12 September 2019

Ricardo plc
Preliminary results for the full year ended 30 June 2019

Ricardo plc is a global engineering, technical, environmental and strategic consultancy business, which also manufactures and assembles low-volume, high-quality and high-performance products.

HIGHLIGHTS

- A resilient performance, demonstrating the development of the business and the success of diversification across sectors and geographies
- Strong growth in Performance Products and Energy & Environment in particular, offset a very challenging year in our European and US Automotive businesses
- Order intake robust at £386m, compared to £413m in FY 2017/18 and £366m in FY 2016/17
- Order book increased to £314m, up £19m on June 2018
- Revenue up 2% to £384.4m on FY 2017/18
- Underlying PBT similar to prior year at £37.0m (FY 2017/18: £37.5m)
- Record McLaren engine deliveries and ABS production commenced
- Two Australian acquisitions in Rail and Energy & Environment (May 2019 and July 2019, respectively)
- Net debt at £47.4m, including £22.4m acquisition costs (June 2018 Net debt: £26.1m)
- Dividend increased by 4% to 21.28p from 20.46p
- Current political and economic uncertainties aside, we are well positioned for growth from a strong, diversified order book and pipeline, recurring revenue from long-term production programmes and the benefit of recent acquisitions

			% Change	
	FY 2018/19	FY 2017/18(*)	Reported	Organic(3)
Order book (£m)	**314**	295	+6	-4
Order intake (£m)	**386**	413	-7	-7
Revenue (£m)	**384.4**	378.5	+2	+1
Underlying(1)				
Profit before tax (£m)	**37.0**	37.5	-1	-3
Basic earnings per share(2) (p)	**53.7**	55.1	-3	-4
Statutory				
Profit before tax (£m)	**26.5**	27.0	-2	-4
Basic earnings per share (p)	**37.1**	33.0	+12	+10
Dividend per share (p)	**21.28**	20.46	+4	n/a
Net debt (£m)	**(47.4)**	(26.1)	-82	n/a

(*) Comparative financial information for FY 2017/18 has been restated for the transitional impact of adopting IFRS 15 *Revenue from Contracts with Customers* from 1 July 2018 and is presented on a like-for-like basis with FY 2018/19. The impact of the restatement is a reduction in revenue and profit before tax of £1.5m, basic earnings per share of 2.2p and a £7.0m cumulative increase in order book, as set out in Note 9(a).

(1) Underlying measures exclude the impact on statutory measures of specific adjusting items as set out in Note 3, comprised of amortisation of acquired intangible assets of £4.0m (FY 2017/18: £4.3m), acquisition-related expenditure of £1.8m (FY 2017/18: £1.4m), reorganisation costs of £3.4m (FY 2017/18: £4.8m) and the non-recurring impact of the equalisation of Guaranteed Minimum Pensions ('GMPs') of £1.3m (FY 2017/18: derecognition of net deferred tax assets of £2.2m). Underlying measures are considered to provide a more useful indication of underlying performance and trends over time.

(2) Underlying earnings also exclude a tax credit to statutory earnings of £1.6m (FY 2017/18: £0.9m) for the specific adjusting items in Footnote 1 and as set out in Note 3.

(3) Excludes the performance of current year acquisitions (Transport Engineering, see Note 6) from the results of FY 2018/19 and includes the performance of prior year acquisitions (Control Point Corporation) in the results of FY 2017/18 to give a like-for-like change in the results.

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

"In this financial year, Ricardo managed to deliver an increase in revenue and order book overall, despite a very turbulent backdrop in Automotive. This was driven by strong growth in Performance Products and Energy & Environment in particular. We successfully expanded in Australia, with the acquisition of Transport Engineering in May 2019 to support our Rail business, and PLC Consulting in July 2019 to broaden our Environmental consulting offering. We continue to invest in technologies, services and digital products to aid our blue-chip clients – together we create sustainable solutions to address the key issues of climate change, air quality, global stability and the management of scarce natural resources.

*"We deliver services and products to help build a cleaner, safer and more sustainable world – in essence, **creating a world fit for the future**. The demand for innovative solutions in the markets and geographies we serve, together with our diverse portfolio of businesses, gives us confidence in Ricardo's continued success."*

Ricardo plc		
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FINANCIAL REVIEW

Group results

The Group's overall order intake reduced by 7% to £386m in the year. In Technical Consulting, this reflects a combination of large multi-year programmes won in the prior year, and lower orders in both Automotive and Rail this year. In Performance Products order intake increased through a combination of growth in McLaren engine volumes and orders for the anti-lock brake and electronic stability control systems ('ABS brake kits') programme for the US Army. The closing order book was £314m, which includes £30m from Transport Engineering ('TE'), subsequently renamed Ricardo Rail Australia, a Sydney-based technical rail services provider acquired on 31 May 2019. The performance of TE has been reported in the Technical Consulting segment.

Reported Group revenue increased by 2% to £384.4m (FY 2017/18: £378.5m(*)). Organic revenue increased by 1%, after normalising for the impact of the acquisitions of TE in the current year and Control Point Corporation ('CPC') in September 2017 of the prior year. Underlying operating profit, which excludes net finance costs and specific adjusting items, as set out in more detail in Note 3, was in line with the prior year at £39.6m (FY 2017/18: £39.7m(*)), with an underlying operating profit margin of 10.3% (FY 2017/18: 10.5%(*)). Underlying profit before tax was down 1% to £37.0m (FY 2017/18: £37.5m(*)). On an organic underlying basis, operating profit and profit before tax reduced by 2% and 3%, respectively.

		Underlying		
Headline trading performance	**Reported revenue**	**Operating profit**	**Profit before tax**	**Reported profit before tax**
FY 2018/19 (£m)	**384.4**	**39.6**	**37.0**	**26.5**
Less: Transport Engineering(1) (£m)	(1.4)	(0.3)	(0.3)	(0.3)
Organic FY 2018/19 (£m)	**383.0**	**39.3**	**36.7**	**26.2**
FY 2017/18(*) (£m)	378.5	39.7	37.5	27.0
Add: Control Point Corporation(2) (£m)	2.2	0.2	0.2	0.2
Organic FY 2017/18 (£m)	380.7	39.9	37.7	27.2
Growth (%)	**2**	**-**	**(1)**	**(2)**
Organic growth(3) (%)	**1**	**(2)**	**(3)**	**(4)**
Constant currency organic growth(4) (%)	**-**	**(2)**	**(3)**	**(4)**

(*) Comparative financial information for FY 2017/18 has been restated for the transitional impact of adopting IFRS 15 *Revenue from Contracts with Customers* from 1 July 2018 and is presented on a like-for-like basis with FY 2018/19. The impact of the restatement is set out in Note 9(a).

(1) The organic result for the year excludes the performance of acquisitions in the year on a like-for-like basis with FY 2017/18. TE was acquired on 31 May 2019. Excluding TE, revenue for FY 2018/19 would have been £1.4m lower. Underlying operating profit and profit before tax for FY 2018/19 would both have been £0.3m lower.

(2) The organic result for the prior year includes the performance of acquisitions in the prior year on a like-for-like basis with FY 2018/19. CPC was acquired on 8 September 2017. Had CPC been acquired and consolidated from 1 July 2017 such that results for FY 2017/18 were on a like-for-like basis with FY 2018/19, revenue for FY 2017/18 would have been £2.2m higher. Underlying operating profit and profit before tax for FY 2017/18 would both have been £0.2m higher.

(3) Organic growth is calculated as the growth in the result for the year compared to the organic result for the prior year and provides an indication of growth on a like-for-like basis with the prior year.

(4) Constant currency organic growth is calculated by reference to the result for the year retranslated using prior year foreign exchange rates and provides an indication of growth on a like-for-like basis with the prior year, excluding the impact of foreign exchange.

The Group's underlying performance reflects challenging trading conditions which have adversely impacted the Automotive businesses within Technical Consulting; the reduced performance has been broadly offset by strong growth in Performance Products and Energy & Environment in particular.

On a reported basis, FY 2018/19 operating profit was £29.1m (FY 2017/18: £29.2m(*)) and profit before tax was £26.5m (FY 2017/18: £27.0m(*)), both in line with the prior year. This includes specific adjusting items of £10.5m (FY 2017/18: £10.5m), which comprise amortisation of acquired intangible assets of £4.0m (FY 2017/18: £4.3m), acquisition-related expenditure of £1.8m (FY 2017/18: £1.4m) and reorganisation costs of £3.4m (FY 2017/18: £4.8m) primarily in respect of the continued restructuring of the Automotive business. The reduction in reorganisation costs has been predominantly offset by the impact of equalisation of Guaranteed Minimum Pensions ('GMPs') of £1.3m.

Closing net debt increased to £47.4m (FY 2017/18: £26.1m), after £21.2m of cash consideration paid in respect of the TE acquisition (£18.9m net of cash acquired), £3.5m of acquisition-related payments, which includes deal costs, earn-outs and retention payments in respect of the CPC acquisition in the prior year, and a £2.5m net cash outflow from restructuring activities. Net working capital increased by £7.3m in the year, primarily due to the ramp up in the ABS brake kits programme.

