The following amendment has been made to the Preliminary Results announcement released on 15 September 2021 at 07:00 under RNS No 7740L.

The final dividend of 5.11p per share will be paid on 25 November 2021 to holders of ordinary shares on the Company's register of members on **5 November 2021.** The record date was previously incorrectly listed as 4 November 2021.

All other details remain unchanged.

The full amended text is shown below.

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

Ricardo plc

Preliminary results for the full year ended 30 June 2021

HIGHLIGHTS

- The business continues to grow and we are well positioned as markets recover post COVID-19.
- Positive momentum, with H2 underlying profit before tax of £13.0m, compared to £5.0m in H1.
- All segments, except Automotive & Industrial, increased profitability on the prior year:
  - Energy & Environment and Rail performed strongly, with increased margins
  - Defense[1] ABS Retro-Fit deliveries commenced
  - In Performance Products, transmission volumes increased year-on-year and engine volumes increased steadily throughout the year
  - Within Automotive & Industrial, performance improved in the US and China and declined in EMEA
- Equity fund raise, together with a strong working capital performance, enabled the Group to reduce net debt by 36% to £46.9m.
- Final dividend of 5.11p per share (total dividend of 6.86p per share) declared.

		2021	2020	Growth/ (decline) %
Order intake	£m	352.1	368.7	(4.5)
Order book	£m	293.5	314.0	(6.5)
Revenue	£m	351.8	352.0	(0.1)
Underlying [2]				
- Operating profit margin	%	6.5	5.7	0.8 pp
- Profit before tax	£m	18.0	15.6	15.4
- Basic earnings per share[3]	p	22.4	21.3	5.2
Statutory				
- Operating profit/(loss) margin	%	2.4	(0.3)	2.7 pp
- Profit/(loss) before tax	£m	3.9	(5.3)	173.6
- Basic earnings/(loss) per share	p	2.9	(12.2)	123.8

Underlying[2] cash conversion[4]	%	87.0	102.1	(15.1 pp)
Cash conversion[4]	%	93.8	112.9	(19.1 pp)
Net debt[5]	£m	46.9	73.4	(36.1)
Dividend per share (paid and proposed)	p	6.86	6.24	10
Headcount[6]	no.	2,901	3,003	(3.4)

References in superscript are defined in the glossary of terms.

Commenting on the results, Dave Shemmans, Chief Executive Officer, said:

"Over the last eight years we have significantly diversified our portfolio and, by so doing, Ricardo is now positioned as a world-class environmental, engineering and strategic consultancy offering expertise that is supporting global green agendas.

Although we remain in an uncertain world, the resilience of our operating model and the focused delivery of our strategic priorities has ensured that we have steered back onto a course that will guide our business to a position of strength. This has been made possible thanks to the amazing team that, throughout the pandemic, has demonstrated its agility, dedication and ingenuity in continuing to provide excellent service to our customers and remaining committed to achieving our ambition: to create a world fit for the future.

I would like to sign off my final review here at Ricardo with a warm and heartfelt note of thanks. I have had the pleasure of leading Ricardo for the past sixteen years and would like to thank all our customers, colleagues and shareholders for their support during my tenure. This is truly a special Group, with some amazingly talented people, in which I have enjoyed every moment. I wish Ricardo all the very best."

About Ricardo plc

Ricardo plc is a world-class environmental, engineering and strategic consulting company listed on the London Stock exchange. We shape the markets in which we operate through the delivery of solutions built on technological and sustainable innovation. With more than 100 years of engineering excellence, we provide exceptional levels of technical expertise to deliver leading-edge innovative and sustainable cross-sector solutions designed to solve our clients' most complex strategic and operational challenges. Our vision is clear – to create a world fit for the future.

For more information visit www.ricardo.com.

Analyst and investor presentation

The analyst and investor presentation of the Group's preliminary results for the year ended 30 June 2021 will be available online from Wednesday 15 September 2021 at https://ricardo.com/investors/financial-reporting/results-presentations. There will also be a presentation for analysts and investors at 9:30am on Wednesday 15 September 2021.

Further enquiries:

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Cautionary Statement

Note: Certain statements in this press release are forward-looking. Although these forward-looking statements are made in good faith based on the information available to the Directors at the time of their approval of the press release, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Glossary of terms – cross-referenced to superscript in the financial tables and commentary

(1) Defense refers to our US-based segment which provides services to the US defence market.
(2) Underlying measures exclude the impact on statutory measures of specific adjusting items as set out in Note 4. Underlying measures are considered to provide a more useful indication of underlying performance and trends over time.
(3) Underlying earnings exclude a tax credit to statutory earnings of £2.6m (FY 2019/20: £3.0m) in relation to the specific adjusting items in Note 4.
(4) Cash conversion is a key measure of the Group's cash generation and measures the conversion of profit into cash. This is the reported cash generated from operations (defined as operating cash flow, less movements in net working capital and defined benefit pension deficit contributions) divided by earnings before interest, tax, depreciation, impairment and amortisation ('EBITDA'), expressed as a percentage.
(5) Net debt, as set out in Note 9, is defined as current and non-current borrowings less cash and cash equivalents, including hire purchase agreements, but excluding any impact of IFRS 16 lease liabilities. Management believes this definition is the most appropriate for monitoring the indebtedness of the Group and is consistent with the treatment in the Group's banking agreements.
(6) Headcount is calculated as the number of employees on the payroll at the reporting date and includes subcontractors on a full-time equivalent basis.
(7) Constant currency growth/decline is calculated by translating the result for the current year using foreign currency exchange rates applicable to the prior year. This provides an indication of the growth/decline of the business, excluding the impact of foreign exchange.

Trading summary

This year, the Group delivered revenue of £351.8m, in line with the prior year, and underlying profit before tax of £18.0m, an increase of 15% on the prior year. On a reported basis, the Group has returned to profit, delivering profit before tax of £3.9m in the year, compared to a loss of £5.3m in the prior year. The results reflect a positive trajectory for the Group as it continues to recover from the impact of the COVID-19 pandemic, which significantly impacted the Group's results in the second half of FY 2019/20 and the first half of this financial year.

Revenue was stable year-on-year as revenue growth in Energy & Environment ('EE'), Defense, Rail and Performance Products was offset by a decline in the Group's Automotive & Industrial ('A&I') segment, which continues to be impacted by challenging market conditions, particularly in EMEA.

Profit generation was weighted towards the second half of the year, with the Group delivering an underlying profit before tax of £13.0m in the second half of FY 2020/21, compared to £5.0m in the first half. This reflects a combination of good profit growth in Defense, EE and Rail, combined with a return to profit in A&I, which benefitted from restructuring actions taken in EMEA in the first half of the year, together with improved profitability in China.

EE performed strongly throughout the year due to increased Evidence and Policy work with the European Commission, Chemical Risk services and water-resource management work. Rail performed in line with our expectations, driven by good growth in Australia and Asia. The market in the UK and Netherlands remained challenging. Defense successfully delivered its first ABS/ESC fleet retrofit kits in the final quarter of the year. Together with ongoing ambulance retrofit and new vehicle kits, Defense delivered 2,950 ABS/ESC kits in total, an increase of 486 kits on FY 2019/20. Performance Products also delivered year- on-year growth, as transmissions volumes increased and the business benefitted from the mix and pricing of engines sold. The performance of EE and Rail are particularly pleasing as these segments underpin the Group's growth and diversification strategy.

Net debt was £46.9m at 30 June 2021, compared to £73.4m at 30 June 2020. This improvement reflects £28.2m of proceeds, net of fees, from a successful share placing in November 2020, and a strong working capital performance. Excluding the placing, restructuring costs and acquisition-related payments, the Group generated £7.4m of cash in the year.

The segmental results are discussed in more detail in the Operating segments review below.

Order intake down 5% on FY 2019/20 with closing order book of £293.5m

Order intake of £352.1m represents a 5% reduction on the prior year. Order intake increased by 13% in EE, with significant contributions from the Policy, Water and Sustainability business units. Defense order intake increased by 70% year-on-year, due to securing the first USD 10m order for ABS/ESC retrofit units, combined with significant programme wins in Engineering Services, including the multi-year Infantry Squad Vehicle ('ISV') programme. Order intake reduced by 7% in Rail, due to lower orders in the UK and Netherlands. Australia and the Middle East performed strongly. Performance Products order intake reduced by 18% year-on-year, in line with our expectations, with two large transmission orders received in the prior year. As expected, order intake increased steadily throughout the financial year. Overall order intake in A&I declined by 20% year-on-year. It increased in both the US and China and reduced in EMEA.

Headline trading performance		Underlying[2]		Reported	
	Revenue	Operating profit	Profit before tax	Operating profit/(loss)	Profit/(loss) before tax
2021 (£m)	351.8	22.7	18.0	8.6	3.9
2020 (£m)	352.0	20.0	15.6	(0.9)	(5.3)
Growth (%)	-	14	15	1,056	174
Constant currency growth[7] (%)	1	14	15	1,056	174

References in superscript are defined in the glossary of terms.

Revenue in line with FY 2019/20

FY 2020/21 revenue was £351.8m, in line with the prior year. EE grew by 12% as the business continued to successfully win and deliver work throughout the COVID-19 pandemic. Defense revenue grew by 16% year-on-year, driven by the increase in ABS/ESC volumes and growth in Engineering Services, as noted above. Rail and Performance Products revenue increased by 3% and 1% respectively. Similar to the trend in order intake, A&I revenue reduced by 13%, which reflected a decline in EMEA, partially offset by growth in the US and a stable performance in China year-on-year. On a constant currency basis, the Group's revenue would have been £356.1m in FY 2020/21, a 1% increase on FY 2019/20 revenue of £352.0m.

Underlying operating profit up 14% on FY 2019/20, with reported operating profit of £8.6m (FY 2019/20: loss of £0.9m)

Underlying operating profit, which excludes specific adjusting items, increased by 14% to £22.7m (FY 2019/20: £20.0m). Underlying operating profit margin increased to 6.5% from 5.7%. Profitability improved throughout the course of the year, with underlying operating profit margin increasing from 4.5% in H1 FY 2020/21 to 8.2% in H2 FY 2020/21, driven by a combination of revenue growth across the Group and the benefit of cost reductions in A&I in the first half of the year.

Reported operating profit increased by £9.5m, from a loss of £0.9m in FY 2019/20 to a profit of £8.6m in FY 2020/21. The Group recognised costs of £14.1m in respect of specific adjusting items relating to the amortisation of acquired intangible assets, earn out costs for acquisitions made in prior years, restructuring actions in A&I, and the outgoing CEO. Specific adjusting items in the prior year were £20.9m. Specific adjusting items are discussed in more detail below.

Underlying profit before tax up 15% on FY 2019/20, with a reported profit before tax of £3.9m (FY 2019/20: loss of £5.3m)

Underlying profit before tax increased by 15% to £18.0m (FY 2019/20: £15.6m), driven by the improvement in underlying operating profit. There is no change to FY 2020/21 underlying or reported profit on a constant currency basis.

As noted above, the FY 2020/21 reported profit before tax includes £14.1m of costs relating to specific adjusting items (FY 2019/20: £20.9m), discussed in more detail below.

Net debt down 36% to £46.9m (FY 2019/20: £73.4m)

Closing net debt was £46.9m (FY 2019/20: £73.4m). The Group had a net cash inflow for the period of £26.5m. During the year, the Group completed a share placing which raised £28.2m, net of fees, in order to reset the capital structure of the Group, reduce leverage and repay borrowings to achieve an appropriate level of balance sheet efficiency and resilience. The Group paid acquisition-related earn out and retention costs of £5.2m, external project and legal fees of £0.7m, and reorganisation costs of £3.4m. In addition, £0.2m of contingent consideration was received in relation to the sale of the DTC test business in June 2020. Excluding these specific adjusting items, the Group generated £7.4m of cash, which was achieved through a continuing strong focus on cost control and efficient working capital management. The composition of net debt is defined in Note 9.

Basis of preparation

These consolidated financial statements of the Ricardo plc Group ('Group') have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Group's principal accounting policies are detailed in Note 1 to the Group financial statements. Those accounting policies that have been identified as being particularly sensitive to complex or subjective judgements or estimates are disclosed in Note 1(c) to the Group financial statements.

Specific adjusting items

As set out in more detail in Note 4, the Group's underlying profit before tax for the half-year excludes £14.1m of costs incurred during the period that have been charged to the income statement as specific adjusting items (FY 2019/20: £20.9m).

Amortisation of acquired intangibles was £5.0m in the year, compared to £6.0m in FY 2019/20, with the reduction reflecting the end of the amortisation of intangible assets acquired as part of the purchase of AEA Ltd in 2012.

