22nd September 2009

Ricardo plc
Preliminary results for the full year ended 30 June 2009

Ricardo plc is a market leading engineering, management, automotive and transportation consultancy, employing over 1600 people worldwide. The company has centres in the UK, USA, Germany, Czech Republic, India, Japan and China and a global client list including the world's major automotive OEMs, Tier 1 suppliers to OEMs, energy companies and governments.

Highlights

The results from continuing operations are now the primary performance measure for financial results used by Ricardo plc. Profit before tax for continuing operations was £15.7m (2008: £15.5m). The German exhaust business was held for sale at 30 June 2009 and has been reported under discontinued operations. It incurred a loss before tax of £2.8m (before writing down assets held for sale by £3.8m to anticipated net sale proceeds). Therefore for continuing and discontinued operations combined, the profit before tax and writing down assets held for sale was £12.9m (2008: £14.7m).

Continuing operations:

- Order book level at £97m (June 2008: £97m)
- Revenue of £178.8m (June 2008: £181.9m)
- Profit before tax up 1% to £15.7m (June 2008: £15.5m)
- Tax charge of 6% (2008: 15%) due to further R&D tax credits
- Basic earnings per share up 13% to 28.8p (June 2008: 25.5p)
- Net debt at £3.5m (June 2008: £0.3m); minimal gearing maintained
- Full year dividend of 10.7p (June 2008: 10.6p)
- A strong result driven by our strong diversification strategy, headcount reduction and balance sheet management, despite a year of unprecedented falls in demand in global automotive markets.

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

"Despite turbulence in the global markets we serve, the business has performed well in the last financial year, thanks to our diversification strategy, investment in facilities and research and development, a strong order book, robust working capital management and our resilient and talented team of employees. Whilst many of our customers are still cautious and we expect the economic environment to remain a challenge for some time, our key business drivers of tightening emissions and CO_2 legislation remain and we are pressing ahead with our strategy to increase customer and sector spread supported by investment in research, facilities and our people.

Against this backdrop, we expect trading in the first half of the current year to be substantially lower than the previous first half. However, due to the size and profile of our order book and an anticipated market recovery we expect a stronger second half. With the strength of our balance sheet we remain committed to our strategy and are confident for the future."

Further enquiries:

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Review of the year

Trading performance summary

The results from continuing operations are now the primary performance measure for financial results used by Ricardo plc. The German exhaust business was held for sale at 30 June 2009 and has been reported under discontinued operations.

Despite the downturn in the economy and a financial year in which we have seen some £15m of project cancellations from automotive manufacturers, our diversification strategy has helped us weather the storm. Profit before tax for continuing operations was £15.7m (2008: £15.5m) and after a reduced tax charge of only 6% at £1.0m (2008: £2.4m), profit for the year for continuing operations was £14.7m (2008: £13.1m).

The results were impacted by £5.7m for the discontinuation of the exhaust business which included a trading loss of £2.8m, an asset write down of £3.8m and a positive tax effect of £0.9m. This resulted in a total profit of the year of £9.0m (2008: £12.4m).

Redundancy costs and the termination costs of two senior directors totalled £1.9m (2008: £0.6m). Including these costs, the operating margin was 8.4% (2008: 9.0%).

During the second half of the year we had a volatile order intake profile, with some extended contract negotiations being concluded in June. As a result, we finished with a particularly high level of order wins in the month and we closed the year with a strong order book of £97m (2008: £97m). The recent order wins do however have a longer delivery time horizon than normal, and consequently the proportion of the 30 June 2009 order book for delivery within the following half year is reduced compared to the position at 30 June 2008.

We are pleased to report that we have maintained a strong balance sheet with minimal gearing - net debt closed the year at £3.5m (2008: £0.3m). The filing of both Chrysler and GM for protection under Chapter 11 following severe turbulence in the US automotive market did not result in any amounts in our balance sheet being irrecoverable. This is a testament to the significant progress made with the diversification of client, sector and product implemented in recent years.

Technical Consulting results

Technical Consulting delivered revenue of £168.1m, compared to £169.5m in the prior year, demonstrating resilience in a difficult market environment.

The UK Technical Consulting business continued to secure good order wins from China and Russia throughout the year, and work continued to be passed across from Germany. Whilst Japan remains a strong market, work for Japanese clients reduced in the second half of the financial year. Overall for the UK, revenue was consistent year on year, whilst an increase in operating profit was delivered due to efficiencies implemented in project delivery and strong cost management.

