Ricardo-AEA Limited

Annual Report and financial statements

for the year ended 30 June 2022

Ricardo Energy & Environment is the

trading name of Ricardo-AEA Limited

Registration Number 08229264

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Ricardo-AEA Limited

Company Information

Directors

T J Curtis
I J Gibson
I F Rogerson

Company Secretary
D Hartley

Registered office

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Independent auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Principal bankers

Lloyds Bank plc
3rd Floor
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First Point
Buckingham Gate
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RH16 0NT

Strategic report

The Directors of Ricardo-AEA Limited (trading as Ricardo Energy & Environment) and hereafter referred to as the 'Company', present their strategic report for the year ended 30 June 2022.

Our Mission

'Solving the world's most pressing energy and environmental challenges'

Fair review of the company business

The Company delivers technical and scientific environmental consultancy services with capabilities in climate change, energy, waste, water, corporate sustainability and decarbonisation, sustainable transport and air quality.

The Company has had a positive year of growth driven by the continually increasing pressures on governments and organisations to tackle environmental challenges and respond to the worsening impacts resulting from climate change.

The Company has seen significant demand from governments around the world for a wide range of policy and technical support to enable increased momentum in order to realise national climate commitments. The Company has seen increased large-scale projects from private sector organisations that have invested in our expertise to define clear and robust pathways to achieve net zero emissions and build resilience to the impacts of the changing environment.

Highlights include:

- Orders secured of £66.8 million (2021: £61.1 million)
  Orders increased by £5.7m (9%) due to strong market performance across the business.
- Revenue of £63.2 million (2021: £53.8 million)
  Revenue increased by £9.4m (17%) driven by the improved orders performance and increased staff intake of 99 during the year.
- Underlying operating profit of £8.2 million (2021: £7.8 million) (measured as profit before acquisition costs and amortisation of acquired intangibles). This measure is considered to better reflect the trading operations and underlying performance of the business.
  Underlying profit increased by £0.4m (5%) and reflects strong revenue growth and cost management.
- Reported operating profit of £8.2 million (2021: £7.3 million)
  Operating profit has increased by £0.9m (12%) and reflects strong revenue growth and cost management.
- Net Assets of £31.9 million (2021: £27.9 million).
  Increased by £4.0m (14%) due to increased profit during the year and includes a dividend payment of £2.2 million.

Coronavirus (COVID-19)

COVID-19 has impacted the business for the first three quarters of the current financial year compared to all of the previous financial year. The impact continued to be felt mainly in the international projects. We were largely able to mitigate the inability to travel through use of technology and the much-reduced business travel costs have further helped to mitigate the impact. The environmental focus from Governments on net zero, sustainability and climate change has continued with positive impact through 2022 and we expect this trend to continue.

Brexit

Post Brexit we continue to see high levels of European Commission (EC) work, and have been able to contract with the Commission through our Group European based subsidiaries, we continue to recruit strongly in Europe across a number of locations. The outlook for 2023 continues to look positive.

Principal Risks and Uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of its fellow subsidiaries that are ultimately controlled by Ricardo plc (the 'Group') and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company and the potential risk and impact of COVID-19 and Brexit, are disclosed on pages 58 to 61 of Ricardo plc's Annual Report & Accounts 2021/22, and do not form part of this Annual Report.

The Company has net assets of £31.9 million (2021: £27.9 million) and net current assets of £16.5 million (2021: £13.0 million), of which £7.7 million (2021: £6.1 million) is comprised of cash and cash equivalents. The Company also had access to the Group's £200 million committed multi-currency Revolving Credit Facility ('RCF') during the year. On 2 August 2022, the Group completed a refinancing of its banking facilities, entering into a new £150.0m committed multi-currency RCF. The banking facilities were used to pay and cancel the previous committed RCF of £200m. The RCF is committed for 4 years to August 2026 with an uncommitted option to extend for a further year and with an additional uncommitted £50m accordion. The interest rate of the facility ranges from 1.65% to 2.45% above SONIA and is dependent upon the Group's adjusted leverage. All other terms of the facility remain materially the same. The refinanced banking facilities will provide the Group with sufficient funding to support future acquisitions, strategic investments and new projects, and will also be used for general corporate purposes. On this basis the Directors are satisfied that the Company has sufficient net assets and cash reserves in order to continue to trade for a period of at least twelve months from the date of approval of these financial statements.

Climate change

Our revenue streams have been analysed to assess how strongly they are driven by climate change and the environment:

- Revenue generated which is specifically intended to address climate change 34%
- Revenue generated which is driven by a significant environmental issue 47%
- Revenue generated which has environmental benefit as one of its drivers 18%
- Revenue generated which relates to safety in terms of both assurance and mobility improvements 1%
- None of the above 0%

Around 80% of the company's FY2021/22 revenue was directly driven by climate change or other environmental challenges such as air quality, water quality or waste management. Climate change driven

projects include net zero strategies and plans, greenhouse gas inventory support, renewable energy projects, life cycle assessment (LCA), climate change policy studies and energy efficiency advice to businesses. The vast majority of the company's other revenues also provide environmental benefits. For example, power sector planning projects improve energy access and help decarbonise the electricity grid while chemical risk advice saves lives and reduces the environmental impacts of chemicals.

Research and Development

Ongoing R&D investment supports the Company's strategy for growth. The Company submits annual claims in respect of the UK Government's Research and Development Expenditure Credit ('RDEC') scheme, which gives relief on R&D and other related qualifying expenditure under the scheme. The total RDEC recognised in the current year was £0.9 million (2021: £0.5 million) and comprised a current year claim of £0.7 million (2021: £0.4 million) together with £0.2 million (2020: £0.5 million) arising from the routine amendment of open prior year applications.

Development costs capitalised this year were £1.4 million (2021: £1.4 million), reflecting our continued investment in new technology, tools, processes and software development to create opportunities and meet the needs of our customers.

Key Performance Indicators

- Revenue of £63.2 million (2021: £53.8 million)
- Underlying Operating profit of £8.2 million (2021: £7.8 million) (Operating profit before acquisition costs and amortisation of acquired intangibles)
- Order intake of £66.8 million (2021: £61.1 million)
- Cash net of bank overdrafts of £7.7 million (2021: £6.1 million)
- Employee retention of 87% (2021: 90%)

Directors' duty under section 172 of Companies Act 2006

In discharging our section 172 duties, Directors are required to have regard, among other matters, to the likely consequences of any decisions in the long-term interests of the Company's employees, the need to foster the Company's business relationships with suppliers, customers and others, the impact of the Company's operations on the community and environment, the desirability of the Company maintaining a reputation for high standards of business conduct and the need to act fairly as between members of the Company. In addition to the above, we also have regard to other factors which we consider relevant to the decisions being made. These factors include the interests and views of Ricardo's pensioners and our relationship with regulators. The Directors acknowledge that every decision they make will not necessarily result in a positive outcome for all of the Company's stakeholders, but by considering the Company's purpose and values, together with its strategic priorities and having a process in place for decision-making the Directors do aim to make sure that their decisions are consistent and predictable.

The key stakeholder considerations that were central to the Directors' decisions and the way in which they have had regard to the need to engage with employees and foster the Company's business relationships with customers, suppliers and other stakeholders, are set out on pages 9 and 10.

Future Developments

We continue to have a growing order book and pipeline of new opportunities; our key European Commission and UK Government customers continue to address the global environmental issues and we see this continuing into the next financial year. Our focus will be on enhancing our activity across our spectrum of services from evidence and policy work through to supporting decarbonisation and sustainability solutions for clients. We plan to continue to grow our air quality and greenhouse gas expertise as well as developing our policy offerings. We are continuing to see strong demand in Europe and strong growth in the UK water sector.

We remain focused on delivering profitable growth, a healthy cash performance through strong working capital management and ensuring efficient operations and delivery.

On behalf of the Board

I F Rogerson

Director

16 November 2022

Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 30 June 2022.

