



# Driving a strategy for growth

AB Dynamics plc Annual Report 2021



# Empowering our customers through engineering, innovation and technology

## Building on our core technologies to deliver growth

Having delivered significant growth through new product development, international expansion and acquisitions, we are building on our existing core strategy and technologies to diversify the business and enter larger, growth focused markets.

- ▶ Read more about our markets page 12
- ▶ Read more about our investment case page 5
- ▶ Read more about our strategy page 12



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## Highlights of 2021

# Robust performance supported by recovering demand and strategic progress

### Financial highlights

Revenue  
**£65.4m +6%**  
 (2020: £61.5m)

Adjusted\* operating profit  
**£10.8m -4%**  
 (2020: £11.3m)

Net cash  
**£22.3m -26%**  
 (2020: £30.0m)

Adjusted\* operating margin  
**16.6% -180 bps**  
 (2020: 18.4%)

Adjusted\* diluted earnings  
 per share (EPS)  
**37.4p -6%**  
 (2020: 39.9p)

Dividend per share  
**4.8p +10%**  
 (2020: 4.4p)

### Operational highlights

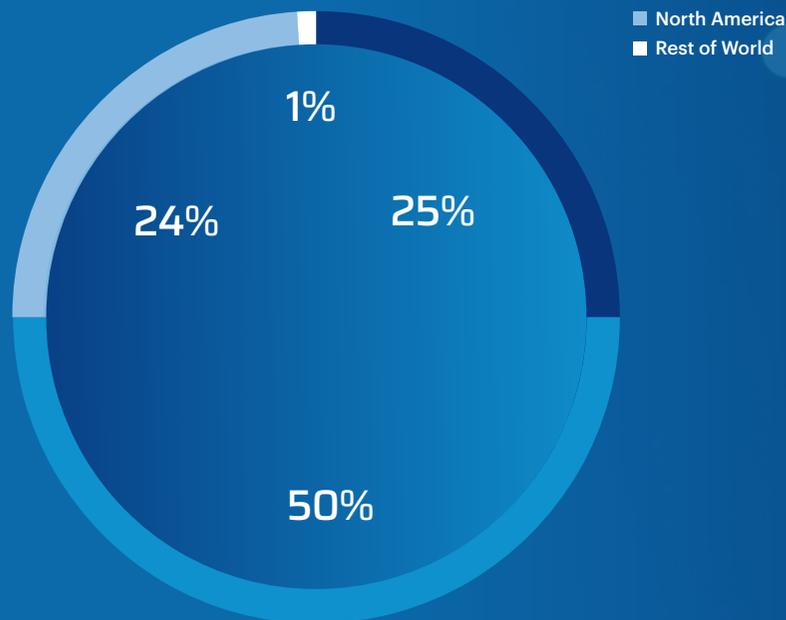
- Continued recovery in the Group's markets translated into improved order intake with a positive book to bill ratio across both divisions
- The Group performed well during the second half of the year, managing supply chain disruption and currency headwinds effectively in order to meet the strengthening in demand during the period. Revenue for the first half of the year was broadly comparable to H2 2020 with COVID-19 impact continuing into the current year
- Solid performance from Vadotech which was acquired in the second half of the year
- Further progress made on implementation of strategic initiatives to enhance commercial and operational capability and provide a platform for sustainable long-term growth
- New product development continued as planned with successful launches including high speed ADAS platforms and a next generation simulator
- Growth in recurring revenue to 35%, up from 28% of Group revenue
- Significant work undertaken to evolve the next phase of the Group's strategy targeting diversification alongside the established pillars and opening up new markets beyond automotive
- Post year-end launch of ABD Solutions, a new business unit focused on providing retrofit solutions that enable the automation of conventional off-road vehicle fleets rapidly and cost effectively

\* Adjusted to exclude amortisation of acquired intangibles, acquisition related charges, ERP development costs, restructuring costs and inventory impairment. A reconciliation to statutory measures is given on page 32.

At a glance

# Developing our business

Global sales revenue by region



Global locations



## At a glance continued

### Track testing

Track testing products and services represent 76% of total Group revenue. The products are used for the test and verification of Advanced Driver Assistance Systems (ADAS), autonomous systems and vehicle dynamics. Test vehicles and ADAS platforms, such as the Guided Soft Target (GST) and LaunchPad, are controlled using complex control software for accurate control and synchronisation of multiple test objects.

This enables our customers to conduct complex, multi-object test scenarios with a simple-to-use software interface to satisfy internal or external regulatory test requirements.

The Group also provides testing services including the provision of ADAS and vehicle dynamics tests through a comprehensive test facility based in California, USA. Following the acquisition of Vadotech, the Group now also offers on-road testing services, with operations in China and Japan.



▶ [Read more about our track testing page 24](#)

### Laboratory testing and simulation

Laboratory testing and simulation represents 24% of total Group revenue and includes products relating to simulation, noise and vibration and the assessment of kinematics and compliance in vehicles; and simulation software. These products are used to evaluate vehicle dynamics, noise, vibration and harshness and autonomy across a wide range of applications including conventional vehicles, motorsport and automated/autonomous vehicles.

Our simulator products along with our market-leading physics-based simulation software reduce new vehicle development timescales by allowing meaningful testing earlier in the development process.



▶ [Read more about our Laboratory testing and simulation page 27](#)

### Delivering a stronger business

As we expand our portfolio of products and services, we are reducing our reliance on specific market sectors and geographic territories. Continued progress in developing our service and support offering through both organic and acquisitive growth has increased the proportion of recurring and service-based revenue. Overseas expansion with the opening of new sales offices and strengthening of our APAC regional footprint through the acquisition of Vadotech enables deeper penetration of international markets.

The launch of ABD Solutions enables us to drive growth in adjacent markets leveraging our core technology to diversify the business and enter larger, growth-focused markets.



▶ [Delivering a stronger business page 14](#)

## How we are evolving



# Developing

## new opportunities

ABD Solutions is a new market-facing business unit established to leverage our core technology into new adjacent markets. It is developing solutions to automate vehicle applications specifically in the mining, defence, materials handling and agriculture sectors.

► Innovation and technologies page 14



# Investing

## for the future

Along with investing in new product development in our core markets, we are developing our organic capability and capacity to ensure the business can support continued growth.

► Our investment case page 5



# Growing

## our business

In conjunction with our organic growth, the acquisition of Vadotech expanded our capability into on-road testing services and established a regional hub in the strategically important APAC region.

► Our markets page 17

## Investment case

# Why invest in AB Dynamics

With a track record of revenue growth and strong margins, we deliver sustainable value for our stakeholders through our market-leading engineered products and services. Our strong balance sheet enables us to invest for future growth.

## 1. Structural and regulatory growth drivers

- We are a leader in structural long-term growth markets, supported by favourable regulatory environments and global focus on active safety and autonomous systems development
- Our offering spans both physical and simulated testing across ADAS, autonomous vehicle R&D and vehicle testing
- We are using our core technology portfolio to leverage adjacent markets including mining, defence, materials handling and agriculture
- We have a global presence and diverse geographic end markets, including a new Asia Pacific divisional operating hub
- The proportion of recurring revenue continues to grow as we increase our service and support offering and software sales

▶ [Read more about our markets page 10](#)

## 2. Sustainability and resilience

- The wider focus on road safety and reduction in accidents as well as the focus on electric vehicle and battery technology is an important long-term trend that will support continued growth
- The resilience of our business model enabled us to continue investing in the business during the COVID-19 pandemic. While there was a short-term impact on demand, structural and regulatory drivers remain intact, demonstrated by the recent improvement in order intake
- We actively focus on the wellbeing of our workforce through a strong health and safety culture and employee engagement and assistance
- Our global, diversified customer base provides resilience. With direct sales and support facilities in the UK, Germany, Japan and the USA and indirect sales channels in all other key customer territories, we are well placed to deliver support where our customers need it

▶ [Read more in our Chief Executive Officer's review page 20](#)

## 3. Strong margins

- Differentiated products and strong, long-term relationships with customers underpin strong margins
- Continued investment in innovation to deliver differentiated products to drive strong gross margins
- Investment in people, business systems and capacity will deliver future efficiencies and margin expansion

▶ [Read more in our Chief Financial Officer's review page 30](#)

## 4. Strong balance sheet

- Our strong balance sheet gives the financial flexibility to enable ongoing investment in organic growth and to strengthen business infrastructure for the next phase of expansion
- With capital expenditure having peaked in 2021, free cash generation is expected to step up significantly post investment
- Our ability to deliver strategically compelling and accretive acquisitions further supports the growth strategy

▶ [Read more about our approach to ESG page 8](#)

## Chairman's statement

# Well positioned for the future



**Richard (Dick) Elsy CBE**, Non-Executive Chairman

## Overview

I am pleased to report a strong year of progression for the Group in terms of strategic development. I had the honour of being appointed Non-Executive Chairman during the year and I have been greatly impressed with the talented team of employees with whom I have engaged.

Whilst the first half of the financial year continued to be impacted by COVID-19, the second half was very strong, delivering a record output for a single half-year period. Overall results for the year showed revenue growth of 6% to £65m and a moderate reduction in operating profit to £11m, predominately due to product mix, investment in talent and in new technology development.

The Group continued to invest in the core automotive sector, which is characterised by strong regulatory and structural growth drivers. At the same time, we developed incremental strategies to diversify the business and provide the foundations for continued growth. To support this growth and diversification the Group invested in ongoing professionalisation, in particular in senior leadership talent and in the development of our Group-wide ERP system.

During the second half of the year the Group completed the acquisition of Vadotech Group, expanding our service offering and accessing a valuable stream of recurring revenue. It also gives the Group a significant physical presence in Asia Pacific, which is currently the fastest growing territory in our core markets.

Our strategy and the detailed financial results are detailed in the Chief Executive Officer's review on pages 20 to 23 and in the Chief Financial Officer's review on pages 30 to 33.

## Employees

I would like to take this opportunity to thank our global team of outstanding employees who have all contributed to a successful year, whilst adapting to changing work patterns due to various periods of lockdowns and travel restrictions. The Group attracts talent at all levels within the business and continues to invest in training at all levels, from apprentices to graduates and continuing professional development.

The Group has grown strongly in recent years, and we now have around 400 employees, with around half located in the UK. The Board takes our responsibility towards employee engagement and development seriously and during the year launched a major new project, led by representative employees, to define and communicate our Group vision and values. In parallel, the Group initiated a rolling process of employee engagement surveys, the results of which are used to continuously develop and improve our employee experience.

## Investments

As part of our ongoing plan to invest in the infrastructure and systems required to provide the foundation for ongoing growth, the Group completed the investment in our new Engineering Design Centre in the UK. This state-of-the-art facility provides an inspiring working environment for engineering and innovation including laboratory space and an impressive vehicle simulator demonstration suite.

The acquisition of Vadotech facilitated the establishment of our Asia Pacific operating hub based in Singapore, with operations in Beijing and Tokyo. Other investments included continued new product development, progress in the implementation of our ERP system and the expansion of our test track facility in California to grow operational capacity.

## Chairman's statement continued

### Board changes

The primary change to the Board structure during the year was the retirement of AB Dynamics' founder and Non-Executive Chairman, Tony Best. Tony founded the business in 1982 and took the Company public through the IPO in 2013. The Board would like to express our sincere thanks to Tony for his substantial contribution to the development of the Group and wish him a long and happy retirement.

I initially accepted the role as interim Chairman during Tony Best's extended leave of absence on 23 February 2021 and was appointed Non-Executive Chairman on 1 July 2021 (for more details refer to the Nomination Committee report on page 75). Following my appointment, my role as Chair of the Remuneration Committee passed to Richard Hickinbotham and I became Chair of the Nomination Committee. Louise Evans continues in her role of Chair of the Audit & Risk Committee, in addition to taking on the new role of Chair of the Environmental, Social and Governance (ESG) Committee.

### ESG

The Board is committed to ongoing improvements in all aspects of ESG and formed a new Board committee during the year, chaired by Louise Evans with membership including myself, the Chief Executive Officer, Chief Strategy Officer, Group HR Director and Company Secretary. Further information on our approach to ESG can be found on pages 36 to 49 and the activities of the ESG Committee are summarised on page 79.

### Corporate governance

Strong corporate governance and risk management is an essential element of the Board's activities and is key to ensuring ongoing stability and growth of the Group. I am pleased to confirm that AB Dynamics plc is in compliance with the Quoted Companies Alliance (QCA) Code as required under the AIM rules. The Board takes into consideration feedback provided by various ratings agencies in setting policies and in developing our ESG strategy as part of our continuous improvement in corporate governance. I report separately on the Group's approach to governance and its procedures in the Statement of corporate governance which can be found on pages 63 to 74.

### Dividend

Based on the strong second half of the financial year and the Board's confidence in continued growth and delivery in 2022, the Board is recommending a final dividend of 3.2p per share payable on 28 January 2022 subject to shareholder approval at the AGM. The ex-dividend date will be 30 December 2021 and the record date will be 31 December 2021. The total dividend for the year will therefore be 4.8p per share, which is an increase of over the prior year of 10%, resuming the Board's progressive dividend policy after dividend increases were paused during the COVID-19 pandemic.

### Outlook

AB Dynamics operates within markets that are supported by long-term regulatory and structural growth drivers in automotive and holds an enviable position in the sectors in which it operates. These market growth drivers, coupled with the ongoing investments in all areas of the business, provide the Board with strong confidence that the outlook remains positive.

In addition to the growth in our core markets, significant opportunities exist in the Group's new strategic development with ABD Solutions, details of which can be found on pages 14 to 15. This initiative greatly expands the Group's addressable market and provide growth potential in adjacent market sectors to diversify and build a broader-based business.

Our continued strategic clarity and ongoing investments provide a strong platform for future growth and the Board remains confident in delivering continued progress in the forthcoming year.

**Richard Elsy CBE,**  
Chairman

24 November 2021

## Q&A

### Firstly, you've been appointed as the new Chairman – what have been the highlights so far?

Well, we've all been through a pretty tough year, but it's been the resilience of AB Dynamics that has really impressed me. Our strong second half and robust forward order book are a testament to the team's hard work. Navigating this challenging year with my Board colleagues has been an energising experience and a real highlight for me.

I was delighted to see this reflected in the results of our first independent Board evaluation, which showed that despite the Board being relatively new, we have gelled very quickly and are very focused on key issues and opportunities.

### Describe the culture at AB Dynamics

It's a culture characterised by engineering excellence and an enterprise with high value products and services sold to some of the most knowledgeable and discerning customers. A real surprise and delight for me has been that we have set up a small cross functional group to distil from this culture the

Mission, Vision and Values for AB Dynamics. Normally these are tablets posted from on high, but these have come from the team itself and that makes them very powerful: Customers, people, diversity, innovation, excellence and responsibility are their watch words, and I can see the team living and breathing them.

### What should we look forward to in 2022?

I think that AB Dynamics is in a great place in the global recovery. There's a strong and enduring demand for ADAS and development work by our customers continues to increase. The technical challenges of these systems as they head towards increased autonomous driving are immense. This will place ever more demand on physical and software-based testing. AB Dynamics is in the right place at the right time to provide this. I expect that this will drive growth in our core markets, but I also expect to see some of the first signs of uptake in our Solutions business. This seeks to develop our core competencies to service new markets to AB Dynamics such as defence, agriculture and mining. This kind of innovation-led growth is right up my street, so I'll be taking a keen interest!

Our approach to ESG

# How we approach ESG



AB Dynamics is fully committed to contributing to a sustainable future and to the development and implementation of a highly effective ESG strategy.

The Group is fundamentally aligned to ESG through its mission to deliver ongoing improvements in road safety, including the reduction of road-based injuries and fatalities.

As the Group continues to diversify into adjacent markets, we see further opportunity to support our sustainability objectives by assisting in the roll out of Electric Vehicles and other lower carbon transport technologies.

The Board has established an ESG Committee which is chaired by Louise Evans, Non-Executive Director, with membership across the leaders of the business.

The Group has laid out its ESG structure and we have made good progress in various elements, including changing our input energy to renewable sources through our energy providers and also through investment such as solar panels on both our existing HQ building and the new Engineering Design Centre.

## Environment

We are committed to environmental sustainability and are actively seeking ways to reduce our environmental impact. We will continue to deploy green technology wherever possible and to make careful and considered decisions in all our operations to reduce our current carbon footprint. Our goal is to be carbon neutral by 2030.

## Social

The health and safety of our employees is of paramount importance, particularly during these challenging times, and we work hard to ensure all our people are safe, whether they are working from home, working in our premises, or working with our customers. We are also committed to providing a fair, equal and inclusive environment for all our people.

## Governance

We are committed to ensuring that the behaviours and practices of our organisation, including those within our supply chains, reflect our own high business standards and compliance with applicable laws and standards. We have a zero-tolerance approach to slavery and human trafficking, and bribery and corruption within our workforce, and endeavour to set the same robust expectations in relation to our supply chain and associates.

► Read more about our ESG page 79

Our approach to ESG continued

# Building on the existing core strategy to diversify the business and enter larger, growth focused markets

The mission of AB Dynamics plc is to accelerate our customers' drive towards net zero emissions, improving road safety and the automation of vehicle applications through leadership and innovation in engineering and technology.

We deliver this mission by innovating and partnering at the cutting edge of vehicle automation and development; providing products and services across testing, simulation and autonomous systems to help organisations develop zero emission and autonomous products safely and securely.

## Key facts

1.35m

Annual road deaths globally

93%

of road deaths occur in low and middle-income countries

20-50m

road based injuries per year

Greater than half

of road traffic deaths are pedestrians, cyclists and motorcyclists

Road traffic injuries

are the leading cause of death for children and young adults aged 5-29 years

Road traffic crashes

cost most countries 3% of their gross domestic product



# Our markets and strategy

## Road safety

### Structural drivers

The automotive sector continues to evolve and adapt to the structural and regulatory changes driving unprecedented change. The global challenge of climate change is driving strong demand for the acceleration of the implementation of electric vehicles and the ongoing societal need for improvements in road safety is driving the development of ADAS and increasing levels of autonomous systems.

Continued emergence of new entrants into the automotive market, particularly in electric vehicles and autonomy, has placed additional pressures on traditional automotive OEMs to rapidly develop new technologies. Therefore, the sector remains heavily focused on R&D in the following key areas:

- Active safety and ADAS systems
- Autonomy and increasingly automated driving functions
- Electric vehicle and battery technology

These clear market drivers align with the mission and ESG aims of AB Dynamics to assist the sector to improve road safety and aid the global drive towards net zero emissions. The development of ADAS

systems has already led to significant improvements in road safety in Europe, the USA and Japan. As these technologies are implemented and regulated in low- and middle-income countries, this will ultimately significantly reduce the estimated 1.35m road deaths globally per year.

Outside of the automotive sector, other industries such as mining, defence, agriculture and materials handling are increasingly seeking to automate vehicle applications to improve operational safety and/or increase productivity and efficiency. See pages 14 to 15 for further information on how ABD Solutions, our new market-facing business unit, is addressing these market drivers.

### Regulatory drivers

The market for ADAS and active safety continues to be driven by regulation and consumer-facing safety organisations such as Euro-NCAP (European New Car Assessment Programme). Regulations such as the 2019 UNECE regulation that all new vehicles sold in 40 countries worldwide should be fitted with a minimum set of ADAS systems have driven investment and accelerated implementation of active safety. The Japanese regulator also mandated that all new cars should have Automatic Emergency Braking (AEB) systems by 2021, specifically aiming to reduce accidents caused by elderly drivers.

As part of the European Commission (EC) focus on road fatalities, significant progress has been made in the European Union with the number of road deaths reducing by 36% between 2010 and 2020. The implementation of ADAS systems has played a significant contributory role in this reduction and continues to form part of EC's Strategic Action Plan on Road Safety and EU Road Safety Policy Framework 2021-2030, which sets ambitious plans to reach zero road deaths by 2050.

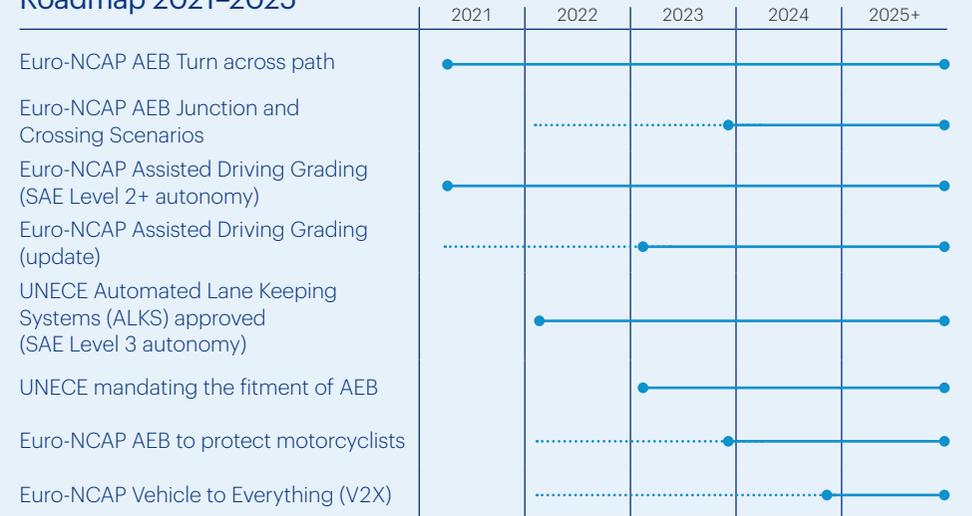
As part of its 'vision zero' mission to eliminate accidents, Euro-NCAP published an active safety roadmap detailing incremental additions of ADAS systems through to 2025. This will continue to drive step changes in active safety implementation, with much of the requirements due to be introduced from 2022 to 2025.

In the USA, the National Highway Traffic and Safety Administration (NHTSA) operates a similar ratings scheme to Euro-NCAP but functions as a government regulator. The US government has committed to improve road safety and has begun to mandate the use of ADAS systems to assist to reduce injuries and fatalities, with a particular focus on the upward trend in pedestrian injuries and fatalities in the USA over recent years.

US pedestrian fatalities 2008-2017



Roadmap 2021-2025



## Our markets and strategy continued

### Market size and growth rates

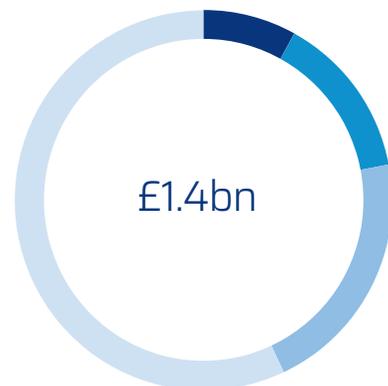
#### Existing addressable market

A comprehensive analysis of the existing market for the products and services of AB Dynamics was published in the 2020 Annual Report on pages 16 to 17. This analysis has been revalidated against updated sources and now represents a total addressable market size of ca. £1.4bn. Given the FY 2021 Group revenues of £65m this represents a market share of approximately 5%.

The largest single sector is testing services where AB Dynamics operates through its testing facility in Bakersfield, USA and on-road testing services through Vadotech in Asia Pacific. The core track testing products sector represents ca. £100m market size with strong growth in ADAS platforms offset by a more stable market for driving robotics. The laboratory testing equipment and simulators market continues to grow and represents ca. £190m.

Overall compound annual growth in the existing addressable market is forecast to be 16% over the next five years.

#### AB Dynamics' existing addressable market



■ Track testing products	£0.1bn
■ Lab testing and simulators	£0.2bn
■ Simulation software	£0.3bn
■ Testing services	£0.8bn

#### ABD Solutions addressable market

With the introduction of ABD Solutions, the addressable market has increased significantly with large growth opportunities across our key target markets of mining, defence, agriculture and materials handling. Analysis of these specific markets show a total addressable market size of £4.8bn and a compound annual growth rate over the next five years of 25%.

These four target markets can be sub-divided into those driven by operational safety (mining and defence) and those driven by productivity and efficiency (agriculture and materials handling). The markets can be further characterised by lower volume/higher price point (mining and defence) and higher volume/lower price point (agriculture and materials handling).

Mining has the potential to be the fastest growing market with forecast growth of ca. 50% compound annual growth rate (CAGR) based on assumptions around the global mining truck equipment population and rates of adoption of automated technologies. The anticipated growth is driven by the need to improve operational

#### ABD Solutions' addressable market



■ Mining	£0.7bn
■ Defence	£0.6bn
■ Agriculture	£1.1bn
■ MHE	£2.4bn

safety, removing the driver of large mining trucks from hazardous environments, and also to protect other personnel from accidents. In addition, the mining sector has high operating costs in terms of personnel due to the often remote and less hospitable locations.

The automated agriculture sector, specifically automated tractors, is forecast to grow at 24% CAGR as demands on arable land increase, low operating margins drive demand for cost reduction, and availability of operators is a specific problem in remote regions of developed countries.

Defence is forecast to grow at 16% CAGR over the cycle driven by the need to improve operational safety and, where possible, remove armed forces personnel from certain hazardous operations such as route clearance, counter-IED and logistics in theatres of operation.

The materials handling market is diverse and covers a range of applications including warehousing, ports, airport baggage handling etc. The addressable market for automating these applications is forecast to grow at 14% CAGR and is driven by the need to reduce operating costs and improve efficiency.

#### Combined market size and growth

Overall, the combined market size of the existing AB Dynamics business, plus the new addressable markets introduced through ABD Solutions, provides an overall addressable market of ca. £6.2bn, with a CAGR of 24% over the five-year cycle.

# Our markets and strategy continued

## Strategic development

Following a comprehensive strategic review that resulted in the launch of ABD Solutions, the existing strategic priorities have been expanded to include diversification as a key element. This review took into account the mega trends of automation, real world simulation, electrification, unmanned vehicles and autonomy and decarbonisation and sustainability, and how the Group should respond. Diversification allows AB Dynamics to build a broader-based business with less dependency on a single market sector, whilst simultaneously allowing access to several large, attractive markets.

The combination of the six clear strategic priorities addressing six core addressable markets with attractive growth characteristics results in the overall aim of delivering sustainable growth and shareholder return. This also fulfils the Group's core purpose to accelerate our customers' drive towards net zero emissions, improving road safety and the automation of vehicle applications through leadership and innovation in engineering and technology.

It is important to note that the enhancement to the strategy does not affect the core elements of the Group's previously published strategic priorities. The diversification element of the strategy leverages the existing capabilities and technologies within the AB Dynamics Group of companies to enable the automation of existing vehicle applications where the level of maturity of autonomous technologies is achievable in the medium term.

This strategic development is further differentiated by the nature of the end customers. Within automotive, AB Dynamics typically supplies to R&D departments of major automotive OEMs, tier 1 suppliers, autonomous vehicle developers and operators of track testing facilities. ABD Solutions customers will typically be end users of the product, therefore a different approach is required in terms of robust product development to drive the most critical aspect of product safety.

We accelerate our customers' drive towards net zero emissions, improving road safety and the automation of vehicle applications through leadership and innovation in engineering and technology.



Building a broader-based business to drive sustainable growth

## Our markets and strategy continued

### Geographic focus

#### Asia Pacific

Along with North America, Asia Pacific is forecast to be the fastest growing territory for core automotive market driven by population, connected vehicles, EVs and autonomous vehicles.

Differing market dynamics and large installed base requires local resources and expertise in key target territories of:

- China
- Japan
- South Korea
- India
- Australia
- ASEAN countries

Investment in our Singapore-based operating hub will be used to drive organic growth in both core and adjacent markets and future acquisitions.

#### North America

North America and in particular the United States, is a core growth market for AB Dynamics across both the Group's existing core market of automotive, ADAS and autonomy, and the newly launched ABD Solutions business. AB Dynamics has facilities and resources in the two primary automotive locations in the USA, with Dynamic Research Inc operating in California and AB Dynamics Inc operating in Michigan.

The Group has recently invested in senior leadership capability in North America to drive the Group's organic growth plans and to identify, deliver and integrate further acquisitions in the region.

“We accelerate our customers’ drive towards net zero emissions, improving road safety and the automation of vehicle applications through leadership and innovation in engineering and technology”



## Launch of ABD Solutions

# Building a more diversified and broad-based business in a large end-user market



### Introduction

The Group has launched ABD Solutions, whose mission is to accelerate the transition to autonomy by providing retrofit solutions that enable the automation of conventional vehicle fleets rapidly and cost-effectively.

ABD Solutions has been launched to address the clear market need to automate specific non-road based vehicle applications. The expertise of AB Dynamics in driving robotics, positioning and control can be readily deployed to vehicle applications where safety and/or efficiency is the primary market driver.

After an extensive market analysis and strategic development exercise, the Board approved the formation of ABD Solutions to address this market need. ABD Solutions is a new market-facing business unit ([www.abdsolutions.com](http://www.abdsolutions.com)) that develops solutions to automate vehicle applications specifically in the mining, defence, materials handling and agriculture sectors.

ABD Solutions leverages the core technologies of AB Dynamics into new adjacent markets where the customer is the end user of the equipment. The team draws on the expertise of existing employees supplemented by external hires with expertise in localisation, positioning, object detection and artificial intelligence.

### Market analysis

The selection of the four primary target markets resulted from an extensive market study into 13 major industries and 24 emerging technologies, the dynamics of which were validated using external sources and a series of external and internal interviews with industry leaders.

The four target markets can be grouped into two categories with defence and mining primarily driven by a need for safety in hazardous operations, and agriculture and materials handling driven by a need for productivity and efficiency. The conservative estimate of addressable market size for the four primary target markets is ca. £4.8bn with a combined compound annual growth rate of 25%.

### How will ABD Solutions address these challenges?

The newly-formed ABD Solutions business has strong leadership foundations along with talented specialists in the fields of systems engineering, software development, sensor integration, mechanical design and simulation. The team includes specialists who have direct experience of developing autonomous solutions and understand the limitations of the technology to ensure solutions can be practically applied to deliver a commercial outcome.

ABD Solutions is active in forming appropriate partnerships with leading organisations who have detailed knowledge of specific vehicle applications to ensure applicability to our target end markets.

The team is using agile development methodologies to rapidly develop a range of technology solutions, built on a modular basis, the core of which can be applied to any vehicle automation application.

## Launch of ABD Solutions continued

### Mining and heavy industries (safety)

There is a clearly-defined market need to automate large mining trucks used to transport product from one location to another. Depending on the geographical location of the mine site, the costs of using trained drivers is high and the process is hazardous. Removing the driver from mining trucks has been identified by numerous potential customers as an urgent need.

Although automated mining trucks are in development, there is a large installed base of high-cost machines which could benefit from a conversion kit to produce an automated system.

The current global mining truck equipment population over 90 tonnes is 51,200. A conservative estimate of the addressable market size for automated mining trucks has been estimated to be \$1.0bn with a forecast compound annual growth rate of ca. 50%. This assumes early adoption of automation is slow in the early years at 2% of the available trucks, increasing to 20% over a five-year cycle.



### Defence (safety)

There are many applications for automated systems in the defence sector, but ABD Solutions is focusing on conversion of existing human-driven large vehicles to automated applications. Naturally, defence-based applications are hazardous and removing drivers from hazardous operations such as de-mining, route clearance and counter-IED is a clear priority. Another application is convoying, where defence vehicles operate in convoy with limited numbers of human drivers and other vehicles driven semi-autonomously. ABD Solutions can provide drop-in conversion kits that replace the need for a human driver, hence improving operational safety in hazardous applications. Our experience in automotive applications also allows for multiple vehicles to be synchronised together, enabling convoying and other similar applications.

The current addressable market size for autonomous military vehicles is ca. \$800m with a forecast compound annual growth rate of 16%.



### Agriculture (productivity)

In agriculture, the market drivers relate to the macroeconomic trends of increasing population, reduction in consumption of meat and therefore increased pressure on available arable land. These drivers mean that agriculture productivity and yield need to improve, and automation provides a solution to these problems.

ABD Solutions is developing an easy-to-use drop-in conversion kit for tractors which automates many frequently used applications through a modular system. ABD Solutions products allow for highly accurate positional control for tillage and other applications whilst negating the need for a driver. The solution can also be used for multiple agricultural vehicles operating in the same field or fields through synchronised control.

Cost effectiveness is the largest single market driver in the agricultural market, but unit volumes are much higher than mining or defence.

The overall market size for autonomous farm equipment is \$79bn with a compound annual growth rate of 15%. Specifically, the addressable market size for autonomous tractors is ca. \$1.5bn with a compound annual growth rate of 24%.



### Materials handling (productivity)

There are a wide range of applications in the materials handling space from automation of forklifts in warehouses to airport baggage handling and smart ports. ABD Solutions is focusing on several specific applications in warehousing and specialised applications where efficiency and productivity are important market parameters.

With an increase in on-line shopping, the need for efficient warehousing operations has never been more important and many large warehouses have already invested in human-driven materials handling equipment. These vehicles can be easily converted using ABD Solutions robotics technology and controlled via our complex software. The control software can interface with any warehouse management software system to provide a complete solution.

The estimated addressable market for automated material handling equipment is currently \$3.4bn with a compound annual growth rate of 14%.



## Our approach to acquisitions

# Compounding organic growth through carefully selected, value-enhancing acquisitions

The Group business model is to drive organic growth and compound this growth through the acquisition of value-enhancing companies that facilitate and accelerate the Group's strategic priorities.

### Market

The market in which the Group operates for acquisitions is relatively large and fragmented, with many small to medium-sized, privately-owned businesses. The Group is active in identifying opportunities within the existing core automotive market, in addition to adjacent market sectors that facilitate the Group's strategy for diversification.

### Process

The Group has recently invested in additional central resources to drive strategic development and specifically acquisitions. We undertake extensive market scoping and target identification processes and ideally approach businesses that are not part of a structured sale process. However, we also engage with M&A advisers where appropriate and do consider those businesses that are being sold on the open market.

### Criteria

Any acquisition made by the Group should contribute to one or more of the Group's stated strategic priorities and should be value enhancing and/or earnings accretive following completion.

Beyond the contribution to the Group strategy, acquisitions are carefully considered in terms of their financial performance. Businesses should have a track record of sustainable revenue growth and strong gross margins, indicating a competitive market position with differentiated products and/or services.

A significant consideration during any acquisition process is the strength of the management team at the target company, and their ability to integrate into the Group organisation and culture.

### Integration

The level of integration into the Group is dependent upon the specific business and its relevance to existing business units. The Group generally operates a hybrid model of acquired companies operating as independent businesses with autonomous management, whilst exploiting the synergies of being part of a larger Group.

Our approach to acquisitions continued

# Acquisition of Vadotech Group

During 2021 the Group acquired Vadotech Group, a company providing market-leading on-road vehicle testing services in the Asia Pacific region. The acquisition facilitated several of the Group's strategic priorities including:

- International expansion into APAC region
- Provision of on-road testing services capability
- Supported by long-term customer relationships and agreements driving recurring revenue
- Enabling an operating hub in Singapore to drive organic growth and further acquisitions
- Capabilities in e-mobility and EV testing

The integration plan is progressing well and Vadotech is performing in line with management's pre-acquisition expectations. The Group has since invested further in the Singapore operating hub with the appointment of a President, Asia Pacific role and a regional Finance Director.

Vadotech Group has strong growth opportunities including:

- Opportunity to replicate business model within China and other important territories, e.g. Europe and the USA
- Organic growth initiatives through Group-wide cross-selling and synergistic benefits
- Establish closer working relationships with customers in the region
- Increased access to the Electric Vehicle market supported by strong structural drivers

## Business model

# Creating value for stakeholders

## Key inputs

### Product and technology leadership

Our innovative product development and significant intellectual property ensure cutting-edge products are available for every application across the markets we serve.

### Supplier relationships

We work closely with our suppliers and take the steps necessary to ensure their performance meets our expectations.

### Customer relationships

Long-term relationships with all major automotive OEM and test facilities enable us to provide support tailored to their needs and also assist in early identification of trends.

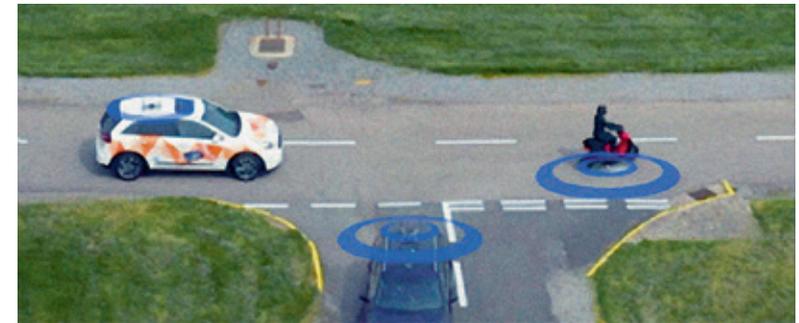
### Global reach

We have international routes to market, with direct sales and support offices in key territories to facilitate growth and support our customers. We use distribution and representatives in other locations to expand our reach.

### Talented workforce

Our highly skilled employees operate in niche capability areas. Our engineers and customer support teams work closely with our customers, supporting their requirements.

## Our business



### 1. Track testing

Track testing products and services are used for the test and verification of ADAS, autonomous systems and vehicle dynamics. Vehicles and ADAS platforms, such as the GST and LaunchPad, are controlled using complex control software for accurate control and synchronisation of multiple test objects.

This enables our customers to conduct complex, multi-object test scenarios with a simple-to-use software interface to satisfy internal or external regulatory test requirements.

The Group also provides test services including the provision of ADAS and vehicle dynamics tests through a comprehensive test facility based in California, USA. Following the acquisition of Vadotech, the Group now also offers on-road testing services, with operations in China and Japan.

## Underpinned by our values

## Business model continued



### 2. Laboratory testing and simulation

Laboratory testing and simulation includes products relating to simulation, noise and vibration and the assessment of kinematics and compliance in vehicles; and simulation software. These products are used to evaluate vehicle dynamics, noise, vibration and harshness and autonomy across a wide range of applications including conventional vehicles, motorsport and automated/autonomous vehicles.

Our simulator products along with our market-leading physics-based simulation software reduce new vehicle development timescales and costs by allowing meaningful testing earlier in the development process.

