Ricardo plc

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Ricardo plc

Chair's letter

Appendix 1 to Chair’s letter

Creating a world fit for the future

Chair's letter

28 September 2020

Dear Shareholder
Annual General Meeting

Ricardo plc will be holding its Annual General Meeting ("AGM") at 10.00am on Thursday 12 November 2020.

The Notice of AGM and Ricardo's Annual Report and Accounts are now available to view and download from Ricardo's website (www.ricardo.com), and are enclosed for shareholders who elected for a hard copy of the Report.

The Notice of AGM sets out the business to be conducted at the Meeting. A detailed explanation of this business can be found on pages 4 to 10.

The Company is closely monitoring developments relating to the current outbreak of Covid-19, including the related public health guidance and legislation issued by the UK Government.

The situation surrounding the outbreak of Covid-19 is constantly evolving and the Board has determined, to safeguard everyone's health and wellbeing, that the AGM this year will be run as a closed meeting and shareholders will not be able to attend in person. Anyone seeking to attend will be refused entry. The Company will ensure that the legal requirements to hold the Meeting can be satisfied through the attendance of a minimum number of employee shareholders, we expect that one Director and the Company Secretary, who are also shareholders, will be in attendance and the format of the Meeting will be purely functional.

Although shareholders are not able to attend the Meeting in person, shareholder participation remains important to us and we would strongly encourage shareholders to participate in the business of the AGM by alternative means in advance of the Meeting, notably:

- Voting by proxy; and
- Sending and receiving Q&A remotely.

Further details on both of these options are provided below.

New Long Term Incentive Plan

As well as the regular business that is normally taken care of at the AGM, we are also seeking shareholders' approval of the establishment of a new arrangement, the Ricardo plc 2020 Long Term Incentive Plan (the "New LTIP"), which will primarily be used to grant performance based long term share awards to the Company's Executive Directors and senior management team.

The New LTIP is principally being introduced in order to facilitate the operation of the new three-year Directors' Remuneration Policy that shareholders are being asked to approve at the AGM. This policy introduces a number of variations to the basis on which future long term incentive awards will be granted to the Company's Executive Directors and some of these changes would have required amendments to have been made to the Company's existing plan, the Ricardo plc 2014 Long Term Incentive Plan (the "2014 LTIP"). However, on the basis that this arrangement is due to expire in October 2024, it was decided that it would be more appropriate in the circumstances for the necessary adjustments simply to be incorporated into the rules of the New LTIP.

Save for changes required to:

- accommodate the new Directors' Remuneration Policy (details of which are set out in the Directors' Remuneration Report section of the 2020 Annual Report and Accounts); and
- reflect recent developments in market practice,

the terms of the New LTIP that will apply to the Executive Directors are broadly similar to those contained in the 2014 LTIP.

A summary of the principal terms of the New LTIP, together with further information on how it will initially be operated following its adoption, are set out in the Appendix to this letter.

Voting

Regardless of attendance, your voting participation is important to us and I would encourage you to vote by proxy on the resolutions proposed at the AGM.

You may appoint a proxy in one of the following ways:

- Online via our registrars' website, www.ricardo-shares.com; or
- Via the CREST electronic proxy appointment services (for CREST members).

The deadline for the appointment of proxies is 10.00am on Tuesday 10 November 2020.

Further information on the appointment of proxies can be found on pages 8 to 9 of the Notice of AGM. To ensure that all proxy votes can be counted and exercised in the Meeting, please ensure that you appoint the Chair of the Meeting as the named proxy rather than another individual. Due to the restrictions on physical attendance this year, any other individual will not be able to vote on your behalf.

Once the results have been verified by our registrars, Link Asset Services, they will be published on our website, www.ricardo.com, and released via a regulatory information service as soon as reasonably practicable.

Questions and communication

We are happy to receive questions from shareholders at any time. If you have any specific questions on any of the business matters set out in the Notice, please email these to the Company Secretary at patricia.ryan@ricardo.com by 10.00am on Tuesday, 10 November 2020. We will have a dedicated website page at www.ricardo.com where we will post your questions and provide answers.

Any changes to the AGM will be communicated to shareholders before the Meeting through our website at www.ricardo.com and, where appropriate, by announcement on a regulatory information service.

Dividends

On 6 April 2020 an interim dividend of 6.24p (HY 2018/19: 6.00p) was paid to shareholders. Due to the reduced performance experienced by the Company in the second half of the year and after careful consideration, the Board have decided not to recommend a final dividend for the year. This difficult decision has been taken to protect the Company's balance sheet and protect it for the future.

