**29 February 2012**

# Ricardo plc
## Interim results for the six months ended 31 December 2011

***Ricardo plc is a global world-class, multi-industry consultancy for engineering, technology, project innovation and strategy. We employ over 1,600 professional consultants, engineers, scientists and support staff worldwide. Our client list includes the world's major transportation Original Equipment Manufacturers (OEMs), supply chain organisations, energy companies, financial institutions and governments.***

## HIGHLIGHTS

Continuing operations:

- Strong closing order book at £123m (30 June 2011: £107m; 31 December 2010: £117m)
- Good mix of orders across geographies, sectors and product lines
- Revenue up 2% at £92.2m (31 December 2010: £90.2m)
- Profit before tax up 26% at £6.3m (31 December 2010: £5.0m)
- Basic earnings per share up 12% to 10.5p (31 December 2010: 9.4p)
- Positive net cash balance of £2.4m (30 June 2011: £1.5m net cash; 31 December 2010: net debt £7.5m)
- Interim dividend up 9% to 3.7p per share (31 December 2010: 3.4p)
- The Board remains confident of further progress for the full year

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

*"Ricardo has seen a good level of order intake across multiple geographies into all of our key divisions, weighted towards the end of the period. As a result, our order book remains strong at £123m, providing momentum into the second half of the year.*

*"In the period, the improved profit performance was achieved despite a disappointing trading performance both in the US and across our Strategic Consulting activities, where we have found the market environment challenging. Our focus on working capital management has continued and we have maintained a strong balance sheet.*

*"We remain encouraged to see clients placing work with Ricardo to achieve $CO_2$ reduction and emissions legislation targets, and that our strategic partnerships continue to develop.*

*"Notwithstanding the current uncertain economic backdrop, the profile and robustness of our order intake demonstrates the value of our sector and geographic diversification strategy. With a good order book platform and pipeline of prospects as well as the current strategic partnerships in place providing longer term visibility, we remain confident of further progress for the full year."*

**Further enquiries:**

| | | | |
|---|---|---|---|
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**Interim management review**

## RESULTS

Throughout the period, business has been secured across all geographies, sectors and products that we operate in for our Technical Consulting divisions. Our Performance Products business has also secured follow-on orders for its high profile assembly programmes. Strategic Consulting has seen a slowdown in the current period as clients have shifted towards more operationally focused projects.

The Group has started the second half of the financial year with a strong order book of £123m, which compares to £117m at 31 December 2010 and £107m at 30 June 2011. The order pipeline remains broad with an upturn in traditional automotive enquiries and continuing interest from new sectors.

Revenue from continuing operations in the period was £92.2m, which compares to £90.2m in the same period last year. Gross profit improved by £8.3m to £39.1m in the period, largely due to improved project delivery in the UK Technical Consulting division.

Increases in administration expenses in the first half include costs to strengthen the business development teams, as well as bonus and award incentives for a wider group of employees as part of our talent retention programme. In addition, we have carried out upgrades to some facilities.

The operating profit of £6.8m compares to £6.4m in the six months to 31 December 2010. Net finance costs of £0.5m were incurred (£1.4m in the half year ended 31 December 2010). The fall in financing costs was mainly attributed to the lower financing charge in relation to the pension deficit. Profit before tax of £6.3m was 26% ahead of the £5.0m for the comparable period last year.

Ricardo has continued to invest in R&D and the tax credits associated with this expenditure mean that the Group reports a net tax charge of £0.9m, representing an effective tax rate of 14% for the half year to 31 December 2011 (31 December 2010: 4%; 30 June 2011: 0%). Basic earnings per share for continuing operations for the first half were 10.5p, up 12% from 9.4p in the comparable period in 2010.

The Technical Consulting segment saw a 4% increase in revenue compared to the same period in 2011. This was largely driven by growth in the UK and Germany, particularly in the passenger car sector. The US experienced slightly reduced revenues as demand softened. The operating profit showed strong improvement in the UK and continued progress in Germany that was, in part, offset by lower profits in the US.

The Strategic Consulting segment, representing approximately 6% of total revenue, has found market conditions challenging with less demand for strategic services as clients are moving to smaller, operationally focused activities. People investment made in the prior year to develop service offerings into new areas has not yet delivered improved revenues. This has resulted in an operating loss of £0.3m (31 December 2010: £1.0m profit).

Revenues in the Performance Products segment are similar to the prior year at £18.9m (31 December 2010: £19.4m). During the half year, production of the McLaren supercar engine has increased and production of the Foxhound military vehicle commenced, generating a solid operating profit at £2.3m (31 December 2010: £3.2m). The first half of the prior financial year benefitted from the peak in defence vehicle deliveries and therefore we are pleased to have broadly maintained revenues during the current financial period.

Continued focus on working capital management enabled the Group to close the period with net funds of £2.4m (31 December 2010: net debt of £7.5m and 30 June 2011: net funds of £1.5m). As at 31 December 2011 the Group had committed borrowing facilities of £30m, £15m of which expires after more than one year. The Group also had additional short term facilities totalling £20m.

The defined benefit pension scheme deficit of £18.4m compares to £25.0m at 31 December 2010 and £13.4m at 30 June 2011. The increase in the deficit since 30 June 2011 was largely due to the reduction in the discount rate determined by AA bond yields, partly offset by lower inflation expectations.

The Board has declared an increased interim dividend of 3.7p per share (31 December 2010: 3.4p) reflecting the continuing progress made in the business over the last six months and the confident outlook. The dividend will be paid on 10 April 2012 to shareholders on the register at the close of business on 9 March 2012.

