28th September 2010

Ricardo plc
Preliminary results for the full year ended 30 June 2010

Ricardo plc is a market leading engineering, management and automotive consultancy, employing over 1500 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

Despite a turbulent and challenging year with a backdrop of a weak passenger car market, Ricardo responded well by following its previously stated diversification strategy into new markets and developing a broader client base. Focused cost management mitigated the full effect of the expected decrease in revenue. Profit before tax for continuing operations was £10.8m (2009:£15.7m). As per the company's previous communications, the non core German exhaust business, which was formally sold on 30th July 2010, has been reported under discontinued operations.

Continuing operations:

- Improved Q4 orders led to strong closing orderbook at £101m (June 2009: £97m)
- Revenue of £162.8m (June 2009: £178.8m)
- Operating profit of £12.6m (June 2009: £15.1m)
- Profit before tax £10.8m (June 2009: £15.7m)
- Strong balance sheet maintained - net debt at £7.8m (June 2009: £3.5m)
- Basic earnings per share 20.1p (June 2009: 28.8p)
- Full year dividend of 10.7p – maintained at the same level as last year
- Sale of non core exhaust business concluded 30 July 2010
- Positive outlook as markets continue to show signs of recovery

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

"Despite the continued global economic turbulence and the resulting continued absence of many of our traditional clients from our order intake, the business has performed well in the circumstances. We have maintained a strong balance sheet and grown our orderbook, and propose an unchanged dividend payment. We have continued to invest in world-class facilities and leading-edge research and have in place a targeted recruitment programme for recognised specialists to drive our sector strategy.

We are now seeing signs of recovery from our traditional clients, with orders starting to be placed; however, we are continuing to run the business with high levels of control and vigilance to ensure that we exploit any recovery to the full, whilst at the same time managing any turbulence along the way. As a result of our diversification strategy, our clients now come from a broader range of sectors and we look forward to serving them for many years to come with a stream of repeat business.

The key drivers of CO_2 reduction and energy security remain and will return to centre stage when the economy is more fully recovered. Moreover, with many clients having restructured their operations, outsourcing can provide an effective way for them to both meet the demands of the forthcoming emissions legislation and return to more normalised product development cycles.

With the global economic recovery appearing to be underway, Ricardo is well positioned with a good orderbook, a broad client base, a highly relevant technology portfolio and a strong balance sheet to exploit the opportunities that lie ahead. We remain committed to our strategy and are confident for the future."

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Review of the year

Trading performance summary

The results from continuing operations are the primary performance measure for financial results used by Ricardo. The German exhaust business continued to be held for sale at 30 June 2010 and has been reported under discontinued operations. The contract for the sale of this business was signed on 28 July 2010 and the sale completed on 30 July 2010.

The downturn in the world economy has seen a lengthening of our clients' tender to order cycle, particularly in the passenger car sector. Our diversification strategy to secure orders from other market sectors has been successful over the last 12 months, particularly in the US, where the orderbook position has grown significantly compared to 30 June 2009.

In the last quarter of the financial year we benefited from improved order intake levels as the automotive industry showed signs of recovery. This resulted in a strong closing orderbook of £101m (2009: £97m) containing good sector and client diversification.

Revenue from continuing operations was £162.8m (2009: £178.8m). Focused cost management across our global operations helped mitigate the impact of reduced expenditure from our clients and as a result, administration costs reduced by £8m in the year. Operating profit from continuing operations was £12.6m (2009: £15.1m).

Net financing costs were £1.8m compared to a £0.6m financing benefit in the prior year. The 2010 charge includes £1.7m of defined benefit pension scheme charges (2009: £1.1m) and the 2009 credit included a one-off foreign exchange benefit of £1.1m.This resulted in profit before tax from continuing operations of £10.8m for the financial year to 30 June 2010, compared to £15.7m in the previous year.

As noted above, in July agreement was reached to sell the non-core German exhaust business to J. Eberspächer GmbH & Co. KG. This resulted in a discontinued operations charge of £2.7m (2009: £5.7m), which comprised an operating loss of £0.5m (2009: £1.9m), an asset write-down of £2.9m (2009: £3.8m) and a positive tax effect of £0.9m (2009: £0.9m). This resulted in a Group profit for the year of £7.6m (2009: £9.0m).

We are once more pleased to report that we have maintained a strong balance sheet position. Net debt closed the year at £7.8m (2009: £3.5m). We continued to invest in R&D, with gross expenditure in the year (before deduction of government grants) of £11.9m (2009: £12.4m); in a subdued economic market, government grant support was particularly appreciated. The net expenditure after deducting government grant income was £8.9m (2009: £11.2m).

Technical Consulting results

Technical Consulting revenues declined to £153.4m compared to £168.1m in the prior year as further contraction took place in the automotive sector. Nevertheless, our strategy of sector diversification has largely offset this decline, with growth being particularly strong in the commercial vehicle and defence sectors.

