



11 September 2014

**Ricardo plc**  
**Preliminary results for the full year ended 30 June 2014**

*Ricardo plc is a global engineering and environmental consulting company, with a value chain from strategic consulting through to niche high performance product assembly. We employ over 2,000 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**

- A record year end order book up 17% to £142m (June 2013: £121m)
- Order intake up 19% to £259m (June 2013: £218m)
- Underlying <sup>(1)</sup> profit before tax up 8% to £24.6m (June 2013: £22.7m)
- Organic <sup>(2)</sup> profit before tax up 3% to £23.3m (June 2013: £22.7m)
- Underlying <sup>(1)</sup> basic earnings per share up 9% to 38.7p (June 2013: 35.4p)
- Net funds up £6.5m to £12.6m (June 2013: £6.1m)
- Full year dividend up 9% to 15.2p per share (June 2013: 14.0p)
- Multi-year engine supply agreement signed with McLaren Automotive in December 2013
- Strong balance sheet and good platform for further growth and expansion
- Outlook remains positive as we approach our centenary year

(1) Excluding specific adjusting items, which comprise amortisation of acquired intangible assets and acquisition costs amounting to £1.1m (2013: £2.0m).

(2) Excluding Ricardo-AEA (£1.3m) for the period up to 8 November 2013. Ricardo-AEA was acquired in the prior year on 8 November 2012.

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

"We have ended the year with a strong order intake in the final quarter, leading to a record order book as we enter the new financial year. Market conditions remain positive in the UK and Asia, are improving in the US, and in Germany we enter the new financial year with an order book significantly up on previous years. The strong order book and pipeline across the Group, together with the large long-term assembly contracts secured in the year, provide confidence in the further development of the business.

As we approach our centenary year our order book and balance sheet provide a good platform for further growth, and we are actively looking for opportunities to expand and enhance our business."

**Further enquiries:**

Ricardo plc

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## **Review of the year**

### **Trading performance**

The Group has delivered a good operating result for the year to 30 June 2014 with a strong performance within the Performance Products segment in particular. Total Group revenue increased to £236.2m, a 3% increase on the prior year. Excluding Ricardo-AEA for the period 1 July 2013 to 8 November 2013, to provide a like-for-like comparison with the prior year, total Group revenue reduced by 2%. Ricardo-AEA was acquired on 8 November 2012. The reduction in like-for-like Group revenue was primarily due to delays in receiving certain orders within the Technical Consulting segment, which then materialised in the final quarter of the year.

Underlying profit before tax increased by 8% to £24.6m, up from £22.7m in the prior year, with reported profit before tax at £23.5m compared to £20.7m in the prior year. Organic profit growth, which excludes £1.3m of underlying Ricardo-AEA trading profit for the period 1 July 2013 to 8 November 2013, increased by 3%. The Group's underlying profit before tax margin improved to 10.4% compared to 9.9% in the prior year.

Basic earnings per share was 36.9p compared to 32.5p in 2013. The directors consider that an underlying basic earnings per share provides a more useful indication of underlying performance and trends over time. Underlying basic earnings per share was up 9% to 38.7p, compared with 35.4p in the prior year.

Strong order intake within the final quarter of the year contributed to a record year end closing order book of £142m, up from £121m in the prior year. The Group also has a significant pipeline of opportunities. The order book and pipeline contain good diversification across market sectors, customers and geographies. In addition there are large new framework agreements that are not included in the year end order book.

The Group continues to invest in Research and Development (R&D), and spent £8.5m (2013: £9.7m) before government grant income of £1.3m (2013: £1.2m). This amount includes costs capitalised in accordance with IFRS of £3.0m (2013: £0.7m) in respect of development expenditure on a range of product developments around the Group. The amounts capitalised reflect our increasing focus on development activity and include expenditure on software development, a Ricardo Flywheel energy recovery system and further projects within the UK and US. An overview of current R&D activities is presented below.

Segmental operating results for Technical Consulting and Performance Products are discussed below. In Technical Consulting, revenue was impacted by the delays in receiving certain orders and the expected ramp down of a large programme in the prior year, although the business also achieved some better than expected outcomes on contract negotiations. Together these resulted in a reduced underlying operating profit of £17.8m (2013: £18.5m). Also within Technical Consulting, Ricardo-AEA has continued to deliver profits in line with plan. Performance Products had a strong year, with growth in revenue, operating profit and order intake as well as the announcement of a new multi-year engine supply agreement with McLaren Automotive, which will generate circa £40m per annum of revenue from 2016/17 onwards. The Performance Products underlying operating profit of £7.9m (2013: £6.1m) has also benefitted from our strong engineering performance and rigorous process control, which has resulted in lower warranty claims than expected.

