26 February 2010

Ricardo plc
Interim results for the six months ended 31 December 2009

Ricardo plc is a market leading engineering, management and automotive consultancy, employing over 1500 people worldwide. The company has centres in the UK, USA, Germany, Czech Republic, India, Japan and China and a global client list including the world's major automotive OEMs, Tier 1 suppliers to OEMs, energy companies and governments.

Highlights

for continuing operations

- Results in line with management expectations
- Diversification strategy limited the recession impact
- Profit before tax of £3.8m (six months ended 31 December 2008: £7.6m)
- Sound balance sheet with net debt of £6.7m (30 June 2009: £3.5m, 31 December 2008: £7.6m)
- Unchanged interim dividend of 3.2p per share
- Strong order book at £99m (30 June 2009: £97m, 31 December 2008: £105m)
- Positive momentum being carried into the second half

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

"The Group's performance in the first six months of the financial year is in line with our expectations, reflecting the subdued economic environment. We have seen signs of stabilisation and some recovery in key markets, with increased levels of order intake towards the end of the period and an improved pipeline, particularly from China and the US.

Our strategy of market and geographic diversification allied to tight cost control has positioned the Group well to weather the current weakness in its traditional passenger car market, protecting its strong balance sheet.

Although markets have not returned to normality, with our strong order book, a good pipeline and an apparent market upturn in some areas of our business, we believe that the second half will benefit from the momentum that picked up towards the end of the first half and enable us to demonstrate further progress."

Further enquiries:

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Interim management review

RESULTS

After a slow start to the financial year, business picked up as the half year progressed and results for the six months to 31 December 2009 are in line with management expectations. Our strategy of diversification, both globally and into new market sectors, generated good orders in the defence, commercial vehicle and government sectors. This offset continuing weakness in the passenger car market where manufacturers have yet to step up spending to meet new CO_2 legislation. The US and China saw good recoveries in orders while Europe and the rest of Asia remained quiet.

Revenue from continuing operations in the period was £81.0m, which compares to £91.1m in the same period last year, a period which reflected the delivery of orders which pre-dated the most significant effects of the global recession. Our results benefited from cost savings made last year in response to the market down-turn as well as robust pricing. Together with continuing controls on expenditure and our diversification strategy, these initiatives have mitigated the reduction in business volumes, and operating profit of £4.8m compares to £7.3m in the prior six month period. Net finance costs of £1.0m compare to net finance income of £0.3m in the prior six month period due to the non-recurrence of foreign exchange gains on financing activities. Profit before tax of £3.8m compares to £7.6m in the six months to 31 December 2008.

Tight cash control has maintained the strength of the balance sheet. Gearing was only 9% with net debt at the end of December 2009 being £6.7m, compared to £7.6m twelve months previously. Net debt at 30 June 2009 was £3.5m, and in the six month period since then working capital for continuing operations increased by £2.6m. This was largely due to reduced up front payments, offset by more frequent milestone invoicing and tight controls on external spend. The impact of exchange rate movements on profits and net debt in the period was minimal. The Group's banking facilities exceed £40m.

The defined benefit pension scheme deficit of £30.2m compares to £29.4m in June 2009 and £19.3m in December 2008. The scheme has been closed to new members for some time and future accruals for active members are ceasing at the end of February 2010. The cash contribution plan which commenced in 2006 continues and is targeted at eliminating the deficit by 2016.

Ricardo continues to enjoy the benefit of R&D tax credits in the UK which have contributed to a tax charge of £0.6m, representing an expected effective tax rate of 16% for the year to 30 June 2010. Basic earnings per share for continuing operations for the first half were 6.3p compared to 12.1p for the same period last year.

The process for the sale of the discontinued exhaust business is ongoing with a number of companies having expressed initial interest. Its business performance has substantially improved following cost restructuring last year.

The Board has declared an unchanged interim dividend of 3.2p per share. The dividend will be paid on the 1 April 2010 to shareholders on the register at the close of business on 12 March 2010.

The Group has started the second half of the financial year with a strong order book of £99m for the continuing operations, compared to £97m at 30 June 2009 and £105m at 31 December 2008. The order pipeline remains good with a number of large orders, particularly from Asia, in the latter stages of contract negotiation.

