



Volusion Group plc Annual Report 2021

Healthy air, sustainably



volusion



Our energy efficient indoor air quality solutions are part of the global green economy

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We are market leaders in residential and commercial ventilation solutions

Our regional coverage

United Kingdom



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

Continental Europe



- Nordics, Germany, Belgium and the Netherlands
- Bosnia and Herzegovina (production facilities only)
- New Build Residential, RMI, Commercial and OEM

Australasia



- New Zealand and Australia
- New Build Residential and RMI

% of Volution Group revenue by region



United Kingdom 49.9%

£135.9m

MANROSE

Vent-Axia

torin-sifan

NATIONAL VENTILATION

AIRTECH

BB Breathing Buildings

DIFFUSION



Continental Europe 35.0%

£95.5m

Fresh

TKAIR

Ventilair GROUP

VoltAir

INVENTER

PXX

AIR CONNECTION

ClimaRad
decentrale ventilatie

rtek



Australasia 15.1%

£41.2m

Simx

ventair
THE AIR MOVEMENT SPECIALISTS

MANROSE

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

Financial highlights

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

Operational highlights

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

Healthy air, sustainably

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

Revenue £m

£272.6m

2021	272.6
2020	216.6
2019	235.7
2018	205.7
2017	185.1

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

£56.9m (20.9%)

2021	56.9	20.9%
2020	33.7	15.6%
2019	42.1	17.8%
2018	37.1	18.0%
2017	35.6	19.3%

Reported profit before tax £m

£30.0m

2021	30.0
2020	14.6
2019	23.1
2018	16.7
2017	17.9

Adjusted operating cash flow £m

£56.9m

2021	56.9
2020	43.4
2019	36.9
2018	34.4
2017	35.9

Net debt £m

£79.2m

2021	53.8 ²	79.2 ¹
2020	51.1 ²	74.2 ¹
2019	74.6	
2018	77.2	
2017	37.0	

1. IFRS 16 basis.

2. Excluding lease liabilities.

Adjusted EPS pence

21.0p

2021	21.0
2020	12.1
2019	16.0
2018	14.5
2017	13.6

Reported EPS pence

10.5p

2021	10.5
2020	4.9
2019	9.2
2018	6.7
2017	7.0

Dividend per share pence

6.30p

2021	6.30
2020	0
2019	4.90
2018	4.44
2017	4.15

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 35. A reconciliation to reported measures is set out in note 2.

» Key performance indicators **pages 54 to 57**

Delivering Sustainable Growth

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.

Healthy

1

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 6**

2

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 7**

air, sustainably

3

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 8**

4

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.

» See more **page 9**

5

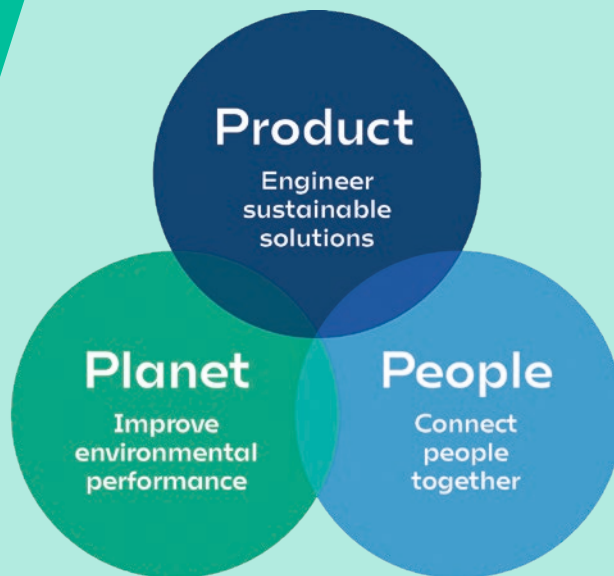
Our business model

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 10**



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 sustainability strategy

We are committed to a low-carbon future with the health and wellbeing of people and the planet at its core.

» To read more about how our purpose informs our sustainability strategy see pages **32 to 47**

Our Values

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.

Professional and reliable

With customers, suppliers, colleagues and shareholders and in all relationships.

Innovate

Our products, services and solutions.

Integrity

Environmentally, socially and in our governance.

Commitment

100% every day, everywhere.

Customer service

Strive for quality and excellence in everything we do.

Grow

Our sales and profit, our people, our capability, our capacity and our ambition. Grow our value and invest for the future.

Fun

Enjoy what we do and respect those around us.



Our Strategy

We aim to achieve our goals through a combination of three strategic objectives: organic growth, selective acquisitions and operational excellence, and this year have continued to develop our focus on environmental, social and governance issues (ESG) into our culture.



Organic growth

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.



Value-adding acquisitions

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.



Operational excellence

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.

Our Investment Case

Operational

Sustainability

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

62.1%

sales of low-carbon products

» Read more in our sustainability section **page 32**

Market leadership

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.

19

brands and sales offices in 12 countries

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.

12.0%

revenue 5-year CAGR

Diversification

We service both residential and commercial sectors, in both public and private new build and refurbishment applications in diverse geographies including the UK, Continental Europe and Australasia.

58.7%

of our revenue is from non-UK customers

» Read more about our geographic spread **page 1**

» Read more about the revenue in our product sectors **page 1**

Strong, consistent development in financial performance

Reliable organic growth and successful integration of acquisitions have driven strong and reliable growth in profitability and operating cash flows. 2020 significantly impacted by Covid-19.

11.9%

adjusted operating profit 5-year CAGR

12.8%

adjusted operational cash flow 5-year CAGR

Structural growth drivers

Our value creation proposition

Our leading innovation unlocks a unique global growth opportunity and delivers value for our customers, communities, employees and shareholders.



Increased awareness of the importance of air quality for health

» See more **pages 24 and 25**



Our innovation positions us to meet new challenges

» See more **pages 28 and 29**



Regulatory response to reduce carbon is driving growth opportunities

» See more **pages 26 and 27**

Our purpose is to provide healthy indoor air, sustainably

Our business model provides the driving force and local implementation of our strategy.



We understand and shape markets

Our intimate relationships with our stakeholders across our markets provide unique insights and understanding of the regulatory and commercial environments in which we operate. We use this insight to share knowledge across our Group to drive our growth.

Key strengths:

- Trade association and network supporting legislative feedback and development.
- Broad customer base helping us to understand construction trends and innovate our solutions.

» Stakeholder engagement **pages 30 and 31**



We leverage our scale

Our scale provides unique opportunities to develop products and solutions that we can sell across our markets. This depth of product range and close localised category management ensure we optimise our innovations.

Key strengths:

- International sales channels supporting volume sales and investment in innovation.
- Localised specialists combined with centralised resources maximising opportunities.

» Innovation in our DNA **pages 28 and 29**



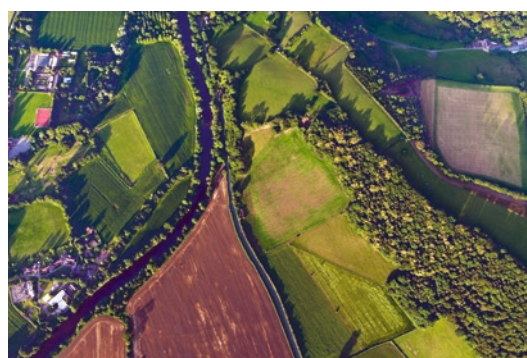
We support our companies to grow

Our investment in new acquisitions provides a continuous stream of new and exciting opportunities for our companies to learn and grow. The integration of the product ranges and brands and access to our wide and diverse sales channel support our organic growth ambitions.

Key strengths:

- Brand strength allowing multichannel approaches in our geographies.
- Continuous product category development through acquisitions providing opportunities for growth.

» ClimaRad case study **pages 22 and 23**



We drive sustainability

We are committed to a low-carbon future and making ourselves sustainable over the long term. Our sustainability strategy and wide ranging initiatives to reduce avoidable waste and minimise our impact on the environment continue to inform our investment decisions in product development, M&A and wider capital allocation.

Key strengths:

- Centralised operations focused on sustainability.
- Low-carbon product range helping to save energy and reduce carbon emissions.

» Sustainability **pages 32 to 47**

Chairman's Statement



Strength and resilience

I am delighted by how well Volution has recovered from a period of unprecedented global disruption and uncertainty caused by the Covid-19 pandemic.

Summary

- A record result outperforming market expectations.
- Acquisitions of ClimaRad, Klimatfabriken and Rtek enhancing our geographic diversity, product offering and market access.
- Re-introduction of dividends – final dividend of 4.4 pence recommended.
- Outlook for growth positive supported by beneficial regulatory backdrop.
- Clear commitment to ESG objectives.

Dear shareholder,

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

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

People and culture

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

» People Reporting Framework **page 47**

Performance and results

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

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

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

Dividends

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

Strategy

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

Good progress was made during the year with organic growth, whilst the acquisitions of ClimaRad in the Netherlands, Klimatfabriken in Sweden and Rtek in Finland and an agreement to acquire ERI Corporation, based in North Macedonia (completed 9 September 2021), have further strengthened the Group's geographic and product diversification. On behalf of the Board I am delighted to welcome our new colleagues to the Group. Our dedication to operational excellence has underpinned the Group's substantial operating margin expansion to 20.9% and our strong focus on ESG improvements. Further details of our progress on strategy are set out on page 8.

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 47. Work is also underway to achieve compliance with the Task Force on Climate-related Financial Disclosures recommendations and further details are set out on pages 44 and 45.

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

Board

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

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

A search process has commenced to find a successor to Tony which is focused on increasing the diversity of the Board to better reflect our customer base and the wider population in our markets. Once the Board has approved the appointment of a new independent Non-Executive Director, an announcement will be made to the London Stock Exchange. Further details of the search process can be found in the Nomination Committee Report on pages 86 to 88.

As part of the succession planning process the Board discussed the successor to the role of Senior Independent Director and has appointed Amanda Mellor to the role with effect from the conclusion of the Annual General Meeting in December 2021. Amanda has been a Board member since March 2018 and has also been appointed as the Board representative for ESG matters and attends the management Sustainability Committee. Further details can be found in the Sustainability Report on pages 32 to 47.

Governance

The Group continues to be committed to high levels of corporate governance, in line with its status as a company with a premium listing on the Main Market of the London Stock Exchange and a member of the FTSE 250. We are fully compliant with the 2018 edition of the UK Corporate Governance Code and compliance is set out in the Governance Report on pages 78 to 85.

During the year, a formal performance evaluation of the Board and Committees took place to assist in their development. The results of the evaluations confirmed that the Board and Committees continue to function effectively and that there are no significant concerns among the Directors about their effectiveness. Further information is set out in the Governance Report on pages 78 to 85.

Summary

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

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



Paul Hollingworth
Chairman

6 October 2021

Chief Executive Officer's Review



I am immensely proud of our committed employees and the substantial progress we made in the year.

Summary

- Excellent progress with both financial performance and delivering against our ESG initiatives enabling us to provide "healthy air, sustainably".
- The safety and wellbeing of our valued employees and stakeholders through the ongoing Covid-19 pandemic remains our number one priority.
- We have set out our roadmap to net zero carbon, with 2021 our first year as a carbon neutral business.
- Adjusted earnings per share ahead of market expectations at 21.0 pence; a compounded annual growth rate of 13.2% since listing in 2014.
- Significant revenue growth up £56.0 million to £272.6 million (2020: £216.6 million).
- Revenue growth of 25.8% (24.4% at cc), with organic growth of 22.0% (20.5% at cc) and inorganic growth from the three acquisitions in the year of 3.8% (3.9% at cc).
- Adjusted operating profit of £56.9 million, an increase of 68.8% over the prior year (2020: £33.7 million), and an increase of £14.9 million, 35.4%, over 2019.
- Achieved our 20% adjusted operating margin target with a significant margin expansion of 5.3pp to 20.9% (2020: 15.6%) despite the supply chain challenges and inflationary pressures the Group faced in the second half of the financial year.
- Another year of excellent cash conversion, central to our M&A strategy and target to become one of the leading ventilation companies in Europe.
- Awarded the Green Economy Mark by the London Stock Exchange, recognising our revenue streams from low-carbon solutions supplied to the market.
- Three acquisitions completed in the year, ClimaRad in the Netherlands, Klimatfabriken in Sweden and Rtek in Finland, with a fourth transaction to acquire ERI Corporation signed in the year with completion in early FY22.
- 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.

Overview

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

In all of our markets there has been a greater recognition of the importance that indoor air quality and ventilation can have on health. In the early days of the Covid-19 pandemic the focus was on hygiene, hand washing and sanitising but as global awareness of how the virus is transmitted there has been an acute realisation of how important it is to properly ventilate inside buildings. Coupled with the growing awareness of the importance of ventilation there has been a consistent and continuing increase in demand for ventilation in £10 million refurbishment applications.

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

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

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

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

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

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

AO Recycling is a key partner for our recycled HIPS and ABS



Chief Executive Officer's Review continued

Overview continued

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

Sustainability

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

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

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

As detailed in this report I am proud of the work we have made in our facilities to reduce our carbon emissions and apply low-carbon building technologies to our facilities. We continue to work across all facilities on this important initiative and I am delighted with the way in which our employees have embraced the opportunity to improve our low-carbon credentials. More specific detail is included in this report on pages 36 and 37.

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

Acquisitions

We completed three acquisitions in the year: ClimaRad, the market leader for decentralised heat recovery ventilation in the Netherlands; Klimatfabriken in Sweden, high-end premium ventilation for refurbishment; and Rtek in Finland, a supplier of heat recovery ventilation systems for both new and refurbishment

applications. A fourth transaction, ERI Corporation, was signed at the end of the year, with completion taking place on 9 September 2021 at the start of financial year 2022. These acquisitions, coupled with our existing range of products, position us with one of the most comprehensive ranges of ventilation products in the market and well placed to benefit from the more impending regulations that will be issued in the coming years. The increasing focus of governments in achieving their local net zero carbon targets, the International Building Regulation response plus key recommendations made recently in the "Fit for 55" announcement are all structural growth drivers for the use of energy efficient ventilation solutions including heat recovery.

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

United Kingdom

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

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

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

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

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

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

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



New product development and innovation has been essential for us to maintain our market leading position in this sector.

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

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

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



The low-carbon MEV unit supplied under the Vent-Axia Lo-Carbon brand

Chief Executive Officer's Review continued

United Kingdom continued

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

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

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

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

Continental Europe

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

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

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

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

**The Klimatfabriken-supplied
National Ventilation low-carbon
i7 fan launching Q1 2022**



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

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

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

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

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



We made breakthroughs with the application of new recycled sources that will help underpin the delivery of our 90% target by 2025.



The low-carbon EC skyfan by Ventair

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

Australasia

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

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

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

Chief Executive Officer's Review continued

Australasia continued

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

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

Strategy

Organic growth

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

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

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

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

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

Acquisitions

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

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

Operational excellence

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

Further information on our strategy can be found on page 8.



FY21 delivered a strong performance financially and for our sustainability initiatives.



In FY21 we were awarded the Green Economy Mark, only the fourth building materials company to receive it



People

FY21 delivered a strong performance financially and for our sustainability initiatives. The year was punctuated by the ongoing Covid-19 pandemic and many of our employees are having to adapt to new ways of working. I am immensely proud of the way in which our valued employees are driving both our low-carbon revenue growth initiative and our focus on utilising increased proportions of recycled plastic materials. We held two employee engagement and communication meetings in the year, on each occasion through video conferencing, and it is great to see so many examples of sustainability in action across our Company.

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

Outlook

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

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

Ronnie George
Chief Executive Officer
6 October 2021



Complementing our existing low-carbon portfolio

Background to ClimaRad

Founded in 2005 and headquartered in Oldenzaal, the Netherlands, ClimaRad has become the market leader for decentralised heat recovery ventilation in the Netherlands. The Company designs and manufactures innovative heat recovery ventilation systems, many incorporating filtering, heating and comfort cooling capability, primarily to the residential and care home sectors with further presence in the office and education sectors. Its products are manufactured in its own scalable, low-cost and efficient production facility in Sarajevo, Bosnia and Herzegovina.

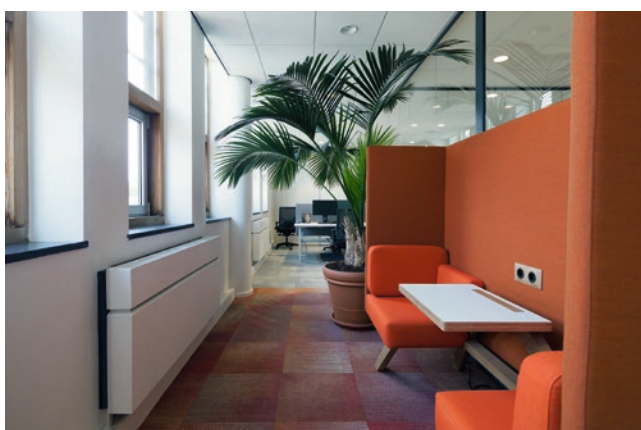
Structural and regulatory market drivers

There are a number of structural and regulatory trends which Volution is well placed to capitalise upon. The European Climate Law announcement on 14 July 2021, which detailed the Energy Efficiency Directive, and Fit for 55, supporting the European Green Deal Renovation Wave funding and the UK Green Industrial Revolution Plan, both support a reduction in emissions from buildings. These focus on “building back better” with key principles to improve air quality and the decarbonisation of heating and cooling in refurbishment.

In addition, favourable European building regulations continue to define low-carbon ventilation solutions in new build where decentralised approaches provide advantages for a wide number of applications in the Netherlands and beyond. This acquisition will further strengthen Volution’s capability to capitalise upon the growth opportunities supported by these trends.

We are delighted to welcome ClimaRad to the Volution Group. Its innovative decentralised approach has delivered significant revenue growth and margin expansion in the last couple of years and we are excited about the direction of travel.

Ronnie George, Volution Chief Executive Officer



Establishing an all-in-one integrated product range, including both heat recovery ventilation and heat emitters ready to link to low-carbon heat sources, offers growth opportunities in both new build and refurbishment applications in a number of Volution's key markets.

Ronnie George, Volution Chief Executive Officer

Strategic rationale

The acquisition of ClimaRad is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

With the ClimaRad proposition integrating ventilation and heat emitters, it complements the existing Volution portfolio of mechanical ventilation with heat recovery and fan coils. Against the backdrop of additional legislation, extending the Group's decentralised product range provides additional opportunity for growth across its European and UK sales channels.

Increased awareness of the importance of air quality for health



“Covid-19 has sharpened the focus worldwide on the importance that air quality has for our health.”

With regulations continuing to make our buildings more airtight and better insulated than ever, the importance of purpose provided ventilation continues to grow.

Modern regulations are delivering more comfortable and energy efficient buildings; however, the increased airtightness means that higher concentrations of contaminants which are readily produced from a range of processes can build up indoors.

UK citizens spend approximately 90% of their time indoors,¹ with 16 hours a day on average spent at home.² This means that individual risk of exposure to indoor air pollutants is many times that of outdoor air pollution and this is exacerbated by the fact that indoor air can be many times more polluted than outdoor air.³

Primary sources of indoor air pollution

Poor indoor air quality occurs when pollutants build up in our buildings. Although some sources are obvious, others are not quite so immediately recognisable.

Detailed below are a range of sources of pollutants:

- 1 Smoking – There are over 4,000 chemicals in cigarette smoke, many of which are toxic or carcinogenic
- 2 Heating – Open solid fuel appliances produce particulate matter formed of microscopic particles of dust and dirt in the air
- 3 Gas cookers – Produce carbon monoxide, nitrogen oxides and sulphur dioxide
- 4 Drying clothes indoors and steam from showers and baths cause condensation and mould
- 5 Cleaning products, aerosols and sprays, plus paints, solvents and varnishes – Produce volatile organic compounds (VOCs) such as acetone, xylene and formaldehyde
- 6 Off-gassing from furniture, carpets and certain wall coverings
- 7 Burning incense and candles
- 8 In offices, sources such as photocopying and printing

“UK citizens spend approximately 90% of their time indoors with 16 hours a day on average spent at home.”

“Poor IAQ is reported to have an annual cost to the UK of over 204,000 healthy life years.”

Health impact

The links between poor IAQ (indoor air quality) and negative health outcomes have become clear over recent years and are now widely accepted. Poor IAQ is reported to have an annual cost to the UK of over 204,000 healthy life years, with:

45% of those lost to cardiovascular diseases

23% to asthma and allergy

15% to lung cancer⁴

According to the Royal College of Physicians, indoor air pollutants cause thousands of deaths per year in the UK, with associated healthcare costs in the order of “tens of millions of pounds”.⁵

Covid-19 transmission

Covid-19 has sharpened the focus worldwide on the importance that air quality has for our health. Covid-19 spreads by airborne transmission and is far more likely to be spread indoors than outdoors. One of the most important ways to mitigate against transmission is therefore to ensure that we ventilate our buildings correctly⁶ and we are starting to see increased regulatory requirements around pathogen mitigation.

References:

1. European Commission, Joint Research Centre – Institute for Health and Consumer Protection (2003), Report No. 23, Ventilation, Good Indoor Air Quality and Rational Use of Energy.
2. BEAMA – My Health My Home (2015), Indoor Air Quality Survey, YouGov. The survey was conducted from a representative sample of 2,000 UK adults.
3. US Environmental Protection Agency (1987), The total exposure assessment methodology (TEAM) study: Summary.
4. National Institute for Health and Welfare (2013), Efficient reduction of indoor exposures. Health benefits from optimising ventilation, filtration and indoor source controls.
5. Royal College of Physicians (2016), Every breath we take: the lifelong impact of air pollution. Report of a working party.
6. Ventilation and air conditioning during the coronavirus (Covid-19) pandemic (hse.gov.uk).

Regulatory response to reduce carbon is driving growth opportunities

“New housing in the UK to be net zero carbon ready from 2025.”

“The EU Social Climate Change Fund will mobilise €144.4 billion for a socially fair transition.”¹



Central Europe “Fit for 55” – reducing net greenhouse gas emissions by at least 55% by 2030

On 14 July 2021 the European Commission announced its proposals for accelerating a reduction in greenhouse gas emissions in the next decade. To scale the new legislation, the target is to almost double the annual energy saving obligation of each member state. Within the framework of 13 recommendations there are 2 that support the growth of our low-carbon solutions.

Within the recast of the Energy Efficiency Directive there is direct reference to reviews of the Energy Performance of Buildings Directive (EPBD) and the Eco-design Directive as well as the Energy Labelling Directive. Although it is too early to have insight into all elements of those reviews, certainly we are likely to see continued focus on energy efficiency at a product and application level. The EPBD drives the carbon calculation methodology across Europe which is used in primary legislation and hence supports energy efficient ventilation as a carbon reduction. Any legislation that continues to reduce emission rates will therefore continue to help the adoption of our low-carbon products.

In addition there will be a requirement for 3% of public buildings to be renovated to reduce emissions every year. This will support upgrades in ventilation. In parallel we are just starting to see the legislative impacts of Covid-19 mitigation through the use of ventilation so it will align well.

The Social Climate Fund will also invest the equivalent of 25% of the expected revenues of emissions trading for buildings and transport into energy efficiency measures in buildings and mobility. It will provide €72.2 billion of funding to member states, for the period 2025–2032, based on a targeted amendment to the multiannual financial framework. With a proposal to draw on matching member state funding, the Fund would mobilise €144.4 billion for a socially fair transition.

The UK

In January 2021 the UK Government published the summary of responses to the first stage of the Future Homes consultation and also issued the second stage.

It has been confirmed that new build housing in the UK will be net zero carbon ready from 2025 and an interim step will also be made with a 31% reduction in existing CO₂ emissions in advance. We await the publication of the regulations expected in late 2021.

