15 September 2016

Ricardo plc
Preliminary results for the full year ended 30 June 2016

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

HIGHLIGHTS

- Strong year-end order book at £231m (2015: £140m);
- Like-for-like order book growth of 18%;
- Order intake of £361m (2015: £252m);
- Revenue up 29% to £332.4m (2015: £257.5m);
- Underlying(1) profit before tax up 41% to £37.7m (2015: £26.8m);
- Underlying(1) basic earnings per share up 30% to 55.2p (2015: 42.4p);
- Net debt of £34.4m after £48.8m of acquisition-related costs (2015: net funds of £14.3m);
- Full year dividend up 9% to 18.1p per share (2015: 16.6p);
- Acquisitions of Lloyd's Register Rail ('LR Rail') and Cascade completed in the financial year; Exnovo completed post year-end; and
- Outlook remains positive, good platform for further growth.

(1) Derived from operating profit which includes income of £5.4m under the Research & Development Expenditure Credit ('RDEC') scheme in respect of the current year, but excludes specific adjusting items, which comprise amortisation of acquired intangible assets of £3.4m (2015: £1.3m), acquisition-related expenditure of £2.8m (2015: £2.6m) and non-recurring income of £1.5m for claims under RDEC in respect of prior years. Including specific adjusting items, reported profit before tax was £33.0m (2015: £22.9m) and reported basic earnings per share was 48.6p (2015: 35.6p).

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

"Our mission at Ricardo is a simple one: to play a major part in solving the world's big issues around transportation, pollution, climate change and the efficient use of scarce resources such as oil and water.

"This year we have extended our capabilities into rail and water consulting through the acquisitions of LR Rail and Cascade, and expanded our capability in the urban mobility market through the acquisition of the Exnovo business after the year-end. We have stepped up our investment into facilities and research for the development of advanced clean automotive products, and we have supported countries worldwide with their submissions to the global COP21 congress in Paris. We are also welcoming additional members to our growing worldwide team of engineers and scientists who are inspired to make that vital difference. We continue to deliver a good set of financial results year-on-year, with revenue and profit growth across a diverse portfolio of clients and projects. Both of the businesses acquired in the year have performed strongly in their first year within the Ricardo Group.

"Our strategy to build long-term, multi-year contracts and relationships has been supported by the further expansion of the McLaren engine assembly line, by a high-profile transmission supply contract and through multi-year projects secured within the Environmental and Technical Consulting parts of the business. Our year-end order book stands at a record high and, in combination with our financial position, provides a good platform for the continued exploitation of the central strategy – to play our part in solving those big global issues."

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FINANCIAL REVIEW

Group results

The Group has delivered a strong underlying operating result with good organic growth for the year ended 30 June 2016. Total Group revenues increased by 29% to £332.4m (2015: £257.5m) and underlying profit before tax, which includes £5.4m of income in the current year in respect of the Research & Development Expenditure Credit ('RDEC') scheme but excludes specific adjusting items, increased by 41% to £37.7m (2015: £26.8m). Underlying profit before tax excluding the current year RDEC increased by 21% to £32.3m, with the margin reducing slightly from 10.4% in the prior year to 9.7%. Reported profit before tax for the year increased by 44% to £33.0m (2015: £22.9m).

Headline Group performance is as follows:

	2016	2015
Revenue	**£332.4m**	£257.5m
Underlying(1) profit before tax	**£37.7m**	£26.8m
Basic underlying(1) EPS	**55.2p**	42.4p
Net (debt)/funds	**£(34.4)m**	£14.3m

(1) excluding specific adjusting items, which comprise amortisation of acquired intangible assets, acquisition-related expenditure and non-recurring income for claims under the Research & Development Expenditure Credit ('RDEC') scheme in respect of prior years.

The Group results include two acquisitions which completed during the year. On 1 July 2015, the Group materially completed the acquisition of the Lloyd's Register Rail ('LR Rail') consultancy and assurance business from the Lloyd's Register Group, which subsequently completed in full on 1 March 2016 with the 100% share purchase of a Chinese joint venture which was partly owned by the Lloyd's Register Group.

In addition, on the 18 August 2015, the Group also acquired the entire issued share capital of Cascade Consulting Holdings Limited and its subsidiary, Cascade Consulting (Environment & Planning) Limited (together, 'Cascade'), an environmental consultancy business specialising in the UK water sector.

The LR Rail and Cascade acquisitions have been reported within the Technical Consulting segment. As set out in the table below, organic growth in underlying revenues and profit before tax, which excludes the performance of acquisitions, the associated incremental borrowing costs and the impact of RDEC, was 7%:

FY 2015/16	**Revenue (£m)**	**PBT (£m)**
Underlying	332.4	37.7
Less performance of acquisitions:		
LR Rail	(53.2)	(3.9)
Cascade	(3.4)	(0.6)
Vepro and PPA on a like-for-like basis with prior year	(1.5)	(0.1)
Less: RDEC in respect of current year	-	(5.4)
Add: Net interest in respect of acquisitions	-	1.0
Organic	**274.3**	**28.7**
FY 2014/15	257.5	26.8
Organic growth	**7%**	**7%**

The financial year ended with another record closing order book of £231m (2015: £140m), of which £66m is in respect of the acquired LR Rail and Cascade businesses. On a like-for-like basis, the closing order book has increased by 18% on the prior year. The closing order book, together with a good pipeline of further opportunities, remains well diversified across market sectors, customers and geographies. Our order book comprises the value of all unworked purchase orders received.

Technical Consulting results
Technical Consulting revenues and underlying operating profits were £267.9m and £32.5m, respectively. Underlying organic revenues and operating profit, which excludes performance from acquisitions as noted above and £4.7m of RDEC income, increased to £209.8m (2015: £196.6m) and £23.2m (2015: £20.0m), resulting in growth of 7% and 16%, respectively.