Predicting the trend and timing of clients placing work necessary to meet CO_2 legislative targets has been very difficult. The third quarter of the financial year saw a reduced level of order wins, leading to reduced revenue for the full year. However, fourth quarter order intake levels improved, which led to a much stronger orderbook position at the year end. Against a backdrop of continued market caution and reduced activity levels, the UK Technical Consulting division developed into new market sectors in the face of this continued weakness in new orders from our traditional passenger car markets. Defence vehicle work has remained strong and stable, providing a good base for our operation and the commercial vehicles and motorsport transmissions sectors have continued to be strong.

The UK business continues to counteract unpredictable sales volumes by ensuring optimal business efficiency at all times. UK revenue dropped £10.3m in the year to £106.8m. The revenue figures include pass through costs of materials at minimal margin. Once material costs are excluded, the revenue reduction was £13.4m compared to last year. This was in part mitigated by cost reduction actions. During the first half of the year short-time working arrangements were implemented and temporary staff were used to ensure maximum efficiency while maintaining the core team and an appropriate skills base. In July 2010 there was a permanent reduction in the UK workforce. Combined with a restructuring of the business to achieve greater operational efficiencies, a lean organisation is now in place to maximize the benefits from the upturn in our core markets as they emerge.

It has been a challenging year for our Technical Consulting business in Germany, with significantly reduced client expenditure for us to compete for. However, key clients continued to place further orders for large programmes and we have achieved some success with new customers.
The US Technical Consulting business showed strong signs of recovery following a difficult trading environment during the previous year. Revenues started to recover and the benefits of efficiency measures taken last year have enabled the business to increase profitability. Orderbook growth has been strong as the US builds on its diversified platform, attracting new clients in new sectors.

Strategic Consulting results

The sector diversification strategy pursued in the Strategic Consulting division has helped mitigate the impact of a turbulent year, which saw a decline in its traditional automobile sector business. Many new customers are now choosing Strategic Consulting's wider range of consulting services and the broader client base now provides a good platform for future growth.

Although revenue levels declined slightly in the year to £9.4m from £10.7m in 2009, improved pricing and margin together with tight cost control management meant the business delivered an improved operating profit of £1.8m, compared with £1.4m last year.

Discontinued operations

The non-core exhaust manufacturing was held for sale throughout the year to 30 June 2010 and, in consequence, its results are shown as results from discontinued operations. The sale agreement included the transfer of the business, employees, plant and equipment and inventories for a cash consideration of €2 million.

Discontinued operations results include an additional write-down of assets of £2.9 million to reflect the agreed sale terms.

Finance Income and costs

There has been a net finance cost in the year of £1.8m, compared to net finance income of £0.6m in 2009. The prior year income included interest income resulting from cross-currency interest rate swaps and a one-off foreign exchange income of £1.1m. This year's cost also includes the finance charge for the pension scheme, which was £1.7m compared to £1.1m last year. Part of the increase was due to pension fund administration costs which were met directly by the Company for the first time this year.

Tax

The tax charge for the year was £0.5m (2009: £1.0m) We continue to benefit from R&D tax credits, and following a review in 2010 a further £0.8m of R&D tax credits were recognized in relation to prior years.

Earnings per share

As a result of decreased profits, partly compensated for by a reduced tax charge, earnings per share from continuing operations have decreased to 20.1p from 28.8p in 2009.

Dividend

The total (paid and proposed) dividend for the year remains at 10.7p per ordinary share (2009: 10.7p). The proposed final dividend of 7.5p (2009: 7.5p) will be paid on 26 November 2010 to all shareholders on the register at the close of business on 29 October 2010, subject to approval at the Annual General Meeting on 18 November 2010.

Net assets

Net assets at 30 June 2010 were £64.8m, which remained at a similar level to the prior year of £66.9m. Capital expenditure in the year was £7.6m (2009: £10.2m), including £2.7m for new operating facilities at our Shoreham Technical Centre and £1.6m for new business systems. At the end of the year our capital commitments were £1.3m (2009: £0.8m).

Net debt

We continue to maintain a strong balance sheet position. As we are currently delivering a number of assembly programmes material levels are higher than previously experienced. This has led to an increase in working capital in the period. As a result net debt closed at £7.8m compared to £3.5m at 30 June 2009.

At the end of the financial year the Group had £28m of committed borrowing facilities, £15m of which is committed for more than one year. In addition the Group had uncommitted facilities of £21m at the year end.

Exchange rates

Despite the weakness of sterling with the average value of sterling 13 percent lower against the dollar and 1 percent lower against the euro during the year ended 30 June 2010, there has been no significant overall impact on the profit before tax for the year due to this 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. The receivables arising on these contracts are hedged accordingly and hedge accounting is applied.

