27 February 2014

Ricardo plc
Interim results for the six months ended 31 December 2013

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 2,100 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, financial institutions and governments.

HIGHLIGHTS

- A record order book up 18% to £143m (June 2013: £121m)
- Underlying (1) profit before tax up 29% to £9.3m (December 2012: £7.2m)
- Organic (2) profit before tax up 11% to £8.0m (December 2012: £7.2m)
- Underlying (1) basic earnings per share up 28% to 14.6p (December 2012: 11.4p)
- Net funds up £2.1m to £8.2m (June 2013: £6.1m)
- Interim dividend up 8% to 4.3p per share (December 2012: 4.0p)
- Multi-year engine supply agreement signed with McLaren Automotive
- Outlook remains positive, strong platform for further growth

(1) Excluding specific adjusting items, which comprise amortisation of acquired intangible assets and acquisition costs (see note 6).

(2) Excluding Ricardo-AEA 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:

"Ricardo has continued to secure good levels of new business, with the period end order book at a record level of £143m, well diversified across geographies and market sectors. We have increasing levels of business from Asia and Europe and the market sectors of rail, motorcycles and power generation continue to expand.

"A highlight of the period was the conclusion of the landmark engine supply agreement with McLaren Automotive. The long-term nature of this agreement underscores the effectiveness of our working relationship with McLaren and provides an exciting opportunity to deliver innovative new products. In addition, it is pleasing to note that Ricardo-AEA, which was acquired in the previous financial year, has now been fully integrated and is performing well.

"With the record order book well balanced across both Technical Consulting and Performance Products and an encouraging order pipeline, we remain confident of further progress in the future."

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Interim management review

GROUP RESULTS

The Group has delivered a good operating performance in the period. Total Group revenues increased to £111.9m, a 12% increase on the prior period (31 December 2012: £100.3m). Underlying profit before tax increased 29% to £9.3m, up from £7.2m in the prior period. 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 11% to £8.0m. Ricardo-AEA was acquired on 8 November 2012.

Reported profit before tax was £8.8m compared to £5.8m in the prior period.

The closing order book reached a record level of £143m, and together with the pipeline, contains a good spread across markets sectors, customers and geographies.

The prior period results have been restated to reflect the amendments under IAS 19 (revised 2011) Employee Benefits. These amendments are presented within note 4.

Technical Consulting results

Technical Consulting revenues increased to £84.7m, a 10% increase on the prior period (31 December 2012: £76.7m). Underlying operating profit increased by 19% to £5.6m (31 December 2012: £4.7m).

The UK division within Technical Consulting, which predominantly delivers business from the UK and Asia, continues to be the main business in terms of profit generation. The German and US businesses, which serve mainly their own geographic markets and are smaller in scale, faced a challenging market backdrop and had a difficult start to the year, but these businesses gained momentum during the second quarter and the closing order book is particularly encouraging for both businesses. Ricardo-AEA has delivered a strong performance, and our strategic consulting activities continued to make good progress.

Our sales offices in Asia continue to win significant orders for delivery elsewhere within the Group.

Performance Products results

Performance Products has had a strong first half, with revenues increasing to £27.2m, a 15% increase on the prior period (31 December 2012: £23.6m). Underlying operating profit increased by 17% to £4.2m (31 December 2012: £3.6m). Trading performance in the period was underpinned by increased motorsport activity and monorail transmissions, which more than offset a reduction in the delivery of defence vehicles.

Net finance costs

Net finance costs primarily represent the net interest charge in respect of the Group’s defined benefit pension scheme. The total net charge of £0.5m is similar to the prior period (31 December 2012: £0.6m).

Tax

The total tax charge for the period was £1.6m (31 December 2012: £1.0m), with the total effective rate of tax being 18% (30 June 2013: 19%; and 31 December 2012: 17%). The Group continues to benefit from Research and Development tax credits within the tax charge.

EPS

Note 9 presents an underlying basic earnings per share, with a reconciliation to basic earnings per share. Underlying basic earnings per share for the first half increased by 28% to 14.6p (31 December 2012: 11.4p).

Net funds

The Group continues to manage working capital tightly. Closing net cash was £8.2m, having increased from the £6.1m reported at 30 June 2013.

As at 31 December 2013 the Group had unutilised committed facilities of £35m, all of which expire after more than one year. The Group also had unutilised uncommitted short-term facilities totalling £16m.

Pensions

The defined benefit pension scheme deficit of £21.5m compares to £22.3m at 31 December 2012 and £19.7m at 30 June 2013. The increase in the deficit since 30 June 2013 is largely due to a reduction in the discount rate and an increase in inflation assumptions.

Dividend

The Board has declared an increased interim dividend of 4.3p per share (31 December 2012: 4.0p) reflecting the continuing progress over the last six months and the confident outlook. The dividend will be paid on 7 April 2014 to shareholders on the register at the close of business on 7 March 2014.

