

25 February 2021

Ricardo plc
Interim Report for the six months ended 31 December 2020 ("HY 2020/21")

HIGHLIGHTS

- Trading in line with our expectations, with the business recovering from the impact of COVID-19;
- Order intake, revenue and operating profit have all increased on the six months to June 2020, albeit lower than HY 2019/20;
- Good performance in Energy & Environment and Rail, both delivering an increase in profits on HY 2019/20;
- Automotive market overall remains challenging, but is improving slowly with increased order intake in the US and China compared to the six months to June 2020;
- Performance Products deliveries in line with our expectations;
- Defense⁽¹⁾ fleet retrofit approaching contract award;
- Share placing completed, raising £28m, to reset the capital structure of the Group;
- Excluding the fund raise and adjusting items, underlying reduction in net debt of c.£3m for the period (increase in net debt of c.£5m after adjusting items); and
- Interim dividend of 1.75p declared.

	HY 2020/21	HY 2019/20	(Decline)/growth
Order intake (£m)	181.1	208.6	(13) %
Order book (£m)	318.2	319.4	- %
Revenue (£m)	164.7	192.9	(15) %
Underlying⁽²⁾			
- Operating profit margin (%)	4.5	9.3	(4.8) pp
- Profit before tax (£m)	5.0	16.0	(69) %
- Basic earnings per share ⁽³⁾ (p)	6.8	23.0	(70) %
Statutory			
- Operating profit margin (%)	0.2	5.3	(5.1) pp
- (Loss)/profit before tax (£m)	(2.1)	8.3	(125) %
- Basic (loss)/earnings per share (p)	(2.7)	11.8	(123) %
Underlying ⁽²⁾ cash conversion ⁽⁴⁾ (%)	100.0	80.8	19.2 pp
Cash conversion ⁽⁴⁾ (%)	100.0	78.5	21.5 pp
Net debt ⁽⁵⁾ (£m)	(50.4)	(73.8)	32 %
Dividend per share (p)	1.75	6.24	(72) %
Headcount ⁽⁶⁾ (no.)	2,878	3,058	(6) %

References in superscript are defined in the glossary of terms on page 2.

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

"The Group's results were in line with our expectations in the first half of the year, and I am encouraged that the results show that we are starting to recover from the COVID-19 impacted low of the second half of FY 2019/20. There has been continued profit growth in Energy & Environment and Rail, and volumes in Performance Products have increased over the second half of FY 2019/20. Automotive & Industrial remains challenging, but we are seeing some green shoots of recovery. In Defense, we look forward to the ABS/ESC retrofit contract award in the second half of FY 2020/21.

Unaudited condensed consolidated financial statements

"Whilst the economic outlook continues to remain uncertain, we have a robust order book, good pipeline of opportunities and our diversified business platform offers leading edge capabilities to support the global environmental agenda. We remain cautiously optimistic about the economic recovery and for further progress of the business as we deliver on our strategy."

About Ricardo plc

Ricardo plc is a world-class environmental, engineering and strategic consulting company listed on the London Stock Exchange. With more than 100 years of engineering excellence, we provide exceptional levels of expertise in delivering leading edge and innovative cross sector sustainable products and solutions, helping our global customers increase efficiencies, achieve growth, and create a clear and safer future. Our vision is clear – to create a world fit for the future. For more information visit www.ricardo.com.

Analyst and investor presentation

The analyst and investor presentation of the Group's interim results for the six months ended 31 December 2020 will be available online from Thursday 25 February 2021 at <https://ricardo.com/investors/financial-reporting/results-presentations>. There will also be a presentation for analysts and investors at 9:30am on Thursday 25 February 2021.

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Cautionary Statement

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.

Glossary of terms – cross-referenced to superscript in the financial tables and commentary

- (1) Defense refers to our US-based segment which provides services to the US defence market.
- (2) Underlying measures exclude the impact on statutory measures of specific adjusting items as set out in Note 7. Underlying measures are considered to provide a more useful indication of underlying performance and trends over time.
- (3) Underlying earnings also exclude a tax credit to statutory earnings of £1.8m (HY 2019/20: £1.7m) for the specific adjusting items in Note 7.
- (4) Cash conversion is a key measure of the Group's cash generation and measures the conversion of profit into cash. This is the reported cash generated from operations (defined as operating cash flow, less movements in net working capital and defined benefit pension deficit contributions) divided by earnings before interest, tax, depreciation and amortisation ('EBITDA'), expressed as a percentage.
- (5) Net debt, as set out in Note 13, is defined as current and non-current borrowings less cash and cash equivalents, including hire purchase agreements, but excluding any impact of IFRS 16 lease liabilities. Management believes this definition is the most appropriate for monitoring the indebtedness of the Group and is consistent with the treatment in the Group's banking agreements.
- (6) Headcount is calculated as the number of employees on the payroll at the reporting date and includes subcontractors on a full-time equivalent basis.
- (7) Constant currency growth/decline is calculated by translating the result for the current year using foreign currency exchange rates applicable to the prior year. This provides an indication of the growth/decline of the business, excluding the impact of foreign exchange.

Trading summary

The Group has traded in line with the Board's expectations in the six months to 31 December 2020 ('HY 2020/21'). Order intake, revenue, underlying and reported operating profit were lower than the six months to 31 December 2019 ('HY 2019/20' or the 'prior period'), but all increased compared to the six months to 30 June 2020, reflecting the start of the recovery from COVID-19. The performance compared to the prior period reflects a significant change in the commercial environment since the pre-COVID-19 HY 2019/20. The performance compared to the six months to 30 June 2020 demonstrates positive signs of recovery following the initial impact of COVID-19, as the Group, our customers, and our other stakeholders, have adapted to the current trading and working conditions.

Energy & Environment ('EE'), Rail and Performance Products ('PP') all met or exceeded expectations at an underlying operating profit level in HY 2020/21. Defense has been impacted by the timing of deliveries for its vehicle safety anti-lock braking system/electronic stability control ('ABS/ESC') product, which had an adverse impact on the phasing of underlying operating profit, with improvement expected in the second half of the financial year. Trading conditions continue to be challenging in the Automotive & Industrial ('A&I') segment, particularly in Europe, but there are positive signs of recovery with an increased level of orders won in the US and China compared to the six months to June 2020.

Net debt was £50.4m at 31 December 2020, compared to £73.4m at 30 June 2020 and £73.8m at 31 December 2019. This improvement reflects £28.2m of proceeds, net of fees, from a successful share placing in November 2020, and a strong working capital performance. Excluding the placing, restructuring costs and acquisition-related payments, the Group generated a net cash inflow of c.£3.0m in the half (and the whole of the 2020 calendar year).

Order intake down 13% on HY 2019/20 with closing order book 1% up on FY 2019/20

Order intake of £181.1m represents a decline of 13% on HY 2019/20, however it is a 13% increase on the six months to 30 June 2020, indicating that order volumes are recovering from the impact of COVID-19. The closing order book of £318.2m was 1% up on the prior year-end (FY 2019/20: £314.0m). In particular, order intake was strong in EE, driven by Evidence and Policy work related to the European Union's Green Deal, and Defense, with an increase in both Engineering Services and ABS/ESC (new vehicles) orders. Order intake in Rail was good given the economic climate, but strong orders in Australia and Asia were offset by a lower level of orders in the UK and Europe. As expected, PP saw a reduction in order intake compared to the prior period due to a COVID-19-driven reduction in McLaren volumes, but volumes are increasing compared to the second half of FY 2019/20. In A&I, order intake declined compared to HY 2019/20, but there are signs of improvement as order intake has increased compared to the six months to June 2020, driven by the US and China.

Headline trading performance	Underlying ⁽²⁾			Reported	
	Revenue	Operating profit	Profit before tax	Operating profit	(Loss)/profit before tax
HY 2020/21 (£m)	164.7	7.4	5.0	0.3	(2.1)
HY 2019/20 (£m)	192.9	18.0	16.0	10.3	8.3
Decline (%)	(15)	(59)	(69)	(97)	(125)
Constant currency decline ⁽⁷⁾ (%)	(14)	(59)	(69)	(98)	(127)

References in superscript are defined in the glossary of terms on page 2.

Revenue down 15% on HY 2019/20

HY 2020/21 revenue was £164.7m, a 15% decrease compared to HY 2019/20 and a 4% increase compared to the six months to 30 June 2020. EE revenue grew by 13% on the prior period as the business has continued to successfully win and deliver work throughout the COVID-19 pandemic. Rail revenue was in line with prior period, which reflects a strong performance from Ricardo Rail Australia and Rail's operations in Asia, with a number of significant contracts won in these regions. Defense revenue reduced period-on-period due to the timing of ABS/ESC deliveries, with Engineering Services continuing to show good growth. A&I and PP revenues decreased compared to the prior period, for the reasons discussed above.

Trading summary

Underlying operating profit down 59% on HY 2019/20, with reported operating profit down 97%

Underlying operating profit, which excludes specific adjusting items, decreased by 59% to £7.4m (HY 2019/20: £18.0m). Underlying operating profit margin decreased 4.8 percentage points to 4.5% (HY 2019/20: 9.3%). Compared to the second half of FY 2019/20, underlying operating profit increased by £5.4m, from £2.0m, which includes a reduction in the cost base as a result of the restructuring actions taken in the second half of FY 2019/20 (in A&I and Rail) and further actions in HY 2020/21 (in A&I).

EE and Rail both delivered growth in underlying operating profit and margin. This growth was offset by declines in underlying operating profit and margin in A&I and Defense. Although PP operating profit declined, margin increased due to the mix and pricing of products sold. The period-on-period decline in reported operating profit and margin largely reflects the movement in underlying operating profit.

Underlying profit before tax down 69% on HY 2019/20, with reported loss before tax of £2.1m (HY 2019/20: profit of £8.3m)

Underlying profit before tax decreased by 69% to £5.0m (HY 2019/20: £16.0m). There is no change to underlying profit on a constant currency basis.

The HY 2020/21 reported loss before tax includes £7.1m of costs relating to specific adjusting items (HY 2019/20: £7.7m), discussed in more detail below.

Specific adjusting items

As set out in more detail in Note 4 and 7, the Group's underlying profit before tax for the half-year excludes £7.1m of costs incurred during the period that have been charged to the income statement as specific adjusting items (HY 2019/20: £7.7m).

Amortisation of acquired intangibles is broadly in line with the prior period. Acquisition-related costs of £1.1m were incurred (HY 2019/20: £1.0m) in relation to earn-out and deferred compensation payments for Transport Engineering Pty Ltd (renamed Ricardo Rail Australia, or 'RRA') and PLC Consulting Pty Ltd (renamed Ricardo Energy, Environment and Planning, or 'REEP'), acquired in May 2019 and July 2019 respectively.