Directors

The Directors who held office between 1 July 2021 and the date of signing this report are shown below:

T J Curtis
I J Gibson
I F Rogerson
D J Shemmans (resigned 30 September 2021)

Directors' indemnities

The Company has purchased and maintained throughout the year and up until approval of these financial statements Directors' and Officers' liability insurance in respect of itself and its Directors. The Directors also have the benefit of the indemnity provisions in the Company's Articles of Association. The Company has entered into letter agreements for the benefit of the Directors of the Company in respect of liabilities which may attach to them in their capacity as Directors of the Company or associated companies. These provisions are qualifying third party indemnity provisions as defined in section 234 of the Companies Act 2006.

Results and dividends

The Company's profit for the financial year was £6.2m (2021: £5.3m). Interim dividends of £2.2m (2021: £1.8m) were paid during the financial year and no final dividend is proposed (2021: £Nil).

These financial statements of Ricardo-AEA Limited have been prepared in accordance with the Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

Required information provided in the Strategic Report

The Strategic report on pages 4 to 7 provides a review of the business, its research and development activities during the year, and the likely future developments of the Company, all of which form part of this report by cross-reference.

Employee Engagement

The Company provides colleagues with various opportunities to obtain information on matters of concern to them and to improve awareness of the financial and economic factors that affect the performance of the Company. These include bi-annual presentations to all members of staff, department and team briefings and meetings with employee representatives that take place throughout the year.

The Company strives to operate fairly at all times and this includes not permitting discrimination against any employee or applicant for employment on the basis of race, religion or belief, colour, gender, disability, national origin, age, military service, veteran status, sexual orientation or marital status. This includes giving full and fair consideration to suitable applications for employment from disabled persons and making appropriate accommodations so that if existing employees become disabled they can continue to be employed, wherever practicable, in the same job or, if this is not practicable, making every effort to find suitable alternative employment and to provide relevant training.

From time to time the ultimate parent company operates tax-advantaged share plans for the UK employees of the Company. These are a Share Incentive Plan ('SIP') and Save As You Earn share option ('SAYE') scheme and

they are intended to encourage share ownership and wider interest in the performance of the shares of the ultimate parent company. Executive Directors are eligible to participate in these arrangements up to the applicable statutory limits. The SIP provides for partnership, matching, free and dividend shares. Equivalent arrangements operate from time to time for non-UK employees of the Company

Engaging with stakeholders

Our culture, underpinned by our values, plays a fundamental role in the way that we do business, deliver our strategic objectives and company performance. The Directors recognise that having robust governance structures in place is vital to decision making. The Directors spend a lot of time listening to and understanding the views of the key stakeholders.

When discussing matters at board meetings these views form an integral part of decision making. In support of the requirements of section 172 of the Companies Act 2006, the way in which the Directors have considered the key issues of the Company's stakeholders and engaged with these stakeholders on these issues is set out below:

Our stakeholders	Key areas of interest	How we have engaged companywide
Parent company A key objective is to deliver long-term and sustainable growth for the ultimate parent company of the Group, which in turn creates value for its shareholders	• Financial performance • Strategy • Going concern	• Monthly performance meetings • Annual Report • Providing input into results statements, trading updates and press releases • Regular interaction with the Chief Executive Officer and Chief Financial Officer, who convey and review our strategy, objectives and performance with institutional shareholders and major investors
Customers At Ricardo, our customers are the cornerstone of everything that we do. We are committed to delivering service excellence and building last customer relationships that provide not only enhanced service levels but also ensure the future sustainability of the Company.	• Delivery of innovative solutions. • Lasting customer relationships • Technical expertise • Maintain consistent and high service levels • Sustainable services to meet evolving customer requirements around global green agendas.	• Dedicated marketing and sales teams across disciplines, market sectors, and territories. • Sector specialist knowledge to build tailored solutions in response to customers' needs.
Colleagues The experience and expertise of our colleagues is essential for the delivery of our strategy. We ensure that, as a business, we promote an open culture that is diverse and inclusive, and which fosters good engagement that allows us to deliver value to our customers.	• Safety systems of work to ensure health and safety (including mental health and wellbeing). • Systems to enable speaking up and solving problems. • Business has future capabilities in its people that it needs to grow. • Employee value proposition is appealing and attracts talent. • Talent acquisition is effective in bringing talent into Ricardo. • Culture and ways of working encourage high levels of engagement and commitment. • DEI practices to encourage further diversity in recruitment and inclusion within the organisation.	• Focus on 'healthy team, healthy business', with the emphasis on physical and mental wellbeing • Employ a 'digital first' approach • Fast and efficient move to more flexible working practices, including home working • Company-wide employee engagement surveys • Annual senior and business leadership programmes to nurture talent • Code of ethics, whistleblowing hotline, and training • Performance review and development process • Diversity and inclusion, gender pay gap and staff engagement forums

Our stakeholders	Key areas of interest	How we have engaged companywide
Communities As a global company, we play an active role in helping our local communities thrive by contributing both socially and economically. We are duty bound to operate in a responsible and sustainable way and we do so by always aligning our decisions and actions according to our values and our ESG commitments.	• Protecting society • Environmental impacts through indirect and direct actions. • Clear ESG policies that commit to making our operations more energy efficient. • Support local initiatives and charitable causes.	• Encourage local engagement to promote positive change through participation in charitable and social events. • Focus on providing services and products which positively impact the environment • Promotion of Science, Technology, Engineering and Mathematics ('STEM') subjects in schools and colleges • Working with local communities and partnerships to provide business input on economic regeneration Supporting charitable fundraising activities
Suppliers Ricardo has a global network of suppliers that provide us with services and products that are needed for us to deliver according to customer requirements. For this reason, we actively engage with our suppliers to build trusted relationships to ensure our operational success across our operating segments.	• Sustainable procurement • Uphold ethical standards • Potential disruption of the supply chain • Competitiveness • Single-sourcing decisions made with our customers	• We ask our suppliers to operate according to our codes of conduct and other policies and to behave responsibly at all times. This is firmly embedded in our terms and conditions. • We conduct initial and periodic due diligence and expect our suppliers to operate according to professional standards to assure good performance. • Suppliers to operate to ISO9001, ISO14001, ISO27001 and ISO45001 or equivalent professional standards • We encourage landlords and other key suppliers to maximise use of renewable energy

Financial risk management

The Company has risk management processes in place for projects and other business risks. Contract risks are managed through a project management process which is closely linked to measurement of financial performance. The majority of active projects are reviewed on a monthly basis. In addition, the highest risk category projects are independently reviewed by senior management either on a quarterly basis or once significant milestones are deemed to have been achieved.

Non-contract risks are owned by Group functions and the Managing Directors of the Company's operating segments. These non-contract risks are analysed and reviewed regularly and are recorded in the Group's risk register in liaison with the Group's Risk Manager, who has an independent reporting line to the Chairman of the Group's Audit Committee. The approach to risk management is to identify key risks early and to remove, control or minimise the impact of them before they occur.

Risk transfer is managed through insurances by the Group's Risk Manager under the direction of the Group's Chief Financial Officer. The insurance programme is reviewed annually by the Group's Board of Directors to ensure that it continues to meet business needs as the risk profile changes.

Risk appetite is managed through a number of internal controls, authority limits and insurance excesses. The Group's risk appetite was reviewed during the year as part of the Group's Board of Directors' review of risks and is stated as an internal policy document to ensure that:

- risks are either classified as strategic or operational and as either internally or externally driven;
- risks are evaluated on a gross and net risk basis;
- emergent risks are considered; and
- the Group's Chief Executive Officer reviews the higher-rated risks on the Group's risk register with the Group's Audit Committee twice each year, in the presence of the Group's other Executive Directors and the Group's Chairman.

The Group's internal audit function provides assurances on systems of internal control, risk management and compliance with applicable legislation and regulations. This is complemented by internal audits required as part of maintaining certifications to international standards for management systems. The effectiveness of these risk management and internal audit processes is reviewed annually by the Group's Audit Committee.

