

Ricardo plc Preliminary Results 30 June 2007



112 **Global**

Premium brand

Right team, right culture

One firm

World class technology & products

World class infrastructure

- ❑ Profit before tax up 13% to £12.2m after US management change costs of £0.4m (June 2006: underlying £10.8m excluding pensions credit)
- ❑ Order book up 28% to £92m (June 2006: £72m)
- ❑ Further R&D tax allowances resulting in overall tax credit
- ❑ Basic earnings per share growth to 29.6p (June 2006: 24.0p, 18.8p excluding pension credit)
- ❑ Full year dividend increased by 6.4% to 10.0p (June 2006: 9.4p)
- ❑ New strategy bearing fruit, underpinned by talent additions to senior management team and new leadership in the US & Germany

KEY INDICATORS



| | June 2007 | June 2006 |
|---------------------------|--------------|--------------|
| Order book | £92m | £72m |
| Gross margin % | 33.5% | 31.0%* |
| Operating profit % | 7.7% | 7.0%* |
| Pension deficit (pre tax) | £16.7m | £23.6m |
| Tax rate | (24)% | 11% * |
| EPS basic | 29.6p | 18.8p* |
| Proposed dividend | 10.0p | 9.4p |
| Net debt | £7.2m | £5.8m |

* excluding pensions credit

INCOME STATEMENT



| £ m | June 2007 | Underlying Performance | Pension Credit | June 2006 |
|-------------------------|---------------|---------------------------|-------------------|---------------|
| Revenue | <u>171.5</u> | <u>171.9</u> | | <u>171.9</u> |
| Gross margin | 57.5 | 53.3 | 2.1 | 55.4 |
| Overheads | <u>(44.3)</u> | <u>(41.2)</u> | <u>1.6</u> | <u>(39.6)</u> |
| Operating profit | 13.2 | 12.1 | 3.7 | 15.8 |
| Finance costs | <u>(1.0)</u> | <u>(1.3)</u> | | <u>(1.3)</u> |
| Profit before tax | 12.2 | 10.8 | 3.7 | 14.5 |
| Taxation credit /charge | <u>2.9</u> | <u>(1.2)</u> | <u>(1.1)</u> | <u>(2.3)</u> |
| Profit after tax | <u>15.1</u> | <u>9.6</u> | <u>2.6</u> | <u>12.2</u> |

DIVISIONAL RESULTS



| £ m | Revenue Earned | | Operating Profit/(Loss) | |
|------------------------|----------------|--------------|-------------------------|-------------|
| | June 2007 | June 2006 | June 2007 | June 2006 |
| Technical Consulting | | | | |
| UK* | 102.0 | 95.0 | 9.8 | 7.8 |
| US including software* | 37.4 | 38.9 | 1.2 | 2.2 |
| Germany | 24.2 | 24.1 | 0.9 | (0.5) |
| Strategic Consulting | 7.9 | 13.9 | 1.3 | 2.6 |
| | <u>171.5</u> | <u>171.9</u> | <u>13.2</u> | <u>12.1</u> |

* restated to include within the UK the overseas offices serving the UK, and for the re-classification of an immaterial subsidiary

| | £ m | Tax Rate |
|---|-------------------|-------------------|
| Global statutory tax effective | (3.8) | (31)% |
| Disallowables, state tax irrecoverable, withholding tax | (1.2) | |
| 06/07 UK R&D (revised methodology) | <u>2.7</u> | |
| Subtotal | (2.3) | (19)% |
| Retrospective US R&D tax allowances (2000-2006) | 2.9 | |
| Increased UK R&D tax allowances (2004-2006) | 1.8 | |
| Tax reclaims | 0.5 | |
| Subtotal | <u>5.2</u> | <u>43%</u> |
| Total tax credit | <u><u>2.9</u></u> | <u><u>24%</u></u> |

