Driving sustainability

AB Dynamics plc
Annual Report and Accounts 2020
Company registration number: 08393914

AB Dynamics has continued to grow to become one of the world's most trusted global suppliers of products and services to the automotive test and verification sector. We specialise in providing solutions to support the automotive sector's drive to improve safety and the impact on the environment.

Our customers include global vehicle manufacturers, Tier 1 suppliers, NCAP test laboratories, numerous global test facilities and autonomous vehicle developers.

Discover more at **abdplc.com**

Contents

Strategic report

Highlights of 2020

Operational highlights

> Strong first half performance, offset by more challenging trading conditions in the second half due to the COVID-19 pandemic

> Long-term, sustainable structural and regulatory growth drivers remain intact

> Solid performance from companies acquired during 2019, including significant growth of track testing services in the USA

> Strong geographic growth in the USA and Japan following the successful establishment of new sales and support offices

> Successful launch of new products including Halo driving robot, aNVH, Guided Soft Target 120 and Radar Cart

> Further development of the simulation sector with new products including Static Simulator, Data Farming, Linux OS version and highly accurate digital twins

> Growth in recurring revenue to 28%, up from 10% of Group revenue through acquired businesses and increased sales of service and support contracts

> Continued investment in management capability, processes and systems, including progress towards implementation of a Group-wide ERP system

> Construction of the new Engineering Design Centre nearing completion

Financial highlights

Revenue

£61.5m +6%

2020	**61.5**
2019	58.0
2018	37.1
2017	24.6

Adjusted* diluted earnings per share ('EPS')

39.9p -22%

2020	**39.9**
2019	51.4
2018	34.3
2017	22.0

Cash

£31.2m -14%

2020	**31.2**
2019	36.2
2018	15.9
2017	9.6

Adjusted* operating margin

18.4% -390 bps

2020	**18.4**
2019	22.3
2018	21.3
2017	17.9

Adjusted* operating profit

£11.3m -12%

2020	**11.3**
2019	12.9
2018	7.9
2017	4.4

Dividend per share

4.40p +0%

2020	**4.40**
2019	4.40
2018	3.67
2017	3.33

* Adjusted to exclude amortisation of acquired intangibles, inventory impairment, acquisition related charges and restructuring costs. A reconciliation to statutory measures is given on page 30. Prior year comparatives have been restated to reflect the inclusion of share based payment charges which were previously reported as an adjustment.

Driving sustainability across our market sectors

Our products and services enable the development of safer vehicles through the testing and simulation of active safety, automated driving functions and vehicle dynamics.

Our sectors

Track testing

Track testing products and services represent 84% of total Group revenue and include products used for the test and verification of Advanced Driver Assistance Systems (ADAS), autonomous systems and vehicle dynamics. 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 test track services including the provision of ADAS and vehicle dynamics tests through a comprehensive test facility based in California, USA.

Read more on **pages 22–23**

Revenue contribution to the Group

£51.8m
+4%

Group revenue **84%**

Laboratory testing and simulation

Laboratory testing and simulation represent 16% of total Group revenue and include products relating to simulation, noise and vibration and the assessment of kinematics and compliance in vehicles. Simulation includes products such as the Advanced Vehicle Driving Simulator (aVDS), the Static Simulator, Axle Level NVH (aNVH) and the rFpro physics-based simulation software environment. AB Dynamics 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.

Read more on **pages 24–25**

Revenue contribution to the Group

£9.7m
+18%

Group revenue **16%**

Our investment case

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.

Global sales revenue

UK/Europe	**28%**
Asia Pacific	**45%**
North America	**25%**
Rest of World	**2%**

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 have a global presence and diverse geographic end markets
- The proportion of recurring revenue continues to grow as we increase our service and support offering and software sales

Read more on **pages 14–17**

2. Strong margins

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

3. Strong balance sheet

- Our strong balance sheet gives the financial flexibility to enable ongoing investments in innovation and business infrastructure for the next phase of growth. This will ensure the business is well positioned to capitalise on market recovery
- With capex expected to peak 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

4. Sustainability and resilience

- The resilience of our business model enabled us to continue investing in the business during the COVID-19 pandemic. While there has been a short-term impact on demand, structural and regulatory drivers remain intact
- The wider focus on road safety and reduction in accidents is an important long-term trend that will support growth
- 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

Chairman's statement

Progress in a challenging year

Anthony Best, Non-Executive Chairman

"The Board is confident the Group can continue to deliver on its strategic priorities"

Overview

I am pleased to report that the Group has delivered a robust performance for the year despite the challenging global trading conditions caused by the COVID-19 pandemic, which impacted the second half of our financial year. After the very high growth of the previous two years, reported revenue grew moderately to £61.5m and there was a reduction in adjusted operating profit against the prior year to £11.3m.

The disruption due to COVID-19 forced some of our customers to reduce their track testing activities and a number to delay their anticipated purchases of our higher value laboratory testing and simulation equipment. This resulted in Group revenues for the second half of the year being approximately 18% lower than the comparative period in 2019. Nevertheless, the final quarter saw improving levels of confidence and the Board anticipates that this will be reflected in an increased order intake during our new financial year. Our end markets are supported by powerful long-term structural and regulatory growth drivers, and we remain well positioned to serve our customers as they invest in the development of the increasingly sophisticated ADAS and semi and fully autonomous vehicles that will be required in the future. Our strategy and the results for the year are discussed in detail in the Chief Executive Officer's Review on pages 8 to 10 and in the Chief Financial Officer's Review that follows on pages 28 to 30.

Staff

I would particularly like to congratulate the executive management team this year for maintaining our manufacturing operations with only minimal interruption whilst ensuring the safety and wellbeing of all of our employees. I would also like to add my special appreciation to all our staff who have readily adapted to new working practices and new technology that has also allowed us to work productively from home. At its heart, AB Dynamics is a people business and it is the contribution and performance of our talented employees that continues to underpin our confidence in an exciting future for the Group.

Read more on **pages 35–40**

International footprint and manufacturing facilities

During the year we have continued to invest in our manufacturing capacity and international footprint, and also our capabilities and our people. Work on the new Engineering Design Centre, which is adjacent to our existing headquarters in Bradford-on-Avon, began at the end of last year and has continued with only a relatively short interruption due to COVID-19. We expect to be occupying this important new facility, which will house our simulation facility and our talented engineering teams, in Q1 2021.

Board changes

We have continued to review and refresh the Board to ensure we maintain the right mix of skills and experience for the future.

On 4 November 2019, Sarah Matthews-DeMers joined the Board as Chief Financial Officer. Sarah was Group Finance Director of Carclo plc and had previously been Director of Strategy and Investor Relations at Rotork plc and prior to this Deputy Group Finance Director at Avon Rubber plc.

Louise Evans joined the Board as a Non-Executive Director on 6 April 2020 and took over as Chair of the Audit and Risk Committee. Louise is a qualified Chartered Accountant and was previously Group Finance Director of Williams Grand Prix Holdings plc, and most recently Braemar Shipping Services plc and now serves as a Non-Executive Director for a number of companies.

Dick Elsy joined the Board on 1 August 2020 as a Non-Executive Director and Chair of the Remuneration Committee. Dick is presently the Chief Executive of the High Value Manufacturing Catapult, which has the highest concentration of advanced manufacturing research capability in Europe. Dick is a veteran of the automotive industry, with the bulk of his career spent at Land Rover and then Jaguar, where he was Engineering Director.

I am delighted to welcome Sarah, Louise and Dick to AB Dynamics.

Bryan Smart, Matthew Hubbard and Graham Eves stepped down from the Board during the year. They each played significant roles in the growth of AB Dynamics from a small privately owned business to the Group we see today. In particular, Graham and Bryan were instrumental in our IPO in 2013 and Mat played a key role in the development of many of our core technologies. I would like to express my sincere thanks to each of them for their years of service and their dedication and contribution to the success of AB Dynamics to date.

Corporate governance

The Board is united in its view that robust corporate governance and risk management are essential to maintaining the stability and growth of the Group and its financial health. I am pleased to confirm that AB Dynamics is in compliance with the Quoted Companies Alliance ('QCA') Code as required under the AIM Rules. I report separately on the Group's approach to governance and its procedures in my Corporate Governance Statement which can be found on pages 50 to 54 of this Annual Report.

Dividend

Against a background of significant macroeconomic uncertainty, the Board took the decision in April 2020 to suspend the interim dividend pending the conclusion of the financial year. The Board has reviewed the position in light of our results for the year and is recommending a final dividend of 4.4p per share, resulting in an unchanged total dividend for the year. It is the Board's intention to pursue a sustainable and growing dividend policy in the future having regard to the development of the Group.

Outlook

AB Dynamics operates in long-term growth markets and has established a unique position as a leading designer, manufacturer and supplier of advanced testing and measurement solutions to the global automotive industry. We expect simulation to play an increasingly important and critical part in the development of semi and fully autonomous vehicles in the future, as manufacturers will need to test their vehicles extensively against a significant number of scenarios to provide a safe environment for all road users.

We continue to invest heavily into new product development, which is critical to our future success and it is particularly pleasing therefore to report that we received an order for our new axle Noise Vibration and Harshness (aNVH) testing machine which we expect to deliver in early 2021. We will continue to invest in our capabilities, systems and business infrastructure, which will constrain our operating margins over the near term.

The substantial long-term regulatory and structural growth drivers continue to provide a supportive backdrop for future growth and the Board remains confident the Group can continue to deliver on its strategic priorities.

Anthony Best
Non-Executive Chairman

25 November 2020

Driving change
Our cultural change journey

The Group has rapidly developed and expanded from a single UK based entity to a global group of companies. In response to this change, the Group has mapped out a cultural change programme that addresses commercial focus, leadership, ownership and accountability, code of conduct, innovation, business process excellence and talent management. This has led to a restructuring of the senior management team and a focus on demonstrable leadership behaviours to take ownership of the delivery of cultural change, which will result in strong, scalable foundations for ongoing sustainable growth.

Resilience during a global pandemic

In 2020 COVID-19 caused unprecedented impacts on global economies, with the automotive sector particularly affected.

Our sustainable business model and strong balance sheet have enabled us to mitigate the worst of this impact on the Group.

Our response has focused on the short-term priorities of protecting the safety and wellbeing of our staff, continuing to support customers, maintaining continuity of operations and conserving cash, whilst simultaneously continuing to invest for the longer term in innovation and business infrastructure.

FY20 impact

Safety and wellbeing of staff
Our priority is to do all we can to keep our workplaces as safe as possible for our people. We have implemented working practices based on the latest government recommendations in each of our locations and continue to monitor, improve and adapt these practices as the situation evolves. At each stage we have sought to provide staff with regular and timely communication and support.

Our people have risen to the challenge exceptionally well, readily adapting to new working practices and new technology that have allowed us to continue operations and to maintain productivity throughout the pandemic. Approximately 70% of staff were able to work from home at the peak of restrictions.

Priority support to customers
We were able to continue delivering support and shipment of new products to customers. The restrictions on travel prevented certain installation, commissioning and training activities from taking place; however, our recently added international sales and support offices have been able to continue to provide local support where needed.

Continuity of manufacturing operations
Throughout the period of lockdown, the Group was able to maintain key manufacturing and track testing operations, albeit with adapted working practices including the implementation of social distancing. No significant adverse impacts were experienced in the supply chain.

Financial measures
The Group took rapid steps to limit discretionary spend and conserve cash while the potential impact was assessed. These measures included suspension of the interim dividend, postponing acquisition activity and a temporary suspension of the construction of the Engineering Design Centre. However, our strong balance sheet has enabled us to resume payment of the final dividend, restart construction and resume our acquisition strategy.

Continued investment in new product development, facilities and infrastructure
The Group has continued to invest in new product development as well as the business infrastructure which we believe is critical to delivering our long-term growth and strategic development objectives and will position the business well to take advantage of the powerful long-term structural and regulatory growth drivers.

Deferment of orders
The disruption forced some of our customers to reduce their track testing activities and a number to delay anticipated purchases of our high value laboratory testing and simulation equipment. Track testing orders started to recover during the final quarter of the year, albeit to lower than pre-pandemic levels and the pipeline for larger equipment remains strong, although we remain mindful of uncertainty relating to timing of order receipt.

Stress test
We have carried out a number of stress tests, details of which are included in the going concern statement on page 77. The conclusion was that the Group could withstand a greater than 70% decline in revenues without mitigating action for 22 months without the need for additional funding.

Market and outlook

Looking forward there remains uncertainty around the ongoing impact of COVID-19 and the Board continues to be cautious and alert to conditions in the wider automotive market. Timing of order intake is likely to be variable and we expect this uncertainty to continue through the first half of the next financial year.

However, we have seen a recent increase in customer activity and this, together with our confidence over the long-term structural and regulatory growth drivers, supports our continued investment in all areas of our strategic priorities. We see good opportunities to put our strong balance sheet to work with earnings-accretive acquisitions and new product development.

Challenges to our business and our working practices will continue as the pandemic evolves but our priorities continue to be the safety of our people, supporting our customers and moving the business forward to support future growth.

"We have seen a recent increase in customer activity and this, together with our confidence over the long-term structural and regulatory growth drivers, supports our continued investment in all areas of our strategic priorities"

Chief Executive Officer's review

Delivering on our strategy for sustainable growth

Dr James Routh, Chief Executive Officer

Overview

Against a backdrop of very challenging macroeconomic conditions due to the COVID-19 pandemic, the Group delivered a resilient performance in 2020 whilst continuing to invest to ensure the Group can capitalise on the significant long-term structural and regulatory growth drivers underlying its market. This year's performance demonstrates the strength of the Group's sustainable business model and was supported by recent investments to diversify the business and strengthen systems, processes and infrastructure. During this challenging period, our employees around the world have shown their skills, professionalism and commitment to continue to deliver class-leading products to our valued customers.

Financial performance

The Group delivered revenue growth of 6% to £61.5m (2019: £58.0m), reflecting the resilience of the business model and the Group's strong market positions. At the half year the Group had delivered significant revenue growth of 34%; however, the second half was impacted by COVID-19 and revenues declined 18% against a very strong prior year comparator. In spite of the backdrop, the proportion of recurring revenue increased substantially to 28% of sales (2019: 10%) due to the impact of the businesses acquired in 2019, in addition to an increase in longer-term service and support contracts.

Group adjusted operating profit decreased 12% to £11.3m (2019: £12.9m) resulting in a decrease in adjusted operating margin of 390 bps to 18.4% (2019: 22.3%). The margin has been impacted by our continued investment in our strategy for growth and building out the senior management team.

"A resilient in-year performance and long-term structural and regulatory growth drivers remain intact"

Gross margins increased by 1,020 bps to 58.4% as a result of relative product mix between the Group's two sectors, coupled with the relatively higher margin contributions from both rFpro and DRI acquired towards the end of the last financial year. Our direct sales model in key territories also contributed to the improved gross margin as the Group utilises fewer third-party sales agents and resellers.

The Group delivered operating cash flow of £6.9m with the cash position at year end of £31.2m underpinning a robust balance sheet. During 2020 we invested in the Group's new Engineering Design Centre, R&D, payment of deferred consideration for the acquisition of Dynamic Research Inc and working capital to support the growth in the business.

COVID-19

The emergence of the COVID-19 pandemic in early 2020 saw unprecedented impacts on global economies, with the automotive sector impacted particularly significantly. As reported at the end of the Group's first half, we took rapid steps to limit discretionary spend and conserve cash whilst we gained clarity on the overall short-term impact on the business.

The Group did not see any significant adverse impacts on its supply chain or manufacturing facilities, but many larger, capital equipment orders were initially deferred by our customers. Through the second half of the year, the Group saw orders increase, particularly in the fourth quarter, albeit these were still below pre-pandemic levels at the year end. At the end of the financial year, one of the anticipated larger capital equipment orders was received and the pipeline for further orders is strong, although we remain mindful of uncertainty relating to timing.

Throughout the period of lockdown, the Group was able to maintain key manufacturing and track testing operations, whilst approximately 70% of our global workforce worked remotely. This balance proved to be effective and we were able to continue delivering for our customers whilst maintaining our investment activities, particularly in product development. The restrictions on travel prevented certain installation, commissioning and training activities from taking place; however, our recently added international sales and support offices were able to continue to support customers where required.

Looking forward there remains uncertainty around the ongoing impact of COVID-19 and the Board continues to be cautious and alert to conditions in the wider automotive market. Timing of order intake is likely to be variable and we expect this uncertainty to continue through at least the first half of the new financial year particularly in relation to capital equipment.

However, we are confident that the long-term structural and regulatory drivers that underpin our markets remain firmly intact and the Group is therefore continuing to invest in new product development as well as business infrastructure which the Board believes are critical to delivering its growth and strategic development objectives for the business.

Furthermore, after a brief pause in the early stages of the pandemic, we have now resumed our acquisition strategy and the Group is actively exploring a number of opportunities. We see good opportunity to put our strong balance sheet to work with strategic acquisitions that will enhance earnings, broaden our product offering and extend our geographic footprint in key areas.

Sector review

The track testing sector delivered revenue growth of 4% to £51.8m (2019: £49.8m) through strong growth in ADAS platforms and testing services, offset by a reduction in demand for driving robots. At the half year, track testing revenue growth was 29%, which then slowed in the second half as customers suspended testing operations during the COVID-19 lockdown.

ADAS platforms increased 22% to £24.1m (2019: £19.7m) as demand for the Launchpad ADAS platform grew strongly due to new requirements for Euro-NCAP testing. Driving robots revenue declined 30% to £21.1m (2019: £30.1m) as demand reduced against a very strong prior year comparator, particularly from the Chinese market. Following the acquisition of Dynamic Research Inc in 2019, the Group is now able to provide testing services, which delivered £6.6m (2019: £Nil) of revenue, based on increased demand for ADAS testing, particularly for a US government regulator.

For laboratory testing and simulation, sector revenues grew by 18% to £9.7m (2019: £8.2m) with strong contributions from Suspension Parameter Measurement Machine (SPMM) and simulation software sales through rFpro. Sales of SPMM increased 15% due to continued demand from both China and Japan and, despite a delay in orders received during the second half of the year, the pipeline of SPMM orders is promising. The simulation area grew by 24% due to contributions from rFpro and simulators, although both were impacted by the COVID-19 pandemic in the second half of the year. rFpro supplies digital twins and simulation software to the motorsport sector and all racing series were delayed by three to four months during the height of the pandemic. However, Formula 1, Formula E and the US motorsport series did restart during the summer months with revenue starting to recover in the final two months of the year.

Driving change
Our approach to investment

As part of our strategy, we are investing in products and innovation and our capability and capacity to deliver growth.

Having invested significantly in facilities including our existing headquarters in Bradford-on-Avon and our new Engineering Design Centre, future investment will focus on our innovation, our people and our systems to create a robust platform for growth.

Innovation

Our product development pipeline includes a mix of projects that will deliver growth across the short, medium and longer term.

People

We are continuing to strengthen the management team and investing in the skills and capabilities of our people.

Systems

The implementation of our ERP system and future global roll-out will facilitate better customer service and provide real-time information for decision making.

Acquisitions

We also have a pipeline of acquisition opportunities. Criteria for assessing potential targets include facilitation of one or more of our strategic priorities, track record of growth, opportunity for sales synergies and earnings accretive with strong gross margins and double digit operating margins.

Progress on our strategy

We are pleased with the ongoing progress made against the five-point strategy announced in April 2019. Investments in geographic diversification, direct routes to market and our service and support offering have been complemented by the commencement of important initiatives to improve our systems, processes and structure. This, together with continued investment in infrastructure, people and new product development, will result in a resilient, sustainable business able to effectively take advantage of the significant structural and regulatory changes in our end markets.

Our strategic priorities are detailed on pages 18 and 19. Investment in product development continued with new products including the aNVH, Halo driving robot, GST 120, Launchpad 60, Static Simulator and Data Farming capabilities within the rFpro simulation software. Significant investment in product development continues and we expect to announce further product launches in 2021.

To deliver the required capability and capacity to drive our future growth, the Group has further invested in strengthening and developing the senior management team and the continued build of our new Engineering Design Centre. Investment in building our business infrastructure continues with the ERP implementation project due to go live during 2021. This is a significant change project that will transform the business processes across the Group.

Acquisitions

The Group has been pleased with the integration of the two acquisitions completed during 2019. Dynamic Research Inc has performed beyond expectations and was able to deliver outstanding results despite the impact of COVID-19 in the USA. Due to this strong performance, the Group paid the maximum of $3.5m in deferred consideration to the previous owners of Dynamic Research Inc. rFpro has integrated well and had a very strong first half of the year but was adversely affected by the COVID-19 impact on motorsport in the second half. The pipeline for acquisitions remains promising and the Group continues to identify value enhancing acquisition opportunities that facilitate our stated strategic priorities.

Summary

The Group has delivered a robust and resilient performance in 2020 against a backdrop of challenging market conditions due to COVID-19. After a very strong first half of the financial year, the Group took rapid and effective actions to mitigate the risks of the pandemic. Whilst the backdrop has been uncertain, the Group's strong financial position has enabled us to remain focussed on maintainting our strategic momentum. The Group continued to invest in its capabilities, systems and business infrastructure which, despite a softening in operating margins over the near term, ensures the Group remains well placed to capitalise on the long-term regulatory and structural growth drivers which remain intact.

Demand in the first quarter of the current year has been consistent with the Q4 FY20 exit rate. The disruption associated with further waves of infection means that visibility is limited and there remains short-term uncertainty as to the shape and rate of this recovery. Looking further ahead, we remain confident that demand will recover to pre-crisis growth patterns over the medium term.

Despite the uncertain backdrop, we see significant scope to deliver on the Group's strategic priorities, such as further product development and executing on our pipeline of potential acquisition opportunities. We are very encouraged by the initial progress already evident from our key strategic investment initiatives. The market drivers are compelling, the medium-term outlook for AB Dynamics remains positive and the Board is confident the Group can continue to deliver on its strategic priorities.