The South office building of the Detroit Technology Campus ('DTC'), which was held-for-sale at 31 December 2020, was impaired by £1.5m to reflect its current fair value, as the impact of COVID-19 on the local property market has reduced demand for office space and driven down prices. The building was impaired by £2.5m in the prior period following its purchase in August 2019 (as it was acquired for a price which reflected Ricardo as a long-term tenant). £1.5m of restructuring costs were incurred in the A&I Europe business. Further headcount reductions were made in HY 2020/21 as the ongoing impact of COVID-19 continued to depress the level of short-term workable orders in the business. The comparative period costs include £0.8m in relation to the completion of an unrelated A&I restructuring project (£0.6m in A&I EMEA and £0.2m in A&I US), and £0.4m in respect of redundancy costs for the Rail segment.

Costs of £0.1m were incurred in HY 2020/21 as a result of a reduction in the fair value of contingent consideration arising on the sale of the DTC test business in June 2020. In addition, the requirement to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions ('GMP') for historical transfers out of the pension scheme resulted in a charge of £0.1m in HY 2020/21.

Reconciliation of underlying profit before tax to reported (loss)/profit before tax

£m	HY 2020/21	HY 2019/20
Underlying⁽²⁾ profit before tax	5.0	16.0
Amortisation of acquired intangibles	(2.8)	(3.0)
Acquisition-related expenditure	(1.1)	(1.0)
Reorganisation costs:		
- A&I US - DTC purchase and impairment	(1.5)	(2.5)
- A&I US - change in fair value of contingent consideration	(0.1)	-
- A&I EMEA - reorganisation costs	(1.5)	(0.6)
- Other reorganisation costs	-	(0.6)
- Total reorganisation costs	(3.1)	(3.7)

Trading summary

GMP equalisation	(0.1)	-
Reported (loss)/profit before tax	(2.1)	8.3

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Trading summary

Taxation

The underlying effective tax rate was 23.7% (HY 2019/20: 22.5%). The reported effective tax rate was 27.1% (HY 2019/20: 22.9%). The increase reflects the changing mix of profits in the Group, in particular the performance of the Group's operations in Australia.

Earnings per share

Basic earnings per share declined by 14.5p per share, to a loss per share of 2.7p (HY 2019/20: a profit per share of 11.8p). The Directors consider that underlying earnings per share provides a more useful indication of underlying performance and trends over time. Underlying basic earnings per share for the period decreased by 16.2p per share, to 6.8p (HY 2019/20: 23.0p). The calculation of basic earnings per share, with a reconciliation to an underlying basic earnings per share, which excludes the impact (net of tax) of specific adjusting items, is disclosed in Note 8.

Dividend

As set out in more detail in Note 9, the Board has declared an interim dividend of 1.75p per share (HY 2019/20: 6.24p), which reflects the Board's desire to return to paying dividends to shareholders, balanced with the speed and shape of the economic recovery as we emerge from the impact of COVID-19. The dividend will be paid on 9 April 2021 to holders of ordinary shares on the company's register of members on 5 March 2021.

Net debt

Closing net debt was £50.4m (FY 2019/20: £73.4m). The Group had a net cash inflow for the period of £23.0m. During the period, the Group completed a share placing which raised £28.2m, net of fees, in order to reset the capital structure of the Group, reduce leverage and repay borrowings to achieve an appropriate level of balance sheet efficiency and resilience. In the period, the Group paid acquisition-related earn out and retention costs of £5.1m and exceptional redundancy costs of £2.8m. Excluding these items, the Group generated a £2.7m cash inflow, which was achieved through a continuing strong focus on cost control and efficient working capital management. The composition of net debt is defined in Note 13.

Share issue

On 11 November 2020, Ricardo plc issued 8,812,030 new ordinary shares, representing 16.5% of existing issued ordinary share capital, at a price of 333 pence per share, raising gross proceeds of £29.3m (£28.2m net of £1.1m of transaction costs).

The issue took place in the three parts; "Subscription shares" subscribed by certain directors of the company for cash consideration (0.05%); "Placing shares", to certain existing shareholders and other institutional investors, via a 'cashbox' mechanism (14.95%); and "Retail shares" offered by the Company for cash consideration (1.5%). The cashbox placing resulted in the creation of a £23.5m distributable merger reserve. Directly attributable fees were recorded against this merger reserve.

Research and Development ('R&D') and capital investment

The Group continues to invest in R&D and spent £5.0m (HY 2019/20: £7.2m) before government grant income of £0.4m (HY 2019/20: £0.7m). Development costs capitalised in this period were £3.5m (HY 2019/20: £4.4m), reflecting continued investment in software products in the PP segment, together with technology, tools and processes in the A&I and EE segments.

In January 2021, we were pleased to announce our collaboration with AFC Energy in respect of innovative hydrogen power applications. This partnership will accelerate global efforts to decarbonise transport, energy and nationally critical infrastructure through the design and delivery of high-quality hydrogen technologies, supporting carbon neutral measures. The focus will be on the joint creation of hydrogen fuel cell product and service offerings, initially on marine, rail and stationary power generation.

Capital expenditure on property, plant and equipment, excluding right-of-use assets, was £2.2m, reflecting targeted investment in our business operations, including the completion of a new hybrid power train test rig at the Shoreham Technical Centre ('STC'), which will be available to customers in the second half of FY 2020/21. £17.7m of capital expenditure on property, plant and equipment was incurred in HY 2019/20, which included £14.3m to purchase the DTC facility.

Trading summary

Coronavirus ('COVID-19')

Throughout the pandemic, we have prioritised the health and safety of our colleagues, whilst continuing to ensure that we deliver the highest standards and level of service to our customers. Our digital-first strategy has provided us with the flexibility to work remotely and has enabled us to deliver innovations such as virtual certification, and remote audits and inspections. Building on the experience of the original lockdowns in the Spring of 2020, we have been able to react quickly and efficiently to the most recent lockdowns around Europe, with minimal business interruption.

As we enter 2021 with more stringent restrictions placed on many cities, regions and countries around the world, the guiding principle of 'Healthy People, Healthy Business' remains the focus for Ricardo.

Trading summary

Brexit

The Group has been preparing for Brexit for some time and has robust plans in place to support our operations. Our technical and commercial bases in many cities within the European Union give us trading flexibility, and we will continue to contract from these locations for engineering, consulting and certification projects.

Presently, Performance Products, which is most exposed to supply chain disruption, has been operating without major disruption since 1 January 2021.

Group Outlook

Our strategy is to prioritise investment on decarbonisation and the Net Zero agenda, from policy to engineering solutions across the transport and energy market sectors. This extends into clean energy solutions, with a focus on electrification and hydrogen, whilst continuing to support the transition away from fossil fuel-based internal combustion engines. We will strengthen our global market position by leveraging our key differentiator around the intersection of transport, energy and the environment. We plan to achieve this through a combination of organic growth and a programme of focused acquisitions.

Whilst the economic outlook continues to remain uncertain, we have a robust order book, good pipeline of opportunities and our diversified business platform offers leading edge capabilities to support the global environmental agenda. We remain cautiously optimistic about the economic recovery and for further progress of the business as we deliver on our strategy.

Operating segments review

From HY 2020/21, due to restructuring within the Group, Strategic Consulting & Software ('other') is no longer being separately reported as an operating segment.

The Strategic Consulting element of this segment is now reported within Automotive & Industrial ('A&I'). This business has a number of common customers, operates in similar markets to A&I, and is now run as a business unit within the overall A&I business. Since the start of HY 2020/21, the A&I EMEA Managing Director has overall responsibility for the Strategic Consulting service offering.

The software element of this segment has been aggregated into the Performance Products operating segment for reporting. Whilst the software business continues to be run as a separate business with its own leadership team, it has a number of similar characteristics to the Performance Products manufacturing business, in that it is involved in the development of niche products, requiring a high level of capital/development spend, primarily selling to automotive manufacturers.

As a result of this change, the Group is now reporting the five segments set out below. The HY 2019/20 segmental analysis has been reported on a consistent basis to aid comparability. Consistent with the prior period, Plc costs include the costs of running the public limited company, including foreign exchange exposure on intercompany loans. These foreign exchange movements have resulted in an increase in Plc costs compared to HY 2019/20.

For the six months ended 31 December	Revenue		Underlying ⁽²⁾ operating profit/(loss)		Underlying ⁽²⁾ operating profit/(loss) margin	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	%	%
Energy & Environment ('EE')	26.6	23.6	3.8	3.0	14.3	12.7
Rail	38.5	38.9	3.5	2.7	9.1	6.9
Automotive & Industrial ('A&I')	50.1	65.9	(3.4)	6.0	(6.8)	9.1
Defense	13.9	17.6	1.7	2.9	12.2	16.5
Performance Products ('PP')	35.6	46.9	3.9	4.7	11.0	10.0
Operating segments total	164.7	192.9	9.5	19.3	5.8	10.0
Plc costs	-	-	(2.1)	(1.3)	-	-
Total	164.7	192.9	7.4	18.0	4.5	9.3

References in superscript are defined in the glossary of terms on page 2.

Operating segment review

ENERGY & ENVIRONMENT ('EE')

Ricardo Energy & Environment ('EE') works with clients to solve the world's most pressing energy and environmental challenges, and provides governments, public agencies and businesses with industry-leading analysis, advice and data. A team of over 600 scientists, economists, engineers, data specialists, and support staff work across the value chain, gathering and evaluating evidence, setting policy measures, and working with customers, partners and stakeholders in order to support the implementation of a wide range of solutions. EE's client base is diversified across public sector (c.60% of revenue) and private sector (c.40%), and over a third of its work is generated from non-UK clients.

Financial and operational highlights

	HY 2020/21	HY 2019/20	Growth (%)
Order intake (£m)	28.2	24.5	15
Order book (£m)	41.5	35.6	17
Revenue (£m)	26.6	23.6	13
Underlying ⁽²⁾ operating profit (£m)	3.8	3.0	27
Underlying ⁽²⁾ operating profit margin (%)	14.3	12.7	1.6 pp
Headcount ⁽⁶⁾ (no.)	625	555	13

References in superscript are defined in the glossary of terms on page 2.

In HY 2020/21, EE successfully continued to win and deliver projects during a period of global disruption which has had an impact on clients, staff and other stakeholders. HY 2020/21 order intake was £28.2m, an increase of £3.7m (15%) on the prior period (£24.5m). Revenue increased by 13% to £26.6m (HY 2019/20: £23.6m) and underlying operating profit increased by 27% to £3.8m (HY 2019/20: £3.0m). Underlying operating profit margin increased to 14.3% (HY 2019/20: 12.7%).

There was strong growth in policy and strategy-related services, across a range of UK and international clients, particularly on the European Green Deal. This has led to a significant increase in work for the European Commission ('EC'), where EE has provided services on a diverse range of contracts, including:

- supporting the development of more ambitious economy-wide greenhouse gas ('GHG') reduction targets for the EU;
- formulating more stringent 2030 targets for reducing GHG emissions from new cars and vans;
- identifying policy measures for incentivising the supply of, and demand for, sustainable renewable aviation fuels; and
- developing options for strengthening legislation on air quality.

The European Green Deal has also led to opportunities with trade associations and industrial clients across a range of sectors seeking advice on the Green Deal's implications for their businesses.