- ❑ Tax rate 2006/7 before one off items 19% (18% prior year calculated on a similar basis)
- ❑ EPS in 2006/7 affected by significant retrospective R&D credits of £5.2 million
- ❑ Looking ahead –
 - EPS influenced by both PBT and tax
 - With a constant tax rate our strategy supports a steady growth in EPS
- ❑ Normalised tax rate excludes:
 - Any further potential benefits from R&D
 - Any new changes to tax regulations
- ❑ Possible future impact on EPS of potential further tax benefits

BALANCE SHEET SUMMARY



| £ m | 30 June 2007 | 30 June 2006 |
|------------------------------|-----------------|-----------------|
| Tangible assets | 44.5 | 45.2 |
| Intangible assets | 17.5 | 17.4 |
| Inventory and debtors | 63.1 | 54.3 |
| Net borrowings | (7.2) | (5.8) |
| Trade creditors | (43.9) | (38.9) |
| Tax & other liabilities | (0.3) | (5.6) |
| Pension deficit (net of tax) | (12.0) | (16.5) |
| Net Assets | 61.7 | 50.1 |

| £ m | Year ended 30 June 2007 | Year ended 30 June 2006 |
|---|----------------------------|----------------------------|
| Operating profit | 13.2 | 12.1* |
| Depreciation/loss on sale of fixed assets | 8.8 | 9.0 |
| Working capital increase | (3.9) | (0.7) |
| Dividend | (5.0) | (4.6) |
| Net interest received/(paid) | (1.0) | (1.3) |
| Tax refund/(paid) | (1.6) | (1.4) |
| Capital expenditure | (9.5) | (8.1) |
| Pension payments in excess of pension costs | (2.7) | (0.7) |
| Other | 0.3 | 1.1 |
| Cash (outflow)/inflow | <u>(1.4)</u> | <u>5.4</u> |

* excluding pensions credit

Global emissions, high fuel prices, automotive safety and world instability continue to provide the core drivers for Ricardo



❑ Fuel economy, CO₂/emissions reduction and safety enhancing solutions

- *Low emissions diesel (US/Eu), fuel efficient gasoline, active dynamic transmissions, advanced hybrid powertrains and drive by wire systems*

❑ Profit generation in competitive automotive markets, disrupted by new entrants

- *Cost down (product/operation), fast time to market, right product right time*
- *Fast track product development and access to technology*

❑ Globalisation and rapidly developing new regions, Asia and Eastern Europe

- *Fast track product development, technology transfer, company-process development for new players*

❑ Peace keeping for now and future, world instability

- *Multi fuel, safety/integrity, versatility, agility, rapid deployment, strategic development, European expansion*

❑ New energy markets/sources

- *Application of related technology to synergistic markets governed by similar core drivers*

Ricardo added value growth strategy exploiting the global market, while de-risking against geographical and automotive cyclicity. Gathering momentum and becoming a “truly global business”



EU/US/Asia
Germany
Japan
India
China
Russia

Increased R&D investment
CO2 reduction & Fuel economy
Diesel & Hybrid
Transmissions (DCT & TV)
Safety, Electronics



Strengthened divisional, technical, financial & HR leadership together with increasing engineering horsepower

Aligned organisational structure
Joint divisional client delivery
Global client support
Standardised processes & control

RICARDO UK – Growth strong; diversified geography, client and product base; CO2, emissions control and safety technology



- ❑ Ricardo UK profits up £1.6m, 19% compared to 05/06
- ❑ Order book up 40%. Strong pipeline of opportunities from a broad range of products, geographies, sectors and customers. Continued demand for our R&D investment led technology – diesel, DCT, gasoline direct injection, hybrids.
- ❑ Return to a balanced portfolio including many £multi million programmes spanning more than 12 months. 1/3rd of orderbook is for delivery post 2007/8
- ❑ Japan, India, China and Russia delivered strong order intake in the period in sectors of passenger car & commercial vehicle.
- ❑ UK and European customers continue their focus on technology and vehicle application to meet new emissions legislation and reduce CO2.
- ❑ Military related contracts and European funded technology programmes continue at good levels
- ❑ A strong year for our transmissions motor sport activities in the F1, World Rally car and other formulae – winning contracts and races world-wide
- ❑ Prague headcount has grown to c120 supporting programme delivery, R&D, software product development and back office services