Dr James Routh
Chief Executive Officer

25 November 2020

"Investments in geographic diversification, direct routes to market and our service and support offering have been complemented by the commencement of important initiatives to improve our systems, processes and structure"

Q&A

How would you describe AB Dynamics' business performance in 2020?

Pre-COVID, we had a strong start to the year and were delighted with continued progress after several periods of exceptional performance.

From March, market conditions declined and many of our customers saw a rapid degradation in sales. Our strategy, announced in April 2019, meant the more significant impacts of this were mitigated. We had a larger proportion of recurring revenue, a more geographically diverse business and, post acquisitions, a broadened product and service offering. Our manufacturing facilities were fully operational throughout the period and there were no significant supply chain issues.

After challenging second and third quarters, with markets and performance improving into Q4 and a confident outlook, we were pleased to reinstate the dividend. Notwithstanding the ongoing impact of COVID-19, we look forward to the future with confidence.

What impact has the COVID-19 pandemic had on the business?

When COVID-19 started in March, we reacted quickly and decisively in order to protect staff health and safety, reduce operating costs and conserve cash. We entered the pandemic with a robust balance sheet, following the successful share placing in May 2019, a more diverse business, and a growing proportion of recurring revenue, which meant we did not need to take government support.

While end customers faced challenges of their own, and similarly acted to preserve liquidity, we recognised that the regulatory and structural growth drivers in those markets remained intact. Therefore, we made the decision to continue to invest in our strategy believing that by exiting the pandemic with a full complement of staff, best in class products and the correct sales channels, we would be well placed to continue the sustainable growth of the business.

What steps have you taken to position yourself for future growth?

A core focus for us this year has been on commercialising the business, and we have continued to invest in business infrastructure, new product development and top talent. We were delighted to welcome new senior managers and employees to the team, including sales professionals in key territories, engineering leadership and new managing directors in the UK and Japan.

Over the past year, we have continued to take advantage of the key market drivers, which have very much remained despite the impact of the pandemic. Our focus on diversifying the business – through technology, geographies, customer base and employees – should serve us well for a future of long-term growth.

How have you been progressing your acquisition pipeline? Has this been affected by COVID-19?

I am pleased to say that our M&A pipeline has not been materially impacted by the pandemic and we are progressing certain opportunities in attractive markets. Our pipeline is under constant review and we continually seek high quality, earnings enhancing acquisitions that meet our criteria.

What are you most proud of?

It goes without saying that I am most proud of our people, and I would like to take this opportunity to thank them for their professionalism and dedication during such an uncertain period. Employee safety has been our priority throughout this time, and I have been greatly impressed by how seamlessly my colleagues have adapted to new ways of working. Together, we have continued to meet increasingly complex demands from our customers, while achieving sustainable business growth.

What do you think the main challenges are for the business in the year ahead?

COVID-19 remains the primary challenge for all businesses and of course there is uncertainty as we enter the winter months.

My focus remains on what we can control: maintaining a safe working environment, investing in key areas of the business, continuing to deliver for clients and implementing our previously stated strategic priorities. Our experience so far has shown us that if we continue this approach, we will enter the post-COVID world with an enhanced reputation, strengthened customer relationships and a business ready to capitalise on the significant market opportunities.

What do you think are the biggest opportunities for AB Dynamics going forward?

Importantly, the attractive regulatory and structural growth drivers in our end markets remain intact – the mobility landscape in both regulation and technology is continually changing and we are an essential partner to all the major organisations attempting to navigate this environment.

I am optimistic because we have the right platform and strategy to capitalise on these trends. Our investments in acquisitions, new geographies, product development and talent mean that AB Dynamics has market-leading capability across our addressable markets. As markets normalise these investments position us strongly to benefit from a rapidly evolving market.

Business model

Advancing safer mobility in a changing world

We use our customer relationships and product and technology leadership in automotive testing to create sustainable value for our stakeholders.

We are one of the world's most trusted global suppliers of products and services to the automotive test and verification sector, playing a key role in ensuring the safe and responsible development of active safety and autonomous systems.

We develop and manufacture products and systems for use in track testing, laboratory testing and simulation. Track testing products and services are used in the test and evaluation of ADAS, autonomous vehicle technology and vehicle dynamics.

Laboratory testing and simulation products and services test dynamic characteristics, simulate vehicle dynamics and evaluate the performance of active safety systems across conventional vehicles, motorsport and autonomy.

We sell directly to customers, predominantly through our UK operation but more recently through our own international sales offices in Germany, the USA and Japan. We also have indirect routes to market through an international network of distributors and representatives.

"Our products and services play a key role in advancing road safety"

1 **Global growth markets**
We operate in growing geographic markets. There are also strong regulatory growth drivers for driver assist technology and autonomous vehicles.

2 **Long-term relationships with automotive OEMs and Tier 1 suppliers**
Relationships with all major OEMs and test facilities over many years enable early identification of trends and future needs. These relationships and our technological expertise act as high barriers to entry for competitors. Our collaborative approach to R&D and ongoing support ensure customers want to work with us.

3 **Product and technology leadership in vehicle track testing and laboratory testing equipment**
Our intellectual property, technical expertise and niche product offering generate strong margins. Partnering with customers enables development tailored to market trends, drivers and needs.

4 **Agile and responsive organisation working in collaboration with customers**
Our lean organisation structure with decentralised management model allows flexibility in supporting customers. Our engineers work directly with our customers' engineering teams, focusing on supporting their needs.

5 **International routes to market via direct channels, distribution and representatives**
We have direct sales and support offices in key territories to facilitate growth. We use distribution and representatives in other locations to expand our reach.

6 **Acquisitions to support growth**
We support our organic growth through value enhancing acquisitions to facilitate delivery of our strategic priorities. The businesses we acquired in the prior year have allowed us to leverage additional products and services and to access their customers to deliver growth.

How we create value

Our resources

Advancing safer mobility

1 Global growth markets

Presence in growing geographic markets

Strong regulatory growth drivers for driver assist technology and autonomous vehicles

2 Long-term relationships at all levels of supply chain

Relationships with all major OEMs and test facilities over many years enable early identification of trends and future needs

Relationships and technology act as high barrier to entry

Collaborative R&D and ongoing support ensure customers want to work with us

3 Product and technology leadership in automotive testing

Intellectual property and niche products generate strong margins

Close relationships with customers enable development tailored to market trends, drivers and needs

4 Agile and responsive organisation partnering with customers

Lean organisation structure with decentralised management model allows flexibility in supporting customers

Flexibility to customise products and services to meet customer needs

5 International routes to market via direct and indirect channels

Direct sales and support offices in key territories

Wider reach through use of indirect channels

6 Acquisitions to complement organic growth

Value enhancing acquisitions to facilitate our strategic priorities

Leverage acquisitions to deliver growth

Well positioned for future growth opportunities

The Group provides products and services into the broad automotive sector, including automotive OEMs, Tier 1 suppliers, operators of testing facilities and proving grounds, motorsport teams and autonomous vehicle technology companies.

Structural drivers

The automotive sector is undergoing unprecedented change due to major structural changes in the provision of mobility. The drive towards more sustainable transport through electrification of vehicles, coupled with the drive to improve road safety, means that vehicle manufacturers are rapidly adapting their business models to adapt to new market norms.

The emergence of new entrants into the automotive sector, particularly in the fields of electric vehicles and autonomy, have added pressure on traditional automotive companies. This competitive pressure has placed additional emphasis on the rapid structural changes in the market. However, during 2020 these challenges were further compounded by the ongoing macroeconomic impacts of the COVID-19 pandemic, which has put additional pressure on a sector already facing significant structural changes. Despite these challenges, the sector is still heavily focused on three primary areas of investment in R&D:

> Active safety or ADAS systems

> Autonomy and automated driving functions

> Electric vehicle technology

Both active safety and autonomy/automated driving functions will ultimately result in improved road safety and the reduction in the ca. 1.35 million vehicle-based fatalities each year globally. The Group is focused on delivering testing and verification solutions to support this aim and conscious consumerism is a significant driver that is modifying the activities of the market to reduce fatalities and injuries.

1.35m

annual road deaths globally

93%

of road deaths occur in low and middle-income countries

20-50m

road-based injuries per year

* *Source – World Health Organization.*

Regulatory drivers

The market for ADAS and active safety is being driven by regulation and consumer rating organisations such as Euro-NCAP. In 2019 the UNECE announced a new regulation that all new vehicles sold in 40 countries worldwide, including the EU and Japan, would have to be fitted with a minimum set of ADAS systems, including Automatic Emergency Braking (AEB).

This was supported by an announcement by the Japanese government that all new cars should have AEB systems by 2021, with the aim to specifically prevent accidents caused by elderly drivers.

Since 2014, Euro-NCAP has used a star rating scheme for active safety and this has driven significant changes and investment in vehicle ADAS systems, and the corresponding requirements for track testing. As part of its 'vision zero' mission to eliminate accidents, Euro-NCAP published an active safety roadmap for the implementation of incremental additions of ADAS systems through to 2025. More details of the future of track testing and the influence of Euro-NCAP can be found on pages 26 to 27.

In the USA, the National Highway Traffic and Safety Administration (NHTSA) provides a similar rating scheme and conducts ADAS testing, although NHTSA is a government agency. The House of Representatives recently passed the transformative Moving Forwards Act, which proposes significant investment in the reduction of road-based fatalities.

Technology challenges

Despite the ongoing development of technologies in active safety and autonomy, significant technology and regulatory challenges remain to their implementation.

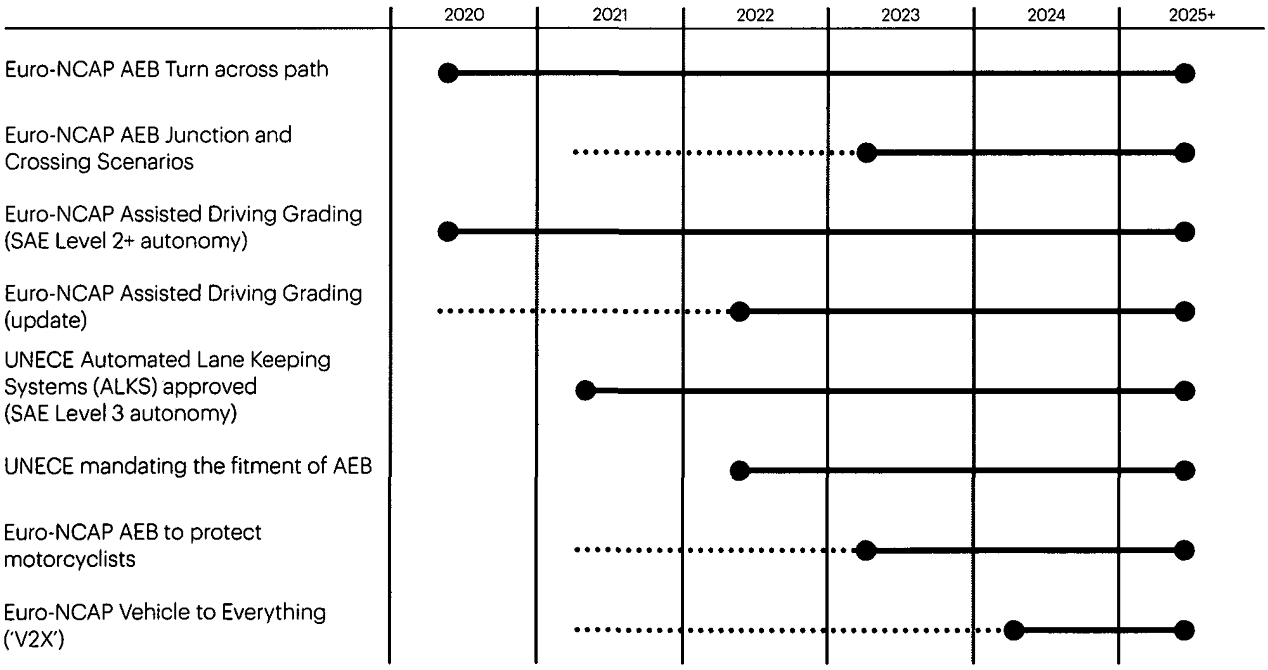
Verification of autonomy requires many billions of miles to be driven to verify even a small increase in safety over human drivers. Therefore, the development of accurate, real world representative simulation models is the only realistic method to verify the vast number of road-based scenarios needed to assess autonomous system safety. There are many challenges around the development of appropriate sensor systems to be able to sense and perceive road-based situations in all environmental conditions. These technology challenges are slowing the development of autonomous technologies and their mainstream implementation.

There remains no universal, agreed set of safety standards on either a national or international basis against which autonomous vehicle developers can evaluate their technologies. As each nation has its own regulations and conventions around road usage, this can be problematic.

Autonomy also requires appropriate infrastructure investment and acceptance from users. There remains reticence from consumers that the technology can be trusted and the potential scale of infrastructure investment in terms of provision of Vehicle to Everything ('V2X') capability could prevent implementation in all geographic areas.

Whilst the development of autonomy will continue and the Group continues to invest and provide support and solutions in this area, the Group believes that incremental addition and implementation of ADAS systems and certain, specific automated driving functions is more probable over the next five to ten years.

Roadmap 2020



Market drivers – Euro-NCAP and UNECE

Development Implementation

Our markets continued

Market growth

There are no reliable, published data regarding market growth rates in the Group's specific markets and product categories. However, the growth in the general ADAS product market is the closest correlation to the overall adoption rate of ADAS, and hence the testing of these systems.

Based on analysis of six separate sources, including ADAS manufacturers and published market analyses, the ADAS market is expected to grow ca. 16% between 2020 and 2025 (see below). This correlates well with a detailed analysis by sub-sector undertaken by the Group, which estimates compound growth rates of 10–15% over the cycle.

In addition, the simulation software market, in which the Group operates through rFpro, is forecast to grow at a CAGR of 17% from $7.2bn in 2018 to $21.6bn in 2025[1].

1 Source: Technavio, KBV Research and Allied Market Research.

Addressable market and market share

The Group's internal analysis indicates that the approximate size of the addressable market for the Group's current range of products and services is approximately £1.2bn. Based on the FY20 reported revenue this translates to a market share of approximately 6%, demonstrating that significant growth opportunity exists.

For each of our primary operating areas the estimated addressable market size and the Group's corresponding market share are provided below.

The Group has a dominant position in the track testing products area, based on superior product and technology differentiation in driving robots and ADAS test platforms. Competition in this sub-sector is primarily 4activesystems and DSD (Humanetics). For laboratory testing and simulators, the Group has a strong position in SPMM systems and has over half of the overall market with the primary competition coming from MTS Systems. Our share of the simulator market is relatively small but growing and the primary competition is VI Grade, Cruden and Ansible Motion.

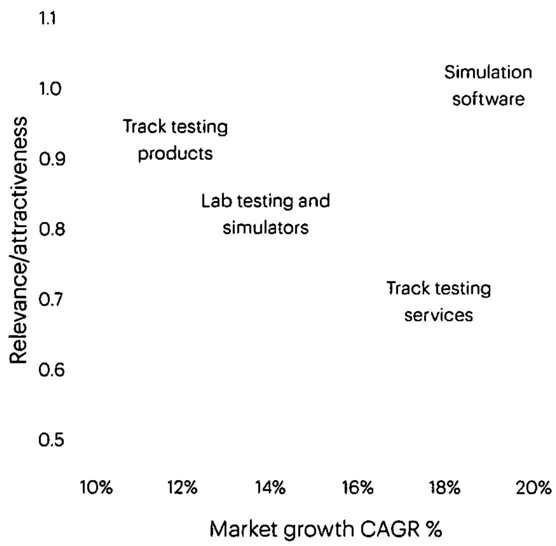
For the much larger sub-sectors of simulation software (specifically in the field of automotive simulation) and track testing services, the Group is underpenetrated with a market share of ca. 1%. However, both of these sub-sectors have significant potential for growth against a backdrop of investment in new capabilities within rFpro and infrastructure in test facilities at DRI in the USA.

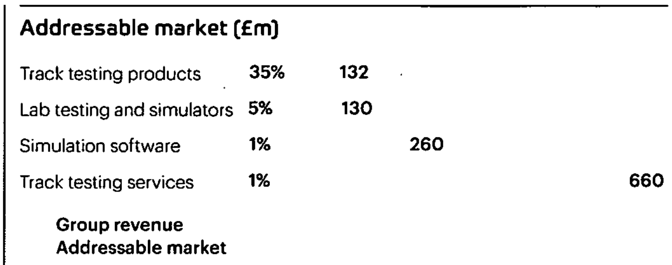
Halo robot

AB Dynamics' latest driving robot, the Halo, is the most flexible and versatile robot designed to date. Benefiting from over 20 years of robot design evolution and patent protected technology, the robot is capable of delivering both the high torques necessary to evaluate limit handling as well as precision light touch control. For the first time in 2020, Euro NCAP rewards Emergency Steering Support (ESS) systems, designed to avoid an accident by assisting the driver with evasive steering. The Halo's carbon fibre steering rim ensures the robot inertia closely matches that of a human driver; coupled with a direct-drive low friction motor, the robot is ideally suited for evaluating ESS systems.

ADAS market growth ($bn) average 16% CAGR

2025	**48.6**
2024	**42.1**
2023	**36.5**
2022	**31.7**
2021	**27.6**
2020	**24.0**





"The Group has a strong position and is underpenetrated in large addressable markets"

ZalaZone success

ZalaZone is a new government funded test facility designed to place Hungary at the centre of future automotive testing and development. As part of a competitive tender, AB Dynamics was selected as the exclusive supplier of test equipment fulfilling current regulatory and Euro-NCAP rating tests. The scope of supply extended to test equipment necessary to develop and prove the next generation of automotive technology.

The success at ZalaZone affirms AB Dynamics' position as being the only test equipment manufacturer capable of delivering a complete suite of complementary and compatible test tools designed to meet present and future requirements of the automotive industry.

Enabling long-term and sustainable growth

The Group's strategy enables long-term, sustainable growth and creation of shareholder value in the context of a rapidly evolving automotive market.

The Group's strategy focuses on five key strategic priorities that together ensure the Company continues to deliver long-term, sustainable growth. The strategy combines delivering ongoing organic growth in the context of a rapidly evolving market, both structurally and technologically, complemented by value enhancing acquisitions. The organic growth is delivered through continued product innovation and development, building the operational capability and capacity, and providing additional routes to attractive geographic markets. As the installed base of the Group's products expands it also provides the opportunity to increase the proportion of the Group's revenues from service and support.

The acquisitions strategy combines solid management and financial discipline and carefully selected acquisition criteria with the intention to accelerate other elements of the strategy. A further objective of the acquisitions strategy is to build a broader based business taking us into related strategic markets.

Strategic priorities

1 **Products and innovation**

2 **Capability and capacity**

3 **International footprint**

4 **Service and support**

5 **Acquisitive growth**

		Progress in 2020	Future focus	Links to KPIs
1	**Products and innovation**	Launched several new products including aNVH-250, Halo driving robot, GST 120, Launchpad 60, Static Simulator and Data Farming capabilities	> Continued focus on capabilities for multi-object testing > Development of software 'toolchain' for connected simulation and testing of automated functions > Diversification into adjacent market sectors	**A B E F** Read more on **pages 22–25**
2	**Capability and capacity**	Improved management team capability and commenced construction on new Engineering Design Centre Acquired a test track facility in Bakersfield, USA, through DRI	> Development of services offering in track testing in selected regions > New facilities, test tracks and manufacturing capability > Implementation of new ERP system	**C F** Read more on **pages 8–10**
3	**International footprint**	Sales and support offices in the UK, Germany, the USA and Japan addressing our principal markets. Manufacturing in the UK and USA	> Continued development of overseas offices, capabilities and people > Establishment of direct routes to market for the Group's products and services > Options for China support office > Continued expansion of recurring revenue	**A** Read more on **pages 22–25**
4	**Service and support**	Developed and launched a new service and support offering to market. New overseas offices enable this to be delivered	> Continued development of overseas offices, capabilities and people > Establishment of direct routes to market for the Group's products and services > Continued expansion of recurring revenue	**A C E** Read more on **pages 22–23**
5	**Acquisitive growth**	Focus on integration of rFpro and Dynamic Research Inc and building an acquisition pipeline	> Further develop pipeline of potential acquisition targets > Deliver further value enhancing acquisitions where appropriate to support delivery of the organic growth strategy	**A C F** Read more on **pages 22–25**

Key performance indicators

Clear performance measures that highlight sustainable value creation

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 below.

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

A Revenue
(£m)

£61.5m +6%

2020	**61.5**
2019	**58.0**
2018	**37.1**
2017	**24.6**

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 acquisitions of DRI and rFpro and an increase in demand for our ADAS targets, offset by the impact of reduced demand for robots during the pandemic and deferral of orders for laboratory testing and simulation equipment.

B Adjusted operating profit
(£m)

£11.3m -12%

2020	**11.3**
2019	**12.9**
2018	**7.9**
2017	**4.4**

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 acquisitions and the continuing investment in the systems and infrastructure of the business, mitigated by discretionary cost savings during the second half of the year.

C Adjusted operating margin
(%)

18.4% -390 bps

2020	**18.4**
2019	**22.3**
2018	**21.3**
2017	**17.9**

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 390 bps since the reduction in anticipated revenue in the second half was greater than the cost mitigations achieved.

"Despite COVID-19, the Group achieved revenue growth and maintained strong operating margins and a strong balance sheet"

D Adjusted diluted EPS
(pence)

39.9p -22%

2020	**39.9**
2019	51.4
2018	34.3
2017	22.0

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 22% as a result of the reduction in adjusted operating profit and an increase in the weighted average number of shares following the prior year equity issue.

E Adjusted operating cash flow
(£m)

£6.9m -34%

2020	**6.9**
2019	10.5
2018	9.9
2017	2.1

Definition
Cash flow from 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 decreased by 34% to £6.9m due to investment in working capital for contracts won towards the end of the year.

F Return on capital employed
(%)

15.2% -410 bps

2020	**15.2**
2019	19.3
2018	40.4
2017	31.8

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 19.3% to 15.2% in the year due to the investment in the new Engineering Design Centre construction project.

