26 February 2016

Ricardo plc
Interim results for the six months ended 31 December 2015

Ricardo plc is a global engineering and strategic, technical and environmental consultancy business with a value chain that includes the niche manufacture and assembly of high-performance products. We employ over 2,900 professional engineers, consultants, scientists and support staff to deliver class-leading and innovative products and services for the benefit of our customers, which include the world's major transportation original equipment manufacturers and operators, supply chain organisations, energy companies, financial institutions and government agencies.

HIGHLIGHTS

- Strong order book at £201m (30 June 2015: £140m);
- Revenue up 31% to £157.8m (31 December 2014: £120.5m);
- Underlying(1) PBT up 43% to £14.4m (31 December 2014: £10.1m);
    - Organic(2) underlying revenue up 9% to £130.8m (31 December 2014: £120.5m);
    - Organic(2) underlying PBT up 10% to £11.1m (31 December 2014: £10.1m);
- Underlying(1) basic earnings per share up 31% to 20.8p (31 December 2014: 15.9p);
- Net debt of £32.2m after £41.5m net acquisition expenditure (30 June 2015 net funds: £14.3m);
- Interim dividend up 9% to 5.07p per share (31 December 2014: 4.65p);
- Acquisitions of Lloyd's Register Rail ('LR Rail') and Cascade completed in the period; and
- Outlook remains positive, strong platform for further growth.

(1) Includes income of £2.0m under the Research & Development Expenditure Credit ('RDEC') scheme in respect of the current period, but excludes specific adjusting items, which comprise amortisation of acquired intangible assets of £1.7m (31 December 2014: £0.6m), acquisition-related costs of £1.0m (31 December 2014: £0.5m) and non-recurring income of £1.5m for claims under RDEC in respect of prior years.
(2) Excludes the performance of acquisitions (LR Rail, Cascade, Vepro and PPA) of £1.8m, income of £2.0m in respect of the current period under the RDEC scheme and increased net interest payments on drawn loan facilities of £0.5m.

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

"As Ricardo starts its second century, our growth strategy remains focused on the strategic diversification of our business and the development of innovation and technology that will help our clients meet the global challenges of urbanisation and climate change.

"We continue to win orders from across all geographies and market sectors in which we operate and we are pleased with our record order book of £201m. The Group has again delivered a strong operating performance, with a 31% increase in revenue and a 43% increase in underlying profit before tax. These increases have been driven by a mixture of organic and acquisition-related growth including the acquisitions of Lloyd's Register Rail and Cascade. The underlying profit before tax also includes income of £2.0m as a result of the new Research and Development Expenditure Credit scheme adopted on 1 July 2015.

"We continue to trade in line with our expectations and remain confident of further progress in the full year."

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Interim management review

GROUP RESULTS

The Group has delivered a strong operating performance in the period. Total Group revenues have increased to £157.8m, representing a 31% increase on the prior period (31 December 2014: £120.5m). Underlying profit before tax, which includes £2.0m of income in the current period in respect of the Research & Development Expenditure Credit ('RDEC') scheme but excludes specific adjusting items as set out in more detail in Note 8, increased by 43% to £14.4m (31 December 2014: £10.1m). Underlying profit before tax excluding the current period RDEC increased by 23% to £12.4m.

Reported profit before tax for the period is £13.2m compared to £9.0m in the prior period. The increase is as a result of £1.0m of organic growth in the Group's underlying business performance, £1.8m of profit generated by acquisitions in the period, together with income under the new RDEC scheme in respect of the current period and prior years of £2.0m and £1.5m, respectively. This movement is partially offset by a £1.1m increase in the amortisation charge on acquired intangible assets, a £0.5m increase in acquisition-related costs, and a £0.5m increase in net interest payable on borrowings in respect of acquisitions.

The Group results include two acquisitions which completed in the period. On 1 July 2015, the Group materially completed the acquisition of the Lloyd's Register Rail ('LR Rail') consultancy and assurance business from the Lloyd's Register Group and on 18 August 2015, the Group acquired the entire issued share capital of Cascade Consulting Holdings Limited and its subsidiary, Cascade Consulting (Environment & Planning) Limited (together, 'Cascade'), an environmental consultancy business specialising in the UK water sector. Both LR Rail and Cascade have been reported within the Technical Consulting segment (see Note 12).

As set out below, organic growth in underlying revenues and profit before tax increased by 9% and 10%, respectively:

HY 2015/16	**Revenue (£m)**	**PBT (£m)**
Underlying	157.8	14.4
Less performance of acquisitions:		
LR Rail	(24.3)	(1.4)
Cascade	(1.2)	(0.2)
Prior period on a like-for-like basis	(1.5)	(0.2)
Less: RDEC in respect of current period	-	(2.0)
Add: Net interest in respect of acquisitions	-	0.5
Organic	**130.8**	**11.1**
HY 2014/15	120.5	10.1
Organic growth	**9%**	**10%**

The closing order book at 31 December 2015 stood at a record £201m (31 December 2014: £140m), of which £55m was acquired with the LR Rail and Cascade businesses, resulting in a 4% increase in the order book on a like-for-like basis. The closing order book, together with the significant pipeline of further opportunities, represents a diversified spread of orders across market sectors, customers and geographies. Our order book comprises the value of all unworked purchase orders received.

Technical Consulting results

Technical Consulting had a strong first half; whilst reported revenues and underlying operating profits were £130.1m and £12.3m, respectively, underlying organic revenues and operating profit, which excludes performance from acquisitions and RDEC income as noted above, increased to £103.1m (31 December 2014: £89.8m) and £8.7m (31 December 2014: £6.9m), resulting in growth of 15% and 26%, respectively.

Our European Technical Consulting division was a key driver of profit generation, with profits growing significantly as a result of an internal reorganisation undertaken at the end of the prior period to improve coordination and delivery to our clients, as well as to achieve cost efficiencies.

The performance of the US business, which mainly serves its own geographic market and is smaller in scale, improved upon its result of the prior period, whilst maintaining an encouraging order pipeline as we enter the second half.

In Asia we continue to grow our activities and we enter the second half with a strong order book.

Our environmental consulting business has performed as expected in comparison to the prior period, and is reducing its reliance on the public sector where ongoing cuts are being experienced.

Our strategic consulting activities continue to make good progress.

Performance Products results
As expected, Performance Products revenue and profit was down on the prior period. Revenues fell to £27.7m, a 10% decrease on the prior period (31 December 2014: £30.7m). Underlying operating profit decreased to £3.0m (31 December 2014: £3.7m). The result in the current period was driven principally by two key programmes being in a transitional phase as customers prepare to launch new products into the market.

MARKET AND STRATEGY UPDATE

We have continued to win significant new business across the majority of our sectors, with strong levels of demand across all of our key geographic markets. The new businesses that we added through acquisitions in the past eighteen months have also contributed high levels of new business in the rail, motorcycle, energy and water sectors.

Ricardo's strategic focus on diversification and the ongoing development of innovative products and technologies, together with the management of complex large-scale turnkey programmes, continues to underpin the growth of the business. Our Performance Products business also continues to perform well.

In addition to our organic growth activities, we completed the acquisitions of LR Rail and Cascade during this financial period. These acquisitions have enabled our Energy & Environment business to drive private sector and international growth into the water sector, and our rail business to expand significantly into new geographic markets and product sectors. We also now have the platform from which to identify and deliver new rail products and solutions utilising capability from elsewhere in the Group.