Although gathering momentum, our Technical Consulting business in Germany still passed significant levels of work won locally back to the UK for delivery. It also concluded a high profile yet complex engineering project at a low operating margin. Looking ahead, the capability and infrastructure to support the German business with a growth agenda is now firmly in place.

The US Technical Consulting business has had a particularly difficult year with the collapse in the US automotive market resulting in project cancellations. Accordingly, revenue levels were reduced, yet profit contribution remained level as the result of implementing extremely effective cost reduction plans. In June, there was a change in leadership resulting in an exit cost and a new team is in place to take the business forward with renewed market focus.

Strategic Consulting results

Strategic Consulting revenue of £10.7m in the year was slightly down on £12.4m in the prior year. The Strategic Consulting division largely mitigated the decline in client orders for strategic and corporate transaction support by shifting emphasis towards turnaround and cost-reduction programmes, and by further sector diversification. Looking forward, the business intends to continue to grow its market offering and client base.

Discontinued operations

Our German exhaust business had a difficult year as it was materially affected by the downturn in automotive manufacturing volumes. This small business was held for sale at 30 June 2009 and consequently its results are shown as results from discontinued operations. The process for the sale of the business is under way. The Group's consolidated results for the year ended 30 June 2008 have been re-stated to separate the results of continuing and discontinued operations.

Finance income and costs

There has been a net finance income in the year of £0.6m compared to a net finance cost in the previous year of £0.8m. We took advantage of the US dollar movement in the first half, and our US company, Ricardo, Inc., repaid an inter-company loan to Ricardo Plc, generating a £1.1m foreign exchange gain. We also benefited from interest income resulting from cross currency interest rate swaps in relation to our net investment hedging for our overseas assets. This income was mostly offset with bank interest payable and the financing cost in relation to the pension scheme.

Tax

The tax charge for the year has reduced to £1.0m from £2.4m in the previous year. This is largely attributable to increased claims for R&D tax credits in the UK, notably in connection with the submission of additional claims in relation to short term employees.

Earnings per share

As a result of both slightly increased profits and a reduced tax charge, earnings per share from continuing operations have increased to 28.8p from 25.5p in 2008.

Dividend

The total dividend for the year (paid and proposed) is increased to 10.7p per ordinary share (2008: 10.6p). The dividend is covered 2.7 times (2008: 2.4 times) by the profit for the year from continuing operations. The proposed final dividend of 7.5p (2008: 7.5p) will be paid on 27 November 2009 to all shareholders on the register at the close of business on 30 October 2009, subject to approval at the Annual General Meeting on 19 November 2009.

Net assets

Net assets at 30 June 2009 were £66.9m (2008: £67.1m). This movement was primarily driven by ordinary trading and the impact of exchange rates, offset by an increase in the pension deficit and a write down of the German exhaust business assets held for sale.

Capital expenditure in the year was £10.2m (2008: £10.8m), including £3.5m for investment in new test beds in Germany which have been highly utilised, £0.7m completing the Battery Systems Development Center in Detroit and £0.5m completing the upgrade to the Shoreham main reception building. The balance of the expenditure was necessary to maintain our engineering and testing facilities. At the end of the year our capital commitments were £0.8m (2008: £0.8m).

We continue to invest in our infrastructure and have commenced a project to install new business systems across the Group to move them to one common platform facilitating management of multi-site programmes, in support of plans for expansion of the business and its facilities across the globe.

Net debt

Despite the economic downturn, we managed to reduce our net trade receivables by £5.3m, resulting in our debtor days reducing by 10 days to 47 days. We also managed to reduce our other amounts recoverable on contracts. However we saw a £10.8m reduction in payments received in advance as we experienced a reduction in new contracts from Asia. Overall working capital levels increased by £5.9m (2008: a decrease of £6.8m) and we maintained a strong balance sheet position, with net debt closing at £3.5m compared to £0.3m at 30 June 2008.

At the end of the financial year the Group had borrowing facilities of £43m, including £23m of committed facilities, the majority of which were committed for more than one year.

Exchange rates

Despite a reduction in the value of sterling of 7% against the euro and 17% against the US dollar during the year ended 30 June 2009, overall there has been no significant impact on profit before tax from volatility in exchange rates. We have an exposure to the euro/sterling exchange rate arising from some of the work carried out in the UK for European customers which is contracted in euros, which is hedged accordingly and hedge accounting is applied. Following a review of our policy of hedging the translation of profits from overseas businesses, for which hedge accounting cannot be applied, we have stopped this element of the policy with effect from the start of the current financial year.