Track testing: Increased regulation and complexity driving development

"Track testing had a challenging second half as customers suspended track activities, but has now started to recover"

Highlights 2020

- Strong growth in ADAS platform sales +22%
- Trend towards multi-object testing will drive demand
- Strong growth in Japanese and US automotive sectors following establishment of sales and support offices
- Acquisition of DRI has added track test services to the portfolio

Product sales breakdown

£51.8m

Driving robots	41%
ADAS platforms	47%
Track test services	12%

Introduction

The Group's track testing sector provides products and services utilised on proving grounds and test tracks to evaluate the performance of vehicle active safety systems, autonomous technologies and vehicle dynamics. The sector is broadly split into the three primary sub-sectors of driving robots, ADAS platforms and track testing services. All 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 Guided Soft Target (GST) and Launchpad. The GST is a 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, 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 is performed using the Group's track testing product range for OEMs, technology developers and government agencies.

The market drivers for growth in the track testing sector are detailed in the Our Markets section on pages 14 to 17.

Financial performance

The track testing sector delivered overall revenue growth of 4% to £51.8m (2019: £49.8m) through a combination of strong growth in ADAS platforms and testing services, offset by a reduction in sales of driving robots.

Driving robot sales reduced by 30% to £21.1m (2019: £30.1m) as demand slowed, particularly in the second half, albeit against a very strong prior year comparator. In the previous two financial years, strong growth was delivered through the Chinese market as new entrant vehicle OEMs established their testing capability. Once established, the demand for driving robots slowed and the Group expects sales revenues in this sector to slow in the short term, before growing again once new regulatory requirements for new ADAS technologies are released.

The strong growth in ADAS platforms continued despite the impact of COVID-19 in the second half of the year, delivering 22% revenue growth to £24.1m (2019: £19.7m). Demand for ADAS platforms, particularly the Launchpad, continues to build as new test protocols are released from regulatory bodies and consumer bodies such as Euro-NCAP. 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.

Through the acquisition of Dynamic Research Inc (DRI) in August 2019, the Group is able to provide track testing services to the US market. DRI provides testing services to evaluate the performance of ADAS systems, autonomous vehicles and vehicle dynamics through its extensive test facility. DRI delivered revenue of £6.6m (2019: £Nil) associated with track testing services through a significant series of test programmes for NHTSA, the US regulatory body, and by supporting US OEMs and technology companies.

Progress during the year

The Group continues to invest in products and services in track testing and has delivered a number of new product developments and expanded the capability of the track testing services business.

As part of the Group objective to increase recurring revenue, AB Dynamics launched tiered service and support packages to the existing customer base. These multi-tiered contracts proved successful with many high profile customers entering into long-term support contracts which increase the Group's overall proportion of recurring revenue.

The establishment of the Group's overseas sales and support offices in Japan, Germany and the USA has delivered improved sales revenue, gross margin enhancement and closer relationships with key customers. These investments have yielded significant sales revenue growth, particularly in Japan and the USA.

The Group continues to invest in new product development in this sector with a number of new product launches expected in 2021 including enhancements and new variants of ADAS platforms, new driving robot technologies and a significant new release of the Ground Traffic Control software.

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).

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

2020	**51.8**
2019	**49.8**
2018	**32.9**
2017	**20.4**
2016	**15.3**

Growth potential

- Market regulation driving increased volume 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 requires testing away from public roads
- New vehicle technologies such as Automatic Emergency Steering or Steering Assist will require new capabilities
- US drive to improve road safety will drive requirements for both testing equipment and services

■ Read more on **pages 14–17**

Laboratory testing and simulation: Securing a significant pipeline of growth opportunities

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 vehicle dynamics. These machines are widely used by automotive OEMs and Tier 1 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 predominant source of noise.

"Laboratory testing and simulation was impacted by deferment of anticipated orders as customers delayed capital procurement decisions, however the pipeline remains strong"

Highlights 2020

- Continued growth in SPMM sales +15%
- Contract for first aNVH axle level test rig
- Strong development of rFpro capabilities including Data Farming
- Launch of Static Simulator and active product development in the field of simulators

Product sales breakdown

£9.7m

Simulation	48%
SPMM and other laboratory	52%

Financial performance

The laboratory testing and simulation sector delivered strong overall revenue growth of 18% to £9.7m (2019: £8.2m), through significant growth of 15% in SPMM revenue, a small contribution from revenue recognised during the build of our first aNVH and growth of 24% in simulation.

The growth in SPMM sales revenue of 15% to £4.6m (2019: £4.1m) was due to construction of machines for customers in Japan and China; however, this growth was constrained in the second half of the financial year as customers deferred their decision making to conserve cash in the face of the COVID-19 pandemic. Order intake activity recovered towards the end of the financial year and the current pipeline of opportunities is promising.

During the first half of the year the Group received its first order for the aNVH machine from a major automotive OEM. The contract commenced during the second half of FY20 with delivery expected during FY21; therefore, only a small element of the total contract revenue was recognised during the financial year.

The Group delivered a further simulator system to the Alfa Romeo Formula 1 team during the year and the technical partnership is generating significant opportunities in other areas of motorsport. Similar to the SPMM orders, many highly probable simulator orders were deferred due to COVID-19 and the pipeline of opportunity is encouraging.

Overall simulation sales grew by 24% to £4.7m (2019: £3.8m) driven predominantly by a strong performance from rFpro in the first half of the financial year. However, a significant proportion of rFpro revenue relates to motorsport series, particularly Formula 1, Formula E and the US motorsport series such as Nascar and Indycar. Most motorsport was postponed due to the COVID-19 pandemic which impacted rFpro revenues in the second half. Towards the end of the financial year, motorsport restarted which provided some initial recovery in revenues.

Progress during the year

The Group has made solid progress during the year in laboratory testing and simulation, delivering strong sales growth against difficult market conditions. During the period impacted by the COVID-19 pandemic, the Group invested in new technologies and launched a number of new products during the financial year including the aNVH test machine, the Static Simulator expanding the family of simulator products and the launch of new capabilities in rFpro such as Data Farming and Linux development.

The Group's new Engineering Design Centre will house a simulation research and development facility to accelerate the development of new simulator technologies. A number of significant simulation R&D projects are currently in progress and will be launched during 2021.

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 and Munich (Germany), Yokohama (Japan) and Wixom (Michigan, USA). The simulation focused business of rFpro is based in Romsey (UK) and Ann Arbor (Michigan, USA).

aNVH-250

The aNVH-250 will be delivered in 2021. This new product has been developed to optimise the sophistication of vehicles by minimising cabin noise. This requirement is driven by the continuing trend for electrification, which means in-vehicle cabin noise is dominated by noise from the road surface.

The aNVH-250 is a complex axle level test rig that accurately measures noise, vibration and harshness transmission through the suspension into the vehicle body at frequencies up to 250Hz. Data generated is used by engineers to optimise the axle sub-assembly design prior to physical vehicle testing which removes the expense and time of adding fixes to the production vehicle.

The aNVH-250 is uniquely capable of measuring transmission characteristics at frequencies up to 250Hz, by utilising an innovative design, combined with AB Dynamics' patented high frequency electric actuator technology.

In typical vehicle development programmes, full analysis of NVH characteristics is only possible approximately six months prior to start of production. Using the aNVH-250 to optimise the design of the axle assembly prior to full vehicle testing eliminates the need for late and expensive fixes to NVH issues that would otherwise only be identified towards the end of the development process.

Growth potential

- 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 aNVH

Read more on **pages 14–17**

The future of track testing

The evolution of track testing and increasing demand is centred around four primary pillars of activity:

1. Vehicle to Vehicle safety assist (V2V)
2. Strive to better protect vulnerable road users including pedestrians, cyclists and motorcyclists
3. The race to safely deliver Level 3+ autonomy
4. Automation of testing for improved accuracy, efficiency, and the scalability necessary to test future autonomous vehicle technologies

Pillar 1 – V2V safety assist

Since 2014, Euro-NCAP's star rating scheme for active safety has been one of the main drivers for innovation in track testing, including the development and sales of driving robots and soft crash targets. Towards its 'vision zero' mission to eliminate accidents, Euro-NCAP's roadmap sets out increasingly challenging test requirements through to 2025.

New for 2020 is the introduction of the most challenging test to date for Automatic Emergency Braking (AEB) systems, the 'turn across path' test. The test requires AEB intervention should an inattentive driver attempt to turn in front of an oncoming vehicle. Driving robots are used to precisely control the path of the vehicle under test, while the GST must be synchronised to arrive at the collision point simultaneously.

Euro-NCAP's roadmap stipulates even more challenging test scenarios with an update planned for 2023 to encompass intersection scenarios, as well as requirements on testing vehicle-to-vehicle and infrastructure communication (V2X). Increasing demand for the Guided Soft Target has been identified as customers attempt to accommodate the growing volume of tests and increasingly complex scenarios.

Whilst the leading manufacturers are developing vehicles to meet the future requirements, enhanced sensor technology will be required to enable detection of cross traffic. Our GST is widely used to test these technologies. The Soft Car body has been enhanced with improved radar realism when approached from the side. The Soft Car 360 remains the only vehicle target to feature on Euro-NCAP's approved supplier list and is used by all Euro-NCAP laboratories in official testing.

Euro-NCAP's rating initiative enhances safety through consumer information. From 2022, safety will be further strengthened through the UNECE regulation mandating the fitment of AEB. Our testing products have therefore become essential tools in enabling vehicle manufacturers to develop vehicles that will meet this future regulation.

Pillar 2 – Protection of vulnerable road users

In 2020, Euro-NCAP introduced of a variety of new tests aimed at the protection of pedestrians and cyclists. Whilst early rating schemes looked at simple crossing scenarios, systems are now expected to detect pedestrians who may be crossing on a side road in front of a turning vehicle or even walking behind a car reversing from a parking space.

The next generation of tests has led to a strong market demand for versatile propulsion systems that can move freely within the test area. The Launchpad is an electrically driven four-wheel drive, four-wheel steer platform that sits just 65mm off the road surface. Launchpad is capable of carrying soft pedestrian, bicycle or motorcycle targets at speeds of up to 60km/h.

As a central partner contributing to a collaborative project across the automotive industry on motorcycle safety, co-ordinated by UTAC CERAM (a Euro-NCAP laboratory), AB Dynamics has ensured that its Launchpad sets the standard for future testing proposals designed to protect motorcyclists.

Pillar 3 – The race to Level 3+ autonomy

Automated Lane Keeping Systems (ALKS) UN regulation paves the way for Level 3 vehicle automation. The regulation sets out a framework for safety around lane keeping systems that will actively take responsibility for controlling the vehicle within a defined operational design domain. This represents a step change compared to current technology that is only permitted to 'assist' the driver.

The regulation sets out key principles relating to the need to avoid a collision in 'traffic critical scenarios', for example where other vehicles brake heavily, cut in or cut out revealing slow or stationary traffic ahead. Test requirements are defined around the use of soft targets including our GST and Powered Two-Wheeler (PTW) targets. The enormity of the testing task is recognised within the automotive industry. The UNECE regulation proposes a matrix approach to test scenarios across four dimensions: vehicle speed, closing speed, cut-in rate and headway. Exhaustive testing of the cut-in scenario alone could easily amount to well over 1,000 test cases.

The UNECE regulation limits speed to 60km/h and requires vehicles to remain 'in-lane'. Consumers will demand systems with more capability, for example the ability to safely change lane and operate freely at motorway speeds. A UK government consultation is underway that could allow for operation of ALKS in the UK at speeds of up to 70mph from as early as 2021.

New for 2020 – turn across path scenario is most challenging test yet for AEB

The regulation paves the way for vehicle manufacturers to release Level 3 systems. Traffic Jam Pilot, due to feature on the latest Audi A8, was postponed awaiting this regulation and further testing, while Daimler's Drive Pilot is now expected to be released in 2021. The need to safely test these systems is paramount. AB Dynamics' products are capable of repeatably, efficiently and safely creating 'traffic critical scenarios' on test tracks. The scenarios need not be limited to two vehicles; our synchro capability is routinely used to synchronise and co-ordinate multiple vehicles. This means that scenarios including heavy traffic can be created.

The commitment and investment in autonomy is evident through VW Group's approach by starting a new company (Car.Software). Car.Software plans to employ 10,000 staff by 2025, with its sole focus on software and connectivity around autonomy, including Level 3 driving.

This year Euro-NCAP launched its Assisted Driving grading activity. The vehicles tested can be broadly grouped together as Highway Assist systems as defined by Euro-NCAP, or as SAE Level 2. This means that the driver retains full responsibility and shares control with the vehicle. The new assessment builds on the existing AEB protocols with the addition of more challenging scenarios including lane-following and cut-in scenarios that are tested using our GST. For the first time Euro-NCAP's cut-out scenario involves the use of three vehicles including the GST. Moving to the next level of automation (SAE Level 3) requires both new regulation and increased testing by an order of magnitude.

The potential benefits in safety from autonomy and elimination of emissions through electrification go hand in hand in support of sustainability. Electrification and autonomy are therefore both expected to deliver complementary growth in the future. Electrification has attracted new start-ups (e.g. Rivian, Byton, Canoe, Lucid and Arrival), potentially disruptive to conventional automotive manufacturers. The core vehicle technology remains subject to all the current regulations, many of which require our robots. These new start-ups therefore form an emerging market for our core testing products.

Pillar 4: Automation

Experience gained through supplying the automotive industry provides the foundation to develop applications to exploit adjacent markets, such as mining, agriculture or defence. Removing the human driver from the vehicle opens the possibility to automate routine, dangerous or challenging tasks. Our robots are now routinely used in the durability testing of mining trucks and military vehicles under harsh conditions.

Our newly developed Ground Traffic Control software allows remote monitoring and planning of multiple vehicles, making the efficient control of multiple vehicles by one operator a reality. The capability is not just limited to durability testing, but also means that conventional tests, such as vehicle dynamics or ADAS, can be co-ordinated on mass from one central location.

NHTSA

National Highway Traffic Safety Administration (NHTSA), the US regulator, has its own star rating scheme with ratings for AEB and Lane Departure Warning systems. Many of the tests are contracted to Dynamic Research Inc (DRI) and form a strong source of Group recurring revenue for testing services. As a trusted contractor DRI is also sought by private testing clients requiring pre-tests to the NHTSA standards prior to any official rating tests.

As part of the Group, DRI now benefits from access to AB Dynamics' track testing products, enabling it to upscale test activities. The experience gained through NHTSA testing is shared across the Group and feeds into the design and development of future test tools.

NHTSA has launched several draft test protocols around pedestrian AEB, blind spot detection systems and collision imminent braking testing to higher speeds. It is anticipated that these draft test proposals will form the basis of a Notice of Proposed Rulemaking over the coming year generating additional testing revenue and increased demand for test equipment.

Supporting investment in sustainable growth

Sarah Matthews-DeMers, Chief Financial Officer

"The Group's strong balance sheet and resilient business model enabled continued investment in the business during unprecedented times"

Adjusted operating profit

£11.3m -12%

2020	11.3
2019	12.9
2018	7.9
2017	4.4

Revenue by geography

UK/Europe	28%
Asia Pacific	45%
North America	25%
Rest of World	2%

The Group's strong balance sheet and resilient business model enabled continued investment in the business during unprecedented times.

Despite the challenges presented by the COVID-19 pandemic, the Group delivered revenue growth during the year and continued to invest in new product development, capability and capacity to support future growth.

During the first half of the year revenue increased by 34%, of which 11% was organic, against a strong prior year comparable period. In the second half, the effect of COVID-19 disruption to our activity levels resulted in a reduction in revenue of approximately 18% on the comparative period.

Gross margins have improved due to the positive impact of acquisitions and the move towards direct routes to market in key territories. Adjusted operating margins reduced due to the lower activity levels in the second half, after the full year effect of planned operating cost increases, despite mitigating actions to reduce discretionary spending.

The Group has been able to maintain its very strong financial position, with cash at 31 August 2020 of £31.2m (2019: £36.2m). Despite the uncertainty presented by the pandemic, we continued to invest in new product development and development of the new Engineering Design Centre, as well as the business infrastructure.

Trading performance

Revenue increased by 6% to £61.5m (2019: £58.0m) driven by growth of 19% from the acquisitions made during the previous year, offset by the effect of COVID-19 specific disruption to our international customers. Organic revenue decreased by 13% reflecting lower order intake in the second half of the year and deferment of customer procurement decisions.

Track testing revenue increased 4% to £51.8m (2019: £49.8m), with laboratory testing and simulation revenue up 18% to £9.7m (2019: £8.2m).

Gross margins improved significantly, up 1,020 bps, benefitting from the transition to a direct sales model in key territories as well as the positive mix contribution from acquisitions and service contract revenues.

Adjusted operating profit reduced by £1.6m or 12% to £11.3m (2019: £12.9m) while adjusted earnings before interest, tax, depreciation and amortisation ('EBITDA') reduced by 4% to £13.4m (2019: £14.0m).

Adjusted operating margin reduced to 18.4% (2019: 22.3%) after the additional cost of investment in our infrastructure. After adding back depreciation and amortisation, this left return on sales (defined as EBITDA divided by revenue) of 21.8% (2019: 24.1%), a decrease of 230 bps.

Net finance costs were £0.4m (2019: net income £0.2m), with interest income of £0.2m offset by lease interest of £0.1m and the unwinding of the discounted value of the deferred consideration on DRI and rFpro.

This left adjusted profit before tax of £10.9m (2019: £13.1m).

The Group adjusted tax charge totalled £1.9m (2019: £2.5m), an adjusted effective tax rate of 17.7% (2019: 19.3%). The effective tax rate is lower than the current UK corporation tax rate due to allowances for research and development and patent box. In future years, the effective tax rate is expected to remain stable with UK allowances offsetting higher tax rates in overseas territories.

Adjusted diluted earnings per share were 39.9p (2019: 51.4p), a decrease of 22%. The drop through was higher than the decrease in adjusted operating profit due to the increased number of shares following the prior year equity issue.

Adjustments totalled £5.9m (2019: £2.1m), of which £3.5m related to amortisation of acquired intangible assets, £1.9m to a credit in relation to acquisitions and £1.0m to restructuring costs. A further £3.3m related to a write down of inventory. Following a detailed review of stock levels and usage, a number of items previously included in the carrying value have been written off and the system of accounting for inventory has been updated to better reflect the Group's current operations.

The Group has previously reported the share based payment charge as an adjustment to operating profit, however as this is expected to be an ongoing expense for the Group, for the year ended 31 August 2020 onwards, the charge will be included within adjusted reporting measures. Prior year comparatives have been restated to reflect this change. Adjusted operating profit includes a charge of £1.3m (2019: £0.6m).

Statutory operating profit reduced by 50% to £5.4m and after net finance costs of £0.4m (2019: interest income £0.2m), statutory profit before tax was down 54% from £11.0m to £5.0m, giving statutory basic earnings per share of 20.2p (2019: 42.9p). The statutory tax charge was £0.5m (2019: £2.3m). 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 building the new Engineering Design Centre, accounting for the decrease in ROCE in the year from 19.3% in 2019 to 15.2% in 2020.

Cash generation

Cash at the end of the year was £31.2m (2019: £36.2m).

Operating activities generated adjusted cash inflow of £6.9m (2019: £10.5m) after net investment in working capital of £2.3m. After interest income of £0.2m and paying tax of £2.2m, deferred consideration on the acquisition of DRI of £2.8m, proceeds from share option exercises of £1.7m and dividends of £0.6m, this allowed us to invest £8.0m in property, plant and equipment and development costs, resulting in net cash outflow of £5.0m (2019: £3.1m).

Acquisitions

In the prior year, the Group completed two acquisitions:

- rFpro Limited for initial consideration of £18.1m with deferred contingent consideration of up to £3.5m; and
- Dynamic Research Inc for initial consideration of $21.0m with deferred contingent consideration of up to $3.5m.

The acquisitions have performed well during the year, contributing £11.9m to revenue and £3.5m to operating profit, exceeding our initial expectations despite the impact of COVID-19 which affected rFpro in particular with the delays in the start of the motorsport season.

Deferred contingent consideration of £2.8m was paid in respect of DRI as its maximum earn-out targets were met during the year.

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 £0.2m (2019: £Nil) 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 profit and loss account as incurred, total £0.8m (2019: £0.8m).

Foreign currency exposure

The Group faces currency exposure on its foreign currency transactions and, with the acquisition of DRI and international expansion of our sales offices, exposure to both foreign currency translation risk and transaction risk has increased.

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

There was no material difference between the reported profit for the year and that calculated on a constant currency basis as the exchange rates were broadly similar to the comparative period.

Leases

IFRS 16 'Leases' has been adopted in the period. This new standard introduces the principle that all leased assets should be reported on the balance sheet of the lessee, recognising an asset for the right to use the leased item and a liability for the present value of its future lease payments. This resulted in the recognition of a right-of-use asset of £1.3m and a corresponding lease liability on 1 September 2019.

Leases continued
It has also resulted in an increase in depreciation and interest costs of £0.6m with a similar decrease in operating lease rental costs.

Dividends
The interim dividend was suspended in April 2020 given the macroeconomic uncertainty however the Board is recommending a total final dividend of 4.4p per share (total 2019: 4.4p). The Board expects to pursue a sustainable and growing dividend policy in the future.

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, adjusted EBITDA 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 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.

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

	2020			2019		
	Statutory	**Adjustments**	**Adjusted**	Statutory	Adjustments*	Adjusted*
Operating profit (£m)	**5.4**	**5.9**	**11.3**	10.8	2.1	12.9
Operating margin (%)	**8.8**	**9.6**	**18.4**	18.7	3.6	22.3
Profit before tax (£m)	**5.0**	**5.9**	**10.9**	11.0	2.1	13.1
Taxation (£m)	**(0.4)**	**(1.5)**	**(1.9)**	(2.3)	(0.2)	(2.5)
Profit after tax (£m)	**4.6**	**4.4**	**9.0**	8.7	1.9	10.6
Diluted earnings per share (pence)	**20.1**	**19.8**	**39.9**	42.1	9.3	51.4
Cash flow from operations (£m)	**6.9**	**—**	**6.9**	9.9	0.6	10.5

* Comparatives have been restated to include share based payments within underlying figures.

