

Healthy air, sustainably





Our energy efficient indoor air quality solutions help contribute to the global green economy

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Our Sustainable Growth Model

A healthy net zero carbon future

The elements of our sustainable growth model work together to deliver our unique value proposition. Combined, they deliver high returns and long-term value for stakeholders whilst ensuring we continue to deliver on our environmental and social objectives.

Our purpose

Our purpose is to provide healthy indoor air, sustainably. This commitment is integral to everything we do and impacts every decision that we make. We encourage our team to centralise our purpose in their thinking.

» See more page 4

Our strategy

We aim to achieve our goals through a combination of three strategic objectives: organic growth, selective value adding acquisitions and operational excellence.

» See more page 28

Our values

Our values form the basis for our behaviour and our culture. These values guide the way that we work, communicate and deal with each other and form an important part of our success.

» See more page 4

Our business model

We are committed to building on the strength of our successful business model; we continue to develop these differentiators that are central to making us a successful organisation.

» See more page 24

Underpinned by our investment case

We aim to continue to deliver value for our investors with reliable, strong and consistent development in financial results whilst minimising our impact on the environment and helping deliver the net zero carbon goals of the geographies in which we operate.

» More page 5

Excellent progress in both financial performance and delivering against our ESG initiatives, enabling us to provide “healthy air, sustainably”

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 our 2040 net zero objective
- Signatories to both the CEO Water Mandate and UN Global Compact in the year



Revenue £m

£307.7m

2022	307.7
2021	272.6
2020	216.6
2019	235.7
2018	205.7

Adjusted operating profit and adjusted operating profit margin £m (% of revenue)

£64.9m (21.1%)

2022	64.9	21.1%
2021	56.9	20.9%
2020	33.7	15.6%
2019	42.1	17.8%
2018	37.1	18.0%

Reported profit before tax £m

£47.2m

2022	47.2
2021	30.0
2020	14.6
2019	23.1
2018	16.7

Adjusted operating cash flow £m

£50.4m

2022	50.4
2021	56.9
2020	43.4
2019	36.9
2018	34.4

Net debt £m

£85.8m

2022	60.8 ²	85.8 ¹
2021	53.8 ²	79.2 ¹
2020	51.1 ²	74.2 ¹
2019	74.6	
2018	77.2	

1. IFRS 16 basis.
2. Excluding lease liabilities.

Adjusted EPS pence

24.0p

2022	24.0
2021	21.0
2020	12.1
2019	16.0
2018	14.5

Reported EPS pence

18.1p

2022	18.1
2021	10.5
2020	4.9
2019	9.2
2018	6.7

Dividend per share pence

7.3p

2022	7.30
2021	6.30
2020	0
2019	4.90
2018	4.44

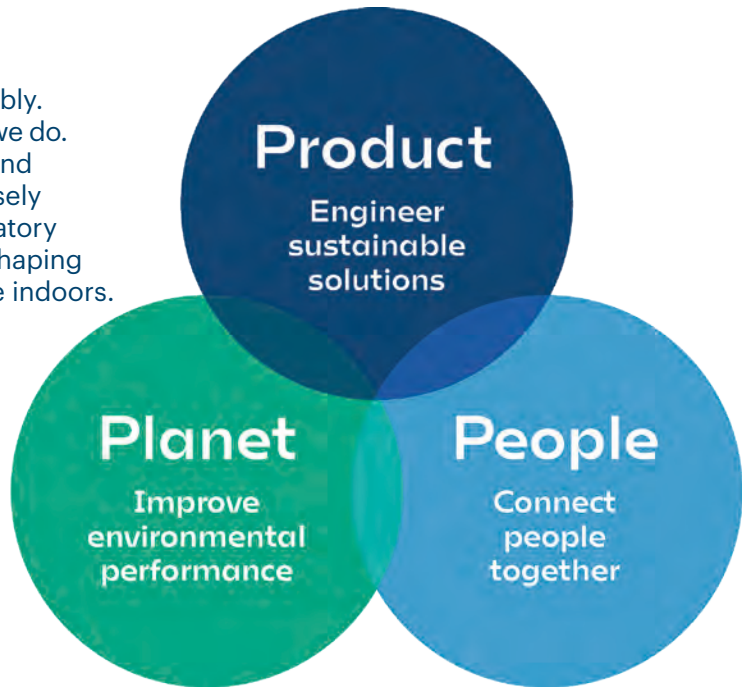
The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS, adjusted operating cash flow and net debt. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 34. 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.

» Key performance indicators pages 58 to 61

Our Purpose and Values

Our purpose

...is to provide healthy indoor air, sustainably. This commitment is integral to everything we do. It shapes our values, steers our strategy and informs our capital allocation. We are closely aligned with environmental, health, regulatory and consumer developments that are reshaping the world's expectation of how we live life indoors.



Our values

...form our behaviour and our culture. They are key to how we conduct ourselves and how we interact with each other and the world around us.



Our Investment Case

Consistently strong growth delivering sustainable value

- 1. Sustainability**

Delivering healthy indoor air whilst minimising our impact on the environment and helping support the United Nations Sustainable Development Goals.

» See pages 32 to 51 for our sustainability KPIs

67.2%
of material from recycled sources

- 2. Carbon avoidance**

Our products are supported by regulatory tailwinds as we help avoid carbon emissions supported by the Building Regulations and the EU Taxonomy.

» See page 32 to find out more about carbon avoidance

30.1%
Sales of heat recovery were 30.1% of revenue

- 3. Market leadership and customer service excellence**

In many of our markets we have leading brands, products and sales channel access. Our business model helps develop substantial customer loyalty and barriers to entry.

» See page 24 for our business model

19
brands in 14 countries

- 4. Growth**

Organic revenue growth from a focused sales strategy. Strong track record of acquiring and integrating value adding businesses into the Group, leveraging our sales channels and our expertise in product development, manufacturing and supply chains.

» See page 2 for our highlights

10.7%
5 year CAGR revenue

- 5. A technology offering that is both broad and deep**

We service both residential and commercial sectors, in both public and private new build and refurbishment applications in the UK, the Nordics, Central Europe and Australasia, including the manufacture and supply of key technology components required for the decarbonisation of buildings.

» See page 34 to find out more about ERI

61.6%
of our revenue is from non UK customers

- 6. Market leading growth**

Reliable organic growth and successful integration of acquisitions have driven strong and reliable growth in profitability.

» See page 8 for our growth history

12.0%
5 year CAGR of 12.0% in adjusted earnings per share

- 7. Strong cash generation and robust financial model**

Strong and reliable profitability growth leads to strong cash generation and cash conversion.

94%
Average cash conversion % over the last 5 years

We are market leaders in residential and commercial ventilation solutions

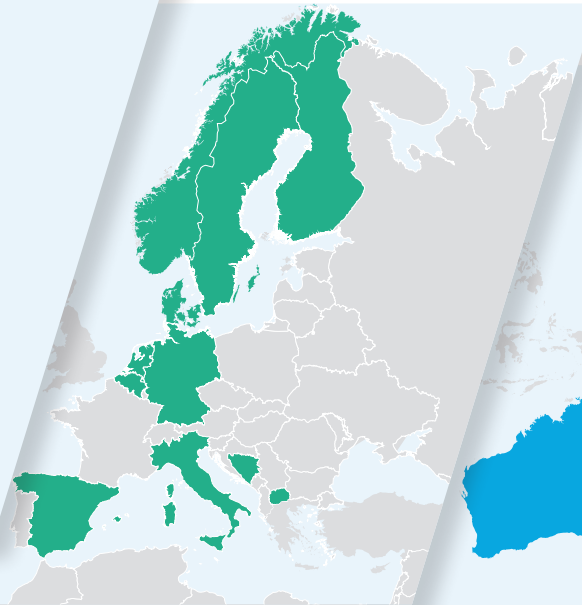
Our regional coverage



United Kingdom

Residential New Build, RMI (Public and Private), Commercial, Export and OEM

» To read more see pages 18 and 19



Continental Europe

The Nordics, Germany, Belgium, the Netherlands and Italy

Bosnia and Herzegovina and North Macedonia (production facilities only)

Residential New Build, RMI, Commercial and OEM

» To read more see pages 20 and 21



Australasia

New Zealand and Australia

Residential New Build and RMI

» To read more see pages 22 and 23

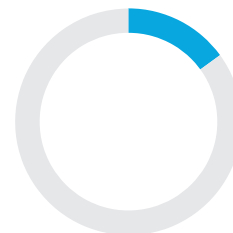
% of Volution Group revenue by region



£143.7m



£118.4m



£45.6m

Our businesses

Volution Group plc is a leading supplier of ventilation products with primary markets in the UK, Continental Europe and Australasia. We aim for our products to enhance customers' experience of ventilation by reducing energy consumption, improving indoor air quality and design and making them easier to use.



Residential ventilation solutions

The Volution Group's residential products encompass a broad range of solutions designed to suit a variety of budgets and applications, ranging from unitary extractor fans for use in bathrooms and kitchens to significantly higher value, low-carbon, energy efficient whole building ventilation systems with heat recovery.



Commercial ventilation solutions

The Volution Group's commercial products encompass a variety of extractor fans, as well as mechanical heat recovery units (including both "fixed volume" and "demand" systems, some of which also incorporate high efficiency counter-flow heat recovery cells for energy efficiency), air handling units, fan coils and hybrid ventilation solutions.



Ventilation components and other products

The Volution Group's remaining products encompass a number of key components required for ventilation devices including low energy motors and heat recovery cells. These are supplied to a broad range of customers around the world. In addition, we sell some traded products within our channels including heating and cooling products, hygiene products, lighting and door chimes.

» For more information on our new business ERI see page 34

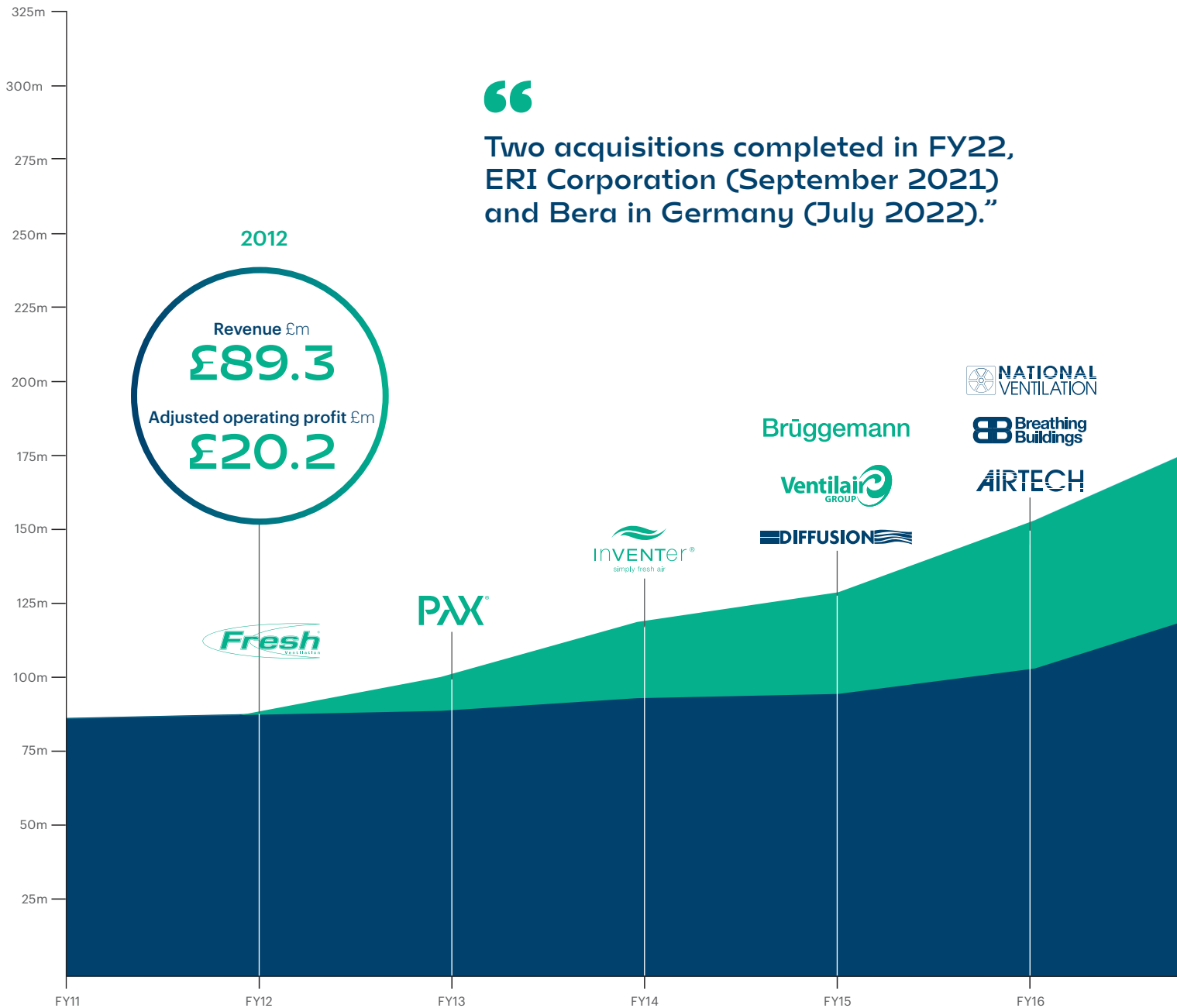
Our Growth History

A strong track record

Revenue
CAGR %
10.7

Adjusted operating profit
CAGR %
12.8

UK Continental Europe Australasia



“

Two acquisitions completed in FY22, ERI Corporation (September 2021) and Bera in Germany (July 2022).”

2012

Revenue £m
£89.3
Adjusted operating profit £m
£20.2

NATIONAL VENTILATION

Breathing Buildings

AIRTECH

Bruggemann

Ventilair GROUP

DIFFUSION

inventer®
simply fresh air

PAX

Fresh

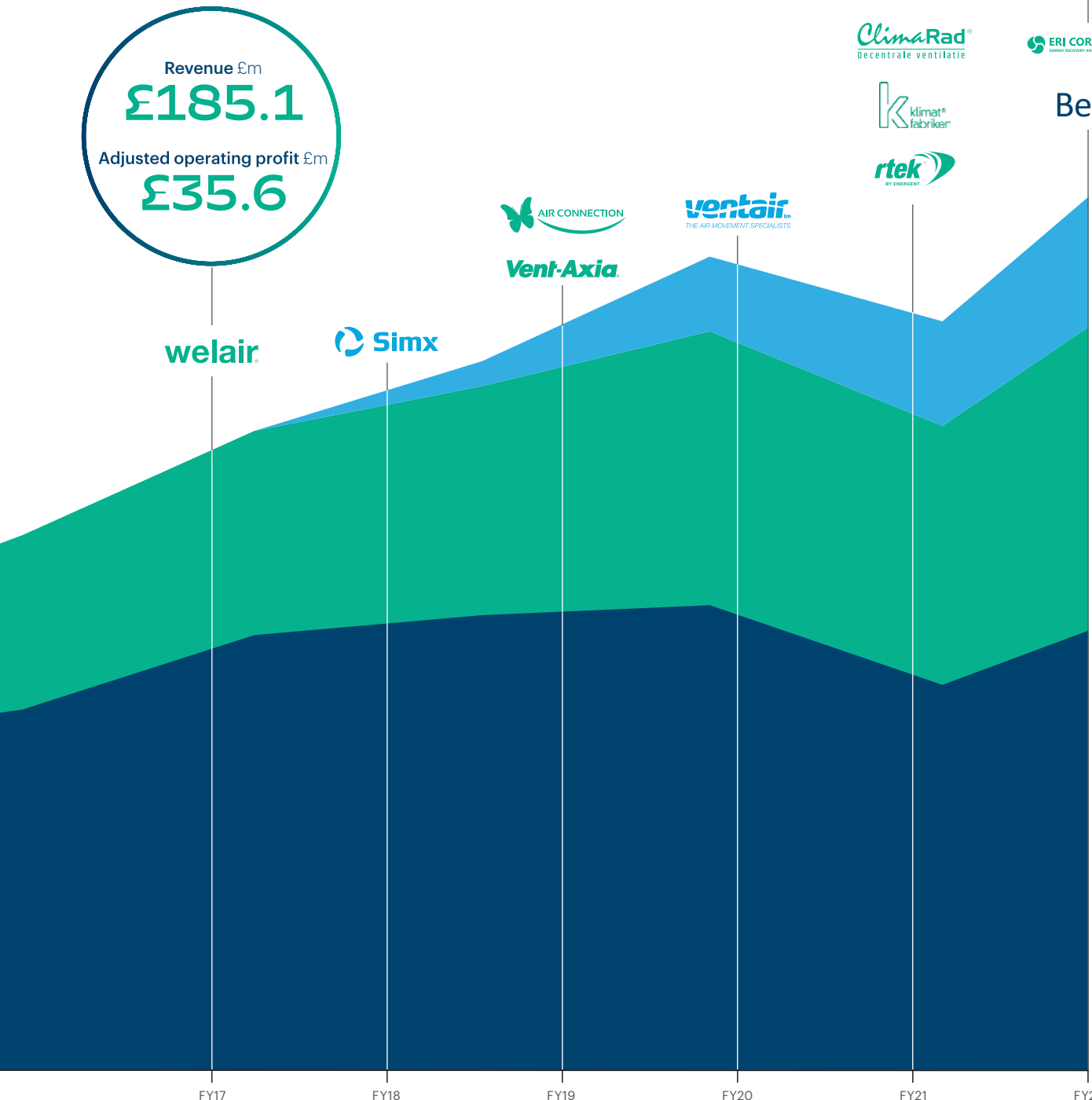
“

We will continue to acquire and integrate complementary businesses in the residential market and, where appropriate, in the commercial ventilation market.”

2022



2017



ClimaRad®
decentrale ventilatie

ERI CORPORATION
Energy Efficient and Ventilation Corporation

k klimat*
fabriker

Bera

rtek
BY EMERGENT

AIR CONNECTION

ventair.
THE AIR MOVEMENT SPECIALISTS

Vent-Axia

welair

Simx

FY17

FY18

FY19

FY20

FY21

FY22

Sustainability – key initiatives update

A commitment to sustainability is core to our business and we have made significant progress against our product, planet and people targets this year. We are ahead of our plan on low-carbon products, at **66.1%** of total sales, putting us well on the way to our goal of 70% by 2025. We also increased the percentage of recycled plastics used in our factories to **67.2%** overall, and achieved a percentage of **74.4%** through the UK facility at Reading. Our learnings at Reading will help us across the rest of the Group. This year we have also further developed our People Reporting Framework and taken additional steps in health and safety.



Product

Engineer sustainable solutions

[Link to business model](#)

Understanding and shaping markets

[Link to values](#)

Innovate / Integrity / Commitment / Grow



Planet

Improve environmental performance

[Link to business model](#)

Leveraging our scale

[Link to values](#)

Innovate / Integrity / Grow



People

Connect people together

[Link to business model](#)

Supporting our companies to grow

[Link to values](#)

Professional and reliable / Commitment / Customer service / Fun

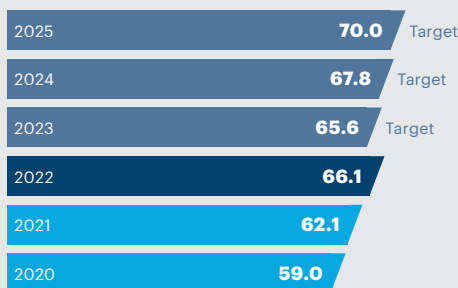




In FY22 we made excellent progress with increasing sales of our low carbon products and the adoption of recycled plastic within our facilities. Michelle Dettman joined us as Group Head of HR, a newly created role which will help underpin our programme of continuous improvement within our facilities driving our ambition for zero harm.”

Ronnie George, CEO

Target 70% of our sales revenue from low-carbon products by the end of 2025

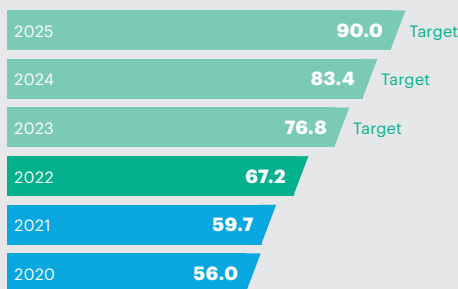


Our low-carbon sales KPI

With the acquisition of ERI, the last four acquisitions that we have made are all providers of low carbon product solutions. This, in addition to the continued adoption of our low-carbon product ranges in our existing businesses, has helped us deliver ahead of our target.

» See page 32 for more information on carbon avoidance

Target 90% of the plastic that we process in our own factories to be from recycled sources by the end of 2025



Our plastics KPI

In the year we have increased the adoption of recycled plastics by 7.5%. All of our PVC, HIPS and white ABS is supplied by UK sources of post-consumer waste, minimising the environmental impact of sourcing with lower-carbon footprints. Building and construction products equate to 19% of all plastic used in the UK and the industry total for recycled plastic use in 2020 was 14%.*

» See page 28 for more information on how recycled plastic is helping reduce our emissions

* https://plasticseurope.org/wp-content/uploads/2022/07/PlasticsEurope-National_Onepager_UK_310522.pdf

Accident frequency rate in 2022

Reportable incidents

0.25

Ambition remains zero harm

0

Minor incidents

0.43

Keeping everyone safe

Unfortunately, we had ten reportable accidents in 2022, an increase from six in 2021. This equates to 0.25 per 100,000 hours worked. However, this figure includes the new acquisitions. On a like-for-like basis within the same facilities as reported on last year our rate was down from 0.20 to 0.15. We have a new programme of continuous improvement with our ambition remaining zero harm. Minor incidents were down from 0.61 to 0.43 per 100,000 hours worked.

» See pages 48 to 51 for more information on our People Reporting Framework

Significant progress and continued strength



“
The resilience of Volution's business model and strategy is demonstrated by another year of strong financial performance, despite the unpredictable trading environments, supply chain challenges, and inflationary pressures experienced across our operations.”

Summary

- Significant progress in respect of both financial performance and delivering against our ESG objectives.
- Acquisition of ERI Corporation (ERI) in North Macedonia and Bera Energiesysteme (Bera) in Germany, further enhancing our geographic diversity, product offering and market access.
- Final dividend of 5.0 pence per share has been recommended, an increase of 13.6% against the prior year.
- Positive outlook for growth supported by beneficial regulatory backdrop.

Dear shareholder,

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 £16.5 million 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.



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.”

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. Further details of our progress on strategy are set out on page 28.

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. A number of activities that look to reduce the Group’s impact on the environment and support the communities in which we operate are set out in the Sustainability Report on pages 32 to 51. Our report in line with the Task Force on Climate-related Financial Disclosures recommendations is set out on pages 40 to 46 and a detailed report on the carbon-avoidance capabilities of our products is featured on pages 34 to 37.

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. Further details of the search process and Margaret’s appointment may be found in the Nomination Committee Report on pages 89 to 91.

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. Further details can be found in the Sustainability Report on pages 32 to 51.

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 and compliance is set out in the Governance Report on pages 74 to 126.

During the year, a formal performance evaluation of the Board and its 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. Further information is set out in the Governance Report on pages 74 to 126.

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

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.



“

I am proud of the results our committed employees have delivered in the year.”

Summary

- Excellent progress with both financial performance and delivering against our ESG initiatives, enabling us to provide “healthy air, sustainably”.
- Adjusted earnings per share at 24.0 pence; a compounded annual growth rate of 13.4% since listing in 2014.
- Revenue growth 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 profit of £64.9 million, an increase of 13.9% over the prior year (2021: £56.9 million).
- Adjusted operating margin expansion of 0.2pp to 21.1% (2021: 20.9%) despite the supply chain challenges and inflationary pressures the Group faced during the financial year.
- Good cash conversion in the second half pushed the cash conversion up to 76% after investing in inventory to support customer service in H1.
- Two acquisitions completed in the year, ERI Corporation (September 2021) and Bera (small bolt on acquisition) in Germany (July 2022).
- Investment in the most innovative and energy efficient ventilation solutions for our markets to meet the growing needs and awareness of how ventilation in buildings is critical to health and the reduction of Covid 19 transmission risks when inside.



**Heat cell production
in ERI, Bitola**

Overview

Volition 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 regards 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%.

Chief Executive Officer's Review continued

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. For more detail on how much carbon this year's sales have helped avoid please see page 36.

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.



This year we have made good progress with our key sustainability initiatives.”

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.



Team meeting in Växjö, Sweden

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

Chief Executive Officer’s Review continued



Harpal Purewal, Reading, UK

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

£143.7 million

Revenue

↑5.7%

Revenue increase

£29.3 million

Adjusted operating profit

“

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.”

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.



Team meeting, Crawley, UK



Sheet metal based production, Dudley, UK

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 as some of our UK competitors struggled with product availability. These share gains are expected to be held 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 stronger 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 Ireland performed very well. Our distribution partnerships in Ireland 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 mechanical 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 set forth 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.

Chief Executive Officer’s Review continued



Marjolein Bossink, Oldenzaal, Netherlands

Market by market continued 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

£118.4 million

Revenue

↑5.0%

Organic revenue growth at constant currency

↑29.4%

Revenue growth at constant currency

“**Our Continental Europe activities had a very strong year and we delivered excellent progress.**”

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 are 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 and delivered 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.



Warehouse, Löberschütz, Germany



Heat recovery training, Eersel, Netherlands

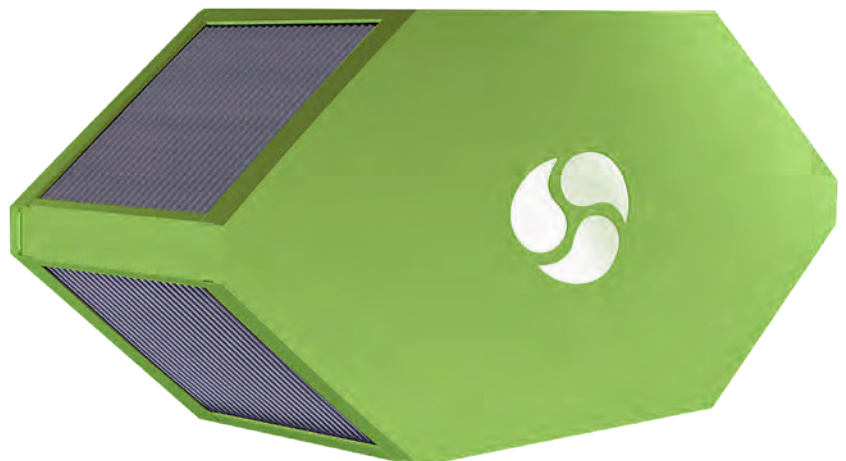
Germany again delivered a strong performance in the year with our market leading range of decentralised heat recovery. Further improvements in the specification selling process enabled us to again nudge up our market share and with the nervousness in Germany around spiralling energy prices and gas supply, 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 deep refurbishment projects to grow. The route 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 the 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. See case study on pages 34 to 37.

Heat recovery cell from ERI



Chief Executive Officer's Review continued



Enda Corcoran, Auckland, New Zealand

Market by market continued Australasia

	31 July 2022	31 July 2021	Growth (cc)
	£m	£m	%
Market sector revenue			
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

£45.6 million
Revenue

↑11.4%
Revenues increase

£9.9 million
Adjusted operating profit

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 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 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 made in the 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.”



Product training, Melbourne, Australia



ARBS trade fair, Melbourne, Australia




Our Business Model

Guided by our purpose

The Group operates an asset light business model that produces cash at large margins, generating higher-than-average returns.

Our key strengths	What we do	How we add value
Innovative energy efficient solutions for indoor air quality.	Design, manufacture and distribute products designed to improve air quality, sustainably.	Differentiate our propositions through design, energy efficiency and sustainability.
Strong local brands and talented people building deep relationships with customers.	Understand legislative drivers and help shape markets.	Offer multiband, multichannel positions maximising market share growth.
Unrivalled distribution networks across our geographies.	Manage supply chain complexities, leverage our scale and maximise returns.	Provide localised expertise supported by centralised resources.
Strong relationships with trade associations and governing bodies to drive regulatory tailwinds.	Drive sustainability initiatives in meaningful ways.	Offer strong diversity of channels, products and geographies, building in resilience.

A decentralised organisation

Local management		
 <p>Manufacturing</p> <p>Our factories operate at maximum efficiency to create quality goods.</p>	 <p>Brands</p> <p>We have strong brands supported by passionate local champions.</p>	 <p>Relationships</p> <p>Our local teams have an intimate knowledge of our markets and customers.</p>

How we create value is built around our sustainability priorities



How we generate revenue

Selling air quality solutions to distributors, installers and end users.

Drive adoption of our products through consultative selling with specifiers.

Continually allocate capital on acquisitions which open up new channels and product categories to sell across our group.

Leverage our sales channels to distribute parallel product categories.

The value we create

Wide unrivalled product range.

Focused local sales teams with intimate customer relationships.

Great customer service and stock holding.

Understanding of regulatory requirements and design support.

>20,000
Products

1,800+
Employees

14
Countries

22
Trade association memberships

Group synergies enable cross-selling, sharing products and knowledge

Group leadership



Product portfolio

A wide and deep product portfolio enables us to supply solutions to a range of applications across our geographies.



Sales channels

Our multibrand, multichannel strategy enables us to prevent disintermediation of supply chain partners and maximise our market reach.



Research & development

Strong trade association links and intimate local relationships enable customer-centric product developments.

Our strict capital allocation ensures long-term sustainable value

Investment for organic growth

Value added acquisitions

Regular return to shareholders

Trends in our market

Global supply chains, the energy crisis and regulatory tailwinds are the key factors influencing our markets.



Key trend

Drivers

Digital transformation



- Many of our businesses operate in traditional markets with electrical wholesale as our primary route to market. However, our channel to market is changing with increasing numbers of customers using e-business to procure our products.
- Our industry is digitising, requiring more data for more performance metrics than ever before.



Macroeconomic factors



- Rising fuel prices will increase the adoption of energy saving measures to buildings.
- The flow of money into upgrading of buildings through the European Green Deal and the Social Housing Decarbonisation Fund programmes will continue to support the adoption of our products to help save energy and improve air quality within the housing stock.



Competitive landscape



- Global supply chains have put pressure on suppliers of ventilation solutions across our geographies with stock availability becoming a far greater factor in procurement decisions.
- Backlog in refurbishment work due to Covid-19 is still providing opportunity. This is particularly relevant in public RMI.



Continued focus on the link between air quality and health



- Many geographies in which we trade have programmes focused on air quality improvements, particularly in public sector settings such as schools and health.
- Increased air tightness of buildings due to energy efficiency improvements increases the risk of negative health outcomes unless, in parallel, adequate ventilation is ensured.



Regulatory environment



- Net zero targets mean greater energy efficiency of buildings to reduce carbon emissions.
- EU Taxonomy and the Green Deal supporting investment in deep refurbishment of buildings.
- Increasingly regular warm weather and improvements in insulation in modern airtight buildings leading to over heating during the summer months.

Links to strategy



Organic growth



Value-adding acquisitions



Operational excellence

» Our Strategy page 28

Opportunity

- Our products and services are being made available through a wider number of channels, providing consumers and end users with more flexible ways to procure our goods.
- IoT, the Building Safety Act and embodied carbon are all areas enabling us to provide more insight and easier access to products, data and performance.

How are we responding

- We continuously develop our sales model, utilise our brands and deploy our sales resources to ensure we maximise our opportunities to trade as the sales channels evolve and strengthen barriers to entry for others.
- Improving the operability of our products across platforms as well as development of new data sets helping us differentiate our propositions.

- Energy saving measures such as insulation, air tightness improvements and double glazing can require additional ventilation to prevent poor air quality.
- The wider adoption of higher value, continuous running and heat recovery products in refurbishment.

- Increasing communications around the energy saving potential of heat recovery in retrofit.
- Ensuring that we internationalise our Group products, particularly decentralised heat recovery solutions.

- Having stock available whilst others have not has ensured that we have maximised our opportunities to not only ensure we deliver excellent customer service to our existing customers but also attract new customers and take market share.
- Continued demand for ventilation products to service the backlog.

- Increasing stock levels across our organisation has ensured that we have maintained supply and buffered supply chain constraints. Capital investments have also been made to increase capacity to ensure that we continue to maximise the opportunities.
- Increased capacity on public housing product line.

- Providing air quality solutions for existing buildings and applications where historically it has been difficult to retrofit products.
- Greater focus on ventilation provision for both new build and refurbishment applications across our geographies.

- Development and launch of new product offerings including higher levels of filtration and automation.
- Internationally we take an active role within our trade associations, ensuring that regulators continue to consider ventilation when proposing legislative changes.

- Wider adoption of heat recovery ventilation solutions in buildings through tighter building regulations.
- Funding of renovations of buildings leading to sales of heat recovery devices in refurbishment.
- Energy efficient cooling solutions to be adopted in more of our geographies.

- Innovation in both centralised and decentralised heat recovery product ranges and EC high efficiency motors.
- Capital allocation to new acquisitions improving our sales of heat recovery solutions.
- Development of wider integrated cooling solutions.

Assessing our strategy

We aim to achieve our goals through a combination of three strategic objectives: organic growth, value-adding acquisitions and operational excellence. In addition, we have continued to embed our focus on environmental, social and governance issues (ESG) into our culture.

1.



Organic growth

What this means

Growth driven through a focused sales strategy for each of our market sectors. Focus on opportunities arising from increasingly favourable regulatory environments and growing public awareness of indoor air quality issues. Promote the benefits to health of higher value ventilation solutions to grow our markets and increase margins. Invest in innovative new products and deliver benefits from recently acquired businesses and drive cross-selling initiatives.

How we do it

- Cross-selling Group products through our international channels.
- Using our brands to open up new channels to market within the geographies in which we operate.
- Innovation and new product development to keep growing the depth and width of our range.

Progress

- Organic revenue growth in FY22 of 6.6% on a constant currency basis.
- Opened new retail channels in Australia.

Aligning to our sustainability strategy

- Good progress on sales of low-carbon products, which now equate for 66.1% of our sales.

» See **page 11** for more information on our low carbon sales initiatives

Strategy in action

67.2% of the plastic that we processed in our own factories was from recycled sources in 2022.

We have found a surplus of supply of black ABS polymer within the supply chains, so we have been moving non-visible parts over to a black polymer. This means either internal components not seen by the end user or components that are mounted inline and hidden in ceiling voids or other non-visible parts of a building have been moved to the more widely available and less restricted polymers. In the Nordics region (where we use c.9% of our polymer) the move to recycled plastics has taken longer, due to regulatory restrictions, to make changes to material on existing products.

Some progress has been made and the share of recycled material will increase in FY23, but the regulatory aspects will remain. In parallel, the Nordics team has been working on making product changes to move to more CO₂e friendly plastic materials to reduce the environmental impact.

Recycled plastic used

67.2%/2.65m kg

2.

Value-adding acquisitions

What this means

We will continue to acquire and integrate complementary businesses in the residential market and, where appropriate, in the commercial ventilation market. Our focus will be principally on opportunities in Europe where there are clear synergistic benefits available and on key strategic opportunities outside of Europe.

How we do it

- Acquisitions which open new channels or product categories helping to diversify and reduce risk.
- Allocating capital for businesses that provide opportunities for product or component synergies.
- Structured 200-day plan integration process maximising value creation opportunities.

Progress

- Inorganic growth of 8.5% in FY22 on a constant currency basis.
- We have completed two acquisitions in the year: ERI in September 2021 and Bera in July 2022.

Aligning to our sustainability strategy

- ERI provides heat recovery cells which are a key component of ventilation systems which help avoid carbon emissions from buildings.

» See [pages 34 to 37](#) for more information on ERI

3.

Operational excellence

What this means

Our dedication to operational excellence continues. We have been focused on improving the efficiency of all our operations and processes, reducing waste and optimising packaging and logistics. We have been building sustainability and ongoing improvement into the culture of our operations teams, helping to drive our ESG strategy.

How we do it

- Staying focused on service and delivering our proposition for customers.
- Continually driving our facilities and teams to optimise operations.

Progress

- Throughout this year we have managed our supply chains well and continued to have good levels of supply.
- Continued focus on sustainability has helped move our key initiatives forward.

Aligning to our sustainability strategy

- 67.2% of the plastic processed through our own facilities is supplied from recycled sources.

» See [page 28](#) for more detail on the progress made on recycled plastic

Engaging with our stakeholders

Employees



Why it is important to engage

Employee engagement is critical to our long-term success. Interaction between our employees and customers is also one of the main ways of experiencing our brands. We work to create a diverse and inclusive workplace where every employee can reach their full potential. This ensures we can retain and develop the best talent. For more information, please see our People Reporting Framework on pages 48 to 51.

How does Volution engage?

- Employee Representative Forum attended for workforce engagement
- Training and development
- Individual performance reviews
- Recognition and reward
- Apprenticeships
- Regular communications such as newsletters

Board engagement

- Employee Representative Forum attended by Claire Tiney, designated Non-Executive Director for workforce engagement
- Oversight of employee remuneration and gender pay gap data
- Monthly health and safety reports
- Annual Report and Accounts

Customers



Why it is important to engage

Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain customers and attract new ones and improve product performance. It also highlights opportunities for innovation of sustainable products and growth and challenges to be met.

How does Volution engage?

- Management of ongoing customer relationships
- Customer events and product launches
- Participation in industry forums and events
- Brand websites and social media
- Annual Report and Accounts

Board engagement

- New product development reports
- CEO Board report updates the Board on material customer matters
- Update on customer feedback and themes provided as part of Employee Forum presentations

Suppliers



Why it is important to engage

Our suppliers make a vital contribution to our performance. Engaging with our supply chain means that we can ensure security of supply and speed to market. Carefully selected high-quality suppliers ensure our brands deliver market leading innovative products meeting our customer expectations and requirements.

How does Volution engage?

- Through our China-Britain Business Council sourcing office in Hangzhou
- Supplier audits and inspections
- Ongoing supplier relationship meetings
- Responsible, sustainable and ethical procurement
- Engagement on our Code of Conduct and policies on the prevention of anti-bribery and corruption and modern slavery

Board engagement

- CEO Board report updates the Board on material supplier matters and progress on ethical and sustainable supply
- Supplier audit reviews are presented to and discussed by the Audit Committee as part of its work in connection with the Group modern slavery policy and statement

» See our Section 172 statement on page 86

Shareholders



Why it is important to engage

Continued access to capital is vital to the long-term success of our business. We work to ensure that our investors and investment analysts have a strong understanding of our strategy, performance and ambition. As a company with shares listed on the Main Market of the London Stock Exchange, we must provide fair, balanced and understandable information about the business to enable informed investment decisions to be made.

How does Volution engage?

- Annual Report and Accounts
- Annual General Meeting
- Corporate website including dedicated investor section
- Results presentations and post-results engagement with major shareholders
- Investor roadshows, site visits, face-to-face meetings and addressing regular investor and analyst enquiries
- Regulatory announcements

Board engagement

- Through regular shareholder feedback to the Board by the CEO and CFO
- The CEO and CFO (and Chairman if appropriate) hold meetings with shareholders as part of the investor roadshows and ad-hoc meetings as appropriate
- The chair of the Remuneration Committee engages with shareholders on Remuneration Policy and practice
- The Board reviewed the voting of shareholders, who voted 85% of Volution's share capital at the 2021 AGM

» Further detail is set out on pages 86 and 87

Communities and the environment



Why it is important to engage

We do business responsibly. We value our brands and have a reputation built on transparency and proven sustainability expertise. We have strong environmental objectives and targets, driven by our strategic commitments. We are committed to human rights.

We aim to contribute positively to the communities and environment in which we operate. We focus on supporting communities and groups local to our operations. ESG principles and responsible business provide the foundations for sustainable growth.

Volution has a sustainability strategy and has been awarded the Green Economy Mark by the London Stock Exchange. In addition we have a Sustainability Linked Revolving Credit Facility.

How does Volution engage?

- Signatories to the UN Global Compact and the CEO Water Mandate
- Community investment initiatives
- Sponsorship and employee volunteering
- Contributing to national initiatives in society such as International Women's Day and Global Recycling Day
- A number of employee-led charitable initiatives during the year

Board engagement

- Active engagement with the Group's ESG matters and sustainability strategy
- Amanda Mellor, Non-Executive Director, has been appointed as the Board's representative to attend and report back on the management Sustainability Committee's decisions and actions
- The Board receives regular updates on sustainability including in relation to the development of sustainable new products and progress against sustainability targets

» Further detail is set out on pages 32 to 51

Government/industry bodies



Why it is important to engage

National governments set the regulatory framework within which we operate. We engage to ensure we can help in shaping new policies, regulations and standards, which assist in improving indoor air quality, and ensure compliance with existing legislation.

We continually innovate to ensure our products become more energy efficient in line with the sustainability policies set out by most national governments.

We conduct business in accordance with the principles set out in the Bribery Act 2010.

How does Volution engage?

- Participation in industry bodies and working groups, in particular BEAMA, the UK trade association for manufacturers and providers of energy infrastructure technologies and systems
- Engagement with tax authorities
- Responding to industry and government consultations
- Conferences and speaking opportunities
- Effective and clear policies against bribery and supporting the elimination of modern slavery with training for staff and business partners

Board engagement

- The Board provides direction in support of the UN Global Compact's principles, and policies relating to modern slavery and anti-bribery

Our approach to sustainability

Healthy air, sustainably

We are proud to provide healthy indoor air for our customers around the world and we know we have a role to play to ensure a more sustainable future. We want to continue to accelerate a low-carbon future with the health and wellbeing of people and the planet at its core.

Our journey to net zero continues and this year, as well as providing an update on our key sustainability initiatives, we also provide more insight around our emissions and how we plan to target reductions and actions that we will take to reduce them. In addition, we have carried out a study to help scale the carbon benefit of our heat recovery products sold around the world.

Carbon reduction targets

This year we have set new targets for carbon reduction over the short, medium and long term which will enable us to achieve our commitment to a net zero carbon future. The targets we have set this year have been set in line with the principles of Science Based Initiatives, and we will continue to refine our targets before being approved by Science Based Initiatives later in the year.