Our business growth continues to be underpinned by the following global drivers:

- The need to reduce carbon dioxide emissions as a result of agreements reached at COP21;
- Market and regulatory requirements for improved energy efficiency;
- The need to eliminate the release of noxious pollutants and particulates;
- A changing and diverse global energy mix;
- Increasing levels of urbanisation and resource scarcity; and
- The rise of global connectivity.

Our expertise in all of these areas enables us to be well-placed to assist major international private and public sector customers across sectors including Automotive, High-Performance Vehicles & Motorsport, Rail, Commercial Vehicle, Energy & Environment, Defence, Motorcycle and Off-Highway.

Moving forward, our strategy continues to focus on our core areas of growth of Transport & Security, Energy and Scarce Resources & Waste. In each of these areas we are looking to exploit our Technical Consulting and Performance Products areas of core competence to further grow and expand the business. We are also looking to further strengthen and expand the strategic partnerships that we have established, for example with McLaren, to provide longer-term visibility and a platform for sustained growth. We continue to seek opportunities to grow both organically and through partnerships or acquisitions.

Ricardo continues to invest in its people, technology and facilities to capitalise on the market drivers and conditions that it faces. We believe that our current overall strategy offers a good balance of risk management, avoidance of cyclicality and the promotion of growth.

TECHNICAL CONSULTING

At the centre of our business, the Technical Consulting segment provides engineering, environmental and management consulting services to customers in our chosen market sectors. We deliver projects focused on class-leading innovation. This ranges from detailed collaborations with customers on strategy, advanced engineering work, technology evaluations and market studies to large-scale turnkey commercial programmes, encompassing multiple products and international markets. Our core product offerings are in the following areas:

- Engines;
- Driveline & Transmission Systems;
- Vehicle Systems;
- Hybrid & Electric Systems;
- Strategic Consulting;
- Energy Consulting;
- Environmental Consulting;
- Critical Systems;
- Independent Assurance; and
- Test Services.

We have global infrastructure in place to service our customers, including technical and engineering centres in the UK, US, Germany, China, the Netherlands and the Czech Republic. We also have sales offices where local presence is needed to support customers. The technical and engineering centres include specialists in, for example, mechanical and electrical design, control and electronics development, prototype build, project management, cost estimation, supply chain management and manufacturing. Employees can be deployed on projects across the globe using common processes; we often make use of short-term geographical secondments. Our environmental consulting services are delivered from a number of UK locations and are making increasing use of our global network. Our strategic consulting service already has a well-established global team operating out of a number of different locations.

Automotive

We have experienced increasing levels of activity in our major automotive markets. Fuel economy, alternative fuels and CO_2 reduction remain top global industry priorities and are being driven strongly by consumers. We have secured a range of large multi-year programmes in vehicle systems, hybrid and electric systems and the core powertrain areas of our business, focused on both new and existing product upgrades. Vehicle lightweighting remains an area of growth and we continue to invest in advanced combustion and other key technologies in areas related to improvements in overall vehicle efficiency such as intelligent driveline and electrification. The future of mobility solutions, including connected and autonomous vehicle technology in particular, is attracting significant interest in North America.

Rail
Our rail business has grown significantly following the acquisition of LR Rail on 1 July 2015 and the addition of circa 450 rail specialists to our business. Integration activities are progressing well and we have won significant levels of new business in the UK, the Netherlands and Asia. The largest win was for a multi-year rail project for the independent validation and verification of a transit railway in Asia. The order book remains very strong. Ricardo Rail also saw its 'PanMon' pantograph monitoring systems formally approved by the UK's railway infrastructure manager, Network Rail, for use across the UK national rail network.

Commercial Vehicle
We have secured a number of large engine and transmission projects across the medium and heavy-duty sectors and continue to see strong interest across Asia, in particular. The future pipeline is based around a broad mix of largely engine and transmission opportunities. In the US, greenhouse gas and low NOx standards are driving interest in powertrain and trailer efficiency, emissions control and use of alternate fuels.

Energy & Environment
Ricardo provides consultancy services to governments and their agencies and private sector clients based on our in-depth knowledge of legislative challenges and future technology developments in the energy and environmental consulting sectors. Growth in our environmental consulting business is focused on private sector and international expansion. Key practice areas are energy and climate change, air quality, resources and waste, sustainable transport, chemical risk and water. The recent additions through the acquisitions of PPA (in November 2014) and Cascade (in August 2015) have provided further opportunities for growth into the electricity networks and water sectors, respectively. We have seen strong recent growth in private sector and international projects and are well-placed to support clients with the implementation of commitments agreed at COP21 in December 2015.

In power generation, our focus remains on growing the large-scale generator sets business. Across the renewables sector, we continue to pursue a range of opportunities in offshore wind, tidal and energy storage applications.

Defence
In the previous financial year we established Ricardo Defense Systems in the US, which is enabling us to deliver US classified projects and expand the range of opportunities that we can pursue across future land platforms. In the UK, we have broadened our network within the Ministry of Defence ('MoD') and have continued to grow key relationships with defence contractors. In Asia, we have secured a contract to design a new defence vehicle.

Motorcycle
Ricardo Motorcycle is a global business unit and offers complete turnkey motorcycle solutions, covering powertrain and vehicle systems. We continue to develop long-term multi-product relationships with major customers across Asia, Europe and North America and are delivering a large electric bike programme secured in the US.

Off-Highway
Our activities in the off-highway sector are largely driven by emissions legislation requirements and hence our product offering is largely focused on new powertrain and engine development, complete machine optimisation, cost-effective aftertreatment solutions, hybridisation options and specialised test and test rig development. The off-highway market is currently very challenging as a number of large OEMs are managing business cost reduction programmes in response to global challenges in the mining, construction and agriculture markets.

PERFORMANCE PRODUCTS

The Performance Products segment manufactures high-quality prototypes and niche volumes of complex engine, transmission and vehicle products and assemblies. We have advanced manufacturing capabilities, from single components to full vehicle builds. To service our customers we have a global support infrastructure built around our network of technical and engineering centres in the UK, US, Germany, China, the Netherlands and the Czech Republic.

High-Performance Vehicles & Motorsport

The expansion of Ricardo's engine build facility is now complete, which enables a doubling of capacity and the capability to deal with increased engine variants. Production of engines for the 650S, 675LT and the McLaren P1™ supercar continue in line with expectations and full production of engines for the new 570S has been added.

Ricardo remains a key supplier to the motorsport sector having commenced deliveries for two new GT3 clients and an R5 Rally works team. Ricardo continues to manufacture for Formula 1 and products such as the Ricardo-designed transmissions for the Japanese Super Formula 14, Indy Lights and the Renault World Series.

Production continues for the Porsche Cup and Bugatti transmissions in line with the long-term supply agreements.

Defence

As part of a teaming agreement with a leading defence Tier 1, Ricardo has developed and provided retrofit kits for the Cougar family of vehicles for the MoD.

RESEARCH AND DEVELOPMENT

Investment in new technologies and services is a key enabler to meet our business objectives. Our R&D activity not only creates new products and services, but also provides our staff with new skills and capabilities. Core teams of dedicated engineers are working on grant-funded and internal R&D projects, enabling Ricardo to be at the forefront of the rapidly changing market landscape. Ricardo maximises its R&D activity through many collaboratively funded programmes with bodies such as EU 'Horizon 2020', Innovate UK (formerly the Technology Strategy Board) and US Government agencies.