The adjustments comprise:

	2020 £m	2019 £m
Amortisation of acquired intangibles	**3.5**	0.3
Inventory impairment	**3.3**	—
Acquisition related credit	**(1.9)**	1.3
Restructuring	**1.0**	0.6
Adjustments	**5.9**	2.1

Amortisation of acquired intangibles
The amortisation relates to the businesses acquired in the previous year, DRI and rFpro.

Inventory impairment
Following a detailed review of stock levels and usage, a number of items previously included in the carrying value have been written off and the system of accounting for inventory has been updated to better reflect the Group's current operations.

Acquisition related credit
The credit relates to the release of deferred considerations for rFpro as the earn-out period was affected by the closure of motorsports during the Spring. This is offset by staff retention payments to the employees of rFpro. The cash to pay this was contributed by the previous owners of the business prior to acquisition, but as the employees have to remain within the business for a period prior to receiving payment, a charge has to be recognised in the income statement.

Restructuring
The restructuring costs relate to rebalancing the skill base of the business and termination of agents.

In the prior year, adjustments included share based payments of £0.6m however, for the year ended 31 August 2020 onwards, the charge will be included within adjusted reporting measures as this is expected to be an ongoing expense for the Group. Prior year comparatives have been restated to reflect this.

Sarah Matthews-DeMers
Chief Financial Officer

25 November 2020

Sustainability

Environmental, Social and Governance (ESG) strategy

Introduction

The Group is committed to sustainability and corporate governance across our businesses, both in terms of our global contribution to road safety and through building a broad based, long-term growth business whilst remaining cognisant of the impact on all 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.

Reporting on material yet non-financial measures is important in understanding the performance, opportunities and long-term sustainability of generating value for all our stakeholders. The content of disclosures has been expanded from previous years to provide greater transparency of our policies, standards and governance. The Group is committed to increasing this transparency and has provided insights based on global standardised reporting standards in three key areas: environmental, social and governance.

The Group also aims to augment its own operational performance and delivery by minimising the impact of our operations on the environment, focusing on the safety of our people and ensuring a positive impact in communities in which we operate.

This section of the Annual Report provides an overview of our ESG operating framework and details of our progress during the financial year across environmental, social and governance areas. Further details of stakeholder engagement, including our S172(1) statement are provided on page 56.

People and potential

Social

Health and safety

Community engagement

Commercial integrity

Clean inputs

Governance

Environmental

Driving sustainability

Ethical, diverse and robust supply chains

Responsible consumption

Sustainability continued

> **"The Group is committed to the development and implementation of an effective ESG strategy and is taking active steps in its continuous development"**

	SUSTAINABILITY IN PRACTICE	FOCUS AREAS
ENVIRONMENTAL	Clean inputs	> Reduction of energy usage > Conversion of assets to low carbon alternatives and investment in renewable technology > Green sourcing our energy suppliers
	Responsible consumption	> Reduction in waste > Greenhouse gas emissions/CO_2 outputs
SOCIAL	Health and safety	> Health and safety > Employee safety > Coronavirus (workplace safety/home working)
	People and potential	> Employee feedback > Diversity and inclusion > Talent and development
	Community engagement	> Volunteering > Corporate sponsorship > University partnerships
GOVERNANCE	Ethical, diverse and robust supply chains	> Human rights > Modern slavery > Due diligence > Robust supply chains > Prompt payments
	Commercial integrity	> Business ethics > Anti-bribery and corruption > Competition and anti-trust > Conflicts of interest > Board diversity and structure > Prompt payments > International sanctions

Environmental

We believe incorporating sustainability into our everyday operations is fundamental to ensuring successful, long-term outcomes, and we have a responsibility to minimise the potential environmental impacts and maximise the benefits to the society and communities within which we operate. We recognise the adverse consequences of CO_2 and other greenhouse gases on our environment, and we are committed to reducing the impact associated with our energy usage. We will continue to deploy green technology, and to make careful and considered decisions in all our operations to reduce our current footprint. The Group is active in assisting the global automotive sector to develop new technologies that will reduce CO_2 emissions and drastically improve road safety.

Clean inputs

The Board has decided to use wide ranging and innovative solutions to reduce our energy needs, while focusing on cleaner energy and other natural resources. Group activities aim to support and encourage each of our subsidiaries to manage and increase the use of 'clean inputs' and drive an agenda of sustainability through each core process and activity of the business.

This new focus aims to embed sustainability throughout the organisation and make it a central consideration in the decision-making process. The Board and senior management are wholly committed to delivering continual environmental improvements across the organisation and lead the way for a more sustainable future.

Reduction

The Group considers the simplest way to reduce its carbon emissions is to cut the Company's energy consumption. This year the executive team addressed the Group's headquarters and base for a large proportion of its employees: the Middleton Drive building. The Group has invested in window film to reduce glare and heat transfer from the building's large and exposed glass façade. The building is also equipped with a Building Management System which manages the heating/cooling and lighting functionality. The controls and settings have been reviewed and relaxed and when combined with the introduction of daily/weekly timers, prevent excessive heating and cooling and reduce system usage during non-working hours. Whilst the changes are relatively recent, the Group is seeing reductions in gas and electricity usage and as such anticipates significant carbon and cost reductions.

Conversion

The Board believes that converting assets to low carbon, energy-efficient models and investing in renewable technology is another important way to eliminate carbon from the Group's operations. In addition to the renewable (solar) generation assets specified and already installed on the new Engineering Design Centre, the Group has taken the decision to retrofit similar assets to its current premises wherever possible.

In August 2020, the Company obtained planning consent for the installation of solar panels on the roof of the existing headquarters building in the UK. Installation will be completed in the new financial year with an estimated power contribution of approximately 75,000kWh per annum which will reduce the Group's reliance on external energy providers.

Solar panels on the new Engineering Design Centre

"Sustainability is a key pillar of our business model"

Sustainability continued

Green sourcing

As green energy generation is not viable at all Group facilities, we source our UK energy needs directly from renewable power providers. Following a review of the previous approach to energy procurement, the Group has centralised the procurement of gas and electricity for our UK activities. Switching to renewable power is a simple method to lower our carbon footprint, benefit the environment and demonstrate our commitment to sustainable business practices.

Engie has been selected as the Group's UK energy provider and since April 2020 committed to purchasing its power for UK operations in a responsible manner, and we have commenced a three-year process to transfer all energy supply contracts to Engie.

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.

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 essentially receive materials and products from suppliers, assemble them into product and dispatch to customers.

The primary impact on the environment is the consumption of the normal business energy sources such as heating and power. The Group has undertaken significant steps to reduce its consumption as described above through both internally generated and purchased renewable energy.

The Group is 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. 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 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_2 emissions arise from its facilities.

Carbon emissions

We recognise the impact that greenhouse gas emissions have on our environment. We are committed to reducing our emissions and will review appropriate, accredited targets over the coming year. As this is the Company's first year reporting its emissions in this manner, we intend to use the information below as our baseline for the purpose of our SECR reporting.

AB Dynamics plc energy consumption and emissions

UK (AB Dynamics plc and Anthony Best Dynamics Limited)		Baseline 2020
Scope 1: Direct emissions from owned and/or operated facilities (combustion of fuels and operation of facility)	tCO_2e	138.808
Scope 2: Indirect emissions from the use of electricity or steam (electricity, heat, steam and cooling purchased for own use)	tCO_2e	132.22
Scope 3: Business travel (air, vehicle emissions)	tCO_2e	204,289
Total emissions	tCO_2e	511,317
Total underlying energy consumption	kWh	1,168,699
Revenue	£m	61.5
Intensity ratio	tCO_2e/£m	8.314

The figures above include AB Dynamics plc and Anthony Best Dynamics Limited (a large unquoted company). The Group's other subsidiaries in the UK and overseas fall outside the remit of the Streamlined Energy and Carbon Reporting requirements (SECR). Source data (meter readings) has been used wherever possible; where this is not available this has been supplemented by billed data and a small element of estimated data. Appropriate conversion factors have been used to calculate the underlying energy consumption figures. Scope 1, 2 and 3 sources have been divided by the annual revenue to provide the intensity ratio (tCO_2e per £m). Certain data, estimated to be immaterial to the Group's emissions, has been omitted as it has not been practical to obtain (use of certain types of public transport: buses/tubes/rail). Metering and monitoring improvements are being implemented to capture and improve the Company's data streams.

Social

As part of the Group's overall vision to support the global automotive sector to develop new innovative active safety technologies, we play a leading role in helping to improve communities through the reduction of unacceptable levels of road-based injuries and fatalities. This is particularly important in low and middle-income countries, which account for 93% of all road deaths each year.

The Group's business relies on the support and collaboration of local communities, small businesses and our employees. 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 continue to invest in technical apprenticeships, graduate schemes, management training and talent development programmes. We are also committed to providing a fair, equal and inclusive environment for all our people. We actively encourage our staff to become Science, Technology, Engineering and Mathematics (STEM) Ambassadors and volunteer with outreach activities in local schools and colleges, to engage and inspire the next generation of our workforce.

Local, community-based initiatives are one of the Group's key ESG objectives, particularly focusing on STEM based activities with local schools and universities, encouragement of diversity in STEM, automotive skills development and our support to the Armed Forces Covenant.

We actively engage with communities in which we operate, to become a part of the environment and to enhance social cohesion.

Health and safety

The Group places significant emphasis on the health, safety and wellbeing of our staff. The Group actively promotes a strong safety culture, striving to instil safe working principles in every employee, every activity and every facet of our business. Whilst the Chief Executive Officer (supported by the senior management in the Group) has overall responsibility for health and safety policies and procedures across the Group, the Company demands that each operating business and each employee carries responsibility for their own personal safety, thus creating collective responsibility for ensuring health and safety standards are met and continually improved upon. We believe that the focus on safety is essential to delivering a high performing, open and constructive safety culture.

Health and safety governance

Local management teams are accountable for ensuring compliance with local regulatory requirements, culture and specific business needs; however, these are audited by the Group periodically. All incidents are fully investigated, and corrective actions and preventative measures are put in place to ensure that the incident does not reoccur, and future risks are mitigated.

The Health and Safety Committee meets four times a year and has attendees from throughout the business from senior management to site representatives. Health and safety has formed part of the induction process for new employees since 2012, and the Group has good coverage of employees who have undertaken formal health and safety training. During the year, the Group invested in the important

"We play a leading role in helping to improve communities through the reduction of road-based injuries and fatalities"

area of mental health training, with a high proportion of staff undertaking awareness training and nine UK based individuals completing a mental health first aid training course.

COVID-19 response

Since the declaration of a global COVID-19 pandemic, the Group has held regular COVID-19 management meetings to ensure the safety and wellbeing of our workforce during a rapidly changing environment.

Risk assessments were conducted by each of the Group's subsidiaries, which have been revised regularly throughout the duration of the COVID-19 pandemic. Risk assessments have been consistently updated as local and regional governmental advice changed and through constructive feedback from our engaged workforce.

As a result of these risk assessments, the Company has made a number of changes to its working practices including the introduction of a suite of new measures and safety guidelines and most notably working from home for employees where appropriate. The proportion of staff working from home has varied during the period, but an overall average is approximately 70%. The Group assessed working from home risks and issued guidance and policies to ensure staff wellbeing.

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 COVID-19. Where staff remained on site, each subsidiary undertook its own revisions to risk assessments and implemented a suite of changes which, dependent on location and types of activity, included a selection of the following measures:

- Increasing distance between workstations
- Offset work schedules to reduce employee density
- Physical barriers to protect employees
- Provision of face coverings, gloves and hand sanitiser
- Restrictions to the use of shared areas such as kitchens
- One-way movement systems around buildings and facilities
- Restricted entry and exit to buildings
- Introduction of cleaning stations at entry and exit points of buildings and other locations

During the financial year, the Company was not aware of any member of staff with a confirmed case of COVID-19. The Company continues to monitor staff safety and wellbeing and regularly reviews the latest governmental advice to ensure the workplace risks are minimised to a level as low as reasonably practicable.

50

employees undertaking IOSH Working Safely course

"The health and wellbeing of our staff is of paramount importance to the Group"

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.

	2020	2019	2018	2017
Average employees	**275**	181	120	84
Reportable incidents	**—**	—	—	—
Lost time incidents	**—**	—	—	—
Near misses	**9**	13	7	4
Injury rate per 100 employees	**4.7**	7.7	7.5	6.0

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 reduced since 2019.

People potential

The Group recognises that our people are critical to our ability to deliver our strategic goals. It is the Company's objective to ensure that their workplace is safe and inclusive, welcomes diversity and offers everyone the chance to develop to their full potential. Maintaining employee motivation and teamwork is also recognised by the Board as being essential to achieving the Group's business objectives and delivering its performance goals during these unprecedented times.

Engagement and communication
The Group values the commitment of its employees and recognises the importance of communication to maintain trust and confidence between management and personnel. Historically this has been achieved through the Executive Management Group (EMG), management briefings, internal announcements, the Group's website and the distribution of preliminary and interim announcements and press releases. However, the importance of such communications has been elevated during the COVID-19 pandemic and the various national lockdowns that resulted in many staff working remotely from home.

Throughout the periods of lockdown, which occurred in all the countries in which the Group operates, the Company made frequent updates to its employees. These updates were primarily delivered by our CEO, James Routh, and covered everything from the various government rule changes and the actions taken by the Company to ensure a continued safe working environment through to Company performance, and were well received.

The Group is also committed to listening to its employees and engaging with them on the matters that concern them most. The Group implemented two employee engagement surveys during the year. These surveys invited employees to answer questions and provide feedback on a range of issues including how staff were dealing with the challenges related to COVID-19 and how the Group could provide support. The surveys were issued to the whole Group and received positive levels of engagement (ca. 70–80% response rate).

Sustainability continued

The Group provided a summary of the survey responses and actioned a number of initiatives aimed at addressing the concerns raised by staff, including the rolling out of training in mental health awareness for managers, and specific training aimed at supporting home working personnel covering mental health awareness, display screen equipment and cyber security.

Recruitment, training and education

The Group remains committed to recruiting and retaining the best and brightest talent, to maintain its market position, expertise and growth. This can be seen most notably within the Group's largest subsidiary, Anthony Best Dynamics Limited, which has increased employee headcount by over 65% over the last two years, with the majority in the technical/engineering fields. The average length of service has increased to 5.3 years from 4 years in 2019.

The Group places significant emphasis on the retention and development of talent, with a number of activities undertaken throughout the year to identify potential for the future. Through the Group HR Director, a process for talent mapping and succession planning was delivered and is now being used to develop emerging talent. Whilst classroom based training had to be curtailed due to COVID-19, the Group has moved a significant amount of training online.

The average training spend has increased and the training undertaken during this period includes: Project Management, Certified ScrumMaster ('CSM'), Performance Management, Driving Assessment, IOSH - Working Safely, Excel Intermediate Course, CILT Level 3 Certificate in Logistics and Transport, Fork Lift - Basic Training, Supplier Audit Training, BDD with Spec Flow, Overhead Crane Training, HNC Electrical and Electronic Engineering.

We continue to maintain our investment in future staff with the employment of several apprentices. 10% of operations staff within Anthony Best Dynamics Limited are currently apprentices and actively pursuing relevant course of studies.

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 become a Corporate Partner to the Women's Engineering Society ('WES'). This has allowed the Group to target job advertisements to women and it has provided a number of our female engineers with WES membership, therefore giving them access to additional training, networking events or opportunities and local networks of advice and support to assist personal career development. Unfortunately, the benefits of this association have been somewhat restricted in this financial year due to the COVID-19 pandemic. However, the Group remains committed to supporting its female engineers and shall continue its relationship with WES to facilitate improvements in the coming year.

The Board recognises the importance of gender diversity and has been working to improve its gender mix, with success at Board level, where the Company has both female Executive and Non-Executive Directors.

A significant proportion of the Group's workforce are engineers and technicians. According to Engineering UK, only 12% of UK engineers are female; therefore, the Group remains above this average for our industry with women representing 19% of our overall workforce. Within the senior management team, the proportion of female representation has consistently increased, with 20% now women, compared to zero in 2018.

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

Board

2018	2019	2020
Male 100%	Male 100%	Male 67%
Female 0%	Female 0%	Female 33%

Senior management team

2018	2019	2020
Male 100%	Male 85%	Male 80%
Female 0%	Female 15%	Female 20%

All staff

2018	2019	2020
Male 85%	Male 83%	Male 81%
Female 15%	Female 17%	Female 19%

Community and corporate social responsibility

The Group is committed to good community relations as they are important to the long-term development and sustainability of its businesses. As such, in February 2020 the Group took the decision to formalise how we engage with the wider community by creating a Corporate Social Responsibility (CSR) strategy, setting clear objectives and giving new focus to its activities. All CSR activities are now required to meet at least two of the following four core criteria:

1. Local community

2. Participation and diversity in STEM

3. Participation in automotive

4. Commitment to Armed Forces Covenant

The Group and its subsidiaries participate and invest in their local communities, making donations towards several charitable and fundraising activities primarily in support of STEM related institutions and events with a focus on Bradford-on-Avon and Wiltshire, where the Company is headquartered.

STEM in schools and universities

The Group is actively engaging with the workforce of tomorrow and we remain committed to supporting young people in the field of engineering and technology.

St Lawrence School (criteria 1, 2 and 3)
The organisation continues to support young students and has developed a partnership with a local secondary school in Bradford-on-Avon.

During the year, the Group had arranged for the school to take part in two work experience weeks with Anthony Best Dynamics Limited, and to provide support for the School's careers fair in January. The careers fair was very successful with students from years 9, 10 and 11 engaging with Group personnel throughout the day. Unfortunately, the work experience weeks were cancelled due to the COVID-19 pandemic.

"The Group is committed to supporting young people in engineering and technology"

Smallpeice Trust (criteria 1, 2 and 3)
The Group has also agreed to sponsor two STEM based residential courses through a charity called Smallpeice Trust. This charity provides opportunities for corporate partners to sponsor educational and development experiences across a wide range of engineering sectors. Two students were due to be selected from St Lawrence School to attend the course with a focus on students from disadvantaged backgrounds. Sadly, the courses were postponed due to COVD-19.

Student placements (criteria 1, 2 and 3)
This year the Group took on three students for extended work placements within its organisation, with two students working for the full year and one student on a summer placement.

Bath College Apprenticeship Fair (criteria 1, 2 and 3)
There was also a plan to take on two apprentices which also had to be cancelled due to COVID-19. Many of these applications were gained from supporting the apprenticeship fair in association with Bath College in the UK.

University of Bath (criteria 1, 2 and 3)
In February, the Company supported and attended the University of Bath careers fair and was scheduled to attend the cancelled autumn careers fair. The Group also sponsored the University of Bath Formula Student race team as well as providing technical assistance and donating parts and equipment. The Company is continuing to work with the University of Bath to develop a PhD student network to allow current students to work on live projects for the Group. Our employees also volunteered at the Formula Student virtual event.

Wiltshire Music Centre (criteria 1 and 2)
In FY20 the Group made donations totalling £500 to the science fair for first prize in association with Wiltshire Music Centre based in Bradford-on-Avon.

Armed Forces
The Group is committed to supporting the Armed Forces Community, which has a significant and growing presence in and around Wiltshire where the Group is headquartered.

Military Covenant (criteria 3 and 4) and support for reserve forces
In March 2020, the Group decided to formalise its support and commitment to helping ex-military personnel transition into meaningful civilian employment and develop professional skills and careers, by signing the Armed Forces Covenant. As part of this process the Company also rolled out new policies including a new Reserve Forces Policy, detailing the support personnel who are members of the reserve forces can expect to receive from the Company.

British Forces resettlement services (criteria 1, 2 and 4)
The Group has several former military personnel in its employment and remains proactive in its efforts to continue this initiative. Again, activity was limited during the year as the planned National Employment & Careers Fair in Tidworth was cancelled due to COVID-19.

Mission Motorsport (criteria 2, 3 and 4)
The Company has also chosen to donate to 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.

Diversity in STEM
Women's Engineering Society (criteria 2 and 3)
This year the Company has chosen to become a corporate partner to the Women's Engineering Society ('WES'). The Group planned to attend a networking event for corporate partners to discuss the challenges women face in engineering and a two-day conference for companies to meet women seeking work in engineering. Unfortunately, neither of these events took place; however, the Group remains committed to WES and we hope to recommence these activities when restrictions allow.

Governance

The Group is committed to doing business honestly and openly. We hold our leaders accountable for ensuring their businesses operate according to the strict ethical standards we expect. Our Group-wide policies regarding Anti-bribery, Modern Slavery, Conflicts of Interest, Competition and Anti-trust highlight the fundamental importance to the Board of conducting all business activities to the highest standards of honesty and integrity.

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 a high standard of expertise and business principles to be maintained in such dealings.

Supplier due diligence

The Group has invested into the ongoing implementation of a new ERP system, which is scheduled to go live during 2021. The system will incorporate a comprehensive approach to supplier due diligence, requiring suppliers to demonstrate financial, commercial, safety and governance capabilities as well as technical competence, health and safety proficiency and a level of security compliance. We believe this tool will significantly improve the transparency of the Group's supply chains.

Currently throughout the course of the year certain suppliers are selected for audit based on supply chain risk assessments. These audits assess each supplier's approach to human rights, data protection, modern slavery, health, safety and environmental issues. Before selection, checks are undertaken to make sure suppliers are 'fit for purpose' and able to meet our contractual requirements. If risks are identified, the Group works with suppliers to address them. AB Dynamics plc expects high standards of commercial confidentiality as the protection of information and the physical assets of our customers is an important part of what we do.

Prompt payment

Each subsidiary is responsible for agreeing payment terms with its suppliers and contractors when it enters into binding contracts for the supply of goods and/or services. Group companies are encouraged to abide by these payment terms so long as they are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

We understand the importance of predictable payments when operating a business and encourage good practice across the Group. The Group's average payments over the past year have been made within 34.5 days.