#### The value we create

##### Customers

We provide innovative solutions tailored to customers' specific needs.

##### Investors

Through the execution of our strategy we grow the value of our shareholders' investment over time.

##### Employees

We are committed to providing a safe and rewarding working environment.

##### Communities

We engage positively with our local communities and offer support through charitable giving and volunteering.

##### Suppliers

We work closely with our suppliers, with a reputation for integrity and ethical behaviour.

##### Environment

We are fully committed to reducing our own environmental impact by lowering our energy consumption.

## Chief Executive Officer's review

# Building key drivers for market growth



Dr James Routh, Chief Executive Officer

### Overview

I am pleased to report a robust Group performance against continued macroeconomic challenges due to the ongoing COVID-19 pandemic. I would like to express my sincere thanks to our global community of professional, talented employees for their dedication and hard work in what has been another year of fluctuating market conditions and change.

The performance during the year was split by two markedly differing halves. As expected, the first half performance was characterised by ongoing market impacts from COVID-19, followed by an exceptional second half performance with the Group delivering record levels of order intake and revenue for a half-year period, despite certain supply chain constraints and the impact of staff isolation in the UK.

The Group continued to deliver progress against our stated strategic priorities, with the acquisition of Vadotech delivering both expansion of our international footprint and increasing our service capability. We have also expanded our strategy and put in place plans to diversify the business into large, attractive adjacent markets through our new business unit, ABD Solutions.

The current market conditions and strong second-half order intake performance provide a solid platform for continued growth and performance during 2022.

## Chief Executive Officer's review continued

### Financial performance

Group order intake improved significantly from the second quarter onwards and provided a strong book to bill ratio at the financial year end. The Group is confident that this significantly enhanced order book provides strong foundations for continued growth and delivery during the new financial year.

The Group results show revenue growth of 6% to £65.4m (2020: £61.5m) with the significant majority of £38.1m delivered in the second half of the financial year, which is the highest half-year revenue during the Group's history. Despite the adverse impacts of UK-based staff isolations, supply chain constraints and adverse foreign exchange impacts, the Group second half revenue growth of 42% (H2 2020: £26.8m) was strong, driven by ADAS platforms, laboratory testing and simulation sales and the acquisition of Vadotech, and is 19% higher than the comparable period in the pre-COVID-19 financial year (H2 2019: £32.1m).

The Group continues to increase the proportion of recurring revenue which grew to 35% (2020: 28%) through a higher proportion of sales relating to software and services and was further enhanced by the recent acquisition of Vadotech Group.

Group adjusted operating profit decreased 4% to £10.8m (2020: £11.3m), a reduction in adjusted operating margin of 180 bps to 16.6% (2020: 18.4%). The reduction in operating margin was a result of a higher proportion of lower-margin laboratory testing and simulation equipment sales, diluting Group gross margins by 160bps to 56.8% (2020: 58.4%) and continued investment to further strengthen the Group's operational and commercial platform through investment in senior management, people and systems.

The Group delivered strong adjusted operating cash flow of £16.0m with the net cash position at year end of £22.3m (2020: £30.0m) underpinning a robust balance sheet, despite the acquisition of Vadotech Group for gross consideration of £17.3m and capital investment in our new Engineering Design Centre, an expanded test track facility in California and ongoing new product development totalling £6.6m.

### Sector review

The Group's track testing sector delivered revenue of £49.7m (2020: £51.8m), a 4% reduction on the prior year and a 2% reduction at constant currency.

We have seen revenue growth in all geographic territories with the exception of the UK and Europe, with notable growth in the Asia Pacific region, in particular China.

Order intake within track testing was strong, particularly in the second half of the year, providing a positive book to bill ratio and therefore high confidence of a return to revenue growth in 2022. China, Japan, Germany and the USA have led the regions showing strongest order intake growth demonstrating the success of our strategic model to establish a physical sales and support presence in each of these territories.

Within laboratory testing and simulation, the Group performed strongly, delivering 62% revenue growth with significant contributions from both Suspension Parameter Measurement Machines (SPMM) with growth of 28% and simulation growth of 98%. Growth in both SPMMs and our aVDS simulator product line returned partly due to deferment of larger orders experienced in H2 2020, but also due to a strong competitive offering and underlying market demand. The rFpro simulation software recovered well from a weaker prior year comparator due to a return of high-end motorsport series and continued new product development.

Order intake in this sector continues to be strong with significant order coverage for 2022 already secured for SPMMs and simulators, and ongoing development of our pipeline for the rFpro simulation software solution.

### Strategic progress

The Group continues to make good progress against its stated core strategic priorities, as well as expanding the strategy to include diversification and further integrating ESG as a core tenet.

Following a comprehensive review of the potential market for leveraging our core technologies, the Group established ABD Solutions, a new business unit focused on the application of robotics technology and control in attractive adjacent markets to automate selected vehicle applications. Initial market sectors for ABD Solutions are mining, agriculture, materials handling and defence applications. More details of ABD Solutions can be found on pages 14 to 15.

It is important to emphasise that this new business unit is incremental to our existing business and our previously stated strategic plans around the core business remain firmly in place. During the year, we continued to invest in both R&D and capabilities to expand this attractive core market. AB Dynamics completed the build and fit out of the new Engineering Design Centre in the UK, housing the engineering teams of AB Dynamics, a simulation development area and demonstration suite, laboratories and prototyping facilities. A range of new products were launched to market, in particular, the LaunchPad 80, Guided Soft Target 120 and aVDS Mk2. All new product launches have gained significant market traction and provided a strong contribution to the recent growth in order intake.

Significant ongoing investment has been made in building the bench strength and capabilities in senior management. During the year, the Group established a divisional management structure, with the recruitment of senior regional leadership and further build out of the corporate team with the appointment of a Chief Strategy Officer. Additional investments have been made at all levels of management to ensure solid foundations are established for our ambitious growth plans.

## Chief Executive Officer's review continued

### Acquisitions

During the second half of the year, the Group acquired Vadotech Group for a maximum consideration of up to €26m. Vadotech Group is a leading supplier of testing services in the Asia Pacific region, headquartered in Singapore with key operations in China, Japan and Germany. Vadotech Group expands the range of services offered by the Group into full vehicle assessments, particularly to German OEMs, under long-term customer framework agreements and has established an electric vehicle and e-mobility training centre in Germany. The acquisition provided a strategically important footprint in the Asia Pacific region, allowing the introduction of our new divisional operating hub in Singapore. Vadotech Group has performed well since acquisition and in line with the Board's expectations.

Acquisitions have and will continue to be a significant part of our overall strategy and more details on our approach to acquisitions can be found on pages 16 to 17.

### Summary

The Group has delivered another year of strong performance, despite the ongoing impacts of COVID-19, particularly in the first half of the year. The second half delivered record levels of order intake, revenue and cash generation, which provides a strong foundation for continued growth in 2022.

Against the backdrop of continued market uncertainty, the Group continued to invest in all areas of the business, further supporting our ambitious growth plans. During the year, we made demonstrable progress in evolving the the Group's strategic direction, both with the acquisition of Vadotech and also through the launch of ABD Solutions, a major new growth initiative to diversify the business. The Group also continued to strengthen the operational and commercial platform of the business through investing in new product development, capabilities and the senior management team.

Our market drivers remain strong. Against that background, and based on the recent track record of strong order intake and continued strategic investment, the Board is confident of delivering progress during 2022 and beyond.

### Dr James Routh

Chief Executive Officer  
24 November 2021

“I would like to express my sincere thanks to our global community of professional, talented employees for their dedication and hard work to deliver a strong performance in what has been another year of fluctuating market conditions”



## Chief Executive Officer's review continued

# Q&A

with Dr James Routh

### What new areas are you moving into?

To build a broader-based business that is focused on growth markets driven by megatrends, we introduced ABD Solutions to enter adjacent markets such as the automation of mining, defence, agriculture and materials handling.

In parallel we continue to invest into the core automotive sector focused on the verification of ADAS systems, autonomy and vehicle dynamics both through physical testing and physics-based simulation.

### Tell us more about ABD Solutions

ABD Solutions is a new venture launched during 2021 to leverage the core capabilities of AB Dynamics into adjacent, end-user -driven markets. The global need and trend towards automation is driven by the required improvements in both safety and productivity and we have selected attractive growth markets where we can rapidly convert existing manual vehicles into automated operation.

We have a strong team consisting of existing AB Dynamics employees and new hires with particular specialisms in sensors, object detection and software. We already have strong commercial traction in our initial focus market sectors of mining and defence.

### What do you need to successfully transition through this next phase of growth?

The key elements required are the technical and commercial skills and capabilities to drive the next phase of growth. This includes significant investment in engineers and technologists, along with the management capability to successfully exploit the compelling market opportunities available to the Group.

We continue to invest in technology and new product development, along with the infrastructure required across all relevant geographic territories.

### How are the new overseas offices going and how has this extended your geographic reach?

We are very pleased with the performance of all our overseas sales and support offices, particularly during the pandemic with the restrictions on travel demonstrating the need for local customer support. The offices in Japan and the USA have performed particularly well and have developed strong customer relationships with key accounts and new customers.

### How are you protecting the core business?

We are protecting the core business through continuous innovation and investment to ensure we maintain our position as the leading provider of testing and simulation products and services to the global automotive market. This ensures our product and service offering is sufficiently differentiated to take market share and ensure premium pricing.

### Are you excited for the future?

I remain very excited for the future of the Group as we remain well positioned to take advantage of the significant structural and regulatory growth drivers in our core automotive market, along with the opportunities that ABD Solutions provides in large, adjacent markets. We have a strong balance sheet which provides opportunity for continued investment in both organic growth and acquisitions.



# Continuous development of complex ADAS systems driving product development and operational model

## Highlights 2021

- Successful market launches of the fastest ADAS platforms in the market (LaunchPad 80 and Guided Soft Target 120)
- Strong performance from recently established direct sales and support facilities in Japan and the USA
- Strong recovery in order intake during the second half of the year providing positive book to bill ratio moving into FY 2022
- Continued growth in the proportion of recurring revenue
- Acquisition of Vadotech Group expanding into on-road vehicle testing and establishment of an Asia Pacific operating hub

## Introduction

The Group's track testing sector provides products and services utilised on proving grounds, test tracks and public roads to evaluate the performance of vehicle active safety systems, autonomous technologies, electric vehicles and vehicle dynamics. The sector is broadly split into the three primary sub-sectors of Driving Robots, ADAS Platforms and Testing Services and all track-based systems are controlled by our comprehensive control software.

Driving robots are used to replace a test driver in the vehicle under test to provide highly accurate and repeatable driving performance and can be delivered through direct electromechanical actuation or via drive-by-wire systems. The driving robot system is controlled by the Group's Synchro or Ground Traffic Control software and integrates with other test objects including the ADAS test platforms.

ADAS test platforms are used as vehicle or Vulnerable Road User (e.g pedestrians, cyclists, motorcyclists) objects in each test scenario and include the GST and LaunchPad. The GST is a very low-profile electric vehicle onto which a radar representative soft car is mounted. The LaunchPad has similar characteristics to the GST but is smaller and used to mount other potential objects such as pedestrians, cyclists and motorcycles. In both cases,

## Operational review – Track testing continued

### Introduction continued

the platforms are designed to withstand failed tests whereby the vehicle under test strikes the test object and moves over the platform. The ADAS platforms are controlled and synchronised with the vehicle under test by our comprehensive suite of software.

The Group operates a test facility in Bakersfield, USA, where testing of ADAS systems and vehicle dynamics are performed using the ABD track testing product range for OEMs, technology developers and government agencies.

Following the acquisition of Vadotech Group in March 2021, the Group provides on-road vehicle testing services for the assessment of all aspects of vehicle performance, particularly focusing on electric vehicle performance, charging capability and vehicle connectivity.

The market drivers for growth in the Track Testing sector are detailed in our markets and strategy section on page 10.

### Financial performance

The track testing sector delivered revenue of £49.7m (2020: £51.8m), a 4% reduction on the prior year and a 1.6% reduction at constant currency. The first half of the financial year showed a continued impact of COVID-19 with revenues at £20.9m (H1 2020: £29.6m), with a strong recovery in second half revenues to £28.8m (H2 2020: £22.2m).

The track testing performance was characterised by a reduction in sales of driving robots, ADAS platforms and track test services at Dynamic Research Inc (DRI), offset by the initial contribution from road-based testing at Vadotech.

Order intake within track testing was significantly higher than revenue, with orders strongly weighted to the second half of the financial year. Overall book to bill ratios were positive for all track testing product categories, including driving robots, which provides confidence for FY 2022.

Driving robot sales reduced by 20% to £16.9m (2020: £21.1m), particularly in the second half, as lower H1 order intake impacted H2 revenues. Order intake for driving robots recovered strongly in H2 with full-year order intake significantly higher than 2020. The Group expects a moderate growth in driving robots once new regulatory requirements for new ADAS technologies are released.

Revenues in ADAS platforms reduced 6% to £22.7m (2020: £24.1m) due to the weaker first half of the financial year with revenue recovering strongly in H2 to £13.1m (H1 2021: £9.6m). Demand for ADAS platforms, particularly the LaunchPad family of products, continues to build, in particular the Group's new LaunchPad 80 product used for testing higher speed objects such as motorcycles. The Group also launched the GST 120 during the year, providing the ability to test up to 120 kph and providing enhanced deceleration capabilities through its anti-lock braking system (ABS).

The trend towards multi-object test scenarios will further drive demand for a range of platforms that meet these test requirements, including platforms to carry a range of objects (e.g. pedestrian dummies, cyclists, scooters, motorcycles etc) that can operate at a range of speeds and can interact with a variety of test vehicles from passenger cars to commercial vehicles.

Revenue related to the provision of testing services increased 53% to £10.1m (2020: £6.6m) due to the impact of the acquisition of Vadotech Group in March 2021, partly offset by a weaker performance at DRI. Track testing operations at DRI were impacted in H1 by the COVID-19 pandemic preventing physical testing taking place and the change in the US government delayed the award of new contracts from the government agency NHTSA.

**“Positioned strongly with highly differentiated products and services across global markets”**

### Progress during the year

The Group continues to build customer relationships and drive improvements in revenue and gross margins through the recently established overseas sales and support offices. Performance was particularly strong in the USA and Japan, whilst Germany continued to be impacted by COVID-19 in the region.

Investment in new product development has continued with the market launch and successful implementation of two new products within ADAS platforms. The GST 120 was launched to enable testing to take place at highway speeds testing ADAS systems such as Highway Assist and Automated Lane Keeping Systems (ALKS). The system also includes ABS to allow controlled braking and deceleration at 0.8g without locking the wheels.

The LaunchPad 80 was launched during the year and has proven highly successful with high levels of order intake during the second half of the year. The LaunchPad 80 enables testing ADAS systems with motorcycles at up to 80 kph. Both the GST 120 and the LaunchPad 80 are among the fastest ADAS platforms available on the market and are therefore significantly differentiated against the competition.

In March 2021 the Group acquired Vadotech Group to enhance the end-to-end testing capabilities of the business to include on-road vehicle testing. Vadotech Group is headquartered in Singapore, with its primary operation in Beijing, China and smaller operations in Japan and Germany.

The Group delivered continued growth in the proportion of recurring revenue through further success in the sales of tiered service and support packages to the existing customer base, and the contribution from the acquisition of Vadotech who operate under long-term customer contracts.

## Operational review – Track testing continued

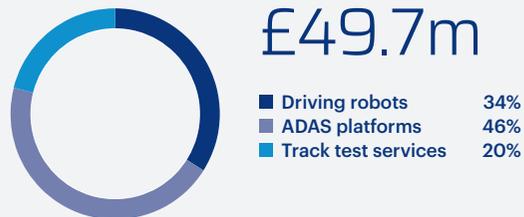
### Principal operations

The track testing sector principally operates from the AB Dynamics headquarters in Bradford on Avon (UK), with sales and support offices located in Giessen and Munich (Germany), Yokohama (Japan) and Wixom (Michigan, USA). The track testing services business is based in Torrance and Bakersfield (California, USA). The on-road testing services business is based in Beijing (China).

### Track testing sales growth (£m) – CAGR 36%

2021	H1: 20.9	H2: 28.8	49.7
2020	H1: 29.6	H2: 22.2	51.8
2019	H1: 23.0	H2: 26.8	49.8
2018	H1: 14.2	H2: 18.7	32.9

### Product sales breakdown



“Track testing had a challenging first half as customers suspended track activities, but has now started to recover”



### Growth potential

- Market regulation driving increased level and complexity of track testing
- Euro-NCAP roadmap towards multi-object scenario-based tests will drive demand for ADAS platforms
- Development of automated driving functions and autonomous systems require track-based testing for safety
- New vehicle technologies such as Automatic Emergency Steering or Steering Assist will require new capabilities
- Scope to replicate the Vadotech Group business model in other geographic territories

## Operational review – Laboratory testing and simulation

# Simulation driving strong growth

### Introduction

The Group's laboratory testing and simulation sector provides advanced products used to characterise the dynamics of vehicles and replicate the real world in a simulated environment. The sector is split into two primary sub-sectors of laboratory testing equipment, such as Suspension Parameter Measurement Machines (SPMM) and the ANVH, and simulation.

In simulation the Group provides both physical simulators and advanced, physics-based simulation software. Simulators are used by both automotive manufacturers and motorsport teams to accurately represent the real world utilising the rFpro software, coupled with state-of-the-art, high frequency response motion platforms and static driving simulators. Parameters such as vehicle dynamics, tyres, environmental conditions, material properties, sensors and light conditions (including shadows and reflections) can be modified and the variance simulated in a highly accurate model.

The Group's SPMM products are large scale testing rigs used to characterise the kinematics and compliance of vehicles. These machines are widely used by automotive OEMs and tier one suppliers to characterise vehicle dynamics, as well as providing vital input data to be used in simulation. The ANVH product is a testing machine used to optimise suspension systems early in the development cycle to reduce noise, vibration and harshness (NVH) transmission to the vehicle cabin. This is particularly useful in electric vehicles, where road noise and vibration are the predominate source of noise.

### Highlights 2021

- Outstanding simulation growth of 98% through increased sales of aVDS full motion simulators and success in rFpro sales
- Strong growth in laboratory test equipment of 28% through SPMM sales and demand from Asia Pacific
- Solid order book at year end provides confidence for continued performance in FY 2022
- Continued product development in simulator technology and simulation software provides strong foundations for future performance

“Laboratory testing and simulation delivered outstanding growth across all products and services and is well positioned for continued performance during FY 2022”

## Operational review – Laboratory testing and simulation continued

### Financial performance

The laboratory testing and simulation sector delivered strong overall revenue growth of 62% to £15.7m (2020: £9.7m), through significant growth of 28% in SPMM sales revenue and a very strong simulation performance, growing by 98%. Many of the H2 2020 deferred orders for larger capital items such as SPMM and aVDS were received, which supported the strong revenue performance.

The growth in sales revenue in laboratory testing equipment (including SPMM) of 28% to £6.4m (2020: £5.0m) was due to continued strong demand from China, with order intake continuing through H2 to support the delivery of FY 2022 revenue. The manufacture of the first ANVH test machine for a major automotive OEM has been completed after the year end which contributed to the laboratory testing and simulation sector performance.

The simulation sector performed very well with revenue growth of 98% to £9.3m (2020: £4.7m) due to the delivery of several aVDS simulator systems and a recovery in revenues at rFpro following the delays to the motorsport season in FY 2020. The outlook for simulation is robust with a strong order book for aVDS simulators and the market for rFpro simulation software supporting continued growth.

### Progress during the year

The Group has made significant commercial progress during the year with strong sales and marketing activity driving significant levels of revenue and order intake. To ensure continuity of this performance, high levels of new product development activity have been delivered in both laboratory testing equipment and the simulation sector.

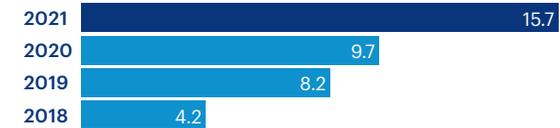
AB Dynamics has made significant progress in the development of a new variant of the aVDS full motion simulator for a major automotive OEM with delivery and market launch expected during FY 2022. rFpro has continued to invest in the development of a cloud-based Software as a Service (SaaS) version of its physics-based simulation software, particularly aimed at the autonomous vehicle development market.

During the year, AB Dynamics opened its new Engineering Design Centre (EDC) in the UK, which houses a state-of-the-art simulation suite for both continued product development and customer demonstrations.

### Principal operations

The laboratory testing and simulation sector principally operates from the AB Dynamics headquarters in Bradford on Avon (UK), with sales and support offices located in Giessen & Munich (Germany), Yokohama (Japan) and Wixom (Michigan, USA). The simulation focused business of rFpro is based in Romsey (UK) and Wixom (Michigan, USA).

### Lab test and simulation sales growth (£m) – CAGR 36%



### Product sales breakdown



## Operational review – Laboratory testing and simulation continued

### Growth potential

- Drive to utilise simulation to accelerate product development and reduce product development risk in automotive
- Significant scope for expansion of rFpro simulation software capability as autonomous simulation matures requiring more complex analysis
- Growth in simulator product sales and expansion of the simulator family of products
- Requirements for integrated tool chains between the virtual and physical world
- Electrification of vehicles will drive more demand for optimisation of noise, vibration and harshness and equipment such as the ANVH



“Our continued investment in simulation underpins the market need to accelerate automated vehicle development”

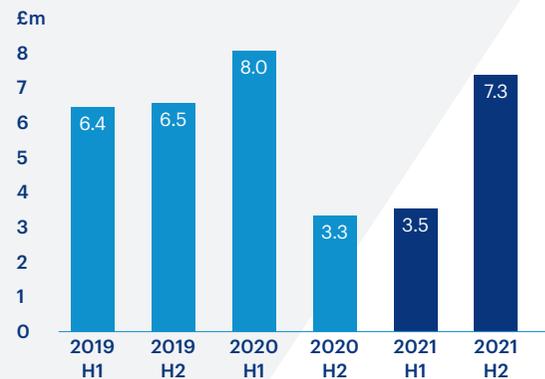
## Chief Financial Officer's review

# Supporting investment in sustainable growth



“The Group’s strong balance sheet and resilient business model enabled continued investment to support future growth”

Adjusted operating profit by half years (£m)



Revenue by geography



The Group delivered revenue growth during the year and continued to invest in new product development and capability and capacity to support future growth.

Following the significant impact of COVID-19 disruption in the second half of last year, activity levels have continued to improve, with significant recovery in order intake. Results for the first half of 2021 were broadly comparable with the second half of 2020, with H2 2021 showing a 40% improvement in revenue and 109% growth in operating profit over H1 2021. As H1 2020 was such a strong comparative period pre-pandemic, overall revenue for 2021 is up 6%, with adjusted operating profit down 4%.

Gross margins reduced in the year due to the increased proportion of lower margin laboratory testing and simulation sales. This, combined with our continued investment in the infrastructure of the business, resulted in reduced adjusted operating margins, despite mitigating actions to control discretionary spending.

The Group maintained its very strong financial position, with net cash at 31 August 2021 of £22.3m (2020: £30.0m) despite spending €20m (£17.3m) on the acquisition of Vadotech and £6.6m on capex, including completion of the Engineering Design Centre.

## Chief Financial Officer's review continued

### Trading performance

Revenue increased by 6% to £65.4m (2020: £61.5m) driven by the acquisition made during the year. Organic revenue decreased by 3%, or 1% on a constant currency basis, with the first half of the prior year being a particularly strong comparative, having been concluded before the impact of COVID.

Excluding the distortive H1 comparative, organic revenue has improved, increasing from £26.8m in H2 2020 to £32.2m in H2 2021, growth of 20%. Including Vadotech, H2 2021 revenue grew 42% to £38.1m.

Track testing revenue of £49.7m was down 4% against the prior year (2020: £51.8m), reflecting a delay in the award of government contracts for track test services and a significant decrease in driving robot sales against a particularly strong pre-COVID performance in H1 2020. The Group expects sales revenues in this sector to remain constrained in the short term, before growing again once new regulatory requirements for new ADAS technologies are released and customer track testing operations can resume at full capacity. Demand for ADAS platforms was more resilient and by H2 2021 had recovered to levels seen pre-pandemic.

Laboratory testing and simulation delivered strong revenue growth, up 62% to £15.7m reflecting the receipt of a number of orders deferred from the prior year and growth across both simulation equipment and simulation software.

Gross margins reduced by 160 bps to 56.8% (2020: 58.4%), impacted by a higher proportion of large capital equipment revenues in laboratory testing and simulation, which are lower margin than the Group's other products and services.

Adjusted operating profit of £10.8m decreased 4% against 2020, with a reduction in adjusted operating margin to 16.6% (2020: 18.4%). This was impacted by the reduction in gross margin and our continued investment in our strategy for growth and building out the senior management team, partly offset by mitigating actions to reduce discretionary spending.

Net finance costs were £0.4m (2020: £0.4m), with lease interest of £0.1m and the unwinding of the discounted value of the deferred consideration on Vadotech of £0.3m.

This left adjusted profit before tax of £10.4m (2020: £10.9m).

The Group adjusted tax charge totalled £1.9m (2020: £1.9m), an adjusted effective tax rate of 18.2% (2020: 17.7%). The effective tax rate is lower than the current UK corporation tax rate due to allowances for research and development and patent box offset by overseas tax at higher rates than in the UK.

Adjusted diluted earnings per share were 37.4p (2020: 39.9p), a decrease of 6%.

Adjustments totalled £6.6m (2020: £6.6m) of which £4.4m related to amortisation of acquired intangible assets, £0.8m to costs in relation to acquisitions, including staff retention payments and £1.4m to ERP development costs.

Statutory operating profit decreased by 12% to £4.2m and after net finance costs of £0.4m (2020: £0.4m), statutory profit before tax decreased by 14% from £4.3m to £3.8m, giving statutory basic earnings per share of 13.2p (2020: 17.9p). The statutory tax charge was £0.8m (2020: £0.3m). A reconciliation of statutory to underlying non-GAAP financial measures is provided below.

### Return on capital employed (ROCE)

Our capital-efficient business and high margins enable generation of strong ROCE (defined as adjusted operating profit as a percentage of capital employed). However in the years in which we acquire businesses or new properties, our capital base grows disproportionately with profit, therefore the ratio will be impacted. The current year has been impacted by the investment in the acquisition of Vadotech and commissioning the new Engineering Design Centre, accounting for the decrease in ROCE in the year from 15.2% in 2020 to 11.5% in 2021.

### Cash generation

Operating activities generated adjusted cash inflow of £16.0m (2020: £6.9m) with cash conversion of 118% after a reduction in working capital of £1.5m. After interest payments of £0.1m and tax receipts of £1.1m, net consideration on the acquisition of Vadotech of £14.3m and dividends of £1.4m, this allowed us to invest £6.6m in property, plant and equipment and product development.

Net cash at the end of the year was £22.3m (2020: £30.0m).

### Acquisitions

On 3 March 2021, the Group acquired 100% of Vadotech Pte Ltd and Zynit Pte Ltd (collectively 'Vadotech Group') for initial consideration of €17.0m with deferred contingent consideration of up to €9.0m.

The acquisition has performed well during the year, contributing £5.9m to revenue and £1.5m to adjusted operating profit.

Deferred contingent consideration of up to €3.0m (£2.6m) and €6.0m (£5.2m) is subject to certain performance criteria being achieved for the year ended 31 December 2020 and the year ending 31 December 2021, respectively. The criteria in relation to the payment for the year ended 31 December 2020 were met, therefore an additional €3.0m (£2.6m) has been paid.

## Chief Financial Officer's review continued

### Research and development

While research and development forms a significant part of the Group's activities, a significant proportion relates to specific customer programmes which are included in the cost of the product. Development costs of £1.2m (2020: £0.2m) have been capitalised in relation to projects for which there are a number of near-term sales opportunities. Other research and development costs, all of which have been written off to the income statement as incurred, total £0.5m (2020: £0.8m).

### Foreign currency exposure

The Group faces currency exposure on its foreign currency transactions and translation exposure in relation to its overseas subsidiaries.

The Group maintains a natural hedge whenever possible to transactional exposure by matching the cash inflows and outflows in the respective currencies wherever possible.

Foreign exchange translation has provided a minor headwind on revenue and profit, with the US dollar, euro and yen all weakening against sterling. On a constant currency basis, restating the current year at 2020 average exchange rates, revenue would have been £1.5m higher and adjusted operating profit £0.2m higher.

### Dividends

The Board is recommending a final dividend of 3.2p per share giving a total dividend for the year of 4.8p per share, which is an increase of 10% over the prior year, resuming the Board's progressive dividend policy.

### Alternative performance measures

In the analysis of the Group's financial performance and position, operating results and cash flows, alternative performance measures are presented to provide readers with additional information. The principal measures presented are adjusted measures of earnings including adjusted operating profit, adjusted operating margin, adjusted profit before tax, and adjusted earnings per share.

The Annual Report includes both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The Group's alternative

performance measures and KPIs are aligned to the Group's strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because if included, these items could distort the understanding of the performance for the year and the comparability between the periods.

We provide comparatives alongside all current year figures. The term 'adjusted' is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. All profit and earnings per share figures in this Annual Report relate to underlying business performance (as defined above) unless otherwise stated.

A reconciliation of adjusted measures to statutory measures is provided below:

	2021			2020		
	Statutory	Adjustments	Adjusted	Statutory*	Adjustments*	Adjusted
Operating profit (£m)	<b>4.2</b>	<b>6.6</b>	<b>10.8</b>	4.7	6.6	11.3
Operating margin (%)	<b>6.4</b>	<b>10.2</b>	<b>16.6</b>	7.7	10.7	18.4
Profit before tax (£m)	<b>3.8</b>	<b>6.6</b>	<b>10.4</b>	4.3	6.6	10.9
Taxation (£m)	<b>(0.8)</b>	<b>(1.1)</b>	<b>(1.9)</b>	(0.3)	(1.6)	(1.9)
Profit after tax (£m)	<b>3.0</b>	<b>5.5</b>	<b>8.5</b>	4.0	5.0	9.0
Diluted earnings per share (pence)	<b>13.1</b>	<b>24.3</b>	<b>37.4</b>	17.8	22.1	39.9
Cash flow from operations (£m)	<b>14.3</b>	<b>1.7</b>	<b>16.0</b>	6.2	0.7	6.9

The adjustments comprise:

	2021 £m	2020* £m
Amortisation of acquired intangibles	<b>4.4</b>	3.5
Acquisition related costs/(credit)	<b>0.8</b>	(1.9)
ERP development costs	<b>1.4</b>	0.7
Inventory impairment	—	3.3
Restructuring	—	1.0
Adjustments	<b>6.6</b>	6.6

\* Restated following adoption of IFRIC update on cloud computing arrangements.

## Chief Financial Officer's review continued

### Amortisation of acquired intangibles

The amortisation relates to the businesses acquired in the previous year, DRI and rFpro, as well as the current year acquisition, Vadotech.

### Acquisition related costs/(credit)

The costs relate to the acquisition of the Vadotech Group as well as staff retention payments to the employees of rFpro. The cash to pay this was contributed by the previous owner of rFpro prior to acquisition, but as the employees had to remain within the business for a period prior to receiving payment, a charge had to be recognised in the income statement in both the current and the prior year. The credit in the prior year relates to the release of deferred consideration on the rFpro acquisition which, due to COVID-19 disruption, was not payable.

### Inventory impairment

In the prior year, following a detailed review of inventory levels and usage, a number of items previously included in the carrying value were written off and the system of accounting for inventory updated to better reflect the Group's current operations.

### Restructuring

The prior year restructuring costs related to a redundancy programme in the UK in which the skill base of the business was rebalanced.

### ERP development costs

These costs relate to the development, configuration and customisation of the Group's new ERP system and are adjusted due to their size and nature. Previously, these costs were capitalised as intangible assets. However, following the IFRS Interpretations Committee's agenda decision in April 2021 that where such systems are hosted on the cloud, no intangible asset arises as the software is the property of the service provider, such development costs are now required to be expensed as incurred.

### Taxation

The tax impact of these adjustments was as follows: amortisation £0.7m (2020: £0.5m), acquisition related costs/(credit) £0.1m (2020: £0.1m), ERP development costs £0.3m (2020: £0.1m), inventory impairment £nil (2020: £0.6m) and restructuring costs £nil (2020: £0.3m).

### Net cash

The reconciliation of cash and cash equivalents to net cash is as follows:

	2021 £m	2020 £m
Cash and cash equivalents	23.3	26.2
Fixed term deposits	—	5.0
Borrowings	—	(0.5)
Lease liabilities	(1.0)	(0.7)
	<b>22.3</b>	30.0

### Return on capital employed (ROCE)

ROCE is calculated as follows:

	2021 £m	2020 £m
Adjusted operating profit	10.8	11.3
Shareholders' equity	105.0	102.2
Net cash	(22.3)	(30.0)
Deferred tax	6.6	2.5
Deferred consideration	4.9	0.0
	<b>94.2</b>	74.7
Return on capital employed	<b>11.5%</b>	15.2%

## Key performance indicators

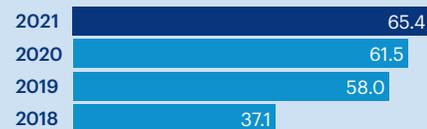
# Clear performance measures that highlight sustainable value creation

## Financial figures

Growth of the business, quality of earnings and efficient use of resources are crucial target areas for AB Dynamics and we employ a number of performance measures to monitor them. The KPIs used to monitor the financial performance of the business are set out opposite.

These KPIs enable progress to be monitored on the implementation of the Group strategy, level of investment and business development.

Revenue  
£65.4m +6%

**Definition**

Revenue is measured at the value, net of sales taxes, of goods sold and services provided to customers.

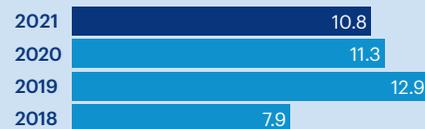
**Reason for choice**

This is a key driver for the business, enabling us to track our progress in increasing market share by product and by region.

**Comment on results**

The growth was driven by the acquisition of Vadotech and an increase in demand for our laboratory testing and simulation equipment, offset by the impact of reduced demand for robots and ADAS platforms during the pandemic.

Adjusted operating profit  
£10.8m -4%

**Definition**

Earnings before interest, tax, amortisation of acquired intangibles, acquisition costs and other adjustments for one-off non-recurring items.

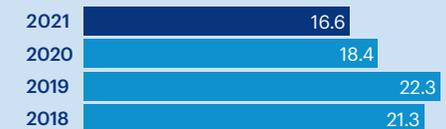
**Reason for choice**

Adjusted operating profit provides a consistent year-on-year measure of the trading performance of the Group's operations.

**Comment on results**

The increase in revenue was offset by additional operating costs as a result of the acquisition, lower gross margins due to the higher proportion of lower margin laboratory testing and simulation revenue and the continuing investment in the systems and infrastructure of the business, mitigated by discretionary cost savings.

Adjusted operating margin  
16.6% -180 bps

**Definition**

Adjusted operating profit divided by revenue.

**Reason for choice**

This measure brings together the combined effects of procurement costs and pricing as well as the leveraging of our operating assets.

**Comment on results**

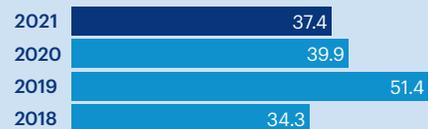
Margin decreased by 180 bps due to lower activity levels in the first half of the year, being impacted by COVID-19, but higher costs due to the planned investment in the systems and infrastructure of the business.

## Key performance indicators continued

### Financial figures continued

#### Adjusted diluted eps

37.4p -6%



##### Definition

Profit after tax excluding amortisation of acquired intangibles, acquisition costs and other adjustments for one-off non-recurring items, divided by the fully diluted weighted average number of shares.

##### Reason for choice

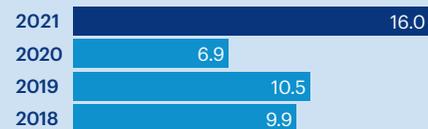
This measure is designed to include the effective management of interest costs and the tax charge and measure the total return achieved for shareholders.

##### Comment on results

Adjusted diluted eps decreased by 6% as a result of the decrease in adjusted operating profit.

#### Adjusted operating cash flow

£16.0m +131%



##### Definition

Cash flow for operating activities adjusted for acquisition costs and other adjustments for one-off non-recurring payments or receipts.

##### Reason for choice

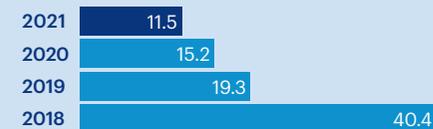
This provides a measure of the cash generated by the Group's trading. It represents the cash that is generated to fund capital expenditure, interest payments, tax and dividends.

##### Comment on results

Adjusted operating cash flow increased by 131% to £16.0m as a result of improved working capital.

#### Return on capital employed

11.5% -370 bps



##### Definition

Adjusted operating profit as a percentage of capital employed, defined as shareholders' funds less net cash held, deferred tax and deferred consideration.

##### Reason for choice

This measures efficient use of capital.

##### Comment on results

ROCE reduced from 15.2% to 11.5% in the year due to the investment in the acquisition of Vadotech and completion of the Engineering Design Centre.

## Environmental, social and governance (ESG) strategy

# Developing our ESG strategy



## Introduction

This year, the Group's approach to sustainability and corporate governance has been led by its newly-formed ESG Committee.

The Committee was constituted by the Board to primarily promote AB Dynamics plc's contribution to road safety and the associated reduction in road accidents and fatalities and promote its contribution to the reduction in fossil fuels usage in the automotive sector. The Committee's remit also includes setting the strategy, developing the ESG policies, programmes, targets and initiatives of the Group; recommending Key Performance Indicators; providing oversight of the Group's management of ESG matters and compliance with relevant legal and regulatory requirements.