RICARDO US – Poor first half, followed by product focused organisational alignment, entrepreneurial focused change of leadership; stronger second half

- ❑ Ricardo US profits down £1m compared to 05/06. First half underpinned by software business, second half recovery for engineering business
- ❑ Solid pipeline of opportunities from a broad range of product groups, sectors and customers.
- ❑ Invigorated focus on new sectors & clients. Dean Harlow brings experience with a strategic and entrepreneurial approach to business development and leadership. An increased energy and value added focus based around technology exploitation.
- ❑ Passenger car OEMs (“Big 3” and “new domestics”) active across the gasoline, diesel, hybrid range for both application and research. A shift from cost down focus to product offensives
- ❑ A 2007 hiatus in commercial vehicle activity due to 2007 emissions legislation introduction, development expected to pick up in 2008 for 2010 legislation
- ❑ Increasing levels of non US based customer opportunities and programmes from Asian customers looking to establish market share in the US
- ❑ “Bush 2010” increasing activities in new energy sector and alternative fuels



RICARDO GERMANY – breaking into new customers with the right team, infrastructure and innovation. Delivering programmes and establishing track record.



- ❑ Profit growth continues as a result of investment in business development, integration and increasing consulting capability
- ❑ Increasing order book and leads with passenger car, commercial vehicle and other automotive OEMS and Tier 1s. Established on bid lists and becoming part of the “network”.
- ❑ Pleasing follow on orders and extensions, establishing client trust as we deliver to their expectations
- ❑ Test beds full. Further demand for additional beds from German clients with overflow work passed through to UK
- ❑ Niche production continuation orders received together with additional exhaust programmes. Prototyping remains strong. Evaluating low cost suppliers from developing regions
- ❑ Natural internal succession, Dr. Peter Heuser becomes MD with a strong technical and outward facing focus. Highly respected in German market.
- ❑ Successfully recruiting engineers and technical leadership positions.
- ❑ Establishing links to Universities and industry technical institutions/congress



STRATEGIC CONSULTING – Business development following a prior year of project delivery. Client base, products, order book and team size expanding



- ❑ RSC profits down £1.3m compared to 05/06, as significant programmes ramped down. Building order book, client base and bench strength to enable sustainable profit growth
- ❑ A broader portfolio of clients, geographies and products fuelling growth of the business with more conventional management consulting programmes
- ❑ A year of transition from trading a number of major projects to a broader portfolio of projects of all sizes.
- ❑ Projects in US, Europe and Asia
- ❑ Successfully recruiting talent and clients from leading competition
- ❑ Good wins exploiting and collaborating with Ricardo engineering teams and extracting incremental value from Ricardo technology. Work flowing both ways.
- ❑ Product cost down, warranty reduction and business improvement remain key activities with increasing interest in market, product and technology strategy from clients looking to improve top line
- ❑ Regularly approached for high profile due diligence and acquisition support



Asian and regional offices – providing sales and delivery channels to world leading organisations and fast developing economies