Financial risks faced by the Company comprise credit risk and foreign exchange risk. Capital, liquidity and interest rate risks are managed by the ultimate parent company.

The Company faces currency exposures on trading transactions undertaken in foreign currencies and balances arising therefrom, primarily in Europe. The ultimate parent company uses derivative financial instruments to manage these transactional exposures relating to customer contracts denominated in foreign currencies on consolidation.

The Company is exposed to credit risk in respect of its trade receivables, which are stated net of provision for impairment. We have limited experience of bad debts with any of our customers and exposure to this risk is mitigated by careful evaluation of the granting of credit and the use of credit insurance where practicable. Concentrations of credit risk with respect to trade receivables are limited due to the Company's customer base being geographically diverse, large and unrelated.

The Company is exposed to bank credit risk in respect of money held on deposit and certain derivative transactions entered into with banks. Exposure to this form of risk is mitigated as material transactions are only undertaken with bank counterparties that have high credit ratings assigned by international credit-rating agencies. The Company further limits risk in this area by setting an overall credit limit for all transactions with each bank counterparty in accordance with the institution's credit standing.

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Independent auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approval

Approved by the Board and signed on its behalf by:

I F Rogerson

Director

16 November 2022

Independent auditor's report to the members of Ricardo-AEA Limited

Opinion

We have audited the financial statements of Ricardo-AEA Limited ("the Company") for the year ended 30 June 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the Accounting Policies in Note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors , internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud; and
- Reading Board meeting minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the relatively low estimation risk across the contract portfolio, the historical accuracy of forecasting and the strength of the control environment in place.

We also identified a fraud risk related to inappropriate capitalisation of development costs in response to possible pressures to meet profit targets.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to revenue, cash, and capitalised development costs, where applicable, to check for unexpected journal pairings; and
- The vouching of a sample of timesheet entries recorded directly with employees to confirm their accuracy.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other managements the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the director's inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent auditor's report to the members of Ricardo-AEA Limited (continued)

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Mohammed Sami (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

17 November 2022

Ricardo-AEA Limited

Statement of comprehensive income

for the year ended 30 June 2022

	Notes	**2022 £'000**	2021 £'000
Revenue	2	**63,203**	53,803
Cost of sales		**(42,725)**	(35,551)
Gross profit		**20,478**	18,252
Administrative expenses		**(12,729)**	(10,991)
Other income		**480**	511
Specific adjusting items[1]	3	**(70)**	(487)
Operating profit	4	**8,159**	7,285
Finance income		**294**	168
Finance costs		**(369)**	(395)
Net finance costs	7	**(75)**	(227)
Profit before taxation		**8,084**	7,058
Comprising:			
Underlying profit before taxation		**8,229**	7,772
Specific adjusting items[1]	3	**(70)**	(487)
Income tax expense	8	**(1,887)**	(1,718)
Profit and total comprehensive income for the year		**6,197**	5,340

[1] Specific adjusting items comprise amortisation of acquired intangible assets. Further details are given in Note 3.

The notes on pages 20 to 42 are an integral part of these financial statements.

Ricardo-AEA Limited

Statement of financial position

as at 30 June 2022

	Notes	**2022** **£'000**	2021 restated* £'000
Assets			
Non-current assets			
Goodwill	10	**9,891**	9,891
Other intangible assets	11	**4,264**	3,510
Property, plant and equipment	12	**1,616**	1,412
Right-of-use assets	13	**4,263**	5,179
Investments	14	**95**	95
Deferred tax assets		**228**	231
Trade, contract and other receivables	15	**13,794**	8,847
		34,151	29,165
Current Assets			
Trade, contract and other receivables	15	**18,436**	15,861
Current tax assets		**8**	88
Cash and cash equivalents		**7,743**	6,091
		26,187	22,040
Total assets		**60,338**	51,205
Liabilities			
Current liabilities			
Trade, contract and other payables	16	**(21,057)**	(15,734)
Lease liabilities	13	**(1,233)**	(1,258)
Current tax liabilities		**(1,044)**	(741)
Provisions	17	**(20)**	-
		(23,354)	(17,733)
Net current assets		**2,833**	4,307
Non-current liabilities			
Lease liabilities	13	**(3,584)**	(4,560)
Deferred tax liabilities	18	**(1,315)**	(844)
Provisions	17	**(138)**	(158)
		(5,037)	(5,562)
Total liabilities		**(28,391)**	(23,295)
Net assets		**31,947**	27,910
Shareholders' equity			
Share capital	19	**18,000**	18,000
Retained earnings		**13,947**	9,910
Total equity		**31,947**	27,910

* The split of prior year receivables have been restated between current and non-current. See note 15 for further details.

The notes on pages 20 to 42 are an integral part of these financial statements.

The financial statements of Ricardo–AEA Limited, registered number 08229264, on pages 177 to 42 were approved by the Board of Directors on 16 November 2022 and signed on its behalf by

I F Rogerson
Director

Ricardo-AEA Limited

Statement of changes in equity

for the year ended 30 June 2022

	Note	Share capital £'000	Retained earnings £'000	**Total equity £'000**
At 1 July 2020		18,000	6,370	**24,370**
Profit and total comprehensive income for the financial year		-	5,340	**5,340**
Dividends	9	-	(1,800)	**(1,800)**
At 1 July 2021		18,000	9,910	**27,910**
Profit and total comprehensive income for the financial year		-	6,197	**6,197**
Dividends	9	-	(2,160)	**(2,160)**
At 30 June 2022		**18,000**	**13,947**	**31,947**

The notes on pages 20 to 42 are an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

This section describes the critical accounting judgements and estimates that have been identified as having a potentially material impact on the Company's financial statements and set out our principal accounting policies. Where an accounting policy is generally applicable to a specific note to the financial statements, the policy is cross-referenced.

Ricardo-AEA Limited (the 'Company'), a private company limited by shares, is incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is Shoreham Technical Centre, Old Shoreham Road, Shoreham-by-Sea, West Sussex, BN43 5FG, United Kingdom, and its registration number is 08229264.

The Company provides environmental consultancy services. The Company sells its services primarily to customers in the UK, but also to customers across Europe and the rest of the world.

(a) Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006. The principal accounting policies have been applied consistently in the preparation of these financial statements for the years ended 30 June 2021 and 30 June 2022.

The following exemptions available under FRS 101 have been applied:

- Paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment (disclosure of number and price of share options and how fair value was determined);
- IFRS 7 Financial Instruments Disclosures;
- Paragraphs 91 to 99 of IFRS 13 Fair Value Measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 110 (second sentence), 113(a), 114, 115, 118, 119(a)-(c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers (disclosure of the recognition, timing and disaggregation of revenue, details and changes in significant judgements made, and assets recognised from the costs to obtain or fulfil a contract);
- Paragraph 38 of IAS 1 Presentation of Financial Statements (reconciliation of carrying amount at the beginning and end of the period) in respect of:
  - Paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - Paragraph 118(e) of IAS 38 Intangible Assets;
- The following paragraphs of IAS 1 Presentation of Financial Statements;
  - Paragraph 10(d) (presentation of a statement of cash flows);
  - Paragraph 16 (statement of compliance with IFRS);
  - Paragraph 38A (requirement for a minimum of two primary statements, including statement of cash flows);
  - Paragraphs 38B-D (additional comparative information);
  - Paragraph 111 (information on the statement of cash flows);
- Paragraphs 134-136 (disclosure of objectives, policies and processes for managing capital;
- IAS 7 Statement of Cash Flows;
- Paragraph 17 (key management compensation), 18A (key management compensation provided by a management entity) and the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of the Group ultimately controlled by Ricardo Plc; and
- The following paragraphs of IAS 36 Impairment of Assets:
  - Paragraphs 130(f)(ii)-(iii) (disclosure of basis for fair value less costs to sell for intangible assets);

1. Accounting policies

a. Basis of preparation (continued)

- Paragraphs 134(d)-(f) (disclosure of basis for cash flow projections or fair value less costs to sell for goodwill); and
- Paragraphs 135(c)-(e) (disclosure of key assumptions when goodwill is allocated to multiple cash-generating units).