COVID-19 supply risk

The Group is working closely with our supply chain to determine the impact of COVID-19 on their businesses and the deeper supply chain. At this time, we have not identified material supply chain risk; however, we maintain an open channel of communication with our suppliers.

AB Dynamics has reviewed its supplier base from the perspective of security and criticality. Second source suppliers have been identified and in specific instances validated. In areas where the individual component function or performance prevents an economic second source being identified, long-term supplier contracts are in place and inventory levels set to maintain supply continuity.

Commercial integrity/business ethics

The Group is committed to conducting business honestly, openly and with integrity as taking the correct approach supports our long-term success and sustainability. Our global reputation and brand are critical, and we are aware of the potential negative consequences due to actual or suspected unethical behaviour.

Over the course of the last year, we have developed or revised a series of Group policies to guide our actions and those of our employees, suppliers and partners to ensure good governance and ethical behaviour across our Group. These include policies covering: Anti-bribery, Competition Law and Anti-trust, and Conflicts of Interest. An outline of our controls can be found on page 53 of the Statement of Corporate Governance.

Human rights

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees and other individuals with whom we interact. The Group's subsidiaries are based within the major advanced economies of the UK, USA, Germany and Japan, which have strong legislation governing human rights. The Group complies with applicable legislation in these areas, and the other countries in which it operates, to ensure the rights of every person (whether employees, suppliers or clients) are respected.

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.

Modern slavery
The Group is committed to acting ethically and with integrity in all our business dealings and relationships, and implementing and enforcing effective systems and controls to ensure modern slavery in all its forms (including human trafficking, forced labour and child labour) is not taking place anywhere in our Group businesses or in any of our supply chains.

Whilst 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, we know it is important to remain alert and vigilant to modern slavery. Therefore, we have secured modern slavery training as part of a series of e-learning modules for procurement and supply chain employees, management and other relevant personnel scheduled to be implemented in the new financial year.

Insider trading/employee share dealing
The Group has a strict Share Dealing Policy which is circulated to all individuals who qualify for share options. The policy covers insider trading/inside information, the AIM Rules and the Market Abuse Regulation which apply to the Company and the individuals. Employees are asked to sign to demonstrate their acceptance of these terms. Furthermore, in accordance with the Market Abuse Regulation of the Financial Conduct Authority, employees are required to seek the approval of the Chief Executive Officer or Group Company Secretary before dealing in its shares.

Anti-bribery and corruption
The Group is committed to conducting business with honesty and integrity. The Group's policy on anti-bribery and corruption fully addresses the Bribery Act 2010 and has been issued to all members of staff. E-learning has also been used to raise awareness of the required standards of behaviour.

Sanctions
In addition to its management of anti-bribery/corruption, the Company also continues to monitor and review compliance across the Group's businesses in connection with international sanctions.

"The Group is committed to acting ethically and with integrity in all our business dealings and relationships"

Risk management

Supporting the delivery of our future growth

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.

Board

Overall accountability for corporate risk management and strategy

Determines overall risk appetite

Audit and Risk Committee

Reviews effectiveness of risk management framework and internal controls

Ensures compliance with relevant regulations and laws

Executive Directors

Management of the Group and delivery of the strategy

Monitoring and mitigation of key risks

Regular reviews of the risk management framework

Operating companies

Identify and record risks

Implementation of risk mitigation actions and compliance with internal controls and policies

Responsible for compliance with relevant laws and regulations

Internal control

Monitoring of compliance with internal controls and policies of the Group

Conducts or commissions specific reviews where necessary

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.

AB Dynamics Risk Management Framework

1. **Identify internal and external risks**
2. **Assess and quantify risks**
3. **Manage and mitigate risk**
4. **Monitor effectiveness of mitigation plans**
5. **Reporting**

Driving change Improving the way we manage our risks

The business has grown rapidly from a single UK entity to a multinational Group with seven operating units which brings additional challenges for managing risk.

We have expanded our risk management framework and implemented a new methodology to identify and mitigate risks at both the operating entity level and at a Group level. This enables effective monitoring of mitigating actions and ensures consistency with our strategic objectives.

Principal risks and uncertainties

Principal risks and uncertainties

The following section provides an overview of the principal risks and uncertainties that have the potential to impact the implementation of the Group's strategy and business model.

Strategic

COVID-19

Risk	Mitigation	Change
COVID-19 has the potential to adversely impact customer procurement decisions, supply chain and manufacturing	> Investment in ADAS and autonomy R&D required despite automotive downturn > Global spread of sales revenue provides some protection > Manufacturing is spread across several sites with protective measures implemented > Safety stocks held and dual sourcing implemented > Cash conservation measures implemented	NEW

Downturn or instability in major geographic markets or market sectors

Risk	Mitigation	Change
Adverse changes in macroeconomic conditions or geopolitical risk in key territories or specific automotive markets could potentially reduce or delay demand for the Company's products and services	> Revenue spread across a range of geographic markets > Active safety and autonomous vehicle technology required despite automotive downturn > Reviewing options for entering adjacent markets > Constant monitoring of market trends, drivers and needs to ensure market leadership	▲

Loss of major customers and change in customer procurement processes

Risk	Mitigation	Change
Loss of a significant customer to competition or insolvency could result in reduced revenues Change in procurement processes could lead to pricing pressure	> Largest customer represents 5% of Group revenues > Continued product development and high levels of customer service to retain key customers > Long-term relationships with all key customers	▬

Failure to deliver new products

Risk	Mitigation	Change
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	> Process for identifying new product opportunities established > New product development process implemented	▲

Dependence on external routes to market

Risk	Mitigation	Change
The Group uses several agents and resellers to address particular geographic markets: > Risk of reduced revenues if agreements end at short notice > Limited control of market pricing with resellers > Potential financial consequences on termination	> Transitioning the Group to a direct sales model in key territories with offices in Germany, USA and Japan > The Company will maintain agents and resellers in other territories as appropriate > Risks relating to financial consequences are understood and all transitions managed to minimise potential quantum of termination payments	▼

Principal risks and uncertainties continued

Strategic continued

Acquisitions integration and performance

Risk	Mitigation	Change
The Group has completed its first acquisitions and there is potential for acquisitions to not deliver the expected performance resulting in a potential financial impact	> Extensive financial, commercial and legal due diligence > Appropriate warranties and indemnities from sellers > Use of earn-out deal structures to ensure management retention and incentivisation > Recruitment of senior management to support acquisitions, including finance > Close management and monitoring of business performance against budget	▬

Operational

Cybersecurity and business interruption

Risk	Mitigation	Change
Risk of malicious cyber attack on Company IT systems or significant failure of IT infrastructure, particularly with increased remote working	> External audit completed during 2019 and recommended actions being implemented > Implementation of a new cloud-based CRM/ERP system during 2020/21 > Implementation of enhanced security particularly relating to remote access	▲

Competitor actions

Risk	Mitigation	Change
Competitors may develop new technologies and/or products which may restrict revenue growth. Competitors may establish physical assets in key locations	> *Constant product and technology development* > Monitoring of competitors and the IP/patents to ensure no infringement on Company intellectual property > Monitoring of competitor product launches and territory actions	▬

Loss of key personnel

Risk	Mitigation	Change
In previous years the Company had dependence on a small number of key individuals which could affect future business growth if they left the Company	> Expansion of staff headcount and specific actions around succession planning and talent management > Strong staff retention rate with average length of service of more than five years with over two-thirds of employees recruited in the last two years > Recruitment and training of new management > Broadening of the senior management team	▼

Threat of disruptive technology

Risk	Mitigation	Change
Unforeseen new and novel technology displaces the need for Company products and services. Simulation potentially reduces the volume of physical testing products	> Constant horizon scanning of new technologies > Engagement with customers and regulators to ensure we meet their current and future requirements > Established simulation capability and acquired rFpro to ensure the Company can address both virtual and real-world testing	▬

Product liability

Risk	Mitigation	Change
Risk that products supplied by the Group fail in service and result in a claim under product liability	> Robust product development process ensuring products are safe and fit for purpose > Established quality system to ensure that manufactured products meet the design standard > Suitably qualified and experienced engineering and technology staff > Product liability insurance policy in place	▬

Failure to manage growth

Risk	Mitigation	Change
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	> Strategic priority placed on the Group's capability and capacity > Implementation of a five-year financial model which determines requirements for people, facilities and equipment > New Engineering Design Centre currently under construction with scope for further operating expansion > Implementation of appropriate IT infrastructure through comprehensive CRM/ERP system and implementation of interim inventory system prior to full ERP go-live > Overseas offices established in USA, Germany and Japan to support customers and products installed base	▼

Financial

Foreign currency

Risk	Mitigation	Change
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 The risk is enhanced by COVID-19 and Brexit uncertainty and related currency volatility and the recently established overseas entities	> Group Finance function monitors currency exposure forecasts > The majority of the Group's revenues are contracted in GBP > Use of foreign currency contracts to hedge where appropriate	▲

Credit risk

Risk	Mitigation	Change
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	> Risk is assessed on a case by case basis and payment terms established according to risk > Advance payments and letters of credit used where appropriate	▲

Compliance

Intellectual property/patents

Risk	Mitigation	Change
The Group utilises its intellectual property to deliver product and service revenue. Intellectual property theft and/or infringement could adversely affect product sales	> The Group has patented technology where appropriate that covers the key sales territories > Where products are not able to be protected through patents, design features and/or encryption are used to protect the core IP > Continual review of current patent and IP status and review of new products/technology conducted to ensure IP is protected	▬

Board of Directors

An experienced Board

A Audit and Risk Committee

R Remuneration Committee

N Nomination Committee

• Committee Chairman

Anthony Best
Non-Executive Chairman

Appointed:
Founded Anthony Best Dynamics Limited in 1982 and joined the Board immediately following the IPO on 22 May 2013.

Skills and experience:
Anthony graduated from Cambridge University in Mechanical Sciences Tripos (Engineering) and subsequently joined Rolls-Royce Cars in 1960 working on vehicle suspensions. In 1963, he moved to Avon Rubber Limited working on the design and development of tyre manufacturing equipment, ultimately becoming Production Manager in 1965. In 1967, he joined Moulton Developments as Chief Engineer working on vehicle suspensions for cars, trucks and coaches. Following the closure of Moulton Developments in 1982, he founded Anthony Best Dynamics Limited. He is a Fellow of the Royal Academy of Engineering, Fellow of the Institution of Mechanical Engineers and is on the Court of the Worshipful Company of Engineers.

Number of Board meetings attended:
17 of 17

External appointments:
None

Dr James Routh
Chief Executive Officer

Appointed:
Joined the Company and was appointed to the Board on 1 October 2018.

Skills and experience:
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:
17 of 17

External appointments:
None

Sarah Matthews-DeMers
Chief Financial Officer

Appointed:
Joined the Company and was appointed to the Board 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:
16 of 16

External appointments:
None

A R N

Richard Hickinbotham
Non-Executive Director

Appointed:
Joined the Board and appointed Chairman of the Nomination Committee on 14 August 2017.

Skills and experience:
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 N+1 Singer 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:
17 of 17

External appointments:
Richard is Head of Research at N+1 Singer and a Non-Executive Director of Directa Plus Plc.

A R N

Louise Evans
Non-Executive Director

Appointed:
Joined the Board and appointed Chair of the Audit and Risk Committee on 6 April 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:
11 of 11

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.

A R N

Richard (Dick) Elsy
Non-Executive Director

Appointed:
Joined the Board and appointed Chairman of the Remuneration Committee on 1 August 2020.

Skills and experience:
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, the innovator in traction drive technology, for several years.

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.

Number of Board meetings attended:
2 of 2

External appointments:
Dick is the Chief Executive of the High Value Manufacturing Catapult, a board member of the Aerospace Growth Partnership and a member of the Automotive Council's Technology Group.

He is also on the council of the UKRI-STFC and supports the research and technology community through his board role with AIRTO.

Chairman's introduction to corporate governance

Maintaining good governance

Anthony Best, Non-Executive Chairman

"Focus on good governance and risk management has been an important part of our response to COVID-19"

Dear shareholders

I am pleased to present AB Dynamics plc's Corporate Governance Report for the year ended 31 August 2020. The Directors recognise the importance of good corporate governance and can confirm that we have continued to apply the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code'). The Board is fully supportive of the principles laid down in the Code and continues to review and improve the systems, policies and procedures that support the Group's sustainability and governance practices.

We recognise that good governance is fundamental to the success of the Group and these principles are the foundation of our strategy and decision-making processes throughout the business. Whilst appointments continue to be made on merit, this year the Board has actively widened its diversity in terms of background, age, experience, gender and perspective by appointing three new Directors: Dick Elsy as a Non-Executive Director and Chair of the Remuneration Committee and two new female Directors, Sarah Matthews-DeMers as Chief Financial Officer and Louise Evans as a Non-Executive Director and Chair of the Audit and Risk Committee. The Group's attitude to good governance and the tenor of its implementation starts with the Company's Board and is cascaded to the Executive Team and through to the business units. It is important to the Board that we lead by example, and I am very pleased with the progress and improvements the Group has made in this financial year.

For further and more detailed explanations of how the Group applies the principles of good governance enshrined in the QCA Code please refer to the following sections of this Annual Report:

- Our Strategy pages 18–19 (Principle 1)
- Statement of Corporate Governance pages 51–57 (Principles 2, 3 and 5–10)
- Sustainability pages 31–42 (Principle 3)
- Risk Management pages 43–47 (Principle 4)

Further information on the Company's compliance with the QCA Code can be found on the Group's website, www.abdplc.com, on the AIM Rule 26 page.

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 above aim to provide you with 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.

Anthony Best
Non-Executive Chairman

25 November 2020

Statement of corporate governance

Our governance framework

The Board	Chair
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, as well as the structures described in this Statement of Corporate Governance.	The Chair is responsible for the leadership and overall effectiveness of the Board and for ensuring appropriate strategic focus and direction.
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	His role is to: > With the Chief Executive, demonstrate ethical leadership and promote the highest standards of integrity throughout the business > Ensure effective operation of the Board and its Committees > Set the agenda, style and tone of Board discussions to promote constructive debate and effective decision making > Foster effective working relationships between the Executive and Non-Executive Directors, and support and advise the Chief Executive

Chief Executive	Executive team
The Chief Executive is responsible for defining and proposing the strategic focus to the Board and for the day-to-day leadership of the business.	Responsible for implementing the strategy, led by the Chief Executive.
His role is to: > Develop strategic proposals for recommendation to the Board and implement the agreed strategies > Develop an organisational structure, establishing processes and systems to ensure that the Group has the capabilities and resources required to achieve its plans > Be responsible to the Board for the performance of the business consistent with agreed plans, strategies and policies > Oversee the application of Group policies and governance procedures > Develop and promote effective communication with shareholders and other key stakeholders	Its role is to: > Oversee the delivery of the Group's strategy > Monitor the operational and financial performance of the businesses > Allocate resources across the Group > Manage risk

Our governance framework continued

Non-Executive Directors

The Non-Executive Directors bring external perspectives and insight to the deliberations of the Board and its Committees, providing a range of knowledge and business or other experience from different sectors and undertakings (see their biographies on pages 48 to 49). They play an important role 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.

Where appropriate, matters are delegated to its three existing Committees (Nomination, Audit and Risk and Remuneration), which will consider them in accordance with their terms of reference. The Board has also decided to formalise its approach and raise the profile of ESG within the organisation with the creation of a new Committee in the forthcoming financial year; Louise Evans has agreed to chair the Committee.

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

Read more on **pages 58–59**

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

Read more on **pages 60–61**

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

Read more on **pages 62–65**

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

The Board of Directors

The Board is satisfied that each Director 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 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 online at www.abdplc.com and can also be seen at the Company's registered office. 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, as well as other corporate governance standards that are appropriate and relevant to our culture, status, profile, size and circumstances.

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 work to support 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.

Activities of the Board

The Company's governance framework is set out herein. 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.

Board meetings

The Board has six scheduled full Board meetings each financial year but will meet more frequently if required. During the period, the Board convened on 17 occasions, with additional meetings held to manage the Company's response to the COVID-19 pandemic. Whilst this increase is unlikely to be repeated in the next financial year, the Board has agreed to increase the minimum number of formal scheduled meetings to eight to allow for two additional meetings to be devoted solely to strategy.

Wherever possible and practicable, the Board and its Committees receive appropriate and timely information including relevant Board Committee papers prior to each meeting, and a formal agenda is notified. 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 and Nomination 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.

Attendance at Board meetings

Chair	
Anthony Best	17 of 17
Executive Directors	
James Routh	17 of 17
Sarah Matthews-De Mers	16 of 16
Matthew Hubbard	12 of 13
Non-Executive Directors	
Richard Hickinbotham	17 of 17
Bryan Smart	2 of 4
Louise Evans	11 of 11
Graham Eves	17 of 17
Dick Elsy	2 of 2

Board changes and Board composition

As at 31 August 2020, the Board comprised a Non-Executive Chairman, two Executive Directors and three independent Non-Executive Directors. A biography of each Director in office at the end of the year is set out on pages 48 and 49. During the financial year, the following changes have altered the composition of the Board: the appointment of Sarah Matthews-DeMers (4 November 2019), Louise Evans (6 April 2020) and Dick Elsy (1 August 2020); the retirement of Bryan Smart (15 January 2020); and both Graham Eves and Matthew Hubbard having stepped down from the Board on 31 August 2020 and 10 June 2020 respectively. Each of the three independent Non-Executive Directors performs additional roles as Chair of the three current Committees: Audit and Risk, Nomination and Remuneration (as further detailed herein); Louise Evans has also agreed to chair the newly created ESG Committee. Anthony Best remains Non-Executive Chairman of the Board.

The composition of the Board is monitored by the Nomination Committee and the gender diversity of the Board has greatly improved during the financial year. The Board is satisfied that it has an effective and appropriate balance of skills and experience. The Board is also satisfied 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.

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 Board monitors financial controls through the setting and approval of an annual budget and the regular review of monthly management accounts. Management accounts contain several indicators that are designed to reduce the possibility of error in the financial statements.

The Group has in place defined authorisation levels for expenditure, the placing of orders and signing authorities. The daily cash movements of the Group are reconciled and monitored by the Finance department. The Group's cash flow is also monitored by management.

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

This year AB Dynamics plc has rolled out a revised Group-wide policy on anti-corruption that fully addresses the requirements of the Bribery Act 2010. This policy has been issued to each member of staff globally through the Company's HR portal and individuals have been asked to 'sign' to acknowledge acceptance of its terms. Online anti-bribery training has also been rolled out to all UK based personnel to ensure and record continued and effective compliance, and overseas training is planned for 2021.

The Board of Directors continued

Whistleblowing
The Company's Whistleblowing Policy is available on its website, www.abdplc.com. This policy provides the framework to encourage and give employees confidence to 'blow the whistle' and report irregularities. 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 shall be investigated in line with the policy; however, there were no whistleblowing reports received during the period. The Board is not aware of any significant failings or weaknesses in the system of internal control. The principal risks which the Board has identified this year are set out in the section on Risk Management on pages 43 to 47 of the Strategic Report.

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 final 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; and

> 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.

Board of Directors' inductions and training
Following appointment to the Board, all new Directors receive an induction tailored to their individual requirements. They are encouraged to meet and be briefed on the roles of key people across the Group and have open access to all business areas and employees to build up an appropriate level of knowledge of the business that extends beyond formal papers and presentations to the Board. These inductions cover some or all of the following (depending on the individual Director's experience and what is appropriate for their role):

> the nature of the Group, its business, markets and relationships;

> meetings with the Company's official appointed advisers including: registrar, solicitor, auditor, broker and nominated adviser ('NOMAD');

> meetings with the relevant operational and functional senior management;

> Board calendar, procedures, including meeting protocols, Committee activities and terms of reference, and matters reserved for the Board;

> overviews of the business via monthly reports; and

> the Group approach to risk management.

Ongoing training and briefings are also given to all Directors, including external courses as required.

Board Committees

Audit and Risk Committee
Chaired by Bryan Smart until 15 January 2020 then by Richard Hickinbotham until 6 April 2020, when Louise Evans was appointed Chair

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 will have 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

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 Sarah Matthews-DeMers, Louise Evans and Dick Elsy.

Remuneration Committee
Chaired by Graham Eves until 1 August 2020, when Dick Elsy was appointed Chair

Number of meetings in the year: 5

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. No Director is permitted to participate in discussions or decisions concerning his or her own remuneration. The Remuneration Committee meets as and when necessary.

ESG Committee
To be chaired by Louise Evans

Anticipated number of meetings per year: minimum of two, maximum of four

Role of the Committee
The aim of the Committee will be 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 making sure it receives due attention and acknowledgement and become an ESG leader in our selected industries.

Attendance at Committee meetings

	Audit and Risk Committee	Nomination Committee	Remuneration Committee
Anthony Best	3 of 3	2 of 2	5 of 5
James Routh	3 of 3	0 of 0	0 of 0
Sarah Matthews-DeMers	3 of 3	0 of 0	0 of 0
Matthew Hubbard	1 of 2	0 of 0	0 of 0
Richard Hickinbotham	3 of 3	2 of 2	5 of 5
Bryan Smart	0 of 1	0 of 0	1 of 1
Louise Evans	2 of 2	0 of 0	2 of 2
Graham Eves	3 of 3	1 of 2	5 of 5
Dick Elsy	1 of 1	0 of 0	1 of 1

Board effectiveness

Independence of Non-Executive Directors

Dick Elsy, 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 three 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.

The Non-Executive Chairman, Anthony Best, is not considered to be independent by virtue of his substantial shareholding.

Diversity and equality

This year the Board has appointed both a female Executive Director and a female Non-Executive Director; nevertheless, the Board 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, ethnicity, religion 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 38 in our Sustainability section.

Board evaluation

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. To date, the Board has undertaken informal and ad-hoc evaluations of its performance during the course of each financial year. It was intended that this process should become more formalised; however, with a significant number of Director changes planned and undertaken during the course of the year it was decided that a more formal review would add more value in the next financial year.