There were also positive developments in the water sector. Following the commencement of the UK's new asset management planning cycle ('AMP7') in April 2020, EE has secured a range of new frameworks contracts over the last 18 months. This included two significant projects related to the development of strategic water resource options to ensure that water companies have enough supply to meet the needs of the country over the next 25+ years. EE is also providing the environmental assessments for both the Severn Thames Transfer option (United Utilities, Thames Water and Severn Trent Water) and the London Reuse option (Thames Water).

Although EE's Australian operation, based primarily in Melbourne, was impacted by COVID-related disruption in the first quarter of the year, the project pipeline improved in the second quarter, and some of the work that had been put on hold has now restarted.

Outlook

EE enters the second half of the year in a strong position, despite the ongoing COVID-19-related challenges. It is strategically positioned to take advantage of opportunities across the value chain, from gathering evidence, to helping to develop policies and strategies, to supporting implementation of solutions to deal with global environmental challenges, and is well aligned to the outlook for market demand.

Operating segment review

In the UK, the recently announced Government Ten Point Plan for a Green Industrial Revolution will open up opportunities across the whole Net Zero agenda, and specifically in areas such as energy technologies, and decarbonisation of the transport sector, whilst the more complex questions being asked by clients play to EE's strengths in digital innovation, and data science.

The period ended with news of the UK/EU trade deal. Due to the actions taken by the business over previous years, including contracting with EU customers via EE's European-based subsidiary, the recently announced UK/EU trade deal is not expected to have any impact on EE's activities.

Operating segment review

RAIL

Ricardo Rail ('Rail') provides the rail market with technical consultancy and independent assurance services, drawing from an international pool of over 600 specialist engineers, technicians, auditors and support staff.

Rail operates predominantly across Europe, Asia, Australasia and the Middle East, supporting a client base that includes operators, infrastructure managers, regulatory bodies and industry suppliers.

Financial and operational highlights

	HY 2020/21	HY 2019/20	(Decline)/ growth (%)
Order intake (£m)	44.1	51.4	(14)
Order book (£m)	110.5	115.4	(4)
Revenue (£m)	38.5	38.9	(1)
Underlying ⁽²⁾ operating profit (£m)	3.5	2.7	30
Underlying ⁽²⁾ operating profit margin (%)	9.1	6.9	2.2 pp
Headcount ⁽⁶⁾ (no.)	617	642	(4)

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Rail has remained resilient in the first half of the financial year, despite the challenges brought upon the industry by COVID-19. HY 2020/21 order intake was £44.1m, compared to £51.4m in the prior period, a reduction of 14%. Revenue was £38.5m, 1% lower than the prior period (£38.9m), however underlying operating profit was £3.5m, a 30% increase (HY 2019/20: £2.7m). The underlying operating profit margin of 9.1% was higher than HY 2019/20 (6.9%). The growth in operating profit and margin reflects a very strong performance from Ricardo Rail Australia and Rail's operations in Asia, which has more than compensated for challenges in the UK and Europe.

As a result of the pandemic, global passenger numbers have fallen. However, continued investments in rail schemes around the world signal that governments and industry believe traffic will, in time, return to pre-COVID levels, and Ricardo Rail teams have been well placed to support a range of major programmes already in progress. In Asia, Rail has taken advantage of the region's burgeoning rail activity to secure major assurance and consultancy assignments from clients such as Hyundai Rotem, Hitachi, Hong Kong's MTR Corporation and Beijing Traffic Control Technology.

The acquisition of Ricardo Rail Australia in May 2019 came at a time when the country was looking to make up for underinvestment in its rail infrastructure and prepare for a projected doubling of its population by 2070. As well as supporting various projects in New South Wales and Queensland, Ricardo Rail Australia was announced in September 2020 as the Shadow Operator for the 25km Sydney Metro West line. Assisted by Seoul Metro, Rail will be advising the route's designers and contractors on the day-to-day operations of an automated railway.

Projects in the Middle East remain on schedule, particularly in Doha where sections of a new integrated metro and tram system are gradually opening in time for the approaching FIFA World Cup finals in 2022.

In Europe, the consultancy market has proved more challenging as the pandemic continues. This has led to a decrease in spend on external consultants by train operators. This has been balanced by a strong order book for Certification work, notably the significant appointment by Siemens Mobility to provide compliance assessments for 30 new high-speed intercity express trains for Germany's national operator, Deutsche Bahn.

Outlook

Although 2020 has been very challenging for the global rail sector, industry bodies are forecasting a return to the more typical annual growth rates over the next few years. Stimulus plans, the demand for more sustainable mobility solutions, and the industry's continued shift to digitalisation and low-carbon technologies will be the principal drivers of growth, all of which Ricardo is well positioned to deliver.

As Rail has previously set up European accreditations within the remaining EU27 countries, the recently announced UK/EU trade deal is not expected to have any impact on Rail's activities.

Whilst investment will continue in Rail's markets – for example, Australia's Inland Rail freight network and the UK's HS2 – Rail expects much of the forecast growth to be in new territories. The groundwork is being put in place for a stronger

Operating segment review

presence in markets such as the United States, Canada, and Germany – locations where Rail already has a foothold as a supporting partner but now has the capabilities and tools to offer an increased service portfolio.

Operating segment review

AUTOMOTIVE & INDUSTRIAL ('A&I')

Ricardo Automotive & Industrial ('A&I') is a trusted global engineering design and development partner for the provision of clean, efficient, integrated propulsion and energy solutions across the areas of hybrid and electric systems, electrification, engines, driveline and transmissions, testing, and vehicle engineering. Customers span the transportation and industrial markets, including automotive, aerospace, defence, energy, off-highway and commercial, marine, motorcycle and light-personal transport, and rail. A&I has over 1,000 staff, operating from engineering centres and sales offices within the UK, Europe, US, and Asia (primarily in China).

Financial and operational highlights

	HY 2020/21	HY 2019/20	(Decline)/ growth (%)
Order intake (£m)	59.0	74.5	(21)
Order book (£m)	86.1	86.5	-
Revenue (£m)	50.1	65.9	(24)
Underlying ⁽²⁾ operating (loss)/profit (£m)	(3.4)	6.0	(157)
Underlying ⁽²⁾ operating profit margin (%)	(6.8)	9.1	(15.9) pp
Headcount ⁽⁶⁾ (no.)	1,045	1,279	(18)

References in superscript are defined in the glossary of terms on page 2.

Order intake for the period was £59.0m, down 21% on the prior period (£74.5m). HY 2020/21 order intake included two large multi-year programmes, totalling over £20m, with near-term workable order intake being adversely affected by the challenging and unprecedented market conditions. The COVID-19 pandemic resulted in some customers temporarily shutting their operations, implementing part-time working, mothballing manufacturing facilities and implementing significant cost-reduction measures. The net impact was a delay in critical program decisions of circa four months from originally communicated targets. In addition, on-going US-China trade tensions and border tariffs, and the uncertainty surrounding the outcome of protracted Brexit negotiations significantly impacted demand in the period.

The lower demand adversely impacted revenue and operational efficiency significantly in HY 2020/21. Revenue decreased by 24% compared to the prior period, to £50.1m (HY 2019/20: £65.9m). The underlying operating loss was £3.4m (HY 2019/20 operating profit: £6.0m). The underlying operating margin decreased from 9.1% to negative 6.8%.

The impact of the above was primarily felt in A&I's operations in the UK and Europe. A&I took the difficult decision to further reduce UK and Europe headcount in the period in order to reduce costs to match forecast demand. This headcount reduction was a continuation of the process enacted in the second half of FY 2019/20 and was a direct result of the ongoing impact of COVID-19 and the other factors highlighted above on the HY 2020/21 order intake.

A&I's China operations experienced some downturn in performance compared to HY 2019/20. However, order intake and profitability have improved compared to the six months to 30 June 2020 indicating that the market is recovering from the impact of COVID-19.

Losses in the US have reduced, due in large part to the impact of the restructuring actions taken at the end of FY 2019/20, including the closure of facilities and the sale of the Detroit test business.

At the core of A&I strategy is the delivery of clean, efficient, integrated propulsion and energy solutions across diversified industry sectors, thereby reducing reliance on passenger cars. In the face of the challenging conditions, A&I focused on its 'digital first' agenda to drive faster time-to-market, more agile project management, remote and virtual working, and virtual product development. This strategy delivered the following notable successes in the period:

- The implementation of a virtual certification test service to continue enabling marine sector customers to check their products' compliance with upcoming international regulations;
- Securing funding from the UK Office for Low Emission Vehicles to develop 'digital twin' based design and optimisation solutions for electrified powertrains;
- A provisional funding award for a hydrogen engine development facility in the UK, which will help bring forward the development of hydrogen powered vehicles as an emissions-free and more environmentally friendly alternative to fossil fuel use;

Operating segment review

- Securing a program with US-based Advance Research Projects Agency-Energy and engine technology start-up Achates Power to reimagine internal combustion engines for light duty trucks, and continued development activities with the US Department of Energy on delivering a next generation Silicon Carbide inverter; and
- The successful use of Virtual Calibration, using Ricardo's proprietary software (Wave-RT), for a leading Chinese original equipment manufacturer.

A&I also largely completed its significant investment in a hybrid powertrain development facility in the UK, which will be available to clients in the second half of this financial year, and accelerated its work in the aerospace sector, winning a number of significant new aerospace clients.

Outlook

Climate change, emissions targets, and regulation continue to underpin the A&I business, together with the broader environmental agenda driving a green 'bounce-back' from the pandemic, including the UK Government's Ten Point Plan for a Green Industrial Revolution and the US Government's plan for a green recovery. The next six months are expected to be challenging with the on-going impact of the pandemic, Brexit outcome and other geopolitical factors. A&I will pursue its strategy as a leaner and more focused business and is cautiously optimistic about the number of opportunities in the near-term pipeline.

Despite the pandemic and broader geopolitical circumstances, A&I strategy and offerings continue to be received positively by clients and the diversification into new sectors is showing positive signs. Significant longer-term opportunities exist for the provision of innovative clean, efficient, integrated propulsion and energy solutions to customers within the transportation and industrial markets.

Operating segment review

DEFENSE

Ricardo Defense ('Defense'), a US-based segment, delivers services, software, and products that protect life, reduce costs, and reduce waste. With over 180 professionals across the United States, Defense is a leader in Army Acquisition Modernisation for future mobility, integrated networks, logistics and field support. Defense provides system integration engineering for the US Army's ground inventory and it is the data replication agent for everything in the air, on the sea, and under the surface for the US Navy.

Defense also provides anti-lock braking system/electronic stability control ('ABS/ESC') safety systems for all new production High Mobility Multipurpose Wheeled Vehicles ('HMMWV') for the US Army and National Guard.

Financial and operational highlights

	HY 2020/21	HY 2019/20	Growth/ (Decline) (%)
Order intake (£m)	21.9	13.7	60
Order book (£m)	21.7	16.5	32
Revenue (£m)	13.9	17.6	(21)
Underlying ⁽²⁾ operating profit (£m)	1.7	2.9	(41)
Underlying ⁽²⁾ operating profit margin (%)	12.2	16.5	(4.3) pp
Headcount ⁽⁶⁾ (no.)	181	147	23

References in superscript are defined in the glossary of terms on page 2.