The second stage builds on the Future Homes Standard by setting out energy and ventilation standards for non-domestic buildings and existing homes and includes proposals to mitigate against overheating in residential buildings.

Of particular interest to Volution is the requirement to ensure adequate ventilation is fitted, with energy efficiency upgrades to existing homes. It mandates mechanical ventilation when carrying out wall insulation (greater than 50% of the wall area) and with the replacement of windows and doors (greater than 30% of the total windows or doors since construction). This new requirement is expected to increase demand for RMI mechanical ventilation.

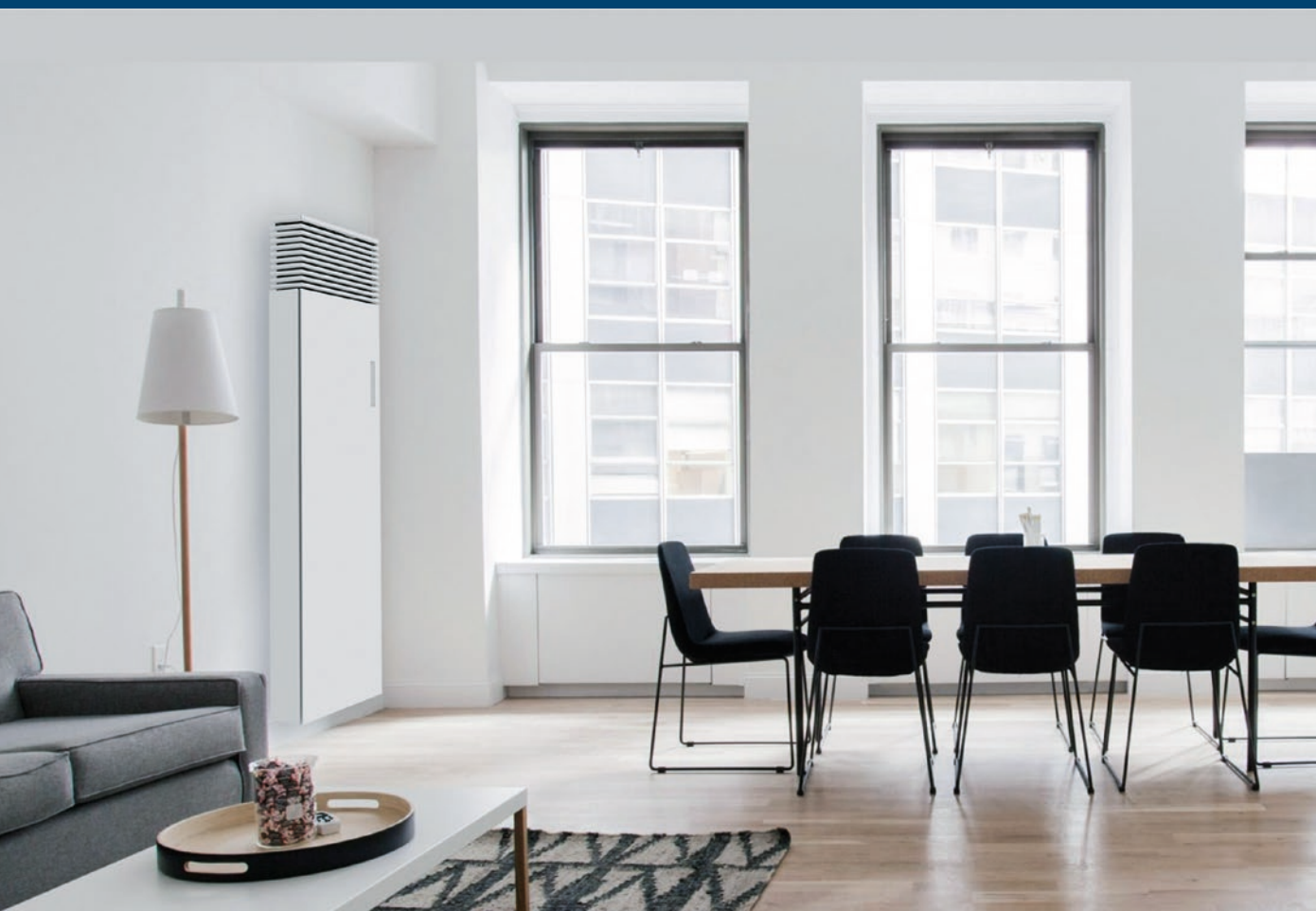
Australasia

In August 2021 the New Zealand Green Building Council issued the latest update to its Homestar standard. Homestar is designed to be an independent rating tool for assessing the health, efficiency and sustainability of homes across New Zealand. In the latest addition the ventilation provision has been updated to further support the use of continuous ventilation solutions providing Volution with a significant opportunity to add value to homebuilders across the country.

Note

1. Source: ec.europa.eu.





Our innovation
positions us
to meet new
challenges

The regulatory response and increasing awareness of air quality, continue to drive market opportunities.

In 2021 we have made further acquisitions of businesses specialising in energy recovery providing us with a wider product portfolio and a wider understanding of key technologies in our space.

With the addition of ClimaRad we have added to our decentralised heat recovery portfolio. The inVENTer system has previously been rolled out into the UK and the Nordics through our existing brands and channels and we are confident that with the addition of the new products we will continue to grow the category for the Group.

With the importance that retrofit has for Europe particularly and its ambitions contained in Fit for 55, decentralised solutions will continue to grow.

“In 2021 62.1% of our sales were from low-carbon products.”

Leading our industry

As our Group grows, our understanding of differing legislative approaches across our geographies grows with it. This enables us to share understanding and provide greater insights that we can take to our trade associations within our local geographies. This continues our strong history of influencing markets and product categories.

Focus on sustainability supply chain

In 2021 we have been proud of how our team has reacted to support our ambition to decarbonise and reduce waste from our operations and product range. See more detail on some of the initiatives led by our employees on pages 38 and 39.

Innovation through our product portfolio is not just about how our products perform, but also how they are made and how they are disposed of at the end of their life. Our procurement, product management and new product development teams continue to work to incorporate more sustainable materials, higher efficiencies and energy saving controls into our products. In 2021 61.2% of our sales were from low-carbon products and we are proud that we were awarded the Green Economy Mark during the year.

The new ClimaRad Ventura V1C:
The all-in-one solution providing heat recovery ventilation with heating and cooling



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.

How does Volusion engage?

- Employee Representative Forum attended for workforce engagement
- Management Development Programme
- Training and development
- Individual performance reviews
- Recognition and reward
- Apprenticeships
- Regular communications such as newsletters
- Annual Report and Accounts

Board engagement

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



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 Volusion 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 presentations
- CEO Board report updates the Board on material customer matters



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 Volusion 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
- Procurement and supplier internal audit reviews are presented to and discussed by the Audit Committee



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.

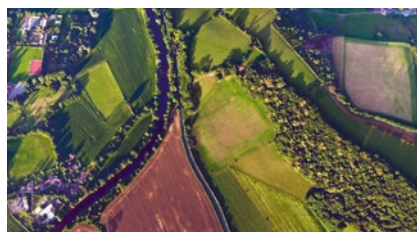
How does Volution engage?

- 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

» Further detail is set out on [page 84](#)

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 81% of Volution's share capital at the 2020 AGM



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?

- Continuing to support the ten principles of the UN Global Compact and its commitment to sustainable development
- Community investment initiatives
- Sponsorship and employee volunteering
- Contributing to national initiatives in society such as Clean Air Day and Noise Action Week
- Twelve employee-led charitable initiatives during 2021

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 the development of sustainable new products



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
- Meetings with and letters to local MPs
- Attending All-Party Parliamentary Groups and plenary sessions
- 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
- The Board has been engaged in the Group's business continuity and Covid-19 planning and response in line with government regulations

Our sustainability strategy and approach

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 accelerate a low-carbon future with the health and wellbeing of people and the planet at its core. This year, we have set out our road-map to becoming a net zero business by 2040.

» Net zero carbon future **pages 40 to 42**

This was defined using a materiality assessment process in which we reviewed the material issues that affect our sustainability and prioritised them around the Company's and stakeholders' needs.

We launched our new strategy with the three pillars of product, planet and people and set clear goals, initiatives and improvements plan against each of those areas.

The strategy has helped clarify our purpose to our stakeholders, and has engaged our employees.

Over the following pages, we share our current progress, our new targets, and the sustainability initiatives we are proud to be involved in.

What we are reporting on this year

For our 2021 report, we have introduced several new reporting frameworks to support our sustainability ambitions and our sustainability strategy.

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.

» **pages 46 and 47**

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.

» **page 119**

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

» **pages 44 and 45**

How we meet 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.



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."



The design of Volution's products helps support SDG target 7.3: "By 2030, double the global rate of improvement in energy efficiency."



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."



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."



SDG 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.



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."

Our sustainability timeline



Volution becomes a carbon neutral business



Transition of UK procured electricity to 100% renewable sources



70% of our sales are low-carbon products



90% of the plastic processed in our factories are from recycled sources



Volution becomes a net zero carbon business

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.

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.

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.

People



Sustainability continued

A healthy, net zero carbon future

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 62.1% 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 59.7% overall, and achieved a percentage of 66.7% in the UK. Our people took part in twelve community-led initiatives over the course of the year, and we are evolving our people strategy with a new People Reporting framework being developed to further engage and support our most important asset.

“

I am pleased to assume Board oversight responsibility for Volution's sustainability strategy and targets. Our new management Sustainability Committee is already helping to align our businesses units behind our purpose – healthy air, sustainably.

Amanda Mellor, Independent Non-Executive Director



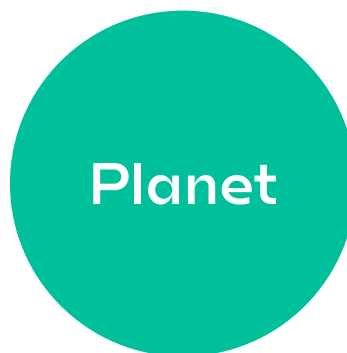
Engineer sustainable solutions

Link to business model

Understanding and shaping markets

Link to values

Innovate / Integrity / Commitment / Grow



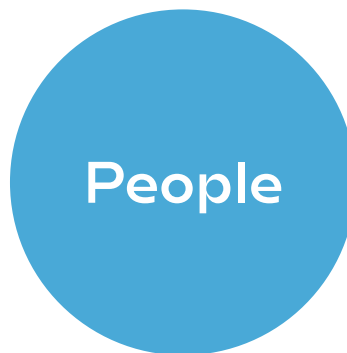
Improve environmental performance

Link to business model

Leveraging our scale

Link to values

Innovate / Integrity / Grow



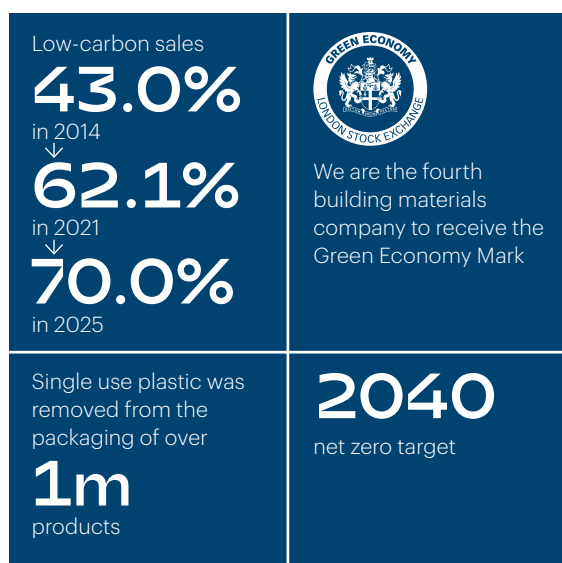
Connect people together

Link to business model

Supporting our companies to grow

Link to values

Professional and reliable / Commitment / Customer service / Fun



Our low-carbon sales KPI

Sales of low-carbon products continue to grow. This year we were awarded the Green Economy Mark.

This year's acquisitions of ClimaRad, Klimatfabriken, Rtek and ERI Corporation are all 100% low-carbon sales. New product development expected to continue to grow low-carbon sales.

62.1% of sales were low-carbon products in FY21 (61.2% target)

63.4% target in FY22

» Net zero carbon future **pages 40 to 42**

» Employee engagement **pages 38 and 39**



Our plastics KPI

We made good progress in the year. The final figure for plastics in our manufacturing was lower than anticipated. This was due to an overall reduction of high-plastic PVC in our material mix due to supply issues.

However, the UK achieved 66.7% (with 100% of the PVC recycled and 57.9% HIPS for the year).

ABS trials are now completed with positive results and a new alternative materials group has been set up to work through conversion at a part level.

59.7% of plastic from recycled sources in FY21 (63.6% target)

70.2% target in FY22 and we are confident of our long-term objective of 90%

» Energy efficiency **pages 36 and 37**



Keeping everyone safe

Unfortunately, we had six reportable accidents in 2021, an increase from one in 2020. We have put a new accident reporting process and review structure in place that includes the CEO being immediately informed of any reportable accidents. This year, we have moved to reporting the number of accidents per 100,000 hours worked, rather than a single number of accidents overall. In their working life, a person works approximately 100,000 hours. This will give us greater transparency and wider context to our reporting as we continue to grow, and will allow us to set meaningful improvement targets across the business.

0 reportable accidents remains our FY22 ambition

» People Reporting Framework **page 47**

Improving the energy efficiency of our facilities

In 2018 we moved into our new facility at Reading in the UK which provided a modern and more efficient building. The addition of solar panels on the roof also helps to provide a more sustainable energy source. However, this year we have also improved some of our other international facilities.



Netherlands

Re-lamping our facility at Eersel

Many of our modern facilities are already lit using energy saving LEDs. However, our facility in Eersel in the Netherlands was lit using compact florescent lighting. By re-lamping the whole building to LEDs we have reduced the electrical consumption by two-thirds from 90,000 kWh to 30,000 kWh a year.

“Now that our building is illuminated by LED lighting, not only is there a significant electricity saving, it also means no replacement of defective fluorescent lamps, as the LED fixtures are guaranteed for operation for seven years.”

Rene Kegan, Operations Manager

Nordics

Relocating to a new facility with district cooling in Växjö

In December 2020 our Fresh business in Sweden relocated to a new facility in Växjö which has the advantage of a district cooling system installed. The energy and electricity supplier, VEAB, has been exclusively using the by-products of forestry including bark, shavings and felling residues, branches and tops, to produce power since December 2019, which means it has a total primary energy factor of 0.04.

“Using district heating from a fossil fuel-free plant not only helps us to become more sustainable, it also reduces our capital spend on cooling equipment and associated maintenance costs and it reduces the noise associated with condenser units and cooling fans.”

Zeljko Marusic, Head of Plastic Production

Photo: Växjö Energi

Germany

New heat pump and solar panels in Löberschütz

We have replaced a coal burner with a split air source heat pump with a seasonal coefficient performance (SCOP) of 4.7. The Heat output is 13 kW with a power consumption of 3 kW. We can use it for heating and cooling.

The addition of 78 solar modules to the facility also produces up to 30 kWp:

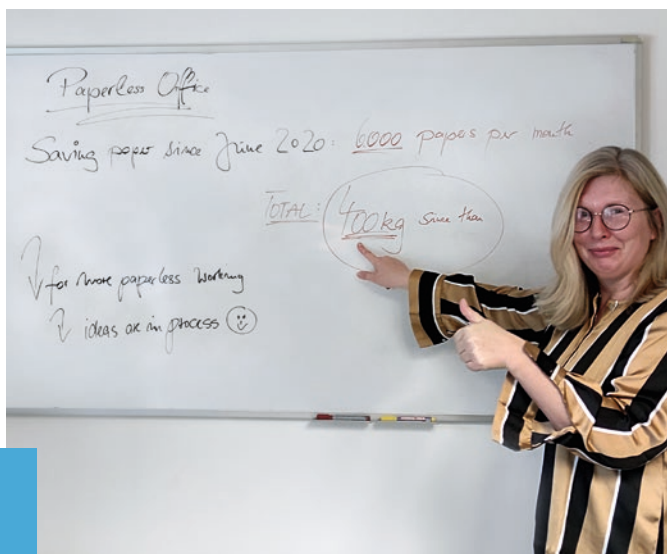
- The estimated annual power generation = 31,500 kWh.
- We expect to use 80% of the power generation directly in our own facility with circa 20% going back into the mains feed.

“Long-term sustainability is at the heart of inVENTer. Through our facilities and our products, our ambition is to continuously reduce emissions. The inclusion of our new heat pump and solar panels was the next obvious extension of that focus providing energy savings of circa 10% annually.”

Annett Wettig, Managing Director of inVENTer

Employee engagement

Following the launch of our sustainability strategy last year, our employees have been working to ensure that we minimise our waste. Here we provide some examples of the initiatives being implemented during the year.



“In addition to replacing paperwork, we have also implemented sharing notes through Microsoft Office 365 and Salesforce. We have now reduced our paper usage by 99% as well as becoming more efficient and providing a better team overview of our customers.”

Gritt Lössl, Sales Office Manager

inVENTer – Germany

Moving to a paperless office

An interdepartmental audit identified that the sales office was the largest user of paper. As assessment of the functions of our ERP system and CRM solution found that we were able to redesign processes such that invoices, delivery notes and order confirmation could be created and sent to customers digitally. The annual saving in paper and increased efficiency is significant.



UK

Removing plastic packaging in retail

In a drive to reduce our use of plastic, we have redesigned all of our retail packaging to now use more sustainably sourced, recycled cardboard. As a result of this project, we will use around 275,000 fewer blister pack units each year, saving nearly 10 tonnes of plastic.

“This collaboration between marketing, operations, procurement and sales underlines the strength of this business and its people to work together to achieve a really positive outcome which will benefit our customers and our organisation as well as the planet.”

Clive Bishop, Sales Director

Ventilair

Bulk packaging and reuse of packaging materials

Reviewing our sales orders we discovered that, rather than being supplied individually, various products from our flexible air distribution system were suitable for supply in bulk packaging. This impacts circa 20,000 packages per year and saves 6,000kg of cardboard. In addition, we have started to reuse cardboard and plastic film so that we only need to acquire a minimum amount of virgin packaging. On an annual basis, this provides an additional saving of 2,500kg of cardboard and plastic.



“By implementing these changes, we save on excessive use of packaging materials. It also allows us to transport more efficiently. We have already received many positive reactions from both customers and colleagues. This provides extra encouragement to do our bit for a better world.”

Jetse Pieltsjes, Production Planner

“Targeting the Mixedflo fan and Smartvent filters alone we have been able to remove approximately 74,000 plastic bags and 20 cubic metres of polystyrene annually.”

Nuwan Tennakoon, Supply Chain Manager



Simx – New Zealand

Third party supplied finished good packaging

As well as trading in our own products, the Group buys third party products from external suppliers. Simx has been working with its major overseas suppliers in an effort to find alternatives to the plastic packaging materials supplied.

Sustainability continued

This year we have become a carbon neutral business for scope 1 and 2 emissions and carried out an assessment of our scope 3 emissions for the first time.

We aim to become a net zero carbon business by 2040.

Volution is committed

to a net zero carbon future

We will achieve this through the following key 2040 ambitions:

- We will generate zero avoidable waste
- We will procure or generate all of our energy requirements from renewable sources
- We will operate an all-electric fleet
- We will work with our supply chain and industry to increase the use of new and sustainable products and inputs
- We will deliver energy net gain through our product portfolio
- We will continue to incentivise our management and use an internal carbon charge to make our business units pay to offset their residual emissions
- We will close the loop on the circular economy, recovering our end-of-life products, recycling and reusing

Sustainability continued

Volusion is committed to a net zero carbon future continued



Växjö Energi Sandviksverket plant. Our supplier of electricity and district cooling in Växjö. Photo: Växjö Energi

Actions in 2021

In 2021 we have taken a number of steps to improve the energy efficiency of our facilities.

» Energy Efficiency **pages 36 and 37**

We have also moved the UK company car fleet to hybrid electric or electric only and have changed our UK electricity source to 100% renewable from October 2021.

Continued focus on reducing emissions

Following the launch of our sustainability strategy in 2020, we have seen Company-wide initiatives driven locally by our employees. We know that achieving our carbon targets needs continued Board leadership, but it will not just be driven from the top down. To assist in this we have established a new management Sustainability Committee ensuring our local business leaders are involved in our policy development.

» See **pages 38 and 39** for further information

Our next action is to make our local businesses pay to offset their own residual emissions through an internal carbon charge. This way the local teams are incentivised to improve their operations and save money twice, through energy efficiency and lower offsetting charges.

Energy positive product portfolio

Many of our heat recovery products save more energy than they use and will play an active role in helping to deliver the net zero carbon targets of the countries we operate in. Our ambition is to continue to grow the sales of low-carbon products with the aim of delivering 70% of our sales by 2025. Our energy positive product portfolio assists our drive to net zero by 2040.

As the grid decarbonises and heating, lighting and transport technology continues to improve we are confident that our target is achievable through upgrades to our facilities and processes with no large capital investments needed outside of the normal maintenance and improvement plans across our facilities over the time period.

We are still developing our plans and are committed to science-based targets. Over the next year, we will set additional medium-term targets, which will steadily increase our carbon neutral status to include incrementally more scope 3 emissions within our carbon neutral boundary.

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 2021 carbon neutral status boundary includes all scope 1 and 2 emissions.

Net zero

The maximum feasible emission 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.

Emission 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.

Assessment and verification

Our scope 1 and 2 emissions for 2021 have been independently verified and our scope 3 emissions have been independently assessed as a first stage to assist us in work to set science-based scope 3 emission reduction targets.

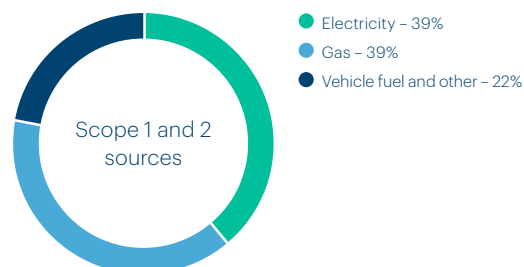
We have purchased science-backed nature-based offset credits which are certified by the Verified Carbon Standard (VCS) and Climate, Community and Biodiversity Standard (CCBS). Whilst we understand that the use of carbon offsetting is only a stage on the way to our net zero future, we are confident the emission reductions we are supporting are real, measurable, permanent and verifiable and contribute to preserving biodiversity as well as reducing carbon.

We have opted to offset 110% of our in-scope emissions, going beyond carbon neutral and aligning with our energy positive product portfolio.

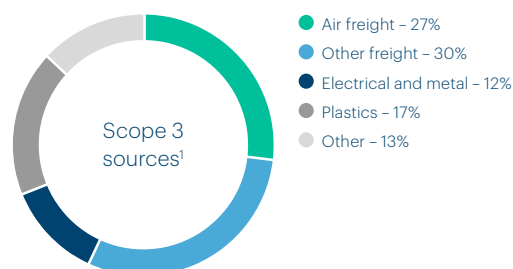


CO₂e
Assessed
Supply Chain

2021 emission sources



The largest portion of our location-based scope 1 and 2 emissions are from the electricity we use in our facilities. In 2022, our reported “market-based” emissions will reduce significantly, as we transition UK procured electricity to 100% renewable sources (approx. 60% of total electricity used across the Group).