In the last six months we have continued to develop innovative technologies and processes in line with our strategy and business funding levels. Highlights from this period are provided below.

ECOCHAMPS ('European Competitiveness in Commercial Hybrid and Automotive Powertrains') is a European Union grant-funded programme designed to deliver efficient, compact, lightweight, robust and cost-effective hybrid powertrains for both passenger cars and commercial vehicles for 2020-2022. Collaborating with 26 partners, the programme will deliver five prototype demonstrators for the passenger car, city bus, medium and heavy-duty truck markets over the next three years. The targets for the programme include a 20% powertrain efficiency improvement, 20% powertrain weight and volume reduction, with a maximum 10% cost premium. The demonstrators are required to meet Euro 6 emission standards.

Ricardo's role is to assist with developing and simulating the baseline and future advanced technologies, including testing and verifying that targets are achieved. The lead partner is DAF, with consortium partners; Daimler, Fiat, Renault, IVECO, MAN and many others. The programme will run through until 2018.

REWARD ('Real World Advanced Technologies for Diesel Engines') is a European Union grant-funded programme to develop the technical capabilities to adequately and cost-effectively produce cleaner, highly-efficient diesel powertrains and aftertreatment technologies for class A, B, C, D and E passenger cars and light commercial vehicles ('LCVs') up to 3,500kgs.

The targets include going beyond Euro 6 emission standards under real-world driving conditions. Developments in friction and wear reduction measures, exhaust gas treatment concepts, fuel-efficient 2-stroke and 4-stroke diesel engine concepts will be advanced and integrated in three demonstration vehicles. Collaborating with 16 partners, technical targets include 25% friction reduction in the entire engine, a significantly higher lifetime durability and more than 5% overall improvement in fuel efficiency. A full calibration and assessment of the vehicles and underlying technologies will take place over a three-year period.

Main partners include Renault, Volvo and others. Ricardo is responsible for vehicle, engine and aftertreatment systems simulation, thermal management and experimental results. The programme will run through until 2018.

Cost-Effective Diesel Engine and Aftertreatment Technology for Future Emissions Control is an internal R&D programme which has demonstrated capabilities for evaluating the emission technologies of diesel cars under the forthcoming European Real Driving Emissions ('RDE') regulations. RDE is targeted to ensure on-road compliance with published type approval data for fuel economy and emissions. Ricardo's model-based simulation is an important tool to understand the challenges of RDE while selecting the lowest cost total technology package. Initial Ricardo research results were reported at the 2015 SAE ('Society of Automotive Engineers of Japan') Annual Congress.

The Ricardo research project is very timely against the backdrop and concern over future diesel emissions. Despite continuing and significant reductions in the legislated light-duty diesel vehicle NOx emissions under the European Euro 1 through 5 regulations of recent years, it has been demonstrated by many researchers that real-world NOx emissions appear not to have been reduced as significantly. The difference between regulations and real-world driving is the main subject for the proposed introduction of RDE in European Euro 6c legislation as early as 2017.

The Ricardo ongoing research project has demonstrated many of the trade-offs associated with how light-duty diesel vehicles can be developed in a manner compliant with future real-world driving regulations. The research has demonstrated that there are some vehicle and technology combinations that show promise of complying with the expected RDE regulations. Ricardo's laboratory-based testing of research vehicles was carried out in the Ricardo Vehicle Emissions Research Centre ('VERC'), which was formally opened at the Shoreham Technical Centre in 2015. This state-of-the-art facility is amongst the most advanced vehicle emissions testing laboratories anywhere in the world.

ULTRAN ('Ultra-Lightweight Transmission and driveline research project') is a collaborative project partially funded by Innovate UK. The project is led by Jaguar Land Rover in a consortium including Ricardo, Tata Steel, Lubrizol, GRM Consulting, American Axle Manufacturing and the Universities of Southampton, Newcastle and Warwick.

The project is evaluating and demonstrating a wide range of lightweight driveline technologies using the latest generation Range Rover as the baseline for the research. A major part of the Ricardo contribution to ULTRAN is a clean sheet design that is 25% lighter than the current production unit and considerably more compact. The unit is a lightweight differential mounted within a compact, single-piece skeletal casing with tough, lightweight plastic covers.

The ULTRAN research project aims to accelerate cost-effective and lightweight drivetrain technologies in order to reduce the powertrain weight of future vehicles, improve vehicle performance, reduce carbon dioxide emissions and deliver cost savings to our customers. The design of a rear drive unit was demonstrated at the 2015 Cenex Low Carbon Vehicle event and has generated interest across Ricardo's markets.

OTHER FINANCIAL MATTERS

Acquisitions and acquisition-related intangible assets

On 1 July 2015, the Group materially completed the acquisition of the Rail consultancy and assurance business from the Lloyd's Register Group for an initial consideration of £40.6m and on 18 August 2015, the Group acquired the entire issued share capital of Cascade for consideration of £3.2m. These investments added provisional goodwill of £2.3m to the Ricardo Energy & Environment cash-generating unit and a new Ricardo Rail cash-generating unit has been created, in respect of which £17.7m of provisional goodwill has been allocated (retranslated to £18.2m at period end). Acquisition-related intangible assets have been provisionally identified as a result of the LR Rail and Cascade acquisitions, which have net book values at the period end of £12.9m and £0.6m, respectively.

As set out in more detail in Note 12, an exercise to assess the fair value of the identifiable net assets has commenced during the period in respect of both of these acquisitions. In accordance with IFRS 3 'Business Combinations', management has one year from the date of acquisition to finalise this assessment.

As a result of these acquisitions, amortisation of acquisition-related intangible assets has increased to £1.7m (31 December 2014: £0.6m). The Group also incurred acquisition-related costs of £1.0m (31 December 2014: £0.5m) during the period. The acquisition-related costs and amortisation of acquisition-related intangible assets have been charged to the Condensed Consolidated Income Statement as specific adjusting items. Further detail is disclosed in Note 8.

As part of the LR Rail acquisition that materially completed on 1 July 2015, Ricardo agreed to acquire the interests of all partners of a joint venture operation in China for an initial consideration of £1.9m. As a result of local requirements in China, the completion of this component of the acquisition was delayed. However, all of these requirements have now been met, and completion is expected on 1 March 2016.

Research and Development

The Group continues to invest in Research and Development ('R&D'), and spent £3.8m (31 December 2014: £3.1m) before government grant income of £0.8m (31 December 2014: £0.8m). This amount includes costs capitalised in accordance with IFRS of £0.9m (31 December 2014: £1.0m) in respect of continued development expenditure on a range of product developments around the Group, particularly within the UK and US.

Net finance costs

Finance income was £0.2m (31 December 2014: £0.1m), which is similar to the prior period, but finance costs were £1.1m (31 December 2014: £0.6m), giving a net finance cost of £0.9m (31 December 2014: £0.5m). Finance costs were higher as a result of interest payments on the Group's loan facilities drawn at the end of the previous financial year in order to fund the LR Rail acquisition, offset by a slightly favourable shift in the actuarial assumptions in respect of the defined benefit pension scheme, as set out below.

Taxation

The new Research and Development Expenditure Credit ('RDEC') becomes mandatory from 1 April 2016 and the Group has adopted RDEC from 1 July 2015. Under the new regime, the current period R&D credit is no longer a tax incentive that benefits the corporation tax line in the Condensed Consolidated Income Statement, but is instead treated as grant income to offset R&D expenditure within operating profit, increasing profit before tax, its associated tax charge and the effective tax rate.