Brexit

We have prepared for a range of possibilities for Brexit and any disruption that may arise around the intended transition date. For instance, we have secured a European accreditation route for our Rail business to supplement our existing UKAS accreditation, which allows us to continue to offer our services across Europe. We have also assessed inventory holding patterns for our McLaren production line to prepare for the possibility of European customs disruption.

We are now bidding our European research funding programmes through our office in the Netherlands, having worked closely with the EU to ensure we can continue to be a partner in the provision of leading-edge technology in the future. We also continue to closely monitor the potential impact of Brexit and the ongoing uncertainty around the movement of staff between the UK and the European Union, and to ensure we have a robust supply chain for any overseas resources required.

Outlook

Our continued focus is on addressing the core issues created by increasing global population, industrialisation and urbanisation through the application and provision of leading-edge consulting, engineering and product solutions. This is underpinned by our strategy of diversification in the geographies and markets of the customers that we serve – all of which gives us confidence for Ricardo's continued growth and relevance on the world stage.

Current political and economic uncertainties aside, we are well positioned for growth from a strong, diversified order book and pipeline, recurring revenue from long-term production programmes and the benefit of recent acquisitions.

TECHNICAL CONSULTING

Performance

	Reported revenue	Underlying operating profit
FY 2018/19 (£m)	**270.5**	**27.7**
Less: Transport Engineering(1) (£m)	(1.4)	(0.3)
Organic FY 2018/19 (£m)	**269.1**	**27.4**
FY 2017/18(*) (£m)	286.8	30.4
Add: Control Point Corporation(2) (£m)	2.2	0.2
Organic FY 2017/18 (£m)	289.0	30.6
Growth (%)	**(6)**	**(9)**
Organic growth(3) (%)	**(7)**	**(10)**

(*) Comparative financial information for FY 2017/18 has been restated for the transitional impact of adopting IFRS 15 *Revenue from Contracts with Customers* from 1 July 2018 and is presented on a like-for-like basis with FY 2018/19. The impact of the restatement is set out in Note 9(a).

(1) The organic result for the year excludes the performance of acquisitions in the year on a like-for-like basis with FY 2017/18. TE was acquired on 31 May 2019 (see Note 6). Excluding TE, revenue for FY 2018/19 would have been £1.4m lower. Underlying operating profit and profit before tax for FY 2018/19 would both have been £0.3m lower.

(2) The organic result for the prior year includes the performance of acquisitions in the prior year on a like-for-like basis with FY 2018/19. CPC was acquired on 8 September 2017. Had CPC been acquired and consolidated from 1 July 2017 such that results for FY 2017/18 were on a like-for-like basis with FY 2018/19, revenue for FY 2017/18 would have been £2.2m higher. Underlying operating profit and profit before tax for FY 2017/18 would both have been £0.2m higher.

(3) Organic growth is calculated as the growth in the result for the year compared to the organic result for the prior year and provides an indication of growth on a like-for-like basis with the prior year.

Ricardo's Technical Consulting business generates around 70% of the Group's revenue and underlying operating profit from its consultancy businesses working in our global market sectors of Energy & Environment, Rail, Automotive, Off-Highway & Commercial Vehicles, and Defence.

Technical Consulting delivered revenue and underlying operating profit of £270.5m (FY 2017/18: £286.8m(*)) and £27.7m (FY 2017/18: £30.4m(*)), respectively. After normalising for the impact of the acquisitions of TE in FY 2018/19 and CPC in FY 2017/18, organic underlying operating profit reduced by 10% to £27.4m (FY 2017/18: £30.6m(*)).

Order intake in the year stood at £261m (FY 2017/18: £323m). This was largely due to the award of several large and non-recurring multi-year programmes in the prior year, combined with reduced levels of orders in the current year. The lower volume of orders had an adverse impact on operational efficiency and underlying operating profit margin, which decreased to 10.2% (FY 2017/18: 10.6%(*)). New orders were still balanced across all core regions and with good levels of diversification across different market sectors.

Ricardo Energy & Environment performed strongly, with increased order intake and operating profit compared to the prior year. It has won increased levels of work internationally, particularly in Australia, with prospects in this region looking even better following the post year-end acquisition in July 2019 of PLC Consulting ('PLCC'), subsequently renamed Ricardo Energy Environment and Planning, a Melbourne-based planning, environmental and infrastructure consultancy.

It was a mixed year for Ricardo Rail. The business was impacted by lower volumes in Europe and Asia, resulting in a small decline in organic underlying profit. However, the successful acquisition of TE in May 2019 made an immediate impact, offsetting the organic decline and adding breadth and depth to Ricardo Rail's existing capabilities.

Our European Automotive business suffered from significantly lower order intake and revenue in the year, as a result of the continued uncertain market and difficult trading conditions. The impact on profitability was marked, but we took quick restructuring actions, including headcount reductions in the UK, which mitigated the effect on the business.

Our US Automotive business ended the year with an increased loss compared to the prior year, as results did not improve in the second half of the year as anticipated. The business continues to focus on new-energy vehicle opportunities and realigning its cost base in order to reduce losses and reposition itself as a more lean and agile consulting operation.

We saw a good performance in Automotive in China, which has led to further revenue and profit growth in the year. The order book and pipeline of opportunities remain strong, although we did see some evidence of a slowdown in orders towards the end of the financial year.

The Defence Consulting business performed well, with its increased order intake driven by strong customer relationships in the US market.

Our Strategic Consulting business delivered growth in line with expectations.

Market sector highlights

Energy & Environment
Ricardo Energy & Environment developed further in the UK, expanded internationally and saw growth across a variety of its sectors and services.

This year we have seen good growth in Australia where we have won projects in the waste and resources area, ranging from strategic circular economy studies to detailed feasibility assessments for waste-to-energy technology. After the year-end we completed the acquisition of PLC Consulting, which has strong technical advisory capability in the full infrastructure and environmental planning lifecycle, and complements and extends Ricardo's existing energy and environment capabilities.

International growth elsewhere has been driven by specific themes in the industry, including international measurement, reporting and verification work at national and city level, and the provision of tailored capacity building and technical assistance to support actions for the mitigation of greenhouse gas ('GHG') emissions.

Other areas where we have seen robust demand are in energy, environmental and transport policy, and air quality.

The widely forecasted changes in energy demand, linked to the significant predicted uptake in electric vehicles ('EVs'), have seen our energy and transportation specialists win projects to support the evolution of the energy network and recharging infrastructure, as well as planning for fleets to utilise EVs.

This year we have also further developed our energy sector innovation activities and have supported the UK Government's Department for Business, Energy and Industrial Strategy ('BEIS') with technical advice for its Energy Innovation Investment Portfolio.

Our internationally renowned specialists in air quality have seen growing demand to help design and develop air-quality strategies and plans that improve health outcomes. This year we have been involved in delivering a significant project for air-quality improvements in the Greater Beijing-Tianjin-Hebei region of China, while in the UK we continued to support central and local government around clean air zones.

We have also seen strong demand from the European Commission. A core project has been strengthening the capacity of EU member states to implement effective national policies for reducing GHG emissions from sources such as transport, agriculture and buildings; the work has ranged from the identification of potential new policy options to the assessment of the impacts realised by existing policies. Demand for environmental support at airports also continued to grow in the year.

In addition to our traditional consultancy services, we have seen growing interest in digital solutions and products to enable customers to gather greater insight from their data and become proactive in tackling environmental issues. The combination of our in-house digital development team and environmental specialists enables us to create robust market-differentiated solutions.

Our National Chemical Emergency Centre ('NCEC') continued to perform well. NCEC celebrated its 100th customer in China, as part of its partnership with the Chinese National Registration Centre for Chemicals. NCEC developed a new crisis management service, which has achieved traction with customers, including a contract with the UK Environment Agency to provide training on incident response to over 1,200 of its employees.

Rail
We acquired TE on 31 May 2019, which not only marks our entry into Australia's thriving domestic rail market, but it also reinforces our capabilities within the Asia-Pacific region by providing additional resources in key technical disciplines such as safety engineering, 'Reliability, Availability, Maintainability and Safety' ('RAMS') analysis, systems integration, human factors and rolling stock testing.

The following major assignments were secured during the financial year:

- Ricardo's appointment by the UK-based rolling stock owner, Porterbrook, to integrate a hybrid powerpack into a Diesel Multiple Unit ('DMU') to test the vehicle's ability to switch to battery power when moving through an urban area. This is a first in the UK rail industry;
- A new framework agreement with Spain's national rail infrastructure manager, Adif, to provide assurance services for planned track and signalling upgrade programmes; and
- Safety assessment roles on the Seoul Metro system and Singapore's SMRT network.

This year also saw the completion of works for Amsterdam's North-South metro route, which commenced operations in the summer of 2018. Ricardo has provided technical support for the programme for almost a decade, with teams working on rolling stock, infrastructure and power-supply aspects of the project. The experience has enhanced the team's reputation within the industry for applying a systems engineering approach to major programmes.