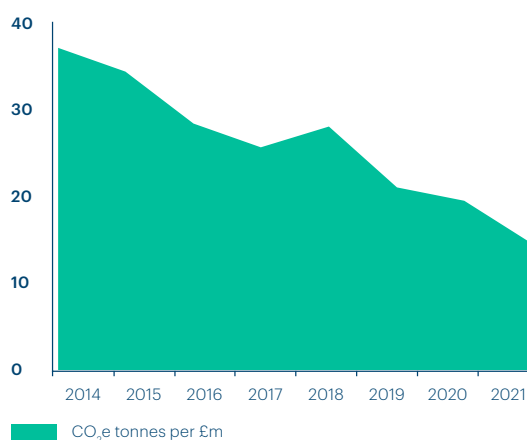


The largest portion of our scope 3 emissions is from freight and transportation of raw materials and products. In 2021, these sources have contributed more due to the impact of Covid-19 on the supply chain increasing the amount of air freight used across many industries, and this is expected to decrease substantially in 2022.

Note

1. Scope 3 emissions based on preliminary independent assessment.

Carbon intensity measurement: CO₂e tonnes per £m of revenue



Task Force on Climate-related Financial Disclosures

We recognise the importance and value of the recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosures and are committed to open and transparent disclosure. In our first year of disclosure, we have implemented or progressed many of the recommendations and are committed to full disclosure in 2022.

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. The table on page 45 references other sections of our report where you can find further information on our approach to climate change and the action we are taking.

Governance

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

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. The Audit Committee reviews and approves the preparation and content of our TCFD disclosure.

In 2021, Amanda Mellor assumed oversight responsibility for Volution's sustainability strategy and targets to further strengthen governance on climate at Board level.

"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."

Metrics and targets

This year we have published our commitments to achieving net zero by 2040. We have made good progress against our published KPIs and have reduced our chosen measure of carbon intensity by 60.8% over the past seven years.

2021 is our first year as a carbon neutral business for scope 1 and 2 emissions.

Our carbon reporting includes scope 3 emissions for the first time and has been independently assessed by Carbon Footprint Ltd.

We are committed to setting a climate science-aligned target using the Science Based Targets initiative (SBTi) criteria, which we will publish in 2022.

To ensure that remuneration is aligned to Volution's carbon and sustainability targets, we have introduced an ESG performance metric to our long-term incentive plans, which will focus individual behaviour on making sustainable choices and reward sustainable outcomes.

Risk management

Climate change and regulatory response risks are included as part of our overall risk management framework.

This year we have aligned our internal assessment and reporting of climate-related risks and opportunities with the TCFD framework. We have given clear emphasis to both our transition and physical risks and opportunities.

Scenario analysis

We have made an initial use of qualitative scenario analysis to assess our risks and opportunities and have considered a 1.5°C and 4°C scenario to provide a broad view of outcomes. Under a 1.5°C 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. We will continue to develop our scenario analysis in 2022 and beyond.

Transition risks and opportunities

Transition opportunity

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. See page 8 for our strategy and page 26 for regulatory tailwinds.

1) Transition risk: Reputation and investor preference

If Volution does not deliver on its strategic plan to reduce carbon further on a path to net zero then investors and lenders may show a preference to allocate capital to businesses with smaller climate impacts.

Addressing the risk

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. See page 32 for our sustainability strategy.

2) Transition risk: Government action

Governments may implement taxes or charges which penalise businesses that do not reduce carbon, also increasing the input cost of energy, freight and materials.

Addressing the risk

Our commitment to carbon neutrality and our pathway to net zero will ensure that we are part of the solution. 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. See pages 40 to 42 for our carbon commitments.

3) Transition risk: Regulatory changes

Governments may implement stricter regulation, rendering elements of our product portfolio non-compliant.

Addressing the risk

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.

4) Physical risk: Disruption to our assets and operations

Changing weather patterns, linked to climate change, may directly damage our production facilities or disrupt our supply chain.

Addressing the risk

Our main production assets are not located on flood plains or overtly exposed to other direct risks of extreme weather. 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.

Disclosure recommendation	Section reference	Page
Governance		
Describe the Board's oversight of climate-related risks and opportunities	• Risk management and principal risks • TCFD	58 44
Describe management's role in assessing and managing climate-related risks and opportunities	• Risk management and principal risks • TCFD	58 44
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short and longer term	• TCFD	45
Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning	• Global megatrends • Sustainability strategy	26 32
Describe the resilience of the organisation, taking into consideration different future climate scenarios	• TCFD	45
Metrics		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities	• Sustainability strategy • TCFD	32 45
Disclose scope 1 and 2 and if appropriate scope 3 emissions	• Sustainability strategy	119
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	• Sustainability strategy • Our carbon commitments	32 40
Risk		
Describe the organisation's processes for identifying and assessing climate-related risks	• TCFD	44
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	• Risk management and principal risks • TCFD	58 44

Sustainability continued

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 20,243,158 kWh, 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 is from renewable sources will increase dramatically in the next financial year when the entire UK electricity supply will be sourced from renewable sources which, if in place during the current financial year, would have represented 59.1% of the total was generated during manufacturing, distribution or other processes collected by an external contractor and recycled by them where possible.
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)	2,656kg of hazardous waste generated during the manufacturing, distribution or other processes, corrected 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 loss 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 over 80% 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 62.1% of total revenue (see page 35).
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 138.
Number of employees (RT-EE-000.B)	Workforce statistics are shown on page 85. The average number of employees in the year was 1,475 (2020: 1,564).
Reportable accident frequency rate	Reportable accident frequency rates are shown on page 35. 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 2021 was 0.20 (2020: 0.03).
Fatalities	Zero fatalities occurred during the year.
Minor accident frequency rate	Minor accident frequency rates are shown on page 35. 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 2021 was 0.61 (2020: 0.70).

Planning for a new People Reporting Framework

During the development of our sustainability strategy, we were keen to ensure that our people remain at the centre of all we do.

We are raising our ambition for our people-orientated reporting and in FY22 we will begin to measure and target a wider range of metrics related to our people.

We are building a bespoke People Reporting Framework, starting with the five key social issues that were prioritised during our sustainability materiality assessment process in 2020.



Employee engagement

Supporting our colleagues to feel embedded in the Volution family



Training and development

Offering opportunities for our team to learn and grow



Health and safety

Maintaining the highest standards of health and safety



Supply chain management

Encourage socially positive activity across our supply chains



Diversity and inclusion

Making Volution a place for everyone



UK employees raising money for Young Lives vs Cancer



The Ventilair team raised over €12,000 for CliniClowns by participating in Alpentocht 2021



Pax sponsor Ronald McDonald House in Lund by providing towel warmers to 20 new bathrooms



“
20% adjusted
operating
margin target
reached and
exceeded
despite
inflationary
headwinds

Financial highlights

- Revenue of £272.6 million represents a 24.4% constant currency (cc) increase, with organic growth of 20.5% at cc.
- Adjusted operating profit of £56.9 million, up £23.2 million versus prior year (2020: £33.7 million).
- Adjusted operating margin of 20.9%, with inflationary headwinds well managed.
- Reported operating profit of £34.2 million (2020: £18.2 million).
- £56.9 million adjusted operating cash generation, the Group's highest ever, brings closing net debt excluding lease liabilities to £53.8 million and leverage to 0.9x (2020: 1.3x).
- £150 million Sustainability Linked Revolving Credit Facility established in the year.

Trading performance summary

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

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



We delivered an outstanding financial performance, with strong revenue growth, record profits, and good cash generation, whilst completing three acquisitions and further strengthening our balance sheet.

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

Notes

1. The reconciliation of the Group's reported profit before tax to adjusted measures of performance is summarised in the table below and in detail in note 2 to the consolidated financial statements. For a definition of all the adjusted measures see the glossary of terms in note 35 to the consolidated financial statements.

2. Pre-IFRS 16 basis, excludes lease liabilities £25.4 million (2020: £23.1 million).

Reported and adjusted results

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

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

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

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

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



Finance Review continued

Currency impacts

Aside from Sterling, the Group's key trading currencies for our non-UK businesses are the Euro, representing approximately 18.6% of Group revenues, Swedish Krona (approximately 12.3%), New Zealand Dollar (approximately 8.9%) and Australian Dollar (approximately 6.3%). We do not hedge the translational exchange risk arising from the conversion of the results of overseas subsidiaries, although we do denominate some of our borrowings in both Euro and Swedish Krona which offsets some of the translation risk relating to net assets. We had Euro denominated borrowings as at 31 July 2021 of £57.3 million (2020: £40.3 million) and Swedish Krona denominated borrowings of £16.0 million (2020: £23.3 million). The Sterling value of these foreign currency denominated loans net of cash decreased by £5.0 million as a result of exchange rate movements (2020: increased by £0.3 million).

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

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

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

Finance revenue and costs

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

Following the acquisition of ClimaRad our leverage increased above 1.5x as at 31 January 2021, leading to the interest rate margin on the RCF in the second half of financial year 2021 being 0.25pp higher. Despite investing £42.2 million in acquisitions our strong operating cash generation throughout the year meant our net debt only increased by £4.8 million; as at 31 July 2021 our gross debt, comprising both bank debt and operating lease liabilities, stood at £98.7 million (2020: £92.7 million) offset by cash and cash equivalents of £19.5 million (2020: £18.5 million).

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

Tax rate reduced by 1.9pp due to geographic mix

Our effective adjusted tax rate for the year was 21.8% (2020: 23.7%). The decrease of 1.9pp in the year was substantially driven by the shift in our relative profit mix back to the UK, where the current rate is 19%; during FY20 the UK was worst hit by Covid-19 but has recovered very well in FY21. The current rates in our principal countries of operation are shown below:

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

The rate of tax in the UK is currently 19%. In his Budget speech on 4 March 2021, the Chancellor announced an increase in the main UK corporation tax rate to 25% from 1 April 2023. The change in the rate to 25% was substantively enacted in the Finance Bill 2021 on 24 May 2021; UK deferred tax assets and liabilities that are expected to reverse after 1 April 2023 have been calculated at 25% and those expected to be utilised before at 19%. We expect our medium-term underlying effective tax rate to be in the range of 23% to 25% of the Group's adjusted profit before tax, driven by the increased rate in the UK and a higher rate of inorganic growth outside of the UK.

Strong cash generation, with cash conversion of 97%, and £42.2 million deployed to acquisitions

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

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

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

Volution recognises the importance of dividends to shareholders, and as previously communicated we were pleased to resume dividends in financial year 2021 with an interim dividend of 1.9 pence declared and paid in the year, and a final dividend of 4.4 pence declared which will be paid in December 2021. Dividend payments of £3.8 million (2020: £6.5 million) represent the payment of the interim dividend of 1.9 pence.

Tax paid of £8.1 million was £2.2 million higher than the prior year (2020: £5.9 million), reflecting the reduction in profit before tax as a result of the pandemic. Tax payments were maintained in normal course through the pandemic, and we did not avail of any of the deferrals permitted due to Covid-19.

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

Shortly after the year end on 2 August we also announced an agreement to acquire ERI Corporation, a leading manufacturer and supplier of low-carbon, energy efficient heat exchanger cells, for an initial consideration of €23.4 million on a debt-free cash-free basis, with a further contingent cash consideration of up to €12.4 million based on stretching targets for the financial results for the year ending 31 December 2023. This acquisition was subsequently completed on 9 September 2021.

Reconciliation of adjusted operating cash flow

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

Finance Review continued

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

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

Reconciliation of net debt

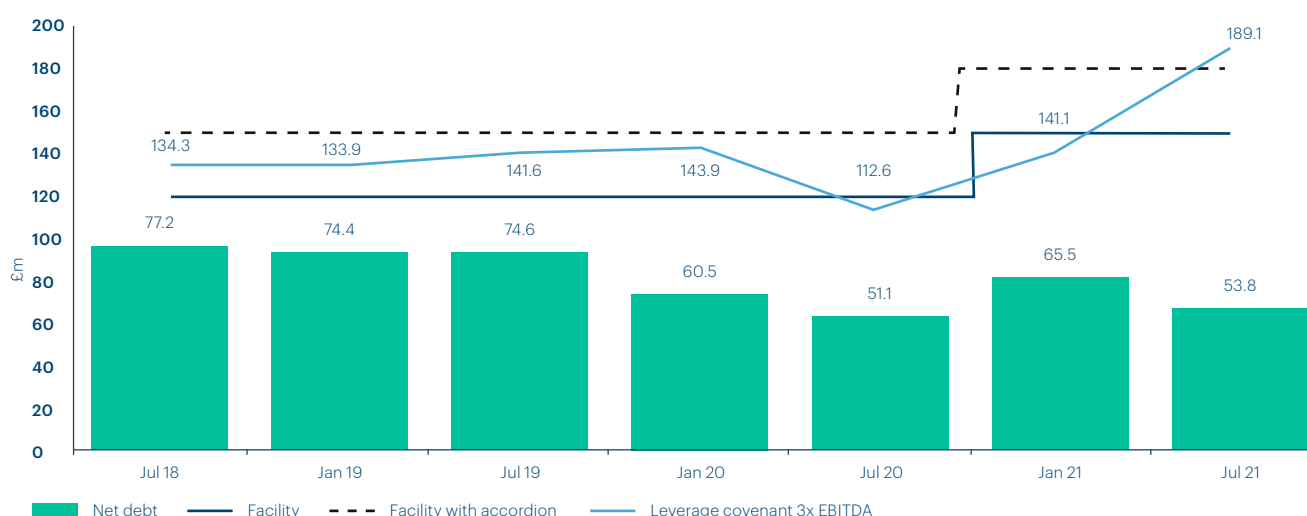
	2021 £m	2020 £m
Non-current interest-bearing loans and borrowings	(104.9)	(89.2)
Current interest-bearing loans and borrowings	(3.4)	(3.0)
ClimaRad vendor loan	10.6	—
Cost of arranging bank loans	(1.0)	(0.5)
Cash and short-term deposits	19.5	18.5
Net debt	(79.2)	(74.2)

Funding facilities and liquidity

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

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

The net debt position of the Group versus both our facilities and our leverage covenant on a pre-IFRS 16 basis is shown in the below chart:



Employee Benefit Trust

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

Earnings per share

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

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



Andy O'Brien
Chief Financial Officer
6 October 2021

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. We have refined our KPIs this year and have set ourselves targets where appropriate, which, measured and delivered over a consistent basis, will deliver sustainable shareholder value.

The three strategic pillars



**Organic growth
in our core
markets**



**Value-adding
acquisitions**



**Operational
excellence**

» We discuss the KPI performance in the Financial Review **pages 48 to 53**

» Non-financial KPIs focus on our sustainability and can be found in the sustainability section **pages 32 to 47**

Financial targets

Revenue growth

+10% p.a.

Adjusted operating margin (% of revenue)

20%

Adjusted operating cash flow conversion

>90%

Organic revenue growth

>3% p.a.

Adjusted earnings per share

+10% p.a.

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, constant currency, 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 35. A reconciliation to reported measures is set out in note 2.

Strategic pillars key



Organic growth



Value-adding acquisitions



Operational excellence

Link to Directors' remuneration key



Long Term Incentive Plan



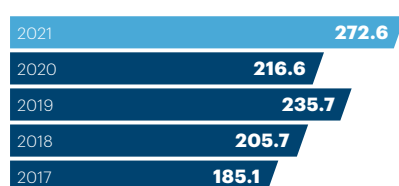
Annual Bonus Plan

Financial performance

Revenue growth £m (% of revenue)

+12.0%

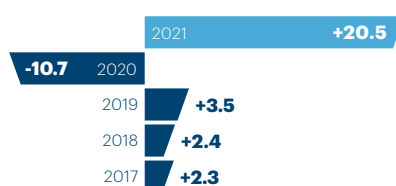
Five-year compound



Organic revenue growth %

+3.6%

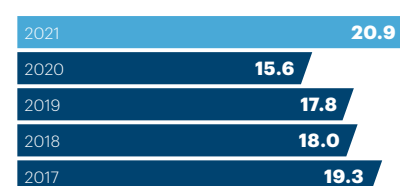
Five-year average

Adjusted operating margin¹

% of revenue

18.3%

Five-year average



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 22.0% (20.5% at cc)
- Full year organic growth delivered in the UK (21.8% at cc), Central Europe (10.0% at cc) and Australasia (31.5% at cc)

Link to Directors' remuneration



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.

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 of 20.9%, achieving our 20% adjusted operating margin target six months earlier than planned.

Link to Directors' remuneration



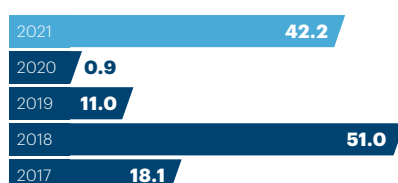
Key Performance Indicators continued

Financial performance continued

Expenditure on acquisitions £m

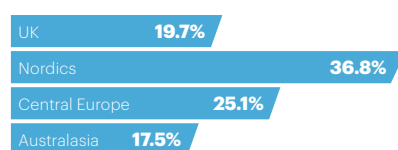
£24.6m

Five-year average



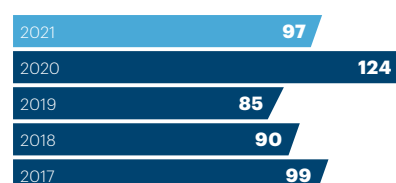
Return on acquisition investment (ROAI) %

Group 25.2%

Adjusted operating cash flow conversion¹ %

99%

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 2021 we acquired ClimaRad in the Netherlands, Nordiska Klimatfabriken in Sweden and the trade and assets of Rtek in Finland

Link to Directors' remuneration



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 in the Nordics and Central Europe and the UK acquisitions have returned to good returns compared to FY20.
- Returns on our 2018 SIMX acquisition in Australia, reported for the first time this year, are strong at 17.5% with the additional benefit of margin on incremental intercompany sales from the UK bringing the ROAI up to 19.7%.

Link to Directors' remuneration



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 £3.8 million in the year
- Capital expenditure of £4.5 million (2020: £4.3 million), including £1.1 million of capital expenditure relating to the successful move and upgrade of our production facility in Sweden

Link to Directors' remuneration



Strategic pillars key



Organic growth



Value-adding acquisitions



Operational excellence

Link to Directors' remuneration key



Long Term Incentive Plan



Annual Bonus Plan

Working capital as a %
LTM revenue**12.2%**

Five-year average

2021	12.7
2020	12.8
2019	13.5
2018	11.3
2017	10.5

Reported earnings per share^p**6.1%**

Five-year compound

2021	10.5
2020	4.9
2019	9.2
2018	6.7
2017	7.0

Adjusted earnings per share^{1 p}**10.8%**

Five-year compound

2021	21.0
2020	12.1
2019	16.0
2018	14.5
2017	13.6

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 £3.8 million in the year, a deliberate decision was made to increase certain strategic inventories during the second half of the year in order to mitigate the risk of supply chain interruptions.

Link to Directors' remuneration



Strategic pillars measured by this KPI



This KPI provides a measure of shareholder value.

Comments

- Reported EPS grew 114.3%

Link to Directors' remuneration



Strategic pillars measured by this KPI



This KPI provides a measure of shareholder value.

Comments

- Adjusted EPS grew 73.6%

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, constant currency, 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 35. A reconciliation to reported measures is set out in note 2.

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 continuing Covid-19 pandemic, as well as the implications 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 62 to 67.

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 Volusion.

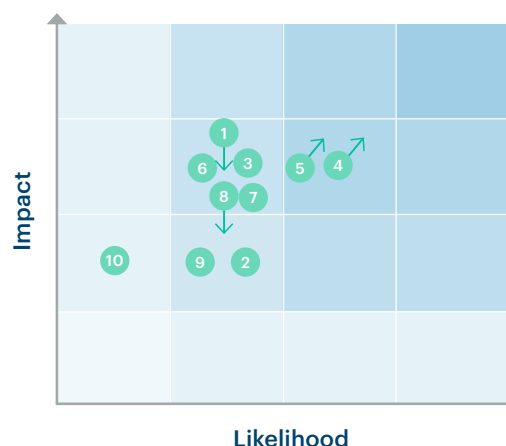
The Group's framework of risk management is monitored by the Audit Committee, under delegation from the Board. The Audit Committee is responsible for overseeing the effectiveness of the internal control environment of the Group.

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 2021.



Risk heatmap

1. Economic risk
2. Covid-19
3. Acquisitions
4. Supply chain and raw materials
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 ongoing Covid-19 pandemic, and any impact on our assessment of principal risks. 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.

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 2024, 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. The facility matures in December 2023, with the option to extend for up to two additional years.

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 58 to 67. 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 a severe resurgence of Covid-19 and/or other macroeconomic uncertainty (principal risks 1 and 2) combined with supply chain difficulties as a result of the pandemic, the UK's trading relationship with the EU or global supply shortages (principal risk 4) has been modelled, combined with a significant acquisition increasing debt but with no positive cash flow contribution (principal risk 3).

The sensitivities modelled used the same assumptions as for the going concern statement, as set out opposite, for the years ending 31 July 2022 and 31 July 2023 with further assumptions applied for the year ending 31 July 2024.

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. 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 165 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 a resurgence of the Covid-19 pandemic and from its other principal risks set out on pages 58 to 67. 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 2023 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 2023 with the option to extend for up to two additional years.

The financial covenants on these facilities are for leverage (net debt/adjusted EBITDA¹) of not more than three times and for adjusted interest cover of not less than four times.

Our base case scenario has been prepared using robust forecasts from each of our operating companies, with each considering the risks and opportunities the businesses face, including those because of the Covid-19 pandemic.

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

- a general economic slowdown representing the impact of a severe resurgence of Covid-19 and/or other macroeconomic uncertainty reducing revenue by 20% compared to plan;
- supply chain difficulties as a result of the pandemic, the UK's trading relationship with the EU or global supply shortages 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 33% 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.

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, an economic decline caused by the Covid-19 pandemic and the new relationship between the UK and the EU from 1 January 2021.	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.	
Covid-19 Covid-19 continues to be a significant risk to the economy and impacts many other risks reported in the Group Risk Register.	Demand for our products serving the residential and commercial construction markets could decline. Our supply chain could be disrupted. Our people may be impacted.	 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 possible synergies.	 Our strategic ambition to grow by acquisition may be compromised.	

Likelihood of risk occurring		Potential impact	Assessment of risk direction	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.
	Unlikely	 Low	 Reducing	
	Possible	 Medium	 No change	
	Likely	 High	 Increasing	
Potential impact	Risk direction	Reason for risk direction		Mitigation
		Following the implementation of the new trading relationship between the UK and the European Union, the well-publicised issues around imports and exports through UK ports have created some input material supply challenges; however, our order intake remains strong, and our asset light and flexible operating model continues to be resilient in servicing demand. Covid-19 has impacted and will continue to impact economic outlook and confidence in a number of regions in which we operate. That said we believe that government responses and stimulus packages deployed are likely to continue to be supportive and help underpin demand with a particular focus on energy efficient and sustainable technologies including ventilation systems. Specifically in the UK, which remains our largest market, the speed and success of the vaccination programme and the current lack of restrictions have been positive for broader confidence and sentiment.		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. We have a strong presence in the RMI market, which is more resilient to the effects of general economic decline affecting the construction industry. This remains true even under current circumstances. Our business is not capital intensive and our operational flexibility allows us to react quickly to the impact of a decline in volume.
		Covid-19 continues to impact all aspects of society and in particular the economic outlook of all geographies in which we operate, the supply chain of input materials and our people. However, the continuing strong performance of the Group and the regulatory and demand changes developing from the advantages of ventilation in preventing transmission mean the overriding risk of Covid-19 to the business is not considered significant.		Our product and geographic diversification assists in mitigating the impact of local fluctuations in economic activity as a result of Covid-19. The regulatory and demand changes developing from the advantages of ventilation in preventing transmission are assisting the business in mitigating any potential impact of Covid-19 on the Group.
		The potential continuing impact of Covid-19 and mitigating factors set out in the Annual Report 2020 remain the same. 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 2021.		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 16 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.