MARKET & STRATEGY UPDATE

We have seen over the past few months a steady increase in medium-term prospects across a number of our key markets as the major industrialised economies of Europe and North America stabilise and tentatively return to growth. The Asia-Pacific markets have continued to develop and remain hungry for technology transfer and new product development.

Ricardo's strategic focus on the development of multiple market sectors, products and technologies and on engaging with a diversified portfolio of customers around the world has enabled the company to continue to grow its business. Our focus has remained on the development of innovative R&D-led product development, supported by the implementation of best practice processes for the management of complex large-scale turnkey programmes. This has been underpinned by strong growth in our Performance Products business. Ricardo-AEA has enabled us to drive growth into our environmental consulting service offering with a focus on overseas expansion, private sector growth and sustainable cities. This has also helped to protect the business from over reliance on any one industry sector, customer, country or region.

Our business growth continues to be underpinned by global megatrends relating to the continued focus to:

- reduce carbon dioxide emissions;
- improve the efficiency of energy usage;
- eliminate the release of noxious pollutants and particulates; and
- address a changing and diverse global energy mix.

Our expertise in all of these areas enables us to be well placed to assist major international private and public sector customers in sectors including the passenger car, commercial vehicle, motorsport, motorcycle, rail, clean energy and power generation, defence, marine, off-highway, and government and environmental.

Our strategy moving forward focuses on the core areas of growth of Transport and Security, and Energy together with new opportunities in the area of Scarce Resources and Waste. In each of these areas we are looking to exploit our Technical Consulting and Performance Product areas of core competence to further grow and expand the business. We are also looking to further strengthen and expand the strategic partnerships that we have established to provide longer-term visibility and a platform for sustained growth. Overall, following the successful acquisition and integration of Ricardo-AEA, we continue to seek opportunities to grow both organically and through partnerships or acquisitions.

Ricardo continues to invest in its people, technology and facilities to capitalise on the market drivers and conditions that it faces.

We believe that the current overall strategy offers a good balance of risk management, avoidance of cyclicality and the promotion of growth.

TECHNICAL CONSULTING

At the centre of Ricardo's business model lies its engineering and environmental consultancy activity. We deliver outstanding projects focused on class-leading innovation in our core product areas of engine, transmission, vehicle, hybrids, environmental forecasting and impact analysis. This ranges from detailed collaborations with customers on advanced engineering work, technology evaluations and market studies to large-scale turnkey commercial programmes, encompassing multiple products and international markets.

Motorcycles, Motorsport and High Performance Vehicles

The motorcycle team is enjoying continued success with significant new wins in China, Japan and Europe. We are looking to develop long-term multi-product relationships with all of these customers and are focused on providing a 'full vehicle' solution, building on our historic strength in the design and development of motorcycle powertrains. The Ricardo motorsport and high performance vehicle team has also enjoyed a good start to the year with a number of large contract wins built around strong ongoing client relationships. We continue to invest in energy recovery technologies that will become an increasing area of growth in the motorsport sector over the coming years.

Passenger Car

We have experienced good levels of activity in the major automotive markets of China and Japan as well as in the UK and US. Ricardo's passenger car business has also benefited in particular from demand related to growth markets in the developing economies. Fuel economy and CO_2 reduction continues to take precedence as a global industry priority as well as being driven strongly by consumers. We have secured a range of large programmes, especially in the core powertrain area of our business, focused on both new and existing product upgrades. Vehicle lightweighting also continues to be an area of growth as OEMs seek innovative solutions to enable vehicle weight reduction. We also continue to see activity in the niche vehicle sector as established mainstream automotive brands seek to differentiate their products through 'halo' derivatives. We continue to invest in advanced combustion and other key technologies in areas related to improvements in overall vehicle efficiency such as intelligent driveline and electrification.

Agricultural and Industrial Vehicles & Commercial Vehicles

The off-highway and commercial vehicle sectors have been recovering from recent tough economic conditions, although with an emissions legislation gap, CO_2 and emissions upgrade activity has been low. However, our presence in these sectors continues to develop with strong engagement in Japan and emerging relationships with companies in the Chinese market. Our product offering is focused on new powertrain development, complete machine optimisation, cost-effective aftertreatment solutions and hybridisation options, all of which are attracting a wide level of interest. We are continuing to invest in energy recovery technology and in particular we have demonstrated on a large excavator the application of flywheel technology to the hydraulic system to improve machine efficiency.

