**	3,810
Total revenue from contracts with customers	**307,701**	272,588

Non-current assets excluding deferred tax	2022 £000	2021 £000
United Kingdom	**117,704**	122,148
Europe (excluding United Kingdom and Nordics)	**79,408**	62,709
Nordics	**35,930**	37,341
Australasia	**49,013**	49,270
Total	**282,055**	271,468

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.

	2022 £000	2021 £000
Local government receipts	**—**	137

The Group has made no claims in the year ended 31 July 2022. The balance of £137,000 in the prior year was an adjustment relating to the claims made in the financial year ended 31 July 2020.

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.

	2022 £000	2021 £000
Finance revenue		
Net gain on financial instruments at fair value	**1,329**	340
Interest receivable	**4**	57
Total finance revenue	**1,333**	397
Finance costs		
Interest payable on bank loans	**(1,828)**	(1,566)
Amortisation of finance costs	**(442)**	(792)
IFRS 16-related interest	**(520)**	(522)
Other interest	**(579)**	(392)
Total finance costs	**(3,369)**	(3,272)
Net finance costs	**(2,036)**	(2,875)

In the prior year amortisation of finance costs includes £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. The fair value of the Group's financial derivatives can be found in note 16.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 July 2022

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

	2022 £000	2021 £000
Current income tax		
Current UK income tax expense	**4,897**	4,069
Current foreign income tax expense	**9,075**	7,883
Tax credit relating to the prior year	**(673)**	(84)
Total current tax	**13,299**	11,868
Deferred tax		
Origination and reversal of temporary differences	**(2,851)**	(3,957)
Effect of changes in the tax rate	**200**	1,118
Tax charge relating to the prior year	**894**	169
Total deferred tax	**(1,757)**	(2,670)
Net tax charge reported in the consolidated statement of comprehensive income	**11,542**	9,198

(b) Income tax recognised in equity for the year

	2022 £000	2021 £000
Increase in deferred tax asset on share-based payments	**(685)**	(1,366)
Net tax credit reported in equity	**(685)**	(1,366)

(c) Reconciliation of total tax

	2022 £000	2021 £000
Profit before tax	**47,214**	30,034
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	**8,971**	5,706
Adjustment in respect of previous years	**221**	85
Expenses not deductible for tax purposes	**1,161**	1,573
Effect of changes in the tax rate (see explanation below)	**200**	1,118
Non-taxable income	**(391)**	(341)
Higher overseas tax rate	**1,602**	1,220
Patent box	**(330)**	(167)
Other	**108**	4
Net tax charge reported in the consolidated statement of comprehensive income	**11,542**	9,198

Our reported effective tax rate for the period was 24.4% (2021: 30.6%). Our underlying effective tax rate, on adjusted profit before tax, was 22.4% (2021: 21.8%).

The rate of tax in the UK is currently 19%. Following the Finance Bill 2021, the rate of tax in the UK had been expected to increase to 25% from 1 April 2023. On 23 September 2022, the Chancellor of the Exchequer announced that the UK corporation tax rate will remain at 19% from 1 April 2023 - reversing a previously enacted measure to increase the rate to 25%. The announcement of the reversal in the tax rate from 1 April 2023 was not enacted or substantively enacted at the balance sheet date and accordingly has no impact on the tax balances at 31 July 2022. If this tax rate change had been substantively enacted or enacted at the balance sheet date, the deferred tax liability would have decreased by approximately £1.1 million. We expect our medium-term underlying effective tax rate to be in the range of 22% to 25% of the Group's adjusted profit before tax, depending on business mix and the profile of acquisitions.

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

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

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 2,966,484 dilutive potential ordinary shares at 31 July 2022 (2021: 3,270,467).