MARKET & STRATEGY UPDATE

Both the global economy and the markets in which Ricardo operates have seen significantly depressed activity over the last twelve months. Some signs of stabilisation have started to emerge with recovery beginning earlier in some of the regions in which we operate. The traditional core market of volume passenger car engineering has been at very low levels globally, however there are some areas of recovery starting in China, particularly for transmissions and hybrid vehicles. Our engineering teams have seen continued activity during the period from a number of motorcycle and performance car programmes. The anticipated demand for engineering in support of new passenger car CO_2 legislation has still to materialise. We remain confident that this demand will return as in-house engineering capacity has been reduced by many manufacturers and the deadlines which will have to be met for manufacturers to retain market share with compliant product remain firm and fixed in time. Commercial vehicle activity has remained at good levels, largely due to new emissions legislation. The defence sector has remained very active driven by high levels of operational activity and continued demand for new vehicles to match the changing military requirements. The renewable energy sector has become increasingly high profile and continued development into this area has occurred, albeit at modest order levels, as this significant future market develops and our position in it matures.

The impetus, profile and target setting for future CO_2 legislation across the globe continues to increase and will impact many markets beyond just passenger cars in the future. The Ricardo strategy is to provide technical solutions to meet these new and stringent targets. In the period Ricardo has focused on enhancing its capability in new sectors likely to be impacted such as rail and marine. We are actively recruiting talent with direct market expertise to help secure business in these new sectors as we exploit technical solutions developed in our existing markets.

TECHNICAL CONSULTING

Technical Consulting is the largest of the two business segments for which we report our results in the financial statements. Illustrating a key aspect of our diversification strategy, we have set out in the rest of this section the update of the performance of this business by market sector.

Passenger Car

In the EU and US the collapse of the global automotive market has restricted internal and external development spending by the major car manufacturers despite tough new CO_2 legislation. However, investment by developing economies, particularly China and Russia, in new product development programmes and to capture technological independence has provided some counter balance. Governmental support across the globe has primarily benefited the manufacturers of smaller more fuel efficient vehicles and investment into low carbon and sustainable development technologies. Much of this aid is targeted at the manufacturers to sustain their own operations, but Ricardo has also benefited. The driver of new CO_2 legislation is of such global and political importance that we remain confident of a recovery in development spending. In addition oil prices have risen again. This will inevitably lead to increased consumer demand for more fuel efficient vehicles. Ricardo continues to invest in Intelligent Transport Systems (“ITS”) technologies as a holistic approach to energy efficiency and dynamic safety improvements.

Against this backdrop, Ricardo has secured relatively modest levels of passenger car business in the first half from traditional clients in the US and most of Europe and Asia. There has been good activity from China and Russia, which is expected to continue in the second half. Although the timing is uncertain, due to the underlying CO_2 drivers, significant Chinese government growth plans for the auto sector and manufacturers’ in-house resource and technological limitations, we expect that a recovery should occur during the coming year. Fuel efficient transmissions, engines, hybrids and electric vehicles will be the key areas of interest.

Defence

Ricardo's business in the defence sector has been very active both in the UK and US. The protection of forces in Afghanistan and Iraq against improvised explosive devices ("IEDs") has led to urgent upgrade programmes for existing vehicles and rapid evaluations of new vehicles with enhanced protection and increased mobility. Fuel economy has become a significant focus for the defence industry because of the high logistical cost of fuelling vehicles in theatre. With defence budgets under pressure, the benefits of cost effective vehicles are increasingly attractive. Crossover technologies from the automotive and commercial vehicle sector are particularly relevant, with proven economies of scale and new low cost designs, where protection is by design rather than by armour.

Ricardo has been very active in the US in the development of new vehicles, adaptations of commercial vehicle technologies and the development of fuel economy tool-sets to aid complex vehicle design and selection. Ricardo technology in low cost, highly efficient heavy fuel engines has also captured the interest of the unmanned aerial vehicle ("UAV") market in the provision of increased flight duration, reliability, safety and payload benefits.

In the UK, Ricardo has also been very active upgrading the military Land Rover fleet to improve survivability and co-developing the "Ocelot" prototype vehicle as part of the Light Protected Patrol Vehicle programme for the UK Ministry of Defence ("MOD"). This vehicle is a ground-up design specifically targeted to combat the increasing threat from IEDs without compromising mobility. If accepted by the MOD, Ricardo will be the engineering partner for its production. The Ocelot has global appeal and there are opportunities beyond the UK.

Commercial, Agricultural and Industrial Vehicles

Despite economic conditions impacting purchase levels of commercial vehicles, Ricardo remained busy in this area with good business levels in the US, Germany and the UK from Asian and Russian clients. Impending emissions legislation has forced new product development in the US and European truck markets which kept the German, UK and US teams and test beds very active with heavy duty diesel engine development. Additionally, a number of vehicle manufacturers have looked towards new geographic markets and the defence sector to increase volumes. Ricardo has actively supported these manufacturers by localising product for the Asian market and by upgrading and repackaging existing products for application in the defence sector. In the US, the Ricardo ethanol boost direct injection technology has captured interest and we have received orders from corn-based ethanol producers seeking to demonstrate the potential of ethanol as a legitimate alternative to petroleum-based fuels.