Defence

Our defence activities have been focused on the UK, US and other designated export markets. In the UK we have broadened our network within the Ministry of Defence ('MoD') and have continued to grow key relationships with defence contractors. We have focused on developing product solutions that can offer significant operational cost savings to the MoD and which can be integrated into existing core vehicle platforms. In the US we have continued to provide technical services across the defence sector and have made substantial progress in this effort. We have continued our relationship with DARPA (Defense Advanced Research Projects Agency) on the FANG programme. We are also engaged in a range of opportunities across future land and naval platforms. In export markets we have a range of advanced opportunities in the Middle East and Asia all looking to develop indigenous products utilising Ricardo's expertise in complete vehicle integration.

Rail

Ricardo's rail business continues to develop in a variety of territories, including North America, Europe and Asia. Recently secured rail projects have drawn on a wide range of Ricardo's capabilities, including engines, driveline, alternative fuels and strategic consultancy. Natural gas as a locomotive fuel is seen as a core area of growth – particularly in North America, where the price of gas has fallen considerably in relation to diesel fuel. Ricardo's world-leading capability in large diesel engines has attracted projects from a number of locomotive engine manufacturers, for which it is vital to comply with ever-tightening emissions regulations and also to satisfy their customers' demands for lower operating costs and increased power density. We also expect to see continued growth of mass transit systems for large cities and high speed rail links.

Clean Energy & Power Generation

Our capability and expertise across the energy sector has further expanded in recent months in both conventional and renewable energy as well as in enabling technologies that are required to develop future power systems integration. In power generation, we continue our focus on and growth of the larger-scale generator sets business, and have secured further orders with existing and new clients. Across the renewables sector, we continue to support a range of clients with our focus on offshore wind, energy storage and future cities programmes. With respect to enabling technologies, the market continues to move towards "Smart Energy Systems" where all forms of energy use combine: electricity, heat and transportation. In the US in particular, electrical energy storage is a key growth area.

Marine

The key areas of growth within the marine sector are focused on efficiency of propulsion systems to improve fuel consumption and the implementation of new ship energy management architectures, especially for hybrid technology. We have won a series of projects focused on the upgrade of existing engines and conversions to run on alternative fuels – especially compressed natural gas and liquid natural gas. We are also seeing growth in the area of emissions control as increasingly tough emissions legislation is implemented, alongside the desire of operators to use remote monitoring systems to identify potential failure modes. Ricardo's marine sector is growing strongly in Europe, with increasing interest in Asia and North America – especially in the area of gas engine integration.

Government and Environmental

Ricardo provides consultancy services to governments and their agencies based on our in-depth knowledge of future technologies in all our market sectors. Our environmental consulting offering has been greatly strengthened with the acquisition and formation of Ricardo-AEA. We are continuing to see a strong performance across all key practice areas which include energy and climate change, air quality, waste, sustainable transport and chemical risk. Growth is focused around a move into the private sector, a focus on international expansion outside the UK, and sustainable cities. We continue to build strong relationships with EPA, NHTSA and CARB in the US, with DECC, BIS and DFT in the UK and the wider EU Commission and are working to secure a number of large multi-year contract awards.

PERFORMANCE PRODUCTS

High Performance Vehicles

Production of the Porsche Cup transmission commenced in July, marking the start of a long-term supply agreement.

Demand for engines from McLaren for both the 12C and new McLaren P1™ supercars has continued, as has the supply of advanced dual clutch transmissions to Bugatti for the Veyron supercar. In December 2013 we also announced a new multi-year engine supply agreement with McLaren Automotive. This contract, which represents revenue in the order of £40m per annum for Ricardo from 2016 onwards, is the largest in almost a century of Ricardo history.

In the area of motorsport, 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 and GT3, and the Renault World Series.

Rail

Manufacture of the initial Scomi monorail transmission, for Malaysia, has continued during the year. Following the success of this programme a new order to supply monorail transmissions has been received for delivery to Brazil.

Defence

Assembly of the Foxhound vehicle for use by British Forces continued during the year, with the successful completion and delivery of the final tranche, bringing total manufacture to 376 vehicles.

RESEARCH & DEVELOPMENT

Our R&D programme is a key element of both our business strategy and investment in our people. We track the impact of our research in winning added value work from our customers, generating intellectual property licence revenues and product based royalties. We are also focused on maximising the value from our investments in R&D through the development of grant funding from government agencies around the world to support our R&D projects along with shared activities with many of our key clients.

In the last six months we have completed a number of our demonstrator vehicles that are used to showcase our technologies and capabilities. Our SynerD™ vehicle based on a Jaguar XF achieves a 30% reduction in CO_2 emissions from a combination of downsizing, boosting and fast warm up technologies. This vehicle is now being demonstrated to our customers with excellent feedback on its driveability, and for the cost efficiency of the system that we have developed.

Our Electric and Plug-in Electric vehicles have also reached the demonstration phase and have been well received at a number of roadshows and conferences such as the Low Carbon Vehicle Show at Millbrook in the UK, the Aachen Colloquium in Germany and EVS27 in Barcelona. The Plug-in vehicle has generated most interest due to our successful integration of a two-cylinder gasoline engine into the powertrain.