Acquisition-related costs of £2.1m were incurred in the year. These included £1.6m in relation to earn-out and deferred compensation payments for Transport Engineering Pty Ltd (renamed Ricardo Rail Australia, or 'RRA') and PLC Consulting Pty Ltd (renamed Ricardo Energy, Environment and Planning, or 'REEP'), acquired in May 2019 and July 2019 respectively. £0.5m of external fees were incurred in relation to certain strategic projects in the year. In the prior year, £2.8m of earn out costs for RRA and REEP were incurred, together with £0.4m of integration costs for these businesses, and £0.9m of deal fees on a number of aborted transaction processes, partially offset by a £1.1m gain on a foreign exchange option contract.

Purchases and disposals: The South office building of the Detroit Technology Campus ('DTC'), which was held-for-sale at 30 June 2020 and 31 December 2020, was impaired by £1.5m in the year to reflect its current fair value, as the impact of COVID-19 on the local property market reduced demand for office space and reduced prices. The building was purchased in August 2019 and impaired by £3.6m, net of the release of a lease liability under IFRS 16, in the prior year, as it was acquired for a price which reflected Ricardo as a long-term tenant. Management has decided to continue to use the building as offers received during the year were lower than expected. The building continues to be marketed for sale, but management no longer considers a sale within the next twelve months to be highly probable and it is therefore no longer presented as held-for-sale.

A charge of £0.5m was incurred in FY 2020/21 as a result of a reduction in the fair value of contingent consideration arising on the sale of the DTC test business. The business was sold in June 2020 and a loss on disposal of £2.1m was recognised within specific adjusting items in FY 2019/20.

Other reorganisation costs: £2.5m of redundancy costs were incurred in the A&I business in EMEA. Headcount reductions were made in H1 FY 2020/21 as the challenging trading environment and ongoing impact of COVID-19 continued to depress the level of short-term workable orders in the business. A further round of restructuring was announced in the final quarter of the year as further national lockdowns in Spring 2021 led to customer project delays, which continued to depress order intake levels. As part of the restructuring actions, management decided to fully exit the Cambridge Technical Centre ('CaTC'), resulting in an impairment of the right-of-use asset and associated exit costs of £0.7m. In addition, £0.1m has been incurred in the current year in respect of the impairment of the right-of-use asset in Schwäbisch Gmünd Technical Centre ('SGTC'), as management was in discussions with the landlord to surrender the lease at this site at the end of the financial year (see Note 12), together with the write off of equipment relating to the Santa Clara Technical Centre ('SCTC'), which was exited in June 2020 (£0.1m).

£6.2m of reorganisation costs were recognised in the prior year, comprising £3.3m of costs in our A&I business in EMEA, including headcount reductions (£2.0m), impairment costs in relation to CaTC (£0.6m), and £0.7m of incremental contractor costs and professional fees, incurred as a result of these actions. In addition, costs of £0.9m were incurred in A&I US in relation to the SCTC exit (£0.4m) and redundancies (£0.5m, inclusive of incremental contractor costs). £1.4m of redundancy costs were incurred in Rail, plus £0.6m of redundancy costs in other segments.

In January 2021, the Board, together with Dave Shemmans, agreed that Dave would leave his role as Group Chief Executive after leading the business for sixteen years. Costs of £1.5m have been accrued within specific adjusting items, reflecting the terms of his settlement agreement, associated legal fees and the costs of a search process to appoint his successor.

In addition, in order to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions ('GMP') for historical transfers out of the pension scheme, a charge of £0.1m in FY 2020/21 was incurred.

£m		FY 2020/21		FY 2019/20
Underlying[2] profit before tax		18.0		15.6
Amortisation of acquired intangibles		(5.0)		(6.0)
Acquisition-related expenditure		(2.1)		(3.0)
Reorganisation costs:				
- *A&I US - DTC purchase and impairment*	(1.5)		(3.6)	
- *A&I US – Test business change in fair value of contingent consideration and loss on disposal*	(0.5)		(2.1)	
Asset purchases and disposals		(2.0)		(5.7)
- *A&I EMEA - reorganisation costs*	(3.3)		(3.3)	
- *A&I US – exit of SCTC and redundancy*	(0.1)		(0.9)	
- *Other reorganisation costs*	-		(2.0)	
Total other reorganisation costs		(3.4)		(6.2)
CEO exit costs		(1.5)		-
GMP equalisation		(0.1)		-
Reported profit/(loss) before tax		3.9		(5.3)

References in superscript are defined in the glossary of terms.

Research and Development ('R&D') and capital investment

The Group continues to invest in R&D and spent £10.2m (FY 2019/20: £12.5m) before government grant income of £1.2 m (FY 2019/20: £1.1m). Development costs capitalised in this period were £8.5m (FY 2019/20: £8.0m), reflecting continued investment in software products in the Performance Products segment, together with technology, tools and processes in the A&I and EE segments. Developments in the A&I segment have focused on the electric vehicle and alternative fuel spaces.

Capital expenditure on property, plant and equipment, excluding right-of-use assets, was £4.5m, reflecting targeted investment in our business operations, including the completion of a new hybrid power train test rig at the Shoreham Technical Centre ('STC'). £22.0m of capital expenditure on property, plant and equipment was incurred in FY 2019/20, which included £14.2m to purchase the DTC facility.

The total Research and Development Expenditure Credit ('RDEC') recognised in the year was £5.5m (FY 2019/20: £7.7m), with the reduction reflecting the impact of restructuring in A&I on the cost base in the UK.

Net finance costs

Finance income was £0.8m (FY 2019/20: £0.4m) and finance costs were £5.5m (FY 2019/20: £4.8m) for the year, giving net finance costs of £4.7m (FY 2019/20: £4.4m). The increased income and costs reflect the Group's decision to draw down on its Revolving Credit Facility ('RCF') to increase liquidity during the pandemic.

Taxation

The total tax charge for the year was £2.2m (FY 2019/20: £1.1m) and the total effective tax rate was 56.1% (FY 2019/20: negative at (20.8)%). The underlying effective tax rate for the year was 26.9% (FY 2019/20: 26.3%). The increase in the reported rate reflects the impact on deferred tax of the increase in the UK tax rate from 19% to 25% from 1 April 2023 (impact: £1.1m). This has been partially offset by a £0.9m reduction in the Group's IFRIC 23 provision for uncertain tax treatments, as a result of a number of positive outcomes for the Group on international tax matters.

Deferred tax assets of £8.3m (FY 2019/20: £9.4m) include £4.9m (USD 6.5m) (FY 2019/20: £5.1m (USD 6.3m)) of R&D tax credits in the US, £0.9m (FY2019/20: nil) of UK tax losses, and £1.4m of US tax losses (FY2019/20: £2.1m). The Directors have considered the recoverability of these assets and are satisfied that it is probable that sufficient taxable profits will be generated in the foreseeable future, against which the recognised assets can be utilised.

Deferred tax liabilities of £8.2m (FY 2019/20: £5.6m) include £1.3m in respect of the defined benefit pension scheme, with moved from a deficit (on which a deferred tax asset of £1.2m was recorded in the prior year) to a surplus (on which a deferred tax liability of £1.3m has been recorded).

Earnings per share

Basic earnings per share was 2.9p (FY 2019/20: loss per share of 12.2p). The Directors consider that underlying earnings per share provides a more useful indication of underlying performance and trends over time. Underlying basic earnings per share for the year was 22.4p (FY 2019/20: 21.3p). The calculation of basic earnings per share, with a reconciliation to an underlying basic earnings per share, which excludes the impact (net of tax) of specific adjusting items, is disclosed in Note 5.

Dividend

The Group paid its interim dividend of 1.75p per share (£1.1m) on 9 April 2021 (HY 2019/20: 6.24p, £3.3m). The Board has declared a final dividend of 5.11p per share (£3.2m) (FY 2019/20: nil), which will be paid on 25 November 2021 to holders of ordinary shares on the Company's register of members on 54 November 2021. This reflects the Board's desire to return to paying dividends to shareholders, balanced with the speed and shape of the economic recovery as we emerge from the impact of COVID-19.

Share issue

On 11 November 2020, Ricardo plc issued 8,812,030 new ordinary shares, representing 16.5% of existing issued ordinary share capital, at a price of 333 pence per share, raising gross proceeds of £29.3m (£28.2m net of £1.1m of transaction costs).

The issue took place in the three parts; "Placing shares", to certain existing shareholders and other institutional investors, via a 'cashbox' mechanism (14.95%); "Subscription shares" subscribed by certain directors of the Company for cash consideration (0.05%); and "Retail shares" offered by the Company for cash consideration (1.5%). The cashbox placing resulted in the creation of a £23.5m distributable merger reserve. Directly attributable fees were recorded against this merger reserve.

Goodwill

At 30 June 2021, the Group had total goodwill of £84.7m. The three-year plan and discounted cash flow calculations thereon provide a value in use ('VIU') which supports the carrying value of goodwill allocated to each cash generating unit ('CGU'), or group of CGUs, at 30 June 2021, resulting in no impairment for the year (FY 2019/20: nil). The A&I EMEA group of CGUs, which forms part of the A&I operating segment, had goodwill of £19.6m. A&I EMEA has faced challenging trading conditions, which have reduced its profitability. As a result, the excess of its VIU over its carrying value is limited. The VIU calculations include relevant cash flows from the RDEC tax credit. Sensitivity analysis indicated that a reduction of 38% in the projected operating profit levels used in the VIU calculation each year would result in the value in use being materially equal to the carrying value. Such a reduction is deemed reasonably possible due to the current and projected levels of profit in the three-year plan. If RDEC cash flows were excluded from the VIU calculation, the goodwill balance would be fully impaired. There are no concerns over the recoverability of the Group's other goodwill balances.

Net debt and banking facilities

Net debt at 30 June 2021 comprised cash and cash equivalents of £42.0m, borrowing and overdrafts, including hire purchase liabilities and net of capitalised debt issuance costs of £88.9m. Total facilities before borrowings are £215.5m. This provided total cash and liquidity of £168.6m as at 30 June 2021.

The Group's facilities are denominated in Pounds Sterling and have variable rates of interest dependent upon the Group's adjusted leverage, which range from 1.4% to 2.2% (FY 2019/20: 1.4% to 2.2%) above LIBOR. On 29 June 2021 the Group made amendments to the £200.0m committed Revolving Credit Facility ("RCF") to accommodate the forthcoming cessation of LIBOR. The Group has adopted SONIA as the risk-free rate to replace LIBOR and no other amendments to the facilities were made. The RCF continues to provide the Group with committed funding available for the remaining term through to July 2023.

The Group's Adjusted Leverage ratio (defined as net debt over EBITDA for the last twelve months, excluding the impact of specific adjusting items and IFRS 16) was 1.3x as at 30 June 2021. The Adjusted Leverage covenant was 3.75x at 30 June 2021 and will reduce to 3.0x from the next test date of 31 December 2021 onwards.

The Interest Cover ratio (defined as EBITDA for the last twelve months, excluding the impact of specific adjusting items and IFRS 16, over net finance costs), was 9.6x at 30 June 2021. The Interest Cover covenant is 4.0x.

Further details are provided in Note 24 to the Group financial statements.

Foreign exchange

On consolidation, revenue and costs are translated at the average exchange rates for the year. The Group is exposed to movements in the Pound Sterling exchange rate, principally from work carried out with customers that transact in Euros, US Dollars, Australian Dollars and Chinese Renminbi. Compared to the prior year, the average value of the Pound Sterling strengthened by 7% against the US Dollar and weakened by 4% against the Australian Dollar. Sterling strengthened by 1% against the Renminbi and weakened by 1% against the Euro. On a constant currency basis, the Group's revenue would have been £356.1m in FY 2020/21, a 1% increase on FY 2019/20 revenue of £352.0m. There would have been no impact on FY 2020/21 underlying and reported profit before tax.

Pensions

The Group's defined benefit pension scheme operates within the UK. The fair value of the scheme's assets at the end of the year was £156.1m (FY 2019/20: £150.4m). Due to a combination of an increase in scheme assets and a reduction in liabilities due to changes in actuarial assumptions, the scheme moved into a pre-tax surplus, measured in accordance with IAS 19, of £6.8m (FY 2019/20: deficit of £6.7m). Ricardo paid £4.6m of cash contributions into the scheme during the year.

Coronavirus ('COVID-19')

As the world gradually moves to a recovery phase, we continually shape our response to the evolving situation. From the outset, our utmost priority has been the safety and the wellbeing of our colleagues, ensuring business continuity and supporting both our customers and the communities where we live and work. These priorities have remained constant, with our teams working collaboratively at all levels to make certain that our plans are fit for purpose at each new entry phase.

