



9 September 2013

**Ricardo plc**  
**Preliminary results for the full year ended 30 June 2013**

***Ricardo plc is a global, world-class, multi-industry consultancy for engineering, technology, innovation, strategy and environment. We employ 2,100 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 and governments.***

**Highlights**

- A record operating performance
- Organic (excluding AEA) profit before tax up 15% to £20.2m (June 2012: £17.6m)
- Underlying\* profit before tax up 31% to £23.0m (June 2012: £17.6m)
- Underlying\* basic earnings per share up 22% to 35.8p (June 2012: 29.3p)
- Net funds of £6.1m (June 2012: £7.9m) after funding £18.0m AEA acquisition
- Full year dividend up 13% to 14.0p per share (June 2012: 12.4p)
- Continuing to build an innovative Group well-placed to deliver long-term growth
- Strategic partnerships yielding multi-year visibility
- Outlook remains positive, strong platform for further growth

\* excluding specific adjusting items, which comprise amortisation of acquired intangible assets and acquisition costs

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

"This year we have delivered record financial results, strong cash generation and exceptional projects to our clients. We are starting 2014 with a solid order book, good order intake in the first two months and a growing pipeline which includes significant opportunities in the passenger car market. With Ricardo-AEA we are demonstrating that carefully targeted acquisitions can significantly accelerate the achievement of our strategic objectives.

"We have continued to make good progress both strategically and operationally in building an innovative and agile Group which is well placed to deliver exceptional projects for clients. Our results demonstrate the benefit of our growth and risk mitigation strategy. We anticipate further progress in 2014 as the Group has a strong balance sheet and a range of opportunities open to it as a diverse Technical Consulting and Performance Products business."

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Ricardo plc

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## **Review of the year**

### **Trading performance**

The Group has delivered a record operating result for the year to 30 June 2013, with a strong performance in the UK more than offsetting challenges in Germany. Revenue increased to £229.7m, a 16% increase on the prior year, and includes £25.4m from Ricardo-AEA from the point of acquisition on 8 November 2012. Group revenues, excluding Ricardo-AEA, increased by 3% on the prior year, which represents solid growth within the existing business.

Underlying profit before tax increased by 31% to £23.0m, up from £17.6m in the prior year, and includes £2.8m from Ricardo-AEA. The Group has also delivered margin improvement, with underlying profit before tax margins now at 10.0%, compared to 8.9% in the prior year.

Basic earnings per share was 32.9p compared to 29.3p in 2012. The directors consider that an underlying basic earnings per share provides a more useful indication of performance and trends over time. Underlying basic earnings per share was up 22% to 35.8p, compared with 29.3p in the prior year.

The Group has a solid closing order book at £121m, with significant pipeline opportunities. The order book and pipeline contain good diversification across market sectors. The Group continues to invest in Research and Development, and had expenditure of £9.0m (2012: £9.5m) before government grant income of £1.2m (2012: £3.4m) and excluding amounts capitalised of £0.7m (2012: £0.5m).

Performance Products and Technical Consulting operating results are discussed below. Overall it has been a good year for Performance Products, with growth in revenue, underlying operating profit and order intake. Within Technical Consulting, Ricardo-AEA has made a valuable contribution since acquisition.

## **Technical Consulting**

### **Performance**

The Technical Consulting segment accounts for around three quarters of Group revenues and underlying operating profit. Technical Consulting includes Ricardo-AEA. Revenues grew by 20% to £180.1m (2012: £149.6m), and by 3% to £154.7m excluding Ricardo-AEA. Underlying operating profit increased by 26% to £18.5m (2012: £14.7m), and by 7% to £15.7m excluding Ricardo-AEA. Operating margins have increased to 10.3%, up from 9.8% in 2012. Order intake in the year stood at £172m, £146m excluding Ricardo-AEA (2012: £154m).

The Technical Consulting businesses have continued to be managed as a global portfolio, and balancing work across the portfolio continues to be a key theme. There has been a good balance of order intake across the regions.

On 8 November 2012 the Group acquired the business and certain operating assets of AEA Technology plc (in administration) ("AEA Europe"). AEA Europe is a leading environmental consultancy providing Technical Consultancy services to the UK public sector, the European Commission, international agencies and private sector organisations. The acquired business, renamed Ricardo-AEA, is now fully integrated within the Group as part of the Technical Consulting segment. Post acquisition, Ricardo-AEA has continued to expand its range of expert environmental consultancy services, focusing on strategic, technical and economic themes. The integration and performance of the business has met or exceeded our original expectations. Synergies are being generated by leveraging the enlarged Group's purchasing power.

The existing UK business has had a strong year. Despite a strategic partner taking certain work in-house, the UK has continued to work on existing multi-year programmes and secure a good stream of new business. A number of internal improvement initiatives have increased the effectiveness of the business in certain areas.