We have also successfully completed our programme to develop a sophisticated battery management system for a range of lithium ion chemistries. This has been successfully applied to a very high power lithium ion pack used for the McLaren P1™ supercar.

Ricardo has developed an innovative hardware design called MultiLife™ to extend the life of wind turbine gearboxes. This is a particularly important requirement for wind turbines, with which access for repairs can be challenging and bearing failure can have a significant impact on the cost of generation. In rig tests, we have now successfully reproduced the failures observed in real operations and have shown that our design can effectively extend the life of the bearings by a factor of five.

PEOPLE

Terry Morgan CBE joined the Board of Ricardo plc as a non-executive director and Deputy Chairman on 2 January 2014 and it is intended that he will succeed Michael Harper as Chairman with effect from the close of the Annual General Meeting in November 2014. He has many years of Board-level experience at the top of UK industry and is currently the Non-Executive Chairman of Crossrail Limited, the Manufacturing Technology Centre and the National Skills Academy for Railway Engineering.

The management team has been strengthened by the appointment of Dr Robert Hentschel as Managing Director of Ricardo Germany. Previously Dr Hentschel held senior appointments with EDAG and Lotus, and brings a wealth of experience to his role with Ricardo.

Graduate development and recruitment continued in the period and we are already in receipt of over 400 applications for the 2014/15 programme. Ricardo provides a great career opportunity for engineering and non-engineering graduates. In addition to the existing internal UK graduate rotation programme, we have now implemented international rotations to enable cross fertilisation across the Group and broaden the graduate experience.

Commitment to UK apprentice development remains strong with most apprentices achieving further educational qualifications, such as HNDs, over and above their NVQs. The increasing success of Performance Products and its niche manufacturing will drive apprentice recruitment in that area in order to proactively address any skills shortage that may emerge in the longer term.

In addition we have put a particular focus on development of our management with the roll out of our bespoke suite of management and leadership programmes across our divisions internationally, thereby promoting a common approach to leadership development.

OUTLOOK

The core drivers of energy efficiency and emissions reduction remain at the top of our customers' agenda and we are seeing an increasing demand for engineering talent and technology solutions. Our order book is encouraging across the Group, particularly in respect of Germany and the US which have faced challenging market conditions, and the progress in our newer market sectors is a further validation of our strategy of diversification.

The economic backdrop is slowly improving and, together with our well-diversified order book and strong balance sheet, we remain confident of further progress in the future.

Dave Shemmans
Chief Executive Officer
26 February 2014

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

Condensed consolidated income statement
for the six months ended 31 December 2013

	Notes	**Six months ended 31 December 2013 (Unaudited) £m**	Six months ended 31 December 2012 (Unaudited) Restated [1] £m	Year ended 30 June 2013 (Audited) Restated [1] £m
Revenue	*6 & 7*	**111.9**	100.3	229.7
Cost of sales		**(68.3)**	(60.4)	(134.3)
Gross profit		**43.6**	39.9	95.4
Administration expenses		**(34.0)**	(32.3)	(72.0)
Other income		**0.2**	0.2	0.5
Underlying operating profit		**9.8**	7.8	23.9
Specific adjusting items [2]		**(0.5)**	(1.4)	(2.0)
Operating profit		**9.3**	6.4	21.9
Net finance costs		**(0.5)**	(0.6)	(1.2)
Profit before taxation		**8.8**	5.8	20.7
Comprising:				
Underlying profit before taxation		**9.3**	7.2	22.7
Specific adjusting items [2]		**(0.5)**	(1.4)	(2.0)
Taxation	*8*	**(1.6)**	(1.0)	(3.9)
Profit for the period		**7.2**	4.8	16.8
Earnings per ordinary share	*9*			
Basic		**13.9p**	9.3p	32.5p
Diluted		**13.6p**	9.2p	32.1p

[1] On adoption of revised International Accounting Standard 19 Employee Benefits (see note 4)
[2] Specific adjusting items comprise amortisation of acquired intangible assets and acquisition costs, which are classified as administration expenses (see note 6)

Condensed consolidated statement of comprehensive income

for the six months ended 31 December 2013

	Six months ended 31 December 2013 (Unaudited)	Six months ended 31 December 2012 (Unaudited) Restated [1]	Year ended 30 June 2013 (Audited) Restated [1]
	£m	£m	£m
Profit for the period	**7.2**	4.8	16.8
Other comprehensive income:			
Currency translation on foreign currency net investments	**(2.0)**	(0.4)	1.7
Total items that may be reclassified subsequently to profit or loss	**(2.0)**	(0.4)	1.7
Remeasurements on defined benefit scheme	**(3.5)**	(3.6)	(2.7)
Deferred tax on items taken directly to equity	**0.8**	0.8	0.3
Total items that will not be reclassified to profit or loss	**(2.7)**	(2.8)	(2.4)
Total other comprehensive loss for the period (net of tax)	**(4.7)**	(3.2)	(0.7)
Total comprehensive income for the period	**2.5**	1.6	16.1