» See more on [pages 38 and 39](#)

Carbon avoidance

Volusion manufactures a range of heat recovery products that help our customers save energy from buildings. The energy saved also saves carbon, so the application of these products provides a route for avoiding emissions. This year we have carried out a study with Arup to help us scale the carbon avoided by the heat recovery products we have sold in FY22 over a single year of their life.

» The results of that study can be seen on [pages 36 and 37](#)

Risk management

This year we have carried out a detailed review of physical risks (acute and chronic) to ensure we understand the resilience of our critical properties to climate change. Climate change poses a physical risk to the buildings that we occupy including offices, factories and warehouses.

» You can see more detail on [pages 44 to 47](#)

What we are reporting on this year

We recognise the importance of the recommendations from the Task Force on Climate-related Financial Disclosures and have implemented many of the recommendations this year. We anticipate the impact that the Task Force on Climate-related Financial Disclosures reporting requirements will have on our business, and have reported in depth on our climate-related risks and opportunities.

» See more on [page 40](#)

We report on energy use under SECR regulations and have committed to a zero carbon future, aiming to be a net zero carbon business by 2040. This year we have provided more insight into our emissions, including scope 3.

» See more on [page 41](#)

Finally, we incorporate the framework of international and independent body the Sustainability Accounting Standards Board (SASB) to help track our progress.

» See more on [page 47](#)



How we align to the UN Sustainable Development Goals

We have aligned our strategy to the United Nations Sustainable Development Goals, which are the blueprint to achieve a better and more sustainable future for all.



SDG3

The design of Volution's products helps support SDG target 3.9: "By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination." Specifically, 3.9.1 – "Mortality rate attributed to ambient air pollution".

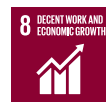
In action – Our purpose is to provide healthy air, sustainably, supporting the health and wellbeing of people within buildings.



SDG7

The design of Volution's products helps support SDG target 7.3: "By 2030, double the global rate of improvement in energy efficiency." Specifically, 7.3.1 – "Energy intensity measured in terms of primary energy and GDP".

In action – With a focus on sales of low-carbon products, Volution sells product solutions targeted at reducing carbon emissions of buildings by making them more energy efficient to run.



SDG8

Volution's ambition to be a diverse and inclusive employer supports SDG target 8.5: "By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value."

In action – Volution's ambition is to ensure a diverse and inclusive workplace for everyone.



SDG11

Volution's products and its approach to minimising its operational impacts support SDG target 11.6: "By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management." Specifically, 11.6.2 – "Annual mean levels of fine particulate matter (e.g. PM2.5 and PM10 in cities (population weighted))."

In action – Many of the Group's products include filtration designed to remove fine particle matter from the air helping to improve air quality.



SDG12

SDG target 12.5 ("By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse") is core to Volution's approach to sustainability and its ambition to limit its impact on the environment. Specifically, 12.5.1 "National recycling rate, tons of material recycled".

In action – Volution continues to focus on the adoption of recycled material, with 67.2% of the plastic used within our own facilities from recycled sources in FY22.



SDG13

Volution's ambition to reduce carbon emissions and minimise its impact on climate change supports SDG 13.2: "Integrate climate change measures into policies, strategies and planning."

In action – Volution has set our ambition to become net zero by 2040 and has been carbon neutral since FY21 for scope 1 and 2 emissions. In addition, we are signatories to the CEO Water Mandate and the UN Global Compact.

Product

Our ambition

To champion the energy saving potential of our products and solutions and support the net zero ambitions of the countries in which we operate. To continue to develop clean air solutions that protect people's health and increase their comfort in an ethical and responsible way.

» See more on page 34

Planet

Our ambition

To reduce our environmental impact by improving business efficiencies and minimising our impact on the climate. To focus on the quality of materials we use to support the creation of a circular economy, and eliminate all forms of waste across our value chain.

» See more on page 38

People

Our ambition

To continue to develop an engaging and inclusive workforce where our employees feel valued and can fulfil their potential. To build relationships with the local community, provide support where needed, and leave a lasting legacy.

» See more on page 48

Sustainability continued

Product

Heat recovery devices form a key growing category within our low-carbon sales. This year, with the acquisition of ERI, we have strengthened our position for future growth.

Introduction to energy recovery technology

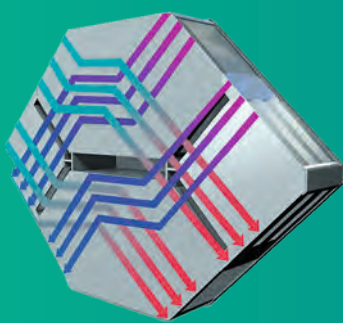
A key approach to decarbonisation of buildings is preventing energy loss in heated or cooled air as it is exhausted from the building for ventilation. To prevent the energy loss, heat recovery cells can be used in the airstream to ensure the energy is recovered. This year, Volution acquired Energy Recovery Industries (ERI), which is a global supplier of key heat recovery technology.

ERI – overview

Established in 2010, ERI designs and manufactures a range of innovative and highly efficient air-to-air heat recovery devices for use in industrial, commercial and residential 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 around the world.

Energy recovery technology

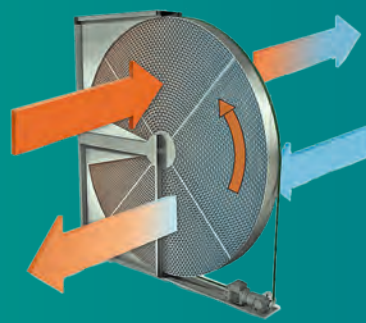
ERI manufactures three types of heat exchangers: plate, rotary and an integrated enthalpy solution branded Accuair.



Counterflow kombi heat exchanger

Plate heat exchangers

Plate heat exchangers consist of a series of plates stacked together which form a large internal surface area. Air is then exhausted from inside the building and passed over one side of the plates and at the same time fresh air is introduced into the building on the opposite side of the plates. The large surface area allows heat to be transferred from one side to the other. The process allows recovery of energy by either passing energy from heated air leaving the building into the incoming air in buildings in colder climates or passing heat into the outgoing air for air-conditioned buildings in warmer climates. In this way it recovers energy in all climates. The exchangers can be up to 93% efficient.



Rotary heat regenerator

Rotary heat exchangers

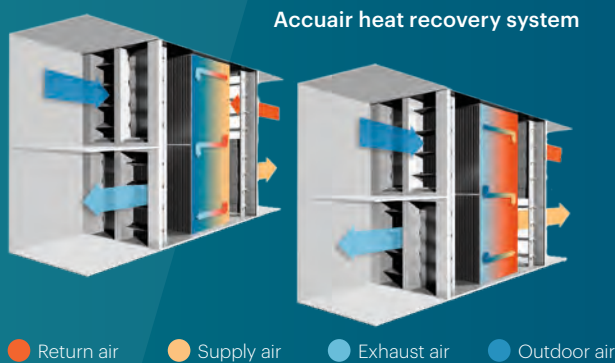
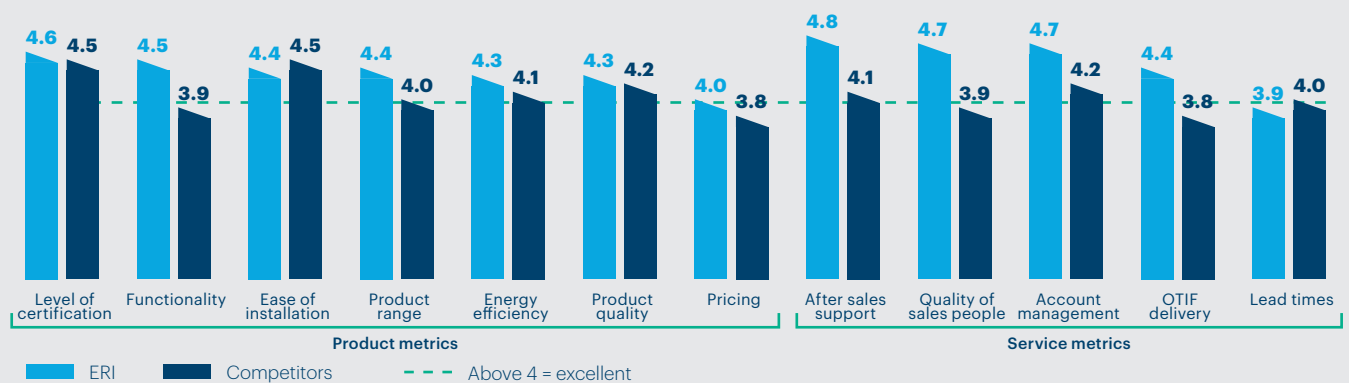
Rotary heat exchangers are a regenerative type of air to air heat exchanger that consists of a rotating wheel. During the heating season, air is exhausted from the building, warming the rotating disc. Air from outside is introduced across the opposite side of the disc, recovering the heat and also capturing the humidity released from the disc, so enriching the air to prevent it drying out. This process provides heat exchangers with up to 85% efficiency.

ERI: Customer service excellence

Since its inception, ERI has been focused on delivering the best possible customer experience and, as part of the acquisition process, Volution carried out a third party customer referencing exercise. This benchmarking exercise was carried out with a range of international customers, with ERI consistently outscoring competitors on a range of product and service metrics. The pre-existing expansion plan referenced in our public announcement in September 2021 supports further growth ambitions and delivers improvements to availability and a reduction in lead times.

ERI's performance score vs key performance criteria

Average score: 1 = poor, 5 = outstanding



Accuair

In colder, dry climates, plate heat exchangers offer very high efficiency but can remove too much moisture from the air as it condenses on the colder sections of the plates. This can cause excessive drying out of the air. Accuair has been designed as an enthalpy system to also recover up to 70% of the moisture. It does this whilst retaining an efficiency of up to 95% and prevents the air becoming too dry.

Revenue from heat recovery devices

This year, 30.1% of our revenue came from heat recovery units, components or installation ancillaries. This forms 45% of our low carbon sales and is a key technology for the decarbonisation of buildings.

Revenue from heat recovery units, components or installation ancillaries

30.1%

Sustainability continued

Carbon avoidance

This year we commissioned a piece of work with Arup, to help compare the avoided emissions from our heat recovery products sold in FY22 against our operational emissions over the same period.

Carbon emissions avoidance from our heat recovery sales

Applying heat recovery ventilation solutions in airtight, well insulated new buildings, or deep energy efficient refurbishment of existing buildings, can offer reductions in the energy used for heating or cooling. As well as energy reductions, and associated financial savings, there are also the parallel carbon emissions that are avoided.

To help scale the impact of our products we commissioned a piece of work with Arup, to help compare the avoided emissions from our heat recovery products sold in FY22 against our operational emissions over the same period.

As our products provide continuous reductions in energy over their lifetime, they avoid far more than just one year's operation and every year our sales add to the installed base, so avoiding more emissions. However, our approach here is to provide a comparison of our FY22 operational emissions against one year of emissions avoided by the heat recovery products we manufactured and sold over our financial year 2022.

Methodology

The methodology considers both domestic and non-domestic buildings, following the design standards and guidance in SAP 2012 and CIBSE Guide B2. The total heat load is a function of the fabric heat losses, heat losses due to infiltration and heat losses due to ventilation. The calculated energy savings and greenhouse gas (GHG) emissions reductions relate to the reduced heating load due to the selected MVHR product.

The methodology considers:

- number of devices sold per country;
- device airflow rate (24 hours/day for domestic, 14 hours/day for non-domestic);
- device heat recovery efficiency;
- external temperature according to country;
- relevant emissions factors for gas and electricity according to country;
- internal setpoint temperature of 21°C (with 12°C setback for non-domestic);
- any energy used in running of the fans within the heat recovery devices; and
- product performance as tested for the Ecodesign Directive.

Results

223,065 tCO₂e

Avoided emissions

Based on the methodology described, our products avoid 223kt CO₂e.

52,345 tCO₂e

Scope 1, 2 and 3 emissions

This equates to avoided emissions equivalent to

over 4x

our operational emissions.

Definition – emissions scopes

Scope 1 emissions are direct emissions from fuel combusted in our own facilities and vehicles and scope 2 emissions are indirect emissions from the generation of electricity or heating that we purchase for use in our business. These emissions have been reliably measured and independently verified. Our scope 3 emissions include all other activities in the supply chain as well as the positive impact of using our products.

Definition – avoided emissions

Avoided emissions are those emissions avoided from the use of Volution Group heat recovery products. Avoided emissions are not included within scope 1, 2 or 3 emissions, and do not form part of reporting of total emissions or net zero targets for the Group.

Assessment and verification

Our scope 3 emissions have been independently assessed and used to develop Science Based aligned targets.

» For more information and detail on the Arup methodology see: <https://www.volutiongroupplc.com/sustainability/avoided-emissions/>

» See page 32 for more detail on our emissions and our reduction targets

ARUP



CO₂e
Assessed
Supply Chain



223,065 tCO₂e

Avoided
emissions

52,345
tCO₂e Scope
1, 2 and
3 emissions

Volution Group MVHR product sales can deliver emissions savings of 223 ktCO₂e worldwide. For comparison and scale, that is equivalent in greenhouse gas emissions to over 28,000 homes' energy use for a year*.

* Calculated by the EPA Greenhouse gas equivalents calculator. See more here: www.epa.gov/energy/greenhouse-gas-equivalencies-calculator#results

Sustainability continued

Planet

We have set detailed targets for scope 1 and 2 emissions that are aligned to our net zero ambitions, and have made significant progress in our scope 3 plans.

Emissions reduction target setting

Volusion is committed to a net zero carbon future. This year we have set new targets for carbon reduction over the short, medium and long term which will enable us to achieve our commitment to a net zero carbon future. The targets we have set this year have been set in line with the principles of Science Based Targets initiatives (SBTi), and we will continue to refine our targets before being approved by SBTi. We have signed the SBTi commitment to net zero and will seek approval of our detailed plans within the required two years after signing the commitment. We will report against our new targets each year in our Annual Report.

Our perimeter includes all companies and subsidiaries in the Group. Our base year for target setting aligned with SBTi is 2022 to ensure we are using as accurate a base position as possible. As we grow in part through acquisition, the base level will be re-assessed when appropriate and targets will be adjusted accordingly.

We have worked with Carbon Footprint to forecast our emissions to 2050 using a combination of activity based and spend based data, from a base year of 2022. The forecast includes (i) Passive reductions – those that will happen without any action from Volusion such as decarbonisation of the electricity grid, (ii) Market-based reductions – those achieved by selecting “green” energy tariffs, (iii) Active reductions – those achieved by the deliberate actions of Volusion making technological, behavioural and operational changes within the business, and (iv) carbon offsetting. The results of this forecast have been used to assess whether we are aligned to our net zero ambitions.

Scope 1 and 2

We have made significant reductions in our scope 1 and 2 intensity metric since 2014 (page 42). Our forecast shows that a combination of Passive, Market-based and Active reductions in emissions puts us on a path to a 90% reduction in carbon emissions by 2050 at the latest. The same forecast shows that we will reduce emissions by significantly more than 50% by 2030.

Our forecast and the detailed targets within it are aligned to the SBTi requirements.

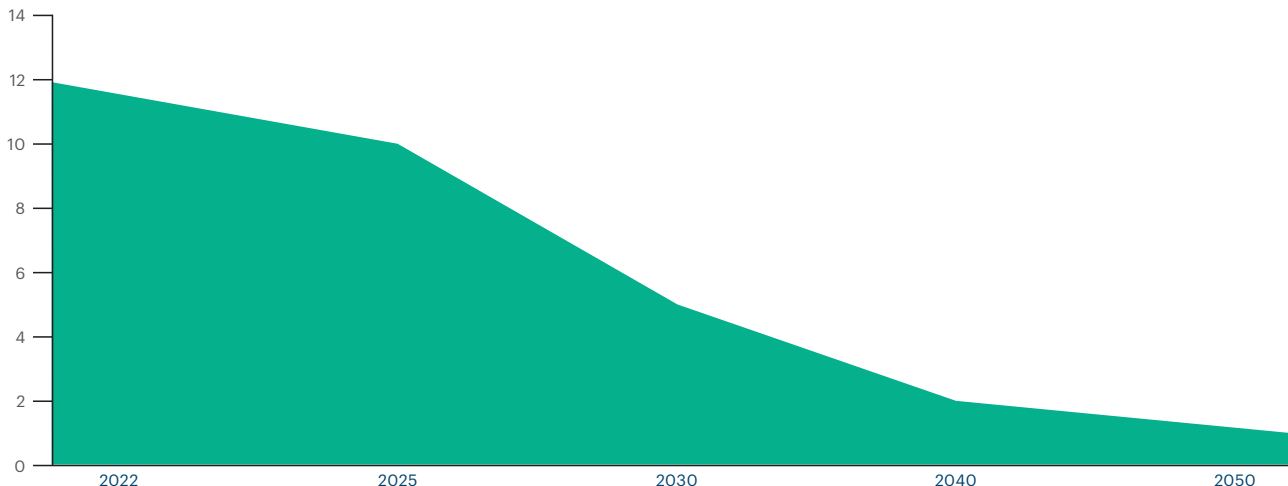
Scope 3

Our forecast for scope 3 emissions shows that our current detailed plans, along with passive reductions, will deliver a significant reduction in our scope 3 emissions. The forecast shows a reduction in scope 3 emissions of around 40% by 2030 and over 60% by 2050. We recognise that these forecast reductions are not yet aligned with our net zero ambitions and will work on further plans and targets to bridge the remaining gap.

A significant portion of the residual emissions in the forecast are the result of the input materials, most notably plastics used in the production of our products. Over time we will explore ways of reducing this embedded carbon which may include reducing the quantity of plastic used in our products, utilising closed-loop recycled plastic, or alternative raw materials.

In reality, it is expected that there will be a more rapid passive reduction in supply chain emissions than has been observed previously due to the availability of low-carbon technology and hence we expect the gap to close when we review in future years.

Scope 1 and 2 emissions forecast reductions (tonnes of carbon per £ million of revenue)



Targets and metrics

Recycled plastic

Volution used 3,948 tonnes of plastic in its manufacturing facilities in 2022 (2021: 3,742 tonnes). Virgin plastic has a significantly higher carbon footprint than recycled plastic, the disparity varying by type of plastic.

We have already removed the equivalent of over 300 tonnes of carbon by switching to recycled plastic since we set our target in 2020. Our targets out to 2025 will remove approximately 700 more tonnes of carbon from our emissions base line.

By 2025 – 90% recycled plastic = 700 tonnes of carbon removed

Air freight

Volution uses air freight from time to time to move high value or time critical components and products around the Group to ensure good levels of customer service. We recognise this is not a sustainable option and we are aiming to reduce air freight from the Group to the lowest level possible, without any impact on customer service. Switching from air freight to sea freight can save 97% of the carbon emissions for an average freight movement from East Asia to the UK.

By 2030 – 90% reduction in air freight = 11,000 tonnes of carbon removed

Renewable energy

In 2022 Volution sourced 74% of its electricity needs from renewable sources or contracted renewable tariffs. We aim to move any remaining electricity purchased from national grids to contracted renewable tariffs in the next two years, as well as continue to invest in owned renewable energy such as solar panels.

By 2025 – 100% of electricity across the Group from renewable sources or renewable tariffs = 800 tonnes of carbon removed

By 2030 – 50% reduction in natural gas use in UK by switching facilities to electricity = 250 tonnes of carbon removed

Owned vehicles

It has been Volution's policy to change the fleet to hybrid or fully electric since 2021 as and when each vehicle needs replacing. At the end of 2022 30% of the fleet was hybrid or electric. We aim to transfer the fleet to entirely electric only by the end of 2030.

By 2030 – 100% of fleet fully electric = 650 tonnes of carbon removed

Supplier choice

All of Volution's suppliers agree with our Code of Conduct and are required to be aligned to our values. As businesses are increasingly required to comply with carbon reporting requirements, it is becoming easier to assess suppliers against our carbon reduction commitments. We will select suppliers where possible that are aligned to our carbon reduction targets and will therefore be able to reduce the carbon emissions we are responsible for. This is an area where it is difficult to set exact targets, but we will track and report on savings made through supplier selection.

Definitions – carbon neutral

To offset carbon emissions, credits can be purchased by carbon removal projects (such as afforestation) or by paying for activity in other sectors that reduces carbon emissions elsewhere, for example paying for renewable energy projects to replace the burning of fossil fuels.

Our 2022 carbon neutral status boundary includes all scope 1 and 2 emissions and colleague commuting.

Definitions – net zero

The maximum feasible emissions reductions of carbon have been made and only residual emissions are counterbalanced by carbon removal credits.

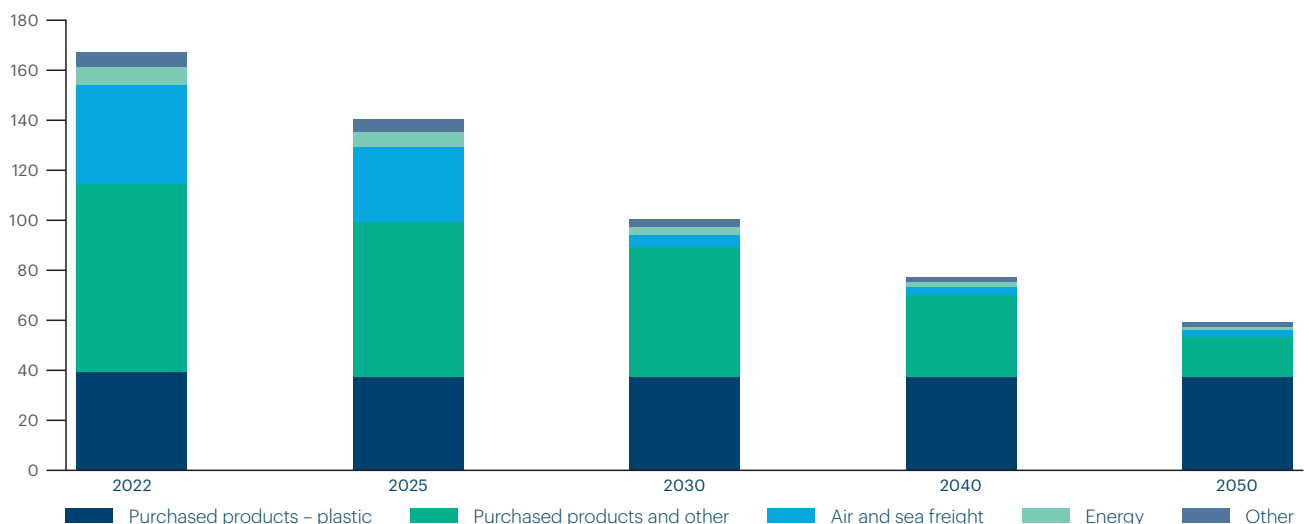
Our net zero target boundary includes all scope 1, 2 and 3 emissions, both upstream and downstream.

Definitions – Science Based Initiatives

The Science Based Targets initiative (SBTi) is a global body enabling businesses to set ambitious emissions reductions targets in line with the latest climate science. It is focused on accelerating companies and financial institutions across the world to halve emissions before 2030 and achieve net zero emissions before 2050.

Our letter of commitment confirms that we will set a long-term science-based target to reach net zero value chain GHGs emissions by no later than 2050 in line with the SBTi Net-Zero Standard, submit it for SBTi validation and publish it, within a maximum of 24 months.

Scope 3 emissions forecast reductions (tonnes of carbon per £ million of revenue)



Sustainability continued

Task Force on Climate-related Financial Disclosures

We are committed to consistent and transparent reporting aligned to the recommendations of the TCFD, and will continue to work with our stakeholders to provide comprehensive data.

We comply with the FCA's Listing Rule 9.8.6R(8) and make disclosures consistent with the 2017 TCFD recommendations and recommended disclosures across all four of the TCFD pillars: Strategy; Governance; Risk Management; and Metrics and Targets.

Tackling climate change is embedded in our purpose and in how we run our business and is therefore a theme that runs throughout our Annual Report. It should be noted that we do not consider Volusion to be at significant risk of material adverse impact from climate change and we are well positioned to seize the opportunities that it presents. The table on page 46 provides the disclosures against the eleven recommendations of the TCFD. We will continue to develop our disclosures in 2023 taking into account evolving best practice.

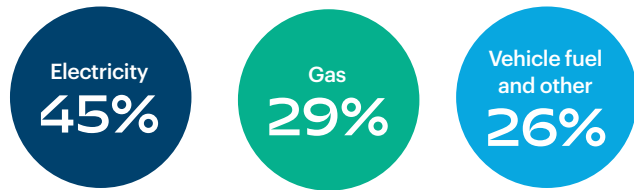
Energy efficiency actions in 2022

In 2022 we continued to drive energy efficiency and waste reduction across the Group, inspired by engaged colleagues making local improvements, including:

- Replacing bubble wrap packaging with cardboard in our inVENTer brand.
- Working with our Chinese suppliers to remove polystyrene packing from products supplied into our Australasia businesses.
- Zero waste to landfill in our UK ventilation business.
- Awarding of ISO 14001 Environmental Standards to our UK business.
- The continued development of new and innovative, highly efficient heat recovery products across the Group.



Scope 1 and 2 emission sources 2022



The largest portion of our location-based scope 1 and 2 emissions is from the electricity we use in our facilities. In 2022, our reported "market-based" emissions have reduced significantly, as we transitioned UK procured electricity to 100% renewable sources (approx. 60% of total electricity used across the Group).

Scope 3 emission sources 2022



The largest portion of our scope 3 emissions is from freight and transportation of raw materials and products. "Other" includes all other categories of scope 3 emissions.

Methodology

The table on the next page details the energy consumption and greenhouse gas (GHG) emissions from the activities of the Group. The GHG emissions have been calculated using the UK Government's most recent GHG Conversion Factors for Company Reporting and using country specific conversion factors for our overseas businesses from reliable sources including the Association of Issuing Bodies (AIB) and the Australian and New Zealand environment ministries. 2021 scope 1 and 2 emissions have been restated to use the country specific conversion factors for our overseas businesses.

A market-based methodology has also been applied where our electricity is sourced from renewable sources, with non-renewable tariffs converted at the residual rates.

We have continued to improve the quality of scope 3 data gathering and reporting, but recognise the difficulty in providing accurate and consistent data for the supply chain. This year our scope 3 reporting is more detailed than in prior years, with approximately 50% of emissions calculated based on detailed activity-based methodologies and the remaining 50% calculated based on spend-based methodologies. This provides us with a solid foundation that we have selected as the base year for our target setting. There are no material omissions from the mandatory reporting scope.

Location-based emissions from	2022				2021				2020
	kWh	CO ₂ e tonnes			kWh	CO ₂ e tonnes		CO ₂ e tonnes	
Electricity, gas and other fuels	15,190,765	85%	2,691	73%	17,102,816	84%	3,302	80%	2,993
Petrol and diesel vehicle fuels	2,725,723	15%	657	18%	3,140,342	16%	744	18%	1,137
Refrigerants			328	9%			92	2%	66
Total	17,916,488	100%	3,677	100%	20,243,158	100%	4,137	100%	4,196
Scope 1	8,337,673	47%	2,039	55%	11,133,933	55%	2,368	57%	
Scope 2	9,578,815	53%	1,637	45%	9,109,225	45%	1,769	43%	
Total Scope 1 and 2	17,916,488	100%	3,677	100%	20,243,158	100%	4,137	100%	
Scope 1 UK	4,225,189	51%	1,018	50%	7,956,324	71%	1,535	65%	
Scope 1 overseas	4,112,485	49%	1,021	50%	3,177,609	29%	833	35%	
Total Scope 1	8,337,673	100%	2,039	100%	11,133,933	100%	2,368	100%	
Scope 2 UK	6,043,237	63%	1,169	71%	5,389,136	59%	1,144	65%	
Scope 2 overseas	3,535,578	37%	469	29%	3,720,089	41%	625	35%	
Total Scope 2	9,578,815	100%	1,637	100%	9,109,225	100%	1,769	100%	
Total Scope 1 and 2 UK	10,268,426	57%	2,187	59%	13,345,460	66%	2,679	65%	
Total Scope 1 and 2 overseas	7,648,063	43%	1,490	41%	6,897,698	34%	1,458	35%	
Total Scope 1 and 2	17,916,488	100%	3,677	100%	20,243,158	100%	4,137	100%	
Market-based emissions									
Scope 2 UK	6,043,237	63%	194	24%					
Scope 2 overseas	3,535,578	37%	605	76%					
Total Scope 2	9,578,815	100%	799	100%					
Total Scope 1 and 2 UK	10,268,426	57%	1,212	43%					
Total Scope 1 and 2 overseas	7,648,063	43%	1,626	57%					
Total Scope 1 and 2	17,916,488	100%	2,838	100%					
Carbon credits purchased			(4,194)				(4,325)		
Net Scope 1 and 2 emissions (market-based)			(1,356)				(188)		
Scope 3 emissions									
Purchased goods – plastic			12,087	25%					
Purchased goods – paper/packing			2,955	6%					
Purchased goods – metals			3,134	6%					
Purchased goods – other			8,854	18%					
Purchased services			333	1%					
Employee commuting			1,072	2%					
Upstream distribution			11,107	23%					
Downstream distribution			9,126	19%					
Total Scope 3			48,668	100%					
Total Scope 1, 2 and 3			52,345						
Avoided emissions			(223,000)						
Net total emissions (market-based)			(175,688)						
Scope 1 and 2 intensity			11.9				15.1		

Sustainability continued

Task Force on Climate-related Financial Disclosures continued

Governance

The Board’s oversight of climate change has been enhanced through the newly created management Sustainability Committee, attended by our Senior Independent Director, Amanda Mellor and formed of senior representatives of the business including the CEO, the CFO and MDs and FDs from across the Group.

The Sustainability Committee met twice during the year and reported to the Board. Decisions made by the Committee included the approval of new ESG KPIs and our carbon reduction targets. In reviewing our carbon reduction targets and the emissions forecasts produced in partnership with Carbon Footprint, the Committee re-iterated its support and commitment to achieve our targets, and to work to close the gap in our scope 3 emission plans.

The Board reviews principal risks, including those concerning climate change and regulatory responses. Board engagement has also been important in shaping Volution’s sustainability strategy and carbon reduction plans. Our strategy sets out our strategic response to the transition to a net zero economy and limiting the effects of climate change.

Metrics and targets

This year we have set new targets for carbon reduction over the short, medium and long term which will enable us to achieve our commitment to a net zero carbon future (see pages 38 and 39). The targets we have set this year have been set in line with the principles of Science Based Initiatives, and we will continue to refine our targets before being approved by Science Based Initiatives later in the year. We will report against these targets each year in our Annual Report.

We have continued to deliver a year-on-year reduction in our chosen measure of carbon intensity, reducing by 20% since last year, cumulatively 67% lower than nine years ago when we first started reporting this measure.

Whilst this does not necessarily represent an absolute reduction in carbon emissions, our Group has grown substantially over that time (see pages 8 and 9), and this demonstrates how our scale, continuous improvement and investment in energy efficiency have effected change.

Carbon removal credits

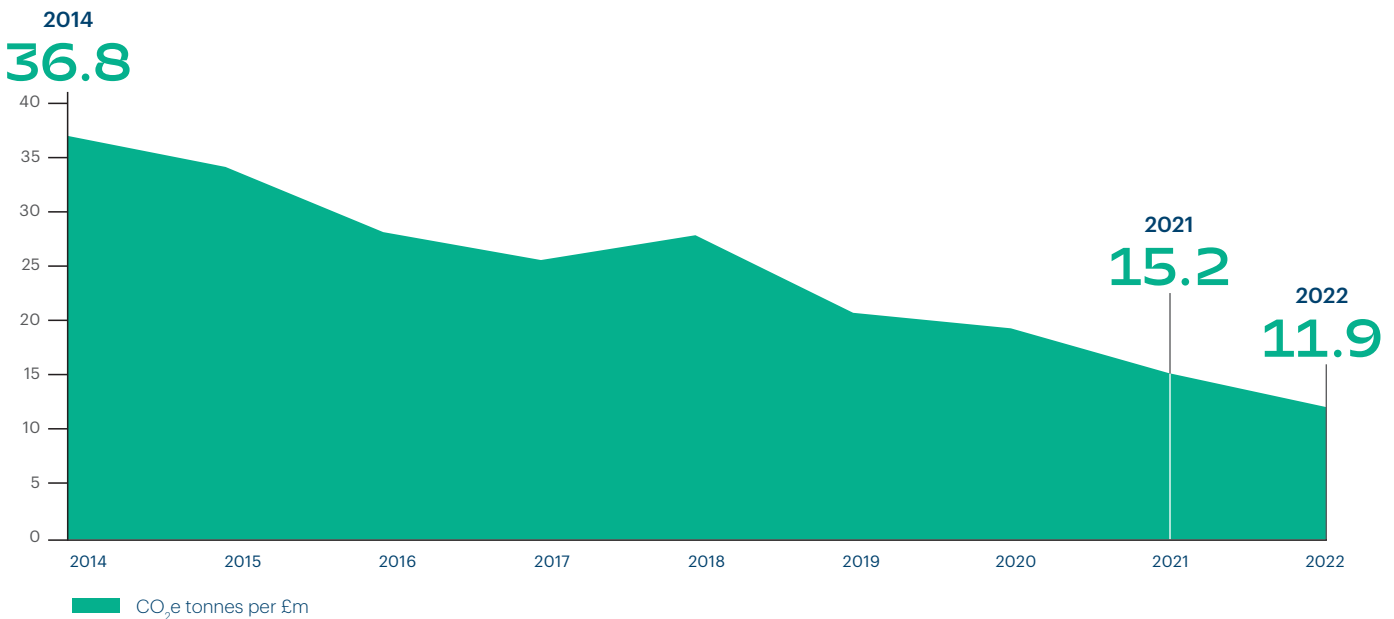
We have purchased offset credits which are certified by the Gold Standard. Whilst we understand that the use of carbon offsetting is only a stage on the way to our net zero future, we are confident the emissions reductions we are supporting are real, measurable and verifiable. We have opted to offset 110% of our in-scope emissions, going beyond carbon neutral and aligning with our energy positive product portfolio.

We are supporting a project which aims to provide healthy indoor air in Uganda. Most families living in Uganda cook indoors with traditional three-stone or open fires fuelled with wood which can create serious health implications as well as being a significant source of GHG emissions. The Energy Efficiency Improvement Project implements energy efficient cookstoves to households. The verified project aligns to our purpose to provide healthy air sustainably and also the UN SDGs that we support, including 3 – Good Health and Wellbeing, 7 – Affordable and Clean Energy, and 13 – Climate Action.

Net zero perimeter

2021 was our first year as a carbon neutral business for scope 1 and 2 emissions and we committed to increasing the perimeter of our carbon neutral boundary each year. This year we have delivered against that commitment and have increased our carbon neutrality to include scope 1, scope 2 and also a significant element of our scope 3 emissions – the emissions from colleague commuting. Many of our colleagues already live local to our sites or commute to work using low-carbon options such as cycling, and we will continue to offset the carbon emissions as well as encourage more low-carbon commuting.

Carbon intensity reduction 2014 – 2022



2022 net zero perimeter

CO₂ tonnes

2022 net zero perimeter	
Scope 1	2,039
Scope 2	799
Colleague commuting	1,072
Total perimeter	3,910
Carbon offset	(4,194)
Net emissions	(284)

2021 net zero perimeter	
Scope 1	2,368
Scope 2	1,769
Total perimeter	4,137
Carbon offset	(4,325)
Net emissions	(188)

“

We are committed to a net zero carbon future and believe that we can make a difference.”

Amanda Mellor, Independent Non-Executive Director



Resilience to climate change

This year we have carried out a detailed review of physical climate risks (acute and chronic) to ensure we understand the resilience of our critical properties to climate change. Climate change poses a physical risk to the buildings that we occupy including offices, factories and warehouses.

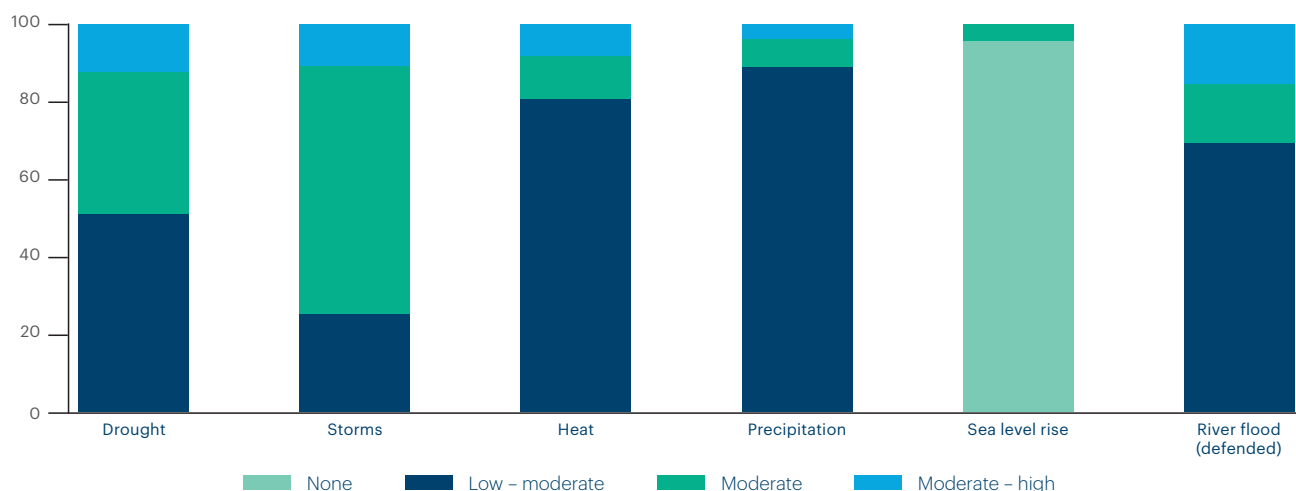
We worked with WTW consultants to forecast the impacts on our specific locations of different climate change-related hazards – including sea level rise, extreme heat, drought, storms, fires, riverine flooding, and precipitation. All assets were assessed using state-of-the-art data and models from the insurance industry and latest scientific research.

15% of locations analysed (equivalent to four sites) have a moderate to high exposure to flood from flood defended rivers in the current climate, with only one more site at risk as a result of climate change, with only one more site at a high risk as a result of climate change by 2050. In the long term in the 2050s and beyond, drought and heat stress could have an increased potential impact, including water scarcity, higher risk of fires and an impact on operations, safety and wellbeing.

None of our significant manufacturing sites are expected to be at risk of significant impact from climate change under the 1.5°C scenario under the short, medium or long term, or under the 4°C scenario under the short or medium term. This forward-looking data will inform our planning, mitigations, and acquisition strategy and we will regularly review the risk under >1.5°C scenarios over the long term.

% of business locations at risk from climate events

4°C “hot house” scenario - 2050



Sustainability continued

Task Force on Climate-related Financial Disclosures continued

Risk management

Climate change and regulatory response risks are included as part of our overall risk management framework which is described on pages 62 to 71.

Having completed a thorough review of climate risks and opportunities, we have concluded that these risks are most appropriately managed by including their potential impact within existing principal risks where relevant, rather than defining a separate principal risk. We have therefore updated the principal risks described on pages 62 to 71 to include the impact of climate change. Failure to effectively respond to climate-related risks may compromise our reputation and strategy for growth and so we will continue to closely monitor these risks and will continue to evaluate whether this should become a principal risk in the future. We have given clear emphasis to both our transition and physical risks and opportunities.

It is important to note that our sustainability ambition is to champion the energy saving potential of our products and solutions and support the net zero ambitions of the countries in which we operate. The regulatory tailwinds should significantly increase demand for our sustainable and innovative ventilation solutions, while our leadership position in the UK, Continental Europe and Australasia means that we are well positioned to seize this opportunity.

We have considered both scenarios when looking at the risks and opportunities below.

TCFD category	Potential impact of climate change	Scenario	Potential materiality		
			Short term	Medium term	Long term
Transition opportunities • Products and services • Markets	Increased demand for low emissions products and services and public sector incentives to deliver national carbon reduction and net zero commitments.	1.5			
		4			
Physical risk – acute and chronic	Changing weather patterns, linked to climate change, may directly damage our production facilities or disrupt our supply chain.	1.5			
		4			
Transition risk – reputation	Investors and lenders may show a preference to allocate capital to businesses with smaller climate impacts, and customers may select competitors which are perceived as having delivered on their plans to reduce carbon.	1.5			
		4			
Transition risk – policy and legal	Governments may implement taxes or charges which penalise businesses that do not reduce carbon, also increasing the input cost of energy, freight and materials.	1.5			
		4			
Transition risk – policy and technology	Governments may implement stricter regulation, rendering elements of our product portfolio non-compliant.	1.5			
		4			

Scenario analysis

We assess our risks and opportunities under a 1.5°C Paris aligned scenario and a 4°C “hot house” scenario to provide a broad view of outcomes. Under a 1.5°C orderly scenario, risks relate primarily to the transition to a net zero world, the regulatory response, and the changing political, consumer and investor expectations. Under a 4°C scenario, the physical impacts of a changing climate will become more apparent. These scenarios are aligned to the Network for Greening the Financial System’s (NGFS) climate scenarios. The timeframes used when identifying the principal risks for Volution are over a relatively short term due to their material impact on strategy and financial performance targets. Climate change impacts are likely to appear over a much longer timeframe, which we have aligned to the NGFS scenarios. These are short term (less than 5 years) which is the period over which we prepare detailed bottom up plans, medium term (5-15 years) which is the period over which our continued strategy to provide healthy air sustainability under our three strategic pillars will be delivered including specific targets to reduce carbon, and long term (beyond 15 years) which is the period aligned to the useful economic life of some of our property assets and where the potential impacts under different scenarios are less certain. These different periods have allowed us to assess risks and opportunities that are immediate and well defined to those which may arise over time but which are much less certain.

Potential materiality

 Low risk/high opportunity
  Medium
  High

We have adopted the same approach to the materiality of these risks and opportunities as for our principal risks and uncertainties. For the purpose of this table, we have compiled the likelihood and impact of each risk/opportunity into a single assessment of materiality.