In addition, applications have been revised during the current period in respect of accounting years ended 30 June 2014 and 30 June 2015, which remain open under the new RDEC regime, generating £1.5m of non-recurring income. These applications have also been treated as grant income but disclosed as a specific adjusting item as no associated qualifying R&D expenditure has been incurred in the current period against which the grant income in respect of prior years can be offset.

The total current period R&D credit as a result of adopting RDEC from 1 July 2015 is £2.0m which has a corresponding favourable impact on profit before tax.

The total tax charge for the period was £3.1m (31 December 2014: £1.6m), but primarily as a result of the Group's adoption of RDEC, the total effective rate of tax has increased to 23.5% (30 June 2015: 18.8%; 31 December 2014: 17.8%).

The Directors have considered the recoverability of the deferred tax assets of £3.2m and £5.0m which exist in Germany and the US, respectively, and remain satisfied that it is probable that sufficient taxable profits will be generated in the future, against which the recognised assets can be utilised.

Earnings per share
The Directors consider that an underlying earnings per share provides a more useful indication of underlying performance and trends over time. Underlying basic earnings per share for the period increased by 31% to 20.8p (31 December 2014: 15.9p).

Basic earnings per share, with a reconciliation to an underlying basic earnings per share, which excludes the net-of-tax impact of specific adjusting items, is disclosed in Note 11.

Dividend
The Board has declared an increased interim dividend of 5.07p per share (31 December 2014: 4.65p) reflecting the Board's confidence in the prospects of the Group. The dividend will be paid on 7 April 2016 to shareholders on the register at the close of business on 18 March 2016.

Capital investment
Capital expenditure on property, plant and equipment was consistent with that of the prior period at £5.1m (31 December 2014: £5.1m) as we continue to invest in our business operations.

Net debt
Closing net debt was £32.2m, compared to net funds of £14.3m reported at 30 June 2015. The closing net debt includes a cash outflow, net of cash acquired of £40.3m in respect of the two acquisitions in the period.

The Group continues to focus on its management of working capital, which increased during the period, the majority of which was as a result of increased inventory due to higher production volumes in Performance Products.

Banking facilities
At the end of the period, the Group held total facilities of £89.9m (30 June 2015: £89.4m). This included committed facilities of £75.0m (30 June 2015: £75.0m). Of the committed facilities, a £35.0m facility is available for the period to September 2019 and £40.0m is available until April 2020. In addition, the Group has uncommitted facilities including overdrafts of £14.9m at 31 December 2015 (30 June 2015: £14.4m), which mature throughout the year to June 2016 and are renewable annually.

Committed facilities of £55.4m, net of direct issue costs, were drawn at 31 December 2015 (30 June 2015: £45.4m) primarily in order to fund the acquisition of LR Rail on 1 July 2015. These are denominated in Pounds Sterling and have variable rates of interest dependent upon the Group's adjusted leverage, which range from 1.6% to 2.35% above LIBOR and are repayable in the year ending 30 June 2020.

Exchange rates
On consolidation, income and expense items are translated at the average exchange rates for the period. The Group is exposed primarily to movements in the Pound Sterling exchange rate, principally from work carried out with customers that transact in Euros, US Dollars and Chinese Renminbi. The average value of Pound Sterling was 10.2% higher against the Euro, 5.8% lower against the US Dollar and 2.9% lower against the Chinese Renminbi during the six months ended 31 December 2015 compared to the previous six months ended 31 December 2014.

Had the current period organic results been stated at constant exchange rates, reported revenue for the six months ended 31 December 2015 would have been £0.7m lower but profit before tax would have remained the same. Significant resulting exposures are hedged through foreign currency contracts.

Pensions
The defined benefit pension scheme operates within the UK. At 31 December 2015, the accounting deficit measured in accordance with IAS 19 'Employee Benefits' was £18.5m (30 June 2015: £20.7m; 31 December 2014: £19.4m). The £2.2m reduction in the net pension deficit since the year-end reflects £2.2m of cash contributions paid to the scheme since 30 June 2015, with changes in actuarial assumptions broadly off-setting.

PEOPLE

As previously announced, we welcomed Non-Executive Director Laurie Bowen to the Board on 1 July 2015 following the retirement of Hans-Joachim Schöpf on 30 June 2015. Furthermore, David Hall stepped down from the Board at the AGM in November 2015 after nine years' service as a Non-Executive Director and Peter Gilchrist became the Senior Non-Executive Director on 1 July 2015. We also welcomed Non-Executive Director Malin Persson to the Board on 4 January 2016 and look forward to the guidance she will bring. As a result of these recent recruitments we have improved Board gender diversity.

We also welcomed our new colleagues in the Rail business as they joined us on 1 July 2015 under the leadership of Paul Seller as Managing Director, and Dr David Smith joined us as Managing Director of the European Technical Consulting division on 13 October 2015. David has significant senior management experience in technology-based consulting businesses having served in senior roles at PA Consulting and Roke Manor Research.

In other areas, graduate recruitment and development continued in the period. We significantly increased the number of graduates for the 2015/16 intake and we expect a similar number in 2016/17. Ricardo provides a great career opportunity for engineering and non-engineering graduates. In order to improve gender diversity in our graduate intake, we have recently launched a mentoring programme for female undergraduates which will provide support from experienced graduates and work experience opportunities. Recruitment continues to be robust with Ricardo viewed as an employer of choice for top level science and engineering opportunities.

Our commitment to UK apprentice development continues to be strong, with most apprentices achieving further educational qualifications, such as HNDs, over and above their NVQs. Our apprenticeship programme now encompasses a broader range of functions across our business, including HR and Finance, over and above traditional engineering apprentice roles within Ricardo.

The attraction and retention of talent remains a priority and we continue to promote our brand globally as we start our second century. We continue to invest in training and development of our people, with programmes being systematically rolled-out across our businesses around the world.

Opportunities to gain experience and exploiting our international office network continue to be offered for those that wish to progress their careers internationally. Our commitment to developing skills extends not only to existing employees but also to those of the future through our Corporate Social Responsibility activities that promote the Science, Technology, Engineering and Mathematics agenda to local schools.

OUTLOOK

As Ricardo starts its second century, our growth strategy remains focused on the strategic diversification of our business and the development of innovation and technology that will help our clients meet the global challenges of urbanisation and climate change.

We continue to win orders from across all geographies and market sectors in which we operate and we are pleased with our record order book of £201m. The Group has again delivered a strong operating performance, with a 31% increase in revenue and a 43% increase in underlying profit before tax. These increases have been driven by a mixture of organic and acquisition-related growth including the acquisitions of Lloyd’s Register Rail and Cascade. The underlying profit before tax also includes income of £2.0m as a result of the new Research and Development Expenditure Credit scheme adopted on 1 July 2015.

We continue to trade in line with our expectations and remain confident of further progress in the full year.

Dave Shemmans
Chief Executive Officer
25 February 2016

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 report, 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.