From the beginning of FY 2020/21, our manufacturing sites have been operating and delivering uninterrupted services to our customers. We have actively managed our operational response to ensure that our main manufacturing sites remain in production. The manufacturing teams in the UK and US have been closely aligned, sharing best practice and actively supporting effective supply chain management, which has been constantly affected by part shortages and freight difficulties.

Our offices have also remained open for those who wish to return to work. As restrictions start to lift, the Group's approach to returning to office work is both encouraging and welcoming. We want our colleagues to reintegrate, reconnect, and assist in recharging the business.

Brexit

On 31 December 2020, the UK's Brexit transition period ended, which has meant that doing business with Europe has inevitably changed with new rules being applied. Like other companies, we have experienced increased paperwork and processing time for both importation and exportation procedures, resulting in some tasks taking up to three times as long to complete. Nevertheless, thanks to our rigorous planning – which included holding extra stock of priority parts prior to Brexit – the timing has had little impact on our deployment capabilities.

In general, because of our relentless focus on proactive supply chain management, we are able to maintain and manage our customer relationships in the UK, Europe, Asia and America.

Appointment of new Chief Executive Officer

As announced on 26 August 2021, Graham Ritchie will join the Group as Chief Executive Officer on 1 October 2021. On 30 September 2021, Dave Shemmans steps down from his role as Chief Executive Officer, having led the Group for the last sixteen years.

Group Outlook

Ricardo is successfully embarking on its route to growth, focusing on developing its world-class engineering, scientific and consulting capability and operating in markets that offer long-term growth prospects and which are driven by the ever-changing nature of our world.

Our diversified business portfolio, with expertise and capabilities that are at the intersection between transportation, energy and environment allows us to deliver a unique proposition. We are able to advance solutions that ensure access to clean air and water; we have a deep knowledge of delivering cross-sector engineering solutions to accelerate decarbonised transportation; and we most certainly are a partner of choice for innovation to support global net zero and industry agendas.

As we enter FY 2021/22, we do so with a robust order book and pipeline. This is a business with a positive outlook and as a Group we continue to push the boundaries, strengthening our business for a sustainable future.

By order of the Board:

Dave Shemmans
Chief Executive Officer

Ian Gibson
Chief Financial Officer

14 September 2021

Operating segments review

From FY 2020/21, due to restructuring within the Group, Strategic Consulting & Software ('other') is no longer being separately reported as an operating segment.

The Strategic Consulting element of this segment is now reported within Automotive & Industrial ('A&I'). This business has a number of common customers, operates in similar markets to A&I, and is now run as a business unit within the overall A&I business. Since the start of FY 2020/21, the A&I EMEA Managing Director has overall responsibility for the Strategic Consulting service offering.

The Software element of this segment has been aggregated into the Performance Products operating segment for the purposes of segmental reporting. Whilst the Software business continues to be run as a separate business with its own leadership team, it has a number of similar characteristics to the Performance Products manufacturing business, in that it is involved in the development of niche products, requiring a high level of capital/development spend, primarily selling to automotive manufacturers.

As a result of this change, the Group is now reporting the five segments set out below. The FY 2019/20 segmental analysis has been reported on a consistent basis to aid comparability. Consistent with the prior period, Plc costs includes the costs of running the public limited company, including foreign exchange exposure on intercompany loans.

	Revenue		Underlying[(1)] operating profit		Underlying[(1)] operating profit margin	
For the year ended 30 June	2021	2020[(2)]	2021	2020[(2)]	2021	2020[(2)]
	£m	£m	£m	£m	%	%
Energy & Environment ('EE')	57.1	50.8	8.5	6.3	14.9	12.4
Rail	77.7	75.3	8.0	5.8	10.3	7.7
Automotive & Industrial ('A&I')	102.5	117.2	(1.6)	0.5	(1.6)	0.4
Defense[(1)]	37.9	32.8	5.4	5.1	14.2	15.5
Performance Products ('PP')	76.6	75.9	6.8	5.1	8.9	6.7
Operating segments total	351.8	352.0	27.1	22.8	7.7	6.5
Plc costs	-	-	(4.4)	(2.8)	-	-
Total	351.8	352.0	22.7	20.0	6.5	5.7

(1) Defined in the glossary of terms.

(2) Prior year comparatives have been restated to present the results of Ricardo Strategic Consulting and Ricardo Software within Automotive & Industrial and Performance Products, respectively, in line with the current year.

Operating segment review

ENERGY & ENVIRONMENT ('EE')

Our Energy and Environment ('EE') operating segment works across the value chain: gathering and evaluating evidence, setting policy measures, and working with our customers, partners, and stakeholders to support the implementation of a wide range of solutions. We have more than 40 years of experience in addressing sustainability issues and customers value our deep understanding of energy and environmental drivers, policy development, technical excellence, and the ability to turn challenges into business opportunities.

Financial and operational highlights

	2020/21	2019/20	Growth (%)
Order intake (£m)	64.1	56.5	13
Order book (£m)	47.9	41.7	15
Revenue (£m)	57.1	50.8	12
Underlying[2] operating profit (£m)	8.5	6.3	35
Underlying[2] operating profit margin (%)	14.9	12.4	2.5 pp
Headcount[6] (no.)	690	578	19

References in superscript are defined in the glossary of terms.

We delivered a strong performance in FY 2020/21. Order intake for the year was £64.1m (FY 2019/20: £56.5m), growth of 13% on the prior year. Revenue and underlying operating profit grew by 12% and 35%, respectively, and we delivered an underlying operating profit margin of 14.9%, 2.5pp higher than the prior year, reflecting strong demand for our services and good utilisation across the business.

Significant contributions were made by both the Policy business, due to increased services to the European Commission, and the Water business, which benefitted from an upsurge in water resource-management services to the UK water sector. There was also increased demand for chemical risk-management services, driven by an increased demand for resources, due to the impact of Brexit and the associated regulatory deadlines. Within Sustainability, revenues remained strong for all aspects of net zero, from strategy development to establishing targets and producing implementation plans. At the same time, there are growing opportunities to support technology solutions, particularly in connection with electricity network engineering, innovation, and the evolution of "e-fuels" such as green hydrogen.

Contract wins during the year included major UK wins for the National UK air quality and GHG emissions inventory, the combined heat and power ('CHP') quality-assurance programme, and project work for the Gibraltar air-quality programme. Our international footprint has also continued to grow, on account of its strategic expansion across multiple locations to support increased project-based work. In Europe, we secured a significant contract to deliver consultancy support services for the operation of the European Road Safety charter. Furthermore, EE has also won a major project to develop an electric vehicle ('EV') financing tool and business model to enable the scaling up of EVs in Bangladesh, and consultancy work to support capacity building for an energy transition programme in South Africa.

Generally, throughout COVID-19, we have been able to function at close to normal business operations, due to the early adoption of a digital-first approach and effective homeworking. Although there has been minimal disruption, COVID-19 has impacted international projects, where travel has been severely restricted. While this has resulted in a decline in consultancy revenues outside of Europe, we have worked closely with our customers to adopt creative solutions for the remote delivery of projects.

Outlook

Our business performance generally follows trends within macro-economic growth drivers focused on global green agendas. Most relevant environmental trends include infrastructure stimulus funding (including green-technology solutions across the developed world), clean-energy solutions for transportation, the development of innovative electricity network solutions to accommodate distributed green generation, and the rise in EVs, as well as the demand for lifecycle assessment studies. Digital transformation – specifically, the digitisation of processes and solutions – is driving the development of innovative machine-learning solutions to prepare and manipulate complex data sets.

Based on these growing global trends, the positive impact on our markets, and our effective mitigation approach towards COVID-19, we remain optimistic for the year ahead. Furthermore, as climate considerations rise higher up the agenda, we are seeing a greater urgency in actions to combat the impact of climate change. COP26 provides a focal point for actions, both directly from governments and from corporations, as they seek support in committing to the delivery of their own journeys to achieve net zero.

The focus in FY 2021/22 will be prioritised toward net-zero consultancy work across a range of sectors and customers, incorporating strategic and scientifically skilled advisory services, from setting policy to project implementation. We plan to broaden our European work, building on support for the EU Green Deal, with more activity at the individual member-state level and with large businesses and trade bodies. We will continue to develop our project work in supporting governments around the world in evolving air-quality changes – notably, particulates and ozone – as well as to expand into additional areas of environmental support for the water sector. Plans are also in progress to adapt our model for international working so that it meets our customers' requirements in full, while travelling less and thereby also ensuring the reduction of Ricardo's own travel-related climate impact.

Operating segment review

RAIL

Our Rail operating segment serves the global rail market, delivering technical and engineering consultancy services, with capabilities in all areas – from rolling stock, signalling and telecommunications to energy efficiency, safety management and operational planning. We support a client portfolio that ranges from some of the world's largest rail administrations to niche component suppliers. Along with our consultancy unit, we also operate a separate independent entity – Ricardo Certification – which performs accredited assurance services. Both divisions draw upon an international pool of around 600 rail engineers, technicians, auditors and support teams.

Financial and operational highlights

	2020/21	2019/20	(Decline)/ growth (%)
Order intake (£m)	74.7	80.7	(7)
Order book (£m)	95.3	110.7	(14)
Revenue (£m)	77.7	75.3	3
Underlying[(2)] operating profit (£m)	8.0	5.8	38
Underlying[(2)] operating profit margin (%)	10.3	7.7	2.6 pp
Headcount[(6)] (no.)	596	632	(6)

References in superscript are defined in the glossary.

We delivered a strong performance throughout FY 2020/21. Despite COVID-19, revenue increased by £2.4m (3%), underlying operating profit increased by £2.2m (38%) and underlying operating profit margin increased by 2.6pp to 10.3%. Order intake and order book were down on the prior year by 7% and 14% respectively, reflecting the timing of large programme wins within each year. Rail delivered a successful year of revenue and profit growth, but there has been a contrast in performance at a regional level, demonstrating the varying challenges experienced in specific countries.

Australia has been a flourishing market for our Rail segment, in which we have secured several major consultancy and assurance service contracts with customers in New South Wales and Queensland. Most notably, we successfully secured a contract to act as the "Shadow Operator" for the Sydney Metro, where we provide advisory services on the specific requirements for rail operations to the constructors of the new driverless extension. This represents a new service line which has the potential to open up similar opportunities across the world.

In contrast, the European market has been impacted by interruptions, delays and cancellations to continuing and new project work as the industry is forced to revise its priorities in view of lower passenger levels and government intervention.

Nevertheless, this was counterbalanced in part by the large portfolio of infrastructure assurance projects, which in several cases has leveraged the reduced levels of traffic to advance major schemes – such as the Danish re-signalling programme and the London Elizabeth Line. This, along with a robust order book for Asia and the Middle East, where we are adding to its project-based work on major construction schemes in Riyadh and Doha, has ensured that Ricardo Certification delivered a good overall performance.

The impact of the pandemic on public transport was unprecedented. Global passenger numbers fell by 40% on calendar year 2019 levels, with some commuter services seeing passenger levels fall by close to 80%. Even freight traffic, which was less affected, saw a 20% drop in 2020. Operators responded by taking measures to maintain minimum levels of service to reduce overall costs. Even so, many of the major capital programmes were unaffected and rolling-stock orders to replace ageing fleets suffered only minor delays as manufacturers realigned to social-distancing measures, while infrastructure projects took advantage of reduced traffic to complete work.

Operating segment review

Outlook

Despite the pandemic's deep impact, the long-term forecasts for global rail-supply markets remain positive, with annual growth rates of 2.3%[1] anticipated throughout 2020-2025. We are unlikely to see significant growth in the European market in the short to medium term, but other markets continue to expand, notably China, Taiwan, and Japan which are continuing with major investment programmes. So too is the South-East Asia region, where priorities are to continue large-scale activities for both metro and light-rail projects, and the Middle East, where world-class rail networks have only started to emerge over the past decade.

Australia is likely to continue to offer further opportunity as it is in the early stages of a boom in rail construction and is responding to accelerated growth within its major urban centres. Furthermore, the USA is expanding its rail footprint and the federal government has announced plans for significant rail investment, much of which is connected to its decarbonisation priorities. Many of the country's commuter routes require rejuvenation and its stockpile of diesel-powered rail vehicles will need to be replaced or refurbished. Furthermore, high-speed railways are finally under construction, potentially opening a vast new market for what is now very mature technology.

The overall focus for us in the coming year will be prioritised around organic growth, including benefitting from the growing opportunities in Australia and South-East Asia's burgeoning market, as well as building our reputation and capabilities in the North American market.