Pensions

The deficit in our defined benefit pension scheme measured in accordance with IAS19 'Employee Benefits' increased in the year from £29.4m to £34.4m, principally as a result of the fall in the discount rate used in the calculation of the scheme's obligations. On 28 February 2010 the defined benefit scheme was closed to future accrual.

In consultation with the trustees of the pension fund, the business has commenced a rebalancing of the pension fund assets during the year to reduce the overall volatility risk.

The cash contribution plan to eliminate the deficit, which commenced in 2006, continues and is targeted to eliminate the deficit by 2016. The next triennial valuation of the pension fund is due at 5 April 2011.

Technical Consulting

Passenger Car

The past year can be summarised as a focus on survival and cash preservation on the part of many of the world's leading automakers, while the growth continued in some Asian regions and we have seen the emergence of new players into the niche markets of hybrid and electric vehicles. The legislative landscape remains a key driver to the demand for our low CO_2 technologies, with hybrid and electric technology, fuel- efficient diesel and gasoline engines, high-efficiency automatic transmissions and new forms of energy storage being particularly sought after. We remain confident that these areas will see further growth as general business confidence returns and the continuing legislative pressures on fuel economy requirements flow through into product plans. There was some return to external spend by traditional customers towards the end of the year, and we secured programmes across most engineering disciplines.

Our engine business has had a mixed year, with a very subdued order intake in the passenger car markets of gasoline and light duty diesel engines In the final quarter of the year we have seen significantly increased activity in the market and we have been successful in winning considerable orders in the passenger car sector. This will give a good start to the next year and, furthermore, indicates a general strengthening of the market.

In the US the focus of engineering has been on the new National Program to regulate passenger cars and light trucks for model years 2012 to 2016 in order to improve their fuel economy and reduce greenhouse gas emissions. New Corporate Average Fuel Economy (CAFE) standards will require these vehicles to reach an estimated combined average mile per gallon (US mpg) level of 34.1 by 2016.

A further focus is on energy security and, in this respect, Ricardo is well positioned with its Ethanol Boost, Direct Injection (EBDI) engine, a development which supports the US Administration's energy independence agenda by making use of a domestic renewable fuel source. Our EBDI engine was announced at the Washington Auto Show in January 2010. It is the first engine to make use of ethanol's favourable properties and these capabilities will be proven in two vehicle demonstrators that will be completed during the coming year.

In Germany we secured increased business from premium automakers, demonstrating our growing position in this key European automotive market. In Japan, car manufacturers were hit especially hard by the collapse of sales in the US in 2009, but are increasingly returning to profit helped by strong sales in China and recovery in the US. This has translated into an upturn in business for Ricardo and large turnkey opportunities are beginning to emerge once again.

The Chinese domestic automotive market has experienced unprecedented growth, especially in small to medium sized own-brand passenger cars. A major focus for new product development is centred on direct injection gasoline technology, dual clutch and planetary automatic transmissions, and hybridisation for improved economy. Ricardo is well positioned as a provider of leading-edge solutions in these areas and has as a result experienced continued growth.

Russian market activity has been encouraging as the pace of technology increases, a significant highlight in the period being the award of a contract by Moscow-based KATE LLC to partner it in the development of a new seven-speed automatic transmission for use in AvtoVAZ cars.

In India we secured a number of engine, transmission and control and electronics contracts from leading manufacturers during the year. We have just started working on an advanced transmission for one of the country's largest manufacturers and saw a number of Ricardo-developed engines and hybrid vehicles launched at the prestigious Delhi Motor Show in January 2010.

Defence

The global defence market continues to focus strongly on the areas of crew protection and, where possible, the deployment of autonomous and remote controlled vehicles.

In the UK MoD's Light Protected Patrol Vehicle (LPPV) programme Ricardo, in partnership with Force Protection Europe (FPE), has received significant positive user and customer feedback for the

Ocelot design. Selected for LPPV, Ricardo will be the manufacturing partner for UK series production. Further orders have also been received for the WMIK Land Rover upgrade and for the development of new vehicles in the US. In addition to vehicle activity, the defence sector has drawn upon a number of key technologies from Ricardo's portfolio in areas such as Intelligent Transportation Systems (ITS), engines and hybridisation.

Ricardo has been working with the US Department of Defense, its agencies and its subcontractors, supporting the budget focus on energy use reduction, unmanned systems and acquisition reform - priorities very much in line with Ricardo thinking in this sector. Current programmes continue with the development and demonstration of engines for ground vehicles which increase power density and improve fuel economy. Vehicle fuel economy is the focus of a major vehicle demonstration programme which will be announced by Tank and Automotive Command (TACOM). This will include adaptations of Ricardo's commercial vehicle technologies and the development of fuel economy tool-sets to aid complex vehicle design and selection.