Re-election

All Directors are subject to re-appointment by shareholders at the first Annual General Meeting following their appointment and thereafter by rotation. 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

In the period, the Company has rolled out a new policy and procedures to deal with conflicts of interest; this policy 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 Directors' Responsibilities Statement is set out on page 67 (within the Directors' Report).

S172(1) statement and stakeholder engagement

Stakeholders (and why they matter to us)	Aims and objectives	How ABD engages with its stakeholders
Customers ABD 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.	> Delivery – on time and on budget > Safety > Value > Relationships	> Regular contact through key account managers and support engineers > Programme of webinars > Attendance at industry events > Customer surveys
Investors The support of our investors is vital to the long-term performance and success of the Group.	> Financial performance > Governance > People and culture	> Annual Report and Accounts > AGM > Investor section of ABD website, www.abdplc.com > Investor roadshows > Results presentations > Stock exchange announcements > Investor visits and ad-hoc meetings
Employees With over 270 employees spread across the globe, the engagement and commitment of our employees is key to the Group's resilience and continuing success.	> Remuneration and reward > Employee development > Company reputation > Health and safety > Diversity and inclusion	> Through sector and business unit line managers > Inductions > Employee training > Code of Conduct > HSE reviews
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.	> Good working relationships > Supply chain resilience > Prompt payment	> Provision of policies to suppliers > Supplier conferences and workshops > Supplier due diligence
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, where we are headquartered and where most of our employees are based.	> Support our local communities > Encourage participation and diversity within STEM environment > Encourage participation within our industry segment > Demonstrate our commitment to the Armed Forces	> Sponsorship and charitable donations > Employee volunteering > University partnerships > STEM Ambassadors > Armed Forces Covenant, policy and career fairs

The Directors have acted in a way 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 stakeholders. We summarise what has been considered in the table above and provide more specific information below regarding the actions taken and how this has been achieved. The Directors believe that stakeholder engagement remains vital to building a sustainable business. Further information can also be found in the Sustainability section on pages 31 to 42.

How the Board fulfilled its S172 duties

Customers

The Company has a particularly wide and global customer base, serving all major vehicle manufacturers worldwide as well as myriad other players in the global automotive industry, some very large and some much smaller. The Group has established an enviable reputation for delivering the best quality test systems available in our markets, and we work hard to ensure this reputation is protected. This year, the Company has introduced a Key Account Management programme to identify our most strategically important customers worldwide and define how we would look after them. Each of our key accounts has a designated manager who acts as the point of contact and is also responsible for regular contact and visits. For some of this year, in-person visits have been difficult or impossible due to the COVID-19 pandemic, so we have made extensive use of videoconferencing to sustain these important relationships.

To understand how the Company and its products were perceived in their market, the Board has instigated a 'Voice of the Customer' exercise, focusing on our biggest business area: track testing. Many of our major customers participated, and this helped us to understand how our products and support were perceived by our customers around the world. As a global organisation we learnt that our technical support is viewed very favourably and helped us to understand where we needed to address issues to ensure customers remain satisfied with our products and services. The Board considered these priorities in all its decisions, and for example, during the year, the Board reviewed several specific high value strategic bids to assess whether they addressed the customer's key requirements.

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 Company maintains regular contact with major shareholders to communicate the Group's objectives. The Board is committed to communicating openly with shareholders to ensure that its strategy and performance are clearly understood; this is achieved through the Annual Report and the Interim Statement, trading and other announcements made on RNS and at the Annual General Meeting, where the Board encourages investors to participate.

Following the announcement of the Group's half year and full year results the Chief Executive Officer and Chief Financial Officer make presentations to institutional shareholders, private client brokers and investment analysts. Meetings and site visits are regularly held 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.

The Group also maintains a website (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 eight 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.

The Group discloses 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's Executives and Non-Executives are given regular updates as to the views of institutional shareholders and changes to significant shareholdings through research carried out ca. quarterly by the Group's broker and adviser.

The Chairman and independent Non-Executive Directors will also attend meetings with investors and analysts as required, in addition to being available at the Group's AGM to discuss any matter that shareholders might wish to raise. Formal feedback from shareholder meetings is also provided by the Group's broker and discussion of these meetings and feedback is a standard item on the Board's agenda. AGMs can be called with 21 clear days' notice in accordance with the Company's Articles; for general meetings, other than AGMs, the Board will continue, in ordinary circumstances, to provide as much notice as possible and certainly no less than 14 working days.

Employees
The Board understands the Group's long-term success depends on the engagement and commitment of its employees, which in turn depends on the Board considering their interests in its decision-making process. The Board has sought to improve communications and understand the interests of its employees through several different channels during the year and specifically during the COVID-19 pandemic and the various country-specific lockdowns. The Board initiated two employee engagement surveys regarding the Company's approach to working from home and subsequently on how employees felt about returning to the office. James Routh also provided employees with a regular 'CEO Update' during the period of home working providing employees of the Group with pertinent information, responding to 'frequently asked questions', disseminating performance figures of the business, and providing feedback on the survey results amongst other matters.

The Board, particularly through the Remuneration Committee, considered these in its review of the Group's resource strategy and its remuneration structures during the year, including in its decisions on the remuneration of the senior executive team (for more information, please see page 64).

Supply chains
The Company's engagement with the supply chain this year started well with supplier audit training for the internal team and a programme of supplier visits made by both buyers and key members of the management team. New targets for both on time delivery and quality Right First Time ('RFT') were agreed and significant improvements were achieved during the year, despite the COVID-19 pandemic and its effect on employees' ability to travel.

The Group continues to collaborate closely with strategic supply partners and a new emphasis on Design for Manufacture and Assembly ('DFMA') as directed by the Board has led to the introduction of several new key suppliers. As the Company embeds the New Product Development ('NPD') process within our businesses, the use of suppliers with rapid prototyping capability has increased.

The Board has instigated the implementation of a new Enterprise Resource Management (ERP) system within its main UK subsidiary Anthony Best Dynamics Limited as the first stage of a global roll-out. This programme is now well underway, and the structuring of this system will allow the Company to automate several processes that are currently manual. This should improve many of the Company's internal processes and systems including its supplier management.

Certain supply chain risks remain on the Company's risk register and have been mitigated by the Company's introduction of a dual sourcing strategy. See the Risk management section on page 43.

Communities
The Group aims to build positive relationships with the communities which host its businesses. In the main, the individual businesses hold these relationships at a local level. Nevertheless, a new strategy was agreed by the Board in February 2020, which details the Company's aims and objectives for its ESG programme and this has been trialled within the UK as an initial stage of its roll-out. This has subsequently improved transparency in the Company's decision making in relation to ESG, as all proposed ESG activities and donations must meet at least two of the Company's ESG objectives to be considered for funding. For more information on the Company's ESG strategy and details of the activities undertaken within the year, please see page 39. Since the implementation of the updated ESG strategy the Company has worked with local communities to transition to the new arrangements.

Maintaining an appropriate balance of skills, experience and independence

Richard Hickinbotham, Nomination Committee Chair

No. of meetings

2

Nomination Committee members
> Richard Hickinbotham (Chair)
> Dick Elsy (appointed 1 August 2020)
> Louise Evans (appointed 6 April 2020)
> Graham Eves (retired 31 August 2020)
> Bryan Smart (retired 15 January 2020)

"The Board operates in an open and transparent manner providing an environment for constructive challenge and support"

Dear shareholders

It has been another active year for the Nomination Committee and I am pleased to provide an update on the work of the Committee, which consists of the three independent Non-Executive Directors: Dick Elsy, Louise Evans and me as Chairman. Membership of the Committee changed during the financial year with Bryan Smart retiring from the Board at the Annual General Meeting and Graham Eves at the end of August 2020. The Committee held two formal meetings during the last twelve months.

Responsibilities

The Committee is responsible for reviewing the size, structure, composition and independence of the Board, and for succession planning. The Committee also manages the search for and selection of suitable candidates for the appointment or replacement of Directors. Recommendations are made to the Board for the appointment of new Executive and Non-Executive Directors and their re-appointment following retirement by rotation. The Committee is focused on recruiting the best available talent, based on merit and assessed against objective criteria of skills, knowledge, independence and experience. The primary objective is to ensure AB Dynamics benefits from strong leadership and that the Board continues to operate in an open and transparent manner. Diversity and gender inclusiveness span the whole Group and are important and enduring considerations in the search for, and selection of, Board members. The Committee's terms of reference can be found on the Group's website.

Review of activity

As announced on 27 November 2019, Bryan Smart informed the Board of his decision not to offer himself for re-election as a Non-Executive Director at the Annual General Meeting held on 15 January 2020. A search for a replacement Non-Executive Director with a strong financial background was commenced, with the Board also agreeing that it would benefit from the recruitment of an additional Non-Executive Director with a strong and relevant industry background. The Committee engaged the services of an external search firm, Independent Search Partnership, to help identify appropriate candidates for each Non-Executive position. Members of the Committee, the Chairman and other Executive Directors interviewed shortlisted candidates. Following recommendations to the Board, Louise Evans and Dick Elsy were appointed Non-Executive Directors of the Group and respectively Chair of the Audit and Risk Committee on 6 April 2020 and Chair of the Remuneration Committee on 1 August 2020.

After more than seven years as a Non-Executive Director and an involvement with the Group beginning before IPO in May 2013, it was announced on 30 July 2020 that Graham Eves would be stepping down from his position as Chair of the Remuneration Committee on 1 August 2020 and retiring from the Board on 31 August 2020.

During the financial year there were also two Board changes amongst the Executive Directors. On 4 November 2019, the Group was delighted to welcome Sarah Matthews-DeMers, who joined AB Dynamics as Chief Financial Officer, and on 10 June 2020 it was announced that Matthew Hubbard, Chief Technology Officer, had stepped down from the Board for personal reasons. The Board is comfortable with the current balance of Executive and Non-Executive Directors and has no plans at this time to appoint an additional Executive Director.

Board evaluation

There have been significant changes to the Board over the last two years and the skills and experience of Board members are set out in their biographies on pages 48 to 49 of this Annual Report. The experience and knowledge of each of the Directors is considered to give them the ability to constructively challenge strategy and to scrutinise the performance of the Group. The Board had previously agreed that a formal internal review process would be conducted as soon as practical after the arrival of the new Chief Financial Officer. In view of the subsequent changes to the Board it has been decided to conduct this review after the interim results have been published in April 2021. In the meantime, evaluation of the performance of individual Board members has continued to be implemented in an ad-hoc manner. In conjunction with the Chairman, the Committee keeps Board evaluation processes under review and will consider the appointment of external evaluators at an appropriate time in the development of the Group having regard to the scale and complexity of its activities. At this time the Board is operating in an open and transparent manner, and in an environment of trust with all Board members having the freedom to express opinions for the benefit of the business.

Richard Hickinbotham
Nomination Committee Chair

25 November 2020

"On 4 November 2019, the Group was delighted to welcome Sarah Matthews-DeMers, who joined AB Dynamics as Chief Financial Officer"

Monitoring all aspects of financial reporting and risk

Louise Evans, Audit and Risk Committee Chair

No. of meetings

3

Audit and Risk Committee members
- Louise Evans (Chair) (appointed 6 April 2020)
- Dick Elsy (appointed 1 August 2020)
- Richard Hickinbotham
- Bryan Smart (retired 15 January 2020)
- Graham Eves (retired 31 August 2020)

"Focus on business risks has become increasingly important in response to COVID-19"

Dear shareholders

I am pleased to present my first report as Chair of the Audit and Risk Committee, having taken over the appointment from Bryan Smart on 6 April 2020. Bryan served as Chair of the Committee for more than six years and I would like to convey the Board's thanks for his contribution to the Committee during this period.

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 key roles and responsibilities of the Committee are as follows:

- to review the Group's risk management framework and ensure adherence to policies and effectiveness of mitigating actions;
- to advise the Board on whether the Committee believes the Annual Report, taken as a whole, is fair, balanced and understandable through review of the accounting policies and significant judgements used in the Group's accounts;
- to manage the appointment of the Group's external auditor and assess the effectiveness of the audit and auditor independence including the policy of inviting the auditor to bid for non-audit services as and when required;
- to review the internal control environment and consider the need for an internal audit function;
- to review whistleblowing procedures and other Group policies as relevant; and
- 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 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 twice during the year without the Executive Directors being present. The Company Secretary acted as secretary to the Committee.

The Committee considered:

> the content of the Group's interim and preliminary results announcements and the Annual Report and whether the Annual Report was fair, balanced and understandable;

> the appropriateness and disclosure of accounting policies, key judgements and key estimates;

> the Group's risk management framework, along with a review of the annual risk assessment and mitigating actions;

> 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;

> the Group's going concern status and viability statements, particularly with regard to the impact of COVID-19;

> the cybersecurity response to additional risks arising from increased remote working;

> the appropriateness of the Group's insurance arrangements;

> the audit plan including scope and materiality thresholds;

> the effectiveness and independence of the external auditor as well as non-audit services provided; and

> the external auditor's report on the full year results and consideration of the points raised.

The QCA Code has recommended extending the activities of the Committee to include:

> demonstrating involvement throughout the annual reporting cycle;

> reviewing the Committee's terms of reference at least annually; and

> continuous improvement of the assessment of the Group's internal control and risk management activities.

These recommendations were implemented by the Committee during the year.

Significant accounting judgements

The Audit and Risk Committee reviewed the appropriateness of the Group's interim and full year financial statements, including the consideration of significant accounting judgements made by management, taking into account the reports of the CFO and the external auditor. The main areas of focus considered by the Committee were as follows:

> Review of the recoverability of goodwill and other intangible assets. The Committee considered the carrying value of goodwill and intangible assets in relation to rFpro and DRI against the latest forecasts for the businesses concerned and the future strategic plan for the Group. The Committee was satisfied 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 in the current environment; particular emphasis was placed on the review of the going concern assessment and viability statement. 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 2020 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 auditor objectivity and independence

The Audit and Risk Committee reviewed the independence and objectivity of the external auditor and the effectiveness of the audit process. 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 tax advice regarding recoverability of VAT and also provided assistance in compilation of the tax returns and filings for the year ended 31 August 2019. Due to the nature of the work and the fact that at £7,000, non-audit fees were not significant, the Committee concluded that the external auditor was independent during the financial year. However, tax advisory and compliance services will no longer be performed by Crowe.

The auditor independence policy, which was adopted 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.

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. The Committee has recommended that Crowe be appointed as auditor for the year ending 31 August 2021.

Louise Evans
Audit and Risk Committee Chair

25 November 2020

Aligning performance to remuneration

Dick Elsy, Remuneration Committee Chair

No. of meetings

5

Remuneration Committee members
- Dick Elsy (Chair) (appointed 1 August 2020)
- Louise Evans (appointed 6 April 2020)
- Richard Hickinbotham
- Graham Eves (retired 31 August 2020)
- Bryan Smart (retired 15 January 2020)

"Our policy reflects market best practice"

Dear shareholders

I am pleased to present my first report as Chair of the Remuneration Committee, having taken over the appointment from Graham Eves on 1 August 2020. Graham served as Chair of the Committee for more than six years and I would like to convey the Board's thanks for his contribution to the Committee during this period.

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 2020;
- a summary of the Directors' remuneration policy; and
- an overview of how the policy will be implemented in 2021.

The AB Dynamics remuneration approach is to ensure the Company can motivate, incentivise and attract senior management to deliver continued, long-term sustainable shareholder value. During 2019, we revised our remuneration policy to reflect the rapidly changing nature of the business and to ensure attraction and retention of key staff. The policy considers remuneration packages at companies of similar size and market capitalisation that are of similar complexity to AB Dynamics.

To assist with the review of current and future executive remuneration the Committee engaged PwC to ensure alignment with current market best practice for AIM listed companies. The Committee remains satisfied that remuneration packages remain appropriate.

The Remuneration Committee has been established by the Board and is responsible for the remuneration of the Executive Directors and the Chairman. All members of the Committee are independent Non-Executive Directors. The Committee's responsibilities are set out in its terms of reference, which are available on the Company's website. I act as secretary to the Committee.

During the year, the Committee considered:

> salary reviews for the Executive Directors;
> the 2020 annual bonus plan outturn;
> approval of the 2021 annual bonus plan financial targets and personal objectives for the Executive Directors;
> approval of 2021 LTIP awards and performance conditions; and
> review of the Directors' remuneration report.

Performance outcomes

As set out in the strategic review, despite the challenging environment, AB Dynamics has demonstrated the resilience of its business model and good progress has been made during the year against our short and longer-term objectives.

Performance against the 2020 annual bonus plan is explained in more detail below but in summary the financial targets were not achieved and therefore no bonus is payable in this respect. Current business objectives were achieved and the total bonus payable is therefore 30% of maximum.

Implementation for 2021

Base salaries were reviewed and, while the policy is to move salary levels progressively towards median levels for companies of similar size and complexity, given the current environment, for 2021 the Committee felt it appropriate to delay this progression and approved an increase of 3% for all Executive Directors to take place from 1 January 2021.

No other changes are proposed to the implementation of the Directors' remuneration policy for 2021.

Remuneration policy

The tables below detail the elements of Executive Director and Non-Executive Director rewards as set out by our revised remuneration policy.

Executive Directors

Element	Purpose	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain Executive Directors with the required skills and experience to deliver 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 and complexity	Base salary levels and corresponding increases are based on individual experience, skills and Company performance along with competitiveness against similar companies
Pensions	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%	No performance metrics applicable
Annual performance related bonus	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 On target performance is 60% of maximum and performance below threshold results in zero payment	The majority of the bonus is related to financial performance criteria based on the budget approved by the Board. A proportion of the potential bonus relates to current business objectives

Remuneration policy continued

Executive Directors continued

Element	Purpose	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan ('LTIP')	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	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 targets set by the Remuneration Committee for EPS growth and Total Shareholder Return (TSR) vs the AIM 100

Non-Executive Directors

Element	Purpose	Operation	Maximum opportunity	Performance metrics
Chairman and Non-Executive Directors' fees	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

Remuneration for Executive Directors for the year ended 31 August 2020

	James Routh[1]		Sarah Matthews-DeMers[2]		Matthew Hubbard[3]	
£'000	**2020**	2019	**2020**	2019	**2020**	2019
Base salary	**310**	220	**196**	—	**158**	128
Pensions	**31**	2	**20**	—	**16**	13
Annual performance bonus	**116**	165	**59**	—	—	120
Gain on exercise of share options	**173**	—	—	—	**931**	—
Total	**630**	387	**275**	—	**1,105**	261

1 James Routh commenced as Chief Executive Officer on 1 October 2018, which equates to a full year equivalent salary for 2019 of £240,000.

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 Matthew Hubbard retired from the Board on 10 June 2020. Remuneration in relation to the period prior to 10 June 2020 was as follows: base salary £140,000, pension £14,000. The remainder related to his employment after 10 June 2020 by AB Dynamics Limited.

Fees for Non-Executive Directors for the year ended 31 August 2020

	Anthony Best		Graham Eves[1]		Bryan Smart[2]		Richard Hickinbotham		Louise Evans[3]		Dick Elsy[4]	
£'000	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Fees	**75**	75	**45**	40	**19**	40	**45**	40	**19**	—	**4**	—

1 Graham Eves retired from the Board on 31 August 2020.

2 Bryan Smart retired from the Board on 15 January 2020.

3 Louise Evans was appointed to the Board on 6 April 2020.

4 Dick Elsy was appointed to the Board on 1 August 2020.

Basic pay

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group targets. In addition, Executive Directors receive benefits in kind including medical expenses and participation in the Group's share option scheme.

Non-Executive Directors are paid a fee to attend Board meetings and to serve as members of the Audit and Risk, Nomination and Remuneration Committees.

Directors' pension arrangements

During the year three Directors accrued benefits under the Group's defined contribution pension scheme.

Directors' interests in shares

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

	Ordinary shares of 1p each
Anthony Best*	5,926,107
James Routh*	6,646
Matthew Hubbard*	1,668
Bryan Smart*	655

* These individuals' shareholding includes the shareholding of persons closely associated with them.

Directors' interests in share options

	Grant date	Exercise price (pence)	As at 1 September 2019	Awarded during the year	Exercised during the year	**As at 31 August 2020**	Earliest date for exercise	Latest date for exercise
James Routh	9 November 2018	1,230	100,000	—	33,333	**66,667**	9 November 2020	9 November 2028
Sarah Matthews-DeMers	4 December 2019	2,140	—	60,000	—	**60,000**	4 December 2020	4 December 2029

Share awards made during the year

As part of the transition to the new LTIP scheme, the Committee has approved the phasing out of the existing share option scheme for Executive Directors. The Company awarded 60,000 options under the existing scheme to Sarah Matthews-DeMers and 60,000 options to Matthew Hubbard, vesting over a two-year period ending November 2021.

AB Dynamics plc Long Term Incentive Plan

The AB Dynamics plc Long Term Incentive Plan was adopted in January 2020. Under the plan, awards will be made annually to key employees based on percentage of salary or management grade. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Group three years after the grant date.

	Share awards made during 2020	Basis on which award made	Grant date	Vesting date
James Routh	18,278	125% of salary	17 January 2020	30 November 2022
Sarah Matthews-DeMers	11,085	100% of salary	17 January 2020	30 November 2022
Matthew Hubbard	8,491	100% of salary	17 January 2020	30 November 2022

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.

Ratio of CEO remuneration to employee remuneration

The Chief Executive Officer's total remuneration of £630,000 compares against average employee remuneration of £64,000.

Dick Elsy
Remuneration Committee Chair

25 November 2020

Directors' report

This section contains information which the Directors are required by law and regulation to include within the Annual Report and Accounts. The Directors who held office during the year are set out on pages 48 and 49.

Shareholders

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 22,584,184 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 industry of advanced testing and verification products and services for ADAS systems, autonomous vehicle technology and vehicle dynamics. 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 10 to 12.