## **TECHNICAL CONSULTING**

### **Performance**

At the centre of Ricardo's business model lies its Technical Consulting activity, which accounts for around three quarters of Group revenues and two thirds of Group underlying operating profit. Technical Consulting includes Ricardo-AEA and our strategic consulting business.

Revenues remained flat at £181.0m (2013: £180.1m), and fell by 6% to £169.3m on a like-for-like basis excluding Ricardo-AEA for the period from 1 July 2013 to 8 November 2013. The reduction in like-for-like revenue can be attributed to the expected ramp down of a large programme in the prior year that was not fully replaced in the current year as order intake was weighted towards the fourth quarter. Underlying operating profit decreased by 4% to £17.8m (2013: £18.5m). Operating margins have decreased to 9.8%, down from 10.3% in 2013. Order intake in the year stood at £192m (2013: £172m), strengthened by a strong fourth quarter in the US in particular. 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. Market Sector highlights can be found below.

The UK has continued to work on a range of existing multi-year programmes and has secured a good stream of new business in the passenger car, high performance vehicle, commercial vehicle and defence sectors in particular. Internal improvement initiatives focused around cost management have increased the effectiveness of the business in a number of areas. The UK continues to be the main business in terms of profit generation.

In Germany we appointed a new Managing Director in the first half of the year with extensive experience in the automotive consulting industry. During the year we have secured a number of multi-year programmes from international clients in the motorcycle, large engine/power generation and marine sectors in particular.

In the US the business has built momentum in the second half, with strong growth in the passenger car and commercial vehicle sectors. This has included significant large multi-year contract wins from the "Detroit Big Three". We have seen our defence activity continue to strengthen on the back of existing multi-year programmes and we have also seen increasing engine testing activity across both light and heavy duty applications.

Asia, including China and Japan, remains a key region and our Shanghai-based business has secured and started to deliver a number of large locally won contracts. This has included a mixture of hybrid vehicle, engine, transmission and attribute development activities. In Japan we have seen strong performance in the passenger car and commercial vehicle sectors.

Ricardo-AEA has had a strong year and has seen good growth with both international and private sector clients. The five practice areas of Energy and Climate Change, Air Quality, Resource Efficiency and Waste Management, Sustainable Transport, and Chemical Emergency and Risk Management have performed to expectation.

Our strategic consulting activities continue to operate across all geographies. Performance has been strong in all operating regions. The combination of management consulting skills and deep industry insight continues to offer real differentiation to our customers across a wide variety of sectors. These include companies in the passenger car, commercial vehicle and off-highway sectors, plus numerous government bodies and private equity firms.

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

Ricardo's activities in the government and environmental sector have been driven largely by the long standing relationships that Ricardo-AEA has with various government bodies in the UK, EU and globally. Activity in the government sector continues to focus around issues such as urban air quality, flood prediction and prevention, sustainable transport solutions to overcome congestion, emissions compliance, waste and resource efficiency and future energy mix.

Despite UK Government pressure on budgets, Ricardo-AEA has secured a number of major contract wins. These have included large contracts from DEFRA and DECC. In the US we continue to build

strong relationships with EPA, NHTSA and CARB and in the EU we are working with the EU Commission on a range of future potential green vehicle initiatives.

The business also expanded its customer base internationally, with an example being the contract win in Saudi Arabia focused on air quality improvement in the city of Riyadh.

### **Passenger Cars**

The passenger car sector remains one of the most significant for Ricardo. Projects continue to be driven by emissions legislation, CO<sub>2</sub> reduction and global competition. During the year demand remained strong, with large multi-year contract orders from OEMs in the US, Japan and China as well as in the UK. New orders were secured across all major vehicle subsystems – engines, driveline and transmission systems, chassis, lightweight structures and hybrid and electric systems.

Order intake was well balanced and the technology focus of programmes remained high. This was reflected in an increase in interest in complex challenges to optimise powertrain and vehicle architecture across markets, including conventional and electrified powertrains, lightweight materials, and connected and autonomous vehicles. One of the key drivers of demand is the requirement to deliver lower CO<sub>2</sub> solutions at lower cost whilst still maintaining high levels of functional performance.

Significant contract wins have included a range of diesel and gasoline design and development programmes in the US, EU and Asia ranging from inline three cylinder through to V8 configurations. We also won hybrid installation and development programmes including stop/start functionality, battery pack and BMS design and attribute development activities for China-based vehicle manufacturers.

We continue to invest in advanced combustion and other key technologies in areas related to improvements in overall vehicle efficiency, such as intelligent driveline, lightweight materials and electrification.

### **High Performance Vehicles and Motorsport**

Technical Consulting activities in the high performance vehicles sector generally become the focus of long-term manufacturing contracts for the Performance Products business.