Our European Technical Consulting Division was a key driver of profit generation, with profits growing significantly as a result of an internal reorganisation undertaken in the prior year to improve co-ordination and delivery to our clients, as well as to achieve cost efficiencies.

The Rail business has performed well, and encouragingly, a number of joint bids between Rail and the core business have been successful, which neither business could have achieved alone.

The performance of the US business has struggled in challenging market conditions, but strategic focus is shifting towards our operations in California in order to support growth from a wider US customer base.

Our Energy & Environment consulting business has performed well, and is reducing its reliance on the UK public sector where ongoing cuts continue to be experienced.

In Asia we continue to grow our activities, establishing a greater geographical footprint through our acquisition of the Rail business in China on 1 March 2016, which was partly owned by the Lloyd's Register Group.

Our Strategic Consulting activities continue to make good progress.

Performance Products results
Performance Products revenues have increased by 6% on the prior year to £64.5m (2015: £60.9m). However, as expected, organic underlying operating profit, which excludes £0.7m of RDEC income, decreased by £1.3m to £6.4m (2015: £7.7m). The current year performance was driven principally by lower one-off software licence sales and an expected reduced level of shipments of high-performance and monorail transmissions in the year, partially offset by increased volumes in respect of the new engine supply contract for McLaren.

TECHNICAL CONSULTING

Performance
Ricardo’s Technical Consulting activity accounts for around 80% of Group revenue and underlying operating profit. We deliver projects focused on world class innovation in our core service offerings of engines, transmissions, vehicles, hybrid electric and autonomous vehicles, environmental, energy and strategic consulting, independent assurance and the delivery of critical systems into industries like rail. Our activities range from detailed collaborations with customers on strategy, policy and regulatory advice, advanced engineering work, technology evaluations, independent safety assessments, asset optimisation and market studies up to large-scale turnkey new product delivery programmes, encompassing multiple products and international markets.

Revenue has grown by 36% to £267.9m (2015: £196.6m). The growth in revenue can be attributed to the strong opening order book, our competitive offerings and the impact of the acquisitions of LR Rail and Cascade made during the year. Underlying operating profit, excluding £4.7m of RDEC income, increased by 39% to £27.8m (2015: £20.0m), of which £4.6m was contributed by acquisitions. The underlying operating profit margin has increased to 10.4%, up from 10.2% in 2015. Order intake in the year stood at £258m (2015: £209m). There has been a good balance of Technical Consulting order intake across the regions and we have continued to see good levels of diversification across different market sectors.

The acquisition of LR Rail, and establishment of Ricardo Rail, has enabled our rail business to expand into new geographic and product sectors and this business has performed strongly throughout its integration into Ricardo.

The acquisition of Cascade has enabled our Energy & Environment business to drive private sector and international growth into the water sector.

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

- Reducing carbon dioxide emissions, underpinned by agreements reached at COP21;
- Improvements in the efficient use of energy;
- Eliminating the release of noxious pollutants and particulates;
- The rise of global connectivity (Internet of Things – 'IoT') and their safety case;
- Addressing a changing and diverse global energy mix; and
- Increasing levels of urbanisation and resource scarcity.

The European Technical Consulting ('EUTC') Division, which also includes India, Japan and South Korea, has secured a range of large, multi-year programmes in the Automotive, Commercial Vehicles and Energy sectors, with a particular increase in vehicle electrification activities in many regions. Activity levels have been high across all engineering disciplines, with increasing demand for powertrain application, calibration, electrical and electronics skills. The EUTC Division continues to be the main business in terms of profit generation.

In the US, trading continues to be difficult, with reduced levels of work in Detroit and Chicago partially offset by increasing work in California. The business is increasingly focused on achieving growth in the Commercial Vehicles sector, especially around platooning technologies and the growth of autonomous vehicle and connected car technologies and their safety cases in both the traditional automotive and new entrant landscape. We are building a team in Silicon Valley to service the new automotive clients in California and to access the relevant talent.

Ricardo Defense Systems was established in the previous financial year to enable us to deliver classified projects for the US Defense Administration, and this business has won a number of new contracts primarily in the land defence space.

China remains a key market and we have secured a number of large, locally won contracts, some of which are being locally delivered through our Shanghai- and Beijing-based technical centres. These contracts have included a mixture of hybrid vehicle, engine, transmission and rail activities.

In Ricardo Rail, the primary focus has been on growing the business whilst integrating the former Lloyd's Register Rail business into Ricardo. We have successfully established a new brand in the Rail sector and have seen a very positive reaction to the new products and services that Ricardo Rail can offer. The order book has remained at consistently high levels as we have seen both historic and new customer wins throughout the year. In July 2016, following the award of UKAS accreditation for ISO 17020 and ISO 17065, we established Ricardo Certification. This business will independently manage and deliver our independent assurance and accreditation services to the Rail sector.

In Ricardo Motorcycle, the focus has been on the delivery of existing large, multi-year powertrain and vehicle programmes and the global roll-out of an expanded product and service offering to existing and new clients. As a result, we have secured a number of contracts with new clients in the UK, US and Asia. We are also developing our urban mobility product offering.

Ricardo Energy & Environment has had a good year and has seen growth in both international and private-sector clients. The linkage of our powertrain expertise with our air quality team has provided our customers with a unique insight into recent urban air quality issues and how to resolve them. The acquisition of Cascade has enabled the business to rapidly expand into the fast-growing water sector.

Our strategic consulting activities continue to operate well across all geographies and performance has been good in all operating regions. The combination of management consulting skills and deep industry insight offers a unique proposition to our customers. These include companies in the Automotive, Energy & Environment and Commercial Vehicles sectors, plus numerous government bodies and private equity firms.