We believe that reporting on material non-financial measures is important in understanding the performance, opportunities and long-term sustainability of the Group, and its activities in this field will generate real value for all our stakeholders. The issue of global sustainability is increasingly important to our customers, employees, suppliers and shareholders, and we take responsibility to operate ethically and deliver growth in a sustainable manner. This section of the Annual Report provides an overview of our ESG methodologies, which fall within the Group's global subsidiary governance framework, and provides details of our progress during the financial year in three key areas: Environment, Social and Governance.

## Environmental, social and governance (ESG) strategy continued



### Environmental

The Company's new ESG Committee has been set up to, inter alia, drive reduction of the Group's impact on the natural environment and its adaptation to climate change. Its remit includes:

- Greenhouse gas emissions
- Energy consumption
- Generation and use of renewable energy
- Other emissions
- Resources efficiency
- Biodiversity and habitat
- Impact on water resources and the status of water bodies
- Pollution
- Reduction and management of waste

The Group believes that incorporating sustainability and solid environmental principles into our everyday operations, now more than ever before, is fundamental to ensuring successful, long-term outcomes for our business, for our employees and for the community.

We recognise the adverse consequences of CO<sub>2</sub> and other greenhouse gases on our environment, and we are committed to reducing the impact associated with the whole Group's energy usage. The Board and senior management are wholly committed to delivering continual environmental improvements across the organisation, as well as assisting the global automotive sector to develop new technologies that will reduce CO<sub>2</sub> emissions and drastically improve road safety.

We will continue to deploy green technology wherever possible and appropriate, and to make careful and considered decisions in all our operations to reduce our current carbon footprint.

**Our goal is to be carbon neutral by 2030.**

#### Clean inputs

The Board has continued its focus on increasing the use of 'clean inputs': investing in renewable power at the premises owned by the Group accompanied by the use of renewal energy from renewable energy providers to meet the Group's energy needs, to drive the agenda of sustainability across the Group.

#### Conversion

The Board believes that investing in renewable technology is another important way to eliminate carbon from the Group's operations. The Group's new Engineering Design Centre was completed in March and since its occupation, the building has been partially powered by solar energy.

Last year the Company also obtained planning consent for the installation of solar panels on the roof of the existing headquarters building in the UK. These have now been successfully installed, and despite only being active for part of the year have already generated 62,030kWh of power.

#### Green sourcing

As renewable energy generation is not viable at all Group facilities (we lease most of our premises), we have taken the decision to meet our global energy needs directly from renewable power providers, wherever possible.

Last year AB Dynamics in the UK centralised the procurement of gas and electricity for our UK activities; this three-year process to move all facilities to Engie is continuing. Engie offers 100% UK generated renewable power from certified renewable sources and is fully certified as zero carbon emissions by UK Renewable Energy Guarantees of Origin (REGOs), providing complete traceability of the energy it supplies to the Group.



“Our goal is to be carbon neutral by 2030”

## Environmental, social and governance (ESG) strategy continued

### Clean inputs continued

#### Green sourcing continued

This year we have also directed each of our subsidiaries to procure renewable energy. Whilst this has not always been achievable, as for example in some instances the supply of power is sourced by our landlords, we have undertaken to lobby our landlords to move their contracts to a renewable provider. We believe that switching to renewable power is the simplest approach to significantly lower our carbon footprint, benefit the environment, and demonstrate our commitment to sustainable business practices.

### Responsible consumption

#### Energy consumption and emissions

The Group's activities can be summarised as largely manufacturing/assembly operations, combined with office-based research, product development and other commercial functions, where we receive materials and products from suppliers, assemble them into product and dispatch to customers. The acquisition of the Vadotech Group has increased the remit of these operations to include an element of on-road vehicle testing.

Therefore, the Group's main impact on the environment is the consumption of heating and power and fuel or electricity for customer vehicles while providing test services and developing and testing products.

The Group remains committed to identifying and assessing environmental risks, such as packaging waste, arising from its operations. Waste management initiatives are encouraged and supported by the Group and materials are recycled where practicable. Local management teams are committed to good environmental management practices and are responsible for implementing the necessary initiatives to meet their local obligations. The Group's largest subsidiary Anthony Best Dynamics Limited is currently working towards ISO 14001 accreditation.

Each facility participates in recycling paper, plastic, cardboard and wood from pallets and continues to focus on minimising energy consumption through the efficient use of heating and lighting. The Group's usage of water is minimal and predominantly relates to cleaning, bathrooms and staff refreshments.

As the Group does not use its own logistics or freight, its primary direct energy usage and related CO<sub>2</sub> emissions arise from its facilities and vehicles. The Group has undertaken significant steps to reduce its consumption as described above through both internally generated and purchased renewable energy and will also include staff awareness campaigns in the coming months.

#### Reduction

As a business, we continue to assess our impact on the environment and try to mitigate or reduce the Company's energy consumption wherever possible. Our new ESG Committee has been responsible for designing and implementing the Group-wide approach needed to affect the reduction of energy usage. The first steps in this initiative are to: collate Group-wide data so the Group can fully understand its energy usage (and create a Group baseline), create a Group-wide strategy, and formulate the necessary policies and procedures to back this up; and finally, to set an appropriate target. Whilst the COVID-19 pandemic has significantly reduced our employee travel in the year, it has made our data collection (to set a Group-wide baseline) more challenging. Nevertheless, the Group's data can be found further below. The Committee has also set the ambitious target of reducing the Group's net carbon emissions to zero by 2030.

### Carbon emissions

This year the ESG Committee has set the target of net zero carbon emissions by 2030. The Group remains totally committed to reducing our emissions and feels that this ambitious target will provide a focus for our activities.

We recognise the impact that greenhouse gas emissions have on our environment.

This is the Group's second year reporting its emissions in this manner. Previously we have reviewed and included data from our main UK operations only.

- ▶ See overleaf for the Group's energy consumption and emissions data

**“This year the ESG Committee has set the target of net zero carbon emissions by 2030. The Group remains totally committed to reducing our emissions and feels that this ambitious target will provide a focus for our activities”**

## Environmental, social and governance (ESG) strategy continued

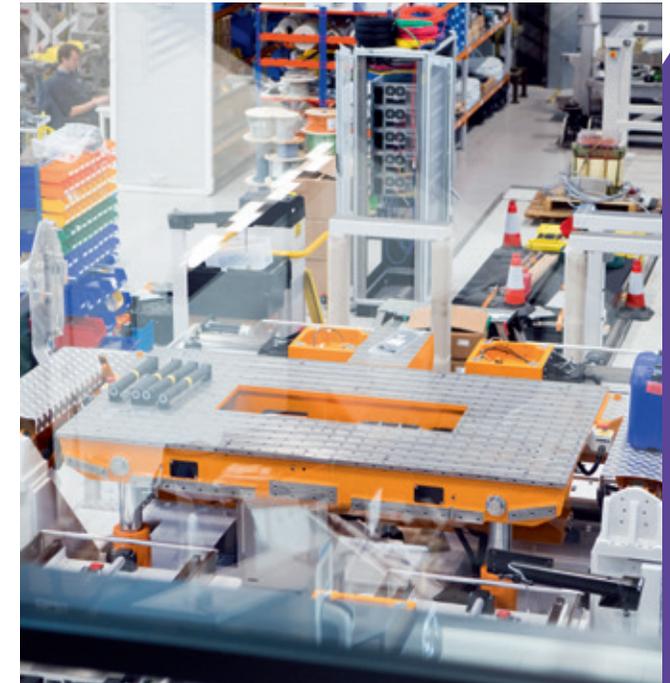
This year we now collate data on a global basis, including all our subsidiaries both in the UK and overseas. As this will increase the Company's overall usage figures, we have broken down the data to provide a like-for-like comparison (for UK figures) as well as providing the results for the whole group.

As the COVID-19 pandemic has significantly reduced both local and international travel, the figures for 2020 and 2021 will be artificially low.

### AB Dynamics plc energy consumption and emissions:

UK		UK FY 2020	UK FY 2021	Group* FY 2021
Scope 1: Direct emissions from owned/controlled operations	tCO <sub>2</sub> e	138.81	<b>127.73</b>	<b>411.21</b>
Scope 2: Indirect emissions from the use of electricity	tCO <sub>2</sub> e	132.22	<b>147.44</b>	<b>545.63</b>
Scope 3: Emissions from sources which we do not own and include business travel, water consumption etc.	tCO <sub>2</sub> e	240.29	<b>53.32</b>	<b>162.99</b>
<b>Total emissions</b>	tCO <sub>2</sub> e	511.32	<b>328.49</b>	<b>1,119.83</b>
Underlying energy consumption used to calculate emissions	kWh	1,168,699	<b>1,391,416</b>	<b>3,197,215</b>
Revenue (£m)		47.6	<b>44.9</b>	<b>65.4</b>
Intensity ratio		10.7	<b>7.3</b>	<b>17.1</b>

Notes: Vadotech and Zynit only joined the Group in March as such the Group data only includes their emissions data for March to August. Source data (meter readings) have been used wherever possible; where this is not available this has been supplemented by billed data and a small amount of estimated data. Appropriate conversion factors have been used to calculate the underlying energy consumption figures; all UK Conversion Factors were taken from the UK Government GHG Conversion Factors for Company Reporting 2020 issued by the Department for Business, Energy & Industrial Strategy & Department for Environment Food & Rural Affairs. These factors were also used in the main for our overseas companies except for emissions from electricity and/or gas where conversion factors were taken from the US Environmental Protection Agency for our US Subsidiaries or other on-line factor conversion tools such as Carbon Footprint Ltd, Kyles Converter.com and unearthtools.com for our other subsidiaries. Certain data, estimated to be immaterial to the Group's emissions, have been omitted as it has not been practical to obtain (use of certain types of public transport: buses/tubes/rail). Metering and monitoring improvements continue to be implemented to capture and improve the Company's data stream. Previously the carbon figures published related to AB Dynamics plc and Anthony Best Dynamic Limited (a large unquoted company) only, their emissions were divided by the total Group revenue to create the intensity ratio (tCO<sub>2</sub>e per £m) published in our Annual Report last year. However, now we are collating data for the Group we have corrected the prior year's intensity ratio to the Revenue of Anthony Best Dynamics Limited only (as recorded in their statutory accounts) to allow for appropriate like-for-like comparison.



## Environmental, social and governance (ESG) strategy continued



### Social

The health and safety of our employees is of paramount importance, particularly during these challenging times, and we work hard to ensure all our people are safe, whether they are working from home, working in our premises, or working with our customers. We are also committed to providing a fair, equal and inclusive environment for all our people.

Our corporate responsibility programme continues to have high levels of engagement and support by Group employees. One of the principles of our programme is to create close relationships between our people and the communities where we live and work, above and beyond the act of giving money.

Our business understands the value of people interacting with others, and that is a principle we have applied to the communities and charities we support. This means sharing our time and our expertise as well as supporting initiatives with funding.

We do support fundraising and make charitable donations as well, but it is a principle of our programme that we want the Group and its subsidiaries and employees to be at the heart of our communities. We aim to be an active contributor to society, helping to engage and inspire the next generation of our workforce and positively impact those around us.

We believe that long-term relationships and partnerships are more beneficial for our associates than intermittent, ad-hoc or one-off giving, and you will see this is reflected in our continuing work with the University of Bath, Smallpeice Trust, Mission Motorsport and WES (Women's Engineering Society).

### Health and safety

We believe that the focus on safety is essential to delivering a high-performing, open and constructive safety culture. This year the Group has standardised key processes and procedures across its subsidiaries. As part of the Company's global subsidiary governance framework, each subsidiary is now required to manage its Health and Safety measures and activities in line with the Group's methodology. Whilst the Chief Executive Officer (supported by the senior management in the Group) has overall responsibility for Health and Safety across the Group, the management of each operating business is required to comply with the processes and procedures disseminated by the Group and report on their activities on a quarterly basis.

This way the Group can actively promote a strong safety culture, striving to instil the same safe working principles in every employee wherever they are and in whichever Group business they work.

### Health and safety governance

The Board is committed to driving a strong safety culture throughout the Group and it delegates authority to drive safety processes, systems and improvements through the Executive Committee (Excom) to local subsidiary management. The Group demands that each employee carries responsibility for their own personal safety and those around them thus creating collective responsibility for ensuring health and safety standards are met and continually improved upon.

Nevertheless, local management teams are accountable for observing the health and safety methodology set by the Group, with each manager having received appropriate briefings on these requirements; and ensuring compliance with local regulatory requirements, culture and specific business needs.

The key requirements of the Group's methodology can be summarised as follows:

- Ensure Health and Safety is on the agenda for every monthly management meeting to address any identified issues, ensure a process of continuous improvement is in place and to drive a strong safety culture
- Create a Health and Safety Committee (if they do not already have one) and hold Health and Safety Committee meetings quarterly

- Ensure that each committee has at least one trained, competent person who is certified to a recognised standard in the territory in which the business operates
- Fully investigate all incidents and ensure corrective actions and preventative measures are put in place to make certain that the incident does not reoccur, and future risks are mitigated
- Report to the Chief Executive Officer four times a year (within two weeks of each Committee meeting), providing a paper which summarises the findings of this process and each company's Health and Safety statistics

### COVID-19 response

The Group has continued its operations during the ongoing global COVID-19 pandemic with minimal disruption. The changes made to working practices included the introduction of a suite of new measures and safety guidelines and most notably working-from-home for employees and these have remained in place for much of the year.

Risk assessments, which were conducted by each of the Group's subsidiaries at the start of the COVID-19 pandemic, have been revised and reissued to employees regularly throughout the year, to make sure the Group is keeping pace with the changing environment, and changing governmental advice.

As the Group operates manufacturing and production facilities and track-based testing sites, a limited number of staff were not able to work from home and continued to visit or be based at our premises during the year. Where staff remained on site, each subsidiary undertook their own revisions to risk assessments dependent on location and types of activity.

With the easing of government restrictions in a number of the Group's locations, many of our staff are now returning to the office on a phased basis. The Group continues to monitor staff safety and wellbeing and regularly reviews latest governmental advice to ensure the workplace risks are minimised to a level as low as reasonably practicable.

## Environmental, social and governance (ESG) strategy continued

### Health and safety continued

#### Health and safety reporting

The table below provides a summary of the Group's health and safety statistics. Most injuries are minor and relate to manual handling, cuts and/or abrasions, the majority of which were dealt with by locally trained first aiders. All first aid cases are regularly reviewed and where trends are identified, further control measures are introduced to reduce risk and prevent recurrence.

	2021	2020	2019	2018	2017
Average employees	<b>333</b>	275	181	128	97
Reportable incidents	—	—	—	—	—
Lost time incidents	—	—	—	—	—
Near misses	<b>15</b>	9	13	7	4
Minor injury (FAC)*	<b>13</b>	13	14	9	5
Injury rate per (FAC)* 100 employees	<b>3.9</b>	4.7	7.7	7.0	5.2

\* FAC means First Aid Cases.

Near miss reporting figures continue to increase and the proactive reporting of such events is actively encouraged to prevent unwanted incidents from happening.

The Group is proud to maintain its record of no reportable incidents (under UK RIDDOR rules) and no lost time incidents. The overall injury rate per 100 employees has consistently reduced since 2019. The injury rate is currently measured against first aid or medical treatment cases that did not result in a lost time injury or reportable incident.

#### People potential

As a technology-led organisation the Group recognises that our ability to attract and retain people with critical skill sets is a key driver in enabling us to deliver on our strategic goals. To help enable this the Board is committed to ensuring that all employees can operate in a workplace that is safe, inclusive, welcomes diversity and offers everyone the opportunity to develop to their full potential. In addition, implementing a framework to align individual objectives with Group strategy helps empower employees in their day-to-day activities. The Board believes that these working practices maintain employee morale, support team working and are a further driver in achieving the Group's performance goals and business objectives.

### Engagement and communication

The Group recognises the importance of communicating with all staff to help maintain trust and confidence between all parties. This is achieved by various formal processes and ad-hoc actions throughout the year. On a formal basis, meetings are held throughout the year between employees and their line managers to ensure that personal objectives are aligned with Group strategy and to formally identify development needs and career aspirations. Based on local requirements, weekly and monthly management team meetings are held to provide a forum for company updates. Internal announcements are issued on a regular basis and include business updates, guidance on maintaining a safe working environment and matters of general interest. The Group's website is used for the distribution of preliminary and interim announcements and press releases.

To further support staff engagement all employees have been invited to participate in staff surveys. This consists of a baseline survey to be undertaken on an annual basis and then followed by regular pulse surveys throughout each year. Information obtained will be reviewed at a local management and Group level and results communicated to all employees. Relevant action plans will be developed and implemented to help address areas of concern and the effects of these actions will be tracked by ongoing pulse surveys.

During the year a significant piece of work was undertaken to develop the Vision and Values of the Group. The Group is undergoing significant change and focus was required to further develop our staff engagement activities and ensure that working for the Group continues to be a positive experience for all employees. An external consultant was engaged to facilitate the process and work with a project team made up of representatives from across the business to formally articulate what we stand for as a business and how we expect everyone to behave in their day-to-day responsibilities and interactions with colleagues, customers, suppliers and local communities. Embedding the values across the Group will be one of the key actions for the coming year.

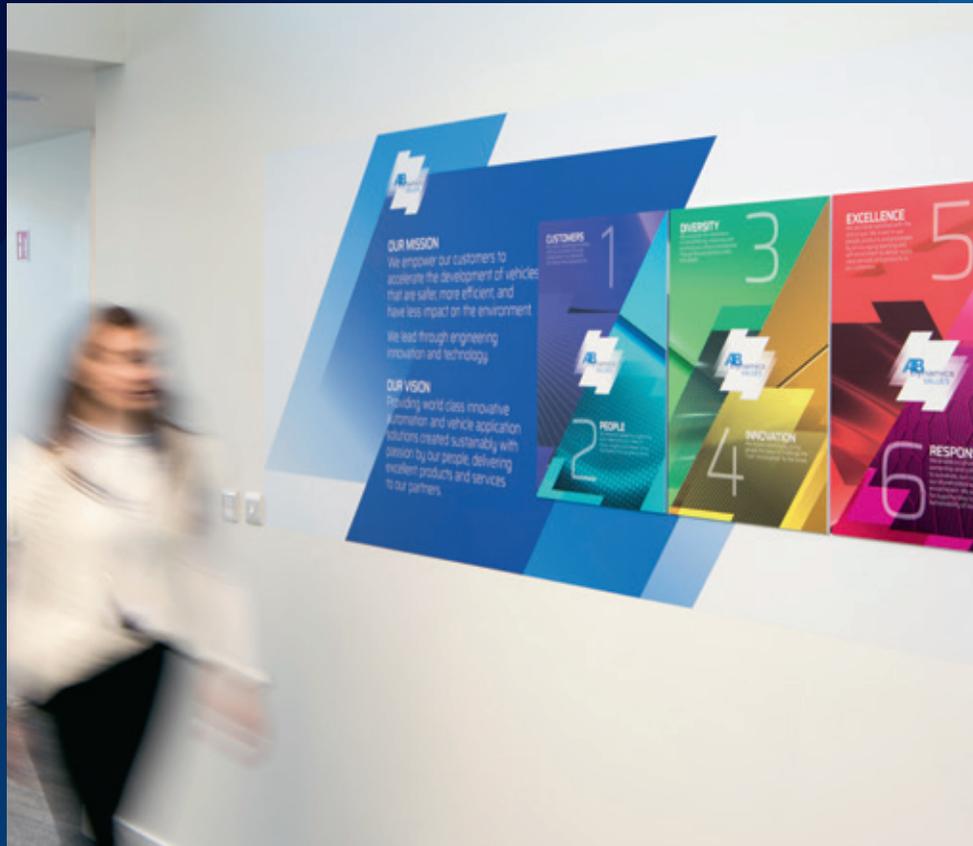
► See page 42 for more detail on the Group's Vision and Values



“The Group is undergoing significant change and focus was required to further develop our staff engagement activities and ensure that working for the Group continues to be a positive experience for all employees”

Environmental, social and governance (ESG) strategy continued

# Building on our Vision and Values



Providing world class innovative automation and vehicle application solutions created sustainably with passion by our people, delivering excellent products and services to our partners.

## 01

### Customers

We create valuable partnerships with our customers through collaboration to understand and deliver their requirements.

## 02

### People

We empower people by supporting and challenging each other to thrive. Integrity and respect are at the forefront of everything we do.

## 03

### Diversity

We recognise the importance of strengthening, improving and enriching our culture and practices through diverse opinions, skills and people.

## 04

### Innovation

We inspire creativity by giving people the space to challenge the 'now' and engineer for the future.

## 05

### Excellence

We are never satisfied with the status quo. We invest in our people, products and processes by encouraging learning and self-enrichment to deliver world class services and products to our customers.

## 06

### Responsibility

We enable a culture of personal ownership and commitment to ourselves, our customers, our shareholders and the environment. We are always looking for opportunities to improve the sustainability of our operations.

# Environmental, social and governance (ESG) strategy continued

## People potential continued

### Recruitment, training and education

Attracting and retaining key talent is critical to maintaining our market position and enables us to deliver on our ambitious growth plans. By reorganising our recruitment practices we have had significant success with improved candidate experience, reduced time to hire and improved cultural fit of new hires. In addition, significant cost savings have been achieved, further contributing to operating performance. Due to the large number of new employees and the impact of the acquisition of Vadotech, average length of service has reduced slightly to five years.

All employees have the opportunity to benefit from discretionary performance-based bonus with the exception of some employees within recent acquisitions.

The Group remains committed to retaining key staff and supporting their ongoing career development. The talent mapping and succession planning process implemented in the previous financial year has continued and helped enable a significant proportion of employees to take on wider responsibilities either through formal promotional opportunities or growth in current roles. Retention rates within this group have improved and are below the Group average.

The career development of our engineering resources has been identified as a key area of focus and a structured engineering career path has been prepared and communicated to employees within our largest subsidiary. This documents the responsibilities and performance requirements of all grades within our engineering teams, how individuals can progress their career and will further support the identification of development needs. In future this will be implemented across the Group.

The challenges of COVID-19 have restricted the organisation of development activities but were in part mitigated by offering on-line and distance learning solutions. Courses taken during the year included: Leadership Skills, Project Management, Performance Management, Lean Six Sigma Green Belt training, Presentation skills, Finance for Non-Financial Managers, Mental Health in the Workplace, Certified ScrumMaster, Anti-Bribery, Cyber Security Awareness, Display Screen Equipment (DSE), Modern Slavery, Supplier Audit, Performance Management, Mental Health First Aid, Working Safely, Fork Lift Truck basic and refresher, Excel, Logistics & Transport, Trailer towing, First Aid, First Aid refresher, Crane training, Non-UK Employee Visa, Internal Auditor training, CE Marking, CE Technical, SpecFlow, HNC Electrical Engineering, HNC Mechanical Engineering, Root Cause Analysis and Employment Law.

Investment in future staff has continued with ten graduate engineers joining us and despite the restrictions of COVID-19, four individuals joined as interns. As several employees completed their apprenticeships and transitioned into permanent full-time roles, overall apprentice numbers have reduced and we are in the process of recruiting to fill these opportunities.

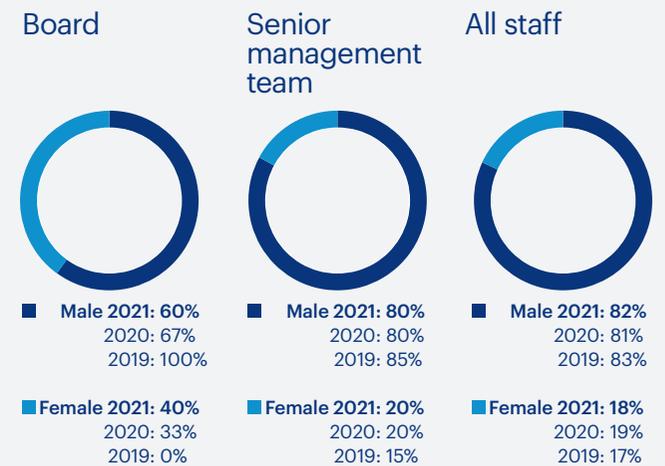
### Gender diversity

The Group's employment policies and practices remain based on non-discrimination and equal opportunities. Whilst ability and aptitude remain the determining factors in the selection, training, career development and promotion of all employees, the Group is conscious that there remain inherent disadvantages for women in engineering. Therefore, we have chosen to continue as a Corporate Partner to the Women's Engineering Society (WES). Actions taken to increase our profile within the membership and help facilitate opportunities have included targeted job advertisements to women, membership of WES for all female engineers, internal networking events for all females, judging the WES 2021 Top 50 in Engineering: Engineering Heroes (WE50) and the mentoring of students who are considering a career in engineering. With the easing of COVID-19 restrictions we will continue our support for female engineers with ongoing initiatives with WES and other related groups.

The Board recognises the importance of gender diversity and has been working to improve its gender mix.

A significant proportion of the Group's workforce are engineers and technicians. As advised by Engineering UK, only 12% of engineers are female; therefore the Group remains above average for our industry with women representing 18% of our overall workforce. Within the senior management team, the proportion of female representation is at 20% while the Group Board is at 40%.

Set out below is an analysis of the Group's employees by gender in October each year:



## Environmental, social and governance (ESG) strategy continued

# Community and corporate social responsibility

Historically, the Group's Corporate Social Responsibility (CSR) activities have been focused around the Group's largest subsidiary in Bradford on Avon. However, over the last two years our organisation has expanded with legal entities in over seven countries and global presence which spreads much further. As the former UK-centric approach is no longer appropriate, the Group has resolved to standardise key processes and procedures across its subsidiaries and thereby encourage them to take a more active role. In line with the Group's global subsidiary governance framework, each subsidiary is now encouraged to manage and promote its own CSR, becoming more involved in the communities local to them, the results of this decision will become available in the next financial year. In the meantime, the Group has continued to make donations towards several charitable and fundraising activities, primarily in support of STEM related institutions, and participate in events (where possible) with a focus on the South West of England, where the Group is headquartered.

Whilst the ESG Committee has overall responsibility for CSR across the Group, the management of each operating business is now expected to comply with the Group's strategy and maintain detailed records of their engagement with their communities and the activities they have undertaken.

The Company's CSR strategy, which sets the objectives and focus of Group CSR efforts, remains largely unchanged. CSR activities are required to meet at least two of the following four core criteria:



## Environmental, social and governance (ESG) strategy continued

### Community and corporate social responsibility continued

This year, the impact of the COVID-19 pandemic on our communities has been significant and consequently it has never been more important to remain involved and committed to supporting the communities within which we operate. However, whilst restrictions remained in place throughout the majority of the year, we were not able to undertake many of the community-based activities in which we would normally engage. We have not been able to attend careers fairs (for students or veterans), nor have we been able to support work experience placements. Nevertheless, we have sought out alternative methods for our corporate social activity.

### Science, Technology, Engineering and Mathematics (STEM) in schools and universities

The Group continues its engagement with the workforce of tomorrow through its collaborations with schools and universities.

Sadly, due to the continuing COVID-19 pandemic we were not able to offer work experience to our local schools or attend any careers fairs. However, the Group has sought to promote STEM in schools using alternative methods. The Smallpeice Trust 'Think Kits' discussed below, are an example of this modified approach.

#### Smallpeice Trust

This charity provides opportunities for corporate partners to sponsor educational and development experiences across a wide range of engineering sectors.

As residential courses were again curtailed by the COVID-19 pandemic, the Group decided to sponsor a number of local schools to run their own STEM clubs using the Smallpeice Trust's Think Kits. Each Think Kit comes with the tools and resources to start or help sustain a STEM Club for up to 20 students. Every kit complements the National Curriculum in science, technology, engineering and mathematics, allowing students to sharpen their skills in thinking, communicating ideas and responding creatively to briefs.

This year the Group provided Think Kits to the following local schools in the UK:

- Matravers School
- The Clarendon Academy
- The John of Gaunt School
- St Laurance School

#### Arkwright Scholarships

In the last year the Group has sponsored an Arkwright Engineering Scholarship. These scholarships are designed to inspire students to pursue their dreams and change the world as a future leader in engineering. Following our engagement with Arkwright, we were asked if any of our employees would consider becoming mentors for the scheme. Six of our engineers put themselves forward, and four were successfully appointed as mentors.

#### Cheadle Hulme School

F1 in Schools Ltd create an exciting yet challenging educational experience through the magnetic appeal of Formula 1. F1 in Schools is a truly global educational programme that raises awareness of STEM and Formula 1 among students and school children in every region, in every country, on every continent. Spanning age ranges of 9 to 19, the objective is to help change the perceptions of STEM by creating a fun and exciting learning environment for young people to develop an informed view about careers in engineering, Formula 1, science, marketing and technology. This year the Group sponsored a team of students to participate in the UK competition.

### Win/Win for the University of Bath Racing

This year the Group has benefited from a steady supply of young fresh talent from the University of Bath through the relationships we formed during our sponsorship of their Formula Student and Electric Race Teams. These include: a Project Manager, Systems Engineer and Project Engineer (who joined in March, September and October 2021 respectively) and a one-year electrical engineering placement who joined the Company in September 2021.

This is an excellent demonstration of how Community engagement can benefit all of the participants.

Cheadle Hulme School's car for F1 in Schools



## Environmental, social and governance (ESG) strategy continued

### FIRST® LEGO® League



The FIRST® LEGO® League Challenge is a global STEM programme for teams of young people, to encourage an interest in real world themes and develop key skills that are crucial for their future careers. Young people work together to explore a given topic and to design, build and programme an autonomous LEGO® robot to solve a series of missions. This year we sponsored a group of local students who won the regional competition going through to the national play-offs and whilst they didn't win the national competition, they were awarded the judges' award (see picture).



Regional prizes awarded by FIRST® LEGO® League

### University of Bath



The Group renewed its sponsorship of the University of Bath's Formula Student race team. Steph Hines, one of our project managers, also judged the Formula Student Event held at Silverstone in July 2021 across the three days.

### Sponsorship of the University of Bath – Team Bath Racing Electric

The Group's sponsorship of the University of Bath Racing Electric team continued over two financial years (March 2020 – March 2021). During this period, we provided technical assistance and donated parts and equipment. The Group intends to renew our gold level sponsorship for 2022.



University of Bath Formula Student race car

### Armed Forces – Mission Motorsport



The Group has continued its commitment to supporting the Armed Forces Community, which has a significant and growing presence in and around Wiltshire in the UK where the Group is headquartered. Unfortunately, we were not able to attend any careers fairs during the year due to the COVID-19 pandemic. Nevertheless, the Group continues its support for the charity Mission Motorsport, which aids the recovery and rehabilitation of wounded, injured or sick military services personnel through participation in motorsport. Through engineering, the charity helps to adapt the vehicle, not the sport, allowing disabled drivers to compete on a level playing field. The charity also provides dedicated career managers to participants having placed over 200 service leavers back into employment.



### Women in STEM

#### Women's Engineering Society



This year the Group has continued its association with Women's Engineering Society (WES). Membership to WES has been offered to all female engineers and technicians within the UK businesses. We have also utilised their job posting board to target the recruitment of more female engineers and encourage diversity within the business. Following the easing of restrictions for the COVID-19 pandemic, the Group Headquarters held a very successful Women In Engineering networking lunch which was well attended.



Networking lunch at AB Dynamics HQ

## Environmental, social and governance (ESG) strategy continued



### Governance

We are committed to ensuring that the behaviours and practices of our organisation, including those within our supply chains, reflect our own high business standards and compliance with applicable laws and standards. To bring to life our commitment to good governance and compliance, we have set out below examples of how we apply our standards of good governance to our supplier relationships. We have a zero-tolerance approach to slavery and human trafficking, and bribery and corruption within our workforce, and endeavour to set the same robust expectations in relation to our supply chain and associates.

#### Ethical, diverse and robust supply chains

Whilst the interactions with shareholders are wholly managed by AB Dynamics plc, our communications and relationships with customers, suppliers and advisers are managed within each subsidiary by senior management, and the Group expects the same high standards of expertise and business principles to be maintained in such dealings.

Our aim is to ensure that there is consistency across our international entities, to enable us to monitor compliance. We have chosen to operate under a centralised, head office-controlled framework but devolve responsibility for compliance within this framework to operating divisional or jurisdictional management, with the aim of global harmonisation around local requirements and legislation.

#### Supplier due diligence

Suppliers are selected for audit based on supply chain risk assessments. Throughout the course of the year, these audits assess each supplier's approach to human rights, data protection, modern slavery, health, safety and environmental issues amongst other matters.

AB Dynamics plc expects high standards of commercial confidentiality from the suppliers it engages with, as the protection of information and the physical assets of the Group and our customers is an important part of what we do. Before suppliers are selected, checks are undertaken to make sure they are 'fit for purpose' and able to meet our high standards and contractual requirements. If any risks are identified, the Group works with suppliers to address them.

#### Prompt payment

We understand the importance of predictable payments when operating a business and encourage good practice across the Group. When entering into new agreements for the supply of goods and/or services, our subsidiaries are responsible for agreeing appropriate payment terms. Group companies are encouraged to abide by the payment terms they have agreed, so long as they are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

#### COVID-19 supply risk

During the COVID-19 pandemic the Company has worked closely with our supply chain to determine the impact of COVID-19 on their business to mitigate the ongoing effects. We have not identified any material supply chain risks that cannot be managed and/or mitigated, however, we maintain an open channel of communication with our suppliers to make sure this remains the case.



“We are committed to ensuring that the behaviours and practices of our organisation, including those within our supply chains, reflect our own high business standards and compliance with applicable laws and standards”

## Environmental, social and governance (ESG) strategy continued

### Commercial integrity/business ethics

We are committed to ensuring that the behaviours and practices of our organisation, including those within our supply chains, reflect our own high business standards and compliance with applicable laws and standards. We strive to conduct business honestly, openly and with integrity, as this approach will support our long-term success and sustainability.

We hold our leaders accountable for ensuring their businesses operate according to the strict ethical standards we expect. We have in place a series of Group policies forming a global subsidiary governance framework to guide our actions and those of our employees, suppliers and partners to ensure good governance and ethical behaviour across our Group. These policies include Human Rights, Anti-bribery, Modern Slavery, Conflicts of Interest, Competition and Anti-trust. These policies can be located on our website.

### Anti-bribery and corruption

We have a Group-wide policy on anti-bribery and corruption which has been circulated to every member of staff globally through the Company's HR portals or QMS systems. Employees receive on-line training on the core subject matter to improve their understanding of the Group's requirements and embed compliance. The policy and training are available in four languages (the key languages spoken across the Group).

### Whistleblowing

Whilst we believe we have a robust framework in place and a commitment to doing the right thing, where these high standards have not been met, we encourage our workforce to speak up and come forward. Through the implementation of our Whistleblowing Policy and an on-line whistleblowing hotline through EQS Group, employees are encouraged to raise any concerns anonymously through a third-party tool to an independent Non-Executive director of the Group. This way the Board aims to encourage openness and will support staff who raise genuine concerns in good faith under this policy, even if they turn out to be mistaken. All reports made through this tool shall continue to be investigated in line with the Group's policy. No whistleblowing reports were received during the period.

### Human rights and modern slavery

The Group aims to manage and mitigate the risks associated with potential human rights breaches and modern slavery and to ensure we have transparency across our subsidiaries, via the implementation of standardised policies and methodologies forming part of the Group's global subsidiary governance framework.

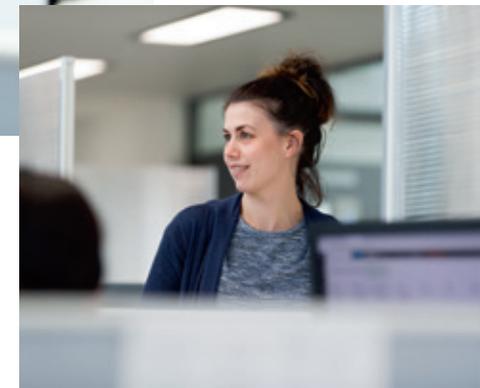
At a high level, appropriate governance and oversight is maintained through our new ESG Committee with the overall objective of ensuring good governance, oversight and monitoring of our supply chain and supplier relationships. Local management teams remain accountable for: observing the operational approach set by the Group, with each manager having received appropriate briefings on these requirements; and ensuring compliance with local regulatory requirements, culture and specific business needs.

Underpinning this approach are robust policies and procedures, together with appropriate training, which gives our workforce and other business partners guidance on breaches of human rights standards (such as human trafficking, child labour) and modern slavery and the measures we take to tackle such issues within our organisation and supply chain.

We continue to believe that our exposure to the risks of human rights abuses and modern slavery is low within our business and supply chain, and we are confident that the policies and procedures that we have in relation to anti-slavery and human trafficking are in compliance with the Modern Slavery Act 2015 and our public statement, to this effect, is available on the AB Dynamics plc website ([www.abdplc.com](http://www.abdplc.com)). Further, our internal policies in relation to Human Rights and Modern Slavery are published in English on our website and are available locally for our workforce in four languages.

### Diversity policy and approach

The Board believes providing an inclusive and supportive environment allows the Group to benefit from the variety of experience, backgrounds and viewpoints that a diverse workforce can bring. For more detail of the Group's initiatives in relation to diversity, see People potential on pages 41 to 43. The ESG Committee is responsible for setting the Group's approach to diversity and inclusion. Our employment policies and practices both support and promote diversity and equal opportunities to ensure all employees are treated with dignity and respect, and all staff are provided with a safe, secure and healthy environment in which to work, regardless of where in the world they are located. The Group-wide policy can be located on the Company's website.



## Environmental, social and governance (ESG) strategy continued

### Commercial integrity/business ethics continued

#### Insider trading/employee share dealing

The Group has a strict Share Dealing Policy covering insider trading/inside information, the AIM Rules and Market Abuse Regulations which apply to the Group and individuals. This policy is circulated to all individuals who qualify for share options and who fall within the categories of insiders, PDMRs and restricted persons, and recipients are asked to sign to demonstrate their acceptance of these terms. Furthermore, in accordance with the Market Abuse Regulations of the Financial Conduct Authority, employees subject to this policy are required to seek the approval of the Chief Executive Officer or Group Company Secretary before dealing in its shares.