With a keen eye on the future needs of this sector, research programmes have emphasised the development of product technologies that are expected to further expand market opportunities for our services. An example of this is the Ricardo Wolverine 3 hp unmanned aerial vehicle heavy fuel engine, which is aimed at global markets.

Commercial, Agricultural and Industrial Vehicles

Engine-related programmes in the sector have remained strong over this period, especially focused on US Tier 4 and European Stage 4 off-highway emissions regulations. Ricardo technologies in this sector such as the advanced Twin Vortex Combustion System have been much in demand. This system tackles emissions at source and greatly reduces the need for after treatment, so cutting costs and avoiding the packaging challenges of traditional solutions while improving fuel economy. JCB's Ecomax T4 engine, which was approved in April 2010, incorporates this Ricardo technology and is claimed as the cleanest off-highway engine.

Business activity in the off-highway sector was so strong that capital investments were made to expand our Detroit test cell facilities to introduce heavy duty test capability in a formerly light duty dynamometer cell. Furthermore, a Presidential Memorandum has directed the US Environmental Protection Agency and the US Department of Transportation to create a first-ever national policy to increase fuel efficiency and decrease greenhouse gas pollution from medium and heavy duty trucks for model years 2014-2018.

The period under review saw the successful completion of the Taxibot demonstrator vehicle programme for Israel Aerospace Industries Ltd. This concept enables commercial aircraft to be towed from the gate to the end of the runway without the use of aircraft engines, thus saving significant fuel consumption and CO2 emissions. As the engineering partner, Ricardo provided the modelling, mechanical, hydraulic and automotive control systems for the design, build and development of an advanced aircraft tug, which successfully demonstrated operational towing with an Airbus A340 aircraft at Toulouse airport.

In addition to fuel efficiency, vehicle productivity is a key market driver in agriculture. Ricardo has been studying the effects of hybridisation and has defined a feasible hybrid system to improve vehicle productivity by more than 10 percent and also yield an improvement in fuel consumption. Interest has also been shown in Ricardo's flywheel energy storage technology where the stored energy from the descent can be used to reduce energy consumption for the loaded ascent, thus reducing overall running costs, for application in mining trucks.

In China and India construction vehicle manufacturers are reaching a critical size – the point at which developing their own driveline components becomes a viable alternative to purchasing from Europe or the US. Several are now seeking to acquire the key Ricardo technologies that will enable them to compete on a global basis.

High Performance Vehicles, Motorsport, Motorcycles and Personal Transport

Despite the pressures of the economic downturn, high performance vehicles continue to be developed around the world at levels similar to those seen previously. Ricardo has been heavily engaged with continued support for the Bugatti Veyron supercar programme. This has culminated in the supply of the driveline system for the new more powerful 1200 hp SuperSport model, which became the new production car world land speed record holder this summer. Ricardo is also continuing to develop a supercar engine that will be assembled by Ricardo in 2010.

In motorsport, Ricardo again successfully supported world champions and leading teams with the design and supply of high performance transmission systems and components. Our projects covered Formula 1, all three manufacturers within the Japanese GT Championship, the World Rally Championship and, once again, Ricardo supported the Peugeot team's Le Mans 24 Hours assault. Ricardo's technical expertise also continues to be greatly valued by the motorsport authorities, including world motorsport's governing body, the FIA, where our specialists can provide perspective and technical advice on aspects of both road and race powertrain design and development.

In the motorcycle and personal transportation sector we remain active with a number of global manufacturers, from high performance engine design to the low-cost hybridisation of scooters. The developed markets of Europe, Japan and USA are focused on single-use leisure or commuting applications, with iconic brands competing over technology and performance. Developing markets such as China, Indonesia and India focus on the provision of low-cost personal transportation to the emergent middle classes. Whilst the introduction of comfort, safety and performance technology typically lags the pace of the developed markets, there is significant leadership in the development of electric propulsion as a result of local legislation on emissions in urban areas.

Clean Energy and Power Generation

The factors that drive the need for renewable energy – whether environmental, economic or the desire for energy security – remain high on the international agenda. The UK in particular has set ambitious renewable energy generation targets for 2020, with much of the emphasis on renewable electricity generation from offshore wind. New geographical markets where Ricardo has an established and growing presence are also now very active in the clean energy arena: China, for example, installed more wind power capacity than any other country in 2009.
Ricardo’s driveline system analysis and design capabilities have secured business from turbine and gearbox manufactures eager to ensure they have a robust and reliable product for deployment on and offshore. The key challenge for renewable energy companies is to develop cost-effective systems with good reliability. Ricardo’s product development knowledge is well suited to address these key issues. Ricardo continues to grow its activities and secure business for both its technical and strategic consulting divisions in these sectors, with a particular focus on wind power, marine power, energy storage, generator set and smart grid systems. In the conventional power area Ricardo is helping genset manufacturers upgrade their core technology to meet tighter emissions legislation. During 2009 a significant project with a major genset manufacturer has been progressed, addressing not just these upgrades but also the issue of cost optimisation.