(1) – source, https://www.unife.org/wp-content/uploads/2021/04/Forecast-2020-to-2025.pdf

Operating segment review

AUTOMOTIVE & INDUSTRIAL ('A&I')

For over 100 years, our Automotive & Industrial ('A&I') operating segment has been using engineering and research-and-development expertise to help global vehicle manufacturers innovate and improve the efficiency and performance of their products.

With digital engineering, efficiency and effectiveness at our core, we are able to solve the most complex mobility challenges, offering a true end-to-end service to create clean, efficient, integrated energy and propulsion systems for the future. We are recognised as a thought leader in clean propulsion, electrification and renewable fuels and we apply our experience, processes and insights to drive innovation, from the initial concept design right through to product execution.

Financial and operational highlights

	2020/21	2019/20	(Decline)/ growth (%)
Order intake (£m)	99.8	124.6	(20)
Order book (£m)	71.4	79.2	(10)
Revenue (£m)	102.5	117.2	(13)
Underlying[(2)] operating (loss)/profit (£m)	(1.6)	0.5	(420)
Underlying[(2)] operating profit margin (%)	(1.6)	0.4	(2.0) pp
Headcount[(6)] (no.)	996	1,195	(17)

References in superscript are defined in the glossary of terms.

During the year, we have undertaken significant strategic and structural changes to focus our portfolio on higher-growth services and markets, such as electrification, software, control and calibration and hydrogen. The changes reflect the global shift within the automotive industry which has been heavily impacted by COVID-19, seeing a temporary halt to passenger car purchases and deliveries across the world, as well as ongoing US-China tensions and border tariffs.

Order intake was down by 20% year-on-year, due to customers delaying critical programme decisions. The lower demand significantly affected revenue and operational efficiency. Revenue decreased by 13% compared to the prior year. The underlying operating loss was £1.6m (FY 2019/20: profit of £0.5m). The underlying operating margin decreased from 0.4% to negative 1.6%.

The impact of the above was felt more strongly by the EMEA business. In the first half of the year, we took the difficult decision to reduce headcount in the period to align the cost base to forecast demand, an extension of the process enacted in the second half of FY 2019/20. The actions taken helped to return our EMEA business to profitability in the second half of the year, but as the challenging market conditions continued, exacerbated by further national COVID-19 related lockdowns in Spring 2021, it became apparent that the order intake levels would not return to forecast levels as quickly as anticipated. This resulted in the announcement of further headcount reductions, to be enacted in the first half of FY 2021/22. We also fully exited our site in Cambridge in June 2020, with staff moving to other UK locations. The total cash cost of these actions was £2.3m (FY 2019/20: £2.9m).

Order intake and revenue both increased year-on-year in our US business, This, together with the positive impact from the restructuring actions at the end of FY 2019/20, including the closure of facilities and the sale of the Detroit test business, resulted in a significant reduction in losses.

In China, order intake and profitability both improved year-on-year, indicating that the China market is starting to recover from the impact of the pandemic.

Operating segment review

Despite the notable impacts suffered across the automotive industry, we are continuing to secure contract wins in all our key markets. Within EMEA, major contract wins from automotive original equipment manufacturers ('OEMs') included a wide range of electrification programmes including battery-pack design, systems integration and e-motor and power-electronics projects. We secured a multi-year engineering programme with WorldAutoSteel to deliver its Steel E-Motive future vehicle concepts, which are exploring the use of steel innovation for sustainable mobility vehicles. We have won contracts with new customers across defence, marine, and aerospace, including development of hydrogen fuel-cells for aviation with Cranfield Aerospace Solutions and electrified propulsion units with the Blue Bears consortium. In China, cost and time to market have been a key focus for OEMs, resulting in us successfully securing numerous virtual calibration contracts using our own software and tool chain to deliver these programmes. We have also secured a contract with a key OEM to develop an Automated Manual Transition ('AMT') for commercial vehicles. In the US, several strategic contract wins have been secured, including design, development and integration services to support a major motorcycle company with its new portfolio of electrified vehicles. Our US business has also been working with the world's second-largest carmaker to lead the adaptation and integration of its zero-carbon emissions hydrogen fuel-cell technology into medium range heavy-duty trucks.

Outlook

The COVID-19 pandemic has severely impacted our business and our customers across the world, but it has also accelerated changes across the automotive and transportation industry. Many of our customers have been forced to rationalise product plans and accelerate a number of cost savings. While markets remain depressed in many modes of transport, we now have greater clarity of legislative direction from the world's leading transport markets, which will shape A&I's future in supporting the proliferation of clean, intelligent vehicle technologies.

Our global focus within A&I will be to deliver innovative, sustainable mobility solutions to customers across the world and build resilience through continued expansion across all transport sectors. Through geographic diversification, we will ensure customer intimacy and volume supported and delivered by our network of global technical centres. Priority is to be given to four key areas for our customers across all mobility sectors: electrification, software and control, digital and advanced analytics, and hydrogen and de-fossilised fuels. This will be supported by our technology roadmap, world-leading research and development, and sustainable, high-value intellectual property. Nevertheless, in the short term, we will continue to support our customers in their journey to develop environmentally sustainable products and maintain commercially sustainable businesses. We will drive innovation in the development of cleaner, more efficient conventional engines and electric-based propulsion systems, expanding the use of virtual tools and the integration of systems with digital services and software. The transport industry is changing more rapidly, and in more dimensions, than ever before. Our longstanding and intimate understanding of the segment, coupled with its clear focus on the future, mean we are ideally positioned to capitalise on this near-term volatility and drive growth in the segment.

Operating segment review

DEFENSE

Our Defense operating segment has gained significant insights into the needs of armed forces and provides solutions to meet the challenges facing our customers in the integration of logistics and field support for complex and diverse systems. Our wide range of engineering and software solutions provides system-integration engineering for the US Army's ground inventory and we are the data-replication agent for everything in the air, on the sea and under the surface for the US Navy. Connected to this, we also specialize in niche manufacturing, adapting commercial industry products to deliver innovative sector applications that protect people and infrastructure.

Financial and operational highlights

	2020/21	2019/20	Growth/ (Decline) (%)
Order intake (£m)	49.4	29.0	70
Order book (£m)	25.7	15.6	65
Revenue (£m)	37.9	32.8	16
Underlying[2] operating profit (£m)	5.4	5.1	6
Underlying[2] operating profit margin (%)	14.2	15.5	(1.3) pp
Headcount[6] (no.)	185	166	11

References in superscript are defined in the glossary of terms.

Our Defense segment delivered a good performance in the year, with order intake of £49.4m (up 70% on the prior year), revenue of £37.9m (up 16% on the prior year), and underlying operating profit of £5.4m (up 6% on the prior year). Underlying operating profit margin decreased from 15.5% to 14.2%.

The growth in order intake reflected the receipt of the first USD 10m order from the USD 89m award of the three-year Anti-lock braking system/electronic stability control ('ABS/ESC') retrofit contract to provide critical safety upgrades for the US Army's fleet of High-Mobility Multipurpose Wheeled Vehicles ('HMMWV'). In addition, we won a significant multi-year production contract from General Motors to produce and field the US Army's new Infantry Squad Vehicle ('ISV'), together with increased work on the US Navy Systems Engineering Support contract.

Revenue growth was driven by increased ABS/ESC volumes and continuing growth in Engineering Services. Including both retrofit and kits for new production vehicles, we delivered a total of 2,950 ABS/ESC kits in FY 2020/21, compared to 2,464 in the prior year. Our Engineering Services business continued to grow in the year, driven by the new wins above and complex system engineering and design work on various US military contracts. ABS/ESC volumes were weighted towards the second half of the financial year. This led to lower levels of profitability in the first half of the year which resulted in an overall reduction in underlying operating margins between FY 2019/20 and FY 2020/21.

In Defense we have a deep legacy of partnering the with US military in the transition of innovative technologies from science to application. Key development projects in FY 2020/21 included the design and build of a wireless intercom integration system for secure onboard vehicle communications and advancing the development of a fielded electronic backbone to be used for present systems diagnostics, expanding into future autonomy requirements for the US Army. As global niche specialists in designing vehicle engineering solutions that improve safety and significantly reduce fuel usage and carbon emissions, we have been working closely with the US military on the application of a breakthrough, ultra-compact auxiliary power unit to greatly reduce vehicle main-engine use and to reduce fuel consumption as a common solution across US Army platforms. What is more, we are leveraging the application of the ABS/ESC system to significantly reduce brake drag and improve fuel efficiency for thousands of US Government fleet vehicles, which is resulting in a reduction of up to 20% in fuel consumption. Additionally, we have collaborated with the University of Michigan and Epic Games on DARPA research to provide innovations in simulation technologies that can either significantly reduce the cost of off-road autonomy development or help bridge the gap from simulation to the real world. In conjunction with this, we have also supported the US Army's robotic vehicle science and research by integrating innovative subsystems into surrogate vehicles in advance of final vehicle development.

Operating segment review

As a critical supplier to the US Government, we have continued to provide services throughout the pandemic.

Outlook

With a growing emphasis on the environment, the US administration's focus is to prioritise progress on climate change, environmental, and energy policies. As a result, the US Department of Defense ('DoD') is shifting its priorities and funding within all its activities and risk assessments towards climate-change considerations. Growth in digital applications will also be a focus to ensure the continued security and safety of its networks, systems, and infrastructure as well as offering improved efficiencies throughout its operations.

Ricardo is well positioned to continue to support the challenges facing our customers through our services and solutions and we remain positive towards FY 2021/22.

Operating segment review

PERFORMANCE PRODUCTS ('PP')

Our Performance Products segment includes both the Performance Products Manufacturing ('PP') and Software business units. Our PP segment is responsible for the manufacture and assembly of niche high-quality components, prototypes, and complex products, including engines, transmission, and other precision and performance-critical products. Moreover, we provide industrial engineering services to enable products to move from concept to production for customers around the globe. Our Software business delivers advanced virtual-engineering tools and leading-edge simulation software, and delivers solutions that help our customers reduce costs, resources, and time to market, while efficiently managing complexity and safety.

Financial and operational highlights

	2020/21	2019/20	(Decline)/ growth (%)
Order intake (£m)	64.0	78.0	(18)
Order book (£m)	53.3	66.7	(20)
Revenue (£m)	76.6	75.9	1
Underlying[(2)] operating profit (£m)	6.8	5.1	33
Underlying[(2)] operating profit margin (%)	8.9	6.7	2.2 pp
Headcount[(6)] (no.)	421	420	0

References in superscript are defined in the glossary of terms.

Revenue and operating profit both grew in FY 2020/21, by 1% and 33%, respectively. Underlying operating profit margin increased from 6.7% to 8.9%.

FY 2020/21 order intake was £64.0m, a reduction of £14.0m on the prior year. This reflects the timing of engine orders from McLaren and the recognition of the multi-year Porsche 992 Cup transmission order in FY 2019/20.

In line with expectations, McLaren engine volumes increased steadily during the course of FY 2020/21. Overall engine volumes were lower than FY 2019/20, driven by higher volumes in the pre-COVID first half of the prior year.

Transmission volumes increased year-on-year. Volumes sold to Bugatti (Chiron hyper-car), Porsche (992 Cup programme), and the UK Ministry of Defence (CVR(T) gearbox refurbishment) were in line with expectations. In June, PP delivered its first transmission units to Aston Martin for the Valkyrie hyper-car.

Software perpetual license sales increased in the year, driven by some large new wins in India, China and Japan. Software renewal rates remain high.

Operating profit margin improved year-on-year due to the mix and pricing of products sold.

As one of the leading specialists in designing and delivering solutions for the motorsport sector, Ricardo secured several key contracts over the year, including being selected to support Hyundai Motorsport in the development of the all-new hybrid four-wheel drive ('4WD') transmission for its new generation World Rally Championship ('WRC') car to be used in the competition from the 2022 season, while also renewing the existing agreement under which Ricardo supplies drivelines for the current generation i20 WRC car. Our new product-introduction programmes for hydrogen fuel-cell, traction battery, and E-machine solutions are supporting increased growth in sales across our entire customer base and the demand for perpetual software licences is leading to greater returns across Asia. We secured a significant contract win in India for a large-scale engine programme and were also awarded various virtual-calibration programmes for customers in China.

Operating segment review

From the onset of COVID-19, our PP division has executed a comprehensive response plan which has minimised disruption of our supply chain to maintain business continuity and to serve our customers. Nevertheless, there were still several delays to projects, programmes, and anticipated order awards in H1 which then improved significantly with uptake in H2 FY 2020/21. Brexit was also a contributing factor, affecting the supply chain because of administration difficulties as countries struggled with new processes and systems. This has settled down slightly with noticeable improvements to delivery schedules and transit periods coming into and out of the EU.