Our business in Germany had a particularly difficult start to the year as demand softened and a key client took some testing requirements in-house. A new interim Managing Director with extensive experience of successfully leading and developing businesses was appointed in the first half of the year. Multi-year programmes have been won from international clients; this, along with tight cost control, contributed to improved business performance in the second half.

In the US, the business built momentum within a challenging market. The “Detroit 3” placed a number of smaller contracts and operating results were underpinned by Defence and Passenger Car work together with tight control of the cost base.

The Far East, including China, remains a key region. Our sales offices in the Far East have continued to win significant orders for delivery by other businesses within the Group. Ricardo Shanghai increased its presence by starting to contract and deliver locally.

Our strategic consulting activities continue to operate across all geographies. Revenue challenges in Europe were offset by increased demand from our Asian-based customers, particularly Japan, and a significantly improved global cost base. The combination of management consulting skills and deep industry insight continues to resonate with customers across a wide variety of sectors including passenger car, commercial vehicle and off-highway companies, plus numerous government bodies and private equity firms.

### **Market Sector Highlights – Technical Consulting Government**

Demand from the government sector is heavily influenced by the regulatory cycle in the major markets in which Ricardo operates. For this reason, activity in the year for the existing business was down on the previous year, which had seen significant work associated with the definition of fuel economy regulations in both light and heavy duty vehicles in the US and Euro 6 and the 95 g/km CO<sub>2</sub> target in Europe.

During the year contracts won included an award by the California Energy Commission to perform a comprehensive survey of the plug-in electric vehicle marketplace, and a US Advanced Research Projects Agency - Energy project for support of advanced electric motor design. Projects completed during the year included support for the Environmental Protection Agency in providing advice on new technology capabilities in relation to future fuel economy regulations, and a collaborative report for the EU Commission on test cycle flexibilities.

For Ricardo-AEA, the UK public sector remained its largest market and despite continuing UK Government pressure on budgets, Ricardo-AEA continued to secure major wins. These included the UK's Combined Heat and Power Quality Assurance Programme, the Climate Change Agreements Programme, Resource Efficient Scotland, and the Scottish Air Quality Database. The business also expanded its customer base internationally, including the strategic contract win of a flagship project to improve air quality in Riyadh, Saudi Arabia, where urbanisation is leading to increased emissions, worsening of city air quality, and adverse health effects.

### **Passenger Car**

The passenger car sector remains one of the most significant for Ricardo. Project demand was strong during the year, with orders from the US, Japan and China as well as in the UK from customers such as Jaguar Land Rover as a result of the on-going strategic supplier relationship. An example of the type of work carried out under this arrangement is the project to integrate the I4 Ti 240 four-cylinder engines into the XJ and XF saloons for the Chinese market.

Order intake was well balanced, representing a broad spread both geographically and in terms of premium, luxury and value positions within the market, as well as Tier 1 suppliers. The technology focus of programmes remained high, and was reflected in an increase in interest in complex challenges to optimise powertrain mix across markets, including conventional and electrified architectures. The requirement to deliver high fuel economy and low CO<sub>2</sub> solutions for both medium and long-term product requirements was also a major determinant of demand during the year.

### **High Performance Vehicles**

Technical Consulting activities in the high performance vehicles sector can be broadly categorised into high performance road vehicles such as luxury supercars, and products for competitive motorsport. For both of these categories, many design and development projects have subsequently become the focus of long-term manufacturing contracts for the Performance Products business.

Demand in both categories remained positive in the year. Ricardo has been active on a range of premium road vehicle programmes, supporting the development of powertrain systems ranging from the most extreme conventional combustion engine applications to state-of-the-art performance hybrid and electric vehicle architectures. In the motorsport business, projects were largely focused on the design and development of products for subsequent manufacture and assembly as part of the Performance Products activity. These are primarily transmission and driveline products, ranging from individual components, electronics modules and control units to entire systems, including transmissions for single-make race series.

### **Motorcycle and Personal Transportation**

The motorcycle and personal transportation sector has strong geographical and market distinctions, from the value-driven brands of Southeast Asia to the technology-focused luxury marques of Europe, North America and Japan. Ricardo has developed a comprehensive capability based around its centre of excellence in Southern Germany, through which it can deliver to this global customer base some of the most challenging and complex motorcycle and personal transportation projects.

During the year new customer projects have been won in Japan and China, in addition to significant wins from the long-standing European customer base. The motorcycle business mix reflects the broad base of the group, with projects including base engine and transmission development, emissions reduction programmes, and hybrid and control systems. A particularly notable success was marked during the year with the launch by BMW Motorrad of the new C600 Sport and C650 GT maxi scooters.