Changes in accounting policies

The issued standards, amendments and interpretations shown below are mandatory for the first time for the financial year ended 30 June 2022:

Issued standards, amendments and interpretations effective for this financial year	Effective date	Endorsed
Amendments and interpretations to International Financial Reporting Standards		
-IFRS 9 Financial Instruments, IAS 39 Financial Instruments, IAS 17 Statement of Cash Flows, IFRS 4 Insurance Contracts, IFRS 16 Property, Plant and Equipment: Interest rate Benchmark Reform phase 2	1 Jan 2021	Yes
-IFRS 4 Insurance contracts: Deferral if IFRS 9	1 Jan 2021	Yes
-IFRS 3 Business Combinations: IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Annual Improveme 2018-2022	1 Jan 2021	Yes
-IFRS 16 Leases: Covid-19 Related Rent Concessions beyond 30 June 2021	1 Jan 2021	Yes

Issued standards, amendments and interpretations that are not yet effective have not been early adopted. None of the amendments and interpretations of existing standards have had, or are expected to have, any significant impact on these financial statements.

(b) Exemption from consolidation

The financial statements contain information about Ricardo-AEA Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by way of full consolidation in the financial statements of its ultimate parent company, Ricardo plc, a company registered in England and Wales.

(c) Going Concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company, as part of the Ricardo plc Group ('the Group'), is a participant in a Group banking arrangement and meets its day to day working capital requirement from its own cash balances and the availability of the Group banking arrangements.

The directors have prepared base and sensitised cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements. These indicate that, taking account of reasonably possible

Notes to the financial statements (continued)

1 Accounting policies

(c) Going Concern

downsides and the anticipated impact of COVID-19, the company will have sufficient funds, through its existing cash balances and the availability of funds from Group to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the company's ultimate parent company, Ricardo PLC not seeking repayment of the amounts currently due to the group, which at 30 June 2022 amounted to £6,577,464. Ricardo PLC has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(d) Management judgements and key accounting estimates

The preparation of financial statements under FRS 101 requires the Company's management to make judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs. These judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements:

Recoverability of capitalised development costs – Note 11

Judgement is required as to when development costs meet the criteria to be recognised as intangible assets. The majority of capitalised development costs relate to development of products, technology, tools and processes. These costs are recognised as an asset once it has been determined that the attributable expenditure can be measured reliably, that there is an intention and the necessary resources to complete the development and that it is considered probable that the resulting asset will generate future economic benefits for the Company. Determining whether it is probable that the resulting asset will generate sufficient economic benefits in the future requires management judgement

Impairment of financial assets – Note 15

Management has applied judgement to rebut the presumption of IFRS 9 Financial Instruments that default occurs no later than when a financial assets is 90 days past due. This is based upon our assessment of these specific debts, which demonstrates that although debts can become significantly overdue, they are rarely irrecoverable. The default rates used for each overdue period are based upon our historic ageing profile, adjusted for forward-looking information and reassessed annually.

Key sources of estimation uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Notes to the financial statements (continued)

1 Accounting policies

(d) Management judgements and key accounting estimates

Revenue recognition for fixed price contracts – Note 2

A significant proportion of revenue is earned from contracts for the provision of consultancy services that are typically awarded on a fixed price basis. Services provided under a fixed price contract generally have a single distinct performance obligation recognised over time, revenue is recognised using an input method, based on total costs incurred to date as a percentage of total estimated costs to satisfy each performance obligation.

The identification and separate accounting of distinct performance obligations within the context of a contract is considered to be a critical judgement. Fixed price contracts often have multiple performance obligations that are indistinct from one another within the context of the contract. This is due to a homogeneous pattern of transfer of control to the customer who is unable to benefit from the performance of less than all of the promises set out in the contract. This is particularly the case where any intellectual property created is stipulated as not being owned by the customer until the full transaction price has been paid.

The percentage of completion basis of revenue recognition is determined as actual costs incurred as a proportion of total forecast costs to complete the contract. This method places importance on the accuracy of uncertain estimates, including total costs to complete, the outcome of contract and technical risks, and the extent to which variation requests are recognised for proposed changes to the agreed schedule, price or scope of a contract under negotiation with a customer at the reporting date. Subsequent changes in these estimates would be appropriately adjusted to the revenue recognised in the following reporting period.

The actual outcome of wholly or partially unsatisfied performance obligations may differ to the estimate made at a reporting date and it is reasonably possible that outcomes on these contracts within the next reporting period could differ, adversely or favourably, in aggregate to those estimated. It is not possible to fully quantify the expected impact of this, but the estimated costs to complete a contract reflect the best estimate at that point in time and no individual estimate is expected to have a materially different outcome.

Management undertakes a process to assess the risks on inception of all fixed price contracts and then monitors and reviews the risks and performance of contracts as they progress to completion. The highest value, highest risk, most technically complex and financially challenging contracts to deliver, as measured against a number of quantitative and qualitative factors, are categorised as ‘Red Category 4’ contracts, which are subject to more frequent and senior levels of management review.

As at 30 June 2022, the number of live contracts within the portfolio was in excess of 2,230 (2021: 1,950), with a total value in excess of £187m (2021: £170m). There was one project (2021: none) within this portfolio categorised as Red Category 4.

(e) Revenue

Principle approach

The Company principally earns revenue through the provision of consultancy services and revenue is based on the satisfaction of performance obligations in contracts with its customers. The core principle is that revenue is recognised in a manner that depicts the transfer of promised services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

A contract with a customer is considered to exist when the Company is in possession of documentation to provide an agreed scope of services on mutually understood terms and conditions that are acceptable to the Company which, subject to the successful execution of the contract, is expected to be invoiced against and paid for by the customer.

1 Accounting policies

(e) Revenue

Each contract with a customer is assessed to identify the promises to transfer distinct services, or a series of distinct services, that are substantially the same and have the same pattern of transfer to the customer. Services are distinct and accounted for as separate performance obligations if they are separately identifiable in the contract and if the customer can benefit from them, either on their own or together with other readily available resources.

The total transaction price for a contract is estimated as the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised services to the customer, excluding sales taxes. Where multiple distinct performance obligations are identified within a contract with a customer, the total transaction price is allocated to each of the distinct performance obligations in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Company's services, which are designed under contract to the customer's individual scope and specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin.

Costs of fulfilling performance obligations on existing contracts with customers are expensed as incurred. Costs incurred in advance of obtaining a new contract or an anticipated contract that directly related to the fulfilment of specific performance obligations are initially recognised as an asset and subsequently expensed once the new contract is obtained or obtaining the contract is no longer anticipated. Costs incurred to obtain new contracts with customers are expensed when those costs are incurred irrespective of whether a contract is obtained from a customer.

Revenue is recognised as distinct performance obligations are satisfied and as control of the services is transferred to the customer. For each distinct performance obligation, the Company determines whether they are satisfied over time or at a point in time. Performance obligations are considered to be satisfied over time if the services provided have no alternative use to the Company and there is an enforceable right to payment for performance completed to date, or the customer simultaneously receives and consumes the services as the Company provides them.

Services provided under fixed price contracts

The Company's revenue is earned from contracts for the provision of consultancy services that are typically awarded on a fixed price basis. Services provided under a fixed price contract generally have a single distinct performance obligation, or a single distinct series of performance obligations, which is satisfied over time. For each distinct performance obligation recognised over time, revenue is recognised using an input method, based on total costs incurred to date as a percentage of total estimated costs to satisfy each performance obligation.