Outlook

The forthcoming year will see a considerable increase in output at our main UK manufacturing sites – the Shoreham Technical Centre and the Midlands Technical Centre – as demand for high-performance vehicles and from the motorsport sectors continue to recover. The priority for FY 2021/22 is to ensure the successful ramp-up of operations to deliver previously contracted work following delays in orders and programmes during the pandemic.

The core automotive markets for our software solutions will remain challenging in the next financial year because of continuing delays to new business orders as a result of COVID-19. The focus will be on sector diversification and moving to cloud-based solutions and consumption-based licencing models to complement the traditional on-premises annual lease and perpetual-licence business.

Condensed financial statements

Condensed consolidated income statement

for the year ended 30 June

		2021			2020		
		Underlying	Specific adjusting items(*)	Total	Underlying	Specific adjusting items(*)	Total
	Note	£m	£m	£m	£m	£m	£m
Revenue	*2 & 3*	351.8	-	351.8	352.0	-	352.0
Cost of sales		(234.1)	-	(234.1)	(236.9)	-	(236.9)
Gross profit		117.7	-	117.7	115.1	-	115.1
Administrative expenses		(96.2)	(14.1)	(110.3)	(96.4)	(20.9)	(117.3)
Other income		1.2	-	1.2	1.3	-	1.3
Operating profit/(loss)	*2*	22.7	(14.1)	8.6	20.0	(20.9)	(0.9)
Finance income		0.8	-	0.8	0.4	-	0.4
Finance costs		(5.5)	-	(5.5)	(4.8)	-	(4.8)
Net finance costs		(4.7)	-	(4.7)	(4.4)	-	(4.4)
Profit/(loss) before taxation		18.0	(14.1)	3.9	15.6	(20.9)	(5.3)
Income tax (expense)/credit		(4.8)	2.6	(2.2)	(4.1)	3.0	(1.1)
Profit/(loss) for the year		13.2	(11.5)	1.7	11.5	(17.9)	(6.4)
Profit/(loss) attributable to:							
- Owners of the parent		13.2	(11.5)	1.7	11.4	(17.9)	(6.5)
- Non-controlling interests		-	-	-	0.1	-	0.1
		13.2	(11.5)	1.7	11.5	(17.9)	(6.4)
Earnings/(loss) per ordinary share attributable to owners of the parent during the year							
Basic	*5*			2.9p			(12.2)p
Diluted	*5*			2.9p			(12.2)p

(*) Specific adjusting items are disclosed separately in the condensed financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. Further details are given in Note 1 and Note 4.

Condensed consolidated statement of comprehensive income

for the year ended 30 June

	2021 £m	2020 £m
Profit/(loss) for the year	1.7	(6.4)
Other comprehensive Income/(expense)		
Items that will not be reclassified to profit or loss:		
Remeasurements of the defined benefit pension scheme	9.1	(2.7)
Deferred tax on remeasurements of the defined benefit pension scheme	(2.0)	1.1
Total items that will not be reclassified to profit or loss	7.1	(1.6)
Items that may be subsequently reclassified to profit or loss:		
Currency translation on foreign currency net investments	(2.9)	0.5
Fair value losses on foreign currency cash flow hedges	-	(0.1)
Total items that may be subsequently reclassified to profit or loss	(2.9)	0.4
Total other comprehensive income/(expense) for the period (net of tax)	4.2	(1.2)
Total comprehensive income/(expense) for the year	5.9	(7.6)
Income/(expense) attributable to:		
- Owners of the parent	5.9	(7.7)
- Non-controlling interests	-	0.1
	5.9	(7.6)

The accompanying notes are an integral part of these financial statements.

Condensed financial statements

Condensed consolidated statement of financial position

	Note	2021 £m	2020 £m
Assets			
Non-current assets			
Goodwill	*7*	84.7	87.8
Other intangible assets		33.9	39.9
Property, plant and equipment		46.9	45.4
Right-of-use assets		19.5	23.9
Retirement benefit surplus		6.8	-
Other receivables		2.3	3.2
Deferred tax assets		8.3	9.4
		202.4	209.6
Current assets			
Inventories		16.9	20.1
Trade, contract and other receivables		126.9	115.6
Derivative financial assets		0.9	3.9
Current tax assets		1.5	5.7
Cash and cash equivalents	*9*	42.0	66.3
		188.2	211.6
Non-current assets held for sale	*8*	-	5.3
		188.2	216.9
Total assets		390.6	426.5
Liabilities			
Current liabilities			
Borrowings	*9*	12.8	10.6
Lease liabilities		5.5	6.7
Trade, contract and other payables		76.6	72.0
Current tax liabilities		1.4	7.5
Derivative financial liabilities		1.0	6.5
Provisions		4.0	3.2
		101.3	106.5
Net current assets		86.9	110.4
Non-current liabilities			
Borrowings	*9*	76.1	129.1
Lease liabilities		18.8	22.6
Trade, contract and other payables		-	3.6
Retirement benefit obligations		-	6.7
Deferred tax liabilities		8.2	5.6
Provisions		3.4	3.3
		106.5	170.9
Total liabilities		207.8	277.4
Net assets		182.8	149.1
Equity			
Share capital	*10*	15.6	13.4
Share premium	*10*	16.8	14.3
Other reserves	*10*	38.0	17.4
Retained earnings		112.2	103.5
Equity attributable to owners of the parent		182.6	148.6
Non-controlling interests		0.2	0.5

Total equity	182.8	149.1

Condensed consolidated statement of changes in equity

for the year ended 30 June

		Attributable to owners of the parent						
	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 July 2019		13.4	14.3	16.9	123.1	167.7	0.5	168.2
Loss for the year		-	-	-	(6.5)	(6.5)	0.1	(6.4)
Other comprehensive income/(expense) for the year		-	-	0.5	(1.7)	(1.2)	-	(1.2)
Total comprehensive income/(expense) for the year		-	-	0.5	(8.2)	(7.7)	0.1	(7.6)
Equity-settled transactions		-	-	-	0.6	0.6	-	0.6
Purchases of own shares to settle awards		-	-	-	(0.5)	(0.5)	-	(0.5)
Ordinary share dividends		-	-	-	(11.5)	(11.5)	(0.1)	(11.6)
At 30 June 2020		13.4	14.3	17.4	103.5	148.6	0.5	149.1
At 1 July 2020		13.4	14.3	17.4	103.5	148.6	0.5	149.1
Profit for the year		-	-	-	1.7	1.7	-	1.7
Other comprehensive (expense)/income for the year		-	-	(2.9)	7.1	4.2	-	4.2
Total comprehensive (expense)/income for the year		-	-	(2.9)	8.8	5.9	-	5.9
Issue of ordinary share capital	*10*	2.2	2.5	23.5	-	28.2	-	28.2
Reduction in share capital *6*		-	-	-	-	-	(0.2)	(0.2)
Equity-settled transactions		-	-	-	1.0	1.0	-	1.0
Ordinary share dividends	*6*	-	-	-	(1.1)	(1.1)	(0.1)	(1.2)
At 30 June 2021		15.6	16.8	38.0	112.2	182.6	0.2	182.8

Condensed consolidated statement of cash flows

for the year ended 30 June

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Profit/(loss) before taxation		3.9	(5.3)
Adjustments for:			
- Share-based payments		1.4	0.6
- Fair value losses on derivative financial instruments		0.7	0.3
- Profit on disposal of property, plant and equipment		(0.3)	(1.0)
- Net finance costs		4.7	4.4
- Depreciation, amortisation and impairment		26.6	30.3
Operating cash flows before movements in working capital		37.0	29.3
Changes in:			
- Inventories		2.9	(5.6)
- Trade, contract and other receivables		(7.5)	25.4
- Trade, contract and other payables		4.1	(12.3)
- Provisions		1.1	1.0
Defined benefit pension scheme payments in excess of past service costs		(4.6)	(4.6)
Cash generated from operations		33.0	33.2
Net interest paid		(4.2)	(4.2)
Income tax paid		(2.9)	(5.3)
Net cash from operating activities		25.9	23.7
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired		(5.2)	(4.3)
Purchases of property, plant and equipment		(4.5)	(22.0)
Proceeds from disposal of property, plant and equipment		0.3	2.8
Purchases of intangible assets and capitalised development costs		(8.9)	(9.2)
Net cash used in investing activities		(18.3)	(32.7)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		28.2	-
Purchases of own shares to settle awards		-	(0.6)
Principal element of lease payments		(6.5)	(5.6)
Principal element of lease receivables		0.2	0.2
Proceeds from borrowings	9	5.0	140.3
Repayment of borrowings	9	(57.9)	(90.7)
Dividends paid to shareholders and return of capital	6	(1.4)	(11.6)
Net cash (used in)/from financing activities		(32.4)	32.0
Effect of exchange rate changes on cash and cash equivalents		(1.7)	0.4
Net (decrease)/increase in cash and cash equivalents		(26.5)	23.4
Net cash and cash equivalents at 1 July		55.8	32.4
Net cash and cash equivalents at 30 June	9	29.3	55.8
At 1 July			
Cash and cash equivalents		66.3	36.3
Bank overdrafts		(10.5)	(3.9)
Net cash and cash equivalents at 1 July		55.8	32.4
At 30 June			
Cash and cash equivalents	9	42.0	66.3
Bank overdrafts	9	(12.7)	(10.5)
Net cash and cash equivalents at 30 June		29.3	55.8

The accompanying notes form an integral part of these condensed interim financial statements.

General information

Ricardo plc (the 'Company'), a public company limited by shares, is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is Shoreham Technical Centre, Shoreham-by-Sea, West Sussex, BN43 5FG, England, United Kingdom, and its registered number is 222915.

This preliminary announcement is based on the audited Annual Report & Accounts 2021, which was approved for issue on 14 September 2021, and which has been prepared in accordance with International Financial Reporting Standards ('IFRS'), IFRS Interpretations Committee ('IFRS-IC') interpretations adopted by the European Union ('EU') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006.

1. Alternative Performance Measures

Throughout this document the Group presents various alternative performance measures ('APMs') in addition to those reported under IFRS. The measures presented are those adopted by the Chief Operating Decision Maker ('CODM', deemed to be the Chief Executive Officer), together with the main Board, and analysts who follow the Group in assessing the performance of the business. Explanations of how they are calculated and how they are reconciled to an IFRS statutory measure are set out below.

a. Group profit and earnings measures

Underlying profit before tax ('PBT') and underlying operating profit: These measures are used by the Board to monitor and measure the trading performance of the Group. They exclude certain items which the Board believes distort the trading performance of the Group. These include the amortisation of acquired intangibles, acquisition-related expenditure, reorganisation costs, and other specific adjusting items.

The Group's strategy includes geographic and sector diversification, including targeted acquisitions and disposals. By excluding acquisition-related expenditure from underlying PBT and underlying operating profit, the Board has a clearer view of the performance of the Group and is able to make better operational decisions to support its strategy.

Acquisition-related expenditure includes the costs of acquisitions, deferred and contingent consideration fair value adjustments (including the unwinding of discount factors), transaction-related fees and expenses, and post-deal integration costs.

Reorganisation costs arising from major restructuring activities, profits or losses on the disposal of businesses, and significant impairments of property, plant and equipment, are excluded from underlying PBT and underlying operating profit as they are not reflective of the Group's trading performance in the year, as are any other specific adjusting items deemed to be one-off in nature.

The related tax effects on the above and other tax items which do not form part of the underlying tax rate are also taken into account. Items are treated consistently year-on-year, and these adjustments are also consistent with the way that performance is measured under the Group's incentive plans and its banking covenants. A reconciliation is shown below. Further details of the nature of the specific adjusting items are given in Note 4.