Pensions

The deficit in our defined benefit pension scheme measured in accordance with IAS19 'Employee benefits' increased in the year from £19.9m to £29.4m. Principally as a result of poor investment returns during the recent turmoil in the economy, the value of the assets in the scheme has reduced from £65.6m to £58.7m.

The triennial valuation for funding purposes concluded in the year and the deficit valuation of £20.8m at 5 April 2008 was agreed with the trustees. We continue with the same level of additional cash payments to eliminate the deficit as agreed in our nine year plan which commenced in 2006 following the previous triennial valuation. As a result of the latest triennial agreement, the plan has only slightly changed, principally by extending the payments for 12 months after making allowance for an assumed transition from return seeking assets towards a higher proportion of matching assets.

Technical Consulting

UK

The UK Technical Consulting division has continued to make a strong profit contribution, despite the costs of headcount reductions to maintain an efficient cost base at a time of market volatility. The business has benefited from its sector and geographic diversity within the markets that it serves both directly and in collaboration with the other divisions of Ricardo. While the second half of the year was particularly challenging in the passenger car business, with many customers reviewing their product plans in the light of an unprecedented downturn in sales, the negative effect of this was offset in part by strong growth in our defence vehicle work over the same period. Our work in the commercial vehicle sector also remained strong, due largely to Ricardo's presence in a number of territories in which demand for new commercial vehicles held up despite the economic downturn. Similarly in the motorsport sector, demand for our services remained strong.

Our engine business continues to benefit from significant external commercial and legislative pressures that translate into opportunities for new projects. In gasoline engines we are seeing significant interest in our services as customers increasingly look for higher technology products, in particular at the high performance premium vehicle end of the market. In diesel engines there has been a reduction in demand in the light duty sector but an increase in the heavy duty sector, largely associated with commercial vehicle and off-highway applications.

The control and electronics business has continued to benefit from external technological developments which are placing an ever greater requirement on the electronic systems and content of new vehicles. With the continuing pressure to reduce CO_2 emissions and improve fuel economy, the development of hybrid vehicles has become a key focus for both the passenger car and commercial vehicle sectors.

The transmissions engineering business has continued to benefit from demand for its key expertise and proprietary technology in dual clutch transmissions, torque vectoring, automated manual transmissions and advanced conventional automatics. The business has remained stable during the year as a result of a number of longer term contracts. Towards the end of the year we saw an improvement in orders, with some significant contracts placed. Our global reach is also important, with new customers in Russia, China and India seeking our external expertise to help them develop and improve their product line-ups.

The motorsport transmissions business has had a good year and was largely unaffected by the economic downturn. Ricardo enjoyed several significant race wins during the year including a spectacular one-two finish at the Le Mans 24 Hours for the diesel-powered 908 HDi FAP cars of Team Peugeot Total with their Ricardo designed and manufactured transmissions.

Despite the protection provided to the business by virtue of our sector and geographical diversification, it was important to move quickly when demand in the passenger car sector fell. Action was taken to reduce the cost base through tight control of expenditure, and by optimising the size of the UK team for the reduced level of demand. This was achieved through reductions in both sub-contract and permanent staff and encouraging employees to apply for voluntary sabbatical leave and short time working. In this way the reduction in permanent staff was kept to the minimum required to ‘right size’ the business, while at the same time retaining the critical skills that will help position the division to maximise the benefit from the upturn as the automotive industry recovers.

Germany

The engineering service business of Ricardo Deutschland has continued to develop its strength in servicing clients in the German market place and now enjoys a very credible presence there. We are able to deliver turn-key programmes to customers using German speaking engineers and well equipped, locally based technical facilities. Talent development has been critical to create a very strong first-line leadership team covering the key functions of the business. We are now working to extend this to lower supervisory levels.

Major facility expansions for the engineering service business during the year included the increased engineering resource in Aachen, which we are developing as a centre of excellence in control and electronics. Reflecting the growth of our heavy duty diesel and motorcycle engine business activity, we have invested €4 million in an extension to our Schechingen test centre, which was formally opened in early July. The new facility is well specified for the type of emissions reduction challenges currently facing the heavy duty and off-highway markets, and we have already secured a significant Tier 4 engine development programme for a major German client which will use the new test centre.