New Sectors: Rail and Marine

A key component of the Ricardo strategy is to establish positions in adjacent markets where Ricardo technology can be readily exploited: throughout the year we have continued this process in the rail and marine markets. The rail industry continues to expand as its environmental and passenger density credentials drive the development of new high speed and commuter rail routes as well as the modernisation of existing lines.

For Ricardo, these developments represent a significant opportunity: our expertise in engines, transmissions and information systems is being sought either to extend the life of existing assets or

to reduce the asset investment costs in mature sectors such as that for signalling control. The environmental needs are a lower priority in the rail market at present but imminent emissions legislation and predicted fuel cost increases are prompting clients to develop strategies to meet this legislation and reduce fuels costs and CO_2 emissions. Ricardo's hybrid technologies have stimulated interest and we have also gained initial interest from railcar manufacturers for powerpack development and integration, again leveraging our experience from other market sectors.
Since the last interim statement Ricardo has recruited a core team of senior rail leaders who have a wealth of experience in the international rail vehicle and signalling control and information market sectors. This team has combined well with our core engineering expertise, to develop this new sector.

In the marine area, the upgrade and development of current fleets is a global theme, with reduction in energy consumption and emissions as its primary drivers. Ricardo is utilising energy optimisation tool-sets to aid complex system design and selection. Hybrid drives are currently being developed for port use, and the establishment of shore-to-vessel energy optimisation and micro-grid systems are being investigated where Ricardo technologies from clean energy and power generation can be leveraged.

Strategic Consulting

In an economic environment where most automotive manufacturers and suppliers have severely cut back their spending on consulting, Ricardo Strategic Consulting successfully accelerated its drive for market sector diversification with re-orientation of its services towards offerings less affected by the recession.

Our consultants conducted high-profile projects in a number of market sectors including a major US automotive client cost reduction programme, other automotive projects, clean energy, defence, financial services, government, off-highway and rail. Service offerings around cost reduction, business turnaround and distressed company assessments were in high demand. CO_2 reduction was equally high on the agenda of many of our clients, providing our strategic consulting business with important project opportunities in the areas of advanced powertrain and electric vehicle strategy.

The unique value proposition of combining strategic and commercial insight with deep technical knowledge has proved a strong asset in the difficult economic environment. Clients across all sectors saw this combination of capabilities as a clear and very relevant differentiator and the key to providing tangible solutions to some of their most pressing issues, whether they were in the area of cost or CO_2 reduction.

Our cost reduction service offering has been further improved and successfully applied in both the automotive and diversified market sectors; our cost reduction teams have identified and implemented very significant savings on behalf of a number of clients over the year. Some of these engagements were offered on a success-based contingent fee basis, underlining the commitment of Strategic Consulting to measurable results.

The continued investment in relationships within our traditional automotive anchor accounts has also paid dividends and we have experienced a marked uplift in demand from these clients. This has been especially marked in the last quarter of the financial year as clients have begun to benefit from improved performance in many of their key markets. Our most recent orders also indicate that the market is shifting out of recession mode and back into growth mode, with the focus of attention switching back on to market, product and technology strategies.

Over the last 12 months Strategic Consulting has also cemented its position as a leading advisor on electric vehicles. Ground-breaking projects were conducted in support of vehicle manufacturers, component suppliers, government agencies and private equity firms in this important future growth area. The projects ranged from developing mobility concepts to the assessment of battery technologies and the review of the impact on the value chain.

Whilst maintaining tight control of costs and discretionary spend throughout the period, we have consolidated the consultant base and refocused our teams to better align capacity with demand.

As the global recovery gathers pace Strategic Consulting is well placed to continue delivering its unique combination of strategic insight coupled with deep technical know-how to a diversified client base spanning multiple sectors and regions.

Research & development

The demand for new and innovative technologies to meet future fuel efficiency or lower carbon regulations has continued to increase. In recent years Ricardo has actively pursued a strategy to build an internally funded R&D programme to develop new and innovative technologies to meet this demand with collaborative support from either government bodies or customers. During the past year our programme has also broadened to include the creation of Ricardo solutions to meet the challenges in a wide range of market sectors. This has enabled us to offer new solutions in the defence, rail, clean energy and off-highway sectors in addition to our road transport portfolio. Our roadmapping and technology forecasting capabilities have enabled us to put forward a range of new and innovative programmes for collaborative funding. This strategy has delivered a significant number of longer term collaboratively funded programmes that directly address our future business needs, training our staff in new areas and delivering opportunities for growth.