Strategic response and resilience

The energy saving potential of our products and solutions and ability to support the net zero ambitions of the countries in which we operate. We are part of the Green economy (evidenced by the LSE Green Economy Mark).

Our main production assets are not exposed to direct risks of extreme weather or other impacts of climate change over the short or medium term. We engage with our supply chain and maintain alternative sources and sufficient inventory to avoid the impact of short-term disruption. Our geographic spread from our international acquisition strategy helps to mitigate the impact of local disruption.

Sustainability is at the heart of our purpose and key to our strategy. We have appropriate governance and KPIs in place to ensure delivery of our strategy. We continue to engage with our investors and lenders and are confident our strategy is well understood.

We engage with our suppliers to positively challenge and improve our production supply chain with a focus on eliminating waste, minimising emissions and maximising efficiency. Our carbon reduction targets mitigate potential penalties or charges.

As active members of trade associations across our Group, we influence directional change in building regulations and improve industry guidance. We are committed to investing in innovation to support breakthroughs in sustainable living and ensuring that emission reduction is a core consideration in our solution design.

Impact on financial statements

The opportunity is conservatively built into going concern and impairment reviews.

Relevant monitoring: % of revenue made up of Low-carbon products

There is no material impact on Going Concern, Impairment, or useful economic lives of our assets, nor any required increase in opex or capex to mitigate or replace our assets.

Relevant monitoring: Continuing review of our portfolio of properties

There is no material risk that we would be unable to raise sufficient funds for future business requirements that could impact our growth strategy, Going Concern or Viability.

Relevant monitoring: Average weighted interest rate and availability of financing

There is no material impact on Going Concern, Impairment, or useful economic lives of our assets, nor any required increase in opex or capex to mitigate or replace our assets.

Relevant monitoring: Adjusted profit margin %

There is no material impact on Going Concern, Impairment, or useful economic lives of our assets, nor any required increase in opex or capex to mitigate or replace our assets.

Relevant monitoring: Spend on new product development

Sustainability continued

Task Force on Climate-related Financial Disclosures continued

Recommendations of the TCFD

Recommended disclosures	Reference
<p>Governance</p> <ul style="list-style-type: none"> Describe the Board's oversight of climate-related risks and opportunities Describe management's role in assessing and managing climate-related risks and opportunities 	<p>Sustainability Governance (see page 42)</p> <p>Board activities during the year (see page 81)</p> <ul style="list-style-type: none"> Our governance structure provides clear oversight and ownership of the Group's sustainability strategy and management of climate risk and opportunity. In 2021, we established the Group management sustainability committee and Board member Amanda Mellor assumed Board oversight responsibility for Volution's sustainability strategy and targets.
<p>Strategy</p> <ul style="list-style-type: none"> Describe the climate-related risks and opportunities the organisation has identified over the short and longer term Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning Describe the resilience of the organisation, taking into consideration different future climate scenarios 	<p>Our business model (see pages 24 and 25)</p> <p>Climate change risk and opportunity review (see pages 44 and 45)</p> <p>Physical risk resilience review (see pages 44 and 45)</p> <ul style="list-style-type: none"> Our purpose is to provide healthy indoor air, sustainably and this commitment to sustainability is integral to everything we do. It shapes our values, steers our strategy and informs our capital allocation. Our business model is underpinned by our sustainability pillars of Product, Planet and People. Our sustainability ambition is to champion the energy saving potential of our products and solutions and we are well positioned to seize the opportunities that regulatory tailwinds bring us. We have identified transition risks related to reputation, policy and regulation, and technology but have not assessed any of these risks as high under either scenario under the short, medium or long term. We have undertaken a review of our major production and warehouse locations for physical risk using independent, science based analytics, and have concluded we are not exposed to significant risk. In preparing the Group's financial statements, we have considered the impact of climate-related risks on our financial position and performance, and have not identified any material adverse impact on the financial statements or judgements within.
<p>Metrics and targets</p> <ul style="list-style-type: none"> Disclose the metrics used by the organisation to assess climate-related risks and opportunities Disclose scope 1 and 2 and if appropriate scope 3 emissions Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets 	<p>Carbon reduction forecast and targets (see pages 38 and 39)</p> <p>Carbon emissions scope 1, 2 and 3 (see pages 40 and 41)</p> <ul style="list-style-type: none"> We developed two key sustainability metrics in 2020 to measure our progress against our net zero ambitions: the % of revenue derived from low-carbon products, and the % of recycled plastic used in our manufactured products. During the year we developed our ability to measure the energy saving potential of our Heat Recovery products, demonstrating the benefit of continuing to increase sales of those products. In 2021 we set out our ambition to be carbon net zero by 2040. This year, we have set detailed forecasts and targets for the short, medium and long term which are aligned to our net zero ambitions for scope 1 and 2, and make good progress against our net-zero ambitions for scope 3. We have provided details of our scope 1, 2 and 3 emissions on both a location and market basis, and have progressed the quality of the scope 3 data by using detailed activity based methodologies.
<p>Risk</p> <ul style="list-style-type: none"> Describe the organisation's processes for identifying and assessing climate-related risks Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management 	<p>Climate Change risk and opportunity review (see pages 44 and 45)</p> <p>Risk management and principal risks (see pages 62 to 71)</p> <ul style="list-style-type: none"> We have continued to embed climate risk into our broader risk management framework and have integrated climate change into our principal risks. In 2021 we introduced a climate related risk review, which this year we have improved to consider the risks and opportunities under the short, medium and long term, as well as over our chosen climate scenarios.

The Sustainability Accounting Standards Board (SASB)

The SASB Foundation was founded in 2011 as a not-for-profit, independent standards-setting organisation. Volusion provides information in alignment with SASB reporting guidelines for its sector (electrical and electronic equipment). The below table shows the reported topics and metrics and where further detail can be found within this report.

Accounting metric and SASB code	Response/data/reference
Energy management	
Total energy consumed (RT-EE-130a.1)	Our total energy consumption across the Group during the year was 17,916,488kWh, representing all electricity across all of our facilities. A small but increasing proportion is "off grid", exemplified by the solar array on the Reading facility. The percentage of electricity used that was from renewable sources including renewable tariffs was 73.7%.
Percentage of grid electricity (RT-EE-130a.1)	
Percentage renewable (RT-EE-130a.1)	
Hazardous waste management	
Amount of hazardous waste generated, percentage recycled (RT-EE-150a.1)	4,381kg of hazardous waste generated during the manufacturing, distribution or other processes, collected by an external comparator and recycled where possible.
Number and aggregate quantity of reportable spills and quantity recovered (RT-EE-150a.2)	Zero reportable spills and therefore no recovered quantity to report.
Product safety	
Number of product recalls issued, total units recalled (RT-EE-250a.1)	Zero product recalls related to product safety issued during the year and therefore zero units recalled.
Total amount of monetary losses as a result of legal proceedings associated with product safety (RT-EE-250a.2)	No monetary losses as a result of product safety issues.
Product lifecycle management	
Percentage of products, by revenue, that contain IEC 62474 declarable substances (RT-EE-410a.1)	We manufacture a large proportion of our products ourselves and use no IEC 62474 declarable substances in the production process. We are continuing to review supply chain products for relevant substances and will report in future if necessary.
Percentage of eligible products, by revenue, that meet Energy Star criteria (RT-EE-410a.2)	This metric is not relevant at a global level as it is only applicable in the US and Canada.
Revenue from renewable energy-related and energy efficiency-related products (RT-EE-410a.3)	Revenues derived from products that are low carbon account for 66.1% (2021: 62.1%) of total revenue (see page 11).
Materials sourcing	
Description of the management of risks associated with the use of critical materials (RT-EE-440a.1)	Our suppliers make a vital contribution to our performance and engaging with our carefully selected, high quality supply chain ensures we can maintain security of supply. Reviews and supplier audits are carried out to ensure compliance with our Code of Conduct and our policies on the prevention of bribery, corruption and modern slavery. The Group is exposed to fluctuations in the price of raw materials and has implemented certain procedures to limit exposure to rising prices, including hedging of foreign currencies with which a proportion is purchased.
Business ethics	
Description of policies and practices for prevention of bribery, corruption and anti-competitive behaviour (RT-EE-510a.1)	Volusion is committed to complying with all applicable laws and regulations in the countries in which we operate. Our policies are available on our website.
Total amount of monetary losses as a result of legal proceedings associated with bribery or corruption (RT-EE-510a.2)	No legal proceedings and no monetary losses.
Total amount of monetary losses as a result of legal proceedings associated with anti-competitive behaviour (RT-EE-510a.3)	No legal proceedings and no monetary losses.
Activity measures	
Number of units produced by product category (RT-EE-000.A)	A breakdown of revenues by activity and product type is shown on page 144.
Number of employees (RT-EE-000.B)	Workforce statistics are shown on page 25. The average number of employees in the year was 1,898 (2021: 1,475).
Reportable accident frequency rate	Reportable accident frequency rates are shown on page 11. We report frequency rates per 100,000 hours worked, representing an approximation of the hours worked during a person's lifetime, and allowing comparability across our business units and with other companies. Reportable accidents per 100,000 hours worked in 2022 was 0.25 (2021: 0.20).
Fatalities	Zero fatalities occurred during the year.
Minor accident frequency rate	Minor accident frequency rates are shown on page 11. We report frequency rates per 100,000 hours worked, representing an approximation of the hours worked during a person's lifetime, and allowing comparability across our business units and with other companies. Minor accidents per 100,000 hours worked in 2022 was 0.43 (2021: 0.61).

Sustainability continued

People



“

Our people and their passion to deliver excellence is what makes us unique and fuels our ambition. Our business thrives when our people do and we recognise that this is only possible in an environment that is engaging, inclusive and safe.”

Michelle Dettman, Group Head of HR

Employee engagement

Our employee engagement activities during the pandemic were significantly limited. However, no sooner were the travel restrictions lifted, than the Executive Team was out on the road visiting local sites and meeting with shopfloor and office staff. We listened to stories of loss, reunions and service and what stood out was the resilience and commitment of our employees. The meaningful insights we gained through these informal conversations will shape our employee engagement agenda in the year ahead.

Across the globe, our team in Germany organised an adventure day where employees and their families and members of the local community participated in fun and learning activities about sustainability. Our team in Sweden hosted a Company-wide cross-functional team activity to immerse themselves in our strategy and our products.

Our Employee Engagement Forum, attended by Non-Executive Board member Claire Tiney and representatives from all countries, continues to receive positive feedback. This is a great opportunity for our employees to showcase successes and learnings as well as gain a deeper understanding of our strategic imperatives.



Executive team engaging with employees at ERI Corporation, North Macedonia



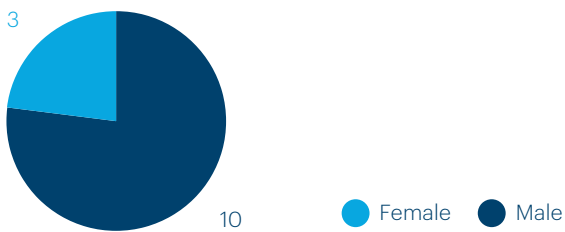
Kick-off event of the Women@Volution employee resource group

Diversity, equity and inclusion (DEI) and wellbeing

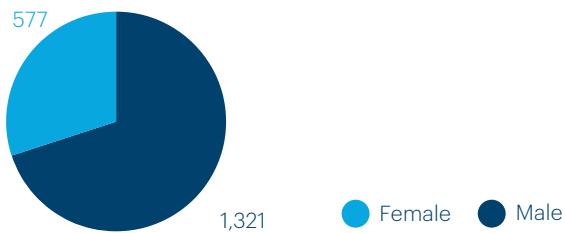
Our employees represent different nationalities, cultures, backgrounds and sexual orientations. We are determined to foster a culture of equity and mutual respect where all our employees feel valued and their contributions recognised. We have recently kicked off engagement sessions with our employees to shape our DEI agenda for FY23. We are also setting up a DEI Committee to steer us towards achieving greater gender and ethnic diversity in our leadership teams and an inclusive work culture and further enhance our employee wellbeing offering.



Senior managers¹



All other employees



Note

1. Legislation requires that we define "senior managers" as the directors of our subsidiary companies. However, the Board believes this information does not provide a meaningful analysis of how the Group operates so the data shown reflects the proportion of senior managers by our own internal grading system. The number also excludes Board Directors.

Sustainability continued

Learning and development

We are committed to building a learning culture at Volution and will continue to make significant investments in our learning platforms to ensure easy access and relevant content is available to our employees. In 2022, we focused on strengthening training in the areas of compliance, health and safety and information security. Our goal in FY23 is to roll out critical functional and leadership skills training to enable our employees to continue to grow their careers and build skills for the future.

We have made good progress in providing development opportunities for our employees and in FY22, 22% of vacancies were filled through internal moves.

Our communities

Our employees' commitment to support the communities we serve is unwavering and despite the Covid-19 constraints our employees continued to champion their selected charities.

22%

of roles filled internally
Target for FY23 >25%

187

Number of safety walks
Target for FY23 >250

11,167

Number of hours in formal training
Target for FY23 > 12,500



Some of the activities our teams engaged in to support their charities



Health and safety

Health and safety is of major importance to us when considering the day-to-day health, safety and welfare of our customers, employees and contractors. We are focused on our zero harm ambition and having the highest standards in the effective management of our health and safety obligations. In FY22 there were 187 safety walks carried out by senior managers across all our operations which is testament to the commitment and the duty of care our leaders have towards our employees.

In February 2022, our ventilation operations in the UK implemented a business wide management system in order to structure all quality, environmental compliance and health and safety recording. A notable achievement is the recent ISO 45001 certification gained across all our ventilation brands and their operations within the UK, demonstrating our robust health and safety management system. At a Group level we have seen a decrease in the reportable accident rate as compared to last year (excluding recent acquisitions) and are fully committed to further strengthening our health and safety culture across the entire organisation.

ISO 45001

Certification gained across ventilation operations in the UK

Supply chain

Across our operations, we see opportunities to lead suppliers to better ethical, social and environmental performance. We are increasing the level of transparency in our supplier selection and scheduled audit processes. We believe in the principles of respect, safety, inclusiveness and a shared ambition for continuous improvement for the conditions in which our people work and live. We believe that the same principles should be applied throughout the supply chains that work with us in fulfilling our purpose of delivering healthy air, sustainably.

These are some of the additional actions that we have taken in the past year to ensure that people working within our supply chains are treated in line with our principles and values:

- We have widened the scope of our physical Modern Slavery and Child Labour audits to include four new countries in line with the Global Slavery Index.
- We have offboarded a key supplier which would not co-operate with Modern Slavery and Child Labour audit requirements.
- Suppliers are now also required to disclose what policies they have in place that safeguard the rights and conditions of their employees. We expect them to develop these when they are not in place.

We will continue to increase transparency in how people are treated in our supply chains, and to strengthen checks and balances that will ensure compliance. We expect all our supply chain partners to reflect our commitment to treating people in accordance with the principles and values as stated in our supplier Code of Conduct.

In the second half of this year we are also proud to have become signatories to the CEO Water Mandate and the UN Global Compact. We are committed to accelerating sustainability efforts and scaling up our impact and have started workstreams to embed their principles in our operations and supply chains.



Strengthening our safety first culture

Record results demonstrate resilience of our business model



Volusion has delivered a strong set of financial results for the year ended 31 July 2022, exceeding all but one of the Group's key financial targets (see page 58) 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 £17.6 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 earnings per share increased by 72.4% to 18.1 pence (2021: 10.5 pence).

Adjusted earnings per share increased by 14.3% to 24.0 pence (2021: 21.0 pence).

Financial highlights

- Revenue of £307.7 million represents a 15.1% constant currency (cc) increase, with organic growth of 6.6% at cc.
- Adjusted operating profit of £64.9 million, up £8.0 million versus prior year (2021: £56.9 million).
- Adjusted operating margin of 21.1%, despite inflationary headwinds.
- Reported operating profit of £50.8 million (2021: £34.2 million).
- £50.4 million adjusted operating cash generation brings closing net debt excluding lease liabilities to £60.8 million and leverage to 0.9x (2021: 0.9x).
- Reported earnings per share (EPS) up 72.4% to 18.1 pence.
- Adjusted EPS up 14.3% to 24.0 pence.

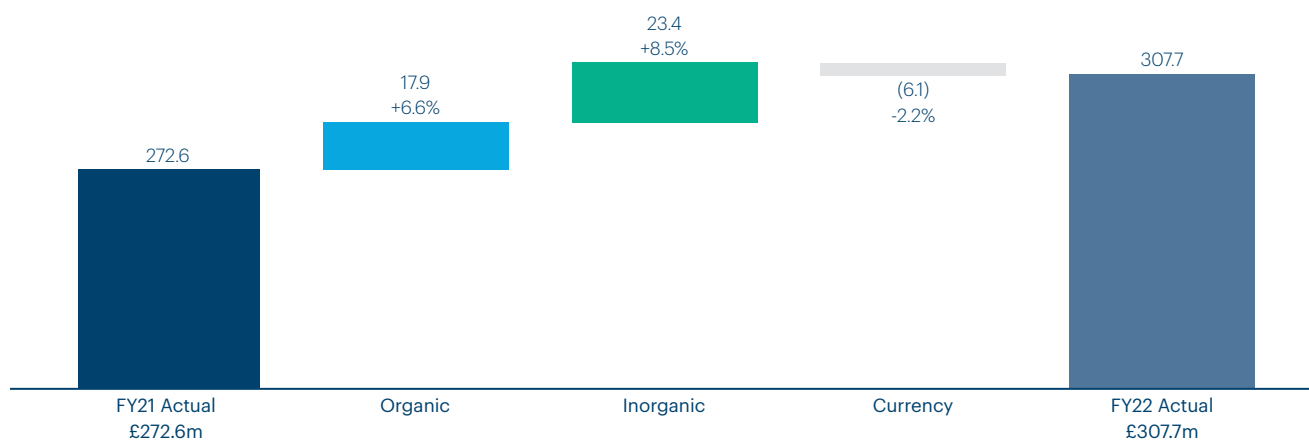
Reported and adjusted results

	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

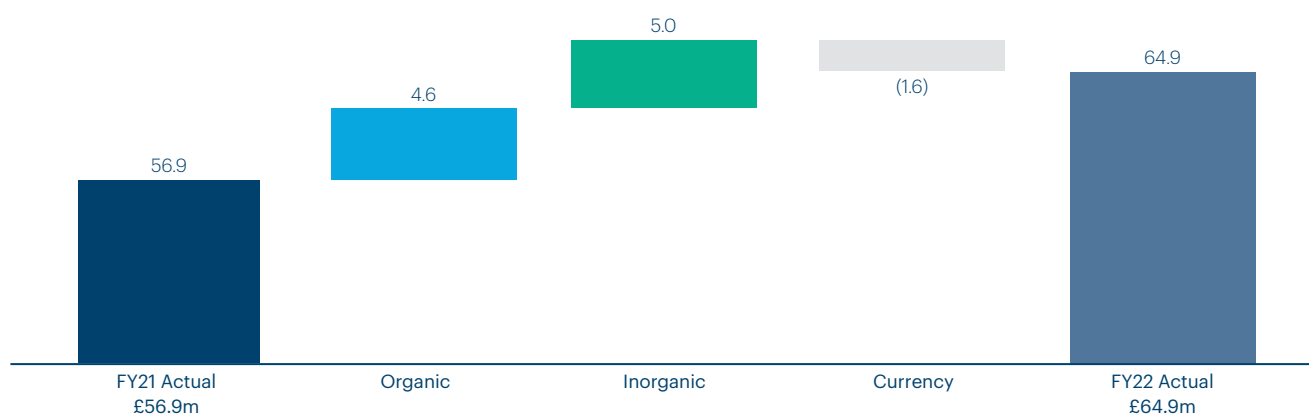
Notes

- 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 on page 54 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 34 to the consolidated financial statements.
- Pre-IFRS 16 basis, excludes lease liabilities of £25.0 million (2021: £25.4 million).

Revenue FY21 to FY22 (£m)



Adjusted operating profit FY21 to FY22 (£m)



Finance Review continued

Reported and adjusted results continued

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 considered 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 profit¹	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.

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 (approximately \$12 million).

	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 Dollar	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 Australasia 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

Volition 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.

Finance Review continued

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 increases 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 (see case study on page 34), 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 16) 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, the Group 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

Key Performance Indicators

Strong and sustainable performance

We have identified a number of key performance indicators (KPIs) that monitor performance against our strategy and priorities, and enable investors and other stakeholders to measure our progress.

The three strategic pillars



1.
Organic growth



2.
Value-adding acquisitions



3.
Operational excellence

» We discuss the KPI performance in the Financial Review pages 52 to 57

» Non-financial KPIs focus on our sustainability and can be found in the sustainability section pages 32 to 51

Financial targets

Revenue growth

+10% p.a.

Organic revenue growth

>3% p.a.

Adjusted operating margin (% of revenue)

20%

Adjusted earnings per share

+10% p.a.

Adjusted operating cash flow conversion

>90%

Return on acquisition investment (ROAI)

>18%

(post three full years of ownership)

Note
1. The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted 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 on page 53 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 34 to the consolidated financial statements.



Organic growth



Value-adding acquisitions



Operational excellence

[Link to Directors' remuneration key](#)



Long Term Incentive Plan



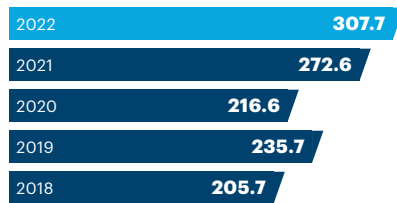
Annual Bonus Plan

Financial performance

Revenue growth £m (% of revenue)

+10.7%

Five-year compound



Strategic pillars measured by this KPI



This KPI tracks our performance against our strategic aim to grow the business.

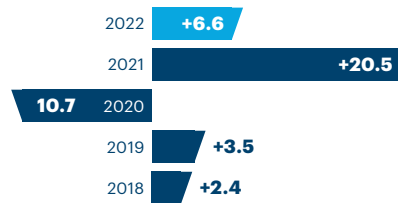
Comments

- Organic revenue growth is the constant currency % growth in the year.
- Full-year organic growth of 4.6% (6.6% at cc).
- Full-year organic growth delivered in the UK (6.2% at cc), Continental Europe (5.0% at cc) and Australasia (11.4% at cc).

Organic revenue growth %

+4.5%

Five-year average



Strategic pillars measured by this KPI



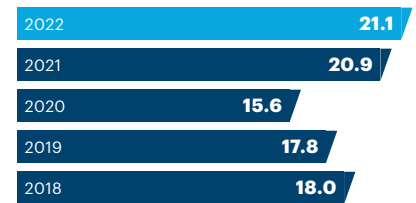
This KPI tracks our revenue performance from existing businesses excluding the impact of acquisitions. We expect to deliver growth ahead of GDP, leveraging our strong brand positions and market leading product portfolios, supported by regulatory trends and increasing customer awareness of air quality and the importance of ventilation.

Adjusted operating margin¹

% of revenue

18.7%

Five-year average



Strategic pillars measured by this KPI



This adjusted measure tracks the underlying financial performance and quality of the Group's earnings. We aim to achieve and sustain attractive operating margins by leveraging the benefits of product innovation, and through economies of scale in sourcing and operational efficiencies in our production and indirect costs.

Comments

- Full-year adjusted operating margin up 0.2pp to 21.1% (2021: 20.9%).

[Link to Directors' remuneration](#)



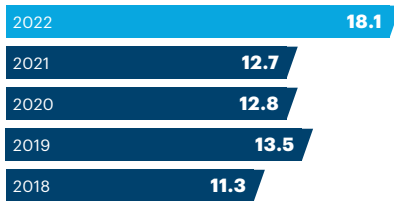
Key Performance Indicators continued

Financial performance continued

Working capital as a %
LTM revenue

13.7%

Five-year average



Strategic pillars measured by this KPI



This KPI tracks our working capital efficiency; optimisation of our working capital, especially inventories across the Group, is an important stream of our operational excellence focus.

Comments

- Working capital increase of £17.6 million in the year; a deliberate decision was made to increase certain strategic inventories during the year in order to mitigate the risk of supply chain interruptions.

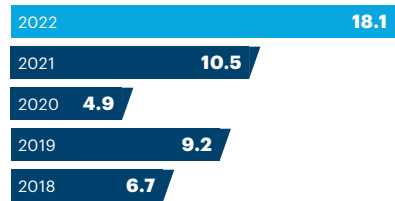
Link to Directors' remuneration



Reported earnings per share¹ p

20.9%

Five-year compound



Strategic pillars measured by this KPI



This KPI provides a measure of shareholder value.

Comments

- Reported EPS grew 72.4%.

Adjusted earnings per share¹ p

12.0%

Five-year compound



Strategic pillars measured by this KPI



This KPI provides a measure of shareholder value.

Comments

- Adjusted EPS grew 14.3%.

Link to Directors' remuneration



Note
1. The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted 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 on page 54 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 34 to the consolidated financial statements.



Organic growth



Value-adding acquisitions



Operational excellence

[Link to Directors' remuneration key](#)



Long Term Incentive Plan

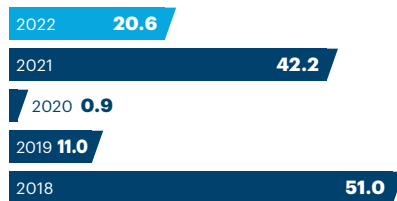


Annual Bonus Plan

Expenditure on acquisitions £m

£25.1m

Five-year average



Strategic pillars measured by this KPI



Carefully selected, value-enhancing acquisitions are a key part of our growth strategy, where we look to bring into the Group businesses that offer growth potential, capable management and attractive market positions.

Comments

- During FY22 we acquired ERI in September 2021 and Bera in July 2022.

Return on acquisition investment (ROAI) %

24.3%

Group



Strategic pillars measured by this KPI



We aim to enhance the value of acquired businesses over time, via a combination of expanding the product portfolio, value engineering and access to the Group's procurement capabilities. We believe that three years is an appropriate timeframe to deploy and bring enhancements to bear, although we do expect to continue enhancing value and improving performance beyond that point. The KPI measures adjusted operating profit¹ of all businesses acquired by the Group since its formation in 2012 and which the Group has held for more than three years, divided by the capital invested to acquire them.

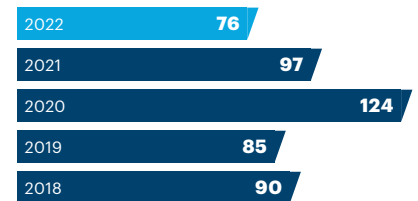
Comments

- Returns on our acquisitions remain very strong.
- Returns on our 2019 Ventilair acquisition in Australia reported for the first time this year are strong at over 25% on revenue which has more than doubled since acquisition.

Adjusted operating cash flow conversion¹ %

94%

Five-year average



Strategic pillars measured by this KPI



This KPI tracks the efficiency of cash generation at the operational level (important for our acquisition strategy), after movements in working capital and capital expenditure.

Comments

- Working capital increase of £17.6 million in the year.
- Capital expenditure of £6.9 million (2021: £4.5 million).

Risk Management and Principal Risks

Effective risk management is integral to our objective of delivering sustainable long-term value

The Board is committed to protecting and enhancing the Group's reputation and assets in the interests of shareholders as a whole, while having due regard to the interests of all stakeholders. It has overall responsibility for the Group's system of risk management and internal control.

The Group's businesses are affected by a number of risks and uncertainties. These may be impacted by internal and external factors, some of which we cannot control. Many of the risks are similar to those found by other companies of similar scale and operations.

The risks and uncertainties facing the Group have been considered in the context of the political and macroeconomic uncertainties that have arisen since the invasion of Ukraine in early 2022 and from the changes in the trading relationship between the UK and the European Union (EU) from 1 January 2021. A specific assessment of the potential risks and our approach to management of these risks can be found on pages 66 to 71.

Our approach

Risk management and maintenance of appropriate systems of control to manage risk are the responsibilities of the Board and are integral to the ability of the Group to deliver on its strategic priorities. The Board has developed a framework of risk management which is used to establish the culture of effective risk management throughout the business by identifying and monitoring the material risks, setting risk appetite and determining the overall risk tolerance of the Group. To enhance risk awareness, embed risk management and gain greater participation in managing risk across the Group, a programme of employee communication continues with all new employees receiving a brochure on joining Volution.

The Group's framework of risk management is monitored by the Audit Committee, under delegation from the Board. The Audit Committee is responsible for overseeing the effectiveness of the internal control environment of the Group.

BDO LLP (BDO) continued to act in the capacity of internal auditor and provide independent assurance that the Group's risk management, governance and internal control processes are operating effectively. BDO continued to act in this capacity throughout the financial year ended 31 July 2022.



Risk heatmap

- 1. Economic risk
- 2. Acquisitions
- 3. Supply chain and raw materials
- 4. Energy
- 5. Foreign exchange risk
- 6. IT systems including cyber breach
- 7. Customers
- 8. Regulatory environment
- 9. Innovation
- 10. People



Identifying and monitoring material risks

Material risks (including emerging risks) that we consider may lead to threats to our business model, strategy and liquidity are identified through our framework of risk management, our analysis of individual processes and procedures (bottom-up approach) and a consideration of the strategy and operating environment of the Group (top-down approach).

The risk evaluation process begins in the operating businesses with an annual exercise undertaken by management to identify and document the significant strategic, operational, financial and accounting risks facing the businesses. This process ensures risks are identified and monitored and management controls are embedded in the businesses' operations.

The risk assessments from each of the operating businesses are then considered by Group management, which evaluates the principal risks of the Group with reference to the Group's strategy and operating environment for review by the Board.

Our principal risks and uncertainties

The 2018 UK Corporate Governance Code (the 2018 Code) states that the Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and that it should maintain sound risk management and internal control systems. In accordance with provision 29 of the 2018 Code, the Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those which would threaten the business model, future performance, solvency or liquidity.

Set out in this section of the Strategic Report are the principal risks and uncertainties which could affect the Group and which have been determined by the Board, based on the robust risk evaluation process described above, to have the potential to have the greatest impact on the Group's future viability. During this review we also considered the emerging risks facing the Group, the main one being the political and macroeconomic uncertainties that have arisen since the invasion of Ukraine in early 2022, including the impact on energy prices and availability. For each risk there is a description of the possible impact of the risk to the Group, should it occur, together with strategic consequences and the mitigation and control processes in place to manage the risk. This list is likely to change over time as different risks take on larger or smaller significance.

Having completed a thorough review of climate change risks and opportunities (pages 44 and 45), we have concluded that these risks are most appropriately managed by including their potential impact within existing principal risks where relevant, rather than defining a separate principal risk. We have therefore updated the principal risks to include the impact of climate change where appropriate.

Risk Management and Principal Risks continued

Viability statement

The Board has considered the viability of the Group over a three-year period to 31 July 2025, taking into account the Group's current position and the potential impact of the principal risks and uncertainties. While the Board has no reason to believe that the Group will not be viable over a longer period, it has determined that three years is an appropriate period as it aligns with the Group's business planning cycle. The Board believes that this approach provides greater certainty over forecasting and, therefore, increases reliability in the modelling and stress testing of the Group's viability. In addition, a three-year horizon is typically the period over which we review our external banking facilities and is also the performance-based period over which awards granted under Volution's share-based incentive plan are measured.

As part of the annual budgeting process, the Board considers projections for subsequent years. The output of this plan is used to perform central debt and headroom profile analysis, which includes a review of sensitivity to key principal risks and a combination of those risks. It also considers the ability of the Group to raise finance and deploy capital.

Our financial position remains robust. On 2 December 2020, the Group refinanced its bank debt and now has in place a £150 million multicurrency "Sustainability Linked Revolving Credit Facility", together with an accordion of up to £30 million. An option was taken to extend the maturity to December 2024 during the year, and an option remains to extend for an additional year to December 2025 – beyond the period of the viability assessment.

With respect to the longer-term viability of the Group, we believe the business model will remain highly relevant. The regulatory and consumer drive towards making new and existing homes more efficient and therefore airtight will continue, meaning that the opportunities to solve the problems of indoor air quality will only grow, strengthening the vital role ventilation has to play in creating a healthy indoor environment. We believe that one of the consequences of Covid-19 is a heightened awareness of the importance of indoor air quality to health and the role played by good ventilation systems. Customer requirements in terms of enhanced functionality, energy efficiency and aesthetics of products are also supportive trends.

The Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Principal risks are identified through our risk management process and are set out on pages 66 to 71. They are recorded in a Group Risk Register, which is reviewed and discussed by the Board at least twice a year.

Whilst the review has considered all the principal risks identified by the Group, a selection of risks were considered which if they occurred together would be considered a severe but plausible downside scenario with which to assess the viability of the Group.

A general economic slowdown representing the impact of the political and macro-economic uncertainty which has arisen post Covid-19 and since the invasion of Ukraine in early 2022 (principal risk 1) combined with supply chain difficulties and energy price and availability issues (principal risks 3 and 4) has been modelled, combined with a significant acquisition increasing debt but with no positive cash flow contribution (principal risk 2). Combined, this severe but plausible downside assumed a reduction in revenue of 20% and a reduction in gross margin of 10%.

The sensitivities modelled used the same assumptions as for the going concern statement, as set out opposite, for the years ending 31 July 2023 and 31 July 2024 with further assumptions applied for the year ending 31 July 2025.

The geographic and sector diversification of the Group's operations helped minimise the impact of the Covid-19 pandemic in FY21 and we believe the risk of serious business interruption remains mitigated by this. Furthermore, our business model, structured so that the Group is not reliant on a concentration of customers or sectors, and our ability to flex our cost base provided resilience in FY21 and we believe would continue to protect our viability in the face of foreseeable future adverse economic conditions and/or other political or regulatory uncertainties. We demonstrated our ability to maintain and increase margins across our geographies during FY21 and FY22 where high input costs caused by the pandemic and general inflation impacting all input costs were able to be mitigated where possible, and recovered through early and decisive pricing action.

The Board has also considered the impact of climate change, particularly in the context of the risks and opportunities identified in the TCFD disclosure of this Annual Report (page 40).

We have carried out a full analysis of the physical risks of climate change under our chosen scenarios. The analysis shows that under the Paris aligned scenario, physical risks to our assets are not expected to be material. The analysis shows that none of our significant assets are in areas of significant physical risk over the time periods assessed. Under the 4°C scenario, there is increased risk to some of our assets but these risks only occur over the long time period, outside of the viability assessment period.

Over the time period of our viability assessment, we have concluded that there is no material adverse impact of climate change which could impact the viability of the Group. Whilst we do not currently expect any material short and medium-term impacts from climate change under the scenarios we have considered, the risks over the long term are more uncertain and we will continue to assess these risks against judgements and estimates made in preparation of the Group's financial statements.

The Board has carefully considered the principal risks of the Group and the impact of those risks on the viability of the Group and has concluded that there is no reason to believe the Group will not be viable over the period assessed.

Going concern

The financial position of the Group, its cash flows and liquidity position are set out in the financial statements. Furthermore, note 29 on page 172 to the consolidated financial statements includes the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered all of the above factors, including potential scenarios arising from the political and macroeconomic uncertainty that has arisen post-Covid-19 and since the invasion of Ukraine early in 2022, and from its other principal risks set out on pages 62 to 71. Under a severe but plausible downside scenario, the Group remains within its debt facilities and the attached financial covenants up until at least 31 July 2024 and the Directors therefore believe, at the time of approving the financial statements, that the Company is well placed to manage its business risks successfully and remains a going concern. The key facts and assumptions in reaching this determination are summarised below.

Our financial position remains robust with committed facilities totalling £150 million, and an accordion of a further £30 million, maturing in December 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 political and macroeconomic uncertainty that has arisen post-Covid-19 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 >30% with no mitigations would be required to breach covenants, which is considered extremely remote in likelihood of occurring. Mitigations available within the control of management include reducing discretionary capex and discretionary indirect costs.

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

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

Risk Management and Principal Risks continued

Strategic consequence



Organic growth



Value-adding acquisition



Operational excellence

Risk	Impact	Strategic consequence	Likelihood
------	--------	-----------------------	------------

Economic risk

A decline in general economic activity and/or a specific decline in activity in the construction industry, including, but not exclusively, a decline caused by economic uncertainty, inflation, high interest rates and impacts of the Russian invasion of Ukraine.

Over the longer term, a decline in general economic activity or economic disruption could be caused by physical or transitional risks of climate change.

Demand for our products serving the residential and commercial construction markets would decline. This would result in a reduction in revenue and profitability.



Our ability to achieve our ambition for continuing organic growth would be adversely affected.



Acquisitions

We may fail to identify suitable acquisition targets at an acceptable price or we may fail to complete or properly integrate the acquisition.

Revenue and profitability would not grow in line with management's ambitions and investor expectations.

Failure to properly integrate a business may distract senior management from other priorities and adversely affect revenue and profitability.

Financial performance could be impacted by failure to integrate acquisitions and to secure intended synergies.



Our strategic ambition to grow by acquisition may be compromised.



Supply chain and raw materials

Raw materials or components may become difficult to source because of material scarcity or disruption of supply including but not exclusively, as a consequence of economic uncertainty, the Russian invasion of Ukraine, supply interruptions in China (potentially due to Covid 19) and the relationship between the UK and the EU post Brexit.

The increased friction and potential for a trade war or other geopolitical disputes including between the US and China could destabilise supply chain activity.

Over the longer term, supply chain issues could be caused by physical or transitional risks of climate change.

Sales and profitability may be reduced during the period of constraint.

Prices for input materials may increase and our costs may increase.



Organic growth may be reduced.

Our product development efforts may be redirected to find alternative materials and components.

Operational performance may be adversely affected.






Likelihood of risk occurring

-  Unlikely
-  Possible
-  Likely

Potential impact

-  Low
-  Medium
-  High

Assessment of risk direction

-  Reducing
-  No change
-  Increasing

The Board's assessment of whether there has been a change in the level of risk due to either a change in likelihood or a change in potential impact.

Potential impact

Risk direction

Reason for risk direction

Mitigation



Whilst the direct risk in the form of the Covid-19 pandemic has reduced, the combination of high inflation, rising interest rates and consequences of the Russian invasion of Ukraine has led to significant macroeconomic uncertainty across the world.

The UK is experiencing a "cost of living crisis", with price inflation at levels that have not been seen for several decades. Similar issues are being experienced across Europe, the Nordics and Australasia.

The current economic conditions could have an impact on broader economic sentiment and ultimately demand for our products. For example, high and persistent interest rates could suppress demand and activity in the housing and construction markets, and the "cost of living crisis" could lead to reduced refit and refurbishment.

In the extreme, governments could move away from Green deal commitments to regulate and support energy efficient solutions, in the short term.

Geographic spread from our international acquisition strategy helps to mitigate the impact of local fluctuations in economic activity.

New product development, the breadth of our product portfolio and the strength and specialisation of our sales forces should allow us to outperform against a general decline.

Our end market diversity, with exposure to both residential and commercial and to new build and RMI provides mitigation.

Our business is not capital intensive and our operational flexibility allows us to react quickly to the impact of a decline in volume.

Our response to climate change risks and opportunities is described in our TCFD disclosures on page 40.



Whilst the timing and opportunity landscape for acquisitions will vary from time to time, we are positive about the potential range of opportunities in the coming years as exemplified by the transactions completed during the year ended 31 July 2022 and prior financial year.

The ventilation industry in Europe remains fragmented with many opportunities to court acquisition targets.

Senior management has a clear understanding of potential targets in the industry and a track record of acquisitions since IPO in June 2014.

Management is experienced in integrating new businesses into the Group.

Our policy of rigorous due diligence prior to acquisition and a structured integration process post-acquisition have been maintained.



The potential for disruption to supply chains, especially relating to products and materials sourced from China, continues to be a specific risk that we are managing very closely. Potential impacts could include inability to service customer demand due to non-availability of products as well as input cost increases due to the need to airfreight.

We establish long-term relationships with key suppliers to promote continuity of supply and where possible we have alternative sources identified.

We continue to monitor stock levels and order patterns and where deemed necessary will adjust inventory levels to help mitigate any disruptions in supply.

Our response to climate change risks and opportunities is described in our TCFD disclosures on page 40.

Risk Management and Principal Risks continued

Strategic consequence continued



Organic growth



Value-adding acquisition



Operational excellence

Risk	Impact	Strategic consequence	Likelihood
<p>Energy</p> <p>Energy (including gas and electricity) may continue to see significant cost inflation, whilst supply interruptions and operational constraints could occur in the event that governments were forced to ration energy use as a consequence of availability.</p>	<p>The light assembly nature of our own production means that our direct costs of energy are relatively modest, however there is also a clear “indirect” impact in terms of cost pressures on our suppliers from their own energy costs which they may seek to recoup through price rises.</p> <p>Supply interruptions or rationing could impact our production and operational capability.</p>	 <p>Our ability to achieve our ambition for continuing organic growth would be adversely affected.</p>	
<p>Foreign exchange risk</p> <p>The exchange rates between currencies that we use may move adversely.</p>	<p>The commerciality of transactions denominated in currencies other than the functional currency of our businesses and/or the perceived performance of foreign subsidiaries in our Sterling denominated consolidated financial statements may be adversely affected by changes in exchange rates.</p>	  <p>Our ambition to grow internationally through acquisition exposes us to increasing levels of translational foreign exchange risk.</p>	
<p>IT systems including cyber breach</p> <p>We may be adversely affected by a breakdown in our IT systems or a failure to properly implement any new systems.</p>	<p>Failure of our IT and communication systems could affect any or all of our business processes and have significant impact on our ability to trade, collect cash and make payments.</p>	   <p>We could temporarily lose sales and market share and could potentially damage our reputation for customer service.</p>	




Likelihood of risk occurring

-  Unlikely
-  Possible
-  Likely

Potential impact


-  Low
-  Medium
-  High



Assessment of risk direction



-  Reducing
-  No change
-  Increasing

The Board's assessment of whether there has been a change in the level of risk due to either a change in likelihood or a change in potential impact.