The Group also secured the first rail project for the Ricardo-Roke Digital Resilience collaboration to provide an in-depth cyber security assessment of Bombardier's Aventra passenger train, a landmark for the industry. The contract is one of the first examples of a major train manufacturer seeking to integrate cyber security assessments into its design and testing processes. It is also illustrative of how the industry's major stakeholders are paying closer attention to the risks and vulnerabilities that will emerge from a more digitally-oriented rail service, and our teams have been actively recruiting to ensure that we can continue to support the industry in this growing area of concern.

Automotive
Whilst air quality and CO_2 reduction remained a top global priority for the sector, the passenger-car market has been impacted by Brexit and tariff actions from the US administration, which has resulted in a slowdown in the European market and in China towards the end of the year. Original equipment manufacturers ('OEMs') have announced significant cost-reduction programmes designed to maintain trading performance whilst protecting new product developments in all aspects of vehicle electrification – everything from mild hybrids to full battery electric vehicles ('BEVs'), connected vehicles, vehicles with greater autonomy, and virtual product development. These changes have led to uncertainty in outsourcing trends, with reduced levels of orders across our Automotive business globally.

We have secured a range of programmes across all areas of our business: in vehicle systems, hybrid and electric systems, advanced drivelines and in core powertrains, focused on both new and upgraded products. The application of fuel cell technology into a wide range of on-road vehicles has become a priority for many in the industry and has resulted in a significant increase in opportunities for Ricardo.

Consistent with the industry-wide trend towards increased electrification, we continue to follow our strategy of reducing international combustion-focused test facilities to create a more flexible cost base and we are marketing our test assets in Detroit for sale.

We have increased the level of investment in developing new simulation and digital capabilities, with the clear goal of delivering differentiated solutions to our customers. In the automotive sector the costs associated with new-vehicle development programmes can be significantly offset as levels of digitalisation increase during the development phase. Our goal in deploying such tools and processes is to halve the development duration and cost within the next ten years.

In the meantime, we continue to invest in advanced electrification, internal combustion, transmission solutions and other key technologies to improve overall vehicle system efficiency. We also see demand in the development of cyber security resilience solutions for vehicles and have continued to invest in them through our collaboration with Roke.

Ricardo Motorcycle continued to deliver complete development programmes for motorcycles, scooters and urban mobility vehicles. We have seen growth in demand, driven by tightening emissions legislation and have been engaged in a number of programmes focused on electrified and connected products, as well as powertrain developments for future emissions requirements.

Off-Highway & Commercial Vehicles
Ricardo's wide range of powertrain and system integration capabilities has enabled the business to meet global customer demands for enhanced vehicle performance at a lower total cost of ownership, whilst meeting all existing and predicted legislation. We are delivering a number of new product programmes for core engine and transmission systems for clients in Europe and Asia.

Based on our proven track record in platooning technology, we secured a new contract to develop a demonstration platform for two Asian OEMs. We also continue our long-term strategic relationship with Shaanxi Fast Gear, the largest supplier of transmissions for off-highway and commercial vehicles to the Chinese market. This collaboration is based at Ricardo's Midlands Technical Centre ('MTC') in the UK, alongside ongoing advanced technology development programmes being delivered jointly in Xi'an, where Fast Gear is based.

In the US, we have continued to focus on supporting our key clients with in-market On-Board Diagnostics ('OBD') compliance verification and also to work with Toyota in further developments of its fuel cell technology in the commercial vehicle market. As fuel cell powertrains once again become an attractive solution due to the wider availability of renewable energy sources of hydrogen generation, this unique capability has created wider opportunities with other clients and in other territories.

Ricardo continues to provide the power generation and marine markets with services in failure analysis, investigation, and specialist new product design and development. In these markets we see increasing demand for high-speed diesel generator sets and main propulsion systems for marine vessels, as well as the conversion of engines for gas or dual-fuel operation. We have also seen fresh opportunities to leverage this core capability into the rail sector as designers and operators look to hybridise existing diesel propulsion fleets as a medium-term alternative to full electrification.

Defence
In the US, Ricardo Defense continues to successfully deliver wide-ranging engineering programmes across light and heavy land and sea theatres of operation and is the partner of choice for many OEMs. The business expertise in defence systems includes the visualisation, analysis and manipulation of large and complex data sets used in operational planning. This year Ricardo Defense was awarded a contract by the United States' National Aeronautics and Space Administration ('NASA') to develop advanced data analysis and optimisation software which will be used in the planning of future deep-space missions.

Ricardo Defense also provides enterprise software which enables the electronic distribution of technical data with ensured data integrity and cyber security. The software includes bi-directional messaging and data synchronisation between network nodes and provides resilient features for disconnected, intermittent network environments. Low rate initial production ('LRIP') started with installation on aircraft carriers and amphibious ships. Full production for fleetwide application is planned.

During the financial year, our UK Defence business established a special vehicles team that will support niche engine, driveline and powerpack programmes for defence vehicles, as well as for other commercial projects. We are also engaging in discussions on future hybridisation and electrification projects for new and existing vehicle fleets.

PERFORMANCE PRODUCTS

Performance

	Reported revenue	Underlying operating profit
FY 2018/19 (£m)	**113.9**	**11.9**
FY 2017/18 (£m)	91.7	9.3
Growth (%)	**24**	**28**

The Performance Products business accounts for around 30% of the Group's revenue and underlying operating profit. A large share of the revenue of the business is generated through the supply of products and services to a single customer.

Performance Products had an excellent year, increasing revenue and underlying operating profit by 24% to £113.9m (FY 2017/18: £91.7m) and 28% to £11.9m (FY 2017/18: £9.3m) respectively on the prior year. Operating profit margins increased to 10.4% (FY 2017/18: 10.1%). Order intake significantly increased by 40% to £125m (FY 2017/18: £90m) for the year.

The performance for the year was driven by increased volumes of engines for McLaren and the ABS brake kits programme for the US Army, with deliveries ramping up throughout the year in line with our expectations. Growth in these programmes has been complemented by the award of the UK MoD Combat Vehicle Reconnaissance (Tracked) (‘CVR(T)’) programme, and the Bugatti and Porsche transmission programmes, as well as growth in new software licence sales.

Market sector highlights

High-Performance Vehicles & Motorsport

Demand for the production of McLaren engines has grown in line with expectations. This year we delivered over 5,200 (FY 2017/18: 4,300) engines across an increased number of engine variants, including the McLaren 570S Coupé, 570GT, 570S Spider, 720S, 720S Spider and the Senna.

We manufacture and assemble the world’s most advanced transmissions and have made good progress in the preparations for the supply contract for the Aston Martin Red Bull Valkyrie hypercar transmission, which is due to enter production in early 2020. We also continued to support Bugatti with the supply of the complete driveline system for the Chiron, and maintained our supply of transmissions for the Porsche 991 Cup race cars.

Ricardo remains a key supplier to the motorsport sector. This year the Performance Products business developed upgrades for the M-Sport World Rally Championship (‘WRC’) programme and won contracts to support key manufacturers within the Formula E Championship for the third consecutive season.

We continued to manufacture for Formula One, the Japanese Super Formula Championship, Indy Lights and the World Series Formula V8 3.5. We also operated supply programmes for Ricardo-designed transmissions for BMW, the Multimatic-built Ford GT3, the M-Sport Ford Fiesta WRC, and the M-Sport Bentley GT customer racing programme, as well as for other top-flight rally and GT customers.

Defence

In the US, Ricardo Defense has delivered 1,650 ABS brake kits for the High-Mobility Multipurpose Wheeled Vehicle (‘HMMWV’, or Humvee). Ricardo’s ABS brake kit system has also been selected by Bollinger Motors for series production application on its fully-electric sport utility truck.

In the UK, Ricardo continues to support the British Army’s fleet of Cougar and Weapons Mount Installation Kit (‘WMIK’) vehicles with the supply of spare parts. This year we were also awarded the contract by the UK MoD to refurbish 700 final drive transmissions for the CVR(T) Mark 1. The work undertaken will include stripping, inspecting and manufacturing replacement components, including the main rotational components of the unit, before reassembly and testing. Deliveries commenced in the summer of 2019, with the refurbishment programme expected to be completed over the next two years.

OTHER FINANCIAL MATTERS

New accounting standards

The Group adopted both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* as of 1 July 2018. The full retrospective method of transition was adopted for IFRS 15, resulting in a restatement of comparative financial information. The net-of-tax reduction to retained earnings as of 1 July 2017 was £4.5m, with a further reduction in FY 2017/18 of £1.2m. The net-of-tax-reduction to retained earnings due to IFRS 9 as of 1 July 2018 was £2.7m. Further detail is set out in Notes 9(a) and 9(b), respectively.

We have completed our work to assess the potential impact of IFRS 16 *Leases*, which becomes effective to the Group for the year commencing 1 July 2019. As set out in more detail in Note 9(c), the expected transitional impact from the application of IFRS 16 is a reduction to opening reserves as at 1 July 2019 of approximately £5.0m. A reduction to profit before tax for the year ending 30 June 2020 of up to £1.0m is also expected, based on the Group's portfolio of lease contracts as at 30 June 2019.