**MARKET & STRATEGY UPDATE**

Despite the continued global uncertainty arising from the Euro debt crisis and the faltering nature of the recovery following the recent recession, Ricardo's strategy of diversifying activities across multiple geographies, sectors and product areas is proving to be highly effective. Furthermore, securing a base load of long term programmes and partnerships is proving successful in minimising cyclicality.

The prime markets in which Ricardo operates, both geographically and by sector, are facing a period of up to six years during which new and tougher legislation for both $CO_2$ reduction and emissions control will be introduced. Typically the development cycle to meet such new regulation ranges from two to three years prior to the date of introduction. We anticipate continued development activity across many geographies and sectors worldwide.

Additionally, the passenger car market faces emissions legislation changes in the US, Europe and Asia. The commercial vehicle sector has new European emissions legislation in 2013 whilst new US regulation is expected slightly later following the tightening of limits in 2010. It is anticipated that any future US commercial vehicle emissions regulations will encompass $CO_2$ limits. We also anticipate increased legislation in the agricultural and industrial sector, as well as in the motorcycle and marine industries.

The UK has been an active market with new product developments for the passenger car, defence and high performance vehicle sectors. Emissions legislation and national $CO_2$ reduction targets have driven programmes in the commercial, industrial & agricultural, passenger car and wind energy sectors. In continental Europe, Germany has been the most active market with new product developments in the motorcycle sector and emissions reduction programmes in the commercial vehicle sector.

Fuel economy and energy security continue to be major international concerns and are driving development spend by governments and industry alike in the clean energy and power generation, rail and defence sectors. The changing nature of military threats and the ageing profile of existing vehicle fleets has led to a number of upgrade programmes across the world. Against the context of increasing international austerity there is also a requirement to 'do more with less', having implications on flexibility, cost savings, asset longevity and the efficiency of operational cost management which plays well into Ricardo's development, assembly and consulting capabilities.

Ricardo continues to invest in its people, technology and facilities to capitalise on the aforementioned drivers and market conditions. The investments Ricardo has already made and continues to make are targeted at revenue generating assets as well as systems, tools and processes to improve the efficiency of the global business.

The increasing order book, order pipeline and strength of balance sheet demonstrates the value of the diversification strategy. With the current strategic partnerships in place providing longer term visibility, the market approach leading to an increased order book, our technology strategy targeted around emissions and $CO_2$ control and our constant drive to recruit and retain the best talent, we believe the current strategy offers a good balance of risk management, avoidance of cyclicality and growth.

## TECHNICAL CONSULTING

### Government

Regulations and incentives to improve air quality and reduce carbon emissions are a key driver for a significant proportion of Ricardo's business. Engaging with government regulators and tendering for support contracts is therefore an important aspect of our activities. Ricardo was contracted to provide independent and objective technical data and insight to the Environmental Protection Agency and the US Department of Transportation to support the formation of recent challenging road transport fuel efficiency regulations through to 2025, which have been announced in the US over the past six months.

Ricardo also provides strategic support to a range of government departments and agencies covering a broad range of our market sectors. In addition to road transportation, we have recently been contracted to deliver strategic studies to governments across a number of the other market sectors in which we operate, including rail, marine and clean energy.

### Passenger Car

We continue to experience good levels of activity as a result of our clients' product development plans aimed at meeting legislative, emissions and fuel consumption drivers, as well as feature enhancement requests.

As many OEMs have reduced their internal engineering capacity, we have strengthened our position as a trusted ‘turnkey’ development partner for all our offerings, particularly those where we are engineering systems into volume production on behalf of our clients.

We have increased the strength of the team in the Chinese market as we see a continuing range of opportunities, typified by battery electric and hybrid electric vehicle programmes.

In summary, we continue to secure a number of significant product and technology development programmes across all our principal geographical markets and feel that the level of activity in the sector is encouraging.

**Motorcycles, Motorsport and High Performance Vehicles**

It has been a busy period for our motorcycle client activities as the new BMW K1600, with its Ricardo-designed 1600cc 6 cylinder engine, enjoyed record sales. The pressure for increased performance, improved fuel efficiency and low cost continues to drive interest in our capabilities.

The Ricardo motorsport transmission and driveline team enjoyed a record year of competition success for its customers around the world in the 2011 season.  Peugeot Sport took the Intercontinental Le Mans Cup LMP1 manufacturers’ title for the second year running, with its new 908 car featuring a transmission designed and developed in close collaboration between Peugeot and Ricardo engineers.

In the Le Mans Series, the Greaves Motorsport team was also successful, winning the LMP2 team and drivers’ titles as well as topping its class in the 24 Heures du Mans 2011.  Greaves Motorsport uses the Ricardo transverse LMP gearbox in its Zytek chassis.

In the GT1, JRM Racing’s Michael Krumm and Lucas Luhr were crowned 2011 FIA GT1 World Drivers’ Champions for their performance in the Nissan GT-R. This features a Ricardo 6-speed transverse GT1 gearbox which shares the same internal parts as the unit deployed in the Nissan GT500 car that won this year’s drivers’ and team titles in the Japanese Super GT championship.

**Commercial Vehicle**

Progress continues in the sector with cross-geographical offerings continuing to bring steady business. As with other sectors, the continuing drivers of legislation and emissions compliance dominate activities, with specific emphasis on tailored offerings for regional requirements.