### **Commercial Vehicles**

Activity in the commercial vehicle sector has been lower than in prior years due to Europe being towards the end of the product development cycle for Euro VI emissions legislation and North America being yet to define future emissions legislation changes.

The focus of Ricardo's commercial vehicle Technical Consulting activity for European customers in the year has been on fuel economy improvement and system optimisation. In the US, the focus has been more squarely upon cost reduction and quality improvement programmes. In Asia, projects delivered in the year included a model based control system for a Japanese OEM, and a detailed design and technology review for a Chinese manufacturer.

Significant new business wins in the year included engine testing, manufacturing site assessment and power drive unit analysis for US customers, and the completion of the European research project Efficient and Reliable Transportation of Consignments (ERTOC). The aim of this project – successfully demonstrated on completion – was to develop a standards-based open-architecture data hub to enable freight users and operators to make informed and optimal decisions regarding the management of operations for minimum financial and/or environmental cost.

## **Agricultural and Industrial Vehicles**

A slowdown in the China construction industry and the delay of new legislation in emerging markets has led to lower activity in the off-highway sector than in prior years.

The highly successful TaxiBot programme for IAI of Israel continued during the year, with a new order announced for assistance with the widebody version of this advanced semi-robotic, pilot-controlled taxiing system. Developed in collaboration with Ricardo, TaxiBot enables aircraft to taxi without running their main engines.

In the off-highway sector, numerous engine programmes were awarded relating to base engine, calibration and electrical integration for a range of customers in the US, Europe and Asia. A particular highlight was Ricardo's Twin Vortex Combustion System (TVCS), a highly successful clean technology that offers manufacturers a very attractive path to US Tier 4 compliance without the need for overly complex and expensive aftertreatment systems. During the year, Doosan Infracore announced that the Ricardo TVCS system would be incorporated in its new engines with a market launch in 2014 in the US Bobcat products, joining other customers such as JCB already using this technology.

## **Defence**

Despite market contraction in Europe and North America driven by government austerity programmes aimed at controlling budget deficit spending, Ricardo's defence-related Technical Consulting activity performed extremely well in the year. An extension of the defence sales team enabled improved penetration into European, Middle Eastern and Asian markets. Coupled with the demand for technology transfer and for innovative in-life engineering solutions in lieu of new product programmes, this is driving performance within the defence sector.

New contracts included a programme with a European defence vehicle engineering company to develop hybrid technology for an eight-wheel drive platform. In the US, a project was secured with Defense Advanced Research Projects Agency (DARPA) for management of the Fast Adaptable Next-Generation Ground Vehicle (FANG) Mobility/Drivetrain Challenge, a novel approach to sourcing technology based on the use of internet crowd sourcing techniques. Also in the US, final testing of the FED Alpha vehicle for TARDEC proved that the Ricardo-engineered vehicle delivers a full 70 percent improvement in fuel consumption (against a target of 30 percent) compared to the current baseline vehicle.

## **Rail**

Ricardo's rail sector business has remained buoyant during the year, with order intake more than doubling compared with the previous year. It has also developed across a very broad geographical spread including North America, Europe and Asia, with customers represented across the full spectrum from Tier 1 equipment manufacturers to railway operators and governments, and from rail freight operations to mass transit.

A number of new rail clients have been won in the year, including several of the world's top rail vehicle manufacturers such as Canadian multinational Bombardier, CNR Dalian of China and US based GE Transportation. The range of projects being undertaken reflects the international rail industry's imperatives of increasing fuel efficiency and reliability, while also achieving more stringent international emissions regulations. These projects include, for example, new locomotive engine design programmes, monorail driveline design and manufacture, and research into energy storage systems and the use of alternative fuels such as the project with Canadian National Rail on natural gas traction.

## **Clean Energy and Power Generation**

The clean energy and power generation sector experienced increased demand during the year. Major areas of activity were in large engines for power generation, and combined heat and power and energy storage systems. In the renewable energy sector, demand was particularly strong in offshore wind energy, followed by onshore wind and tidal stream power generation.

Contracts delivered and in progress during the year included the new upgraded Aggreko G3+ diesel engine that sets the benchmark for efficiency in utility power in 1MW class. Renewable energy sector contracts included the support of Atlantis Resources Corporation with mechanical and electrical reviews of its tidal energy system, and the continued support to David Brown on its project to design and manufacture 7MW wind turbine gearboxes for Samsung Heavy Industries.

Ricardo-AEA expanded within the UK and international private sector. During the year projects carried out included greenhouse gas emissions reporting for one of the UK's largest property developers, air quality measurements and modelling for a large UK airport operator, benchmarking the carbon footprint of a well-known food manufacturer's products, assisting a major global bank to support green investment from finance providers, and waste flow analysis for one of the UK's largest services outsourcing providers.