Condensed consolidated statement of changes in equity

for the six months ended 31 December 2013

	Issued 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 period	-	-	-	7.2	7.2
Other comprehensive income	-	-	(2.0)	(2.7)	(4.7)
Share-based payments	-	-	-	0.5	0.5
Proceeds from shares issued	0.1	0.2	-	-	0.3
Ordinary share dividends	-	-	-	(5.2)	(5.2)
At 31 December 2013 (unaudited)	**13.1**	**14.2**	**4.4**	**66.3**	**98.0**
At 1 July 2012	13.0	13.9	4.7	58.2	89.8
Profit for the period – restated [1]	-	-	-	4.8	4.8
Other comprehensive income – restated [1]	-	-	(0.4)	(2.8)	(3.2)
Share-based payments	-	-	-	0.1	0.1
Proceeds from shares issued	-	0.1	-	-	0.1
Ordinary share dividends	-	-	-	(4.5)	(4.5)
At 31 December 2012 (unaudited)	13.0	14.0	4.3	55.8	87.1
At 1 July 2012	13.0	13.9	4.7	58.2	89.8
Profit for the period – restated [1]	-	-	-	16.8	16.8
Other comprehensive income – restated [1]	-	-	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 (audited)	13.0	14.0	6.4	66.5	99.9

[1] On adoption of revised International Accounting Standard 19 Employee Benefits (see note 4)

Condensed consolidated statement of financial position
as at 31 December 2013

	Notes	**31 December 2013 (Unaudited) £m**	31 December 2012 (Unaudited) £m	30 June 2013 (Audited) £m
Assets				
Non-current assets				
Goodwill	*15*	**25.6**	24.7	25.9
Other intangible assets		**15.1**	16.1	15.6
Property, plant and equipment		**46.0**	44.9	48.2
Trade and other receivables		**-**	0.3	-
Deferred tax assets		**13.0**	15.1	13.4
		99.7	101.1	103.1
Current assets				
Inventories		**8.5**	7.6	7.7
Trade and other receivables		**62.0**	61.8	54.9
Derivative financial assets		**0.2**	0.1	-
Current taxation		**1.3**	1.7	1.3
Cash and cash equivalents		**8.2**	9.3	6.8
		80.2	80.5	70.7
Total assets		**179.9**	181.6	173.8
Liabilities				
Current liabilities				
Bank loans and overdrafts		**-**	(2.0)	(0.7)
Trade and other payables		**(54.3)**	(54.4)	(47.3)
Current tax liabilities		**(3.8)**	(2.8)	(3.0)
Provisions		**(1.0)**	(2.4)	(0.4)
		(59.1)	(61.6)	(51.4)
Net current assets		**21.1**	18.9	19.3
Non-current liabilities				
Bank loans		**-**	(10.0)	-
Retirement benefit obligations		**(21.5)**	(22.3)	(19.7)
Deferred tax liabilities		**(0.6)**	(0.6)	(0.6)
Provisions		**(0.7)**	-	(2.2)
		(22.8)	(32.9)	(22.5)
Total liabilities		**(81.9)**	(94.5)	(73.9)
Net assets		**98.0**	87.1	99.9
Shareholders' equity				
Share capital		**13.1**	13.0	13.0
Share premium		**14.2**	14.0	14.0
Other reserves		**4.4**	4.3	6.4
Retained earnings		**66.3**	55.8	66.5
Total equity		**98.0**	87.1	99.9

Condensed consolidated statement of cash flows
for the six months ended 31 December 2013

	Notes	**Six months ended 31 December 2013 (Unaudited) £m**	Six months ended 31 December 2012 (Unaudited) Restated [1] £m	Year ended 30 June 2013 (Audited) Restated [1] £m
Cash flows from operating activities				
Cash generated by operations	*12*	**10.3**	11.8	30.0
Net finance costs		**-**	-	-
Tax paid		**(0.2)**	(0.2)	(0.7)
Net cash generated by operating activities		**10.1**	11.6	29.3
Cash flows from investing activities				
Acquisition of business	*14*	**-**	(18.0)	(18.0)
Proceeds of sale of property, plant and equipment		**-**	3.7	4.0
Purchase of intangible assets		**(1.1)**	(1.2)	(2.1)
Purchase of property, plant and equipment		**(2.8)**	(2.3)	(10.3)
Government grants received in respect of property, plant and equipment		**0.5**	-	1.6
Net cash used by investing activities		**(3.4)**	(17.8)	(24.8)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		**0.3**	0.1	0.1
Net proceeds from issue of new bank loan		**-**	10.0	10.0
Repayment of borrowings		**-**	(1.8)	(12.0)
Dividends paid to shareholders		**(5.2)**	(4.5)	(6.6)
Net cash (used)/generated by financing activities		**(4.9)**	3.8	(8.5)
Effect of exchange rate changes		**0.3**	-	0.3
Net increase/(decrease) in cash and cash equivalents		**2.1**	(2.4)	(3.7)
Cash and cash equivalents at beginning of period		**6.1**	9.8	9.8
Net cash and cash equivalents at the end of period		**8.2**	7.4	6.1