Calibration and vehicle homologation are key for developing markets whereas proprietary Ricardo technologies for cost-effective emissions compliance are more relevant for other territories.

Opportunities resulting from cost reduction initiatives continue to deliver business, as do whole of life cost, warranty management, total fuel efficiency and vehicle efficiency improvements. Other initiatives including compressed timelines, localisation of product manufacture and intelligent transport systems activities also present significant opportunities.

The various commercial vehicle sub-sectors offer further opportunities: smaller urban cycle vehicles based on hybridisation and energy storage concepts, for example. Our activity in passenger transportation (bus and coach) continues and will be subject to further development in the coming months.

**Off-highway Sector (Agricultural & Industrial Vehicles)**

Over the period, activities in this sector have been supported by increased diversification of our product offering and penetration of key markets.

Following a very successful presence at a major off-highway exhibition in China, we have established relationships with key regional corporate entities.

Further activities around 'whole machine' and 'energy storage' are also driving key discussions which are starting to deliver the first orders from a new client base. These initiatives provide entry to a number of new sub-sectors including the lift and access, mining and extractive industries.

The sector has continued to progress over the past six months and the driving factors of emissions compliance, machine efficiency and productivity, and whole of life costs continue to be at the forefront of our customer needs.

**Defence**

In the UK we have broadened our contact with the military customer base and have begun to exploit niche opportunities, particularly where we are able to offer intelligent solutions that can reduce cost and accelerate front line benefits.

Our activities have been focussed in technical engineering services, strategic consulting and vehicle integration. We have expanded our strategic relationships with a number of the key prime contractors for programmes for the UK and international markets. Additionally, the visibility of the Foxhound (Ocelot) vehicle moving into the production phase for the UK Ministry of Defence (MoD) has increased interest in our vehicle engineering capabilities in the marketplace.

In the US we have continued to provide technical services for the defence research sector and have moved our exploitation strategy forward with the heavy-fuel light-weight engine developed for the unmanned aerial vehicle sector.

International market activities in India, the Middle East and Australia have increased and we experienced further interest and have secured work in those regions.

**Rail**

The rail sector is seeing increasing emphasis on overall cost reduction, particularly through reducing fuel consumption and therefore carbon emissions. Ricardo's core diesel powertrain expertise and energy capture technologies are proving attractive to rail companies as they meet these challenges, and is exemplified by our composite flywheel technology, which is of particular interest to the Diesel Multiple Unit (DMU) market for capturing braking energy.

Rolling stock continues to be ordered but at a reduced rate, with uncertainties over the cost and availability of diesel fuel over the 30-year lifetime of a new rail vehicle, stifling investment in some territories. Attention has moved to upgrades of existing vehicles with life extensions of up to fifteen years, bringing focus onto improving the existing diesel powertrain. Ricardo is well placed to benefit from this demand and is working with the leading UK rail powertrain overhaul provider to investigate technology upgrades to improve fuel consumption and reliability.

We have received initial orders from several rail companies as well as the UK Government, which enables us to demonstrate the potential and value of our contribution.

**Clean Energy & Power Generation**

Our growth in both the renewable energy sector and advanced power generator set upgrade markets continues. Already this year, we have progressed new business in the wind sector, including our first success in the fast-growing large-scale offshore wind market, as well as expansion into supporting the electrical engineering areas of this industry. Additionally, we have continued to develop opportunities in tidal stream energy, concentrated solar power and smart grid and energy storage systems.

Our development of new intellectual property to solve key industry issues also continues to make progress. Ricardo's patented MultiLife™ bearing concept for wind turbines is now under test; initial results are promising and interest has already been shown by end-users.

In the area of conventional power generation, Ricardo continues to help a major generator set manufacturer upgrade its core technology to meet tighter emission legislations and reduce turnkey plant costs, with further work already underway.

**Marine**

Ricardo's marine sector is progressing in central Europe with the development of relationships and co-operation with marine engine manufacturers. We will continue to grow our activities in the rest of Europe, with a new focus on Scandinavia, and we continue to pursue opportunities in Korea, Japan and China.

Ricardo provides solutions to marine propulsion system suppliers, enabling them to operate their ships more efficiently, minimising emissions and fuel consumption across the whole operating spectrum.

Additionally, Ricardo is exploring new technologies for next generation high performance and high efficiency propulsion systems development and new ship energy management architectures, based on developments across Ricardo's product groups and capabilities.

**STRATEGIC CONSULTING**

The Strategic Consulting segment is undergoing a challenging period, in part as a result of a softening in the relevant management consulting markets. Investment in resources to develop into new areas, such as energy, has yet to deliver increased business. As a result, operating margins have reduced in the period.

The consulting teams around the globe have supported a wide range of engagements for clients in automotive, off-highway, defence, energy, government and financial institutions. More operational activities have been the focus, such as product cost optimisation and success contingent projects.

Urban mobility and e-mobility projects have developed into important pillars of the business. A multi-client study on oil demand has generated media attention and provides a platform for the recently founded energy team.

**PERFORMANCE PRODUCTS**

Demand for Ricardo motorsport transmissions remains strong, particularly in sports car endurance racing series around the world. The recently launched McLaren GT3 race car will have a Ricardo transmission fitted for the 2012 season and a new partnership with Porsche will see Ricardo building transmissions for the 911 RSR and the 911 Cup Car.

The production rate of supercar engines for McLaren in our high performance assembly facility has increased to full output. We have completed the development of the race version of the engine which, coupled with a Ricardo-designed and developed 6 speed semi-automatic transmission, will enable the MP4-12C GT3 to compete in GT3 and GTE championships around the world.