Acquisitions and acquired intangible assets

As set out in more detail in Note 6, the Group acquired the entire issued share capital of TE on 31 May 2019 for an initial cash consideration of £21.2m (AUD 38.6m) with a further payment made in August 2019 of £0.5m (AUD 0.9m) to adjust for cash and normalised levels of net working capital. There is fair value of contingent cash consideration of £5.1m (AUD 9.4m), based upon an initial probability-weighted assessment of expected earn-out payments dependent on TE achieving certain post-acquisition financial performance targets. The maximum cash outflow that could be required to acquire TE is £29.9m (AUD 54.5m).

This investment added provisional goodwill of £17.9m (AUD 32.7m) to the Ricardo Rail cash-generating unit and provisional acquired intangible assets of £9.7m (AUD 17.8m), which have a net book value at year-end of £9.5m (AUD 17.5m). The amortisation of these for the post-acquisition period in the financial year of £0.2m (AUD 0.3m) has been charged to the income statement as a specific adjusting item, together with £0.5m of expenditure incurred in relation to the TE acquisition.

A preliminary exercise to assess the fair value of the identifiable net assets of TE commenced during the year and will be finalised by the end of the next financial year. The provisional assessment of identifiable net assets acquired is £8.9m (AUD 16.1m).

Specific adjusting items

As set out in more detail in Note 3, the Group's underlying profit before tax for the year excludes costs incurred during the year that have been charged to the income statement as specific adjusting items of £10.5m (FY 2017/18: £10.5m), comprised of amortisation of acquired intangible assets of £4.0m (FY 2017/18: £4.3m), acquisition-related expenditure of £1.8m (FY 2017/18: £1.4m), reorganisation costs of £3.4m (FY 2017/18: £4.8m) and GMP equalisation costs of £1.3m.

The acquisition-related expenditure of £1.8m included £0.5m of fees to acquire TE, with £0.3m related to the remaining cost incurred on a pro rata basis for the retention of specific individuals as part of the CPC acquisition in the prior year. Fees of £0.2m were also incurred to complete the post year-end acquisition of PLCC, as set out in more detail in Note 10(a). The remainder primarily related to the costs of running an M&A function, together with fees incurred on aborted acquisition processes. Of the fees incurred, £0.8m remained unpaid at the year-end.

The Group largely completed its restructuring of the European Automotive business during the year, which resulted in £2.3m of redundancy-related and dual running costs in the UK and Prague, together with costs in relation to onerous contracts of £0.3m as well as contractor and professional costs of £0.3m. These costs were paid for during the year, together with £1.6m of redundancy costs accrued at the end of the prior year in relation to the downsizing of the Group's operations in Germany. Remaining proceeds of £2.5m, held in escrow at the end of FY 2017/18 for the sale of the Schechingen Technical Centre in Germany, were received as expected in July 2018. In addition, £0.5m of redundancy costs were incurred in restructuring the Rail business in the Netherlands in a planned response to a reduction in volumes with its largest customer.

Following a court ruling in October 2018, companies are now required to equalise pension benefits to address inequalities in the calculations of Guaranteed Minimum Pensions ('GMPs') between men and women. This has resulted in a charge of £1.3m for an increase in the Group's pension liabilities, given the non-recurring nature and significance of the amount.

Research and Development

The Group continues to invest in R&D and spent £13.4m (FY 2017/18: £9.5m) before government grant income of £2.2m (FY 2017/18: £1.6m). Costs capitalised this year in accordance with IFRS were £7.6m (FY 2017/18: £5.1m), reflecting our continued investment in developers in our Software business, together with new technology, tools and processes in our European Automotive and Energy & Environment businesses.

The total Research and Development Expenditure Credit ('RDEC') recognised in the current year is £7.1m (FY 2017/18: £8.0m). This comprised an estimated RDEC credit in respect of the current year of £6.9m (FY 2017/18: £6.9m), together with £0.2m (FY 2017/18: £1.1m) arising from the routine amendment of open applications as a result of further analysis of the qualifying expenditure incurred.

Net finance costs
Finance income was £0.5m (FY 2017/18: £0.4m) and finance costs were £3.1m (FY 2017/18: £2.6m) for the year, giving net finance costs of £2.6m (FY 2017/18: £2.2m). The increase was primarily due to a higher non-utilisation fee charged on the £150m borrowing facility in place throughout the year, compared to the £75m facility that was in place throughout the prior year, together with the impact of increased borrowings to finance the acquisition of TE and other capital investments.

Taxation
The total tax charge for the year was £6.6m (FY 2017/18: £9.3m(*)) and the total effective tax rate reduced to a more normal level for the Group of 24.9% (FY 2017/18: 34.4%(*)). Last year's effective tax rate increased substantially, primarily due to the one-off derecognition of a remaining net deferred tax asset of £2.2m (€2.5m) as part of the restructuring of our activities in Germany, which was completed that year.

The underlying effective tax rate for the year was 22.2% (FY 2017/18: 21.3%(*)).

Deferred tax assets of £6.7m (FY 2017/18: £8.9m(*)) include £4.9m (USD 6.3m) (FY 2017/18: £5.5m (USD 7.2m)) of R&D tax credits in the US which continue to be recognised and have partially been utilised during the year. The Directors have considered the recoverability of these assets and remain satisfied that it is probable that sufficient taxable profits will be generated in the foreseeable future, against which the recognised assets can be utilised.

Earnings per share
Basic earnings per share increased by 12% to 37.1p (FY 2017/18: 33.0p(*)). The Directors consider that underlying earnings per share provides a more useful indication of underlying performance and trends over time. Underlying basic earnings per share for the year decreased by 3% to 53.7p (FY 2017/18: 55.1p(*)).

Basic earnings per share, with a reconciliation to an underlying basic earnings per share, which excludes the net-of-tax impact of specific adjusting items, is disclosed in Note 3.

(*) Comparative financial information for FY 2017/18 has been restated for the transitional impact of adopting IFRS 15 *Revenue from Contracts with Customers* from 1 July 2018 and is presented on a like-for-like basis with FY 2018/19. The impact of the restatement is set out in Note 9(a).

Dividend
The total dividend for the year has increased by 4% to 21.28p per ordinary share (FY 2017/18: 20.46p) and amounts to £11.4m (FY 2017/18: £10.9m), reflecting the Board's continued confidence in the prospects of the Group. The proposed final dividend of 15.28p (FY 2017/18: 14.71p) will be paid on 21 November 2019 to shareholders who are on the register of members at the close of business on 8 November 2019, subject to approval at the Annual General Meeting on 14 November 2019.

Capital investment
Cash spend on property, plant and equipment was £7.6m (FY 2017/18: £7.7m) as we continue to invest in our business operations. This spend included new and upgraded test cell equipment, machinery and IT hardware, together with refurbishments of existing office spaces.

During the year the Group commenced a process to market the Detroit Technical Center ('DTC') test cell assets for sale. After the year-end on 21 August 2019, we purchased the freehold property at DTC for £14.2m (USD 17.3m) and immediately marketed it for sale, together with the DTC test cell assets. This is set out in Note 10(b).

These activities will have the dual effect of removing the US Automotive business from its long-term lease commitment and provide the ability to realign its cost base with its strategy as a more operationally efficient consultancy.

Net debt
Closing net debt was £47.4m (FY 2017/18: £26.1m). The Group had a net cash outflow for the year of £21.3m (FY 2017/18: £11.8m), after consideration paid in respect of acquisitions of £21.2m (£18.9m net of cash acquired) (FY 2017/18: £4.6m), acquisition-related payments of £3.5m (FY 2017/18: £1.7m), and a net cash outflow from restructuring activities of £2.5m (FY 2017/18: £2.3m inflow). Our restructuring of the Automotive business has been broadly cash neutral over the last two financial years, with the FY 2017/18 net cash inflow of £2.3m offset by an outflow of £2.0m in FY 2018/19. An additional £0.5m was spent in FY 2018/19 on restructuring the Rail business in the Netherlands. The composition of net debt is defined in Note 8.

Net working capital increased by £7.3m in FY 2018/19, arising from higher trade receivables and inventory requirements, primarily due to the ramp up in the ABS brake kits programme.

Banking facilities
At the end of the year, the Group held total banking facilities of £166.4m (FY 2017/18: £90.9m), which included committed facilities of £150.0m (FY 2017/18: £75.0m). The committed banking facility consists of a £150m multi-currency Revolving Credit Facility ('RCF') which provides the Group with committed funding through to July 2023. In addition, the Group has uncommitted facilities including overdrafts of £16.4m (FY 2017/18: £15.9m), which mature throughout this and the next financial year and are renewable annually.

Committed banking facilities of £79.1m (FY 2017/18: £49.8m), net of direct issue costs, were drawn primarily to fund acquisitions and for general corporate purposes. These are denominated in Pounds Sterling and have variable rates of interest dependent upon the Group's adjusted leverage, which range from 1.4% to 2.2% (FY 2017/18: 1.6% to 2.6%) above LIBOR.