## **Marine**

Within the marine sector the Ricardo name is long established and well respected. Our business has benefited from this reputation and from the increasing requirement for fuel-efficient and clean propulsion and auxiliary power systems. The widely anticipated international marine emissions regulations, and the introduction of low sulphur fuels in particular, have led to 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.

During the year, contracts were completed on a Caterpillar/MaK 10MW gas engine development programme and a 9MW diesel for Doosan in Korea. New contract wins included further work with Caterpillar/MaK for a combustion system concept study for gas engines in the 18-20MW range, new high-speed diesel engine families for European and Chinese customers, and a European R&D programme aiming to develop new heat recovery and turbocharging systems for marine applications.

## **Performance Products**

### **Performance**

The Performance Products segment accounts for around one quarter of Group revenues and underlying operating profit. Ricardo Performance Products continues to deliver growth both in terms of order intake, revenue and underlying operating profit. Revenues grew by 4% to £49.6m (2012: £47.8m), with underlying operating profit increasing to £6.1m (2012: £5.8m). Operating margins have increased to 12.3%, up from 12.1% in 2012. Order intake in the year stood at £46m (2012: £43m).

The continuing upward trend in results has been achieved largely through the delivery of high-quality products from significant long-term contracts, the addition of new diverse programmes, and improved efficiency and delivery of operations.

### **Market Sector Highlights – Performance Products**

#### **Defence**

Assembly of the Foxhound vehicle for use by British Forces continued during the year, with the successful completion and delivery of the first two tranches of 300 vehicles. During the year, new orders from General Dynamics Land Systems took the total manufacturing commitment to date to 376 vehicles.

## **High Performance Vehicles**

Demand for engines from McLaren for both the 12C and new P1 supercars has continued. A further order was also received from Bugatti for an extension of the long-standing contract to supply the advanced dual clutch transmission for the Veyron supercar.

In the area of motorsports, Ricardo's involvement continued during the year with manufacturing orders from Formula 1 customers, and products such as the Ricardo-designed transmissions for the Japanese Super GT, GT3 and the Renault World Series.

## **Rail**

The positive growth of Ricardo's Technical Consulting activity within the rail sector has already started to feed through to the Performance Products segment. During the year a contract was completed to manufacture initial prototype units of Scomi's L17 monorail transmission. Upgraded in collaboration with Ricardo, the new lighter weight unit will enable a power upgrade from 170kW to 260kW. The prototype units were constructed by the Performance Products group at the Ricardo Midlands Technical Centre. This project was an excellent demonstration of Ricardo's ability to exploit Performance Product opportunities within the international rail sector, building on the market presence developed through Technical Consulting.

## **Research & Development**

Ricardo continues to invest in new technology to underpin our future business objectives. R&D activities are delivered through a mixture of self funded programmes, collaboratively funded programmes with the help of industry and government partners such as the Technology Strategy Board and through capitalised investment into new products where downstream returns are realisable. Our R&D activities can be broadly classified into four main categories: new technology-based service offerings (for example, Hyboost low CO<sub>2</sub> demonstrator), new product development (for example, flywheel energy storage systems), new tools and techniques, and disruptive new technology leading to patentable IP.

We have recently completed a high-profile development programme to integrate Ricardo's flywheel energy storage system into a mid-sized off-highway excavator, which recovers and returns previously wasted energy via the hydraulic system to deliver compelling fuel savings and reduce emissions. The concept has matured significantly into a robust, modular and cost-effective solution and is protected by a growing patent portfolio. Our flywheel excavator machine has already received an enthusiastic response from OEMs, Tier 1 hydraulics suppliers and machine operators as, in addition to its potential for reducing operating costs, its innovative 'sealed for life' permanent vacuum differentiates it against competitive systems by eliminating single points of failure such as vacuum seals and pumps. We can therefore confidently realise mainstream deployment into applications where robustness and reliability are absolutely paramount, and are already exploring opportunities in other market sectors such as rail and commercial vehicles.

We are also now leading a collaborative consortium programme to improve the reliability and reduce the cost of generation for offshore wind turbines. This project will demonstrate the benefits of our "multi-life" bearing system for the wind turbine transmission system, as bearing life is a major factor in system reliability. We are also exploring some innovative technologies in condition monitoring and torque input control to optimise system life.

Another key R&D initiative is our work to find cost efficiencies through system engineering of advanced automotive propulsion systems. Our unique knowledge of all elements of the powertrain has enabled us to create some really innovative configurations that can offer significant cost reductions in advanced hybrid platforms. These new configurations have shown the potential to meet future regulated fuel economy requirements at substantially lower costs than currently anticipated by many of our customers.

Our combustion system design and optimisation expertise has created some unique combustion systems such as our low-particulate Twin Vortex diesel system and our latest Spray Guided Lean Gasoline System. This programme is designed to improve and validate our design tools that enable our customers to get products to market faster and to also create new concepts that can minimise the complexity and cost of emissions aftertreatment solutions.