#### Trade compliance, international sanctions and embargoes

The Company continues to monitor and review compliance across the Group's businesses in connection with international sanctions. This year the Company has decided to formalise its due diligence in this field and has procured the use of the Dow Jones Risk Management tool. Dow Jones Risk and Compliance is a global provider of regulatory compliance and risk management solutions, their tool allows the Group to perform comprehensive due diligence on customers, suppliers, agents and other third parties in relation to money laundering, sanctions, anti-bribery and corruption and international trade finance.

“The Board believes providing an inclusive and supportive environment allows the Group to benefit from the variety of experience, backgrounds and viewpoints that a diverse workforce can bring”

## S172(1) statement and stakeholder engagement

# Engaging with our stakeholders

## Customers

AB Dynamics works with the biggest names in the automotive industry (including OEMs, proving grounds and motorsport teams).

By focusing on their needs, we aim to improve our performance and build our relationships to promote the success of the Group.

### Aims and objectives

- Delivery – on time and on budget
- Safety
- Value
- Relationships
- Quality
- Service and support

### Why we engage

Understanding our customers underpins the success of our business. Regular engagement ensures that the Group continues to operate with a 'customer first' attitude. We see customer satisfaction as an important aspect of our Group performance overall. This enables us to identify any changes required to our services and to deliver continuous improvements.

### How AB Dynamics engages with its stakeholders

- Regular contact through key account managers and support engineers
- Programme of webinars
- Attendance at industry events
- Customer surveys

## Industry bodies

Industry bodies play an important role in promoting best practice, informing public policies and regulations, and developing standards. AB Dynamics works with several bodies globally.

### Aims and objectives

- Safety in the community
- Focus research to improve safety
- Environmental performance
- Global improvement of industry standards
- Human factors

### Why we engage

In the complex and fast-moving automotive area, which is driven by innovation, data technologies, customer demand and budget constraints, policymakers and regulators face tremendous challenges to formulate effective, evidence-based and future-proof standards that improve safety, enhance environmental performance and serve the public interest. Productive engagement with industry bodies and trade associations is increasingly necessary and enables the Group to keep abreast of changes in the industry and lead our sector to make real improvements in both safety and environmental performance.

### How AB Dynamics engages with its stakeholders

- We are members or engage with over 18 industry bodies, including research organisations, certification and/or standards committees in the UK, Europe, the USA, Asia and Australia
- Chair of various committees related to motorcycle and passenger car safety and human factors
- Attendance at industry events
- Speakers at industry events

## Investors

The support of our investors is vital to the long-term performance and success of the Group.

### Aims and objectives

- Financial performance
- Governance
- People and culture
- ESG initiatives and environmental management

### Why we engage

As an AIM listed company it is important to provide our shareholders with reliable, timely and transparent information. Our shareholders are constantly evaluating their portfolios and considering their exposure in our stock. To maintain a loyal shareholder base, it is important that we keep them well informed. We provide them with information to ensure their understanding of the business is up to date and enable them to make informed decisions.

### How AB Dynamics engages with its stakeholders

- Annual Report and Accounts
- AGM
- Group website: [www.abdplc.com](http://www.abdplc.com)
- Investor roadshows
- Results presentations
- Stock exchange announcements
- Investor visits and ad-hoc meetings and correspondence throughout the year
- Open days

## S172(1) statement and stakeholder engagement continued

The Directors act in a manner that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the shareholders as a whole, while having regard for all individual stakeholders. We summarise what has

been considered in these tables and provide more specific information on pages 52 to 53 regarding the actions taken and how this has been achieved.

### Employees

With around 400 employees spread across the globe, the engagement and commitment of our employees is key to the Group's resilience and continuing success.

#### Aims and objectives

- Remuneration and reward
- Employee training and development
- Company reputation
- Health and safety
- Diversity and inclusion
- Employees' wellbeing
- Talent management

#### Why we engage

Our strength is in the products and services we provide through our people. As such it is important to have a strong culture and invest time and effort in building diverse, skilled and highly trained teams.

#### How AB Dynamics engages with its stakeholders

- Through sector and business unit line managers
- Inductions
- Employee training
- HSE reviews
- Support women in engineering
- Staff engagement survey
- Vision and Values project
- Community outreach
- Regular presentations on strategy and Group performance

### Supply chains

Our external supply chains are an integral part of our business and effective engagement with our suppliers is an essential element of our ability to perform.

#### Aims and objectives

- Good working relationships
- Supply chain resilience
- Prompt payment
- Quality and reliability

#### Why we engage

Our suppliers provide a range of parts and services. The smooth functioning of our business depends upon the performance of those suppliers as such regular engagement ensures that we can maintain good relationships, and that the business, and its customers, are not exposed to unnecessary risks.

#### How AB Dynamics engages with its stakeholders

- Provision of Group policies to suppliers
- Supplier conferences and workshops
- Supplier due diligence
- Supplier quality assurance
- Ensure prompt payment of suppliers in accordance with agreed terms and conditions

### Communities

The Group has long-term links with some of the communities within which it operates, most notably Bradford on Avon and the counties of Somerset and Wiltshire (UK), where we are headquartered and around half of our employees are based.

#### Aims and objectives

- Support our local communities
- Encourage participation and diversity within STEM environment
- Encourage participation within our industry segment
- Demonstrate our commitment to the Armed Forces

#### Why we engage

We see ourselves as part of the communities in which we live and work. Our active contribution and engagement with those communities is an important part of who we are. Although our efforts this year have been curtailed by the COVID-19 pandemic, we have innovated and changed our approach to engagement to make sure we can continue our efforts.

Considering the impact of our actions as a business on the wider interests of society is an important part of being a responsible business. As investors, our decisions can have a wider impact and we take our stewardship responsibilities seriously.

#### How ABD engages with its stakeholders

- Sponsorship and charitable donations
- Employee volunteering
- University partnerships
- STEM Ambassadors
- Armed Forces Covenant, policy and career fairs (when possible)

# How the Group fulfilled its S172 duties

## Customers

As a consequence of the continuing COVID-19 pandemic we have spent less time, physically face-to-face, with our customers than we would expect in a normal year. Therefore the Company has executed several adjustments to the way we do business, so our engagement with our customers, both potential and existing, could continue uninterrupted. We have worked closely with our global network of sales offices and partners and have moved most of our communications to a virtual approach, which facilitated face-to-face engagement without the need for travel. We have been able to hold sales demonstrations virtually, allowing us to both demonstrate our range of driving robots and ADAS platforms using multiple camera angles and making the control software visible to participants, and which facilitates immediate feedback from our customers. Although this does not give customers the visceral sensations they would get from a practical demonstration, it does allow customers to watch how tests are set up and performed, and how data can be reviewed afterwards; this approach received a very positive reaction.

Following delivery of the equipment, we also relied on video calls to provide user training; previously always delivered in person. On-line training allowed new customers to get up and running and to ask questions and try out their new equipment with our guidance. Whilst this was by no means a perfect substitute to training delivered in person, we were able to perform demonstrations and enable our customers to continue their activities without interruption, which they considered invaluable.

With the help of our sales channels, we ensured regular contact was maintained with key accounts around the world, despite the physical interruptions caused by the COVID-19 pandemic. Many of our customers continued almost uninterrupted with the use of their equipment, although others endured a period of enforced downtime. In the past twelve months we saw a strong influx of repeat business from our existing customer base, demonstrating that we succeeded in maintaining customer satisfaction despite the challenges of COVID-19.

## Investors/shareholder engagement

The Company's investor relations are managed by the Chief Executive Officer and Chief Financial Officer with the support and assistance of the Company's broker. The Chief Executive Officer and Chief Financial Officer engage with shareholders throughout our reporting cycles, and during the course of the year at presentations to institutional shareholders, private client brokers and investment analysts, at meetings (virtual and in person) and (where possible) through site visits with existing and prospective institutional and other investors at which attendees have an opportunity to meet with senior management in the Group and gain a better understanding of the businesses' product portfolios, although such opportunities were limited during the year. Following the announcement of the Group's Annual Report and the Interim Statement, the Chief Executive Officer and Chief Financial Officer undertake roadshows to engage with investors and invite feedback on the Company's results and strategy for the future. The Board remains committed to communicating openly with shareholders to ensure that its strategy and performance are clearly understood by all. Whilst the Annual General Meeting was a closed event due to the restrictions in place for the COVID-19 pandemic, investors were invited to submit questions prior to the event to facilitate communications. The Company maintains regular contact with major shareholders and actively encourages communications with smaller investors providing contact details on its website and on all announcements released via RNS. In addition, investor relations queries may be routed via the Group's broker, Peel Hunt LLP, or its financial PR agency, Tulchan Communications.

The Group also maintains a specific website for investors ([www.abdplc.com](http://www.abdplc.com)) which contains information on the Group's businesses, corporate information and specific disclosures required under AIM Rules and the QCA Code. It contains up-to-date information for shareholders, which includes the Annual Report and Accounts for the past nine years (since its admission to AIM), a link to current share price information, and all announcements released via RNS. The website also contains factual data on the Group's businesses, products and services and links to press releases.

## S172(1) statement and stakeholder engagement continued

### Employees

Engagement with our employees remains a priority for the Group as we believe this helps maintain trust and confidence between all parties, especially with the backdrop of the COVID-19 pandemic. Communications occur both on a formal basis and ad-hoc throughout the year. Meetings are held throughout the year between employees and their line managers to ensure that personal objectives are aligned with Group strategy, and this allows the business to formally identify development needs and career aspirations. Weekly and monthly management team meetings are held to provide a forum for company updates. These formal scheduled communications provide employees with the opportunity to prepare and raise queries or concerns at varying levels of the organisation. To further facilitate ongoing engagement with staff all employees have been invited to participate in staff surveys. This consisted of a baseline survey with a view that regular pulse surveys could continue throughout the course of next year to promote an open and constructive dialogue. The information obtained is reviewed at a local management and Group level and relevant action plans developed to help address areas of concern.

### Supply chains

This year, we engaged more often than usual with our most critical suppliers during lockdown, to ensure that we understood any pressures they might be experiencing, and which might lead to changes in the associated risk for the business.

The Company has continued its visits to key suppliers, these have been made by both buyers and key members of the management team. Targets for both on time delivery and quality (Right First Time) remain in place and have been rolled out to more key suppliers throughout the course of the year. These have demonstrated some improved supplier performance despite the COVID-19 pandemic. The Company has made further progress on its implementation Design for Manufacture and Assembly (DFMA).

The implementation of the Company's new Enterprise Resource Planning (ERP) system is underway and the structuring of this system will allow the Company to automate several processes that are currently manual. This will improve many of the Company's internal processes and systems.

### Communities

The Group has standardised key processes and procedures across its subsidiaries and is encouraging each organisation within the Group to take a more active role in their communities. The Group aims to build positive relationships with the communities which host its businesses, as such local subsidiaries are encouraged to manage and promote their own CSR activities in line with the Company's global subsidiary governance framework, which was rolled out last year and trialled in the UK.

For more information on the Company's ESG strategy and details of the activities undertaken within the year, please see page 36. Since the implementation of the updated ESG strategy the Company has worked with local communities to transition to the new arrangements.

## Risk management

# Proactively identifying and managing risk throughout the Group

To ensure sustainable delivery of shareholder value, the Group has implemented a risk management framework and management structure that ensure risks are identified, assessed and mitigated wherever possible. It is recognised that certain risks are beyond the control of the Group; however, the Board is committed to the protection and enhancement of the assets and reputation of AB Dynamics.

### Methodology

The Board has overall responsibility for the management and maintenance of systems and processes to manage risk and ensure delivery of our strategic priorities.

Risk management responsibility is set out in the displayed structure. The Audit and Risk Committee has responsibility for reviewing the effectiveness of the risk management framework and internal controls and ensures that the Group is in full compliance with relevant regulations and laws, supported by the Company Secretary. Executive Directors have responsibility for overall management and delivery of the strategy, considering the risk environment and regular review of the risk management framework.

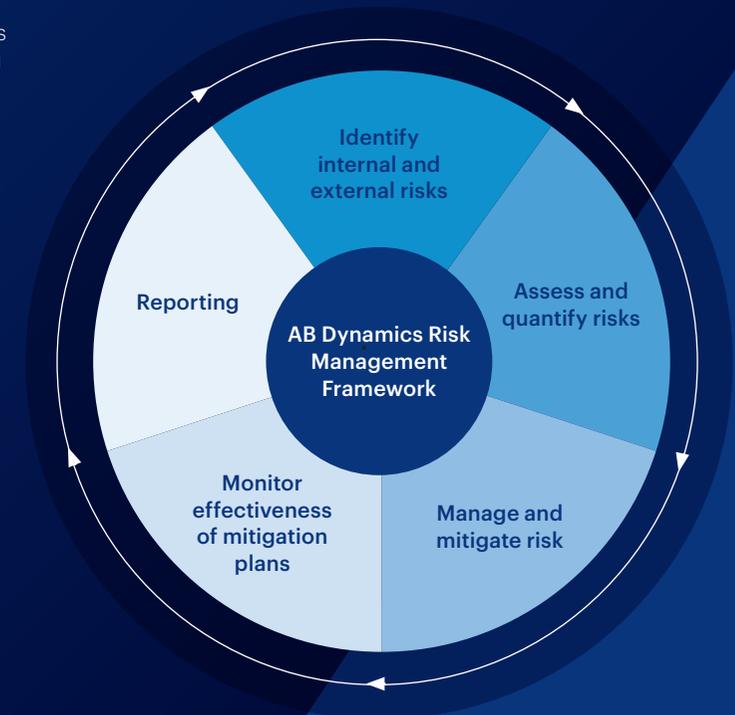
Senior management within the individual operating companies is then responsible for identifying and recording risks, implementing agreed mitigation actions, compliance with Group internal controls and ensuring compliance with relevant local laws and regulations.

Although the Group does not currently have a dedicated internal auditor, the function of internal control is carried out by Group Finance, supported by the Company Secretary. Its responsibility is to monitor compliance and conduct or, where appropriate, commission specific reviews.

The Board has developed the framework to identify and manage risks, set the risk appetite of the Group and determine the overall risk tolerance levels.

A bottom-up risk analysis is undertaken considering detailed individual risks that fit into four main categories: strategic, operational, financial and compliance. This is combined with a strategic top-down review to ensure that all appropriate risks are identified, assessed and quantified. Mitigation plans and actions are then put in place to ensure risks are reduced to a level that is as low as reasonably practicable.

The risks are assessed both pre- and post-mitigation to identify the overall risk level based on a combination of probability of occurrence and the magnitude of potential consequences. For identified risks that are considered by the Board to be material, the Board monitors specific actions to mitigate these risks. For all other risks, the actions are implemented at local management level and are reviewed periodically by Executive Directors.



## Risk management continued

“The acquisition of Vadotech during the year has increased the Group’s exposure to markets in Asia and foreign exchange exposure. To address this we have put in place local divisional management teams and included the foreign exchange cash flows within the overall treasury management”



# Principal risks and uncertainties

## Strategic

Risk	Mitigation	Change
<p><b>COVID-19</b></p> <p>COVID-19 has the potential to continue to impact on supply chain and manufacturing and ability to deliver on site services to customers</p>	<ul style="list-style-type: none"> <li>Investment in ADAS and autonomy R&amp;D required despite automotive downturn</li> <li>Global spread of sales revenue provides some protection</li> <li>Manufacturing is spread across several sites with protective measures implemented</li> <li>Safety stocks continue to be held and dual sourcing implemented</li> </ul>	<p>No change</p> <p>↔</p>
<p><b>Downturn or instability in major geographic markets or market sectors</b></p> <p>Adverse changes in macroeconomic conditions in key territories or specific automotive markets could potentially reduce or delay demand for the Group's products and services</p>	<ul style="list-style-type: none"> <li>Revenue spread across a range of geographic markets</li> <li>Active safety and autonomous vehicle technology required despite automotive downturn</li> <li>New strategy and action plan implemented to enter adjacent markets</li> <li>Constant monitoring of market trends, drivers and needs to ensure market leadership</li> </ul>	<p>No change</p> <p>↔</p>
<p><b>Loss of major customers and change in customer procurement processes</b></p> <p>Loss of a significant customer to competition could result in reduced revenues</p> <p>Change in procurement processes could lead to pricing pressure</p>	<ul style="list-style-type: none"> <li>Following the acquisition of Vadotech, the largest customer now represents 9% of Group revenues</li> <li>Continued product development and high levels of customer service to retain key customers</li> <li>Long-term relationships with all key customers and key account manager process in place</li> </ul>	<p>Increased</p> <p>↑</p>
<p><b>Failure to deliver new products</b></p> <p>With industry and regulatory development, the Group needs to ensure new product development responds to changes in the market with new products delivered on time and to budget</p>	<ul style="list-style-type: none"> <li>Process for identifying new product opportunities established</li> <li>New product development process implemented</li> </ul>	<p>No change</p> <p>↔</p>
<p><b>Dependence on external routes to market</b></p> <p>The Group uses several agents and resellers to address particular geographic markets:</p> <ul style="list-style-type: none"> <li>Risk of reduced revenues if agreements end at short notice</li> <li>Limited control of market pricing with resellers</li> <li>Potential financial consequences on termination</li> </ul>	<ul style="list-style-type: none"> <li>Transitioned the Group to a direct sales model in key territories with offices in Germany, the USA and Japan</li> <li>The Company will maintain agents and resellers in other territories as appropriate</li> <li>Risks relating to financial consequences are understood and all transitions managed to minimise potential quantum of termination payments</li> </ul>	<p>No change</p> <p>↔</p>
<p><b>Acquisitions integration and performance</b></p> <p>The Group has completed several acquisitions and there is potential for acquisitions to not deliver the expected performance resulting in a potential financial impact</p>	<ul style="list-style-type: none"> <li>Extensive financial, commercial and legal due diligence</li> <li>Appropriate warranties and indemnities from sellers</li> <li>Use of earn out deal structures to ensure management retention and incentivisation</li> <li>Recruitment of senior management to support acquisitions, including finance</li> <li>Close management and monitoring of business performance against budget</li> </ul>	<p>No change</p> <p>↔</p>

## Principal risks and uncertainties continued

### Operational

Risk	Mitigation	Change
<b>Supply chain</b> The availability of key components and the logistical challenges to source key components has led to increased supply chain risk. Increased input costs leads to pressure on margins	<ul style="list-style-type: none"> <li>• Dual sourcing for key components wherever possible provides mitigation for key suppliers or a tooling failure</li> <li>• Maintaining safety stock levels sufficient to protect against short-term disruption</li> <li>• Flexibility in production scheduling to mitigate any delays</li> <li>• Supply agreements secure volume and mitigate price increases</li> <li>• Price increases to customers mitigate impact on margins</li> </ul>	Increased 
<b>Cybersecurity and business interruption</b> Risk of malicious cyber attack on Group IT systems or significant failure of IT infrastructure, particularly with increased remote working	<ul style="list-style-type: none"> <li>• External audit completed during 2021 and recommended actions being implemented</li> <li>• Cyber Essentials certification achieved</li> <li>• Implementation of a new cloud-based CRM/ERP system during 2021</li> <li>• Implementation of enhanced security re remote access</li> </ul>	No change 
<b>Competitor actions</b> Competitors may develop new technologies and/or products which may restrict revenue growth. Competitors may establish physical assets in key locations	<ul style="list-style-type: none"> <li>• Constant product and technology development</li> <li>• Monitoring of competitors and the IP/patents to ensure no infringement on Company intellectual property</li> <li>• Monitoring of competitor product launches and territory actions</li> </ul>	No change 
<b>Loss of key personnel</b> In previous years the Group had dependence on a small number of key individuals Group could affect future business growth if they left the Company	<ul style="list-style-type: none"> <li>• Expansion of staff headcount and specific actions around succession planning and talent management</li> <li>• Strong staff retention rate with average length of service of &gt; five years with over two-thirds of employees recruited in the last two years</li> <li>• Recruitment and training of new management</li> <li>• Broadening of the senior management team</li> </ul>	No change 
<b>Threat of disruptive technology</b> Unforeseen new and novel technology displaces the need for Group products and services. Simulation potentially reduces the volume of physical testing products	<ul style="list-style-type: none"> <li>• Constant horizon scanning of new technologies</li> <li>• Engagement with customers and regulators to ensure we meet their current and future requirements</li> <li>• Established simulation capability and acquired rFpro to ensure the Company can address both virtual and real-world testing</li> </ul>	No change 
<b>Product liability</b> Risk that products supplied by the Group fail in service and result in a claim under product liability	<ul style="list-style-type: none"> <li>• Robust product development process ensuring products are safe and fit for purpose</li> <li>• Established quality system to ensure that manufactured products meet the design standard</li> <li>• Suitably qualified and experienced engineering and technology staff</li> <li>• Product liability insurance policy in place</li> </ul>	No change 

## Principal risks and uncertainties continued

### Operational continued

Risk	Mitigation	Change
<p><b>Failure to manage growth</b></p> <p>Rapid growth places demand on the Group's management and resources. Suitable facilities are required to support the current and forecast demand of the market. Failure to ensure adequate capability and capacity could result in reduced revenues and/or growth</p>	<ul style="list-style-type: none"> <li>Strategic priority placed on Group's capability and capacity</li> <li>Implementation of a five-year financial model which determines requirements for people, facilities and equipment</li> <li>New Engineering Design Centre now completed with scope for further operating expansion</li> <li>Implementation of appropriate IT infrastructure through comprehensive CRM/ERP system</li> <li>Overseas offices established in the USA, Germany and Japan to support customers and product installed base</li> </ul>	<p>No change</p> <p>↔</p>

### Financial

Risk	Mitigation	Change
<p><b>Foreign currency</b></p> <p>The Group operates internationally and is exposed to both transactional and translational foreign exchange risk. The Group is particularly exposed to the euro and US dollar. Exposure to the Chinese RMB and Japanese yen is expected to grow</p> <p>The risk is enhanced by COVID-19 and related currency volatility and the recently established overseas entities</p>	<ul style="list-style-type: none"> <li>Group finance function monitors currency exposure forecasts</li> <li>Significant proportion of the Group's revenues are contracted in GBP</li> <li>Use of foreign currency contracts to hedge where appropriate</li> </ul>	<p>Increased</p> <p>↑</p>
<p><b>Credit risk</b></p> <p>The Group has the potential to be exposed to bad debt risk from customers, however there is no history of material bad debt in the business</p>	<ul style="list-style-type: none"> <li>Risk is assessed on a case by case basis and payment terms established according to risk</li> <li>Advance payments and letters of credit used where appropriate</li> </ul>	<p>No change</p> <p>↔</p>

### Compliance

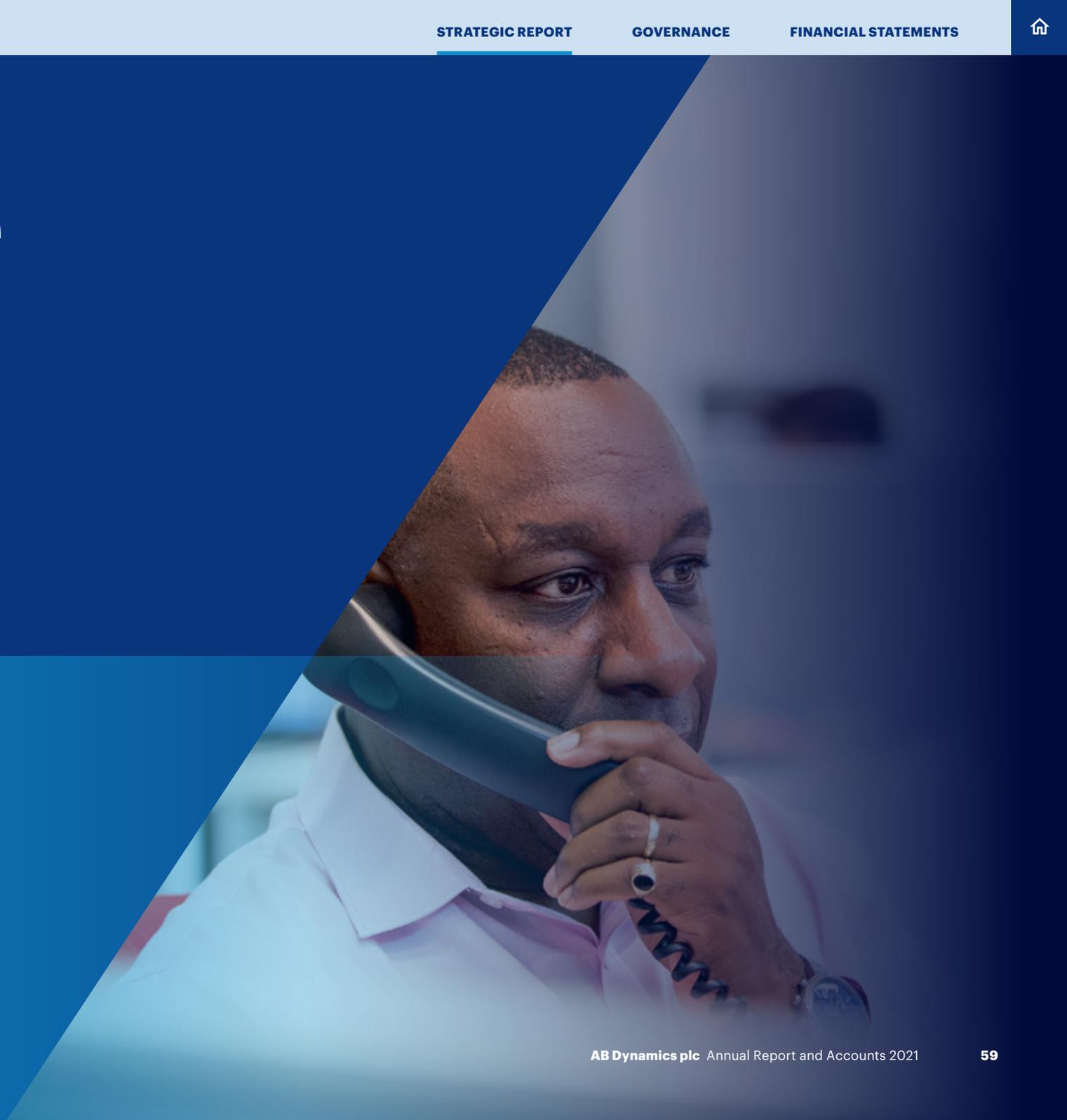
Risk	Mitigation	Change
<p><b>Intellectual property/patents</b></p> <p>The Group utilises its intellectual property to deliver product and service revenue. Intellectual property theft and/or infringement could adversely affect product sales</p>	<ul style="list-style-type: none"> <li>The Group has patented technology where appropriate that covers the key sales territories</li> <li>Where products are not able to be protected through patents, design features and/or encryption are used to protect the core IP</li> <li>Continual review of current patent and IP status and review of new products/technology conducted to ensure IP is protected</li> </ul>	<p>No change</p> <p>↔</p>

Dr James Routh, Chief Executive Officer, 24 November 2021

# Governance

## Governance

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## Board of Directors

# A leadership team creating sustainable shareholder value

## Length of tenure



## Balance of Executive and Independent Non-Executive Directors



## Gender diversity

**Richard (Dick) Elsy**

Non-Executive Chairman

**Appointments:**

Joined the Board as Non-Executive Director on 1 August 2020.

Chair of the Remuneration Committee from 1 August 2020–1 July 2021.

Non-Executive Chairman (assessed as Independent on appointment) and Chair of the Nomination Committee from 1 July 2021.

**Skills and experience:** IND

Dick is a career veteran from the automotive industry, with the bulk of his time spent at Land Rover and then Jaguar, where he was Engineering Director. He ran Torotrak plc, and was CEO of the High Value Manufacturing Catapult, Europe's largest advanced manufacturing research institution.

Most recently Dick has been chairing the Ventilator Challenge UK Consortium, an extraordinary programme to repurpose the automotive, motorsport and aero industries to build thousands of complex medical devices in a matter of a few weeks in response to the pandemic crisis.

**Number of Board meetings attended:**

9 of 9

**External appointments:**

Dick is non-executive director of AWE plc and is on the council of the UKRI-STFC. He is a fellow of the Royal Academy of Engineering and an honorary professor at Strathclyde University.

**Dr James Routh**

Chief Executive Officer

**Appointments:**

Joined the Company and was appointed to the Board as an Executive Director on 1 October 2018.

**Skills and experience:** IND RE

James brings significant engineering and management leadership gained across international businesses. Prior to joining the Group, James was Group Managing Director at FTSE 250 listed Diploma PLC for six years where he delivered a series of successful international acquisitions. His previous career involved engineering leadership positions predominantly in the aerospace and defence industry, including senior roles at Chemring Group PLC and Cobham PLC. James holds a PhD in engineering and is a Chartered Mechanical Engineer and Fellow of the Institution of Mechanical Engineers.

**Number of Board meetings attended:**

9 of 9

**External appointments:**

James is Non-Executive Director and Senior Independent Director at Tracsis plc.

## Board of Directors continued



**Sarah Matthews-DeMers**  
Chief Financial Officer

**Appointments:**

Joined the Company and was appointed to the Board as an Executive Director on 4 November 2019.

**Skills and experience:** £\$

Sarah has extensive experience of financial management in public company environments, investor relations and strategic development.

Most recently Group Finance Director of Carclo plc, Sarah was previously Director of Strategy at Rotork plc where she led a wide-reaching strategic review. Prior to this she was Deputy Finance Director at Avon Rubber plc, being part of the senior management team during a period of significant transformation. She began her career at PwC, working with many international manufacturing and technology companies. Sarah is a Chartered Accountant and Fellow of the ICAEW with a first-class degree in Accountancy Studies.

**Number of Board meetings attended:**

9 of 9

**External appointments:**

None.



**Richard Hickinbotham**  
Non-Executive Director (Independent)

**Appointments:**

Joined the Board as Non-Executive Director on 1 July 2017.

Chair of the Remuneration Committee from 1 July 2017.

Chair of the Nomination Committee from 14 August 2017-1 July 2021.

**Skills and experience:** £\$ IND

Richard holds a BSc in Mechanical Engineering from Imperial College and is a Chartered Accountant with over 30 years' City experience. He is currently Head of Research at Singer Capital Markets and was previously in research management roles at Cantor Fitzgerald Europe and Charles Stanley Securities. He has held several senior positions at Investec and S G Warburg & Co. (acquired by UBS). In 2013 Richard was part of the advisory team that took the Company onto AIM.

**Number of Board meetings attended:**

9 of 9

**External appointments:**

Richard is Head of Research at Singer Capital Markets and Non-Executive Director and Chair of the Remuneration Committee of Directa Plus Plc.



**Louise Evans**  
Non-Executive Director (Independent)

**Appointments:**

Joined the Board and appointed Chair of the Audit and Risk Committee on 6 April 2020.

Chair of the ESG Committee from August 2020.

**Skills and experience:** £\$

A qualified Chartered Accountant, Louise was previously Group Finance Director of Williams Grand Prix Holdings plc and most recently, Braemar Shipping Services plc.

**Number of Board meetings attended:**

9 of 9

**External appointments:**

Louise is a Non-Executive Director and Chair of the Audit Committee of Gooch & Housego plc, Non-Executive Director of the International Foundation for Aids to Navigation and Non-Executive Director of SCB Brokers SA.

- Audit and Risk Committee
- Remuneration Committee
- Nomination Committee
- ESG Committee
- Committee Chairman

- Financial expert
- Industry expert
- Risk expert

## Chairman's introduction to corporate governance

# Maintaining good governance



**Richard (Dick) Elsy CBE**, Non-Executive Chairman

### Dear shareholder,

I am pleased to introduce this report which describes the activities of the Board during the year, together with our governance arrangements. As your new Chairman, I wish to share with you how the Board has ensured strong corporate governance to underpin the delivery of our strategy, and how I plan to lead the continued development of our approach.

It is clear that the Board has ultimate responsibility for the Group's strategic delivery and for the management of risk. The Group has grown significantly over the last three years, from a mainly UK-based operation to a multinational Group with 20 legal entities. Therefore it has been essential to scale the governance structures in order to meet the increased demands of the Group today and allow for future growth whether organically or by acquisition.

With regulation, risk and responsibilities for directors around the management of legal entities all increasing, we understand that having a strong global subsidiary governance framework can prevent costly financial and reputational damage. The issues that cause either reputational damage or financial penalties go to the heart of shareholder value, therefore this has been our focus for the second half of this year, and it will continue into FY 2022.

We operate under a centralised, head office-controlled framework but devolve responsibility for compliance within this framework to operating divisional or jurisdictional management, with the aim of global harmonisation around local legislation. This is achieved via a robust business-wide delegation of authority.

## Chairman's introduction to corporate governance continued

### Culture and values

The Board recognises its role in establishing the purpose and values of the Group and embedding these throughout the business. Our core values of customers, people, diversity, innovation, excellence and responsibility are reflected in our policies and our business ethics framework.

### Board effectiveness

Following the Board changes, we reflected on our Board effectiveness and supplemented this with a more formal, externally-facilitated performance evaluation in the latter part of the year, the outcome of which is detailed in this report.

The Board is committed to pursuing and maintaining the very high standards of corporate governance and promoting ethical and sustainable values and behaviours consistently across the Group's businesses. This report aims to provide a clear and meaningful explanation of how the Board and its committees have discharged their governance duties but also how the Group actively promotes open and transparent discussions and welcomes constructive challenge in every aspect of the business.

### Richard Elsy CBE

Non-Executive Chairman  
24 November 2021

## Statement of corporate governance

This Statement of corporate governance is an explanation of how the Company has applied the ten principles of the QCA Code throughout the year. The Code and these standards are integrated into the Group's operations and compliance supports the achievement of our strategic objectives. Whilst day-to-day operational decisions are managed by the Chief Executive Officer, certain strategic decision-making powers and authorities of the Company are reserved as matters for the Board.

The Board recognises the value of good corporate governance and can confirm that it has complied with the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') for the period under review, as required by the AIM Rules.

**“The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. This year the Board has instructed Savendie to undertake an independent board review and evaluation”**

### Independent Board review and evaluation

**Part 1:** to review whether the Board is spending its time together effectively, considering and discussing the correct matters and with good quality information was performed during July and August 2021.

**Part 2:** will address whether the Board is operating effectively as a team demonstrating a balance of support and constructive challenge with the combined skills to cover the strategic challenges that the Company faces. This will be completed during 2022.

The review process, once complete, should provide the Board with a good understanding of its strengths and weaknesses and identify areas of development for the coming year.

### Summary of compliance with the QCA Corporate Governance Code (QCA)

The Board has reviewed the principles and provisions of the QCA Corporate Governance Code (the 'QCA Code'). Following this review, the Board is pleased to confirm that the Company has complied with the Code for the financial year ended 31 August 2021.

The QCA Code can be found on the Quoted Companies Alliance website, [www.theqca.com](http://www.theqca.com) and further information on compliance with the Code can be found below.

The Board held nine full meetings through the year ended 31 August 2021, which were attended by all of our Executive and Non-Executive Directors with the sole exception of Tony Best, who took an extended leave of absence due to ill health from 23 February 2021 until his resignation on 1 July 2021.

The Board is committed to pursuing and maintaining very high standards of corporate governance and promoting ethical and sustainable values and behaviours consistently across the Group's businesses. This report along with the sections detailed below aim to provide not only clear and meaningful explanations of how the Board and its Committees have discharged their governance duties but also how the Group actively promotes open and transparent discussions and welcomes constructive challenge in every aspect of the business.

## Statement of corporate governance continued

### Summary of compliance with the QCA Corporate Governance Code (QCA) continued

Principle 1: Establish a strategy and business model which promotes long-term value for shareholders.	The Group has built on the existing core strategy to diversify the business and enter larger, growth-focused markets. For more details regarding this strategy please see the Strategic Report on pages 1 to 58 and the Group's detailed analysis of its compliance with the QCA Code Principle 1 on our website.
Principle 2: Seek to understand and meet shareholder needs and expectations.	The Group maintains regular contact with major shareholders and is committed to communicating openly with shareholders through announcements made on RNS, presentations to institutional shareholders, private client brokers and investment analysts. Meetings and site visits are regularly held with existing and prospective investors. For further and more detailed explanations of how the Group applies Principle 2 see our commentary on the Group's S172 responsibilities at pages 50 to 53 and 73 to 74. See the Statement of corporate governance on pages 63 to 74.
Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success.	Social engagement and the Company's responsibilities to the communities within which we operate is one of the three pillars of our ESG strategy and remains key to our business's success. We summarise the Group's community activities and general corporate social responsibilities on pages 44 to 46.
Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation.	The Group/Company has implemented a risk management framework and management structure that ensures risks are identified, assessed and mitigated wherever possible. For further and more detailed explanations of how the Group applies Principle 4, see Principal risks and uncertainties on pages 56 to 58.
Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chair.	This year the Board has instructed Savendie to undertake an independent Board review and evaluation. Due to the recent changes to the Board's composition, this will be undertaken in two parts, the second phase will address whether the Board is operating effectively as a team demonstrating a balance of support and constructive challenge with the combined skills to cover the strategic challenges that the Company faces. This will be completed during 2022. For further and more detailed explanations of how the Group applies Principle 5, see the Statement of corporate governance on pages 63 to 74.
Principle 6: Ensure that between them the Directors have necessary up-to-date experience, skills and capabilities.	The composition of the Board is monitored by the Nomination Committee. The Board is satisfied that the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development. Information on the Directors' range of skills including details of their technical and/or financial experience and expertise can be found on pages 60 to 61.
Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. This year the Board has instructed Savendie to undertake an independent Board review and evaluation. For further and more detailed explanations of how the Group applies Principle 7, see our Statement of corporate governance on page 70.