Risk Management and Principal Risks continued

Strategic consequence continued



Organic growth



Value-adding acquisition



Operational excellence

Risk	Impact	Strategic consequence	Likelihood
Supply chain and raw materials Raw materials or components may become difficult to source because of material scarcity or disruption of supply, including as a consequence of the Covid-19 pandemic and the new relationship between the UK and the EU from 1 January 2021. The increased friction and potential for a “trade war” and disputes primarily between the US and China could also destabilise supply chain activity.	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 excellence may be adversely affected.	
Foreign exchange risk The exchange rates between currencies that we use may move adversely.	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.	  Our ambition to grow internationally through acquisition exposes us to increasing levels of translational foreign exchange risk.	
IT systems including cyber breach We may be adversely affected by a breakdown in our IT systems or a failure to properly implement any new systems.	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.	   We could temporarily lose sales and market share and could potentially damage our reputation for customer service.	
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.	

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 Covid-19 pandemic and the associated 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 principally to the potential need to air freight.

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.



Covid-19 has impacted the customer demand and supply chain patterns, which could lead to unpredictable hedging of currencies.

We believe that the increased economic uncertainty in the context of Covid-19 and Brexit makes it likely that in the near term exchange rates may continue to see heightened levels of volatility.

Significant transactional risks are hedged by using forward currency contracts to fix exchange rates for the ensuing financial year.

Revaluation of foreign currency denominated assets and liabilities is partially hedged by corresponding foreign currency bank debt.



We believe that when the Covid-19 pandemic struck the risk increased as there was the potential for:

- new risks linked to employees working from home; and
- an increase in targeted phishing campaigns and fraud attempts.

However, this risk is deemed to have stabilised during 2021.

Disaster recovery and data backup processes are in place, operated diligently and tested regularly.

A significant Enterprise Resource Planning system has been implemented for several key sites. A disaster failover site has been implemented.

We have a three-layered system of network security protection against cyberattack 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.

We have commenced a process of annual internal and external penetration testing with quarterly monitoring checks.



Covid-19 increased the risk that customers could fall into financial difficulties or change the way they do business, moving to more online trading and a reduction in stock levels.

However, this risk is deemed to have stabilised during 2021.

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.

Risk Management and Principal Risks continued

Strategic consequence continued



Organic growth



Value-adding acquisition



Operational excellence

Risk	Impact	Strategic consequence	Likelihood
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 which 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



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.

We believe this risk has reduced during 2021 and the regulatory environment has presented Volution with opportunities.

We participate in trade bodies that help to influence the regulatory environment in which we operate and as a consequence we are also 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.



Covid-19 has not impacted our innovation process.

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 Covid-19 pandemic has increased the risk to the health and wellbeing of our employees and we have taken appropriate steps across our business to minimise this risk. There have been no significant changes to the supply and retention of employees across the wider workforce since the Covid-19 outbreak.

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.

Succession planning and key roles are regularly reviewed by the Directors.

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	Sustainability Policy	Sustainability (pages 32 and 33)
Employees	- Code of Conduct - Health and Safety Policy - Anti-Bribery and Corruption Policy - Whistleblowing Policy - Modern Slavery Policy - Data Protection Policy	- People (pages 84 and 85) - Board diversity (page 85) - Gender diversity (page 85) - Stakeholder engagement (pages 30 and 31) - Principal risks (pages 58 to 67)
Human rights	- Code of Conduct - Modern Slavery Policy - Stakeholder Engagement	- People (pages 84 and 85) - Stakeholder engagement (pages 30 and 31)
Social matters	- Code of Conduct - Stakeholder Engagement	- People (pages 84 and 85) - Governance (pages 82 and 83) - Stakeholder engagement (pages 30 and 31)
Anti-bribery and anti-corruption	- Anti-Bribery and Corruption Policy - Whistleblowing Policy	- People (pages 84 and 85) - Governance (page 96)
Principal risks		- Risk management (pages 58 to 67) - Principal risks and uncertainties (pages 62 to 67)
Business model		Business model (pages 10 and 11)
Non-financial key performance indicators		Key performance indicators (pages 54 to 57)

The Strategic Report was approved by the Board and signed on its behalf by Ronnie George, Chief Executive Officer, on 6 October 2021.



Ronnie George
Chief Executive Officer

Governance Report

Governance Report

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Chairman's Introduction



Good governance results in a sustainable business

“

The Board is committed to high standards of corporate governance to underpin the business through both periods of sustained growth and challenges such as the Covid-19 pandemic.

Dear shareholder,

On behalf of the Board, I am pleased to present the Governance Report. 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 to underpin the business through both periods of sustained growth and challenges such as the Covid-19 pandemic. 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. The ways in which we listen and engage with our key stakeholders are set out on pages 30 and 31.

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) which has applied to the Company since the start of the financial year. A copy of the 2018 Code can be found at www.frc.org.uk.

Board composition and Senior Management Team succession planning and diversity

The Committee welcomes the Hampton-Alexander Review which seeks to improve board and senior leadership diversity across FTSE 350 companies and the Parker Review on Ethnic Diversity, Enriching Business Leadership. As at the financial year end, the Board comprised five male and two female Directors meaning 28.6% of the Board were female. One Board member was of BAME heritage. The Company is committed to achieving the target of 33% women on the Board as soon as possible. The Company is also committed to making progress towards achieving the target of 33% women on the Senior Management Team. However, given the relatively small size of the Senior Management Team and the limited turnover of those within it, there is limited scope for immediate change.

During the year under review, the Nomination Committee discussed succession planning for Executive and Non-Executive Directors and progressive refreshing of the Board. In line with the Non-Executive Director succession plan which the Board reviews regularly, Tony Reading, Senior Independent Director, will retire from the Board at the conclusion of the 2021 Annual General Meeting, having served since June 2014.

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

On retirement at the conclusion of the Annual General Meeting in December 2021, Tony will be succeeded as the Senior Independent Director by Amanda Mellor. Amanda joined the Board in March 2018 and has the required skills and attributes to be appointed to this role.

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

Further information can be found in the Nomination Committee Report on pages 86 to 88.

Evaluating the Board's effectiveness

Each year the Board undertakes a formal evaluation of its effectiveness. This year we carried out an internally facilitated evaluation to assist in the development of the Board. 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, together with the progress made on the actions identified in the 2020 Board evaluation. Further information is set out on pages 79 and 80.

Re-election of Directors

In accordance with the 2018 Code provisions and following a performance evaluation of those Directors standing for re-election at the 2021 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 re-election at the Company's Annual General Meeting to be held on 9 December 2021, except for Tony Reading, who will retire from the Board at the conclusion of the meeting. Further information on the Directors can be found in the Directors' biographies on pages 72 and 73.

Remuneration Policy

Volusion's Remuneration Policy was last approved at the 2020 Annual General Meeting and was designed to operate for three years. Further details are provided in the Directors' Remuneration Report, which can be found on pages 97 to 116.

Annual General Meeting

The Annual General Meeting of the Company will take place at 12.00 noon on Thursday 9 December 2021 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 all 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

6 October 2021



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.

Board of Directors



Paul Hollingworth
Non-Executive Chairman

N R

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 13 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 226% and growing the Company organically and through 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.



Tony Reading, MBE
Senior Independent
Non-Executive Director

A N R

Appointed: 23 June 2014

Career and experience:

Tony joined Volution on listing in 2014 as Senior Independent Non-Executive Director and chair of the Remuneration Committee. On 1 February 2020 Tony was appointed as interim chair of the Audit Committee and stepped down as chair of both Committees on 30 April 2020.

Tony has extensive public company and international business experience gained in both executive and non-executive roles. He has been a non-executive director of Taylor Wimpey plc, Laird PLC, e2v technologies plc and George Wimpey plc and was previously executive director of Tomkins plc and chairman and chief executive officer of Tomkins Corp. USA.

Tony will be retiring from the Board at the conclusion of the Annual General Meeting on 9 December 2021.

Key strengths: Extensive public company experience and wide ranging international business experience gained in both executive and non-executive roles.

External appointments: None.

Committee membership

A Audit Committee

N Nomination Committee

R Remuneration Committee

● Chair of Committee



Amanda Mellor

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 Standard Chartered plc having previously spent nine years as group secretary and head of corporate governance at Marks and Spencer Group plc where she was also an executive member of the operating committee. Prior to that, Amanda spent time at Arcadia Group plc and working 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 is 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 Standard Chartered PLC.



Claire Tiney

Independent
Non-Executive Director



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 most recently 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



Appointed: 30 April 2020

Career and experience:

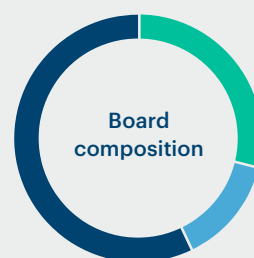
Nigel joined the Board in April 2020 as an independent Non-Executive Director and chair of the Audit Committee, bringing extensive public company, financial and accounting and acquisition experience.

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.

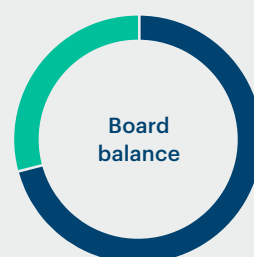
Nigel was previously senior independent director and audit committee chair of Creston plc from July 2015 until December 2016 when the company was taken private.

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.



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



- Female – 2 Directors
- Male – 5 Directors



- BAME – 1 Director
- White – 6 Directors



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

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 2021 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 2021.

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 76.

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 below 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.

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 86 to 88**

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 89 to 96**

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 97 to 116**

Board responsibilities

Role	Main responsibilities
Chairman of the Board Paul Hollingworth	• 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	• 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 the 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	• 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 Tony Reading, MBE	• 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 Nigel Lingwood Amanda Mellor Claire Tiney	• 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 Michael Anscombe	- 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.

2021 Board Activities

Board activities and priorities during the year ended 31 July 2021

Board meetings consist of a mix of regular and standard items considered at each meeting and also 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 update
- IT and Enterprise Resource Planning system implementation
- Regulatory updates
- Company policies and future governance planning
- Minutes and actions from previous meetings

Other matters considered during the year

Area	Agenda items
Strategy	• Review and approval of updated Group strategy • Review and approval of the acquisition of ClimaRad BV, ERI Corporation, Klimatfabriken AB and the Rtek segment of Energent Oy
Financial	• Review of the Company's response to Covid-19 and associated risk review • Review and approval of Annual Report and Accounts, AGM Notice and associated documentation for the year ended 31 July 2020 • Review and approval of trading updates in December 2020 and July 2021 • Review and approval of interim financial statements for the six months ended 31 January 2021 • Review and declaration of interim dividend paid in May 2021 and, after year end, recommendation of final dividend to be paid December 2021 • Review and approval of new Sustainability Linked Revolving Credit Facility
Budget	• Review and approval of budget for the year ending 31 July 2022
Operations	• Business impact assessment of Covid-19 and approval of appropriate actions • Consideration of risk framework, significant risks and risk appetite (in conjunction with the Audit Committee) • Review and approval of Viability Statement • Property matters
Shareholder engagement	• Presentations on the Company's shareholder profile and market perception • Independent feedback from corporate brokers following full and half-year investor roadshows • AGM 2020 proxy results and review of shareholder voting

2021 Board Activities continued

Board activities and priorities during the year ended 31 July 2021 continued

Governance Report

Governance

- Review and appointment of new joint corporate broker
- Review and recommendation to management to establish a formal Sustainability Committee
- Non-Executive Director succession planning
- Board composition and the re-appointment of Amanda Mellor as a Non-Executive Director
- Presentations on the Group's new product development programme and ESG
- Board performance evaluation results
- Governance, legislation and regulatory updates
- Claire Tiney's report to the Board following her attendance at the Volution 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.

Director	Number of meetings held	Attendance
Chairman		
Paul Hollingworth	7	7
Executive Directors		
Ronnie George	7	7
Andy O'Brien	7	7
Non-Executive Directors		
Nigel Lingwood	7	7
Amanda Mellor	7	7
Tony Reading	7	7
Claire Tiney	7	7

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 2020.

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. A list of the Directors is provided on pages 72 and 73. The composition of the Board has remained in compliance with the 2018 Code throughout the financial year ended 31 July 2021.

Appointment and tenure

The appointment dates of Directors are shown in their biographies on pages 72 and 73.

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 re-election at the Company's Annual General Meeting to be held on 9 December 2021 except for Tony Reading, who is retiring from the Board at the conclusion of the meeting after serving since June 2014.

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 97 to 116. 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.

Board performance evaluations and effectiveness

In the Annual Report 2020 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 2020 – recommendations	Progress against the recommendations
Improve external communication of the Group's purpose and sustainable products.	The Annual Report and Accounts 2020 set out the Group's purpose and sustainability strategy. A new management Sustainability Committee was constituted to oversee the strategy and ensure good communications with stakeholders.
Further enhance the Board's understanding of the Group's culture.	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.
Ensure good Board exposure to the Senior Management Team.	Presentations have been received from the Senior Management Team, which is also invited to Board dinners when appropriate.
Enhance understanding of innovative new products.	The Group Technical Director is invited to present to the Board at least once a year, updating on innovation and new product development.
Review timing of agenda items.	The Chairman reviews, carefully, the timing for each agenda item ensuring that sufficient time is allowed for thorough discussion according to the importance of the agenda item.

Governance Report continued

Board performance evaluations and effectiveness continued

During the year an internally facilitated performance evaluation of the Board, Committees, Chairman and Directors took place. The aim of the internal facilitation was to assist in the development of the Board and its culture as it matured as a listed company.



The process of evaluating the performance to identify areas for further development was undertaken internally under the direction of the Chairman.

The evaluation process involved the Chairman and the Company Secretary discussing and agreeing the scope and developing a series of questionnaires tailored to the specific circumstances of the Company.

The evaluation took the form of web-based questionnaires addressing the composition and performance of the Board and its Committees and the performance of the Chairman. Directors were required to score certain aspects of the Board's and Committees' performance, and to comment on the areas of focus, which included leadership and accountability, strategy and risk, Board culture, Board composition and roles and responsibilities.

The responses to the evaluation of the Board and its Committees were collated and analysed by the Company Secretary and then reviewed by the Chairman prior to being considered by the full Board. The Chairman also appraised the performance of individual Directors.

The results of the evaluation demonstrated that the composition and performance of the Board and its Committees (and the performance of the Chairman) were rated highly and continue to operate effectively. Whilst there are no significant concerns among the Directors about the Board's effectiveness, some observations and recommendations were made which were considered by the Board. The key areas of recommendation are set out below.

As a separate exercise the Senior Independent Director, together with the Non-Executive Directors, conducted the Chairman's performance evaluation. It was agreed that the Chairman gave appropriate time and commitment to his role as Chairman of the Company and was effective in that role since appointment on 1 February 2020. The Senior Independent Director then discussed the results with the Chairman.

Board performance evaluation: 2021 recommendations

- **Board composition:** enhance gender and ethnic diversity
- **Sustainability:** continue to enhance external communication of Volution's sustainability actions and progress
- **Company culture:** consider ways of providing improved formal feedback from employees and customers
- **Board matters:** as a result of the Covid-19 pandemic, Board site visits and interaction with the wider management team had been curtailed and should be restored (although this has now seen improvement since the year end)

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.

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 72 and 73.

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 58 to 67, 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 94 and 95.

The Audit Committee Report on pages 89 to 96 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 2016 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 2021.

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 on page 83. 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 10 and 11 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 page 8. 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 6 and our sustainability strategy is set out on page 32. 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, reporting back to the Board.

During the year, the Board continued its consideration of the impact of the Covid-19 pandemic on all stakeholder groups but in particular on our employees' health and wellbeing.

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
Acquisition of ClimaRad and ERI Corporation	In line with Volution's long-term strategy for growth and purpose, the Board gave approval to proceed with the acquisition of ClimaRad, based in the Netherlands, in December 2020 and ERI Corporation, based in North Macedonia, in July 2021. As part of the decision-making process the long-term consequences of these acquisitions on all stakeholders, in particular given the ongoing uncertainty as a result of the pandemic, were considered. The Board also considered the potential synergies and financial benefits of each acquisition, as well as the environmental aspects of each business. 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.
No recommendation to shareholders to pay a final dividend for the 2019/20 financial year	As reported in the Annual Report 2020, in light of the Covid-19 pandemic, the Board made the difficult decision not to recommend to shareholders the payment of a final dividend for the 2019/20 financial year, having already made a decision in July 2020 to cancel the previously declared interim dividend during that financial year. The Board understands the importance of paying dividends but the decision to pay no dividends for the financial year ended 31 July 2020 was prudent, alongside other measures taken to protect the Group's cash position during an unprecedented time. The Board considered the advantages and disadvantages of the decision, including whether a decision not to recommend a final dividend payment was the right action to ensure Volution's long-term success. The views of our stakeholders, in particular our shareholders, as well as our brokers' opinions on the expected reactions from the market, were taken into account. The Board carefully considered the short-term negative effect on our shareholders, but determined that taking the decisive action to not recommend the payment of a final dividend would position Volution positively for the future and help us create capacity for value-enhancing acquisition opportunities and to navigate the shorter-term impact and unprecedented consequences of the Covid-19 pandemic.
Sustainability strategy and establishment of a Sustainability Committee	It had become apparent from stakeholder feedback received during 2020 that, although the Group had developed many sustainable products minimising environmental impact, communication to stakeholders had not been transparent. Accordingly, the Board reviewed the development of a Materiality Matrix which enabled a sustainability strategy to be developed and published in the Annual Report 2020. Following the publication of the Annual Report 2020, the Board approved a new Sustainability Linked Revolving Credit Facility in December 2020. In April 2021, Volution was awarded the Green Economy Mark by the London Stock Exchange. Also resulting from stakeholder feedback, the Board discussed whether a formal Board Committee focusing on sustainability issues should be constituted. It was agreed that, although Volution was at the forefront of ESG reporting amongst its peer group, a separate Board Committee was not merited at this stage given the size of the Company. It was agreed that a management steering group would be the best way forward with a designated Non-Executive Director (Amanda Mellor) who could attend the meetings and report to the Board.

Governance Report continued

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 2020	• Consultation on remuneration with major shareholders and principal investor advisory groups
October 2020	• 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 2020	• Trading update • Annual General Meeting
March and April 2021	• Half-year results announcement and analyst presentation • Institutional broker sales desk briefings • UK and US shareholder roadshows
July 2021	• Trading update

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;
- sustainability of Volusion's recovery and revenue growth post Covid-19;
- impact on organic growth from the favourable regulatory backdrop;
- sustainability of margin expansion;
- performance of newly acquired businesses and the acquisition pipeline;
- definition and measurement of low-carbon revenues and products; and
- Volusion'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 Volusion 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.

Human rights

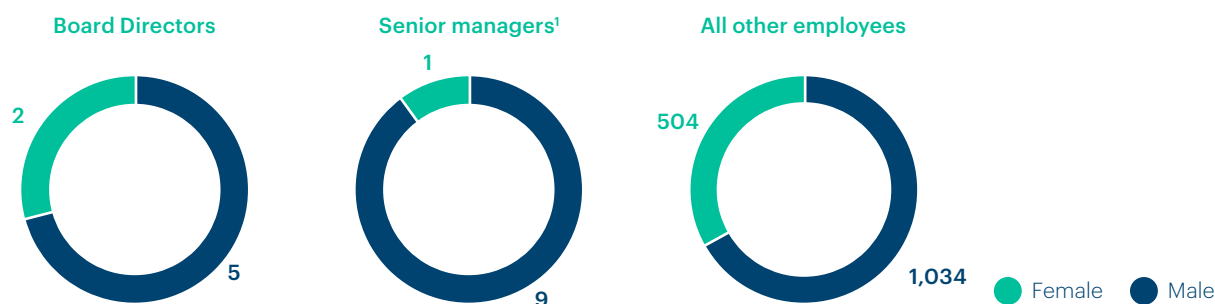
Breaches of human rights are not considered to be a material risk for the business as our activities are substantially carried out in developed countries that have strong legislation governing human rights. We adhere to policies which support human rights principles.

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 Thursday 9 December 2021 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



Assessing Board balance

Committee members

	Attendance
Paul Hollingworth (chair)	4/4
Nigel Lingwood	4/4
Amanda Mellor	4/4
Tony Reading	4/4
Claire Tiney	4/4

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 would be retiring from the Board at the conclusion of the 2021 AGM.

Priorities

- Continue to manage Board and senior management succession plans.
- 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.

Dear shareholder,

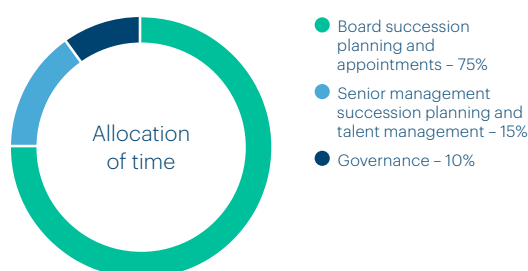
I am pleased to present our report detailing the role and responsibilities of the Committee and its activities during the year.

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.



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 72 and 73.

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.

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

Member	Member since	Number of meetings held	Attendance
Paul Hollingworth (chair)	23 June 2014	4	4
Nigel Lingwood	30 April 2020	4	4
Amanda Mellor	18 March 2018	4	4
Tony Reading	23 June 2014	4	4
Claire Tiney	3 August 2016	4	4

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 re-appointment of Amanda Mellor as a Non-Executive Director and her appointment as Senior Independent Director with effect from the retirement of Tony Reading;
- reviewed succession planning and talent development for the Senior Management Team;
- following the changes to the Board and roles set out above, considered and approved a new succession plan for Non-Executive Directors to ensure progressive refreshing of the Board;
- 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 2021 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 2021.

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 will be retiring from the Board at the conclusion of the 2021 Annual General Meeting having been a member of the Board since June 2014.

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

This search process is ongoing and is being led by an independent external search firm, Warren Partners Ltd, which has no connection to Volution. The process to be followed will start with the formulation of a long list of candidates for review by the Committee. The list of suitable candidates will then be discussed by the Committee followed by an interview process that will include meetings with the Chairman, the Senior Independent Director, the independent Directors and the Executive Directors. The candidates remaining on the short list will then be discussed by the Committee resulting in a recommendation of the preferred candidate to the Board. Following Board approval of the appointment, an announcement will be made to the London Stock Exchange.

On retirement at the conclusion of the Annual General Meeting in December 2021, Tony will be succeeded as the Senior Independent Director by Amanda Mellor. Amanda joined the Board in March 2018 and has the required skills and attributes to be appointed to this role.

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The Committee continues to review Board succession plans to ensure appropriate refreshing of the Board, ensuring an appropriate balance of skills, experience, independence and gender and ethnic diversity on the Board.

Nomination Committee Report continued

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 Committee welcomes the Hampton-Alexander Review which seeks to improve board and senior leadership diversity across FTSE 350 companies and the Parker Review on Ethnic Diversity, Enriching Business Leadership. As at the financial year end, the Board comprised five male and two female Directors meaning 28.6% of the Board were female. One Board member was of BAME heritage. The Company is committed to achieving the target of 33% women on the Board as soon as possible.

The Company is also committed to making progress towards achieving the target of 33% women on the Senior Management Team. However, given the relatively small size of the Senior Management Team and the limited turnover of those within it, there is limited scope for immediate change.