Potential impact	Risk direction	Reason for risk direction	Mitigation
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	NEW	<p>The Russian invasion of Ukraine continues to have a profound impact on global energy markets and prices. This is expected to further escalate through the final months of calendar year 2022 and early 2023. Potential cost impacts relate to both direct energy costs and indirect impacts as suppliers suffer and seek to pass on their cost increases.</p> <p>Supply rationing could be one of the responses in the event of supply shortages. This could impact the Group's and suppliers' operations and production.</p>	<p>Operationally our light assembly model means that our direct energy consumption and costs are a relatively small component of our costs of sales. Fixed pricing for both gas and electricity was contracted prior to the recent crisis, and remains in force through the full financial year ending July 2023.</p> <p>Most of our facilities run at below capacity and should supply rationing be introduced we would look to modify operations and shift patterns to maximise production in the periods of energy availability.</p>
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		<p>The current macroeconomic uncertainty has led to large movements in exchange rates and continued volatility is likely.</p>	<p>Significant transactional risks are hedged by using forward currency contracts to fix exchange rates for the ensuing financial year.</p> <p>Revaluation of foreign currency denominated assets and liabilities is partially hedged by corresponding foreign currency bank debt.</p>
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		<p>We believe that when the Covid-19 pandemic struck the risk increased as there was the potential for risk linked to employees working from home; and an increase in targeted phishing campaigns and fraud attempts.</p> <p>This risk has stabilised during 2022.</p>	<p>Disaster recovery and data backup processes are in place, operated diligently and tested regularly.</p> <p>Our decentralised IT systems mean that it is unlikely that a material proportion of the Group could be compromised at any one time.</p> <p>We have a three-layered system of network security protection against cyber attacks or breaches of security. This infrastructure is maintained to withstand increasingly sophisticated worldwide cyber threats. We also undertake regular cyber security testing and training of our employees.</p> <p>We have commenced a process of annual internal and external penetration testing with quarterly monitoring checks.</p>
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Risk Management and Principal Risks continued

Strategic consequence continued



Organic growth



Value-adding acquisition



Operational excellence

Risk	Impact	Strategic consequence	Likelihood
------	--------	-----------------------	------------

Customers

A significant amount of our revenue is derived from a small number of customers and from our relationships with heating and ventilation consultants. We may fail to maintain these relationships.

Any deterioration in our relationship with a significant customer could have an adverse significant effect on our revenue from that customer.



Our organic growth ambitions and operational excellence would be adversely affected.



Regulatory environment

Laws or regulation relating to the carbon efficiency of buildings, the efficiency of electrical products and compliance may change.

The shift towards higher value-added and more energy efficient products may not develop as anticipated resulting in lower sales and profit growth.

If our products are not compliant and we fail to develop new products in a timely manner, we may lose revenue and market share to our competitors.



Our organic growth ambitions may be adversely affected.

We may need to review our acquisition criteria to reflect the dynamics of a new regulatory environment.

We may have to redirect our new product development activity.



Innovation

We may fail to innovate commercially or technically viable products to maintain and develop our product leadership position.

Scarce development resource may be misdirected and costs incurred unnecessarily.

Failure to innovate may result in an ageing product portfolio that falls behind that of our competition.



Our organic growth ambitions depend in part upon our ability to innovate new and improved products to meet and create market needs. In the medium term, failure to innovate may result in a decline in sales and profitability. Operational excellence may be adversely affected.



People

Our continuing success depends on retaining key personnel and attracting skilled individuals.

Skilled and experienced employees may decide to leave the Group, potentially moving to a competitor. Any aspect of the business could be impacted with resultant reduction in prospects, sales and profitability.



Our competitiveness and growth potential, both organic and inorganic, could be adversely affected.

Operational excellence may be adversely affected.






Likelihood of risk occurring

-  Unlikely
-  Possible
-  Likely

Potential impact

-  Low
-  Medium
-  High

Assessment of risk direction

-  Reducing
-  No change
-  Increasing

The Board's assessment of whether there has been a change in the level of risk due to either a change in likelihood or a change in potential impact.

Potential impact

Risk direction

Reason for risk direction

Mitigation



The current macroeconomic uncertainty means that customers could fall into financial difficulties. However, the direct risk related to Covid-19 restrictions has reduced during 2022.

We have strong brands, recognised and valued by our end users, and this gives us continued traction through our distribution channels and with consultants and specifiers. We have a very wide range of ventilation and ancillary products that enhance our brand proposition and make us a convenient "one-stop-shop" supplier. We continue to develop new and existing products to support our product portfolio and brand reputation. We focus on providing excellent customer service.



Covid-19 has further heightened consumer and regulator/government awareness of air quality and the role ventilation can play. We therefore believe that, in addition to the already supportive regulatory backdrop and drivers around carbon and energy efficiency, Covid-19 is placing additional emphasis on governments developing appropriate regulations in support of improving indoor air quality. There is an increased risk that the current "cost of living crisis" could in the extreme lead Governments to move away from Green deal commitments and regulations to support energy efficient solutions, in the short term, but we deem this risk to be low and only in the short term.

We participate in trade bodies that help to influence the regulatory environment in which we operate and therefore we are well placed to understand future trends in our industry. With the proposed UK Future Homes Standard and the European Green Deal along with Healthy Homes Standards (HHS) in New Zealand, favourable regulatory tailwinds have continued to develop. This is especially true since the outbreak of Covid-19. We are active in new product development and have the resource to react to and anticipate necessary changes in the specification of our products.



No change.

Our product innovation is driven by a deep understanding of the ventilation market and its economic and regulatory drivers. The Group starts with a clear marketing brief before embarking on product development.



The direct risk of Covid-19 causing widespread colleague sickness has largely ended, although we remain mindful of the potential risk of resurgence and continue to ensure the utmost priority is given to the health and wellbeing of our employees. A high inflation environment and "cost of living crisis" may impact our ability to retain talent. Our continuing growth has increased the size and complexity of our business.

Regular employee appraisals allow two-way feedback on performance and ambition. A Management Development Programme is run periodically to provide key employees with the skills needed to grow within the business and to enhance their contribution to the business. The Directors regularly review succession planning and key roles.

Non-Financial Information Statement

This section of the Strategic Report constitutes Volution's Non-Financial Information Statement and is produced to comply with Sections 414CA and 414CB of the Companies Act 2006.

Reporting requirements	Relevant policy/code	Section within Annual Report
Environmental matters	<ul style="list-style-type: none"> Sustainability Policy 	<ul style="list-style-type: none"> Sustainability (pages 32 and 33)
Employees	<ul style="list-style-type: none"> Code of Conduct Health and Safety Policy Anti-Bribery and Corruption Policy Whistleblowing Policy Modern Slavery Policy Data Protection Policy 	<ul style="list-style-type: none"> People Reporting Framework (pages 48 to 51) Board diversity (page 77) Gender diversity (page 77) Stakeholder engagement (pages 30 and 31) Principal risks (pages 62 to 71)
Human rights	<ul style="list-style-type: none"> Code of Conduct Modern Slavery Policy Stakeholder Engagement 	<ul style="list-style-type: none"> People Reporting Framework (pages 48 to 51) Stakeholder engagement (pages 30 and 31)
Social matters	<ul style="list-style-type: none"> Code of Conduct Stakeholder Engagement 	<ul style="list-style-type: none"> People Reporting Framework (pages 48 to 51) Governance (pages 74 to 126) Stakeholder engagement (pages 30 and 31)
Anti-bribery and anti-corruption	<ul style="list-style-type: none"> Anti-Bribery and Corruption Policy Whistleblowing Policy 	<ul style="list-style-type: none"> People Reporting Framework (pages 48 to 51) Governance (pages 74 to 126)
Principal risks		<ul style="list-style-type: none"> Risk management (pages 62 to 71) Principal risks and uncertainties (pages 62 to 71)
Business model		<ul style="list-style-type: none"> Business model (pages 24 and 25)
Non-financial key performance indicators		<ul style="list-style-type: none"> Key performance indicators (pages 58 to 61)

The Strategic Report was approved by the Board and signed on its behalf by Ronnie George, Chief Executive Officer, on 5 October 2022.

Ronnie George
Chief Executive Officer

Governance Report

Governance Report

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Committed to high standards in corporate governance



Dear shareholder,

On behalf of the Board, I am pleased to present the Governance Report for the year ended 31 July 2022. This review and the reports of the Nomination, Audit and Remuneration Committees that follow, summarise the Board's activities during the year. The Board is committed to high standards of corporate governance, and decisions are made based on what the Board believes is likely to be for the benefit of all stakeholders by promoting and maintaining the long term success of the Company and its reputation.

Compliance with the 2018 UK Corporate Governance Code

Our approach to governance is based on the concept that good corporate governance enhances longer term shareholder value and sets the culture, ethics and values for the Group. Consistent with our belief in the importance of corporate governance, I am pleased to report that the Company has complied in full with the principles and provisions of the 2018 UK Corporate Governance Code (the 2018 Code). A copy of the 2018 Code can be found at www.frc.gov.uk

Board composition and succession planning

During the year under review, the Nomination Committee discussed succession planning for Executive and Non Executive Directors and progressive refreshing of the Board. There were a number of changes to the composition of the Board and its Committees in the year. In December 2021, Tony Reading stepped down from the Board. Following a search process involving search firm Warren Partners, we were pleased to welcome Margaret Amos to the Board in March 2022. In addition, Amanda Mellor was appointed as Senior Independent Director following Tony Reading's departure.

Further information about the Board changes in the year and the Nomination Committee's work can be found in the Nomination Committee Report on pages 89 to 91.

Diversity

The Board supports the FTSE Women Leaders Review, which seeks to improve board and senior leadership gender diversity across FTSE 350 companies, and the Parker Review on Ethnic Diversity. As at the financial year end, the Board comprised four male and three female Directors, meaning that over 40% of our Board is now female. One Board member was of BAME heritage. In my report last year, it was noted that the Company was committed to making progress towards achieving the target of 33% women on the Senior Management Team. I am pleased to report that, following the appointment of two new female Team members, we have now reached an improved level of 23% (improved from the 10% level at the last year end). For more information on gender diversity across the Group, please see page 77.

“

The Board is committed to high standards of corporate governance, and decisions are made based on what the Board believes is likely to be for the benefit of all stakeholders.”

“

Good corporate governance enhances longer-term shareholder value and sets the culture, ethics and values for the Group.”

Chairman succession

As mentioned in my Chairman’s Statement, 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.

Evaluating the Board’s effectiveness

Each year, the Board undertakes a formal evaluation of its effectiveness. This year we carried out an externally facilitated evaluation to assist in the development of the Board, in conjunction with external facilitator, Independent Audit. The results of the Board evaluation confirmed that the Board continues to function effectively and that there are no significant concerns among the Directors about its effectiveness. The Board members were seen as engaged and committed while the Board’s culture remains open, respectful and constructive. A number of actions were identified to further enhance the Board’s effectiveness, and further details of these, together with details of the progress made on the actions identified in the 2021 Board evaluation, may be found on page 84.

Site visit

As a Board we were pleased to be able to travel to our ClimaRad site in the Netherlands this year, to meet the local Management team and to see the operations first-hand. A number of other Senior Managers joined us, and it was a very insightful, valuable and enjoyable event. Now, with the lifting of the Covid-19 restrictions, it is the Board’s intention to resume in-person visits across the Group.



Board visit to ClimaRad, the Netherlands

People and Culture

The ongoing successful performance of the business is only possible due to the commitment, abilities and drive of our People. In the year, we appointed a new Group Head of HR, to drive our employee engagement programme, build on our learning and development offering, and further embed an inclusive and safe work culture. Further details may be found in the People section on pages 48 to 51.

Election and re-election of Directors

In accordance with the 2018 Code provisions and following a performance evaluation of those Directors standing for election or re-election at the 2022 Annual General Meeting, I can confirm that they all continue to be effective and committed to their roles and have sufficient time available to perform their duties. Accordingly, as recommended by the Nomination Committee, all Directors will be offering themselves for election or re-election at the Company’s Annual General Meeting to be held on 14 December 2022. Further information on the Directors can be found in the Directors’ biographies on pages 76 and 77.

Remuneration Policy

Volution’s Remuneration Policy was last approved at the 2020 Annual General Meeting and was designed to operate for three years. Further details on the decisions of the Remuneration Committee and the implementation of the Policy are provided in the Directors’ Remuneration Report, which can be found on pages 100 to 121.

Annual General Meeting

The Annual General Meeting of the Company will take place at 12.00 noon on Wednesday 14 December 2022 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ, United Kingdom. All Directors will attend this year’s Annual General Meeting which will again provide an opportunity for shareholders to hear more about our performance during the year and to ask questions of the Board. I look forward to meeting any shareholders who can join us at our Annual General Meeting and extend my thanks to you all for your continued support as we look forward to the year ahead.

Paul Hollingworth
Chairman
5 October 2022

Board of Directors



Paul Hollingworth
Non-Executive Chairman



Appointed: 23 June 2014

(Chairman since 1 February 2020)

Career and experience: Paul was appointed as a Non-Executive Director of Volution upon its listing on the Main Market of the London Stock Exchange in 2014 and in February 2020 became Non-Executive Chairman and chair of the Nomination Committee.

Paul brings extensive public company and wide ranging international business experience, particularly in manufacturing environments. Paul previously headed the finance function and served on the boards of a number of UK listed public companies, including

Ransomes plc, De La Rue plc, BPB plc, Mondi Group plc and Thomas Cook Group plc. Paul was also a non-executive director and chair of the audit committee of Electrocomponents plc.

Key strengths: Financial and accounting expertise together with extensive public company experience and wide ranging international business experience, particularly in manufacturing environments.

External appointments: None.



Ronnie George
Chief Executive Officer

Appointed: 15 May 2014

Career and experience: Ronnie joined Volution in 2008 as Managing Director of Vent-Axia Division (now the Ventilation Group) and became CEO in 2012 upon leading the management buy-out backed by TowerBrook Capital Partners LP. Since then he has transformed the Company from a UK-centric provider of air quality solutions into a globally diversified organisation with 19 market leading brands in 14 countries. Ronnie led the successful listing of Volution on the Main Market of the London Stock Exchange in 2014 and has subsequently delivered a strong and consistent financial performance, increasing revenue by over two and a half times, and growing the Company organically and through over 20 acquisitions.

Ronnie has extensive industry experience and prior to joining Volution spent 20 years in the wire and cable industry latterly leading Draka's global activities to supply to the marine, oil and gas sectors. In 2015 he was nominated as a finalist for EY Entrepreneur of the Year in London and the South East.

Key strengths: Significant strategic and operational expertise together with extensive merger and acquisition experience, both in the UK and internationally, and in-depth knowledge of the ventilation industry.

External appointments: None.



Andy O'Brien
Chief Financial Officer

Appointed: 1 August 2019

Career and experience: Andy joined Volution as Chief Financial Officer in August 2019 following nine years at Aggreko plc where he held numerous senior finance roles including most recently finance director, power solutions.

Andy brings extensive UK and international financial and accounting expertise through a background working in a global business environment having lived and worked in the Nordics, Dubai and Singapore.

Throughout his career, Andy has operated in environments where cost control has been critical and in his role at Aggreko oversaw revenues totalling \$1.2 billion and worked on a number of international acquisitions.

Prior to joining Aggreko, Andy spent four years at Vetco Gray and six years at Lafarge SA.

Key strengths: Financial and accounting expertise both in the UK and internationally.

External appointments: None.



Amanda Mellor
Senior Independent Non-Executive Director



Appointed: 19 March 2018

Career and experience: Amanda joined the Board in March 2018 as an independent Non-Executive Director and brings experience in international M&A, shareholder relations, strategy and governance.

Amanda is currently the group secretary of Haleon plc, the multinational consumer healthcare company formed in 2022 following the demerger by GSK plc of its consumer healthcare business.

Amanda was previously group secretary for Standard Chartered plc and, prior to that, group secretary and head of corporate governance at Marks and Spencer Group plc where she was also an executive member of the operating committee.

Previously, Amanda worked at Arcadia Group plc and in investment banking at James Capel and Robert Fleming.

Amanda served as a non-executive director at Kier Group plc from 2011 to 2016 and has served as a member of the council and the remuneration committee of Leeds University, where she was also a visiting professor of the Inter-Disciplinary Ethics Applied Centre.

Key strengths: Experience in international M&A, retail, shareholder relations, strategy and governance.

External appointments: Amanda is currently group secretary of Haleon plc.

Committee membership

A Audit Committee

N Nomination Committee

R Remuneration Committee

● Chair of Committee



Claire Tiney
Independent
Non-Executive Director
A N R

Appointed: 3 August 2016

Career and experience: Claire joined the Board in August 2016 as an independent Non-Executive Director and was appointed as chair of the Remuneration Committee on 30 April 2020.

Claire has over 30 years' listed company experience, including a number of executive roles at WHSmith Group plc, Mothercare plc and McArthurGlen Ltd, bringing strengths in business strategy and turnaround, strategic development and change management. Claire was previously senior independent director and chair of the remuneration committee at Topps Tiles Plc.

Key strengths: Extensive board-level experience with key strengths in business strategy and turnaround, strategic development and change management.

External appointments: Claire is currently non-executive director and chair of the remuneration committee of Hollywood Bowl Group plc.



Nigel Lingwood
Independent
Non-Executive Director
A N R

Appointed: 30 April 2020

Career and experience: Nigel joined the Board in April 2020 as an independent Non-Executive Director and chair of the Audit Committee, bringing extensive public company, financial and accounting and acquisition experience.

Nigel was group finance director of Diploma PLC from 2001 to September 2020. During his time at Diploma, Nigel oversaw more than 50 international acquisitions across Europe, North America and Australia, during which time the company had grown market capitalisation from circa £60 million to circa £1.8 billion.

Nigel was previously senior independent director and audit committee chair of Creston plc from July 2015 until December 2016 when the company was taken private.

Key strengths: Recent and relevant financial and accounting expertise together with extensive public company experience and wide ranging international business experience; significant strategic and operational expertise together with extensive merger and acquisition experience, both in the UK and internationally.

External appointments: None.



Margaret Amos
Independent
Non-Executive Director
A N R

Appointed: 10 March 2022

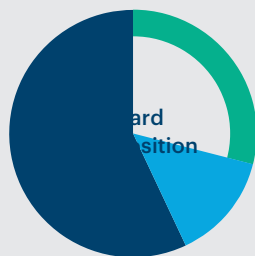
Career and experience: Margaret joined the Board in March 2022 as an independent Non-Executive Director, and is a member of the Audit, Remuneration, and Nomination Committees.

Margaret's career began at Rolls-Royce Plc in 1990, where she gained extensive financial and commercial experience, serving most recently as Senior Finance Business Partner, Aerospace (from 2013 to 2015) and Finance Director, Corporate, IT and Engineering (from 2015 to 2017). Following her time at Rolls-Royce Plc, Margaret founded and managed an aerospace consultancy business from 2018 to 2020.

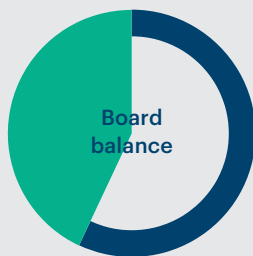
Key strengths: Extensive board-level experience with expertise in a wide range of fields including finance, business strategy, international M&A, and sustainability.

External appointments: Margaret currently serves as a non-executive director for Pod Point Group Holdings plc (where she is also chair of the audit and ESG committees), Ombudsman Service (where she is also chair of the audit committee) and HMG Department for Transport, Trinity House (where she is also chair of the audit committee).

Tony Reading retired from the Board and its Committees on 9 December 2021. Tony had served on the Board as an independent Non-Executive Director since June 2014 and was also the Senior Independent Director.



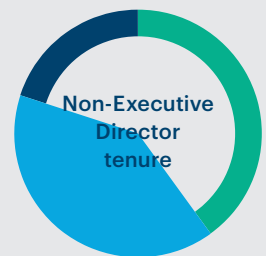
- Executive Directors – 2 Directors
- Non-Executive Chairman – 1 Director
- Independent Non-Executive Directors – 4 Directors



- Female – 3 Directors
- Male – 4 Directors



- BAME – 1 Director
- White – 6 Directors



- 1-3 years – 2 Directors
- 4-6 years – 2 Directors
- 7-9 years – 1 Director

Governance Framework

Overview

The Board fully supports the principles laid down in the UK Corporate Governance Code as issued by the Financial Reporting Council in 2018 (the 2018 Code), which applies to the financial year ended 31 July 2022 and is available at www.frc.org.uk.

This report sets out the Company's governance structure and how it complies with the 2018 Code and also includes items required by the Disclosure Guidance and Transparency Rules (DTRs). The disclosures in this report relate to our responsibilities for preparing the Annual Report and Accounts, including compliance with the 2018 Code to the extent required, our report on the effectiveness of the Group's risk management and internal control systems, and the functioning of our Committees.

Compliance with the 2018 UK Corporate Governance Code

The Board considers that it and the Company have, throughout the year, complied with the provisions of the 2018 UK Corporate Governance Code, which is the version of the Code which applies to the Company for its financial year ended 31 July 2022.



The role of the Board and its Committees

Board

The Board is collectively responsible for promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board sets the Group's purpose, strategy and values, and satisfies itself that these are aligned with the overall culture of the Group. The Board sets the Group's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the Group is adequately resourced. It also ensures there is appropriate dialogue with shareholders on strategy and remuneration. The Board's main responsibilities are included in a schedule of matters reserved for the Board, as set out on page 80.

The Board has delegated certain responsibilities to three Committees to assist it with discharging its duties. The Committees play an essential role in supporting the Board to implement its strategy and provide focused oversight of key aspects of the business. Set out opposite is the governance framework giving a summary of the membership and responsibilities of each Committee. The full terms of reference for each Committee are available on the Company's website, www.volutiongroupplc.com.

Board Members

Non-Executive Chairman

Four independent Non-Executive Directors

Two Executive Directors

Nomination Committee

Responsibility for Board composition, succession planning and Director selection

Members

Non-Executive Chairman

Four independent Non-Executive Directors

» The Committee Report can be found on pages 89 to 91

Audit Committee

Responsibility for oversight and governance of the Group's financial reporting, internal controls, risk management and relationship with the external auditor

Members

Four independent Non-Executive Directors

» The Committee Report can be found on pages 92 to 99

Remuneration Committee

Responsibility for Remuneration Policy and setting individual remuneration levels for Executive Directors and senior management

Members

Non-Executive Chairman

Four independent Non-Executive Directors

» The Committee Report can be found on pages 100 to 121

Board responsibilities

Role	Main responsibilities
Chairman of the Board Paul Hollingworth	<ul style="list-style-type: none"> • Manages and provides leadership to the Board of Directors • Ensures appropriate composition of the Board together with the right skills and talent • Acts as a direct liaison between the Board and the management of the Company, through the Chief Executive Officer • Ensures that the Directors are properly informed and that sufficient information is provided to enable the Directors to form appropriate judgements • In concert with the Chief Executive Officer and the Company Secretary, develops and sets the agendas for meetings of the Board • Recommends an annual schedule of work including the date, time and location of Board and Committee meetings • Ensures effective communications with shareholders and other stakeholders
Chief Executive Officer Ronnie George	<ul style="list-style-type: none"> • Responsible for the day-to-day management of the Group • Together with the Senior Management Team, is responsible for executing the strategy, once it has been agreed by the Board • Creates a framework that optimises resource allocation to deliver the Group's agreed strategic objectives over varying timeframes • Ensures successful delivery against the financial business plan and other key business objectives, allocating decision making and responsibilities accordingly • Together with the Senior Management Team, identifies and executes new business opportunities and potential acquisitions or disposals • Manages the Group with reference to its risk profile in the context of the Board's risk appetite
Chief Financial Officer Andy O'Brien	<ul style="list-style-type: none"> • Ensures the Group has adequate financial resources to meet business requirements • Responsible for financial planning and record keeping, as well as financial reporting to the Board and shareholders • Ensures effective compliance and control and responds to ever increasing regulatory developments, including financial reporting and capital requirements • Management of the financial risks of the Group
Senior Independent Director Amanda Mellor	<ul style="list-style-type: none"> • An independent Non-Executive Director • Provides a sounding board for the Chairman • Serves as an intermediary for the other Directors when necessary • Is available to shareholders if they have concerns when contact through the normal channel of the Chief Executive Officer has failed to resolve them, or for which such contact is inappropriate
Independent Non-Executive Directors Margaret Amos Nigel Lingwood Amanda Mellor Claire Tiney	<ul style="list-style-type: none"> • Provide constructive challenge to the Executive Team • Provide input on strategy • Scrutinise management's performance in meeting agreed goals and objectives • Monitor performance reports • Satisfy themselves on the integrity of financial information and that controls and risk management systems are robust and defensible • Determine appropriate levels of remuneration for Executive Directors, appointing and removing Executive Directors, and succession planning

Governance Framework continued

Board responsibilities continued

Role	Main responsibilities
Company Secretary Fiona Smith*	<ul style="list-style-type: none"> Plays a leading role in the good governance of the Company by supporting the Chairman and helping the Board and its Committees to function efficiently, ensuring governance processes remain fit for purpose and considering any improvements as appropriate Ensures compliance with the rules and regulations required by a premium Main Market listing on the London Stock Exchange including the UK Corporate Governance Code All Directors have access to the services of the Company Secretary, who may facilitate independent professional advice at the Company’s expense at their request to fulfil their duties Ensures good information flows within the Board and its Committees and between the Senior Management Team and the Non-Executive Directors, as well as facilitating induction and assisting with professional development as required Acts as secretary to the Board and each of its Committees The appointment or removal of the Company Secretary is a matter for the Board as a whole



The matters reserved for the Board include:

- agreeing the Group’s strategy and objectives;
- approving acquisitions and disposals;
- changing the structure and capital of the Group;
- approving the Annual Report and Accounts, Half-Year Report and stock exchange announcements relating to trading;
- approving the Group’s dividend policy and declaration of dividends;
- reviewing the effectiveness of risk identification and management and internal controls;
- approving significant expenditure and material transactions and contracts;
- ensuring a satisfactory dialogue with the Group’s shareholders;
- appointing and removing Directors;
- determining the Remuneration Policy for the Executive and Non-Executive Directors;
- reviewing the Company’s overall corporate governance arrangements;
- approving the Group’s Treasury Policy;
- approving the appointment of advisers;
- reviewing the effectiveness of the Board;
- delegating authority to the Chief Executive Officer;
- each year, meeting to set an annual budget for the business in line with the current Group strategy. The Board monitors the achievement of the budget through Board reports which include updates from the Chief Executive Officer, the Chief Financial Officer and other functions; and
- a rolling agenda of items that regularly need to be considered by the Board. This agenda is updated to include any topical matters that arise.

* Fiona Smith became Company Secretary on 1 February 2022, taking over from previous Company Secretary, Michael Anscombe.

2022 Board Activities

Board activities and priorities during the year ended 31 July 2022

Board meetings consist of a mix of regular and standard items considered at each meeting and special items which arise from time to time, either annually or as part of key project-related work. The table below shows the key agenda items discussed during the year:

Matters considered at regular Board meetings

- Management accounts including current trading and financial performance against budget and forecast
- Operations and new product development updates
- Merger and acquisition opportunities
- Health and safety updates
- Sustainability and environmental updates
- Customers and marketing
- Investor relations including market and sector updates
- People updates
- Regulatory updates
- Company policies and future governance planning
- Minutes and actions from previous meetings



Other matters considered during the year

Area	Agenda items
Strategy	<ul style="list-style-type: none"> • Discussion of Group strategy • Approval of the acquisition of ERI Corporation • Review of the acquisition of ClimaRad BV
Financial	<ul style="list-style-type: none"> • Review and approval of Annual Report and Accounts, AGM Notice and associated documentation for the year ended 31 July 2021 • Review and approval of trading updates in December 2021, May 2022 and July 2022 • Review and approval of interim financial statements for the six months ended 31 January 2022 • Review and declaration of interim dividend paid in May 2022 and, after year end, recommendation of final dividend to be paid in December 2022
Budget	<ul style="list-style-type: none"> • Review and approval of budget for the year ending 31 July 2023
Operations	<ul style="list-style-type: none"> • Consideration of risk framework, significant risks and risk appetite (in conjunction with the Audit Committee) • Review and approval of Viability Statement
Shareholder engagement	<ul style="list-style-type: none"> • Presentations on the Company's shareholder profile and market perception • Independent feedback from corporate brokers following full and half-year investor roadshows • AGM 2021 proxy results and review of shareholder voting

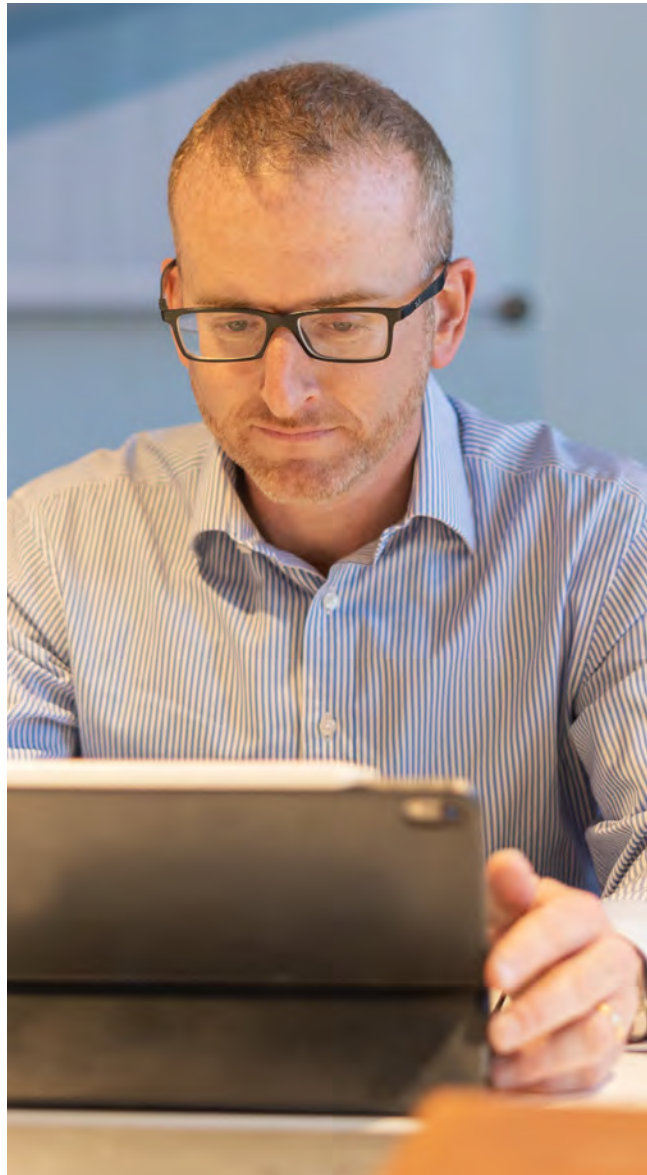
2022 Board Activities continued

Board activities and priorities during the year ended 31 July 2022 continued

Governance Report

Governance

- Executive Director succession planning
- Board composition and the appointment of Margaret Amos and the re-appointment of Claire Tiney as Non-Executive Directors
- Management presentation on ESG
- Board performance evaluation
- Governance, legislation and regulatory updates
- Claire Tiney's report to the Board following her attendance at the Volusion Employee Forum
- Review and approval of the Group's Modern Slavery Act Statement
- Updates from Board Committee chairs as appropriate



Governance Report

Board meetings and attendance

The table below sets out the number of Board meetings held during the year and attendance by each Director. The Board normally holds at least six meetings during the year and supplementary meetings are held when necessary. In the year ending 31 July 2022, there were seven scheduled Board meetings.

Director	Attendance at Meetings
Chairman	
Paul Hollingworth	7/7
Executive Directors	
Ronnie George	7/7
Andy O'Brien	7/7
Non-Executive Directors	
Margaret Amos ¹	2/2
Nigel Lingwood	7/7
Amanda Mellor	7/7
Claire Tiney	7/7
Tony Reading ²	3/3

1. Margaret Amos joined the Board on 10 March 2022. There were only two Board meetings between that date and the year end, so Margaret attended the maximum number of meetings possible.
2. Tony Reading stepped down from the Board on 9 December 2021. There were only three Board meetings from the start of the financial year until that date, so Tony attended the maximum number of meetings possible.

Agendas for the Board meetings are set out at the beginning of the year and new items are added to this as and when appropriate. All Directors receive papers in advance of Board meetings. These include a business and market update report with updates from the Chief Executive Officer and the Chief Financial Officer. Members of the Group's Senior Management Team may also be invited to present at Board meetings as appropriate so that Non-Executive Directors keep abreast of developments in the Group. All Directors attended the Annual General Meeting in 2021 other than Margaret Amos, who joined the Board after the date of the AGM.

Board balance and independence

The 2018 Code recommends that at least half the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. The Company's Board consists of a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors. For the period between 9 December 2021, when Tony Reading stepped down, and 10 March 2022, when Margaret Amos was appointed to the Board, there were three Non-Executive Directors on the Board. The composition of the Board has remained in compliance with the 2018 Code throughout the financial year ended 31 July 2022. A list of the Directors is provided on pages 76 and 77.

Appointment and tenure

The appointment dates of Directors are shown in their biographies on pages 76 and 77. The Board believes that all Directors are effective and committed to their roles and have sufficient time available to perform their duties. Accordingly, all members of the Board will be offering themselves for election or re-election at the Company's Annual General Meeting to be held on 14 December 2022.

All of the Directors have service agreements or letters of appointment, and the details of their terms are set out in the Directors' Remuneration Report on pages 100 to 121. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours. No other contract with the Company or any subsidiary undertaking of the Company in which any Director was materially interested subsisted during or at the end of the financial year.

Non-Executive Directors and independence

The independence of each Non-Executive Director is considered each year immediately prior to the signing of the Annual Report and Accounts. The Company's Non-Executive Directors provide a broad range of skills and experience to the Board which assists both in their roles in formulating the Company's strategy and in providing constructive challenge to the Executive Directors. All of the Non-Executive Directors are regarded by the Company as independent Non-Executive Directors within the meaning defined in the 2018 Code and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

During the year, in accordance with the 2018 Code, the Chairman held a meeting with the Non-Executive Directors without the Executive Directors being present.

Governance Report continued

Board performance evaluations and effectiveness

In the Annual Report 2021 the recommendations resulting from the performance evaluations were set out and can be seen in the table below. The progress made over the last year is set out opposite the recommendations.

Board performance evaluation 2021 – recommendations	Progress against the recommendations
Enhance gender and ethnic diversity	Following the appointment of Margaret Amos on 10 March 2022, the Board comprised four male and three female Directors meaning 42.8% of the Board were female. One Board member was of BAME heritage.
Continue to enhance external communication of Volution's sustainability actions and progress	KPIs have been established and performance against these is communicated in the ESG Summary on pages 10 to 11.
Consider ways of providing improved formal feedback from employees and customers	Claire Tiney, as the independent Non-Executive Director responsible for employee engagement, attends the Group Employee Forum and reports back to the Board. This has enabled the Board to gain a greater understanding of Volution's culture. Presentations at the Employee Forum have included feedback from customers to further enhance the Board's oversight of the views of this important stakeholder group. The appointment of a new Group Head of HR will enhance employee engagement mechanisms.
Board site visits and interaction with the wider management team should be restored following Covid-19-related restrictions curtailing face-to-face meetings in recent times	Board site visits have resumed and included a Board visit to the ClimaRad site in the Netherlands in May 2022, involving an informal dinner with the local management team and other Group leaders who also attended the event. A number of presentations were given by the Senior Management Team allowing positive and valuable interaction between the Board and senior business leaders.

During the year an externally facilitated performance evaluation of the Board, Committees, Chairman and Directors took place. The aim of the evaluation was to assist in the development of the Board and its culture.

Process for the 2022 Board and Committee evaluation

In accordance with the Code, the Board and each of its Committees undertakes an evaluation each financial year and during the year ended 31 July 2022, the Company engaged Independent Audit Limited ("Independent Audit"), external facilitators of board evaluations, to lead the review of the Board and its Committees.

The process involved the completion of an online questionnaire assessing the performance of the Board and each of its Committees. This was set by the external facilitator following finalisation with the Chairman and the Company Secretary. Responses to those questionnaires were submitted online to the external facilitator who then analysed the results. In addition to this, an observer from Independent Audit attended meetings of the Board and the Audit and Remuneration Committees to enhance the observations of the review and gather information on Board interactions and discussions. This also enabled Independent Audit to comment on the structure of the information being provided to the Board.

Independent Audit prepared a preliminary report, summarising the responses received to the questionnaires, as well as the observations made at the Board and Committee meetings. A meeting was then scheduled with the Chairman to discuss the report and the findings of the review in detail.

The external report was then circulated to all members of the Board and discussed at the following Board meeting, with Independent Audit involved in that discussion. The results of the evaluation supported the view that the Board and its Committees were working well in terms of effective chairing, quality of discussions and focus areas. Actions for development were decided upon and included increasing the Board's oversight of company culture and people development, and obtaining greater insights into the views of the wider workforce through enhanced employee engagement mechanisms supported by the new Group Head of HR.

The Company has no other relationship with Independent Audit. An externally facilitated review will be conducted at least every three years.

Director induction

A formal induction programme has been developed in line with the 2018 Code, to ensure that any new Director receives an appropriate induction to the Group with the support of the Company Secretary. The programme covers, amongst other things, the operation and activities of the Group (including site visits and meeting members of the Senior Management Team); the Group's principal risks and uncertainties; the role of the Board and the decision-making matters reserved to it; the responsibilities of the Board Committees; the strategic challenges and opportunities facing the Group; and the opportunity to meet the Company's main advisers. On the appointment to the Board of a new Non-Executive Director, a personalised formal induction programme is developed tailored to their experience and background and to their own requirements. On appointment, an induction programme was arranged for Margaret Amos, who joined the Board on 10 March 2022.

Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association allow the Board to authorise such potential conflicts, and there is in place a procedure to deal with any actual or potential conflict of interest. The Board deals with each appointment on its individual merit and takes into consideration all the circumstances. All potential conflicts approved by the Board are recorded in a conflicts of interest register, which is to be reviewed by the Board on a regular basis to ensure that the procedure is working effectively.

External directorships

The Board allows Executive Directors to accept one external commercial non-executive director appointment provided the commitment is compatible with their duties as an Executive Director. The Executive Director concerned may retain fees paid for these services which will be subject to approval by the Board. Currently, neither of the Executive Directors holds an external directorship. Details of all Directors' significant directorships can be found in their biographies on pages 76 and 77.

Where Non-Executive Directors have external directorships, the Board is comfortable that these do not impact on the time that any Director devotes to the Company and we believe that this experience only enhances the capability of the Board.

Information and support available to Directors

All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chairman and the Company Secretary work together to ensure that Board papers are clear, accurate, delivered in a timely manner to Directors, and of sufficient quality to enable the Board to discharge its duties. Specific business-related presentations are given by senior management when appropriate. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary. Deloitte LLP advises on remuneration matters, Ernst & Young LLP on external audit matters and BDO LLP on internal audit matters.

Internal control and risk management

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. The principal risks facing the Group are set out in the Strategic Report on pages 62 to 71, being those risks which could threaten our business model, future performance, solvency or liquidity, and mitigation measures are detailed against each risk. The Audit Committee, on behalf of the Board, carried out a review of the effectiveness of the Group's risk management and system of internal control together with a robust assessment of the risks facing the Group. Details can be found on pages 98 and 99.

The Audit Committee Report on pages 92 to 99 describes the system of internal control and how it is managed and monitored. The Board acknowledges that such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Whistleblowing

An external independent whistleblowing facility is available to enable employees to report any concerns which they feel need to be brought to the attention of management concerning any possible impropriety, financial or otherwise, and the appropriateness of the facility is reviewed by the Audit Committee. The Group believes that it is important to have a culture of openness and accountability in order to prevent such situations occurring or to address them when they do occur.

Governance Report continued

Stakeholder engagement

Directors' s172 statement

Businesses do not operate in isolation. Without a good understanding of who the key stakeholders are and their needs, a business will fail to deliver sustainable value to shareholders and other stakeholders.

The Directors take their duties under s172 (1) of the Companies Act 2006 seriously and consider that they have acted in the way they consider, in good faith, would promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172 (1) (a-f) in the decisions taken during the year ended 31 July 2022.

The Board considers its key stakeholders to be its employees, customers, suppliers, shareholders, the communities and environment in which we operate and governments and industry bodies in the countries in which we operate. The Board takes seriously the views of these stakeholders in setting and implementing our strategy and believes that good engagement is key to the long-term success of Volution. Stakeholder considerations form part of the Board's discussions leading to decision-making and some real examples are set out below. We have invested in the development and involvement of our stakeholder groups as we believe it is in the long-term interests of the Group and the stakeholder groups themselves.

We set out on pages 30 and 31 how Volution and the Board have engaged with key stakeholders. Our business model on pages 24 and 25 outlines our engagement with stakeholders and the value the business creates for each of them and this engagement sets the context for the strategy set out on pages 28 and 29. In particular our engagement with governments and industry bodies in the countries in which we operate has assisted in shaping policy on improving indoor air quality, such

improvement being part of the Group's purpose. Our purpose is set out on page 4 and our sustainability strategy is set out on pages 28 and 29. Our employees are fundamental to the execution of our strategy. We aim to be a responsible employer providing a fair package of pay and benefits including opportunities for personal development and sharing in the financial success of the Group. Claire Tiney is the designated Non-Executive Director for workforce engagement and attends the Employee Representative Forums, reporting back to the Board. Volution's sustainability strategy is key to ensuring our environmental, social and governance ambitions are realised and Amanda Mellor is the designated Non-Executive Director for sustainability and attends the Management Sustainability Committee meetings, reporting back to the Board.