## Statement of corporate governance continued

### Summary of compliance with the QCA Corporate Governance Code (QCA) continued

<p>Principle 8: Promote a corporate culture that is based on ethical values and behaviours.</p>	<p>The Board is committed to pursuing and maintaining very high standards of corporate governance and promoting ethical and sustainable values and behaviours consistently across the Group's businesses. For further and more detailed explanations of how the Group applies Principle 8, see our Statement of corporate governance on pages 63 to 74. For more information on the Group's vision and values see page 42.</p>
<p>Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.</p>	<p>The Group operates under a centralised, head office-controlled framework but devolve responsibility for compliance within this framework to operating divisional or jurisdictional management, with the aim of global harmonisation around local legislation. This is achieved via a robust business-wide delegation of authority. The Group's Governance framework and the structures of the Board and its committees are fully detailed within our Statement of corporate governance on pages 63 to 74.</p>
<p>Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.</p>	<p>Engagement with our stakeholders is key to a successful business and is an ongoing part of managing our business. We summarise why and how we engage with our six key stakeholders including our shareholders on pages 50 to 53. How the Board remains informed of this engagement and a statement summarising effect of their consideration of stakeholder interests and needs including details of the principal decisions taken by the Company during the financial year can be found on pages 73 to 74. For further and more detailed explanations of how the Group maintains a dialogue with shareholders and other relevant stakeholders see the Company's S172(1) statement on pages 50 to 53.</p>

Further information on the Company's compliance with the QCA Code can be found on the Group's website, [www.abdplc.com](http://www.abdplc.com), on the AIM Rule 26 page.

## Statement of corporate governance continued

### Governance framework

#### Board

The Board of Directors (the 'Board') is collectively responsible to the Company's shareholders for the long-term success of the Company. This responsibility includes matters of strategy, performance, resources, standards of conduct and accountability as well as having regard for our employees, customers, suppliers and the impact of our activities on both the environment and the communities in which we operate. The Board also has ultimate responsibility for corporate governance, which it discharges either directly or through its Committees. The Board delegates certain responsibilities to the Board's Committees outlined below, whilst maintaining an appropriate level of oversight through regular reports from Committee Chairs. The Matters Reserved for the Board and the Terms of Reference for the Board's Committees can be found on the Investor Relations section of the website [www.abdplc.com](http://www.abdplc.com).

Its role is to:

- Determine the Group's overall strategy and direction
- Establish and maintain controls, audit processes and risk management policies to ensure they counter identified risks and that the Group operates efficiently
- Approve budgets and review performance relative to those budgets and approve the financial statements
- Approve material agreements and non-recurring projects
- Approve Board appointments
- Review and approve Group-wide remuneration policies and executive remuneration
- Ensure effective communication with shareholders and other key stakeholders and make the Board aware of their views
- Promote a corporate culture based on sound ethical values and behaviours

#### Committees

Where appropriate, matters are delegated to the Board's four Committees (Nomination, Audit and Risk, Remuneration and ESG), which will consider and manage them in accordance with their terms of reference.

##### Nomination Committee

- Board and Committee composition
- Succession planning
- Board diversity
- Executive and Non-Executive Board appointments and strategy

Read more on pages 75 to 76

##### Audit and Risk Committee

- External audit
- Financial reporting
- Risk management and internal controls
- Internal audit

Read more on pages 77 to 78

##### Remuneration Committee

- Remuneration policy
- Remuneration principles
- Incentive scheme design and setting of targets
- Executive and senior management remuneration

Read more on pages 80 to 86

##### ESG Committee

- Environmental policy
- Health and safety
- Diversity
- People and potential
- CSR and community engagement
- Ethical, diverse and robust supply chains

Read more on page 79

## Statement of corporate governance continued

### Governance framework continued

#### Division of responsibilities

We strive for a clear division of responsibilities; the table below outlines each individual's role and remit. The majority of the Board are independent Non-Executive Directors (the Chairman being assessed as independent upon appointment). Further information on the Directors' range of skills including details of their technical and/or financial experience and expertise can be found on pages 60 to 61.

Chairman	Chief Executive Officer	Chief Financial Officer	Independent Non-Executive Directors
<ul style="list-style-type: none"> <li>Responsible for the leadership and overall effectiveness of the Board and for ensuring appropriate strategic focus and direction</li> <li>Provides leadership to the Board, setting the agenda, style and tone of Board discussions to promote constructive debate and challenge between the Executive and Non-Executive Directors</li> <li>Ensures that there is a good information flow to the Board, and from the Board to its key stakeholders</li> <li>Supports and advises the Chief Executive Officer, particularly on the development of strategy</li> <li>Demonstrates ethical leadership and promotes the highest standards of integrity throughout the business</li> <li>Ensures effective operation of the Board's Committees</li> </ul>	<ul style="list-style-type: none"> <li>Provides the day-to-day leadership of the Group</li> <li>Responsible for developing and defining strategic proposals for recommendation to the Board and the subsequent implementation of the agreed strategy</li> <li>Accountable for business performance</li> <li>Responsible for developing an organisational structure, and establishing processes and systems to ensure that the Group has the capabilities and resources required to achieve its plans</li> <li>Maintains a dialogue with the Chairman on all important matters and strategic issues facing the Group</li> <li>Ensures that there is an effective framework of internal controls, including risk management, covering all business activities</li> <li>Oversees the application of Group policies and governance procedures</li> <li>Ensures that the Board is fully informed of all key matters</li> <li>Develops and promotes effective communication with shareholders and other key stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Oversees the financial delivery and performance of the Group and provides insightful financial analysis that informs key decision-making</li> <li>Leads investor relations activities and communication with investors alongside the Chief Executive Officer</li> <li>Works with the Chief Executive Officer to develop budgets and medium-term plans to support the agreed strategy</li> <li>Supports the Chief Executive Officer in developing and implementing strategy, allocating resources across the Group and managing risk</li> </ul>	<ul style="list-style-type: none"> <li>Bring external perspectives and insight to the deliberations of the Board and its Committees</li> <li>Provide a range of knowledge and business experience from different sectors and undertakings (see their biographies on pages 60 to 61)</li> <li>Assist in the formulation and progression of the Board's agreed strategy and monitor the performance of the executive management in the implementation of this strategy</li> <li>Constructively challenge management and decisions taken at Board level</li> <li>Oversee the performance of management in meeting agreed goals</li> <li>Support the Chairman and Executive Directors in instilling appropriate culture, values and behaviours in the boardroom and across the Group</li> <li>Challenge the adequacy and quality of information received prior to Board meetings</li> </ul>

## Statement of corporate governance continued

### Governance framework continued

#### Board and Committee attendance record

Member	Independence	Board <sup>1</sup>	AGM	Strategy Day	Audit and Risk	Remuneration	Nomination	ESG
<b>Executive</b>								
James Routh	N	9/9	Yes	1/1	N/A	N/A	N/A	3/3
Sarah Matthews-DeMers	N	9/9	Yes	1/1	N/A	N/A	N/A	N/A
<b>Non-Executive</b>								
Dick Elsy	Y <sup>3</sup>	9/9	Yes	1/1	3/3	3/3	2/2	2/3
Richard Hickinbotham	Y	9/9	Yes	1/1	3/3	3/3	2/2	N/A
Louise Evans	Y	9/9	Yes	1/1	3/3	3/3	2/2	3/3
Tony Best <sup>2</sup>	N	2/7	Yes	0/1	1/3	1/1	N/A	N/A

1. The table shows attendance at full Board meetings only. Sub-Committees were convened with the authorisation of the Board throughout the course of the year to deal with previously reviewed transactional activities.

2. Tony Best attended all meetings of the Board and its Committees up to the date of his leave of absence due to ill health (23 February 2021) and retired from his position on 1 July 2021.

3. Dick Elsy was considered independent at the time of his appointment as Chairman.

#### Effectiveness

For the Directors to discharge their responsibilities as set out in the Matters Reserved for the Board below, the Board meets at least eight times each financial year. The Board and Committees also meet on an ad-hoc basis when required. In addition, the Board attends a strategy day at the beginning of each calendar year with executive management to discuss in-depth the Group's direction. Details of the Board and Committee attendance at scheduled meetings can be found above.

Dick Elsy, Non-Executive Director was considered independent on his appointment as Chairman. Louise Evans and Richard Hickinbotham, as Non-Executive Directors, are independent of the Executive and are free to exercise independence of judgement. Richard Hickinbotham has the longest tenure of the Non-Executive Directors at just over four years; therefore, the Board does not believe any of our Non-Executives have formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group. The Board is satisfied that no conflict of interest exists for any Director.

All Non-Executives have been advised of the time required to fulfil the role prior to appointment and this requirement is included in their letters of appointment. The Board is satisfied that the Chairman and each of the independent Non-Executive Directors can devote sufficient time to the Group's business.

#### Matters reserved for the Board

Matters reserved for the Board include, but are not limited to:

- Strategy and management, including responsibility for the overall leadership of the Group, setting the Group's values and standards, and overview of the Group's operational management
- Structure and capital, including changes relating to the Group's capital structure and major changes to the Group's corporate structure, including acquisitions and disposals, and changes to the Group's management and control structure
- Financial reporting, including the approval of the Annual Report and Accounts, half-yearly report, trading statements, preliminary announcement for the results and dividend, treasury and accounting policies
- Internal controls, ensuring that the Group manages risk effectively by approving its risk appetite and monitoring aggregate risk exposures
- Contracts, including approval of all major capital projects and major investments
- Ensuring satisfactory communication with shareholders
- Board membership and other appointments, including changes to the structure, size and composition of the Board, and succession planning for the Board and senior management

#### Powers of Directors

The powers of the Directors are set out in the Company's Articles of Association (the 'Articles'), which may be amended by way of a Special Resolution of the members of the Company. The Board may exercise all powers conferred on it by the Articles, in accordance with the Companies Act 2006 and other applicable legislation. The Articles are available for inspection on-line at [www.abdplc.com](http://www.abdplc.com) and can also be viewed at the Company's registered office.

#### Activities of the Board

The Company's governance framework is set out on pages 66 to 67. The core activities and calendar of the Board and its Committees are planned on an annual basis and this framework forms the basic structure within which the Board operates.

## Statement of corporate governance continued

### Governance framework continued

Key considerations	Key activities	In practice
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Annual strategy day (February 2021) to discuss the future strategic direction of the Group</li> <li>Assessment of performance against previously agreed strategic objectives</li> <li>Review of the CEO's proposals for the strategic future of the Group</li> </ul>	<p>The Board considered and agreed (in principle) to the CEO's proposals for the following:</p> <ul style="list-style-type: none"> <li>Development of diversification strategy and formulation of ABD Solutions</li> <li>M&amp;A pipeline</li> <li>Cultural development of the Group</li> <li>Leadership requirements</li> <li>Organisational structure review</li> </ul> <p>Board evaluation and succession planning was also reviewed.</p>
<b>Finance</b>	<ul style="list-style-type: none"> <li>ERP system preparation and implementation activities</li> <li>Reinstatement of guidance to the market</li> <li>Revolving Credit Facility</li> <li>Acquisition of Vadotech and Zynit</li> </ul>	<p>During the year the Board has approved a new credit facility for the Group to provide additional liquidity. The Board debated the risks and benefits of the current dividend policy, including the options available in light of the volatile economic environment. It concluded that the total dividend for the year should be 4.84p. The Board approved the acquisition of Vadotech.</p>
<b>Risk and compliance</b>	<ul style="list-style-type: none"> <li>New whistleblowing platform</li> <li>Improved due diligence on third parties</li> <li>Creation of additional Group-wide policies</li> <li>Review of Group-wide insurance coverage</li> </ul>	<p>The Board approved a new Group-wide whistleblowing platform, to enable employees to report any concerns anonymously through a third party to an independent director of the Group, and to facilitate communications in all of the core languages of the Company.</p> <p>The Group has procured a new due diligence tool: Dow Jones Risk Management to enable enhanced due diligence checks to be undertaken on the Group's third party interfaces (including agents, customers and suppliers). This allows the Company to check for corruption, financial crime, links to organised crime as well as sanctions lists, exclusions lists, monitor PEP and state owned entities more closely.</p>
<b>People and culture</b>	<ul style="list-style-type: none"> <li>Cultural development – vision and values exercise</li> <li>Review of current structure of the Group</li> <li>Appointment of the new Non-Executive Chairman</li> <li>Talent management programme</li> <li>Annual staff survey</li> </ul>	<p>The Board approved the vision and values developed by a team of representatives from across the business for adoption across the Group.</p> <p>Following the retirement of the Company's long-standing Chairman, the Board appointed Dick Elsy CBE as the new Chairman of the Group.</p> <p>The Board instigated the roll out of an all-employee annual survey.</p>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Launched ESG Committee</li> <li>Formalising a global subsidiary governance framework, to improve management oversight and governance of all legal entities</li> <li>Stakeholder engagement</li> <li>Evaluated Board and Committee performance</li> </ul>	<p>Following the creation of the ESG Committee last year, the Board has overseen the launch of the committee, and the instigation (through the committee) of a group wide governance framework, with a view to codifying the Group's Code of Conduct in the coming year.</p> <p>A board evaluation was facilitated by an external provider.</p> <p>As part of the evaluation process the board has reviewed whether it is spending its time together effectively, considering and discussing the correct matters with good quality information. This was completed in August 2021.</p>

**Focus for 2022** – The Board will focus on diversification, ESG and further improvements to its subsidiary governance framework.

## Statement of corporate governance continued

### Statement of corporate governance

#### Board meetings

During the period, the Board convened formally on nine occasions. Having implemented Board Intelligence, an electronic platform for the management of Board papers in October 2020, the Board and its Committees receive appropriate and timely information on this secure platform through which relevant Board Committee papers and a formal agenda can be distributed prior to each meeting.

Any Director can challenge proposals with decisions being taken after discussion. Any Director can ask for a concern to be noted in the minutes of the meeting which are circulated to all Directors. Specific actions arising from meetings are agreed by the Board or relevant Committee and then followed up by management. The Board is supported by the Audit and Risk, Remuneration, Nomination and ESG Committees, each of which has access to information, resources and advice that it deems necessary, at the Group's cost, to enable each Committee to discharge its duties.

The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present. Debate and discussion at Board and Committee meetings is encouraged to be open, challenging, and constructive.

#### Board changes and Board composition

During the financial year, the retirement of Tony Best as Chairman of the Board and from the Board of Directors (1 July 2021) has reduced the number of Directors on the Board from 6 to 5. Richard "Dick" Ely was appointed as Tony's successor as Chairman on the 1st July 2021. He stepped down as Chair of the Remuneration Committee, and assumed the role of Chair of the Nomination Committee. Richard Hickinbotham replaced Dick Ely as Chair of the Remuneration Committee.

As at 31 August 2021, the Board comprised a Non-Executive Chairman (who was deemed independent upon appointment), two Executive Directors and two independent Non-Executive Directors. A biography of each Director in office at the end of the year is set out on pages 60 to 61. Louise Evans remains the Chair of the Audit and Risk Committee and has assumed the role of Chair of the newly formed ESG Committee.

The composition of the Board is monitored by the Nomination Committee and the gender diversity of the Board has improved during the financial year as the result of the Board's reduction in size. Nevertheless, the Board remains satisfied that each Director, whether executive or non-executive, has the necessary time to devote to the effective discharge of their responsibilities and that, between them, the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development. The Board is also assured that it has a suitable balance between independence and knowledge of the Group to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and constructively challenge other Directors where appropriate.

#### Board evaluation

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. This year the Board instructed Savendie to undertake an independent Board review and evaluation. Due to the recent changes to the Board composition, this will be undertaken in two parts, with the initial phase having been performed during July and August 2021 to review whether the Board is spending its time together effectively, considering and discussing the correct matters and with good quality information. This work included a review of Board materials and individual interviews with Directors. Initial recommendations suggested improvements to some Board processes and consideration of succession planning in parallel with strategic development and described an effective Board driving a clear strategy and identifying and managing risks.

The second phase will address whether the Board is operating effectively as a team demonstrating a balance of support and constructive challenge with the combined skills to cover the strategic challenges that the Company faces. This will be completed during 2022. The review process, once complete, should provide the Board with a good understanding of its strengths and weaknesses and identify areas of development for the coming year.

#### Powers of Directors

The powers of the Directors are set out in the Company's Articles of Association (the 'Articles'), which may be amended by way of a Special Resolution of the members of the Company. The Board may

exercise all powers conferred on it by the Articles, in accordance with the Companies Act 2006 and other applicable legislation. The Articles are available for inspection on-line at [www.abdplc.com](http://www.abdplc.com) and can also be viewed at the Company's registered office.

#### Directors' inductions and training

Following appointment to the Board, all new Directors receive an induction tailored to their individual requirements. These inductions cover some or all of the following (depending on the individual Director's experience and what is appropriate for their role):

- Board and Governance: including Board calendar, procedures, including meeting protocols, Committee activities and terms of reference, and matters reserved for the Board
- Business introduction: the nature of the Group, its business, markets and relationships; meetings with the relevant operational and functional senior management; and overviews of the business via monthly reports
- Finance: budget and forecast papers; and analyst and investor overviews
- Risk: the Group approach to risk management
- Other: meetings with the Company's official appointed advisers including: registrar, solicitor, auditor, broker and nominated adviser (NOMAD)

#### Risk management and internal controls

The Board is responsible for the Group's system of internal controls and for reviewing the effectiveness of that system. It is designed to manage, rather than eliminate, the risk of failure to achieve the Group's strategic objectives and can only provide reasonable but not absolute assurance against material damage, deficiency or loss. The control framework includes:

- Setting and approval of an annual budget
- Regular updates from all subsidiaries to the CEO and CFO
- Monthly business reviews by the CEO and CFO focused on business performance
- Quarterly reviews by Group Finance focused on the quarter end balance sheet
- Six-monthly confirmations from local controllers regarding operation of internal controls, results and financial position and compliance with bank requirements

## Statement of corporate governance continued

### Risk management and internal controls continued

- Automated controls and workflows built into the new ERP system
- Physical verification of inventory every six months

The principal risks which the Board has identified this year are set out in the section on Risk Management on pages 54 to 55 of the Strategic report.

### Delegation of authority

The Group has in place defined authorisation levels for expenditure, the placing of orders and signing authorities.

Each year on behalf of the Board, the Audit and Risk Committee reviews the effectiveness of these systems. This is achieved primarily by a comprehensive review of the risks within a business risk assessment matrix which covers both financial and non-financial issues potentially affecting the Group, and from discussions with the external auditor.

### Anti-corruption

The Company has a Group-wide policy on anti-bribery and corruption that fully addresses the requirements of the Bribery Act 2010 and Foreign Corrupt Practices Act. This policy is circulated to every member of staff globally through the Company's HR portals or QMS systems and individuals receive on-line training on the core subject matter. To facilitate understanding and compliance the policy and training is available in four languages (the key languages spoken across the Group).

This year the Company has decided to formalise its due diligence in this field and has procured the use of the Dow Jones Risk Management tool. Dow Jones Risk and Compliance is a global provider of regulatory compliance and risk management solutions, their tool allows the Group to perform comprehensive due diligence on customers, agents and suppliers which supports its anti-corruption policies and procedures.

### Whistleblowing

The Board aims to encourage openness and will support staff who raise genuine concerns in good faith under this policy, even if they turn out to be mistaken. This year the Company has overhauled its approach to whistleblowing with the implementation of an on-line whistleblowing hotline through EQS Group. The tool

enables employees to raise any concerns anonymously through a third-party tool (EQS) to an independent director of the Group, and facilitates communications in all of the core languages of the Company.

All reports made through this tool shall continue to be investigated in line with the Company's policy. The Board confirms that no whistleblowing reports were received during the period.

### Diversity and equality

The Company is proud of its Board diversity with 40% female Directors, however it remains committed to strengthening its diversity beyond gender to ethnic diversity, when appropriate opportunities arise. Diversity across a wide range of criteria is valued, including skills, knowledge and experience as well as gender, gender identity, ethnicity, religious beliefs and sexual orientation. It is also committed to creating equality of opportunity where people are appointed on merit, and without any form of positive or negative discrimination. Whilst the Nomination Committee reviews the structure, size, diversity, balance and composition of the Board, the principal objective of the Nomination Committee is to ensure that all candidates are suitably qualified and experienced for the role. Additional information on diversity can be found on page 43 in our ESG strategy section.

### Re-election

All Directors are subject to annual re-election by shareholders at the first Annual General Meeting following their appointment and annually thereafter. If not re-appointed, he/she shall vacate office at the conclusion of the AGM.

### Liability insurance

Each Director and Officer of the Company is covered by appropriate Directors' and Officers' (D&O) liability insurance at the Company's expense in line with market practice.

The D&O insurance covers the Directors and Officers against the costs of defending themselves in legal proceedings taken against them in that capacity and in respect of any damages resulting from those proceedings. The insurance does not provide cover where the Director or Officer has committed a deliberate fraudulent or deliberate criminal act.

### Professional advice

Each Director is entitled to obtain independent professional advice at the Company's expense in furtherance of their duties as a Director of AB Dynamics plc. In addition, each Committee is authorised, through its terms of reference, to seek advice at the Company's expense.

### Conflicts of interest

The Company has a Group-wide policy and procedures to deal with conflicts of interest; this policy is available in four languages and applies to the Company's Executives, Non-Executives and personnel.

All Directors are also subject to a statutory duty under the Companies Act 2006 (the 'Companies Act') to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests.

Directors of public companies may authorise conflicts and potential conflicts in accordance with the Companies Act where it is appropriate to do so and where the Articles of Association (the 'Articles') contain a provision to this effect. It is the Board's contention that all authorisation powers are being exercised properly in accordance with the Company's Articles.

### Accountability

The Board is responsible for ensuring that the Annual Report and Accounts, taken as a whole, presents a clear, fair and balanced assessment of the Group which provides the information necessary for shareholders to assess the Group's performance, strategy and business model.

The Board receives a detailed report from the Chief Financial Officer which sets out the key matters that impact or could impact the Group's financial statements and Annual Report and highlights areas of the financial statements where it has been necessary to rely upon a significant level of subjectivity.

The Board also has access to all relevant information and reviews other periodic management information and RNS announcements. The draft Annual Report and Accounts are circulated to each member of the Board in sufficient time to allow challenge of the disclosures where necessary. The Statement of Directors' responsibilities is set out on page 90 (within the Directors' report).

## Statement of corporate governance continued

### Board Committees

#### Audit and Risk Committee

Chaired by Louise Evans (Finance and Audit expert)

Number of meetings in the year: 3

#### Role of the Committee

The Audit and Risk Committee is responsible for ensuring that the financial performance of the Group is properly reported and monitored, and for meeting the auditor and reviewing the reports from the auditor relating to accounts and internal control systems. The Audit and Risk Committee has discussions with the external auditor at least once a year without any Executive Directors being present. The Committee is also responsible for the review and management of the Company's risk management framework.

#### Nomination Committee

Chaired by Richard Hickinbotham until 1 July 2021, when Dick Elsy (Industry expert) was appointed Chair

Number of meetings in the year: 2

#### Role of the Committee

The Nomination Committee is responsible for recommendations to the Board for the appointment of additional Directors or replacement of current Directors and for succession planning for the Company. During the year, the Nomination Committee has overseen the appointment of Dick Elsy to Independent Non-Executive Chairman of the Board following the retirement of Tony Best.

#### Remuneration Committee

Chaired by Dick Elsy until 1 July 2021, when Richard Hickinbotham (Industry and Finance expert) was appointed Chair

Number of meetings in the year: 3

#### Role of the Committee

The Remuneration Committee reviews the performance of the Executive Directors and sets and reviews the scale and structure of their remuneration and the terms of their service agreements with due regard to the interests of the shareholders. In determining the remuneration of Executive Directors, the Remuneration Committee seeks to enable the Company to attract and retain Executives of high calibre. Following his appointment as Chairman of the Board, Dick Elsy is no longer Chair of the Remuneration Committee. No Director is permitted to participate in discussions or decisions concerning his or her own remuneration. The Remuneration Committee meets as and when necessary. This year the Remuneration Committee has appointed PWC to review the Company's Executive Remuneration Policy, overseen the award of Executive bonuses (and the allocation of 20% of these bonuses to be awarded as shares); and authorised the award of an LTIP to the Executive and senior leadership of the organisation. The Executive LTIP is subject to malus and clawback provisions.

#### ESG Committee

Chaired by Louise Evans (Finance Expert)

Number of meetings in the year: 3

#### Role of the Committee

The aim of the Committee is to further the sustainability of the Group, promote the continuous improvement of the Group's ESG management and performance, promote and enhance the Group's ESG work ensuring it receives due attention and acknowledgement, enabling the Group to become an ESG leader in our selected industries.

## Statement of corporate governance continued

### Stakeholder engagement

#### Consideration of all our stakeholders

See our report on S172 stakeholder engagement on pages 50 to 51 for details of how the Group engages with its stakeholders.

Our Stakeholders	How the Board and Committees are kept informed
<b>Customers</b>	<ul style="list-style-type: none"> <li>The Board reviews the Company's engagement with significant customers and regularly discusses the contractual requirements of the larger or more complex contracts</li> </ul>
<b>Industry bodies</b>	<ul style="list-style-type: none"> <li>The ESG Committee receives information regarding industry bodies with whom our subsidiaries are engaged. This year the Committee intends to formalise this review to be able to give further direction to the business regarding whom they should engage with and at what level</li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>The Chief Executive Officer and Chief Financial Officer engaged with major shareholders and potential investors directly and indirectly throughout the year, and provide regular and detailed feedback to the Board after each consultation</li> <li>The Company's Executives and Non-Executive Directors are given regular updates as to the views of institutional shareholders and changes to significant shareholdings through research carried out quarterly by the Group's broker and adviser</li> <li>The Company's AGM is an opportunity for all shareholders to meet and question the Directors (last year due to the COVID-19 pandemic questions were invited in writing beforehand)</li> <li>The Board receives feedback from investors after the full and half-year results announcements from the Executive team</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>The ESG Committee receives updates from the Human Resources Director regarding employee engagement</li> <li>The results from any Employee Engagement Surveys are shared with the Board</li> <li>The Chairman and Non-Executive Directors have engaged directly with employees at several levels of seniority providing an opportunity to receive direct feedback</li> </ul>
<b>Supply chains</b>	<ul style="list-style-type: none"> <li>The Board receives reports from the businesses to update on performance of major suppliers, highlighting risks (and their proposed mitigations)</li> </ul>
<b>Communities</b>	<ul style="list-style-type: none"> <li>The Company's engagement with the communities is reviewed annually by the ESG Committee</li> <li>CSR policy reviewed annually by ESG Committee</li> <li>The Board receives updates on CSR initiatives</li> </ul>

## Statement of corporate governance continued

### Stakeholder engagement continued

#### Consideration of all our stakeholders continued

We consider all stakeholders when formulating the Group's strategy and business model. More information on how stakeholder interests have influenced the Board's decision-making this year is included below.

Key decisions and discussions	Stakeholders	How the Board considered stakeholders during the year	Annual Report sections
The retirement of our Chairman (due to ill health) and the appointment of his replacement	<ul style="list-style-type: none"> <li>• Employees</li> <li>• Shareholders</li> </ul>	Shareholders and employees were kept informed regarding the leave of absence of our Chairman Tony Best, as well as the appointment of Dick Elsy as acting Chairman. Due to his prior engagement with many individuals across the business, this interim appointment was well received which influenced the Board's decision regarding his subsequent formal appointment.	See page <b>76</b> for details of the appointment process
Company culture in an expanding corporate environment	<ul style="list-style-type: none"> <li>• Employees</li> <li>• Customers</li> </ul>	Following feedback from employees and customers the Board took the decision to create a team of employees (from across the business) to distil the Group's values, and the vision for the business going forward.	For more on the Group's Vision and Values see page <b>42</b>
Capital allocation and COVID-19	<ul style="list-style-type: none"> <li>• Shareholders</li> <li>• Employees</li> <li>• Customers</li> <li>• Society</li> </ul>	<p>Whilst the Company has not placed any individuals in the UK on furlough, the UK Coronavirus Government Job Retention Scheme (CJRS) was utilised at the request of four employees.</p> <p>The Group was cognisant of feedback from society at large, objecting to the payment of dividends in any financial year where the UK CGJRS was utilised and not subsequently repaid. The Board fully agrees that the purpose of this form of government support was not to sustain company dividend payments and the Board understands the importance of dividends to shareholders (and the benefit of providing sustainable shareholder returns), therefore the Company has returned all funds received under the scheme.</p>	
Establishment of an ESG Committee and the setting of carbon emissions reduction targets	<ul style="list-style-type: none"> <li>• Society</li> <li>• Customers</li> <li>• Employees</li> <li>• Shareholders</li> </ul>	<p>Last year the Board recognised that there was a need to formalise its approach to sustainability and ESG. Following the creation of its ESG Committee the Board has received feedback from shareholders, employees and customers urging the Company to formalise its targets and goals.</p> <p>Accordingly, this year the ESG Committee set the ambitious goal of being net carbon neutral by 2030.</p>	See page <b>79</b> for more information regarding the activities of the ESG Committee

## Nomination Committee report

# Maintaining an appropriate balance of skills and experience



“Ensuring the Board has the knowledge and skills to deliver its growth ambitions”

### Meetings

2

### Nomination Committee members

- Dick Elsy (Chair from 1 July 2021)
- Richard Hickinbotham (Chair until 1 July 2021)
- Louise Evans

### Dear shareholders

I am pleased to provide my first report on the work of the Nomination Committee which has held two formal meetings during the last twelve months. I became Committee Chair on my appointment as Group Chairman on 1 July 2021. At the same time Richard Hickinbotham who has been Committee Chair for the last four years was appointed Chair of the Remuneration Committee in my place. There were no other changes in the membership of the Committee during the last twelve months and all members are considered to be independent Non-Executive Directors.

### Responsibilities

The Nomination Committee’s terms of reference were reviewed and updated during the year and can be found on the AB Dynamics website. The Committee’s key responsibilities are:

- To review the size, structure, composition and independence of the Board and its Committees
- To make recommendations to the Board for the appointment of new Executive and Non-Executive Directors and their re-appointment following retirement by rotation
- To manage the search for and selection of suitable candidates for the appointment or replacement of Directors
- To consider succession planning for all Group Directors taking into account the challenges and opportunities facing the Group
- To keep under review the time commitment of Non-Executive Directors and external appointments of Board members
- To implement, review and respond to the results of Board evaluation processes

The Committee remains focused on ensuring AB Dynamics benefits from strong leadership and that the Board continues to operate in an open and transparent manner. In considering changes to the Board and its Committees, the Nomination Committee is focused on the recruitment of the best available talent based on merit and assessed against objective criteria of skills, knowledge and experience. Diversity and gender inclusiveness span the whole Group and are important and enduring considerations in the search for and selection of new Board members.

## Nomination Committee report continued

### Board and Committee changes

During the year the Group announced the retirement of Tony Best who stepped down as Non-Executive Chairman on 1 July 2021 following an extended leave of absence on health grounds. Under Tony Best's leadership the Group has grown substantially, both organically and through acquisition, from a small consultancy business founded in 1982 to the international technology and manufacturing business it is today. The Board acknowledges Tony's immense contribution to the development of the Group and is pleased to retain access to his knowledge and experience through his continuing role as a Special Advisor.

On Tony Best's retirement, the Board implemented its succession plan and I was appointed Group Chairman on 1 July 2021 after a four-month period covering the Chairman's duties. As an independent Non-Executive, I have also been appointed to the role of Nomination Committee Chair which can now be held by the Group Chair and have relinquished my role as Chair of the Remuneration Committee in accordance with best practice.

The Committee is comfortable with the balance of two Executive and three Non-Executive Directors but will continue to keep this under review and will consider the appointment of additional Directors at an appropriate time having regard to the growing scale and complexity of the Group's activities and the collective skills, knowledge and experience available to the business.

### Board evaluation

The skills and experience of Board members are set out in their biographies on pages 60 to 61 of this Annual Report. The Composition of the Board has changed significantly over the last two years and this resulted in the deferral of implementation of a formal evaluation process until July 2021. Up to this point, evaluation of individual Board members has been implemented in an ad-hoc manner between the Committee and Group Chairs.

On the recommendation of the Nomination Committee, the Board instructed Savendie to undertake an independent Board Review and Evaluation that is being performed in two phases. The first phase conducted in July and August 2021 focused on a review of Board materials and individual interviews with Directors to assess whether the Board is spending its time together effectively, considering and discussing the correct matters and with good quality information. The final phase to be completed in 2022 will focus on whether the Board is operating effectively with a good balance of support and constructive challenge, and has the combined skills to realise its growth ambitions and to cover the strategic challenges that the Group faces.

I am pleased the first phase report described an effective Board driving a clear strategy whilst identifying and managing risks. The Board is implementing recommendations to improve some Board processes and will be considering its succession planning in parallel with the Group's strategic development.

The Board Review process, once complete, is expected to provide the Board with a good understanding of its strengths and weaknesses and to identify areas for development. At this time the Board is considered to be operating in an open and transparent manner, and in an environment of trust with all Directors having freedom to express opinions to the benefit of the Group.

**Richard Elsy CBE**  
Nomination Committee Chair  
24 November 2021

**“The Board is considered to be operating effectively, driving a clear strategy whilst identifying and managing risks”**

## Audit and Risk Committee report

# Monitoring all aspects of financial reporting and risk



“Focusing on business risks has been key to responding to challenging market conditions”

### Meetings

# 3

#### Audit and Risk Committee members

- Louise Evans (Chair)
- Dick Elsy (until 1 July 2021)
- Richard Hickinbotham

### Dear shareholders

I am pleased to present my report as Chair of the Audit and Risk Committee.

#### Audit and Risk Committee role and activities

The Committee's responsibilities are set out in its terms of reference which are available on the Company's website. The Committee reviews its terms of reference annually and recommends to the Board any changes required as a result of the review. The Committee has a sufficient level of competence relevant to its function and the sector in which it operates. The qualifications and experience of the members of the Committee can be found on pages 60 to 61.

The key roles and responsibilities of the Committee are as follows:

- To review the Group's risk management framework, assist the Board in conducting a robust assessment of the Group's principal risks and ensure adherence to policies and effectiveness of mitigating actions
- To review the published half-year and annual financial reports and advise the Board on whether such information represents a fair, balanced and understandable assessment of the Company's position and prospects; monitor compliance with

relevant statutory reporting requirements; review and consider any changes in accounting standards; and considering the suitability of, and any changes to, accounting policies used by the Group, including the use of estimates and judgements

- To manage the appointment of the Group's external auditor, agreeing the nature and scope of the external audit as well as the terms of remuneration, and assess the effectiveness of the audit and auditor independence including approval of any non-audit services undertaken together with the level of non-audit fees
- To review the internal control environment and consider the need for an internal audit function
- To review the adequacy of the Group's procedures for employees to report wrongdoing or raise concerns and reviewing the systems in place to detect and prevent bribery, fraud and money laundering
- To monitor compliance with the UK corporate governance guidelines contained in the Quoted Companies Alliance (QCA) Code in respect of audit and risk committees

#### Activities during the year

The Committee met three times during the financial year under review, and also met privately with the external auditor.

Meetings of the Committee were attended, at the invitation of the Chair, by the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the external auditor.

The Committee met with the external auditor once during the year without the Executive Directors being present. The Company Secretary acted as secretary to the Committee.

The following sections describe the work of the Committee during the year ended 31 August 2021.

## Audit and Risk Committee report continued

### Review of financial statements

The Committee monitors the integrity of the Group's financial statements and has reviewed the presentation and content of the Group's interim and preliminary results announcements and the Annual Report. It considered whether the Annual Report was fair, balanced and understandable, as well as the appropriateness and disclosure of accounting policies, key judgements and key estimates. As part of this review, it considered matters raised by the CFO together with reports presented by the external auditor summarising the findings of their annual audit.

The significant accounting judgements considered for the year ended 31 August 2021 were:

- Review of the valuation and recoverability of goodwill and other intangible assets. The Committee considered the carrying value of goodwill and intangible assets in relation to Vadotech, rFpro and DRI against the latest forecasts for the businesses concerned and the future strategic plan for the Group. The Committee was satisfied that the valuation is appropriate and that no impairment is required
- Review of revenue recognition on long-term contracts. The Group has established processes in relation to estimating the stage of completion, milestones and expected profitability of long-term contracts. The Committee reviewed these assumptions and was satisfied that they are appropriate
- Review of the going concern assumption. The Group has substantial cash resources and a £15m undrawn revolving credit facility. In the current environment, particular emphasis was placed on the review of the going concern assessment and viability statement, particularly with regard to the impact of COVID-19. The Committee reviewed the adequacy of the Group's financial resources to ensure there is sufficient headroom to enable the Group to continue trading for the foreseeable future. The Group's future funding requirements were also considered. Based on its review of the Group's forecasts and discussions with the external auditor, the Committee recommended to the Board the adoption of the going concern basis for the preparation of the interim and full year results

The Committee reviewed the form and content of the 2021 Annual Report and confirmed to the Board that, taken as a whole, the Annual Report is fair, balanced and understandable. The Committee also concluded that the Annual Report provides the information necessary to assess the Group's position and performance, business model and strategy.

### External audit

Crowe LLP was re-appointed as external auditor at the 2021 AGM.

The Audit and Risk Committee reviewed the audit plan including scope and materiality thresholds. It also considered the independence and objectivity of the external auditor, and reviewed the effectiveness of the audit process through inviting feedback from people involved with the external auditor's work across the business, and additional meetings between the Chair of the Committee and the audit partner. The Committee received confirmation from the auditor that it had complied with independence rules and with the Ethical Standards for Auditors. Having reviewed the audit plan, audit findings report and enquiries of management, the Committee concluded that audit effectiveness was satisfactory.

The Committee also reviewed the nature, extent, impact on objectivity and cost of non-audit services provided by the auditor. During the year, Crowe provided no non-audit services. The Committee concluded that the external auditor was independent during the financial year.

The auditor independence policy, which was reviewed by the Committee during the year, prohibits the provision of certain non-audit services by the external auditor, in line with regulatory requirements and UK ethical guidance. It requires the Committee's prior approval of any individual non-audit services with a fee above £25,000, or £50,000 in any aggregate in any financial year.

Crowe has been the Group's external auditor for a number of years. In light of this and the continued expansion of the Group, the Committee will consider annually whether the re-appointment of Crowe remains appropriate. Following consideration of all the matters noted above, the Committee has recommended that Crowe be appointed as auditor for the year ending 31 August 2022.

### Risk and internal control framework

During the year, the Committee reviewed the Group's risk, compliance and internal control framework.