Some of the key programmes and achievements in R&D over the past year have been:

- A significant collaborative programme supported by both European and UK Regional Aid to develop advanced technologies for plug-in electric vehicles. This covers a wide range of innovative Ricardo technologies to deliver cost-effective and attractive products for consumers. The programme is divided into a range of work streams that include battery chemistry, range extender engines, low-energy heating, ventilation and cooling systems, next-generation silicon technologies, and modular power electronics concepts.
- A collaborative programme to deliver a novel lower-cost battery system for hybrid and electric vehicles featuring a new battery chemistry. One of the key deliverables from this programme has been a fully adaptable battery management system which we believe is a step ahead of many current systems. This new system has enabled us to file a number of patent applications and to offer this technology to our customers.
- Successful demonstration of our steer-by-wire technology with fail-safe architecture. This has been supported by a suite of safety-critical software that can automatically assess failure modes and effects and rate the impact of faults in a system. This is a significant enabler for many off-highway and defence applications.
- Hardware evaluation of our innovative flywheel coupling technology. This has also included the development of design processes and tools for our hermetically sealed magnetic coupling technology to enable mechanical flywheels to operate in a high vacuum whilst providing direct drive to a mechanical transmission. This technology has proved to be attractive for energy recovery across a range of sectors including rail.
- We have also received collaborative funding to support further exploration of an innovative approach to bearing design for wind turbine applications. Main bearing durability can be a particular challenge, with uneven wear leading to early failures. Ricardo has created a new approach to significantly improve the overall loading profile and improve both life and reliability.

Outlook

Despite the continued global economic turbulence and the resulting continued absence of many of our traditional clients from our order intake, the business has performed well in the circumstances. We have maintained a strong balance sheet and grown our orderbook and propose an unchanged dividend payment. We have continued to invest in world-class facilities and leading-edge research and have in place a targeted recruitment programme for recognised specialists to drive our sector strategy.

We are now seeing signs of recovery from our traditional clients, with orders starting to be placed; however, we are continuing to run the business with high levels of control and vigilance to ensure that we exploit any recovery to the full, whilst at the same time managing any turbulence along the way. As a result of our diversification strategy, our clients now come from a broader range of sectors and we look forward to serving them for many years to come with a stream of repeat business.

The key drivers of CO_2 reduction and energy security remain and will return to centre stage when the economy is more fully recovered. Moreover, with many clients having restructured their operations, outsourcing can provide an effective way for them to both meet the demands of the forthcoming emissions legislation and return to more normalised product development cycles.

With the global economic recovery appearing to be underway, Ricardo is well positioned with a good orderbook, a broad client base, a highly relevant technology portfolio and a strong balance sheet to exploit the opportunities that lie ahead. We remain committed to our strategy and are confident for the future.

Dave Shemmans
Chief Executive Officer
28 September 2010

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 2010

Continuing operations	Notes	**2010 £m**	2009 £m
Revenue	2	**162.8**	178.8
Cost of sales		**(103.7)**	(109.2)
Gross profit		**59.1**	69.6
Administration expenses		**(46.5)**	(54.5)
Operating profit	2	**12.6**	15.1
Finance income		**1.2**	4.0
Finance costs		**(3.0)**	(3.4)
Profit before taxation		**10.8**	15.7
Taxation		**(0.5)**	(1.0)
Profit for the year from continuing operations		**10.3**	14.7
Discontinued operations			
Loss for the year from discontinued operations	3	**(2.7)**	(5.7)
Profit for the year		**7.6**	9.0
Earnings per share			
From continuing operations	4		
Basic		**20.1p**	28.8p
Diluted		**20.0p**	28.6p

Consolidated statement of comprehensive income
for the year ended 30 June 2010

	2010 **£m**	2009 £m
Profit for the period	**7.6**	9.0
Other comprehensive income		
Currency translation on foreign currency net investment	**0.6**	4.9
Fair value loss on foreign currency net investment hedges	**-**	(0.3)
Fair value (loss)/gain on foreign currency cash flow hedges	**(0.7)**	0.7
Actuarial losses on defined benefit scheme	**(7.2)**	(11.6)
Deferred tax on items taken directly to equity	**2.1**	2.3
Total other comprehensive income for the period (net of tax)	**(5.2)**	(4.0)
Total comprehensive income for the period	**2.4**	5.0

Consolidated statement of changes in equity
for the year ended 30 June 2010

	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 July 2009	12.9	13.7	5.2	35.1	66.9
Total comprehensive income for the period	-	-	-	2.4	2.4
Share-based payments	-	-	-	0.9	0.9
Proceeds from shares issued	-	0.1	-	-	0.1
Ordinary Share dividends	-	-	-	(5.5)	(5.5)
At 20 June 2010	**12.9**	**13.8**	**5.2**	**32.9**	**64.8**
At 1 July 2008	12.9	13.7	0.9	39.2	66.7
Total comprehensive income for the period	-	-	4.3	0.7	5.0
Share-based payments	-	-	-	0.7	0.7
Ordinary Share dividends	-	-	-	(5.5)	(5.5)
At 20 June 2009	12.9	13.7	5..2	35.1	66.9