The very successful relationship with Bugatti continues with an additional order received that will continue the transmission build of the Veyron driveline system for the next two years.

**Defence**

In the defence sector the build of the UK MoD Foxhound (Ocelot) vehicle has begun successfully, with full production expected early in 2012 and completion of the 200 vehicles of Tranche 1 expected by the end of the calendar year. There is an expectation that the MoD will contract for a further 100 vehicles this year, which we hope to secure.

**OPERATIONAL STRATEGY**

We continue to drive delivery efficiency across the organisation under the ‘One Ricardo’ banner through a mixture of engineering process improvements, engineering tools enhancements and optimisation of staff utilisation.

As we constantly strive to improve the tools and processes involved in the highly complex and diverse programmes in which we are engaged, we are able to drive out inefficiencies and achieve greater quality and shorter delivery timescales. We have now successfully implemented our global ERP SAP-based integrated business solution across all major trading divisions. Final inclusion of the smaller entities will take place during 2012.

Through close control and improved communications we have seen an increase in our ability to share project work around the group. This enables us to maximise the work throughput with optimum staff levels, enabling us to deliver work where it is most appropriate and meet our customers’ many demands for delivery style, location and quality. Additionally, continued development of our technical centres in Prague and Shanghai allows us to maximise our resources whilst improving local delivery performance.

We have invested in key talent to head up our new market sectors and business development activities in Asia to maximise potential from this developing market.

**RESEARCH & DEVELOPMENT**

Ricardo has continued to invest in new technologies and systems that can add value to our products and services we offer to our customers. Our R&D investment programme is directly aligned with our business strategy, supporting a broad range of market sectors whilst focusing on and strengthening our core skills in engines and transmissions, control systems, electronics and system engineering.

We are building new or improved relationships with both existing and future customers whilst leveraging grant funding from government agencies in order to enhance our collaborative R&D programme.

In the last six months we have made further progress in some of our key research projects; our collaborative £4m programme to design and develop a next generation spray guided gasoline combustion system has demonstrated exceptional results with outstanding efficiency. Our innovative high-speed flywheel energy storage system with magnetic transmission is now installed in a prototype bus, whilst our ‘HyBoost’ vehicle, which features an aggressively downsized gasoline engine with intelligent electrification, has shown a 40% improvement in fuel efficiency over the base model without compromising performance. We have also produced two battery electric vehicle demonstrators with novel drive motor technology and designed our own high-efficiency generator for a range extender to minimise battery size and cost.

**PEOPLE**

The management team has been strengthened by the appointment of Gary Tan (formerly president of Asia Pacific for Brose Automotive) to lead business activities in China, Korea and Malaysia, following a restructuring to re-emphasise the importance of the Asia region.

Selective recruitment has continued, including the appointment of three senior product group experts across the Ricardo group of companies. The market sector teams continue to strengthen with the recruitment of engineering staff within the divisions to support delivery of projects in these newer markets.

Graduate recruitment activity is going well with this year’s intake planned at 25-30 people.

We continue to focus on career management of employees and supporting internal promotions as employees transition to new roles. All areas of the business are now engaged in targeted international assignments. These directly support customer delivery as well as employee development and retention.

Retaining key skills in our business is an ongoing challenge and recruitment costs have increased in the period. We have extended the performance based bonus scheme to a wider pool of managers and issued a small share award to all employees.

**OUTLOOK**

Ricardo has seen a good level of order intake across multiple geographies into all of our key divisions weighted towards the end of the period. As a result, our order book remains strong at £123m, providing momentum into the second half of the year.

In the period the improved profit performance was achieved despite a disappointing trading performance both in the US and across our Strategic Consulting activities, where we have found the market environment challenging. Our focus on working capital management has continued and we have maintained a strong balance sheet.

We remain encouraged to see clients placing work with Ricardo to achieve $CO_2$ reduction and emissions legislation targets, and that our strategic partnerships continue to develop.

Notwithstanding the current uncertain economic backdrop, the profile and robustness of our order intake demonstrates the value of our sector and geographic diversification strategy. With a good order book platform and pipeline of prospects as well as the current strategic partnerships in place providing longer term visibility, we remain confident of further progress for the full year.

Dave Shemmans
Chief Executive
28 February 2012

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

**Condensed consolidated income statement**
for the six months ended 31 December 2011

| Continuing operations | Notes | **Six months ended 31 December 2011 (Unaudited) £m** | Six months ended 31 December 2010 (Unaudited) £m | Year ended 30 June 2011 (Audited) £m |
|---|---|---|---|---|
| Revenue | 4 & 5 | **92.2** | 90.2 | 196.5 |
| Cost of sales | | **(53.1)** | (59.4) | (123.0) |
| Gross profit | | **39.1** | 30.8 | 73.5 |
| Administration expenses | | **(32.4)** | (24.5) | (55.7) |
| Other income | | **0.1** | 0.1 | 0.2 |
| Operating profit | 4 | **6.8** | 6.4 | 18.0 |
| | | | | |
| Finance income | | **0.1** | 0.1 | 0.2 |
| Finance costs | | **(0.6)** | (1.5) | (2.8) |
| **Profit before taxation** | | **6.3** | 5.0 | 15.4 |
| Taxation | 6 | **(0.9)** | (0.2) | - |
| **Profit for the period from continuing operations** | | **5.4** | 4.8 | 15.4 |
| **Discontinued operations** | | | | |
| Loss for the period from discontinued operations | 12 | **-** | (0.2) | (0.2) |
| **Profit for the period** | | **5.4** | 4.6 | 15.2 |
| | | | | |
| **Earnings per ordinary share** | 7 | | | |
| From continuing operations | | | | |
| Basic | | **10.5p** | 9.4p | 30.0p |
| Diluted | | **10.3p** | 9.3p | 29.7p |