This included:

- Reviewing and updating the Group's delegation of authority framework, in order to ensure appropriate controls are in place for the approval of certain matters and actions relating to expenditure, contractual exposure and other potential liability for the Group
- Reviewing the effectiveness of the Group's internal control environment and how this can be strengthened through the design and implementation of the new ERP system
- Reviewing the provision of internal oversight and the development of internal audit
- Reviewing the ongoing development of the Group's risk management framework, including assessing the Group's emerging and principal risks and mitigating actions, more information on which can be found on pages 56 to 58
- Reviewing the Group's IT security monitoring and planning particularly in relation to increased remote working
- Reviewing the Group's insurance coverage

### Louise Evans

Audit and Risk Committee Chair

24 November 2021

## ESG Committee report

# Embedding sustainability across all aspects of our business



“ESG is an intrinsic part of our purpose and fundamental to ensuring successful, long-term outcomes for our business, for our employees and for the community”

### Meetings

# 3

### ESG Committee members

- Louise Evans (Chair) (appointed 5 August 2020)
- Dick Elsy (appointed 5 August 2020)
- James Routh (appointed 5 August 2020)

## Dear shareholders

I am delighted to present my first report as Chair of our new ESG Committee.

ESG is an intrinsic part of our purpose to accelerate our customers' drive towards net zero emissions and to improve road safety and the automation of vehicle applications through leadership and innovation in engineering and technology.

The ESG Committee was set up during the year to provide oversight of the various ESG activities which are embedded throughout our business and to set the overall ESG strategy.

### Role and activities

The role of the Committee includes:

- Promoting the Group's contribution to road safety and the associated reduction in road accidents and fatalities
- Promoting the Group's sustainability objectives by assisting in the roll out of electric vehicles and other lower carbon transport technologies
- Setting the ESG strategy
- Reviewing the Group's ESG policies, programmes, targets and initiatives

### Activities during the year

The Committee met 3 times during the year to set out the Committee's role, develop the ESG strategy and bring together the current activities under coherent policies and procedures.

We have set our environmental goal to be carbon neutral by 2030 and are already making good progress against this objective.

Employee health and safety and wellbeing is of paramount importance and this year the Group launched its employee engagement programme, developed the Code of Conduct and also introduced its vision and values programme, developed and led by a group of employees.

Building on the already well-established governance programme, a continuous improvement approach has been adopted to formalise ESG policies and procedures.

### Looking forward

In the coming year we plan to continue with the implementation of our strategy and refine our ESG performance metrics.

### Louise Evans

ESG Committee Chair  
24 November 2021

## Remuneration Committee report

# Aligning remuneration to performance



“Our remuneration policy reflects market best practice”

### Meetings

# 3

#### Remuneration Committee members

- Richard Hickinbotham (Chair) (from 1 July 2021)
- Dick Elsy (Chair) (until 1 July 2021)
- Louise Evans

#### Key activities for the year

- Setting appropriate annual incentive measures and targets for Executive Directors and Senior Management
- Reviewing the operation of the LTIP scheme to ensure alignment with the Company's strategy
- Oversight of wider workforce remuneration
- Reviewing best practice and the latest views from investors and proxy agencies

## Dear shareholders

### Foreword

I am pleased to present my first report as Chair of the Remuneration Committee, having taken over the appointment from Dick Elsy on 1 July 2021 when he became the Chairman of the Group. The Committee's terms of reference were reviewed and updated during the year and can be found on the AB Dynamics website.

The report comprises:

- My annual report on the activities of the Remuneration Committee during the year
- The annual report on remuneration, which explains how the Directors' remuneration policy was implemented in 2021
- A summary of the Directors' remuneration policy
- An overview of how the policy will be implemented in 2022

The Committee is conscious of the need to demonstrate good governance and has reflected on shareholder feedback received during the past year. Whilst we recognise our status as an AIM quoted company and the associated disclosure requirements, we have adopted remuneration structures which reflect good practice together with providing greater transparency in reporting to ensure that our approach is clear to all of our stakeholders.

In particular I would highlight the following features:

- This Remuneration Committee report will be put to an advisory vote at the AGM in January 2022, providing direct engagement with shareholders
- The annual bonus for Executive Directors is based on key metrics and stretching targets, and includes a three-year deferral, aligning Executive Directors with the longer-term business strategy

## Remuneration Committee report continued

### Foreword continued

- Awards made under the long-term incentive plan (LTIP) have a three-year performance period (based on TSR and EPS) and a further two-year holding period. This is to align Executive Directors to the delivery of the long-term strategy of the Group and drive long-term value for shareholders
- Awards under the long-term incentive plan are subject to malus and clawback provisions
- There are shareholding guidelines in place for the Executive Directors

### Performance outcomes

The Group delivered strong progress against its strategic priorities and a robust financial performance, despite continued macroeconomic challenges due to the ongoing COVID-19 pandemic, Brexit, and foreign exchange volatility.

Whilst the first half of the financial year continued to be impacted by COVID-19, the second half was very strong with record levels of order intake, revenue and cash-generation. Overall results for the year showed revenue growth of 6% to £65.4m, while operating profit reduced by 4% after planned investment in capability and capacity and new product development.

Further developments against the Group's strategic priorities included the acquisition of Vadotech Group, strengthening our presence in the key Asia Pacific region, the launch of several new track test products and the enhancement and restructuring of the management team to align with our market approach.

### Pay outcomes

Despite the macroeconomic challenges the business performed well. As a result, the annual bonus paid out 64% against the maximum opportunity. The first award under the long-term incentive plan is not scheduled to vest until FY 2022 given its three-year vesting schedule.

In line with the Remuneration Policy and the need to retain Executive Directors with the required skills and experience to deliver the growth strategy for AB Dynamics, the Remuneration Committee has agreed that James Routh and Sarah Matthews-DeMers will both receive a base salary increase of 9.7% with effect from 1 September 2021. Both Directors were hired well below the market median and the increase is reflective of strong performance of both individuals and the Company. This increase will bring them progressively towards median levels for companies of similar size and complexity.

### Looking forward

The Remuneration Committee has agreed that for the financial year 2022 the target bonus in respect of financial returns will reduce from 60% of salary to 50% with personal objectives rising to 50% from 40%. The Committee believes that this provides an appropriate balance to the delivery of key strategic objectives that will underpin the growth and development of the Group. The Committee retains discretion to amend formulaic outcomes to ensure alignment of pay with performance of the business and to take account of personal performance.

It is the intention of the Remuneration Committee to consult with our larger shareholders and investor bodies after publication of this report with a view to putting in place revised long-term incentive arrangements to better retain our key Executives and focus them on the execution of our strategy and growth plans. In particular, given the Company's focus on developing and implementing a detailed ESG strategy, the Remuneration Committee will review performance metrics with a view to including ESG criteria. Other elements of remuneration will remain broadly the same. Full details of the new arrangements will be set out in the FY2022 Annual Report. The Remuneration Committee will also continue to keep abreast of corporate governance and regulatory developments to ensure the application of best practice and transparency.

The Committee continues to welcome feedback from shareholders and I hope that we receive your support in future remuneration related votes at our AGM.

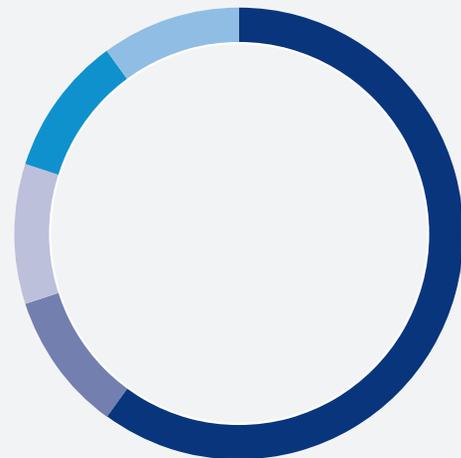
# Remuneration Committee report continued

## Remuneration at a glance

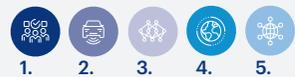
This section provides an overview of our remuneration policy and outcomes for the year.

### Strategic alignment of remuneration with FY 2021 KPIs

#### Annual bonus



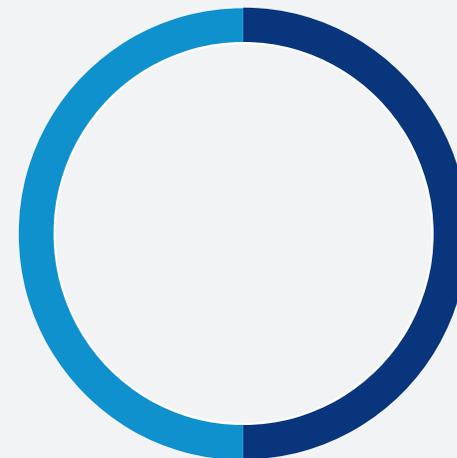
- 1. Financial 60%
- 2. Product Development 10%
- 3. Operational 10%
- 4. Organisational 10%
- 5. Strategic 10%



**Link to strategy**

Read more on pages 10 to 13

#### Long-term incentive plan



- Total shareholder return 50%
- Cumulative adjusted EPS, financial KPI 50%

Total shareholder return vests between median and upper quartile performance.

EPS vests between 5% to 20% compound annual growth.

#### Remuneration policy and FY 2021 outturn

##### James Routh

Actual	349	254	
Minimum	349		
On target	349	237	237
Maximum	349	395	395

##### Sarah Matthews-DeMers

Actual	265	154	
Minimum	265		
On target	265	144	144
Maximum	265	240	240

■ Fixed pay ■ Annual bonus ■ LTIP

The long-term incentive plan was first implemented in FY 2019 and includes annual LTIP awards in accordance with our remuneration policy.

Due to the three-year vesting schedule no amount vested in FY 2021.

On target assumes the annual bonus and LTIP vest at 60% of maximum for FY 2021. No share price appreciation is included.

## Remuneration Committee report continued

### Remuneration policy

Executive Directors				
Element	Purpose	Operation	Maximum opportunity	Performance metrics
<b>Base salary</b>	To attract and retain Executive Directors with the required skills and experience to deliver ABD's continued growth strategy	Base salaries are reviewed on an annual basis with any changes effective 1 September each year	There is no maximum salary although salary levels are set to progressively move towards median levels for companies of similar size, operational and geographic complexity	Base salary levels and corresponding increases are based on individual experience, skills and Company performance along with competitiveness against similar companies
<b>Benefits</b>	To provide market competitive benefits	Benefits may include medical cover, critical life and death in service insurance. Other benefits may be awarded as appropriate and include relocation	Benefits may vary by role and individual circumstances and are periodically reviewed	Not performance related
<b>Pensions</b>	Competitive to market to reward sustained contribution by Executive Directors	Contributions to a Director's pension as appropriate. This may include contribution to a money purchase scheme or payment of a cash allowance where appropriate	Maximum Company contribution of 10%. This aligns with the pension available to ABD's UK workforce	No performance metrics applicable
<b>Annual performance related bonus</b>	To reward and incentivise based on the achievement of the budget and other business-related objectives	Financial and non-financial performance targets are set and reviewed by the Remuneration Committee  20% of any bonus earned is deferred into shares for three years	Maximum of 125% of base salary for the Chief Executive Officer and 100% for the Chief Financial Officer  For FY 2022 on target performance is 50% of maximum (previously 60%) and performance below threshold results in zero payment. Threshold is set at 10% below our budget for the year	Half of the bonus is related to financial performance criteria based on the budget approved by the Committee. A proportion of the potential bonus relates to current business priorities. KPI's and performance weightings may vary from year to year  The Committee has discretion to adjust formulaic bonus outcomes to ensure alignment of pay with the underlying performance of the business over the financial year and to take account of personal performance over the course of the year
<b>Long Term Incentive Plan (LTIP)</b>	To align Executive Directors to the delivery of the long-term strategy of the Group and provide long-term value for shareholders	Performance is assessed against rolling three-year performance periods. Awards vest at the end of the three-year performance period with 60% released after year three and 20% in each of the following two years  Shareholding objectives apply to ensure Executive Directors build up to a minimum of 150% of salary within five years  LTIP awards are subject to malus and clawback provisions	The maximum opportunity is nil-cost options to the value of 125% of base salary for the Chief Executive Officer and 100% of base salary for the Chief Financial Officer  No more than 25% of the award will be payable at threshold performance	Awards will be granted subject to the achievement of performance targets set by the Remuneration Committee. Currently these are based on EPS growth and Total Shareholder Return (TSR) vs the AIM 100  The Remuneration Committee may adjust formulaic LTIP outcomes to ensure alignment of pay with performance and to ensure the outcome is a true reflection of the performance of the Company

## Remuneration Committee report continued

### Remuneration policy continued

#### Recruitment policy

Upon recruitment of an Executive Director, the remuneration package will be in line with the remuneration policy, subject to the Committee having discretion that buy-out awards (or any other means in order to facilitate the recruitment of an Executive Director) are reasonably necessary.

#### Non-Executive Directors' remuneration policy

Non-Executive Directors				
Element	Purpose	Operation	Maximum opportunity	Performance metrics
<b>Chairman and Non-Executive Directors' fees</b>	To attract and retain a Chairman and independent Non-Executive Directors with the required skills and experience	Paid monthly in arrears and reviewed each year. Any reasonable business-related expenses can be reimbursed	The Chairman's and Non-Executive Directors' fees are determined by relevant benchmark data	Annual review by the Board

### Annual report on remuneration

This section sets out how the remuneration policy was applied for the year ending 31 August 2021.

#### Single figure table for Executives

Pay element	James Routh		Sarah Matthews-DeMers	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Base salary	<b>316<sup>1</sup></b>	310	<b>240<sup>1</sup></b>	196 <sup>2</sup>
Taxable benefits	<b>1</b>	1	<b>1</b>	1
Pensions	<b>32</b>	31	<b>24</b>	20
Annual performance bonus	<b>254</b>	116	<b>154</b>	59
LTIP <sup>3</sup>	—	—	—	—
Gain on exercise of share options	<b>267</b>	173	—	—
<b>Total</b>	<b>870</b>	631	<b>419</b>	276
Of which:				
Fixed remuneration	<b>349</b>	342	<b>265</b>	217
Variable remuneration	<b>521</b>	289	<b>154</b>	59

1. James Routh and Sarah Matthews-DeMers received an inflationary increase in base salary of 3% as disclosed in FY 2020 Directors' remuneration report.

2. Sarah Matthews-DeMers commenced as Chief Financial Officer on 4 November 2019, which equates to a full year equivalent salary for 2020 of £235,000.

3. Due to the three-year vesting schedule of the current LTIP award, no amount vested in FY 2021 as it was granted in FY 2019.

#### Incentive schemes

The annual bonus scheme paid out at 64% against the maximum opportunity. This is based on a balance of financial performance within the target range and delivery of non-financial objectives.

No award under the long-term incentive plan is scheduled to vest until FY 2022 due to the three-year vesting schedule.

#### Legacy share options

James Routh and Sarah Matthews-DeMers currently have awards that continue to vest under the previous share option plan as referenced in prior disclosures. These awards, made during FY 2019 to James Routh and FY 2020 to Sarah Matthews-DeMers prior to the implementation of the long-term incentive plan, vest over a period of two to three years, provided the Director remains in employment. The exercise price of the FY 2020 scheme is currently above market price.

During FY 2021, following vesting of 33,333 options, James Routh sold 27,478 ordinary shares in order to meet the cost of the exercise and to satisfy personal taxation liabilities arising from the exercise, retaining 5,855 shares.

Sarah Matthews-DeMers has not exercised any outstanding awards.

## Remuneration Committee report continued

### Single figure table for Non-Executive Directors

Pay element	Dick Elsy <sup>4</sup>		Richard Hickinbotham		Louise Evans <sup>5</sup>		Anthony Best <sup>1</sup>		Graham Eves <sup>2</sup>		Bryan Smart <sup>3</sup>	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Fees	50	4	45	45	45	19	63	75	—	45	—	19

For the year ending 31 August 2022, the Chairman's and Non-Executive Directors' fees have increased to £95,000 and £55,000 (including a Committee Chair fee of £10,000) respectively.

1. Anthony Best retired from the Board on 1 July 2021.
2. Graham Eves retired from the Board on 31 August 2020.
3. Bryan Smart retired from the Board on 15 January 2020.
4. Dick Elsy was appointed to the Board on 1 August 2020.
5. Louise Evans was appointed to the Board on 6 April 2020.

### LTIP awards made during the year

Executive Director	Share awards made during 2021	Award basis	Grant date	Face value of award at maximum vesting (£)	Vesting date	Performance conditions
James Routh	21,917	125% of base salary	2 December 2020	387,500	2 December 2023	EPS & TSR
Sarah Matthews-DeMers	13,292	100% of base salary	2 December 2020	235,000	2 December 2023	EPS & TSR

### Directors' interests in shares

Directors' interests in the shares of the Company, including related parties, were as follows:

Directors	Ordinary shares of 1p each	Shareholding Guidelines <sup>2</sup>	Shareholding Guidelines Met
Anthony Best <sup>1</sup>	5,926,107	N/A	N/A
James Routh	13,193	150%	No
Sarah Matthews-DeMers	349	150%	No

1. Anthony Best retired from the Board on 1 July 2021.

2. Shareholdings of 5.0% of gross salary are to be built up within five years of appointment.

### Directors' interest in long-term incentive awards

Directors	Legacy share options					Long-term incentive plan				
	Exercise price	As at 1 September 2020	Awarded during the year	Exercised during the year	As at 31 August 2021	As at 1 September 2020	Awarded during the year	Exercised during the year	As at 31 August 2021	
James Routh	£12.30	66,667	—	33,333	33,334	18,278	21,917	—	40,195	
Sarah Matthews-DeMers	£21.40	60,000	—	—	60,000	11,085	13,292	—	24,377	

## Remuneration Committee report continued

### CEO pay ratio

AB Dynamics has a range of policies and practices to ensure that all employees are fairly rewarded for the work they undertake. For all employees we offer a total reward package that includes market competitive salaries and a bonus scheme which allows employees to share in the success of the Group. The senior management team are also eligible for awards under the long-term incentive plan which provides closer alignment to the shareholder experience.

The table below shows our CEO's and average employee's total remuneration for 2020 and 2021. The CEO pay ratio has increased during the year due to an annual bonus award reflecting performance against financial and personal objectives. The average pay per employee has remained the same despite pay increases and bonus awards in the existing Group, due to the acquisition of Vadotech, which significantly increased the number of employees in lower wage geographies.

We are satisfied that the pay ratio is consistent with the pay, reward and progression policies for our employees.

FY	Total remuneration		Ratio
	James Routh	Average employee	
<b>2021</b>	<b>£870,000</b>	<b>£64,000</b>	<b>14:1</b>
2020	£631,000	£64,000	9:1

### Directors' contracts

The Executive Directors have rolling service contracts that are subject to twelve months' notice. The Chairman and Non-Executive Directors do not have contracts of service.

### Remuneration Committee activities for 2021

During the year, the Committee considered:

- Salary reviews for the Executive Directors and senior management
- The 2021 annual bonus plan outturn
- Approval of the 2022 annual bonus plan financial targets and personal objectives for the Executive Directors
- Approval of 2021 LTIP awards and performance conditions
- The use of discretion
- Review of the Remuneration Committee report

### Advisers

PwC provided services to the Committee for the year ended 31 August 2021. In addition, EY advised on the disclosures in this Remuneration Committee report.

### Payments to past Directors

On 1 July 2021 Anthony Best retired from the Board and was appointed as a special adviser to the Group on a retainer of £1,000 per month.

### Loss of office

There were no loss of office payments made during the year.

**Richard Hickinbotham**  
Remuneration Committee Chair  
24 November 2021

## Directors' report

### Index to principal Directors' report and other required governance and compliance disclosures

This section contains information which the Directors are required by law and regulation to include within the Annual Report and Accounts. Where relevant information (required to be disclosed in the Directors' report) is located in more detail elsewhere in this document, please refer to the table below:

Information	Section in Annual Report	Pages
Business review	Strategic report	1 to 58
Principal risks and uncertainties	Strategic report	56 to 58
Risk management and internal controls	Risk management	56 to 57
Disclosure of information to auditor	Directors' report	89
Dividend recommendation for the year	Strategic report – Chairman's statement	7
Strategy and future developments of the Company	Strategic report	9 to 19
Directors who held office during the year	Governance – Board of Directors	60 to 61
Directors' and Officers' liability insurance in place	Governance – Directors' report, Statement of corporate governance	71
Director skills, experience and independence	Governance – Board of Directors	60 to 61
Rules governing the appointment of Directors	Governance	68
Powers of Directors	Governance	68
Structure of share capital, including restrictions and the transfer of securities, voting rights and significant shareholders	Directors' report	88 to 89
Non-financial information statement	Strategic report	1 to 58
Articles of Association and the rules governing changes to them	Directors' report	88
Company's energy usage and greenhouse gas emissions	Strategic report – ESG strategy	37 to 39
Research and development	Strategic report	32
Director remuneration details	Remuneration Committee report	80 to 86
Corporate social responsibility	Strategic report – ESG strategy	40 to 41
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The Company's S172(1) statement	Strategic report – ESG strategy	50 to 53
Stakeholder engagement	Strategic report – ESG strategy	50 to 51
Principal decisions taken by the Company arising from or influenced by stakeholder engagement	Statement of corporate governance	72 to 73
Accounting standards applied	Directors' report, note 1 of financial statements	99
Performance evaluation	Nomination Committee report	76

## Directors' report continued

### Company information

#### Articles of Association

The Company's Articles of Association may be amended by special resolution of the Company's shareholders.

#### Strategic report

The Strategic report is set out on pages 1 to 58 and was approved by the Board on 24 November 2021. It is signed on behalf of the Board by James Routh, Chief Executive Officer.

#### Cautionary statement

The review of the business and its future development in the Annual Report has been prepared solely to provide additional information to shareholders to allow individual shareholders to consider the Group's strategies and make their own assessment of the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward-looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of these reports, as such they should be treated with caution due to inherent uncertainties associated with such statements.

#### Employees

The average number of persons, including Directors, employed by the Group including its overseas subsidiaries and their remuneration is set out on pages 84 to 85 and in note 6 to the financial statements. Other information about the Group's employee engagement, diversity and inclusion policies is set out in the People Potential section of ESG strategy, and Corporate Social Responsibility section starting on page 40. The Group-wide gender diversity split as at 1 September 2021 was 18% female and 82% male.

#### Greenhouse gas emissions (GHG)

The Group recognises and strives to minimise its impact on the environment. This year our main environmental focus has been on clean inputs and responsible consumption. Further information including the Group's carbon emissions and energy consumption data can be found on pages 37 to 39.

### Shareholder information

#### Incorporation and principal activity

AB Dynamics plc is domiciled in England and registered in England and Wales under Company Number 8393914. At the date of this report there were 22,622,344 ordinary shares of 1p each in issue, all of which are fully paid up and quoted on the London Stock Exchange's AIM market. The principal activity of the Group is the design, manufacture and supply to the global automotive and mobility sectors of advanced testing systems, simulation products and testing services. A description and review of the activities of the Group during the financial year and an indication of future developments is set out on pages 1 to 58.

#### Annual General Meeting

The Annual General Meeting (AGM) will be held at 11am on Wednesday 12 January 2022 at Tulchan Communications, 2nd Floor, 85 Fleet Street London EC4Y 1AE. The Notice of the AGM, which is a separate document, will be sent to all shareholders and will be published on the AB Dynamics plc website.

#### Substantial shareholdings

At 29 October 2021, the Company had been notified of the following interests amounting to 3% or more of the voting rights in its ordinary share capital:

	Percentage of ordinary share capital
Anthony Best	19.7
Castlefield Investments	13.4
Naemi Best	6.5
BlackRock Investment Management	4.0
Charles Stanley	3.7
Tellworth Investments	3.2
Danske Bank Asset Management	3.0
Liontrust Asset Management	3.0

As far as the Directors are aware, there were no other interests above 3% of the issued ordinary share capital.

#### Share capital

The rights attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association, copies of which can be obtained from the Group Company Secretary and are available on the Company's website. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights. No person holds securities in the Company carrying special rights with regard to control of the Company.

#### Employee share plans

For details of the Company Share Option Plan, under which 138,872 non-transferable options were granted to employees in October 2019, and the Group's ongoing Long-term Incentive Plan, the conditional arrangement under which contingent share awards can be made to selected senior management, including the Executive Directors, are set out in the Remuneration Committee report and in note 26 of the Accounts.

#### Restrictions on transfer of shares

The Board may in its absolute discretion refuse to register a transfer of a certificated share that is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share, unless the instrument of transfer is:

- (i) Duly stamped or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, lodged at the Transfer Office or at such other place as the Board may appoint and (save in the case of a transfer by a person to whom no certificate was issued in respect of the shares in question) accompanied by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do
- (ii) In respect of only one class of shares
- (iii) In favour of not more than four persons jointly

## Directors' report continued

### Restrictions on transfer of shares continued

There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws); or where a shareholder with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

### Related party disclosures (AIM Rule 19)

There is no information to be disclosed by the Company in respect of related party transactions, except for:

- Share options and long-term incentive schemes awarded to Executive Directors (see the Remuneration Committee report)
- Provision of services by controlling shareholder (see the Remuneration Committee report)
- Agreements with controlling shareholders (see related party note 25 of the financial statements)

Mr A Best, former Chairman of the Company, is a trustee and beneficiary of the Best Middleton Trust. Rental payments of £44,000 (2020: £48,000) were made in the year to the Trust. In July 2021 the lease was terminated and therefore all agreements with a controlling shareholder have now ceased.

## Financial information

### Results and dividends

The profit for the financial year attributable to shareholders was £2,985,000 (2020: £4,022,000). The Directors recommend a total final dividend of 3.24p per ordinary share (2020: 4.4p), to be paid, if approved, on 28 January 2022. The results are shown more fully in the consolidated financial statements on pages 95 to 98 and summarised in the Chief Financial Officer's review on pages 30 to 33.

### Independent auditor

A resolution to re-appoint Crowe LLP (Crowe) as the Group's external auditor will be proposed at the forthcoming AGM, in accordance with Section 489 of the Companies Act 2006.

### Disclosure of information to auditor

Each person who is a Director at the date of approval of this Directors' report confirms that:

- So far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware
- That Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditor in connection with preparing its report and to establish that the Company's auditor is aware of the information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Directors' assessment of going concern

At 31 August 2021 the Company had net current assets of £25,492,000 (2020: £29,503,000) with the main current asset being amounts owed from its subsidiary Anthony Best Dynamics Limited, amounting to £17,630,000 (2020: £20,477,000).

### Going concern

The Directors have assessed the principal risks discussed on pages 56 to 58, including by modelling a severe but plausible downside scenario for COVID-19, whereby the Group experiences:

- A significant reduction in demand over the next two financial years
- Supply chain disruption
- Delays in collection of cash from customers
- Increase in input costs resulting in reduction in gross margin to 40%

With £23.3m of cash at 31 August 2021 and a £15m undrawn revolving credit facility, in this severe downside scenario, the Group has sufficient headroom to be able to continue to operate for the foreseeable future. The Directors believe that the Group is well placed to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least twelve months from the signing date of this Annual Report. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

### Directors' insurance

The Group has in place a Directors and Officers Liability Insurance Policy which provides cover for the personal liability which the Company's Directors and officers may face. This remains in force at the date of this report.

Approved for and on behalf of the Board.

**Dr James Routh**  
Chief Executive Officer

**Richard Elsy CBE**  
Non-Executive Chairman

AB Dynamics plc  
Company Number: 8393914  
24 November 2021

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Parent Company and of their profit or loss for that year. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the Strategic report and the Directors' report and other information included in the Annual Report and Accounts are prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the AB Dynamics plc website is the responsibility of the Directors; the work carried out by the auditor does not involve the consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in Annual Reports may differ from legislation in other jurisdictions.

### Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the Principal Risks and Uncertainties that they face
- The Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy

This responsibility statement was approved by the Board of Directors on 24 November 2021 and is signed on its behalf by:

**Dr James Routh**  
Chief Executive Officer

**Richard Elsy CBE**  
Non-Executive Chairman

Registered office: Middleton Drive, Bradford on Avon, Wiltshire BA15 1GB

## Independent auditor's report

To the members of AB Dynamics plc

### Opinion

We have audited the financial statements of AB Dynamics plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 August 2021, which comprise:

- the Group statement of comprehensive income for the year ended 31 August 2021;
- the Group and parent company statements of financial position as at 31 August 2021;
- the Group and parent company statements of changes in equity for the year then ended 31 August 2021;
- the Group statement of cash flows for the year then ended 31 August 2021; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- 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 August 2021 and of the Group's profit for the period 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;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements 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, 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's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's financial projections for the Group and parent company for a period of more than 12 months from the date of approval of the financial statements.
- Checking the numerical accuracy of management's financial projections
- Challenging management on the assumptions underlying those projections and sensitised them to reduce anticipated net cash inflows from future trading activities.
- Obtained the latest management results post year end 31 August 2021 to review how the Group and parent company are trending toward achieving the forecast.
- Performed sensitivity analysis on key inputs of the forecast by calculating the impact of various scenarios and considering the impact on the group and parent Company's ability to continue as a going concern in the event that a downward scenario occurs.
- Assessing the completeness and accuracy of the matters described in the going concern disclosure within the significant accounting policies as set out in Note 2.

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's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Overview of our audit approach

#### Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements.

We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £500,000 (2020: £450,000), based on 5% of normalised Group profit before tax. Materiality for the parent company financial statements was set at £115,000 (2020: £60,000) based on a percentage of net assets.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment. We determined performance materiality for the Group financial statements as a whole to be £350,000 (2020: £315,000). Performance materiality for the parent company financial statements was set at £80,500 (2020: £42,000).

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the audit committee to report to it all identified errors in excess of £17,500 (2020: £16,875). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

## Independent auditor's report continued

To the members of AB Dynamics plc

### Overview of our audit approach continued

#### Overview of the scope of our audit

The main trading Group and its principal subsidiary are accounted for from one central location, the Group's registered office.

The Group has a significant component in the United Kingdom, rFpro Limited, who's accounting records are currently held at the location of this business in Southampton. Our audit of this entity was completed remotely.

The Group also has a significant component based in the United States of America, being the DRI business acquired on 30 August 2019. A member of the Crowe Global international network was engaged to perform procedures locally under our direction and review.

The Group also has a significant component based in Singapore, being the Vadotech business acquired on 3 March 2021. A local audit firm was engaged to perform procedures locally under our direction and review.

#### 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter

How the scope of our audit addressed the key audit matter

#### Revenue recognition and accounting for long-term contracts

Revenue is recognised in accordance with the accounting policy set out in the financial statements. The accounting policy contains a number of judgements, particularly in recognising when the performance obligations are satisfied. This is determined with reference to the underlying contract with the purchaser.

For certain projects the Company recognises revenue over the period of the contract.

The Group uses the percentage of completion method to determine the appropriate amount of revenue to recognise in a given period. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. A number of judgements are made by management in making its assessment of estimated costs and profitability.

- We assessed that the accounting policy conformed with the requirements of IFRS15 and then tested its application to a sample of contracts.
- We performed cut off testing to ensure revenue is being recorded in the correct period.
- Our work on long-term contracts focused on validating that estimated contract costs which include staff costs, overheads and material costs are appropriate and accurately estimated and also ensuring that the use of costs as a measure of progress is appropriate.
- We assessed whether cut off has been correctly applied and that any resulting work in progress and other entries are appropriate.
- We considered the original budget for the contract and compared this to actual costs to validate how the contract has performed and enquired into any events which could change this assessment.

## Independent auditor's report continued

To the members of AB Dynamics plc

### Overview of our audit approach continued

#### Key Audit Matters continued

Key audit matter

How the scope of our audit addressed the key audit matter

#### Valuation of intangible assets and goodwill

The Group's intangible assets comprise of goodwill arising on acquisition of subsidiaries, customer relationships, brand and technology assets.

When assessing the carrying value of goodwill and intangible assets, management makes judgements regarding the appropriate cash generating unit, strategy, future trading and profitability and the assumptions underlying these. We considered the risk that goodwill and/or other intangible assets were impaired.

- We evaluated, in comparison to the requirements set out in IAS 36, management's assessment (using discounted cash flow models) as to whether goodwill and/or other intangible assets were impaired.
- We challenged, reviewed and considered by reference to external evidence, management's impairment and fair value models as appropriate and their key estimates, including the discount rate. We reviewed the appropriateness and consistency of the process for making such estimates.
- We obtained management's discounted cash flow models supporting the intangible asset valuation. We challenged the key assumptions into the model, including the forecast revenue and gross margin, discount rates and growth rates.
- We compared cash flow forecasts used in the impairment review to historical performance, and challenged where forecasts indicated performance that deviated significantly from historical performance, in the absence of significant changes in the business or market environment.
- Discount rates and terminal growth rates were benchmarked to externally derived data and our knowledge of sector performance, to evaluate the reasonableness of these assumptions.
- Sensitivity analysis was performed by management on the key assumptions such as growth, margin and discount rates to identify those assumptions to which that the goodwill or intangible asset valuation was highly sensitive. We have applied further sensitivity to create a worst case scenario and challenged management on the likelihood of such a scenario occurring, and on what remedial actions would be taken

#### Acquisition accounting

On 3 March, the Group acquired a number of entities known as the Vadotech group for cash consideration of €20 million with a conditional cash payment of up to €6 million subject to certain performance criteria being achieved for the year ending December 2021.

Accounting for business combinations is complex and requires the recognition of both consideration paid and acquired assets and liabilities at the acquisition date at fair value, which can involve significant judgement and estimates. There is a risk that inappropriate assumptions could result in material errors in acquisition accounting.

- We obtained a copy of the sale and purchase agreement to confirm the initial consideration for these acquisitions, as well as assessing the accounting for the conditional elements of the acquisition.
- We performed audit work on the acquisition balance sheet to confirm the assets and liabilities which comprise the acquired businesses as at date of acquisition and are used in the calculation of goodwill.
- We reviewed the work undertaken by the independent firm who performed the valuation of intangible assets identified at date of acquisition and assessed and challenged the provisional fair value attributed to these intangible assets, involving our own valuation specialists.
- We assessed the disclosures made are in line with IFRS 3

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Independent auditor's report continued

To the members of AB Dynamics plc

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our 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 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 their 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 where 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 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.

### Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 67, 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's 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 material misstatements in respect of irregularities, including fraud. 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 lies with management and those charged with governance of the Company.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the procedures in place for ensuring compliance. The most significant identified were the Companies Act 2006 and the UK Corporate Governance Code. Our work included direct enquiry of the Company Secretary who oversees all legal proceedings, reviewing Board and relevant committee minutes and inspection of correspondence.
- As part of our audit planning process we assessed the different areas of the financial statements, including disclosures, for the risk of material misstatement. This included considering the risk of fraud where direct enquiries were made of management and those charged with governance concerning both whether they had any knowledge of actual or suspected fraud and their assessment of the susceptibility of fraud. We considered the

risk was greater in areas that involve significant management estimate or judgement. Based on this assessment we designed audit procedures to focus on the key areas of estimate or judgement, this included specific testing of journal transactions, both at the year end and throughout the year.

- We used data analytic techniques to identify any unusual transactions or unexpected relationships, including considering the risk of undisclosed related party transactions.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud because fraud may involve sophisticated and carefully organised schemes designed to conceal it, including deliberate failure to record transactions, collusion or intentional misrepresentations being made to us.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 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.

**John Glasby**  
Senior Statutory Auditor  
for and on behalf of  
Crowe U.K. LLP  
Statutory Auditor  
London  
24 November 2021

# Consolidated statement of comprehensive income

For the year ended 31 August 2021

	Note	2021			2020		
		Adjusted £'000	Adjustments £'000	Statutory £'000	Adjusted £'000	Adjustments (Restated)* £'000	Statutory (Restated)* £'000
Revenue	3	<b>65,380</b>	—	<b>65,380</b>	61,514	—	61,514
Cost of sales		<b>(28,269)</b>	—	<b>(28,269)</b>	(25,592)	—	(25,592)
<b>Gross profit</b>		<b>37,111</b>	—	<b>37,111</b>	35,922	—	35,922
General and administrative expenses		<b>(26,288)</b>	<b>(6,630)</b>	<b>(32,918)</b>	(24,591)	(6,574)	(31,165)
<b>Operating profit</b>		<b>10,823</b>	<b>(6,630)</b>	<b>4,193</b>	11,331	(6,574)	4,757
<b>Operating profit is analysed as:</b>							
Before depreciation and amortisation		<b>13,500</b>	<b>(2,198)</b>	<b>11,302</b>	13,421	(3,025)	10,396
Depreciation and amortisation		<b>(2,677)</b>	<b>(4,432)</b>	<b>(7,109)</b>	(2,090)	(3,549)	(5,639)
Operating profit		<b>10,823</b>	<b>(6,630)</b>	<b>4,193</b>	11,331	(6,574)	4,757
Finance income		<b>15</b>	—	<b>15</b>	218	—	218
Finance expense		<b>(91)</b>	—	<b>(91)</b>	(30)	—	(30)
Other finance expense		<b>(332)</b>	—	<b>(332)</b>	(564)	—	(564)
<b>Profit before tax</b>	5	<b>10,415</b>	<b>(6,630)</b>	<b>3,785</b>	10,955	(6,574)	4,381
Tax expense	7	<b>(1,895)</b>	<b>1,095</b>	<b>(800)</b>	(1,939)	1,580	(359)
<b>Profit for the year</b>		<b>8,520</b>	<b>(5,535)</b>	<b>2,985</b>	9,016	(4,994)	4,022
<b>Other comprehensive income</b>							
Items that may be reclassified to consolidated income statement:							
Cash flow hedges		<b>(31)</b>	—	<b>(31)</b>	—	—	—
Exchange loss on foreign currency net investments		<b>(614)</b>	—	<b>(614)</b>	(1,978)	—	(1,978)
<b>Total comprehensive income for the year</b>		<b>7,875</b>	<b>(5,535)</b>	<b>2,340</b>	7,038	(4,994)	2,044
Earnings per share – basic (pence)	9	<b>37.7p</b>	<b>(24.5p)</b>	<b>13.2p</b>	40.1p	(22.2p)	17.9p
Earnings per share – diluted (pence)	9	<b>37.4p</b>	<b>(24.3p)</b>	<b>13.1p</b>	39.9p	(22.1p)	17.8p

\* Restated following adoption of IFRIC update on cloud computing arrangements (see note 4).