Despite some smaller project cancellations in the second half of the year as a result of the economic downturn, our strategy has served us well in Germany and we have ended the year with an increased order book for larger, longer-term programmes. Trading performance steadily improved during the year as the engineering capability strengthened. We delivered a complex yet high profile contract at low margin which affected the operating profit in the year.

The exhaust prototype manufacturing business was significantly affected by the economic downturn at an early stage, as series production of key products was temporarily halted and the demand for prototype work reduced. As a result there was a trading loss in the period. This business no longer forms part of our overall core strategy and will be discontinued by way of sale, allowing management to focus on the engineering service business.

US

The US Technical Consulting division was materially affected in the year by the turmoil in the automotive sector but nevertheless managed to achieve a commendable result considering the rate and degree of deterioration in the market. The impact of the recession on the Detroit Three automakers (GM, Ford and Chrysler) took its toll late in the financial year, driving two of the three into Chapter 11 along with some of their major Tier 1 suppliers. Nearly $12 million of previously secured order cover was lost in the second quarter. The impact of this was partially mitigated as a result of a strategy initiated nearly two years ago to diversify into the alternative energy, on- and off-highway, government and military sectors. However, as a result of the market events, the closing order book was disappointing. Nonetheless, this strategy, coupled with disciplined cost management, has positioned the division favorably to exploit new opportunities when the industry recovers.

As proof of our commitment to grow in new key markets and sectors, a $1.5 million capital project to build the first independent Battery Systems Development Center ("BSDC") was completed in June, with its first commercial project delivered later in the same month. The operation sets new standards for reliable operation, safety and capability and has been benchmarked by other parties interested in establishing similar facilities. The launch stimulated great customer interest and it is anticipated that the BSDC will support the development work that is expected as the growth in hybrids and electric vehicles begins to accelerate. This market shift is a virtual certainty with new federal CAFE regulations mandating an average fleet fuel economy of 35.5 miles per gallon (42.6 miles per imperial gallon or 6.6 litres/100 km) for passenger vehicles by 2016.

In parallel with the clear impetus in the US for moves towards increasing vehicle electrification, significant opportunities exist for further evolution of the internal combustion engine. Here, we are developing renewable energy applications that support President Obama's energy independence agenda. As an example, the Ricardo Ethanol Boosted Direct Injection ("EBDI") engine project addresses the efficiency/cost dichotomy of diesel and gasoline engines. It has the performance of the former while approaching the cost of the latter, and runs on ethanol, gasoline, or a blend of both. EBDI solves many of the challenges faced by flex-fuel engines because it is optimised for both alternative fuels and gasoline. The technology has moved past theoretical discussion and has been developed and proven in the real world.

With the added strategic advantage of its light duty diesel knowledge, the Ricardo US organisation is in an enviable position to take advantage of its technology portfolio and the current regulatory environment. A recovery of the automotive sector would represent an upside to the past year, and the US administration's commitment to ensuring the sector returns to prosperity has been clearly evidenced by its actions.

Asia

Our business in India continues to develop. We have a number of engine projects which will reach production in the next one to two years, as well as a new transmission design project for a major Indian client. There is interest in hybrid and clean automotive technology projects thanks to the Indian government's decision to make funds available to demonstrate Indian engineering capability at the Commonwealth Games in Delhi in October 2010.

During the year, South Korea withstood the global economic downturn better than most countries and we have seen growth in our order book from clients there. This can be attributed to our strategy of increased diversification into new markets such as construction equipment, where we are now engaged with one of the world's leading manufacturers on both strategic and technical consulting projects. Similarly, in the marine sector we are engaged in a large marine diesel upgrade programme and in the defence sector we are providing a new concept transmission and driveline and developing strategy for military hybrid platforms for one of South Korea's leading military equipment manufacturers. We are also currently entering the South Korean renewable energy market.

In Japan, we maintained the performance of the previous very successful year in the first half of the year, with orders in the region of £7 million from some of Japan's leading automotive companies. However, our Japanese customers have been severely hit by the global economic crisis, especially in the US, and outsourcing was significantly reduced in the second half of the year. Ricardo Japan took rapid action to control local costs and to minimise the financial impact of this reduction in outsourcing.

Expansion of Ricardo China has continued in line with growing domestic customer demand over the past year. The local business development organisation has been strengthened, enabling improved focus on key opportunities. Our core technology offerings in transmissions and hybrid systems continue to be well aligned to industry needs and increased emphasis has been placed on marketing these product sectors, with positive results. The next step in our strategy as an active and visible partner in the development of the Chinese automotive industry has also been taken following the initiation of government-level dialogue regarding future strategic technology development initiatives.