Foreign exchange
On consolidation, revenue and costs are translated at the average exchange rates for the year. The Group is exposed to movements in the Pound Sterling exchange rate, principally from work carried out with customers that transact in Euros, US Dollars and Chinese Renminbi. Compared to the prior year, the average value of the Pound Sterling weakened by 4.0% against the US Dollar, but strengthened by 0.5% against the Euro and 0.7% against the Chinese Renminbi.

Had the results for the year been stated at exchange rates consistent with those of the prior year, revenue would have been £2.6m lower and underlying profit before tax and reported profit before tax would both have been £0.1m lower.

Pensions
The Group's defined benefit pension scheme operates within the UK. The fair value of the scheme's assets at the end of the year was £137.5m (FY 2017/18: £131.0m). The accounting deficit measured in accordance with IAS 19 *Employee Benefits* was £8.5m before tax (FY 2017/18: £4.6m), or £7.1m after tax (FY 2017/18: £3.8m).

The £3.9m increase in the pre-tax pension accounting deficit during the year was due to £15.8m from changes in financial and demographic assumptions, £1.3m of non-recurring past service costs as a result of the High Court's ruling on GMP equalisation and £0.1m of net finance costs. These adverse movements were partially offset by a £7.9m return on plan assets, £4.3m of cash contributions paid to the scheme and a £1.1m reduction in liabilities arising from the take-up of member option exercises during the year.

Ricardo has committed to continue to fund the pension deficit and increased its contributions to £4.6m per annum from 1 July 2019 until 31 July 2022.

Dave Shemmans
Chief Executive Officer

Ian Gibson
Chief Financial Officer

11 September 2019

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 2019

		2019			2018 Restated(1)		
	Note	**Underlying £m**	**Specific adjusting items(2) £m**	**Total £m**	Underlying £m	Specific adjusting items(2) £m	Total £m
Revenue	*2*	**384.4**	**-**	**384.4**	378.5	-	378.5
Cost of sales		**(249.5)**	**-**	**(249.5)**	(235.8)	-	(235.8)
Gross profit		**134.9**	**-**	**134.9**	142.7	-	142.7
Administrative expenses		**(96.3)**	**(10.5)**	**(106.8)**	(103.7)	(10.5)	(114.2)
Other income		**1.0**	**-**	**1.0**	0.7	-	0.7
Operating profit		**39.6**	**(10.5)**	**29.1**	39.7	(10.5)	29.2
Finance income		**0.5**	**-**	**0.5**	0.4	-	0.4
Finance costs		**(3.1)**	**-**	**(3.1)**	(2.6)	-	(2.6)
Net finance costs		**(2.6)**	**-**	**(2.6)**	(2.2)	-	(2.2)
Profit before taxation		**37.0**	**(10.5)**	**26.5**	37.5	(10.5)	27.0
Taxation		**(8.2)**	**1.6**	**(6.6)**	(8.0)	(1.3)	(9.3)
Profit for the year		**28.8**	**(8.9)**	**19.9**	29.5	(11.8)	17.7
Profit attributable to:							
- Owners of the parent		**28.7**	**(8.9)**	**19.8**	29.4	(11.8)	17.6
- Non-controlling interests		**0.1**	**-**	**0.1**	0.1	-	0.1
		28.8	**(8.9)**	**19.9**	29.5	(11.8)	17.7

Earnings per ordinary share attributable to owners of the parent during the year			
Basic	*4*	**37.1p**	33.0p
Diluted	*4*	**36.9p**	32.8p

(1) Comparative information has been restated in accordance with IFRS 15 *Revenue from Contracts with Customers*, as set out in Note 9(a). The Group has initially applied IFRS 15 and IFRS 9 *Financial Instruments* from 1 July 2018. Under the respective transition methods chosen, comparative information is restated for IFRS 15 as at 1 July 2017, but not for IFRS 9. Comparative information has also been represented to reclassify certain indirect payroll expenses (£4.5m) and depreciation charges (£0.8m) from cost of sales to administrative expenses in a manner that is consistent with their classification in the current year.

(2) Specific adjusting items comprise amortisation of acquired intangible assets, acquisition-related expenditure, reorganisation costs and non-recurring items that and disclosed separately due to the significance of their nature or amount. Further details are given in Note 3.

Consolidated statement of comprehensive income

for the year ended 30 June 2019

	2019 £m	2018 Restated[(1)] £m
Profit for the year	**19.9**	17.7
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of the defined benefit pension scheme	**(7.9)**	13.8
Deferred tax on remeasurements of the defined benefit pension scheme	**1.4**	(2.7)
Total items that will not be reclassified to profit or loss	**(6.5)**	11.1
Items that may be subsequently reclassified to profit or loss:		
Currency translation on foreign currency net investments	**1.2**	0.1
Fair value gains on foreign currency cash flow hedges	**0.1**	-
Total items that may be subsequently reclassified to profit or loss	**1.3**	0.1
Total other comprehensive (loss)/income for the year (net of tax)	**(5.2)**	11.2
Total comprehensive income for the year	**14.7**	28.9
Attributable to:		
- Owners of the parent	**14.6**	28.8
- Non-controlling interests	**0.1**	0.1
	14.7	28.9

(1) Comparative information has been restated in accordance with IFRS 15 *Revenue from Contracts with Customers*, as set out in Note 9(a). The Group has initially applied IFRS 15 and IFRS 9 *Financial Instruments* from 1 July 2018. Under the respective transition methods chosen, comparative information is restated for IFRS 15 as at 1 July 2017, but not for IFRS 9.

Consolidated statement of financial position

as at 30 June 2019

	Note	**2019**	2018 Restated[(1)]	1 July 2017 Restated[(1)]
	Note	**£m**	£m	£m
Assets				
Non-current assets				
Goodwill		**84.2**	65.5	62.0
Other intangible assets		**41.0**	31.7	32.4
Property, plant and equipment		**44.6**	45.3	48.0
Deferred tax assets		**6.7**	8.9	15.3
		176.5	151.4	157.7
Current assets				
Inventories		**14.5**	13.3	13.9
Trade, contract and other receivables		**141.4**	135.3	133.1
Derivative financial assets		**0.3**	0.1	0.9
Current tax assets		**-**	1.3	0.6
Cash and cash equivalents	*8*	**36.3**	33.1	27.9
		192.5	183.1	176.4
Non-current assets held for sale		**2.9**	-	2.8
		195.4	183.1	179.2
Total assets		**371.9**	334.5	336.9
Liabilities				
Current liabilities				
Borrowings	*8*	**(4.0)**	(9.4)	(6.0)
Trade, contract and other payables		**(84.8)**	(83.0)	(83.1)
Current tax liabilities		**(3.5)**	(6.3)	(6.3)
Derivative financial liabilities		**(1.2)**	(1.0)	(0.7)
Provisions		**(2.2)**	(2.8)	(1.3)
		(95.7)	(102.5)	(97.4)
Net current assets		**99.7**	80.6	81.8
Non-current liabilities				
Borrowings	*8*	**(79.7)**	(49.8)	(59.8)
Trade, contract and other payables		**(5.1)**	-	-
Defined benefit obligations		**(8.5)**	(4.6)	(22.2)
Deferred tax liabilities		**(7.3)**	(3.9)	(5.0)
Provisions		**(3.7)**	(2.9)	(1.3)
		(104.3)	(61.2)	(88.3)
Total liabilities		**(200.0)**	(163.7)	(185.7)
Net assets		**171.9**	170.8	151.2
Equity				
Share capital		**13.4**	13.4	13.3
Share premium		**14.3**	14.3	14.3
Other reserves		**16.9**	15.7	15.6
Retained earnings		**126.8**	127.0	107.7
Equity attributable to owners of the parent		**171.4**	170.4	150.9
Non-controlling interests		**0.5**	0.4	0.3
Total equity		**171.9**	170.8	151.2

(1) Comparative information has been restated in accordance with IFRS 15 *Revenue from Contracts with Customers* as set out in Note 9(a). The Group has initially applied IFRS 15 and IFRS 9 *Financial Instruments* from 1 July 2018. Under the respective transition methods chosen, comparative information is restated for IFRS 15 as at 1 July 2017, but not for IFRS 9.