Statement of financial position
as at 30 June 2010

	2010 £m	2009 £m
Assets		
Non current assets		
Goodwill	**15.4**	16.0
Other intangible assets	**3.7**	2.5
Property, plant and equipment	**47.7**	47.3
Derivative financial assets	**0.1**	1.3
Deferred tax assets	**20.4**	14.4
	87.3	81.5
Current assets		
Inventories	**7.7**	5.1
Trade and other receivables	**55.2**	44.8
Derivative financial assets	**0.3**	-
Current tax assets	**0.7**	0.5
Cash and cash equivalents	**7.8**	16.8
Assets held for sale	**1.4**	7.5
	73.1	74.7
Total assets	**160.4**	156.2
Liabilities		
Current liabilities		
Bank loans and overdrafts	**(15.2)**	(16.4)
Trade and other payables	**(39.9)**	(34.3)
Derivative financial liabilities	**(0.1)**	-
Current tax liabilities	**(3.6)**	(2.6)
Provisions	**(0.5)**	(0.8)
Liabilities directly associated with assets held for sale	**-**	(0.8)
	(59.3)	(54.9)
Net current assets	**13.8**	19.8
Non current liabilities		
Bank loans	**(0.4)**	(3.9)
Retirement benefit obligations	**(34.4)**	(29.4)
Derivative financial liabilities	**(0.2)**	(0.3)
Deferred tax liabilities	**(1.3)**	(0.8)
	(36.3)	(34.4)
Total liabilities	**(95.6)**	(89.3)
Net assets	**64.8**	66.9
Shareholders’ equity		
Share capital	**12.9**	12.9
Share premium	**13.8**	13.7
Other reserves	**5.2**	5.2
Retained earnings	**32.9**	35.1
Total equity	**64.8**	66.9

Consolidated cash flow statement
for the year ended 30 June 2010

	2010 **£m**	2009 £m
Cash flows from operating activities		
Cash generated by operations (note 5)	**11.9**	15.2
Interest received	**1.3**	2.1
Interest paid	**(1.6)**	(2.3)
Defined benefit pension scheme financing costs	**(1.7)**	(1.1)
Tax paid	**(1.8)**	(1.8)
Net cash generated by operating activities	**8.1**	12.1
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	**(2.0)**	(1.2)
Purchases of property, plant and equipment – continuing operations	**(5.5)**	(8.8)
Purchases of property, plant and equipment – discontinued operations	**(0.1)**	(0.2)
Net cash used by investing activities	**(7.5)**	(10.2)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	**0.1**	-
Net proceeds from issue of new bank loan	**8.6**	0.3
Repayment of bank loans	**(9.3)**	(9.8)
Dividends paid to shareholders	**(5.5)**	(5.5)
Net cash used by financing activities	**(6.1)**	(15.0)
Effect of exchange rate changes	**0.3**	1.6
Net decrease in cash and cash equivalents	**(5.2)**	(11.5)
Cash and cash equivalents at 1 July	**9.9**	21.4
Cash and cash equivalents at 30 June	**4.7**	9.9

Notes to the financial statements
for the year ended 30 June 2010

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 2010, which was approved for issue on 27 September 2010, 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. Segmental reporting

2010	**UK**	**Germany**	**US**	**Total Technical consulting**	**Strategic consulting**	**Head office & consol adjust**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue from external customers	**108.6**	**16.4**	**28.6**	**153.6**	**9.2**	**-**	**162.8**
Inter-segmental revenue	**8.1**	**5.6**	**3.6**	**17.3**	**0.9**	**-**	**18.2**
Total revenues	**116.7**	**22.0**	**32.2**	**170.9**	**10.1**	**-**	**181.0**
Revenues carried out by other segments	**(9.9)**	**(6.9)**	**(0.7)**	**(17.5)**	**(0.7)**	**-**	**(18.2)**
Revenue earned	**106.8**	**15.1**	**31.5**	**153.4**	**9.4**	**-**	**162.8**
Operating profit	**8.1**	**(0.8)**	**3.7**	**11.0**	**1.8**	**(0.2)**	**12.6**
Finance income	**-**	**0.2**	**-**	**0.2**	**-**	**1.0**	**1.2**
Finance costs	**(2.4)**	**(0.1)**	**-**	**(2.5)**	**-**	**(0.5)**	**(3.0)**
Profit before tax	**5.7**	**(0.7)**	**3.7**	**8.7**	**1.8**	**0.3**	**10.8**