In summary, as required by s172 of the UK Companies Act, a director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- company's reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

Board decision-making during the year

The following are some of the principal decisions made by the Board during the year under review which demonstrate how employee interests, the need to foster business relationships with other key stakeholders and other Section 172 matters have been taken into account in discussions and decision-making:

Decision	What happened
Acquisitions of ERI Corporation and Bera	In line with Volution's long-term strategy for growth and purpose, the Board completed two acquisitions in the year: ERI Corporation, based in North Macedonia, in September 2021, and Bera, based in Germany in July 2022. As part of the decision-making process the long-term consequences of these acquisitions on all stakeholders were considered. The Board also considered the potential synergies and financial benefits of the acquisitions, as well as the environmental aspects of the businesses. The benefit of the acquisitions to shareholders and other stakeholders in terms of the long-term growth of the enlarged Group also formed part of the decision-making process. Further details on these acquisitions may be found in the CEO's Review on pages 14 to 23.
Further development of the Sustainability strategy	The management steering group on Sustainability held two meetings in the year, attended by Non-Executive Director Amanda Mellor. Findings from the Committee meetings were communicated to the Board by Amanda, and the Board in turn provided feedback on the direction of the Group's sustainability strategy. In addition, in order to ensure full awareness of the Group's performance against its sustainability targets, to inform decisions on strategy and operational direction, the Board received a detailed management update in July 2022. Further details may be found in the Sustainability section on pages 32 to 51.

Shareholder relations

Responsibility for shareholder relations rests with the Chairman, the Chief Executive Officer and the Chief Financial Officer. They ensure that there is effective communication with shareholders on matters such as governance and strategy, and are responsible for ensuring that the Board understands the views of major shareholders. The Board aims to present a balanced and clear view of the Group in communications with shareholders and believes that being transparent in describing how we see the market and the prospects for the business is extremely important.

We have communicated with existing and potential shareholders in a number of different ways during the year as follows:

August 2021	<ul style="list-style-type: none"> • Consultation on remuneration with major shareholders and principal investor advisory groups
October 2021	<ul style="list-style-type: none"> • Full year results announcement and analyst presentation • Institutional broker sales desk briefings • UK shareholder roadshow • Annual Report and Accounts and Notice of AGM posted to shareholders and placed on website
December 2021	<ul style="list-style-type: none"> • Trading update • Annual General Meeting
March 2022	<ul style="list-style-type: none"> • Half-year results announcement and analyst presentation • Institutional broker sales desk briefings • Shareholder roadshows
May and July 2022	<ul style="list-style-type: none"> • Trading updates

In addition to the above, we communicate with existing and potential shareholders in a number of other ways, such as:

- face-to-face meetings and telephone briefings for analysts and investors; and
- periodic visits by analysts and major shareholders to the business sites to give a better understanding of how we manage our business. These visits and meetings are principally undertaken by the Chief Executive Officer, the Chief Financial Officer and other members of the Senior Management Team.

In situations where new material is presented, it is also uploaded to the Company's website so it is available to all shareholders.

The Board receives regular updates on the views of its shareholders from the Chief Executive Officer and Company brokers. This is a standing agenda item for all Board meetings. In addition, the Senior Independent Director is available to meet shareholders if they wish to raise issues separately from the arrangements as described above.

The Company's investor website is also regularly updated with news and information including this Annual Report and Accounts, which sets out our strategy and performance together with our plans for future growth.

During the year the Chief Executive Officer, the Chief Financial Officer and other members of the Senior Management Team engaged with investors and the following were the main topics and frequently asked questions:

- impact on the supply chain in terms of both continuity of supply and cost inflation and ability to recover increased costs through product price increases;
- impact of the regulatory backdrop;
- sustainability of margin;
- performance of newly acquired businesses and the acquisition pipeline;
- definition and measurement of low-carbon revenues and products; and
- Volution's plans for setting carbon reduction targets.

Business ethics

Our core values and principles, and the standards of behaviour to which every employee and agent across the Group is expected to work, are set out in the Volution Code of Conduct. These values and principles are applied to dealings with our customers, suppliers and other stakeholders.

We have a zero-tolerance approach to all forms of bribery and corruption. Our Anti-Bribery and Corruption Policy has been approved by the Board and rolled out across the Group. It applies to all businesses, Directors, employees and agents within the Group to ensure compliance with all laws and regulations governing bribery and corruption in the countries in which the Group operates.

The Group has a "Speak Up" facility operated by an independent external company, where employees can report any incidents or inappropriate behaviours in their own language by telephone or online. The confidentiality of the information reported is protected. In addition, web-based anti-bribery and corruption training is carried out by employees in areas of the business where risk is deemed to be highest.

Governance Report continued

Business ethics continued

Human rights

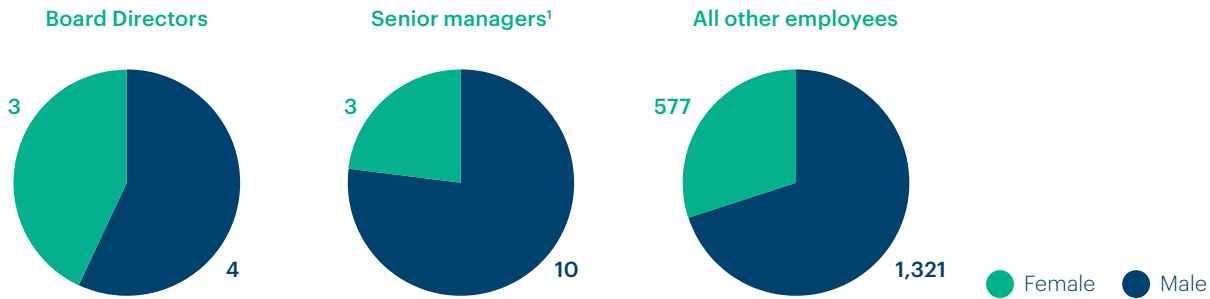
Breaches of human rights are not considered to be a material risk for the business as our activities are substantially carried out in developed countries that have strong legislation governing human rights. We adhere to policies which support human rights principles.

Diversity

We employ a diverse workforce and pride ourselves on providing equal opportunities for all. We understand the benefits a diverse workforce brings and recognise that the industry faces underrepresentation of women as well as people from different ethnic backgrounds. High value is placed on rewarding our people for their commitment, their integrity and their service.

We aim to ensure that no employee is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic or national origins, sexual orientation or gender, marital status, disability, religion or belief, age or being part time. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflect our customer base and the wider population in our markets.

The building services industry traditionally attracts a higher-than-average proportion of male employees. This is reflected in the Group's split between male and female employees as shown:



Note
 1. Legislation requires that we define "senior managers" as the directors of our subsidiary companies. However, the Board believes this information does not provide a meaningful analysis of how the Group operates so the data shown reflects the proportion of senior managers by our own internal grading system. The number also excludes Board Directors.

Modern Slavery Act

We are opposed to slavery, servitude, forced labour and human trafficking. We take a zero-tolerance approach to modern slavery in the supply chain and businesses under our control. The Board has approved a statement setting out the steps that have been taken to combat modern slavery. This statement can be found on the Group's website at www.volutiongroupplc.com. Group employees, agents and suppliers are requested to confirm that they do and will continue to comply with our policy which is set out in our Code of Conduct.

Fair, balanced and understandable

The Board recognises its duty to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

The Board has placed reliance on the following to form this opinion:

- a verification process dealing with the factual content of the reports and to ensure consistency across the various sections;
- a review of the Annual Report and Accounts by senior management to ensure consistency and overall balance; and
- the Audit Committee reviewed the Annual Report and Accounts and its compliance with the requirements, concluded that they had been met and recommended its approval by the Board as fair, balanced and understandable.

Annual General Meeting

The Annual General Meeting (AGM) of the Company will take place at 12.00 noon on Wednesday 14 December 2022 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ, United Kingdom.

The Notice of AGM can be found in a circular which is being posted at the same time as this Annual Report and Accounts. The Notice of AGM sets out the business of the meeting and explanatory notes on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

Nomination Committee Report

Continued focus on Board composition, succession and diversity



Dear shareholder,

I am pleased to present our report detailing the role and responsibilities of the Committee and its activities during the year.

Role and responsibilities

The key responsibilities of the Committee are:

- assessing whether the structure, size and composition (including the skills, knowledge, independence, experience and gender and ethnic diversity) of the Board continue to meet the Group's business and strategic needs;
- considering succession planning and talent development for the Executive Directors and the Senior Management Team and, in particular, for the key roles of Chairman of the Board and Chief Executive Officer, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board; and
- identifying and nominating, for approval by the Board, candidates to fill Board vacancies as and when they arise together with leading the process for such appointments.

The full terms of reference of the Committee are available on the Company's website at www.volutiongroupplc.com.

Committee members

Paul Hollingworth (chair)

Margaret Amos

Nigel Lingwood

Amanda Mellor

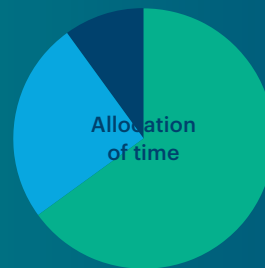
Claire Tiney

Highlights

- Reviewed the succession plan and identified future needs, both for Board and senior management positions.
- Commenced a search for a new Non Executive Director to replace Tony Reading, who retired from the Board at the conclusion of the 2021 AGM, resulting in the appointment of Dr. Margaret Amos on 10 March 2022.
- Appointment of Amanda Mellor as Senior Independent Director in December 2021.

Priorities

- Continue to manage Board and senior management succession plans, including succession plans in relation to the Chairman.
- Ongoing evaluation of the size and composition of the Board including the balance of skills, knowledge, independence, experience and gender and ethnic diversity.
- Review the talent pipeline below Board level.



- Board succession planning and appointments – 65%
- Senior management succession planning and talent management – 25%
- Governance – 10%

Membership and attendance

The 2018 UK Corporate Governance Code (the 2018 Code) recommends that a majority of the members of a nomination committee should be independent non executive directors. As can be seen from the above list of members, the Committee complies with this 2018 Code recommendation, as I am the chair and all other members are independent Non Executive Directors. Biographies of all Committee members can be found on pages 76 and 77.

By invitation, the meetings of the Committee may be attended by the Chief Executive Officer and the Chief Financial Officer. The Chairman of the Board normally chairs the Committee except where it is dealing with his own re appointment or replacement. The Company Secretary acts as the secretary to the Committee and minutes of each Committee meeting are provided to Board members.

Nomination Committee Report continued

Membership and attendance continued

The Committee met for four scheduled meetings during the year with attendance disclosed below.

Member	Member since	Attendance
Paul Hollingworth (chair)	23 June 2014	4/4
Margaret Amos ¹	10 March 2022	1/1
Nigel Lingwood	30 April 2020	4/4
Amanda Mellor	19 March 2018	4/4
Tony Reading ²	23 June 2014	2/2
Claire Tiney	3 August 2016	4/4

1. Margaret Amos joined the Board on 10 March 2022. There was only one Nomination Committee meeting between that date and the year end, and so Margaret attended the maximum number of meetings possible.
2. Tony Reading stepped down from the Board on 9 December 2021. There were only two Nomination Committee meetings between 1 August 2021 and that date, and so Tony attended the maximum number of meetings possible.

Committee activities during the year

The following matters were considered at the Committee meetings held during the year:

- evaluated the size and composition of the Board, including the balance of skills, knowledge, independence, experience and gender and ethnic diversity;
- discussed succession plans for the Executive and Non-Executive Directors;
- commenced a search process to find a new Non-Executive Director to replace Tony Reading on his retirement;
- considered and recommended to the Board the appointment of Dr. Margaret Amos as a Non-Executive Director;
- considered and recommended to the Board the re-appointment of Claire Tiney as a Non-Executive Director;
- considered and recommended to the Board the appointment of Amanda Mellor as Senior Independent Director;
- reviewed succession planning and talent development for the Senior Management Team;
- reviewed and approved the recommendations to be made to shareholders for the re-election of Directors at the Annual General Meeting; and
- reviewed the results of the Committee performance evaluation.

After the year end at the October 2022 meeting, the Committee considered the outcome of the performance evaluations when discussing the effectiveness of the Non-Executive Directors seeking re-election at the Annual General Meeting 2022.

Board composition and succession planning

During the year the Committee discussed succession planning for Executive and Non-Executive Directors and progressive refreshing of the Board. As a result of that process, a search was commenced for a new Non-Executive Director to replace Tony Reading, who retired from the Board at the conclusion of the 2021 Annual General Meeting on 9 December 2021, having been a member of the Board since June 2014. The search process resulted in the appointment of Margaret Amos on 10 March 2022.

This search process was led by independent external search firm Warren Partners Ltd, which had no connection to Volution. The process involved the formulation of a longlist of candidates for review by the Committee. The list of candidates chosen from the longlist was then discussed by the Committee and followed by an interview process that included meetings with the Chairman, the Senior Independent Director, the independent Directors and the Executive Directors. The candidates remaining on the shortlist were discussed by the Committee, such discussion resulting in the recommendation of Margaret's appointment to the Board. The announcement regarding Margaret's appointment was made to the London Stock Exchange on 10 March 2022.

On retirement at the conclusion of the Annual General Meeting in December 2021, Tony Reading was succeeded as the Senior Independent Director by Amanda Mellor.



During the year the Committee discussed succession planning for Executive and Non-Executive Directors and progressive refreshing of the Board.”

As mentioned above, 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.

Diversity

The Committee, the Board of Directors and Volution as a whole continue to pay full regard to the benefits of diversity, including gender and ethnic diversity, when searching for candidates for the Board, Senior Management Team and other appointments. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflect our customer base and the wider population in our markets.

Diversity of Board members is important to provide the necessary range of background experience, values and diversity of thinking and perspectives to optimise the decision-making process. Gender and ethnicity are important aspects of diversity which the Chairman and the Committee consider when deciding upon the most appropriate composition of the Board.

The Board supports the FTSE Women Leaders Review, which seeks to improve board and senior leadership gender diversity across FTSE 350 companies, and the Parker Review on Ethnic Diversity. As at the financial year end, the Board comprised four male and three female Directors meaning that over 40% of the Board is female. One Board member was of BAME heritage.

Election and re-election of Directors

On the recommendation of the Committee and in line with the 2018 Code and the Company's Articles of Association, all of the Company's Directors will stand for election or re-election at the Annual General Meeting 2022. The biographical details of the Directors can be found on pages 76 and 77. The Committee considers that the performance of each of the Directors standing for election or re-election at the Annual General Meeting continues to be effective and each demonstrates commitment to their role.

Committee performance evaluation

During the year, the Board conducted an externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on page 84. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Committee priorities for 2022/23

During the 2022/23 year the Committee will continue to consider succession planning and to evaluate the size and composition of the Board including the balance of skills, knowledge, independence, experience and diversity. As mentioned above, Amanda Mellor, as Senior Independent Director, will lead the process in respect of my successor. There will also be continued focus on the talent pipeline, succession planning and diversity at senior management level.



Paul Hollingworth
Chair of the Nomination Committee
5 October 2022

Audit Committee Report

Maintaining focus on the control environment as we grow



Dear shareholder,

The Committee has worked diligently through its responsibilities this year on maintaining the integrity of the Group's financial statements and reporting responsibilities which is at the heart of good governance. The Committee takes great care in carrying out these important tasks, while also maintaining a strong internal control and compliance culture across the Group.

I was delighted to welcome Dr. Margaret Amos to the Committee in March this year, following the retirement from the Committee and the Board of Tony Reading. Margaret has broad commercial and financial experience gained in an industrial environment which will benefit the work of the Committee. I wish to thank Tony for his long and valued contribution to the Committee.

Committee members

Nigel Lingwood (chair)

Margaret Amos⁽¹⁾

Amanda Mellor

Claire Tiney

(1) Margaret Amos was appointed to the Committee on 10 March 2022. Tony Reading stepped down from the Committee on 9 December 2021.



- Financial reporting – 20%
- External and internal audit – 30%
- Risk management and internal control – 30%
- Governance – 20%

Highlights

- Maintained focus on control environment and reporting processes in businesses across the Group, including in particular newly acquired businesses.
- Continued to monitor Group risk environment and internal controls with enhanced process to identify, assess and monitor emerging risks in current macroeconomic and political environment.
- Received presentation from EY on potential new requirements of BEIS White Paper.
- Reviewed and approved paper setting out Group Tax Strategy.

Priorities

- Review and challenge the accounting for the acquisitions completed during the year.
- Reviewed cash flow forecasts and financial modelling prepared in support of Going Concern Review and Viability Statement.
- Preparation for the tender of the audit of the Group and Company in 2023.

“

The Committee has taken the decision to commence a tender process for the appointment of the external auditor for the FY24 audit, planned for completion in 2023.”

During the year, the Committee focused on several key areas, including a review of the Group's taxation risks and compliance procedures and on formalising the Group's tax strategy. This is an increasing compliance risk as the Group gains scale and broadens its activities into new geographies. The Committee also considered more routine, but important matters such as preparing for the tender of the external audit in the next financial year and on other regulatory requirements.

During the year we welcomed Jon Killingley as the new external audit partner in EY, following the retirement of his predecessor, Andy Clewer. Jon shadowed the interim audit review in February this year which allowed him to quickly gain a solid understanding of the Group's business model and financial reporting risks. I would like to thank Andy for his robust approach to the audit in recent years.

In the areas of both internal and external audit work, it is very pleasing that the audits and reviews are now being carried out on site and in person, following the lifting of the Covid-19-related restrictions and which provide for much better interaction between management and auditor.

BDO, who provide internal audit services to the Group, has provided substantial support in this area, conducting full reviews of newly acquired businesses and developing clear action plans to ensure alignment with Group standards and policy. In recent years the work of BDO has evolved beyond pure reviews of the internal control environment to include more thematic and compliance reviews. The reports received this year from BDO confirm that the Group's businesses continue to maintain a strong focus on internal controls and compliance with emerging regulatory requirements.

With the backdrop of continued supply chain pressures, rises in inflation, and macro-economic and political uncertainty, the Committee undertook a thorough review of the Group's principal and emerging risks this year and were satisfied that these were appropriately addressed in the end-of-year cash modelling exercises to support the Board's statements on Going Concern and Viability.

Finally, an important part of the Committee's work this year was to review the development of new reporting and governance requirements for companies proposed in the BEIS White Paper. The Committee received a presentation from EY on the likely implications on the Group from these proposals and while the implementation dates remain uncertain, the direction of travel is clear; we need to continue to work towards a more formal and stronger control and assurance environment. This work will occupy a large part of the Committee's time over the next two years.

It has been a pleasure to work with colleagues across Volution this year. I would like to thank all the finance teams across the Group, on behalf of the Committee, for their dedication in such a busy year to maintaining high standards in financial reporting and internal control. I look forward to working with them in 2023 and beyond.

Nigel Lingwood
Chair of the Audit Committee
5 October 2022

Role and responsibilities

The primary function of the Committee is to assist the Board in fulfilling its responsibilities with regard to the integrity of financial reporting, audit, risk management and internal controls. This comprises:

- monitoring and reviewing the Group's accounting policies, practices and significant accounting judgements;
- reviewing the annual and half-yearly financial statements, trading statements and any other financial announcements;
- reporting to the Board on whether the Annual Report and Accounts is fair, balanced and understandable;
- reviewing the Board's shorter-term cash flow forecasts and its method for assessing the Group's long-term viability;
- approving the appointment and recommending the re-appointment of the external auditor and its terms of engagement and fees;
- reviewing the scope of work to be undertaken by the external auditor and reviewing the results of that work;
- monitoring and reviewing the effectiveness of the external audit process and the auditor;
- reviewing and monitoring the independence of the external auditor and approving its provision of non-audit services;
- monitoring and reviewing the adequacy and effectiveness of the risk management systems and processes and, where appropriate, making recommendations to the Board on areas for improvement;
- monitoring and reviewing the effectiveness of the Group's internal audit function, and resolution of its material findings, in the context of the Group's overall risk management systems;
- reviewing reports from the Chief Financial Officer on the controls to mitigate fraud risk; and
- overseeing the Group's procedures for its employees to raise concerns through its Whistleblowing Policy as set out in the Code of Conduct.

“

I would like to thank all the finance teams across the Group, on behalf of the Committee, for their dedication in such a busy year to maintaining high standards of financial reporting and internal control.”

Audit Committee Report continued

Membership and attendance

The Code recommends that all members of the audit committee should be non-executive directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience.

The Committee comprises four members who are independent Non-Executive Directors, Nigel Lingwood as Committee chair, considered by the Board to have recent and relevant financial and accounting experience, Margaret Amos, Amanda Mellor and Claire Tiney. All members have a sufficiently wide range of business experience and expertise such that the Committee can fulfil its responsibilities under the Code. Biographies of all Committee members can be found on pages 76 and 77. Tony Reading stepped down from the Committee on 9 December 2021 and Margaret Amos joined the Committee on 10 March 2022.

Committee meetings are also normally attended by the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary, who acts as secretary to the Committee. The external and internal auditor also attend meetings when appropriate. Other members of management may be invited to attend depending on the matters under discussion. The Committee meets regularly with the external auditor with no members of management present. Meetings are scheduled in accordance with the financial and reporting cycles of the Company and generally take place prior to Board meetings to ensure effective collaboration with the Board. Minutes of each Committee meeting are provided to Board members.

The Committee also has independent access to BDO, the internal auditor, and to EY, the external auditor. BDO and EY have direct access to the chair of the Committee outside formal Committee meetings.

The Committee met five times during the year with attendance disclosed below.

Member	Member since	Attendance
Nigel Lingwood (chair)	30 April 2020	5/5
Margaret Amos ¹	10 March 2022	2/2
Tony Reading ²	23 June 2014	2/2
Amanda Mellor	19 March 2018	5/5
Claire Tiney	3 August 2016	5/5

1. Margaret Amos joined the Board on 10 March 2022. There were only two Audit Committee meetings between that date and the year end, and so Margaret attended the maximum number of meetings possible.
2. Tony Reading stepped down from the Board on 9 December 2021. There were only two Audit Committee meetings between 1 August 2021 and that date, and so Tony attended the maximum number of meetings possible.



Committee activities during the year

During the year, the Committee dealt with the following matters:

Financial statements and reports

- Reviewed the Annual Report and Accounts, together with the preliminary results announcement and the half-year results announcement, and received reports from the external auditor on the above; the Committee also reviewed the trading updates
- Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Accounts
- Reviewed executive management's representation letter to the auditor, going concern reviews, fair, balanced and understandable criteria and significant areas of accounting estimates and judgement
- Reviewed the basis of accounting for the acquisition of ERI Corporation
- Reviewed the Group's cash flow forecasts, the Group's bank facilities and the Viability Statement

Risk management

- Monitored and reviewed the effectiveness of risk management and internal control processes
- Reviewed the Group Risk Register, which identifies, evaluates and sets out mitigation of risks, and reviewed the principal risks and uncertainties disclosed in the Annual Report and Accounts

Internal audit

- Reviewed reports from BDO as Group internal auditor and reviewed its summary report on internal audits completed in 2022 and its internal audit plan for 2023

External auditor and non-audit work

- Reviewed the relationship with the external auditor including its independence, objectivity and effectiveness and recommended to the Board its re-appointment at the Annual General Meeting
- Reviewed, considered and agreed the scope of the audit work to be undertaken by the external auditor on this year's Annual Report
- Agreed the terms of engagement and fees to be paid to the external auditor
- Reviewed and approved the Group policy on non-audit services and reviewed any non-audit fees
- Considered and agreed the process and timetable to tender the audit of the Group and Company during the 2023 financial year

Governance

- Reviewed and approved the Group's Tax Strategy; reviewed a paper on the Group's tax risks, controls and processes operating over all businesses in the Group
- Monitored the Group's Code of Conduct, Anti-Bribery and Corruption Policy and Policy on Corporate Criminal Offences; reviewed the Group's whistleblowing arrangements
- Met with the external auditor and the internal auditor without executive management being present
- Completed an evaluation of the Committee performance and set its annual work programme for FY23
- Reviewed the Government's response to the consultation on the BEIS White Paper on Restoring Trust in Audit and Corporate Governance; received a presentation from EY on the implications of the BEIS White Paper on the Group

Audit Committee Report continued

Significant accounting matters

The Committee, together with the auditor, identified the matters set out below as being significant in the context of the consolidated financial statements for the year ended 31 July 2022. These were discussed and reviewed with management and the external auditor; the Committee challenged judgements and sought clarification where necessary. The Committee received a report from the external auditor on the work it had performed to arrive at its conclusions and discussed in detail all material findings contained within the report.

Area of focus	Why was this significant?	How did the Committee address this area?
Impairment of goodwill and other intangible assets	The Group's policies on accounting for separately acquired intangible assets and goodwill on acquired businesses are set out in notes 13 and 14 to the consolidated financial statements. At 31 July 2022 intangible assets relating to goodwill and other intangible assets amounted to £230.3 million. The acquisitions made during the year added £21.1 million of goodwill and other intangible assets through acquisition. Goodwill on acquisitions and acquired intangible assets, which are judged to have indefinite lives, are initially recorded at fair value, and are subject to testing for impairment at each balance sheet date. For intangible assets amortised over finite lives the Group is required to determine whether indicators of impairment exist and, if so, perform a full impairment review. As is customary, such testing involves estimation of the future cash flows attributable to the asset, or cash generating unit of which it is part, and discounting these future cash flows to today's value.	<p>The Committee has reviewed the key assumptions behind these valuations and impairment reviews, notably the expected development of future cash flows and the discount rates used, as well as considering reasonable sensitivities to these estimates, and concluded that these support the carrying values set out in notes 13 and 15 to the consolidated financial statements and no impairment provision is required.</p> <p>The Committee considered the impact of climate change over the medium and long time period of our climate change assessment (aligned to our impairment review), and considered it reasonable to expect no material adverse impact of climate change to our business model that would materially impact the cash flows used in our impairment reviews.</p> <p>The Committee has also reviewed the additions to goodwill and other intangible assets through acquisition in the year, the allocation of goodwill and other intangible assets to the appropriate cash generating units (CGUs), and the level of CGUs at which the impairment testing is completed. The Committee considered these allocations and judgements reasonable.</p>
Revenue recognition – liabilities arising from retrospective volume rebates	The Group has a number of customer rebate agreements that are considered to be variable consideration and are recognised as a reduction from sales. Rebates are based on an agreed percentage of revenue, which will increase with the level of revenue achieved. These agreements may run to a different reporting period to that of the Group with some of the amounts payable being subject to confirmation after the reporting date. At the reporting date, management makes estimates of the amount of rebate that will become payable by the Group under these agreements using a probability weighted average to arrive at an expected amount. The liability arising from retrospective volume rebates at 31 July 2022 included within trade and other payables is £9.4 million (2021: £10.0 million).	The Committee reviewed a paper from Management setting out the process for estimating the amount of rebates to be recognised and considered the operating effectiveness of controls surrounding revenue recognition and Management's subjective assessment and recognition of rebates at the year end. The Committee reviewed Management's methodology and judgement in assessing the recognition of rebates. The Committee concurred with its approach.
Accounting for business combinations	<p>There was one business combinations during the year, the acquisition of ERI. The acquisition was relatively straight forward and included a 100% purchase of shares except for a majority 51% purchase of shares of one of the non-material entities.</p> <p>The liability to purchase the remaining 25% of the shares in ClimaRad (acquired in 2021) was re-measured to include the minority interest share of profit for the year, less interest and principal on the vendor loan already paid.</p>	<p>The Committee reviewed a paper from Management setting out the accounting for the ERI acquisition and the application of the relevant accounting standards. The Committee reviewed the accounting and agreed that it was appropriate. The Committee also reviewed the judgements that Management made in assessing the fair value measurement of the contingent liability and agreed the judgements were reasonable.</p> <p>The Committee also received a paper from Management setting out the re-measurement of the ClimaRad liability and agreed that it was appropriate.</p>
Going concern	The Board of Directors has a responsibility to assess whether there are any significant doubts about an entity's ability to continue as a going concern. The Group has completed a comprehensive and robust assessment in order to support the preparation of the financial statements on the going concern basis. Such testing involves a number of assumptions regarding the future financial performance of the Group for 24 months from the balance sheet date.	<p>The Committee has reviewed the key assumptions used in the going concern assessment and the other relevant factors surrounding going concern, notably the expected liquidity levels of the Group and covenant headroom.</p> <p>The Committee has also considered reasonable sensitivities to these estimates including potential scenarios arising from a resurgence of the Covid-19 pandemic and the potential impact from the other principal risks and concluded that these support the preparation of the financial statements on the going concern basis.</p> <p>The Committee considered the impact of climate change over the short time period of our climate change assessment (aligned to our going concern review), and considered it reasonable to expect no material adverse impact of climate change over the going concern period, and hence considered it reasonable that no adverse impacts in either our base case or downside scenarios were included.</p> <p>Further detail of the going concern assessment prepared by the Group is included on page 65.</p>

In addition, the Committee reviewed policy and provisions with respect to: treasury, taxation, warranty, doubtful debts and inventory and weighted average cost of capital rates.

External audit

EY was appointed as external auditor for the financial year commencing 1 August 2012 following a competitive tendering process. The lead partner at the start of the financial year ended 31 July 2022 was Andy Clewer. This was his third financial year spent auditing the Group and he had no previous involvement with the Group in any capacity prior to appointment. Jon Killingley took over as lead partner in May 2022 following the retirement of Andy Clewer and he has not had any previous involvement with the Group.

The Committee has noted the tendering and rotation provisions in the EU Audit Directive and Regulation and the Companies Act 2006, which state that there should be a public tender every ten years and a change of external auditor at least every 20 years. The Committee also confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the Order).

As the Company is required to tender for audit services for the year ending June 2024 (ten years from listing), the Committee has considered and approved the tender process for the appointment of the external auditor for the year ending 31 July 2024. It is planned that the process will be completed in the first half of the 2023 financial year, which will provide an opportunity for the successful audit firm to shadow the closing audit process in FY23. The Committee has recommended to the Board that a resolution to re-appoint EY for the FY23 audit to be proposed to shareholders at the Annual General Meeting in December 2022 and the Board accepted and endorsed this recommendation.

During the year, the Committee assessed the effectiveness of EY and the FY21 external audit process using a checklist and questionnaire issued to senior financial management across the Group who had been involved in the audit process. A summary of the findings was prepared for consideration by the Committee and EY. As with the prior year, the principal concern that arose from this assessment related to the impact of the Covid-19 pandemic from restrictions put on the auditor to carry out its work at local subsidiaries, both in the UK and overseas. The Company and auditor worked jointly implementing a process to overcome these difficulties and the Committee concluded that such processes had been effective in providing for a robust audit process. There were no other substantive matters identified during this assessment and the Committee concluded that the external audit process in FY21 had been effective.

Non-audit services

The external auditor does not provide any advice on tax. All tax-related work is undertaken by PwC. The Committee agrees the fees paid to the external auditor for its services as auditor. A formal policy in relation to the provision of non-audit services by the external auditor was reviewed by the Committee during the year to ensure that there was adequate protection of its independence and objectivity.

During the year, EY charged the Group £95,000 (2021: £38,000) for non-audit services relating to the half-year review, which represents 12.9% (2021: 6.2%) of the average of the external audit fee over the last three financial years. A breakdown of the fees paid to EY during the year is set out in note 9 to the consolidated financial statements.

Internal control and risk management

The Board is responsible for the effectiveness of the Group's system of internal control, which has been designed and implemented to meet the requirements of the Group and the risks to which it is exposed. Details are set out below on the Group's internal control environment, how risk is managed and the Committee's review of the effectiveness of the risk management and internal control systems.

Internal control environment

The following key elements comprise the internal control environment which has been designed to identify, evaluate and manage, rather than eliminate, the risks faced by the Group in seeking to achieve its business objectives and ensure accurate and timely reporting of financial data for the Company and the Group:

- an appropriate organisational structure with clear lines of responsibility;
- an experienced and qualified finance function which regularly assesses the possible financial impact of the risks facing the Group;
- a comprehensive annual business planning process;
- systems of control procedures and delegated authorities which operate within defined guidelines, and approval limits for capital and operating expenditure and other key business transactions and decisions;
- a robust financial control, budgeting and forecasting system, which includes regular monitoring, variance analysis, key performance indicator reviews and risk and opportunity assessments at Board level;
- procedures by which the consolidated financial statements are prepared, which are monitored and maintained through the use of internal control frameworks addressing key financial reporting risks arising from changes in the business or accounting standards;
- established policies and procedures setting out expected standards of integrity and ethical standards which reinforce the need for all employees to adhere to all legal and regulatory requirements;
- an annual internal controls compliance checklist; and
- BDO acting as the internal auditor carrying out an extensive and structured programme of internal audit reviews.

Audit Committee Report continued

Internal control environment continued

BDO has continued to act in the capacity of internal auditor. The Committee agrees the BDO internal audit plan prior to the commencement of the new financial year. The plan was designed to ensure that there was appropriate coverage of the internal control environment, strategic priorities and key risks identified by the Board in its annual risk management process. At regular Committee meetings, BDO gives an update on the progress of the internal audit plan, which is reviewed to ensure that it is in line with the Committee's expectations. Ongoing government restrictions in the UK and some of the overseas jurisdictions caused by the Covid-19 pandemic led to some of the internal audit work being undertaken using video and audio calls rather than in-person audit meetings in the early part of 2022, but in-person review work has now been resumed.

Other than the requirement to improve the segregation of duties and similar controls in newly acquired businesses, there were no substantive or high-risk matters identified and reported to the Committee by BDO during the financial year.

Risk management

As outlined above, the Group has a risk management process that follows a sequence of risk identification and assessment of probability and impact, and assigns an owner to manage mitigation activities at the operational level. Each business unit operates a process to ensure that key risks are identified, evaluated, managed and reviewed appropriately. This process is also applied at Board level to major business decisions such as acquisitions. The business unit risk registers form the basis for the Group Risk Register, which is maintained for all corporate risks and is monitored by senior management and reviewed by the Committee. During the year, the Group Risk Register and the methodology applied were the subject of review by senior management and updated to reflect new and developing areas which might impact business strategy. The Committee reviews the Group Risk Register at least twice a year and assesses the actions being taken by senior management to monitor and mitigate the risks.

The Group's principal risks and uncertainties, the areas which they impact and how they are mitigated are described on pages 62 to 71.

Review of effectiveness

Provision 29 of the 2018 Code states that the Board should monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness.

The Committee receives an annual report on the performance of the system of internal control, and on its effectiveness in managing risks and in identifying control failings or weaknesses. The Committee has reviewed the Group's risk management process and the effectiveness of the Group's risk management and internal control systems for the period from 1 August 2021 to the date of this report. Taking into account the matters set out on pages 62 to 71 relating to principal risks and uncertainties and the internal audit reports from BDO, the Board, with the advice of the Committee, is satisfied that the Group has in place effective risk management and internal control systems.

Code of Conduct, anti-bribery and whistleblowing

The Group is committed to providing a safe and confidential avenue for all employees across the Group to raise concerns about serious wrongdoings. The Group also acknowledges the requirements of the 2018 Code in this area, which states that the Committee should review arrangements by which employees across the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that these concerns are investigated and escalated as appropriate.

The Company has a Group-wide Code of Conduct, an Anti-Bribery and Corruption Policy and a Policy on Corporate Criminal Offences. These policies set out clearly the Group's values and the importance that is placed on honest, ethical and lawful conduct in all business dealings. The Code of Conduct also sets out the Group's policy on anti-slavery and human trafficking, in accordance with the Modern Slavery Act 2015. Group employees, agents and suppliers are asked, where relevant, to confirm that they do and will continue to comply with these policies. A gifts and hospitality register is operated by each business unit to ensure transparency where items are over a certain monetary threshold. In addition, all employees who are considered the most likely to be exposed to bribery and corruption are given web-based anti-bribery and corruption training.

The Committee has reviewed the arrangements by which employees are able to raise, in confidence, any concerns they may have about possible wrongdoing or dishonest or unethical behaviour, such as bribery, corruption, fraud, dishonesty and illegal practices. An external independent whistleblowing provider provides a confidential web-based and telephone facility which has been communicated across the Group, branded as "Speak Up", to ensure awareness. The Code of Conduct protects anyone who comes forward to make a disclosure under the Whistleblowing Policy. When a disclosure is made, the Company Secretary reports the matter to the Committee chair and initiates an investigation to include all necessary parties. A report on the investigation is submitted to the Committee and appropriate steps are taken to ensure that any matters relating to any disclosures have been resolved satisfactorily. The Committee also has the power to conduct further enquiries itself or any other additional actions it sees fit. There were no reports brought to the attention of the Committee for investigation during the year.

Committee performance evaluation

During the year, the Board conducted a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on pages 84 and 85. This process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Fair, balanced and understandable

The Board has responsibility under the Code for preparing the Company's Annual Report and Accounts, ensuring that it presents a fair, balanced and understandable (FBU) assessment of the Group's position and prospects and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The review of the Annual Report and Accounts took the form of a detailed assessment of the collaborative drafting process, which involves the Board members, the Senior Management team, Group finance and the Company Secretary, with guidance and input from external advisers. This ensures that there is a clear and unified link between this Annual Report and Accounts and the Group's other external reporting, and between the three main sections of the Annual Report and Accounts – the Strategic Report; the Governance Report; and the Financial Statements. In addition, the Committee receives a report highlighting areas for FBU consideration to ensure compliance before approval of the Annual Report and Accounts.

In particular, the Committee:

- reviewed all material matters, as reported elsewhere in this Annual Report and Accounts;
- ensured that it fairly reflected the Group's performance in the reporting year;
- ensured that it reflected the Group's business model and strategy;
- ensured that it presented a consistent message throughout; and
- considered whether it presented the information in a clear and concise manner, illustrated by appropriate KPIs, to facilitate shareholders' access to relevant information.

A summary of the process, and of the Committee's findings, was considered by the Board at its meeting on 4 October 2022. The outcome of that review was that the Committee confirmed to the Board that the Annual Report and Accounts 2022 met the requirements of the 2018 Code and the Board's formal statement to that effect is set out on page 126.



Nigel Lingwood
Chair of the Audit Committee
5 October 2022

Directors' Remuneration Report

A policy to support Group strategy



Dear shareholder,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2022.

At the Annual General Meeting in December 2021 (2021 AGM), the Directors' Remuneration Report resolution received strong support from shareholders, with 97.7% of the votes cast being in favour of the resolution. Our Remuneration Policy (the Policy) was approved at the 2020 AGM and also received very good support from shareholders, with over 95% of the votes cast being in favour of the resolution. As highlighted in last year's report, as part of our Policy review in 2020, a number of changes were made, including the introduction of post employment shareholdings, the expansion of the malus and clawback terms to include corporate failure and payments based on erroneous or misleading data, and a reduction in the annual bonus payout for target performance to 50% of maximum. The Committee considers that the current Policy continues to appropriately support our remuneration principles, which are to:

- attract and retain the best talent;
- drive behaviours that support the Group's strategy and business objectives which are developed in the long term interests of the Company and its shareholders;
- reward senior management appropriately for its personal and collective achievements;
- provide incentives that help to maintain commitment over the longer term and align the interests of senior management with those of shareholders; and
- ensure that a significant percentage of the overall remuneration package of the Executive Directors and senior management remains at risk, dependent on performance, and that their pay and benefits adequately take account of reward versus risk.

Committee members

Claire Tiney (chair)

Margaret Amos

Paul Hollingworth

Nigel Lingwood

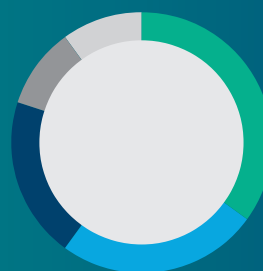
Amanda Mellor

Highlights

- Received strong shareholder support of 97.7% votes in favour for the Directors' Remuneration Report at the 2021 Annual General Meeting.
- Approved the remuneration for Executive Directors and senior management and consulted with shareholders on remuneration decisions.
- Determined incentive scheme outcomes and set incentive scheme targets, including the ESG measure within the LTIP.
- Increased oversight of wider workforce remuneration supported by the appointment of a new Group Head of HR.

Priorities

- Continue to monitor shareholder guidance and best market practice, whilst ensuring that the remuneration framework is aligned to our strategy and ESG targets.
- Continue to take into account wider workforce trends and policies when setting Executive Director and senior management remuneration.
- Review the Remuneration Policy ahead of its renewal at the 2023 AGM.



- Executive Director and senior management remuneration – 35%
- Remuneration Policy implementation 25%
- Remuneration reporting and governance 20%
- Wider workforce pay and conditions 10%
- Shareholder consultation 10%

Performance in 2021/22 and remuneration outcomes

During the year ended 31 July 2022 the business performed very well. The strong set of results reflects the resilience of the business through the pandemic and other macro-economic factors, with the Group's revenue increasing by 12.9% compared to last year to £307.7 million (2021: £272.6 million). Adjusted operating profit was £64.9 million (2021: £56.9 million), representing 21.1% of revenue and an £8 million improvement compared to the prior year. Reported profit before tax increased by 57.2% to £47.2 million (2021: £30.0 million). 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%.

Adjusted operating profit, adjusted EPS and working capital management were the key measures used by the Committee to assess performance and, accordingly, were the performance measures used in the Annual Bonus Plan (ABP). Performance against these measures resulted in the Committee awarding an annual bonus of 83% of salary to Ronnie George and 83% of salary to Andy O'Brien (66% of the maximum).

We have provided full retrospective disclosure of the ABP targets as well as the actual performance against them. In accordance with the Policy, one-third of the total annual bonus payment will be deferred into awards over the Company's shares which will vest after three years. Further details can be found on page 105.

The LTIP awards granted in the 2019/20 financial year (in October 2019) had a performance period ending on 31 July 2022 and are subject to a two-year holding period. Due to good EPS growth and total shareholder return performance over the period (with a total shareholder return over the performance period of c.120% being top of the peer group), the October 2019 LTIP awards will vest at 100% of maximum. Further details can be found on page 106.

When determining variable pay outcomes, the Committee also took account of the shareholder experience, the employee experience and the wider stakeholder experience alongside all of the performance context provided above. Overall, the Committee considered that remuneration outcomes were appropriate and as such determined that no discretion would be applied.