[1] On adoption of revised International Accounting Standard 19 Employee Benefits (see note 4)

Notes to the condensed interim financial statements
for the six months ended 31 December 2013 (unaudited)

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

This interim report was approved for issue by the Board of Directors on 26 February 2014. It has not been audited but it has been subject to an independent review by PricewaterhouseCoopers LLP.

This interim report does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Except for the retrospective changes required as a result of the amendment to IAS 19 Employee Benefits (see note 4), the figures for the year to 30 June 2013 have been extracted from the 2013 Annual Report and Accounts, which was approved by the Board of Directors on 6 September 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

2. Basis of preparation

This interim report for the six months ended 31 December 2013 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the European Union. This interim report should be read in conjunction with the Annual Report and Accounts for the year ended 30 June 2013, which has been prepared in accordance with IFRSs as adopted by the European Union.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason they continue to adopt the going concern basis in preparing this interim report.

3. Estimates

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 June 2013, with the exception of changes in estimates that are required in determining the provision for income taxes in interim periods under IAS 34 Interim Financial Reporting requirements.

4. Accounting policies

The accounting policies adopted are consistent with those of the financial statements for the year ended 30 June 2013, except for certain IAS 34 Interim Financial Reporting requirements and the amendment to IAS 19 Employee Benefits described below.

The new, revised or amended standards and interpretations shown below are mandatory for the first time for the financial year ending 30 June 2014. New, revised or amended standards and interpretations that are not yet effective have not been early adopted.

Standards, amendments and interpretations to published standards
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
2011 Annual Improvements to IFRSs
IAS 19 (revised 2011) Employee Benefits
IAS 27 Separate Financial Statements
IAS 28 Investment in Associates and Joint Ventures
IFRS 1 First Time Adoption
IFRS 7 Financial Instruments: Disclosures
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

None of these standards or interpretations have had any significant impact on these financial statements, with the exception of IAS 19 (revised 2011) Employee Benefits described below and IFRS 7 Financial Instruments: Disclosures (see note 16).

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 both the six months ended 31 December 2012 and the year ended 30 June 2013 and have had the following impact on the comparative financial information compared with the previous version of IAS 19:

	Six months ended 31 December 2012 £m	Year ended 30 June 2013 £m
Administration expenses	(0.1)	(0.2)
Operating profit	(0.1)	(0.2)
Net finance costs	-	(0.1)
Decrease in profit before taxation	(0.1)	(0.3)
Taxation	-	0.1
Decrease in profit for the period	(0.1)	(0.2)
Remeasurements on defined benefit scheme	0.1	0.3
Deferred tax on items that will not be reclassified to profit or loss	-	(0.1)
Total comprehensive income for the period	-	-
Earnings per ordinary share	pence	pence
Basic	(0.2)	(0.4)
Diluted	(0.2)	(0.4)
Underlying earnings per ordinary share	pence	pence
Basic	(0.2)	(0.4)
Diluted	(0.2)	(0.4)

5. Seasonality

The second half of the Ricardo financial year is normally subject to less annual leave, both at our clients and amongst the Ricardo team, and has historically seen a higher level of profit.

6. Segmental reporting

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

• Technical Consulting provides services in relation to the development and implementation of engineering and environmental projects and in relation to management and operational consultancy.

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

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

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

Revenue

(a)	**Six months ended 31 December 2013**				
	External customers £m	**Inter-segment £m**	**Total £m**	**Carried out by other segments £m**	**Revenue earned £m**
Technical Consulting	**85.4**	**0.1**	**85.5**	**(0.8)**	**84.7**
Performance Products	**26.5**	**0.8**	**27.3**	**(0.1)**	**27.2**
	111.9	**0.9**	**112.8**	**(0.9)**	**111.9**

(b)	Six months ended 31 December 2012				
	External customers £m	Inter-segment £m	Total £m	Carried out by other segments £m	Revenue earned £m
Technical Consulting	76.3	0.4	76.7	-	76.7
Performance Products	24.0	-	24.0	(0.4)	23.6
	100.3	0.4	100.7	(0.4)	100.3

(c)	Year ended 30 June 2013				
	External customers £m	Inter-segment £m	Total £m	Carried out by other segments £m	Revenue earned £m
Technical Consulting	181.7	0.4	182.1	(2.0)	180.1
Performance Products	48.0	2.0	50.0	(0.4)	49.6
	229.7	2.4	232.1	(2.4)	229.7