Recommendation

The Board considers that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole and are most likely to promote the success of the Company for the benefit of its shareholders. The Directors unanimously recommend that you vote in favour of the proposed resolutions as they intend to do in respect of their own beneficial holdings.

Yours faithfully

Sir Terry Morgan
Chair

APPENDIX

Summary of the principal terms of the Ricardo plc 2020 Long Term Incentive Plan

The Ricardo plc 2020 Long Term Incentive Plan (the "**New LTIP**" or the "**Plan**") is a discretionary arrangement that will be administered by the Company's Remuneration Committee (the "**Committee**"). It will allow Executive Directors and other selected employees of the Company and its subsidiaries (the "**Group**") to be granted awards ("**Awards**") over the Company's ordinary shares ("**Shares**").

If approved by shareholders at the AGM, it is intended that the New LTIP will be adopted by the Board, and the first Awards granted, as soon as reasonably practicable after the Meeting. Thereafter, the New LTIP will largely be used to make regular annual Awards to the Company's Executive Directors and senior management team. Any grants to Executive Directors will be made in accordance with the Company's approved Directors' Remuneration Policy that is in force at the relevant time.

Following the adoption of the New LTIP, no further awards will be granted under the Company's previous long term incentive plan, the 2014 LTIP (although awards already made under the 2014 LTIP will be unaffected).

A summary of the principal terms of the New LTIP is set out below.

1. Eligibility

Any employee (including an Executive Director) of the Group will be eligible to be granted Awards under the New LTIP at the discretion of the Committee. It is envisaged that actual participation in the Plan will (at least initially) be limited to the Company's Executive Directors and selected senior managers.

2. Grant of Awards

Awards under the New LTIP may be granted in the form of nil or nominal cost options ("**Options**") or conditional share awards ("**Conditional Awards**"). The Committee may also decide to grant cash-based Awards of an equivalent value to share-based Awards or to satisfy share-based Awards in cash.

Awards may normally be granted under the New LTIP within the period of forty-two days after:

- the date on which the Plan is first adopted by the Board;
- a results announcement by the Company in any year; or
- the date on which shareholders approve a change to the Company's Directors' Remuneration Policy.

Additionally, Awards may also be granted on any day on which the Committee resolves that exceptional circumstances exist which justify the making of such Awards.

No Awards will be granted more than ten years after shareholder approval of the New LTIP. No payment is required for the grant of an Award.

3. Awards personal to the participants

An Award granted under the New LTIP will be personal to the participant and may not be transferred, assigned or charged in any way, except on death.

4. Individual Limits

The maximum total market value of Shares over which Awards may be granted to a participant in the New LTIP in respect of any financial year is 150% of his/her basic salary (i.e. excluding bonuses and benefits in kind).

Within the above limit, the value of Shares over which an Award is granted will be determined at the sole discretion of the Committee although, in the case of an Executive Director, no grant will be made which causes him/her to breach the provisions of the Company's Directors' Remuneration Policy then in force.

For the purposes of applying the above limit, the market value of a Share comprised in an Award will be determined by reference to its middle market quotation as derived from the Daily Official List for the dealing day immediately preceding the date of grant (or, if the Committee so determines, the average of such middle market quotations for the five dealing days immediately preceding the date of grant).

The quantum of the initial Awards to be made under the New LTIP to the Executive Directors will be determined by the Committee at or around the time they are granted. Any such determination will be subject to the maximum Award limits described above and will also take into account a range of other factors including the Company's share price at the time of grant and the overall performance of the business.

5. Performance conditions

The vesting of Awards granted under the New LTIP to the Company's Executive Directors will be subject to performance conditions set by the Committee. The measurement period for such conditions will normally be three years or such longer period as the Committee may determine at the date of grant. The Committee can set different performance conditions for Awards granted in different years (in terms of the type of condition, the weighting given to that condition and the targets applicable to each condition) to ensure that they remain appropriate, challenging and in line with best practice guidelines and the terms of the Company's Directors' Remuneration Policy in force from time to time.

For the initial Awards that will be granted under the New LTIP to Executive Directors following its adoption, the Committee has determined that:

- the vesting of one-third of the Shares comprised in an Award will be determined by comparing the Total Shareholder Return ("TSR") of the Company over a specified three-year period with the TSR for each company in a comparator group comprised of the FTSE Small Cap Index constituents (excluding financial services companies and investment trusts). Vesting will then take place as follows:

TSR ranking of the Company in the comparator group	% of Shares comprised in the TSR element of the Award that would vest
Below median	0%
At median	25%
At upper quartile	100%
Between median and upper quartile	Sliding scale between the above percentages

- the vesting of the remaining two-thirds of the Shares comprised in an Award will be determined by the extent to which the Company's underlying earnings per share ("EPS") in the final year of a period of three consecutive financial years (commencing with the financial year in which the Award is granted) meets certain levels.