Condensed consolidated income statement
for the six months ended 31 December 2015

	Notes	**Six months ended 31 December 2015 (Unaudited) £m**	Six months ended 31 December 2014 (Unaudited) £m	Year ended 30 June 2015 (Audited) £m
Revenue	*6 & 7*	**157.8**	120.5	257.5
Cost of sales		**(95.8)**	(75.2)	(155.7)
Gross profit		**62.0**	45.3	101.8
Administrative expenses		**(46.9)**	(35.0)	(74.8)
Other income		**0.2**	0.3	0.7
Underlying operating profit	*6*	**15.3**	10.6	27.7
Specific adjusting items[1]		**(1.2)**	(1.1)	(3.9)
Operating profit	*6*	**14.1**	9.5	23.8
Net finance costs		**(0.9)**	(0.5)	(0.9)
Profit before taxation		**13.2**	9.0	22.9
Comprising:				
Underlying profit before taxation		**14.4**	10.1	26.8
Specific adjusting items [1]		**(1.2)**	(1.1)	(3.9)
Taxation	*9*	**(3.1)**	(1.6)	(4.3)
Profit for the period		**10.1**	7.4	18.6
Earnings per ordinary share				
Basic	*11*	**19.2p**	14.2p	35.6p
Diluted	*11*	**19.0p**	14.0p	35.2p

[1] Specific adjusting items comprise amortisation of acquired intangible assets and acquisition-related costs. In the current period, non-recurring income for claims under the Research & Development Expenditure Credit ('RDEC') scheme in respect of prior years are also included. Further details are given in Note 8.

Condensed consolidated statement of comprehensive income
for the six months ended 31 December 2015

	Six months ended 31 December 2015 (Unaudited) £m	Six months ended 31 December 2014 (Unaudited) £m	Year ended 30 June 2015 (Audited) £m
Profit for the period	**10.1**	7.4	18.6
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of the defined benefit scheme	**0.4**	(1.7)	(4.7)
Deferred tax on items taken directly to other comprehensive income	**(0.3)**	0.3	1.5
Total items that will not be reclassified to profit or loss	**0.1**	(1.4)	(3.2)
Items that may be reclassified subsequently to profit or loss:			
Currency translation on foreign currency net investments	**2.3**	1.2	0.5
Total items that may be reclassified subsequently to profit or loss	**2.3**	1.2	0.5
Total other comprehensive income/(loss) for the period (net of tax)	**2.4**	(0.2)	(2.7)
Total comprehensive income for the period	**12.5**	7.2	15.9

Condensed consolidated statement of changes in equity
for the six months ended 31 December 2015

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 July 2015	13.1	14.3	3.9	84.7	116.0
Profit for the period	-	-	-	10.1	10.1
Other comprehensive income for the period	-	-	2.3	0.1	2.4
Equity-settled transactions	-	-	-	0.7	0.7
Proceeds from shares issued	0.1	-	-	-	0.1
Ordinary share dividends	-	-	-	(6.3)	(6.3)
At 31 December 2015 (unaudited)	**13.2**	**14.3**	**6.2**	**89.3**	**123.0**
At 1 July 2014	13.1	14.2	3.4	76.9	107.6
Profit for the period	-	-	-	7.4	7.4
Other comprehensive income/(loss) for the Period	-	-	1.2	(1.4)	(0.2)
Equity-settled transactions	-	-	-	0.8	0.8
Proceeds from shares issued	-	0.1	-	-	0.1
Purchase of own shares to settle awards	-	-	-	(0.9)	(0.9)
Ordinary share dividends	-	-	-	(5.7)	(5.7)
At 31 December 2014 (unaudited)	13.1	14.3	4.6	77.1	109.1
At 1 July 2014	13.1	14.2	3.4	76.9	107.6
Profit for the year	-	-	-	18.6	18.6
Other comprehensive income/(loss) for the Year	-	-	0.5	(3.2)	(2.7)
Equity-settled transactions	-	-	-	1.4	1.4
Proceeds from shares issued	-	0.1	-	-	0.1
Purchase of own shares to settle awards	-	-	-	(0.9)	(0.9)
Ordinary share dividends	-	-	-	(8.1)	(8.1)
At 30 June 2015 (audited)	13.1	14.3	3.9	84.7	116.0

Condensed consolidated statement of financial position
as at 31 December 2015

	Notes	**31 December 2015 (Unaudited) £m**	31 December 2014 (Unaudited) £m	30 June 2015 (Audited) £m
Assets				
Non-current assets				
Goodwill	*13*	**46.9**	26.9	26.0
Other intangible assets		**32.5**	18.6	18.9
Property, plant and equipment		**52.0**	48.4	49.6
Deferred tax assets		**11.1**	10.9	13.7
		142.5	104.8	108.2
Current assets				
Inventories		**11.3**	10.0	7.8
Trade and other receivables		**116.1**	72.2	78.6
Derivative financial assets	*14*	**-**	0.5	0.2
Current tax assets		**3.7**	1.4	2.1
Cash and cash equivalents	*17*	**23.2**	20.0	59.7
		154.3	104.1	148.4
Total assets		**296.8**	208.9	256.6
Liabilities				
Current liabilities				
Trade and other payables		**(86.8)**	(64.7)	(63.8)
Current tax liabilities		**(3.5)**	(4.3)	(5.8)
Derivative financial liabilities	*14*	**(1.1)**	-	(0.1)
Provisions		**(0.9)**	(0.3)	(0.4)
		(92.3)	(69.3)	(70.1)
Net current assets		**62.0**	34.8	78.3
Non-current liabilities				
Borrowings	*17*	**(55.4)**	(9.0)	(45.4)
Retirement benefit obligations		**(18.5)**	(19.4)	(20.7)
Deferred tax liabilities		**(6.2)**	(0.7)	(3.1)
Provisions		**(1.4)**	(1.4)	(1.3)
		(81.5)	(30.5)	(70.5)
Total liabilities		**(173.8)**	(99.8)	(140.6)
Net assets		**123.0**	109.1	116.0
Shareholders' equity				
Share capital		**13.2**	13.1	13.1
Share premium		**14.3**	14.3	14.3
Other reserves		**6.2**	4.6	3.9
Retained earnings		**89.3**	77.1	84.7
Total equity		**123.0**	109.1	116.0

Condensed consolidated statement of cash flows
for the six months ended 31 December 2015

	Notes	**Six months ended 31 December 2015 (Unaudited) £m**	Six months ended 31 December 2014 (Unaudited) £m	Year ended 30 June 2015 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	*16*	**10.8**	15.4	28.4
Net finance costs		**(0.5)**	(0.1)	(0.1)
Tax paid		**(1.3)**	(0.1)	(1.3)
Net cash generated from operating activities		**9.0**	15.2	27.0
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	*12*	**(40.3)**	(1.9)	(2.4)
Purchases of property, plant and equipment		**(5.1)**	(5.2)	(10.4)
Government grants received in respect of property, plant and equipment		**-**	0.1	0.1
Proceeds from sale of property, plant and equipment		**-**	-	0.1
Purchases of intangible assets		**(2.4)**	(3.0)	(5.5)
Net cash used in investing activities		**(47.8)**	(10.0)	(18.1)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**0.1**	0.1	0.1
Purchases of own shares to settle awards		**-**	(0.9)	(0.9)
Net proceeds from borrowings		**10.0**	9.0	48.4
Repayments of borrowings		**-**	-	(3.0)
Dividends paid to shareholders		**(6.3)**	(5.7)	(8.1)
Net cash generated from financing activities		**3.8**	2.5	36.5
Effect of exchange rate changes on cash and cash Equivalents		**(1.5)**	(0.3)	1.7
Net (decrease)/increase in cash and cash equivalents		**(36.5)**	7.4	47.1
Cash and cash equivalents at beginning of period	*17*	**59.7**	12.6	12.6
Net cash and cash equivalents at end of period	*17*	**23.2**	20.0	59.7

Notes to the condensed interim financial statements
for the six months ended 31 December 2015 (unaudited)

1. General information

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

This interim report was approved for issue by the Board of Directors on 25 February 2016. It has not been audited but it has been subject to an independent review by PricewaterhouseCoopers LLP.

