Ricardo plc

2021 Deferred Bonus Plan

Creating a world fit for the future

2021 Deferred Bonus Plan

New Deferred Bonus Plan

As well as the regular business that is normally taken care of at the AGM, we are also seeking shareholders' approval of the establishment of a new arrangement, the Ricardo plc 2021 Deferred Bonus Plan (the "**New DBP**").

Since 2006, Ricardo has operated a policy under which a proportion of any bonus awarded to Executive Directors and certain other senior employees is compulsorily deferred into shares that are then released to the individual after the expiry of a deferral period of up to three years. The release of such shares is, however, normally conditional on continued employment. Most recently this policy was implemented through the mechanism of the Ricardo plc 2011 Deferred Bonus Plan, the rules of which were approved by shareholders at the 2011 AGM (the "**2011 DBP**"). This arrangement is due to expire in November 2021.

The New DBP will allow Ricardo to continue to operate bonus deferrals, which, in the case of Executive Directors, forms part of our Directors' Remuneration Policy. The New DBP will also:

- reflect the changes to the Directors' Remuneration Policy that were approved by shareholders at the 2020 AGM, and, in particular, remove the ability to award "bonus-linked shares";
- permit awards to be made to former employees – this will allow the deferral mechanism to continue to operate post-termination in respect of bonuses accrued prior to departure; and
- reflect various other improvements and/or developments in market practice.

Save for the above changes, the terms of the New DBP are broadly similar to those contained in the 2011 DBP.

A summary of the principal terms of the New DBP, together with further information on how it will initially be operated following its adoption, are set out in the Appendix which follows.

APPENDIX

SUMMARY OF THE PRINCIPAL TERMS OF THE RICARDO PLC 2021 DEFERRED BONUS PLAN

The Ricardo plc 2021 Deferred Bonus Plan (the "**New DBP**" or the "**Plan**"), which will replace the existing deferred bonus scheme operated by the Company, is a discretionary arrangement that will be administered by the Company's Remuneration Committee (the "**Committee**").

The New DBP will allow a proportion of the annual bonus of Executive Directors and other selected employees of the Company and its subsidiaries (the "**Group**") to be delivered in the form of conditional awards ("**Awards**") over ordinary shares ("**Shares**") that will vest after a deferral period of up to three years.

If approved by shareholders, it is intended that the New DBP will be adopted by the Board as soon as reasonably practicable after the AGM. It is currently anticipated that the first Awards will be granted shortly following the Plan's adoption in respect of the deferral of bonuses for the Company's financial year that ended on 30 June 2021.

A summary of the principal terms of the New DBP is set out below.

1. Eligibility

Any current or former employee (including an Executive Director) of the Group will be eligible to be participate in the New DBP at the discretion of the Committee. It is envisaged that actual participation in the Plan will (at least initially) be limited to the Company's current and former Executive Directors (in line with the Company's Directors' Remuneration Policy) and selected senior managers.

2. Grant of Awards

Awards under the New DBP may be granted in the form of nil cost options or conditional share awards. The Committee may also decide to grant cash-based Awards of an equivalent value to share-based Awards or to satisfy share-based Awards in cash.

Awards may normally be granted under the New DBP within the period of forty-two days after:

- the date on which the Plan is first adopted by the Board;
- a results announcement by the Company in any year; or
- the date on which shareholders approve a change to the Company's Directors' Remuneration Policy.

Additionally, Awards may also be granted on any day on which the Committee resolves that exceptional circumstances exist which justify the making of such Awards.

Where a current or former Executive Director or other employee is selected for participation in the New DBP in respect of a particular financial year, the Committee will notify them of their bonus entitlement for that period and the proportion thereof that will be delivered in the form of an Award under the Plan. Where awards are made under the Company's current Directors' Remuneration Policy, the Committee will determine such proportion for current or former Executive Directors to be one-third.

No Awards will be granted more than ten years after shareholder approval of the New DBP. No payment is required for the grant of an Award.

3. Awards personal to the participants

An Award granted under the New DBP will be personal to the participant and may not be transferred, assigned or charged in any way, except on death.

4. Vesting of Awards

Awards granted to current or former Executive Directors will normally vest on the third anniversary of grant. Awards granted to employees outside this population may vest at such time (or times) as set by the Committee.

Awards will not be subject to performance conditions.

Awards granted under the New DBP to Executive Directors will also be subject to the share retention policy and post-cessation shareholding requirement set out on in the Directors' Remuneration Report section of the 2021 Annual Report and Accounts.

5. Rights attaching to the Shares

Awards will not confer any shareholder rights until they have vested and the participants have received their Shares. However, the Committee will have the ability to grant Awards on the basis that the number of Shares comprised therein will be increased to reflect the dividends that would have been paid on such Shares had the participants held them throughout the applicable deferral period (i.e. as if those dividends had been reinvested in Shares). Alternatively such dividend equivalents may be paid out in cash.

6. Source of Shares and dilution limits

Awards may be satisfied either by the issue of new Shares, the transfer of Shares from treasury or the transfer of existing Shares purchased in the market. In all cases, the Shares will normally be subscribed for or acquired by the trustee of the Company's existing employee benefit trust who will, in turn, transfer them to the relevant participants. However, the rules of the New DBP place two limitations on the number of new Shares which may be allocated from the issued share capital of the Company.