**Condensed consolidated statement of comprehensive income**
for the six months ended 31 December 2011

| | **Six months ended 31 December 2011 (Unaudited) £m** | Six months ended 31 December 2010 (Unaudited) £m | Year ended 30 June 2011 (Audited) £m |
|---|---|---|---|
| **Profit for the period** | **5.4** | 4.6 | 15.2 |
| Other comprehensive income | | | |
| Currency translation on foreign currency net investments | **(1.3)** | 0.7 | 1.2 |
| Fair value gain on foreign currency net investment hedges | **-** | 0.3 | 0.3 |
| Fair value loss on foreign currency cash flow hedges | **-** | (0.1) | (0.1) |
| Actuarial (losses)/gains on defined benefit scheme | **(6.5)** | 8.4 | 19.1 |
| Deferred tax on items taken directly to equity | **1.6** | (2.3) | (5.5) |
| **Total other comprehensive income for the period (net of tax)** | **(6.2)** | 7.0 | 15.0 |
| **Total comprehensive income for the period** | **(0.8)** | 11.6 | 30.2 |

**Condensed consolidated statement of changes in equity**
for the six months ended 31 December 2011

| | Issued share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|
| At 1 July 2011 | 12.9 | 13.8 | 6.4 | 56.5 | 89.6 |
| Total comprehensive income for the period | - | - | (1.2) | 0.4 | (0.8) |
| Share-based payments | - | - | - | 0.2 | 0.2 |
| Proceeds from shares issued | 0.1 | 0.1 | - | - | 0.2 |
| Ordinary share dividends | - | - | - | (4.2) | (4.2) |
| **At 31 December 2011 (unaudited)** | **13.0** | **13.9** | **5.2** | **52.9** | **85.0** |
| | | | | | |
| At 1 July 2010 | 12.9 | 13.8 | 5.2 | 32.9 | 64.8 |
| Total comprehensive income for the period | - | - | 1.2 | 10.4 | 11.6 |
| Share-based payments | - | - | - | 0.1 | 0.1 |
| Ordinary share dividends | - | - | - | (3.9) | (3.9) |
| At 31 December 2010 (unaudited) | 12.9 | 13.8 | 6.4 | 39.5 | 72.6 |
| | | | | | |
| At 1 July 2010 | 12.9 | 13.8 | 5.2 | 32.9 | 64.8 |
| Total comprehensive income for the period | - | - | 1.2 | 29.0 | 30.2 |
| Share-based payments | - | - | - | 0.2 | 0.2 |
| Ordinary share dividends | - | - | - | (5.6) | (5.6) |
| At 30 June 2011 (audited) | 12.9 | 13.8 | 5.2 | 56.5 | 89.6 |

**Condensed consolidated statement of financial position**
as at 31 December 2011

| | **31 December 2011 (Unaudited) £m** | 31 December 2010 (Unaudited) £m | 30 June 2011 (Audited) £m |
|---|---|---|---|
| **Assets** | | | |
| **Non current assets** | | | |
| Goodwill | **15.7** | 16.1 | 16.7 |
| Other intangible assets | **6.5** | 4.8 | 5.6 |
| Property, plant and equipment | **45.1** | 45.8 | 45.8 |
| Investment property | **1.7** | 1.9 | 1.9 |
| Trade and other receivables | **1.5** | - | 1.2 |
| Deferred tax assets | **16.9** | 19.1 | 15.6 |
| | **87.4** | 87.7 | 86.8 |
| **Current assets** | | | |
| Inventories | **8.6** | 6.4 | 5.2 |
| Trade and other receivables | **60.4** | 62.8 | 61.9 |
| Derivative financial assets | **-** | 0.1 | 0.2 |
| Current taxation | **0.7** | 1.1 | 0.7 |
| Cash and cash equivalents | **7.8** | 10.3 | 9.9 |
| | **77.5** | 80.7 | 77.9 |
| **Total assets** | **164.9** | 168.4 | 164.7 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Bank loans and overdrafts | **(5.3)** | (17.5) | (8.2) |
| Trade and other payables | **(51.7)** | (47.3) | (48.8) |
| Derivative financial liabilities | **(0.1)** | (0.2) | - |
| Current tax liabilities | **(2.4)** | (3.1) | (2.8) |
| Provisions | **(1.2)** | (0.4) | (1.0) |
| | **(60.7)** | (68.5) | (60.8) |
| **Net current assets** | **16.8** | 12.2 | 17.1 |
| **Non current liabilities** | | | |
| Bank loans | **(0.1)** | (0.3) | (0.2) |
| Retirement benefit obligations | **(18.4)** | (25.0) | (13.4) |
| Deferred tax liabilities | **(0.7)** | (2.0) | (0.7) |
| | **(19.2)** | (27.3) | (14.3) |
| **Total liabilities** | **(79.9)** | (95.8) | (75.1) |
| **Net assets** | **85.0** | 72.6 | 89.6 |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | **13.0** | 12.9 | 12.9 |
| Share premium | **13.9** | 13.8 | 13.8 |
| Other reserves | **5.2** | 6.4 | 6.4 |
| Retained earnings | **52.9** | 39.5 | 56.5 |
| **Total equity** | **85.0** | 72.6 | 89.6 |