This interim report does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The figures for the year to 30 June 2015 have been extracted from the 2015 Annual Report & Accounts, which was approved by the Board of Directors on 9 September 2015 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

2. Basis of preparation

This interim report of Ricardo plc for the six months ended 31 December 2015 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting', as adopted by the European Union. This interim report should be read in conjunction with the Annual Report & Accounts for the year ended 30 June 2015, which has been prepared in accordance with International Financial Reporting Standards ('IFRS'), IFRS Interpretations Committee ('IFRS IC') interpretations adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

At the time of approving the interim report, and having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

3. Estimates

The preparation of interim financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. These judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates and assumptions.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1(c) to the consolidated financial statements within the Group's Annual Report & Accounts for the year ended 30 June 2015.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were considered to be the same as those applied to the consolidated financial statements for the year ended 30 June 2015, with the exception of changes in estimates that are required in determining the provision for income taxes in interim periods under IAS 34 'Interim Financial Reporting' requirements, together with the income for claims to be made after the end of the financial year in respect of the Research & Development Expenditure Credit ('RDEC') under IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

4. Accounting policies

The accounting policies adopted are consistent with those of the financial statements for the year ended 30 June 2015, except for certain IAS 34 'Interim Financial Reporting' requirements in respect of income tax.

There are no new, revised or amended standards and interpretations which are mandatory for the first time for the financial year ending 30 June 2016. New, revised or amended standards and interpretations that are not yet effective have not been early adopted.

5. Seasonality

The second half of the Group's financial year has historically seen a higher level of profit as it is normally subject to a greater number of working days and less annual leave being taken, both internally and by our customers.

6. Operating segments

The Group's operating segments are being reported based on the financial information provided to the Chief Operating Decision Maker who is the Chief Executive Officer. The reportable segments are Technical Consulting and Performance Products. These were identified by evaluating the Group's products and services, processes, types of customers and delivery methods.

• Technical Consulting generates income from the delivery of engineering programmes and technology projects, together with environmental and management consultancy services. This operating segment also generates income from independent assurance services provided through our rail business.

• Performance Products generates income from manufacturing, assembly, software sales and related services.

Inter-segment revenue is eliminated on consolidation. Transactions are entered into on an arm's length basis in a manner similar to transactions with third parties.

Management monitors the results of its operating segments separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on operating profit. Included within the Head Office column in the following tables are functions managed by a central division, including the costs of running the public limited company, which are recharged to the other operating segments.

Six months ended 31 December 2015

	Technical Consulting £m	Performance Products £m	Head Office £m	Total £m
Total segment revenue	130.7	27.8	-	158.5
Inter-segment revenue	(0.6)	(0.1)	-	(0.7)
Revenue from external customers	130.1	27.7	-	157.8
Underlying operating profit	12.3	3.0	-	15.3
Specific adjusting items (Note 8)	(1.3)	0.2	(0.1)	(1.2)
Operating profit	11.0	3.2	(0.1)	14.1
Net finance costs	-	-	(0.9)	(0.9)
Profit before taxation	11.0	3.2	(1.0)	13.2
Total assets per condensed financial statements	223.3	40.8	32.7	296.8

Underlying operating profit for the period ended 31 December 2015 includes £2.0m of income in respect of RDEC relating to the current period, which has been allocated between Technical Consulting (£1.8m) and Performance Products (£0.2m) on a basis that is consistent with the segment in which the qualifying expenditure is incurred.

6. Operating segments (continued)

Six months ended 31 December 2014

	Technical Consulting £m	Performance Products £m	Head Office £m	Total £m
Total segment revenue	90.5	31.1	-	121.6
Inter-segment revenue	(0.7)	(0.4)	-	(1.1)
Revenue from external customers	89.8	30.7	-	120.5
Underlying operating profit	6.9	3.7	-	10.6
Specific adjusting items (Note 8)	(0.6)	-	(0.5)	(1.1)
Operating profit	6.3	3.7	(0.5)	9.5
Net finance costs	-	-	(0.5)	(0.5)
Profit before taxation	6.3	3.7	(1.0)	9.0
Total assets per condensed financial statements	160.2	28.9	19.8	208.9

Year ended 30 June 2015

	Technical Consulting £m	Performance Products £m	Head Office £m	Total £m
Total segment revenue	199.2	62.5	-	261.7
Inter-segment revenue	(2.6)	(1.6)	-	(4.2)
Revenue from external customers	196.6	60.9	-	257.5
Underlying operating profit	20.0	7.7	-	27.7
Specific adjusting items (Note 8)	(1.2)	-	(2.7)	(3.9)
Operating profit	18.8	7.7	(2.7)	23.8
Net finance costs	(0.1)	-	(0.8)	(0.9)
Profit before taxation	18.7	7.7	(3.5)	22.9
Total assets per condensed financial statements	163.5	34.7	58.4	256.6

7. Revenue by customer location

	Six months ended 31 December 2015 £m	Six months ended 31 December 2014 £m	Year ended 30 June 2015 £m
United Kingdom	**72.5**	52.5	120.8
Germany	**14.2**	12.8	25.6
Netherlands	**8.8**	-	-
Rest of Europe	**8.5**	11.7	20.8
Europe total	**104.0**	77.0	167.2
North America	**18.1**	19.5	39.2
China	**11.8**	8.2	20.0
Japan	**7.9**	9.7	17.6
Rest of Asia	**12.6**	5.1	9.9
Asia total	**32.3**	23.0	47.5
Rest of the World	**3.4**	1.0	3.6
Total	**157.8**	120.5	257.5

8. Specific adjusting items

	Six months ended 31 December 2015 £m	Six months ended 31 December 2014 £m	Year ended 30 June 2015 £m
Amortisation of acquisition-related intangible assets	**1.7**	0.6	1.3
Acquisition-related costs associated with LR Rail	**0.6**	-	2.1
Other acquisition-related costs	**0.4**	0.5	0.5
Income for RDEC claims in respect of prior years	**(1.5)**	-	-
Total	**1.2**	1.1	3.9

The costs associated with the Lloyd's Register Rail ('LR Rail') acquisition comprise costs incurred in the six months ended 31 December 2015 for services rendered to, and consumed by, the Group to effect the LR Rail acquisition (see Note 12a), including the costs associated with the integration of the acquired businesses and dual-running costs of operating transitional services arrangements during the integration process.

Other acquisition-related costs primarily comprise costs incurred in the six months ended 31 December 2015 for services rendered to, and consumed by, the Group to effect the Cascade acquisition (see Note 12b), in addition to the costs of the associated earn-out arrangements of completed acquisitions in the current and prior period.