Revenue and margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and margin are therefore recognised as costs are incurred, and estimated costs to complete are updated regularly as anticipated risks are mitigated or unanticipated risks materialise. The Company considers this method to faithfully depict performance in transferring control of the services to the customer.

The transaction price generally does not include consideration resulting from contract modifications of distinct performance obligations, such as variation orders, until they have been approved by the customer. Variable consideration, such as for the achievement of performance targets or variation requests under negotiation with the customer at the reporting date, can be included in the transaction price together with the estimated costs to perform the associated obligations. These estimates of the expected value or most likely amount recognised to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised in a future reporting period.

Changes in transaction price from contract modifications that do not create separate distinct performance obligations are added to the transaction price of pre-existing performance obligations to which the modification relates. Contract modifications that do create separate distinct performance obligations are accounted for

1 Accounting policies

(e) Revenue

separately from pre-existing performance obligations, together with the expected costs to satisfy those separate distinct performance obligations.

Contract assets arising from the recognition of revenue as performance obligations are satisfied are initially recognised as accrued revenue or amounts recoverable on contracts ('AROC') with trade, contract and other receivables, and transferred to trade receivables when invoiced. Contract liabilities arising from amounts received from customers for services not yet performed are initially recognised as deferred revenue or payments received in advance on contracts ('POA') within trade, contract and other payables, and transferred to revenue as performance obligations are satisfied.

A loss is recognised immediately when it becomes probable that the total estimated directly attributable costs to satisfy a distinct performance obligation will exceed the transaction price. Monthly reviews of contracts by local management, in conjunction with reviews by senior management of contracts deemed to be of higher risk, ensure that the Company identifies and immediately recognises expected losses on fixed price performance obligations within a contract.

Services provided under time and material contracts

Certain contracts for the provision of consultancy services may be awarded on a time and materials or maximum sum basis. Services provided under a time and materials basis typically have a single distinct performance obligation to provide a variable amount of labour to the customer at an agreed set of time-based labour rates, which represents the sales value.

Revenue is therefore recognised over time based upon the agreed sales value of the time worked and costs incurred to date, as the customer simultaneously receives and consumes these services as the Company provides them.

Services provided under subscription and software support contracts

Other contracts primarily relate to annual subscriptions by customers to emergency response and support services for chemical incidents and crisis management. Subscription services are considered to be a single distinct performance obligation for which revenue is recognised at the agreed transaction price on a straight-line basis over the period of subscription. Software maintenance and support services revenue is recognised separately from the supply of software products on a straight-line basis over the period of maintenance and support. Revenue derived from the supply of ad hoc software-related services, such as training and application engineering, is recognised at the agreed transaction price on a straight-line basis over a typically short period during which the obligation is performed.

(f) Research and development costs – Note 4

Research and development expenditure is recognised as an administrative expense in comprehensive income in the year in which it is incurred. Where they activity is performed for customers the costs is recognised as a cost of sale. Directly attributable development expenditure that meets the criteria for recognition as an intangible asset is described in Note 1(p).

(g) Government grants – Note 4

The Company receives income-related grants from various national government agencies, principally for credits in respective of qualifying research and development expenditure.

The Company submits annual claims in respect of the UK Government's Research and Development Expenditure Credit ('RDEC') scheme. The RDEC is taxable income and is a form of government grant that gives relief on qualifying R&D expenditure. In accordance with IAS 20 Accounting for Government Grants and Disclosure of

1 Accounting policies

(g) Government Grants (continued)

Government Assistance, credits receivable under the RDEC scheme are recorded as other operating income and included within operating profit.

Grant income is not recognised until there is reasonable assurance that the Company will comply with its conditions and that the grant will be received. Grants are presented in comprehensive income as other operating income. Grants contributing to the costs of an asset are presented within trade, contract and other payables as deferred revenue and the revenue recognised is presented in comprehensive income as other operating income on a basis that is consistent with the related depreciation of the associated non-current asset.

Grants are not normally received until after qualification conditions have been met and the related expenditure has been incurred. Where this is not the case, they are recorded within trade, contract and other payables either as payments received in advance on contracts or as deferred revenue.

In this financial year, a grant for £206k was received from Defra to manage delivery of Future Farming Resilience workshops and a grant from Department for Transport was received for the Chemsafe.

(h) Pension costs – Note 5, 6 and 20

The Company operates a defined contribution scheme. Payments to defined contribution schemes are charged as an expense as they fall due. Differences between contributions payable in the year and contributions actually paid are included in either accruals or prepayments. The Company has no further obligations once the contributions have been paid.

(i) Share-based payments – Note 5 and 6

Equity-settled share-based payments are measured at fair value at the date of grant by the ultimate parent company. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period and recharged to the Company. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting for any market-related performance conditions.

Cash-settled share-based payments are measured at fair value at the date of grant by the ultimate parent company and recharged over the vesting period with the recognition of a corresponding liability in the ultimate parent company. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recharged to the Company and recognised in comprehensive income for the year. The amount recharged is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest.

Fair value is measured by using the Monte Carlo and Black Scholes models. The expected life used in the models are adjusted for the effects of exercise restrictions and behavioural considerations.

(j) Foreign currencies – Note 4

The functional and presentational currency of the Company is Pounds Sterling, which is the currency of the primary economic environment in which the Company operates. Transactions in currencies other than Pounds Sterling are recorded at prevailing exchange rates.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the date when the transaction occurred. Gains and losses arising on retranslation and settlements are included in comprehensive income.

1 Accounting policies

(k) Net finance costs – Note 7

Finance income and costs are recognised in comprehensive income in the period incurred using the effective interest method.

(l) Income tax expense – Note 8

The tax expense for the year comprises current and deferred tax. Tax is recognised in comprehensive income, except to the extent that it relates to items recognised directly in equity. The current tax charge is the expected tax payable on the taxable income for the year, calculated using the average rate applicable on the basis of the tax laws enacted or substantively enacted at the reporting date, adjusted for any tax payable in respect of previous years. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Company has provided for uncertain positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate based on amounts expected to be paid to the relevant tax authorities.

Uncertain tax positions primarily relate to transfer pricing and on-going tax audits. The provision is based on experience of dealing with tax authorities in certain jurisdictions in which it operates and an estimate of the most likely outcomes in each territory.

(m) Dividends – Note 9

Dividends are recognised as a liability in the year in which they are authorised. Interim dividends are recognised when paid.

(n) Specific adjusting items – Note 3

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 Company. This comprises of amortisation of acquired intangible assets and acquisition related expenditure.

(o) Goodwill – Note 10

Goodwill arises on the acquisition of trade and assets and represents the excess of the consideration transferred over the fair value of the identifiable assets and liabilities assumed. Goodwill is recognised as an asset and is carried at cost less accumulated impairment losses. It is not subject to amortisation, but is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment.

The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure from the requirement of paragraph 22 of Schedule 1 to the regulations, for the overriding purpose of giving a true and fair view. It is not possible to quantity the effect of the departure because the goodwill is deemed to have an indefinite useful life.

For the purpose of impairment testing, goodwill acquired is allocated to each of the cash-generating units ('CGUs'), or groups of CGUs, that is expected to benefit from that business combination. Each CGU or group of CGUs to which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes.

The impairment review compares the carrying value of the goodwill to the recoverable amount of the CGU to which the goodwill has been allocated. The recoverable amount is the higher of the value in use or the fair value less

Notes to the financial statements (continued)

1 Accounting policies

(o) Goodwill

costs of disposal. Estimating the value in use requires an assessment of the discounted future cash flows that the CGU is able to generate.

An impairment is deemed to have occurred where the recoverable amount of a CGU is less than the carrying value of the allocated goodwill. Any impairment is recognised immediately in comprehensive income and is not subsequently reversed.

On disposal of an operation, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(p) Other Intangible assets – Note 11

Acquisition-related intangible assets that are either separable or arising from contractual rights are recognised at fair value at the date of acquisition, and subsequently at amortised cost. Such intangible assets include customer contracts and relationships, trademarks and acquired software. The fair value of acquired intangible assets is determined by use of appropriate valuation techniques, including the excess earnings and royalty relief method.