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 re-election at the Annual General Meeting 2021 except for Tony Reading, who will retire at the conclusion of that meeting. The biographical details of the Directors can be found on pages 72 and 73. The Committee considers that the performance of each of the Directors standing for 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 internally 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 79 and 80. 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 2021/22

During the 2021/22 year the Committee will continue to evaluate the size and composition of the Board including the balance of skills, knowledge, independence, experience and diversity. There will also be continued focus on the talent pipeline and succession planning at Board and senior management level.



Paul Hollingworth

Chair of the Nomination Committee

6 October 2021

Audit Committee Report



Monitoring key operating and financial controls

Committee members

	Attendance
Nigel Lingwood (chair)	5/5
Tony Reading	5/5
Amanda Mellor	5/5
Claire Tiney	5/5

Highlights

- Maintained focus on control environment and reporting processes in businesses impacted by the ongoing Covid-19 pandemic during the financial year.
- Continued to monitor Group risk environment and internal controls with enhanced process to identify, assess and monitor emerging risks.
- Commenced review and planning for adoption and implementation of new requirements of BEIS White Paper.

Priorities

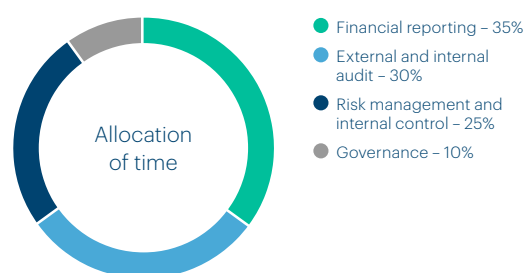
- Reviewed and challenged the accounting for the acquisitions completed during the year.
- Reviewed the new banking facilities negotiated in the first half of year, in light of cash flow forecasts.
- Reviewed additional controls implemented in overseas businesses where access has been restricted by the Covid-19 pandemic regulations.

Dear shareholder,

This year the Committee was able to re-establish a full programme of review work commensurate with the Group making a very strong operating and financial recovery as it emerged from the impact of the pandemic lockdown.

Particular attention was focused on ensuring that the Group's businesses remained disciplined in monitoring key operating and financial controls as activity picked up across the Group. The Committee was supported in this matter by an active internal audit programme carried out by BDO, which this year was able to complete a full year of planned audit work. In addition, BDO managed to carry out all its internal audit review on site, including visits to overseas businesses by local internal audit teams.

The reports from BDO confirmed that the control environment operating within the businesses visited this year was generally robust and this was supported by reports received from the external auditor during its year-end audit work. The Committee was particularly pleased to receive confirmation of a solid control environment operating in ClimaRad, based in the Netherlands and acquired by the Group in December 2020.



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Particular attention was focused on ensuring that the Group's businesses remained disciplined in monitoring key operating and financial controls as activity picked up across the Group.



Audit Committee Report continued

The Committee also agreed with executive management an additional layer of review and challenge by Group finance of reporting by overseas businesses, where local Covid-19 travel restrictions prevented UK executive management from visiting these businesses during the year; these periodic visits remain an important control in a decentralised Group.

The external auditor, EY, continued to carry out a robust programme of audit work with added focus on the key audit risks identified on page 93 of this report. The strong underlying operational performance of the Group this year, together with increased and extended bank facilities, provided additional comfort to the Committee in assessing these audit risks. A key area of audit focus at the year end relates to revenue recognition in respect of estimating the amount of rebates owed to suppliers at each reporting date. The Committee reviewed with management and the auditor a report on the amount of this rebate and, while recognising that some subjectivity is required in setting the estimate, concurred that the amount included in the financial statements was reasonable.

The resumption of an active acquisition programme this year introduced a new audit risk relating to the technical accounting for these business combinations. The Committee reviewed carefully with management the proposed accounting for each acquisition and, where appropriate, received advice from both the technical departments of EY and another "Big 4" firm. The Committee was satisfied that the accounting for these business combinations was appropriate.

A full programme of Committee work has been set out for next year that, as well as routine business, will include additional reviews of discrete components of the Group's activities. In addition, as management steps up its preparation for the implementation of the new reporting and governance requirements of the BEIS White Paper, the Committee has allocated time to work with management on strengthening its existing framework of internal controls over financial reporting.

On behalf of the Committee, I would like to thank all the finance teams and their supporting functions across the Group for their continued diligence in maintaining strong oversight of their internal control environments and reporting systems during the past year.



Nigel Lingwood
Chair of the Audit Committee
6 October 2021

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.

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On behalf of the Committee, I would like to thank all the finance teams and their supporting functions across the Group for their continued diligence in maintaining strong oversight of their internal control environments and reporting systems during the past year.

Membership and attendance

The Code recommends that all members of an 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, Tony Reading, 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 72 and 73.

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.

In 2021 an additional meeting of the Committee was introduced to ensure that sufficient time was available to meet the increasing reporting obligations of the Company. The Committee met five times during the year with attendance disclosed below.

Member	Member since	Number of meetings held	Attendance
Nigel Lingwood (chair)	30 April 2020	5	5
Tony Reading	23 June 2014	5	5
Amanda Mellor	18 March 2018	5	5
Claire Tiney	3 August 2016	5	5

Audit Committee Report continued

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
- Specifically reviewed the basis of accounting for the acquisition of ClimaRad and other acquisitions completed during the year
- Reviewed the basis of and accounting for new product development costs
- Reviewed the Group 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 2021 and its internal audit plan for 2022

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

Compliance

- Monitored the Group's Code of Conduct, Anti-Bribery and Corruption Policy and Policy on Corporate Criminal Offences; monitored any whistleblowing made in confidence on accounting or risk issues, internal controls, auditing issues and non-financial-related matters
- Met with the external auditor without executive management being present
- Completed an evaluation of the Committee performance and set its annual work programme for FY22
- Reviewed the BEIS White Paper on Restoring Trust in Audit and Corporate Governance and agreed a programme of work to be completed next year in preparation for implementation of the new requirements

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 2021. 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 2021 intangible assets relating to goodwill and other intangible assets amounted to £223.1 million. The acquisitions made during the year added £47.8 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.	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. 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.
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 2021 included within trade and other payables is £10.0 million (2020: £7.7 million).	The Committee received 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	There were three business combinations during the year, with the most significant being the acquisition of ClimaRad. The acquisition was unusual in that it included both contingent consideration, a 25% non-controlling interest, and a commitment to purchase the non-controlling interest at a future date. Accounting for the acquisition was complex and included judgements related to the identification and fair value measurement of intangible assets, and the recognition and fair value measurement of the financial liability to purchase the remaining 25% of the shares in 2025.	The Committee received a paper from management setting out in detail the accounting for the ClimaRad 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 financial liability and agreed the judgements were reasonable.
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.	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. 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. Further detail of the going concern assessment prepared by the Group is included on page 61.
In addition, the Committee reviewed policy and provisions with respect to: taxation, warranty, doubtful debts and inventory and weighted average cost of capital rates.		

Audit Committee Report continued

External audit

EY was appointed as external auditor for the financial year commencing 1 August 2012 following a competitive tendering process. The lead partner during the financial year ended 31 July 2021 was Andy Clewer. This was his second financial year spent auditing the Group and he has had no previous involvement with the Group in any capacity prior to appointment.

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 Company is not obliged to tender for audit services until the year ending June 2024 (ten years from listing). The Committee has no current intention of placing the external audit out to tender, subject to any other changes to the regulatory regime and satisfaction with the effectiveness of the auditor. Accordingly, the Committee has recommended to the Board that a resolution to re-appoint EY be proposed to shareholders at the Annual General Meeting in December 2021 and the Board accepted and endorsed this recommendation.

The Committee 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. In addition, the Committee confirms that, at the appropriate time, it will put the external audit out to tender to meet the requirements under this Order in accordance with completing the tender process by June 2024.

During the year, the Committee assessed the effectiveness of EY and the FY20 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. The principal concerns 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. In addition, the Group auditor was unable to attend local audit meetings at overseas subsidiaries. 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 being undertaken last year. The Committee and EY concurred that arrangements would be agreed and implemented early in FY21 to ensure that the audit process remained robust and effective in the likelihood of similar Covid-19-related restrictions being in place during the audit of the FY21 financial statements. There were no other substantive matters identified during this assessment and the Committee concluded that the external audit process in FY20 had been effective.

Non-audit services

The Group's external auditor may provide specialist advice where, as a result of its position as auditor, it is best placed to perform the work in question. During the year EY provided specialist advice to the Company on the different technical accounting methods available to account for the acquisition of ClimaRad. Having received this advice, the Company applied what it believed to be the most appropriate method of accounting for this business combination.

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 and updated 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 £38,000 (2020: £35,000) for non-audit services relating to the half-year review, which represents 6.2% (2020: 6.7%) 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.

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. As with the external audit process, the ongoing government restrictions in the UK and some of the overseas jurisdictions caused by the Covid-19 pandemic have led to some of the internal audit work being undertaken using video and audio calls rather than in person audit meetings.

There were no substantive or high-risk matters identified and reported to the Committee by BDO during the financial year. However, a UK subsidiary of the Group suffered a circa £0.2 million loss from a supplier fraud in connection with the purchase of a piece of machinery. An inappropriate override of robust existing controls allowed the fraud to take place and these controls have since been strengthened and reinforced across the Group. The Company has instigated legal action to pursue the recovery of these monies.

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, such as the Covid-19 pandemic. 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 58 to 67.

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 2020 to the date of this report. Taking into account the matters set out opposite relating to the supplier fraud and set out on pages 58 to 67 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.

Audit Committee Report continued

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 has this year introduced a new Group-wide 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. There were no reports brought to the attention of the Committee for investigation during the year. The Committee also has the power to conduct further enquiries itself or any other additional actions it sees fit.

Committee performance evaluation

During the year, the Board conducted a formal internally 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 79 and 80. 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 in October 2021. The outcome of that review was that the Committee confirmed to the Board that the Annual Report and Accounts 2021 met the requirements of the 2018 Code and the Board's formal statement to that effect is set out on page 74.



Nigel Lingwood

Chair of the Audit Committee

6 October 2021

Directors' Remuneration Report



Retaining the best talent

Committee members

	Attendance
Claire Tiney (chair)	5/5
Paul Hollingworth	5/5
Nigel Lingwood	4/5
Amanda Mellor	5/5
Tony Reading	5/5

Highlights

- Implemented the new Remuneration Policy and consulted with shareholders on remuneration decisions.
- Approved the remuneration for Executive Directors and senior management, including a reduction in the CEO's pension level.
- Determined incentive scheme outcomes and set incentive scheme targets, including the addition of an ESG measure to the LTIP.

Priorities

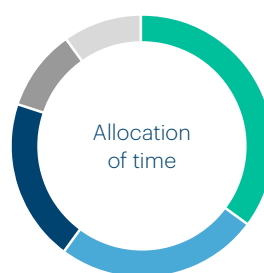
- Continue to monitor shareholder guidance and best market practice, whilst ensuring that the remuneration framework is aligned to our strategy and ESG targets.
- Continue to take into account wider workforce trends and policies when setting Executive Director and senior management remuneration.
- Determine incentive scheme outcomes and set incentive scheme targets.

Dear shareholder,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2021.

At the Annual General Meeting in December 2020 (2020 AGM), the Directors' Remuneration Report resolution received very strong support from shareholders with just under 100% of the votes cast being in favour of the resolution. Our new Remuneration Policy (the Policy) was also approved at the 2020 AGM with very good support from shareholders, with over 95% of the votes cast being in favour of the resolution. As part of this new Policy 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 new 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.



- 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%

“

During the year the Committee has focused on the implementation of the new Remuneration Policy approved by shareholders at the 2020 AGM.

Directors' Remuneration Report continued

Response to Covid-19 pandemic

As set out in my letter last year, business performance during the financial year ended 31 July 2020 was affected by the Covid-19 pandemic and accordingly no salary increase was awarded to Ronnie George or Andy O'Brien for the 2020/21 financial year. The Executive Directors also waived the annual bonus earned for that financial year and together with the Non-Executive Directors also agreed to take a 20% reduction in base salary for four months, which ended on 31 July 2020.

Performance in 2020/21 and remuneration outcomes

During the year ended 31 July 2021 the business performed very well. The strong set of results reflects the resilience of the business through the pandemic with the Group's revenue increasing by 25.8% compared to last year to £272.6 million (2020: £216.6 million). Adjusted operating profit was £56.9 million (2020: £33.7 million), representing 20.9% of revenue and a £23.2 million improvement compared to the prior year. Reported profit before tax increased by 106.3% to £30.0 million (2020: £14.6 million). Our adjusted earnings per share was 21.0 pence, representing a 73.6% increase over the adjusted earnings per share for the prior year of 12.1 pence. The compound annual growth rate of adjusted earnings per share since IPO in 2014 was 13.2%.

In June 2021 Volution was also promoted to the FTSE 250 and the total shareholder return over the course of the year was over 150% which compares to a total shareholder return of around 35% for the FTSE 250 Index, demonstrating significant shareholder value creation over the year. Volution was also awarded the London Stock Exchange's Green Economy Mark, recognising the Group's commitment to sustainability, on which good progress continues to be made on our recently announced sustainability targets in keeping with our approach of providing "healthy air, sustainably".

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 125% of salary to Ronnie George and 125% of salary to Andy O'Brien.

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 102.

The LTIP awards granted in the 2018/19 financial year (in October 2018) had a performance period ending on 31 July 2021 and are subject to a two-year holding period. Due to good EPS growth and total shareholder return performance over the period, the October 2018 LTIP awards will vest at 89% of maximum. Further details can be found on page 102.

When determining variable pay outcomes, the Committee also took account of the shareholder experience, the employee experience and the wider stakeholder experience. The UK businesses did not furlough any employees during the year or use any government schemes for its benefit. Overall, the Committee considered that remuneration outcomes were appropriate and as such determined that no discretion would be applied.

Remuneration decisions for 2021/22

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, the performance of the Executive Directors and the fact that salaries have not been increased since August 2019. Since the last salary increase, we have made a number of acquisitions globally including the €41.1 million acquisition of 75% of ClimaRad BV, the leading provider of decentralised heat recovery ventilation in the Netherlands, and ERI Corporation, a leading manufacturer and supplier of low-carbon, energy efficient heat exchanger cells based in North Macedonia, for an initial consideration of €23.4 million. These acquisitions have increased the scope and scale of the roles. There has been strong trading performance and excellent revenue growth, and the size of the business has significantly increased, with the market capitalisation increasing by over £500 million since 2019. This has resulted in a total shareholder return of over 160% over the same period. The Group has also been promoted to the FTSE 250 and been awarded the London Stock Exchange Green Economy Mark, validating our market leading position in the sustainability space.

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 5%, taking the Chief Executive Officer's salary to £439,635 and the Chief Financial Officer's salary to £307,650. This is within the range of the 2% to 6% salary increase awarded across the Group dependent upon performance. Even with these increases, the Committee is mindful of the fact that salaries remain below market level for a company of our size and complexity. The situation will be reviewed again next year, with any further increases based on continued performance of Volution and the individuals. Variable incentive opportunity levels will remain in line with our shareholder-approved Policy and at the same levels set in 2020/21.

Over the last year, it has become apparent that shareholder opinion has strengthened and guidance on pension contribution rates for Executive Directors is that they should be aligned with those available to the workforce by the end of 2022 and a plan to achieve this should be communicated to shareholders as soon as possible.

Accordingly, the Committee discussed the issue during the year and a plan was agreed to ensure that the payment in lieu of pension of 15% currently paid to the Chief Executive Officer is reduced to 8.5% with effect 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).

Prior to 1 January 2023, any increase in base salary awarded to Ronnie George will not result in an increased payment. Instead the payment in lieu of pension until 31 December 2022 would remain at the same monetary value based on his base salary as at 31 July 2021. Therefore the 5% salary increase awarded to Ronnie George has not resulted in an increase in pension and the payment in lieu of pension contribution for the 2021/22 financial year is equivalent to 14.3% of salary.

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 being under age 50).

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 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. As such, ESG targets, linked to the 2025 sustainability targets we have already publicly disclosed, have been introduced to the performance criteria for LTIP awards made during the 2021/22 financial year. The measures will be: earnings per share (60%); total shareholder return (20%); and ESG targets (20%).

Further details can be found on page 108.

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 2021/22 financial year as set out above. The feedback on the remuneration decisions provided by shareholders has been very positive.

Annual General Meeting 2021

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 9 December 2021.



Claire Tiney

Chair of the Remuneration Committee

6 October 2021

Directors' Remuneration Report continued

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 2022. 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 2021 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), Nigel Lingwood, Amanda Mellor and Tony Reading, and the Chairman of the Board, Paul Hollingworth.

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. The Chairman of the Board is 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).

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.

Meeting attendance

The Committee met five times during the year and has had two meetings to date in 2021/22. Committee member attendance can be found in the table below.

Member	Member since	Number of meetings held	Attendance
Claire Tiney (chair)	1 August 2016	5	5
Paul Hollingworth	23 June 2014	5	5
Amanda Mellor	18 March 2018	5	5
Nigel Lingwood ¹	30 April 2020	5	4
Tony Reading	23 June 2014	5	5

Note

1. Nigel Lingwood was unable to attend one meeting due to unforeseen circumstances. He received the papers in advance of the meeting and provided his comments to the chair to inform decision making during the meeting.

Committee activity and key decisions during the year ended 31 July 2021

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 2019/20;
- reviewed outcomes for Executive Director and Senior Management Team bonuses for 2019/20;
- reviewed performance measurement outcomes and vesting of LTIP awards granted in March 2018;
- reviewed and approved the parameters of the ABP, including performance measures and targets for 2020/21 for the Executive Directors and Senior Management Team;
- considered and approved the LTIP awards to the Executive Directors and Senior Management Team for 2020/21;
- reviewed market trends and developments in executive remuneration in advance of considering Executive Director and Senior Management Team remuneration proposals for 2021/22;
- reviewed and approved the Executive Director and Senior Management Team salaries for 2021/22;
- reviewed and approved the revised pension for the Chief Executive Officer; and
- evaluated the performance of the Committee.

Committee performance evaluation

During the year, the Board conducted a formal internally 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 79 and 80. 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.

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 £27,750 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 2021 and 31 July 2020.

	Salary and fees ¹		Benefits ²		Pension ³		Annual bonus ⁴		Long-term incentives ⁵		Other ⁶		Total		Total fixed remuneration		Total variable remuneration	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman																		
Paul Hollingworth	143	91	—	—	—	—	—	—	—	—	—	—	143	91	143	91	—	—
Executive Directors																		
Ronnie George	419	391	22	22	55	55	523	—	1,331	289	—	—	2,350	757	496	468	1,854	289
Andy O'Brien	293	281	15	15	22	22	366	—	—	—	—	121	696	439	330	318	366	121
Non-Executive Directors																		
Nigel Lingwood ⁷	58	12	—	—	—	—	—	—	—	—	—	—	58	12	58	12	—	—
Amanda Mellor	48	44	—	—	—	—	—	—	—	—	—	—	48	44	48	44	—	—
Tony Reading	53	59	—	—	—	—	—	—	—	—	—	—	53	59	53	59	—	—
Claire Tiney	58	46	—	—	—	—	—	—	—	—	—	—	58	46	58	46	—	—
Former Directors																		
Peter Hill (Chairman to 31.01.20)	—	72	—	—	—	—	—	—	—	—	—	—	—	72	—	72	—	—

Notes

- As a result of the impact of Covid-19 on the business, all Board members took a 20% salary reduction for a four-month period which ended on 31 July 2020.
- Benefits: this includes an annual car allowance, life assurance equivalent to four times annual salary and private medical insurance.
- Pension: a cash payment in lieu of employer's pension contribution, equivalent to 15% of base salary, was paid to Ronnie George and 5.5% was paid to Andy O'Brien.
- Annual bonus: the annual bonus for 2020/21 relates to annual incentive payments for performance in that financial year. The calculation of this amount is set out on page 102. Despite an annual bonus of 11% being earned, the Executive Directors waived their right to this bonus for 2019/20.
- 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 17 October 2018 had a performance period that ended on 31 July 2021, and this has been included in the table above. This award will vest on 17 October 2021 and, therefore, the value included in the table above represents an estimated value using the average share price of £4.34 over the three months to 31 July 2021. The value of the award attributable to share price growth is £2.48. Details of the performance measures and achievement against the targets set can be found on page 102. In line with the remuneration reporting requirements, the awards which vested on 23 March 2021 have been restated to reflect the actual share price (£3.71) on the date of vesting. No discretion was exercised in respect of the LTIP vesting.
- Other: as set out in the Directors' Remuneration Report last year, Andy O'Brien forfeited share awards on leaving his last employer. In accordance with the Volusion Remuneration Policy, the Remuneration Committee approved the grant of additional awards to Andy O'Brien to partially compensate him for remuneration forgone at his previous employer. These buy-out awards were granted to replicate, as far as possible, the likely value and time horizons associated with the share awards forfeited at his previous employer. He received a buy-out award of 68,181 shares on 15 October 2019 and vesting was subject to continued employment with Volusion and not subject to any performance conditions, reflecting the criteria of the forfeited share awards, and as such the total value was included in the 2020 single figure total. Although the normal release date for the second and final tranche (34,091 shares) of the buy-out award was 1 August 2021, as this was the beginning of the Company's restricted share dealing period ahead of the announcement of financial results for the year ended 31 July 2021, the vesting and first date of exercise will become the announcement date of the financial results for the year ended 31 July 2021.
- Nigel Lingwood was appointed as a Non-Executive Director on 30 April 2020.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Annual Bonus Plan (ABP) (audited)

The operation of the ABP during the year ended 31 July 2021 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 2021 were the same as for the year ended 31 July 2020. 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 things 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%	£35.562m	£37.122m	£42.5m	£57.1m	100%	45%
Adjusted EPS ¹	Creation of shareholder value	52%	13.2p	13.8p	16.2p	21.0p	100%	65%
Working capital management ²	Delivering efficiency of working capital and cash generation	12%	13.7%	13.425%	13.1%	13%	100%	15%
Total								125%

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 management is the percentage of sales.

Long Term Incentive Plan vesting – October 2018 awards

The LTIP values included in the single total figure of remuneration table for 2021 relate to the LTIP award granted on 17 October 2018. Awards with a face value of 150% of salary were granted to Ronnie George and 125% to the then Chief Financial Officer, Ian Dew, and, following a three-year performance period ending on 31 July 2021, are due to vest on 17 October 2021. The award to Ian Dew will be pro-rated to his leaving date of 31 October 2019. 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 17 October 2023. 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 2020/21 EPS of less than 17.25 pence)	6% p.a. (equivalent to 2020/21 EPS of 17.25 pence)	15% p.a. (equivalent to 2020/21 EPS of 22.02 pence)	13.4% p.a. (actual 2020/21 EPS of 21.0 pence)	64%
TSR vs Direct Peer Group Index ²	25%	Below median	Median	Upper quartile	Upper quartile	25%
Total vesting (% of maximum)						89%

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.

Share awards granted during the year (audited)

Long Term Incentive Plan (LTIP)

2020/21 awards

On 14 October 2020, 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 2023, have been met. Awards to the Executive Directors are subject to a two-year holding period.

The performance measures used for the LTIP awards gave emphasis to EPS growth (75%) and used a single measure of total shareholder return, TSR vs Direct Peer Group Index (25%), as set out in the table below. When the targets were set last year there was still significant uncertainty around Covid-19 and how it would impact our business. Therefore, the Committee determined that the percentage growth targets should remain the same as the previous LTIP award and that a performance assessment in the round will be taken when the awards vest in October 2023, with discretion used if considered appropriate.