The growing team in China is now well established in our new engineering centre in Shanghai and we have welcomed our first customer engineers to our dedicated project office facilities. Recruitment in many technical areas has continued through the year, boosted by a successful graduate recruitment campaign covering the top Chinese universities. Local project work has covered gasoline and diesel passenger car, transmissions and hybrid development programmes, thus providing a solid foundation for cost- effective local project delivery.

Russia

A good level of order intake was received from Russia with no experience of project delays or cancellations. The continued and substantial growth of Ricardo's business won from Russia was recognised in March 2009 by the award of 'best newcomer to the country's automotive industry' at the Adam Smith Conference's annual forum on the Russian automotive industry.

Strategic Consulting

In the light of the global economic slowdown, many of our traditional automotive clients have cut back significantly on consulting spend. This cutback was especially pronounced in the second half of the financial year, a period in which many vehicle manufacturers and suppliers operated in a severely cash-constrained environment, in several cases resulting in bankruptcy. The impact of this was felt equally by our strategic consulting teams across Europe, America and Asia.

In this rapidly changing market, the emphasis shifted from previously important service offerings such as general market studies, merger and acquisition support and process improvement programmes, to turnaround and cost-reduction assignments, with clients demanding a rapid and high return on consulting spend. Given the changes in legislation and customer demand, strategy projects related to CO_2 reduction were also highly relevant. We responded swiftly to this change in market demand and implemented a significant reorientation of our take-to-market approach.

While maintaining our traditional automotive presence, albeit at reduced levels, we have diversified into new sectors such as aerospace, transportation and clean energy. We are also now working with a number of government departments and agencies across the world. This diversification has helped to offset partially the slowdown in automotive consulting demand already mentioned, and has been important in maintaining profitability at reasonable margins whilst also providing a broader and more diversified future client base.

In anticipation of a tough six to twelve months for management consulting in the automotive sector, we will continue our diversification drive and recruitment will focus on these new sectors and service offerings.

Research & development

During the financial year, regulatory pressure for improved passenger car fuel efficiency and corresponding reductions in CO_2 emissions increased substantially. European fleet average vehicle CO_2 emissions will need to be reduced to less than 130 g/km by 2015 and to less than 95 g/km by 2020. If the target is not met, non-compliance fines equivalent to €95 per gramme of excess CO_2 would also be levied on every vehicle a company sells.

In the US, President Obama has also now announced an all-encompassing federal target of 35.5 miles per gallon (42.6 miles per imperial gallon or 6.6 litres/100 km) for all passenger vehicles by 2016, a move which finally unifies regulatory efficiency targets for all of the United States. Similar measures in other countries and policy statements to extend fuel efficiency regulations to the commercial vehicle sector add up to a major global push. This is what drives much of the R&D portfolio at Ricardo.

The key challenge for fuel efficiency is to create new technologies and innovations that are both cost effective and, for passenger cars, attractive for consumers. It is especially critical to work closely with our customers to address the perception among consumers that fuel efficient vehicles are by definition dull and boring. Most internally funded research at Ricardo now attracts collaborative support from automotive customers and frequently involves government funding from the United States, Europe or the UK. Ricardo engages at a high level in all of these markets to support work to define R&D priorities for government funding, identifying the needs for investment to solve generic technology challenges and enabling future products to be brought to market more effectively.

The Ricardo R&D portfolio has continued to grow in the last year, and included below are some of the highlights.

- We have recently completed the Roads2HyCom European project. Ricardo led this 29-member consortium of organisations from a wide range of sectors including transport. This project was created to support planning of EU investment in future fuel cell and hydrogen applications, examining the technical and socio-economic issues associated with future market opportunities and growth. Ricardo has now defined a clear picture of when and where fuel cell and hydrogen markets may grow and what role Ricardo can play in the commercial exploitation of these markets.

- Our innovative switching two-stroke to four-stroke boosted gasoline engine concept has now moved into its third phase. Following on from an initial concept study and a second phase which delivered a proof of concept engine in a rig test, the latest phase seeks to demonstrate the fuel efficiency and performance potential of the engine in a Jaguar XF vehicle. This project is part funded by the UK Technology Strategy Board, with collaboration from Jaguar Land Rover, Denso UK and the University of Brighton.