HY 2020/21 order intake was £21.9m, which exceeded the prior period by £8.2m (60%). This was due to good order intake in both the Engineering Services part of the business and ABS/ESC. Engineering Services orders were positively impacted by the receipt of a significant multi-year production contract from General Motors to produce and field the US Army's new Infantry Squad Vehicle ('ISV'), together with increased work on the US Navy Systems Engineering Support contract. ABS/ESC orders in HY 2020/21 exceeded the prior period due to an increase in new production vehicle ABS/ESC units.

Although order intake increased compared to the prior period, revenue in HY 2020/21 was £13.9m, 21% lower than HY 2019/20 (£17.6m). This was due to the timing of ABS/ESC deliveries versus the order intake, with lower number of units delivered in HY 2020/21 (581) compared to HY 2019/20 (1,635). This was partially offset by growth in Engineering Services due to the ramp up in the contracts noted above. Underlying operating profit of £1.7m (HY 2019/20: £2.9m) and underlying operating profit margin of 12.2% (HY 2019/20: 16.5%) were lower than the prior period for the same reasons.

Defense continues to lead significant change in the way the Department of Defense ('DoD') buys materials and equipment, providing a key support role to the US Army's Capability Transition and Product Integration Office. Defense's work provides a quicker, more agile approach to managing the lifecycle of fielded systems. Defense performs the complex integration of sophisticated hardware, software, and infrastructure technologies, a business competency in high demand for the future of US materials and equipment acquisition. In addition, Defense has been developing software to pilot the US Army's transition from preventative maintenance to predictive maintenance.

As a critical supplier to the US Government, COVID-19 has not had a significant impact on Defense.

Outlook

The outlook for Defense remains positive with global defence spending on the rise. Defense continues to strengthen its position alongside the US Army to provide a faster, more agile approach to the lifecycle management of fielded systems and assisting the US Army in making informed, data-driven decisions. Defense's software products and services are expected to expand across the US Navy's enterprise as the data replication standard for the service. Defense is a key player providing direct support to three of the US Army's six modernisation priorities: Network Integration, Assured Position Navigation and Time ('A-PNT'), and Next Generation Combat Vehicle ('NGCV').

Defense expects growth in order intake, revenue and profits in the second half of FY 2020/21 based on the US Government's approval of the FY21 Department of Defense budget, which funded several key programmes including ABS/ESC retrofit, ISV, and the NGCV family of vehicles. To support the growth in the business, Defense has increased total headcount by 23% since HY 2019/20. Defense is expecting to be awarded its first US ABS/ESC fleet

Operating segment review

retrofit contract in the second half of FY 2020/21, with deliveries to commence in Q4 FY 2020/21.

Operating segment review

PERFORMANCE PRODUCTS ('PP')

The Performance Products ('PP') segment includes both the Performance Products manufacturing and software businesses.

In the PP manufacturing business, a team of c.300 staff, based in the UK, manufactures and assembles high quality components, prototypes and niche volumes of complex products. This includes engines, transmissions and other products where precision and performance are critical. The business also provides manufacturing and supply chain services to enable products to move from concept to production for its customers around the globe.

In the PP software business, a team of c.100 staff, based across the UK, Europe, the US, India and China, develops niche software solutions which help customers optimise processes through innovation and technology. These include advanced virtual engineering tools and solutions, and leading-edge simulation software provides customer solutions to reduce cost, resources and time to market, while efficiently managing complexity and safety.

PP's customers operate in markets such as motorsport, automotive, aerospace, defence and rail.

Financial and operational highlights

	HY 2020/21	HY 2019/20	(Decline)/ growth (%)
Order intake (£m)	27.9	44.5	(37)
Order book (£m)	58.4	67.3	(13)
Revenue (£m)	35.6	46.9	(24)
Underlying ⁽²⁾ operating profit (£m)	3.9	4.7	(17)
Underlying ⁽²⁾ operating profit margin (%)	11.0	10.0	1.0 pp
Headcount ⁽⁶⁾ (no.)	399	423	(6)

References in superscript are defined in the glossary of terms on page 2.

Order intake in HY 2020/21 was £27.9m, a reduction of £16.6m (37%) on the prior period. HY 2020/21 revenue was £35.6m and underlying operating profit was £3.9m, 24% and 17% lower than the prior period, respectively. Engine and transmission deliveries across all customers during HY 2020/21 have broadly been in line with expectations, but deliveries of engines to McLaren, PP's largest customer, were at a run rate less than 50% of the prior period, due to the impact of COVID-19 on McLaren's business. Underlying operating profit margin was 11% compared to 10% in the prior period, driven by the pricing and mix of products delivered.

Demand for Bugatti transmissions has continued in line with expectations. The CVR(T) gearbox refurbishment programme for the UK Ministry of Defence continues to perform well, as do production preparations for the Aston Martin Valkyrie programme, which is due to commence in the second half of FY 2020/21. A significant number of prototypes relating to this Aston Martin programme have been delivered to support the testing and validation of this advanced hybrid hyper-car.

Key wins in the first half of the year included the finalisation of the full Bugatti Chiron programme, the next-season transmission for PSA Formula E car, and project wins from new defence and aerospace clients. In addition, PP is to be the transmission partner for Hyundai Motorsports in R5 rally into 2021 and beyond.

Order intake in the software business was at a similar level to the prior period. Lower licence renewals (due to the timing of order receipts) were offset by an increase in one-off perpetual license sales in India and China.

Outlook

PP's strategy is to deliver solutions to markets that demand complex, high quality, robustly manufactured and developed products and it is focusing on established markets such as high performance automotive, motorsport and aerospace, with additional focus being applied to both defence and rail markets, where significant contract opportunities exist.

COVID-19 has severely impacted McLaren deliveries throughout 2020. Volumes were in line with expectations in HY 2020/21 and are expected to grow steadily in the second half of the year, with McLaren's focus being on the special edition and exclusive cars in its model portfolio.

Operating segment review

PP's multi-year programmes with customers such as Porsche, Bugatti and the Ministry of Defence are expected to continue largely unaffected.

The core automotive markets for PP's software products are expected to remain challenging over the remainder of the financial year, with delays to new business orders being placed due to the COVID-19 pandemic. The business continues to focus on sector diversification and moving to web- and consumption-based licensing models to complement traditional on-premise annual lease and perpetual licence business.

Operating segment review

Since 2016, PP has been preparing for transition out of the EU. This included engagement with both suppliers and customers as well as embedding additional skills and expertise within the team. These preparations naturally accelerated towards the 31 December 2020 deadline and agreements ultimately put in place between both customers and suppliers ensured business continuity into 2021. The new rules that have taken effect from 1 January 2021 require additional resource, predominately relating to transit documentation and the investment in staff and systems. Although there has been some disruption in deliveries to and from the EU in the first few weeks of 2021, the impact on the business has been kept to a minimum, and the expectation is that such incidents will reduce as we progress into the second half of the year.

Performance conditions for November 2020 LTIP Awards

As noted in the *Annual Report & Accounts 2019/20* (the "2020 R&A") and the 30 November 2020 announcement of the grant of awards made under the Ricardo plc *2020 Long Term Incentive Plan* on 27 November 2020 ("2020 LTIP Awards"), Ricardo's Remuneration Committee elected to postpone setting the specific targets for the Earnings Per Share ("EPS") portion of these awards. This decision was taken in light of the uncertainty created by the COVID-19 crisis and it was agreed that such EPS targets would be set once there was greater clarity around the long-term impact of the pandemic on the Company's business and the various markets in which it operates.

Ricardo plc announces that the Remuneration Committee has now determined that the target ranges for the EPS portion, which accounts for two thirds of each 2020 LTIP Award, shall be as follows:

- No part of the EPS portion will vest if the Company's underlying EPS for the final year in the performance period is lower than 28.5p;
- 15% of this portion will vest where the final year underlying EPS is 28.5p;
- 100% of this portion will vest where the final year underlying EPS is greater than or equal to 40.7p; and
- Vesting will take place on a straight-line basis between 28.5p and 40.7p.

For completeness, the Remuneration Committee retains its ability to apply discretion where the performance outcome is not consistent with the overall company performance. As previously disclosed in the 2020 R&A, the remaining one third of the 2020 LTIP Awards are subject to a Total Shareholder Return ("TSR") performance condition. The targets applicable to the TSR portion are as set out on page 118 of the 2020 R&A, which is available on the Company's website: www.ricardo.com.

Condensed interim financial statements

Condensed consolidated income statement for the six months ended 31 December (unaudited)

		2020			2019		
	Note	Underlying £m	Specific adjusting items ⁽¹⁾ £m	Total £m	Underlying £m	Specific adjusting items ⁽¹⁾ £m	Total £m
Revenue	5 & 6	164.7	-	164.7	192.9	-	192.9
Cost of sales		(110.2)	-	(110.2)	(126.6)	-	(126.6)
Gross profit		54.5	-	54.5	66.3	-	66.3
Administrative expenses		(47.7)	(7.1)	(54.8)	(48.8)	(7.7)	(56.5)
Other income		0.6	-	0.6	0.5	-	0.5
Operating profit	5	7.4	(7.1)	0.3	18.0	(7.7)	10.3
Finance income		0.3	-	0.3	0.2	-	0.2
Finance costs		(2.7)	-	(2.7)	(2.2)	-	(2.2)
Net finance costs		(2.4)	-	(2.4)	(2.0)	-	(2.0)
Profit/(loss) before taxation		5.0	(7.1)	(2.1)	16.0	(7.7)	8.3
Taxation (expense)/income		(1.2)	1.8	0.6	(3.6)	1.7	(1.9)
Profit/(loss) for the period		3.8	(5.3)	(1.5)	12.4	(6.0)	6.4
Profit/(loss) attributable to:							
- Owners of the parent		3.8	(5.3)	(1.5)	12.3	(6.0)	6.3
- Non-controlling interests		-	-	-	0.1	-	0.1
		3.8	(5.3)	(1.5)	12.4	(6.0)	6.4
(Loss)/earnings per ordinary share attributable to owners of the parent during the period							
Basic and diluted	8			(2.7)p			11.8p

(1) Specific adjusting items are disclosed separately in the condensed interim financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. Further details are given in Note 4 and Note 7.