Purchased software is capitalised on the basis of the purchase price plus any costs subsequently incurred that are directly attributable to bring the software product to the condition necessary for it to be capable of operating in the manner intended.

Directly attributable costs which are incurred in the development of certain assets are capitalised and amortised over their finite useful lives once it has determined that there is an intention and the necessary resources to complete the project, that it is probable the resulting asset will generate economic benefits and the attributable expenditure can be reliably measured.

Amortisation is calculated using the straight-line method to allocate the cost of assets over their estimated useful lives, as follows:

• Acquisition-related intangible assets	Between 1 and 10 years
• Software	Between 2 and 10 years
• Development costs	Between 3 and 5 years

Assets under construction are carried at cost less any impairment in value and are included in the relevant asset category. Amortisation of these assets commences when they are available for their intended use or sale.

(q) Property, plant and equipment – Note 12

Property, plant and equipment is stated at historical cost less depreciation. The cost of an item of property, plant and equipment is the purchase price and any costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Depreciation is calculated using the straight-line method to allocate the cost of items of property, plant and equipment less any residual value, over their estimated useful lives, as follows:

• Leasehold property improvements	Over the term of lease
• Plant and machinery	Between 4 and 25 years
• Fixtures, fittings and equipment	Between 2 and 10 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets under construction are carried at cost less any impairment in value and are included in the relevant asset category. Depreciation of these assets commences when they are available for their intended use or sale.

Notes to the financial statements (continued)

1 Accounting policies

(r) Right-of-use assets and lease liabilities – Note 13

Lessee accounting

Right-of-use assets are recognised for lease contracts that gives rights to control their use for a finite period, and lease liabilities are recognised for any payments due in exchange for their use. The right-of-use asset is initially measured at cost, being the present value of lease payments, net of any incentives received, plus any direct costs and restoration costs.

Right-of-use assets are depreciated on a straight-line basis from the start of the lease to the earlier of the end of the asset's useful life or the end of the lease term. The lease term is the non-cancellable period plus any renewal options that are reasonably certain to be exercised. The lease term is assessed on the latter of the adoption of the standard or inception of the lease and is reassessed when there is a significant event or change in circumstances. If right-of-use assets are impaired, the carrying value is reduced accordingly.

Lease liabilities are initially measured at the fair value of future lease payments, discounted using the incremental borrowing rate unless the interest rate implicit in the lease is readily determinable. The incremental borrowing rate is calculated as the sum of the risk-free rate based on government bonds, a Company-specific credit risk adjustment and an asset-specific adjustment, to reflect an estimate of the interest rate at which the required amount could be borrowed to obtain a similar asset, in a similar economic environment, and with similar terms and conditions.

Lease liabilities are subsequently recorded at amortised cost using the effective interest method and remeasured when there is a change in future lease payments arising from a change in an index or inflation rate, or if the assessment of the lease term changes. Any resulting impact on lease liabilities will also impact the corresponding right-of-use assets.

Payments for short-term and low-value leases are charged to comprehensive income on a straight-line basis over the lease term.

In the prior year, the costs of operating leases and amortisation of operating lease incentives were charged to comprehensive income on a straight-line basis over the period of the lease, in accordance with IAS 17 Leases.

Lessor accounting

The Company determines at inception of the lease whether the lease is a finance or operating lease. When a lease transfers substantially all the risks and rewards of ownership of the underlying asset then the lease is a finance lease, otherwise the lease is an operating lease. All subleased assets are classified as operating leases, where payments received, net of any incentives granted, are recognised in comprehensive income on a straight-line basis over the lease term.

(s) Investments – Note 14

Investments in subsidiaries are stated at cost less any impairment. At the reporting date the carrying value is assessed to identify any indicators of impairment which could result in an inability to recover the carrying amount. When it is then determined that the carrying value exceeds the recoverable amount, the excess is written-off to comprehensive income.

(t) Impairment of non-financial assets – Note 10 to 14

Intangible assets that have an indefinite useful life or intangible assets that are not available for use are not subject to amortisation and are tested annually for impairment. Other intangible assets, items of property, plant and equipment and right-of-use assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Notes to the financial statements (continued)

1 Accounting policies

(t) Impairment of non-financial assets

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell of the asset and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Where assets do not generate cash flows independently from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date, other than goodwill.

(u) Trade contract and other receivables – Note 15

Trade receivables are stated net of impairment and for the purposes of impairment testing include contract assets of amounts recoverable on contracts ('AROC') and accrued revenue. These assets are assessed for impairment using the 'simplified approach' to the expected credit loss ('ECL') model, which applies a 'default rate' at the point of origination that increases as the unpaid asset ages. Although past experience of significant credit losses on these assets has been negligible, the impairment assessment considers both past experience and future expectations of credit losses. As a result of this assessment, the Company considers the risk of expected credit losses on contracts assets to be immaterial.

The impairment assessment using the ECL model over the lifetime of the asset is based upon a historical provision matrix to create a Company-wide set of 'default rates' which together with past events is also adjusted for current conditions and forecasts of future economic conditions. It is considered appropriate to use one set of default rates across the Company as our customer base is primarily comprised of large corporations operating in sufficiently similar economic environments.

Trade receivables and contract assets are provided in full and subsequently written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery could include, amongst others, evidence that the customer has entered administration or liquidation proceedings, of the persistent failure of a customer to enter into or adhere to a repayment plan.

The 'general approach' is applied to the impairment of other financial assets, the amount of which is based on whether there has been a significant deterioration in the credit risk of a financial asset.

(v) Trade, contract and other payables – Note 16

Trade payables are not interest-bearing and are stated at their nominal value.

(w) Provisions – Note 17

Provisions are required when the Company has a present legal or constructive obligation at the reporting date as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

(x) Deferred tax – Note 18

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available in the foreseeable future against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised within the foreseeable future.

Notes to the financial statements (continued)

1 Accounting policies

(x) Impairment of non-financial assets

Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future.

2. Revenue

Accounting policy – Note 1(e) \ Key source of estimation uncertainty – Note 1(d)

Analysis by revenue stream	**2022 £'000**	2021 £'000
Services provided under fixed price contracts	**55,862**	46,601
Services provided under time and materials contracts	**985**	918
Software leases	**1,311**	1,278
Subscription services	**5,045**	5,006
Total	**63,203**	53,803

Analysis by customer location		
UK	**43,457**	34,663
Europe	**12,730**	12,742
Rest of the World	**7,016**	6,398
Total	**62,303**	53,803

3. Specific adjusting items

Accounting policy – Note 1(n)

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 Company. These items comprise the amortisation of acquired intangible assets and other non-recurring items that are included due to the significance of their nature or amount.

	2022 £'000	2021 £'000
Amortisation of acquisition related intangible assets (Note 11)	**-**	487
Acquisition related expenses	**70**	-

Acquisition related expenses are costs incurred by Ricardo-AEA Limited in relation to the acquisition of Inside Infrastructure Pty Limited by Ricardo Australia Pty Limited.

4. Operating profit

Accounting policies – Note 1(f), 1(g), and 1(j)

	2022	2021
	£'000	£'000
The following items have been charged/(credited) in arriving at operating profit:		
Amortisation of intangibles (Note 11)	**1,103**	1,388
Depreciation of plant, property and equipment (Note 12)	**512**	459
Depreciation of right-of-use assets (Note 13(ai))	**1,001**	999
Rental income	**(480)**	(511)
(Profit)/loss on disposal of property, plant and equipment	**(25)**	-
Operating lease rentals payable	**3**	3
Research and Development Expenditure Credit ('RDEC') in respect of current year	**(699)**	(447)
Research and Development Expenditure Credit ('RDEC') in respect of prior years	**(177)**	(85)
Government grant income under the Coronavirus Job Retention Scheme (CJRS')	**-**	(16)
Other government grant income	**(1,922)**	(233)
Net foreign exchange gains	**72**	(10)
Audit fees payable to the company's auditor	**92**	78

5. Directors' remuneration

Accounting policies – Notes 1(h) and 1(i)

	2022	2021
	£'000	£'000
Short-term employee benefits	**503**	381
Post-employment benefits	**24**	24
Share-based payments	**103**	-
Total	**630**	405

During the financial year retirement benefits were accruing to two Directors (2021: two) in respect of money purchase schemes.