As explained in the Directors' Remuneration Report section of the 2020 Annual Report and Accounts, the Committee has concluded that, in light of the current uncertainty created by the COVID-19 crisis, it would be inappropriate to set the specific targets for the EPS portion of these initial Awards until such time as there is greater clarity around the long-term impact of the pandemic on the Company's business and the various markets in which it operates. As a result, the Committee intends to finalise these targets no later than six months after the date on which the Awards are granted. Once it has done so, full details of the selected measures will be set out in an RNS announcement released to the market.

Notwithstanding the performance of the Company against any of the above targets, if, in exceptional circumstances, the Committee considers that the vesting levels they produce

- do not appropriately reflect the Company's overall performance and/or the experience of its shareholders since the date of grant of the Awards; and/or
- would otherwise be inappropriate or unreasonable given the circumstances that exist at the time of their assessment, the Committee may vary the proportion of the Shares that vest in such manner as they shall specify.

The Committee will have the power to vary the terms of the performance conditions attaching to an outstanding Award in exceptional circumstances, provided that, in the opinion of the Committee, the amended conditions are neither materially easier nor more difficult to achieve than the original conditions as envisaged by the Committee at the date of grant of that Award.

The Committee may set different or no performance conditions for participants who are not Executive Directors.

6. Vesting and holding period

Awards granted to Executive Directors will normally vest on the third anniversary of grant. Awards granted to employees outside this population may vest at such time (or times) as set by the Committee.

Awards will vest to the extent that any applicable performance conditions have been satisfied and provided the participant is still employed by the Group (although see "good leaver" provisions below). Awards in the form of Options will, once vested, normally remain exercisable up until the tenth anniversary of grant, unless they lapse earlier.

An Award may be subject to a post-vesting holding period determined by the Committee and notified to the participant at the date of grant. If such a holding period is imposed, it may involve the deferral of the release of any vested Shares and/or a restriction on the ability to exercise an Award that is an Option. In accordance with the requirements of the new Directors' Remuneration Policy that shareholders are being asked to approve at the AGM, a holding period of two years will apply to the initial Awards to be granted under the New LTIP to Executive Directors.

Awards granted under the New LTIP to Executive Directors will also be subject to the new, increased share retention policy and post-cessation shareholding requirement set out on in the Directors' Remuneration Report section of the 2020 Annual Report and Accounts.

7. Dividend equivalents

The Committee may decide that participants will receive a payment (in cash and/or Shares) on or shortly following the settlement of their Awards, of an amount equivalent to the dividends that would have been payable on the Shares acquired between:

- the date of grant and the vesting date; and/or
- the date of vesting and the date on which any applicable holding period expires.

The above amounts may be calculated assuming that the dividends have been reinvested in Shares on a cumulative basis.

8. Source of Shares and dilution limits

Awards may be satisfied either by the issue of new Shares, the transfer of Shares from treasury or the transfer of existing Shares purchased in the market. In all cases, the Shares will normally be subscribed for or acquired by the trustee of the Company's existing employee benefit trust who will, in turn, transfer them on to the relevant participants. However, the rules of the New LTIP place two limitations on the number of new Shares which may be allocated from the issued share capital of the Company.

The first limit referred to above specifies that the number of Shares which may be allocated on any day shall not, when added to the aggregate number of Shares which have been allocated in the previous ten years under the New LTIP and any other discretionary share scheme operated by the Company, exceed such number as represents 5% of the ordinary share capital of the Company in issue immediately prior to that day.

The second limit referred to above specifies that the number of Shares which may be allocated on any day shall not, when added to the aggregate number of Shares which have been allocated in the previous ten years under the New LTIP and any other employees' share scheme operated by the Company, exceed such number as represents 10% of the ordinary share capital of the Company in issue immediately prior to that day.

For the purposes of these limits:

- Awards, options and other rights to acquire Shares which have lapsed or been released without being exercised will not be counted;
- Awards, options and other rights to acquire Shares which are, or are to be, satisfied by the transfer of existing Shares purchased in the market will not be counted; and
- Shares transferred from treasury will count as new issue Shares but will cease to so count if institutional investor bodies decide that they should not count.

9. Malus and clawback

An Award may be reduced at any time before it vests if the Committee determines that there has been a material misstatement in the Company's financial statements and/or an error or inaccurate or misleading information which has resulted in the Award being granted over a higher number of Shares than would otherwise have been the case and/or the Company or the Group is likely to suffer significant reputational damage as a result of an act or omission by the participant and/or the participant's employment could have terminated by reason of gross misconduct.