# Consolidated statement of financial position

As at 31 August 2021

	Note	2021 £'000	2020 (Restated)* £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	10	22,221	16,170
Acquired intangible assets	11	28,282	17,623
Other intangible assets	11	1,565	460
Investment	12	12	12
Property, plant and equipment	13	25,815	24,309
Right-of-use assets	14	913	701
		<b>78,808</b>	59,275
<b>Current assets</b>			
Inventories	15	6,771	9,180
Trade and other receivables	16	15,500	12,844
Contract assets	17	4,269	2,926
Taxation		1,443	2,962
Fixed term deposits		—	5,000
Cash and cash equivalents	18	23,282	26,183
		<b>51,265</b>	59,095
<b>Assets held for sale</b>	19	<b>1,893</b>	—
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	20	—	505
Trade and other payables	20	10,933	10,387
Contract liabilities	29	3,568	1,983
Derivative financial instruments	23	31	—
Short-term lease liabilities	14	456	473
Deferred consideration	20	4,929	—
		<b>19,917</b>	13,348

	Note	2021 £'000	2020 (Restated)* £'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	21	6,552	2,549
Long-term lease liabilities	14	511	249
		<b>7,063</b>	2,798
<b>Net assets</b>		<b>104,986</b>	102,224
<b>Shareholders' equity</b>			
Share capital	22	226	226
Share premium	22	62,210	61,736
Reconstruction reserve		(11,284)	(11,284)
Merger relief reserve		11,390	11,390
Translation reserve		(2,414)	(1,800)
Hedging reserve		(31)	—
Retained earnings		44,889	41,956
<b>Total equity</b>		<b>104,986</b>	102,224

\* Restated following reclassification of fixed term deposits with a maturity date of greater than three months at inception and following adoption of IFRIC update on cloud computing arrangements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 November 2021 and are signed on its behalf by:

**Dr James Routh**  
Director

**Sarah Matthews-DeMers**  
Director

Company registration number: 08393914

## Consolidated statement of changes in equity

For the year ended 31 August 2021

	Note	Share capital £'000	Share premium £'000	Reconstruction reserve £'000	Merger relief reserve £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
<b>At 1 September 2019</b>		222	60,049	(11,284)	11,390	178	—	38,252	98,807
Share based payments		—	—	—	—	—	—	1,282	1,282
Total comprehensive income		—	—	—	—	(1,978)	—	4,022*	2,044*
Deferred tax on share based payments		—	—	—	—	—	—	(974)	(974)
Dividend paid	8	—	—	—	—	—	—	(626)	(626)
Issue of shares	22	4	1,687	—	—	—	—	—	1,691
<b>At 31 August 2020</b>		226	61,736	(11,284)	11,390	(1,800)	—	41,956	102,224
Share based payments		—	—	—	—	—	—	1,139	1,139
Total comprehensive income		—	—	—	—	(614)	(31)	2,985	2,340
Deferred tax on share based payments		—	—	—	—	—	—	165	165
Dividend paid	8	—	—	—	—	—	—	(1,356)	(1,356)
Issue of shares	22	—	474	—	—	—	—	—	474
<b>At 31 August 2021</b>		<b>226</b>	<b>62,210</b>	<b>(11,284)</b>	<b>11,390</b>	<b>(2,414)</b>	<b>(31)</b>	<b>44,889</b>	<b>104,986</b>

\* Restated following adoption of IFRIC update on cloud computing arrangements.

The share premium account is a non-distributable reserve representing the difference between the nominal value of shares in issue and the amounts subscribed for those shares.

The reconstruction reserve and merger relief reserve have arisen as follows:

- The acquisition by the Company of the entire issued share capital of Anthony Best Dynamics Limited in 2013 was accounted for as a Group reconstruction. Consequently, the assets and liabilities of the Group were recognised at their previous book values as if the Company had always been the Parent Company of the Group.
- The share capital for the period covered by these consolidated financial statements and the comparative periods is stated at the nominal value of the shares issued pursuant to the above share arrangement. Any differences between the nominal value of these shares and previously reported nominal values of shares and applicable share premium issued by Anthony Best Dynamics Limited were transferred to the reconstruction reserve.

Retained earnings represent the cumulative value of the profits not distributed to shareholders but retained to finance the future capital requirements of the Group.

The items included in the consolidated statement of changes in equity that relate to transactions with owners are share based payments, dividends paid and issues of shares.

## Consolidated cash flow statement

For the year ended 31 August 2021

	2021 £'000	2020 (Restated)* £'000
<b>Profit before tax</b>	<b>3,785</b>	4,381
Depreciation and amortisation	7,109	5,639
Finance expense/(income)	408	(188)
Share based payment	1,240	1,282
Acquisition costs/(credit)	304	(2,548)
<b>Operating cash flow before changes in working capital</b>	<b>12,846</b>	8,566
Decrease in inventories	2,409	1,992
Increase in trade and other receivables	(3,913)	(565)
Increase/(decrease) in trade and other payables	2,956	(3,737)
<b>Cash flows from operations</b>	<b>14,298</b>	6,256
Cash impact of adjusting items	1,663	654
Adjusted cash flows from operations	15,961	6,910
Interest received	15	218
Finance costs paid	(154)	—
Income tax received/(paid)	1,062	(2,229)
<b>Net cash flows from operating activities</b>	<b>15,221</b>	4,245
<b>Cash flows used in investing activities</b>		
Acquisition of businesses	(14,329)	(2,823)
Purchase of property, plant and equipment	(5,536)	(7,276)
Capitalised development costs and purchased software	(1,104)	(232)
<b>Net cash used in investing activities</b>	<b>(20,969)</b>	(10,331)

	2021 £'000	2020 (Restated)* £'000
<b>Cash flows used in financing activities</b>		
Net movements in loans	(493)	477
Purchase of fixed term deposits	—	(20,000)
Maturity of fixed term deposits	5,000	15,000
Dividends paid	(1,356)	(626)
Proceeds from issue of share capital	474	1,691
Repayment of lease liabilities	(656)	(592)
<b>Net cash generated from/(used in) financing activities</b>	<b>2,969</b>	(4,050)
<b>Net decrease in cash, cash equivalents and bank overdrafts</b>	<b>(2,779)</b>	(10,136)
Cash, cash equivalents, and bank overdrafts at the beginning of the year	26,183	36,225
Effects of exchange rate changes	(122)	94
<b>Cash, cash equivalents and bank overdrafts at the end of the year</b>	<b>23,282</b>	26,183

\* Restated following reclassification of fixed term deposits with a maturity date of greater than three months at inception and following adoption of IFRIC update on cloud computing arrangements.

# Notes to the consolidated financial statements

For the year ended 31 August 2021

## 1. General information

AB Dynamics plc is a public company limited by shares and registered in England and Wales with company number 08393914. The Company is domiciled in the United Kingdom and the registered office and principal place of business is Middleton Drive, Bradford on Avon, Wiltshire, BA15 1GB. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group').

The principal activity of the Group is the design, manufacture and development of advanced testing and measurement products and services to the global automotive industry. The Group's products and services are used primarily for the development of road vehicles, particularly in the areas of active safety and autonomous systems.

### Basis of preparation

The consolidated financial statements are measured and presented in sterling which is the currency of the primary economic environment in which the Group operates. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applicable to companies reporting under IFRS. These statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

During 2021 our Annual Report for the year ended 31 August 2020 was reviewed by the Financial Reporting Council (FRC), which queried the classification of a £5m fixed term (four-month) deposit at 31 August 2020.

This had been classified as cash equivalents in the balance sheet, as it was considered to be short term in nature. However, following correspondence with the FRC the Group has concluded that it is appropriate to reclassify it as a short-term deposit rather than cash equivalents as there is a rebuttable presumption that cash equivalents have a maturity of less than three months at the time of acquisition.

The balance sheet at 31 August 2020 has been re-presented accordingly with consequential changes to cash equivalents in the 2020 consolidated cash flow statement. Cash equivalents now include only those deposits with a maturity of three months or less from the acquisition date. The re-presentation had no impact on net assets.

The review conducted by the FRC was based solely on the Group's published Annual Report and Accounts and does not provide any assurance that the Annual Report and Accounts is correct in all material respects.

## New accounting standards and interpretations

During April 2021 the IFRS Interpretations Committee finalised its agenda decision regarding configuration and customisation costs in Cloud Computing Arrangements (Software as a Service, (SaaS)) under IAS 38. Previously, costs in relation to the development of ERP systems were capitalised as intangible assets. The agenda decision specifies that where such systems are hosted on the cloud, no intangible asset arises as the software is the property of the service provider. The ERP system currently being implemented is hosted on the cloud; therefore, the capitalised expenditure for development costs has now been expensed. This has given rise to a prior year adjustment of £0.7m to reduce other intangible assets and retained earnings. There was no impact on the opening balance sheet at 31 August 2019 as no costs had been incurred prior to that date.

A number of other amended standards became applicable for the current reporting period. The application of these amendments has not had any material impact on the disclosures, net assets or results of the Group.

### Standards, amendments and interpretations to published standards not yet effective

The Directors have considered those standards and interpretations which have not been applied in the financial statements but are relevant to the Group's operations, that are in issue but not yet effective, and do not consider that they will have a material impact on the future results of the Group.

## 2. Summary of significant accounting policies

### (a) Going concern

The Group's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Chief Executive's review. The principal risks and uncertainties and mitigations are included in the Strategic report.

Note 23 to the consolidated financial statements sets out the Company's financial risks and the management of capital risks.

The Directors have assessed the principal risks, including by modelling a severe but plausible downside scenario for COVID-19, whereby the Group experiences:

- A reduction in demand of 25% over the next two financial years
- A 10% increase in operating costs from supply chain disruption
- An increase in cash collection cycle
- Increase in input cost resulting in reduction in gross margin to 40%

With £23.3m of cash at 31 August 2021 and a £15m undrawn revolving credit facility, in this severe downside scenario, the Group has sufficient headroom to be able to continue to operate for the foreseeable future. The Directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least twelve months from the signing date of the financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.



# Notes to the consolidated financial statements continued

For the year ended 31 August 2021

## 2. Summary of significant accounting policies continued

### (b) Accounting judgements and sources of estimation uncertainty

Estimates and judgements are continually evaluated by the Directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are as stated below:

#### Accounting judgements

##### *Assessment of the percentage of completion of construction projects (laboratory testing and simulation)*

The probability of a profitable outcome and stage of completion of the contract is determined by regular review by management of project milestones, actual costs against budgeted costs, forecast costs to complete and any other pertinent information.

The above estimates are made internally by the Group and any changes of these estimates will result in a corresponding change in revenue and profit. Any potential losses on contracts are considered and appropriately recognised immediately upon occurrence, while contract revenue which cannot be estimated reliably is recognised only after confirmed by written agreement.

#### Key sources of estimation uncertainty

##### *Acquisition accounting*

When the Group makes an acquisition, it recognises the identifiable assets and liabilities, including intangible assets, at fair value with the difference between the fair value of net assets acquired and the fair value of consideration paid comprising goodwill. The key assumptions and estimates used to determine the valuation of intangible assets acquired are the forecast cash flows, the discount rate and customer/supplier attrition. Customer and supplier relationships are valued using a discounted cash flow model.

Acquisitions often comprise an element of deferred consideration. Deferred consideration is fair valued based on the Directors' estimate of future performance of the acquired entity. Deferred consideration on the acquisition of Vadotech has been estimated as €6,000,000, payable during 2022; however, this is the maximum amount payable. If performance targets are not met the amount payable could be nil. The Group's growth strategy is underpinned by the successful execution of acquisitions. This results in material amounts of goodwill and intangible assets being recognised in the consolidated statement of financial position.

### (c) Revenue and long-term contracts

Revenue represents the value, net of sales taxes, of goods sold and services provided to customers.

Revenue is disaggregated into the following two categories:

- (1) Revenue from track testing systems, principally in relation to the robotic systems which are constructed and supplied to a customer within twelve months and where there is no significant degree of customisation, is recognised when control is passed to the buyer, which in almost all cases is on delivery. Any payments received on account are deferred until these items are delivered to the customer. Items such as guarantees, or servicing arrangements sold in relation to these systems, are accounted for as separate performance obligations and are recognised over the period to which these obligations are performed by the Group. Guarantees and servicing arrangements have standard pricing, which management considers reflects fair value, and these prices are allocated to the separate performance obligations.
- (2) Revenues on laboratory testing and simulation. These are projects lasting longer than twelve months and require a significant degree of customisation. They are recognised according to the percentage of completion method.

When a contract with a customer is judged to be a long-term contract, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to recognise in each period. Management considers the terms and conditions of the contract, including how the contract was negotiated and any elements the customer specifies when identifying individual projects as a long-term contract. The percentage of completion is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. This measurement basis is considered to be the most faithful depiction of the transfer of ownership as the customer is contractually liable for costs incurred to date. There were no such instances during the year.

Variations in contract work, claims and incentive payments are recognised to the extent that they have been agreed with the customer. The probability of a profitable outcome of the contract is determined by regular review by management of project milestones, actual costs against budgeted costs and any other pertinent information. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The aggregate of the cost incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end.

Contract assets (accrued revenue) and contract liabilities (amounts received in advance of performance delivery) are recognised separately. Business development and other pre-contract costs are expensed as incurred.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 2. Summary of significant accounting policies continued

#### (d) Basis of consolidation

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. The Group controls an investee when its exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

All intercompany balances and transactions, including recognised gains arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

#### (e) Acquisitions

Acquisitions are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Goodwill at the acquisition date represents the cost of the business combination (excluding acquisition related costs, which are expensed as incurred) in excess of the fair value of the identifiable tangible and intangible assets and liabilities acquired.

#### (f) Inventories

Inventories are valued on a first in, first out basis at the lower of cost and net realisable value. Cost includes all expenditure incurred during the normal course of business in bringing in inventories to their present location and condition, including in the case of work-in-progress and finished goods an appropriate proportion of production overheads. Net realisable value is based on the estimated useful selling price less further costs expected to be incurred to completion and subsequent disposal.

#### (g) Financial instruments

Financial instruments are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously. A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

#### (i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss or loans and receivables financial assets. The Group does not hold any financial assets at fair value through other comprehensive income.

##### *Financial assets at fair value through profit or loss*

As at the end of the reporting period, there were no foreign currency forward contracts classified under this category.

##### *Loans and receivables financial assets*

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are recognised under an expected credit loss approach, in accordance with IFRS 9. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### (ii) Financial liabilities

All financial liabilities are initially recorded at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

The fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

#### (iii) Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Interim dividends are recognised when paid and final dividends on ordinary shares are recognised as liabilities when approved for appropriation.

#### (iv) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement. Changes in the fair value of derivative instruments that do qualify for hedge accounting are recognised in other comprehensive income.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 2. Summary of significant accounting policies continued

#### (h) Property, plant and equipment

Property, plant and equipment is initially recorded at cost. Once the asset is available for use, depreciation is calculated at rates estimated to write off the cost of the relevant assets, less any estimated residual value, on either a straight-line basis or reducing balance basis over their expected useful lives.

Plant and machinery	10% straight line
Motor vehicles	25% reducing balance
Furniture and fittings	10% straight line
Computer equipment	25% straight line
General equipment	10% straight line
Proprietorial equipment	20% straight line
Test equipment	Between 10–20% straight line
Buildings	5% straight line

#### (i) Intangible assets

All intangible assets, excluding goodwill arising on a business combination, are stated at their amortised cost or fair value at initial recognition less any provision for impairment.

##### (a) Research and development costs

Research expenditure is written off as incurred. Development costs are written off as incurred unless they meet the criteria in IAS 38 for capitalisation. Where forecast revenues for a particular project exceed attributable forecast development costs, they are capitalised and amortised on a straight-line basis over the asset's estimated useful life. Costs are capitalised as intangible assets unless physical assets, such as tooling, exist when they are classified as property, plant and equipment.

##### (b) Computer software costs

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised as other intangible assets. Amortisation is provided on a straight-line basis over its useful economic life of between three and seven years.

Where computer software is hosted on the cloud, licence fees are expensed over the period of the contract and configuration and customisation costs are expensed as the services are received.

##### (c) Acquired intangible assets – business combinations

Intangible assets that may be acquired as a result of a business combination including, but not limited to, customer lists, supplier lists, databases, technology and software and patents that can be separately measured at fair value, on a reliable basis, are separately recognised on acquisition at the fair value, together with the associated deferred tax liability. Amortisation is charged on a straight-line basis to the consolidated income statement over the expected useful economic lives.

	Economic life
Customer relationships	7–10 years
Brand	10 years
Technology	4–7 years

##### (d) Goodwill – business combinations

Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate of the fair value of the consideration over the aggregate fair value of the identifiable intangible, tangible and current assets and net of the aggregate fair value of the liabilities (including contingent liabilities of businesses acquired at the date of acquisition). Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Transaction costs are expensed and are not included in the cost of acquisition.

##### (j) Impairment of tangible and intangible assets

An impairment loss is recognised to the extent that the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount. The recoverable amount of an asset or CGU is the higher of: (i) its fair value less costs to sell; and (ii) its value in use. Its value in use is the present value of the future cash flows expected to be derived from the asset or CGU, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Impairment losses are recognised immediately in the consolidated income statement.

##### (a) Impairment of goodwill

Goodwill acquired in a business combination is allocated to a CGU; CGUs for this purpose represent the lowest level within the Group at which the goodwill is monitored by the Group's Board of Directors for internal and management purposes. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the goodwill attributable to the CGU. Impairment losses cannot be subsequently reversed.

##### (b) Impairment of other tangible and intangible assets

Other tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses and any subsequent reversals are recognised in the consolidated income statement.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 2. Summary of significant accounting policies continued

#### (k) Taxation

The income tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### (l) Share based payments

Employees (including Directors and senior executives) of the Group receive remuneration in the form of share based payment transactions, whereby these individuals render services as consideration for equity instruments (equity-settled transactions). These individuals are granted share option rights approved by the Board which can only be settled in shares of the respective companies that award the equity-settled transactions. Share option rights are also granted to these individuals by majority shareholders over their shares held. No cash-settled awards have been made or are planned.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award (vesting point). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments and value that will ultimately vest. The statement of comprehensive income charge for the year represents the movement in the cumulative expense recognised as at the beginning and end of that period.

The fair value of share based remuneration is determined at the date of grant and recognised as an expense in profit or loss on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest.

#### (m) Foreign currencies

The individual financial statements of each Group entity are prepared in their functional currency, which is the currency of the primary economic environment in which that entity operates. For the

purpose of the consolidated financial statements, the results and financial position of each entity are translated into sterling, which is the presentational currency of the Group.

#### (a) Reporting foreign currency transactions in functional currency

Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:

- (a) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the consolidated income statement.
- (b) Non-monetary items measured at historical cost in a foreign currency are not retranslated.
- (c) Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date the fair value was determined. Where a gain or loss on non-monetary items is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity and conversely, where a gain or loss on a non-monetary item is recognised in the consolidated income statement, any exchange component of that gain or loss is also recognised in the consolidated income statement.

#### (b) Translation from functional currency to presentational currency

When the functional currency of a Group entity is different from the Group's presentational currency, its results and financial position are translated into the presentational currency as follows:

- (a) Assets and liabilities are translated using exchange rates prevailing at the reporting date.
- (b) Income and expense items are translated at average exchange rates for the year, except where the use of such an average rate does not approximate the exchange rate at the date of the transaction, in which case the transaction rate is used.
- (c) All resulting exchange differences are recognised in other comprehensive income; these cumulative exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

#### (c) Net investment in foreign operations

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in the consolidated income statement in the separate financial statements of the reporting entity or the foreign operation as appropriate. In the consolidated financial statements such exchange differences are initially recognised in other comprehensive income as a separate component of equity and subsequently recognised in the consolidated income statement on disposal of the net investment.

#### (n) Assets held for sale

Assets held for sale are assets previously classified as non-current which are expected to be sold rather than held for continuing use. These have principally arisen as part of a review of our physical estate. Assets held for sale have not been sold at the balance sheet date but are being actively marketed for sale, with a high probability of completion within twelve months.

# Notes to the consolidated financial statements continued

For the year ended 31 August 2021

## 2. Summary of significant accounting policies continued

### (o) Alternative performance measures

Alternative performance measures are items of income and expense which, because of the nature, size and/or infrequency of the events giving rise to them, merit separate presentation. These specific items are presented below the income statement to provide greater clarity and a better understanding of the impact of these items on the Group's financial performance. In doing so, it also facilitates greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance. This split is consistent with how underlying business performance is measured internally.

Alternative performance measures may include but are not restricted to: adjustments to the fair value of acquisition related items such as contingent consideration, acquired intangible asset amortisation and other items due to their significance, size or nature, and the related taxation.

### (p) Leases

At the lease commencement date (i.e. the date the underlying asset is available for use), the Group recognises a right-of-use asset and a lease liability on the balance sheet. The lease liability is initially measured at the present value of future lease payments, discounted using the Group's incremental borrowing rate. This is the rate that we would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value. The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made before commencement of the lease, any initial direct costs and any restoration costs. The asset is recorded as property, plant and equipment, and is depreciated over the shorter of its estimated useful economic life and the lease term on a straight-line basis. The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the lease liability. The lease payment is allocated between repayment of the lease liability and finance cost.

The Group applies the short-term lease recognition exemption to those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. It also applies the low-value assets recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

## 3. Segment reporting

The Group derives revenue from the sale of its advanced measurement, simulation and testing products derived in assisting the global automotive industry in the laboratory and on the test track. The income streams are all derived from the utilisation of these products which, in all aspects except details of revenue, are reviewed and managed together within the Group and as such are considered to be the only segment.

The operating segment is based on internal reports about components of the Group, which are regularly reviewed and used by the Board of Directors, being the Chief Operating Decision Maker (CODM).

Analysis of revenue by country of destination:

	2021 £'000	2020 £'000
United Kingdom	4,449	2,146
Rest of Europe	11,352	14,775
North America	15,884	15,606
Asia Pacific	32,717	27,788
Rest of the world	978	1,199
	<b>65,380</b>	61,514

No customer individually represents 10% or more of total revenue.

Assets and liabilities by segment are not reported to the Board of Directors, therefore they are not used as a key decision-making tool and are not disclosed here.

A disclosure of non-current assets by location is shown below:

	2021 £'000	2020 £'000
United Kingdom	41,174	40,482
Rest of Europe	1,009	747
North America	15,522	17,940
Asia Pacific	21,103	106
	<b>78,808</b>	59,275

Revenues are disaggregated as follows:

	2021 £'000	2020 £'000
Revenue by sector		
Track testing	49,680	51,760
Laboratory testing and simulation	15,700	9,754
	<b>65,380</b>	61,514

## 4. Alternative performance measures

In the analysis of the Group's financial performance and position, operating results and cash flows, alternative performance measures are presented to provide readers with additional information.

The principal measures presented are adjusted measures of earnings including adjusted operating profit, adjusted operating margin, adjusted profit before tax and adjusted earnings per share.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 4. Alternative performance measures continued

The financial statements include both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The Group's alternative performance measures and KPIs are aligned to the Group's strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because if included, these items could distort the understanding of the performance for the year and the comparability between the periods.

We provide comparatives alongside all current year figures. The term 'adjusted' is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. All profit and earnings per share figures in this Annual Report relate to underlying business performance (as defined above) unless otherwise stated.

	2021 £'000	2020 (Restated)* £'000
Amortisation of acquired intangibles	4,432	3,549
Acquisition related costs/(credit)	840	(1,865)
ERP development costs	1,358	654
Inventory impairment	—	3,267
Restructuring	—	969
	<b>6,630</b>	6,574

\* Restated following adoption of IFRIC update on cloud computing arrangements.

#### Amortisation of acquired intangibles

The amortisation relates to the acquisition of Vadotech Group on 3 March 2021 and the businesses acquired in 2019, DRI and rFpro.

#### Acquisition related costs/(credit)

The costs relate to the acquisition of the Vadotech Group as well as staff retention payments to the employees of rFpro. The cash to pay this was contributed by the previous owner of rFpro prior to acquisition, but as the employees had to remain within the business for a period prior to receiving payment, a charge had to be recognised in the income statement in both the current and the prior year. The credit in the prior year relates to the release of deferred consideration on the rFpro acquisition which, due to COVID-19 disruption, was not payable.

#### Inventory impairment

In the prior year, following a detailed review of inventory levels and usage, a number of items previously included in the carrying value were written off and the system of accounting for inventory updated to better reflect the Group's current operations.

### Restructuring

The restructuring costs in 2020 relate to rebalancing the skill base of the business and termination of agents.

### ERP development costs

During April 2021 the IFRS Interpretations Committee finalised its agenda decision regarding configuration and customisation costs in Cloud Computing Arrangements (Software as a Service (SaaS)) under IAS 38. The agenda decision specifies that where ERP systems are hosted on the cloud, no intangible asset arises and configuration and customisation costs should be written off. The ERP system currently being implemented is hosted on the cloud; therefore, the capitalised expenditure for development costs has now been expensed.

### Tax

The tax impact of these adjustments was as follows: amortisation £0.7m (2020: £0.5m), acquisition related costs/(credit) £0.1m (2020: £0.1m), ERP £0.3m (2020: £0.1m), inventory impairment £nil (2020: £0.6m) and restructuring £nil (2020: £0.3m).

A reconciliation of net cash to cash and cash equivalents and the calculation of return on capital employed is included on page 33.

### 5. Profit before tax

The profit before tax is stated after charging:

	2021 £'000	2020 £'000
Depreciation of tangible fixed assets	1,964	1,488
Depreciation of right-of-use assets	660	562
Amortisation of other intangible assets	53	40
Amortisation of acquired intangible assets	4,432	3,549
Loss on sale of assets	39	—
Realised loss on foreign exchange	711	33
Staff costs:		
– wages and salaries	18,118	16,469
– social security costs	2,038	1,775
– other pension costs	1,101	1,100
Share based payments	1,240	1,282
Research and development costs charged as an expense	526	773

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 5. Profit before tax continued

Auditor's remuneration:

	2021 £'000	2020 £'000
Fees payable to the Group's auditor during the year for:		
– the audit of the Company's financial statements	55	48
– the audit of the Company's subsidiaries	52	37
– other services	—	6
	<b>107</b>	91

### 6. Employees

The average monthly number of employees, including Directors, during the year was as follows:

	2021 No.	2020 No.
Directors and commercial	23	20
Engineers and technicians	256	190
Administration	54	65
	<b>333</b>	275

The total number of employees at the year end was 394 (2020: 278).

Total remuneration of key management personnel, being the Directors of the Company and the members of the Executive Management Group (EMG), is set out below:

	2021 £'000	2020 £'000
Short-term employee benefits	1,622	1,975
Post-employment benefits	138	144
Social security costs	218	273
Share based payments – equity settled	667	959
	<b>2,645</b>	3,351

Further details relating to the remuneration of the Directors of the Company can be found in the Remuneration Committee report.

### 7. Tax expense

	2021 £'000	2020 (Restated)* £'000
<b>Current tax:</b>		
– for the financial year	102	259
– adjustments in respect of prior year	(32)	4
	<b>70</b>	263
<b>Deferred tax (note 21):</b>		
– for the financial year	926	412
– adjustments in respect of prior year	(196)	(316)
	<b>730</b>	96
	<b>800</b>	359

\* Restated following adoption of IFRIC update on cloud computing arrangements.

The statutory effective rate of tax for the year is higher than (2020: lower than) the standard rate of corporation tax in the UK of 19% (2020: 19%) as set out below.

The effective rate of tax on the adjusted profit before tax is 18.2% (2020: 17.7%).

The tax charge can be reconciled to the consolidated income statement as follows:

	2021 £'000	2020 (Restated)* £'000
<b>Profit before tax</b>	<b>3,785</b>	4,381
Tax at the applicable statutory rate of: 19% (2020: 19%)	719	832
Tax effects of:		
Non-deductible expenses	330	(215)
Research and development tax credit	(116)	(274)
Adjustments in respect of prior year	(228)	(312)
Patent box relief*	(383)	(89)
Changes in tax rates	430	326
Losses carried back	—	20
Losses on overseas earnings	—	(132)
Overseas tax rates	48	203
<b>Tax expense for the financial year</b>	<b>800</b>	359

\* Patent box relief represents the tax effect of the reduced amount payable on profits that fall within the patent box regime.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 7. Tax expense continued

In addition to the amount charged to the consolidated income statement, the following amounts relating to tax have been recognised directly in equity:

	2021 £'000	2020 £'000
<b>Deferred tax</b>		
Change in estimated excess tax deductions related to share based payments	(165)	974
<b>Total income tax recognised directly in equity</b>	<b>(165)</b>	974

#### Factors affecting the tax charge in future years

A number of changes to the UK corporation tax system were announced in the March 2021 budget statement which will increase the main rate of corporation tax to 25% by 1 April 2023. These changes were substantively enacted at the balance sheet date. The impact on the Group's deferred tax liabilities was an increase of £0.4m.

The Group's future tax charge could be affected by several factors including: tax reform in the UK, the USA, Europe or Japan, any future acquisitions, availability of losses carried forward and availability of R&D and patent tax relief.

### 8. Dividends paid

	2021 £'000	2020 £'000
Final 2019 dividend paid of £0.028 per share	—	626
Final 2020 dividend paid of £0.044 per share	994	—
Interim dividend paid of £0.016 per share	362	—
	<b>1,356</b>	626

The Board has proposed a final dividend of 3.24p per share totalling £733,000. An interim dividend was paid of 1.6p per share totalling £362,000.

### 9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. The Company has one category of potentially dilutive shares, namely share options.

The calculation of earnings per share is based on the following earnings and number of shares.

	2021	2020 (Restated)*
<b>Profit for the year attributable to owners of the Group (£'000)</b>	<b>2,985</b>	4,022
Weighted average number of shares used in calculating earnings per share (000):		
Basic	<b>22,602</b>	22,482
Diluted	<b>22,782</b>	22,622
Earnings per share (pence):		
Basic	<b>13.2p</b>	17.9p
Diluted	<b>13.1p</b>	17.8p
Adjusted profit before tax (£'000)	<b>10,415</b>	10,955
Adjusted tax (£'000)	<b>(1,895)</b>	(1,939)
Adjusted profit after tax (£'000)	<b>8,520</b>	9,016
Adjusted earnings per share (pence)	<b>37.7p</b>	40.1p
Adjusted diluted earnings per share (pence)	<b>37.4p</b>	39.9p

\* Restated following adoption of IFRIC update on cloud computing arrangements.

Adjusted earnings per share is calculated as the total of adjusted profit before tax, less adjusted income tax costs, but including the tax impact on the items included in the calculation of adjusted profit.

### 10. Goodwill

	Vadotech Group £'000	Track testing excluding Vadotech £'000	Lab testing and simulation £'000	Total £'000
At 1 September 2020	—	8,635	7,535	16,170
Acquisitions	6,336	—	—	6,336
Exchange differences	(38)	(247)	—	(285)
<b>At 31 August 2021</b>	<b>6,298</b>	<b>8,388</b>	<b>7,535</b>	<b>22,221</b>
	Vadotech Group £'000	Track testing excluding Vadotech £'000	Lab testing and simulation £'000	Total £'000
At 1 September 2019	—	9,494	7,535	17,029
Exchange differences	—	(859)	—	(859)
At 31 August 2020	—	8,635	7,535	16,170

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 10. Goodwill continued

Goodwill acquired in a business combination is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The carrying amount of the goodwill has been allocated to the Group's principal CGUs, being the operating segment described in the operating segment descriptions in note 3, with the Vadotech Group being classified as a separate CGU.

The Group tests goodwill at least annually for impairment. Tests are conducted more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations have been individually estimated for each CGU and include the discount rates and expected changes to cash flows during the period for which management has detailed plans.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each of the CGUs. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 6.4% (2020: 6.0%) which have been adjusted for a premium specific to each of the CGUs to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows.

Expected changes to cash flows during the period for which management has detailed plans relate to revenue forecasts and forecast operating margins in each of the operating companies. The relative value ascribed to each varies between CGUs as the budgets are built up from the underlying operating companies within each CGU, but the key assumption for each CGU is that following the disruption caused by COVID-19, demand recovers as a result of the long-term drivers in the industry, including the increase in ADAS and autonomy and increased regulation.

The calculations have used the Group's forecast figures for the next three years. This is based on data derived from the three-year plan that has been approved by the Board. At the end of three years, the calculations assume the performance of the CGUs will grow at a nominal annual rate of 1.9% in perpetuity. Growth rates are based

on management's view of industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes. The weighted average cost of capital is derived using beta values of a comparator group of companies adjusted for funding structures as appropriate.

The pre-tax discount rate used for value-in-use calculations and the carrying value of goodwill by the principal CGUs is 7.9% (2020: 7.4%).

Following a detailed review, no impairment losses were recognised in the year ended 31 August 2021.

Sensitivity testing was performed on the forecasts to consider the impact of reasonably possible worst case scenarios in the first two years, including a 10% fall in the forecast cash flows. A 1% addition to the discount rate for each CGU was also separately modelled. None of these scenarios resulted in any CGUs requiring impairment.

### 11. Acquired and other intangible assets

	Customer relationships £'000	Brand £'000	Technology £'000	Total acquired intangible assets £'000	Capitalised development costs £'000	Total other intangible assets (Restated)* £'000
<b>Cost</b>						
At 1 September 2020	8,812	1,964	10,675	21,451	519	519
Additions	—	—	—	—	1,158	1,158
Acquisitions of businesses	15,345	—	—	15,345	—	—
Exchange differences	(320)	(67)	63	(324)	—	—
<b>At 31 August 2021</b>	<b>23,837</b>	<b>1,897</b>	<b>10,738</b>	<b>36,472</b>	<b>1,677</b>	<b>1,677</b>
<b>Amortisation</b>						
At 1 September 2020	1,076	243	2,509	3,828	59	59
Charge for the year	1,952	191	2,289	4,432	53	53
Exchange differences	(138)	(40)	108	(70)	—	—
<b>At 31 August 2021</b>	<b>2,890</b>	<b>394</b>	<b>4,906</b>	<b>8,190</b>	<b>112</b>	<b>112</b>
<b>Net book value</b>						
At 31 August 2020	7,736	1,721	8,166	17,623	460	460
<b>At 31 August 2021</b>	<b>20,947</b>	<b>1,503</b>	<b>5,832</b>	<b>28,282</b>	<b>1,565</b>	<b>1,565</b>

\* Restated following adoption of IFRIC update on cloud computing arrangements.

Internally generated additions total £735,284 (2020: £151,065).

# Notes to the consolidated financial statements continued

For the year ended 31 August 2021

## 11. Acquired and other intangible assets continued

	Customer relationships £'000	Brand £'000	Technology £'000	Total acquired intangible assets £'000	Capitalised development costs £'000	Total other intangible assets (Restated)* £'000
<b>Cost</b>						
At 1 September 2019	9,053	2,034	10,995	22,082	287	287
Additions	—	—	—	—	232	232
Exchange differences	(241)	(70)	(320)	(631)	—	—
At 31 August 2020	8,812	1,964	10,675	21,451	519	519
<b>Amortisation</b>						
At 1 September 2019	56	14	209	279	19	19
Charge for the year	1,020	229	2,300	3,549	40	40
At 31 August 2020	1,076	243	2,509	3,828	59	59
<b>Net book value</b>						
At 31 August 2019	8,997	2,020	10,786	21,803	268	268
At 31 August 2020	7,736	1,721	8,166	17,623	460	460

\* Restated following adoption of IFRIC update on cloud computing arrangements.

Acquired intangible assets relate to items acquired through business combinations which are amortised over their useful economic life.