We have seen increasing demand for higher performance ‘halo’ variants of existing vehicles where the key objective is to deliver enhanced brand recognition through upgraded or extreme performance.

We have also seen continued demand for products for competitive motorsport. In both areas we have been supporting a range of design and development activities usually focused around the development of powertrain systems. In the motorsport business, projects were largely focused on the design and development of products for subsequent manufacture and assembly as part of our 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**

We have seen strong growth this year driven by the need for a reduction in CO<sub>2</sub> emissions to address the increasing focus on urban mobility, together with the increased demand for high-quality motorcycles in developing markets. We have received a number of large multi-year contracts and have enhanced our position in this important sector with the recent announcement of our partnership relationship with Exnovo, a motorcycle vehicle engineering business based in Italy. We have also seen growing interest in e-bikes.

With Exnovo we are now able to offer full end-to-end motorcycle engineering solutions in all global markets, recognising the strong market differences between the value-driven brands of south-east Asia and the technology-focused luxury marques of Europe, North America and Japan.

During the year new significant multi-year customer projects have been won in Japan, China and Germany. The motorcycle business mix covers a number of major subsystems including engines and driveline and transmission systems.

### **Commercial Vehicles**

Activity in the commercial vehicles sector has picked up driven by legislation and new product development for global application. We have seen strong engagement in the US and Japan in particular, which has driven increasing engine test activity in this sector. We have also seen growing interest in our aftertreatment and fuel cell capabilities that we acquired in January 2014 through the asset purchase of a new technical facility in Santa Clara, California. Facilities include a catalyst hydrothermal ageing test lab, a synthetic gas reactor test lab for rapid evaluation and modelling of aftertreatment components and systems under both steady-state and transient conditions, and fuel cell testing capabilities for solid oxide and proton exchange membrane fuel cells.

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

Contract wins have included control and electronics hardware design and development as well as engine design, development and testing across light and heavy duty configurations.

### **Agricultural and Industrial Vehicles**

Activity in the off-highway sector continues to be driven by the cycle of emissions legislation. In the year Stage IV emissions standards were introduced into Europe and thus our activity levels were lower as we had already assisted clients in meeting this legislation. Our focus in the coming years will be in assisting clients with EU, US and China legislation for 2020.

The highly successful TaxiBot programme for IAI of Israel continued during the year, with the ongoing delivery of the wide-body version of this advanced semi-robotic, pilot-controlled taxiing system. In addition we have continued to invest in energy recovery technology and have now launched our innovative TorqStor flywheel energy recovery system which was awarded an SAE World Congress Technology Award in April 2014.

### **Defence**

Ricardo's defence-related activity has seen an important number of new customer wins in addition to the continuation of long-term large contracts. We have seen increasing activity in mainland Europe, Middle Eastern and Asian markets as a result of focused business growth activities outside of the UK market. These include the development of future 4x4, 6x6 and 8x8 vehicles. In the UK we have seen increasing demand for our Total Systems Optimisation approach, a programme which is focused on optimising vehicle architecture selection to minimise lifecycle costs and maximise fuel economy.

In the US we have continued with the delivery of the Fast Adaptable Next-Generation Ground Vehicle (FANG) for the Defense Advanced Research Projects Agency (DARPA) and have focused on development of model-based acquisition capability.

### **Rail**

Ricardo's rail sector business has continued to perform strongly, with Technical Consulting activities leading to long-term manufacturing contracts for the Performance Products business. Our activity has continued to develop a broad geographic spread with a variety of programmes taking in Tier 1 equipment manufacturers, rail operators, rail equipment manufacturers and governments.

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, monorail driveline design and manufacture, and research into energy storage systems and the use of alternative fuels, in particular natural gas.

## **Clean Energy and Power Generation**

The clean energy and power generation sector has seen the majority of its activity in the large engine area for power generation. We have seen proportionally less activity this year in the renewable energy sector, although we continue to be engaged in significant dialogue in the offshore and onshore wind subsector and tidal stream power generation. We have also seen increasing levels of activity in fracking applications for the oil and gas market.

Contract wins have chiefly been around the design and development of large generator sets used principally for power generation.

## **Marine**

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.

## **PERFORMANCE PRODUCTS**

### **Performance**

The Performance Products segment accounts for around one quarter of Group revenues and one third of Group underlying operating profit.

Ricardo Performance Products continues to deliver growth both in terms of order intake, revenue and underlying operating profit. Revenues grew by 11% to £55.2m (2013: £49.6m), with underlying operating profit increasing to £7.9m (2013: £6.1m). Operating margins have increased to 14.3%, up from 12.3% in 2013. Order intake in the year stood at £67m (2013: £46m).