Reconciliation of underlying profit before tax to reported profit/(loss) before tax

	2021			2020		
	Underlying £m	Specific adjusting items £m	Total £m	Underlying £m	Specific adjusting items £m	Total £m
Revenue	351.8	-	351.8	352.0	-	352.0
Cost of sales	(234.1)	-	(234.1)	(236.9)	-	(236.9)
Gross profit	117.7	-	117.7	115.1	-	115.1
Administrative expenses and other income	(95.0)	-	(95.0)	(95.1)	-	(95.1)
Amortisation of acquired intangibles	-	(5.0)	(5.0)	-	(6.0)	(6.0)
Acquisition-related expenditure	-	(2.1)	(2.1)	-	(3.0)	(3.0)
Reorganisation costs	-	(5.4)	(5.4)	-	(11.9)	(11.9)
CEO exit costs	-	(1.5)	(1.5)	-	-	-
GMP equalisation	-	(0.1)	(0.1)	-	-	-
Operating profit/(loss)	22.7	(14.1)	8.6	20.0	(20.9)	(0.9)
Net finance expense	(4.7)	-	(4.7)	(4.4)	-	(4.4)
Profit/(loss) before taxation	18.0	(14.1)	3.9	15.6	(20.9)	(5.3)
Income tax (expense)/credit	(4.8)	2.6	(2.2)	(4.1)	3.0	(1.1)
Profit/(loss) for the year	13.2	(11.5)	1.7	11.5	(17.9)	(6.4)

Underlying earnings attributable to the owners of the parent: The Group uses underlying earnings attributable to the owners of the parent as the input to its adjusted EPS measure. This profit measure excludes the amortisation of acquired intangibles, acquisition-related expenditure, reorganisation costs and other specific adjusting items, but is an after-tax measure. The Board considers underlying EPS to be more reflective of the Group's trading performance in the year than reported EPS. A reconciliation between earnings attributable to the owners of the parent and underlying earnings attributable to the owners of the parent is shown in Note 5.

Organic growth/decline: Organic growth/decline is calculated as the growth/decline in the result for the current year compared to the prior year, after adjusting for the impact of acquisitions or disposals, to include the results of those acquisitions or disposals for an equivalent period in each financial year. As set out in Note 13 to the Group financial statements, the Group acquired the entire issued share capital of PLC Consulting Pty Ltd ('PLC Consulting') on 31 July 2019. Had PLC Consulting been acquired and consolidated from 1 July 2019, the impact on the Group would not have been material.

Constant currency growth/decline: The Group generates revenues and profits in various territories and currencies because of its international footprint. Those results are translated on consolidation at the foreign exchange rates prevailing at the time. Constant currency growth/decline is calculated by translating the result for the current year using foreign currency exchange rates applicable to the prior year. This provides an indication of the growth/decline of the business, excluding the impact of foreign exchange.

Headline trading performance	Underlying			Reported	
	Revenue	Operating profit	Profit before tax	Operating profit/(loss)	Profit/(loss) before tax
2021 (£m)	351.8	22.7	18.0	8.6	3.9
2020 (£m)	352.0	20.0	15.6	(0.9)	(5.3)
Growth (%)	-	14	15	1,056	174
Constant currency growth (%)	1	14	15	1,056	174

Segmental underlying operating profit: This is presented in the Group's segmental disclosures and reflects the underlying trading of each segment, as assessed by the main Board. This excludes segment-specific amortisation of acquired intangibles, acquisition-related expenditure and other specific adjusting items, such as reorganisation costs. It also excludes unallocated Plc costs, which represent the costs of running the public limited company and specific adjusting items which are outside of the control of segment management. A reconciliation between segment underlying operating profit, the Group's underlying operating profit and operating profit is presented in Note 2.

b. Cash flow measures

Cash conversion: A key measure of the Group's cash generation is the conversion of profit into cash. This is the reported cash generated from operations (defined as operating cash flow, less movements in net working capital and defined benefit pension deficit contributions) divided by earnings before interest, tax, depreciation, impairment and amortisation ('EBITDA'), expressed as a percentage.

Underlying cash conversion: This is underlying cash generated from operations (defined as reported cash generated from operations, adjusted for the cash impact of specific adjusting items) divided by underlying EBITDA (defined as reported EBITDA, adjusted for the impact of specific adjusting items). A reconciliation between the two is shown below.

	2021			2020		
	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting items	Total
	£m	£m	£m	£m	£m	£m
Operating profit/(loss)	22.7	(14.1)	8.6	20.0	(20.9)	(0.9)
Depreciation, amortisation and impairment	19.7	1.9	21.6	17.6	6.7	24.3
Amortisation of acquired intangibles	-	5.0	5.0	-	6.0	6.0
EBITDA	42.4	(7.2)	35.2	37.6	(8.2)	29.4
Movement in working capital	(2.3)	2.9	0.6	4.5	4.0	8.5
Pension deficit payments	(4.6)	-	(4.6)	(4.6)	-	(4.6)
Profit on disposal of assets	(0.3)	-	(0.3)	-	(1.0)	(1.0)
Share based payments	1.0	0.4	1.4	0.6	-	0.6
Fair value losses on derivative financial instruments	0.7	-	0.7	0.3	-	0.3
Cash generated from/(used in) operations	36.9	(3.9)	33.0	38.4	(5.2)	33.2
Cash conversion	87.0%		93.8%	102.1%		112.9%

Net debt: is defined as current and non-current borrowings less cash and cash equivalents, including hire purchase agreements, but excluding any impact of IFRS 16 lease liabilities. Management believes this definition is the most appropriate for monitoring the indebtedness of the Group and is consistent with the treatment in the Group's banking agreements.

c. Tax measures

Underlying effective tax rate ('ETR'): The Group reports one adjusted tax measure, which is the tax rate on underlying profit before tax. This is the tax charge applicable to underlying profit before tax expressed as a percentage of underlying profit before tax.

2. Financial performance by segment

The Group's operating segments are being reported based on the financial information provided to the Chief Operating Decision Maker who is the Chief Executive Officer. The information reported includes financial performance but does not include the financial position of assets and liabilities. The operating segments were identified by evaluating the Group’s products and services, processes, types of customers and delivery methods.

From FY 2020/21, due to restructuring within the Group, Strategic Consulting & Software (‘other’) is no longer being separately reported as an operating segment.

The Strategic Consulting element of this segment is now reported within Automotive & Industrial (‘A&I’). This business has a number of common customers, operates in similar markets to A&I, and is now run as a business unit within the overall A&I business. Since the start of FY 2020/21, the A&I EMEA Managing Director has overall responsibility for the Strategic Consulting service offering.

The Software element of this segment has been aggregated into the Performance Products operating segment for the purposes of segmental reporting. Whilst the Software business continues to be run as a separate business with its own leadership team, it has a number of similar characteristics to the Performance Products manufacturing business, in that it is involved in the development and sale of niche products, requiring a high level of capital/development spend, primarily selling to automotive manufacturers.

As a result of this change, the Group is now reporting the following five segments:

- Energy & Environment (‘EE’);
- Rail;
- Automotive & Industrial (‘A&I’);
- Defense; and
- Performance Products (‘PP’).

Prior year comparatives have been restated to present the results of Ricardo Strategic Consulting and Ricardo Software within Automotive & Industrial and Performance Products, respectively, in line with the current year. Consistent with the prior period, Plc costs includes the costs of running the public limited company, including foreign exchange exposure on intercompany loans.

Measurement of performance

Management monitors the financial results of its operating segments separately for the purpose of making decisions about allocating resources and assessing performance. Segmental performance is measured based on underlying operating profit, as this measure provides management with an overall view of how the different operating segments are managing their total cost base against the revenue generated from their portfolio of contracts.

There are varying levels of integration between the segments. The segments use EE for their specialist environmental knowledge. A&I and PP have various shared projects. There are also shared service costs between the segments. Inter-segment transactions are eliminated on consolidation. Inter-segment pricing is determined on an arm’s length basis in a manner similar to transactions with third parties.

Included within Plc costs in the following tables are costs arising from a central Group function, including the costs of running the public limited company, which are not recharged to the other operating segments. Comparative figures for the year ended 30 June 2020 have been restated, reflecting the impact of the changes the Group made to its operating segments during the year ended 30 June 2021.

For the year ended 30 June 2021	EE	Rail	A&I	Defense[1]	PP	Plc	Total
	£m	£m	£m	£m	£m	£m	£m
Total segment revenue	57.9	77.7	105.7	37.9	78.5	-	357.7
Inter-segment revenue	(0.8)	-	(3.2)	-	(1.9)	-	(5.9)
Revenue from external customers	57.1	77.7	102.5	37.9	76.6	-	351.8
Segment underlying operating profit/(loss)	8.5	8.0	(1.6)	5.4	6.8	-	27.1
Plc costs	-	-	-	-	-	(4.4)	(4.4)
Underlying[1] operating profit/(loss)	8.5	8.0	(1.6)	5.4	6.8	(4.4)	22.7
Specific adjusting items (*)	(0.9)	(3.6)	(5.6)	(0.4)	-	(3.6)	(14.1)
Operating profit/(loss)	7.6	4.4	(7.2)	5.0	6.8	(8.0)	8.6
Net finance costs							(4.7)
Profit before taxation							3.9
Depreciation and amortisation	3.3	6.1	10.2	1.8	3.9	1.3	26.6
Capital expenditure:							
- Other intangible assets	1.4	-	3.6	0.5	3.1	0.3	8.9
- Property, plant and equipment	0.4	0.2	2.3	0.6	0.8	-	4.3
- Right-of-use assets	0.2	0.8	0.6	0.8	-	-	2.4

For the year ended 30 June 2020[2]	EE	Rail	A&I	Defense[1]	PP	Plc	Total
	£m	£m	£m	£m	£m	£m	£m
Total segment revenue	51.7	75.4	119.8	32.8	78.3	-	358.0
Inter-segment revenue	(0.9)	(0.1)	(2.6)	-	(2.4)	-	(6.0)
Revenue from external customers	50.8	75.3	117.2	32.8	75.9	-	352.0
Segment underlying operating profit	6.3	5.8	0.5	5.1	5.1	-	22.8
Plc costs	-	-	-	-	-	(2.8)	(2.8)
Underlying[1] operating profit/(loss)	6.3	5.8	0.5	5.1	5.1	(2.8)	20.0
Specific adjusting items (*)	(1.7)	(5.5)	(10.4)	(0.5)	(0.3)	(2.5)	(20.9)
Operating profit/(loss)	4.6	0.3	(9.9)	4.6	4.8	(5.3)	(0.9)
Net finance costs							(4.4)
Loss before taxation							(5.3)
Depreciation and amortisation	3.7	6.5	14.1	1.4	3.3	1.3	30.3
Capital expenditure:							

- Other intangible assets	0.9	0.1	3.6	0.5	3.4	0.7	9.2
- Property, plant and equipment	0.3	0.2	19.8	0.3	1.0	0.4	22.0
- Right-of-use assets	-	0.1	4.5	0.4	0.1	-	5.1

(*) See Note 4.

(1) Defined in the glossary of terms.

(2) Prior year comparatives have been restated to present the results of Ricardo Strategic Consulting and Ricardo Software within Automotive & Industrial and Performance Products, respectively, in line with the current year.

3. Revenue

Disaggregation of revenue	2021 £m	2020 £m
a) Revenue stream		
Service provided under:		
- fixed price contracts	210.8	189.5
- time and materials contracts	65.9	73.3
- subscription and software support contracts	6.6	6.7
Goods supplied:		
- manufactured and assembled products	61.8	74.3
- software products	6.7	7.2
Intellectual property	-	1.0
Total	351.8	352.0
b) Customer location		
United Kingdom	118.9	124.6
Europe	76.2	80.4
North America	69.5	59.9
China	24.1	22.6
Rest of Asia	25.7	31.4
Australia	27.3	21.4
Rest of the World	10.1	11.7
Total	351.8	352.0
c) Timing of recognition		
Over time	289.6	276.4
At a point in time	62.2	75.6
Total	351.8	352.0

4. Specific adjusting items

Specific adjusting items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. These items comprise the amortisation of acquired intangible assets, acquisition-related expenditure, reorganisation costs and other non-recurring items that are included due to the significance of their nature or amount. Acquisition-related expenditure includes the costs of acquisitions, deferred and contingent consideration fair value adjustments (including the unwinding of discount factors), transaction-related fees and expenses, and post-deal integration costs. Reorganisation costs include costs arising from major restructuring activities, profits or losses on the disposal of businesses, and significant impairments of property, plant and equipment, and other items deemed to be one-off in nature.

For the year ended 30 June 2021	2021 £m	2020 £m
Amortisation of acquired intangibles	5.0	6.0
Acquisition-related expenditure	2.1	3.0
Reorganisation costs		
- Purchases and disposals	2.0	5.7
- Other reorganisation costs	3.4	6.2
CEO exit costs	1.5	-
Guaranteed Minimum Pensions ('GMP') equalisation	0.1	-
Total before tax	14.1	20.9
Tax credit on specific adjusting items	(2.6)	(3.3)
Tax charge on prior year specific adjusting item	-	0.3
Total after tax	11.5	17.9

Amortisation of acquired intangible assets

On acquisition of a business, the purchase price is allocated to assets such as customer contracts and relationships. Amortisation occurs on a straight-line basis over its useful economic life, which is between 3 and 9 years. During the year, certain "customer contracts and relationships" intangible assets reached the end of their economic life, resulting in a decrease in amortisation charges compared to the prior period.