On 2 July 2013, legislation was enacted to allow UK companies to elect for the Research and Development Expenditure Credit ('RDEC') on qualifying expenditure incurred since 1 April 2013, instead of the existing 'super-deduction' rules, which will be abolished from 1 April 2016. Management has elected to adopt the RDEC regime as of 1 July 2015, which also permits claims to be made on qualifying expenditure under RDEC in excess of the tax relief received under the legacy scheme since 1 July 2013. The credit relating to claims made for the excess in RDEC over the tax relief received under the legacy scheme in prior years is recorded as other income and classified as a specific adjusting item on the basis that it is non-recurring and there is no corresponding expenditure against which these credits can be offset. In previous periods the tax relief received under the legacy scheme was recorded as a reduction in the income tax expense.

9. Taxation

	Six months ended 31 December 2015 £m	Six months ended 31 December 2014 £m	Year ended 30 June 2015 £m
UK tax	**1.4**	0.7	3.3
Overseas tax	**1.7**	0.9	1.0
Total taxation charge	**3.1**	1.6	4.3
Current tax	**1.0**	1.0	3.1
Deferred tax	**2.1**	0.6	1.2
Total taxation charge	**3.1**	1.6	4.3

10. Dividends

	Six months ended 31 December 2015 pence/share	Six months ended 31 December 2014 pence/share	**Six months ended 31 December 2015 £m**	Six months ended 31 December 2014 £m
Amounts distributed in the period	**11.95p**	10.9p	**6.3**	5.7
Interim dividend	**5.07p**	4.65p	**2.7**	2.4

The Directors have declared an interim dividend of 5.07p per share (31 December 2014: 4.65p), which will be paid on 7 April 2016 to shareholders who are on the register of members at the close of business on 18 March 2016.

11. Earnings per share

	Six months ended 31 December 2015 £m	Six months ended 31 December 2014 £m	Year ended 30 June 2015 £m
Profit for the period	**10.1**	7.4	18.6
Add back amortisation of acquisition-related intangible assets (net of tax)	**1.4**	0.5	1.1
Add back other acquisition-related costs (net of tax)	**0.9**	0.4	2.5
Less non-recurring income for claims under the RDEC scheme in respect of prior years	**(1.5)**	-	-
Underlying earnings	**10.9**	8.3	22.2

	Number of shares millions	Number of shares millions	Number of shares millions
Basic weighted average number of shares in issue	**52.5**	52.2	52.3
Effect of dilutive potential shares	**0.6**	0.6	0.6
Diluted weighted average number of shares in issue	**53.1**	52.8	52.9

Earnings per share	**pence**	pence	pence
Basic	**19.2**	14.2	35.6
Diluted	**19.0**	14.0	35.2

Underlying earnings per share	**pence**	pence	pence
Basic	**20.8**	15.9	42.4
Diluted	**20.5**	15.7	42.0

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

12. Acquisitions

a) Lloyd's Register Rail acquisition

On 1 July 2015 the Group materially completed the acquisition of the Lloyd’s Register Rail (‘LR Rail’) business, operating assets and employees of Lloyd’s Register Rail Limited and Lloyd's Register Rail Europe B.V. together with various other assets relating to the rail business of Lloyd's Register Group Limited and the group of companies of which it is the ultimate holding company. LR Rail is a rail consultancy and assurance business and is a trusted partner to a wide range of international clients. LR Rail uses its understanding of critical and complex technologies and its independent expert advice to provide services ranging from rolling stock design, signalling and train control, intelligent rail systems, operational efficiency improvement, training and independent assurance services.

The following table sets out the initial consideration paid for LR Rail, together with the provisional fair value of assets acquired and liabilities assumed:

	£m
Initial cash consideration	**40.6**
Provisional fair value of identifiable assets acquired and liabilities assumed	
Customer contracts and relationships (included within intangible assets)	**12.1**
Technology assets (included within intangible assets)	**1.3**
Property, plant and equipment	**0.3**
Trade and other receivables	**15.1**
Cash	**3.2**
Trade and other payables and provisions	**(9.1)**
Total provisional fair value of identifiable net assets	**22.9**
Goodwill	**17.7**
Total	**40.6**

All of the initial cash consideration of £40.6m was paid in July 2015 and was completed on a cash-free and debt-free basis, subject to normal levels of working capital.

As part of the LR Rail acquisition that materially completed on 1 July 2015, Ricardo agreed to acquire the interests of all partners of a joint venture operation in China for an initial consideration of £1.9m. As a result of local requirements in China, the completion of this component of the acquisition was delayed. However, all of these requirements have now been met, and completion is expected on 1 March 2016.

Adjustments have been made to identifiable assets and liabilities on acquisition to reflect their fair value. These included the recognition of customer-related intangible assets amounting to £12.1m and technology assets of £1.3m. The fair values of net assets acquired are provisional and represent estimates following a preliminary valuation exercise. These estimates of fair value may be adjusted in future in accordance with the requirements of IFRS 3 'Business Combinations'.

The goodwill arising on acquisition can be ascribed to the existence of a skilled, active workforce, developed expertise and processes and the opportunities to obtain new contracts and develop the business. None of these meet the criteria for recognition as intangible assets separable from goodwill. An element of the goodwill recognised is expected to be deductible for tax purposes.

The provisional fair value of trade and other receivables of £15.1m includes trade receivables of £9.7m and amounts recoverable on contracts of £4.0m, all of which is expected to be collectible. In the ordinary course of business, LR Rail also has £3.4m of guarantees and counter-indemnities in respect of bonds relating to performance under contracts. These are not recognised in the provisional assessment of net assets acquired.

Acquisition-related costs of £0.6m have been charged to the Condensed Consolidated Income Statement for the six months ended 31 December 2015 and are disclosed as a specific adjusting item in Note 8. Acquisition-related costs comprise costs associated with the integration of the LR Rail businesses and dual-running costs of operating transitional services arrangements during the integration process.

The revenue included in the Condensed Consolidated Income Statement in relation to the acquired businesses was £24.3m. The underlying operating profit over the same period was £1.4m. This is reported in the Technical Consulting segment.

12. Acquisitions (continued)

b) Cascade acquisition

On 18 August 2015 the Group acquired the entire issued share capital of Cascade Consulting Holdings Limited, and its subsidiary, Cascade Consulting (Environment & Planning) Limited (together, 'Cascade') for total consideration of £3.2m. Cascade is an environmental consultancy business specialising in the UK water sector, which provides additional capability and reach in water resource management, ecosystem services and environmental impact assessment.

The following table sets out the consideration paid for Cascade, together with the provisional fair value of assets acquired and liabilities assumed:

	£m
Cash consideration	**3.2**
Provisional fair value of identifiable assets acquired and liabilities assumed	
Customer contracts and relationships (included within intangible assets)	**0.7**
Trade and other receivables	**1.1**
Cash	**0.3**
Trade and other payables and provisions	**(1.2)**
Total provisional fair value of identifiable net assets	**0.9**
Goodwill	**2.3**
Total	**3.2**

All of the cash consideration of £3.2m was paid in the period.

Adjustments have been made to identifiable assets and liabilities on acquisition to reflect their fair value. These included the recognition of customer-related intangible assets amounting to £0.7m. The fair values of net assets acquired are provisional and represent estimates following a preliminary valuation exercise. These estimates of fair value may be adjusted in future in accordance with the requirements of IFRS 3 'Business Combinations'.

The goodwill arising on acquisition can be ascribed to the existence of a skilled, active workforce, developed expertise and processes and the opportunities to obtain new contracts and develop the business. None of these meet the criteria for recognition as intangible assets separable from goodwill. None of the goodwill recognised is expected to be deductible for tax purposes.