No Directors (2021: none) exercised share options during the year. During the financial year 5,550 shares vested under the Ricardo plc Long-Term Incentive Plan ('LTIP') (2021: none) and 1,266 shares vested under the Ricardo plc Deferred Bonus Plan ('DBP') (2021: none).

The highest paid Director received short-term employee benefits of £300,000 (2021: £229,000) and post-employment benefits of £16,000 (2021: £15,000). During the year 4,596 shares vested under the Ricardo Plc LTIP and DBP schemes (2021: Nil) to this Director.

The emoluments of I J Gibson and D J Shemmans in both years were paid by the ultimate parent company. The services of these Directors are deemed to be wholly attributable to the ultimate parent company. Accordingly, the amounts above do not include any emoluments in respect of these Directors.

Notes to the financial statements (continued)

6. Employee information

Accounting policies – Notes 1(h) and 1(i)

Staff costs (including Executive Directors)	**2022 £'000**	2021 £'000
Wages and salaries (including redundancy and termination costs)	**27,765**	22,490
Social security costs	**2,910**	2,352
Post-employment benefits (Note 20)	**4,041**	3,375
Share-based payments	**218**	162
Total	**34,934**	28,379

Average monthly number of employees (including Executive Directors)	**2022 Number**	2021 Number
Consultants	**607**	516
Management, administration and sales	**79**	71
Total	**686**	587

7. Net finance costs

Accounting policy – Note 1(k)

	2022 £'000	2021 £'000
Finance Income		
Interest receivable from fellow Group undertakings	**294**	168
Total finance income	**294**	168
Finance costs		
Interest payable to fellow Group undertakings	**(129)**	(120)
Interest payable on lease liabilities	**(218)**	(259)
Bank interest payable	**(22)**	(16)
Total finance costs	**(369)**	(395)
Net finance income/(costs)	**(75)**	(227)

Notes to the financial statements (continued)

8. Income tax expense

Accounting policy – Note 1(l)

	2022	2021
	£'000	£'000
Current income tax:		
- UK corporation tax	-	-
- Group relief payable/(receivable)	**1,281**	1,267
-Inter-company tax	-	(17)
- Adjustments in respect of prior years	**(69)**	(21)
- Total UK corporation tax	**1,212**	1,229
- Foreign corporation tax		
- Foreign withholding tax suffered	**201**	207
- Total foreign tax	**201**	207
Total current income tax	**1,413**	1,436
Deferred Tax:		
- Charge for the year	**313**	84
- Adjustments in respect of prior years	**159**	71
- Effect of tax rate change on opening balance	**2**	127
Total deferred tax (Note 20)	**474**	282
Total income tax expense	**1,887**	1,718

Changes to the UK corporation tax rates were enacted on 24 May 2021 as part of the Finance Bill 2021, which will increase the main rate from 19% to 25% from 1 April 2023. The main rate will remain at 19% until 1 April 2023. Deferred taxes at the reporting date have been measured and reflected in these financial statements by using the applicable tax rate of 25%.

The income tax expense for the financial year is higher (2021: higher) than the standard effective rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022	2021
	£'000	£'000
Profit before taxation	**8,084**	7,058
Profit multiplied by the standard rate of tax in the UK of 19% (2020: 19%)	**1,536**	1,341
Effects of:		
Expenses not deductible for tax purposes	**58**	34
Income not taxable for tax purpose	**(1)**	(16)
Other permanent differences	**(43)**	-
Fixed asset differences	**(31)**	(28)
Remeasurement of deferred tax for changes in tax rates	**77**	147
Foreign tax credits	**201**	207
International tax provision	-	(17)
Adjustments to tax charge in respect of prior periods	**90**	50
Total income tax expense	**1,887**	1,718

Notes to the financial statements (continued)

9. Dividends

Accounting policy – Note 1(m)

	2022	2020
	£'000	£'000
Interim dividend for the year ended 30 June 2022 of £0.12 (2021 £0.10) per share	**2,160**	1,800
Equity dividends paid	**2,160**	1,800

The Directors have not proposed a final dividend for the year ended 30 June 2022 (2021: £Nil).

10. Goodwill

Accounting policy – Note 1(o) and 1(t)

	£'000
Cost	
At 1 July 2021 and 30 June 2022	**9,891**

The goodwill arose on the purchase of the trade and certain assets from AEA Technology Plc and is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment.

The recoverable amount of each CGU is calculated by assessing its value in use. The carrying value of goodwill used to compare to the recoverable amount of each CGU are as follows:

	2022	2021
	£'000	£'000
Ricardo Energy & Environment	**9,891**	9,891
At 30 June	**9,891**	9,891

Notes to the financial statements (continued)

11. Other Intangible assets

Accounting policy – Note 1(p) and 1(t) \ Critical judgement – Note 1(d)

	Acquisition related £'000	Purchased Software £'000	Development Costs £'000	Total £'000
Cost				
At 1 July 2021	8,800	990	5,210	15,000
Additions		476	1,381	1,857
Disposals	-			
At 30 June 2022	**8,800**	**1,466**	**6,591**	**16,857**
Accumulated amortisation				
At 1 July 2021	8,800	740	1,950	11,490
Charge for the year	-	143	960	1,103
Disposals	-	-	-	-
At 30 June 2022	**8,800**	**883**	**2,910**	**12,593**
Net book amounts				
At 30 June 2022	-	**583**	**3,681**	**4,264**
At 30 June 2021	-	250	3,260	3,510

The cost of acquisition-related intangible assets relates to customer contracts and relationships of £8,528,000 (2021: £8,528,000), software of £206,000 (2021: £206,000) and brand of £66,000 (2021: £66,000).

Development costs primarily relate to technology, tools, processes and software development in the business, and includes strategic environmental assessment methodology and tools, RapidAir© database and Opus database.

The amortisation charge of £1,103,000 (2021: £1,388,000) is comprised of £nil (2021: £nil) included within cost of sales and £1,103,000 (2021: £1,388,000) included within administrative expenses in comprehensive income.

The carrying value of assets under construction included in development costs amounts to £1,202,000 (2021: £1,465,000) which are not being amortised until the assets are made available for use or sale.

Notes to the financial statements (continued)

12. Property, plant and equipment

Accounting policy – Note 1(q) and 1(t)

	Leasehold property £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 July 2021	1,018	1,048	2,047	4,113
Additions	-	374	367	741
Disposals	-	(83)	-	(83)
At 30 June 2022	**1,018**	**1,339**	**2,414**	**4,771**
Accumulated depreciation				
At 1 July 2021	646	619	1,436	2,701
Charge for the year	107	164	241	512
Disposals	-	(58)	-	(58)
At 30 June 2022	**753**	**725**	**1,677**	**3,155**
Net book value				
At 30 June 2022	**265**	**614**	**737**	**1,616**
At 30 June 2021	372	429	611	1,412

The carrying value of assets under construction included in property, plant and equipment amounts to £204,000 (2021: £34,000). Amortisation is expected to commence in the next financial year when the assets are made available to use.

13. Right-of-use assets and lease liabilities

Accounting policy – Note 1(r) and 1(t)

a) Leasing activities as lessee

The Company leases various office premises and equipment.

Leases are negotiated on an individual basis and contain a range of different terms and conditions. Property lease terms range from seven years to sixteen years, with an average of ten years, and may have renewal or termination options.