Consolidated statement of changes in equity

for the year ended 30 June 2019

	Attributable to owners of the parent						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 30 June 2017 (previously reported)	13.3	14.3	15.6	112.2	155.4	0.3	155.7
Adjustment on retrospective application of IFRS 15 (net of tax)(1)	-	-	-	(4.5)	(4.5)	-	(4.5)
At 1 July 2017 (restated)	13.3	14.3	15.6	107.7	150.9	0.3	151.2
Profit for the year (restated)(1)	-	-	-	17.6	17.6	0.1	17.7
Other comprehensive income for the year	-	-	0.1	11.1	11.2	-	11.2
Total comprehensive income for the year	-	-	0.1	28.7	28.8	0.1	28.9
Proceeds from shares issued	0.1	-	-	-	0.1	-	0.1
Equity-settled transactions	-	-	-	1.0	1.0	-	1.0
Tax credit relating to share option schemes	-	-	-	0.1	0.1	-	0.1
Ordinary share dividends *(Note 5)*	-	-	-	(10.5)	(10.5)	-	(10.5)
At 30 June 2018 (restated)	13.4	14.3	15.7	127.0	170.4	0.4	170.8
Adjustment on initial application of IFRS 9 (net of tax)(1)	**-**	**-**	**-**	**(2.7)**	**(2.7)**	**-**	**(2.7)**
At 1 July 2018 (adjusted)	**13.4**	**14.3**	**15.7**	**124.3**	**167.7**	**0.4**	**168.1**
Profit for the year	**-**	**-**	**-**	**19.8**	**19.8**	**0.1**	**19.9**
Other comprehensive income/(loss) for the year	**-**	**-**	**1.2**	**(6.4)**	**(5.2)**	**-**	**(5.2)**
Total comprehensive income for the year	**-**	**-**	**1.2**	**13.4**	**14.6**	**0.1**	**14.7**
Equity-settled transactions	**-**	**-**	**-**	**1.0**	**1.0**	**-**	**1.0**
Purchases of own shares to settle awards	**-**	**-**	**-**	**(0.9)**	**(0.9)**	**-**	**(0.9)**
Ordinary share dividends *(Note 5)*	**-**	**-**	**-**	**(11.0)**	**(11.0)**	**-**	**(11.0)**
At 30 June 2019	**13.4**	**14.3**	**16.9**	**126.8**	**171.4**	**0.5**	**171.9**

(1) See Note 9(a) for details of the restatements arising from the retrospective application of IFRS 15 *Revenue from Contracts with Customers* and Note 9(b) for details of the adjustments arising from the initial application of IFRS 9 *Financial Instruments*. The Group has applied IFRS 15 and IFRS 9 from 1 July 2018. Under the respective transition methods chosen, comparative information is restated for IFRS 15 as at 1 July 2017, but not for IFRS 9.

Consolidated statement of cash flow
for the year ended 30 June 2019

	Note	**2019 £m**	2018 £m
Cash flows from operating activities			
Cash generated from operations	*7*	**32.4**	44.2
Net finance costs		**(2.3)**	(2.1)
Tax paid		**(4.9)**	(7.7)
Net cash generated from operating activities		**25.2**	34.4
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	*6*	**(18.9)**	(4.6)
Purchases of property, plant and equipment		**(7.6)**	(7.7)
Proceeds from disposal of property, plant and equipment		**0.7**	6.4
Purchases of intangible assets and capitalised development costs		**(9.1)**	(6.5)
Net cash used in investing activities		**(34.9)**	(12.4)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**-**	0.1
Purchases of own shares to settle awards		**(0.9)**	-
Proceeds from finance leases	*8*	**0.7**	-
Proceeds from borrowings	*8*	**64.0**	15.0
Repayments of borrowings	*8*	**(34.8)**	(25.0)
Dividends paid to shareholders	*5*	**(11.0)**	(10.5)
Net cash generated from/(used in) financing activities		**18.0**	(20.4)
Effect of exchange rate changes on cash and cash equivalents		**0.3**	0.2
Net increase in cash and cash equivalents	*8*	**8.6**	1.8
Net cash and cash equivalents at 1 July		**23.8**	22.0
Net cash and cash equivalents at 30 June		**32.4**	23.8

Notes to the financial statements
for the year ended 30 June 2019

1. General information

Ricardo plc, a public company limited by shares, is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is Shoreham Technical Centre, Shoreham-by-Sea, West Sussex, BN43 5FG, England, United Kingdom and its registered number is 222915.

This preliminary announcement is based on the audited Annual Report & Accounts 2019, which was approved for issue on 11 September 2019, and which has been prepared in accordance with International Financial Reporting Standards ('IFRS'), IFRS 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. Operating segments

For the year ended 30 June 2019	**Technical Consulting £m**	**Performance Products £m**	**Head Office £m**	**Total £m**
Total segment revenue	**271.5**	**118.6**	**-**	**390.1**
Inter-segment revenue	**(1.0)**	**(4.7)**	**-**	**(5.7)**
Revenue from external customers	**270.5**	**113.9**	**-**	**384.4**
Underlying operating profit	**27.7**	**11.9**	**-**	**39.6**
Specific adjusting items	**(7.4)**	**-**	**(3.1)**	**(10.5)**
Operating profit	**20.3**	**11.9**	**(3.1)**	**29.1**
Net finance costs	**-**	**-**	**(2.6)**	**(2.6)**
Profit before taxation	**20.3**	**11.9**	**(5.7)**	**26.5**

For the year ended 30 June 2018 (restated)(1)	Technical Consulting £m	Performance Products £m	Head Office £m	Total £m
Total segment revenue	287.1	95.8	-	382.9
Inter-segment revenue	(0.3)	(4.1)	-	(4.4)
Revenue from external customers	286.8	91.7	-	378.5
Underlying operating profit	30.4	9.3	-	39.7
Specific adjusting items	(9.9)	-	(0.6)	(10.5)
Operating profit	20.5	9.3	(0.6)	29.2
Net finance costs	-	-	(2.2)	(2.2)
Profit before taxation	20.5	9.3	(2.8)	27.0

(1) Comparative information has been restated for IFRS 15 *Revenue from Contracts with Customers*, all of which relates to the Technical Consulting operating segment. See Note 9(a) for more details.

3. Specific adjusting items

	2019 **£m**	2018 £m
Amortisation of acquired intangible assets	**4.0**	4.3
Acquisition-related expenditure(1)	**1.8**	1.4
Reorganisation costs(2)	**3.4**	4.8
Guaranteed Minimum Pensions ('GMPs') equalisation(3)	**1.3**	-
Total before tax	**10.5**	10.5
Tax impact of specific adjusting items	**(1.6)**	(0.9)
Derecognition of net deferred tax assets(4)	**-**	2.2
Total after tax	**8.9**	11.8

(1) Acquisition-related expenditure in the current and prior year comprised the costs of maintaining an internal acquisitions department which primarily incurred professional fees to effect acquisition processes that were either successful (see Notes 6 and 10(a)) or unsuccessful, together with integration and employee retention costs on a pro rata basis in relation to previously acquired businesses.

(2) Reorganisation costs in the current and prior year comprised non-recurring expenditure incurred as part of a fundamental restructuring of the Group's Technical Consulting business, primarily in Automotive across the UK, Europe and the US. These costs comprised redundancy-related and dual-running costs in relation to headcount reductions and the establishment of a shared service centre. In addition, contractor costs, professional fees, onerous contract costs and other non-recurring costs associated with asset disposals in the prior year and the subsequent scaling down of operations in Germany are also included.

(3) In October 2018, the High Court issued a judgement confirming that pension schemes are required to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions ('GMPs'). The past service cost due to GMP equalisation in the current year is considered to be non-recurring in nature and significant in its amount.

(4) In the prior year a net deferred tax asset which primarily comprised historical accumulated losses in Germany was derecognised. Due to the various restructuring actions taken in Germany during the prior year, it was considered unlikely that sufficient taxable profits would be available in the foreseeable future against which the net deferred tax asset could be utilised.

Amortisation of acquired intangible assets and reorganisation costs are reported in the Technical Consulting segment. Third party acquisition-related expenditure and GMP equalisation costs are reported in the Head Office segment. See Note 2 for further details.

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 Long-Term Incentive Plan ('LTIP') and by the Share Incentive Plan ('SIP') 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. The assumed proceeds from these is regarded as having been received at the average market price of ordinary shares during the year.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below. Underlying earnings per share is also shown because the Directors consider that this provides a more useful indication of underlying performance and trends over time.

	2019 £m	2018 Restated(1) £m
Earnings attributable to owners of the parent	**19.8**	17.6
Add back the net-of-tax impact of:		
- Amortisation of acquired intangible assets	**3.4**	3.5
- Acquisition-related expenditure	**1.2**	1.4
- Reorganisation costs	**3.0**	4.7
- Guaranteed Minimum Pensions ('GMPs') equalisation	**1.3**	-
- Derecognition of net deferred tax assets	**-**	2.2
Underlying earnings attributable to owners of the parent	**28.7**	29.4

(1) The prior year has been restated for IFRS 15 *Revenue from Contracts with Customers*. See Note 9(a) for more details.

	2019 Number of shares Millions	2018 Number of shares Millions
Basic weighted average number of shares in issue	**53.4**	53.4
Effect of dilutive potential shares	**0.2**	0.2
Diluted weighted average number of shares in issue	**53.6**	53.6

Earnings per share	**2019** pence	2018 Restated(1) pence
Basic	**37.1**	33.0
Diluted	**36.9**	32.8

Underlying earnings per share	**2019** Pence	2018 Restated(1) pence
Basic	**53.7**	55.1
Diluted	**53.5**	54.9

5. Dividends

	2019 £m	2018 £m
Final dividend for the year ended 30 June 2018 of 14.71p (2017: 13.88p) per share	**7.8**	7.4
Interim dividend for the year ended 30 June 2019 of 6.00p (2018: 5.75p) per share	**3.2**	3.1
Equity dividends paid	**11.0**	10.5

The Directors are proposing a final dividend in respect of the financial year ended 30 June 2019 of 15.28p per share which will utilise £8.2m of retained earnings. It will be paid on 21 November 2019 to shareholders who are on the register of members at the close of business on 8 November 2019, subject to approval at the Annual General Meeting on 14 November 2019.