The continuing upward trend in results has been achieved largely through the development of long-term strategic relationships and using a growing track record of product quality and on-time delivery to win new large contracts. The results also benefitted from our strong engineering performance and rigorous process control, which has resulted in fewer warranty claims than expected. Activity continues to be diversely spread across a number of market sectors and clients. Further details of activity within the year can be found within Market Sector highlights below.

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

#### **Defence**

Assembly of the Foxhound vehicle for use by British Forces concluded during the year, with the successful completion and delivery of this programme. Some 376 vehicles were delivered under this contract.

#### **High Performance Vehicles**

Demand for engines from McLaren for its supercars continues, and we now supply power units for the new 650S and the highly sophisticated P1 hybrid models. As reported at our Interim Results in February 2014, we also announced a new multi-year engine supply agreement with McLaren Automotive in December 2013. This contract, which represents revenue in the order of £40m per annum for Ricardo from 2016/17 onwards, is the largest in almost a century of Ricardo history.

We also continue to supply advanced dual clutch transmissions to Bugatti.

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 championships. In addition we have been producing Porsche Cup transmissions throughout the year under a contract that commenced in July 2013.

## **Rail**

Rail activity continues to perform strongly through the continuing manufacture and supply of monorail transmissions for applications in both Malaysia and Brazil. We continue to seek out similar future opportunities which exploit the market presence developed through our Technical Consulting activities.

## **Research & Development**

Investment in new technologies and services is a key enabler to meet our business objectives. Our R&D activity not only creates new products but also provides our staff with new skills and capabilities. Our programme is formed by a balanced portfolio of self-funded and collaborative projects supported by our industry partners and government funding organisations. Ricardo has actively engaged with the new European R&D framework programme “Horizon 2020” through the European Green Vehicle Initiative, whilst also developing close links with the UK Technology Strategy Board, German BMWi and US government funding agencies. Ricardo has also been actively engaged in developing the proposition for the recently announced UK Advanced Propulsion Centre, which has been formed to support product innovation in the UK through a 10 year £1billion investment.

Following market interest in the innovative energy storage and recovery device presented in last year’s Report and Accounts, further development work has been conducted through the year. The primary focus has been to bring the design to a “production intent” level, building in manufacturing and assembly features as well as learning points from the proof-of-concept phase of work. Latest build phase units will commence testing in the autumn, coincident with availability of units for client testing.

We continue to promote the importance of a “systems” approach to maximise the benefits from future technologies. A good example of this is a collaborative grant-supported programme to develop our SynerD™ vehicle, based on a Jaguar XF, which has achieved a better than 30% reduction in CO<sub>2</sub> emissions thanks to a combination of downsizing, advanced boosting, fast warm up and next-generation aftertreatment and thermal technologies. This vehicle has received excellent feedback during test drives with customers on account of its remarkable driveability, a feature not normally associated with a downsized engine, and for the cost efficiency of the system that we have developed. The technologies and knowhow developed by Ricardo for this vehicle have proved to be a key element in winning future business for our Engines Product Group.

Whilst electrification of vehicle propulsion systems is a continuing trend, this is far from limited to the development of battery electric vehicles. The most cost-effective future low carbon propulsion systems will feature a combination of combustion engine and electric drive technologies in various combinations, depending on the specific application. Our most cost effective combination of these technologies to date has been implemented in our HyBoost vehicle. This has also been a collaborative grant-supported programme and produced a Ford Focus vehicle capable of 95 g/km economy with excellent driveability. This vehicle is in great demand from our customers for test drives and roadshows and has led to a wide range of opportunities to apply this approach to commercial products in our key markets. Of particular note has been the interest and orders received from China for the application of our systems approach to electrification featured in HyBoost.

The need to continually improve air quality, particularly in urban areas, is a global requirement. Recent reports from Beijing, Shanghai, Paris and London show that more progress will need to be made to meet future air quality standards. Ricardo is at the leading edge for developing future combustion tools and techniques to design the next generation of clean and efficient combustion systems. We have an extensive experimental and simulation programme to further develop our capabilities: this is run in collaboration with OEMs, FIE suppliers, aftertreatment specialists and universities including the Sir Harry Ricardo laboratory at Brighton University. Recent achievements include a newly validated injection spray model for passenger car diesel engines, new chemical combustion models for the Ricardo Software VECTIS tool, and verification of the emissions reduction potential of very high injection pressures (3000 bar) for future heavy duty diesel engines. A range of technical papers based on the work has been presented, including at the Aachen Colloquium conference held in Beijing, the SAE World Congress in Detroit and the International Congress in Stuttgart.