Performance measure	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting) ¹	Maximum (100% vesting) ¹
EPS growth	75%	Below 6% p.a.	6% p.a.	12% p.a.
TSR vs Direct Peer Group Index ²	25%	Below median	Median	Upper quartile

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, Headlam Group, Ibstock, Luceco, Marshalls, Michelmersh Brick, Norcros, Polypipe (now Genuit Group), 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 14 October 2020 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	327,672	£1.9167	£628,050	150%	14 October 2025	15 October 2030
Andy O'Brien	191,083	£1.9167	£366,250	125%	14 October 2025	15 October 2030

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)

2020/21 awards

As set out in the Policy, under which the 2019/20 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.

As a result of the Covid-19 pandemic, full year performance against two of the three measures used in the Annual Bonus Plan (ABP), being adjusted operating profit and adjusted EPS, fell well below the targets set. However, the working capital management target was largely met and resulted in 11% being eligible for payment to the Executive Directors. 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 payment earned under the ABP. Accordingly, no award of shares under the Deferred Share Bonus Plan relating to the financial year ended 31 July 2020 was made.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

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 2020	Shares awarded during the year	Shares lapsed during the year	Shares vested during the year	Number of share awards at 31 July 2021	Face value at date of grant £ ¹	Vesting date ²	Expiry date
Ronnie George									
LTIP 2017/18 ³	23/03/2018	295,970	—	221,978	77,769	—	—	Vested	24/03/2028
LTIP 2018/19	17/10/2018	328,552	—	—	—	328,552	612,750	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
DSBP 2017/18 ⁴	23/03/2018	26,880	—	—	28,252	—	—	Vested	N/A
DSBP 2018/19	17/10/2018	39,248	—	—	—	39,248	73,199	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	—	—	—	—	—	—	—	—	—
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	34,090	—	—	34,090	—	—	Vested	N/A
Buy-out 2019/20	15/10/2019	34,091	—	—	—	34,091	60,000	01/08/2021	N/A
LTIP 2020/21	14/10/2020	—	191,083	—	—	191,083	366,250	14/10/2023	15/10/2030
DSBP 2019/20	—	—	—	—	—	—	—	—	—
DSBP 2020/21	—	—	—	—	—	—	—	—	—

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 £2.01 for the LTIP 2017/18 and DSBP 2017/18, £1.865 for the LTIP 2018/19 and DSBP 2018/19, £1.76 for the LTIP 2019/20 and DSBP 2019/20 and £1.9167 for the LTIP 2020/21.
- 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 awards granted to Andy O'Brien on 15 October 2019 which vest with a separate vesting schedule, in two tranches as set out above.
- LTIP 2017/18 awards granted on 23 March 2018 had a performance period ending on 31 July 2020. 25% of the award vested on 23 March 2021. Following performance testing, 221,978 awards lapsed for Ronnie George. In accordance with the rules of the LTIP, 3,777 dividend equivalent shares were added to the vested awards for Ronnie George.
- DSBP 2017/18 awards granted to Ronnie George vested on 23 March 2021 and the shares were immediately transferred to him, becoming part of his beneficial shareholding. In accordance with the rules of the DSBP, 1,372 dividend equivalent shares were added to the vested awards for Ronnie George.

Employee Benefit Trust

The Volution Employee Benefit Trust (EBT) currently holds 2,075,452 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.

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 2021 (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 2021 and the date of this report.

	Shares held beneficially at 1 August 2020 ¹	Shares held beneficially at 31 July 2021 ¹	Beneficial shareholding at 31 July 2021 (% of salary)	Target shareholding achieved ²	LTIP awards (unvested awards subject to performance) ³	LTIP awards (unvested awards not subject to performance)	LTIP awards vested but not exercised	DSBP awards (unvested awards, not subject to performance)
Chairman								
Paul Hollingworth	30,916	47,693	N/A	N/A	—	—	—	—
Executive Directors								
Ronnie George ⁴	2,597,207	2,625,459	2,963%	Yes	1,013,070	—	485,675	82,519
Andy O'Brien	—	19,525	31%	No	399,179	34,091	—	—
Non-Executive Directors								
Nigel Lingwood	5,000	5,000	N/A	N/A	—	—	—	—
Amanda Mellor	—	—	N/A	N/A	—	—	—	—
Tony Reading	100,000	100,000	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 2021 using the share price on that date of £4.34 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 23 March 2021, 28,252 DSBP shares vested and were transferred from the EBT to Ronnie George and were added to his beneficial shareholding.

Payments to past Directors and payments for loss of office

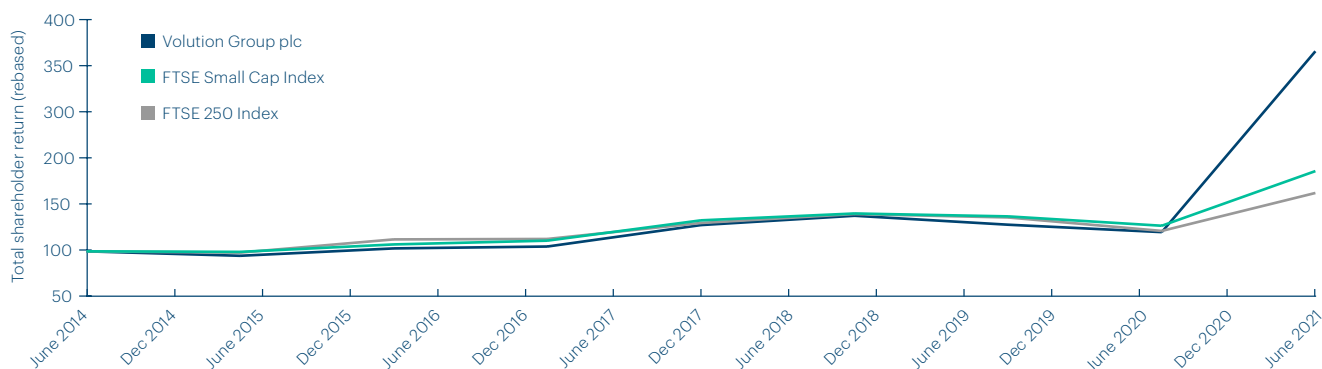
There were no payments to past Directors or payments for loss of office in the year.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Performance graph and Chief Executive Officer remuneration table (audited)

The chart below has, in previous years, compared the total shareholder return performance of the Company against the performance of the FTSE Small Cap Index. As Volusion has now been promoted to the FTSE 250, this year we have compared performance against both indices since listing on 23 June 2014. 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.

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Chief Executive Officer's single total figure of remuneration (£000)	2,350	757	910	909	1,191	638	643	1,061	428
Annual bonus payout (as a % of maximum opportunity)	100%	0% ¹	44.7%	44.3%	87.8%	64%	65%	100%	54.8%
LTIP vesting (as a % of maximum opportunity)	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 101) paid to each Director in respect of the year ended 31 July 2020 and the year ended 31 July 2021, compared to that of the average change for employees in the UK.

Element of pay	Average % change 2020 to 2021			Average % change 2019 to 2020		
	Salary/fees ²	Taxable benefits ³	Annual bonus ⁴	Salary/fees ²	Taxable benefits ³	Annual bonus ⁴
Executive Directors						
Ronnie George	6.0%	0%	100%	(4.4)%	0%	(100)%
Andy O'Brien	3.8%	0%	100%	100%	100%	(100)%
Non-Executive Directors						
Paul Hollingworth	57.1%	N/A	N/A	56.9%	N/A	N/A
Nigel Lingwood	383.3%	N/A	N/A	100%	N/A	N/A
Amanda Mellor	9.1%	N/A	N/A	(8.3)%	N/A	N/A
Tony Reading	(10.2)%	N/A	N/A	(6.3)%	N/A	N/A
Claire Tiney	26.1%	N/A	N/A	(4.2)%	N/A	N/A
UK employee average¹	2.0%	1.2%	344.1%	(0.7)%	9.0%	(74.5)%

Notes

- Average employee pay has been calculated on a full-time equivalent basis. This figure excludes the Executive and Non-Executive Directors.
- During the financial year ended 31 July 2020, all Board members agreed to take a salary reduction of 20% for four months after considering the impact of the Covid-19 pandemic on all stakeholders. In addition:
 - Paul Hollingworth was appointed Chairman of the Board on 1 February 2020; hence the comparative year 2019/20 consisted of fees for just six months.
 - Nigel Lingwood was appointed to the Board on 30 April 2020; hence the comparative year 2019/20 consisted of fees for just three months.
 - During the year 2019/20 Tony Reading acted as chair of the Remuneration Committee and Audit Committee, stepping down from both on 30 April 2020. Accordingly, his fees during 2020/21 have reduced.
 - Claire Tiney acted as chair of the Remuneration Committee for three months during 2019/20 and the entire 2020/21 year.
- Benefits include car allowance, health cover and life assurance but exclude employer pension contributions.
- As a result of the impact on the business from the Covid-19 pandemic, the Executive Directors waived the right to their entitlement to an 11% annual bonus during 2019/20. Accordingly, they received no annual bonus. The business performed very well during the 2020/21 financial year and all performance targets were met in full; hence the maximum annual bonus was paid.

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 101), 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 2021, Volusion delivered very strong revenue and profit growth and expanded adjusted operating margins ahead of the 20% target, demonstrating the resilience of the business through the pandemic. Accordingly, the CEO achieved the maximum payment under the Annual Bonus Plan and the market share price appreciation over the year resulted in the valuation of LTIP awards seen in the single total figure of remuneration table on page 101. These factors all contributed to the CEO pay ratio shown below.

CEO pay ratio	31 July 2021	31 July 2020
Method	Option A	Option A
75th percentile pay ratio	75:1	18:1
Median pay ratio	104:1	27:1
25th percentile pay ratio	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 2021 are set out below:

Employees	25th percentile	Median	75th percentile
Salary	£18,571	£22,000	£29,000
Total pay and benefits	£18,710	£22,000	£30,450

The employees used for the purposes of the table above were identified as based in the UK and on a full-time equivalent basis as at 31 July 2021. 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.

	2021 £m	2020 £m	% change
Employee remuneration costs	67.1	54.9	21.4%
Distributions to shareholders	3.8	—	100%
Adjusted operating profit	57.1	33.7	69.3%

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2022

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, the performance of the Executive Directors and the fact that salaries have not been increased since 2019, the Committee determined that an increase in base salary of 5% would be awarded to the Chief Executive Officer and the Chief Financial Officer. The increase took effect from 1 August 2021, increasing the base salary of the Chief Executive Officer to £439,635 per annum and for the Chief Financial Officer to £307,650 per annum. The Committee is mindful of the fact that salaries remain below market level for a company of our size and complexity and will review them again next year.

Pension and other benefits

As set out in the Chair's letter, the payment in lieu of pension of 15% currently paid to the Chief Executive Officer will be reduced to 8.5% with effect from 1 January 2023 (the equivalent rate if he was a member of the Company pension scheme, joining prior to 1 January 2018 and having reached age 50).

Prior to 1 January 2023, any increase in base salary awarded to Ronnie George will not result in an increased payment. Instead the payment in lieu of pension until 31 December 2022 will remain at the same monetary value based on his base salary as at 31 July 2021. Therefore the 5% salary increase awarded to Ronnie George has not resulted in an increase in pension and the payment in lieu of pension contribution for the 2021/22 financial year is equivalent to 14.3% of salary.

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 being under age 50).

Directors' Remuneration Report continued

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2022 continued

Pension and other benefits continued

Other benefits received comprise an annual car allowance paid in cash of £20,910 per annum for the Chief Executive Officer and £15,300 per annum for the Chief Financial Officer, life assurance equivalent to four times annual salary and £1,360 for 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 2020/21. 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 2022 will be disclosed in the next Annual Report on Remuneration, unless they remain commercially sensitive.

Long Term Incentive Plan (LTIP)

During 2021/22, 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 2020/21.

The Committee will continue its policy of setting stretching LTIP targets which take into account a number of internal and external factors. Volition 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. As such, ESG measures have been added to the performance criteria for LTIP awards made during the 2021/22 financial year. 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 new ESG measures will focus on two targets and are linked to the 2025 goals we have already communicated externally: optimising recycled plastics in Volition's manufactured products and increasing the low-carbon credentials in the product portfolio measured as a percentage of revenue. These new ESG measures will ensure management is incentivised to attain the sustainability targets set out on page 35.

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%)	65.6%	67.8%
	% of recycled plastics that are used in our manufactured products	76.8%	83.4%

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 were last reviewed in July 2018. 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 2022. The Chairman's fee remains below market when compared to other companies of a similar size and complexity to Volition.

The fees with effect from 1 August 2021 are summarised in the table below:

	From 1 August 2021	From 1 August 2020	% change
Chairman fee covering all Board duties	£150,381	£143,220	5%
Non-Executive Director basic fee	£50,250	£47,740	5.26%
Supplementary fees to Non-Executive Directors covering additional Board duties:			
– Senior Independent Director	£7,500	£5,000	50%
– 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 2020 in respect of our Annual Report on Remuneration and current Remuneration Policy.

Resolution	Votes cast for	% of votes cast	Votes cast against	% of votes cast	Votes withheld
Remuneration Policy	153,487,928	95.68%	6,932,898	4.32%	11,914
Remuneration Report	159,576,014	99.47%	844,813	0.53%	11,914

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 on 1 August 2020.

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, 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.		
Normally reviewed annually.	The current salaries for the Executive Directors are set out in the Annual Report on Remuneration.	Company and individual performance are factors considered when reviewing salaries.
In determining base salaries, the Committee considers:	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.	
• 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.		
There is no automatic entitlement to an increase each year.		

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Remuneration Policy table continued

Operation	Maximum opportunity	Performance metrics
Pension		
Purpose and link to strategy: The Company aims to provide an appropriate means of saving for retirement.		
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).	Current CEO: 15% of base salary. 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.	N/A
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.		
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. 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.	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).	Performance measures are determined with reference to the Company's key strategic business objectives. 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. At threshold performance up to 25% of the maximum pays out. Below this level of performance, no bonus pays out. On-target bonus is set at 50% of the maximum opportunity. 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.
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.		
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.	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).	Awards vest based on challenging financial, non-financial or share price targets. At least 50% will be based on financial and/or share price-based measures. No more than 25% vests at threshold with 100% of awards vesting at maximum performance. 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.

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.		
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. 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.	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.	N/A
Share ownership guidelines		
Purpose and link to strategy: To provide close alignment between the longer-term interests of Executive Directors and shareholders.		
Executive Directors are expected to achieve and retain a holding of the Company's shares worth 200% of their base salary. 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. 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.	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.		
The Chairman is paid an all-inclusive fee for all Board responsibilities. Non-Executive Directors receive a basic Board fee. Neither the Chairman nor Non-Executive Directors are eligible to participate in any of the Company's incentive arrangements or receive any pension provision. 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. 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.	Fees are set within the aggregate limits set out in the Company's Articles of Association from time to time. 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.	N/A

Choice of performance measures and approach to setting

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 for 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, or 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.

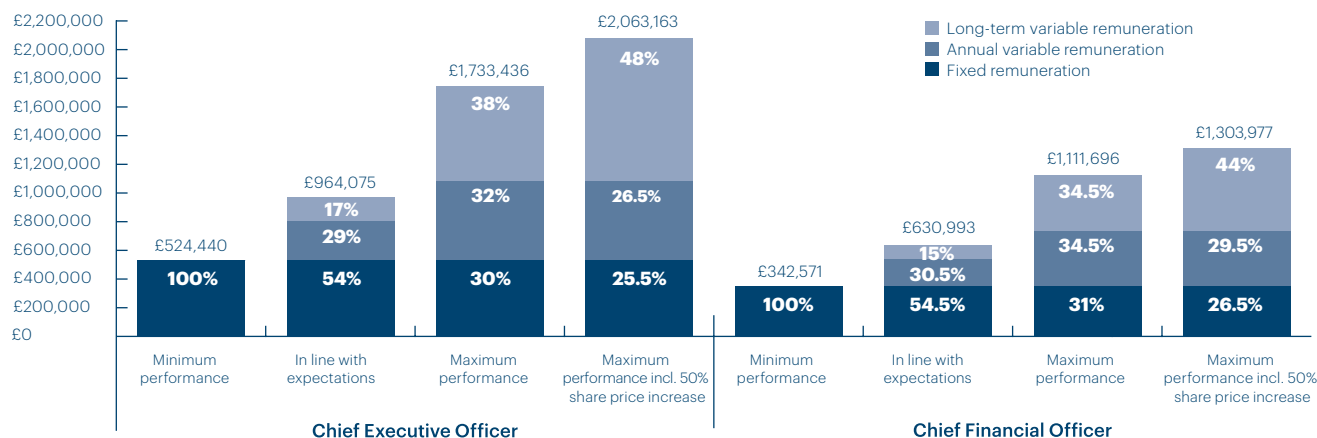
Directors' Remuneration Report continued

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
	- Total fixed pay comprises base salary, benefits and pension - Base salary – effective as at 1 August 2021 - Benefits – as set out in the single figure table for the 2020/21 year 15% and 5.5% of base salary pension contributions for CEO and CFO, respectively
Variable pay	Below threshold performance
	- No payout under the ABP - No vesting under the LTIP
	In line with expectations
	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
	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
	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 2021 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 2021 AGM.

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.

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Policy on Directors leaving the Group continued

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 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 Volusion 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 6 October 2021 and signed on its behalf by the chair of the Remuneration Committee.



Claire Tiney

Chair of the Remuneration Committee

6 October 2021

Directors' Report

Introduction

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 31 July 2021.

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 68;
- the Governance Report on pages 69 to 120;
- 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 130.

An interim dividend of 1.9 pence per share was paid to shareholders on 4 May 2021 and the Directors are recommending a final dividend in respect of the financial year ended 31 July 2021 of 4.4 pence per share. If approved, the final dividend will be paid on 16 December 2021 to shareholders on the register on 19 November 2021. The total dividend paid and proposed for the year amounts to 6.3 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 2021.

As at 31 July 2021 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 2021 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 2021, 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 102 and 103. 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 97 to 116. The Company's first invitation under its all-employee Sharesave Scheme in 2018 matured in July 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 2,075,452 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.

Directors' Report continued

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:

Name of holder	Total holding of shares	% of total voting rights
PrimeStone Capital LLP	19,682,306	9.96%
Baillie Gifford & Co	11,343,105	5.74%
FMR LLC	10,729,962	5.43%
Franklin Templeton Fund Management Limited	9,803,000	4.96%
Standard Life Aberdeen plc	9,076,611	4.59%
Artemis Investment Management LLP	6,045,047	3.06%

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 72 and 73. Their interests in the ordinary shares of the Company are shown in the Directors' Remuneration Report on page 105. There were no changes to Directors during the financial year.

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

Volusion 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 Volusion 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 provide 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.

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

The completion of the acquisition of ERI Corporation took place on 9 September 2021.

Going concern

The Company's statement on going concern can be found on page 61.

Viability Statement

The Board assessed the prospects of the Group over a three-year period and the Viability Statement is set out on page 60.

Annual General Meeting

The Annual General Meeting (AGM) of the Company will take place at 12.00 noon on Thursday 9 December 2021 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, Volusion is committed to reducing and minimising its impact on the environment. Examples of actions taken to increase energy efficiency are given there.

Energy and GHG emissions data for the year ended 31 July 2021

Emissions from	2021 ¹ kWh	2021 ² CO ₂ e tonnes	2020 ³ CO ₂ e tonnes
Electricity, gas and other fuels	17,102,816	3,096	2,993
Petrol and diesel vehicle fuels	3,140,342	744	1,137
Refrigerants	—	91	66
Total^{1, 2}	20,243,158	3,931	4,196
Volusion's chosen intensity measurement: CO ₂ e tonnes per £m of revenue		14.42	19.37

Notes

1. 65.9% of the total figure reported relates to energy use in the UK and 34.1% relates to regions outside the UK. We have only included energy use for which we are directly responsible.
2. 68.1% of the total figure reported for 2021 relates to emissions in the UK and 31.9% 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.
3. 52.5% of the total figure reported for 2020 relates to emissions in the UK and 47.5% 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.

Our energy and GHG emissions for 2021 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 (2019). This is in line with standard industry practice and allows fair comparison with other UK businesses.

By order of the Board



Michael Anscombe
Company Secretary

6 October 2021
Volusion 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework and applicable law). 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 IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, 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 72 and 73, confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework and applicable law), 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 IFRSs as adopted by the European Union, 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 130 to 182 were approved by the Board of Directors on 6 October 2021 and signed on its behalf by Ronnie George and Andy O'Brien.

On behalf of the Board



Ronnie George
Chief Executive Officer
6 October 2021



Andy O'Brien
Chief Financial Officer
6 October 2021

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 2021 which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 July 2021	Statement of financial position as at 31 July 2021
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies
Related notes 1 to 35 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union 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 are independent of the Group 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 management's latest financial models that support the Board's assessment and conclusions with respect to the statement of going concern and considering the basis on which they have been prepared;
- Obtaining the loan facility agreements and confirming the terms of covenant arrangements that apply;
- Performing procedures to validate the accuracy of the models and resulting forecasts, together with the balance of net debt;
- Recalculating management's forecast covenants and comparing these to the terms of the loan facility agreements to check that no breach is expected to occur;
- We requested that management prepare a reverse stress test to determine how significant a reduction in revenue would cause a breach in covenants. We have assessed the likelihood of such an occurrence; and
- We challenged 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 Volusion Group plc

Conclusions relating to going concern continued

- We searched for any contra indicators against the estimates and judgements applied by management in the forecast models.
- We inspected the financial models provided to assess their consistency with our understanding of the operations of the Group.
- We subjected 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.

We communicated to the Audit Committee that:

- We consider the disclosures made in the basis of preparation note and in the Strategic Report by the Board 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 2023, being a period of approximately 22 months from when the financial statements are authorised for issue. Going concern has also been determined to be a key audit matter.

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	• We performed an audit of the complete financial information of seven components and audit procedures on specific balances for a further eleven components. • The components where we performed full or specific audit procedures accounted for 89% of profit before tax, 88% of revenue and 95% of total assets.
Key audit matters	• The risk of manipulation in revenue recognition through inappropriate manual journal entries and/or customer rebates. • The risk of management override resulting in inappropriate identification, presentation and disclosure of separately disclosed items and/or unauthorised non-standard manual journal entries. • The risk of error resulting from inappropriate accounting for business combinations. • The risk to going concern and related disclosures.
Materiality	• Overall Group materiality of £1.85 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 49 reporting components of the Group, we selected 18 components covering entities within New Zealand, Australia, Germany, Belgium, Sweden, Finland, the Netherlands and the UK, which represent the principal trading entities within the Group.

Of the 18 components selected, we performed an audit of the complete financial information of seven components ("full scope components") which were selected based on their size or risk characteristics. For a further seven 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 four components, specified audit procedures were performed on a single balance identified on account of either size or risk profile.

An overview of the scope of the parent company and Group audits continued

Tailoring the scope continued

The reporting components where we performed audit procedures accounted for 89% (2020: 90%) of the Group's profit before tax and separately disclosed items measure used to calculate materiality, 88% (2020: 88%) of the Group's revenue and 95% (2020: 97%) of the Group's total assets. For the current year, the full scope components contributed 60% (2020: 44%) of the Group's profit before tax and separately disclosed items measure used to calculate materiality, 57% (2020: 40%) of the Group's revenue and 83% (2020: 69%) of the Group's total assets. The specific scope and specified procedures components contributed 29% (2020: 46%) of the Group's profit before tax and separately disclosed items measure used to calculate materiality, 31% (2020: 48%) of the Group's revenue and 12% (2020: 28%) 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 31 components that together represent 11% of the Group's profit before tax and separately disclosed items measure used to calculate materiality, none are individually greater than 4% of the Group's profit before tax and separately disclosed items measure used to calculate materiality. 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.