The fair value of trade and other receivables of £1.1m includes net trade receivables of £0.9m and amounts recoverable on contracts of £0.1m, all of which is expected to be collectible.

Acquisition-related costs of £0.3m have been charged to the Condensed Consolidated Income Statement for the six months ended 31 December 2015 and are disclosed as a specific adjusting item in Note 8.

The revenue included in the Condensed Consolidated Income Statement in relation to the acquired business was £1.2m. The underlying operating profit over the same period was £0.2m. This is reported in the Technical Consulting segment.

Had Cascade been acquired and consolidated from 1 July 2015, the Condensed Consolidated Income Statement would show revenue of £158.3m and underlying operating profit of £15.4m based on the management accounts plus the reported results for the post-acquisition period.

13. Goodwill

At 31 December 2015, the goodwill balance of £46.9m was made up of £13.1m in respect of Ricardo Europe Technical Consulting; £13.1m in respect of Ricardo Energy & Environment (which includes a provisional addition of £2.3m as a result of the Cascade acquisition that took place during the period); £1.4m in respect of Ricardo Motorcycle and £1.1m in respect of Ricardo Performance Products. The balance also includes a provisional addition of £17.7m as a result of the LR Rail acquisition that took place at the beginning of the period, retranslated to £18.2m at the end of the period.

14. Fair value of financial assets and liabilities

There are no differences between the fair value of financial assets and liabilities included within the following categories in the Condensed Consolidated Statement of Financial Position and their carrying value:

- Trade and other receivables;
- Derivative financial assets;
- Cash and cash equivalents;
- Trade and other payables; and
- Derivative financial liabilities

Derivative financial assets of £Nil (31 December 2014: £0.5m) and derivative financial liabilities of £1.1m (31 December 2014: £Nil) relate to forward foreign exchange contracts, which are Level 2 derivative financial instruments under the IFRS 13 fair value hierarchy. The forward contracts held at 31 December 2015 to manage foreign exchange exposures are denominated in Euros, US Dollars, Chinese Renminbi, Japanese Yen and Swedish Krona. These contracts have not been designated as cash flow hedges and the change in fair value during the period has been taken to the Condensed Consolidated Income Statement.

The Group uses foreign currency contracts designated as cash flow hedges to hedge the exposure arising from orders in foreign currencies that could affect the Condensed Consolidated Income Statement. The principal risk being hedged is the Euro, US Dollar and Chinese Renminbi spot and interest rate differential exchange rate risk arising from orders in foreign currencies in the UK. The spot and interest rate differential component of the contracts taken out is designated as a hedge of the change in fair value of the cash flows on the firm orders in foreign currencies that are attributable to movements in the Euro/Sterling, US Dollar/Sterling, Swedish Krona/Sterling and Chinese Renminbi/Sterling spot and interest rates. The Group has not hedge accounted for any derivatives and the change in the fair value of the instrument (if any) has been recognised directly in profit or loss.

15. Share capital and share premium

The consideration received for shares allotted under the share option schemes, Long-Term Incentive Plan ('LTIP') and Share Incentive Plan ('SIP') during the six months ended 31 December 2015 was £0.1m (31 December 2014: £0.1m).

16. Cash generated from operations

	Six months ended 31 December 2015 £m	Six months ended 31 December 2014 £m	Year ended 30 June 2015 £m
Profit before tax	**13.2**	9.0	22.9
Adjustments for:			
RDEC income	**(3.5)**	-	-
Share-based payments	**0.7**	0.8	1.4
Cash flow hedges	**1.3**	-	(0.1)
Net finance costs	**0.9**	0.5	0.9
Depreciation and amortisation	**6.7**	5.0	10.5
Operating cash flows before movements in working capital	**19.3**	15.3	35.6
(Increase)/decrease in inventories	**(3.5)**	(2.0)	0.2
Increase in trade and other receivables	**(20.0)**	(3.0)	(10.6)
Increase in payables	**16.8**	7.7	8.0
Increase/(decrease) in provisions	**0.4**	(0.4)	(0.4)
Defined benefit payments	**(2.2)**	(2.2)	(4.4)
Cash generated from operations	**10.8**	15.4	28.4

17. Net (debt)/funds (non-GAAP measure)

Net (debt)/funds is defined by the Group as net cash and cash equivalents less borrowings.

Analysis of net (debt)/funds	**31 December 2015 £m**	31 December 2014 £m	30 June 2015 £m
Cash and cash equivalents (current assets)	**23.2**	20.0	59.7
Borrowings maturing after one year	**(55.4)**	(9.0)	(45.4)
At period end	**(32.2)**	11.0	14.3

The borrowings maturing after one year are repayable in the year ending 30 June 2020 and are denominated in Pounds Sterling. The borrowings maturing after one year have variable rates of interest which are dependent upon the adjusted leverage of the Group and range from 1.6% to 2.35% above LIBOR. At the period end, the Group has an adjusted leverage which attracts the lowest rate of interest, being LIBOR + 1.6%.

At the period end, the Group held total facilities of £89.9m (30 June 2015: £89.4m). This included committed facilities of £75.0m (30 June 2015: £75.0m). £55.4m of committed facilities, net of direct issue costs, were drawn at 31 December 2015 (30 June 2015: £45.4m) primarily in order to fund the acquisition of LR Rail on 1 July 2015, as disclosed in Note 12a. Of the committed facilities, a £35.0m facility is available for the period to September 2019 and £40.0m is available until April 2020. In addition, the Group has uncommitted facilities including overdrafts of £14.9m at 31 December 2015 (30 June 2015: £14.4m), which mature throughout the year to June 2016 and are renewable annually.

18. Capital commitments

At 31 December 2015, contracts had been placed for future capital expenditure on property, plant and equipment, which have not been provided for in the financial statements, amounting to £1.7m (31 December 2014: £2.5m).

19. Contingent liabilities

In the ordinary course of business, the Group has £2.2m (31 December 2014: £0.8m) of guarantees and counter-indemnities in respect of bonds relating to performance under contracts. The Group is also involved in various disputes or litigation, which are also in the normal course of business. Whilst the result of such disputes cannot be predicted with certainty, the Directors of the Company believe that the ultimate resolution of these disputes will not have a material effect on the Group's financial position or results.

In July 2013 a guarantee was provided to the Ricardo Group Pension Fund of £2.8m in respect of certain contingent liabilities that may arise, which have been secured on specific land and buildings. In the Directors' opinion, after taking appropriate legal advice, the outcome of this matter is not expected to give rise to any material cost to the Group.

20. Related party transactions

Key management compensation	**Six months ended 31 December 2015 £m**	Six months ended 31 December 2014 £m	Year ended 30 June 2015 £m
Short-term employee benefits	**1.9**	1.9	4.2
Share-based payments	**0.7**	0.6	1.1
Post-employment benefits	**0.1**	0.1	0.2
Total key management compensation	**2.7**	2.6	5.5

The key management personnel are the Board of Directors and the Managing Directors within the UK, US, Germany and Asia.

21. Risks and uncertainties

The Board regularly reviews key risks and uncertainties and have concluded that the disclosure on pages 78 to 79 of the Group's Annual Report & Accounts for the year ended 30 June 2015 remains appropriate. These risks and uncertainties, which relate to customers and markets, contract performance, people, technology, compliance with laws and regulations, the defined benefit pension scheme and financing, should be read in conjunction with the interim management review for the six months ended 31 December 2015.