Remuneration decisions for 2022/23

As set out in the Directors' Remuneration Report last year, the Committee was mindful of the fact that salaries for Executive Directors were below market level for a company of our size and complexity and therefore committed to review salaries ahead of the 2022/23 financial year. During the year the Committee reviewed the Executive Director base salaries in the context of the increased size and complexity of the Group, the performance of the Group, and the performance of the Executive Directors. We have completed the acquisition of ERI Corporation in the year, a leading manufacturer and supplier of low-carbon, energy efficient heat exchanger cells based in North Macedonia, for an initial consideration of €20.0 million, an expansion that further increases the scope and scale of the roles.

Volution is now an established FTSE 250 company having been promoted to the index in May 2021, and there has been significant shareholder value creation since IPO. Volution also holds the London Stock Exchange's Green Economy Mark, recognising the Group's commitment to sustainability. As set out earlier in this letter, there has also been strong trading performance and excellent revenue growth.

Taking all of this into account, the Committee determined that the Chief Executive Officer and Chief Financial Officer would each be awarded an increase in base salary of 7.5%, taking the Chief Executive Officer's salary to £472,608 and the Chief Financial Officer's salary to £330,724.

This is within the 3%–13% range seen across the Group, dependent on performance. Even after these increases, the Committee is mindful that the base salary for both Executive Directors is around the lower quartile of the FTSE 250.

“

During the year the Committee has focused on ensuring alignment of reward and performance and the continued implementation of the Policy to support Group strategy.”

Directors' Remuneration Report continued

Remuneration decisions for 2022/23 continued

The proposed 7.5% salary increase awarded to the Chief Executive Officer will not result in an increase to the pension contribution for the remainder of 2022, which remains fixed at the level prior to this salary increase. As committed to in the Directors' Remuneration Report last year, the Chief Executive Officer's pension contribution will be reduced to 8.5% of salary from 1 January 2023 (the equivalent rate as if he were a member of the Company pension scheme, joining prior to 1 January 2018 and having reached age 50).

Variable incentive opportunity levels will remain in line with our shareholder-approved Policy and at the same levels set in 2021/22.

The performance measures applicable to the ABP will remain unchanged and the Committee continues its policy of setting stretching annual bonus targets which take into account a number of internal and external factors. The weightings will be: adjusted EPS (52%); adjusted operating profit (36%); and working capital management (12%).

The Committee will continue its policy of setting stretching LTIP targets which also take into account a number of internal and external factors. Volution is committed to its purpose of providing "healthy air, sustainably" and to the importance of environmental, social and governance (ESG) measures in meeting its purpose. The measures for the LTIP will be: earnings per share (60%); total shareholder return (20%); and ESG targets (20%). Further details can be found on page 111.

Shareholder consultation

We are committed to maintaining an open and transparent dialogue with our shareholders on executive pay. As such, the Committee has communicated to our major shareholders the remuneration decisions for the 2022/23 financial year as set out above. The feedback on the remuneration decisions received from shareholders has been positive.

Looking Ahead

In line with the three-year lifecycle of the Policy, a new Policy will be put forward to a shareholder vote at the 2023 AGM. The Committee intends to review all elements of the package, including structure, incentive levels and performance measures as part of this. The Committee will consult with shareholders on any proposed changes to the Policy.

Annual General Meeting 2022

On behalf of the Board I would like to thank shareholders for their continued support and do hope that you will support the resolution requesting approval of the Annual Report on Remuneration at this year's Annual General Meeting on 14 December 2022.



Claire Tiney
Chair of the Remuneration Committee

5 October 2022

Annual Report on Remuneration

This section provides details of how the Remuneration Policy (the Policy) was implemented during the year and how the Remuneration Committee (the Committee) intends to apply the Policy during the financial year ending 31 July 2023. Certain sections of this report are audited and indicated as such where applicable. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2022 AGM.

Role of the Committee

The role of the Committee is to recommend to the Board a strategy and framework for remuneration for Executive Directors and the Senior Management Team in order to attract and retain leaders who are focused and incentivised to deliver the Company's strategic business priorities, within a remuneration framework which is aligned with the interests of our shareholders and thus designed to promote the long-term success of the Company.

The Committee has clearly defined terms of reference which are available on the Company's website, www.volutiongroupplc.com. The Committee's main responsibilities are to:

- establish and maintain formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors, and to monitor and report on them;
- determine the remuneration, including pension arrangements, of the Executive Directors, taking into account pay and policies across the wider workforce;
- monitor and make recommendations in respect of remuneration for the tier of senior management one level below that of the Board;
- approve annual and long-term incentive arrangements together with their targets and levels of awards;
- determine the level of fees for the Chairman of the Board; and
- select and appoint the external advisers to the Committee.

Membership

The Committee currently comprises four independent Non-Executive Directors, Claire Tiney (chair), Margaret Amos, Nigel Lingwood, and Amanda Mellor, and the Non-Executive Chairman, Paul Hollingworth.

The Chairman of the Board is also a member of the Committee because the Board considers it essential that the Chairman is involved in setting Remuneration Policy (although he is not party to any discussion directly relating to his own remuneration).

Claire Tiney is the chair of the Committee and has chaired the Committee since 30 April 2020. Claire has been a member of the Committee since 1 August 2016 and has extensive experience of chairing listed company remuneration committees.

Tony Reading stepped down from the Committee on 9 December 2021 when he retired from the Board. Margaret Amos joined the Committee on 10 March 2022.

During the year the Committee also consulted with the Chief Executive Officer, the Chief Financial Officer and the Company Secretary, but not on matters relating to their own remuneration.

Attendance

The Committee met four times during the year and has had two meetings to date in 2022/23. Committee member attendance can be found in the table below.

Member	Member since	Attendance at Meetings
Claire Tiney (chair)	1 August 2016	4/4
Margaret Amos ¹	10 March 2022	1/1
Paul Hollingworth	23 June 2014	4/4
Amanda Mellor	18 March 2018	4/4
Nigel Lingwood	30 April 2020	4/4
Tony Reading ²	23 June 2014	2/2

Notes

1. Margaret Amos joined the Committee on 10 March 2022. There was only one Committee meeting between that date and the year end, so Margaret attended the maximum number of meetings possible.
2. Tony Reading stepped down from the Committee on 9 December 2021. There were only two Committee meetings between 1 August 2021 and that date, so Tony attended the maximum number of meetings possible.

Committee activity and key decisions during the year ended 31 July 2022

Matters considered and decisions reached by the Committee during the year included:

- implemented the Policy approved by shareholders at the 2020 AGM;
- considered and approved the Directors' Remuneration Report 2020/21;
- reviewed outcomes for Executive Director and Senior Management Team bonuses for 2020/21;
- reviewed performance measurement outcomes and vesting of LTIP awards granted in October 2018;
- reviewed and approved the parameters of the ABP, including performance measures and targets for 2021/22 for the Executive Directors and Senior Management Team;
- considered and approved the LTIP awards to the Executive Directors and Senior Management Team for 2021/22;
- reviewed market trends and developments in executive remuneration in advance of considering Executive Director and Senior Management Team remuneration proposals for 2022/23;
- reviewed and approved the Executive Director and Senior Management Team salaries for 2022/23; and
- evaluated the performance of the Committee in conjunction with an external facilitator.

Committee performance evaluation

During the year, the Board conducted a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on pages 84 and 85. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Advice to the Committee

The Committee keeps itself fully informed on developments and best practice in the field of remuneration and it seeks advice from external advisers when appropriate.

The Committee appoints its own independent remuneration advisers and at the time of listing appointed Deloitte LLP to that role. Deloitte LLP has served as adviser to the Committee since listing and throughout the year. Total fees for advice provided to the Committee during the year by Deloitte LLP were £28,500 and were charged based on the time spent and seniority of the staff involved in providing the advice. During the year Deloitte LLP also provided the Company with other reward, legal and tax-related services.

Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the United Kingdom. The Committee requests Deloitte LLP to attend meetings periodically during the year. The Committee was satisfied that the advice received from Deloitte during the year was objective and independent.

Single total figure of remuneration (audited)

The audited table below sets out the total remuneration for the Directors in the years ended 31 July 2022 and 31 July 2021.

	Salary and fees		Benefits ¹		Pension ²		Annual bonus ³		Long-term incentives ⁴		Total		Total fixed remuneration		Total variable remuneration	
	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000
Chairman																
Paul Hollingworth	150	143	—	—	—	—	—	—	—	—	150	143	150	143	—	—
Executive Directors																
Ronnie George	440	419	24	22	55	55	363	523	1,321	1,516	2,203	2,535	519	496	1,684	2,039
Andy O'Brien	308	293	17	15	17	16	254	366	770	—	1,366	690	342	324	1,024	366
Non-Executive Directors																
Margaret Amos ⁵	20	—	—	—	—	—	—	—	—	—	20	—	20	—	—	—
Nigel Lingwood	60	58	—	—	—	—	—	—	—	—	60	58	60	58	—	—
Amanda Mellor	55	48	—	—	—	—	—	—	—	—	55	48	55	48	—	—
Tony Reading ⁶	21	53	—	—	—	—	—	—	—	—	21	53	21	53	—	—
Claire Tiney	60	58	—	—	—	—	—	—	—	—	60	58	60	58	—	—

Notes

- Benefits: this includes an annual car allowance, life assurance equivalent to four times annual salary and private medical insurance.
- Pension is a cash payment in lieu of employer's pension contribution. During the year it came to light that, due to an administrative error, the Company had been overpaying Andy O'Brien's pension. The value of the overpayment will be recovered by the Company in full and the values in the single figure table have been adjusted accordingly.
- Annual bonus: the annual bonus for 2021/22 relates to annual incentive payments for performance in that financial year. The calculation of this amount is set out on page 105.
- Long-term incentives: this column relates to the value of long-term awards whose performance period ends in the year under review. The awards granted on 15 October 2019 had a performance period that ended on 31 July 2022, and this has been included in the table above. This award will vest on 15 October 2022 and, therefore, the value included in the table above represents an estimated value using the average share price of £3.65 over the three months to 31 July 2022. The value of the award attributable to share price growth is £1.89 per share. Details of the performance measures and achievement against the targets set can be found on page 105. In line with the remuneration reporting requirements, the awards which vested on 17 October 2021 have been restated to reflect the actual share price (£4.95) on the date of vesting.
- Margaret Amos was appointed as a Non-Executive Director on 10 March 2022.
- Tony Reading stepped down from the Board on 9 December 2021.

Annual Bonus Plan (ABP) (audited)

The operation of the ABP during the year ended 31 July 2022 was consistent with the framework set out in the Policy. The maximum annual bonus potential for the Executive Directors during the year was 125% of base salary, and bonus for on-target performance was 50% of the maximum opportunity. In line with last year's report, we have provided full retrospective disclosure of the targets and performance against those targets which are set out in the table below. The performance measures and weightings for the year ended 31 July 2022 were the same as for the year ended 31 July 2021. The targets were set taking into account the business plan, market conditions and analysts' forecasts at the time. Threshold was set above prior year actual performance for all three measures. As set out in the Policy, one-third of the annual bonus payment earned by the Executive Directors will be deferred into awards over the Company's shares.

As set out in the Chair's letter, the Committee considered a number of different matters when determining the outcome including wider Company performance, employee experience, shareholder experience and wider stakeholder experience and determined that the remuneration outcomes were appropriate and as such no discretion would be applied.

Measure	Strategic objective	Weighting	Threshold	Target	Maximum	Actual performance	% of measure achieved	Payment (% of base salary)
Adjusted operating profit ¹	To increase profit	36%	£60.0m	£64.1m	£67m	£64.9m	63%	29%
Adjusted EPS ¹	Creation of shareholder value	52%	21.5p	23.0p	24.5p	24.0p	83%	54%
Working capital management ²	Delivering efficiency of working capital and cash generation	12%	13.7%	13.425%	13.15%	15%	0%	0%
Total								83%
Total as a % of maximum								66%

Notes

- Adjusted operating profit up to target level is purely organic. Between target and maximum, unbudgeted acquisitions will be taken into account. Adjusted EPS includes unbudgeted acquisitions.
- Working capital targets for the average of the five quarters, quarters ending 31 July 2021, 31 October 2021, 31 January 2022, 30 April 2022 and 31 July 2022. Working capital management (inventories, right of return assets, trade and other receivables, trade and other payables, refund liabilities and provisions) as a percentage of revenue.

Long Term Incentive Plan vesting – October 2019 awards

The LTIP values included in the single total figure of remuneration table for 2022 relate to the LTIP award granted on 15 October 2019. Awards with a face value of 150% of salary were granted to Ronnie George and Andy O'Brien, and, following a three-year performance period ending on 31 July 2022, are due to vest on 15 October 2022. In accordance with the Policy, this LTIP award is subject to an additional two-year holding period following vesting. Therefore, this award will not be available to exercise until 15 October 2024. Performance against the performance targets is set out below:

	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting) ¹	Maximum (100% vesting) ¹	Actual performance outcome	Vesting (% of maximum)
EPS growth	75%	Below 6% p.a. (equivalent to 2021/22 EPS of less than 19.06 pence)	6% p.a. (equivalent to 2021/22 EPS of 19.06 pence)	12% p.a. (equivalent to 2021/22 EPS of 22.48 pence)	14.5% p.a. (actual 2021/22 EPS of 24.0 pence)	75%
TSR vs Direct Peer Group Index ²	25%	Below median	Median	Upper quartile	Upper quartile	25%
Total vesting (% of maximum)						100%

Notes

- Awards vest on a straight line basis between these points.
- Direct Peer Group Index is comprised of 16 companies: Breedon Group, Epwin Group, Eurocell, Forterra, Headlam Group, Ibstock, Luceco, Marshalls, Michelmersh Brick, Norcros, Polypipe (now Genuit Group), Safestyle, SIG, Topps Tiles, Tyman and Watkin Jones.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Share awards granted during the year (audited)

Long Term Incentive Plan (LTIP)

2021/22 awards

On 13 October 2021, the Committee made awards under the LTIP in accordance with the Policy. The LTIP awards were made in the form of nil-cost options which will vest following the Committee's determination of the extent to which performance conditions, measured over three financial years to 31 July 2024, have been met. Awards to the Executive Directors are subject to a two-year holding period. Further context as well as the targets below were disclosed in the Directors' Remuneration Report last year.

Performance measure	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting) ¹	Maximum (100% vesting) ¹
EPS growth	60%	Below 6% p.a.	6% p.a.	12% p.a.
TSR vs Direct Peer Group Index ²	20%	Below median	Median	Upper quartile
ESG (Low-carbon sales as a % of total revenue)	10%	Below 65.6%	65.6%	67.8%
ESG (% of recycled plastics that are used in our manufactured products)	10%	Below 76.8%	76.8%	83.4%

Notes

- Awards will vest on a straight line basis between these points.
- Direct Peer Group Index is comprised of 16 companies: Breedon Group, Epwin Group, Eurocell, Forterra, Genuit Group, Headlam Group, Ibstock, Luceco, Marshalls, Michelmersh Brick, Norcros, Safestyle, SIG, Topps Tiles, Tyman and Watkin Jones.

In addition to the performance conditions set out above, for awards to vest, the Committee must be satisfied with the overall financial performance of the Company over the performance period.

The LTIP awards made on 13 October 2021 were as follows:

Executive Director	Number of shares	Base price	Face value ¹	Face value % of base salary	Release date ²	Expiry date
Ronnie George	141,310	£4.6667	£659,453	150%	13 October 2026	14 October 2031
Andy O'Brien	82,405	£4.6667	£384,563	125%	13 October 2026	14 October 2031

Notes

- The price used to calculate the number of LTIP awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant.
- The LTIP awards were granted with a three-year performance period and an additional two-year holding period.

Deferred Share Bonus Plan (DSBP)

2021/22 awards

As set out in the Policy, under which the 2021/22 annual bonus was awarded, one-third of any bonus payment earned by the Executive Directors will be deferred into awards over the Company's shares.

On 13 October 2021, Ronnie George and Andy O'Brien received an award of shares under the Deferred Share Bonus Plan relating to the 2020/21 annual bonus, as follows:

Executive Director	Number of shares	Base price	Face value ¹	Release date
Ronnie George	37,383	£4.6667	£174,458	13 October 2024
Andy O'Brien	26,160	£4.6667	£122,083	13 October 2024

Note

- The price used to calculate the number of DSBP awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant.

Equity incentives (audited)

Details of the awards granted, outstanding and vested during the year to the Executive Directors under the LTIP and DSBP are as follows:

Name/plan	Date of award	Number of share awards at 1 August 2021	Shares awarded during the year	Shares lapsed during the year	Shares vested during the year	Number of share awards at 31 July 2022	Face value at date of grant £ ¹	Vesting date ²	Expiry date
Ronnie George									
LTIP 2018/19 ³	17/10/2018	328,552	—	36,141	306,642	—	—	17/10/2021	18/10/2028
LTIP 2019/20	15/10/2019	356,846	—	—	—	356,846	628,050	15/10/2022	16/10/2029
LTIP 2020/21	14/10/2020	327,672	—	—	—	327,672	628,050	14/10/2023	15/10/2030
LTIP 2021/22	13/10/2021	—	141,310	—	—	141,310	659,453	13/10/2024	14/10/2031
DSBP 2018/19 ⁴	17/10/2018	39,248	—	—	40,986	—	—	17/10/2021	N/A
DSBP 2019/20	15/10/2019	43,271	—	—	—	43,271	76,157	15/10/2022	N/A
DSBP 2020/21	—	—	—	—	—	—	—	—	—
DSBP 2021/22	13/10/2021	—	37,383	—	—	37,383	174,458	13/10/2024	N/A
Andy O'Brien									
LTIP 2019/20	15/10/2019	208,096	—	—	—	208,096	366,249	15/10/2022	16/10/2029
Buy-out 2019/20	15/10/2019	34,091	—	—	34,091	—	—	15/10/2021	N/A
LTIP 2020/21	14/10/2020	—	191,083	—	—	191,083	366,250	14/10/2023	15/10/2030
LTIP 2021/22	13/10/2021	—	82,405	—	—	82,405	384,563	13/10/2024	14/10/2031
DSBP 2019/20	—	—	—	—	—	—	—	—	—
DSBP 2020/21	—	—	—	—	—	—	—	—	—
DSBP 2021/22	13/10/2021	—	26,160	—	—	26,160	122,083	13/10/2024	N/A

Notes

- The price used to calculate the number of LTIP and DSBP awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant, being £1.865 for the LTIP 2018/19 and DSBP 2018/19, £1.76 for the LTIP 2019/20 and DSBP 2019/20, £1.9167 for the LTIP 2020/21, and £4.67 for the LTIP 2021/22 and DSBP 2021/22.
- LTIP awards granted from 2016/17 were granted with a three-year performance period and an additional two-year holding period, except for the buy-out award granted to Andy O'Brien on 15 October 2019 which vests with a separate vesting schedule, as set out above.
- LTIP 2018/19 awards granted on 17 October 2018 had a performance period ending on 31 July 2021. 89% of the award vested on 17 October 2021. Following performance testing, 36,141 awards lapsed for Ronnie George. In accordance with the rules of the LTIP, 14,231 dividend equivalent shares were added to the vested awards for Ronnie George.
- DSBP 2018/19 awards granted to Ronnie George vested on 17 October 2021 and the shares were immediately transferred to him, becoming part of his beneficial shareholding. In accordance with the rules of the DSBP, 1,738 dividend equivalent shares were added to the vested awards for Ronnie George.

Employee Benefit Trust

The Volution Employee Benefit Trust (EBT) currently holds 2,183,665 shares in the Company. It is the Company's intention to use shares currently held in the EBT to satisfy all awards made so far under the Long Term Incentive Plan, Deferred Share Bonus Plan and Sharesave Plan. Dividends arising on the shares held in the EBT are waived on the recommendation of the Company.

Funding of future awards under the share incentive plans

It is the Company's current intention to satisfy any future requirements of its share incentive plans in a method best suited to the interests of the Company, either by acquiring shares in the market, utilising shares held as treasury shares or issuing new shares. Where the awards are satisfied by newly issued shares or treasury shares, the Company will comply with the dilution limits as set out in the relevant plan rules.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Statement of Directors' shareholdings and share interests (audited)

We believe that Executive Directors should have shareholdings in the Company to ensure that they are as closely aligned as possible with shareholder interests. As such, during the year the Company had share ownership guidelines in place which stated that Executive Directors were expected to achieve and retain a holding of the Company's shares equal to 200% of their base salary.

It should be noted, as shown below, that Ronnie George has a shareholding well in excess of 200% of base salary. Andy O'Brien will build up his shareholding over time to reach the required 200% of base salary.

A formal post-employment shareholding guideline is also in place requiring Executive Directors to hold a shareholding equal to their in-employment shareholding, or their actual shareholding on leaving if lower, for two years after departure. This post-employment shareholding requirement applies to shares acquired from incentive plans from DSBP and LTIP awards granted after 1 August 2020.

The Chairman and the Non-Executive Directors are also encouraged to hold shares in the Company in order to align their interests with those of shareholders. Directors' interests in ordinary shares held as at 31 July 2022 (together with the interests held by Persons Closely Associated with them) are set out below.

There were no changes in the Directors' shareholdings between 31 July 2022 and the date of this report.

	Shares held beneficially at 1 August 2021 ¹	Shares held beneficially at 31 July 2022 ¹	Beneficial shareholding at 31 July 2022 (% of salary)	Target shareholding achieved ²	LTIP awards (unvested awards subject to performance) ³	LTIP awards vested but not exercised	DSBP awards (unvested awards, not subject to performance)
Chairman							
Paul Hollingworth	47,693	52,471	N/A	N/A	—	—	—
Executive Directors							
Ronnie George ⁴	2,625,459	2,647,133	2,508%	Yes	825,828	792,317	80,654
Andy O'Brien	19,525	37,886	51%	No	481,584	—	26,160
Non-Executive Directors							
Margaret Amos	—	—	N/A	N/A	—	—	—
Nigel Lingwood	5,000	5,000	N/A	N/A	—	—	—
Amanda Mellor	—	—	N/A	N/A	—	—	—
Tony Reading ⁵	100,000	See Note 5	N/A	N/A	—	—	—
Claire Tiney	2,869	2,869	N/A	N/A	—	—	—

Notes

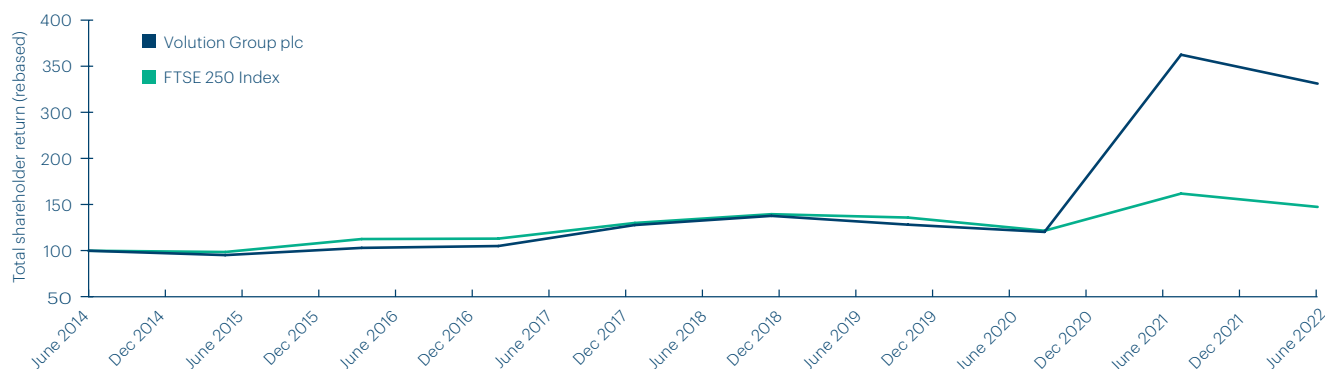
- Includes any shares held by Persons Closely Associated.
- The target shareholding achieved has been calculated based on shares held beneficially as at 31 July 2022 using the share price on that date of £4.1650 per share.
- LTIP awards in this column consist of all awards granted as at the date of this report which are structured as nil-cost options. All awards are subject to performance conditions, with performance measured over three financial years.
- On 17 October 2021, 21,674 DSBP shares vested and were transferred from the EBT to Ronnie George and were added to his beneficial shareholding.
- Tony Reading stepped down from the Board on 9 December 2021.

Payments to past Directors and payments for loss of office

There were no payments to past Directors or payments for loss of office in the year.

Performance graph and Chief Executive Officer remuneration table (audited)

The chart below compares the total shareholder return performance of the Company against the performance of the FTSE 250, of which Volusion has been a constituent since May 2021. The base point in the chart for the Company equates to the listing offer price of 150 pence per share.



The table below summarises the Chief Executive Officer's single figure for total remuneration, annual bonus payments and LTIP vesting levels as a percentage of maximum opportunity.

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Chief Executive Officer's single total figure of remuneration (£000)	2,203	2,535	757	910	909	1,191	638	643	1,061	428
Annual bonus payout (as a % of maximum opportunity)	66%	100%	0% ¹	44.7%	44.3%	87.8%	64%	65%	100%	54.8%
LTIP vesting (as a % of maximum opportunity)	100%	89%	25%	40.5%	61.7%	72.1%	N/A	N/A	N/A	N/A

Note

- As noted in the Directors' Remuneration Report 2020, the working capital management target was largely met and resulted in 11% being eligible for payment to each Executive Director. However, given the adverse impact on the business, shareholders and employees from the Covid-19 pandemic during the financial year ended 31 July 2020, the Executive Directors waived the right to receive the 11% bonus entitlement under the ABP.

Percentage change in remuneration of the Board Directors compared to UK employees (audited)

The table below sets out the percentage change in salary, taxable benefits and annual bonus set out in the single figure of remuneration tables (on page 104) paid to each Director in respect of the year ended 31 July 2021 and the year ended 31 July 2022, compared to that of the average change for employees in the UK.

Element of pay	Average % change 2021 to 2022			Average % change 2020 to 2021			Average % change 2019 to 2020		
	Salary/fees ²	Taxable benefits ³	Annual bonus	Salary/fees ²	Taxable benefits ³	Annual bonus	Salary/fees ²	Taxable benefits ³	Annual bonus
Executive Directors									
Ronnie George	5.0%	9.1%	(30.6)%	6.0%	0%	100%	(4.4)%	0%	(100)%
Andy O'Brien	5.0%	13.3%	(30.6)%	3.8%	0%	100%	100%	100%	(100)%
Non-Executive Directors									
Paul Hollingworth	5.0%	N/A	N/A	57.1%	N/A	N/A	56.9%	N/A	N/A
Margaret Amos	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nigel Lingwood	3.4%	N/A	N/A	383.3%	N/A	N/A	100%	N/A	N/A
Amanda Mellor	14.6%	N/A	N/A	9.1%	N/A	N/A	(8.3)%	N/A	N/A
Tony Reading	(60.4)%	N/A	N/A	(10.2)%	N/A	N/A	(6.3)%	N/A	N/A
Claire Tiney	3.4%	N/A	N/A	26.1%	N/A	N/A	(4.2)%	N/A	N/A
UK employee average¹	1.5%	12%	15.1%	2.0%	1.2%	344.1%	(0.7)%	9.0%	(74.5)%

Notes

- Average employee pay includes full and part-time employee data. This figure excludes the Executive and Non-Executive Directors.
- During the financial year ended 31 July 2022:
 - Tony Reading stepped down from the Board on 9 December 2021.
 - Amanda Mellor was appointed to the role of Senior Independent Director with effect from 9 December 2021.
 - Margaret Amos joined the Board on 10 March 2022.
- Benefits include car allowance, health cover and life assurance but exclude employer pension contributions.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Chief Executive Officer pay ratio (audited)

The table below sets out the ratio at the 25th, median and 75th percentile of the total remuneration received by the Chief Executive Officer (using the amount set out in the single total figure table shown in this report on page 104), compared to the total remuneration received by our UK employees for whom total remuneration has been calculated on the same basis.

For the financial year ended 31 July 2022, Volution delivered very strong revenue and profit growth and the CEO's single figure total is heavily influenced by incentive outturns and share price appreciation over the three year performance period.. These factors all contributed to the CEO pay ratio shown below.

CEO pay ratio	31 July 2022	31 July 2021	31 July 2020
Method	Option A	Option A	Option A
75th percentile pay ratio	70:1	75:1	18:1
Median pay ratio	99:1	104:1	27:1
25th percentile pay ratio	109:1	123:1	34:1

The salary and total pay for the individuals identified at the 25th percentile, median and 75th percentile as at 31 July 2022 are set out below:

Employees	25th percentile	Median	75th percentile
Salary	£18,753	£22,255	£30,075
Total pay and benefits	£20,157	£22,255	£31,612

The employees used for the purposes of the table above were identified as based in the UK as at 31 July 2022. Option A was chosen as it is considered to be the most accurate way of identifying the relevant employees required by The Companies (Miscellaneous Reporting) Regulations 2018. No other adjustments were necessary and no elements of employee remuneration have been excluded from the pay ratio calculation.

The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Relative importance of the spend on pay (audited)

The following table shows the total expenditure on pay for all of the Company's employees compared to distributions to shareholders by way of dividend and share buyback. In order to provide context for these figures, adjusted operating profit is also shown.

	2022 £m	2021 £m	% change
Employee remuneration costs	70.8	67.1	5.6%
Distributions to shareholders ¹	13.3	3.8	252.8%
Adjusted operating profit	64.9	57.1	13.9%

Notes

1. The distribution to shareholders in 2021 only included payment of an interim dividend in May 2021 following the suspension of the dividend in 2020 due to the impact of the Covid-19 pandemic.

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2023

Executive Director base salaries

As set out in the Chair's letter, taking into account the increased size and complexity of the Group, the performance of the Group, and the performance of the Executive Directors, the Committee determined that an increase in base salary of 7.5% would be awarded to the Chief Executive Officer and the Chief Financial Officer. The increase took effect from 1 August 2022, increasing the base salary of the Chief Executive Officer to £472,608 per annum and the Chief Financial Officer to £330,724 per annum.

This is within the 3%–13% range of pay increases, dependent on performance, seen across the Group. Even after these increases, the Committee is mindful that the base salary for both Executive Directors is around the lower quartile of the FTSE 250.

Pension and other benefits

The proposed 7.5% salary increase awarded to the Chief Executive Officer will not result in an increase to the pension contribution for the remainder of 2022, which remains fixed at the salary level as at 31 July 2021. As committed to in the Directors' Remuneration Report last year, the Chief Executive Officer's pension contribution will be reduced to 8.5% of salary from 1 January 2023 (the equivalent rate if he were a member of the Company pension scheme, joining prior to 1 January 2018 and having reached age 50).

As reported previously, the incumbent Chief Financial Officer had his pension aligned with the wider workforce on appointment on 1 August 2019 and receives payment in lieu of pension of 5.5% of base salary (the equivalent rate if he were a member of the Company pension scheme, having joined after 1 January 2018 and being under age 50).

Other benefits received comprise an annual car allowance paid in cash, life assurance equivalent to four times annual salary and private medical insurance.

Annual Bonus Plan (ABP)

The maximum annual bonus opportunity for both the Chief Executive Officer and Chief Financial Officer will be 125% of salary, unchanged from the level set in 2021/22. One-third of the total bonus payable will be deferred into shares for three years.

The performance measures applicable to the ABP will remain unchanged and the Committee continues its policy of setting stretching annual bonus targets which take into account a number of internal and external factors. The target weightings will be: adjusted EPS (52%); adjusted operating profit (36%); and working capital management (12%).

The targets set for the year ending 31 July 2023 will be disclosed in the next Annual Report on Remuneration, unless they remain commercially sensitive.

Long Term Incentive Plan (LTIP)

During 2022/23, the Committee intends to grant LTIP awards with a maximum opportunity of 150% of salary and 125% of salary for the Chief Executive Officer and Chief Financial Officer, respectively. These levels are unchanged from 2021/22. The Committee considers that the current LTIP award levels remain appropriate as the share price (at the time of this report being finalised) is materially higher than every LTIP grant made prior to the October 2021 LTIP award, therefore there will be significantly less shares under award than under each of those awards. The Committee is also mindful of the fact that executive directors' packages, including LTIP levels, are positioned in line with current market capitalisation against the FTSE 250 and, as set out elsewhere in the annual report, the performance of the business has been strong in recent years. The Committee will look at this again at the point of vesting as part of the wider performance assessment in the round.

The Committee will continue its policy of setting stretching LTIP targets which take into account a number of internal and external factors. Volution is committed to its purpose of providing "healthy air, sustainably" and to the importance of environmental, social and governance (ESG) measures in meeting its purpose and ESG measures are once again included. The measures will be: earnings per share (60%); total shareholder return (20%); and ESG targets (20%).

EPS growth per annum of 6% (threshold) will result in 25% vesting and 12% (maximum) will result in 100% vesting. TSR measurement against the Direct Peer Group Index at median (threshold) will result in 25% vesting and at upper quartile will result in 100% vesting. The ESG measures will focus on two targets and are linked to the 2025 goals we have already communicated externally: optimising recycled plastics in Volution's manufactured products and increasing the low-carbon credentials in the product portfolio measured as a percentage of revenue. These ESG measures will ensure management is incentivised to attain the sustainability targets set out on page 11.

A two-year holding period will apply to the Executive Directors following the end of the three-year vesting period.

Measure	Threshold (25% vesting)	Maximum (100% vesting)
EPS growth (60% weighting)	6% p.a.	12% p.a.
Relative TSR (20% weighting)	Median	Upper quartile
ESG (20% weighting)	Low-carbon sales as a % of total revenue (10%)	70.0%
	% of recycled plastics that are used in our manufactured products (10%)	90.0%

Directors' Remuneration Report continued

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2023 continued

Non-Executive Director fees

Fees of Non-Executive Directors are determined by the Board in their absence. The fees of the Chairman (whose fees are determined by the Committee in his absence) and the Non-Executive Directors' fees were reviewed during the year and, taking into account the increased size and complexity of the Group, as well as an increase in the responsibilities and time commitments of the roles, the fees for the Chairman and Non-Executive Directors will be increased for the year ending 31 July 2023. The Chairman's fee remains below the FTSE 250 lower quartile.

The fees with effect from 1 August 2022 are summarised in the table below:

	From 1 August 2022	From 1 August 2021	% change
Chairman fee covering all Board duties	£157,900	£150,381	5%
Non-Executive Director basic fee	£52,750	£50,250	4.98%
Supplementary fees to Non-Executive Directors covering additional Board duties:			
– Senior Independent Director	£10,000	£7,500	33.33%
– Audit Committee chair	£10,000	£10,000	0%
– Remuneration Committee chair	£10,000	£10,000	0%

Statement on shareholder voting

The Company is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes in respect of the approval of the Directors' Remuneration Report and the Remuneration Policy. In the event of a substantial vote against a resolution in relation to Directors' remuneration, the Company would seek to understand the reasons for any such vote and would set out in the following Annual Report and Accounts any actions in response to it.

The following table sets out the voting by shareholders at the Annual General Meeting in December 2021 in respect of our Annual Report on Remuneration and the Annual General Meeting in December 2020 in respect of the current Remuneration Policy.

Resolution	Votes cast for	% of votes cast	Votes cast against	% of votes cast	Votes withheld
Remuneration Policy (AGM 2020)	153,487,928	95.68%	6,932,898	4.32%	11,914
Remuneration Report (AGM 2021)	164,769,907	97.70%	3,880,862	2.30%	3,666

Directors' Remuneration Policy Report

This section of the Directors' Remuneration Report sets out the Remuneration Policy (the Policy) for Executive and Non-Executive Directors, which shareholders approved at the Annual General Meeting in December 2020. The Policy became effective on 11 December 2020 and in practice has been applied since the beginning of the financial year that started on 1 August 2020. This is as approved by shareholders with the exception of the illustrations of the application of the Remuneration Policy charts that have been updated. When determining the Policy the following principles were kept in mind:

- clarity – all remuneration aspects are clearly and openly communicated to employees, shareholders and other stakeholders through comprehensive Directors' Remuneration Report disclosures and shareholder consultation materials;
- simplicity – the remuneration package is simple and clear, consisting of three main elements of pay: i) fixed pay (salary, benefits and pension); ii) annual bonus; and iii) LTIP;
- risk – the Committee has discretion to adjust variable pay outcomes away from the formulaic outturn. Malus and clawback provisions are also in place for all variable pay elements;
- predictability – the potential range of payouts is set out in the relevant Remuneration Policy;
- proportionality – there is a clear link between pay for performance and link to business strategy, with stretching targets applied to the annual bonus and LTIP; and
- alignment to culture – the variable incentive schemes, including quantum, time horizons, form of award and performance measures, are all designed with the Company's people, culture, purpose, values and strategy in mind.

Remuneration Policy table

Operation	Maximum opportunity	Performance metrics
Base salary		
Purpose and link to strategy: Core element of remuneration set at a level to attract, retain and reward Executive Directors of the required calibre to successfully deliver Company strategy.		
<p>Normally reviewed annually.</p> <p>In determining base salaries, the Committee considers:</p> <ul style="list-style-type: none"> • Company performance and external market conditions; • pay and conditions elsewhere in the Group; • role, experience and personal performance; and • salary levels at companies of a similar size and complexity. <p>There is no automatic entitlement to an increase each year.</p>	<p>The current salaries for the Executive Directors are set out in the Annual Report on Remuneration.</p> <p>While the Committee does not consider it appropriate to set a maximum salary, annual increases will generally be in line with those of the wider workforce (in percentage of salary terms). Increases beyond those awarded to the wider workforce may be awarded in certain circumstances such as progression in the role, where there is a change in responsibility or experience, or a significant increase in the scale of the role and/or size, value and/or complexity of the Group.</p>	<p>Company and individual performance are factors considered when reviewing salaries.</p>
Pension		
Purpose and link to strategy: The Company aims to provide an appropriate means of saving for retirement.		
<p>Executive Directors may receive an employer's pension contribution to a personal or Group pension scheme and/ or any other arrangement the Committee considers has the same economic benefit (including a cash allowance).</p>	<p>Current CEO: 15% of base salary.</p> <p>Current CFO and any new hires to the Board: a contribution not exceeding the maximum contribution available to the wider UK workforce at the time (or to the wider workforce in the country where they are employed, if different). For the current CFO, the pension level is currently equivalent to 5.5% of salary.</p>	<p>N/A</p>

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Remuneration Policy table continued

Operation	Maximum opportunity	Performance metrics
Annual Bonus Plan (ABP)		
Purpose and link to strategy: To incentivise Executive Directors to achieve specific, pre-determined goals. Rewards achievement of objectives linked to the Company's strategy.		
<p>Annual bonus payment is determined by the Committee after the financial year end, based on performance against targets set by the Committee for the year or part of the year.</p> <p>Normally, one-third of any annual bonus payment earned by the Executive Directors will be deferred into awards over the Company's shares under the Company's Deferred Share Bonus Plan (DSBP) which normally vest after at least three years.</p>	<p>150% of base salary (subject to a combined Annual Bonus Plan opportunity and Long Term Incentive Plan award cap of 275% of salary in respect of any financial year).</p>	<p>Performance measures are determined with reference to the Company's key strategic business objectives.</p> <p>No less than 50% of the bonus will be dependent on financial measures and the remainder will be based on non-financial or individual measures that are aligned to the strategic priorities of the business.</p> <p>At threshold performance up to 25% of the maximum pays out. Below this level of performance, no bonus pays out.</p> <p>On-target bonus is set at 50% of the maximum opportunity.</p> <p>The Committee retains the discretion to vary the level of bonus paid away from the formulaic outcome to reflect overall Company and individual performance and any other circumstances as determined by the Committee.</p>
Long Term Incentive Plan (LTIP)		
Purpose and link to strategy: To incentivise the delivery of key strategic objectives over the longer term and align the interests of Executive Directors with those of our shareholders.		
<p>Vesting of the awards is dependent on the achievement of performance targets set by the Committee, measured over a period of at least three years. Shares will then normally be subject to an additional two-year holding period. During this holding period, no further performance measures will apply.</p>	<p>175% of base salary as permitted by the plan rules (subject to a combined Annual Bonus Plan opportunity and Long Term Incentive Plan award cap of 275% of salary in respect of any financial year).</p>	<p>Awards vest based on challenging financial, non-financial or share price targets.</p> <p>At least 50% will be based on financial and/or share price-based measures.</p> <p>No more than 25% vests at threshold with 100% of awards vesting at maximum performance.</p> <p>The Committee retains the discretion to vary the level of LTIP vesting away from the formulaic outcome to reflect overall Company and individual performance and any other circumstances as determined by the Committee.</p>

Operation	Maximum opportunity	Performance metrics
Other benefits		
Purpose and link to strategy: To provide a market-competitive package of benefits consistent with the role to attract, retain and reward Executive Directors of the required calibre to successfully deliver Company strategy.		
<p>Various cash/non-cash benefits are provided to Executive Directors which may include (but are not limited to) a company car (or cash equivalent), life assurance, expatriate benefits, private medical insurance (for the Executive Director and their immediate family) and relocation benefits and any tax liability that may be due on these benefits.</p> <p>Executive Directors are also eligible to participate in any all-employee share plans (e.g. the Sharesave Scheme) on the same basis as other eligible employees.</p>	<p>Although the Committee does not consider it appropriate to set a maximum benefits level, it is set at an appropriate level for the specific nature of the role and the individual's personal circumstances.</p>	N/A
Share ownership guidelines		
Purpose and link to strategy: To provide close alignment between the longer-term interests of Executive Directors and shareholders.		
<p>Executive Directors are expected to achieve and retain a holding of the Company's shares worth 200% of their base salary.</p> <p>It is expected that Executive Directors will retain at least 50% of any shares delivered under the DSBP and LTIP, after the deduction of applicable taxes, until the guideline is met.</p> <p>Executive Directors will normally be expected to remain aligned with the interests of shareholders for an extended period after leaving the Company. Executive Directors will typically be expected to retain a shareholding at the level of the in-employment shareholding guideline for two years (or the actual shareholding on stepping down, if lower), unless the Committee determines otherwise in exceptional circumstances. Further detail is set out in the Annual Report on Remuneration.</p>	200% of base salary.	N/A

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Remuneration Policy table continued

Operation	Maximum opportunity	Performance metrics
Chairman and Non-Executive Director fees		
Purpose and link to strategy: To enable the Company to attract and retain Non-Executive Directors of the required calibre by offering market-competitive fees.		
<p>The Chairman is paid an all-inclusive fee for all Board responsibilities.</p> <p>Non-Executive Directors receive a basic Board fee.</p> <p>Neither the Chairman nor Non-Executive Directors are eligible to participate in any of the Company's incentive arrangements or receive any pension provision.</p> <p>Additional fees may be payable for additional Board responsibilities such as chairmanship or membership of a Committee or performing the Senior Independent Director role or for an increased time commitment.</p> <p>The Committee reviews the fees paid to the Chairman and the Board reviews the fees paid to the Non-Executive Directors annually, with reference to the time commitment of the role and market levels in companies of comparable size and complexity.</p>	<p>Fees are set within the aggregate limits set out in the Company's Articles of Association from time to time.</p> <p>Non-Executive Directors and the Chairman may receive fee increases during the three-year period that the Policy operates to ensure they continue to appropriately recognise the time commitment of the role and fee levels in companies of a similar size and complexity. Any increase in fees would normally be in line with the wider workforce salary increase (in percentage terms). Increases beyond those awarded to the wider workforce may be awarded in certain circumstances such as where there is a significant increase in the time commitment or responsibilities of the role.</p>	N/A

Choice of performance measures and approach to setting targets

The performance metrics and targets that will be set for the Executive Directors for the ABP and LTIP will be carefully selected to align closely with the Company's strategic plan and key performance indicators.