Market sector highlights

Automotive

The Automotive sector remains the most significant for Ricardo. Fuel economy and CO_2 reduction remain top global industry priorities and are being driven strongly by consumers. We have secured a range of large, multi-year programmes, in vehicle systems, hybrid and electric systems and the core powertrain areas of our business, focused on both new and existing product upgrades. We continue to invest in advanced combustion and other key technologies in areas related to improvements in overall vehicle efficiency such as lightweighting, intelligent driveline and electrification.

The future of mobility solutions, including connected and autonomous vehicle technology in particular, is attracting significant interest in North America, along with challenges around the regulatory environment, safety and assurance of autonomous vehicles. Interest in hybrid and electric vehicle architectures, battery pack and battery management system design and vehicle attribute development also feature strongly as OEMs increasingly look to accelerate the launch of PHEV and BEV vehicles based around existing vehicle platforms.

Rail

On 1 July 2015, following the completion of the acquisition of LR Rail, we launched Ricardo Rail. This new business, with its footprint in the UK, Europe, Asia and the Middle East, is benefiting from the significant global growth in high-speed and metro-based railways. The business has the following core product offerings: Independent Assurance; Rolling Stock; Signalling and Train Control; Intelligent Rail and Operations. The latter includes asset management, human factors and Noise, Vibration and Harshness ('NVH') development and optimisation. The business has a large, long-term order book which provides a strong platform for growth. The launch of Ricardo Certification enables us to independently manage and deliver our independent assurance and accreditation services to the Rail sector.

We continue to look for a range of organic and acquisitive growth opportunities in the Rail sector.

Energy & Environment

We continue to win new work and retain long-standing contracts with various government agencies in the UK and the EU. In parallel, we have seen accelerated growth of private sector and international clients. Services continue to be delivered in the key practice areas of climate change and sustainability, air quality, waste and resources, sustainable transport, chemical risk, energy, and water. The recent additions through acquisition of PPA Energy (2014) and Cascade (2015) have provided strong opportunities for growth into the electricity networks and water sectors respectively and we have seen strong recent growth in both these businesses. We are also engaged in supporting many global stakeholders with the implementation of commitments agreed at COP21 in December 2015.

In power generation, we are engaged in a number of large projects covering genset development, gas engine conversions, heavy fuel oil engines and CHP ('Combined Heat and Power') solutions. The customer base is broad and globally diverse.

Across the renewables sector, we continue to pursue a range of opportunities in offshore wind, tidal and energy storage applications.

Motorcycle & Personal Transportation

Growth in this sector is being driven by the need for a reduction in CO_2 emissions, the increasing focus on urban mobility solutions and a growing interest in electric bicycles ('e-bikes'), together with the increased demand for high-quality motorcycles in developing markets. We also recognise the strong market differences between the value-driven brands of south-east Asia and the technology-focused luxury marques of Europe, North America and Japan.

During the year the team remained focused on the development of long-term multi-product relationships with major customers across Asia, Europe and North America.

Commercial Vehicles
We have seen growth and secured a number of large engine and transmission projects across the medium- and heavy-duty sectors. We continue to see interest across Asia, in particular, for Ricardo's capabilities in the Commercial Vehicles sector. The order pipeline is based around a broad mix of largely engine and transmission opportunities. In the US, greenhouse gas and low NOx standards are driving interest in powertrain and trailer efficiency, emissions control and the use of alternative fuels. Commercial vehicle platooning is also a fast-growing area of opportunity.

Strong engagement in this sector has driven increasing engine test activity, especially in North America. We have also seen growing interest in our aftertreatment and fuel cell capabilities at our technical facility in California.

In addition to our core powertrain offering we have also focused on developing our product offering in the areas of fuel economy improvement, system optimisation, platooning and hybridisation: we see all these as areas of significant future growth.

Defence
In the US we have established Ricardo Defense Systems, which now enables us to deliver US classified projects and expand the range of opportunities that we can pursue across the defence sector. The business has won a number of new contracts, mainly in the land domain, and is focused on growth into new areas of the US Defense Administration.

In the UK we have broadened our network within the Ministry of Defence ('MoD') and have continued to grow key relationships with defence contractors. In Asia we have secured contracts to deliver new engine and vehicle designs and we are pursuing other large, new opportunities.

Off-Highway
Activity in the Off-Highway sector continues to remain at a relatively low level following the recent implementation of Stage IV emissions standards in Europe. Our focus in the coming years will be in assisting clients with EU, US and China legislation for 2020.

The marine industry is driven by increasing demands for high-speed diesel generator sets and main propulsion systems, and also for the conversion of engines for gas or dual-fuel operation. The majority of our activities in this industry have been based around failure analysis, investigations, specialist design and development activities.

PERFORMANCE PRODUCTS

Performance
The Performance Products segment accounts for around 20% of Group revenue with a large proportion of revenue generated this year through the supply of products and services to a single customer.

In the Performance Products segment revenue increased by 6% to £64.5m (2015: £60.9m), but underlying operating profit, excluding £0.7m of RDEC income, fell as expected by £1.3m to £6.4m (2015: £7.7m). Order intake in the year stood at £103m (2015: £43m) as we secured a high-profile multi-year transmission supply contract. Profit performance is lower than the prior year as increased volumes in respect of the new engine supply contract for McLaren have been more than offset by lower one-off software licence sales and an expected reduced level of shipments of high-performance and monorail transmissions in the year.

The Performance Products business continues to focus on the development of long-term, strategic relationships, the development of its people, and using a growing track record of product quality and on-time delivery to win new, large contracts.