As part of our investments in electrification we have applied an extreme plug-in hybrid configuration to a Jaguar Land Rover Freelander in the form of a small turbocharged two-cylinder combustion engine, a high-performance electric drive and a moderately sized battery. This system has no range limitations but has the potential to achieve over 100 miles per gallon in a 2000 kg vehicle. The vehicle is now complete and will shortly be on demonstration tours with clients.

## **Other financial matters**

### **Acquisition and acquisition-related intangible assets**

On 8 November 2012 the Group acquired the business and certain operating assets of AEA Technology plc (in administration) ("AEA Europe") for total cash consideration of £18.0m. This investment generated goodwill of £9.9m and acquisition-related intangible assets of £8.8m.

The Group incurred acquisition costs of £1.3m. Amortisation of acquisition-related intangible assets from the point of acquisition to 30 June 2013 amounted to £0.7m. The acquisition costs and the amortisation of acquisition-related intangible assets have been charged to the Consolidated Income Statement as specific adjusting items.

Ricardo-AEA has contributed £25.4m of revenue and £2.8m of underlying operating profit to the Group results since the date of acquisition.

The Group holds a further £16.0m (2012: £15.3m) of goodwill on the balance sheet. This comprises £2.7m (2012: £2.7m) in relation to two businesses fully integrated into Ricardo UK Limited (Gemini and Tarragon), and £13.3m (2012: £12.6m) in relation to the Technical Consulting business in Germany. The Group carries out an annual goodwill impairment test as part of the year end procedures, or more frequently if events or changes in circumstances indicate a potential impairment. Following the year end test, we consider that no impairment is required.

### **Net finance costs**

Finance income was £0.2m and finance costs £1.3m, giving a net finance cost of £1.1m. This is broadly in line with the prior year (2012: £1.0m). Included within the finance costs is £1.1m (2012: £0.9m) in respect of the net finance charge for the defined benefit pension scheme.

### **Taxation**

The total tax charge for the year was £4.0m (2012: £2.5m), representing an effective rate of 19% (2012: 14%). The Group has continued to benefit from Research and Development tax credits in both the UK and US. Due to a legislative restriction in Germany on the utilisation of tax losses in any one year, a deferred tax asset has not been recognised for the current year losses in Germany. This is the primary reason for the increase in the effective tax rate this year.

UK legislation for the new Research and Development Expenditure Credit (RDEC) was published in the Finance Bill 2013, and was substantively enacted during July 2013. The RDEC aims to make R&D relief more effective at influencing investment decisions within the UK. Under the new regime, the R&D credit will no longer be a tax incentive benefiting the corporation tax line in the Consolidated Income Statement, but will become more like a Grant which offsets R&D expenditure within operating profit. Given the date of substantive enactment, the Group has not applied the RDEC accounting within its 2013 financial statements. The RDEC will become mandatory for accounting periods beginning on or after 1 April 2016. The Group is considering whether to make an election for the RDEC ahead of the mandatory date.



**Earnings per share**

Basic earnings per share was 32.9p compared to 29.3p in 2012. We also disclose an underlying basic earnings per share which excludes the net-of-tax impact of the amortisation of acquisition-related intangible assets, and acquisition costs. The directors consider that an underlying earnings per share provides a more useful indication of performance and trends over time. Underlying basic earnings per share increased to 35.8p, from 29.3p in the prior year.

**Dividend**

The total (paid and proposed) dividend for the year has increased to 14.0p per ordinary share (2012: 12.4p). The proposed final dividend of 10.0p (2012: 8.7p) will be paid on 22 November 2013 to shareholders who are on the register of members at the close of business on 1 November 2013, subject to approval at the Annual General Meeting on 14 November 2013.

**Capital investment**

During the year, the Group embarked on its largest capital project ever, a new Vehicle Emissions Research Centre (VERC) located at our Shoreham Technical Centre in the UK. The new facility will provide latest technology vehicle emission measurement facilities, allowing a range of tests to be performed across all geographical regulatory requirements.

The development of the VERC has been selected for part-funding under the UK Government's Regional Growth Fund (RGF). At 30 June 2013, gross capital expenditure on the VERC was £3.7m, offset by grant income of £1.6m.

**Net funds**

The Group has continued to maintain tight controls around working capital, and has again delivered a strong closing cash balance. The Group had closing net funds of £6.1m (2012: £7.9m), despite the £18.0m cash investment in AEA Europe. The composition of net funds is defined in note 6 of the financial statements.

In June 2012, we agreed the sale and leaseback of our offices in Germany, with the sales proceeds remaining outstanding at 30 June 2012. The full proceeds of £3.7m (€4.6m) were received in the year ended 30 June 2013.