Ricardo has recently applied its technology and expertise in the aerospace industry to develop and demonstrate the autonomous Taxibot vehicle, which tows commercial aircraft under the control of the pilot. This negates the need to use the engines for taxiing, thus significantly reducing the tonnes of CO_2 produced per year and enabling customers to meet emissions targets and make fuel cost savings. The prototype vehicle was launched at the Munich air show in October 2009 and has been towing full size aircraft in February 2010. If successful, it is expected that the vehicle will move to the production development phase, with manufacturers and airlines already showing significant interest.

Motorcycles, Motorsport and High Performance Vehicles

Good growth is expected in the worldwide motorcycle market driven by developing countries and the desire for vehicles that emit lower levels of CO_2. Building on our good track record with US, European and Asian motorcycle manufacturers, Ricardo has been very active in production development programmes covering engines for high performance premium motorcycles through to efficient new market scooters. Ricardo is establishing a strong position in this market, has a portfolio of leading technology programmes and has a strategy for continuing growth based on track record.

In motorsport, Ricardo again successfully supported world champions and leading teams with high performance transmission component design and supply in Formula 1, Japanese GT and the World

Rally Car championship. We supported the Le Mans winning Peugeot team and are very proud to have helped a continuous stream of world champions over many years.

High performance vehicles continue to be developed around the world and Ricardo has been busy, particularly in the UK, with the continued support of the Bugatti Veyron programme and a new supercar programme which started towards the end of the last financial year.

Clean Energy and Power Generation

Ricardo has been actively exploiting its deep knowledge of combustion engines, transmissions and electrical power generation to address the newly developing markets of wind farm and tidal power generation. The world economic climate delayed some large infrastructure projects in 2009 but global CO_2 targets point towards increased investment in renewable energy sources over the medium term at the expense of conventional power. Ricardo has been active in the analysis and simulation of core components for increased reliability and function, cost reduction and supply chain support for both tidal power and wind farm programmes.

Ricardo has been working on energy storage devices which can open up new markets when added to primary energy generators. The innovative Ricardo flywheel energy storage technology is gaining significant interest and has already secured orders for transport applications. Ricardo is also actively engaged in programmes for advanced batteries and battery management systems to improve energy density, reduce cost and ensure safety through battery management technology. Using more traditional skills in diesel engine design and controls, Ricardo is helping diesel generation customers to improve fuel efficiency and product quality.

New sectors – Rail and Marine

A key component of the Ricardo strategy is to establish positions in adjacent markets where Ricardo technology can be readily exploited. Ricardo has started to address the rail and marine markets where emissions legislation has not yet been enacted but is expected. Recruitment of market specialists has been initiated and some orders have already been secured from existing customers in these markets.

In both markets fuel efficiency and emissions controls are receiving much greater attention from governments and operators. For mass public transportation to become effective, quality, refinement, and energy efficiency become critical. The Ricardo technology portfolio – for example, noise vibration and harshness technology, advanced transmissions, hybrid systems, highly efficient combustion technology and energy efficient braking systems – can be readily adapted to rail applications. In the fuel-intensive marine industry, it is clear that political and commercial considerations will create opportunities in engine and transmission engineering for both large pleasure craft and commercial vessels.

STRATEGIC CONSULTING

For the Strategic Consulting business, we have seen two key trends. Firstly, activity levels have reduced as clients have also cut costs and secondly, the focus of client attention has changed from strategy towards performance based cost reduction and turnaround management. In mitigation of reduced activity levels, the business has continued its drive to diversify into new market sectors, and has won projects in the wind energy, aerospace, construction equipment, rail, oil & gas, government and private equity sectors. Client cost reduction programmes on which the team has been active have included assignments related to existing and new products from passenger cars to locomotives and wind farms.

OPERATIONAL STRATEGY

We are continuing to invest in people and systems to drive efficiency throughout the organization with particular emphasis on the development of an integrated business – including the “one Ricardo” business system - and programme delivery.

We have kept manpower levels in line with demand maximising the use of our lower cost regions, Prague and the growing Chinese operation, both of which frequently receive high praise for quality from our customers. We keep tight control on overheads, for example, by extensive use of video conferencing to reduce travel costs.

Following sound investments in prior years we have the right equipment for our clients’ current needs, especially our test facilities. We will develop our resource and technical centres where strategically appropriate but with our existing development centres in the US, UK, Germany, Prague and China and our customer liaison centres in New Delhi, Seoul, Yokohama, Bologna and Paris we have the footprint to exploit market sector opportunities across Europe, North America and Asia.