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

Year ended 31 July	**2022 £000**	2021 £000
Profit attributable to ordinary equity holders	**35,672**	20,836

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**197,522,143**	197,821,482
Weighted average number of ordinary shares for diluted earnings per share	**200,047,856**	200,975,673
Earnings per share		
Basic	**18.1p**	10.5p
Diluted	**17.8p**	10.4p

Year ended 31 July	**2022 £000**	2021 £000
Adjusted profit attributable to ordinary equity holders	**47,315**	41,623

	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	**197,522,143**	197,821,482
Weighted average number of ordinary shares for adjusted diluted earnings per share	**200,047,856**	200,975,673
Adjusted earnings per share		
Basic	**24.0p**	21.0p
Diluted	**23.7p**	20.7p

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

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

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

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 2022

9. Property, plant and equipment (continued)

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

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

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 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 Rtek	1,096
Net foreign currency exchange differences	(3,068)
At 31 July 2021	137,710
On the business combination of ERI	5,134
Net foreign currency exchange differences	(183)
At 31 July 2022	**142,661**

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 flows 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 current economic and political uncertainty has increased the level of estimation uncertainty as the impact on countries and markets continues to be uncertain; however, the Group has modelled a range of scenarios to consider the impact on the carrying value of its assets as described in the going concern statement in the risk management and principal risks section.

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

As at 31 July 2021 calculated headroom was:

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

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).

11. Impairment assessment of goodwill (continued)

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 12.1% to 15.7% (2021: 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.

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

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% (2021: 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: 13.0% (2021: 10.5%); OEM (Torin-Sifan): 14.0% (2021: 11.7%); Nordics: 12.1% (2021: 12.4%); Central Europe: 12.2% (2021: 13.6%); and Australasia: 15.7% (2021: 14.7%).

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

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 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.

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.

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

Included in software costs are assets under construction of £48,000 (2021: £27,000), which are not amortised. Included in development costs are assets under construction of £1,501,000 (2021: £26,000), which are not amortised.

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2022

12. Intangible assets – other (continued)

The remaining amortisation periods for acquired intangible assets at 31 July 2022 are as follows:

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

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 interest's share of changes in equity since that date. Non-controlling interests are measured at the non-controlling interest's share of the fair value of the identifiable net assets.

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

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

13. Business combinations (continued)

Business combinations in the year ended 31 July 2022

ERI

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

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

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

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

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

The gross amount of trade and other receivables is £3,626,000. All of the trade receivables are expected to be collected in full. Transaction costs relating to professional fees associated with the business combination in the period ended 31 January 2022 were £126,000 and have been expensed.

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

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 derecognised 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.

13. Business combinations (continued)

Business combination in the year ended 31 July 2021

ClimaRad Holding B.V. and subsidiaries (continued)

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 amount for trade and other receivables not expected to be collected is £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.

ClimaRad generated revenue of £7,306,000 and profit after tax of £2,141,000 in the period from the business combination to 31 July 2021 that are 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.

13. Business combinations (continued)

Business combination in the year ended 31 July 2021

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 profit after tax of £252,000 in the period from the business combination to 31 July 2021 that are 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 2022

13. Business combinations (continued)

Business combination in the year ended 31 July 2021

Rtek

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 profit after tax of £55,000 in the period from the business combination to 31 July 2021 that are 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.

Cash outflows arising from business combinations are as follows:

	2022 £000	2021 £000
ERI		
Cash consideration	**16,892**	—
Less: cash acquired with the business	**(896)**	—
Ventair		
Deferred cash consideration paid	**4,163**	—
Air Connection		
Deferred cash consideration paid	**476**	—
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)
Rtek		
Cash consideration	**—**	2,578
Less: cash acquired with the business	**—**	—
Total	**20,635**	42,185

In the prior year £507,000 was paid into escrow as part of consideration but deferred relating to Nordiska Klimatfabriken AB £251,000 and Rtek £256,000. These amounts are included as other financial assets in note 16 and have been settled in the current period.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2022

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.