Awards under the ABP will be determined by reference to financial measures as regards at least 50% of the award, with any balance based on non-financial measures appropriate to an individual's role.

The long-term performance metrics relating to the LTIP awards will be set at the time of each grant but will normally include at least 50% based on financial and/or share price performance in line with the Company's key strategic objectives.

Challenging targets for both plans will be set each year based on a number of internal and external reference points.

The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each grant under the LTIP and will consult with major shareholders in the event of any significant proposed change.

Legacy arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed:

- (i) before the 2014 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect);
- (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or
- (iii) at a time when the relevant individual was not a Director of the Company (or other person to whom the Policy applies) and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company (or other such person).

For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Common award terms

The Committee will operate the LTIP and DSBP in accordance with the respective rules, the Policy set out above and the Listing Rules where relevant. Awards under the LTIP and DSBP may:

- be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect;
- have any performance conditions applicable to them amended or substituted by the Committee if an event occurs, or other exceptional circumstances arise, which causes the Committee to determine an amended or substituted performance condition would be more appropriate;
- incorporate the right to receive additional shares with a value equal to the value of dividends which would have been paid on the shares under an award that vests up to the time of vesting (or, where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- be settled in cash at the Committee's discretion in exceptional circumstances; and
- be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

Performance conditions applying to the annual bonus may be amended in the same way as performance conditions for LTIP awards.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Malus and clawback

Malus and clawback provisions (as relevant) may be operated at the discretion of the Committee in respect of any awards granted under the ABP, DSBP and LTIP in certain circumstances including, but not limited to, a material misstatement of the Company's financial results, a material failure of risk management by any member of the Group or a relevant business unit, material reputational damage to any member of the Group or relevant business unit, corporate failure, an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was based, or if the participant is summarily dismissed. Clawback may be applied at the discretion of the Committee up to the third anniversary of payment of the cash bonus, and the earlier of the sixth anniversary of grant and the third anniversary of satisfying awards for DSBP and LTIP awards.

Takeover or other corporate event

In the event of a change of control, outstanding DSBP awards will normally vest in full as soon as practicable after the date of the event.

For outstanding LTIP awards, generally the performance period and holding period applicable to them will end on the date of the event. The Committee will determine the level of vesting of unvested awards taking into account the extent to which performance conditions have been achieved at this point. Unless the Committee determines otherwise, unvested awards will generally vest on a time pro-rata basis taking into account the period of time between grant and the relevant event as a proportion of the vesting period.

Alternatively, the Committee may permit a participant to exchange his awards for equivalent awards which relate to shares in a different company. If the change of control is an internal re-organisation of the Group, or if the Committee so decides, participants will be required to exchange their awards (rather than awards vesting).

If other corporate events occur, such as a winding-up of the Company, demerger, delisting, special dividend or other event which, in the opinion of the Committee, may affect the current or future value of the Company's shares, the Committee may determine that awards will vest on the same basis as set out above for a takeover.

Minor changes

The Committee may make minor amendments to the Policy set out in this report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for the amendment.

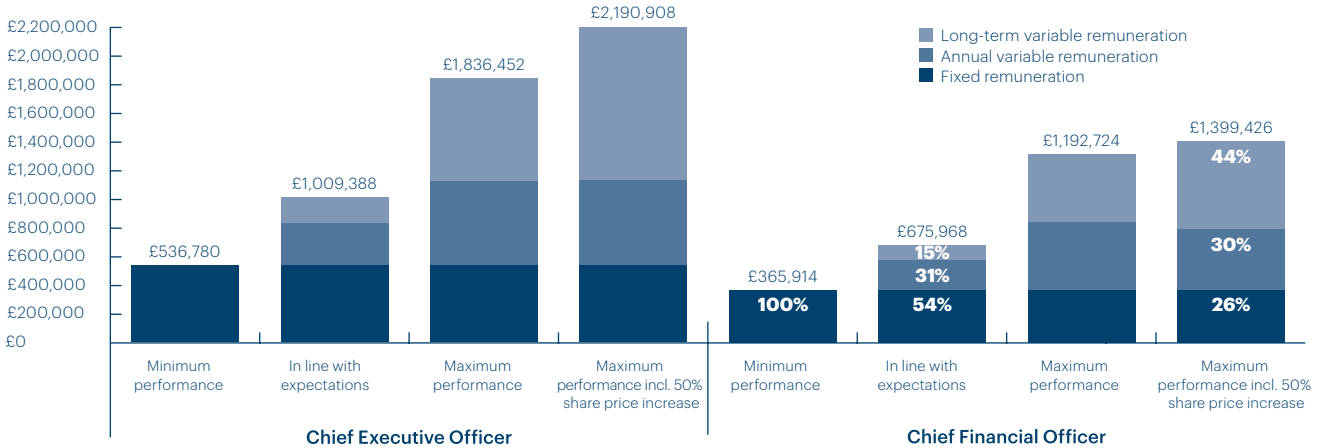
Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Illustrations of the application of the Remuneration Policy

The Company's remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short-term and long-term performance targets.

The charts below provide illustrative values of the remuneration package for Executive Directors under four assumed performance scenarios. The charts are for illustrative purposes only and actual outcomes may differ from that shown.



The assumptions used for these charts are as follows:

Levels of performance	Assumptions
Fixed pay	All scenarios
	<ul style="list-style-type: none"> Total fixed pay comprises base salary, benefits and pension Base salary – effective as at 1 August 2022 Benefits – as set out in the single figure table for the 2021/22 year 8.5% (pension allowance from 1 January 2023) and 5.5% of base salary pension contributions for CEO and CFO, respectively
Variable pay	Below threshold performance
	<ul style="list-style-type: none"> No payout under the ABP No vesting under the LTIP
	In line with expectations
	<ul style="list-style-type: none"> 50% of the maximum potential payout under the ABP 25% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively
	Maximum performance
	<ul style="list-style-type: none"> 100% of the maximum potential payout under the ABP (i.e. 125% of base salary) 100% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively
	Maximum performance – 50% share price growth assumption
	<ul style="list-style-type: none"> The same as the maximum performance row above but incorporating a 50% share price growth assumption for the LTIP over the three-year performance period

External appointments of Executive Directors

The Board allows Executive Directors to accept one external commercial non-executive director appointment provided the commitment is compatible with their duties as an Executive Director. The Executive Director concerned may retain fees paid for these services which will be subject to approval by the Board. Currently, neither of the Executive Directors holds an external directorship.

Approach to recruitment

The Committee will aim to set a new Executive Directors' remuneration package in line with the Policy approved by shareholders.

In arriving at a total package and in considering value for each element of the package, the Committee will take into account the skills and experience of a candidate and the market rate for a candidate of that experience, as well as the importance of securing the preferred candidate.

The maximum level of variable remuneration (excluding any buy-outs) in respect of an appointment will be in line with the maximum Policy (i.e. 275% of base salary). The Committee retains discretion to flex the balance of the annual bonus and LTIP and the measures used to assess performance.

The Committee may make additional cash and/or share-based awards as it deems appropriate and if the circumstances so demand may replace remuneration arrangements forfeited by an Executive Director on leaving a previous employer. This may include the use of the relevant provisions in the Financial Conduct Authority's Listing Rules allowing for exceptional awards to be made without shareholder approval.

Awards to replace forfeited remuneration would, where possible, be consistent with the awards forfeited in terms of delivery mechanism (cash or shares), time horizons, attributed expected value and whether or not they were subject to performance conditions.

Other payments may be made in relation to relocation expenses and support as appropriate.

In the case of an internal appointment, any element of remuneration in respect of the prior role would be allowed to continue according to its original terms, or adjusted if appropriate to take into account the appointment.

For the appointment of a new Chairman or Non-Executive Director, the fee would be set in accordance with the approved Policy. The length of service and notice periods will be set at the discretion of the Committee taking into account market practice, corporate governance considerations and the particular candidate at that time.

The Committee retains discretion to make appropriate remuneration decisions outside the Policy to meet the individual circumstances of recruitment when:

- an interim appointment is made to fill an Executive Director role on a short-term basis; and
- exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis.

Service agreements and letters of appointment

Each of the Executive Directors' service agreements is for a rolling term and may be terminated by the Company or the Executive Director by giving not less than twelve months' prior written notice and nine months' prior written notice for the Chief Executive Officer and Chief Financial Officer respectively.

The Chairman and each of the Non-Executive Directors of the Company do not have service contracts. Each of these Directors has a letter of appointment which has a three-year term which is renewable and is terminable by the Company or the individual on one month's written notice.

The terms of the Non-Executive Directors' positions are subject to their election by the Company's shareholders at the 2022 AGM. No contractual payments would become due on termination.

Non-Executive Directors are not eligible to participate in cash or share incentive arrangements and their service does not qualify for pension or other benefits. No element of their fee is performance related.

A Non-Executive Director's appointment may be terminated with immediate effect if such Director has:

- materially breached a term of their letter of appointment;
- committed a serious or repeated breach of their duties to the Company;
- been found guilty of fraud, dishonesty or certain criminal offences;
- acted in a way likely to bring the Company into disrepute or which is materially adverse to the Company;
- been declared bankrupt; or
- been disqualified from acting as a Director.

The Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and will be available at the 2022 AGM.

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Policy on Directors leaving the Group

The Committee must satisfy any contractual obligations agreed with the Executive Director. This is dependent on the contractual obligations not being in contradiction with the Policy set out in this report.

If an Executive Director's employment is terminated, in the absence of a breach of service agreement by the Director, the Company may, although it is not obliged to, terminate the Director's employment immediately by payment of an amount equal to base salary and benefits (including pension scheme contribution) in lieu of the whole or the remaining part of the notice period. Payments in lieu of notice will ordinarily be paid in monthly instalments over the length of the notice period. Payments will be subject to mitigation in the event alternative employment is taken up during the notice period.

Discretionary bonus payments will not form part of any payments made in lieu of notice. Annual bonus may be payable for "good leavers" at the Committee's discretion, with respect to the period of the financial year served and subject to the normal deferral requirements, pro-rated for time and paid at the normal payment date.

Any share-based entitlements granted to an Executive Director under the Company's share plans will be determined based on the relevant plan rules.

The default treatment under the LTIP is that any outstanding awards lapse when the individual leaves the Group. However, in certain prescribed circumstances, such as death, ill health, injury or disability, transfer of the employing entity outside of the Group or in other circumstances at the discretion of the Committee (except where the Director is summarily dismissed), "good leaver" status may be applied.

For good leavers, LTIP awards will normally continue until the normal vesting date, or when awards are subject to a holding period, to the end of the holding period, although the Committee may allow awards to vest (and be released from any holding periods) as soon as reasonably practicable after leaving in the case of death or such other circumstances the Committee considers appropriate. When a good leaver leaves holding unvested LTIP awards, the award will vest taking into account the extent to which the performance condition has been satisfied and, unless the Committee determines otherwise, the period of time that has elapsed between grant and the date of leaving as a proportion of the vesting period.

If a participant of the DSBP leaves the Group for any reason, the default position under the plan rules is that the award will vest in full on the normal vesting date, unless the Committee determines otherwise.

In the event that a buy-out award is made on recruitment, the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment or for any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

Differences in the Policy for Executive Directors compared to other employees

The Committee has regard to pay structures across the wider Group when setting the Policy for Executive Directors. The Committee considers the general basic salary increase for the broader workforce when determining the annual salary review for the Executive Directors.

Overall, the Policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees.

The level of performance-related pay varies within the Group by grade of employee and is calculated by reference to the specific responsibilities of each role as appropriate.

Statement of consideration of employment conditions elsewhere in the Group

Although pay and employment conditions elsewhere in the Group are taken into account to ensure the relationship between the pay of Executive Directors and employees remains appropriate, the Committee does not consult with employees when formulating the Policy. However, the chair of the Remuneration Committee attends the Volution Employee Forum where employee representatives present views from the employees they are representing and there is the opportunity for interaction.

Consideration of shareholder views

We take an active interest in shareholder views on our Executive Remuneration Policy. The Committee is also committed to maintaining an ongoing dialogue with major shareholders and shareholder representative bodies whenever material changes are under consideration. The Committee consulted with shareholders and proxy voting agencies when formulating this Policy.

To ensure shareholder views have been taken into account, from the date of the 2020 Remuneration Policy being approved a formal post-employment shareholding guideline will be in place requiring Executive Directors to hold a shareholding equal to their in-employment shareholding, or their actual shareholding on leaving if lower, for two years after departure. This post-employment shareholding requirement will apply to shares acquired from incentive plans from DSBP and LTIP awards granted after 1 August 2020.

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 5 October 2022 and signed on its behalf by the chair of the Remuneration Committee.



Claire Tiney
Chair of the Remuneration Committee
5 October 2022

Directors' Report

Introduction

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 31 July 2022.

This Directors' Report includes additional information required to be disclosed under the Companies Act 2006, the 2018 UK Corporate Governance Code (the 2018 Code), the Disclosure, Guidance and Transparency Rules (DTRs) and the Listing Rules of the Financial Conduct Authority.

Certain information required to be included in the Directors' Report is included in other sections of this Annual Report as follows, which is incorporated by reference into this Directors' Report:

- the Strategic Report on pages 1 to 72;
- the Governance Report on pages 73 to 126;
- information relating to financial instruments, as set out in note 24 to the consolidated financial statements; and
- related party transactions as set out in note 30 to the consolidated financial statements.

This Directors' Report also represents the Management Report for the purpose of compliance with the DTRs.

Corporate structure

Volusion Group plc is a public company limited by shares, incorporated in England and Wales, and its shares are traded on the premium segment of the Main Market of the London Stock Exchange (LSE: FAN).

Results and dividend

The Group's results for the year are shown in the statement of comprehensive income on page 136.

An interim dividend of 2.3 pence per share was paid to shareholders on 3 May 2022 and the Directors are recommending a final dividend in respect of the financial year ended 31 July 2022 of 5.0 pence per share. If approved, the final dividend will be paid on 20 December 2022 to shareholders on the register on 25 November 2022. The total dividend paid and proposed for the year amounts to 7.3 pence per share.

Share capital and related matters

The Company has only one class of share and the rights attached to each share are identical. Details of the rights and obligations attaching to the shares are set out in the Company's Articles of Association which are available from the Company Secretary. The Company may refuse to register any transfer of any share which is not a fully paid share. At a general meeting of the Company, every member has one vote on a show of hands and on a poll one vote for each share held. Details of the voting procedure, including deadlines for exercising voting rights, are set out in the Notice of Annual General Meeting 2022.

As at 31 July 2022 the issued share capital of the Company was 200,000,000 ordinary shares of 1 pence each. Details of the share capital as at 31 July 2022 are shown in note 26 to the consolidated financial statements.

Powers of the Directors

The Directors may exercise all the powers of the Company including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares. During the financial year ended 31 July 2022, the Directors did not exercise any of the powers to issue or purchase shares in the Company.

Restrictions on transfer and voting rights

There are no general restrictions on the transfer of ordinary shares in the Company other than in relation to certain restrictions that are imposed from time to time by laws and regulations (for example insider trading laws). Pursuant to the Market Abuse Regulation, Directors and certain officers and employees of the Group require the approval of the Company to deal in the ordinary shares of the Company.

Each ordinary share in the capital of the Company ranks equally in all respects. No shareholder holds shares carrying special rights relating to the control of the Company.

The Company has in place certain share incentive plans and details can be found on pages 105 and 106. Awards under the Company's Long Term Incentive Plan and Deferred Share Bonus Plan are normally made on an annual basis and details can be found in the Directors' Remuneration Report on pages 100 to 121. The Company's first invitation under its all-employee Sharesave Scheme in 2018 matured in July 2021 and a new invitation was launched in November 2021.

The Company also has an Employee Benefit Trust (EBT) in which to hold ordinary shares to satisfy awards under the share incentive plans. As at the date of this report, there were 2,183,665 ordinary shares held in the EBT. The trustee of the EBT has the power to exercise the rights and powers incidental to, and to act in relation to, the ordinary shares subject to the EBT in such manner as the trustee in its absolute discretion thinks fit.

The trustee of the EBT has waived the right to receive dividends on any ordinary shares held, except for a nominal amount of 1 pence, other than for those ordinary shares held in the EBT which are the beneficial property of an employee or shareholder. For further details on the EBT please see note 26 to the consolidated financial statements. The trustee does not vote ordinary shares held in the EBT, except for those ordinary shares which are the beneficial property of an employee or shareholder, which the trustee will vote in accordance with the instructions received from the beneficial owner.

Substantial shareholdings

As at the date of this report, the Company had been notified, in accordance with the DTRs, of the following interests representing 3% or more of the voting rights in the issued share capital of the Company:

Major shareholder	% of total issued share capital
Primestone Capital LLP	9.95
Baillie Gifford & Co	5.74
The Capital Group Companies, Inc.	5.08
FMR LLC	4.96
Franklin Templeton Fund Management Limited	4.95
Standard Life Aberdeen plc	4.59
Artemis Investment Management LLP	3.04
ODIN Forvaltning AS	4.03

This information was correct at the date of notification. It should be noted that these holdings may have changed since they were notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

Directors

The Directors of the Company and their biographies are set out on pages 76 and 77. Their interests in the ordinary shares of the Company are shown in the Directors' Remuneration Report on page 108. Margaret Amos was appointed to the Board as a Non-Executive Director on 10 March 2022 and Tony Reading stepped down from the Board on 9 December 2021.

Appointment and removal of Directors

Directors may be appointed by ordinary resolution of the Company or by the Board.

All Directors will stand for election or re-election on an annual basis, in line with the recommendations of the 2018 Code.

In addition to any powers of removal conferred by the Companies Act 2006, the Company may by special resolution remove any Director before the expiration of his period of office.

Employees

Volution is committed to sustainable development (meeting the needs of the present without compromising the ability of future generations to meet their own needs) as well as encouraging equality, diversity and inclusion amongst our workforce, and eliminating unlawful discrimination.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled member of staff should, as far as possible, be identical to that of other employees.

A Responsible Operations Policy covering all aspects of employee engagement can be found on the Volution website.

Directors' indemnities and insurance

The Articles of Association of the Company permit it to indemnify the Directors of the Company against liabilities arising from or in connection with the execution of their duties or powers to the extent permitted by law.

The Company has directors' and officers' indemnity insurance in place in respect of each of the Directors. The Company has entered into a qualifying third party indemnity (the terms of which are in accordance with the Companies Act 2006) with each of the Directors. Neither the indemnity nor insurance provides cover in the event that a Director or officer is proved to have acted fraudulently.

Transactions with related parties

Details of the transactions entered into by the Company with parties who are related to it are set out in note 30 to the consolidated financial statements.

Directors' Report continued

Change of control

There is one significant agreement to which the Company is a party that is affected by a change of control as follows:

- The Facilities Agreement dated 3 December 2020 contains provisions to enter into negotiations with the lenders to continue with the facilities set out in the agreement upon notification that there will be a change of control. Further details of the Group's banking facilities are shown in note 24 to the consolidated financial statements.

The provisions of the Company's share incentive plans may cause options and awards granted to employees under such plans to vest on takeover.

The Company does not have agreements with any Director that would provide compensation for loss of office or employment resulting from a change of control.

Amendments to the Company's Articles of Association

The Company may alter its Articles of Association by special resolution passed at a general meeting of shareholders.

Political donations

The Group has not made in the past, nor does it intend to make in the future, any political donations.

Post-balance sheet events

There have been no material post-balance sheet events.

Going concern

The Company's statement on going concern can be found on page 65.

Viability Statement

The Board assessed the prospects of the Group over a three-year period and the Viability Statement is set out on page 64.

Annual General Meeting

The Annual General Meeting (AGM) of the Company will take place at 12.00 noon on Wednesday 14 December 2022 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ, United Kingdom.

The Notice of Annual General Meeting and an explanation of the items of non-routine business are set out in the explanatory circular that accompanies this Annual Report and Accounts.

Auditor and disclosure of information to auditor

Each of the Directors in office at the date when this Annual Report and Accounts was approved confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Ernst & Young LLP has expressed its willingness to be re-appointed as auditor of the Company. A resolution to re-appoint Ernst & Young LLP as the Company's independent auditor will be proposed at the forthcoming Annual General Meeting.

Energy and greenhouse gas emissions reporting

The Board presents this report in order to meet the Company's obligation under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 to disclose the Group's worldwide emissions of the "greenhouse gases" (GHG) attributable to human activity measured in tonnes of carbon dioxide equivalent. As stated in the sustainability section, Volvolut is committed to reducing and minimising its impact on the environment. Examples of actions taken to increase energy efficiency are given there.

Energy use and GHG emissions data for the year ended 31 July 2022

	2022 ¹ kWh	2022 ² CO ₂ e tonnes	2021 ^{3,4} CO ₂ e tonnes
Electricity, gas and other fuels	15,190,765	2,691	3,302
Petrol and diesel vehicle fuels	2,725,722	657	744
Refrigerants	—	328	92
Total^{1,2}	17,916,488	3,677	4,137

Notes

- 57% of the total figure reported relates to energy use in the UK and 43% relates to regions outside the UK. We have only included energy use for which we are directly responsible.
- 59% of the total figure reported for 2022 relates to emissions in the UK and 41% relates to regions outside the UK. We have only included emissions for which we are directly responsible. We have not included emissions for activities over which we have no direct control.
- 65% of the total figure reported for 2021 relates to emissions in the UK and 35% relates to regions outside the UK. We have only included emissions for which we are directly responsible. We have not included emissions for activities over which we have no direct control.
- 2021 emissions have been restated to use the appropriate country specific conversion factors for our overseas businesses.

Our energy and GHG emissions for 2022 were calculated using the methodology set out in the UK Government's Environmental Reporting Guidelines 2019. Activity data has been converted into GHG emissions using the UK Government's most recent GHG Conversion Factors for Company Reporting (2022) and using country specific conversion factors for our overseas businesses from reliable sources including the Association of Issuing Bodies (AIB) and the Australian and New Zealand environment ministries. This is in line with standard industry practice and allows fair comparison with other UK businesses.

Energy use and GHG emissions - Scope 1 and 2 - Group and UK

	2022		2021	
	Group	UK	Group	UK
Energy use - scope 1 (kwh)	8,337,673	4,225,189	17,102,816	7,956,324
Energy use - scope 2 (kwh)	9,578,815	6,043,237	3,140,342	5,389,136
Energy use - scope 1 and 2 (kwh)	17,916,488	10,268,426	20,243,158	13,345,460
GHG emissions - scope 1 (CO ₂ e tonnes)	2,039	1,018	2,368	1,535
GHG emissions - scope 2 (CO ₂ e tonnes)	1,637	1,169	1,769	1,144
GHG emissions - scope 1 and 2 (CO ₂ e tonnes)	3,677	2,187	4,137	2,679
Intensity ratio: CO ₂ e tonnes per £m revenue	11.9	n/a	15.1	n/a

Notes

- 2021 emissions have been restated to use the appropriate country specific conversion factors for our overseas businesses.

We are obligated to report GHG emissions and energy consumption in accordance with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. To calculate our emissions, our methodology follows the GHG Protocol Corporate Accounting Standard, using an operational control approach. For both energy and emissions data, we have included all subsidiaries within the Group measure, and have included all UK-based subsidiary operations within our consolidated UK measure.

Other information that is relevant to the reporting of GHG emissions, including detailed descriptions of methodology and energy efficiency actions, and which is incorporated by reference into this report, can be located on pages 40 and 41.

By order of the Board



Fiona Smith
Company Secretary
5 October 2022

Volvolut Group plc
Registered office: Fleming Way, Crawley, West Sussex RH10 9YX
Company number: 09041571

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

The financial statements are prepared in accordance with UK-adopted international accounting standards (IFRS). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards (IFRS), have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 76 and 77, confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards (IFRS), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards (IFRS), give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditor is unaware;
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information; and
- the financial statements on pages 136 to 188 were approved by the Board of Directors on 5 October 2022 and signed on its behalf by Ronnie George and Andy O'Brien.

On behalf of the Board



Ronnie George
Chief Executive Officer
5 October 2022



Andy O'Brien
Chief Financial Officer
5 October 2022

Independent Auditor's Report

To the members of Volution Group plc

Opinion

In our opinion:

- Volution Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Volution Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 July 2022 which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 July 2022	Parent company statement of financial position as at 31 July 2022
Consolidated statement of comprehensive income for the year then ended	Parent company statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Parent company statement of cash flows for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes 1 to 14 to the financial statements, including a summary of significant accounting policies
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of management's basis for use of the going concern basis of accounting. To challenge the completeness of this assessment, we independently identified factors that may indicate events or conditions that may cast significant doubt on the group's ability to continue as a going concern. We designed our audit procedures to evaluate the effect of these risks on the group's ability to continue as a going concern;
- Agreeing the Group's available financing and related terms, including the changes during the year, to the original debt agreements;
- Obtaining the cash flow forecast models used by the Board in its assessment, reviewing their arithmetical accuracy, whether they have been approved by the Board and considering the group's historical forecasting accuracy;
- Recalculating the Group's forecast covenant tests at each test date within the going concern period and comparing these to the terms of the Group's financing to check that no breach is expected to occur;
- Challenging management on the critical estimates and judgements applied in their latest financial models so that we could understand and consider the rationale informing these and assess the impact on the forecasts and conclusion. We also agreed any key amendments, estimates and judgements to underlying supporting information and fact patterns as appropriate;

Independent Auditor's Report continued

To the members of Volution Group plc

Conclusions relating to going concern continued

- Inspecting the financial models provided to assess their consistency with our understanding of the operations of the Group and the other matters identified in our audit, and searching for any contra indicators against the estimates and judgements applied by management in the forecast models;
- Considering management's stress testing of the group's cash flow forecast models and their impact on forecast liquidity and banking covenants, specifically whether the stress tests were of reasonably possible adverse effects that could arise from these risks individually and collectively, and considering whether the factors we identified independently that could adversely impact the group had been appropriately included;
- Requesting that management prepare a reverse stress test to determine how significant a reduction in cash flows would cause a breach in covenants and assessing the likelihood of such an occurrence; and subjecting the financial models to additional stress testing to confirm that the Board has considered a balanced range of outcomes in its assessment of the impact on the Group;
- Assessing the appropriateness of the going concern disclosures in describing the risks associated with the group's ability to continue as a going concern for the period to 31 July 2024; and
- Enquiring of management as to whether any events or conditions beyond 31 July 2024 had been identified that may cast significant doubt on the group's ability to continue as a going concern and evaluating whether we were aware of any such events or conditions from our audit work.

We communicated to the Audit Committee that we consider the disclosures made in the basis of preparation note and in the Strategic Report in respect to going concern to be appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern until 31 July 2024, being a period of approximately 22 months from when the financial statements are authorised for issue.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of six components, audit procedures on specific balances for a further six components and specified audit procedures for a further three components. • The components where we performed full or specific scope audit procedures or specified audit procedures accounted for 92% of Profit before tax and separately disclosed items, 85% of Revenue and 94% of Total assets.
Key audit matters	<ul style="list-style-type: none"> • The risk of manipulation of revenue recognition through inappropriate manual journal entries or customer rebates. • Inappropriate accounting for business combinations, due to the complexity and number of estimates and judgements involved.
Materiality	<ul style="list-style-type: none"> • Overall group materiality of £2.15 million, which represents 5% of Profit before tax and separately disclosed items.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We consider the size, risk profile, organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 53 reporting components of the Group, we selected 15 components covering entities in Australia, Germany, the Netherlands, New Zealand, North Macedonia, Sweden and the UK, which represent the principal business units within the Group.

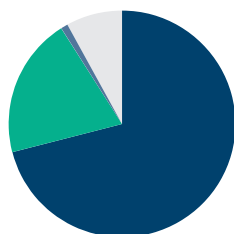
Of the 15 components selected, we performed an audit of the complete financial information of six components ("full scope components") which were selected based on their size or risk characteristics. For a further six components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For a further three components ("specified procedures components"), specified audit procedures were performed on account balances identified on account of either size or risk profile.

The reporting components where we performed audit procedures accounted for 92% (2021: 89%) of the Group's Profit before tax and separately disclosed items, 85% (2021: 88%) of the Group's Revenue and 95% (2021: 95%) of the Group's Total assets. The full scope components contributed 71% (2021: 60%) of the Group's Profit before tax and separately disclosed items, 60% (2021: 57%) of the Group's Revenue and 80% (2021: 83%) of the Group's Total assets. The specific scope components and specified procedures components contributed 21% (2021: 29%) of the Group's Profit before tax and separately disclosed items, 25% (2021: 31%) of the Group's Revenue and 15% (2021: 12%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 38 components that together represent 8% of the Group's Profit before tax and separately disclosed items, none are individually greater than 4% of the Group's Profit before tax and separately disclosed items. For these components, we performed other procedures including analytical review and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

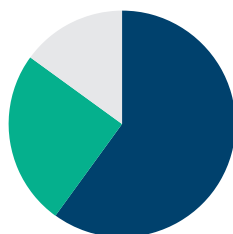
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Profit before tax and separately disclosed items



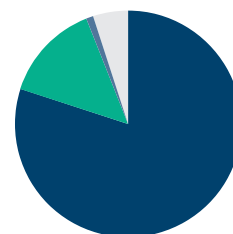
Full scope components	71%
Specific scope components	20%
Specified procedures	1%
Other procedures	8%

Revenue



Full scope components	60%
Specific scope components	25%
Specified procedures	0%
Other procedures	15%

Total assets



Full scope components	80%
Specific scope components	14%
Specified procedures	1%
Other procedures	5%

Changes from the prior year

Changes to the audit scoping adopted in the previous year relate to the North Macedonia, Belgium, Finland, Sweden and Australia components and result from changes in the relative sizes of components to reflect acquisitions made in both the current and prior year:

- North Macedonia: following the acquisition of ERI Corporation in the period, several components have been added to our audit scope for the current financial year. Specific scope procedures were performed at ERI Corporation DOO Bitola (North Macedonia) and ERI Corporation SRL (Italy), both by a component team in North Macedonia.
- Belgium and Finland: in the current year we performed other procedures at a group level for Ventilair Group Belgium BVBA (Belgium) and Oy Pamon AB (Finland), whereas in the previous year we performed specific scope procedures on both of these components.
- Sweden: in the current year we performed full scope procedures for Fresh AB, whereas in the previous year we performed specific scope procedures.
- Australia: in the current year we performed other procedures at a group level for Volution Ventilation Australia (Pty) Limited, whereas in the previous year we performed specified procedures.

Independent Auditor's Report continued

To the members of Volution Group plc

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit team, or by component auditors from other EY global network firms operating under our instruction. Of the six full scope components, audit procedures were performed on two of these directly by the primary audit team and on the remaining four by component audit teams. Of the nine specific scope and specified procedures components, audit procedures were performed on three of these directly by the primary audit team and on the remaining six by component audit teams. For the four full scope components and six specific scope and specified procedures components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit engagement partner visited the Netherlands and Germany component teams. The visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with the local management and reviewing key audit working papers in risk areas. For overseas entities which were not physically visited, the primary audit team interacted regularly with the component teams where appropriate during all stages of the audit, reviewed key working papers and was responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

The Group audit engagement partner or a senior member of the primary audit team attended meetings with each of our full and specific component teams and local management to conclude the audit procedures at each location by video conference, to ensure that we were fully briefed on the progress and results of audit procedures.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Group. The group has determined that there are no material future impacts from climate change on its operations. This is explained on pages 32 to 51 in the sustainability report which form part of the "Other information", rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on evaluating management's assessment that there is no material impact of climate change risk, the adequacy of the Group's disclosures in the financial statements and the conclusion that no issues were identified that would impact the carrying values of assets with indefinite and long lives or have any other impact on the financial statements as disclosed on page 44. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>The risk of manipulation of revenue recognition through inappropriate manual journal entries or customer rebates:</p> <p>During the year the Group recognised revenue of £307.7 million (2021: £272.6 million) and at 31 July 2022 had a rebate liability of £9.4 million (2021: £10.0 million).</p> <p>We determined that there is risk of material misstatement associated with revenue recognition as revenue is the most significant item in the consolidated statement of comprehensive income and impacts the majority of the key performance indicators of the Group.</p> <p>Auditing standards include a rebuttable presumption that there is a risk of fraud in revenue recognition. We consider that this arises through:</p> <ul style="list-style-type: none"> Inappropriate recognition of sales due to inappropriate manual journal entries; or Inappropriate measurement of judgemental customer rebate provisions as a result of management bias. 	<p>We tested that revenue had been appropriately recognised through performance of the following audit procedures:</p> <ul style="list-style-type: none"> We obtained an understanding of the significant classes of transactions impacting revenue and performed walkthroughs of each in order to confirm our understanding; We evaluated the adequacy of the design of the controls in place over the significant classes of transactions impacting revenue; We performed analytical procedures, including a comparison of actual revenue against budget and prior year; Investigated and understood manual journal entries posted to revenue; Tested the application of cut-off for a sample of transactions across all in-scope trading components in the group by obtaining appropriate evidence for a sample of sales transactions; and For the majority of full scope and specific scope components, we used data analytics to identify recorded transactions that did not align with our expectation of the transaction flow. This involved performing a three-way correlation between revenue, trade receivables and cash and obtained evidence for unaligned amounts. <p>We tested the adjustments made to revenue from the application of rebate agreements by performing the following procedures:</p> <ul style="list-style-type: none"> We tested a sample of rebate agreements in place with customers and agreed terms to supporting evidence; We also searched for and enquired into the existence of undocumented side agreements; For the sample selected, we confirmed the key terms and conditions per the rebate agreement directly with the customer or performed alternative procedures; We recalculated the expected sales rebates for customers and compared these to actual amounts recorded by management; We evaluated whether a consistent methodology was applied with the prior year; We analysed the ageing of the rebate accrual and the ratio of the rebate accrual and rebate expense against revenue; and We understood the basis for any release of prior year accrual identified as surplus. <p>We issued instructions to perform the above procedures to all full and specific scope locations, to the extent they were relevant, which covered 85% of revenue and 97% of rebates. The remaining 15% of revenue relates to components where we concluded the risk of material misstatement is low.</p>	<p>We concluded that:</p> <ul style="list-style-type: none"> revenue has been recognised in accordance with IFRS; the customer rebate expense and liabilities recognised by the Group have been appropriately accounted for; and There were no inappropriate manual journal entries recorded to revenue.

Supporting references in the Annual Report and Accounts: The Audit Committee Report (page 92); Accounting policies (page 143); and note 3 to the consolidated financial statements (page 144).

Independent Auditor's Report continued

To the members of Volution Group plc

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Inappropriate accounting for business combinations, due to the complexity and number of estimates and judgement involved</p> <p>We determined that business combination accounting contains a risk of material misstatement as the Group agrees contractual terms for contingent and other forms of deferred consideration with the vendors of acquired entities that may be non-standard. Following acquisition, the principal areas of judgement relate to the identification and fair value measurement for intangible assets, the recognition of contingent consideration liabilities and any non-controlling interests.</p> <p>In September 2021, the Group acquired the ERI group of companies for initial cash consideration of £16 million, with a further contingent payment of up to £10.7 million due in 2025 depending on future performance. The acquisition of ERI included both contingent consideration and non-controlling interests. The acquisition also resulted in the recognition of intangible assets at fair value.</p>	<p>In order to respond to the risks identified in accounting for business combinations:</p> <ul style="list-style-type: none"> • We obtained management's accounting papers which included the assumptions and judgements used for the business combination; • We considered the appropriateness of the separate classification and valuation of fair value adjustments; • In respect of non-controlling interests, we checked that the accounting treatment adopted was in accordance with IFRS 10; • We considered whether there were any non-standard contractual terms that should be identified and disclosed; • We identified contingent and deferred consideration amounts that exceeded our testing thresholds or were otherwise unusual, and validated the appropriateness and value of the recognised liability; and • We involved valuation specialists to challenge the appropriate recognition and valuation of intangible assets based on management's own valuation. <p>The audit work for the ERI business combination was performed by the primary audit team.</p>	<p>We concluded that the accounting for business combinations is acceptable.</p>
<p>Supporting references in the Annual Report and Accounts: The Audit Committee Report (page 92) Accounting policies (page 156); and Note 16 to the consolidated financial statements (pages 156–161).</p>		

In the previous year, our auditor's report included a key audit matter in relation to management override arising from inappropriate presentation of separately disclosed items and/or unauthorised non-standard journal entries. In the current year, given the size and nature of the items presented as separately disclosed items, we did not consider this to be a key audit matter.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £2.15 million (2021: £1.85 million), which is 5% of the Group's Profit before tax and separately disclosed items. We believe that Profit before tax and separately disclosed items is the measure that users of the Group's financial statements are most focused on.

We determined materiality for the parent company to be £2.2 million (2021: £2.1 million), which is 1% (2021: 1%) of total assets. The materiality determined for the standalone parent company financial statements exceeds the Group materiality as it is determined on a different basis given the nature of the operations. For the purposes of the audit of the Group financial statements, our procedures, including those on balances in the parent company, are undertaken with reference to the Group materiality and performance materiality set out in this report.

During the course of our audit, we reassessed initial materiality using Group's actual reported results and made no changes to our initial assessment.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £1.6 million (2021: £1.4 million). We have set performance materiality at this percentage due to the active implementation of controls and procedures to address comments raised in the internal auditor's reports and our internal control observations. We also gave consideration to our low expectation of audit differences based on recent experience.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £320k to £970k (2021: £280k to £700k).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £110k (2021: £92k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report continued

To the members of Volution Group plc

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified on page 126;
- the Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate on pages 64 and 65;
- the Directors' statement on fair, balanced and understandable on page 126;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks on page 62;
- the section of the annual report and accounts that describes the review of effectiveness of risk management and internal control systems on pages 63 and 63; and
- the section describing the work of the audit committee on pages 92 to 99.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 126, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (UK adopted international accounting standards, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. There are no significant industry specific laws or regulations that we considered in determining our approach.
- We understood how the Group is complying with those frameworks by making enquiries with management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee. Our assessment included a consideration of the tone from the top and the emphasis on a culture of honest and ethical behaviour.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur. We challenged management to understand where it considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programs and the controls which the Group has established to address risks identified or that otherwise prevent, deter and detect fraud; and how senior management monitors these programs and controls. Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures include those on revenue recognition described above and testing manual journal entries and were designed to provide reasonable assurance that the financial statements were free from material fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations, including instructing full, specific and specified procedures scope component teams. At a Group level our procedures involved: enquiries of Group management and those charged with governance, legal counsel and internal audit; and journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business. At a component level, our full, specific and specified procedures scope component teams included enquiries of component management; journal entry testing; and focused testing, including as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 9 December 2021 to audit the financial statements for the year ended 31 July 2022 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is nine years, covering the years ended 31 July 2014 to 31 July 2022.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jon Killingley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

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	10	(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	11	18.1p	10.5p
Diluted earnings per share	11	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	12	28,235	23,908
Right-of-use assets	22	23,567	24,477
Intangible assets – goodwill	13	142,661	137,710
Intangible assets – others	15	87,592	85,373
		282,055	271,468
Current assets			
Inventories	17	57,151	44,971
Right of return assets	3	—	99
Trade and other receivables	18	57,526	47,482
Other financial assets	19	1,091	507
Cash and short-term deposits	20	13,543	19,456
		129,311	112,515
Total assets		411,366	383,983
Current liabilities			
Trade and other payables	21	(48,837)	(47,435)
Refund liabilities	3	(10,268)	(10,562)
Income tax		(5,564)	(4,629)
Other financial liabilities	23	—	(4,608)
Interest-bearing loans and borrowings	24	(3,599)	(3,454)
Provisions	25	(1,684)	(1,869)
		(69,952)	(72,557)
Non-current liabilities			
Interest-bearing loans and borrowings	24	(104,433)	(104,863)
Other financial liabilities	23	(14,132)	(6,021)
Provisions	25	(319)	(376)
Deferred tax liabilities	27	(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	26	2,000	2,000
Share premium	26	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 Volusion 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 28)	—	—	—	—	—	—	(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 28)	—	—	—	—	—	—	(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. Refer to note 33 for further detail of these plans.