Acquisition-related expenditure

The current year acquisition-related expenditure comprises £1.6m (2020: £2.8m) of earn-out and employee retention costs, accrued in relation to Transport Engineering Pty Ltd (now Ricardo Rail Australia - 'RRA'), acquired in May 2019, and PLC Consulting Pty Ltd (now Ricardo Energy Environment and Planning - 'REEP'), acquired in July 2019. Further details are provided in Note 13 to the Group financial statements. The current year charge also includes £0.5m of external fees incurred in relation to two strategic projects in the year.

The prior period charge included £0.4m of costs incurred in relation to the post-deal integration of RRA and REEP, and £0.9m costs incurred on acquisition processes (including REEP and other aborted processes), comprising external fees and the costs of running an internal acquisitions department to effect the acquisition processes. Offsetting these, £1.1m of income was recognised in relation to a gain on a foreign exchange option contract, which was taken out to hedge an aborted overseas transaction.

The above items have been classified as specific adjusting items as they meet the Group's definition of acquisition-related expenditure. The prior year gain on the option contract was classified as a specific adjusting item due to its non-recurring nature and the significance of the amount.

Reorganisation costs

Purchases and disposals

The current year charge includes a £1.5m impairment charge as a result of a decrease in the fair value of the Detroit Technology Campus ('DTC') South building, reflecting its market value at the balance sheet date. The property has been held-for-sale since its purchase in August 2019. It was purchased to remove the business from a long-term lease commitment which ran to October 2037 and comprised a North building, which housed testing operations, and a South office building. The campus was originally purchased for £14.2m (USD 17.3m), and immediately written down, resulting in an impairment charge of £2.5m (net of the extinguishment of an associated IFRS 16 lease liability) in the prior year as the purchase price was predicated on its tenancy. The North building and its associated test assets were sold in the second half of FY 2019/20 (see below) and the South building was impaired by a further £1.1m (USD 1.3m). The current year impairment charge reflects the impact of COVID-19 on the property market, with a significantly lower demand for office space depressing prices in the DTC area. These costs have been classified as specific adjusting items as they are significant in value and would distort the underlying trading performance of the Group if included. On 18 January 2021, as offers received were lower than expected, management decided to retain the use of the property. The property is continuing to be marketed for sale, but management no longer considers a sale within the next twelve months to be highly probable – see Note 18 to the Group financial statements..

The DTC North building and its associated test assets were sold on 3 June 2020 for up-front consideration of £2.8m (USD 3.5m), with up to an additional £1.5m (USD 2.0m) contingent on volume of testing work placed into the facility by Ricardo over the next two years. A loss of £2.1m (USD 2.7m), after taking into account the fair value of contingent consideration, was recognised on the disposal in the prior year. A charge of £0.5m (USD 0.8m) has been recognised in the current year, representing a reduction in the fair value of contingent consideration based on management's latest assessment of the testing volumes to be placed into the facility over the next twelve months. Ricardo received £0.2m (USD 0.3m) of contingent consideration in FY 2020/21.

Other reorganisation costs

Redundancy costs: The current period charge reflects a total of £2.5m of redundancy costs from headcount reductions in the Group's A&I business in EMEA. This was caused by a continuation of the challenging trading conditions seen throughout the year and the impact of COVID-19 on order intake levels as clients reduced levels of outsourcing and delayed major programmes. The A&I EMEA business previously incurred £2.0m of costs from headcount reductions in the second half of FY 2019/20, driven by impact of the outbreak of COVID-19 on trading conditions. Due to the continuing depressed economic conditions and various national lockdowns in Autumn 2020, further heads were removed from the business in the first half of this year at a cost of £1.3m. Order intake showed signs of improvement in the third quarter of the financial year, but further national lockdowns in Spring 2021 led to more project delays, which contributed to a decline in order intake in the fourth quarter. In June 2021, management announced a plan to take additional heads out of the business, recognising a £1.2m redundancy provision. These actions are deemed necessary to right-size the business based on current order intake levels and realign capabilities with changing customer demands. These costs have been included within specific adjusting items as they are significant in quantum and would otherwise distort the underlying trading performance of the Group.

In the prior year, in addition to the £2.0m of redundancy costs for A&I in EMEA, £1.4m of redundancy costs were incurred in Rail (the completion of a process which commenced in FY 2018/19), together with £1.0m of redundancy costs across A&I US, Performance Products, Software and Strategic Consulting (now part of A&I EMEA). £0.8m of incremental professional fees and external, non-revenue generating contractor costs were incurred, directly linked to the restructuring actions taken.

Property exit costs: As part of the restructuring actions, A&I in EMEA announced its decision to fully exit the Cambridge Technical Centre ('CaTC') at the end of June 2021, recognising a charge of £0.7m in respect of impairment of the lease right-of-use asset and leasehold improvements, dilapidations costs, and service fees through to the break date of June 2022. The treatment of these costs as specific adjusting items is consistent with the prior year, when an element of the building was vacated due to a reduction in headcount, resulting in a charge of £0.6m. In addition, £0.1m has been incurred in the current year in respect of the impairment of the right-of-use asset in Schwäbish Gmünd Technical Centre ('SGTC'), as management was in discussions with the landlord to surrender the lease at this site (on which Ricardo has a very limited presence) at the year-end (see Note 38 to the Group financial statements), together with £0.1m for the write off of equipment relating to the Santa Clara Technical Centre ('SCTC'), which was exited in June 2020. A charge of £0.4m was recognised in the prior year in respect of right-of-use and other asset impairments at SCTC and incremental contractor costs.

CEO exit costs

In January 2021, the Board announced that CEO Dave Shemmans will be leaving the Group, after sixteen years in the role. Costs of £1.5m have been accrued, covering his settlement, external legal fees, and external recruitment fees to find a successor. The costs have been recognised as specific adjusting items due to their non-recurring nature and quantum.

Guaranteed Minimum Pensions ('GMP') equalisation

In October 2018, the High Court issued a judgement confirming that pension schemes are required to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions ('GMP'), which resulted in a £1.3m charge in FY 2018/19. A further ruling in November 2020 confirmed that historical transfers out of the scheme, between May 1990 and October 2018 would also need to be equalised for GMP. This has resulted in an additional £0.1m charge in the current year, which has been classified as a specific adjusting items due to it being non-recurring in nature. The treatment is consistent with the treatment of the original GMP equalisation charge.

Tax charge on prior year specific adjusting items

During FY 2019/20, a tax charge of £0.3m was recognised in relation to adjustments to the prior year tax charge arising on the sale of the Germany test business in June 2018.

5. Earnings per share

	2021 £m	2020 £m
Earnings/(loss) attributable to owners of the parent	1.7	(6.5)
Add back the net-of-tax impact of:		
- Amortisation of acquired intangibles	3.9	4.5
- Acquisition-related expenditure	2.0	2.9
- Asset purchases and disposals	1.5	4.8
- Other reorganisation costs	2.7	5.4
- CEO exit costs	1.3	-
- Guaranteed Minimum Pensions ('GMP') equalisation	0.1	-
- Tax charge on prior year specific adjusting item	-	0.3
Underlying earnings attributable to owners of the parent	13.2	11.4

	2021 Number of shares millions	2020 Number of shares millions
Basic weighted average number of shares in issue	58.9	53.4
Effect of dilutive potential shares	-	-
Diluted weighted average number of shares in issue	58.9	53.4

Earnings/(loss) per share	2021 pence	2020 pence
Basic	2.9	(12.2)
Diluted	2.9	(12.2)

Underlying earnings per share	2021 pence	2020 pence
Basic	22.4	21.3
Diluted	22.4	21.3

Underlying earnings per share is also shown because the Directors consider that this provides a more useful indication of underlying performance and trends over time.

6. Dividends

	2021 £m	2020 £m
Final dividend for prior period: 0.00p per share (2020: 15.28p) per share	-	8.2
Interim dividend for current period: 1.75p per share (2020: 6.24p) per share	1.1	3.3
Equity dividends paid	1.1	11.5

A dividend of £0.1m (2020: £0.1m) was issued during the year by a subsidiary of the Group to a non-controlling party of that subsidiary. A return of capital of £0.2m (2020: Nil) was made during the year by a subsidiary of the Group to a non-controlling party of that subsidiary.

7. Goodwill

	2021	2020
	£m	£m
Movement in goodwill		
At 1 July	87.8	84.2
Acquisition of business	-	2.6
Exchange adjustments	(3.1)	1.0
At 30 June	84.7	87.8

The carrying value of goodwill and the key assumptions used in determining the recoverable amount of each CGU, or group of CGUs, are as follows:

	Carrying value		Pre-tax discount rate		Long-term growth rate	
	2021	2020	2021	2020	2021	2020
	£m	£m	%	%	%	%
Rail	44.9	46.6	10.8%	13.0%	3.6%	4.0%
Automotive and Industrial ('A&I') – EMEA[(1)]	19.6	20.6	13.2%	12.0%	*	3.0%
Energy and Environment ('EE') [(2)]	15.9	15.9	12.5%	13.0%	4.7%	2.0%
Defense	3.2	3.6	14.3%	13.0%	3.4%	4.0%
Performance Products ('PP')	1.1	1.1	12.9%	12.0%	0.4%	2.0%
At 30 June	84.7	87.8				

(1) As described in Note 2, the Strategic Consulting unit of what was previously the Strategic Consulting and Software segment is now run as a service line within the A&I EMEA business, with the A&I EMEA Managing Director having overall responsibility for the Strategic Consulting service offering. As such the strategic consulting business is considered to form part of the group of CGUs to which A&I EMEA goodwill is allocated.

(2) As set out in further detail in Note 13(a) to the Group financial statements, the Group acquired PLC Consulting Pty Ltd on 31 July 2019, adding goodwill of £2.6m to the EE CGU. PLC Consulting is an Australian firm with a strong technical advisory capability across the project life cycle in infrastructure, environment and planning, including supporting the environmental requirements of master-planning, business cases, procurement, design, construction and operation.

*See key assumptions below.

Key assumptions

The three-year plan and discounted cash flow calculations thereon provide a value-in-use which supports the carrying value of the goodwill allocated to each CGU, or group of CGUs, at 30 June 2021, resulting in no impairment for the year (2020: Nil). The three-year cashflow forecasts are based on the budget for the following year (year one) and the business plans for years two and three (the three-year plan). The three-year plan is prepared by management, and is reviewed and approved by the Board. The three-year plan reflects past experience, management's assessment of the current contract portfolio, contract wins, contract retention, price increases, gross margin, as well as future expected market trends (including the impact of COVID-19), adjusted to meet the requirements of IAS 36 Impairment of Assets.

Cash flows beyond year three are projected into perpetuity using a long-term growth rate, which is determined as being the lower of the planned compound annual growth rate in each CGU, or group of CGU,'s three-year plan and external third party forecasts of the prevailing inflation and economic growth rates for each of the territories in which each CGU, or group of CGUs, primarily operates. A&I EMEA (part of the A&I operating segment) cashflows were analysed into cashflows expected to arise directly from internal combustion engine ('ICE') related revenues and those related to non-ICE technologies. Due to regulatory and other changes in the market relating to ICE, a long-term decrease of 15% p.a. has been applied to ICE-related cashflows, and a long-term growth rate of 4.3% p.a., based on prevailing inflation and economic growth by territory, has been applied to the remaining non-ICE cashflows.

The cash flows are discounted at a pre-tax discount rate, which is derived from externally sourced data and reflects the current market assessment of the Group's time value of money and risks specific to each CGU.

Research and Development Expenditure Credits ('RDEC') cashflows are included in the value-in-use calculations for A&I EMEA, PP and EE. They are material to the A&I EMEA group of CGUs and have been included on the basis that there is no indication that the UK government will change this benefit.

Sensitivities

The value-in-use calculations were are assessed for sensitivity to reasonably possible changes to these estimates. With the exception of A&I EMEA, the sensitivities assessed include a 10% reduction in planned operating profit, a 10% increase in planned working capital movements, a 1% increase in the pre-tax discount rate and a 1% decrease in the long-term growth rate, together with a further scenario whereby all sensitivities were combined together. The above changes in key estimates do not cause the recoverable amount for any CGU or group of CGUs to be materially lower than the carrying amount.