RESEARCH & DEVELOPMENT

During the past year, an unprecedented range of fuel economy and greenhouse gas regulations have been introduced around the world. Our customers are increasingly interested in innovative “clean” technologies that address the demand for lower emissions at reasonable cost, but without sacrificing consumer appeal. With an ever increasing demand for innovation, it has been vital to attract co-funding for our research portfolio. In the last six months collaborative support and government grants for our R&D programme, which supports a wide range of innovative Ricardo technologies, has grown to record levels.

A range of new programmes is now under way with an increasing focus on electrification, including:

- a collaborative government supported project to introduce innovative electrification technologies to a downsized gasoline engine, improving fuel consumption by up to 40%,
- a significant UK government supported collaborative programme to develop advanced technologies for electric and plug-in electric vehicles, encouraging the development of a UK supply chain for this growing market,
- a European Commission funded programme for autonomous vehicle control technologies, enabling “platooning” of vehicles into an electronically connected road train, significantly reducing aerodynamic drag and reducing fuel consumption,
- another EU funded programme exploring the challenges and benefits of an “intelligent” electricity grid, mixing the requirements of intermittently available renewable sources such as wind power with the short term energy storage capability offered by a growing fleet of electric and plug-in hybrid vehicles,
- development of new flywheel and coupling technology, supported by the UK government, enabling energy recovery and re-use in a range of applications from automotive to off-road power packs, and
- vehicle demonstration of our innovative ethanol fuelled spark ignition engine to quantify the efficiency benefits of our technology and design innovations.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties for the rest of the financial year remain as reported in the 2009 Annual Report and Accounts on pages 25 and 26. In particular, delivery of increased profits in the second half compared to the first half depends on continued and timely conversion of a good order pipeline into projects which can be worked on in the reporting period, effective programme delivery to our customers and our customers remaining solvent and holding to their plans. Also, until a transaction is completed, it remains uncertain that the German exhaust business will be sold and that the sales proceeds net of costs will exceed the carrying value of its net assets.

The Board continues to have confidence that the Company and the Group have adequate resources and banking facilities to continue in operational existence for the foreseeable future.

PEOPLE

Michael Harper was appointed Chairman of the Board on 19 November 2009 following the retirement of Marcus Beresford from the Board at the Annual General Meeting. David Hall has taken the role of Chairman of the Remuneration Committee and Senior Independent Director. Bill Jessup was appointed as Interim Group Finance Director effective from 4 January 2010 as Paula Bell is on maternity leave.

The management team has been strengthened with the promotion of Steve Clarke to the newly created role of Group Commercial Director to drive growth in both new and traditional market sectors. In the US business, Kent Niederhofer has been promoted from CFO to President and new Commercial and Finance Vice Presidents have been appointed. The UK team has been strengthened with a new Finance Director. Other recruitment activities are under way to further develop the team in line with our strategy for market sector expansion.

OUTLOOK

The Group's performance in the first six months of the financial year is in line with our expectations, reflecting the subdued economic environment. However we have seen signs of stabilisation and some recovery in key markets, with increased levels of order intake towards the end of the period and an improved pipeline, particularly from China and the US.

Our strategy of market and geographic diversification allied to tight cost control has positioned the Group well to weather the current weakness in its traditional passenger car market, protecting its strong balance sheet.

Although markets have not returned to normality, with our strong order book, a good pipeline and an apparent market upturn in some areas of our business, we believe that the second half will benefit from the momentum that picked up towards the end of the first half and enable us to demonstrate further progress.

Dave Shemmans
Chief Executive
26 February 2010

Notes:
(a) Related-party transactions are disclosed in Note 9.
(b) 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 2009

	Notes	**Six months ended 31 December 2009 (Unaudited) £m**	Six months ended 31 December 2008 (Unaudited) £m	Year ended 30 June 2009 (Audited) £m
Revenue	4 & 5	**81.0**	91.1	178.8
Cost of sales		**(53.0)**	(56.7)	(109.2)
Gross profit		**28.0**	34.4	69.6
Administration expenses		**(23.2)**	(27.1)	(54.5)
Operating profit	4	**4.8**	7.3	15.1
Finance income		**0.7**	1.9	4.0
Finance costs		**(1.7)**	(1.6)	(3.4)
Profit before taxation		**3.8**	7.6	15.7
Taxation	6	**(0.6)**	(1.4)	(1.0)
Profit for the period from continuing operations		**3.2**	6.2	14.7
Discontinued operations				
Loss for the period from discontinued operations	12	**(0.2)**	(1.0)	(5.7)
Profit for the period		**3.0**	5.2	9.0
Earnings per ordinary share	7			
Continuing operations				
Basic		**6.3p**	12.1p	28.8p
Diluted		**6.2p**	12.0p	28.6p