**Condensed statement of consolidated cash flows**
for the six months ended 31 December 2011

| | **Six months ended 31 December 2011 (Unaudited) £m** | Six months ended 31 December 2010 (Unaudited) £m | Year ended 30 June 2011 (Audited) £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated by operations (note 10) | **10.5** | 10.7 | 28.3 |
| Interest received | **0.1** | 0.1 | 0.2 |
| Interest paid | **(0.2)** | (0.5) | (0.9) |
| Defined benefit pension scheme financing costs | **(0.4)** | (1.0) | (1.9) |
| Tax paid | **(0.9)** | (1.4) | (2.1) |
| Net cash generated by operating activities | **9.1** | 7.9 | 23.6 |
| **Cash flows from investing activities** | | | |
| Net proceeds of disposal of discontinued operations | **-** | 1.4 | 1.4 |
| Purchase of intangible assets | **(1.4)** | (1.4) | (2.6) |
| Purchase of property, plant and equipment - continuing operations | **(3.1)** | (3.2) | (6.5) |
| Net cash used by investing activities | **(4.5)** | (3.2) | (7.7) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of ordinary share capital | **0.2** | - | - |
| Net proceeds from issue of new bank loan | **-** | 14.2 | 16.1 |
| Repayment of borrowings | **(0.7)** | (9.0) | (25.9) |
| Dividends paid to shareholders | **(4.2)** | (3.9) | (5.6) |
| Net cash (used)/generated by financing activities | **(4.7)** | 1.3 | (15.4) |
| Effect of exchange rate changes | **0.2** | (0.4) | (0.8) |
| **Net increase/(decrease) in cash and cash equivalents** | **0.1** | 5.6 | (0.3) |
| Cash and cash equivalents at beginning of period | **4.4** | 4.7 | 4.7 |
| **Net cash and cash equivalents at the end of period** | **4.5** | 10.3 | 4.4 |

**Notes to the interim financial statements**
for the six months ended 31 December 2011 (unaudited)

## 1. General information

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

This interim report was approved for issue by the Board of Directors on 28 February 2012. It has not been audited but it has been subject to an independent review by PricewaterhouseCoopers LLP.

This interim report does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The figures for the year to 30 June 2011 have been extracted from the 2011 Annual Report and Accounts, which was approved by the Board of Directors on 23 September 2011 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

## 2. Basis of preparation

This interim report for the six months ended 31 December 2011 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and IAS 34 'Interim Financial Reporting' as adopted by the European Union. This interim report should be read in conjunction with the Annual Report and Accounts for the year ended 30 June 2011, which has been prepared in accordance with IFRSs as adopted by the European Union.

## 3. Accounting policies

The accounting policies adopted are consistent with those of the financial statements for the year ended 30 June 2011.

The new, revised or amended standards and interpretations shown below are mandatory for the first time for the financial year ending 30 June 2012, none of which have had any significant impact on these financial statements. New, revised or amended standards and interpretations that are not yet effective have not been early adopted.

*Standards, amendments and interpretations to published standards*
May 2010 Annual Improvements to IFRSs
IAS 24 Related Party Disclosure
IFRS 7 Financial Instruments: Disclosures
IFRIC 14 Prepayments of a minimum funding requirement

## 4. Segmental reporting

The Group's operating segments are being reported based on the financial information provided to the Chief Operating Decision Maker who we have defined as the Chief Executive Officer. The reportable segments for continuing operations are Technical Consulting, Performance Products and Strategic Consulting. These were identified by evaluating the following factors; products and services, processes, types of customers and delivery methods.

• Technical Consulting provides services in relation to the development and implementation of engineering projects. Technical Consulting is further analysed by geographical sector to reflect the differing economic factors in these markets. This is consistent with the information provided to the Chief Operating Decision Maker.

• Strategic Consulting generates income from management and operational consultancy.

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

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its strategic business units separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on operating profit before exceptional items. Included within the head office and consolidation adjustments column in the tables below are functions managed by a central division (including the costs of running the public company).

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

**Revenue from continuing operations:**

| (a) | **Six months ended 31 December 2011** | | | | |
|---|---|---|---|---|---|
| | **External customers £m** | **Inter-segment £m** | **Total £m** | **Carried out by other segments £m** | **Revenue earned £m** |
| Technical Consulting | | | | | |
| UK | **42.7** | **2.5** | **45.2** | **(3.7)** | **41.5** |
| Germany | **11.2** | **2.6** | **13.8** | **(0.8)** | **13.0** |
| US | **14.5** | **1.0** | **15.5** | **(2.0)** | **13.5** |
| Total Technical Consulting | **68.4** | **6.1** | **74.5** | **(6.5)** | **68.0** |
| Strategic Consulting | **5.0** | **0.8** | **5.8** | **(0.5)** | **5.3** |
| Performance Products | **18.8** | **0.1** | **18.9** | **-** | **18.9** |
| | **92.2** | **7.0** | **99.2** | **(7.0)** | **92.2** |

| (b) | Six months ended 31 December 2010 | | | | |
|---|---|---|---|---|---|
| | External customers £m | Inter-segment £m | Total £m | Carried out by other segments £m | Revenue earned £m |
| Technical Consulting | | | | | |
| UK | 40.0 | 2.6 | 42.6 | (3.2) | 39.4 |
| Germany | 9.0 | 1.8 | 10.8 | (0.9) | 9.9 |
| US | 18.0 | 0.4 | 18.4 | (2.4) | 16.0 |
| Total Technical Consulting | 67.0 | 4.8 | 71.8 | (6.5) | 65.3 |
| Strategic Consulting | 5.0 | 1.0 | 6.0 | (0.5) | 5.5 |
| Performance Products | 18.2 | 1.3 | 19.5 | (0.1) | 19.4 |
| | 90.2 | 7.1 | 97.3 | (7.1) | 90.2 |