Operating profit

	Six months ended 31 December 2013 £m	Six months ended 31 December 2012 Restated [1] £m	Year ended 30 June 2013 Restated [1] £m
Technical Consulting	**5.6**	4.7	18.5
Performance Products	**4.2**	3.6	6.1
Head Office and consolidation adjustments	**-**	(0.5)	(0.7)
Underlying operating profit	**9.8**	7.8	23.9
Amortisation of acquired intangible assets	**(0.5)**	(0.2)	(0.7)
Acquisition costs	**-**	(1.2)	(1.3)
Operating profit	**9.3**	6.4	21.9
Net finance costs	**(0.5)**	(0.6)	(1.2)
Profit before tax	**8.8**	5.8	20.7

Comprising:			
Underlying profit before tax	**9.3**	7.2	22.7
Amortisation of acquired intangible assets	**(0.5)**	(0.2)	(0.7)
Acquisition costs	**-**	(1.2)	(1.3)

Assets

	31 December 2013 £m	31 December 2012 £m	30 June 2013 £m
Technical Consulting	**138.7**	139.1	133.1
Performance Products	**23.5**	19.3	22.1
Head Office and consolidation adjustments	**17.7**	23.2	18.6
Total assets in the financial statements	**179.9**	181.6	173.8

[1] On adoption of revised International Accounting Standard 19 Employee Benefits (see note 4)

7. Revenue by customer location

External revenue	**Six months ended 31 December 2013 £m**	Six months ended 31 December 2012 £m	Year ended 30 June 2013 £m
UK	**49.5**	49.8	116.5
Germany	**11.7**	7.2	16.2
Rest of Europe	**11.7**	7.9	21.4
Europe total	**72.9**	64.9	154.1
US	**17.5**	16.9	36.4
China	**6.7**	3.3	8.0
Japan	**9.1**	8.4	18.3
Malaysia	**1.4**	2.6	5.8
Rest of Asia	**3.8**	3.0	5.8
Asia total	**21.0**	17.3	37.9
Rest of the world	**0.5**	1.2	1.3
	111.9	100.3	229.7

8. Taxation

	Six months ended 31 December 2013	Six months ended 31 December 2012	Year ended 30 June 2013 Restated [(1)]
	£m	£m	£m
UK	**1.3**	1.2	3.3
Overseas	**0.3**	(0.2)	0.6
Tax charge on profits	**1.6**	1.0	3.9
Current tax charge	**1.0**	0.2	1.4
Deferred tax charge	**0.6**	0.8	2.5
Tax charge on profits	**1.6**	1.0	3.9

9. Earnings per share

	Six months ended 31 December 2013	Six months ended 31 December 2012 Restated [(1)]	Year ended 30 June 2013 Restated [(1)]
	£m	£m	£m
Earnings	**7.2**	4.8	16.8
Add back amortisation of acquired intangible assets (net of tax)	**0.4**	0.2	0.5
Add back acquisition costs (net of tax)	**-**	0.9	1.0
Underlying earnings	**7.6**	5.9	18.3

	Number of shares millions	Number of shares millions	Number of shares millions
Basic average number of shares in issue	**51.9**	51.6	51.7
Effect of dilutive potential shares	**0.9**	0.6	0.6
Diluted average number of shares in issue	**52.8**	52.2	52.3

Earnings per share	**pence**	pence	pence
Basic	**13.9**	9.3	32.5
Diluted	**13.6**	9.2	32.1

Underlying earnings per share	**pence**	pence	pence
Basic	**14.6**	11.4	35.4
Diluted	**14.4**	11.3	35.0

Underlying earnings per share is shown because the Directors consider that this provides a more useful indication of underlying performance and trends over time.

[(1)] On adoption of revised International Accounting Standard 19 Employee Benefits (see note 4)

10. Dividends

	Six months ended 31 December 2013 pence/share	Six months ended 31 December 2012 pence/share	Six months ended 31 December 2013 £m	Six months ended 31 December 2012 £m
Amounts distributed in the period	**10.0p**	8.7p	**5.2**	4.5
Interim dividend	**4.3p**	4.0p	**2.2**	2.1

The Directors have declared an interim dividend of 4.3p per share (31 December 2012: 4.0p), which will be paid on 7 April 2014 to shareholders on the register at the close of business on 7 March 2014.

11. Related party transactions

Compensation for key management personnel	Six months ended 31 December 2013 £m	Six months ended 31 December 2012 £m	Year ended 30 June 2013 £m
Salaries and other short-term employee benefits	**2.1**	1.9	3.7
Post employment benefits	**0.1**	0.1	0.2
Termination benefits	**-**	0.1	0.2
Share-based payments	**0.4**	-	0.2
	2.6	2.1	4.3

The key management personnel are the Board of Directors and the Managing Directors within the UK, US, Germany and Asia.