**Banking facilities**

During the year, the Group replaced one of its committed facilities, which was due to expire, with a larger facility. At the end of the financial year, the Group held total facilities of £52.1m (2012: £48.5m), which comprised committed borrowing facilities of £35.0m (2012: £30.0m) and uncommitted facilities of £17.1m (2012: £18.5m). Of the committed facilities, £15.0m is available to November 2015 and £20.0m available until December 2016. The Group seeks to make contracts self-financing. However, medium-term working capital requirements can change significantly. The committed facilities are in place to support the Group's financing needs and provide headroom against forecast requirements.

**Exchange rates**

The average value of sterling was 1.1% lower against the dollar and 2.5% higher against the euro during the year ended 30 June 2013 compared to the previous financial year. The volatility in exchange rates has not led to any significant overall impact on profit before tax for the year. The Group's main exposure is to movements in the euro/sterling exchange rate, arising from the work carried out in the UK for European customers and purchases within the UK from European suppliers. The resulting exposure is hedged accordingly through forward currency contracts, and hedge accounting is applied.

## **Pensions**

The Group's defined benefit pension scheme operates within the UK. At 30 June 2013, the accounting deficit measured in accordance with IAS 19 Employee Benefits was £19.7m before tax, or £15.1m after tax (2012: £20.4m and £15.5m respectively). The £0.7m decrease in the deficit was primarily due to additional company contributions of £4.3m (2012: £3.3m), offset by an increase in inflation assumptions. The additional cash contributions were agreed with the Pension Trustees following the last full actuarial valuation to 5 April 2011, which completed in August 2012. The discount rate of 4.65% has remained broadly similar to the prior year (2012: 4.60%).

## **Outlook**

We have continued to make good progress both strategically and operationally in building an innovative and agile Group which is well placed to deliver exceptional projects for clients, to provide challenging and rewarding work for our employees, and to improve financial returns for our shareholders. This year, despite the challenges within continental Europe, we have again delivered record profits, demonstrated the benefit of the growth and risk mitigation strategy, and have ensured the Group "delivers together" for the benefit of all stakeholders. It has been a good year and we are optimistic for further development.

Dave Shemmans  
Chief Executive Officer

Ian Gibson  
Chief Financial Officer

6 September 2013

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 2013

			2013 Specific adjusting items *		2012
	Notes	Underlying £m	£m	Total £m	Total £m
Revenue	2	229.7	-	229.7	197.4
Cost of sales		(134.3)	-	(134.3)	(115.1)
Gross profit		95.4	-	95.4	82.3
Administration expenses		(71.8)	(2.0)	(73.8)	(64.2)
Other income		0.5	-	0.5	0.5
Operating profit	2	24.1	(2.0)	22.1	18.6
Finance income		0.2	-	0.2	0.3
Finance costs		(1.3)	-	(1.3)	(1.3)
<b>Profit before taxation</b>		<b>23.0</b>	<b>(2.0)</b>	<b>21.0</b>	<b>17.6</b>
Taxation		(4.5)	0.5	(4.0)	(2.5)
<b>Profit for the year</b>		<b>18.5</b>	<b>(1.5)</b>	<b>17.0</b>	<b>15.1</b>

\* Specific adjusting items comprise amortisation of acquired intangible assets and acquisition costs.

**Earnings per ordinary share**

Basic	4	35.8p	(2.9)p	32.9p	29.3p
Diluted	4	35.4p	(2.9)p	32.5p	29.0p

**Consolidated statement of comprehensive income**  
for the year ended 30 June 2013

	2013 £m	2012 £m
<b>Profit for the year</b>	<b>17.0</b>	15.1
<b>Other comprehensive income</b>		
Currency translation on foreign currency net investments	1.7	(2.0)
Total items that may be reclassified subsequently to profit or loss	1.7	(2.0)
Actuarial losses on defined benefit scheme	(3.0)	(10.0)
Deferred tax on items taken directly to equity	0.4	2.6
Total items that will not be reclassified to profit or loss	(2.6)	(7.4)
<b>Total other comprehensive loss for the year (net of tax)</b>	<b>(0.9)</b>	(9.4)
<b>Total comprehensive income for the year</b>	<b>16.1</b>	5.7

**Consolidated statement of changes in equity**  
for the year ended 30 June 2013

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 July 2012	13.0	13.9	4.7	58.2	89.8
Profit for the year	-	-	-	17.0	17.0
Other comprehensive income for the year	-	-	1.7	(2.6)	(0.9)
Share-based payments	-	-	-	0.5	0.5
Proceeds from shares issued	-	0.1	-	-	0.1
Ordinary share dividends	-	-	-	(6.6)	(6.6)
<b>At 30 June 2013</b>	<b>13.0</b>	<b>14.0</b>	<b>6.4</b>	<b>66.5</b>	<b>99.9</b>
At 1 July 2011	12.9	13.8	6.4	56.5	89.6
Profit for the year	-	-	-	15.1	15.1
Other comprehensive income for the year	-	-	(1.7)	(7.7)	(9.4)
Share-based payments	-	-	-	0.4	0.4
Proceeds from shares issued	0.1	0.1	-	-	0.2
Ordinary share dividends	-	-	-	(6.1)	(6.1)
At 30 June 2012	13.0	13.9	4.7	58.2	89.8