Condensed consolidated statement of comprehensive income for the six months ended 31 December (unaudited)

	2020 £m	2019 £m
(Loss)/profit for the period	(1.5)	6.4
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of the defined benefit pension scheme	1.9	0.8
Deferred tax on remeasurements of the defined benefit pension scheme	(0.4)	(0.1)
Total items that will not be reclassified to profit or loss	1.5	0.7
Items that may be subsequently reclassified to profit or loss:		
Currency translation on foreign currency net investments	(0.8)	(3.4)
Fair value loss on foreign currency cash flow hedges	-	(0.9)
Total items that may be subsequently reclassified to profit or loss	(0.8)	(4.3)
Total other comprehensive profit/(loss) for the period (net of tax)	0.7	(3.6)
Total comprehensive (expense)/income for the period	(0.8)	2.8
(Expense)/income attributable to:		
- Owners of the parent	(0.8)	2.7
- Non-controlling interests	-	0.1

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(0.8)

2.8

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed interim financial statements

Condensed consolidated statement of financial position

		31 December 2020 (Unaudited)	30 June 2020 (Audited)
	<i>Note</i>	£m	£m
Assets			
Non-current assets			
Goodwill	10	86.8	87.8
Other intangible assets		36.5	39.9
Property, plant and equipment		44.7	45.4
Right-of-use assets		22.2	23.9
Other receivables		2.9	3.2
Deferred tax assets		10.9	9.4
		204.0	209.6
Current assets			
Inventories		19.0	20.1
Trade, contract and other receivables		117.0	115.6
Derivative financial assets	12	3.5	3.9
Current tax assets		7.1	5.7
Cash and cash equivalents	13	61.4	66.3
		208.0	211.6
Non-current assets held for sale	11	3.3	5.3
		211.3	216.9
Total assets		415.3	426.5
Liabilities			
Current liabilities			
Borrowings	13	(6.9)	(10.6)
Lease liabilities		(6.4)	(6.7)
Trade, contract and other payables		(73.2)	(72.0)
Current tax liabilities		(8.7)	(7.5)
Derivative financial liabilities	12	(1.1)	(6.5)
Provisions		(2.6)	(3.2)
		(98.9)	(106.5)
Net current assets		112.4	110.4
Non-current liabilities			
Borrowings	13	(104.9)	(129.1)
Lease liabilities		(20.9)	(22.6)
Trade, contract and other payables		(2.4)	(3.6)
Retirement benefit obligations		(2.7)	(6.7)
Deferred tax liabilities		(6.0)	(5.6)
Provisions		(3.0)	(3.3)
		(139.9)	(170.9)
Total liabilities		(238.8)	(277.4)
Net assets		176.5	149.1
Equity			
Share capital	14	15.6	13.4
Share premium	14	16.8	14.3
Other reserves	14	40.1	17.4
Retained earnings		103.9	103.5
Equity attributable to owners of the parent		176.4	148.6
Non-controlling interests		0.1	0.5
Total equity		176.5	149.1

The accompanying notes form an integral part of these condensed interim financial statements.

Condensed interim financial statements

Condensed consolidated statement of changes in equity for the six months ended 31 December (unaudited)

	Attributable to owners of the parent					Non-controlling interests £m	Total equity £m
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	£m	£m	£m	£m	£m		
At 1 July 2020	13.4	14.3	17.4	103.5	148.6	0.5	149.1
Loss for the period	-	-	-	(1.5)	(1.5)	-	(1.5)
Other comprehensive (expense)/income for the period	-	-	(0.8)	1.5	0.7	-	0.7
Total comprehensive (expense)/income for the period	-	-	(0.8)	(0.0)	(0.8)	-	(0.8)
Issue of ordinary share capital	2.2	2.5	23.5	-	28.2	-	28.2
Equity-settled transactions	-	-	-	0.4	0.4	-	0.4
Ordinary share dividends	-	-	-	-	-	(0.4)	(0.4)
At 31 December 2020 (unaudited)	15.6	16.8	40.1	103.9	176.4	0.1	176.5

	Attributable to owners of the parent					Non-controlling interests £m	Total equity £m
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	£m	£m	£m	£m	£m		
At 30 June 2019	13.4	14.3	16.9	123.1	167.7	0.5	168.2
Profit for the period	-	-	-	6.3	6.3	0.1	6.4
Other comprehensive expense for the period	-	-	(3.4)	(0.2)	(3.6)	-	(3.6)
Total comprehensive (expense)/income for the period	-	-	(3.4)	6.1	2.7	0.1	2.8
Equity-settled transactions	-	-	-	0.8	0.8	-	0.8
Purchases of own shares to settle awards	-	-	-	(0.6)	(0.6)	-	(0.6)
Ordinary share dividends	-	-	-	(8.2)	(8.2)	(0.1)	(8.3)
At 31 December 2019 (unaudited)*	13.4	14.3	13.5	121.2	162.4	0.5	162.9

*The opening retained earnings position at 31 December 2019 has been revised compared to the prior HY report, in order to reflect the final IFRS 16 *Leases* transitional adjustment in the *Annual Report & Accounts 2019/20*.

The accompanying notes form an integral part of these condensed interim financial statements.

Condensed interim financial statements

Condensed consolidated statement of cash flows for the six months ended 31 December (unaudited)

	<i>Note</i>	2020 £m	2019 £m
Cash flows from operating activities			
(Loss)/profit before tax		(2.1)	8.3
Adjustments for:			
Share-based payments		0.4	0.8
Fair value losses/(gains) on derivative financial instruments		0.4	(0.3)
Profit on disposal of property, plant and equipment		(0.3)	-
Net finance costs		2.4	2.0
Depreciation, amortisation and impairment		13.8	13.9
Operating cash flows before movements in working capital		14.6	24.7
Decrease/(Increase) in inventories		0.8	(3.5)
Decrease in trade, contract and other receivables		1.0	12.4
Increase/(decrease) in trade, contract and other payables		0.8	(11.5)
Decrease in provisions		(0.8)	(0.8)
Defined benefit pension scheme payments in excess of past service costs		(2.3)	(2.3)
Cash generated from operations		14.1	19.0
Net finance costs		(1.8)	(2.0)
Income tax paid		(1.5)	(4.7)
Net cash generated from operating activities		10.8	12.3
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired		(5.1)	(4.3)
Purchases of property, plant and equipment		(2.5)	(17.9)
Proceeds from disposal of property, plant and equipment		0.3	0.1
Purchases of intangible assets and capitalised development costs		(4.2)	(4.9)
Net cash used in investing activities		(11.5)	(27.0)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	14	28.2	-
Purchases of own shares to settle awards		-	(0.6)
Principal element of lease payments		(3.2)	(2.3)
Principal element of lease receipts		0.1	-
Proceeds from settlement of derivatives		-	0.7
Proceeds from borrowings	13	5.0	59.1
Repayment of borrowings	13	(29.1)	(34.0)
Dividends paid to shareholders	9	(0.4)	(8.3)
Net cash generated from financing activities		0.6	14.6
Effect of exchange rate changes on cash and cash equivalents		(1.1)	(1.3)
Net decrease in cash and cash equivalents	13	(1.2)	(1.4)
Net cash and cash equivalents at 1 July		55.8	32.4
Net cash and cash equivalents at 31 December		54.6	31.0
At 1 July			
Cash and cash equivalents		66.3	36.3
Bank overdrafts		(10.5)	(3.9)
Net cash and cash equivalents at 1 July		55.8	32.4
At 31 Dec			
Cash and cash equivalents	13	61.4	39.2
Bank overdrafts	13	(6.8)	(8.2)
Net cash and cash equivalents at 31 December		54.6	31.0

The accompanying notes form an integral part of these condensed interim financial statements.

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1 General information

Ricardo plc (the 'Company'), a public company limited by shares, 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, England, United Kingdom, and its registered number is 222915.

The condensed interim financial statements were approved for issue by the Board of Directors on 24 February 2021. These condensed interim financial statements have not been audited, but they have been subject to an independent review by KPMG LLP ('KPMG'), whose independent review report is included at the end of this report.

2 Basis of preparation

These condensed interim financial statements of the Company and its subsidiaries (together, the 'Group') for the six months ended 31 December 2020 do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. They have been prepared in accordance with the *Disclosure Guidance and Transparency Rules* of the United Kingdom's Financial Conduct Authority and IAS 34 *Interim Financial Reporting*, as adopted by the European Union.

These condensed interim financial statements should be read in conjunction with the financial statements for the year ended 30 June 2020 within the *Annual Report & Accounts 2019/20*, which were 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. The *Annual Report & Accounts 2019/20*, which was approved by the Board of Directors on 9 September 2020 and delivered to the Registrar of Companies. The report of the auditors on those statutory 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.

The accounting policies adopted within this Interim Report are consistent with the *Annual Report & Accounts 2019/20* except for the requirements of IAS 34 *Interim Financial Reporting* in respect of income tax. Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual profit or loss.

In the context of the economic uncertainty caused by the ongoing COVID-19 pandemic, the Board of Ricardo plc has undertaken an assessment of the ability of the Group and Company to continue in operation and meet its liabilities as they fall due over the period of its assessment. In doing so, the Board considered events throughout the period of their assessment, including the availability and maturity profile of the Group's financing facilities and covenant compliance. These condensed interim financial statements have been prepared on the going concern basis which the directors consider appropriate for the reasons set out below. The Group funds its operations through cash generated by the Group and has access to a £200.0m Revolving Credit Facility ("RCF") which is linked to two covenants. These covenants are tested at 30 June and 31 December each year until the debt matures in July 2023. The threshold for the Adjusted Leverage (defined as net debt over underlying EBITDA for the last twelve months) is 3.75 at December 2020 and June 2021, reducing to 3.00 from the 31 December 2021 test date onwards. The threshold for the Interest Cover (defined as underlying EBITDA for the last twelve months over net finance costs) is 4.00 for each test date.

On 11 November 2020 the Group raised £28.2m of proceeds, net of fees, by way of an equity placing. The placing was carried out to reduce leverage, strengthen the balance sheet and provide adequate working capital for the Group. As at the date of these condensed interim financial statements, the amount of the RCF undrawn and available to the Group was £120m, with total borrowing, including overdrafts and hire purchase liabilities, of £87m and cash and cash equivalents of £41m.

The Directors have prepared a cash flow forecast which covers at least 12 months from the date of approval of these condensed interim financial statements to June 2023. In this forecast, the directors have considered the impact of the ongoing COVID-19 pandemic on trading levels, as well as delays in starting new projects and converting pipeline opportunities, on the Group's results, operations and financial position, in a severe but plausible downside scenario. This scenario models reductions in EBITDA in the second half of FY 2020/21 and further reductions in FY 2021/22 in the Automotive & Industrial, Performance Products and Rail segments, no growth in Energy & Environment, and growth in Defense, but at lower rates than budgeted. In addition, the downside scenario models an increase in net working capital days over the remainder of FY 2020/21 and FY 2021/22.

The modelled downside scenario incorporates some mitigating actions which are within the control of the Group, such as setting appropriate levels of dividends, the non-payment of discretionary bonuses, discretionary cost saving

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measures, and a reduction in non-essential capital expenditure. Although headroom under the Group's banking covenants is reduced under this downside scenario, the Group and Company and is expected to operate within its committed facilities and covenant requirements during the forecast period.

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

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3 Seasonality

Management does not consider the Group's business to be highly seasonal but based upon its experience, higher levels of revenue and profit are expected in the second half of each financial year. This is typically due to lower levels of annual leave and a greater number of chargeable hours, which equates to higher revenues on a predominantly fixed cost base, and therefore higher profits. For the current financial year, the phasing of profit is expected to be even more weighted to the second half of the year due to the ongoing recovery from the impact of COVID-19.