Ricardo has been actively involved in developing partially autonomous or “drive-by-wire” control systems such as autonomous speed control, torque vectoring and stability systems for over 10 years. Our experience in these technologies has led to an increased understanding for the need for a robust approach to the development of safety-critical systems and software. Where driver or operator input has either been removed or overridden, fail-safe operation is vital: this has led to the development of new ISO standards to ensure more uniform compliance. Ricardo has invested in a number of grant-supported projects to further develop our capabilities and services in this area where compliance with ISO Safety-Critical standards is an essential precondition before bidding for high value customer work.

Many vehicle safety studies have shown that accidental vehicle rollover results in more passenger fatalities than any other type of incident. Leveraging our safety-critical and complete systems capabilities, Ricardo engineers have developed automatic torque vectoring and brake control systems to substantially reduce the threat of rollover in both on and off-road vehicle applications. We have recently invested in a collaborative programme, working with a Tier 1 supplier to provide a complete stability system for a tactical vehicle. We have developed a successful prototype system and are now looking at further commercial opportunities to exploit this technology.

## **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) for total cash consideration of £18.0m. This investment generated goodwill of £9.9m and acquisition-related intangible assets of £8.8m.

Amortisation of acquisition-related intangible assets amounted to £1.1m (2013: £0.7m). The Group also incurred acquisition costs of £1.3m in the prior year. The acquisition costs and the amortisation of acquisition-related intangible assets have been charged to the Consolidated Income Statement as specific adjusting items.

The Group holds a further £15.2m (2013: £16.0m) of goodwill on the balance sheet. This comprises £2.7m (2013: £2.7m) in relation to two businesses fully integrated into Ricardo UK Limited (Gemini and Tarragon), and £12.5m (2013: £13.3m) in relation to the Technical Consulting business in Germany. The Group performs 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 £1.2m, giving a net finance cost of £1.0m which is broadly in line with the prior year (2013: £1.2m). Included within the finance costs is £1.0m (2013: £1.2m) in respect of the net finance charge for the defined benefit pension scheme. As described in note 2 below, the prior year charge has been restated to reflect the amendments under IAS 19 (revised 2011) Employee Benefits.

### **Taxation**

The total tax charge for the year was £4.3m (2013: £3.9m), representing an effective rate of 18% (2013: 19%). The Group has continued to benefit from R&D 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, as in the prior year a deferred tax asset has not been recognised for the current year losses in Germany, which have remained at a similar level to the prior 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. 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. The

RDEC will become mandatory for accounting periods beginning on or after 1 April 2016. The Group has not applied the RDEC accounting within its 2014 financial statements.

### **Earnings per share**

Basic earnings per share was 36.9p compared to 32.5p in 2013. Note 4 of the financial statements discloses 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 underlying performance and trends over time. Underlying basic earnings per share increased to 38.7p, from 35.4p in the prior year.

### **Dividend**

The total (paid and proposed) dividend for the year has increased to 15.2p per ordinary share (2013: 14.0p) and amounts to £7.9m (2013: £7.3m). The proposed final dividend of 10.9p (2013: 10.0p) will be paid on 14 November 2014 to shareholders who are on the register of members at the close of business on 24 October 2014, subject to approval at the Annual General Meeting on 29 October 2014.

### **Capital investment**

In the prior 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 was selected for part-funding under the UK Government's Regional Growth Fund (RGF). At 30 June 2014, gross capital expenditure incurred on the VERC was £8.4m (2013: £3.7m), offset by grant income of £3.1m (2013: £1.6m). The net cost of the VERC has been included within Land and Buildings as an Asset under Construction.

### **Net funds**

The Group generated net cash of £6.5m in the year, leading to closing net funds of £12.6m (2013: £6.1m). The composition of net funds is defined in note 6 of the financial statements.

### **Banking facilities**

At the end of the financial year, the Group held total facilities of £49.2m (2013: £52.1m), which comprised committed borrowing facilities of £35.0m (2013: £35.0m) and uncommitted facilities of £14.2m (2013: £17.1m). 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**

On consolidation, income and expense items are translated at the average exchange rates of the year. The average value of sterling was 3.8% higher against the dollar, 1.5% higher against the renminbi and 1.2% lower against the euro during the year ended 30 June 2014 compared to the previous financial year. Had the current year results been stated at constant exchange rates, reported revenue for the year ended 30 June 2014 would have been £2.4m higher and profit before tax £0.2m higher. The Group is also exposed to movements in the euro/sterling exchange rates, arising from the work carried out in the UK for European customers and purchases within the UK from European suppliers, and the sterling/renminbi exchange rate, arising from the work carried out in the UK for Chinese customers. Significant resulting exposures are hedged through forward currency contracts, with hedge accounting applied. The exchange loss for the year ended 30 June 2014 was £0.5m (2013: gain £0.2m).