**Consolidated statement of financial position**  
as at 30 June 2013

	2013 £m	2012 £m
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	25.9	15.3
Other intangible assets	15.6	6.8
Property, plant and equipment	48.2	45.6
Trade and other receivables	-	0.1
Deferred tax assets	13.4	15.4
	<b>103.1</b>	<b>83.2</b>
<b>Current assets</b>		
Inventories	7.7	8.0
Trade and other receivables	54.9	62.9
Current tax assets	1.3	1.7
Cash and cash equivalents	6.8	10.2
	<b>70.7</b>	<b>82.8</b>
<b>Total assets</b>	<b>173.8</b>	<b>166.0</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans and overdrafts	(0.7)	(2.3)
Trade and other payables	(47.3)	(48.2)
Derivative financial liabilities	-	(0.2)
Current tax liabilities	(3.0)	(2.7)
Provisions	(0.4)	(1.7)
	<b>(51.4)</b>	<b>(55.1)</b>
<b>Net current assets</b>	<b>19.3</b>	<b>27.7</b>
<b>Non-current liabilities</b>		
Retirement benefit obligations	(19.7)	(20.4)
Deferred tax liabilities	(0.6)	(0.7)
Provisions	(2.2)	-
	<b>(22.5)</b>	<b>(21.1)</b>
<b>Total liabilities</b>	<b>(73.9)</b>	<b>(76.2)</b>
<b>Net assets</b>	<b>99.9</b>	<b>89.8</b>
<b>Shareholders' equity</b>		
Share capital	13.0	13.0
Share premium	14.0	13.9
Other reserves	6.4	4.7
Retained earnings	66.5	58.2
<b>Total equity</b>	<b>99.9</b>	<b>89.8</b>

**Consolidated statement of cash flow**  
for the year ended 30 June 2013

	2013 £m	2012 £m
<b>Cash flows from operating activities</b>		
Cash generated by operations (note 5)	31.1	24.3
Interest received	0.2	0.3
Interest paid	(0.2)	(0.4)
Defined benefit pension scheme financing costs	(1.1)	(0.9)
Tax paid	(0.7)	(0.9)
Net cash generated by operating activities	29.3	22.4
<b>Cash flows from investing activities</b>		
Acquisition of business	(18.0)	-
Proceeds of sale of property, plant and equipment	4.0	-
Purchase of intangible assets	(2.1)	(2.5)
Purchase of property, plant and equipment	(10.3)	(8.5)
Government grants received in respect of property, plant and equipment	1.6	-
Net cash used by investing activities	(24.8)	(11.0)
<b>Cash flows from financing activities</b>		
Net proceeds from issue of ordinary share capital	0.1	0.2
Net proceeds from issue of new bank loan	10.0	-
Repayment of borrowings	(12.0)	(0.8)
Dividends paid to shareholders	(6.6)	(6.1)
Net cash used by financing activities	(8.5)	(6.7)
Effect of exchange rate changes	0.3	0.7
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(3.7)</b>	<b>5.4</b>
Cash and cash equivalents at 1 July	9.8	4.4
<b>Cash and cash equivalents at 30 June</b>	<b>6.1</b>	<b>9.8</b>

**Notes to the financial statements**  
for the year ended 30 June 2013

**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 Shoreham Technical Centre, Shoreham-by-Sea, West Sussex, BN43 5FG, and its registered number is 222915.

This preliminary announcement is based on the audited Annual Report and Accounts 2013, which was approved for issue on 6 September 2013, and which has been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Financial Reporting Interpretations Committee ("IFRIC") 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. Segmental reporting**

<b>2013</b>	<b>Technical Consulting £m</b>	<b>Performance Products £m</b>	<b>Head Office &amp; consolidation adjustments £m</b>	<b>Total £m</b>
Revenue from external customers	181.7	48.0	-	229.7
Inter-segment revenues	0.4	2.0	-	2.4
Total revenues	182.1	50.0	-	232.1
Revenues carried out by other segments	(2.0)	(0.4)	-	(2.4)
Revenue earned	180.1	49.6	-	229.7
Underlying operating profit	18.5	6.1	(0.5)	24.1
Amortisation of acquired intangible assets	(0.7)	-	-	(0.7)
Acquisition costs	(1.0)	-	(0.3)	(1.3)
Operating profit	16.8	6.1	(0.8)	22.1
Finance income	0.1	-	0.1	0.2
Finance costs	(0.1)	-	(1.2)	(1.3)
Profit before tax	16.8	6.1	(1.9)	21.0