Condensed consolidated statement of comprehensive income

for the six months ended 31 December 2009

	Six months ended 31 December 2009 (Unaudited) £m	Six months ended 31 December 2008 (Unaudited) £m	Year ended 30 June 2009 (Audited) £m
Profit for the period	**3.0**	5.2	9.0
Other comprehensive income			
Currency translation on foreign currency net investments	**1.8**	6.8	4.9
Fair value loss on net investment hedges	**(1.4)**	(0.6)	(0.3)
Fair value (loss)/gain on foreign currency cash flow hedges	**-**	(0.8)	0.7
Actuarial losses on defined benefit pension scheme	**(1.8)**	(0.4)	(11.6)
Deferred tax on items taken directly in equity	**0.7**	0.3	2.3
Total other comprehensive income for the period (net of tax)	**(0.7)**	5.3	(4.0)
Total comprehensive income for the period	**2.3**	10.5	5.0

Condensed consolidated statement of changes in equity

for the six months ended 31 December 2009

	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 July 2009	12.9	13.7	5.2	35.1	66.9
Total comprehensive income for the period	-	-	0.6	1.7	2.3
Share-based payments	-	-	-	0.2	0.2
Proceeds from shares issued	-	0.1	-	-	0.1
Ordinary share dividends	-	-	-	(3.8)	(3.8)
At 31 December 2009 (unaudited)	**12.9**	**13.8**	**5.8**	**33.2**	**65.7**
At 1 July 2008	12.9	13.7	0.9	39.2	66.7
Total comprehensive income for the period	-	-	5.4	5.1	10.5
Share-based payments	-	-	-	0.7	0.7
Proceeds from shares issued	-	0.1	-	-	0.1
Ordinary share dividends	-	-	-	(3.8)	(3.8)
At 31 December 2008 (unaudited)	12.9	13.8	6.3	41.2	74.2
At 1 July 2008	12.9	13.7	0.9	39.2	66.7
Total comprehensive income for the period	-	-	4.3	0.7	5.0
Share-based payments	-	-	-	0.7	0.7
Ordinary share dividends	-	-	-	(5.5)	(5.5)
At 30 June 2009 (audited)	12.9	13.7	5.2	35.1	66.9

Condensed consolidated statement of financial position

as at 31 December 2009

	31 December 2009 (Unaudited) £m	31 December 2008 (Unaudited) £m	30 June 2009 (Audited) £m
Assets			
Non current assets			
Goodwill	**16.7**	21.3	16.0
Other intangible assets	**2.9**	2.4	2.5
Property, plant and equipment	**46.3**	55.0	47.3
Derivative financial instruments	**0.7**	-	1.3
Deferred tax assets	**16.6**	12.0	14.4
	83.2	90.7	81.5
Current assets			
Inventories	**5.4**	10.2	5.1
Trade and other receivables	**49.1**	64.2	44.8
Derivative financial instruments	**0.2**	-	-
Current tax assets	**0.4**	0.8	0.5
Cash and cash equivalents	**8.3**	42.2	16.8
Assets held for sale	**8.6**	-	7.5
	72.0	117.4	74.7
Total assets	**155.2**	208.1	156.2
Liabilities			
Current liabilities			
Bank loans and overdrafts	**(14.5)**	(33.9)	(16.4)
Trade and other payables	**(37.0)**	(57.5)	(34.3)
Derivative financial instruments	**(1.0)**	-	-
Current tax liabilities	**(2.5)**	(3.0)	(2.6)
Provisions	**(0.5)**	(0.7)	(0.8)
Liabilities associated with assets held for sale	**(1.6)**	-	(0.8)
	(57.1)	(95.1)	(54.9)
Net current assets	**14.9**	22.3	19.8
Non current liabilities			
Bank loans	**(0.5)**	(15.9)	(3.9)
Retirement benefit obligations	**(30.2)**	(19.3)	(29.4)
Derivative financial liabilities	**-**	(2.1)	(0.3)
Deferred tax liabilities	**(1.7)**	(1.5)	(0.8)
	(32.4)	(38.8)	(34.4)
Total liabilities	**(89.5)**	(133.9)	(89.3)
Net assets	**65.7**	74.2	66.9
Shareholders' equity			
Share capital	**12.9**	12.9	12.9
Share premium	**13.8**	13.8	13.7
Other reserves	**5.8**	6.3	5.2
Retained earnings	**33.2**	41.2	35.1
Total equity	**65.7**	74.2	66.9