Market sector highlights

High-Performance Vehicles & Motorsport
The expansion of Ricardo's engine build facility is now complete. This gives us a doubling of capacity and the capability to deal with increased engine variants. Production of engines for the McLaren 650S, 675LT and the McLaren P1™ supercar continues in line with expectations, and full production of engines for the new 570S has been added. We also secured a high-profile multi-year transmission supply contract.

Ricardo remains a key supplier to the motorsport sector, having commenced deliveries for BMW and Multimatic (for Ford) GT3 programmes and for the Hyundai R5 Rally programme. Ricardo continues to manufacture for Formula 1, and supplies products such as the Ricardo-designed transmissions for the Japanese Super Formula 14, Indy Lights and the Renault World Series. Production continues for the Porsche Cup and Bugatti transmissions in line with the long-term supply agreements.

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

OTHER FINANCIAL MATTERS

Acquisitions and acquisition-related intangible assets
On 1 July 2015, the Group materially completed the acquisition of the Rail consultancy and assurance business from the Lloyd's Register Group and on 1 March 2016, acquired the interests of all partners of a related joint venture operation in China, for total consideration of £46.3m. In addition, the Group also acquired the issued share capital of Cascade on 18 August 2015, for consideration of £3.2m.

These investments added goodwill of £2.5m to the Ricardo Energy & Environment cash-generating unit and a new Ricardo Rail cash-generating unit has been identified, in respect of which £24.2m of goodwill has been allocated (retranslated to £26.6m at year-end). Total goodwill at 30 June 2016 is therefore £57.0m (2015: £26.0m). Acquisition-related intangible assets have been identified as a result of the LR Rail and Cascade acquisitions, which have net book values at the year-end of £14.3m and £0.6m, respectively.

An exercise to assess the fair value of the identifiable net assets has been completed in respect of the LR Rail businesses acquired on 1 July 2015 and Cascade. The preliminary assessment of the provisional fair value of identifiable net assets in respect of the Chinese joint venture operation acquired from the Lloyd's Register Group on 1 March 2016 may be adjusted in future in accordance with the requirements of IFRS 3 'Business Combinations'.

After the reporting date, on 29 July 2016, the Group also acquired the entire issued share capital of Motorcycle Engineering Italia s.r.l., a business that was formed from the trade and assets of Exnovo s.r.l., for initial consideration of £2.1m (€2.5m). Subsequent to a preliminary assessment, the provisional fair value of identifiable net assets acquired is £0.1m, together with provisional goodwill and other acquisition-related intangible assets of £2.0m.

As a result of the acquisitions completed in the financial year, amortisation of acquisition-related intangible assets has increased to £3.4m (2015: £1.3m). The Group also incurred acquisition-related expenditure of £2.8m (2015: £2.6m) during the year in respect of all completed acquisitions as noted above. The acquisition-related expenditure and amortisation of acquisition-related intangible assets have been charged to the Consolidated Income Statement as specific adjusting items.

Research and Development
The Group continues to invest in Research and Development ('R&D'), and spent £9.4m (2015: £9.8m) before government grant income of £1.3m (2015: £1.1m). This includes costs capitalised in accordance with IFRS of £3.2m (2015: £4.2m) in respect of continued development expenditure on a range of

product developments around the Group and reflects our continued focus on development activity within Europe and the US.

Net finance costs
Finance income was £0.3m (2015: £0.2m), which is similar to the prior year, but finance costs were £2.2m (2015: £1.1m), giving net finance costs of £1.9m (2015: £0.9m). Finance costs were higher as a result of interest payments on the Group's loan facilities drawn at the end of the previous financial year, primarily in order to fund the LR Rail acquisition.

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

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

The total current year R&D credit as a result of adopting RDEC from 1 July 2015 is £5.4m which has a corresponding favourable impact on profit before tax.

The total tax charge for the year was £7.4m (2015: £4.3m), but primarily as a result of the Group's adoption of RDEC, the total effective rate of tax has increased to 22.4% (2015: 18.8%).

The Directors have considered the recoverability of the existing deferred tax assets of £3.6m (2015: £3.1m) and £4.9m (2015: £4.7m) which exist in Germany and the US, respectively, and remain satisfied that it is probable that sufficient taxable profits will be generated in the future, against which the recognised assets can be utilised. Consistent with the prior year, a deferred tax asset has not been recognised for the current year tax losses within the consolidated tax group controlled by Ricardo GmbH, within which Ricardo Deutschland GmbH is the primary trading entity.

Earnings per share
Basic earnings per share increased by 37% to 48.6p (2015: 35.6p). The Directors consider that an underlying earnings per share provides a more useful indication of underlying performance and trends over time. Underlying basic earnings per share for the year increased by 30% to 55.2p (2015: 42.4p). On an organic basis, underlying basic earnings per share increased by 10%.

Dividend
The total (paid and proposed) dividend for the year has increased by 9% to 18.1p per ordinary share (2015: 16.6p) and amounts to £9.5m (2015: £8.7m). The proposed final dividend of 13.03p (2015: 11.95p) will be paid on 11 November 2016 to shareholders who are on the register of members at the close of business on 21 October 2016, subject to approval at the Annual General Meeting on 3 November 2016.

Capital investment
Cash expenditure on property, plant and equipment was £8.5m (2015: £10.4m) as we continue to invest in our business operations. This expenditure included new offices as a result of the Rail acquisition, together with IT and office equipment to fit out and refurbish a number of new and existing premises. In addition, new and upgraded vehicle workshop facilities, test beds and equipment were purchased for the existing business. The Centenary Innovation Centre has been constructed at our Shoreham Technical Centre in the UK, in recognition of our centenary year.