Changes from the prior year

Changes to the audit scoping adopted in the previous year relate to the Netherlands, Germany and New Zealand components:

- Netherlands: Following the acquisition of ClimaRad in the period, several components have been added to our audit scope for the current financial year. Full scope procedures were performed for ClimaRad B.V. For Volution Ventilation Holdings (Netherlands) B.V., specified procedures were performed for both ClimaRad Holding B.V. and ClimaRad d.o.o we performed review scope procedures.
- Germany: In the current year we performed full scope procedures for inVENTer GmbH, whereas in the previous year we performed specific scope procedures on this component.
- New Zealand: In the current year we performed full scope procedures for Simx Limited, whereas in the previous year we performed specific scope procedures.

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 engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the seven full scope components, audit procedures were performed on three of these directly by the primary audit team and four by component audit teams. For the eleven 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.

As the primary audit engagement team, we adapted our planned approach to interact with and oversee local EY audit teams in response to ongoing and rapidly shifting Covid-19 travel restrictions imposed by governments. This meant that we were unable to complete our planned visits to overseas locations. In lieu of these visits, we maintained continuous dialogue with our local EY teams through additional meetings with both component teams and local management via video conference and by performing a remote review of the key workpapers documenting component teams' audit procedures.

The primary team interacted regularly with the component teams through all stages of the audit and was responsible for the overall 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.

We 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. The Group audit engagement partner participated in the closing meetings for all full and specific scope UK and overseas components.

The performance of the year-end audit was also required to be conducted remotely due to Covid-19 restrictions and social distancing requirements at a number of overseas and UK locations. This was supported through remote access to the Group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence.

Independent Auditor's Report continued

To the members of Volusion Group plc

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.

The risk of manipulation of revenue recognition through inappropriate manual journal entries and/or customer rebates	Our judgement on the trend in risk over the prior year of the Group:
During the year the Group recognised revenue of £272.6 million (2020: £216.6 million) and a rebate liability of £10.0 million (2020: £7.8 million).	The risk profile has remained stable.

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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of manipulation of revenue recognition through inappropriate manual journal entries and/or customer rebates: - Inappropriate recognition of sales due to inappropriate manual journal entries. - Inappropriate cut-off as result of judgemental customer rebate provisions as a result of management bias.	We tested that revenue had been appropriately recognised through performance of the following audit procedures: - 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. - We tested the application of cut off by obtaining appropriate evidence for a sample of sales transactions across all trading companies in scope. - We performed three-way correlation between revenue, debtors and cash and obtained evidence for unaligned amounts. For all full and specific scope entities except Oy Pamon, we used data analytics to identify recorded transactions that did not align with our expectation of the transaction flow. We tested the adjustments made to revenue from the application of rebate agreements by the following procedures: - 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. - 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 understood the basis for any release of prior year accrual identified as surplus. Instructions to perform the above procedures were issued to all full and specific procedures scope locations, which covered 88% of consolidated revenue.	We concluded that: - revenue has been recognised in accordance with IFRS; - the recording of the occurrence of revenue was found to be appropriate; and - the customer rebate liabilities recognised by the Group were appropriate.

Supporting references in the Annual Report and Accounts: the Audit Committee Report (page 89), accounting policies (page 137); and note 3 to the consolidated financial statements (page 138).

Key audit matters continued

Management override arising from inappropriate presentation of separately disclosed items and/or unauthorised non-standard journal entries	Our judgement on the risk profile of the Group:
The Group reported separately disclosed operating costs of £4.1 million (2020: £nil).	The risk profile has increased.

We determined that separately disclosed items contain a risk of material misstatement as adjusted performance measures are regularly referred to by management in describing the Group's performance and form the basis of bonuses payable to Executive Directors. The principal areas of judgement relate to the identification and disclosure of operating costs and the posting of unauthorised non-standard journals that may impact on the adjusted performance measures.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of management override arises as follows: - The presentation of items as "separately disclosed", or the non-recording of non-standard credits: when in practice the items in question may relate to underlying trading activities and/or recur from period to period. - The posting of unauthorised non-standard journal entries (including manual journal entries).	For separately disclosed items within the financial statements: - We reviewed a paper prepared by management which outlined the assumptions and judgements used for identifying items to be separately disclosed. - We considered whether the classification of the separately disclosed items was appropriate and in line with our understanding of the Group's operations and strategy. - We considered whether there were any unusual credit items that also should be identified. In order to respond to the risk of unauthorised non-standard journal entries: - We made enquiries of management regarding the risks of fraud and the controls in place to mitigate the risk of management override. - We identified unusual journal entries that exceeded our testing thresholds or were unusual as a result of the individual posting the entry and validated their appropriateness. Audit work relating to judgements made on the classification of items to be separately disclosed was performed by the primary UK audit team. Instructions to perform the procedures outlined above for unauthorised non-standard journal entries were issued to all full and specific scope locations.	We concluded that the disclosure of £4.1 million of separately disclosed items is acceptable. Our testing of non-standard journal entries raised at subsidiary and Group levels did not provide evidence of any unauthorised or inappropriate journal entries.

Supporting references in the Annual Report and Accounts: the Audit Committee Report (page 89), accounting policies (page 135) and the income statement (page 130).

The risk of error resulting from inappropriate accounting for business combinations	Our judgement on the risk profile of the Group:
The Group completed three business combinations during the year (2020: £nil).	The risk profile has increased.

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 of intangible assets, the recognition of contingent consideration liabilities and any non-controlling interests.

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
The risk arises as follows: • The acquisition of ClimaRad included both contingent consideration and non-controlling interests. The acquisition resulted in the recognition of intangible assets at fair value. • The acquisitions of Energent Oy and Klimatfabriken included deferred consideration and resulted in the recognition of intangible assets.	In order to respond to the risks identified in accounting for business combinations: • We obtained management's accounting papers which included the assumptions and judgements used for each business combination. • We considered the appropriateness of the separate classification and valuation of fair value adjustments. • Where the business combination involved non-controlling interests, we ensured 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. • For ClimaRad, we involved valuation specialists to challenge the appropriate recognition and valuation of intangible assets based on management's own valuation. For Energent Oy and Klimatfabriken the primary team completed these procedures in respect of intangible assets. The audit work for all business combinations was performed by the primary team.	We concluded that the accounting for business combinations is acceptable.
Supporting references in the Annual Report and Accounts: the Audit Committee Report (page 89), accounting policies (page 150) and note 16 to the consolidated financial statements (pages 151-154).		

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 £1.85 million (2020: £992k), which is 5% of the Group's profit before tax and separately disclosed items.

In determining our benchmark for materiality, we considered a number of different metrics used by investors and other users of the financial statements. We consider that analysts are focused on the profitability of the entity as trading conditions recover from the initial impact of the Covid-19 pandemic and associated economic disruption.

Setting materiality in the prior year, when the business had been impacted by the uncertainty of the Covid-19 pandemic, required greater auditor judgement. The financial results were distorted as a result of the pandemic. We sought to derive a normalised measurement basis and set materiality at 5% of 2019 adjusted profit before tax and separately disclosed items, reduced by 20.5% to reflect the decline in operating profit following the volatility in the results of the Group arising from the impact of the Covid-19 pandemic.

Whilst the ongoing pandemic has had an impact on the Group in the current period, earnings have normalised and therefore we believe that a materiality based on profit before tax and separately disclosed items to be appropriate given the nature and results of the Group.

We determined materiality for the parent company to be £2.126 million (2020: £1.973 million), which is 1.0% (2020: 1.0%) of total assets. The materiality determined for the stand-alone 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 and made changes to the above calculation to align with the Group's actual reported results.

Our application of materiality continued

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% (2020: 75%) of our planning materiality, namely £1.4 million (2020: £748k). 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, which we considered to impact going concern and impairment but not to impact on our consideration of performance materiality.

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 £280k to £700k (2020: £198k to £350k).

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 all uncorrected audit differences in excess of £92k (2020: £50k), 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 there is 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.

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 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.

Independent Auditor's Report continued

To the members of Volution Group plc

Corporate Governance Statement

The Listing Rules require us to review 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.

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 61;
- 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 60 and 61;
- the Directors' statement on fair, balanced and understandable on page 85;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks on page 59;
- the section of the Annual Report that describes the review of the effectiveness of risk management and internal control systems on pages 58 and 59; and;
- the section describing the work of the Audit Committee on pages 89 to 96.

Responsibilities of Directors

As explained more fully in the Directors' Responsibility Statement set out on page 120, 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 (IFRS, 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 Volution Group plc 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 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 efforts made by management to manage earnings. We considered the programmes 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 programmes and controls.

Auditor's responsibilities for the audit of the financial statements continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud continued

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations and risk of management override. Our procedures were focused on revenue recognition, disclosure of separately disclosed items and unusual journals, which are discussed in our key audit matters, and journal entry testing.
- Our procedures were performed by the primary team and were also communicated to, and performed by, our component teams.

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 as auditor by the Board of Directors and signed an engagement letter on 14 January 2021. We were appointed by the Company at the AGM on 12 December 2019 to audit the financial statements for the year ended 31 July 2021 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and re-appointments is eight years, covering the years ended 31 July 2014 to 31 July 2021.

- No non-audit services prohibited by the FRC's Ethical Standard were provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- 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.



Andy Clewer (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

6 October 2021

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2021

	Notes	2021 £000	2020 £000
Revenue from contracts with customers	3	272,588	216,640
Cost of sales		(140,939)	(117,312)
Gross profit		131,649	99,328
Administrative and distribution expenses		(93,399)	(84,505)
Other operating income	5	137	3,404
Operating profit before separately disclosed items		38,387	18,227
Costs of business combinations		(889)	—
Contingent consideration payable		(3,287)	—
Operating profit		34,211	18,227
Finance revenue	6	397	87
Re-measurement of financial liabilities	16	(491)	—
Re-measurement of future consideration	16	(811)	—
Finance costs	6	(3,272)	(3,757)
Profit before tax		30,034	14,557
Income tax	10	(9,198)	(4,892)
Profit for the year		20,836	9,665
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(3,199)	(2,604)
Gain/(loss) on currency loans relating to the net investment in foreign operations		5,397	(202)
Other comprehensive income/(expense) for the year		2,198	(2,806)
Total comprehensive income for the year		23,034	6,859
Earnings per share			
Basic earnings per share	11	10.5p	4.9p
Diluted earnings per share	11	10.4p	4.9p

Consolidated Statement of Financial Position

At 31 July 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	12	23,908	21,514
Right-of-use assets	22	24,477	22,074
Intangible assets – goodwill	13	137,710	116,778
Intangible assets – others	15	85,373	79,813
		271,468	240,179
Current assets			
Inventories	17	44,971	31,909
Right of return assets	3	99	274
Trade and other receivables	18	47,482	35,613
Other financial assets	19	507	—
Cash and short-term deposits	20	19,456	18,493
		112,515	86,289
Total assets		383,983	326,468
Current liabilities			
Trade and other payables	21	(47,435)	(31,274)
Refund liabilities	3	(10,562)	(8,636)
Income tax		(4,629)	(1,654)
Other financial liabilities	23	(4,608)	(574)
Interest-bearing loans and borrowings	24	(3,454)	(2,994)
Provisions	25	(1,869)	(1,802)
		(72,557)	(46,934)
Non-current liabilities			
Interest-bearing loans and borrowings	24	(104,863)	(89,211)
Other financial liabilities	23	(6,021)	(1,468)
Provisions	25	(376)	(272)
Deferred tax liabilities	27	(14,876)	(13,028)
		(126,136)	(103,979)
Total liabilities		(198,693)	(150,913)
Net assets		185,290	175,555
Capital and reserves			
Share capital	26	2,000	2,000
Share premium	26	11,527	11,527
Treasury shares		(3,739)	(2,401)
Capital reserve		93,855	93,855
Share-based payment reserve		4,090	1,410
Foreign currency translation reserve		2,899	701
Retained earnings		74,658	68,463
Total equity		185,290	175,555

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

On behalf of the Board



Ronnie George
Chief Executive Officer



Andy O'Brien
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 July 2021

	Share capital £000	Share premium £000	Treasury shares £000	Capital reserve £000	Share-based payment reserve £000	Foreign currency translation reserve £000	Retained earnings £000	Shareholders' equity £000	Non-controlling interest £000	Total equity £000
At 31 July 2019	2,000	11,527	(2,030)	93,855	1,745	3,507	65,505	176,109	—	176,109
Adjustment on initial application of IFRS 16	—	—	—	—	—	—	(316)	(316)	—	(316)
At 1 August 2019	2,000	11,527	(2,030)	93,855	1,745	3,507	65,189	175,793	—	175,793
Profit for the year	—	—	—	—	—	—	9,665	9,665	—	9,665
Other comprehensive expense	—	—	—	—	—	(2,806)	—	(2,806)	—	(2,806)
Total comprehensive income	—	—	—	—	—	(2,806)	9,665	6,859	—	6,859
Purchase of own shares	—	—	(804)	—	—	—	—	(804)	—	(804)
Exercise of share options	—	—	433	—	(572)	—	139	—	—	—
Share-based payment including tax	—	—	—	—	237	—	—	237	—	237
Dividends paid (note 28)	—	—	—	—	—	—	(6,530)	(6,530)	—	(6,530)
At 1 August 2020	2,000	11,527	(2,401)	93,855	1,410	701	68,463	175,555	—	175,555
Profit for the year	—	—	—	—	—	—	20,836	20,836	—	20,836
Other comprehensive expense	—	—	—	—	—	2,198	—	2,198	—	2,198
Total comprehensive income	—	—	—	—	—	2,198	20,836	23,034	—	23,034
Business combination of businesses (note 16)	—	—	—	—	—	—	—	—	5,603	5,603
Obligation to acquire NCI (note 16)	—	—	—	—	—	—	(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 31 July 2021	2,000	11,527	(3,739)	93,855	4,090	2,899	74,658	185,290	—	185,290

Treasury shares

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

Capital reserve

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

Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration. 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 2021 of £113,143,000 (2020: £94,295,000).

Consolidated Statement of Cash Flows

For the year ended 31 July 2021

	Notes	2021 £000	2020 £000
Operating activities			
Profit for the year after tax		20,836	9,665
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		9,198	4,892
Gain on disposal of property, plant and equipment		(2)	(21)
Costs of business combinations		889	—
Contingent consideration payable		3,287	—
Cash flows relating to business combination costs	16	(811)	—
Re-measurement of financial liability relating to business combination of ClimaRad	16	491	—
Re-measurement of future consideration relating to business combination of ClimaRad	16	811	—
Finance revenue	6	(397)	(87)
Finance costs	6	3,272	3,757
Share-based payment expense		1,974	200
Depreciation of property, plant and equipment	12	3,327	3,260
Depreciation of right-of-use assets	22	3,531	3,129
Amortisation of intangible assets	15	18,218	16,403
Working capital adjustments:			
(Increase)/decrease in trade receivables and other assets		(11,537)	6,739
(Increase)/decrease in inventories		(11,349)	3,336
Increase/(decrease) in trade and other payables		18,618	(4,337)
Movement in provisions		208	311
Cash generated by operations		60,564	47,247
UK income tax paid		(2,970)	(2,250)
UK income tax refund		196	1,657
Overseas income tax paid		(5,328)	(5,251)
Net cash flow generated from operating activities		52,462	41,403
Investing activities			
Payments to acquire intangible assets	15	(1,068)	(1,760)
Purchase of property, plant and equipment	12	(3,632)	(2,790)
Proceeds from disposal of property, plant and equipment		196	256
Business combination of subsidiaries, net of cash acquired	16	(41,678)	(856)
Business combination of subsidiaries, paid into escrow	16	(507)	—
Interest received		57	87
Net cash flow used in investing activities		(46,632)	(5,063)
Financing activities			
Repayment of interest-bearing loans and borrowings		(88,917)	(51,285)
Repayment of debt relating to the business combination of ClimaRad (note 16)		(1,482)	—
Proceeds from new borrowings		98,044	34,500
Issue costs of new borrowings		(1,218)	—
Interest paid		(2,088)	(2,316)
Payment of principal portion of lease liabilities		(2,960)	(2,878)
Dividends paid		(3,762)	(6,530)
Purchase of own shares		(2,105)	(804)
Net cash flow used in financing activities		(4,488)	(29,313)
Net increase in cash and cash equivalents		1,342	7,027
Cash and cash equivalents at the start of the year		18,493	11,547
Effect of exchange rates on cash and cash equivalents		(379)	(81)
Cash and cash equivalents at the end of the year	20	19,456	18,493

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

Notes to the Consolidated Financial Statements

For the year ended 31 July 2021

1. Basis of preparation

The financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies under the relevant notes.

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

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

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

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

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

Going concern

The Group's Strategic Report on page 61 shows the Directors' assessment of the Group's ability to continue as a going concern. The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, assessed for the period up until July 31 2023.

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

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

Our base case scenario has been prepared using robust forecasts from each of our operating companies, with each considering the risks and opportunities the businesses face, including those because of the Covid-19 pandemic.

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

- a general economic slowdown representing the impact of a severe resurgence of Covid-19 and/or other macroeconomic uncertainty reducing revenue by 20% compared to plan;
- supply chain difficulties as a result of the pandemic, the UK's trading relationship with the EU or global supply shortages reducing gross profit margin by 10%; and
- a significant business combination increasing debt but with no positive cash flow contribution.

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

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

Separately disclosed items

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

New standards and interpretations

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

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

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

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

These have not had an impact on these financial statements.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

2. Adjusted earnings

The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit and adjusted profit before tax. These measures are deemed more appropriate as they remove items that do not reflect the day-to-day trading operations of the business and therefore their exclusion is relevant to an assessment of the day-to-day trading operations, as opposed to overall annual business performance. Such alternative performance measures are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. Likewise, these measures are not a substitute for IFRS measures of profit. A reconciliation of these measures of performance to the corresponding reported figure is shown below.

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

For definitions of terms referred to above see note 35, 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 2021.

Critical accounting judgements and key sources of estimation uncertainty

Liabilities arising from retrospective volume rebates

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

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

Given that the rebate provision represents an estimate within the financial statements, there is a risk that the Directors' estimate of the potential liability may be incorrect.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

3. Revenue from contracts with customers continued

Contract balances continued

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

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

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

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

Notes

1. Included in the Nordics revenue is £1,057,000 from the business combination of Klimatfabriken and Rtek.
2. Included in the Central Europe revenue is £7,306,000 from the business combination of ClimaRad BV.

4. Segmental analysis

Accounting policy

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

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

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 35 for definition) for each operating segment. Gross profit and the analysis below segment profit is additional voluntary information and not "segment information" prepared in accordance with IFRS 8.

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

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

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

4. Segmental analysis continued

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

Note

1. Included in the Continental Europe revenue is £8,363,000 from the business combination of ClimaRad BV, Klimatfabriken and Rtek.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

4. Segmental analysis continued

Geographic information

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

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

Information about major customers

Annual revenue from no individual customer accounts for more than 10% of Group revenue in either the current or prior year.

5. Other operating income

Accounting policy

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

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

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

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

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

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

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

Amortisation of finance costs 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.

	2021 £000	2020 £000
Staff costs		
Wages and salaries	56,510	47,002
Social security costs	6,187	5,467
Other pension costs	2,388	2,235
Share-based payment charge (see note 33)	1,974	200
	67,059	54,904

The 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 claims were made for the year ended 31 July 2021 (2020: £3,404,000) (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 2020/21 but based on actual salary levels in 2021/22.

Average monthly number of employees in the year

	2021 Number	2020 Number
Production	793	769
Sales and administration	682	795
	1,475	1,564

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

7. Staff costs continued

Directors' remuneration

	2021 £000	2020 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' remuneration	2,969	968
Aggregate Directors' pension scheme contributions	77	77
In respect of the highest paid Director		
Aggregate Director's remuneration	2,295	551
Aggregate Director's pension scheme contributions	55	55

The number of Directors accruing benefits under Group money purchase pension arrangements was £nil (2020: £nil).

The Group also incurred fees and expenses of £360,000 (2020: £324,000) in respect of Paul Hollingworth, Tony Reading, Claire Tiney, Amanda Mellor and Nigel Lingwood 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:

	2021 £000	2020 £000
Cost of sales		
Costs of inventories recognised as expenses	141,661	114,400
Depreciation of property, plant and equipment	1,600	1,484
Depreciation of right-of-use assets	1,983	1,918
Administrative and distribution expenses		
Research and development costs	4,487	3,862
Depreciation of property, plant and equipment	1,727	1,776
Depreciation of right-of-use assets	1,548	1,211
Amortisation and impairment of intangible assets	18,218	16,403
Net foreign exchange differences	368	50
Gain on disposal of property, plant and equipment	(2)	(21)

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:

	2021 £000	2020 £000
Audit services		
Fees for the audit of the parent and Group financial statements	249	211 ¹
Fees for local statutory audits of subsidiaries	467	385
Non-audit services		
Fees payable for interim review	38	35
Total	754	631

Note

1. Additional fees of £48,000 were agreed after the audit opinion and publication of the 2020 Annual Report.

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

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

(b) Income tax recognised in equity for the year

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

(c) Reconciliation of total tax

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

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

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

The higher overseas tax rates relate to the Group's profits from subsidiaries which are subject to tax jurisdictions with a higher rate of tax compared to the standard rate of corporation tax in the UK (see note 31 for subsidiary locations).

We expect our medium-term reported effective tax rate to be in the range of 29% to 35% of the Group's reported profit before tax 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 2021

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

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

Year ended 31 July	2021 £000	2020 £000
Profit attributable to ordinary equity holders	20,836	9,665
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	197,821,482	198,063,746
Weighted average number of ordinary shares for diluted earnings per share	200,975,673	198,736,665
Earnings per share		
Basic	10.5p	4.9p
Diluted	10.4p	4.9p
	2021 £000	2020 £000
Adjusted profit attributable to ordinary equity holders	41,623	23,886
	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	197,821,482	198,063,746
Weighted average number of ordinary shares for adjusted diluted earnings per share	200,975,673	198,736,665
Adjusted earnings per share		
Basic	21.0p	12.1p
Diluted	20.7p	12.0p

The weighted average number of ordinary shares has declined as a result of treasury shares held by the Volusion 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 35, 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
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
	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2020				
Cost				
At 1 August 2019	13,791	11,613	11,834	37,238
On business combinations	—	—	38	38
Transferred to right-of-use assets	—	—	(2,036)	(2,036)
Additions	63	640	2,005	2,708
Disposals	—	(154)	(810)	(964)
Net foreign currency exchange differences	(2)	11	(93)	(84)
At 31 July 2020	13,852	12,110	10,938	36,900
Depreciation				
At 1 August 2019	3,698	4,378	5,404	13,480
Transferred to right-of-use assets	—	—	(617)	(617)
Charge for the year	510	938	1,812	3,260
Disposals	—	(119)	(642)	(761)
Net foreign currency exchange differences	11	24	(11)	24
At 31 July 2020	4,219	5,221	5,946	15,386
Net book value				
At 31 July 2020	9,633	6,889	4,992	21,514

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

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

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 inflows and the growth rate used for extrapolation purposes.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement. Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows. The Covid-19 pandemic has increased the level of estimation uncertainty as the impact on countries and markets continues to be uncertain; however, the Group has modelled a range of scenarios to consider the impact on the carrying value of its assets as described in the going concern statement in the risk management and principal risks section.

14. Impairment assessment of goodwill continued

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

As at 31 July 2020 calculated headroom was:

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

Note

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

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 10.5% to 14.7% over that period. In all CGUs it was concluded that the carrying amount was in excess of the value in use and all CGUs had positive headroom.