Consolidated cash flow statement

for the six months ended 31 December 2009

	Six months ended 31 December 2009 (Unaudited) £m	Six months ended 31 December 2008 (Unaudited) £m	Year ended 30 June 2009 (Audited) £m
Cash flows from operating activities			
Cash generated by operations (note 10)	**5.5**	9.9	15.2
Interest received	**0.6**	1.4	2.1
Interest paid	**(0.8)**	(0.9)	(2.3)
Defined benefit pension scheme financing costs	**(0.9)**	(0.7)	(1.1)
Tax paid	**(0.8)**	(0.9)	(1.8)
Net cash generated by operating activities	**3.6**	8.8	12.1
Cash flows from investing activities			
Proceeds of sale of property, plant and equipment	**-**	-	0.1
Disposal of subsidiary	**-**	(0.1)	(0.1)
Purchases of intangible assets	**(0.8)**	(0.5)	(1.2)
Purchases of property, plant and equipment - continuing operations	**(1.8)**	(5.7)	(8.8)
Purchases of property, plant and equipment - discontinued operations	**-**	(0.1)	(0.2)
Net cash used by investing activities	**(2.6)**	(6.4)	(10.2)
Cash flows from financing activities			
Net proceeds from issue of new share capital	**0.1**	0.1	-
Net proceeds from issue of new bank loan	**2.3**	0.3	0.3
Repayment of borrowings	**(2.6)**	(4.2)	(9.8)
Dividends paid to shareholders	**(3.8)**	(3.8)	(5.5)
Net cash used by financing activities	**(4.0)**	(7.6)	(15.0)
Effect of exchange rate changes	**0.1**	(2.1)	1.6
Net decrease in cash and cash equivalents	**(2.9)**	(7.3)	(11.5)
Net cash and cash equivalents at beginning of period	**9.9**	21.4	21.4
Net cash and cash equivalents at end of period	**7.0**	14.1	9.9

Notes to the interim financial statements

for the six months ended 31 December 2009 (unaudited)

1. General information

Ricardo plc is a public limited company incorporated in the UK with a primary 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 25 February 2010. 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. The figures for the year to 30 June 2009 have been extracted from the 2009 Annual Report and Accounts, which was approved by the Board of Directors on 21 September 2009 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 2009 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services 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 2009, which has been prepared in accordance with IFRSs as adopted by the European Union.

3. Accounting policies

The accounting policies adopted are consistent with those of the financial statements for the year ended 30 June 2009, as described in those financial statements, with the exception of the tax accounting policy. Taxes on income in the interim period are accrued using the rate that is expected to be applicable to income reported in the financial statements for the financial year.

The new, revised or amended standards and interpretations shown below are mandatory for the first time for the financial year ending 30 June 2010, none of which have had any significant impact on these financial statements except the revised disclosure requirements of IFRS 8 and IAS 1 (revised). The interim reporting disclosure requirements of IFRS 8 are shown in note 4. The principal impacts of IAS 1(revised) are that the consolidated statement of recognised income and expense has been replaced by the condensed consolidated statement of comprehensive income and that a condensed consolidated statement of changes in equity has been included in the interim report. New, revised or amended standards and interpretations that are not yet effective have not been early adopted.

New International Financial Reporting Standards
May 2008 Annual Improvements to IFRSs
IFRS 8 Operating Segments

Amended International Financial Reporting Standards
IFRS 1 First-time Adoption of International Financial Report Standards
IFRS 2 Share-based payments
IFRS 7 Financial Instruments: Disclosures
IAS 28 Investments in Associates
IAS 32 Financial Instruments: Presentation
IAS 39 Financial Instruments: Recognition and Measurement

Revised International Financial Reporting Standards
IFRS 3 Business Combinations
IAS 1 Presentation of Financial information
IAS 23 Borrowing Costs
IAS 27 Consolidated and Separate Financial Statements

New International Financial Reporting Interpretations
IFRIC 15 Agreements for the Construction of Real Estate
IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 17 Distributions of Non-cash Assets to owners
IFRIC 18 Transfers of Assets from Customers

4. Segmental reporting

Continuing operations:

	Six months ended 31 December 2009				
	Revenue from external customers £m	**Inter-segment revenues £m**	**Total revenues £m**	**Revenues carried out by other segments £m**	**Revenue earned £m**
Technical Consulting	**76.6**	**0.2**	**76.8**	**(0.3)**	**76.5**
Strategic Consulting	**4.4**	**0.3**	**4.7**	**(0.2)**	**4.5**
	81.0	**0.5**	**81.5**	**(0.5)**	**81.0**

	Six months ended 31 December 2008				
	Revenue from external customers £m	Inter-segment revenues £m	Total revenues £m	Revenues carried out by other segments £m	Revenue earned £m
Technical Consulting	84.6	0.8	85.4	(0.1)	85.3
Strategic Consulting	6.5	0.1	6.6	(0.8)	5.8
	91.1	0.9	92.0	(0.9)	91.1