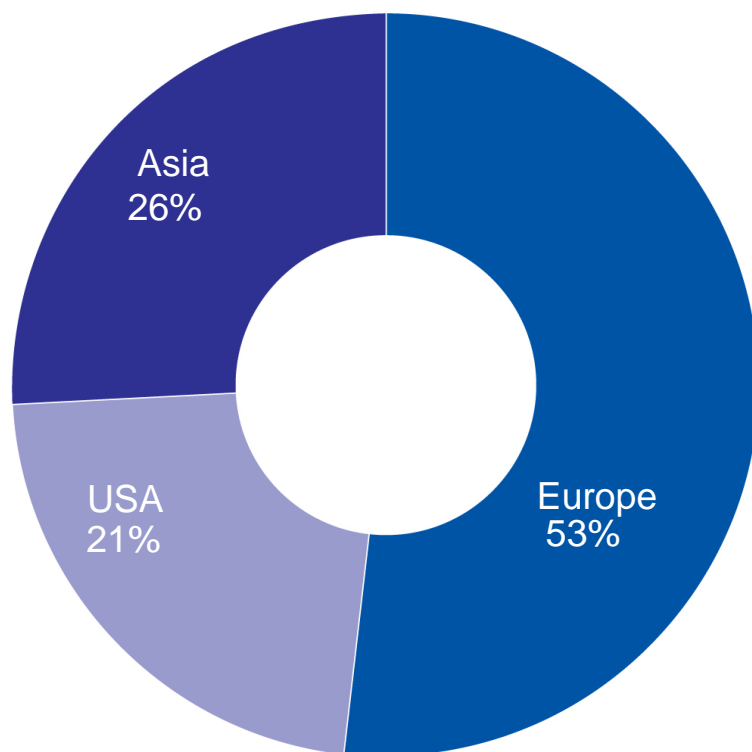


- ❑ A record year for Japanese order intake with good size programmes from multiple clients based on step by step relationship building and delivery over prior years
- ❑ Turnkey outsource programmes underway, an increasing trend by many of the clients. Diesel and electronic technology remains of high interest with Japanese clients for global markets
- ❑ Shanghai office developing/expanding into engineering office with good project utilisation of local staff. Generating significant leads and follow on business including export targeted products. Will out grow expanded facilities in 2008 and plan to move to a technical centre environment
- ❑ Establishing solid relationships, reputation and repeat business with the leading Chinese players based on technology transfer and delivery. Ricardo 2010 transferred and relationship with SAIC continues strongly
- ❑ India provided good business levels from local manufacturers exploiting a growing market, developing economy and requirement to meet emissions legislation. Increased Ricardo presence on the ground and plan to open Indian office in Autumn 2007
- ❑ A pathfinder strategy in Russia has led to good levels of value added business and potential for more. A market which we will continue to develop

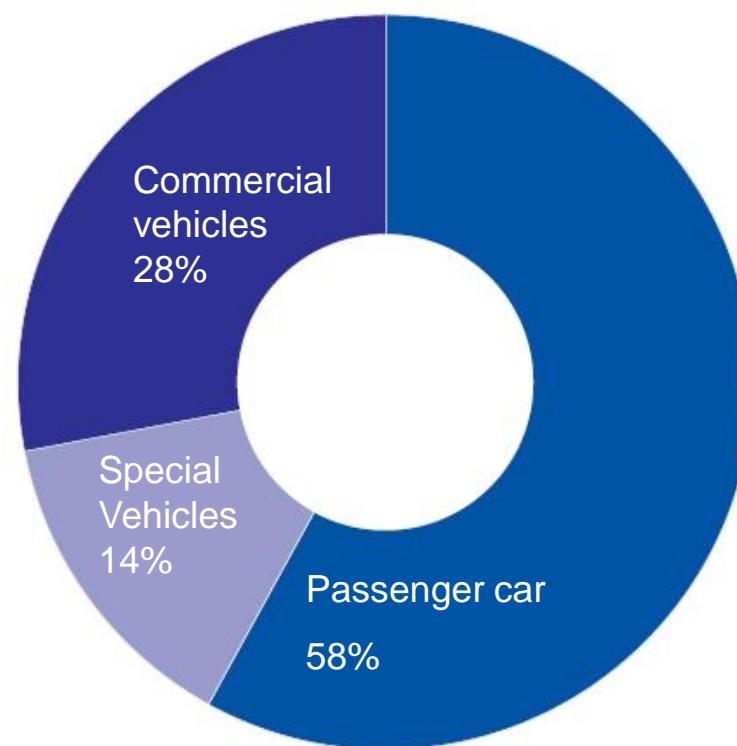


Order intake for the full year 06/07 shows the “Global” strategy in action, with geography and sector spread de-risking and providing a platform for growth. Increased European business in 06/07