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	12	3,816	3,327
Depreciation of right-of-use assets	22	3,612	3,531
Amortisation of intangible assets	15	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	16	(3,211)	—
Net cash flow generated from operating activities		41,642	52,462
Investing activities			
Payments to acquire intangible assets	15	(2,238)	(1,068)
Purchase of property, plant and equipment	12	(4,773)	(3,632)
Proceeds from disposal of property, plant and equipment		179	196
Business combination of subsidiaries, net of cash acquired	16	(15,996)	(41,678)
Contingent consideration relating to the acquisition of Air Connection	16	(476)	—
Business combination of subsidiaries, paid into escrow	16	—	(507)
Contingent consideration relating to the acquisition of Ventair	16	(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	20	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

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 Group's Strategic Report on page 65 shows the Directors' assessment of the Group's ability to continue as a going concern. The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, assessed for the period up until 31 July 2024.

The 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.

The 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 due to 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 c.35% 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 c.42% 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.

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.

1. Basis of preparation continued

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 13), impairment assessment of goodwill (note 14), intangible assets – other (note 15), refund liabilities arising from retrospective volume rebates (note 3) and financial liabilities relating to the business combination of ClimaRad and ERI (note 23).

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.

In preparing the financial statements, we have considered the impact of climate change, particularly in the context of the risks and opportunities identified in the TCFD disclosure on pages 40 to 46. Whilst we do not currently expect any material short and medium term impacts from climate change under the scenarios we have considered, the risks over the long term are more uncertain. However, there have been no impacts of climate change identified which would have a material impact on the critical judgements and estimates made in preparation of these financial statements.

Separately disclosed items

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

New standards and interpretations

The standards 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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

1. Basis of preparation continued

New standards and interpretations continued

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 34, 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 25, 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 18.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

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
	2022 £000	2021 £000
Market sectors		
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
	2022 £000	2021 £000
Right of return assets and refund liabilities		
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

- 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).
- 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.

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

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

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

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

4. Segmental analysis continued

Year ended 31 July 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

- 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).
- 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

	2022 £000	2021 £000
Revenue from external customers by customer destination		
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

	2022 £000	2021 £000
Non-current assets excluding deferred tax		
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.

6. Finance revenue and costs continued

	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 23.

7. Staff costs

Accounting policy

Pensions

Contributions to defined contribution schemes are recognised in the statement of comprehensive income in the period they become payable. The cost charged to the statement of comprehensive income of providing retirement pensions for employees represents the amounts paid by the Group to various defined contribution pension schemes operated by the Group in the financial period.

	2022 £000	2021 £000
Staff costs		
Wages and salaries	60,439	56,510
Social security costs	6,825	6,187
Other pension costs	2,442	2,388
Share-based payment charge (see note 33)	1,115	1,974
	70,821	67,059

The prior year staff costs disclosed above are net of support from the Government's Coronavirus Job Retention Scheme of £137,000, which was an adjustment relating to the claims made in the financial year ended 31 July 2020; no adjustments were made in the financial year ended 31 July 2022; no claims were made for the year ended 31 July 2022 (2021: £nil) (see note 5).

Other pension costs relate to the Group's contribution to defined contribution pension plans. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2021/22 but based on actual salary levels in 2022/23.

Average monthly number of employees in the year

	2022 Number	2021 Number
Production	1,126	793
Sales and administration	772	682
	1,898	1,475

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

7. Staff costs continued

Directors' remuneration

	2022 £000	2021 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' remuneration	3,497	2,969
Aggregate Directors' pension scheme contributions	72	77
In respect of the highest paid Director		
Aggregate Director's remuneration	2,148	2,295
Aggregate Director's pension scheme contributions	55	55

The number of Directors accruing benefits under Group money purchase pension arrangements was £nil (2021: £nil).

The Group also incurred fees and expenses of £367,000 (2021: £360,000) in respect of Paul Hollingworth, Tony Reading, Claire Tiney, Amanda Mellor, Nigel Lingwood and Margaret Amos for their services as Non-Executive Directors.

8. Other operating expenses

Accounting policy

The Group's research and development concentrates on the development of new products. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are disclosed in the table below.

Cost of sales, distribution costs and administrative expenses include the following:

	2022 £000	2021 £000
Cost of sales		
Costs of inventories recognised as expenses	125,836	108,643
Depreciation of property, plant and equipment	1,696	1,600
Depreciation of right-of-use assets	2,081	1,983
Amortisation and impairment of intangible assets	375	296
Administrative and distribution expenses		
Research and development costs	4,481	4,487
Depreciation of property, plant and equipment	2,120	1,727
Depreciation of right-of-use assets	1,531	1,548
Amortisation and impairment of intangible assets	15,651	17,922
Net foreign exchange differences	(695)	368
Gain on disposal of property, plant and equipment	(51)	(2)

9. Auditor's remuneration

The Group paid the following amounts to its auditor, Ernst & Young LLP, and its member firms in respect of the audit of the financial statements and for other services provided to the Group:

	2022 £000	2021 £000
Audit services		
Fees for the audit of the parent and Group financial statements	310	249
Fees for local statutory audits of subsidiaries	423	467
Non-audit services		
Fees payable for interim review	95	38
Total	828	754

10. 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 27.

(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 (see note 31 for subsidiary locations).

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

11. 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 (see note 26 for details). 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 34, Glossary of terms, for an explanation of the adjusted basic and diluted earnings per share calculation.

12. 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 14.

12. Property, plant and equipment continued

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2022				
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				
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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

13. 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 14 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

14. 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.

14. Impairment assessment of goodwill continued

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).

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

15. Intangible assets – other

Accounting policy

Intangible assets acquired in a business combination

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

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

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

Research and development

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

Subsequent measurement of intangible assets

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

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

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

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 14.

15. Intangible assets – other continued

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

15. 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
Volusion 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	—

16. 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.

16. Business combinations continued

Business combinations in the year ended 31 July 2022

ERI

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

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

16. Business combinations continued

Business combinations in the year ended 31 July 2021

ClimaRad Holding B.V. and subsidiaries

On 17 December 2020, Volution Group plc acquired 75% of the issued share capital of ClimaRad Holding B.V. and subsidiaries (ClimaRad), a company based in the Netherlands. The business combination of ClimaRad is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies, across the residential ventilation market and, where appropriate, in the commercial ventilation market. The integration of ClimaRad into the Volution Group will provide an opportunity for further growth in the Netherlands and the combination of its product portfolio with that of Ventilair (the Netherlands and Belgium) will enable us to enhance our offer in the European markets.

Total consideration for the purchase of 75% of the issued share capital was €41,100,000 (£37,100,000) with a commitment to purchase the remaining 25% on or before 28 February 2025. The future consideration for the purchase of the remaining 25% is set at 25% of 13 times the EBITDA of ClimaRad for the financial year ending 31 December 2024, plus the non-controlling interest share of profits earned in the periods up to and including 31 December 2024, and is subject to a cap.

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

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.

16. Business combinations continued

Business combinations in the year ended 31 July 2021 continued

Critical accounting judgements and key sources of estimation uncertainty

Financial liabilities relating to the business combination of ClimaRad

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

Nordiska Klimatfabriken AB

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

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

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

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	49	852	901
Property, plant and equipment	69	—	69
Inventory	55	—	55
Trade and other receivables	95	—	95
Trade and other payables	(159)	—	(159)
Deferred tax liabilities	—	(188)	(188)
Cash and cash equivalents	70	—	70
Total identifiable net assets	179	664	843
Goodwill on the business combination			2,646
Discharged by:			
Total consideration			3,489

Goodwill of £2,646,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the business combination and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

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

Nordiska Klimatfabriken generated revenue of £604,000 and 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

16. Business combinations continued

Business combinations in the year ended 31 July 2021 continued

Rtek

On 28 May 2021, Volusion 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.

16. Business combinations continued

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 19 and have been settled in the current period.

17. 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

18. 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)

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

18. Trade and other receivables continued

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.

19. Other financial assets

	2022 Current £000	2021 Current £000
Financial assets		
Funds held in escrow relating to the business combination in the year (note 16)	—	507
Foreign exchange forward contracts	1,091	—
Total	1,091	507

20. Cash and cash equivalents

Accounting policy

Cash and short-term deposits comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

	2022 £000	2021 £000
Cash and short-term deposits	13,543	19,456

Cash and cash equivalents are denominated in the following currencies:

	2022 £000	2021 £000
Sterling	3,004	6,377
Euro	4,654	6,962
US Dollar	519	578
Swedish Krona	1,082	1,436
New Zealand Dollar	1,987	1,186
Australian Dollar	1,370	1,777
Other	927	1,140
Total	13,543	19,456

21. 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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

22. 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	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2022				
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

22. Leases continued

Group as a lessee 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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

22. Leases continued

Group as a lessee continued

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

23. 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

23. Other financial liabilities continued

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. Refer to note 29 for the fair value hierarchy the Group uses to determine the fair value of financial instruments.

24. 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.

Notes to the Consolidated Financial Statements continued

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24. Interest-bearing loans and borrowings continued

	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 22)	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 the Group’s 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 16)	—	(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

24. Interest-bearing loans and borrowings continued

Changes in liabilities arising from financing activities 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

25. 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.

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

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25. Provisions continued

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.

26. Authorised and issued share capital and reserves

Accounting policy

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the period are satisfied with treasury shares.

	Number of ordinary shares	Ordinary shares £000	Share premium £000
At 31 July 2021 and 31 July 2022	200,000,000	2,000	11,527

At 31 July 2022, a total of 2,183,665 (2021: 2,123,072) ordinary shares in the Company were held by the Volution EBT, all of which were unallocated and available for transfer to participants of the Long Term Incentive Plan, Deferred Share Bonus Plan and Sharesave Plan on exercise. During the year, 463,000 ordinary shares in the Company were purchased by the trustees (2021: 650,000) and 402,407 (2021: 401,529) were released by the trustees at £1,114,667 (2021: £767,000). The market value of the shares at 31 July 2022 was £9,094,965 (2021: £10,032,000).

The Volution EBT has agreed to waive its rights to dividends.

27. 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.

27. Deferred tax continued

Accounting policy continued

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:

	1 August 2021 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On business combinations £000	31 July 2022 £000
2022						
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)
	1 August 2020 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On business combinations £000	31 July 2021 £000
2021						
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)

28. 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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

28. Dividends paid and proposed continued

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.

29. Risk management

Accounting policy

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk. Instruments used are principally foreign exchange forward contracts. Further details of derivative financial instruments are included in note 23.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the reporting date. The resulting gain or loss is immediately recognised in the statement of comprehensive income. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the relationship is more than twelve months and as a current asset or a current liability if the remaining maturity of the relationship is less than twelve months.

No derivative contracts have been designated as hedges for accounting purposes.

Hedge of net investments

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for as follows: gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is reclassified to profit or loss.

The Group uses borrowings in local currencies as a hedge of its exposure to foreign exchange risk on its investments in foreign operations.

As a result of entering into financial instruments, the Group is exposed to market risk, credit risk, foreign exchange risk and liquidity risk. The Group's principal financial instruments are:

- interest-bearing loans and borrowings;
- trade and other receivables, trade and other payables, cash and short-term deposits; and
- foreign exchange forward contracts.

This note provides further detail on financial risk management and includes quantitative information on the specific risks the Group is exposed to.

Derivative financial instruments

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange risk.

Forward foreign currency contracts

The Group's purchases in foreign currencies, net of Group sales in those currencies, represent approximately 20% (2021: less than 17%) of total material and component purchases. This has increased due to the diversification of the Group to more overseas regions. Each quarter the Group enters into forward exchange contracts for the purchase of the budgeted monthly net expenditure in US Dollars for the following rolling 12–15 months. Hedge accounting is not applied for these derivatives.

The Group's criteria for entering into a forward foreign currency contract would require that the instrument must:

- be related to anticipated foreign currency commitment;
- involve the same currency as the foreign currency commitment; and
- reduce the risk of foreign currency exchange movements on the Group's operations.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as equity price risk and commodity risk.

The Group's exposure is primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into derivative financial instruments to manage its exposure to these risks when appropriate.

At 31 July 2022, the Group had commitments under forward foreign exchange contracts with varying settlement dates to 5 May 2023 (2021: 5 July 2022). See note 23 for fair values.

29. Risk management continued

Sensitivity analysis

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might affect the value of its derivatives and also the amounts recorded in its equity in the overseas entities and its statement of comprehensive income for the period. Therefore the Group has assessed:

- what would be reasonably possible changes in the risk variables at the end of the reporting period; and
- the effects on profit or loss and equity if such changes in the risk variables were to occur.

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Group's floating rate loans and borrowings which at the relevant reporting dates are not hedged. With all other variables being constant the Group's profit before tax is affected through the impact on floating rate borrowings as follows. There is only an immaterial impact on the Group's equity.

	Increase in basis points	Effect on profit before tax £000
31 July 2022		
Sterling	+25	—
Swedish Krona	+25	(6)
Euro	+25	(180)
31 July 2021		
Sterling	+25	—
Swedish Krona	+25	(40)
Euro	+25	(143)

The assigned movement in basis points for interest rate sensitivity analysis is based upon the currently observable market environment.

The Group's cash balances are held in bank current accounts and earn immaterial levels of interest. Management has concluded that any changes in the LIBOR and SEK LIBOR rates will have an immaterial impact on interest income earned on the Group's cash balances. No interest rate sensitivity has been included in relation to the Group's cash balances.

Foreign currency risk

The Group's exposure to foreign exchange risk primarily arises when revenue and expenses are denominated in a different currency from the Group's presentational currency and translated into GBP for consolidation into the Group's results. Foreign exchange risk also arises when the individual entities enter into transactions that are not denominated in their functional currency.

The following tables illustrate the impact of several changes to the spot GBP/USD, GBP/EUR, GBP/SEK, GBP/DKK, GBP/NZD and GBP/AUD exchange rates of +5% weakening of GBP. The tables below reflect the impact on profit before tax and equity if those changes were to occur. Only the impact of changes in the SEK, USD, EUR, DKK, NZD and AUD denominated balances has been considered as these are the most significant non-GBP denominations used by the Group.

	Change in GBP vs USD/ SEK/EUR/DKK/ NZD/AUD rate	Effect on profit before tax	
		2022 £000	2021 £000
Swedish Krona	5%	499	523
US Dollar	5%	(92)	(84)
Euro	5%	2,024	978
Danish Krone	5%	33	23
New Zealand Dollar	5%	320	340
Australian Dollar	5%	210	138
	Change in GBP vs SEK/EUR/ DKK/NZD/AUD rate	Effect on equity	
		2022 £000	2021 £000
Swedish Krona	5%	(454)	(378)
Euro	5%	373	778
Danish Krone	5%	45	47
New Zealand Dollar	5%	(55)	(110)
Australian Dollar	5%	83	18

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29. Risk management continued

Hedge of net investments in foreign operations

The Euro and Swedish Krona denominated loans at 31 July 2022 have been designated as a hedge of the net investments in the subsidiaries in Europe and the Nordics. The borrowing is being used to hedge the Group's exposure to the Euro and Swedish Krona foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries.

There is an economic relationship between the hedged items and the hedging instrument as the net investments create a translation risk that will match the foreign exchange risk on the borrowing. The underlying risk of the hedging instrument is identical to the hedged risk component. The hedging gain recognised in OCI before tax is equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognised in profit or loss.

Liquidity risk

Liquidity risk for the Group arises from the management of working capital commitments and meeting its financial obligations as they fall due. The Group's policy is to regularly review cash flow forecasts/projections as well as information regarding cash balances to ensure that it has significant cash to allow it to meet its liabilities when they become due. The Group reviews its long-term funding requirements in parallel with its long-term strategy, with an objective of aligning both in a timely manner. At the reporting date, forecasts indicate that the Group is expected to have sufficient liquidity to meet its financial obligations for at least the next three years.

The tables below summarise the maturity profile of the Group's significant undiscounted financial liabilities at 31 July 2022 and 2021.

	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
At 31 July 2022				
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest and lease liabilities)	—	74,351	—	74,351
Lease liabilities	3,599	21,368	—	24,967
ClimaRad vendor loan	—	9,557	—	9,557
Forward foreign currency exchange outflow	17,654	—	—	17,654
Forward foreign currency exchange inflow	(18,729)	—	—	(18,729)
Contingent consideration – ClimaRad BV	—	7,052	—	7,052
Contingent consideration – ERI	—	7,080	—	7,080
Trade payables and other accrued expenses	47,100	—	—	47,100
	49,624	119,408	—	169,032
At 31 July 2021				
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest and lease liabilities)	—	73,293	—	73,293
Lease liabilities	3,590	8,907	15,913	28,411
ClimaRad vendor loan	—	10,515	—	10,515
Forward foreign currency exchange outflow	17,970	—	—	17,970
Forward foreign currency exchange inflow	(17,816)	—	—	(17,816)
Contingent consideration – Air Connection ApS	483	—	—	483
Contingent consideration – Ventair Pty Limited	4,070	—	—	4,070
Contingent consideration – ClimaRad BV	—	11,468	—	11,468
Contingent consideration – Nordiska Klimatfabriken AB	—	251	—	251
Contingent consideration – Energent Ab	—	256	—	256
Trade payables and other accrued expenses	45,723	—	—	45,723
	54,020	104,690	15,913	174,621

Fair values of financial assets and financial liabilities

There are no material differences between the book values and fair values for any of the Group's financial instruments carried at amortised cost. Derivative financial instruments have all been valued using other techniques, for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

29. Risk management continued

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Group is mainly exposed to credit risk from its operating activities (primarily for trade receivables – credit sales) and from cash and cash equivalents and deposits with banks and financial institutions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by credit insurance obtained from reputable banks and other financial institutions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating, and coverage by credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset disclosed in note 18. The Group does not hold collateral as security. The credit insurance is considered an integral part of trade receivables and considered in the calculation of impairment.

Set out below is the information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix:

	Trade receivables					Total £000
	Current £000	<30 days £000	30–60 days £000	61–90 days £000	>91 days £000	
31 July 2022						
Expected credit loss rate	<0.1%	<0.1%	<0.5%	1.5%	20.6%	
Estimated total gross carrying amount at default	39,195	5,273	2,289	946	3,618	51,321
Expected credit loss	8	—	6	14	744	772
	Trade receivables					
	Current £000	<30 days £000	30–60 days £000	61–90 days £000	>91 days £000	Total £000
31 July 2021						
Expected credit loss rate	<0.1%	0.6%	1.3%	1.2%	25.7%	
Estimated total gross carrying amount at default	36,015	4,561	231	1,023	1,925	43,755
Expected credit loss	15	27	3	12	495	552

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. The Group deposits cash with reputable financial institutions, from which management believes the possibilities of loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 July 2022 and 2021 is the carrying amount. The Group's maximum exposure to derivative financial instruments is noted in either note 23 or in the liquidity table on the previous page.

Capital risk management

The primary objective of the Group's capital management policy is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The Group defines its capital as its share capital (excluding treasury shares), share premium account, foreign currency translation reserves and retained earnings. In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long-term structural and subordinated debt to fund investments and acquisitions and has arranged debt facilities to allow for fluctuations in working capital requirements. There have been no changes to the capital management policy in the current period. Management manages capital on an ongoing basis to ensure that covenant requirements on third party debt are met.

Notes to the Consolidated Financial Statements continued

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29. Risk management continued

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments carried at fair value comprise the derivative financial instruments in note 23 and the contingent consideration in notes 16 and 23. For hierarchy purposes derivative financial instruments are deemed to be Level 2 as external valuers are involved in the valuation of these contracts. Their fair value is measured using valuation techniques including the DCF model. Inputs to this calculation include the expected cash flows in relation to these derivative contracts and relevant discount rates. Contingent consideration is deemed to be Level 3; see note 14 for details on the valuation techniques used to measure the fair value.

30. 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. The details of the Directors' total remuneration are provided in the Directors' Remuneration Report (see pages 100 to 121).

Compensation of key management personnel

	2022 £000	2021 £000
Short-term employee benefits	3,517	4,139
Share-based payment charge (see note 33)	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.

31. Group structure details

At 31 July 2022, Volution Group plc held 100% of the voting shares of the following subsidiaries:

Group company	Principal activity	Country of incorporation
Windmill Topco Limited ¹	Intermediate holding company	England
Volution Holdings Limited ¹	Intermediate holding company	England
Energy Technique Limited ¹	Intermediate holding company	England
Indirect		
Windmill Midco Limited ¹	Intermediate holding company	England
Windmill Cleanco Limited ¹	Intermediate holding company	England
Windmill Bidco Limited ¹	Intermediate holding company	England
Manrose Manufacturing Limited ¹	Non-trading	England
Volution Ventilation Group Limited ¹	Intermediate holding company	England
Torin-Sifan Limited ¹	Original equipment manufacturer	England
Anda Products Limited ¹	Non-trading	England
Axia Fans Limited ¹	Non-trading	England
Roof Units Limited ¹	Non-trading	England
Torin Limited ¹	Non-trading	England
Vent-Axia Limited ¹	Non-trading	England
Vent-Axia Clean Air Systems Limited ¹	Non-trading	England
Vent-Axia Group Limited ¹	HR services to Group	England
ET Environmental Limited ¹	Non-trading	England
Diffusion Environmental Systems Limited ¹	Non-trading	England

31. Group structure details continued

Group company	Principal activity	Country of incorporation
NVA Services Limited ¹	Non-trading	England
SW National Ventilation Limited ¹	Non-trading	England
Airtech Humidity Controls Limited ¹	Non-trading	England
Sens-Air Limited ¹	Non-trading	England
Breathing Buildings Limited ¹	Non-trading	England
Volution Ventilation UK Limited ¹	Ventilation products	England
Volution Holdings Sweden AB ²	Intermediate holding company	Sweden
Fresh AB ²	Ventilation products	Sweden
Welair AB ³	Ventilation products	Sweden
VoltAir System AB ⁴	Ventilation products	Sweden
PAX AB ⁵	Ventilation products	Sweden
Volution Norge AS (formerly Fresh Norge AS) ⁶	Ventilation products	Norway
Fresh Shanghai Limited ⁷	Ventilation products	China
inVENTer GmbH ⁸	Ventilation products	Germany
Volution Management Holdings GmbH ⁸	Intermediate holding company	Germany
Volution Deutschland Real Estate GmbH ⁸	Property holding company	Germany
Brüggemann Energiekonzepte GmbH ⁹	Ventilation products	Germany
Ventilair Group International BVBA ¹⁰	Intermediate holding company	Belgium
Ventilair Group Belgium BVBA ¹⁰	Ventilation products	Belgium
Ventilair Group Netherlands B.V. ¹¹	Ventilation products	Netherlands
Ventilair France SARL ¹²	Ventilation products	France
Volution Ventilation New Zealand Limited (formerly known as Chinook Limited) ¹³	Intermediate holding company	New Zealand
Simx Limited ¹³	Ventilation products	New Zealand
Vent-Axia B.V. (formerly known as AirFan B.V.)	Ventilation products	Netherlands
Oy Pamon Ab ¹⁴	Ventilation products	Finland
Air Connection ApS ¹⁵	Ventilation products	Denmark
Volution Ventilation Australia Pty Limited (formerly known as Woamera Pty Limited) ¹⁶	Intermediate holding company	Australia
Ventair Pty Limited ¹⁶	Ventilation products	Australia
Volution Ventilation Holdings B.V. ¹⁷	Intermediate holding company	Netherlands
ClimaRad Holding B.V. ¹⁷	Intermediate holding company	Netherlands
ClimaRad BV ¹⁷	Ventilation products	Netherlands
ClimaRad d.o.o. ¹⁸	Ventilation products	Bosnia
ERI Corporation DOO Bitola ¹⁹	Ventilation products	North Macedonia
ERI Corporation SRL ²⁰	Ventilation products	Italy
Energy Recovery Industries Trading SLU ²¹	Ventilation products	Spain
Energy Recovery Industries Corporation Limited ²²	Ventilation products	UK

Registered offices

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- Strandvägen 65, 87052 Nyland, Sweden.
- Box 7033, 12107 Stockholm-Globen, Sweden.
- Kattkärrsvägen 4, 64831 Hälleforsnäs, Sweden.
- Professor Birkelands vei 24B, 1081 Oslo, Norway.
- No. 272-3 Julu Road, Shanghai, China.
- Ortsstraße 4a 07751 Löberschütz, Germany.
- Uhlenhorst 149A, 21435 Stelle, Germany.
- Pieter Verhaeghestraat 8, 8520 Kuurne, Belgium.
- Kerver 16, 5521 DB Eersel, the Netherlands.
- Boulevard de la Liberté 130, FR-59000 Lille, France.
- 1 Haliday Place, East Tamaki, Auckland, 2013, New Zealand.
- Keskikankaantie 17, 15680 Hollola, Finland.
- Rude Havvej 17B, DK-8300 Odder, Denmark.
- 4 Capital Pl, Carrum Downs VIC 3201, Australia.
- Lübeckstraat 25, 7575 EE Oldenzaal, the Netherlands.
- Kamenolom 10, 71215 Blazuj, Sarajevo, Bosnia and Herzegovina.
- BURSA 124 7000, Bitola, North Macedonia.
- Via Modigliani 90 81031 Aversa, Italy.
- Calle Pere Dezcallar I Net 11 Planta 2, 07003 Palma De Mallorca Illes Balears, Spain.
- 15 Ashfield, Consett, United Kingdom, DH8 0RF.

Torin-Sifan Limited is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of that Act.

32. Commitments and contingencies

Commitments for the acquisition of property, plant and equipment as of 31 July 2022 are £730,000 (2021: £1,380,000).

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2022

33. Share-based payments

Accounting policy

Equity-settled transactions

The Group enters into equity-settled share-based payment transactions with its employees, in particular as part of the Volution Long Term Incentive Plan.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the valuation model detailed below and incorporates an assessment of relevant performance conditions. The cost is recognised in employee benefits expense (note 7), together with a corresponding increase in equity (share-based payment reserve), over the vesting period in which the service and performance conditions are fulfilled. The amount to be expensed over the vesting period is adjusted to reflect the number of awards for which conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the conditions at the vesting date.

At each balance sheet date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The Company operates a share-based incentive scheme for Directors and key employees, known as the Volution Long Term Incentive Plan (LTIP). Share options were granted in March 2018, October 2018 and October 2019; these nil-cost options normally vest after three years assuming continuing employment with the Company. The extent to which the options will vest is dependent upon the Company's performance over a three-year period set at the date of grant. The vesting of the awards will be determined by the Company's relative total shareholder return (TSR) performance and EPS growth. The TSR element of the options granted has been valued using the Group's share price volatility, the correlation between the share price movements of TSR comparators and the relevant vesting schedule.

	2022 Number	2021 Number
Outstanding at 1 August	3,270,467	3,015,152
Granted during the year	365,972	929,945
Dividend equivalent added on vesting	26,500	7,321
Exercised during the year	(236,094)	(67,839)
Lapsed during the year	(472,754)	(614,112)
Outstanding at 31 July	2,954,091	3,270,467

The weighted average exercise price for all options is £nil.

Of the total number of options outstanding at 31 July 2022, 1,390,591 had vested and were exercisable.

The weighted average fair value of each option granted during the year was £4.91 (2021: £2.05).

The weighted average remaining contractual life for the share options outstanding as at 31 July 2022 was 6.8 years (2021: 7.5 years).

The following information is relevant in the determination of the fair value of options granted during the year under the LTIP:

	2022
Option pricing model used	Monte Carlo
Weighted average share price at grant date (£)	4.91
Exercise price (£)	Nil
Expected dividend yield (£)	Nil
Expected life (years)	3
Expected volatility	43.3%
Risk-free interest rate	0.57%

33. Share-based payments continued

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of share prices over a period commensurate with the expected life of the option.

The share-based remuneration expense comprises:

	2022 £000	2021 £000
Equity-settled schemes	1,115	1,974
	1,115	1,974

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous periods.

34. 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: 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.

Parent Company Statement of Financial Position

At 31 July 2022

	Notes	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	4	162	162
Investments	5	199,322	199,322
Deferred tax asset	6	2,719	2,421
		202,203	201,905
Current assets			
Other receivables and prepayments	7	116,189	109,528
Other current financial assets	8	890	—
Cash and short-term deposits		151	226
		117,230	109,754
Total assets		319,433	311,659
Current liabilities			
Trade and other payables	9	(23,024)	(23,582)
Other current financial liabilities	8	—	(154)
		(23,024)	(23,736)
Non-current liabilities			
Interest-bearing loans and borrowings	10	(73,507)	(72,337)
		(73,507)	(72,337)
Total liabilities		(96,531)	(96,073)
Net assets		222,902	215,586
Capital and reserves			
Share capital	11	2,000	2,000
Share premium		11,527	11,527
Treasury shares		(3,574)	(3,739)
Share-based payment reserve		4,910	3,943
Capital reserve		(273)	(273)
Retained earnings		208,312	202,128
Total equity		222,902	215,586

As permitted by Section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements.

The Company's profit for the year ended 31 July 2022 was £20.2 million (2021: £19.6 million).

The 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

Parent Company Statement of Changes in Equity

For the year ended 31 July 2022

	Share capital £000	Share premium £000	Treasury shares £000	Share-based payment reserve £000	Capital reserve £000	Retained earnings £000	Total £000
At 1 August 2020	2,000	11,527	(2,401)	1,264	(273)	185,959	198,076
Profit for the year	—	—	—	—	—	19,586	19,586
Total comprehensive income	—	—	—	—	—	19,586	19,586
Share-based payment	—	—	—	3,791	—	—	3,791
Purchase of own shares	—	—	(2,105)	—	—	—	(2,105)
Vesting of shares	—	—	767	(1,112)	—	345	—
Dividends paid	—	—	—	—	—	(3,762)	(3,762)
At 1 August 2021	2,000	11,527	(3,739)	3,943	(273)	202,128	215,586
Profit for the year	—	—	—	—	—	20,233	20,233
Total comprehensive income	—	—	—	—	—	20,233	20,233
Share-based payment	—	—	—	2,096	—	—	2,096
Purchase of own shares	—	—	(1,900)	—	—	—	(1,900)
Vesting of shares	—	—	2,065	(1,129)	—	(777)	159
Dividends paid	—	—	—	—	—	(13,272)	(13,272)
At 31 July 2022	2,000	11,527	(3,574)	4,910	(273)	208,312	222,902

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 option schemes.

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. Refer to note 33 of the Group financial statements for further details.

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.

Retained earnings

£120,294,000 of the retained earnings balance at 31 July 2022 is available for distribution (2021: £113,143,000).

Parent Company Statement of Cash Flows

For the year ended 31 July 2022

	Notes	2022 £000	2021 £000
Operating activities			
Profit for the year after tax		20,233	19,586
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax for the year		(817)	(1,541)
Loss on disposal of personal protective equipment		—	3
Business combination-related costs		199	591
Cash flows relating to business combination costs		(199)	(591)
Finance revenue		(70)	(10)
Finance costs		1,040	2,506
Effect of exchange on foreign denominated loans		(1,744)	(3,881)
Share-based payment expense		1,115	1,974
Depreciation of property, plant and equipment	4	29	27
Working capital adjustments:			
Increase in other receivables and prepayments		(4,877)	(22,671)
(Decrease)/increase in trade and other payables		(560)	3,646
Net cash flow generated from / (used in) operating activities		14,349	(362)
Investing activities			
Purchase of property, plant and equipment	4	(29)	(52)
Interest received		70	10
Net cash flow generated / (used in) from investing activities		41	(42)
Financing activities			
Interest paid		(1,765)	(1,576)
Repayment of interest-bearing loans and borrowings		(33,626)	(88,917)
Proceeds from new borrowings		36,428	98,044
Issue costs of new borrowings		(330)	(1,218)
Dividend paid to equity holders		(13,272)	(3,762)
Purchase of own shares		(1,900)	(2,105)
Net cash flow (used in) / generated from financing activities		(14,465)	466
Net increase in cash and cash equivalents		(75)	62
Cash and cash equivalents at the start of the year		226	164
Cash and cash equivalents at the end of the year		151	226

Notes to the Parent Company Financial Statements

For the year ended 31 July 2022

1. General information

These financial statements were approved and authorised for issue by the Board of Directors of Volution Group plc (the Company) on 5 October 2022.

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.

2. Basis of preparation

The financial statements are prepared in accordance with UK-adopted international accounting standards (IFRS).

The financial statements are presented in Sterling (£), rounded to the nearest thousand (£000) unless otherwise stated. They have been prepared under the historical cost convention.

The policies applied by the Company are consistent with those set out in the notes to the consolidated financial statements. The following additional policies are also relevant to the Company financial statements.

Investments

Investments in subsidiary undertakings are valued at cost, being the fair value of the consideration given and including directly attributable transaction costs. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Dividends received

Revenue is recognised when the Company's right to receive the payment is established, which is generally when the shareholders approve the dividend.

Financial instruments

For detailed disclosures of financial instruments refer to note 29 of the Group financial statements.

New standards and interpretations

New standards effective for accounting periods beginning 1 January 2020 were adopted by the Company on 1 August 2020. The new standards did not have a material impact on the 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.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions relevant to the financial statements are embedded within the relevant notes to the consolidated financial statements.

Carrying value of investments

The key source of estimation uncertainty at the reporting date that has a significant risk of causing a material adjustment to the parent company financial statements is the recoverability of the investments set out in note 5.

The recoverability is estimated based on the expected performance and value of the investments, factoring in potential expected future net cash flow to be generated from the investments. The Company based its estimation on information available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected when they occur.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2022

3. Staff costs

	2022 £000	2021 £000
Staff costs		
Wages and salaries	3,381	3,501
Social security costs	302	257
Share-based payment charge	1,115	1,974
Other pension costs	63	55
	4,861	5,787

Other pension costs relate to the Company's contribution to defined contribution pension plans. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2021/22 but based on actual salary levels in 2022/23.

The staff costs disclosed above are net of support from the Government's Coronavirus Job Retention Scheme of £nil (2021: £nil).

Average monthly number of employees in the year

	2022 Number	2021 Number
Administration	16	15

Directors' remuneration

	2022 £000	2021 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' remuneration	3,497	2,969
Aggregate Directors' pension scheme contributions	72	77
In respect of the highest paid Director		
Aggregate Director's remuneration	2,148	2,295
Aggregate Director's pension scheme contributions	55	55

The number of Directors accruing benefits under Company money purchase pension arrangements was £nil (2021: £nil).

The Group also incurred fees and expenses of £367,000 (2021: £360,000) in respect of Paul Hollingworth, Tony Reading, Claire Tiney, Amanda Mellor, Nigel Lingwood and Margaret Amos for their services as Non-Executive Directors.

4. Property, plant and equipment

2022	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2021	260	260
Additions	29	29
At 31 July 2022	289	289
Depreciation		
At 1 August 2021	98	98
Charge for the year	29	29
At 31 July 2022	127	127
Net book value		
At 31 July 2022	162	162

4. Property, plant and equipment continued

2021	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2020	215	215
Additions	52	52
Disposals	(7)	(7)
At 31 July 2021	260	260
Depreciation		
At 1 August 2020	75	75
Charge for the year	27	27
Disposals	(4)	(4)
At 31 July 2021	98	98
Net book value		
At 31 July 2021	162	162

5. Investments

	£000
Cost	
At 31 July 2021 and 31 July 2022	199,322

For a list of the subsidiaries in which Volution Group plc held 100% of the voting shares as at 31 July 2022, see note 31 of the Group financial statements.

The Group has considered whether there is objective evidence that the investment in subsidiaries is impaired. A similar model and assumptions were used in this assessment to those used for the Group goodwill impairment testing (see note 14 of the Group financial statements for further details). No impairment has been identified.

6. Deferred tax balances

Deferred tax assets and liabilities arise from the following:

	1 August 2021 £000	Charged to income £000	Charged to equity £000	31 July 2022 £000
Deferred tax asset				
Temporary differences	2,421	(148)	446	2,719

7. Other receivables and prepayments

	2022 £000	2021 £000
Amounts owed by Group undertakings	115,474	108,990
Prepayments	715	538
	116,189	109,528

The Group has considered the recoverability of the amounts owed by Group undertakings. Consideration was given to the different scenarios for the recovery of the intercompany loan receivables, the possible credit losses that could arise and the probabilities for these scenarios. Based on this assessment, the amounts owed by Group undertakings are considered fully recoverable and therefore no provision for expected credit loss has been recognised.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2022

8. Other financial assets and liabilities

	2022 Current £000	2021 Current £000
Financial assets		
Foreign exchange forward contracts	890	—
	890	—
Financial liabilities		
Foreign exchange forward contracts	—	154
	—	154

The foreign exchange forward contracts are carried at their fair value with the gain or loss being recognised in the Company's consolidated statement of comprehensive income. Refer to note 29 within the Group's financial statements for the fair value hierarchy the Group uses to determine the fair value of financial instruments.

9. Trade and other payables

	2022 £000	2021 £000
Trade payables	448	447
Accruals	2,610	3,169
Amounts owed to Group undertakings	19,966	19,966
	23,024	23,582

10. Interest-bearing loans and borrowings

	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

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 the Group's GBP loans has transitioned from the London Interbank Offered Rate (LIBOR) to Sterling Overnight Indexed Average (SONIA).

10. Interest-bearing loans and borrowings continued

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.

Reconciliation of movement in financial liabilities

	2022 £000	2021 £000
Reconciliation of movement of financial liabilities		
At 1 August	73,293	69,563
Additional loans	36,428	98,044
Repayment of loans	(33,626)	(88,917)
Interest charge	1,765	1,567
Interest paid	(1,765)	(1,567)
Foreign exchange	(1,744)	(5,397)
At 31 July	74,351	73,293

Changes in liabilities arising from financing activities

	1 August 2021 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	31 July 2022 £000
Non-current interest-bearing loans and borrowings	73,293	2,802	(1,744)	—	74,351

11. Share capital and share premium

The movement in called-up share capital and share premium accounts is set out below:

	Number of ordinary shares	Share capital £000	Share premium £000
At 31 July 2021 and 31 July 2022	200,000,000	2,000	11,527

12. Dividends paid and proposed

	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

The 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 dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2022.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2022

13. Related party transactions

The following table provides the total amount of transactions that have been entered into with subsidiary undertakings for the relevant financial period.

	2022		2021	
	Amounts owed by related parties £000	Amounts owed to related parties £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Related parties				
Volution Ventilation Group Limited	73,461	19,966	74,177	19,966
Volution Holdings Limited	36,580	—	34,813	—
ERI	2,738	—	—	—
Ventair	2,695	—	—	—
	115,474	19,966	108,990	19,966

Sales made to Volution Holdings Limited of £3,885,000 (2021: £3,083,000) relate to management fees. The sales are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year end are unsecured and interest free and settlement occurs in cash.

No sales were made to Volution Ventilation Group Limited; the outstanding balance is an intercompany loan which has been repaid in part during the year.

Compensation of key management personnel

The Executive and Non-Executive Directors are deemed to be key management personnel of Volution Group plc. It is the Board that has responsibility for planning, directing and controlling the activities of the Group. Please refer to note 3 for details of the Executive and Non-Executive Directors' remuneration.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the year, key management personnel did not owe the Company any amounts.

14. Share-based payments

For detailed disclosures of share-based payments granted to employees, refer to note 33 of the Group financial statements.

Glossary of Technical Terms

Alternating current or AC	the flow of electric current which reverses direction periodically, typically at 50Hz in the UK and Europe. This is the standard type of electricity supply to domestic and commercial properties
AC blowers	a low-pressure fan with an AC motor
AC motor	an alternating current motor
AHU	air handling unit: a ventilation device which usually integrates air, heating and filtration into one combined unit. May also include cooling and heat recovery
Decentralised heat recovery	a system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air. Decentralised heat recovery consists of multiple units supplying and extracting from around the home
EC/DC	electronically commutated direct current
Electronically commutated or EC	a type of motor which historically used a mechanical means of reversing the current flow but which now uses an electronic device to do the same, which is more reliable and more efficient
Fan coil	a device used to heat or cool a space which includes a water coil and fan for connection to the wider HVAC package within a building
HVAC	heating, ventilation and air conditioning
Hybrid ventilation	a method that combines both passive and mechanical means to form a mixed mode ventilation system
IAQ	indoor air quality
Lo-Carbon products	a trademark used to represent our low-energy range of products
MEV	mechanical extract ventilation: a system of ventilation operated by a power-driven mechanism which extracts air from a room and discharges it only to the external air
Motorised impellers	a motor that is supplied complete with an impeller attached to it
MVHR	mechanical ventilation with heat recovery: a centralised system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air
NVHR	natural ventilation with heat recycling
OEM	original equipment manufacturer
PIV	positive input ventilation: this is an energy efficient method of pushing out and replacing stale, unhealthy air by gently pressurising the home with fresh, filtered air to increase the overall circulation of air in the dwelling
RMI	repair, maintenance and improvement
Rotary heat exchanger	a type of heat exchanger consisting of a circular honeycomb matrix which rotates in the airstream of a heat recovery device
Plate heat exchanger	a type of heat exchanger consisting of a series of plates which transfer the heat from one airstream to another
Specifiers	persons who may specify certain characteristics of products

Shareholder Information

Shareholder services

For any enquiries concerning your shareholding please contact our registrar:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom

Equiniti has a shareholder portal offering access to services and information to help manage your shareholdings and inform your important investment decisions. Please visit www.shareview.co.uk.

Shareholder helpline: 0371 384 2030¹ from the UK or +44 (0) 121 415 7047 from overseas.

Note

1. Lines are open 8.30 am to 5.30 pm, Monday to Friday (excluding public holidays in England and Wales).

You can access our Annual Report and Accounts and other shareholder communications through our website, www.volutiongroupplc.com.

Company advisers

External independent auditor

Ernst & Young LLP

Corporate brokers

Liberum Capital

Berenberg

Legal adviser

Norton Rose Fulbright

Financial PR adviser

FTI Consulting

Company Secretary and registered office

Fiona Smith

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Forward-looking statements

The Annual Report and Accounts contains certain statements, statistics and projections that are or may be forward looking. The accuracy and completeness of all such statements including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Volution Group plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as "intends", "expects", "anticipates" and "estimates" and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Volution Group plc believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, which may be beyond the control of Volution Group plc and could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Other than as required by applicable law or the applicable rules of any exchange on which our securities may be listed, Volution Group plc has no intention or obligation to update forward-looking statements contained herein.

Endnotes
1



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