Within the A&I operating segment, the A&I EMEA CGU has faced challenging trading conditions in the current and prior financial years, which have significantly reduced its profitability. The A&I EMEA three-year plan projects growth in revenue and operating profit, which is to be delivered through a combination of diversification into new innovative green technologies and markets, together with improving efficiency as a result of restructuring actions, including those which started to be implemented at the end of FY 2020/21. For goodwill allocated to the A&I EMEA CGU, at 30 June 2021, the recoverable amount exceeds the carrying value of the CGU by £35.8m. Sensitivities determined were as follows:

- A reduction of 38% in the operating profit levels would result in the recoverable amount being materially equal to the carrying value. A reduction in operating profit of this magnitude is considered reasonably possible, given the current and projected levels of profitability in the plan.
- If RDEC cash flows were excluded from the value-in-use calculation, then the goodwill balance would be fully impaired
- Individually, a 2% increase in the pre-tax discount rate, a 2% decrease in the long-term growth rate, a 10% increase in planned working capital movements do not cause the recoverable amount for the group of CGUs to be materially lower than the carrying amount.
- A scenario with a combination of a 1% increase in the pre-tax discount rate, a 1% decrease in the long-term growth rate, a 10% decrease in operating profit and a 10% increase in working capital movement does not cause the recoverable amount for the group of CGUs to be materially lower than the carrying amount.
- A scenario with a combination a 2% increase in the pre-tax discount rate, a 2% decrease in the long-term growth rate, a 10% decrease in operating profit and a 10% increase in working capital movement would result in an impairment of £10.0m.

8. Non-current assets held for sale

Movement in held for sale	Freehold land and buildings £m	Plant and machinery £m	Total £m
At 1 July 2019	-	2.9	2.9
Transferred from property, plant and equipment	8.6	1.1	9.7
Disposals	(2.1)	(4.0)	(6.1)
Impairment loss	(1.1)	-	(1.1)
Exchange rate adjustments	(0.1)	-	(0.1)
At 30 June 2020	5.3	-	5.3
At 1 July 2020	5.3	-	5.3
Impairment loss	(1.5)	-	(1.5)
Transferred to property, plant and equipment	(3.3)	-	(3.3)
Exchange rate adjustments	(0.5)	-	(0.5)
At 30 June 2021	-	-	-

Freehold land and buildings held for sale above consist of the DTC freehold property.

The DTC north building was sold on 3 June 2020, as discussed below. As at 30 June 2020, the DTC south building was still being marketed and remained held for sale. On 18 January 2021, it was reclassified to property, plant and equipment. Consistent with the treatment in the prior year, the impairment charge of £1.5m was recognised within specific adjusting items. It was included within the A&I segment and within administrative expenses in the reported result. See Note 16 to the Group financial statements for further details.

Plant and machinery: In January 2019, the Directors made a decision to commence a process to market actively its test cell assets at DTC for sale, which had a net book value of £2.9m (USD 3.7m) at 1 July 2019. During the prior year, the Group continued to invest in these assets to improve their desirability, increasing the held for sale net book value to £4.0m (USD 4.9m). These assets were sold on 3 June 2020, as discussed below.

Detroit test cell business and north building of Detroit Technology Campus	£m
Fair value of cash consideration	
Initial cash consideration	2.8
Provisional fair value of contingent cash consideration:	
- Less than one year	0.5
- More than one year	0.7
Total fair value of cash consideration	4.0
Carrying value of property, plant and equipment disposed	
Leasehold property	(2.1)
Plant and machinery	(4.0)
Total carrying value of property, plant and equipment disposed	(6.1)
Loss on disposal before tax	(2.1)

In June 2020, the Group sold the test cell assets and the DTC north building to a non-competitive strategic partner for an initial cash consideration of £2.8m (USD 3.5m), which could increase to a maximum of £4.3m (USD 5.5m), depending on the volume of testing work placed into the facility by Ricardo over the next two years. The total fair value of cash consideration was £4.0m (USD 4.9m), which included the accrued provisional fair value of contingent cash consideration payable of £1.2m (USD 1.5m). A loss of £2.1m (USD 2.6m) was recognised on the sale. Due to the nature and significance of the amount, the loss on disposal was recognised in the income statement within specific adjusting items.

Testing volumes were lower than anticipated in FY 2020/21, with £0.2m (USD 0.3m) of contingent consideration received in the year. Based on testing work placed into the facility in the year, management's order book and the latest probability-weighted pipeline, a charge of £0.5m (USD 0.7m), representing a reduction in the fair value of contingent consideration, was recognised in the income statement in the year. In line with the Group's policy, this charge has been recognised within specific adjusting items.

9. Net debt

Analysis of net debt

	2021 £m	2020 £m
Current assets - cash and cash equivalents		
- Cash and cash equivalents	42.0	66.3
Total cash and cash equivalents	42.0	66.3
Current liabilities - borrowings		
- Bank overdrafts repayable on demand	(12.7)	(10.5)
- Hire purchase liabilities maturing within one year	(0.1)	(0.1)
Total current borrowings	(12.8)	(10.6)
Non-current liabilities - borrowings		
- Hire purchase liabilities maturing after one year	(0.3)	(0.4)
- Bank loans maturing after one year	(75.8)	(128.7)
Total non-current borrowings	(76.1)	(129.1)
At 30 June	(46.9)	(73.4)
Total cash and cash equivalents at 30 June	42.0	66.3
Total borrowings at 30 June	(88.9)	(139.7)
At 30 June	(46.9)	(73.4)

Movement in net debt	2021 £m	2020 £m
At 1 July	(73.4)	(47.4)
Net (decrease)/increase in cash and cash equivalents and bank overdrafts	(26.5)	23.4
Repayments of hire purchase	0.1	0.2
Proceeds from bank loans	(5.0)	(140.3)
Repayments of bank loans	57.9	90.7
At 30 June	(46.9)	(73.4)

At the year-end, the Group had current hire-purchase liabilities of £0.1m and non-current hire-purchase liabilities of £0.3m. This hire-purchase agreement has an implicit rate of interest of 2.4%. The future undiscounted minimum lease payments due within one year is £0.1m and due after one year is £0.3m.

At the year-end, the Group held total banking facilities of £215.5m (2020: £216.6m), which included committed facilities of £200.0m (2020: £200.0m). The committed facility consists of a £200.0m multi-currency Revolving Credit Facility ('RCF') which provides the Group with committed funding through to July 2023. In addition, the Group has uncommitted facilities including overdrafts of £15.5m (2020: £16.6m), which mature throughout this and the next financial year and are renewable annually.

Non-current bank loans comprise committed facilities of £75.8m (2020: £128.7m), net of direct issue costs, which were drawn primarily to fund acquisitions and general corporate purposes. These are denominated in Pounds Sterling and have variable rates of interest dependent upon the Group's adjusted leverage, which range from 1.4% to 2.2% (2020: 1.4% to 2.2%) above LIBOR. On 29 June 2021 the Group made amendments to the £200.0m committed Revolving Credit Facility ("RCF") to accommodate the forthcoming cessation of LIBOR. The Group has adopted SONIA as the risk-free rate to replace LIBOR. No other amendments to the facilities were made.

Adjusted leverage is defined in the Group's banking documents as being the ratio of total net debt to adjusted EBITDA. Adjusted EBITDA is further defined as being operating profit before interest, tax, depreciation, impairment and amortisation, excluding the impact of IFRS 16, adjusted for any one-off, non-recurring, exceptional costs and acquisitions or disposals during the relevant period. At the reporting date, the Group has an adjusted leverage of 1.3x, which attracts a rate of interest of LIBOR plus 1.8% (2020: LIBOR plus 1.4%). The Group has banking facilities for its UK companies which together have a net overdraft limit, but the balances are presented on a gross basis in the financial statements.

10. Issue of share capital

On 11 November 2020, Ricardo plc issued 8,812,030 new ordinary shares of 25 pence, representing 16.5% of the existing issued ordinary share capital of the Company. They were issued at a price of 333 pence per share, being a discount of 9.76 per cent to the closing mid-price on 10 November 2020, raising gross proceeds of £29.3m. Associated transaction costs of £1.1m were incurred, including £0.7m brokerage fees and £0.4m of other directly attributable professional fees. The issue was carried out in order to reduce leverage, strengthen the balance sheet and provide adequate working capital for the business.

The issue took place in the three parts; "Subscription shares" subscribed for by certain directors of the company for cash consideration; "Placing shares" placed via Liberum Capital Limited and Investec Bank plc, to certain existing shareholders and other institutional investors, in exchange for preference shares in Project Star Funding Limited; and "Retail shares" offered by the Company for cash consideration.

The number of shares issued in each category, and the associated proceeds, are as follows:

	Number of shares	Percentage of total shares	£m
Subscription shares	29,128	0.05%	0.1
Placing shares	7,981,809	14.95%	26.6
Retail shares	801,093	1.50%	2.6
Total shares issued/proceeds	8,812,030	16.50%	29.3
Directly attributable transaction costs			(1.1)
Net proceeds			28.2

Subscription shares

The subscription shares were subscribed by the following directors:

	Number of shares	£k
Ian Gibson	7,507	25
Dave Shemmans	3,003	10
Russell King	5,105	17
William Spencer	2,402	8
Sir Terry Morgan	11,111	37
Net proceeds	29,128	97

The proceeds of £0.1m resulted in share capital of £nil and a share premium balance of £0.1m. There were no fees allocated to this element of the issue.

Placing shares

The placing shares were issued via a 'cashbox' structure, whereby Ricardo plc shares were issued in exchange for preference shares in Project Star Funding Limited, a special purpose vehicle. Section 565 of the Companies Act 2006 allows new shares to be issued for non-cash consideration under exception from the pre-emption requirements of section 561 of the Companies Act 2006.

Project Star Funding Limited ('PSFL') was incorporated in Jersey on 4 September 2020. Prior to the placing, Ricardo plc held 89% of the ordinary share capital of PSFL, with the other 11% held by Liberum Capital Limited.

On 11 November 2020 PSFL issued preference share capital of £26.6m (with no par value) to Liberum Capital Limited. Liberum Capital Limited and Investec Bank plc placed shares to certain existing shareholders and other institutional investors, the proceeds of which were used to settle the consideration for the preference share capital. Ricardo plc allotted new ordinary shares in consideration for the transfer of all of Liberum Capital Limited's preference and ordinary shares in PFSL. The issue created an additional £2.0m of share capital. The premium on issuance of these shares was £23.5m, net of directly attributable costs of £1.0m. Since the premium arose from an issuance the purpose of which was to acquire more than 90% of the equity of PSFL, under s612 of the Companies Act 2006 the associated premium is therefore accounted for as a merger reserve.

On the 18 November, PSFL redeemed its preference shares, and PSFL was dissolved on 24 November 2020.

Retail shares

In order to provide retail and other interested investors the opportunity to participate in the offer, shares were made available via PrimaryBid.com, a platform that facilitates discounted equity offerings for publicly listed companies. Due to its size, the issue fell within the exemption set out in section 86(1)(e) and 86(4) of the Financial Services and Markets Act 2000, as amended, and the company was not required to publish a prospectus.

The £2.6m proceeds (net of directly attributable fees of £0.1m) resulted in additional share capital of £0.2m and a share premium balance of £2.5m.

Treatment of proceeds

The total net proceeds were accounted for as follows:

	£m
Share capital: at 25p per share	2.2
Share premium: premium on retail and subscription share issue, net of directly attributable costs	2.5
Merger reserve: premium on placing share issue, net of directly attributable costs	23.5
Net proceeds	28.2

11. Contingent liabilities

In the ordinary course of business, the Group has £13.0m (2020: £9.4m) of possible obligations for bonds, guarantees and counter-indemnities placed with the Group's banking and other financial institutions and primarily relating to performance under contracts with customers. These possible obligations are contingent on the outcome of uncertain future events which are considered unlikely to occur. The Group is also involved in commercial disputes and litigation with some customers, which is also in the normal course of business. Whilst the result of such disputes cannot be predicted with certainty, the ultimate resolution of these disputes is not expected to have a material effect on the Group's financial position or results.

In July 2013, a guarantee was provided to the Ricardo Group Pension Fund ('RGPF') of £2.8m in respect of certain contingent liabilities that may arise, which have been secured on specific land and buildings (see Note 16 to the Group financial statements.). The outcome of this matter is not expected to give rise to any material cost to the Group. In October 2018, a further guarantee was provided to the RGPF for an amount that shall not exceed the employers' liability were a debt to arise under Section 75 of the Pensions Act 1995. The guarantee will terminate on 5 April 2023. The outcome of this matter is not expected to give rise to any material cost to the Group on the basis that the Group continues as a going concern.

12. Events after the reporting date

On 31 July 2021, the Group terminated its lease for the Schwäbish Gmünd Technical Centre, incurring a termination fee of £0.3m (€0.4m). At this date, the related right-of-use asset of £1.1m was derecognised, £0.1m of leasehold improvements were impaired, the £1.5m lease liability balance was released. The net impact to the income statement was nil.