Net debt
Closing net debt was £34.4m (2015: net funds of £14.3m). The Group used net cash of £48.7m (2015: generated net cash of £1.7m), after £3.4m (2015: £3.6m) of acquisition-related payments and a cash outflow net of cash acquired of £45.4m in respect of the two acquisitions completed in the financial year.

The Group continues to focus on its management of working capital, which increased during the year as we invested in revenue growth in Asia and the Middle East, and as our Energy & Environment business transitions towards more private sector and international work. We also invested in our major long-term assembly programme.

Banking facilities
At the end of the financial year, the Group held total facilities of £90.9m (2015: £89.4m), which included committed facilities of £75.0m (2015: £75.0m). Of the committed facilities, a £35.0m facility is available until September 2019 and £40.0m is available until April 2020. In addition, the Group has uncommitted facilities including overdrafts of £15.9m (2015: £14.4m), which mature throughout the next financial year and are renewable annually.

Committed facilities of £54.5m, net of direct issue costs, were drawn (2015: £45.4m) primarily in order to fund the acquisition of LR Rail on 1 July 2015. These are denominated in Pounds Sterling and have variable rates of interest dependent upon the Group's adjusted leverage, which range from 1.6% to 2.35% above LIBOR and are repayable in the year ending 30 June 2020.

Foreign exchange
On consolidation, income and expense items are translated at the average exchange rates for the year. The Group is exposed to movements in the Pound Sterling exchange rate, principally from work carried out with customers that transact in Euros, US Dollars and Chinese Renminbi. The average value of Pound Sterling was 1.9% higher against the Euro, 5.9% lower against the US Dollar and 1.5% lower against the Chinese Renminbi during the year compared to the previous financial year.

Had the current year results been stated at constant exchange rates, reported revenue and profit before tax would have been £2.6m and £0.1m lower, respectively. Significant exposures are hedged through foreign currency contracts.

The movement in foreign exchange rates and the corresponding impact on financial performance was more significant as a result of the UK referendum vote to leave the EU on 23 June 2016, but these movements only impacted upon the final week of the financial year.

Pensions
The Group's defined benefit pension scheme operates within the UK. The accounting deficit measured in accordance with IAS 19 'Employee Benefits' was £21.5m before tax, or £17.4m after tax (2015: £20.7m and £16.6m, respectively).

The £0.8m increase in the net pension deficit was primarily due to a reduction in the discount rate assumption to 2.95% (2015: 3.8%), offset by a reduction in inflation to 2.8% (2015: 3.25%), the return on plan assets of £9.7m, together with £4.3m of cash contributions paid to the scheme during the financial year.

OUTLOOK

Market conditions remain positive, underpinned by the legislative drivers of our business and clients. We continue to focus on business as usual following the UK's referendum vote to leave the EU. We have European mainland operations within the Group which will continue to support the EU's R&D programmes and deliver to our European clients close to their operations, as before. We are a global business, with delivery centres and clients across the world, and are diversified across many market sectors.

We enter the new financial year with a record order book and a good pipeline of opportunities across all sectors: our focus, as always, remains on converting this pipeline into orders and delivering to clients efficiently and with quality. Taking these together with our existing large, long-term assembly contracts, we continue to have confidence in the further development of the Group.

Dave Shemmans Chief Executive Officer	Ian Gibson Chief Financial Officer

14 September 2016

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

Consolidated income statement
for the year ended 30 June 2016

	Notes	2016 Underlying £m	2016 Specific adjusting items (1) £m	2016 Total £m	2015 Underlying £m	2015 Specific adjusting items (1) £m	2015 Total £m
Revenue	2	**332.4**	**-**	**332.4**	257.5	-	257.5
Cost of sales		**(202.6)**	**-**	**(202.6)**	(155.7)	-	(155.7)
Gross profit		**129.8**	**-**	**129.8**	101.8	-	101.8
Administrative expenses		**(90.7)**	**(6.2)**	**(96.9)**	(74.8)	(3.9)	(78.7)
Other income		**0.5**	**1.5**	**2.0**	0.7	-	0.7
Operating profit		**39.6**	**(4.7)**	**34.9**	27.7	(3.9)	23.8
Finance income		**0.3**	**-**	**0.3**	0.2	-	0.2
Finance costs		**(2.2)**	**-**	**(2.2)**	(1.1)	-	(1.1)
Net finance costs		**(1.9)**	**-**	**(1.9)**	(0.9)	-	(0.9)
Profit before taxation		**37.7**	**(4.7)**	**33.0**	26.8	(3.9)	22.9
Taxation		**(8.6)**	**1.2**	**(7.4)**	(4.6)	0.3	(4.3)
Profit for the year		**29.1**	**(3.5)**	**25.6**	22.2	(3.6)	18.6
Earnings per ordinary share							
Basic	5			**48.6p**			35.6p
Diluted	5			**48.1p**			35.2p

(1) Specific adjusting items comprise amortisation of acquired intangible assets and acquisition-related expenditure. In the current year, non-recurring income for claims under the Research and Development Expenditure Credit ('RDEC') scheme in respect of prior years are also included. Further details are given in Note 3.