(c )

| | Year ended 30 June 2011 | | | | |
|---|---|---|---|---|---|
| | External customers £m | Inter-segment £m | Total £m | Carried out by other segments £m | Revenue earned £m |
| Technical Consulting | | | | | |
| UK | 89.5 | 5.2 | 94.7 | (6.7) | 88.0 |
| Germany | 19.1 | 5.6 | 24.7 | (1.5) | 23.2 |
| US | 36.0 | 1.2 | 37.2 | (4.1) | 33.1 |
| Total Technical Consulting | 144.6 | 12.0 | 156.6 | (12.3) | 144.3 |
| Strategic Consulting | 10.9 | 1.4 | 12.3 | (1.0) | 11.3 |
| Performance Products | 41.0 | 0.1 | 41.1 | (0.2) | 40.9 |
| | 196.5 | 13.5 | 210.0 | (13.5) | 196.5 |

**Segmental operating profit**

| | **Six months ended 31 December 2011 £m** | Six months ended 31 December 2010 (restated) £m | Year ended 30 June 2011 (restated) £m |
|---|---|---|---|
| Technical Consulting | | | |
| UK | **6.0** | 2.0 | 8.9 |
| Germany | **0.1** | (0.3) | 0.3 |
| US | **(0.5)** | 0.9 | 3.4 |
| Total Technical Consulting | **5.6** | 2.6 | 12.6 |
| Strategic Consulting | **(0.3)** | 1.0 | 1.7 |
| Performance Products | **2.3** | 3.2 | 5.2 |
| Head Office and consolidation adjustments | **(0.8)** | (0.4) | (1.5) |
| **Operating profit per financial statements** | **6.8** | 6.4 | 18.0 |
| | | | |
| Add finance income | **0.1** | 0.1 | 0.2 |
| Less finance costs | **(0.6)** | (1.5) | (2.8) |
| Profit before tax | **6.3** | 5.0 | 15.4 |

The segmental results for the year to 30 June 2011 and the six months to 31 December 2010 have been restated in relation to certain intercompany foreign exchange gains and losses in the UK segment, which are now all managed at a Group level and are accounted for under Head Office and consolidation adjustments. Group operating profit and profit before tax remain unchanged.

**Segmental assets**

| | **31 December 2011 £m** | 31 December 2010 £m | 30 June 2011 £m |
|---|---|---|---|
| Technical Consulting | | | |
| UK | **58.7** | 64.9 | 61.4 |
| Germany | **37.0** | 36.8 | 37.7 |
| US | **22.5** | 24.4 | 24.7 |
| Total Technical Consulting | **118.2** | 126.1 | 123.8 |
| Strategic Consulting | **4.0** | 3.4 | 4.0 |
| Performance Products | **22.6** | 15.1 | 19.2 |
| Head Office and consolidation adjustments | **20.1** | 23.8 | 17.7 |
| **Total assets in the financial statements** | **164.9** | 168.4 | 164.7 |

## 5. Revenue by customer location

| | **Six months ended 31 December 2011 £m** | Six months ended 31 December 2010 £m | Year ended 30 June 2011 £m |
|---|---|---|---|
| UK | **40.2** | 32.1 | 70.0 |
| Germany | **13.0** | 12.7 | 23.7 |
| Rest of Europe | **5.0** | 6.3 | 16.8 |
| Europe total | **58.2** | 51.1 | 110.5 |
| | | | |
| US | **18.4** | 21.4 | 47.8 |
| | | | |
| China | **4.2** | 5.3 | 8.0 |
| Japan | **6.6** | 6.9 | 13.8 |
| Malaysia | **1.3** | 1.8 | 9.6 |
| Rest of Asia | **3.5** | 3.4 | 6.5 |
| Asia total | **15.6** | 17.4 | 37.9 |
| | | | |
| Rest of the world | **-** | 0.3 | 0.3 |
| | **92.2** | 90.2 | 196.5 |

## 6. Taxation

| | **Six months ended 31 December 2011 £m** | Six months ended 31 December 2010 £m | Year ended 30 June 2011 £m |
|---|---|---|---|
| UK | **0.4** | (0.1) | (1.7) |
| Overseas | **0.5** | 0.3 | 1.7 |
| **Tax charge on profits** | **0.9** | 0.2 | - |
| | | | |
| Current tax charge | **0.6** | 0.4 | 1.2 |
| Deferred tax charge/(credit) | **0.3** | (0.2) | (1.2) |
| **Tax charge on profits** | **0.9** | 0.2 | - |