- Interest in ethanol as an alternative fuel in the US continues to grow and Ricardo has been very active in designing and developing a high-performance boosted spark ignition engine that exploits the enhanced fuel properties of ethanol compared with gasoline. Thanks to direct injection, a high compression ratio and the use of exhaust gas recirculation under all conditions, the engine has delivered outstanding performance and fuel economy, with significant benefits compared to conventional gasoline engines converted to operate with flex-fuel capabilities.

- We have made significant progress in developing a practical mechanical kinetic energy recovery system (KERS) for road cars. This builds on some of the progress made with high-speed flywheels initially developed for Formula One KERS. Ricardo has created some innovative solutions to provide a cost-effective route to implement this technology in road vehicles, avoiding the need for high-speed mechanical seals and creating new low friction and long life high-speed bearing systems.

- Ricardo has also been very active in supporting the growth of electrification in transport, with a wide range of studies and investments. One of these has been the ReHEV (Range-extended Hybrid Electric Vehicle) project part-funded by the UK Technology Strategy Board and led by Jaguar Land Rover. Together with electricity utility E.ON, Ricardo has carried out a study to explore the impact of electric and plug-in hybrid vehicles on electricity demand in the UK. Further studies have defined the potential for a more intelligent charging infrastructure and the use of grid-connected electric vehicles to operate as a mass energy storage facility.

People

During the year we have maintained our philosophy of ‘bringing on the best’ and ‘bringing in the best’ of talent. From within the organisation, Global Engineering and Products Director Mark Garrett was promoted to the Ricardo plc Board, Patricia Ryan added the role of Company Secretary to her Group General Counsel role, and Dr Roger Thornton, an experienced consultant and hybrid expert, was promoted to lead Ricardo’s Global Hybrid Product Group. Paula Bell, our Group Finance Director, won the prestigious First Women - Science and Technology award in June 2009, sponsored by the Confederation of British Industry to recognise trailblazing and pioneering women in business who also actively develop and attract talent within an organisation.

Representing talent brought in from outside, Fred Payne, a former BAE Systems executive, joined as head of programme management, and Graeme Rumbol, also from BAE Systems, was appointed to take charge of Ricardo’s defence activities; Dave Higbie joined from AVL to lead our software business, while Richard Jones, with over 20 years of wind industry experience with Vestas, BP and Garrad Hassan, was recruited to strengthen our clean energy business.

Our talent management process has also identified up-and-coming business leaders to take up the challenge of career development opportunities, particularly as we expand our presence in new geographical markets.

Conclusion and outlook

Despite turbulence in the global markets we serve, the business has performed well in the last financial year, thanks to our diversification strategy, investment in facilities and research and development, a strong order book, robust working capital management and our resilient and talented team of employees. Whilst many of our customers are still cautious and we expect the economic environment to remain a challenge for some time, our key business drivers of tightening emissions and CO_2 legislation remain and we are pressing ahead with our strategy to increase customer and sector spread supported by investment in research, facilities and our people.

Against this backdrop, we expect trading in the first half of the current year to be substantially lower than the previous first half. However, due to the size and profile of our order book and an anticipated market recovery we expect a stronger second half. With the strength of our balance sheet we remain committed to our strategy and are confident for the future.

Dave Shemmans
Chief Executive Officer
22 September 2009

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

Consolidated income statement
for the year ended 30 June 2009

Continuing operations	Notes	**2009 £m**	2008 £m
Revenue	2	**178.8**	181.9
Cost of sales		**(109.2)**	(115.0)
Gross profit		**69.6**	66.9
Administration expenses		**(54.5)**	(50.6)
Operating profit	2	**15.1**	16.3
Finance income		**4.0**	1.9
Finance costs		**(3.4)**	(2.7)
Profit before taxation		**15.7**	15.5
Taxation		**(1.0)**	(2.4)
Profit for the year from continuing operations		**14.7**	13.1
Discontinued operations			
Loss for the year from discontinued operations	3	**(5.7)**	(0.7)
Profit for the year		**9.0**	12.4
Profit attributable to minority interest		**-**	0.1
Profit attributable to equity shareholders		**9.0**	12.3
Earnings per share			
From continuing operations	4		
Basic		**28.8p**	25.5p
Diluted		**28.6p**	25.3p