Consolidated statement of comprehensive income
for the year ended 30 June 2016

	2016 £m	2015 £m
Profit for the year	**25.6**	18.6
Items that will not be reclassified to profit or loss:		
Remeasurements on the defined benefit scheme	**(4.4)**	(4.7)
Deferred tax on items taken directly to equity	**0.9**	1.5
Total items that will not be reclassified to profit or loss	**(3.5)**	(3.2)
Items that may be subsequently reclassified to profit or loss:		
Currency translation on foreign currency net investments	**8.7**	0.5
Total items that may be subsequently reclassified to profit or loss	**8.7**	0.5
Total other comprehensive income/(loss) for the year (net of tax)	**5.2**	(2.7)
Total comprehensive income for the year	**30.8**	15.9

Consolidated statement of financial position
as at 30 June 2016

	2016 £m	2015 £m
Assets		
Non-current assets		
Goodwill	**57.0**	26.0
Other intangible assets	**35.3**	18.9
Property, plant and equipment	**53.6**	49.6
Deferred tax assets	**13.0**	13.7
	158.9	108.2
Current assets		
Inventories	**11.0**	7.8
Trade and other receivables	**108.9**	78.6
Derivative financial assets	**0.4**	0.2
Current tax assets	**1.2**	2.1
Cash and cash equivalents	**23.7**	59.7
	145.2	148.4
Total assets	**304.1**	256.6
Liabilities		
Current liabilities		
Borrowings	**(3.4)**	-
Trade and other payables	**(72.5)**	(63.8)
Current tax liabilities	**(3.6)**	(5.8)
Derivative financial liabilities	**(2.5)**	(0.1)
Provisions	**(1.3)**	(0.4)
	(83.3)	(70.1)
Net current assets	**61.9**	78.3
Non-current liabilities		
Borrowings	**(54.7)**	(45.4)
Retirement benefit obligations	**(21.5)**	(20.7)
Deferred tax liabilities	**(3.6)**	(3.1)
Provisions	**(1.5)**	(1.3)
	(81.3)	(70.5)
Total liabilities	**(164.6)**	(140.6)
Net assets	**139.5**	116.0
Shareholders' equity		
Share capital	**13.2**	13.1
Share premium	**14.3**	14.3
Other reserves	**12.6**	3.9
Retained earnings	**99.4**	84.7
Total equity	**139.5**	116.0

Consolidated statement of changes in equity
for the year ended 30 June 2016

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 July 2015	13.1	14.3	3.9	84.7	116.0
Profit for the year	-	-	-	25.6	25.6
Other comprehensive income/(loss) for the year	-	-	8.7	(3.5)	5.2
Total comprehensive income for the year	-	-	8.7	22.1	30.8
Equity-settled transactions	-	-	-	1.5	1.5
Proceeds from shares issued	0.1	-	-	-	0.1
Ordinary share dividends (Note 4)	-	-	-	(8.9)	(8.9)
At 30 June 2016	**13.2**	**14.3**	**12.6**	**99.4**	**139.5**
At 1 July 2014	13.1	14.2	3.4	76.9	107.6
Profit for the year	-	-	-	18.6	18.6
Other comprehensive income/(loss) for the year	-	-	0.5	(3.2)	(2.7)
Total comprehensive income for the year	-	-	0.5	15.4	15.9
Equity-settled transactions	-	-	-	1.4	1.4
Proceeds from shares issued	-	0.1	-	-	0.1
Purchases of own shares to settle awards	-	-	-	(0.9)	(0.9)
Ordinary share dividends (Note 4)	-	-	-	(8.1)	(8.1)
At 30 June 2015	13.1	14.3	3.9	84.7	116.0

Consolidated statement of cash flow
for the year ended 30 June 2016

	2016 £m	2015 £m
Cash flows from operating activities		
Cash generated from operations (Note 7)	**27.5**	28.4
Net finance costs	**(1.1)**	(0.1)
Tax paid	**(3.0)**	(1.3)
Net cash generated from operating activities	**23.4**	27.0
Cash flows from investing activities		
Acquisitions of subsidiaries, net of cash acquired (Note 6)	**(45.4)**	(2.4)
Purchases of property, plant and equipment	**(8.5)**	(10.4)
Government grants received in respect of property, plant and equipment	**-**	0.1
Proceeds from sale of property, plant and equipment	**-**	0.1
Purchases of intangible assets	**(6.2)**	(5.5)
Net cash used in investing activities	**(60.1)**	(18.1)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	**0.1**	0.1
Purchases of own shares to settle awards	**-**	(0.9)
Net proceeds from borrowings	**9.4**	48.4
Repayments of borrowings	**-**	(3.0)
Dividends paid to shareholders (Note 4)	**(8.9)**	(8.1)
Net cash generated from financing activities	**0.6**	36.5
Effect of exchange rate changes on cash and cash equivalents	**(3.2)**	1.7
Net (decrease)/increase in cash and cash equivalents	**(39.3)**	47.1
Cash and cash equivalents at 1 July (Note 8)	**59.7**	12.6
Net cash and cash equivalents at 30 June (Note 8)	**20.4**	59.7

Notes to the financial statements
for the year ended 30 June 2016

1. General information

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

This preliminary announcement is based on the audited Annual Report and Accounts 2016, which was approved for issue on 14 September 2016, and which has been prepared in accordance with International Financial Reporting Standards ('IFRS'), IFRS Interpretations Committee ('IFRS-IC') interpretations adopted by the European Union ('EU') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006.

2. Operating segments

2016	**Technical Consulting**	**Performance Products**	**Head Office**	**Total**
	£m	**£m**	**£m**	**£m**
Total segment revenue	**269.0**	**65.1**	**-**	**334.1**
Inter-segment revenue	**(1.1)**	**(0.6)**	**-**	**(1.7)**
Revenue from external customers	**267.9**	**64.5**	**-**	**332.4**
Underlying operating profit	**32.5**	**7.1**	**-**	**39.6**
Specific adjusting items	**(4.4)**	**0.2**	**(0.5)**	**(4.7)**
Operating profit	**28.1**	**7.3**	**(0.5)**	**34.9**
Net finance costs	**-**	**-**	**(1.9)**	**(1.9)**
Profit before taxation	**28.1**	**7.3**	**(2.4)**	**33.0**

Underlying operating profit for the year ended 30 June 2016 includes £5.4m of income in respect of RDEC, which has been allocated between Technical Consulting (£4.7m) and Performance Products (£0.7m) on a basis that is consistent with the segment in which the qualifying expenditure is incurred.