Annual General Meeting

The Annual General Meeting (AGM) will be held at 11am on Wednesday 13 January 2021 at the Company's headquarters – Middleton Drive, Bradford-on-Avon, Wiltshire, BA15 1GB. 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 30 September 2020, 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	19.73
Castlefield Investments	13.3
Naemi Best	6.5
Canaccord Genuity Wealth Management	5.8
BlackRock Investment Management	4.6
Liontrust Asset Management	3.9
Tellworth Investments	3.5
Charles Stanley	3.5
Hargreaves Lansdown 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. The Company's Articles of Association may be amended by special resolution of the Company's shareholders.

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; and

(iii) in favour of not more than four persons jointly.

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); and
- agreements with controlling shareholders (see related party note 24 of the Accounts).

Other governance and compliance requirements

Details of the Company's energy usage and carbon emissions can be located within the Sustainability section of the Strategic Report on page 31. For details of the Group's activities in the field of research and development please see the Our Markets section of the Strategic Report on page 16. The Company's S172(1) Statement and details of how the Company has managed its business relationships can be located within the Governance section of this Report on page 56. Details of the Directors' and Officers' liability insurance in place are detailed on page 55 in the Governance section of this Report. No other indemnities were offered or in place during the period.

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £4,552,000 (2019: £8,658,000). The Directors recommend a total final dividend of 4.40p per ordinary share (2019: 2.79p), to be paid, if approved, on 22 January 2021. The results are shown more fully in the consolidated financial statements on pages 72 to 97 and summarised in the Financial Review on pages 28 to 30.

Provision of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

> so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

> 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.

Auditor

The auditor, Crowe U.K. LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

Directors' assessment of going concern

At 31 August 2020 the Company had net current assets of £29,503,000 (2019: £25,281,000) with the main current asset being amounts owed from its subsidiary Anthony Best Dynamics Limited, amounting to £20,477,000 (2019: £25,775,000).

Going concern

The Directors have assessed the principal risks discussed on pages 45 to 47, 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; and

> delays in collection of cash from customers.

With £31.2m of cash at 31 August 2020, 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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report, any other surrounding information and the Group and Parent Company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Parent Company 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) as adopted by the European Union (EU) 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; and

> 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 Report of the Directors and other information included in the Annual Report and Accounts is 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.

This responsibility statement was approved by the Board of Directors on 25 November 2020 and is signed on its behalf by:

Dr James Routh
Chief Executive Officer

Anthony Best
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 2020, which comprise:

> the Group statement of comprehensive income for the year ended 31 August 2020;

> the Group and Parent Company statements of financial position as at 31 August 2020;

> the Group and Parent Company statements of cash flows for the year then ended 31 August 2020;

> the Group and Parent Company statements of changes in equity for the year then ended 31 August 2020; 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 financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2020 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

> the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

> The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

> The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 £450,000 (FY19 £450,000), based on a percentage of the adjusted Group profit before tax.

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.

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 £16,875 (2019: £15,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of our audit approach continued

Overview of the scope of our audit

The Parent Company 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. The accounting records of that entity are currently held at the location of this business in Southampton. Our audit of this component 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 in relation to this component 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 control, as evidenced by the risks and rewards of ownership, has passed to the customer. This is determined with reference to the underlying contract with the purchaser. For certain products the Group 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 validated a sample of contracts to confirm revenue was being recognised in line with the requirements of IFRS 15. 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 reliably estimated and also ensuring that the use of costs as a measure of progress is appropriate. In addition, 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.
Carrying value of goodwill and other intangibles 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.

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.

Independent Auditor's report continued
To the members of AB Dynamics plc

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.

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 the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In light of the knowledge and understanding of the Group and the Parent Company and 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.

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. 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

25 November 2020

Consolidated statement of comprehensive income
For the year ended 31 August 2020

	Note	2020 £'000	2019 £'000
Revenue	3	**61,514**	57,957
Cost of sales		**(25,592)**	(30,039)
Gross profit		**35,922**	27,918
General and administrative expenses		**(30,511)**	(17,091)
Operating profit		**5,411**	10,827
Operating profit is analysed as:			
Before depreciation and amortisation		**11,050**	12,151
Depreciation and amortisation		**(2,090)**	(1,045)
Amortisation of acquired intangibles		**(3,549)**	(279)
Operating profit		**5,411**	10,827
Finance income		**218**	171
Finance expense		**(30)**	—
Other finance expense		**(564)**	—
Profit before tax	5	**5,035**	10,998
Tax expense	7	**(483)**	(2,340)
Profit for the year		**4,552**	8,658
Other comprehensive (expense) / income			
Items that may be reclassified to consolidated income statement:			
Exchange (losses) / gains on foreign currency net investments		**(1,978)**	178
Total comprehensive income for the year		**2,574**	8,836
Earnings per share – basic (pence)	9	**20.2p**	42.9p
Earnings per share – diluted (pence)	9	**20.1p**	42.1p

Alternative performance measures

	Note	2020 £'000	2019 £'000
Operating profit		**5,411**	10,827
Add: Amortisation of acquired intangibles	4	**3,549**	279
Add: Restructuring	4	**969**	550
Add: Inventory impairment	4	**3,267**	—
Add: Acquisition related (credit) / charge	4	**(1,865)**	1,272
Adjusted operating profit including share based payment costs		**11,331**	12,928
Net finance (expense) / income		**(376)**	171
Adjusted profit before tax		**10,955**	13,099
Adjusted tax		**(1,939)**	(2,524)
Adjusted profit after tax		**9,016**	10,575
Adjusted earnings per share (pence)	9	**40.1p**	52.4p
Adjusted diluted earnings per share (pence)	9	**39.9p**	51.4p

Consolidated statement of financial position
As at 31 August 2020

	Note	2020 £'000	2019 (Restated)* £'000
ASSETS			
Non-current assets			
Goodwill	10	**16,170**	17,029
Acquired intangible assets	11	**17,623**	21,803
Other intangible assets	11	**1,114**	268
Investment	12	**12**	14
Property, plant and equipment	13	**24,309**	17,922
Right-of-use assets	14	**701**	—
Deferred tax assets	20	—	1,952
		59,929	58,988
Current assets			
Inventories	15	**9,180**	11,149
Trade and other receivables	16	**12,844**	12,986
Contract assets	17	**2,926**	1,885
Taxation		**2,838**	939
Cash and cash equivalents	18	**31,183**	36,225
		58,971	63,184
LIABILITIES			
Current liabilities			
Borrowings	19	**505**	—
Trade and other payables	19	**12,370**	16,920
Short-term lease liabilities	14	**473**	—
		13,348	16,920
Non-current liabilities			
Deferred tax liabilities	20	**2,549**	3,206
Long-term lease liabilities	14	**249**	—
Deferred consideration		—	3,239
		2,798	6,445
Net assets		**102,754**	98,807
Shareholders' equity			
Share capital	21	**226**	222
Share premium	21	**61,736**	60,049
Reconstruction reserve		**(11,284)**	(11,284)
Merger relief reserve		**11,390**	11,390
Translation reserve		**(1,800)**	178
Retained earnings		**42,486**	38,252
Total equity		**102,754**	98,807

* Restated following finalisation of provisional fair value adjustments on the acquisition of DRI.

The financial statements were approved by the Board of Directors and authorised for issue on 25 November 2020 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 2020

	Note	Share capital £'000	Share premium £'000	Reconstruction reserve £'000	Merger relief reserve £'000	Translation reserve £'000	Retained profits £'000	Total equity £'000
At 1 September 2018		195	10,258	(11,284)	11,390	—	27,484	38,043
Share based payments		—	—	—	—	—	586	586
Total comprehensive income		—	—	—	—	178	8,658	8,836
Tax on options		—	—	—	—	—	2,271	2,271
Dividends	8	—	—	—	—	—	(747)	(747)
Issue of shares, net of share issue costs	21	27	49,791	—	—	—	—	49,818
At 31 August 2019		222	60,049	(11,284)	11,390	178	38,252	98,807
Share based payments		—	—	—	—	—	1,282	1,282
Total comprehensive income		—	—	—	—	(1,978)	4,552	2,574
Tax on options		—	—	—	—	—	(974)	(974)
Dividends	8	—	—	—	—	—	(626)	(626)
Issue of shares, net of share issue costs	21	4	1,687	—	—	—	—	1,691
At 31 August 2020		**226**	**61,736**	**(11,284)**	**11,390**	**(1,800)**	**42,486**	**102,754**

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

Consolidated cash flow statement

For the year ended 31 August 2020

	2020 £'000	2019 £'000
Profit before tax	**5,035**	10,998
Depreciation and amortisation	**5,639**	1,324
Interest income received	**(188)**	(171)
Acquisition (credit) / costs	**(2,548)**	768
Share based payment	**1,282**	586
Operating cash flow before changes in working capital	**9,220**	13,505
Decrease / (increase) in inventories	**1,992**	(3,447)
Increase in trade and other receivables	**(565)**	(1,667)
(Decrease) / increase in trade and other payables	**(3,737)**	1,554
Cash flows from operations	**6,910**	9,945
Interest received	**218**	171
Income tax paid	**(2,229)**	(1,350)
Net cash flows from operating activities	**4,899**	8,766
Cash flows used in investing activities		
Acquisition of businesses	**(2,823)**	(32,792)
Purchase of property, plant and equipment	**(7,276)**	(4,706)
Capitalised development costs and purchased software	**(886)**	(228)
Net cash used in investing activities	**(10,985)**	(37,726)
Cash flows generated from financing activities		
Movements in loans	**477**	—
Dividends paid	**(626)**	(747)
Proceeds from issue of share capital	**1,691**	49,818
Repayment of lease liabilities	**(592)**	—
Net cash generated from financing activities	**950**	49,071
Net (decrease) / increase in cash, cash equivalents and bank overdrafts	**(5,136)**	20,111
Cash, cash equivalents and bank overdrafts at beginning of the year	**36,225**	15,942
Effects of exchange rate changes	**94**	172
Cash, cash equivalents and bank overdrafts at end of the year	**31,183**	36,225

Notes to the consolidated financial statements

For the year ended 31 August 2020

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 through profit or loss.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU including related interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC'), and in accordance with 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.

New accounting standards and interpretations

The Group adopted IFRS 16, 'Leases' on 1 September 2019. IFRS 16 introduces new requirements for lessee and lessor accounting, with the distinction between operating lease and finance lease no longer applying for lessees. Under IFRS 16, a lessee is required to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of a low value when new. The new standard also requires depreciation of the asset to be recognised separately from the interest expense on the lease liability.

The new standard has been applied using the modified retrospective approach; therefore, there was no impact on retained earnings. Prior periods have not been restated.

The Group has elected to apply the following transitional exemptions:

(a) For contracts in place at 1 September 2019, the Group has elected to apply the definition of a lease in accordance with IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases on transition.

(b) Initial direct costs have been excluded from the measurement of the right-of-use asset for all leases entered into or changed before 1 September 2019.

The Group has also elected to make use of the following exemptions provided by IFRS 16:

(a) Leases with a determined lease term of 12 months or less from the commencement of the lease will be treated as short-term and therefore not included in the right-of-use asset or lease liability. Instead, lease costs will be recognised on a straight-line basis across the life of the lease.

(b) Leases for which the underlying asset is of low value when new will be exempt from the requirements to value a right-of-use asset and lease liability. Instead, lease costs will be recognised on a straight-line basis across the life of the lease. To apply this exemption, a threshold of £5,000 has been utilised to define low value.

(c) Lease and non-lease components will not be separated; therefore, each lease component and any associated non-lease component will be accounted for as a single component.

(d) Where applicable, IFRS 16 will be applied to a portfolio of leases with similar characteristics.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities was 3%.

The following is a reconciliation of total operating lease commitments at 31 August 2019 to the lease liabilities recognised at 1 September 2019:

	2020 £'000
Total operating lease commitments disclosed at 31 August 2019	**1,714**
Recognition exemptions:	
- leases of low value assets	**—**
- leases with remaining lease term of less than twelve months	**(328)**
Operating lease liabilities before discounting	**1,386**
Discounted using incremental borrowing rate	**(51)**
Total lease liabilities recognised under IFRS 16 at 1 September 2019	**1,335**

1. General information continued

New accounting standards and interpretations continued

The following IFRIC interpretations and amendments to existing standards were also adopted in the year ended 31 August 2020 but have not materially impacted the reported results or the financial position of the Group:

> Amendments to IAS 19, 'Employee Benefits';

> Annual Improvements to IFRSs 2015–2017 Cycle; and

> IFRIC 23, 'Uncertainty over Income Tax Treatments'.

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 Officer's Review. The principal risks and uncertainties and mitigations are included in the Strategic Report.

Note 22 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

> 10% increase in operating costs from supply chain disruption

> Increase in cash collection cycle.

With £31.2m of cash at 31 August 2020, 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.

(b) Critical accounting estimates and judgements

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:

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 of the milestone reached.

Share based payments

The calculation of the fair value of share based payments at the grant date impacts the profit or loss over the vesting period. The magnitude of the fair value is primarily determined by the estimated volatility. The volatility has been based on historical share price movement, but this is not necessarily representative of future volatility.

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. 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.

Notes to the consolidated financial statements continued
For the year ended 31 August 2020

2. Summary of significant accounting policies continued

(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:

> 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.

> 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. Where this is not representative of the stage of completion, management will assess the completion of a physical proportion of the contract work in determining the overall stage of completion.

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.

(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. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain economic benefits from its activities.

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.

2. Summary of significant accounting policies continued

(g) Financial instruments continued

(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. The adoption of IFRS 9 has not had a material impact on the financial statements. 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 income statement.

(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 forecast revenues for a particular project exceed attributable forecast development costs, in which case 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.

(c) Acquired intangible assets – business combinations

Intangible assets that may be acquired as a result of a business combination include, but are 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.

2. Summary of significant accounting policies continued
(i) Intangible assets continued
(c) Acquired intangible assets – business combinations continued

	Economic life
Customer relationships	10 years
Brand	10 years
Technology	5-7 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 cash generating unit. 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 are the Group's two sectors which 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.

(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 options 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.

2. Summary of significant accounting policies continued

(l) Share based payments continued

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. The fair value is determined by use of the Black Scholes model.

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.

(m) Foreign currencies

(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) 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.

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').

Notes to the consolidated financial statements continued
For the year ended 31 August 2020

3. Segment reporting continued
Analysis of revenue by country of destination:

	2020 £'000	2019 £'000
United Kingdom	**2,146**	2,028
Rest of Europe	**14,775**	15,741
North America	**15,606**	9,499
Asia Pacific	**27,788**	28,949
Rest of the World	**1,199**	1,740
	61,514	57,957

No customer individually represents 10% or more of total revenue.

Assets and liabilities by segment are not reported to the Board of Directors on a monthly basis, therefore 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:

	2020 £'000	2019 (Restated) £'000
United Kingdom	**41,135**	41,083
Rest of Europe	**747**	347
North America	**17,940**	17,558
Asia Pacific	**107**	—
	59,929	58,988

Revenues are disaggregated as follows:

Revenue by sector	2020 £'000	2019 £'000
Track testing	**51,760**	49,796
Laboratory testing and simulation	**9,754**	8,161
	61,514	57,957

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, adjusted EBITDA and adjusted earnings per share.

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.

	2020 £'000	2019 £'000
Amortisation of acquired intangibles	**3,549**	279
Inventory impairment	**3,267**	—
Acquisition related (credit) / charge	**(1,865)**	1,272
Restructuring	**969**	550
	5,920	2,101

4. Alternative performance measures continued

Amortisation of acquired intangibles

The amortisation relates to the businesses acquired in the previous year, DRI and rFpro.

Inventory impairment

Following a detailed review of stock levels and usage, a number of items previously included in the carrying value have been written off and the system of accounting for inventory has been updated to better reflect the Group's current operations.

Acquisition related (credit) / charge

The credit relates to the release of deferred consideration on the rFpro acquisition which, due to COVID-19 disruption, is unlikely to become payable. This is offset by costs, mainly in relation to staff retention payments to the employees of rFpro. The cash to pay this was contributed by the previous owners of the business prior to acquisition, but as the employees have to remain within the business for a period prior to receiving payment, a charge has to be recognised in the income statement.

Restructuring

The restructuring costs relate to rebalancing the skill base of the business and termination of agents.

Tax

The tax impact of these adjustments was as follows: amortisation £0.5m, inventory £0.6m, acquisition related £0.2m and restructuring £0.2m.

5. Profit before tax

The profit before tax is stated after charging:

	2020 £'000	2019 £'000
Depreciation of tangible fixed assets	**1,488**	1,026
Amortisation of other intangible assets	**40**	19
Amortisation of acquired intangible assets	**3,549**	279
Realised loss on foreign exchange	**33**	130
Staff costs:		
- wages and salaries	**16,469**	11,319
- social security costs	**1,775**	1,342
- other pension costs	**1,100**	417
Share based payments	**1,282**	586
Research and development costs charged as an expense	**773**	795
Operating lease rentals – land and buildings	**—**	329
Depreciation on right-of-use assets	**562**	—

Auditor's remuneration:

	2020 £'000	2019 £'000
Fees payable to the Group's auditor during the year for:		
- the audit of the Company's financial statements	**48**	81
- the audit of the Company's subsidiaries	**37**	18
- other services	**6**	28
	91	127

6. Employees

The average monthly number of employees, including Directors, during the year was as follows:

	2020 No.	2019 No.
Directors and commercial	**20**	12
Engineers and technicians	**190**	130
Administration	**65**	39
	275	181

The total number of employees at the year end was 278 (2019: 264).

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:

	2020 £'000	2019 £'000
Short-term employee benefits	**1,975**	2,040
Post-employment benefits	**144**	59
Social security costs	**273**	256
Share based payments – equity settled	**959**	431
	3,351	2,786

Further details relating to the remuneration of the Directors of the Company can be found in the Remuneration Committee Report.

7. Tax expense

	2020 £'000	2019 £'000
Current tax:		
– for the financial year	**383**	1,470
– adjustments in respect of prior year	**4**	45
	387	1,515
Deferred tax (note 20):		
– origination and reversal of temporary differences	**(124)**	368
– related to share based payments on exercised options	**220**	457
	483	2,340

The statutory effective rate of tax for the year is lower than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%) as set out below.

The effective rate of tax on the adjusted profit before tax is 17.7% (2019: 19.3%).

The tax charge can be reconciled to the consolidated income statement as follows:

	2020 £'000	2019 £'000
Profit before tax	**5,035**	10,998
Tax at the applicable statutory rate of 19%	**957**	2,090
Tax effects of:		
Non-deductible (credit) / expenses	**(215)**	548
Research and development tax credit	**(274)**	(196)
Adjustments in respect of prior year	**(312)**	45
Patent box relief*	**(89)**	(404)
Changes in tax rates	**325**	207
Losses carried back	**20**	(60)
Losses on overseas earnings	**(132)**	110
Overseas tax rates	**203**	—
Tax expense for the financial year	**483**	2,340

* Patent box relief represents the tax effect of the reduced amount payable on profits that fall within the patent box regime.

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:

	2020 £'000	2019 £'000
Current tax		
Excess tax deductions related to share based payments	—	(1,151)
Deferred tax		
Change in estimated excess tax deductions related to share based payments	**974**	(1,120)
Total income tax recognised directly in equity	**974**	(2,271)

Factors affecting the tax charge in future years

The Group's future tax charge could be affected by several factors including: tax reform in the UK, USA, Europe or Japan, any future acquisitions, availability of losses carried forward and availability of R&D and patent box relief.

8. Dividends paid

	2020 £'000	2019 £'000
Final 2018 dividend paid of £0.022 per share	—	430
Interim 2019 dividend paid of £0.016 per share	—	317
Final 2019 dividend paid of £0.028 per share	**626**	—
	626	747

In respect of the year ended 31 August 2020, the Board has proposed a total dividend of 4.40p per share totalling £993,000. No interim dividend was paid in respect of 2020. If approved, the final dividend will be paid on 22 January 2021 to shareholders on the register on 8 January 2021.

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.

	2020	2019
Profit for the year attributable to owners of the Company (£'000)	**4,552**	8,658
Weighted average number of shares used in calculating earnings per share ('000):		
Basic	**22,482**	20,201
Diluted	**22,622**	20,585
Earnings per share (pence):		
Basic	**20.2p**	42.9p
Diluted	**20.1p**	42.1p
Adjusted profit after tax (£'000)	**9,016**	10,575
Adjusted earnings per share (pence)	**40.1p**	52.4p
Adjusted diluted earnings per share (pence)	**39.9p**	51.4p

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.

Notes to the consolidated financial statements continued
For the year ended 31 August 2020

10. Goodwill

	Track testing £'000	Laboratory testing and simulation £'000	Total £'000
At 1 September 2019 (restated)	9,494	7,535	17,029
Exchange differences	(859)	—	(859)
At 31 August 2020	**8,635**	**7,535**	**16,170**

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (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 segments described in the operating segment descriptions in note 3.

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%, 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 1.5% 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 6.0%.

Following a detailed review, no impairment losses were recognised in the year ended 31 August 2020.

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	Other intangible assets £'000
Cost					
At 1 September 2019	9,053	2,034	10,995	22,082	287
Additions	—	—	—	—	886
Exchange differences	(241)	(70)	(320)	(631)	—
At 31 August 2020	**8,812**	**1,964**	**10,675**	**21,451**	**1,173**
Amortisation					
At 1 September 2019	56	14	209	279	19
Charge for the year	1,020	229	2,300	3,549	40
At 31 August 2020	**1,076**	**243**	**2,509**	**3,828**	**59**
Net book value					
At 31 August 2019	8,997	2,020	10,786	21,803	268
At 31 August 2020	**7,736**	**1,721**	**8,166**	**17,623**	**1,114**

Acquisition intangible assets relate to items acquired through business combinations which are amortised over their useful economic life. Other intangible assets comprise acquired intellectual property and software.

12. Investment

	2020 £'000	2019 £'000
Investment	**12**	14

13. Property, plant and equipment

	Land and buildings £'000	Plant and equipment £'000	Test equipment £'000	Motor vehicles £'000	Total £'000
Cost					
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**
Accumulated depreciation					
At 1 September 2019	647	1,061	728	116	2,552
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**
Net book value					
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 2020

13. Property, plant and equipment continued
Included within land and buildings is property under the course of construction with a total net book value of £8,990,000 (2019: £2,858,000).