### **Pensions**

The Group's defined benefit pension scheme operates within the UK. At 30 June 2014, the accounting deficit measured in accordance with IAS 19 Employee Benefits was £19.5m before tax, or £15.6m after tax (2013: £19.7m and £15.1m respectively). The £0.2m decrease in the deficit was primarily due to additional company contributions of £4.3m (2013: £4.3m) increasing asset values, offset by a decrease

in the discount rate assumption to 4.35% (2013: 4.65%), which has increased the value of the liabilities. The additional cash contributions were agreed with the Pension Trustees following the last full actuarial valuation to 5 April 2011. The triennial valuation to 5 April 2014 is in progress, and it is expected that this process will be completed in the year ending 30 June 2015.

### **Outlook**

We have ended the year with a strong order intake in the final quarter, leading to a record order book as we enter the new financial year. Market conditions remain positive in the UK and Asia, are improving in the US, and in Germany we enter the new financial year with an order book significantly up on previous years. The strong order book and pipeline across the Group, together with the large long-term assembly contracts secured in the year, provide confidence in the further development of the business.

As we approach our centenary year our order book and balance sheet provide a good platform for further growth, and we are actively looking for opportunities to expand and enhance our business.

Dave Shemmans  
Chief Executive Officer

Ian Gibson  
Chief Financial Officer

10 September 2014

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 2014

		Underlying	2014 Specific adjusting items <sup>(2)</sup>	Total	Underlying Restated <sup>(1)</sup>	2013 Specific adjusting items <sup>(2)</sup>	Total Restated <sup>(1)</sup>
	Notes	£m	£m	£m	£m	£m	£m
Revenue	3	<b>236.2</b>	-	<b>236.2</b>	229.7	-	229.7
Cost of sales		<b>(142.6)</b>	-	<b>(142.6)</b>	(134.3)	-	(134.3)
Gross profit		<b>93.6</b>	-	<b>93.6</b>	95.4	-	95.4
Administration expenses		<b>(68.5)</b>	<b>(1.1)</b>	<b>(69.6)</b>	(72.0)	(2.0)	(74.0)
Other income		<b>0.5</b>	-	<b>0.5</b>	0.5	-	0.5
Operating profit	3	<b>25.6</b>	<b>(1.1)</b>	<b>24.5</b>	23.9	(2.0)	21.9
Net finance costs		<b>(1.0)</b>	-	<b>(1.0)</b>	(1.2)	-	(1.2)
<b>Profit before taxation</b>		<b>24.6</b>	<b>(1.1)</b>	<b>23.5</b>	22.7	(2.0)	20.7
Taxation		<b>(4.5)</b>	<b>0.2</b>	<b>(4.3)</b>	(4.4)	0.5	(3.9)
<b>Profit for the year</b>		<b>20.1</b>	<b>(0.9)</b>	<b>19.2</b>	18.3	(1.5)	16.8

**Earnings per ordinary share**

Basic	4			<b>36.9p</b>			32.5p
Diluted	4			<b>36.4p</b>			32.1p

<sup>(1)</sup> On adoption of revised International Accounting Standard 19 Employee Benefits (see note 2)

<sup>(2)</sup> Specific adjusting items comprise amortisation of acquired intangible assets and acquisition costs

**Consolidated statement of comprehensive income**  
for the year ended 30 June 2014

	2014	2013
	£m	Restated <sup>(1)</sup>
	£m	£m
<b>Profit for the year</b>	<b>19.2</b>	16.8
<b>Other comprehensive income</b>		
Currency translation on foreign currency net investments	(3.0)	1.7
Total items that may be reclassified subsequently to profit or loss	(3.0)	1.7
Remeasurements on the defined benefit scheme	(3.2)	(2.7)
Deferred tax on items taken directly to equity	0.7	0.3
Total items that will not be reclassified to profit or loss	(2.5)	(2.4)
<b>Total other comprehensive loss for the year (net of tax)</b>	<b>(5.5)</b>	(0.7)
<b>Total comprehensive income for the year</b>	<b>13.7</b>	16.1

**Consolidated statement of changes in equity**  
for the year ended 30 June 2014

	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
At 1 July 2013	13.0	14.0	6.4	66.5	99.9
Profit for the year	-	-	-	19.2	19.2
Other comprehensive income	-	-	(3.0)	(2.5)	(5.5)
Share-based payments	-	-	-	1.2	1.2
Proceeds from shares issued	0.1	0.2	-	-	0.3
Ordinary share dividends	-	-	-	(7.5)	(7.5)
<b>At 30 June 2014</b>	<b>13.1</b>	<b>14.2</b>	<b>3.4</b>	<b>76.9</b>	<b>107.6</b>
At 1 July 2012	13.0	13.9	4.7	58.2	89.8
Profit for the year – restated <sup>(1)</sup>	-	-	-	16.8	16.8
Other comprehensive income – restated <sup>(1)</sup>	-	-	1.7	(2.4)	(0.7)
Share-based payments	-	-	-	0.5	0.5
Proceeds from shares issued	-	0.1	-	-	0.1
Ordinary share dividends	-	-	-	(6.6)	(6.6)
At 30 June 2013	13.0	14.0	6.4	66.5	99.9