2015	Technical Consulting	Performance Products	Head Office	Total
	£m	£m	£m	£m
Total segment revenue	199.2	62.5	-	261.7
Inter-segment revenue	(2.6)	(1.6)	-	(4.2)
Revenue from external customers	196.6	60.9	-	257.5
Underlying operating profit	20.0	7.7	-	27.7
Specific adjusting items	(1.2)	-	(2.7)	(3.9)
Operating profit	18.8	7.7	(2.7)	23.8
Net finance costs	(0.1)	-	(0.8)	(0.9)
Profit before taxation	18.7	7.7	(3.5)	22.9

3. Specific adjusting items

	2016	2015
	£m	£m
Amortisation of acquisition-related intangible assets	**3.4**	1.3
Acquisition-related expenditure associated with LR Rail (Note 6(a))	**1.6**	2.1
Other acquisition-related expenditure	**1.2**	0.5
Non-recurring income for RDEC claims in respect of prior years	**(1.5)**	-
Total	**4.7**	3.9

The expenditure associated with the Lloyd's Register Rail ('LR Rail') acquisition comprises expenditure incurred in the years ended 30 June 2016 and 30 June 2015 for services rendered to, and consumed by, the Group to effect the LR Rail acquisition (see Note 6(a)), in addition to costs associated with the subsequent integration of the LR Rail businesses and dual-running costs incurred during a transitional services period with Lloyd's Register.

Other acquisition-related expenditure primarily comprises costs incurred in the years ended 30 June 2016 and 30 June 2015 for services rendered to, and consumed by, the Group to effect the Cascade and Motorcycle Engineering Italia s.r.l. acquisitions (see Notes 6(b) and 9, respectively), in addition to the costs of the associated earn-out arrangements of the Cascade acquisition, together with the Vepro and Power Planning Associates acquisitions completed in the prior year.

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

4. Dividends

	2016	2015
	£m	£m
Final dividend for the year ended 30 June 2015 of 11.95p (2014: 10.9p) per share	**6.3**	5.7
Interim dividend for the year ended 30 June 2016 of 5.07p (2015: 4.65p) per share	**2.6**	2.4
Equity dividends paid	**8.9**	8.1

The Directors are proposing a final dividend in respect of the financial year ended 30 June 2016 of 13.03p per share which will utilise £6.9m of retained earnings. It will be paid on 11 November 2016 to shareholders who are on the register of members at the close of business on 21 October 2016, subject to approval at the Annual General Meeting on 3 November 2016.

5. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the year, excluding those held by an employee benefit trust for the Long-Term Incentive Plan ('LTIP') and by the Share Incentive Plan ('SIP') for the free share scheme which are treated as cancelled for the purposes of the calculation.

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

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

	2016 £m	2015 £m
Earnings	**25.6**	18.6
Add back amortisation of acquisition-related intangible assets (net of tax)	**2.7**	1.1
Add back acquisition-related expenditure associated with LR Rail (net of tax)	**1.3**	2.1
Add back other acquisition-related expenditure (net of tax)	**1.0**	0.4
Less non-recurring income for RDEC claims in respect of prior years	**(1.5)**	-
Underlying earnings	**29.1**	22.2

	Number of shares millions	Number of shares millions
Basic weighted average number of shares in issue	**52.7**	52.3
Effect of dilutive potential shares	**0.5**	0.6
Diluted weighted average number of shares in issue	**53.2**	52.9

Earnings per share	**pence**	pence
Basic	**48.6**	35.6
Diluted	**48.1**	35.2

Underlying earnings per share	**pence**	pence
Basic	**55.2**	42.4
Diluted	**54.7**	42.0

6. Acquisitions

(a) Lloyd's Register Rail acquisition

On 1 July 2015 the Group materially completed the acquisition of the Lloyd's Register Rail ('LR Rail') business, operating assets and employees of Lloyd's Register Rail Limited and Lloyd's Register Rail Europe B.V., together with various other assets relating to the rail business of Lloyd's Register Group Limited and the group of companies of which it is the ultimate holding company. On 1 March 2016, the Group also acquired the interests of all partners of a related joint venture operation in China. LR Rail is a rail consultancy and assurance business and is a trusted partner to a wide range of international clients. LR Rail uses its understanding of critical and complex technologies and its independent expert advice to provide services ranging from rolling stock design, signalling and train control, intelligent rail systems, operational efficiency improvement, training and independent assurance services.

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

	£m
Cash consideration	**46.3**
Fair value of identifiable assets acquired and liabilities assumed	
Customer contracts and relationships	13.1
Technology assets	1.3
Property, plant and equipment	0.1
Trade and other receivables	15.6
Cash	3.8
Trade and other payables and provisions	(11.8)
Total fair value of identifiable net assets(1)	**22.1**
Goodwill	24.2
Total	**46.3**

(1) The total fair value of identifiable net assets acquired includes £1.3m in respect of the Chinese joint venture acquired on 1 March 2016, which is provisional and represents an estimate following a preliminary valuation exercise. This estimate of fair value may be adjusted in future in accordance with the requirements of IFRS 3 'Business Combinations'.

All of the cash consideration of £46.3m was paid in the year.

Adjustments have been made to identifiable assets and liabilities on acquisition to reflect their fair value. These include the recognition of customer-related intangible assets amounting to £13.1m and technology assets of £1.3m. The fair values of net assets acquired were identified following a valuation exercise in accordance with the requirements of IFRS 3 'Business Combinations'.