Other lease terms are for five years.

The lease contracts do not impose any covenants. Right-of-use assets may not be used as security for borrowing purposes.

Where leases are short-term or for low-value items, the Company has elected not to recognise right-of-use assets and liabilities for these leases.

Until 30 June 2019, all leases were classified as operating leases under IAS 17 Leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Notes to the financial statements (continued)

13. Right-of-use assets and lease liabilities (continued)

a) Leasing activities as lessee (continued)

Information about leases for which the Company is a lessee is presented below:

(i) Right-of-use assets

	Property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 July 2021	8,695	90	8,785
Additions	21	15	36
Disposals	-	(7)	(7)
Remeasurements	49	-	49
At 30 June 2022	**8,765**	**98**	**8,863**
Accumulated depreciation			
At 1 July 2021	**3,551**	**55**	3,606
Charge for the year	970	31	1,001
Disposals	-	(7)	(7)
At 30 June 2022	**4,521**	**79**	**4,600**
Net book value			
At 30 June 2022	**4,244**	**19**	**4,263**
At 30 June 2021	5,144	35	5,179

The expense for the year relating to leases not capitalised was £1,000 for short-term leases (2021: £1,000), £2,000 for low-value items (2021: £2,000) and £1,000 for leases that were both short-term and for low-value items (2021: £1,000).

(ii) Lease liabilities

Movement in lease liabilities	**2022 £'000**	2021 £'000
At 1 July	**5,818**	7,018
Additions	**36**	39
Interest payable	**218**	259
Payments	**(1,304)**	(1,424)
Remeasurements	**49**	(74)
At 30 June	**4,817**	5,818

Maturity of lease liabilities		
Current - maturing within one year	**1,233**	1,258
Non-current - maturing after one year	**3,584**	4,560
At 30 June	**4,817**	5,818

The incremental borrowing rates applied to lease liabilities recognised in the statement of financial position vary due to the asset type, its geographical location, and the lease term. The weighted averages are as follows:

- Property – 3.8%
- Fixtures, fittings and equipment – 2.2%

Notes to the financial statements (continued)

14. Investments

Accounting policy – Note 1(s)

	£'000
Cost	
At 1 July 2021 and 30 June 2022	**95**

Subsidiary Undertakings	Registered Office	Class of shares held	Proportion of share capital held	Nature of business
Ricardo Environment Arabia LLC	PO Box 16743, Riyadhh, 11474, Saudi Arabia	Ordinary Shares	85%	Environmental consultancy
Ricardo Gulf Technical Consultancy LLC	Mesmak Real Estate Company/Building, 11th Floor, 1108 Office Unit, Corniche Road, -G5-S17 Abu Dhabi, United Arab Emirates	Ordinary Shares	49%	Environmental consultancy

The Directors are of the opinion that the carrying value of the investment is supported by the underlying net assets of the subsidiary.

15. Trade, contract and other receivables

Accounting policy – Note 1(u) \ Critical judgement – Note 1(d)

	2022	2021 restated*
	£'000	£'000
Trade receivables	**4,317**	3,483
Less: provision for impairment of trade receivables	**(37)**	(35)
Trade receivables - net	**4,280**	3,448
Contract assets:		
- Amounts recoverable on contracts ('AROC')	**8,898**	8,315
Amounts owed by fellow Group undertakings	**16,695**	11,264
Prepayments	**637**	582
Work in progress	**263**	269
Other receivables	**1,457**	830
At 30 June	**32,230**	24,708
Current	**18,436**	15,861
Non-current	**13,794**	8,847
At 30 June	**32,230**	**24,708**

* £13.7m (2021: £8.7m) amounts owed by subsidiaries have been classified as non-current other receivables, as they are not expected to be repaid in the 12 months following the year end. The equivalent prior year balance was previously shown within current receivables and has been restated.

Amounts owed by fellow Group undertakings are unsecured and include £13,702,000 (2021: £8,703,000) being repayable on demand, with no fixed repayment date and bearing interest at rates between 0.0% and 3.1% (2021: 0.0% and 3.1%), with the remaining £2,994,000 (2021: £2,561,000) due within the next financial year and being interest-free.

Non-current trade, contract and other receivables of £92,000 (2020: £144,000) relates to deferred sales commission which will be recognised in comprehensive income.

Provision for impairment of trade receivables	**2022 £'000**	2021 £'000
At 1 July	**35**	49
Net impairment charges reversals to comprehensive income	**1**	(14)
Amounts utilised	**0**	0
At 30 June	**36**	35

Notes to the financial statements (continued)

16. Trade, contract and other payables

Accounting policy – Note 1(v)

Current	**2022** **£'000**	2021 £'000
Trade payables	**1,387**	350
Contract liabilities:		
- Payments received in advance on contracts ('POA')	**1,754**	1,688
- Deferred revenue	**2,245**	2,080
Tax and social security payable	**2,395**	2,051
Amounts owed to fellow Group undertakings	**7,771**	5,502
Accruals	**5,147**	3,753
Other payables	**358**	310
At 30 June	**21,057**	15,734

Amounts to owed fellow Group undertakings are unsecured and include £6,336,000 (2021: £4,448,000) being repayable on demand, with no fixed repayment date and bearing interest at rates between 2.4% and 3.1% (2021: between 2.4% and 3.1%), with the remaining £1,417,000 (2021: £1,054,000) being interest-free.

17. Provisions

Accounting policy – Note 1(w)

	Dilapidation £'000
At 1 July 2021 and 30 June 2022	**158**

The dilapidation provision reflects the Directors' best estimate of future obligations relating to the maintenance of leasehold properties arising from past events such as lease renewals or terminations. The timing of the cash flows is dependent upon the remaining term of the associated lease.

18. Deferred tax

Accounting policy – Note 1(x)

Recognised net deferred tax liabilities	**2022** **£'000**	2021 £'000
At 1 July	**(613)**	(331)
Prior year adjustment (Note 8)	**(159)**	(71)
Charged to comprehensive income (Note 8)	**(315)**	(211)
At 30 June	**(1,087)**	(613)

Deferred tax analysis by category

Deferred tax comprises	**2022** **£'000**	2021 £'000
Accelerated capital allowances	**1,315**	844
Other short-term timing differences	**(228)**	(231)
Net deferred tax liability	**1,087**	613

Notes to the financial statements (continued)

19. Share capital

	2022	2021
Allotted, called up and fully paid	**£'000**	£'000
18,000,000 (2021: 18,000,000) ordinary shares of £1 each	**18,000**	18,000
At 30 June	**18,000**	18,000

20. Post-employment benefits

Accounting policy – Note 1(h)

The Company participates in a defined contribution scheme, the assets of which are held in separately administered funds. The cost of the Company's contributions to the scheme in the financial year were £4,041,000 (2021: £3,375,000) and £364,000 of accrued contributions were due at the reporting date (2021: 304,000).

21. Contingent liabilities

In the ordinary course of business, the Company has £223,000 (2021: £495,000) in possible obligations for bonds and guarantees placed with our banking institutions 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 Company is also involved in commercial disputes with some customers, which is also in the normal course of business. Whilst the results of such disputes cannot be predicted with certainty, the ultimate resolution of these disputes is not expected to have a material effect on the Company's financial position or results.

The Company is a participant in a Group banking arrangement that is ultimately controlled by Ricardo plc. Under the terms of this arrangement, the Company is named as a guarantor of, and has access to these facilities through its ultimate parent company, together with a number of other material fellow subsidiaries of the Group.

22. Controlling party

The ultimate parent company and the controlling party is Ricardo plc, which is the parent of the smallest and largest group to consolidate these financial statements. Copies of the Ricardo plc consolidated financial statements can be obtained from www.ricardo.com or the Company Secretary, Ricardo plc, Shoreham Technical Centre, Old Shoreham Road, Shoreham-by-Sea, West Sussex, BN43 5FG, England, United Kingdom.