4 Alternative Performance Measures

Throughout this document the Group presents various alternative performance measures ('APMs') in addition to those reported under IFRS. The measures presented are those adopted by the Chief Operating Decision Maker ('CODM', deemed to be the Chief Executive Officer), together with the main Board, and analysts who follow the Group in assessing the performance of the business. Explanations of how they are calculated and how they are reconciled to an IFRS statutory measure are set out below.

a) Group profit and earnings measures

Underlying profit before tax ('PBT') and underlying operating profit: These measures are used by the Board to monitor and measure the trading performance of the Group. They exclude certain items which the Board believes distort the trading performance of the Group. These include the amortisation of acquired intangibles, acquisition-related expenditure, reorganisation costs, and other specific adjusting items.

The Group's strategy includes geographic and sector diversification, including targeted acquisitions and disposals. By excluding acquisition-related expenditure from underlying PBT and underlying operating profit, the Board has a clearer view of the performance of the Group and is able to make better operational decisions to support its strategy.

Acquisition-related expenditure includes the costs of acquisitions, deferred and contingent consideration fair value adjustments (including the unwinding of discount factors), transaction-related fees and expenses, and post-deal integration costs.

Reorganisation costs arising from major restructuring activities, profits or losses on the disposal of businesses, and significant impairments of property, plant and equipment, are excluded from underlying PBT and underlying operating profit as they are not reflective of the Group's trading performance in the year, as are any other specific adjusting items deemed to be one-off in nature.

The related tax effects on the above and other tax items which do not form part of the underlying tax rate are also taken into account. Items are treated consistently year-on-year, and these adjustments are also consistent with the way that performance is measured under the Group's incentive plans and its banking covenants. A reconciliation is shown below. Further details of the nature of the specific adjusting items are given in Note 7.

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Reconciliation of underlying profit before tax to reported (loss)/profit before tax

	2020			2019		
	Underlying	Specific	Total	Underlying	Specific	Total
	£m	adjusting	£m	£m	adjusting	£m
		items			items	
		£m			£m	
Revenue	164.7	-	164.7	192.9	-	192.9
Cost of sales	(110.2)	-	(110.2)	(126.6)	-	(126.6)
Gross profit	54.5	-	54.5	66.3	-	66.3
Administrative expenses and other income	(47.1)	-	(47.1)	(48.3)	-	(48.3)
Amortisation of acquired intangibles	-	(2.8)	(2.8)	-	(3.0)	(3.0)
Acquisition-related expenditure	-	(1.1)	(1.1)	-	(1.0)	(1.0)
Purchases and disposals	-	(1.6)	(1.6)	-	(2.5)	(2.5)
Other reorganisation costs	-	(1.5)	(1.5)	-	(1.2)	(1.2)
GMP equalisation	-	(0.1)	(0.1)	-	-	-
Operating profit	7.4	(7.1)	0.3	18.0	(7.7)	10.3
Net finance costs	(2.4)	-	(2.4)	(2.0)	-	(2.0)
Profit/(loss) before tax taxation	5.0	(7.1)	(2.1)	16.0	(7.7)	8.3
Tax expense	(1.2)	1.8	0.6	(3.6)	1.7	(1.9)
Profit/(loss) for the period	3.8	(5.3)	(1.5)	12.4	(6.0)	6.4

Underlying earnings attributable to the owners of the parent: The Group uses underlying earnings attributable to the owners of the parent as the input to its adjusted EPS measure. This profit measure excludes the amortisation of acquired intangibles, acquisition-related expenditure, reorganisation costs and other specific adjusting items, but is an after-tax measure. The Board considers underlying EPS to be more reflective of the Group's trading performance in the year than reported EPS. A reconciliation between earnings attributable to the owners of the parent and underlying earnings attributable to the owners of the parent is shown in Note 8.

Constant currency growth/decline: The Group generates revenues and profits in various territories and currencies because of its international footprint. Those results are translated on consolidation at the foreign exchange rates prevailing at the time. Constant currency growth/decline is calculated by translating the result for the current year using foreign currency exchange rates applicable to the prior year. This provides an indication of the growth/decline of the business, excluding the impact of foreign exchange.

Headline trading performance

	Underlying			Reported	
	Revenue	Operating profit	Profit before tax	Operating profit	Profit before tax
HY 2020/21 (£m)	164.7	7.4	5.0	0.3	(2.1)
HY 2019/20 (£m)	192.9	18.0	16.0	10.3	8.3
Decline (%)	(15)	(59)	(69)	(97)	(125)
Constant currency decline (%)	(14)	(59)	(69)	(98)	(127)

Segmental underlying operating profit: This is presented in our segmental disclosures and reflects the underlying trading of each segment, as assessed by the main Board. This excludes segment-specific amortisation of acquired intangibles, acquisition-related expenditure and other specific adjusting items, such as reorganisation costs. It also

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excludes unallocated Plc costs, which represent the costs of running the public limited company and specific adjusting items which are outside of the control of segment management. A reconciliation between segment underlying operating profit, the Group's underlying operating profit and operating profit is presented in Note 5.

b) Cash flow measures

Cash conversion: A key measure of the Group's cash generation is the conversion of profit into cash. This is the reported cash generated from operations (defined as operating cash flow, less movements in net working capital and defined benefit pension deficit contributions) divided by earnings before interest, tax, depreciation and amortisation ('EBITDA'), expressed as a percentage.

Underlying cash conversion: This is underlying cash generated from operations (defined as reported cash generated from operations, adjusted for the cash impact of specific adjusting items) divided by underlying EBITDA (defined as reported EBITDA, adjusted for the impact of specific adjusting items). A reconciliation between the two is shown below.

Cash conversion	2020			2019		
	Underlying £m	Specific adjusting items £m	Total £m	Underlying £m	Specific adjusting items £m	Total £m
Operating profit	7.4	(7.1)	0.3	18.0	(7.7)	10.3
Depreciation, amortisation and impairments	9.5	1.5	11.0	8.6	2.3	10.9
Amortisation of acquired intangibles	-	2.8	2.8	-	3.0	3.0
EBITDA	16.9	(2.8)	14.1	26.6	(2.4)	24.2
Working capital decrease/(increase)	1.8	-	1.8	(3.3)	(0.1)	(3.4)
Pension deficit payments	(2.3)	-	(2.3)	(2.3)	-	(2.3)
Profit on disposal of assets	(0.3)	-	(0.3)	-	-	-
Share based payments	0.4	-	0.4	0.8	-	0.8
Fair value losses/(gains) on derivative financial instruments	0.4	-	0.4	(0.3)	-	(0.3)
Cash generated from operations	16.9	(2.8)	14.1	21.5	(2.5)	19.0
Cash conversion	100.0%		100.0%	80.8%		78.5%

Net debt: is defined as current and non-current borrowings less cash and cash equivalents, including hire purchase agreements, but excluding any impact of IFRS 16 lease liabilities. Management believes this definition is the most appropriate for monitoring the indebtedness of the Group and is consistent with the treatment in the Group's banking agreements.

c) Tax measures

Underlying effective tax rate ('ETR'): We report one adjusted tax measure, which is the tax rate on underlying profit before tax. This is the tax charge applicable to underlying profit before tax expressed as a percentage of underlying profit before tax.

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5 Financial performance by segment

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 information reported includes financial performance but does not include the financial position of assets and liabilities. The operating segments were identified by evaluating the Group's products and services, processes, types of customers and delivery methods.

From HY 2020/21, due to restructuring within the Group, Strategic Consulting & Software ('other') is no longer being separately reported as an operating segment.

The Strategic Consulting element of this segment is now reported within Automotive & Industrial ('A&I'). This business has a number of common customers, operates in similar markets to A&I, and is now run as a business unit within the overall A&I business. From HY 2020/21 onwards, the A&I EMEA Managing Director has overall responsibility for the Strategic Consulting service offering.

The Software element of this segment has been aggregated into the Performance Products operating segment for reporting. Whilst the Software business continues to be run as a separate business with its own leadership team, it has a number of similar characteristics to the Performance Products manufacturing business, in that it is involved in the development and sale of niche products, requiring a high level of capital/development spend, primarily selling to automotive manufacturers.

As a result of this change, the Group is now reporting the following five segments:

- Energy & Environment ('EE');
- Rail;
- Automotive & Industrial ('A&I');
- Defense; and
- Performance Products ('PP').

Measurement of performance

Management monitors the financial results of its operating segments separately for the purpose of making decisions about allocating resources and assessing performance. Segmental performance is measured based on underlying operating profit, as this measure provides management with an overall view of how the different operating segments are managing their total cost base against the revenue generated from their portfolio of contracts.

There are varying levels of integration between the segments. The segments use EE for their specialist environmental knowledge. A&I and PP have various shared projects. There are also shared service costs between the segments. Inter-segment transactions are eliminated on consolidation. Inter-segment pricing is determined on an arm's length basis in a manner similar to transactions with third parties.

Included within Plc costs in the following tables are costs arising from a central Group function, including the costs of running the public limited company, which are not recharged to the other operating segments. Comparative figures for the half-year ended 31 December 2019 have been restated, reflecting the impact of the changes to Strategic Consulting & Software mentioned above.

For the six months ended 31 December 2020	EE £m	Rail £m	A&I £m	Defense £m	PP £m	Plc £m	Total £m
Total segment revenue	27.0	38.6	51.5	13.9	37.0	-	168.0
Inter-segment revenue	(0.4)	(0.1)	(1.4)	-	(1.4)	-	(3.3)
Revenue from external customers	26.6	38.5	50.1	13.9	35.6	-	164.7
Segment underlying operating profit	3.8	3.5	(3.4)	1.7	3.9	-	9.5
Plc costs	-	-	-	-	-	(2.1)	(2.1)
Underlying operating profit	3.8	3.5	(3.4)	1.7	3.9	(2.1)	7.4
Specific adjusting items ^(*)	(0.7)	(1.8)	(3.1)	(0.2)	-	(1.3)	(7.1)
Operating profit	3.1	1.7	(6.5)	1.5	3.9	(3.4)	0.3

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Net finance costs	(2.4)
Profit before taxation	(2.1)

For the six months ended 31 December 2019 (restated)	EE £m	Rail £m	A&I £m	Defense £m	PP £m	Plc £m	Total £m
Total segment revenue	25.1	39.0	67.3	17.6	48.4	-	197.4
Inter-segment revenue	(1.5)	(0.1)	(1.4)	-	(1.5)	-	(4.5)
Revenue from external customers	23.6	38.9	65.9	17.6	46.9	-	192.9
Segment underlying operating profit	3.0	2.7	6.0	2.9	4.7	-	19.3
Plc costs	-	-	-	-	-	(1.3)	(1.3)
Underlying operating profit	3.0	2.7	6.0	2.9	4.7	(1.3)	18.0
Specific adjusting items ^(*)	(0.8)	(2.7)	(3.3)	(0.2)	-	(0.7)	(7.7)
Operating profit	2.2	-	2.7	2.7	4.7	(2.0)	10.3
Net finance costs							(2.0)
Profit before taxation							8.3

(*) See Note 7.