6. Acquisitions

Acquisitions in the current year – Transport Engineering

On 31 May 2019, the Group acquired the entire issued share capital of Transport Engineering Pty Ltd ('Transport Engineering') for initial cash consideration payable of £21.7m (AUD 39.5m) which includes an adjustment for cash and normalised net working capital of £0.5m (AUD 0.9m) paid post year-end, together with the accrued provisional fair value of contingent cash consideration payable of £5.1m (AUD 9.4m).

Transport Engineering is a leading rail technical services consultancy based in Australia. It expands upon the Group's existing capabilities within the growing Asia-Pacific rail market and provides a footprint for other Ricardo businesses in Australia. Transport Engineering was renamed Ricardo Rail Australia on 11 June 2019.

The following tables set out the provisional fair value of cash consideration payable to acquire Transport Engineering, together with the provisional assessment of the fair value of net assets acquired.

Provisional fair value of cash consideration	£m
Initial cash consideration	21.7
Provisional fair value of contingent cash consideration	5.1
Total provisional fair value of cash consideration	**26.8**

Provisional assessment of the fair value of identifiable net assets acquired	£m
Customer contracts and relationships	9.7
Property, plant and equipment	0.1
Trade, contract and other receivables	2.3
Cash and cash equivalents	2.3
Trade, contract and other payables	(1.7)
Current tax liabilities	(0.9)
Deferred tax liabilities	(2.9)
Total provisional assessment of the fair value of identifiable net assets acquired	**8.9**
Goodwill	17.9
Total provisional fair value of cash consideration	**26.8**

The cash impact of the acquisition in the year was £18.9m (AUD 34.3m), being the initial cash consideration of £21.2m (AUD 38.6m) paid on completion, less cash acquired of £2.3m (AUD 4.3m).

The maximum contingent cash consideration payable is £8.2m (AUD 15.0m). The amounts payable will be based on the achievement of annual performance targets measured against the profit before tax of Transport Engineering across a two year earn-out period. Each earn-out is only payable in full if the performance target is achieved.

Provisional adjustments have been made to identifiable net assets acquired to reflect their fair value. These include the recognition of customer-related intangible assets separable from goodwill amounting to £9.7m (AUD 17.8m). The provisional fair values of contingent cash consideration and identifiable net assets acquired may be adjusted in future in accordance with the requirements of IFRS 3 *Business Combinations* and the sale and purchase agreement.

The provisional assessment of 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. None of the goodwill recognised on consolidation is expected to be deductible for tax purposes.

The provisional assessment of the fair value of trade, contract and other receivables acquired of £2.3m (AUD 4.2m) includes trade receivables of £0.3m (AUD 0.6m) and amounts recoverable on contracts of £1.8m (AUD 3.2m), all of which is expected to be collectible.

Acquisition-related expenditure of £0.5m has been charged to the income statement for the year ended 30 June 2019 and is included as a specific adjusting item in Note 3.

The revenue included in the income statement in relation to the acquired business was £1.4m. The underlying operating profit over the same period was £0.3m. This is reported in the Technical Consulting segment in Note 2.

Had Transport Engineering been acquired and consolidated from 1 July 2018, revenue and underlying operating profit in the income statement would be £14.0m and £3.2m higher, respectively, based on available information for the period from 1 July 2018 to the acquisition date.

7. Cash generated from operations

	2019	2018 Restated[1]
	£m	£m
Profit before tax	**26.5**	27.0
Adjustments for:		
Share-based payments	**1.0**	1.0
Fair value (gains)/losses on derivative financial instruments	**(0.8)**	1.1
Profit on disposal of property, plant and equipment	**(0.7)**	(1.6)
Net finance costs	**2.6**	2.2
Depreciation and amortisation	**15.4**	15.9
Operating cash flows before movements in working capital	**44.0**	45.6
(Increase)/decrease in inventories	**(1.2)**	0.6
(Increase)/decrease in trade, contract and other receivables	**(5.2)**	4.9
Decrease in trade, contract and other payables	**(1.1)**	(5.6)
Increase in provisions	**0.2**	3.1
Defined benefit pension scheme payments	**(4.3)**	(4.4)
Cash generated from operations	**32.4**	44.2

(1) The prior year has been restated for IFRS 15 *Revenue from Contracts with Customers*. See Note 9(a) for more details.

8. Net debt

Net debt is defined by the Group as net cash and cash equivalents less borrowings. Net cash and cash equivalents is defined by the Group as cash and cash equivalents less bank overdrafts.

Analysis of net debt	**2019 £m**	2018 £m
Current assets - cash and cash equivalents:		
- Cash and cash equivalents	**36.3**	33.1
Total	**36.3**	33.1
Current liabilities - borrowings:		
- Bank overdrafts repayable on demand	**(3.9)**	(9.3)
- Finance lease liabilities maturing within one year	**(0.1)**	-
- Other loans maturing within one year	**-**	(0.1)
Total	**(4.0)**	(9.4)
Non-current liabilities - borrowings:		
- Finance lease liabilities maturing after one year	**(0.6)**	-
- Bank loans maturing after one year	**(79.1)**	(49.8)
Total	**(79.7)**	(49.8)
At 30 June	**(47.4)**	(26.1)

Movement in net debt	**2019 £m**	2018 £m
At beginning of year	**(26.1)**	(37.9)
Increase in net cash and cash equivalents	**8.6**	1.8
Proceeds from finance leases	**(0.7)**	-
Proceeds from borrowings	**(64.0)**	(15.0)
Repayments of borrowings	**34.8**	25.0
At 30 June	**(47.4)**	(26.1)

9. Changes in significant accounting policies

(a) IFRS 15 *Revenue from Contracts with Customers*

Restatement of comparative financial statements

Consolidated income statement and statement of comprehensive income (extract)
for the year ended 30 June 2018

	Previously Reported £m	Performance obligations: Distinct - separation[(1)] £m	Performance obligations: Indistinct - combination[(2)] £m	Restated £m
Revenue	380.0	(0.3)	(1.2)	378.5
Gross profit[(3)]	138.9	(0.3)	(1.2)	137.4
Operating profit:				
- Underlying	41.2	(0.3)	(1.2)	39.7
- Total	30.7	(0.3)	(1.2)	29.2
Profit before taxation:				
- Underlying	**39.0**	**(0.3)**	**(1.2)**	**37.5**
- Total	**28.5**	**(0.3)**	**(1.2)**	**27.0**
Taxation:				
- Underlying	(8.3)	0.1	0.2	(8.0)
- Total	(9.6)	0.1	0.2	(9.3)
Profit for the year:				
- Underlying	**30.7**	**(0.2)**	**(1.0)**	**29.5**
- Total	**18.9**	**(0.2)**	**(1.0)**	**17.7**
Profit for the year attributable to owners of the parent:				
- Underlying	**30.6**	**(0.2)**	**(1.0)**	**29.4**
- Total	**18.8**	**(0.2)**	**(1.0)**	**17.6**
Total comprehensive income for the period attributable to:				
- Owners of the parent	30.0	(0.2)	(1.0)	28.8
Earnings per ordinary share attributable to owners of the parent during the year:				
- Basic	35.2p	(0.4)p	(1.8)p	33.0p
- Diluted	35.1p	(0.4)p	(1.9)p	32.8p

Consolidated statement of financial position (extract)
as at 30 June 2018

		Transition on 1 July 2017		Year ended 30 June 2018		
		Performance obligations		Performance obligations		
	Previously reported £m	Distinct - separation[(1)] £m	Indistinct - combination[(2)] £m	Distinct - separation[(1)] £m	Indistinct - combination[(2)] £m	Restated £m
Non-current assets						
Deferred tax assets	7.6	0.4	0.6	0.1	0.2	8.9
	150.1	0.4	0.6	0.1	0.2	151.4
Current assets						
Trade, contract and other receivables[(4)]	141.8	(2.0)	(2.5)	(0.4)	(1.6)	135.3
	189.6	(2.0)	(2.5)	(0.4)	(1.6)	183.1
Total assets	339.7	(1.6)	(1.9)	(0.3)	(1.4)	334.5
Current liabilities						
Trade, contract and other payables[(4)]	(82.5)	(0.3)	(0.7)	0.1	0.4	(83.0)
	(102.0)	(0.3)	(0.7)	0.1	0.4	(102.5)
Net current assets	87.6	(2.3)	(3.2)	(0.3)	(1.2)	80.6
Net assets	**176.5**	**(1.9)**	**(2.6)**	**(0.2)**	**(1.0)**	**170.8**
Equity						
Retained earnings	132.7	(1.9)	(2.6)	(0.2)	(1.0)	127.0
Equity attributable to owners of the parent	176.1	(1.9)	(2.6)	(0.2)	(1.0)	170.4
Total equity	**176.5**	**(1.9)**	**(2.6)**	**(0.2)**	**(1.0)**	**170.8**

Consolidated cash flow statement (extract)
for the year ended 30 June 2018

		Performance obligations		
	Previously Reported	Distinct - separation(1)	Indistinct - combination(2)	Restated
	£m	£m	£m	£m
Profit before tax	28.5	(0.3)	(1.2)	27.0
Operating cash flows before movements in working capital	47.1	(0.3)	(1.2)	45.6
Decrease in trade, contract and other receivables	2.9	0.4	1.6	4.9
Decrease in trade, contract and other payables	(5.1)	(0.1)	(0.4)	(5.6)
Cash generated from operations	**44.2**	**-**	**-**	**44.2**

(1) **Separation of distinct performance obligations**
Under IAS 11, the Group recognised revenue over time on certain Technical Consulting contracts for a similar programme of annual services to be performed over a number of years. The total programme of services for the duration of each contract were proposed as a package and were not subject to separate negotiation. Under IFRS 15, these annual services are deemed to be separate performance obligations that are distinct from one another within the context of the contract. Revenue continues to be recognised on a percentage of completion basis but based upon these separate and distinct performance obligations.