Other intangible assets comprise acquired intellectual property, software and capitalised development costs.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 12. Investment

	2021 £'000	2020 £'000
Investment	12	12

### 13. Property, plant and equipment

	Land and buildings £'000	Plant and equipment £'000	Test equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 September 2020	20,203	3,848	3,739	372	28,162
Additions	4,313	597	595	33	5,538
Acquisition	—	17	—	—	17
Disposals	(356)	(749)	(100)	—	(1,205)
Transfers to assets held for sale	(1,978)	—	—	—	(1,978)
Exchange differences	(47)	(48)	(33)	(3)	(131)
<b>At 31 August 2021</b>	<b>22,135</b>	<b>3,665</b>	<b>4,201</b>	<b>402</b>	<b>30,403</b>
<b>Accumulated depreciation</b>					
At 1 September 2020	943	1,420	1,325	165	3,853
Charge for the year	377	805	718	64	1,964
Disposals	(356)	(746)	(86)	—	(1,188)
Exchange differences	(3)	(31)	(6)	(1)	(41)
<b>At 31 August 2021</b>	<b>961</b>	<b>1,448</b>	<b>1,951</b>	<b>228</b>	<b>4,588</b>
<b>Net book value</b>					
At 31 August 2020	19,260	2,428	2,414	207	24,309
<b>At 31 August 2021</b>	<b>21,174</b>	<b>2,217</b>	<b>2,250</b>	<b>174</b>	<b>25,815</b>

	Land and buildings £'000	Plant and equipment £'000	Test equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 September 2019	14,050	3,145	2,996	283	20,474
Additions	6,197	913	751	93	7,954
Disposals	(15)	(145)	(14)	—	(174)
Exchange differences	(29)	(65)	6	(4)	(92)
At 31 August 2020	20,203	3,848	3,739	372	28,162
<b>Accumulated depreciation</b>					
<b>At 1 September 2019</b>					
Charge for the year	311	517	611	49	1,488
Disposals	(15)	(145)	(14)	—	(174)
Exchange differences	—	(13)	—	—	(13)
At 31 August 2020	943	1,420	1,325	165	3,853
<b>Net book value</b>					
At 31 August 2019	13,403	2,084	2,268	167	17,922
At 31 August 2020	19,260	2,428	2,414	207	24,309

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 14. Leases

#### Right-of-use assets

	Land and buildings £'000	Total £'000
<b>Cost</b>		
At 1 September 2020	1,263	1,263
Additions	246	246
Acquisition	659	659
Disposals	(77)	(77)
Exchange differences	(39)	(39)
<b>At 31 August 2021</b>	<b>2,052</b>	<b>2,052</b>
<b>Accumulated depreciation</b>		
At 1 September 2020	562	562
Charge for the year	660	660
Disposals	(65)	(65)
Exchange differences	(18)	(18)
<b>At 31 August 2021</b>	<b>1,139</b>	<b>1,139</b>
<b>Net book value</b>		
At 31 August 2020	701	701
<b>At 31 August 2021</b>	<b>913</b>	<b>913</b>
	Land and buildings £'000	Total £'000
<b>Cost</b>		
Transition at 1 September 2019	1,335	1,335
Additions	25	25
Exchange differences	(97)	(97)
<b>At 31 August 2020</b>	<b>1,263</b>	<b>1,263</b>
<b>Accumulated depreciation</b>		
Transition at 1 September 2019	—	—
Charge for the year	562	562
<b>At 31 August 2020</b>	<b>562</b>	<b>562</b>
<b>Net book value</b>		
At 31 August 2019	—	—
At 31 August 2020	701	701

#### Lease liabilities

	2021 £'000	2020 £'000
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	456	472
One to five years	522	258
Total undiscounted cash flows	978	730
Discount	(11)	(8)
<b>Total lease liabilities</b>	<b>967</b>	<b>722</b>
Current	456	473
Non-current	511	249

#### Amounts recognised in the consolidated statement of comprehensive income

	2021 £'000	2020 £'000
Depreciation of right-of-use assets	660	562
Interest on lease liabilities	25	30

#### Amounts recognised in the consolidated cash flow statement

	2021 £'000	2020 £'000
Principal lease payments	656	562
Interest payments on leases	25	30

### 15. Inventories

	2021 £'000	2020 £'000
Raw materials	5,032	7,744
Work-in-progress	1,613	1,423
Finished goods	126	13
	<b>6,771</b>	<b>9,180</b>

The value of inventories recognised as an expense during the year was £19,874,000 (2020: £17,331,000). During the year the amount of write down of inventories recognised as an expense was £400,000 (2020: £3,267,000).

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 16. Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	<b>12,126</b>	9,894
Less: impairment provision	<b>(592)</b>	(522)
	<b>11,534</b>	9,372
Other receivables	<b>1,742</b>	2,047
Prepayments	<b>2,224</b>	1,425
	<b>15,500</b>	12,844

The maximum exposure to credit risk for trade receivables at 31 August, by currency, was:

	2021 £'000	2020 £'000
Sterling	<b>4,987</b>	3,854
Euro	<b>4,200</b>	1,242
US dollar	<b>2,037</b>	2,951
Japanese yen	<b>310</b>	1,325
	<b>11,534</b>	9,372

Trade receivables, before impairment provisions, are analysed as follows:

	2021 £'000	2020 £'000
Not past due	<b>7,260</b>	3,849
Past due, no credit loss for impairment	<b>4,274</b>	5,523
Past due, credit loss for impairment	<b>592</b>	522
	<b>12,126</b>	9,894

The ageing of trade receivables, classified as past due, but not impaired, is as follows:

	2021 £'000	2020 £'000
Less than three months past due	<b>3,229</b>	4,117
Over three months past due	<b>1,045</b>	1,406
	<b>4,274</b>	5,523

	2021 £'000	2020 £'000
At 1 September	<b>522</b>	7
Provision for impairment of receivables	<b>104</b>	515
Receivables written off during the year as uncollectable	<b>(34)</b>	—
At 31 August	<b>592</b>	522

Given the Group's customer base, expected credit losses are not material; however, the Group's policy is to provide in full for trade receivables outstanding for more than 90 days beyond agreed terms, unless there are facts and circumstances that support recoverability.

### 17. Amount owed by contract customers

	2021 £'000	2020 £'000
Costs incurred to date	<b>28,732</b>	20,946
Attributable profits	<b>6,783</b>	1,953
	<b>35,515</b>	22,899
Progress billings	<b>(34,814)</b>	(21,956)
	<b>701</b>	943
Represented by:		
Contract liabilities (see note 29)	<b>(3,568)</b>	(1,983)
Contract assets (see note 29)	<b>4,269</b>	2,926
	<b>701</b>	943

No retentions were held by customers for contract work.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 18. Cash and cash equivalents

	2021 £'000	2020 (Restated)* £'000
Cash at bank:		
– Sterling	15,483	20,603
– Euro	4,923	600
– US dollar	2,203	2,201
– Japanese yen	417	2,504
– Other currencies	256	275
	<b>23,282</b>	26,183

\* Restated to exclude £5,000,000 fixed term deposits with a maturity date of greater than three months at inception.

The fixed term deposits and cash at bank are both interest-bearing at rates linked to the UK base rate, or equivalent rate.

#### Net cash

	2021 £'000	2020 £'000
Cash and cash equivalents	23,282	26,183
Fixed term deposits	—	5,000
Borrowings	—	(505)
Lease liabilities	(967)	(722)
	<b>22,315</b>	29,956

The Group has a revolving credit facility of £15m which was first established in January 2021 with a three-year initial term with options to extend by a further two years. No drawdowns have been made against this facility.

### 19. Assets held for sale

Following completion of our Engineering Design Centre and a review of our existing manufacturing locations, previously acquired land with a net book value of £1,978,000 is now surplus to requirements and has been classified as held for sale. The sale is expected to be completed during the first half of FY 2022. The asset has been written down by £85,000 to fair value (less costs to sell) of £1,893,000 and the related cost has been included in general and administrative expenses within the Consolidated statement of comprehensive income.

### 20. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	2,704	1,330
Social security and other taxes	453	390
Other payables and accruals	7,776	8,667
	<b>10,933</b>	10,387

Contract liabilities relate to payments received in advance which are deferred until the performance obligation has been satisfied.

The maximum exposure to foreign currency risk for trade payables at 31 August, by currency, was:

	2021 £'000	2020 £'000
Sterling	2,257	875
Euro	200	61
US dollar	247	375
Japanese yen	—	19
	<b>2,704</b>	1,330

### 21. Deferred tax

	2021 £'000	2020 £'000
At 1 September	(2,549)	950
Acquisitions	(3,472)	(2,429)
Recognised in profit or loss:		
– in respect of timing differences	(376)	124
– in respect of deferred tax on share options	(354)	(220)
Recognised in equity:		
– in respect of deferred tax on share options	165	(974)
Exchange differences	34	—
<b>At 31 August</b>	<b>(6,552)</b>	(2,549)

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 21. Deferred tax continued

The deferred tax balance is analysed as follows:

	2021 £'000	2020 £'000
Deferred tax liability	(6,552)	(2,549)
	<b>(6,552)</b>	<b>(2,549)</b>

The deferred tax liabilities are attributable to:

	2021 £'000	2020 £'000
Accelerated capital allowances	—	(780)
Short-term timing differences	44	660
Acquisitions	(6,596)	(2,429)
	<b>(6,552)</b>	<b>(2,549)</b>

### 22. Share capital

The allotted, called up and fully paid share capital is made up of 22,622,344 ordinary shares of £0.01 each.

	Note	Number of shares '000	Share capital £'000	Share premium £'000	Total £'000
At 1 September 2019		22,220	222	60,049	60,271
27 September 2019	(i)	200	2	770	772
11 December 2019	(ii)	32	—	142	142
3 March 2020	(iii)	58	1	229	230
3 March 2020	(iv)	6	—	27	27
4 May 2020	(v)	33	—	410	410
2 June 2020	(vi)	16	—	64	64
19 August 2020	(vii)	11	1	45	46
At 31 August 2020		22,576	226	61,736	61,962
8 October 2020	(viii)	8	—	29	29
4 December 2020	(ix)	1	—	18	18
15 March 2021	(x)	33	—	412	412
17 March 2021	(xi)	4	—	15	15
<b>At 31 August 2021</b>		<b>22,622</b>	<b>226</b>	<b>62,210</b>	<b>62,436</b>

- (i) On 27 September 2019, a total of 199,526 share options were exercised of £0.01 each for £3.95.
- (ii) On 11 December 2019, a total of 31,970 share options were exercised of £0.01 each for £3.95.
- (iii) On 3 March 2020, a total of 58,086 share options were exercised of £0.01 each for £3.95.
- (iv) On 3 March 2020, a total of 6,173 share options were exercised of £0.01 each for £4.45.
- (v) On 4 May 2020, a total of 33,333 share options were exercised of £0.01 each for £12.30.
- (vi) On 2 June 2020, a total of 16,162 share options were exercised of £0.01 each for £3.95.
- (vii) On 19 August 2020, a total of 11,321 share options were exercised of £0.01 each for £3.95.
- (viii) On 8 October 2020, a total of 7,631 share options were exercised of £0.01 each for £3.95.
- (ix) On 4 December 2020, a total of 692 shares were issued to James Routh of £0.01 in satisfaction of 20% of his respective annual bonus payments for the year ended 31 August 2020, and a total of 349 shares were issued to Sarah Matthews-DeMers of £0.01 in satisfaction of 20% of her respective annual bonus payments for the year ended 31 August 2020.
- (x) On 15 March 2021, a total of 33,333 share options were exercised of £0.01 each for £12.30.
- (xi) On 17 March 2021, a total of 3,786 share options were exercised of £0.01 each for £3.95.

### 23. Financial instruments

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The overall financial risk management policy focuses on mitigating the potential adverse effects on the Group's financial performance.

#### (a) Currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than sterling. The Group faces foreign currency exposure arising from the translation of profits earned in foreign currency. The transactional exposure arises on trade receivables, trade payables and cash and cash equivalents and these balances are analysed by currency in notes 16, 18 and 20. Currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

The Group maintains a natural hedge whenever possible, by matching the cash inflows (revenue stream) and cash outflows used for purposes such as capital expenditure and operational expenditure in the respective currencies. Forward exchange contracts are used to manage transactional exposure where appropriate.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 23. Financial instruments continued

#### (a) Currency risk continued

Management considers that the most significant foreign exchange risk relates to US dollar and euro. The acquisition of Vadotech increased the Group's exposure to the Euro. The Group's sensitivity to a 10% strengthening in sterling against each of these currencies (with other variables held constant) is as follows:

	2021 £'000	2020 £'000
Decrease in adjusted operating profit (at average rates)		
US dollar	214	152
Euro	218	358

#### (b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets, being interest-bearing bank deposits. The Group's policy is to obtain the most favourable interest rates available whilst ensuring that cash is deposited with a financial institution with a credit rating of 'AA' or better. Any surplus funds are placed with licensed financial institutions to generate interest income.

A 100 basis points strengthening/weakening of the interest rate as at the end of the reporting period would have a £200,000 impact on profit after taxation and equity. This assumes that all other variables remain constant.

#### (c) Equity price risk

The Group does not have any quoted investments and hence is not exposed to equity price risk.

#### (d) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group seeks to minimise credit risk by dealing exclusively with high credit rating counterparties. An analysis of the ageing and currency of trade receivables is set out in note 16. An analysis of cash and cash equivalents is set out in note 18.

The Group establishes an allowance for impairment that represents its expected credit loss in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures. Impairment is estimated by management based on prior experience and the current economic environment.

The Group's major concentration of credit risk at 31 August 2021 relates to the amounts owing by eight customers which constituted approximately 51% of its trade receivables as at the end of the reporting period.

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the reporting period.

The exposure of credit risk for trade receivables by geographical region is as follows:

	2021 £'000	2020 £'000
USA	2,985	2,503
United Kingdom	427	548
Europe	3,439	2,828
Rest of the world	4,683	3,493
	<b>11,534</b>	9,372

#### (e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

The Group's financial liabilities are as follows:

	2021 £'000	2020 £'000
Trade payables	2,704	1,330
Other payables	7,776	8,666
Lease liabilities	967	722
Borrowings	—	505
Derivative financial instruments	31	—
	<b>11,478</b>	11,223
The maturities of the undiscounted liabilities are as follows (excluding leases):		
Less than one year	<b>10,511</b>	10,501

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 23. Financial instruments continued

#### (f) Capital risk management

Capital is defined as the total equity of the Group. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of the dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group manages its capital based on the debt-to-equity ratio. The strategies adopted were unchanged during the period under review and from those adopted in the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents.

At 31 August 2021, the Group's cash resources exceed its total debt. The Company hence has no net debt.

#### (g) Classification of financial instruments

All financial instruments are categorised as follows:

	2021 £'000	2020 £'000
<b>Loans and receivables</b>		
Trade receivables	11,534	9,372
Contract assets	4,269	2,926
Cash and bank balances	23,282	26,183
Fixed term deposits	—	5,000
	<b>39,085</b>	43,481
<b>Financial liabilities held at amortised cost</b>		
Trade and accruals and other payables	10,480	9,997
Lease liabilities	967	722
Borrowings	—	505
	<b>11,447</b>	11,224
Held at fair value		Fair value hierarchy
Assets held for sale		Level 3
Derivative financial instruments	(31)	Level 2
	<b>1,862</b>	—

#### (h) Fair value hierarchy

The fair values of the financial assets and liabilities are analysed into level 1 to 3 as follows:

Level 1: Fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of all financial instruments approximates their fair value (valued using level 2, or level 3 in the case of assets held for sale).

### 24. Acquisition of businesses

On 3 March 2021, the Group acquired 100% of Vadotech Pte Ltd and Zynit Pte Ltd (collectively 'Vadotech Group') for total cash consideration of up to €26,000,000. The initial cash consideration was €17,000,000 (£14,700,000). Two further conditional cash payments of up to €3,000,000 (£2,600,000) and €6,000,000 (£5,200,000) are subject to certain performance criteria being achieved for the year ended 31 December 2020 and the year ending 31 December 2021, respectively. The criteria in relation to the payment for the year ended 31 December 2020 were met and an additional €3,000,000 was paid in the year.

Acquisition expenses totalled £273,000 and are included within general and administrative expenses in the consolidated statement of comprehensive income.

The fair values set out below are provisional and will be finalised in the next financial year. Goodwill of £6,336,000 represents the amount paid for future sales growth from both new customers and new products and employee know-how.

From the date of acquisition to 31 August 2021, the newly acquired business contributed £5,900,000 to revenue and £1,500,000 to adjusted operating profit.

Had the acquisition been completed at the beginning of the period, Group revenue would have been £72,000,000 and adjusted operating profit would have been £12,000,000.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 24. Acquisition of businesses continued

An accrual for the remaining deferred contingent consideration has been included in the balance sheet, discounted to net present value. £331,000 of the discount unwound during the year and has been included in other finance expense during the year ended 31 August 2021.

After accounting for the unwinding of the discount, at 31 August 2021, deferred consideration totalled £4,929,000 (2020: £nil).

	Vadotech		Provisional fair value £'000
	Book value £'000	Adjustment	
Acquired intangible assets	—	15,345	15,345
Deferred tax liabilities	—	(3,472)	(3,472)
Investment	3	—	3
Property, plant and equipment	872	(198)	674
Trade and other receivables	2,540	564	3,104
Trade and other payables	(3,016)	—	(3,016)
Net assets acquired	399	12,239	12,638
Goodwill	—	—	6,336
	399	12,239	18,974
Cash paid			14,680
Cash acquired			(2,923)
Expenses of acquisition			273
Deferred consideration paid			2,572
<b>Net cash paid, after acquisition expenses</b>			<b>14,602</b>
Deferred consideration payable			4,645
Less: expenses of acquisition			(273)
<b>Total consideration</b>			<b>18,974</b>

On 28 June 2019 the Group acquired 100% of Kangaloosh Limited (trading as 'rFpro') based in Romsey, UK, for initial consideration of £18.1m, which included £0.6m of surplus cash, before acquisition expenses of £0.3m. Maximum deferred contingent consideration of £3.5m was payable based on the performance of rFpro for the twelve months ended 31 January 2021 but due to COVID-19 disruption the performance targets were not met and no further consideration was payable. Goodwill of £7,535,000 and acquired intangible assets of £14,650,000 were recognised in relation to this acquisition.

On 30 August 2019 the Group acquired 100% of Dynamic Research Incorporated (DRI) based in California, USA, for initial consideration of £17.3m (US\$21.0m), before acquisition expenses of £0.4m. Maximum deferred contingent consideration of £2.9m (US\$3.5m) was payable based on the performance of DRI for the twelve months ended 31 May 2020. DRI exceeded its performance targets and the deferred contingent consideration was paid in full in July 2020.

An accrual for the deferred contingent consideration was included in the balance sheet on the date of acquisitions at net present value and the discount of £564,000 unwound and included in other finance costs during the year ended 31 August 2020. Goodwill of £9,494,000 and acquired intangible assets of £7,432,000 were recognised in relation to this acquisition.

In relation to the acquisition of DRI, due to the availability of an election under US tax laws, the assets acquired have benefitted from a step up in the asset base cost, resulting in increased amortisation that is tax deductible in future periods. As the tax base of the assets is equal to the acquisition date fair value of those assets, no deferred tax was recognised at the date of acquisition.

### 25. Related party disclosures

Mr A Best, former Chairman of the Company, is a trustee and beneficiary of the Best Middleton Trust. Rental payments of £44,000 (2020: £48,000) were made in the year. No amounts were due to or from the Trust at any year end.

In July 2020 the lease was extended for five years with a break clause in July 2021 and was terminated on 29 July 2021. A total of £40,000 was paid after the year end in relation to dilapidations.

Balances and transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed in this note.

The remuneration of the key management personnel of the Group is set out in note 6.

### 26. Share based payments

The share based compensation schemes were established to reward and incentivise the executive management team and staff for delivering share price growth. The schemes are administered by the Remuneration Committee.

The schemes adopted by the Company are equity settled and a charge of £1,240,000 (2020: £1,282,000) has been charged to the consolidated statement of comprehensive income relating to these options.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 26. Share based payments continued

#### Summary of movements in share options

	Number of shares	Weighted average exercise price (pence)
Outstanding at 1 September 2020	442,126	946
Options and awards granted	69,971	1,017
Options and awards exercised	(45,791)	1,047
<b>Outstanding at 31 August 2021</b>	<b>466,306</b>	<b>691</b>
<b>Exercisable at 31 August 2021</b>	<b>88,358</b>	<b>1,340</b>
Outstanding at 1 September 2019	476,746	570
Options and awards granted	321,951	2,184
Options and awards exercised	(356,571)	475
Outstanding at 31 August 2020	442,126	946
Exercisable at 31 August 2020	116,587	395

The weighted average share price on the date of exercise was 2,046p (2020: 2,084p). The weighted average remaining contractual life of the options outstanding at the statement of financial position date is 8.8 years (2020: 9.7 years).

The weighted average fair value of options granted in the year was £14.51 (2020: £7.80).

The fair values of the share option awards granted were calculated using the Black Scholes option pricing model. The long-term incentive plan awards made in 2020 had targets based on earnings per share total growth and shareholder return and were valued using a Monte Carlo simulation. The inputs into the model for awards granted were as follows:

	Date awarded			
	2 December 2020	17 January 2020	3 December 2019	1 October 2019
Stock price	1,768p	2,230p	2,140p	2,140p
Exercise price	nil	nil	2,140p	2,200p
Interest rate	0.02%	0.39%	0.28%	0.38%
Volatility	53%	40%	49%	42%
Vesting period	3 years	3 years	1–2 years	1–3 years

The expected volatility was determined with reference to the published share price.

For the options granted in 2019 one third of the options will vest on each of the first, second and third anniversary of the grant date subject to the employees remaining employed by the Company.

The long-term incentive plan awards vest on the third anniversary of the award date.

### 27. Ultimate controlling party

There is no ultimate controlling party.

### 28. Capital commitments

At 31 August 2021 the Group had capital commitments as follows:

	2021 £'000	2020 £'000
Contracted but not yet provided in these financial statements	—	562
	—	562

### 29. Revenue recognition and contract balances

#### Contract balances

The Group has recognised the following revenue related contract assets and liabilities:

	2021 £'000	2020 £'000
Contract assets (i)	4,269	2,926
Contract liabilities (ii)	3,568	1,983

#### (i) Significant changes in contract assets

Contract assets have increased by 46% during the year reflecting three new contracts. There are seven current contracts at various stages of completion.

## Notes to the consolidated financial statements continued

For the year ended 31 August 2021

### 29. Revenue recognition and contract balances continued

#### (ii) Significant changes in contract liabilities

This balance consists of deferred income and payments in advance. This increase of contract liabilities was due to deferred income which principally relates to a timing of track testing systems invoicing at 31 August 2021 where payments received on account are deferred until the goods have been delivered to the customer. Within this figure is £615,000 relating to support and warranty which is recognised over the period to which these obligations are performed.

Within the opening balance of £1,983,000, an amount of £953,000 has been recognised in revenue during the period.

#### Performance obligations

The performance obligations in relation to the contracts with its customers are as follows:

##### Laboratory test and simulation

The long-term construction contracts are in relation to the laboratory testing and simulation systems which are highly customised items which typically take more than twelve months to construct and supply these systems to the customers. In the judgement of management, the Group satisfies the performance obligations under these contracts over time. The key determination of this judgement was that the Company's performance does not create an asset with alternative use to the Company and that the Company has an enforceable right to payment for performance completed to date. Payment for these construction contracts is in accordance with an agreed schedule with typical contracts including certain technical and physical completion milestones as payment points for customers. The majority of contracts are expected to result in contract liability balances. These balances arise as these contracts typically provide for an up-front deposit and other payments through the course of the contract.

The consideration for these contracts is agreed in advance between the Company and the customer and is fixed.

Revenue relating to warranties and related obligations is recognised over the period to which these obligations are performed by the Company.

In determining the transaction prices and amounts allocated to performance obligations for these systems, management has consideration to price lists of component parts and standard pricing for servicing and guarantee arrangements.

##### Track test

The contracts in relation to the sale of track testing systems are in relation to the robotic systems which typically take less than twelve months to construct and supply to customers. In the judgement of management, due to the lower level of customisation required for these items, the relative cost and time required to construct the systems, the Group satisfies the performance obligations under these contracts on delivery to the customer. In making this determination, management considers when the customer has obtained control of this system, and the principal indicator of this is when the customer has physical possession. Payment for these construction contracts is in accordance

with an agreed schedule with typical contracts including certain technical and physical completion milestones as payment points for customers. A typical contract may include a 30% deposit, which is recorded as a contract liability until such time as the performance obligation is met. The consideration for these contracts is agreed in advance between the Company and the customer and is fixed.

Revenue relating to warranties and related obligations is recognised over the period to which these obligations are performed by the Company.

In determining the transaction prices and amounts allocated to performance obligations for these systems, management has consideration to price lists of component parts and standard pricing for servicing and guarantee arrangements.

#### Remaining performance obligations as at 31 August 2021

	2021 £'000	2020 £'000
<b>Unsatisfied performance obligations</b>		
Laboratory testing and simulation	<b>10,522</b>	2,796
Track testing	<b>10,778</b>	5,768
<b>Partially unsatisfied performance obligations</b>		
Laboratory testing and simulation	<b>1,585</b>	975
Track testing	<b>1,968</b>	1,908

The revenue recognised in the period in relation to the opening balances for laboratory testing and simulation systems amount to £2,429,000 and for track testing systems amounted to £5,657,000.

The revenue on outstanding performance obligations at 31 August 2021 on the track testing systems will be recognised on delivery of these items, alongside the associated cost of sales, in the following financial year.

The revenue on outstanding performance obligations at 31 August 2021 on laboratory testing and simulation systems will be recognised over time, alongside the associated cost of sales, in the following financial year. The typical length of time for these construction projects is 18–24 months.

All contract revenue was recognised using the percentage completion method, based on the proportion of costs incurred to date relative to the estimated total contract costs.

#### Assets recognised from costs to obtain or fulfil customer contracts

No amounts have been recognised in relation to these categories of assets as at 31 August 2021.

## Company statement of financial position

As at 31 August 2021

	Note	2021 £'000	2020 (Restated)* £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	3	61,295	42,803
		<b>61,295</b>	42,803
<b>Current assets</b>			
Other receivables	4	17,874	20,510
Cash and cash equivalents		9,451	10,304
		<b>27,325</b>	30,814
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	5	1,833	1,311
		<b>1,833</b>	1,311
<b>Net current assets</b>		<b>25,492</b>	29,503
<b>Non-current liabilities</b>		—	—
<b>Net assets</b>		<b>86,787</b>	72,306
<b>Shareholders' equity</b>			
Share capital		226	226
Share premium		62,210	61,736
Retained earnings		24,351	10,344
<b>Total equity</b>		<b>86,787</b>	72,306

\* Restated following adoption of IFRIC update on cloud computing arrangements.

The profit for the financial year dealt with in the financial statements of the Parent Company was £14,123,000 (2020: £5,980,000).

The financial statements were approved by the Board of Directors and authorised for issue on 24 November 2021 and are signed on its behalf by:

**Dr James Routh**  
Director

**Sarah Matthews-DeMers**  
Director

Company registration number: 08393914

## Company statement of changes in equity

For the year ended 31 August 2021

	Note	Share capital £'000	Share premium £'000	Retained profits £'000	Total equity £'000
At 1 September 2019		222	60,049	3,708	63,979
Share based payments		—	—	1,282	1,282
Total comprehensive income (restated)*		—	—	5,980	5,980
Dividends	7	—	—	(626)	(626)
Issue of shares, net of share issue costs		4	1,687	—	1,691
At 31 August 2020		226	61,736	10,344	72,306
Share based payments		—	—	1,240	1,240
Total comprehensive income		—	—	14,123	14,123
Dividends	7	—	—	(1,356)	(1,356)
Issue of shares, net of share issue costs		—	474	—	474
<b>At 31 August 2021</b>		<b>226</b>	<b>62,210</b>	<b>24,351</b>	<b>86,787</b>

The share premium account is a non-distributable reserve representing the difference between the nominal value of shares in issue and the amounts subscribed for those shares.

Retained profits represent the cumulative value of the profits not distributed to shareholders but retained to finance the future capital requirements of the Group.

# Notes to the Company financial statements

For the year ended 31 August 2021

## General information

AB Dynamics plc (the 'Company') is the UK holding company of a group of companies which are engaged in the provision of advanced testing systems to the global motor industry. The Company is registered in England and Wales (registered number 08393914). Its registered office and principal place of business is Middleton Drive, Bradford on Avon, Wiltshire BA15 1GB.

## Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention and in accordance with FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland and the Companies Act 2006. The financial statements present information about the Company as an individual entity and the principal accounting policies are described below. They have all been applied consistently throughout the period.

## Reduced disclosure exemptions

The Company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12 as follows:

No cash flow statement has been presented as the Company is included within the consolidated financial statements of the Group.

Disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures are included in the consolidated financial statements of the Group.

The Company has also taken advantage of the disclosure exemptions in FRS 102 paragraph 33.1A as follows:

- Related party transactions have not been disclosed with other wholly owned members of the Group

## Going concern

At 31 August 2021 the Company had net current assets of £25,492,000 (2020: £29,503,000) with the main current asset being amounts owed from its subsidiary Anthony Best Dynamics Limited, amounting to £16,917,000 (2020: £20,477,000). The Company has assessed its ongoing costs with cash generated by its subsidiary to ensure that it can continue to settle its debts as they fall due.

The Directors have, after careful consideration of the factors set out above, concluded that it is appropriate to adopt the going concern basis for the preparation of the financial statements and the financial statements do not include any adjustments that would result if the going concern basis was not appropriate.

## Investments

Investments held as fixed assets are stated at cost less provision for impairment.

## Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

## Financial instruments

Financial assets and liabilities are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors and loans to related parties.

## Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans and receivables are measured initially at fair value and are measured subsequently at amortised cost using the effective interest method, less any impairment.

## Creditors

Short-term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value and are measured subsequently at amortised cost using the effective interest method.

## Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources. The estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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.

## Notes to the Company financial statements continued

For the year ended 31 August 2021

### Critical accounting judgements and key sources of estimation uncertainty continued

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities in the financial statements:

#### Share based payment

The fair value of share based remuneration is determined at the date of grant and recognised as a capital contribution to its subsidiary on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of option pricing models.

### 1. Profit for the financial year

The Company has taken advantage of Section 408 of the Companies Act 2006 and, consequently, a profit and loss account for the Company alone has not been presented.

The Company's profit for the financial year was £14,123,000 (2020: £5,980,000).

The Company's profit for the financial year has been arrived at after charging auditor's remuneration payable to Crowe U.K. LLP for audit services to the Company of £25,000 (2020: £25,000). Statutory information on remuneration for other services provided by the Company's auditor and its associates is given on a consolidated basis in note 5 of the consolidated financial statements.

### 2. Employees and Directors' remuneration

Staff costs during the year by the Company were as follows:

	2021 £'000	2020 £'000
Wages and salaries	1,580	1,580
Social security costs	220	296
	<b>1,800</b>	1,876

The executive management team is remunerated by the operating subsidiary Anthony Best Dynamics Limited. Details of its remuneration is in the Remuneration Committee report.

The average number of employees of the Company during the year was:

	2021 Number	2020 Number
Directors and management	5	5

### 3. Investments

	2021 £'000	2020 £'000
<b>Subsidiary undertaking</b>		
Brought forward	42,803	41,937
Capital contribution arising on share based payment	1,240	1,282
Investment in AB Dynamics Inc	—	2,823
Investment in rFpro Ltd (Kangaloosh Ltd)	—	(3,239)
Investment in AB Dynamics Overseas Holdings Ltd	17,252	—
Carried forward	<b>61,295</b>	42,803

AB Dynamics Overseas Holdings Ltd was incorporated during the year as an intermediate holding company in relation to the acquisition of Vadotech Group.

## Notes to the Company financial statements continued

For the year ended 31 August 2021

### 3. Investments continued

The Company owns more than 20% of the following undertakings:

Subsidiary undertaking	Class of share held	% shareholding	Registered office
Anthony Best Dynamics Limited	Ordinary	100	100 Middleton Drive, Bradford on Avon, Wiltshire BA15 1GB
AB Dynamics GK	Ordinary	100	2-2-3 Shinyokohama, Dai-Ichi Takeo bldg. 6F 606 Kohoku-ku, Yokohama 222-0033, Japan
AB Dynamics Inc	Ordinary	100	48325 Alpha Drive, Suite 120, Wixom, MI 48393, USA
rFpro Ltd	Ordinary	100	Middleton Drive, Bradford on Avon, Wiltshire BA15 1GB
AB Dynamics UK Holdings Ltd	Ordinary	100	Middleton Drive, Bradford on Avon, Wiltshire BA15 1GB
AB Dynamics Overseas Holdings Ltd	Ordinary	100	Middleton Drive, Bradford on Avon, Wiltshire BA15 1GB
*AB Dynamics Singapore Holdings Pte Ltd	Ordinary	100	77 Robinson Road, #13-00 Robinson 77, Singapore, 068896
*Vadotech Pte Ltd	Ordinary	100	77 Robinson Road, #13-00 Robinson 77, Singapore, 068896
*Vadotech Japan KK	Ordinary	100	Nichitochi Nishishinjyuku Building 8F, 6-10-1, Nishishinjyuku, Shinjyuku-ku, Tokyo
*Vadotech Deutschland	Ordinary	100	Bismarckstraße 7, 10625 Berlin, Germany
*Vadotech Services SL	Ordinary	100	Calle Madrid, n. 70, Edificio Irene II, local 1, Monachil, Granada, Spain
*Vadotech US Inc	Ordinary	100	The Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801
*Zynit Pte Ltd	Ordinary	100	77 Robinson Road, #13-00 Robinson 77, Singapore, 068896
*Zynit China Co Ltd	Ordinary	100	No. 13, Jinma Yuan 2 Street, Gaoliying Town, Shunyi District, Beijing, China
*rFpro Inc	Ordinary	100	48325 Alpha Drive, Suite 120, Wixom, MI
*AB Dynamics Europe GmbH	Ordinary	100	Vogelsang 11, 35398 Gießen, Germany
*Dynamic Research Inc	Ordinary	100	355 Van Ness Avenue, Suite 200, Torrance, CA 90501, USA
*DRI Advanced Test Systems Inc	Ordinary	100	355 Van Ness Avenue, Suite 200, Torrance, CA 90501, USA
*DRIATSERO SRL	Ordinary	25	36 Libertatii St, Buhusi, Romania
*AB Dynamics 2013 Ltd	Ordinary	100	Middleton Drive, Bradford on Avon, Wiltshire BA15 1GB

\* Denotes indirect shareholding.

## Notes to the Company financial statements continued

For the year ended 31 August 2021

### 4. Other receivables

	2021 £'000	2020 £'000
Amounts owed by Group undertakings	17,630	20,477
Prepayments	244	33
	<b>17,874</b>	20,510

### 5. Trade and other payables

	2021 £'000	2020 £'000
Other payables and accruals	1,833	1,311
	<b>1,833</b>	1,311

### 6. Share capital

The allotted, called up and fully paid share capital is made up of 22,622,344 ordinary shares of £0.01 each.

	Note	Number of shares '000	Share capital £'000	Share premium £'000	Total £'000
At 1 September 2019		22,220	222	60,049	60,271
27 September 2019	(i)	200	2	770	772
11 December 2019	(ii)	32	—	142	142
3 March 2020	(iii)	58	1	229	230
3 March 2020	(iv)	6	—	27	27
4 May 2020	(v)	33	—	410	410
2 June 2020	(vi)	16	—	64	64
19 August 2020	(vii)	11	1	45	46
At 31 August 2020		22,576	226	61,736	61,962
8 October 2020	(viii)	8	—	29	29
4 December 2020	(ix)	1	—	18	18
15 March 2021	(x)	33	—	412	412
17 March 2021	(xi)	4	—	15	15
<b>At 31 August 2021</b>		<b>22,622</b>	<b>226</b>	<b>62,210</b>	<b>62,436</b>

- (i) On 27 September 2019, a total of 199,526 share options were exercised of £0.01 each for £3.95.
- (ii) On 11 December 2019, a total of 31,970 share options were exercised of £0.01 each for £3.95.
- (iii) On 3 March 2020, a total of 58,086 share options were exercised of £0.01 each for £3.95.
- (iv) On 3 March 2020, a total of 6,173 share options were exercised of £0.01 each for £4.45.
- (v) On 4 May 2020, a total of 33,333 share options were exercised of £0.01 each for £12.30.
- (vi) On 2 June 2020, a total of 16,162 share options were exercised of £0.01 each for £3.95.
- (vii) On 19 August 2020, a total of 11,321 share options were exercised of £0.01 each for £3.95.
- (viii) On 8 October 2020, a total of 7,631 share options were exercised of £0.01 each for £3.95.
- (ix) On 4 December 2020, a total of 692 shares were issued to James Routh of £0.01 in satisfaction of 20% of his respective annual bonus payments for the year ended 31 August 2020, and on 4 December 2020, a total of 349 shares were issued to Sarah Matthews-DeMers of £0.01 in satisfaction of 20% of her respective annual bonus payments for the year ended 31 August 2020.
- (x) On 15 March 2021, a total of 33,333 share options were exercised of £0.01 each for £12.30.
- (xi) On 17 March 2021, a total of 3,786 share options were exercised of £0.01 each for £3.95.

## Notes to the Company financial statements continued

For the year ended 31 August 2021

### 7. Dividends paid

	2021 £'000	2020 £'000
Final 2019 dividend paid of £0.028 per share	—	626
Final 2020 dividend paid of £0.044 per share	994	—
Interim dividend paid of £0.016 per share	362	—
	<b>1,356</b>	626

The Board has proposed a final dividend of 3.24p per share totalling £733,000. An interim dividend was paid of 1.6p per share totalling £362,000.

### 8. Related party disclosures

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in the Remuneration Committee report.

### 9. Share based payments

The share based compensation schemes were established to reward and incentivise the executive management team and staff for delivering share price growth. The schemes are administered by the Remuneration Committee.

The schemes adopted by the Company are equity settled and a charge of £1,240,000 (2020: £1,282,000) has been charged to the consolidated statement of comprehensive income relating to these options.

#### Summary of movements in share options

	Number of shares	Weighted average exercise price (pence)
Outstanding at 1 September 2020	442,126	946
Options and awards granted	69,971	1,017
Options and awards exercised	(45,791)	1,047
<b>Outstanding at 31 August 2021</b>	<b>466,306</b>	<b>691</b>
<b>Exercisable at 31 August 2021</b>	<b>88,358</b>	<b>1,340</b>
Outstanding at 1 September 2019	476,746	570
Options and awards granted	321,951	2,184
Options and awards exercised	(356,571)	475
Outstanding at 31 August 2020	442,126	946
Exercisable at 31 August 2020	116,587	395

The weighted average share price on the date of exercise was 2,046p (2020: 2,084p). The weighted average remaining contractual life of the options outstanding at the statement of financial position date is 8.8 years (2020: 9.7 years).

The weighted average fair value of options granted in the year was £14.51 (2020: £7.80).

## Notes to the Company financial statements continued

For the year ended 31 August 2021

### 9. Share based payments

The fair values of the share option awards granted in 2019 were calculated using the Black Scholes option pricing model. The long-term incentive plan awards made in 2020 had targets based on earnings per share total growth and shareholder return and were valued using a Monte Carlo simulation. The inputs into the model for awards granted were as follows:

	Date awarded			
	2 December 2020	17 January 2020	3 December 2019	1 October 2019
Stock price	1,768p	2,230p	2,140p	2,140p
Exercise price	Nil	Nil	2,140p	2,200p
Interest rate	0.02%	0.39%	0.28%	0.38%
Volatility	53%	40%	49%	42%
Vesting period	3 years	3 years	1-2 years	1-3 years

The expected volatility was determined with reference to the published share price.

For the options granted in 2019 one third of the options will vest on each of the first, second and third anniversary of the grant date subject to the employees remaining employed by the Company.

The long-term incentive plan awards vest on the third anniversary of the award date.



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# **A&B Dynamics plc Annual Report and Accounts 2021**