Consolidated statement of recognised income and expense

for the year ended 30 June 2009

	2009 £m	2008 £m
Currency translation differences on net investment in foreign operations	**4.9**	3.8
Fair value loss on net investment hedge	**(0.3)**	(2.0)
Cash flow hedges:		
net fair value losses	**(0.5)**	(1.5)
recycled and reported in net profit	**1.2**	1.1
Actuarial loss on the defined benefit pension scheme	**(11.6)**	(5.7)
Tax on items recognised directly in equity	**2.3**	1.8
Net expense recognised directly in equity	**(4.0)**	(2.5)
Profit for the year	**9.0**	12.4
Total recognised income and expense for the year	**5.0**	9.9
Attributable to minority interest	**-**	0.1
Attributable to equity shareholders	**5.0**	9.8

Consolidated balance sheet
as at 30 June 2009

	2009 £m	2008 £m
Assets		
Non current assets		
Goodwill	**16.0**	17.9
Other intangible assets	**2.5**	2.1
Property, plant and equipment	**47.3**	48.0
Derivative financial instruments	**1.3**	-
Deferred tax assets	**14.4**	12.2
	81.5	80.2
Current assets		
Inventories	**5.1**	9.1
Trade and other receivables	**44.8**	54.2
Current tax assets	**0.5**	1.1
Cash and cash equivalents	**16.8**	37.3
Assets held for sale	**7.5**	-
	74.7	101.7
Total assets	**156.2**	181.9
Liabilities		
Current liabilities		
Bank loans and overdrafts	**(16.4)**	(27.7)
Trade and other payables	**(34.3)**	(49.7)
Current tax liabilities	**(2.6)**	(2.9)
Provisions	**(0.8)**	(0.8)
Liabilities directly associated with assets held for sale	**(0.8)**	-
	(54.9)	(81.1)
Net current assets	**19.8**	20.6
Non current liabilities		
Bank loans	**(3.9)**	(9.9)
Retirement benefit obligations	**(29.4)**	(19.9)
Derivative financial instruments	**(0.3)**	-
Deferred tax liabilities	**(0.8)**	(3.9)
	(34.4)	(33.7)
Total liabilities	**(89.3)**	(114.8)
Net assets	**66.9**	67.1
Shareholders' equity		
Share capital	**12.9**	12.9
Share premium	**13.7**	13.7
Other reserves	**5.2**	0.9
Retained earnings	**35.1**	39.2
Total shareholders' equity	**66.9**	66.7
Minority interest in equity	**-**	0.4
Total equity	**66.9**	67.1

Consolidated cash flow statement
for the year ended 30 June 2009

	2009 £m	2008 £m
Cash flows from operating activities		
Cash generated by operations (note 5)	**15.2**	29.3
Interest received	**2.1**	1.6
Interest paid	**(3.4)**	(2.8)
Tax paid	**(1.8)**	(2.0)
Net cash generated by operating activities	**12.1**	26.1
Cash flows from investing activities		
Proceeds of sale of property, plant and equipment	**0.1**	0.1
Disposal of subsidiary	**(0.1)**	-
Purchases of intangible assets	**(1.2)**	(1.0)
Purchases of property, plant and equipment	**(9.0)**	(9.8)
Net cash used by investing activities	**(10.2)**	(10.7)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	**-**	0.5
Net proceeds from issue of new bank loan	**0.3**	1.1
Repayment of bank loans	**(9.8)**	(2.4)
Dividends paid to shareholders	**(5.5)**	(5.2)
Dividends paid to minority interests	**-**	(0.2)
Net cash used by financing activities	**(15.0)**	(6.2)
Effect of exchange rate changes	**1.6**	(0.5)
Net (decrease)/increase in cash and cash equivalents	**(11.5)**	8.7
Cash and cash equivalents at 1 July	**21.4**	12.7
Cash and cash equivalents at 30 June	**9.9**	21.4

Notes to the financial statements
for the year ended 30 June 2009

1. General information

Ricardo plc is a limited liability company incorporated in the UK with a primary listing on the London Stock Exchange. The company's registered office is at the Shoreham Technical Centre, Shoreham-by-Sea, West Sussex, BN43 5FG, and its registered number is 222915.

This preliminary announcement is based on the audited Annual Report and Accounts 2009, which was approved for issue on 21 September 2009, and which has been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations adopted by the European Union ("EU") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information herein does not amount to full statutory accounts within the meaning of section 434 of the Companies Act 2006.