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6 Revenue

Disaggregation of revenue for the six months ended 31 December:	2020	2019
	£m	£m
a) Revenue stream		
Services provided under:		
- fixed price contracts	85.3	99.6
- time and materials contracts	42.2	36.1
- Subscription and software support contracts	3.4	3.2
Goods supplied:		
- manufactured or assembled products	30.9	49.2
- software products	2.9	3.8
Intellectual property	-	1.0
Total	164.7	192.9
b) Customer location		
United Kingdom	53.4	69.1
Europe	38.3	42.4
North America	28.1	33.8
China	12.0	13.6
Rest of Asia	14.8	16.9
Australia	13.3	10.2
Rest of the World	4.8	6.9
Total	164.7	192.9
(c) Timing of recognition		
Over time	132.8	142.4
At a point in time	31.9	50.5
Total	164.7	192.9

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7 Specific adjusting items

Specific adjusting items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. These items comprise the amortisation of acquired intangible assets, acquisition-related expenditure, reorganisation costs and other non-recurring items that are included due to the significance of their nature or amount. Acquisition-related expenditure is incurred by the Group to effect a business combination, including the costs associated with the integration of acquired businesses. Reorganisation costs relate to non-recurring expenditure incurred as part of fundamental restructuring activities, significant impairments of property, plant and equipment, and other items deemed to be one-off in nature.

For the six months ended 31 December	2020	2019
	£m	£m
Amortisation of acquired intangible assets	2.8	3.0
Acquisition-related expenditure	1.1	1.0
Reorganisation costs		
- Purchases and disposals	1.6	2.5
- Other reorganisation costs	1.5	1.2
Guaranteed Minimum Pensions ('GMP') equalisation	0.1	-
Total before tax	7.1	7.7
Tax credit on specific adjusting items	(1.8)	(1.7)
Total after tax	5.3	6.0

Amortisation of acquired intangible assets

On acquisition of a business, the purchase price is allocated to assets such as customer contracts and relationships. Amortisation occurs on a straight-line basis over the asset's useful economic life, which is between 3 and 9 years. During the period, certain "customer contracts and relationships" intangible assets reached the end of their economic life, resulting in a decrease in amortisation charges compared to the prior period.

Acquisition-related expenditure

The current period acquisition-related expenditure comprises £1.1m (2019: £0.4m) of earn-out and employee retention costs, accrued in relation to Transport Engineering Pty Ltd (now Ricardo Rail Australia - 'RRA'), acquired in May 2019, and PLC Consulting Pty Ltd (now Ricardo Energy Environment and Planning - 'REEP'), acquired in July 2019. The prior period charge also included £0.3m of costs incurred in relation to the post-deal integration of these businesses, and £0.2m costs of running an internal acquisitions department to effect the acquisition processes.

Reorganisation costs

Purchases and disposals

The current period charge includes a £1.5m impairment charge as a result of a decrease in the fair value of the Detroit Technology Campus ('DTC') South building, reflecting its market value at the balance sheet date. The property has been held-for-sale since its purchase in August 2019. It was purchased to remove the business from a long-term lease commitment which ran to October 2037 and comprised a North building, which housed testing operations, and a South office building. The campus was originally purchased for £14.3m (USD 17.3m), and immediately written down, resulting in an impairment charge of £2.5m (net of the extinguishment of an associated IFRS 16 lease liability) in the prior period as the purchase price was predicated on its tenancy. The North building and its associated test assets were sold in the second half of FY 2019/20 and the South building was impaired by a further £1.1m (USD 1.3m). The current period impairment charge reflects the ongoing impact of COVID-19 on the property market, with a significantly lower demand for office space depressing prices in the DTC area. These costs have been classified as specific adjusting items as they are significant in value and would distort the underlying trading performance of the Group if included. On 18 January 2021, as offers received were lower than expected, management decided to retain the use of the property. The

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property is continuing to be marketed for sale, but management no longer considers a sale within the next twelve months to be highly probable – see Note 17.

The current period charge also includes a charge of £0.1m in relation to a reduction in the fair value of deferred consideration in respect of the sale of Ricardo's Detroit test assets on 3 June 2020, in accordance with the treatment of the original proceeds in FY 2019/20.

Other reorganisation costs

The current period charge reflects £1.5m of redundancy costs from headcount reductions in the Group's A&I business in Europe. This was caused by lower than forecast workable orders in the current period due to a continuation of the challenging trading conditions seen throughout 2020, as Europe struggled to contain the outbreak of COVID-19, with further national lockdowns being imposed in the Autumn of 2020. The A&I Europe business made headcount reductions in the second half of FY 2019/20, driven by impact of the initial outbreak of COVID-19 on trading conditions. Due to the continuing depressed economic conditions further heads were removed from the business in the current period. These costs have been included as specific adjusting items as they are linked to the actions taken in the second half of FY 2019/20. The restructuring was due to the ongoing impact of COVID-19 on trading conditions which has straddled the Group's reporting periods.

The prior period costs included the final elements of costs from the multi-year global automotive restructuring programme (not linked to the actions above), which included £0.2m of redundancy costs, £0.1m of shared service centre set-up costs, and £0.4m of incremental, non-revenue generating contractor costs in A&I Europe. In addition, £0.1m of external fees and incremental, non-revenue generating contractor costs were incurred in relation to the marketing of the DTC assets. £0.4m of redundancy costs were incurred in Rail in the prior period as part of a restructuring process in order to realign the business to market demand (a process which completed in the second half of FY 2019/20).

Guaranteed Minimum Pensions ('GMP') equalisation

In October 2018, the High Court issued a judgement confirming that pension schemes are required to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions ('GMP'), which resulted in a £1.3m charge in FY 2018/19. A further ruling in November 2020 confirmed that historical transfers out of the scheme, between May 1990 and October 2018 would also need to be equalised for GMP. This has resulted in an additional £0.1m charge in the period, which has been classified as a specific adjusting items due to it being non-recurring in nature. The treatment is consistent with the treatment of the original GMP equalisation charge.

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8 Earnings per share

For the six months ended 31 December	2020 £m	2019 £m
(Loss)/earnings attributable to owners of the parent	(1.5)	6.3
Add back the net-of-tax impact of:		
- Amortisation of acquired intangible assets	2.1	2.4
- Acquisition-related expenditure	0.8	0.8
- Asset purchases and disposals	1.2	1.8
- Other reorganisation costs	1.1	1.0
- Guaranteed Minimum Pensions ('GMP') equalisation	0.1	-
Underlying earnings attributable to owners of the parent	3.8	12.3

For the six months ended 31 December	2020 Number of shares millions	2019 Number of shares millions
Basic weighted average number of shares in issue	55.7	53.4

Basic	2020 pence	2019 pence
(Loss)/earnings per share	(2.7)	11.8
Underlying earnings per share	6.8	23.0

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

There are no potentially dilutive shares (HY 2019/20: Nil).

9 Dividends

For the six months ended 31 December	2020 pence/share	2019 pence/share	2020 £m	2019 £m
Amounts distributed in the period for FY 2019/20	-	15.28p	-	8.2
Interim dividend declared for FY 2020/21	1.75	6.24p	1.1	3.3

The Directors have declared an interim dividend of 1.75p per share, which will be paid on 9 April 2021 to holders of ordinary shares on the company's register of members on 5 March 2021.

A dividend of £0.4m was issued during the period to a non-controlling interest.

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10 Goodwill

	31 December 2020	30 June 2020
	£m	£m
Movement in goodwill		
At 1 July	87.8	84.2
Acquisition of business	-	2.6
Exchange adjustments	(1.0)	1.0
At period end	86.8	87.8

At the reporting date, the management of the Group carried out a review for indicators of impairment. Given the continuing challenging conditions in the automotive industry, particularly in Europe, it was considered necessary to carry out an impairment test in relation to the goodwill balance allocated to the A&I operating segment. The value-in-use of the cash-generating unit ('CGU') was reviewed, and continues to support the carrying amount of the associated goodwill, and therefore no impairment has been recognised. There were no indicators of impairment at 31 December 2019, and no impairment test was carried out at that date.

The value-in-use calculation uses a discounted cashflow forecast for the remainder of the current financial year, and the following four financial years, based on a 75% cash conversion rate applied to expected operating profits for each CGU. Due to the impact of COVID-19 on the CGU in the near-term, a four-year plan (FY 2019/20: three-year plan) for the CGU was prepared by management for the purposes of this review. The plan was based on the three-year plan reviewed and approved by the Board, adjusted to reflect management's assessment of the current contract portfolio, contract wins, contract retention, price increases, gross margin, as well as future expected market trends.

Cashflows beyond the final year of the plan were projected into perpetuity using a long-term growth rate, which is determined as being the lower of the planned compound annual growth rate in the CGU's plan and external third party forecasts of the prevailing inflation and economic growth rates for the territories in which the CGU operates. The pre-tax discount rate applied to the cashflows is derived from externally sourced data and reflects the current market assessment of the Group's time value of money and risks specific to the CGU. Specific estimates for long-term growth rates and pre-tax discount rates for the CGU are shown below, with comparatives for June 2020, the date of the most recent impairment review.

Key assumptions	31 December 2020	30 June 2020
Growth rate	3.3%	3.1%
Pre-tax discount rate	12.5%	11.9%

The value-in-use calculations were assessed for sensitivity to reasonably possible changes to these estimates. The sensitivities assessed include a 10% reduction in planned operating profit, a 10% reduction in the operating cash flow conversion rate, a 1% increase in the pre-tax discount rate and a 1% decrease in the long-term growth rate.

For goodwill allocated to the A&I CGU, a 10% reduction in the cash conversion rate to 65% would result in an impairment of £0.6m, while a 9% reduction in the cash conversion rate would not result in an impairment. None of the other sensitivities assessed would result in an impairment.

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11 Non-current assets held for sale

	Freehold land and buildings
Movement in held for sale	£m
At 30 June 2020	5.3
Impairment loss	(1.5)
Exchange rate adjustments	(0.5)
At 31 December 2020	3.3

As explained in Note 7, the impairment charge is a result of a decrease in the fair value of DTC. As explained in Note 17, on 18 January 2021, as offers received were lower than expected, management decided to retain the use of the property. The property is continuing to be marketed for sale, but management no longer considers a sale within the next twelve months to be highly probable. Subsequent to the period end, on 18 January 2021, DTC was reclassified to property, plant and equipment, and it is no longer being classified as held for sale.

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

Derivative financial assets of £3.5m (30 June 2020: £3.9m) and derivative financial liabilities of £1.1m (30 June 2020: £6.5m) relate to foreign exchange forward and swap contracts, which are Level 2 of the fair value hierarchy within IFRS 13 *Fair Value Measurement*. The Group use derivative financial instruments primarily to manage currency risk on its US Dollar, Euro, Chinese Renminbi, Japanese Yen, Hong Kong Dollar and Australian Dollar denominated receivables and payables from its subsidiaries, in addition to managing transactional exposures relating to customer contracts denominated in foreign currencies. It is the Group's policy not to undertake any speculative currency transactions.