(2) **Combination of indistinct performance obligations**
On a number of Technical Consulting contracts, revenue was recognised separately for services such as sales commission and up-front fees to compensate for costs incurred in obtaining and setting up a contract or other administrative costs. Under IFRS 15, these activities are not deemed to be costs of the contract as they do not depict the transfer of services to a customer and therefore do not satisfy distinct performance obligations in the contract upon which revenue can be recognised separately. Revenue is recognised over time and is measured through the consistent use of a reliable input method based on total contract costs incurred to date as a percentage of total estimated contract costs to satisfy each distinct performance obligation.

(3) **Reconciliation of restated gross profit to the income statement**
In addition, and separately from the impact of IFRS 15, restated gross profit has been represented on the income statement to reclassify certain indirect payroll expenses (£4.5m) and depreciation charges (£0.8m) from cost of sales to administrative expenses in a manner that is consistent with their classification in the current year.

(4) **Impact on order book**
The cumulative impact of IFRS 15 on contract assets and liabilities results in a reinstatement of those amounts into the order book as at 30 June 2018, to be recognised as revenue in future periods.

(b) IFRS 9 *Financial Instruments*

Impairment of financial assets

The provision for impairment of trade receivables as at 30 June 2018 reconciles to the opening impairment provision on 1 July 2018 as follows:

Provision for impairment of trade receivables	£m
At 30 June 2018 – under IAS 39	1.1
IFRS 9 transitional adjustment	2.4
At 1 July 2018 – under IFRS 9	**3.5**

Adjustment to retained earnings	£m
IFRS 9 transitional adjustment	2.4
Deferred tax impact on transition	0.3
At 1 July 2018 – under IFRS 9	**2.7**

The provision for impairment under IFRS 9 was £2.8m as at 30 June 2019. The provision for impairment under IAS 39 would have been £1.0m as at 30 June 2019.

Adjustment to financial statements

Consolidated statement of financial position (extract)
as at 1 July 2018

	Adjusted under IFRS 15 £m	IFRS 9 transitional adjustment £m	Adjusted under IFRS 9 and IFRS 15(1) £m
Non-current assets			
Deferred tax assets	8.9	0.2	9.1
	151.4	0.2	151.6
Current assets			
Trade, contract and other receivables	135.3	(2.4)	132.9
	183.1	(2.4)	180.7
Total assets	334.5	(2.2)	332.3
Net current assets	80.6	(2.4)	78.2
Non-current liabilities			
Deferred tax liabilities	(3.9)	(0.5)	(4.4)
	(61.2)	(0.5)	(61.7)
Net assets	**170.8**	**(2.7)**	**168.1**
Equity			
Retained earnings	127.0	(2.7)	124.3
Equity attributable to owners of the parent	170.4	(2.7)	167.7
Total equity	**170.8**	**(2.7)**	**168.1**

(1) Under the modified retrospective transition method, comparative information is not restated for IFRS 9.

(c) IFRS 16 *Leases*

Summary
IFRS 16 *Leases* becomes effective to the Group as at 1 July 2019 and replaces IAS 17 *Leases*. IFRS 16 introduces a single lease accounting model for lessees, which requires the Group to recognise assets that represent its right to use underlying leased assets and liabilities that represent its obligation to make lease payments for all of the Group's operating leases, other than those that are short-term or low-value. Operating lease charges in the income statement will largely be replaced by depreciation charges and finance costs.

Impact
The Group has assessed the estimated pre-tax impact that the initial application of IFRS 16 will have on its consolidated financial statements for the year ending 30 June 2020 based on its portfolio of lease contracts as at 30 June 2019, as shows below:

Impact on Consolidated Statement of Financial Position as at 1 July 2019	Group £m
Net investment in sublet property	2
Right-of-use assets	37
Lease-related prepayments, accruals and provisions	1
Lease liabilities	(45)
Retained earnings	**(5)**

Impact on Consolidated Income Statement for the year ending 30 June 2020	Group £m
Operating lease charges under IAS 17	8
Operating lease charges under IFRS 16	(1)
Depreciation under IFRS 16	(6)
Impact on operating profit	1
Finance costs	(2)
Impact on profit before taxation	**(1)**

Impact of Consolidated Statement of Cash Flows for the year ending 30 June 2020
There is no overall impact on cash flows from the adoption of IFRS 16, but a change in presentation will see an improvement in the Group's cash flows from operating activities and a corresponding decline in cash flows from financing activities of approximately £5m. The Group does not expect the adoption of IFRS 16 to impact on its ability to comply with its loan covenants.

10. Events after the reporting date

(a) Acquisitions after the reporting date – PLC Consulting

On 31 July 2019, the Group acquired the entire issued share capital of PLC Consulting Pty Ltd ('PLC Consulting') for initial cash consideration of £3.9m (AUD 7.0m) subject to any adjustment to reflect normalised levels of working capital.

PLC Consulting is an Australian firm with a strong technical advisory capability across the project lifecycle in infrastructure, environment and planning, including supporting the environmental requirements of master-planning, business cases, procurement, design, construction and operation. PLC Consulting was renamed Ricardo Energy Environment and Planning Australia on 5 August 2019.

The following tables set out the provisional fair value of cash consideration payable to acquire PLC Consulting, together with the provisional assessment of the fair value of net assets acquired.

Provisional cash consideration	£m
Initial cash consideration	**3.9**

Provisional assessment of the fair value of identifiable net assets acquired	£m
Customer contracts and relationships	1.4
Trade, contract and other receivables	0.6
Cash and cash equivalents	0.4
Trade, contract and other payables	(0.1)
Deferred tax liabilities	(0.4)
Total provisional assessment of the fair value of identifiable net assets acquired	**1.9**
Goodwill	2.0
Total provisional cash consideration	**3.9**

All of the initial cash consideration of £3.9m (AUD 7.0m) was paid after the year-end in July 2019. The acquisition was completed on a cash-free and debt-free basis, subject to normal levels of working capital.

The maximum contingent cash payable is £5.4m (AUD 9.5m). The amounts payable will be based on the achievement of a range of annual performance targets measured against the earnings before interest, tax, depreciation and amortisation of PLC Consulting across a two year earn-out period. These payments are dependent upon the continuing employment of the sellers in the business and are not considered to be consideration. The expected amounts payable will be accrued within specific adjusting items on a pro rata basis.

Provisional adjustments have been made for the recognition of customer-related intangible assets separable from goodwill amounting to £1.4m (AUD 2.4m), but have not yet been made to other identifiable net assets acquired to reflect their fair value. The provisional assessment of net assets acquired is based upon available financial information and may be adjusted in future in accordance with the requirements of IFRS 3 *Business Combinations* and the sale and purchase agreement.

The provisional assessment of 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. None of the goodwill recognised on consolidation is expected to be deductible for tax purposes.

The provisional assessment of net assets acquired of £1.9m (AUD 3.4m) includes trade receivables of £0.6m (AUD 1.1m), all of which is expected to be collectible.

Acquisition-related expenditure of £0.2m has been charged to the income statement for the year ended 30 June 2019 and is included as a specific adjusting item in Note 3.

(b) Purchase of Detroit Technical Center

On 21 August 2019, the Group purchased the freehold property of its Detroit Technical Center ('DTC'), located at 40000 Ricardo Drive, Van Buren Township, Detroit, Michigan, 48111-1641, United States, for £14.2m (USD 17.3m). The purchase of the facility removes the Group from its long-term lease commitment to October 2037 and the purchase price was predicated on its tenancy. During the year the Group commenced a process to market the DTC test assets for sale and the newly acquired freehold property will form part of this process.

These activities provide the flexibility to realign the cost base of the Automotive US business with its strategy as a more operationally efficient consultancy. The freehold property will be assessed for impairment as part of being classified as held for sale and any charge will be classified as a specific adjusting item due to the non-recurring nature of the transaction.