	Year ended 30 June 2009				
	Revenue from external customers £m	Inter-segment revenues £m	Total revenues £m	Revenues carried out by other segments £m	Revenue earned £m
Technical Consulting	165.9	2.4	168.3	(0.2)	168.1
Strategic Consulting	12.9	0.2	13.1	(2.4)	10.7
	178.8	2.6	181.4	(2.6)	178.8

	Results		
	Six months ended 31 December 2009 £m	Six months ended 31 December 2008 £m	Year ended 30 June 2009 £m
Segmental operating profit			
Technical Consulting	**4.0**	8.0	15.6
Strategic Consulting	**0.6**	0.7	1.4
	4.6	8.7	17.0
Head Office and consolidation adjustments	**0.2**	(1.4)	(1.9)
Operating profit per financial statements	**4.8**	7.3	15.1
Add finance income	**0.7**	1.9	4.0
Less finance costs	**(1.7)**	(1.6)	(3.4)
Profit before tax	**3.8**	7.6	15.7

	Total assets		
	31 December 2009 £m	31 December 2008 £m	30 June 2009 £m
Technical Consulting	**118.8**	145.0	121.9
Strategic Consulting	**2.6**	3.2	2.0
	121.4	148.2	123.9
Head Office and consolidation adjustments	**25.2**	46.6	24.8
Discontinued operations	**8.6**	13.3	7.5
Total assets in the financial statements	**155.2**	208.1	156.2

The segmental reporting is shown in a manner consistent with the internal reporting provided to the chief operating decision maker, who is the Chief Executive. The reportable segments for continuing operations are Technical Consulting and Strategic Consulting, based on the similarity for each of the operating segments within the relevant reporting segment of the products and services, processes, types of customers and delivery methods. Inter-segment revenue is charged at prevailing market prices. The results and total assets of discontinued operations are shown in note 12.

The total assets for the Technical Consulting and Strategic Consulting segments represent the consolidated total assets attributable to these reporting segments. Discontinued operations, first reported as held for sale at 30 June 2009, and Head Office and consolidation adjustments reconciling the segmental total assets to the financial statements.

5. Revenue by customer location

External revenue	**Six months ended 31 December 2009 £m**	Six months ended 31 December 2008 £m	Year ended 30 June 2009 £m
UK	**29.5**	24.1	47.6
Germany	**10.7**	13.9	30.4
Rest of Europe	**9.8**	16.9	27.1
Europe total	**50.0**	54.9	105.1
US	**15.6**	15.8	31.8
China	**4.8**	2.0	5.0
Japan	**4.3**	11.2	20.8
Rest of Asia	**5.9**	7.0	15.3
Asia total	**15.0**	20.2	41.1
Rest of the world	**0.4**	0.2	0.8
	81.0	91.1	178.8

6. Taxation

	Six months ended 31 December 2009 £m	Six months ended 31 December 2008 £m	Year ended 30 June 2009 £m
UK	**0.4**	0.3	(1.0)
Overseas	**0.2**	1.1	2.0
Tax charge on profits	**0.6**	1.4	1.0

7. Earnings per share

	Six months ended 31 December 2009 £m	Six months ended 31 December 2008 £m	Year ended 30 June 2009 £m
Earnings attributable to equity shareholders	**3.0**	5.2	9.0
Adjustments to exclude loss from discontinued operations	**0.2**	1.0	5.7
Earnings from continuing operations	**3.2**	6.2	14.7

	Number of shares millions	Number of shares millions	Number of shares millions
Basic average number of shares in issue	**51.2**	51.1	51.1
Effect of dilutive potential shares	**0.1**	0.5	0.3
Diluted average number of shares in issue	**51.3**	51.6	51.4

Earnings per share	**pence**	pence	pence
From continuing operations			
Basic	**6.3**	12.1	28.8
Diluted	**6.2**	12.0	28.6
From continuing and discontinued operations			
Basic	**5.9**	10.2	17.6
Diluted	**5.8**	10.1	17.5
Effect of discontinued operations			
Basic	**(0.4)**	(1.9)	(11.2)
Diluted	**(0.4)**	(1.9)	(11.1)

8. Dividends

	Six months ended 31 December 2009 pence/share	Six months ended 31 December 2008 pence/share	**Six months ended 31 December 2009 £m**	Six months ended 31 December 2008 £m
Amounts distributed in the period	**7.5p**	7.5p	**3.8**	3.8
Interim dividend	**3.2p**	3.2p	**1.6**	1.6

9. Related-party transactions

Compensation for key management personnel	**Six months ended 31 December 2009 £m**	Six months ended 31 December 2008 £m	Year ended 30 June 2009 £m
Salaries and other short-term employee benefits	**0.8**	1.5	2.1
Post employment benefits	**0.1**	0.2	0.2
Termination benefits	**-**	-	0.8
Share-based payments	**0.2**	0.2	0.4
	1.1	1.9	3.5

The key management personnel are the Board of Directors and the Managing Directors of the UK, US and German businesses.