12. Cash generated by operations

	Six months ended 31 December 2013 £m	Six months ended 31 December 2012 Restated [1] £m	Year ended 30 June 2013 Restated [1] £m
Profit before tax	**8.8**	5.8	20.7
Adjustments for:			
Share-based payments	**0.5**	0.1	0.5
Cash flow hedges	**(0.2)**	(0.2)	(0.1)
Net finance costs	**0.5**	0.6	1.2
Profit on disposal of property, plant and equipment	**-**	-	(0.1)
Depreciation and amortisation	**5.0**	4.2	9.3
Operating cash flows before working capital movements	**14.6**	10.5	31.5
(Increase)/decrease in inventory	**(0.8)**	0.4	0.3
(Increase)/decrease in trade and other receivables	**(7.7)**	4.3	11.7
Increase/(decrease) in payables	**7.3**	(1.5)	(9.6)
(Decrease)/increase in provisions	**(0.8)**	0.4	0.7
Defined benefit obligation payments	**(2.3)**	(2.3)	(4.6)
Cash generated by operations	**10.3**	11.8	30.0

[1] On adoption of revised International Accounting Standard 19 Employee Benefits (see note 4)

13. Net funds/(debt) (non-GAAP measure)

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

At period end	**31 December 2013 £m**	31 December 2012 £m	30 June 2013 £m
Cash and cash equivalents (current assets)	**8.2**	9.3	6.8
Bank overdrafts (current liabilities)	**-**	(1.9)	(0.7)
Net cash and cash equivalents	**8.2**	7.4	6.1
Bank loans maturing within one year	**-**	(0.1)	-
Bank loans maturing after one year	**-**	(10.0)	-
Net funds/(debt)	**8.2**	(2.7)	6.1

14. Acquisition

On 8 November 2012 the Group acquired the business and certain operating assets of AEA Europe for total cash consideration of £18.0m.

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

	£m
Total consideration	18.0
Fair value of identifiable assets acquired and liabilities assumed	
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)
Total identifiable net assets	8.1
Goodwill	9.9
Total	18.0

Adjustments were made to identifiable assets and liabilities on acquisition to reflect their fair value. These included the recognition of customer related intangible assets amounting to £8.5m and other acquisition related intangible assets amounting to £0.3m. 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. Fair values were finalised during the six months ended 31 December 2013 with no changes from those recorded at 30 June 2013.

15. Goodwill

At 31 December 2013, the goodwill balance of £25.6m was made up of £9.9m in respect of Ricardo-AEA, £13.0m in respect of the German Technical Consulting business and £2.7m in respect of two businesses which have been fully integrated in Ricardo UK Limited (Gemini and Tarragon).

A review of the German goodwill asset has been performed in light of challenging market conditions at the start of the period. The goodwill is not deemed to be impaired.

16. Financial instruments

There are no differences between the fair value of the financial assets and liabilities included within the following categories in the condensed consolidated statement of financial position and their carrying value:

- Trade and other receivables
- Derivative financial assets
- Cash and cash equivalents
- Trade and other payables

Derivative financial assets of £0.2m at 31 December 2013 relate to forward foreign exchange contracts, which are level 2 derivative financial instruments under the IFRS 7 fair value hierarchy. The forward contracts held at 31 December 2013 to manage foreign exchange exposures are denominated in Euros, US Dollars, Chinese Renminbi and Japanese Yen. These contracts have not been designated as cash flow hedges and the change in fair value during the period has been taken to the income statement.

17. Share capital and share premium

The consideration received for shares allotted under the LTIP and share option schemes during the six months ended 31 December 2013 was £0.3m (31 December 2012: £0.1m).

18. Capital commitments

At 31 December 2013, contracts had been placed for future capital expenditure on property, plant and equipment, which have not been provided for in the financial statements, amounting to £4.9m (31 December 2012: £1.1m) net of government grants receivable on the Vehicle Emissions Research Centre in the UK.

19. Contingent liabilities

In July 2013 a guarantee was provided to the Ricardo Group Pension Fund in respect of certain contingent liabilities that may arise. The contingent liabilities associated with this guarantee of £2.8m have been secured on specific land and buildings. In the Directors’ opinion, after taking appropriate legal advice, the outcome of this legal matter is not expected to give rise to any material cost to the Group.

20. Risks and uncertainties

The Board regularly reviews key risks and uncertainties and have concluded that the disclosure on pages 45 to 46 of the Group's Annual Report for the year ended 30 June 2013 remains appropriate. These risks and uncertainties, which relate to customers and markets, contract performance, people, technology, compliance with laws and regulations, defined benefit pension scheme and financing, should be read in conjunction with the interim management report for the half year ended 31 December 2013.