Depreciation will not be charged until the property is ready for use.

	Land and buildings £'000	Plant and equipment £'000	Test equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 September 2018	10,841	1,980	2,178	211	15,210
Additions	2,887	949	818	52	4,706
Acquisitions of businesses	322	214	—	20	556
Disposals	—	(5)	—	—	(5)
Exchange differences	—	7	—	—	7
At 31 August 2019	14,050	3,145	2,996	283	20,474
Accumulated depreciation					
At 1 September 2018	379	798	279	75	1,531
Charge for the year	268	268	449	41	1,026
Disposals	—	(5)	—	—	(5)
At 31 August 2019	647	1,061	728	116	2,552
Net book value					
At 31 August 2018	10,462	1,182	1,899	136	13,679
At 31 August 2019	13,403	2,084	2,268	167	17,922

14. Right-of-use assets

	Land and buildings £'000	Total £'000
Cost		
Transition at 1 September 2019	1,335	1,335
Additions	25	25
Exchange differences	(97)	(97)
At 31 August 2020	**1,263**	**1,263**
Accumulated depreciation		
Transition at 1 September 2019	—	—
Charge for the year	562	562
At 31 August 2020	**562**	**562**
Net book value		
At 31 August 2019	—	—
At 31 August 2020	**701**	**701**

14. Right-of-use assets continued

	2020 £'000	2019 £'000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**472**	—
One to five years	**258**	—
Total undiscounted cash flows	**730**	—
Discount	**(8)**	—
Total lease liabilities	**722**	—
Current	**473**	—
Non-current	**249**	—

Amounts recognised in the consolidated income statement:

	2020 £'000	2019 £'000
Depreciation of right-of-use assets	**562**	—
Interest on lease liabilities	**30**	—

15. Inventories

	2020 £'000	2019 £'000
Raw materials	**7,744**	8,444
Work-in-progress	**1,423**	2,697
Finished goods	**13**	8
	9,180	11,149

The value of inventories recognised as an expense during the year was £17,331,000 (2019: £23,823,000). During the year the amount of write down of inventories recognised as an expense was £3,267,000 (2019: £Nil).

16. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	**9,894**	9,867
Less: impairment provision	**(522)**	(7)
	9,372	9,860
Other receivables	**2,047**	2,085
Prepayments	**1,425**	1,041
	12,844	12,986

The maximum exposure to credit risk for trade receivables at 31 August, by currency, was:

	2020 £'000	2019 £'000
Sterling	**3,854**	7,987
Euro	**1,242**	952
US Dollar	**2,951**	921
Japanese Yen	**1,325**	—
	9,372	9,860

Notes to the consolidated financial statements continued

For the year ended 31 August 2020

16. Trade and other receivables continued

Trade receivables, before impairment provisions, are analysed as follows:

	2020 £'000	2019 £'000
Not past due	**3,849**	4,496
Past due, no credit loss for impairment	**5,523**	5,364
Past due, credit loss for impairment	**522**	7
	9,894	9,867

The ageing of trade receivables, classified as past due, but not impaired, is as follows:

	2020 £'000	2019 £'000
Less than three months past due	**4,117**	4,204
Over three months past due	**1,406**	1,160
	5,523	5,364

17. Amount owed by/(to) contract customers

	2020 £'000	2019 £'000
Cost incurred to date	**20,946**	56,108
Attributable profits	**1,953**	6,948
	22,899	63,056
Progress billings	**(21,956)**	(65,548)
	943	(2,492)
Represented by:		
Contract liabilities (see note 28)	**(1,983)**	(4,377)
Contract assets (see note 28)	**2,926**	1,885
	943	(2,492)

No retentions were held by customers for contract work.

18. Cash and cash equivalents

	2020 £'000	2019 £'000
Short term deposits:		
- Sterling	**15,001**	3,000
Cash at bank:		
- Sterling	**10,602**	30,463
- Euro	**600**	724
- US Dollar	**2,201**	1,575
- Japanese Yen	**2,504**	137
- Chinese RMB	**275**	326
	31,183	36,225

The short-term deposits and cash at bank are both interest bearing at rates linked to the UK base rate, or equivalent rate.

The short-term deposits had maturity dates of three months or less at the balance sheet date.

19. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	**1,330**	2,996
Contract liabilities (note 28)	**1,983**	4,377
Social security and other taxes	**390**	262
Deferred consideration (note 23)	**—**	2,257
Other payables and accruals	**8,667**	7,028
	12,370	16,920
Borrowings	**505**	—
	12,875	16,920

Contract liabilities relate to payments received in advance which are deferred until the performance obligation has been satisfied.

Borrowings relate to a Small Business Administration Loan in the USA which is repayable within one year, unless certain conditions are met in which case it may be forgiven.

The maximum exposure to foreign currency risk for trade payables at 31 August, by currency, was:

	2020 £'000	2019 £'000
Sterling	**875**	2,400
Euro	**61**	286
US Dollar	**375**	266
Japanese Yen	**19**	15
Chinese RMB	**—**	29
	1,330	2,996

20. Deferred tax

	2020 £'000	2019 (Restated)* £'000
At 1 September	**(1,254)**	950
Acquisitions	**(225)**	(2,499)
Recognised in profit or loss:		
– in respect of timing differences	**124**	(368)
– in respect of deferred tax on share options	**(220)**	(457)
Recognised in equity:		
– in respect of deferred tax on share options	**(974)**	1,120
At 31 August	**(2,549)**	(1,254)

The deferred tax balance is analysed as follows:

	2020 £'000	2019 (Restated)* £'000
Deferred tax asset	**—**	1,952
Deferred tax liability	**(2,549)**	(3,206)
	(2,549)	(1,254)

The deferred tax assets are attributable to:

	2020 £'000	2019 £'000
Deferred tax on share options	**—**	1,952
	—	1,952

Notes to the consolidated financial statements continued
For the year ended 31 August 2020

20. Deferred tax continued
The deferred tax liabilities are attributable to:

	2020 £'000	2019 (Restated)* £'000
Accelerated capital allowances	**(853)**	(780)
Short-term timing differences	**1,028**	73
Acquired intangibles	**(2,724)**	(2,499)
	(2,549)	(3,206)

* Restated following the finalisation of provisional fair value adjustments on the acquisition of DRI.

21. Share capital
The allotted, called up and fully paid share capital is made up of 22,576,553 ordinary shares of £0.01 each.

	Note	Number of shares '000	Share capital £'000	Share premium £'000	Total £'000
At 1 September 2018		19,537	195	10,258	10,453
6 December 2018	(i)	143	1	564	565
7 June 2019	(ii)	2,277	23	48,195	48,218
22 July 2019	(iii)	263	3	1,032	1,035
At 31 August 2019		22,220	222	60,049	60,271
27 September 2019	(iv)	200	2	770	772
11 December 2019	(v)	32	—	142	142
3 March 2020	(vi)	64	1	256	257
4 May 2020	(vii)	33	—	410	410
2 June 2020	(viii)	16	—	64	64
19 August 2020	(ix)	11	1	45	46
At 31 August 2020		**22,576**	**226**	**61,736**	**61,962**

(i) On 6 December 2018, a total of 142,702 share options were exercised of £0.01 each for £3.95.

(ii) On 7 June 2019, a total of 2,050,000 new ordinary shares were placed of £0.01 each for £22.00 and a total of 227,500 new ordinary shares of £0.01 were admitted to trading on AIM following the issue of Open Offer Shares.

(iii) On 22 July 2019, a total of 263,246 share options were exercised of £0.01 each for £3.95.

(iv) On 27 September 2019, a total of 199,526 share options were exercised of £0.01 each for £3.95.

(v) On 11 December 2019, a total of 31,970 share options were exercised of £0.01 each for £3.95.

(vi) On 3 March 2020, a total of 58,086 share options were exercised of £0.01 each for £3.95 and a total of 6,173 share options were exercised of £0.01 each for £4.45.

(vii) On 4 May 2020, a total of 33,333 share options were exercised of £0.01 each for £12.30.

(viii) On 2 June 2020, a total of 16,162 share options were exercised of £0.01 each for £3.95.

(ix) On 19 August 2020, a total of 11,321 share options were exercised of £0.01 each for £3.95.

22. 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 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 19. 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.

22. Financial instruments continued

(a) Currency risk continued

Management considers that the most significant foreign exchange risk relates to US Dollar and Euro. The Group's sensitivity to a 10% strengthening in UK sterling against each of these currencies (with other variables held constant) is as follows:

	2020 £'000	2019 £'000
Decrease in adjusted operating profit (at average rates)		
US Dollar	**234**	152
Euro	**85**	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 2020 relates to the amounts owing by nine customers which constituted approximately 59% 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:

	2020 £'000	2019 £'000
USA	**2,503**	2,194
United Kingdom	**548**	282
Europe	**2,828**	2,552
Rest of the World	**3,493**	4,832
	9,372	9,860

(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 the 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.

Notes to the consolidated financial statements continued
For the year ended 31 August 2020

22. Financial instruments continued
(e) Liquidity risk continued
The Group's financial liabilities are as follows:

	2020 £'000	2019 £'000
Trade payables	**1,330**	2,996
Other payables	**8,667**	7,028
Lease liabilities	**722**	—
Borrowings	**505**	—
	11,224	10,024
The maturities of the undiscounted liabilities are as follows (excluding leases):		
Less than one year	**10,502**	10,024

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the reporting date.

(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 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 2020, 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:

	2020 £'000	2019 £'000
Loans and receivables		
Trade receivables	**9,372**	9,860
Contract assets	**2,926**	1,885
Cash and bank balances	**31,183**	36,225
	43,481	47,970
Financial liabilities held at amortised cost		
Trade and accruals and other payables	**9,997**	10,024
Lease liabilities	**722**	—
Borrowings	**505**	—
	11,224	10,024

(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 derive from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements derive 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 derive 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).

There were no forward contracts in 2020.

23. Acquisition of businesses

On 28 June 2019 the Group acquired 100% of Kangaloosh Limited (subsequently renamed rFpro Limited) 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 is payable based on the performance of rFpro for the twelve months ended 31 January 2021. 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 ($21.0m), before acquisition expenses of £0.4m. Maximum deferred contingent consideration of £2.9m ($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. Goodwill of £9,494,000 and acquired intangible assets of £7,432,000 were recognised in relation to this acquisition. The provisional fair value of goodwill has been adjusted following finalisation of the deferred tax position as an allowance for amortisation is available, which reduces the deferred tax liability.

Acquisition expenses of £768,000 were included in administrative expenses in 2019 within the consolidated statement of comprehensive income.

	DRI			
	Book value £'000	Provisional fair value £'000	Adjustment £'000	Final fair value £'000
Acquired intangible assets	—	7,432	—	7,432
Deferred tax liability	—	(2,215)	2,215	—
Investment	14	14	—	14
Property, plant and equipment	498	498	—	498
Inventories	799	799	—	799
Trade and other receivables	1,722	1,687	—	1,687
Trade and other payables	(868)	(868)	—	(868)
Net assets acquired	2,165	7,347	2,215	9,562
Goodwill	—	11,709	(2,215)	9,494
	2,165	**19,056**	**—**	**19,056**
Cash paid		17,270	—	17,270
Cash acquired		(471)	—	(471)
Expenses of acquisition		433	—	433
Net cash paid, after acquisition expenses		17,232	—	17,232
Deferred consideration paid		2,257	566	2,823
Less: expenses of acquisition		(433)	—	(433)
Total consideration		**19,056**	**566**	**19,622**

24. Related party disclosures

Mr A Best, Chairman of the Company, is a trustee and beneficiary of the Best Middleton Trust. Rental payments of £48,000 (2019: £48,000) were made in the year to the Trust. 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.

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.

25. 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 £1,282,000 (2019: £586,000) 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 2020

25. Share based payments continued
Summary of movements in share options

	Number of shares	Weighted average exercise price (pence)
Outstanding at 1 September 2019	476,746	570
Options and awards granted	321,951	2,184
Options and awards exercised	(356,571)	475
Options and awards lapsed	—	—
Outstanding at 31 August 2020	**442,126**	**946**
Exercisable at 31 August 2020	**116,587**	**395**
Outstanding at 1 September 2018	912,534	395
Options and awards granted	100,000	1,230
Options and awards exercised	(405,948)	395
Options and awards lapsed	(129,840)	395
Outstanding at 31 August 2019	476,746	570
Exercisable at 31 August 2019	376,746	395

The weighted average share price on the date of exercise was 2,084p (2019: 2,179p). The weighted average remaining contractual life of the options outstanding at the statement of financial position date is 9.7 years (2019: 7.6 years).

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. The inputs into the model for awards granted were as follows:

	Date awarded			
	17 January 2020	3 December 2019	1 October 2019	1 November 2018
Stock price	2,230p	2,140p	2,140p	1,315p
Exercise price	Nil	2,140p	2,200p	1,230p
Interest rate	0.39%	0.28%	0.38%	0.25%
Volatility	40%	49%	42%	40%
Time to maturity	3 years	1-2 years	1-3 years	1-2 years

The expected volatility was determined with reference to the published share price.

For the options granted in 2019 and 2020 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.

26. Ultimate controlling party
There is no ultimate controlling party.

27. Capital commitments
At 31 August 2020 the Group had capital commitments as follows:

	2020 £'000	2019 £'000
Contracted but not yet provided in these financial statements	**562**	478
	562	478

28. Revenue recognition and contract balances
Contract balances
The Group has recognised the following revenue-related contract assets and liabilities:

	2020 £'000	2019 £'000
Contract assets (i)	**2,926**	1,885
Contract liabilities (ii)	**1,983**	4,377

28. Revenue recognition and contract balances continued

(i) Significant changes in contract assets
Contract assets have increased by 55% during the year reflecting two new contracts. There are four current contracts at various stages of completion.

(ii) Significant changes in contract liabilities
This balance consists of deferred income and payments in advance. This decrease of contract liabilities was due to deferred income which principally relates to a timing of track testing systems invoicing at 31 August 2020 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 £4,377,000, an amount of £2,970,000 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 testing 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 testing
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 these systems to the 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 has considered 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 2020

	2020 £'000	2019 £'000
Unsatisfied performance obligations		
Laboratory testing and simulation	**2,796**	3,407
Track testing	**5,768**	15,972
Partially unsatisfied performance obligations		
Laboratory testing and simulation	**975**	2,286
Track testing	**1,908**	2,070

The revenue recognised in the period in relation to the opening balances for laboratory testing and simulation systems amounted to £4,888,000 and for track testing systems amounted to £15,093,000.

The revenue on outstanding performance obligations at 31 August 2020 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 2020 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.

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 2020.

Company statement of financial position

As at 31 August 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Non-current assets			
Other intangibles		**654**	—
Investments	3	**42,803**	41,937
		43,457	41,937
Current assets			
Other receivables	4	**20,510**	25,809
Cash and cash equivalents		**10,304**	—
		30,814	25,809
LIABILITIES			
Current liabilities			
Trade and other payables	5	**1,311**	528
		1,311	528
Net current assets		**29,503**	25,281
Non-current liabilities			
Deferred consideration	6	—	3,239
		—	3,239
Net assets		**72,960**	63,979
Shareholders' equity			
Share capital	7	**226**	222
Share premium	7	**61,736**	60,049
Retained earnings		**10,998**	3,708
Total equity		**72,960**	63,979

The profit for the financial year dealt with in the financial statements of the Parent Company was £6,634,000 (2019: £222,000).

The financial statements were approved by the Board of Directors and authorised for issue on 25 November 2020 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 2020

	Note	Share capital £'000	Share premium £'000	Retained profits £'000	Total equity £'000
At 1 September 2018		195	10,258	3,647	14,100
Share based payments		—	—	586	586
Total comprehensive income		—	—	222	222
Dividends	8	—	—	(747)	(747)
Issue of shares, net of share issue costs		27	49,791	—	49,818
At 31 August 2019		222	60,049	3,708	63,979
Share based payments		—	—	1,282	1,282
Total comprehensive income		—	—	6,634	6,634
Dividends	8	—	—	(626)	(626)
Issue of shares, net of share issue costs		4	1,687	—	1,691
At 31 August 2020		**226**	**61,736**	**10,998**	**72,960**

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 2020

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 2020 the Company had net current assets of £29,503,000 (2019: £25,281,000) with the main current asset being amounts owed from its subsidiary Anthony Best Dynamics Limited, amounting to £20,477,000 (2019: £25,775,000). 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.

Financial instruments continued

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.

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 £6,634,000 (2019: £222,000).

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 (2019: £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:

	2020 £'000	2019 £'000
Wages and salaries	**1,580**	192
Social security costs	**296**	22
	1,876	214

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:

	2020 Number	2019 Number
Directors and management	**5**	7

3. Investments

	2020 £'000	2019 £'000
Subsidiary undertaking		
Brought forward	**41,937**	2,591
Capital contribution arising on share based payment	**1,282**	586
Investment in AB Dynamics Inc	**2,823**	17,101
Investment in rFpro Ltd (Kangaloosh Ltd)	**(3,239)**	21,659
Carried forward	**42,803**	41,937

Notes to the Company financial statements continued
For the year ended 31 August 2020

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	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
*rFpro Inc	Ordinary	100	209 East Washington Street, Suite 200, Ann Arbor, MI 48104, USA
*AB Dynamics Europe GmbH	Ordinary	100	Karlschmitter Weg 29, 35580 Wetzlar, 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.

^ Dormant.

4. Other receivables

	2020 £'000	2019 £'000
Amounts owed by Group undertakings	**20,477**	25,775
Prepayments	**33**	34
	20,510	25,809

5. Trade and other payables

	2020 £'000	2019 £'000
Other payables and accruals	**1,311**	528
	1,311	528

6. Non-current liabilities

	2020 £'000	2019 £'000
Deferred consideration	—	3,239
	—	3,239

7. Share capital

The allotted, called up and fully paid share capital is made up of 22,576,553 ordinary shares of £0.01 each.

	Note	Number of shares '000	Share capital £'000	Share premium £'000	Total £'000
At 1 September 2018		19,537	195	10,258	10,453
6 December 2018	(i)	143	1	564	565
7 June 2019	(ii)	2,277	23	48,195	48,218
22 July 2019	(iii)	263	3	1,032	1,035
At 31 August 2019		22,220	222	60,049	60,271
27 September 2019	(iv)	200	2	770	772
11 December 2019	(v)	32	—	142	142
3 March 2020	(vi)	64	1	256	257
4 May 2020	(vii)	33	—	410	410
2 June 2020	(viii)	16	—	64	64
19 August 2020	(ix)	11	1	45	46
At 31 August 2020		**22,576**	**226**	**61,736**	**61,962**

(i) On 6 December 2018, a total of 142,702 share options were exercised of £0.01 each for £3.95.

(ii) On 7 June 2019, a total of 2,050,000 new ordinary shares were placed of £0.01 each for £22.00 and a total of 227,500 new ordinary shares of £0.01 were admitted to trading on AIM following the issue of Open Offer Shares.

(iii) On 22 July 2019, a total of 263,246 share options were exercised of £0.01 each for £3.95.

(iv) On 27 September 2019, a total of 199,526 share options were exercised of £0.01 each for £3.95.

(v) On 11 December 2019, a total of 31,970 share options were exercised of £0.01 each for £3.95.

(vi) On 3 March 2020, a total of 58,086 share options were exercised of £0.01 each for £3.95 and a total of 6,173 share options were exercised of £0.01 each for £4.45.

(vii) On 4 May 2020, a total of 33,333 share options were exercised of £0.01 each for £12.30.

(viii) On 2 June 2020, a total of 16,162 share options were exercised of £0.01 each for £3.95.

(ix) On 19 August 2020, a total of 11,321 share options were exercised of £0.01 each for £3.95.

8. Dividends paid

	2020 £'000	2019 £'000
Final 2018 dividend paid of £0.022 per share	—	430
Interim dividend paid of £0.016 per share	—	317
Final 2019 dividend paid of £0.028 per share	**626**	—
	626	747

In respect of the year ended 31 August 2020, the Board has proposed a total dividend of 4.40p per share totalling £993,000. No interim dividend was paid in respect of 2020. If approved, the final dividend will be paid on 22 January 2021 to shareholders on the register on 8 January 2021.

9. 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.

Notes to the Company financial statements continued
For the year ended 31 August 2020

10. 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 £1,282,000 (2019: £586,000) 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 2019	476,746	570
Options and awards granted	321,951	2,184
Options and awards exercised	(356,571)	475
Options and awards lapsed	—	—
Outstanding at 31 August 2020	**442,126**	**946**
Exercisable at 31 August 2020	**116,587**	**395**
Outstanding at 1 September 2018	912,534	395
Options and awards granted	100,000	1,230
Options and awards exercised	(405,948)	395
Options and awards lapsed	(129,840)	395
Outstanding at 31 August 2019	476,746	570
Exercisable at 31 August 2019	376,746	395

The weighted average share price on the date of exercise was 2,084p (2019: 2,179p). The weighted average remaining contractual life of the options outstanding at the statement of financial position date was 9.7 years (2019: 7.6 years).

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. The inputs into the model for awards granted were as follows:

	Date awarded			
	17 January 2020	3 December 2019	1 October 2019	1 November 2018
Stock price	2,230p	2,140p	2,140p	1,315p
Exercise price	Nil	2,140p	2,200p	1,230p
Interest rate	0.39%	0.28%	0.38%	0.25%
Volatility	40%	49%	42%	40%
Time to maturity	3 years	1-2 years	1-3 years	1-2 years

The expected volatility was determined with reference to the published share price.

For the options granted in 2019 and 2020 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.

AB Dynamics plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Arcoprint, an FSC® certified material. This document was printed by Pureprint Group using its environmental print technology, with 99% of dry waste diverted from landfill, minimising the impact of printing on the environment. The printer is a CarbonNeutral® company.

Both the printer and the paper mill are registered to ISO 14001.