Key assumptions in the value in use calculation

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

- specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations;
- long-term growth rates of 2% (2020: 2%) for all CGUs have been applied to the period beyond which budgets and forecasts do not exist, based on historical macroeconomic performance and projections for the geographies in which the CGUs operate; and
- discount rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rates used for each CGU are: UK Ventilation: 10.5% (2020: 12.6%); OEM (Torin-Sifan): 11.7% (2020: 13.7%); Nordics: 12.4% (2020: 12.9%); Central Europe: 13.6% (2020: 14.4%); and Australasia: 14.7% (2020: 14.6%).

The value in use headroom for each CGU has been set out above. We have tested the sensitivity of our headroom calculations in relation to the above key assumptions and in all cases an adverse movement in base year revenue of more than 60% or an increase in discount rates of more than 15pp would be required to cause the carrying value of the CGUs to materially exceed their recoverable value.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

15. Intangible assets – other continued

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

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

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 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 amounts for trade and other receivables not expected to be collected are £nil.

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

Notes to the Consolidated Financial Statements continued

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16. Business combinations continued

Business combinations in the year ended 31 July 2021 continued

ClimaRad Holding B.V. and subsidiaries continued

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

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

Critical accounting judgements and key sources of estimation uncertainty

Financial liabilities relating to the business combination of ClimaRad

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

Nordiska Klimatfabriken AB

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

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

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

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	49	852	901
Property, plant and equipment	69	—	69
Inventory	55	—	55
Trade and other receivables	95	—	95
Trade and other payables	(159)	—	(159)
Deferred tax liabilities	—	(188)	(188)
Cash and cash equivalents	70	—	70
Total identifiable net assets	179	664	843
Goodwill on the business combination			2,646
Discharged by:			
Total consideration			3,489

Goodwill of £2,646,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the business combination and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

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

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

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

16. Business combinations continued

Business combinations in the year ended 31 July 2021 continued

Rtek

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

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

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

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

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	1,251	1,251
Property, plant and equipment	73	—	73
Inventory	429	—	429
Trade and other payables	(21)	—	(21)
Deferred tax liabilities	—	(250)	(250)
Total identifiable net assets	481	1,001	1,482
Goodwill on the business combination			1,096
Discharged by:			
Total consideration			2,578

Goodwill of £1,096,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the business combination and the experience and skill of the acquired workforce.

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

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

Business combination in the year ended 31 July 2020

Nordic Line ApS

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

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

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

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

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

Goodwill of £104,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the business combination and the experience and skill of the acquired workforce.

Notes to the Consolidated Financial Statements continued

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16. Business combinations continued

Cash outflows arising from business combinations are as follows:

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

£507,000 was paid into escrow as part of consideration but deferred relating to Nordiska Klimatfabriken AB £251,000 and Rtek £256,000. These amounts are included as other financial assets in note 19.

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.

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

During 2021, £921,000 (2020: £715,000) was recognised as cost of sales for inventories written off in the year.

Inventories are stated net of an allowance for excess, obsolete or slow-moving items which totalled £5,165,000 (2020: £5,038,000). This provision was split amongst the three categories: £2,778,000 (2020: £1,981,000) for raw materials and consumables; £201,000 (2020: £271,000) for work in progress; and £2,186,000 (2020: £2,725,000) for finished goods and goods for resale.

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 (ECL). For trade receivables the Group applies a simplified approach in calculating ECLs. Trade receivables have been grouped based on historical credit risk characteristics and the number of days from date of invoice. The expected loss rates are calculated using the provision matrix approach.

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

Rebates receivable

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

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

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

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

Gross trade receivables are denominated in the following currencies:

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

Notes to the Consolidated Financial Statements continued

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18. Trade and other receivables continued

Net trade receivables are aged as follows:

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

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

19. Other financial assets

	2021 Current £000	2020 Current £000
Financial assets		
Funds held in escrow relating to the business combination in the year (note 16)	507	—
Total	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.

	2021 £000	2020 £000
Cash and short-term deposits	19,456	18,493

Cash and cash equivalents are denominated in the following currencies:

	2021 £000	2020 £000
Sterling	6,377	6,963
Euro	6,962	5,689
US Dollar	578	507
Swedish Krona	1,436	1,751
New Zealand Dollar	1,186	1,892
Australian Dollar	1,777	934
Other	1,140	757
Total	19,456	18,493

21. Trade and other payables

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

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, while motor vehicles and other equipment generally have lease terms between two and five years.

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

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

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

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

Right-of-use assets	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2021				
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

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22. Leases continued

Group as a lessee continued

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

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

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

22. Leases continued

Group as a lessee continued

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

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

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

23. Other financial liabilities

	Air Connection ApS £000	Ventair Pty Limited £000	ClimaRad BV £000	Nordiska Klimatfabriken AB £000	Energent AB £000	Total £000
2021						
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

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

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23. Other financial liabilities continued

Current

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

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

Non-current

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

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

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

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

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

24. Interest-bearing loans and borrowings continued

	2021		2020	
	Current £000	Non-current £000	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2023)	—	73,293	—	69,563
Cost of arranging bank loan	—	(956)	—	(531)
	—	72,337	—	69,032
IFRS 16 lease liabilities (note 22)	3,454	21,975	2,994	20,179
ClimaRad vendor loan (note 16)	—	10,551	—	—
Total	3,454	104,863	2,994	89,211

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

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

Revolving credit facility – at 31 July 2021

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

Revolving credit facility – at 31 July 2020

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

The interest rate on borrowings includes a margin that is dependent on the consolidated leverage level of the Group in respect of the most recently completed reporting period. For the year ended 31 July 2021, Group leverage was below 1.0:1 and therefore the margin will reduce to 1.25%.

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

Changes in liabilities arising from financing activities

	1 August 2020 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	Changes due to business combination £000	Other £000	31 July 2021 £000
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	69,563	9,127	(5,397)	—	—	—	73,293
Debt related to the business combination of ClimaRad (note 16)	—	(1,482)	—	—	1,482	—	—
Lease liabilities	23,173	(2,960)	(35)	5,495	—	(244)	25,429
ClimaRad vendor loan (note 16)	—	—	(135)	—	—	10,686	10,551
Total liabilities from financing activities	92,736	4,685	(5,567)	5,495	1,482	10,442	109,273

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24. Interest-bearing loans and borrowings continued

Changes in liabilities arising from financing activities continued

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

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

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 2020 and 31 July 2021	200,000,000	2,000	11,527

At 31 July 2021, a total of 2,123,072 (2020: 1,873,039) 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 650,000 ordinary shares in the Company were purchased by the trustees (2020: 400,000), and 401,529 (2020: 275,655) were released by the trustees at £767,000 (2020: £491,000). The market value of the shares at 31 July 2021 was £10,032,000 (2020: £3,334,000).

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.

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27. Deferred tax continued

Accounting policy continued

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

At 31 July 2021, the Group had no deferred tax liability (2020: £nil) to recognise for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings. Deferred tax liabilities have not been recognised as the Group has determined that there are no undistributed profits in overseas subsidiaries where an additional tax charge would arise on distribution.

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

	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	
Untaxed reserves	620	469	1,366	—	—	2,455	
Deferred tax liability	(13,028)	2,673	1,366	409	(6,296)	(14,876)	
	1 August 2019 £000	Opening IFRS 16 adjustments £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On business combinations £000	31 July 2020 £000
2020							
Temporary differences							
Depreciation in advance of capital allowances	(1,043)	360	(347)	—	2	—	(1,028)
Fair value movements of derivative financial instruments	(115)	—	106	—	—	—	(9)
Customer base, trademark and patents	(16,669)	—	2,120	—	244	(104)	(14,409)
Losses	285	—	33	—	—	—	318
Other temporary differences	768	—	757	—	(45)	—	1,480
Untaxed reserve	755	—	(142)	7	—	—	620
Deferred tax liability	(16,019)	360	2,527	7	201	(104)	(13,028)

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.

28. Dividends paid and proposed continued

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

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

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

The proposed final dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2021.

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 17% (2020: less than 9%) 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

29. Risk management continued

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 2021, the Group had commitments under forward foreign exchange contracts with varying settlement dates to 5 July 2022 (2020: 4 June 2021). See note 23 for fair values.

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 2021		
Sterling	+25	—
Swedish Krona	+25	(40)
Euro	+25	(143)
31 July 2020		
Sterling	+25	(15)
Swedish Krona	+25	(58)
Euro	+25	(101)

The assigned movement in basis points for interest rate sensitivity analysis is based upon the currently observable market environment.

The Group 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 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/NZD/ AUD rate	Effect on profit before tax	
		2021 £000	2020 £000
Swedish Krona	5%	523	22
US Dollar	5%	(84)	(70)
Euro	5%	978	883
Danish Krone	5%	23	7
New Zealand Dollar	5%	340	202
Australian Dollar	5%	138	36

29. Risk management continued

Foreign currency risk continued

	Change in GBP vs SEK/ EUR/DKK/NZD/ AUD rate	Effect on equity	
		2021 £000	2020 £000
Swedish Krona	5%	(378)	(87)
Euro	5%	778	76
Danish Krone	5%	47	51
New Zealand Dollar	5%	(110)	(65)
Australian Dollar	5%	18	4

Hedge of net investments in foreign operations

The Euro and Swedish Krona denominated loans at 31 December 2020 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 Groups 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 2021 and 2020.

	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

29. Risk management continued

Liquidity risk continued

At 31 July 2020	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest and lease liabilities)	—	69,563	—	69,563
Lease liabilities	2,994	8,060	12,119	23,179
Forward foreign currency exchange outflow	20,085	—	—	20,085
Forward foreign currency exchange inflow	(20,068)	—	—	(20,068)
Contingent consideration – Air Connection ApS	—	508	—	508
Contingent consideration – Ventair Pty Limited	—	960	—	960
Trade payables and other accrued expenses	29,605	—	—	29,605
	32,616	79,091	12,119	123,826

On 2 December 2020, the Group refinanced its bank debt. The Group now has in place a £150 million multicurrency “Sustainability Linked Revolving Credit Facility”, together with an accordion of up to £30 million. The facility matures in December 2023, with the option to extend for up to two additional years. The old facility was repaid in full early, on 8 December 2020, and a new multicurrency “Sustainability Linked Revolving Credit Facility” was entered into. The facility is fully flexible, with the amount borrowed being reset within one to three months. No interest has been included in the above table. For further details see note 24.

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.

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 assets 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 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

29. Risk management continued

Trade receivables continued

	Trade receivables					Total £000
	Current £000	<30 days £000	30–60 days £000	61–90 days £000	>91 days £000	
31 July 2020						
Expected credit loss rate	0.1%	0.1%	0.6%	0.9%	38.0%	
Estimated total gross carrying amount at default	26,686	3,961	465	457	1,440	33,009
Expected credit loss	18	2	2	4	547	574

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 2021 and 2020 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.

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 2021 or 31 July 2020.

There were no material transactions or balances between the Company and its key management personnel or members of their close family other than the compensation shown below. At the end of the period, key management personnel did not owe the Company any amounts.

The Companies Act 2006 and the Directors' Remuneration Report Regulations 2013 require certain disclosures of Directors' remuneration. The details of the Directors' total remuneration are provided in the Directors' Remuneration Report (see pages 97 to 116).

Compensation of key management personnel

	2021 £000	2020 £000
Short-term employee benefits	4,139	2,749
Share-based payment charge (see note 33)	1,605	58
Total	5,744	2,807

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2021

31. Group structure details

At 31 July 2021, 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
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 Woomera Pty Limited) ¹⁶	Intermediate holding company	Australia
Ventair Pty Limited ¹⁶	Ventilation products	Australia
Volution Ventilation Holdings B.V. ¹⁷	Intermediate holding company	Netherlands

31. Group structure details continued

Group company	Principal activity	Country of incorporation
ClimaRad Holding B.V. ¹⁷	Intermediate holding company	Netherlands
ClimaRad BV ¹⁷	Ventilation products	Netherlands
ClimaRad d.o.o. ¹⁸	Ventilation products	Bosnia

Registered offices

- | | | |
|---|--|---|
| 1. Fleming Way, Crawley, West Sussex RH10 9YX. | 8. Ortsstraße 4a 07751 Löberschütz, Germany. | 14. Keskikankaantie 17, 15680 Hollola, Finland. |
| 2. Gransholmsvägen 136, 35599 Gemla, Sweden. | 9. Uhlenhorst 149A, 21435 Stelle, Germany. | 15. Rude Havvej 17B, DK-8300 Odder, Denmark. |
| 3. Strandvägen 65, 87052 Nyland, Sweden. | 10. Pieter Verhaeghestraat 8, 8520 Kuurne, Belgium. | 16. 4 Capital Pl, Carrum Downs VIC 3201, Australia. |
| 4. Box 7033, 12107 Stockholm-Globen, Sweden. | 11. Kerver 16, 5521 DB Eersel, the Netherlands. | 17. Lübeckstraat 25, 7575 EE Oldenzaal, the Netherlands. |
| 5. Kattkärrsvägen 4, 64831 Hälleforsnäs, Sweden. | 12. Boulevard de la Liberté 130, FR-59000 Lille, France. | 18. Kamenolom 10, 71215 Blazuj, Sarajevo, Bosnia and Herzegovina. |
| 6. Professor Birkelands vei 24B, 1081 Oslo, Norway. | 13. 1 Haliday Place, East Tamaki, Auckland, 2013, New Zealand. | |
| 7. No. 272-3 Julu Road, Shanghai, China. | | |

32. Commitments and contingencies

Commitments for the acquisition of property, plant and equipment as of 31 July 2021 are £1,380,000 (2020: £682,000).

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.

	2021 Number	2020 Number
Outstanding at 1 August	3,015,152	2,681,289
Granted during the year	929,945	1,032,626
Dividend equivalent added on vesting	7,321	16,114
Exercised during the year	(67,839)	(275,528)
Lapsed during the year	(614,112)	(439,349)
Outstanding at 31 July	3,270,467	3,015,152

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33. Share-based payments continued

The weighted average exercise price for all options is £nil.

Of the total number of options outstanding at 31 July 2021 1,020,523 had vested and were exercisable.

The weighted average fair value of each option granted during the year was £2.05 (2020: £1.90).

The weighted average remaining contractual life for the share options outstanding as at 31 July 2021 was 7.5 years (2020: 9.0 years).

The following information is relevant in the determination of the fair value of options granted during the year under the LTIP:

	2021
Option pricing model used	Monte Carlo
Weighted average share price at grant date (£)	2.05
Exercise price (£)	Nil
Expected dividend yield (£)	Nil
Expected life (years)	3
Expected volatility	41.1%
Risk-free interest rate	(0.08%)

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:

	2021 £000	2020 £000
Equity-settled schemes	1,974	200
	1,974	200

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous periods.

34. Events after the reporting period

On 9 September 2021, Volusion Group acquired ERI Corporation ("ERI"), a leading manufacturer and supplier of low-carbon, energy efficient heat exchanger cells, for an initial consideration of €23.4 million with a further contingent cash consideration of up to €12.4 million based on stretching targets for the financial results for the year ending 31 December 2023.

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

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

	Fair value £000
Intangible assets	65
Property, plant and equipment	3,575
Inventory	2,322
Trade and other receivables	9,962
Trade and other payables	(8,472)
Bank debt	(3,103)
Cash and cash equivalents	561
Total identifiable net assets	4,910
Goodwill on the business combination	23,310
Discharged by:	
Cash consideration (including deferred cash consideration)	20,000
Contingent consideration	8,220

34. Events after the reporting period continued

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

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

All of the trade receivables are expected to be collected in full. Transaction costs relating to professional fees associated with the business combination in the year ended 31 July 2021 were £0.1 million and have been expensed.

35. Glossary of terms

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

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 3,270,467 dilutive potential ordinary shares at 31 July 2021 (2020: 791,195).

Adjusted EBITDA: adjusted operating profit before depreciation and amortisation.

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

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

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

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

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

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

CAGR: compound annual growth rate.

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

Constant currency: to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2021 at the average exchange rate for the year ended 31 July 2020. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2021, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2020.

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

Net debt: bank borrowings and lease liabilities less cash and cash equivalents.

Operating cash flow: EBITDA plus or minus movements in operating working capital, less share-based payment expense, less net investments in property, plant and equipment and intangible assets.

Parent Company Statement of Financial Position

At 31 July 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	4	162	140
Investments	5	199,322	199,322
Deferred tax asset	6	2,421	572
		201,905	200,034
Current assets			
Other receivables and prepayments	7	109,528	86,856
Cash and short-term deposits		226	164
		109,754	87,020
Total assets		311,659	287,054
Current liabilities			
Trade and other payables	9	(23,582)	(19,929)
Other current financial liabilities	8	(154)	(17)
		(23,736)	(19,946)
Non-current liabilities			
Interest-bearing loans and borrowings	10	(72,337)	(69,032)
		(72,337)	(69,032)
Total liabilities		(96,073)	(88,978)
Net assets		215,586	198,076
Capital and reserves			
Share capital	11	2,000	2,000
Share premium		11,527	11,527
Treasury shares		(3,739)	(2,401)
Share-based payment reserve		3,943	1,264
Capital reserve		(273)	(273)
Retained earnings		202,128	185,959
Total equity		215,586	198,076

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 2021 was £17.9 million (2020: £15.3 million).

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

On behalf of the Board



Ronnie George
Chief Executive Officer



Andy O'Brien
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 31 July 2021

	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 2019	2,000	11,527	(2,030)	1,599	(273)	177,031	189,854
Profit for the year	—	—	—	—	—	15,319	15,319
Total comprehensive income	—	—	—	—	—	15,319	15,319
Share-based payment	—	—	—	237	—	—	237
Purchase of own shares	—	—	(804)	—	—	—	(804)
Vesting of shares	—	—	433	(572)	—	139	—
Dividends paid	—	—	—	—	—	(6,530)	(6,530)
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 31 July 2021	2,000	11,527	(3,739)	3,943	(273)	202,128	215,586

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

£113,143,000 of the retained earnings balance at 31 July 2021 is available for distribution (2020: £94,295,000).

Parent Company Statement of Cash Flows

For the year ended 31 July 2021

	Notes	2021 £000	2020 £000
Operating activities			
Profit for the year after tax		19,586	15,319
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax for the year		(1,541)	(783)
Loss on disposal of personal protective equipment		3	—
Business combination-related costs		591	—
Cash flows relating to business combination costs		(591)	—
Finance revenue		(10)	(105)
Finance costs		2,506	2,730
Effect of exchange on foreign denominated loans		(3,881)	202
Share-based payment expense		1,974	200
Depreciation of property, plant and equipment	4	27	26
Working capital adjustments:			
(Increase)/decrease in other receivables and prepayments		(22,671)	8,359
Increase/(decrease) in trade and other payables		3,646	(14)
Net cash flow (used in)/generated from operating activities		(362)	25,934
Investing activities			
Purchase of property, plant and equipment	4	(52)	(9)
Interest received		10	105
Net cash flow (used in)/generated from investing activities		(42)	96
Financing activities			
Interest paid		(1,576)	(1,786)
Repayment of interest-bearing loans and borrowings		(88,917)	(51,285)
Proceeds from new borrowings		98,044	34,500
Issue costs of new borrowings		(1,218)	—
Dividend paid to equity holders		(3,762)	(6,530)
Purchase of own shares		(2,105)	(804)
Net cash flow generated from/(used in) financing activities		466	(25,905)
Net increase in cash and cash equivalents		62	125
Cash and cash equivalents at the start of the year		164	39
Cash and cash equivalents at the end of the year		226	164

Notes to the Parent Company Financial Statements

For the year ended 31 July 2021

1. General information

These financial statements were approved and authorised for issue by the Board of Directors of Volution Group plc (the Company) on 6 October 2021.

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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

The 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 material impact to the FS.

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 with 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 2021

3. Staff costs

	2021 £000	2020 £000
Staff costs		
Wages and salaries	3,501	1,819
Social security costs	257	222
Share-based payment charge	1,974	200
Other pension costs	55	42
	5,787	2,283

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 2020/21 but based on actual salary levels in 2021/22.

The staff costs disclosed above are net of support from the Government's Coronavirus Job Retention Scheme of £nil (2020: £11,000).

Average monthly number of employees in the year

	2021 Number	2020 Number
Administration	15	14

Directors' remuneration

	2021 £000	2020 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' remuneration	2,969	968
Aggregate Directors' pension scheme contributions	77	77
In respect of the highest paid Director		
Aggregate Director's remuneration	2,295	551
Aggregate Director's pension scheme contributions	55	55

The number of Directors accruing benefits under Company money purchase pension arrangements was £nil (2020: £nil).

The Group also incurred fees and expenses of £360,000 (2020: £324,000) in respect of Paul Hollingworth, Tony Reading, Claire Tiney, Amanda Mellor and Nigel Lingwood for their services as Non-Executive Directors.

4. Property, plant and equipment

	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2021		
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

4. Property, plant and equipment continued

2020	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2019	207	207
Additions	9	9
Disposals	(1)	(1)
At 31 July 2020	215	215
Depreciation		
At 1 August 2019	50	50
Charge for the year	26	26
Disposals	(1)	(1)
At 31 July 2020	75	75
Net book value		
At 31 July 2020	140	140

5. Investments

	£000
Cost	
At 31 July 2020 and 31 July 2021	199,322

For a list of the subsidiaries in which Volution Group plc held 100% of the voting shares as at 31 July 2021, 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 2020 £000	Charged to income £000	Charged to equity £000	31 July 2021 £000
Deferred tax asset				
Temporary differences	572	483	1,366	2,421

7. Other receivables and prepayments

	2021 £000	2020 £000
Amounts owed by Group undertakings	108,990	86,433
Prepayments	538	423
	109,528	86,856

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 2021

8. Other financial assets and liabilities

	2021 Current £000	2020 Current £000
Financial liabilities		
Foreign exchange forward contracts	154	17
	154	17

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

	2021 £000	2020 £000
Trade payables	447	313
Accruals	3,169	1,553
Amounts owed to Group undertakings	19,966	18,063
	23,582	19,929

10. Interest-bearing loans and borrowings

	2021		2020	
	Current £000	Non-current £000	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2023)	—	73,293	—	69,563
Cost of arranging bank loan	—	(956)	—	(531)
	—	72,337	—	69,032

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

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

Revolving credit facility – at 31 July 2021

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

10. Interest-bearing loans and borrowings continued

Revolving credit facility – at 31 July 2020

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

The interest rate on borrowings includes a margin that is dependent on the consolidated leverage level of the Group in respect of the most recently completed reporting period. For the year ended 31 July 2021, Group leverage was below 1.0:1 and therefore the margin will reduce to 1.25%.

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

Reconciliation of movement in financial liabilities

Reconciliation of movement of financial liabilities	2021 £000	2020 £000
At 1 August	69,563	86,146
Additional loans	98,044	34,500
Repayment of loans	(88,917)	(51,285)
Interest charge	1,567	1,786
Interest paid	(1,567)	(1,786)
Foreign exchange	(5,397)	202
At 31 July	73,293	69,563

Changes in liabilities arising from financing activities

	1 August 2020 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	31 July 2021 £000
Non-current interest-bearing loans and borrowings	69,563	9,127	(5,397)	—	73,293

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 2020 and 31 July 2021	200,000,000	2,000	11,527

12. Dividends paid and proposed

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

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

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 2021.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2021

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.

	2021		2020	
	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	34,813	19,966	85,598	18,063
Volution Holdings Limited	74,177	—	835	—
	108,990	19,966	86,433	18,063

Sales made to Volution Holdings Limited of £3,083,000 (2020: £2,452,000) 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

Tulchan Communications

Company Secretary and registered office

Michael Anscombe FCG

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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.



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