The first limit referred to above specifies that the number of Shares which may be allocated on any day shall not, when added to the aggregate number of Shares which have been allocated in the previous ten years under the New DBP and any other discretionary share scheme operated by the Company, exceed such number as represents 5% of the ordinary share capital of the Company in issue immediately prior to that day.

The second limit referred to above specifies that the number of Shares which may be allocated on any day shall not, when added to the aggregate number of Shares which have been allocated in the previous ten years under the New DBP and any other employees' share scheme operated by the Company, exceed such number as represents 10% of the ordinary share capital of the Company in issue immediately prior to that day.

For the purposes of these limits:

- Awards, options and other rights to acquire Shares which have lapsed or been released without being exercised will not be counted;
- Awards, options and other rights to acquire Shares which are, or are to be, satisfied by the transfer of existing Shares purchased in the market will not be counted; and
- Shares transferred from treasury will count as new issue Shares but will cease to so count if institutional investor bodies decide that they should not count.

7. Malus and clawback

An Award may be reduced at any time before it vests if the Committee determines that there has been a material misstatement in the Company's financial statements and/or an error or inaccurate or misleading information which has resulted in the Award being granted over a higher number of Shares than would otherwise have been the case and/or the Company or the Group is likely to suffer significant reputational damage as a result of an act or omission by the participant and/or the participant's employment could have terminated by reason of gross misconduct.

An Award may also be subject to clawback if, in the period of three years from the end of the financial year to which the bonus giving rise to the Award relates, the Committee becomes aware that there has been a material misstatement of the Company's financial results and/or an error or inaccurate or misleading information resulting in the Award being granted over a higher number of Shares than would otherwise have been the case and/or the relevant participant's employment could have terminated by reason of gross misconduct and/or an act by the participant has caused significant reputational damage to the Company. The Committee may satisfy the clawback by recovering and withholding future incentive compensation, including but not limited to the amount of any unpaid bonus, the number of Shares under a vested but unexercised or unreleased award and/or a requirement to make a cash payment.

8. Cessation of employment

As a general rule, an Award granted to a current employee or Executive Director will lapse upon the participant ceasing to hold employment or be a director within the Group prior to its vesting date.

However, if a participant ceases to be an employee or a director because of their death, illness, injury or disability, redundancy, retirement or because the participant's employing company or part of the business in which they are employed is transferred out of the Group, or in any other circumstances determined by the Committee at its discretion (i.e. a "**good leaver**"), then their Award will not lapse and will continue to vest on the date that it would have vested had they not ceased such employment or office.

Alternatively, if a participant ceases employment as a good leaver, the Committee can decide that their Award will vest at or around the time when they leave.

Regardless of the vesting date of a good leaver's Award, the number of Shares to vest may be subject to time pro-rating at the Committee's discretion.

9. Corporate events

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) all Awards will vest immediately.

As an alternative to the above approach, the Committee may, in connection with a takeover, require a participant to surrender their existing rights under the Plan in consideration for the grant to them of equivalent rights over shares in the acquiring company (or a member of its group).

In the event of an internal corporate reorganisation, Awards will normally be replaced by equivalent rights over shares in a new holding company unless the Committee decides that Awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that Awards will vest on the basis which would apply in the case of a takeover as described above.

10. Variation of capital

In the event of any capitalisation issue, rights issue, open offer, consolidation, subdivision or reduction of capital, demerger, special dividend or any other event affecting the share capital of the Company, the number and/or nominal value of Shares comprised in Awards may be adjusted by the Committee.

11. Amendments to the New DBP

The rules of the New DBP may at any time be altered by the Committee in any respect. However, the provisions relating to:

- the class of persons eligible to participate in the New DBP;
- the maximum entitlement and the basis for determining the entitlement of any one participant;
- the terms upon which Shares may be transferred to a participant under an Award;
- the adjustments to Awards in the event of a variation of capital;
- the limitations on the number of Shares which may be issued under the New DBP; and
- the amendment rule,

cannot be altered to the material advantage of participants without the prior approval of shareholders (except for minor amendments to benefit the administration of the New DBP, to comply with or take account of a change in legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the New DBP or for the Company or any other member of the Group).

In addition, no alteration can be made to the rules of the New DBP which would materially abrogate or adversely affect the subsisting rights of a participant, unless it is made with the consent in writing of the participant in question.

12. Overseas jurisdictions

The Committee may develop and approve overseas jurisdiction variants to the New DBP under the terms of which Awards may be made in such a way as to satisfy or take advantage of securities and tax legislation or exchange controls in such jurisdictions. Indeed, a US sub-plan is already annexed to the rules of the New DBP. Any plan variants will otherwise be of similar structure and economic intent as the main New DBP Awards and will count towards the individual and overall Plan limits described above.

13. General

Benefits derived from the New DBP will not constitute pensionable earnings of any individual.

RICARDO

Creating a world fit for the future

www.ricardo.com