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

The provisional fair value of trade and other receivables of £15.6m includes net trade receivables of £10.1m and amounts recoverable on contracts of £3.4m, all of which is expected to be collectible. In the ordinary course of business, LR Rail also has £3.4m of guarantees and counter-indemnities in respect of bonds relating to performance under contracts. These are not recognised in the provisional assessment of net assets acquired.

Acquisition-related expenditure of £1.6m (2015: £2.1m) has been charged to the Consolidated Income Statement for the year ended 30 June 2016 and is disclosed as a specific adjusting item in Note 3. Acquisition-related expenditure comprise costs incurred for services rendered to, and consumed by, the Group to effect the LR Rail acquisition, in addition to costs associated with the subsequent integration of the LR Rail businesses and dual-running costs incurred during a transitional services period with Lloyd's Register.

The revenue included in the Consolidated Income Statement in relation to the acquired businesses was £53.2m. The underlying operating profit over the same period was £3.9m. This is reported in the Technical Consulting segment.

Had the Chinese joint venture acquired on 1 March 2016 been acquired and consolidated from 1 July 2015, the Consolidated Income Statement would show revenue of £334.4m and underlying operating profit of £39.5m based on the management accounts plus the reported results for the post-acquisition period.

6. Acquisitions

(b) Cascade acquisition

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

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

	£m
Cash consideration	**3.2**
Fair value of identifiable assets acquired and liabilities assumed	
Customer contracts and relationships (included within intangible assets)	0.9
Trade and other receivables	1.0
Cash	0.3
Trade and other payables and provisions	(1.5)
Total fair value of identifiable net assets	**0.7**
Goodwill	2.5
Total	**3.2**

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

Adjustments have been made to identifiable assets and liabilities on acquisition to reflect their fair value. These include the recognition of customer-related intangible assets amounting to £0.9m. The fair values of net assets acquired were identified following a valuation exercise in accordance with the requirements of IFRS 3 'Business Combinations'.

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

The fair value of trade and other receivables of £1.0m includes net trade receivables of £0.8m and amounts recoverable on contracts of £0.1m, all of which is expected to be collectible.

Acquisition-related expenditure of £0.7m has been charged to the Consolidated Income Statement for the year ended 30 June 2016 and is disclosed as a specific adjusting item in Note 3.

The revenue included in the Consolidated Income Statement in relation to the acquired business was £3.4m. The underlying operating profit over the same period was £0.6m. This is reported in the Technical Consulting segment.

Had Cascade been acquired and consolidated from 1 July 2015, the Consolidated Income Statement would show revenue of £332.9m and underlying operating profit of £39.7m based on the management accounts plus the reported results for the post-acquisition period.

7. Cash generated from operations

	2016 £m	2015 £m
Profit before tax	**33.0**	22.9
Adjustments for:		
RDEC income	**(6.9)**	-
Share-based payments	**1.5**	1.4
Cash flow hedges	**2.3**	(0.1)
Net finance costs	**1.9**	0.9
Depreciation and amortisation	**13.9**	10.5
Operating cash flows before movements in working capital	**45.7**	35.6
(Increase)/decrease in inventories	**(3.2)**	0.2
Increase in trade and other receivables	**(7.7)**	(10.6)
(Decrease)/increase in payables	**(4.0)**	8.0
Increase/(decrease) in provisions	**1.1**	(0.4)
Defined benefit payments	**(4.4)**	(4.4)
Cash generated from operations	**27.5**	28.4

8. Net (debt)/funds

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

Analysis of net (debt)/funds	2016 £m	2015 £m
Cash and cash equivalents (current assets)	**23.7**	59.7
Bank overdrafts (current liabilities)	**(3.3)**	-
Net cash and cash equivalents	**20.4**	59.7
Borrowings maturing within one year	**(0.1)**	-
Borrowings maturing after one year	**(54.7)**	(45.4)
At 30 June	**(34.4)**	14.3

9. Events after the reporting date

Motorcycle Engineering Italia s.r.l. acquisition

On 29 July 2016 the Group acquired the entire issued share capital of Motorcycle Engineering Italia s.r.l. for initial cash consideration of £2.1m (€2.5m). This business was formed from the operating assets and employees of Exnovo s.r.l., a leading vehicle design house, which creates class-leading aesthetics for global motorcycle and scooter brands.

The following table sets out the consideration paid for Motorcycle Engineering Italia s.r.l., together with the provisional assessment of the net assets acquired:

	£m
Initial cash consideration	**2.1**
Provisional assessment of identifiable net assets acquired	0.1
Provisional goodwill and other acquisition-related intangible assets	2.0
Total	**2.1**

All of the initial cash consideration of £2.1m (€2.5m) was paid after the year-end in July 2016. The acquisition was completed on a cash-free and debt-free basis, subject to normal levels of working capital.

Adjustments have not yet been made to identifiable net assets on acquisition to reflect their fair value, including the recognition of customer-related intangible assets separable from the goodwill arising on acquisition. It is expected that the remaining value of goodwill will be ascribed to the existence of a skilled, active workforce, developed expertise and processes and the opportunities to obtain new contracts and develop the business. None of the goodwill recognised is expected to be deductible for tax purposes.

Given the proximity of the completed acquisition of Motorcycle Engineering Italia s.r.l. to the date of approval of these financial statements, the provisional assessment of net assets acquired is based upon available financial information.

The provisional value for initial consideration and provisional assessment of net assets acquired may be adjusted in future in accordance with the requirements of IFRS 3 'Business Combinations' and the sale and purchase agreement.

The provisional assessment of net assets of £0.1m includes net trade receivables of £0.1m, all of which is expected to be collectible.

Acquisition-related expenditure of £0.1m has been charged to the Consolidated Income Statement for the year ended 30 June 2016 and is disclosed as a specific adjusting item in Note 3.