An Award may also be subject to clawback if, in the period of two years from the end of any relevant performance period, the Committee becomes aware that there has been a material misstatement of the Company's financial results and/or an error in assessing any applicable performance conditions and/or the relevant participant ceases employment by reason of gross misconduct and/or an act by the participant has caused significant reputational damage to the Company. The Committee may satisfy the clawback by recovering and withholding future incentive compensation, including but not limited to the amount of any unpaid bonus, the number of Shares under a vested but unexercised or unreleased award and/or a requirement to make a cash payment.

10. Cessation of employment

- *Cessation before vesting*

  As a general rule, an Award will lapse upon a participant ceasing to hold employment or be a director within the Group prior to its vesting date.

  However, if a participant ceases to be an employee or a director because of his/her death, illness, injury or disability, redundancy, retirement or because the participant's employing company or part of the business in which he/she is employed is transferred out of the Group, or in any other circumstances determined by the Committee at its discretion (i.e. a "**good leaver**"), then his/her Award will not lapse and will continue to vest on the date that it would have vested had he/she not ceased such employment or office. Also, any previously imposed holding period will continue to apply in these circumstances unless the Committee determines otherwise.

  The extent to which an Award will vest in these circumstances will depend upon two factors:

  - the extent to which any performance conditions have, in the opinion of the Committee, been satisfied over the original performance measurement period; and
  - the pro-rating of the Award to reflect the period of time between its grant and the date of cessation, although the Committee can decide not to pro-rate an Award if it regards it as inappropriate to do so in the particular circumstances.

Alternatively, if a participant ceases employment as a good leaver, the Committee can decide that his/her Award will vest at or around the time when he/she leaves, subject to performance condition satisfaction (measured at that time) and time pro-rating (unless the Committee determines otherwise).

- *Cessation during holding period*
  Where cessation of employment occurs during any post-vesting holding period applicable to an Award then, unless the Committee decides that an earlier release date is justified by the circumstances, it will continue to be subject to that holding period.

11. Corporate events
In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) all Awards will vest early, but normally only in respect of such time-apportioned proportion of the Shares over which they subsist as the Committee shall determine having regard to such factors as:
- the level of achievement against any outstanding performance conditions;
- the underlying performance of the Company;
- the particular circumstances of the transaction; and
- the overall interests of shareholders.

The Committee can, however, decide not to time-apportion an Award if it regards it as inappropriate to do so in the particular circumstances.

As an alternative to the above provisions, the Committee may, in connection with a takeover, require a participant to surrender their existing rights under the Plan in consideration for the grant to him/her of equivalent rights over shares in the acquiring company (or a member of its group).

In the event of an internal corporate reorganisation, Awards will normally be replaced by equivalent rights over shares in a new holding company unless the Committee decides that Awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that Awards will vest on the basis which would apply in the case of a takeover as described above.

12. Variation of capital
In the event of any capitalisation issue, rights issue, open offer, consolidation, subdivision or reduction of capital, demerger, special dividend or any other event affecting the share capital of the Company, the number and/or nominal value of Shares comprised in Awards, and/or the exercise price of an Option, may be adjusted by the Committee.

13. Amendments to the New LTIP
The rules of the New LTIP may at any time be altered by the Committee in any respect. However, the provisions relating to:
- the class of persons eligible to participate in the New LTIP;
- the maximum entitlement and the basis for determining the entitlement of any one participant;
- the terms upon which Shares may be transferred to a participant under an Award;
- the adjustments to Awards in the event of a variation of capital;
- the limitations on the number of Shares which may be issued under the New LTIP; and
- the amendment rule,

cannot be altered to the advantage of participants without the prior approval of shareholders (except for minor amendments to benefit the administration of the New LTIP, to comply with or take account of a change in legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the New LTIP or for the Company or any other member of the Group).

In addition, no alteration can be made to the rules of the New LTIP which would materially abrogate or adversely affect the subsisting rights of participants, unless it is approved by at least 75% of those individuals.

14. Overseas jurisdictions
The Committee may develop and approve overseas jurisdiction variants to the New LTIP under the terms of which Awards may be made in such a way as to satisfy or take advantage of securities and tax legislation or exchange controls in such jurisdictions. Any plan variants will otherwise be of similar structure and economic intent as the main New LTIP Awards and will count towards the individual and overall Plan limits described above.

15. General
Benefits derived from the New LTIP will not constitute pensionable earnings of any individual.

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