	2022 £000	2021 £000
Raw materials and consumables	**24,247**	16,961
Work in progress	**3,523**	2,004
Finished goods and goods for resale	**29,381**	26,006
	57,151	44,971

During 2022, £865,000 (2021: £921,000) 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 £5,473,000 (2021: £5,165,000). This provision was split amongst the three categories: £2,926,000 (2021: £2,778,000) for raw materials and consumables; £146,000 (2021: £201,000) for work in progress; and £2,401,000 (2021: £2,186,000) 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 (ECLs). For trade receivables the Group applies a simplified approach in calculating ECLs. Trade receivables have been grouped based on historical credit risk characteristics and the number of days from date of invoice. The expected loss rates are calculated using the provision matrix approach.

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

Rebates receivable

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

	2022 £000	2021 £000
Trade receivables	**53,431**	43,755
Allowance for expected credit loss	**(772)**	(553)
	52,659	43,202
Other debtors	**2,069**	919
Prepayments	**2,798**	3,361
Total	**57,526**	47,482

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

	2022 £000	2021 £000
At the start of the year	**(553)**	(574)
Charge for the year	**(231)**	(111)
Amounts utilised	**19**	122
Foreign currency adjustment	**(7)**	10
At the end of the year	**(772)**	(553)

15. Trade and other receivables (continued)

Gross trade receivables are denominated in the following currencies:

	2022 £000	2021 £000
Sterling	**30,639**	24,241
US Dollar	**677**	945
Euro	**9,665**	6,807
Swedish Krona	**3,216**	3,366
New Zealand Dollar	**3,073**	3,749
Australian Dollar	**4,262**	3,016
Other	**1,899**	1,631
Total	**53,431**	43,755

Net trade receivables are aged as follows:

	2022 £000	2021 £000
Neither past due nor impaired	**41,297**	35,999
Past due but not impaired		
Overdue 0–30 days	**5,273**	4,534
Overdue 31–60 days	**2,283**	228
Overdue 61–90 days	**932**	1,011
Overdue more than 90 days	**2,874**	1,430
Total	**52,659**	43,202

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

	2022 Current £000	2021 Current £000
Financial assets		
Funds held in escrow relating to the business combination in the year	**—**	507
Foreign exchange forward contracts	**1,091**	—
Total	**1,091**	507

17. Trade and other payables

	2022 £000	2021 £000
Trade payables	**27,715**	26,703
Social security and staff welfare costs	**1,737**	1,712
Accrued expenses	**19,385**	19,020
Total	**48,837**	47,435

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 and motor vehicles and other equipment between two and five years.

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

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

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

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

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

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

18. Leases (continued)

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 and 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 and 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

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

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

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

	2022 £000	2021 £000
Depreciation expense of right-of-use assets (cost of sales)	**2,081**	1,983
Depreciation expense of right-of-use assets (administrative expenses)	**1,531**	1,369
Interest expense	**520**	503

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For the year ended 31 July 2022

19. Other financial liabilities

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

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 16)	—	—	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

Non-current

On 17 December 2020, Volution Group plc acquired 75% of the issued share capital of ClimaRad Holding B.V. and subsidiaries (ClimaRad), a company based in the Netherlands. Total consideration for the purchase of 75% of the issued share capital was €41,100,000 (£37,100,000) with a commitment to purchase the remaining 25% on or before 28 February 2025. The future consideration for the purchase of the remaining 25% is set at 25% of 13 times the EBITDA of ClimaRad for the financial year ended 31 December 2024, plus the non-controlling interest share of profits earned in the periods up to and including 31 December 2024, and is subject to a cap. 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 £7,052,000, discounted to present value (2021: £5,514,000).

On 9 September 2021, Volution Group plc acquired 100% of the issued share capital of ERI Corporation DOO Bitola (North Macedonia), ERI Corporation S.R.L. (Italy) and Energy Recovery Industries Trading SLU (Spain) and 51% of the issued share capital of Energy Recovery Industries Corporation Ltd (UK). The contingent consideration was assessed based on the current estimate of the future performance of the business as £7,080,000.