<sup>(1)</sup> On adoption of revised International Accounting Standard 19 Employee Benefits (see note 2)

**Consolidated statement of financial position**  
as at 30 June 2014

	2014 £m	2013 £m
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	25.1	25.9
Other intangible assets	16.7	15.6
Property, plant and equipment	48.3	48.2
Deferred tax assets	10.9	13.4
	<b>101.0</b>	<b>103.1</b>
<b>Current assets</b>		
Inventories	7.9	7.7
Trade and other receivables	66.6	54.9
Current tax assets	1.1	1.3
Cash and cash equivalents	12.6	6.8
	<b>88.2</b>	<b>70.7</b>
<b>Total assets</b>	<b>189.2</b>	<b>173.8</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans and overdrafts	-	(0.7)
Trade and other payables	(56.3)	(47.3)
Current tax liabilities	(3.2)	(3.0)
Provisions	(0.7)	(0.4)
	<b>(60.2)</b>	<b>(51.4)</b>
<b>Net current assets</b>	<b>28.0</b>	<b>19.3</b>
<b>Non-current liabilities</b>		
Retirement benefit obligations	(19.5)	(19.7)
Deferred tax liabilities	(0.5)	(0.6)
Provisions	(1.4)	(2.2)
	<b>(21.4)</b>	<b>(22.5)</b>
<b>Total liabilities</b>	<b>(81.6)</b>	<b>(73.9)</b>
<b>Net assets</b>	<b>107.6</b>	<b>99.9</b>
<b>Shareholders' equity</b>		
Share capital	13.1	13.0
Share premium	14.2	14.0
Other reserves	3.4	6.4
Retained earnings	76.9	66.5
<b>Total equity</b>	<b>107.6</b>	<b>99.9</b>

**Consolidated statement of cash flow**  
for the year ended 30 June 2014

	2014	2013
	£m	Restated <sup>(1)</sup> £m
<b>Cash flows from operating activities</b>		
Cash generated by operations (note 5)	23.3	30.0
Net finance costs	-	-
Tax paid	(1.7)	(0.7)
Net cash generated by operating activities	21.6	29.3
<b>Cash flows from investing activities</b>		
Acquisition of business	-	(18.0)
Proceeds from sale of property, plant and equipment	0.1	4.0
Purchase of intangible assets	(4.2)	(2.1)
Purchase of property, plant and equipment	(6.3)	(10.3)
Government grants received in respect of property, plant and equipment	1.5	1.6
Net cash used by investing activities	(8.9)	(24.8)
<b>Cash flows from financing activities</b>		
Net proceeds from issue of ordinary share capital	0.3	0.1
Net proceeds from issue of new bank loan	-	10.0
Repayment of borrowings	-	(12.0)
Dividends paid to shareholders	(7.5)	(6.6)
Net cash used by financing activities	(7.2)	(8.5)
Effect of exchange rate changes	1.0	0.3
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>6.5</b>	<b>(3.7)</b>
Cash and cash equivalents at 1 July	6.1	9.8
<b>Net cash and cash equivalents at 30 June</b>	<b>12.6</b>	<b>6.1</b>

<sup>(1)</sup> On adoption of revised International Accounting Standard 19 Employee Benefits (see note 2)

## Notes to the financial statements

for the year ended 30 June 2014

### 1. General information

Ricardo plc is a public limited company incorporated in the UK with a premium 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 2014, which was approved for issue on 10 September 2014, and which has been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Financial Reporting Interpretations Committee ("IFRS-IC") interpretations adopted by the European Union ("EU") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information herein does not amount to full statutory accounts within the meaning of section 434 of the Companies Act 2006.

### 2. Change in accounting policies

With effect from 1 July 2013, the Group has adopted the following amendment to an existing standard:

– IAS 19 (revised 2011) Employee Benefits replaces interest cost and expected return on plan assets with a net finance cost on the pension deficit. The net finance cost is calculated using the rate currently used to discount defined benefit pension liabilities. The discount rate is lower than the expected return on plan assets, increasing net finance costs recognised in the income statement and correspondingly reducing remeasurements recognised in other comprehensive income. In addition, certain costs associated with the administration of the Group's pension schemes are now reported within administration expenses rather than finance costs. The net pension deficit is unchanged as a result of this amendment.