2. Continuing operations

a) By business segment, with revenue reflecting sales to external customers

	Technical Consulting		Strategic Consulting		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Revenue earned	**168.1**	169.5	**10.7**	12.4	**178.8**	181.9
Adjustment for inter-segmental revenue	**(2.2)**	(0.3)	**2.2**	0.3	**-**	-
Revenue from third parties	**165.9**	169.2	**12.9**	12.7	**178.8**	181.9
Operating profit	**13.8**	14.5	**1.3**	1.8	**15.1**	16.3
Finance income					**4.0**	1.9
Finance costs					**(3.4)**	(2.7)
Profit before tax					**15.7**	15.5
Tax					**(1.0)**	(2.4)
Profit for the year					**14.7**	13.1

b) By division, reflecting the revenue generated by the staff in those businesses

	Revenue earned		Operating profit/(loss)	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Technical Consulting				
UK	**117.1**	116.0	**12.7**	12.3
Germany	**16.1**	14.1	**(1.2)**	(0.1)
US	**34.9**	39.4	**2.3**	2.3
	168.1	169.5	**13.8**	14.5
Strategic Consulting	**10.7**	12.4	**1.3**	1.8
	178.8	181.9	**15.1**	16.3

3. Discontinued operations

During the year, the Board resolved to dispose of the Group's exhaust business in Germany. These operations, which are expected to be sold within 12 months, have been classified as a disposal group held for sale and presented separately in the balance sheet.

Results of discontinued operations	**2009 £m**	2008 £m
Revenue	**10.5**	15.8
Operating costs	**(12.4)**	(16.2)
Finance costs	**(0.9)**	(0.4)
Loss before tax	**(2.8)**	(0.8)
Attributable tax expense	**0.7**	0.1
Write down of assets held for sale	**(3.8)**	-
Tax effect of impairment	**0.2**	-
Net loss attributable to discontinued operations	**(5.7)**	(0.7)

Assets and liabilities of operations classified as held for sale, after write down	**2009 £m**
Property, plant and equipment	**3.0**
Inventories	**2.7**
Trade and other receivables	**1.8**
Total assets classified as held for sale	**7.5**
Trade and other payables	**(0.8)**
Total liabilities associated with assets classified as held for sale	**(0.8)**
Net assets of the disposal group	**6.7**

4. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the year, excluding those held by an employee benefit trust for the LTIP which are treated as cancelled for the purposes of the calculation.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These include potential awards of LTIP shares and options granted to employees where the exercise price is less than the market price of the Company's ordinary shares during the year.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below.

	2009 £m	2008 £m
Earnings attributable to equity shareholders	**9.0**	12.3
Adjusted to exclude loss for the year from discontinued operations	**5.7**	0.7
Earnings from continuing operations	**14.7**	13.0

	Number of shares millions	Number of shares millions
Basic average number of shares in issue	**51.1**	50.9
Effect of dilutive potential shares	**0.3**	0.5
Diluted average number of shares in issue	**51.4**	51.4

Earnings per share	**pence**	pence
From continuing operations		
Basic	**28.8**	25.5
Diluted	**28.6**	25.3
From continuing and discontinued operations		
Basic	**17.6**	24.2
Diluted	**17.5**	23.9
Impact of discontinued operations		
Basic	**(11.2)**	(1.3)
Diluted	**(11.1)**	(1.4)

5. Cash generated by operations

	2009 **£m**	2008 £m
Continuing and discontinued operations		
Profit from operations	**13.2**	15.9
Adjustments for:		
Share-based payments	**0.7**	0.3
Cash flow hedges	**0.4**	-
Profit on sale of subsidiary	**(0.1)**	-
Depreciation and amortisation	**9.0**	8.8
Operating cash flows before movements in working capital	**23.2**	25.0
Decrease/(increase) in inventory	**1.1**	(1.1)
Decrease in trade and other receivables	**8.6**	3.0
(Decrease)/increase in payables	**(15.6)**	4.6
Increase in provisions	**-**	0.3
Pension payments in excess of pension costs	**(2.1)**	(2.5)
Cash generated by operations	**15.2**	29.3

6. Net debt (non-GAAP measure)

Net debt is defined by the Group as net cash and cash equivalents less bank loans.

	2009 **£m**	2008 £m
Cash and cash equivalents (current assets)	**16.8**	37.3
Bank overdrafts (current liabilities)	**(6.9)**	(15.9)
Net cash and cash equivalents	**9.9**	21.4
Bank loans maturing within one year	**(9.5)**	(11.8)
Bank loans maturing after one year	**(3.9)**	(9.9)
Net debt	**(3.5)**	(0.3)