<b>2012</b>	<b>Technical Consulting £m</b>	<b>Performance Products £m</b>	<b>Head Office &amp; consolidation adjustments £m</b>	<b>Total £m</b>
Revenue from external customers	149.2	48.2	-	197.4
Inter-segment revenues	0.5	0.1	-	0.6
Total revenues	149.7	48.3	-	198.0
Revenues carried out by other segments	(0.1)	(0.5)	-	(0.6)
Revenue earned	149.6	47.8	-	197.4
Operating profit	14.7	5.8	(1.9)	18.6
Finance income	0.2	-	0.1	0.3
Finance costs	(0.2)	-	(1.1)	(1.3)
Profit before tax	14.7	5.8	(2.9)	17.6

### 3. Acquisition of business

On 8 November 2012 the Group acquired the business and certain operating assets of AEA Technology plc (in administration) ("AEA Europe") for total cash consideration of £18.0m.

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

	£m
<b>Total consideration</b>	18.0
<b>Provisional fair value of identifiable assets acquired and liabilities assumed</b>	
Customer contracts and relationships (included in intangibles)	8.5
Other acquisition-related intangible assets	0.3
Property, plant and equipment	0.5
Trade and other receivables	7.2
Trade and other payables	(8.1)
Provisions	(0.3)
<b>Total identifiable net assets</b>	8.1
<b>Goodwill</b>	9.9
<b>Total</b>	18.0

Adjustments are made to identifiable assets and liabilities on acquisition to reflect their fair value. These include the recognition of customer-related intangible assets amounting to £8.5m and other acquisition-related intangible assets amounting to £0.3m. The fair values of net assets acquired are provisional and represent estimates following a preliminary valuation exercise. These estimates of fair value may be adjusted up to a maximum of twelve months from the acquisition date 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. All of the goodwill recognised is expected to be deductible for tax purposes.

The fair value of trade and other receivables of £7.2m included trade receivables of £2.7m and amounts recoverable on contracts of £3.6m, all of which have subsequently been collected.

Acquisition-related costs of £1.3m have been charged to the consolidated income statement for the year ended 30 June 2013 and are disclosed as a specific adjusting item.

The revenue included in the consolidated income statement since 8 November 2012 by the acquired business was £25.4m. The underlying operating profit over the same period was £2.8m. This is reported in the Technical Consulting segment.

Had the acquired business been consolidated from 1 July 2012, the consolidated income statement would show revenue of £242.5m and underlying operating profit of £25.1m based on the management accounts.



#### 4. 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 LTIP and by the Share Incentive Plan 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 shown because the directors consider that this provides a more useful indication of underlying performance and trends over time.

	2013 £m	2012 £m
<b>Earnings</b>	<b>17.0</b>	15.1
Add back amortisation of acquired intangible assets (net of tax)	0.5	-
Add back acquisition costs (net of tax)	1.0	-
<b>Underlying earnings</b>	<b>18.5</b>	15.1

	Number of shares millions	Number of shares millions
Basic average number of shares in issue	51.7	51.5
Effect of dilutive potential shares	0.6	0.6
<b>Diluted average number of shares in issue</b>	<b>52.3</b>	52.1

<b>Earnings per share</b>	<b>pence</b>	pence
Basic	32.9	29.3
Diluted	32.5	29.0

<b>Underlying earnings per share</b>		
Basic	35.8	29.3
Diluted	35.4	29.0

## 5. Cash generated by operations

	2013 £m	2012 £m
Profit before tax	21.0	17.6
Adjustments for:		
Share-based payments	0.5	0.4
Cash flow hedges	(0.1)	0.3
Finance income	(0.2)	(0.3)
Finance costs	1.3	1.3
Profit on disposal of property, plant and equipment	(0.1)	(0.3)
Depreciation and amortisation	9.3	7.8
Operating cash flows before movements in working capital	31.7	26.8
Decrease/(increase) in inventories	0.3	(2.8)
Decrease in trade and other receivables	11.7	3.3
Decrease in payables	(9.6)	(0.7)
Increase in provisions	0.7	0.7
Pension payments in excess of pension costs	(3.7)	(3.0)
<b>Cash generated by operations</b>	<b>31.1</b>	<b>24.3</b>

## 6. Net funds (non-GAAP measure)

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

	2013 £m	2012 £m
Cash and cash equivalents (current assets)	6.8	10.2
Bank overdrafts (current liabilities)	(0.7)	(0.4)
Net cash and cash equivalents	6.1	9.8
Bank loans maturing within one year	-	(1.9)
<b>Net funds</b>	<b>6.1</b>	<b>7.9</b>