10. Cash generated by operations

	Six months ended 31 December 2009 £m	Six months ended 31 December 2008 £m	Year ended 30 June 2009 £m
Continuing operations			
Profit from operations	**4.8**	7.3	15.1
Adjustments for:			
Share-based payments	**0.2**	0.7	0.7
Cash flow hedges	**0.1**	-	0.4
Profit on sale of subsidiary	**-**	-	(0.1)
Depreciation and amortisation	**4.1**	4.3	8.7
Operating cash flows before working capital movements	**9.2**	12.3	24.8
(Increase)/decrease in inventory	**(0.3)**	(0.6)	0.6
(Increase)/decrease in trade and other receivables	**(4.3)**	(9.0)	8.3
Increase/(decrease) in payables	**2.3**	8.3	(15.5)
Decrease in provisions	**(0.3)**	(0.1)	-
Pension payments in excess of pension costs	**(1.0)**	(1.0)	(2.1)
Cash generated by continuing operations	**5.6**	9.9	16.1
Discontinued operations			
Loss from operations	**(0.2)**	(0.9)	(1.9)
Adjustment for depreciation	**-**	0.1	0.3
Operating cash flows before working capital movements	**(0.2)**	(0.8)	(1.6)
(Increase)/decrease in inventory	**(0.9)**	0.3	0.5
Decrease in trade and other receivables	**0.3**	0.2	0.3
Increase/(decrease) in payables	**0.7**	0.3	(0.1)
Cash used by discontinued operations	**(0.1)**	-	(0.9)
Cash generated by operations	**5.5**	9.9	15.2

11. Net debt (non-GAAP measure)

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

At period end	**31 December 2009 £m**	31 December 2008 £m	30 June 2009 £m
Cash and cash equivalents (current assets)	**8.3**	42.2	16.8
Bank overdrafts (current liabilities)	**(1.3)**	(28.1)	(6.9)
Net cash and cash equivalents	**7.0**	14.1	9.9
Bank loans maturing within one year	**(13.2)**	(5.8)	(9.5)
Bank loans maturing after one year	**(0.5)**	(15.9)	(3.9)
Net debt	**(6.7)**	(7.6)	(3.5)

Movements in period	**Six months ended 31 December 2009 £m**	Six months ended 31 December 2008 £m	Year ended 30 June 2009 £m
Net debt at start of period	**(3.5)**	(0.3)	(0.3)
Net decrease in cash and cash equivalents	**(2.9)**	(7.3)	(11.5)
Add back net repayment of bank loans	**0.3**	3.9	9.5
Disposal of subsidiary	**-**	0.3	0.3
Effect of exchange rate changes on bank loan	**(0.6)**	(4.2)	(1.5)
Net debt at end of period	**(6.7)**	(7.6)	(3.5)

12. Discontinued operations

At 31 December 2009 and 30 June 2009, the Group's exhaust business in Germany was classified as held for sale, and as a discontinued business. The results and cash flows for the six months ended 31 December 2008 have been re-stated in line with the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

Results of discontinued operations	**Six months ended 31 December 2009 £m**	Six months ended 31 December 2008 £m	Year ended 30 June 2009 £m
Revenue	**5.3**	5.5	10.5
Operating costs	**(5.5)**	(6.4)	(12.4)
Operating loss	**(0.2)**	(0.9)	(1.9)
Finance costs	**(0.1)**	(0.5)	(0.9)
Loss before tax	**(0.3)**	(1.4)	(2.8)
Attributable tax credit	**0.1**	0.4	0.7
Write down of assets held for sale	**-**	-	(3.8)
Tax effect of write down	**-**	-	0.2
Net loss attributable to discontinued operations	**(0.2)**	(1.0)	(5.7)

Assets and liabilities classified at the reporting date as held for sale	**31 December 2009 £m**	31 December 2008 £m	30 June 2009 £m
Property, plant and equipment	**3.1**	-	3.0
Inventories	**3.9**	-	2.7
Trade and other receivables	**1.6**	-	1.8
Total assets classified as held for sale	**8.6**	-	7.5
Trade and other payables	**(1.6)**	-	(0.8)
Total liabilities associated with assets classified as held for sale	**(1.6)**	-	(0.8)
Net assets of the disposal group	**7.0**	**-**	6.7

13. Capital commitments

At 31 December 2009, contracts had been placed for future capital expenditure, which have not been provided for in the financial statements, amounting to £1.5m.