	2022 £000	2021 £000
Financial liabilities		
Foreign exchange forward contracts	**—**	55
Total	**—**	55

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.

	2022		2021	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2024)	**—**	**74,351**	—	73,293
Cost of arranging bank loan	**—**	**(843)**	—	(956)
	—	**73,508**	—	72,337
IFRS 16 lease liabilities (note 18)	**3,599**	**21,368**	3,454	21,975
ClimaRad vendor loan	**—**	**9,557**	—	10,551
Total	**3,599**	**104,433**	3,454	104,863

In December 2021, the Group took the option to extend its multicurrency "Sustainability Linked Revolving Credit Facility", together with an accordion of up to £30 million, by a period of twelve months; the maturity date is now December 2024.

Revolving credit facility – at 31 July 2022

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

During the year the rate of interest used by the bank on our GBP loans has transitioned from the London Interbank Offered Rate (LIBOR) to Sterling Overnight Indexed Average (SONIA).

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			

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 2022, Group leverage was below 1.0:1 and therefore the margin will reduce to 1.25%.

At 31 July 2022, the Group had £75,649,000 (2021: £76,707,000) of its multicurrency revolving credit facility unutilised.

Changes in liabilities arising from financing activities

	1 August 2021 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	Changes due to business combination £000	Other £000	**31 July 2022 £000**
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	73,293	2,802	(1,744)	—	—	—	**74,351**
Debt related to the business combination of ERI (see note 13)	—	(3,227)	—	—	3,227	—	—
Lease liabilities	25,429	(3,202)	(418)	3,326	—	(168)	**24,967**
ClimaRad vendor loan	10,551	(504)	(490)	—	—	—	**9,557**
Total liabilities from financing activities	109,273	(4,131)	(2,652)	3,326	3,227	(168)	**108,875**

20. Interest-bearing loans and borrowings (continued)

	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	—	(1,482)	—	—	1,482	—	—
Lease liabilities	23,173	(2,960)	(35)	5,495	—	(244)	25,429
ClimaRad vendor loan	—	—	(135)	—	—	10,686	10,551
Total liabilities from financing activities	92,736	4,685	(5,567)	5,495	1,482	10,442	109,273

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.

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

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

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 2022, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2021: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2021: £3,975,000) arising in UK subsidiaries and gross tax losses of £nil (2021: £153,000) 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 2022, the Group had no deferred tax liability (2021: £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:

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

22. Deferred tax (continued)

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
Other temporary differences	1,480	230	—	(26)	(438)	1,246
Share based payments	620	469	1,366	—	—	2,455
Deferred tax liability	(13,028)	2,673	1,366	409	(6,296)	(14,876)

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.

	2022 £000	2021 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2022: 2.30 pence per share (2021: 1.90 pence)	**4,553**	3,762
Proposed dividends on ordinary shares		
Final dividend for 2022: 5.00 pence per share (2021: 4.40 pence)	**9,891**	8,719

An interim dividend payment of £4,553,000 is included in the consolidated statement of cash flows (2021: £3,762,000).

A final dividend payment of £8,719,000 is included in the consolidated statement of cash flows relating to 2021 (2021: £nil).

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 2022.

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 2022 or 31 July 2021.

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

	2022 £000	2021 £000
Short-term employee benefits	**3,517**	4,139
Share-based payment charge	**1,049**	1,605
Total	**4,566**	5,744

Key management personnel is defined as the CEO, the CFO and the thirteen (2021: eleven) individuals who report directly to the CEO.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2022

25. Glossary of terms

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

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 2,966,484 dilutive potential ordinary shares at 31 July 2022 (2021: 3,270,467).

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 2022 at the average exchange rate for the year ended 31 July 2021. In addition, we have converted the UK operating companies’ sale and purchase transactions in the year ended 31 July 2022, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2021.

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.