## 7. Earnings per share

| | **Six months ended 31 December 2011 £m** | Six months ended 31 December 2010 £m | Year ended 30 June 2011 £m |
|---|---|---|---|
| Earnings attributable to equity shareholders | **5.4** | 4.6 | 15.2 |
| Adjustments to exclude loss from discontinued operations | **-** | 0.2 | 0.2 |
| **Earnings from continuing operations** | **5.4** | 4.8 | 15.4 |

| | **Number of shares millions** | Number of shares millions | Number of shares millions |
|---|---|---|---|
| Basic average number of shares in issue | **51.5** | 51.3 | 51.4 |
| Effect of dilutive potential shares | **0.7** | 0.2 | 0.4 |
| **Diluted average number of shares in issue** | **52.2** | 51.5 | 51.8 |

| **Earnings per share** | **pence** | pence | pence |
|---|---|---|---|
| From continuing operations | | | |
| Basic | **10.5** | 9.4 | 30.0 |
| Diluted | **10.3** | 9.3 | 29.7 |
| From continuing and discontinued operations | | | |
| Basic | **10.5** | 9.0 | 29.6 |
| Diluted | **10.3** | 8.9 | 29.3 |
| From discontinued operations | | | |
| Basic | **-** | (0.4) | (0.4) |
| Diluted | **-** | (0.4) | (0.4) |

## 8. Dividends

| | **Six months ended 31 December 2011 pence/share** | Six months ended 31 December 2010 pence/share | **Six months ended 31 December 2011 £m** | Six months ended 31 December 2010 £m |
|---|---|---|---|---|
| Amounts distributed in the period | **8.1p** | 7.5p | **4.2** | 3.8 |
| Interim dividend | **3.7p** | 3.4p | **1.9** | 1.7 |

## 9. Related party transactions

| Compensation for key management personnel | **Six months ended 31 December 2011 £m** | Six months ended 31 December 2010 £m | Year ended 30 June 2011 £m |
|---|---|---|---|
| Salaries and other short-term employee benefits | **1.6** | 1.4 | 3.2 |
| Post employment benefits | **0.1** | - | 0.2 |
| Share-based payments | **0.4** | 0.2 | 0.3 |
| | **2.1** | 1.6 | 3.7 |

The key management personnel are the Board of Directors, the Managing Directors of the Technical Consulting businesses in the UK, US and Germany and the Managing Director of Strategic Consulting.

## 10. Cash generated by operations

| | **Six months ended 31 December 2011 £m** | Six months ended 31 December 2010 £m | Year ended 30 June 2011 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Operating profit | **6.8** | 6.4 | 18.0 |
| Adjustments for: | | | |
| Share-based payments | **0.2** | 0.1 | 0.2 |
| Cash flow and net investment hedges | **0.2** | 0.4 | 0.2 |
| Loss on disposal of property, plant and equipment | **-** | - | 0.1 |
| Depreciation and amortisation | **3.8** | 4.1 | 7.9 |
| Operating cash flows before working capital movements | **11.0** | 11.0 | 26.4 |
| (Increase)/decrease in inventory | **(3.4)** | 1.2 | 2.5 |
| Decrease/(increase) in trade and other receivables | **1.1** | (8.9) | (9.2) |
| Increase in payables | **3.0** | 8.7 | 10.3 |
| Increase in provisions | **0.3** | - | 0.5 |
| Pension payments in excess of pension costs | **(1.5)** | (1.0) | (1.9) |
| **Cash generated by continuing operations** | **10.5** | 11.0 | 28.6 |
| | | | |
| **Discontinued operations** | | | |
| Loss from operations | **-** | (0.2) | (0.2) |
| Operating cash flows before working capital movements | **-** | (0.2) | (0.2) |
| Decrease in trade and other receivables | **-** | 1.5 | 1.5 |
| Decrease in payables | **-** | (1.6) | (1.6) |
| **Cash used by discontinued operations** | **-** | (0.3) | (0.3) |
| **Cash generated by operations** | **10.5** | 10.7 | 28.3 |

## 11. Net funds/(debt) (non-GAAP measure)

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

| At period end | **31 December 2011 £m** | 31 December 2010 £m | 30 June 2011 £m |
|---|---|---|---|
| Cash and cash equivalents (current assets) | **7.8** | 10.3 | 9.9 |
| Bank overdrafts (current liabilities) | **(3.3)** | - | (5.5) |
| Net cash and cash equivalents | **4.5** | 10.3 | 4.4 |
| Bank loans maturing within one year | **(2.0)** | (17.5) | (2.7) |
| Bank loans maturing after one year | **(0.1)** | (0.3) | (0.2) |
| **Net funds/(debt)** | **2.4** | (7.5) | 1.5 |

## 12. Discontinued operations

At 30 June 2010, the Group's exhaust business in Germany was classified as held for sale, and as a discontinued business. The sale agreement for the transfer of the business, plant and equipment and inventories for cash consideration of €2.0m was signed on the 28 July 2010.

| Results of discontinued operations | **Six months ended 31 December 2011 £m** | Six months ended 31 December 2010 £m | Year ended 30 June 2011 £m |
|---|---|---|---|
| Revenue | **-** | 0.9 | 0.9 |
| Operating costs | **-** | (1.1) | (1.1) |
| Loss before tax | **-** | (0.2) | (0.2) |
| Attributable tax credit | **-** | - | - |
| **Net loss attributable to discontinued operations** | **-** | (0.2) | (0.2) |

There were no assets or liabilities classified as held for sale at 31 December 2011, 31 December 2010 or 30 June 2011.

## 13. Capital commitments

At 31 December 2011, contracts had been placed for future capital expenditure, which have not been provided for in the financial statements, amounting to £0.4m (31 December 2010: £0.6m).

## 14. Risks and uncertainties

The Board regularly reviews key risks and uncertainties and has concluded that the disclosure on pages 25 to 26 of the Group's Annual Report for the year ended 30 June 2011 remains appropriate. This should be read in conjunction with the interim management report for the half year ended 31 December 2011.