2009	UK	Germany	US	Total Technical consulting	Strategic consulting	Head office & consol adjust	Total
	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	115.9	20.1	29.9	165.9	12.9	-	178.8
Inter-segmental revenue	6.9	3.6	6.5	17.0	0.2	-	17.2
Total revenues	122.8	23.7	36.4	182.9	13.1	-	196.0
Revenues carried out by other segments	(5.7)	(7.6)	(1.5)	(14.8)	(2.4)	-	(17.2)
Revenue earned	117.1	16.1	34.9	168.1	10.7	-	178.8
Operating profit	13.4	(0.6)	2.8	15.6	1.4	(1.9)	15.1
Finance income	0.3	0.9	-	1.2	-	2.8	4.0
Finance costs	(0.5)	(0.4)	-	(0.9)	-	(2.5)	(3.4)
Profit before tax	13.2	(0.1)	2.8	15.9	1.4	(1.6)	15.7

3. Discontinued operations

At 30 June 2009 and 2010, the Group's exhaust business in Germany was classified as held for sale, and as a discontinued business. An agreement for the sale of the German exhaust manufacturing business was signed on 28 July 2010. The sale agreement includes the transfer of the business, plant and equipment and inventories for cash consideration of €2.0 million. The sale agreement has resulted in property, trade and other receivables and trade and other payables no longer forming part of the disposal group. These assets with a book value of £2.3m have been reclassified from assets and liabilities held for sale to their respective asset and liability classes in continuing operations at 30 June 2010.

Results of discontinued operations	**2010 £m**	2009 £m
Revenue	**11.5**	10.5
Operating costs	**(12.0)**	(12.4)
Operating loss	**(0.5)**	(1.9)
Finance costs	**(0.2)**	(0.9)
Loss before tax	**(0.7)**	(2.8)
Attributable tax credit	**0.2**	0.7
Write down of assets held for sale	**(2.9)**	(3.8)
Tax effect of impairment	**0.7**	0.2
Net loss attributable to discontinued operations	**(2.7)**	(5.7)

Assets and liabilities classified as held for sale	**2010 £m**	2009 £m
Property, plant and equipment	**0.2**	3.0
Inventories	**1.2**	2.7
Trade and other receivables	**-**	1.8
Total assets classified as held for sale	**1.4**	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	**1.4**	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.

	2010 **£m**	2009 £m
Earnings attributable to equity shareholders	**7.6**	9.0
Adjusted to exclude loss for the year from discontinued operations	**2.7**	5.7
Earnings from continuing operations	**10.3**	14.7

	Number of shares Millions	Number of shares millions
Basic average number of shares in issue	**51.3**	51.1
Effect of dilutive potential shares	**0.2**	0.3
Diluted average number of shares in issue	**51.5**	51.4

Earnings per share	**Pence**	pence
From continuing operations		
Basic	**20.1**	28.8
Diluted	**20.0**	28.6
From continuing and discontinued operations		
Basic	**14.8**	17.6
Diluted	**14.8**	17.5
Impact of discontinued operations		
Basic	**(5.3)**	(11.2)
Diluted	**(5.2)**	(11.1)

5. Cash generated by operations

	2010 **£m**	2009 £m
Continuing operations		
Profit from operations	**12.6**	15.1
Adjustments for:		
Share-based payments	**0.9**	0.7
Cash flow hedges	**0.1**	0.4
Profit on sale of subsidiary	**-**	(0.1)
Depreciation and amortisation	**8.2**	8.7
Operating cash flows before movements in working capital	**21.8**	24.8
(Increase)/decrease in inventory	**(2.5)**	0.6
(Increase)/decrease in trade and other receivables	**(9.3)**	8.3
Increase/(decrease) in payables	**4.7**	(15.5)
Decrease in provisions	**(0.3)**	-
Pension payments in excess of pension costs	**(2.2)**	(2.1)
Cash generated by continuing operations	**12.2**	16.1
Discontinued operations		
Loss from operations	**(0.5)**	(1.9)
Adjustments for depreciation	**-**	0.3
Operating cash flows before movements in working capital	**(0.5)**	(1.6)
(Increase)/decrease in inventory	**(0.6)**	0.5
Decrease in trade and other receivables	**0.2**	0.3
Increase/(decrease) in payables	**0.6**	(0.1)
Cash used by discontinued operations	**(0.3)**	(0.9)
Cash generated by operations	**11.9**	15.2

6. Net debt (non-GAAP measure)

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

	2010 **£m**	2009 £m
Cash and cash equivalents (current assets)	**7.8**	16.8
Bank overdrafts (current liabilities)	**(3.1)**	(6.9)
Net cash and cash equivalents	**4.7**	9.9
Bank loans maturing within one year	**(12.1)**	(9.5)
Bank loans maturing after one year	**(0.4)**	(3.9)
Net debt	**(7.8)**	(3.5)