Geographic Spread



Sector Spread

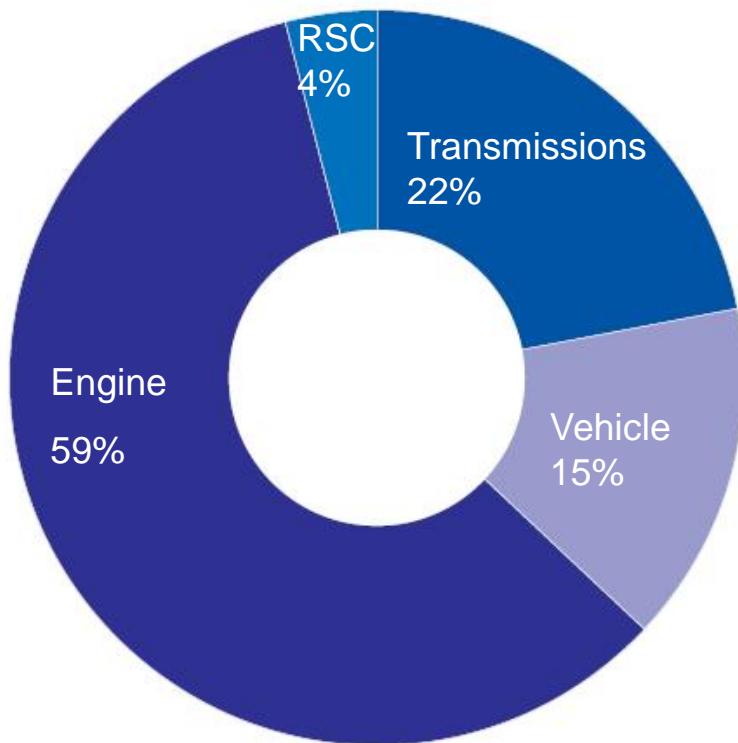


Removing significant material content Asia/US/Eu = 30/23/47%

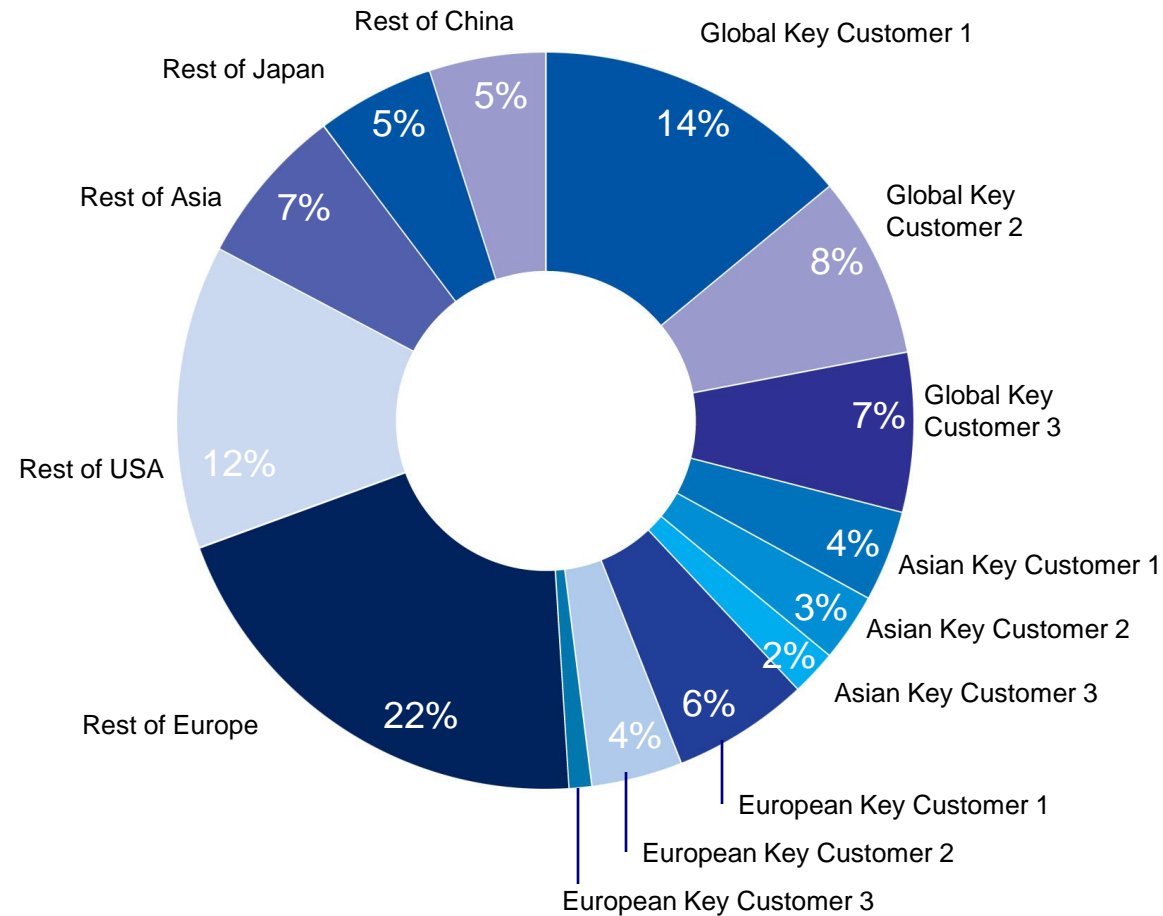
Order intake for the full year 06/07 shows the “Global” strategy in action, with Product and Customer spread de-risking and providing a platform for growth