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13 Net debt

Net debt is defined as current and non-current borrowings less cash and cash equivalents, including hire purchase agreements, but excluding any impact of IFRS 16 lease liabilities. Management believe this definition is the best for monitoring the indebtedness of the Group and is consistent with the treatment in the Group's banking agreements.

	31 December 2020	30 June 2020
	£m	£m
Analysis of net debt		
Current assets - cash and cash equivalents:		
- Cash and cash equivalents	61.4	66.3
Total	61.4	66.3
Current liabilities - borrowings:		
- Bank overdrafts repayable on demand	(6.8)	(10.5)
- Hire purchase lease liabilities maturing within one year	(0.1)	(0.1)
Total	(6.9)	(10.6)
Non-current liabilities - borrowings:		
- Hire purchase lease liabilities maturing after one year	(0.3)	(0.4)
- Bank loans maturing after one year	(104.6)	(128.7)
Total	(104.9)	(129.1)
At period end	(50.4)	(73.4)

	31 December 2020	30 June 2020
	£m	£m
Movement in net debt		
Net debt at beginning of period	(73.4)	(47.4)
(Decrease)/increase in cash and cash equivalents, and bank overdrafts	(1.2)	23.4
Repayments of hire purchase lease	0.1	0.2
Proceeds from bank loans	(5.0)	(140.3)
Repayments of bank loans	29.1	90.7
At period end	(50.4)	(73.4)

Net debt at 31 December 2020 was £50.4m (FY 2019/20: £73.4m). As reported to the Board on a monthly basis, there is sufficient headroom in our banking facilities. At 31 December 2020 the Group held total facilities of £215.6m (FY 2019/20: £216.6m), which included committed facilities of £200.0m (FY 2019/20: £200.0m). The committed facility consists of a £200.0m multi-currency Revolving Credit Facility ('RCF') which provides the Group with committed funding through to July 2023. In addition, the Group has uncommitted facilities including overdrafts of £15.6m (FY 2019/20: £16.6m), which mature throughout this and the next financial year, and are renewable annually.

Non-current bank loans comprise committed facilities of £104.6m (FY 2019/20: £128.7m), net of direct issue costs, which were drawn primarily to fund acquisitions and general corporate purposes. These are denominated in Pounds Sterling and have variable rates of interest dependent upon the Group's adjusted leverage, which range from 1.4% to 2.2% (FY 2019/20: 1.4% to 2.2%) above LIBOR. Adjusted leverage is defined in the Group's banking documents as being the ratio of total net debt to adjusted EBITDA for the last twelve months. Adjusted EBITDA is further defined as being operating profit before interest, tax, depreciation and amortisation, adjusted for any one-off, non-recurring, exceptional costs and acquisitions or disposals during the relevant period. At the reporting date, the Group has an adjusted leverage of 1.9x (FY 2019/20: 2.3x) which gives rise to an applicable interest rate of LIBOR plus 1.8% (FY 2019/20: LIBOR plus 2.0%). The Group has banking facilities for its UK companies which together have a net overdraft limit, but the balances are presented on a gross basis in the condensed interim financial statements.

The Adjusted Leverage (defined as net debt over underlying EBITDA) covenant is 3.75x for the test dates of 31 December 2020 and 30 June 2021, returning to 3.0x for the next test date 31 December 2021 as well as all future test

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dates. The only other financial covenant is Interest Cover (defined as underlying EBITDA for the last twelve months over net finance costs), which remains at 4.0x for all test dates.

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14 Issue of share capital

On 11 November 2020, Ricardo plc issued 8,812,030 new ordinary shares of 25 pence, representing 16.5% of the existing issued ordinary share capital of the Company. They were issued at a price of 333 pence per share, being a discount of 9.76 per cent to the closing mid-price on 10 November 2020, raising gross proceeds of £29.3m. Associated transaction costs of £1.1m were incurred, including £0.7m brokerage fees and £0.4m of other directly attributable professional fees. The issue was carried out in order to reduce leverage, strengthen the balance sheet and provide adequate working capital for the business.

The issue took place in the three parts; "Subscription shares" subscribed by certain directors of the company for cash consideration; "Placing shares" placed via Liberum Capital Limited and Investec Bank plc, to certain existing shareholders and other institutional investors, in exchange for preference shares in Project Star Funding Limited; and "Retail shares" offered by the Company for cash consideration.

The number of shares issued in each category, and the associated proceeds, are as follows:

	Number of shares	Percentage of total shares	£m
Subscription shares	29,128	0.05%	0.1
Placing shares	7,981,809	14.95%	26.6
Retail shares	801,093	1.50%	2.6
Total shares issued/proceeds	8,812,030	16.50%	29.3
Directly attributable transaction costs			(1.1)
Net proceeds			28.2

Subscription shares

The subscription shares were subscribed by the following directors:

	Number of shares	£k
Ian Gibson	7,507	25
Dave Shemmans	3,003	10
Russell King	5,105	17
William Spencer	2,402	8
Sir Terry Morgan	11,111	37
Net proceeds	29,128	97

The proceeds of £0.1m resulted in share capital of £nil and a share premium balance of £0.1m. There were no fees allocated to this element of the issue.

Placing shares

The placing shares were issued via a 'cashbox' structure, whereby Ricardo plc shares were issued in exchange for preference shares in Project Star Funding Limited, a special purpose vehicle. Section 565 of the Companies Act 2006 allows new shares to be issued for non-cash consideration under exception from the pre-emption requirements of section 561 of the Companies Act 2006.

Project Star Funding Limited ('PSFL') was incorporated in Jersey on 4 September 2020. Prior to the placing, Ricardo plc held 89% of the ordinary share capital of PSFL, with the other 11% held by Liberum Capital Limited.

On 11 November 2020 PSFL issued preference share capital of £26.6m (with no par value) to Liberum Capital Limited. Liberum Capital Limited and Investec Bank plc placed shares to certain existing shareholders and other institutional investors, the proceeds of which were used to settle the consideration for the preference share capital. Ricardo plc allotted new ordinary shares in consideration for the transfer of all of Liberum Capital Limited's preference and ordinary shares in PSFL. The issue created an additional £2.0m of share capital. The premium on issuance of these

Condensed interim financial statements

shares was £23.5m, net of directly attributable costs of £1.0m. Since the premium arose from an issuance the purpose of which was to acquire more than 90% of the equity of PSFL, under s612 of the Companies Act 2006 the associated premium is therefore accounted for as a merger reserve.

On the 18 November, PSFL redeemed its preference shares, and PSFL was dissolved on 24 November 2020.

Retail shares

In order to provide retail and other interested investors the opportunity to participate in the offer, shares were made available via PrimaryBid.com, a platform that facilitates discounted equity offerings for publicly listed companies. Due to its size, the issue fell within the exemption set out in section 86(1)(e) and 86(4) of the Financial Services and Markets Act 2000, as amended, and the company was not required to publish a prospectus.

The £2.6m proceeds (net of directly attributable fees of £0.1m) resulted in additional share capital of £0.2m and a share premium balance of £2.5m.

Treatment of proceeds

The total net proceeds were accounted for as follows:

	£m
Share capital: at 25p per share	2.2
Share premium: premium on retail and subscription share issue, net of directly attributable costs	2.5
Merger reserve: premium on placing share issue, net of directly attributable costs	23.5
Net proceeds	28.2

15 Contingent liabilities

In the ordinary course of business, the Group has £12.6m (30 June 2020: £9.4m) of possible obligations for bonds, guarantees and counter-indemnities placed with our banking and other financial institutions, primarily relating to performance under contracts with customers. These possible obligations are contingent on the outcome of uncertain future events which are considered unlikely to occur. The Group is also involved in commercial disputes and litigation with some customers, which is also in the normal course of business. Whilst the result of such disputes cannot be predicted with certainty, the ultimate resolution of these disputes is not expected to 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 ('RGPF') of £2.8m in respect of certain contingent liabilities that may arise, which have been secured on specific land and buildings. The outcome of this matter is not expected to give rise to any material cost to the Group. In October 2018, a further guarantee was provided to the RGPF for an amount that shall not exceed the employer's liability were a debt to arise under Section 75 of the Pensions Act 1995. The guarantee will terminate on 5 April 2023. The outcome of this matter is not expected to give rise to any material cost to the Group on the basis that the Group continues as a going concern.

16 Principal risks and uncertainties

The Board regularly reviews its principal risks and uncertainties, including those relating to COVID-19 and the UK's new trade deal with the EU. To ensure our risk process drives continuous improvement across the business, we monitor the ongoing status and progress of key action plans against each risk on a half-yearly basis. Risk is a key consideration of the Board in all strategic decisions. In the most recent risk review cycle, risks were reviewed which relate to customers and markets; contracts; people; technology; compliance with laws and regulations; the defined benefit pension scheme; financing; and cyber risk, and these included the continued consideration of the potential impact of COVID-19 and the UK's new trade deal with the EU. The approach to mitigation of these principal risks is discussed on pages 37 to 39 of the Group's *Annual Report & Accounts 2019/20*, and the Directors have concluded that the disclosure remains appropriate. These principal risks and uncertainties should be read in conjunction with the Trading Summary and Operating Segments Review for the six months ended 31 December 2020 included within this Interim Report.

17 Events after the reporting date

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Subsequent to the period end, on 18 January 2021, DTC South was reclassified to property, plant and equipment, and it is no longer being classified as held for sale. Management decided to retain the use of the DTC South building as offers received were lower than expected. The property is continuing to be marketed for sale, but management no longer considers a sale within the next twelve months to be highly probable.

At the point at which the property was reclassified to property, plant and equipment, its recoverable amount was assessed. Its recoverable amount was deemed to be £3.3m, being the property's fair value, less costs to dispose. This recoverable amount is lower than the carrying amount at the point which the property was designated as held for sale, after adjustments for subsequent depreciation.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

- the condensed interim financial statements have been prepared in accordance with International Accounting Standard ('IAS') 34 *Interim Financial Reporting* as adopted by the European Union (the 'EU');
- the highlights, trading summary and operating segments review within this Interim Report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the *Disclosure Guidance and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
 - (b) DTR 4.2.8R of the *Disclosure Guidance and Transparency Rules*, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Group during that period and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board:

Dave Shemmans
Chief Executive Officer

Ian Gibson
Chief Financial Officer

24 February 2021

Independent review report to Ricardo plc

Conclusion

We have been engaged by Ricardo plc (the 'Company') to review the condensed interim financial statements for the six months ended 31 December 2020, which comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements for the six months ended 31 December 2020 are not prepared, in all material respects, in accordance with International Accounting Standard ('IAS') 34 *Interim Financial Reporting* as adopted by the European Union (the 'EU') and the Disclosure Guidance and Transparency Rules (the 'DTR') of the United Kingdom's Financial Conduct Authority (the 'UK FCA').

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the Interim Report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The Interim Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the DTR of the UK FCA.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed interim financial statements in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed interim financial statements based on our review.

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

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Michael Harper
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London

E14 5GL

24 February 2021