These changes have been applied retrospectively to the comparative financial information for the year ended 30 June 2013 and have had the following impact on the current year and comparative financial information compared with the previous version of IAS 19:

	2014	2013
	£m	£m
Administration expenses	(0.3)	(0.2)
Operating profit	(0.3)	(0.2)
Net finance costs	(0.5)	(0.1)
<b>Decrease in profit before taxation</b>	<b>(0.8)</b>	<b>(0.3)</b>
Taxation	0.2	0.1
<b>Decrease in profit for the year</b>	<b>(0.6)</b>	<b>(0.2)</b>
Remeasurements on the defined benefit scheme	0.8	0.3
Deferred tax on items that will not be reclassified to profit or loss	(0.2)	(0.1)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>
<b>Earnings per ordinary share</b>	<b>pence</b>	<b>pence</b>
Basic	(1.2)	(0.4)
Diluted	(1.1)	(0.4)
<b>Underlying earnings per ordinary share</b>	<b>pence</b>	<b>pence</b>
Basic	(1.2)	(0.4)
Diluted	(1.1)	(0.4)

### 3. Segmental reporting

2014	Technical Consulting	Performance Products	Head Office & consolidation adjustments	Total
	£m	£m	£m	£m
Revenue from external customers	180.8	55.4	-	236.2
Inter-segment revenues	1.5	1.3	-	2.8
Total revenues	182.3	56.7	-	239.0
Revenues carried out by other segments	(1.3)	(1.5)	-	(2.8)
Revenue earned	181.0	55.2	-	236.2
Underlying operating profit	17.8	7.9	(0.1)	25.6
Amortisation of acquired intangible assets	(1.1)	-	-	(1.1)
Operating profit	16.7	7.9	(0.1)	24.5
Net finance costs	-	-	(1.0)	(1.0)
Profit before taxation	16.7	7.9	(1.1)	23.5
2013 – restated <sup>(1)</sup>	Technical Consulting	Performance Products	Head Office & consolidation adjustments	Total
	£m	£m	£m	£m
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	(0.7)	23.9
Amortisation of acquired intangible assets	(0.7)	-	-	(0.7)
Acquisition costs	(1.0)	-	(0.3)	(1.3)
Operating profit	16.8	6.1	(1.0)	21.9
Net finance costs	-	-	(1.2)	(1.2)
Profit before taxation	16.8	6.1	(2.2)	20.7

<sup>(1)</sup> On adoption of revised International Accounting Standard 19 Employee Benefits (see note 2)

#### 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.

	2014	2013
		Restated <sup>(1)</sup>
	£m	£m
<b>Earnings</b>	<b>19.2</b>	16.8
Add back amortisation of acquired intangible assets (net of tax)	<b>0.9</b>	0.5
Add back acquisition costs (net of tax)	-	1.0
<b>Underlying earnings</b>	<b>20.1</b>	18.3
	<b>Number of shares millions</b>	Number of shares millions
Basic weighted average number of shares in issue	<b>52.0</b>	51.7
Effect of dilutive potential shares	<b>0.8</b>	0.6
<b>Diluted weighted average number of shares in issue</b>	<b>52.8</b>	52.3
	<b>pence</b>	pence
<b>Earnings per share</b>		
Basic	<b>36.9</b>	32.5
Diluted	<b>36.4</b>	32.1
	<b>pence</b>	pence
<b>Underlying earnings per share</b>		
Basic	<b>38.7</b>	35.4
Diluted	<b>38.1</b>	35.0

<sup>(1)</sup> On adoption of revised International Accounting Standard 19 Employee Benefits (see note 2)

## 5. Cash generated by operations

	2014	2013
	£m	Restated <sup>(1)</sup>
	£m	£m
Profit before tax	23.5	20.7
Adjustments for:		
Share-based payments	1.2	0.5
Cash flow hedges	-	(0.1)
Net finance costs	1.0	1.2
Profit on disposal of property, plant and equipment	-	(0.1)
Depreciation and amortisation	9.5	9.3
Operating cash flows before movements in working capital	35.2	31.5
(Increase)/decrease in inventories	(0.3)	0.3
(Increase)/decrease in trade and other receivables	(13.5)	11.7
Increase/(decrease) in payables	6.9	(9.6)
(Decrease)/increase in provisions	(0.5)	0.7
Defined benefit obligation payments	(4.5)	(4.6)
<b>Cash generated by operations</b>	<b>23.3</b>	<b>30.0</b>

<sup>(1)</sup> On adoption of revised International Accounting Standard 19 Employee Benefits (see note 2)

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

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

	2014	2013
	£m	£m
Cash and cash equivalents (current assets)	12.6	6.8
Bank overdrafts (current liabilities)	-	(0.7)
Net cash and cash equivalents	12.6	6.1
Bank loans maturing within one year	-	-
<b>Net funds</b>	<b>12.6</b>	<b>6.1</b>