Product Spread



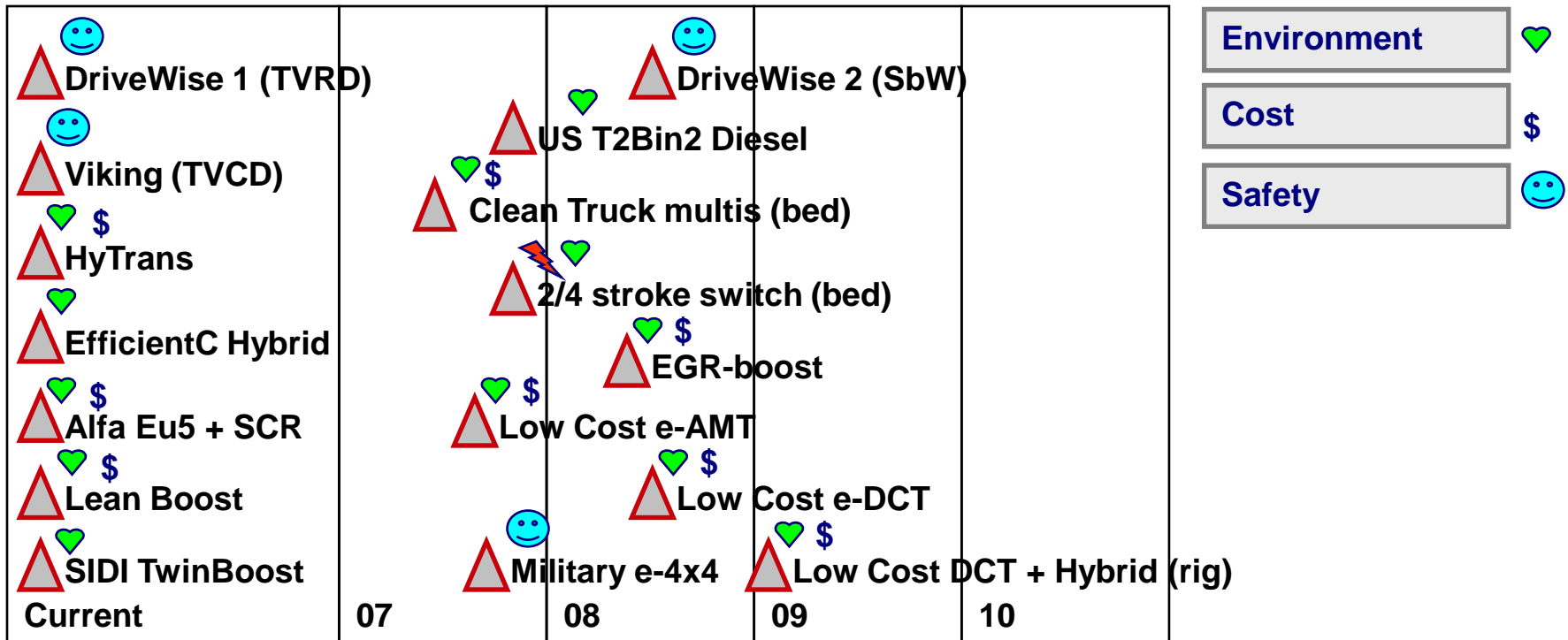
Customer Spread



Technologies to meet legislation and tackle climate change are at the centre of our research activity. Automotive safety technologies are also being developed from an increasing R&D spend

- ❑ **Powertrain: Clean Diesel, Efficient Gasoline, Hybrids, Advanced Auto Transmissions**
 - Comprehensive portfolio of fuel efficient low carbon technologies for global markets

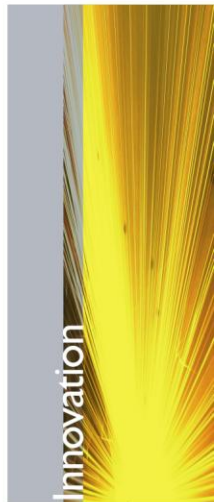
- ❑ **Active Safety and Dynamics: Torque Vectoring and Steer by Wire**
 - Now one of our fastest growing areas of investment return



| | |
|-------------|----|
| Environment | ♥ |
| Cost | \$ |
| Safety | 😊 |

- ❑ Core market drivers becoming increasingly important
- ❑ Strategy is delivering results and the value added business is gathering momentum
- ❑ Geographical and sector expansion delivering growing order book and new customers
- ❑ Good business relationships being developed world-wide
- ❑ Investments into R&D continue to pick key technology winners
- ❑ Successfully developing and recruiting high quality leadership talent to drive business forward
- ❑ Becoming a “joined up global operation” and investing in the necessary infrastructure and team to ensure robust sustainable delivery to all stakeholders
- ❑ Looking at additional markets and businesses to enhance future returns and growth

- “We have had a satisfactory start to the new financial year, benefiting from the strong order book and continued good order intake. The continuing delivery of our strategy to increase geographic, customer and sector spread, together with the implementation of a US business improvement plan, gives us confidence for continued progress in the new financial year.”



Appendix 1 DIVISIONAL RESULTS (old format)



| £ m | Revenue Earned | | Operating Profit/(Loss) | |
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| Germany | 24.2 | 24.1 | 0.9 | (0.5) |
| Rest of World (Prague, China, Japan) | 1.5 | 1.1 | (0.3) | (0.7) |
| Strategic Consulting | 7.9 | 13.9 | 1.3 | 2.6 |
| | <u>171.5</u> | <u>171.9</u> | <u>13.2</u> | <u>12.1</u> |

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