**1 March 2011**

**Ricardo plc**
**Interim results for the six months ended 31 December 2010**

***Ricardo plc is a market leading engineering, management and automotive consultancy, employing over 1500 people worldwide. The company has facilities 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

- Order book up 16% at £117m, following strong intake (30 June 2010: £101m; 31 December 2009: £99m)
- Revenue up 11% at £90.2m (31 December 2009: £81.0m)
- Profit before tax of £5.0m, up 32% (six months ended 31 December 2009: £3.8m)
- Low gearing maintained. Net debt £7.5m (30 June 2010: £7.8m; 31 December 2009: £6.7m)
- Basic earnings per share 9.4p (31 December 2009: 6.3p)
- Increased interim dividend of 3.4p per share (31 December 2009: 3.2p per share)
- The market outlook is more positive both in respect of the return of passenger car customers and opportunities for diversification
- The Board remains confident of further progress for the full year

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

*"Overall, this has been a pleasing half year performance with positive signs of recovery in the passenger car market and further progress made with our diversification strategy. Strong order intake in the past six months, up 28% on the same period in the prior year, has yielded an order book at a healthy £117m, up 16% compared with 30 June 2010, with a good pipeline of prospects. The balance sheet is strong, the operating margins have improved, and profit before tax on continuing operations is up 32% on prior year despite cost overruns on a large engineering design programme, which has now been completed.*

*Orders received in the period reflected an improving confidence in the market and a return of multi-year outsourced development programmes from clients. We secured key projects in the automotive and off-highway sectors whilst our defence business benefited from the formal award of the contract to Ricardo by Force Protection Europe for the set up and assembly of 200 UK Ministry of Defence Foxhound vehicles (formerly known as Ocelot), with production commencing in July 2011.*

*Overall, the market outlook is more positive with the return of passenger car customers and opportunities for diversification. We are pleased with both the results for the first half and the growth of the order book and we are confident of further progress for the full year. Winning multi-year engineering programmes, commencing assembly on the supercar engine, and securing a significant defence programme, provide longer term business visibility."*

Further enquiries:


| | |
|---|---|
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**Interim management review**

**RESULTS**

We have seen positive signs of recovery in the passenger car market and have also witnessed growth in some of the new market sectors we have been developing. The Group has started the second half of the financial year with a strong order book of £117m for continuing operations which compares with £99m at 31 December 2009 and £101m at 30 June 2010. The order pipeline remains good with an upturn in traditional automotive enquiries and continuing interest from new sectors.

Revenue from continuing operations in the period was £90.2m, which compares to £81.0m in the same period last year. The results benefited from revenue growth, improved pricing and continuing cost saving initiatives, which more than offset increased costs on a large engine development programme.

The operating profit of £6.4m compares to £4.8m in the six months to 31 December 2009. Net finance costs of £1.4m were incurred (£1.0m in the half year ended 31 December 2009). Profit before tax of £5.0m was 32% ahead of the £3.8m for the comparable period last year.

Ricardo has continued to invest in R&D and the tax credits associated with this expenditure mean that the Group reports a net tax charge of £0.2m representing an effective tax rate of 4% for the half year to 31 December 2010. Basic earnings per share for continuing operations for the first half were 9.4p up 49% from 6.3p in the comparable period in 2009.

The Technical Consulting segment saw a modest increase in revenue. The operating profit was impacted by design, development and pre-production costs for a major engineering programme in the UK division, which were significantly higher than expected (as previously communicated). The design phase of this programme has been completed and the assembly phase commenced in January 2011. The assembly activity will in future be reported in our Performance Products segment, which is described below.

The Strategic Consulting segment had a strong first half with both revenue and operating profit ahead of the same period last year.

We have amended our segmental performance information to include a new segment, 'Performance Products', which comprises our assembly work on transmissions, supercar engines, defence and our software products. The Performance Products segment has benefited in the period from increased volumes of defence vehicle assembly leading to a substantial increase in revenue to £19.4m (31 December 2009: £12.9m). Volumes are expected to decline in the remainder of the financial year before Foxhound deliveries commence in July 2011.

Net debt has remained low at £7.5m (31 December 2009: £6.7m and 30 June 2010: £7.8m). In December 2010 Ricardo replaced an existing £10m borrowing facility with a new £15m five year borrowing facility. The Group has committed borrowing facilities of £30m, all of which expire after more than one year. The Group also has other short term facilities totalling £20m.

The defined benefit pension scheme deficit of £25.0m compares to £30.2m at 31 December 2009 and £34.4m at 30 June 2010. The reduction in the deficit was largely due to improved asset performance and the change of the valuation basis for deferred pension obligations from Retail Price Index to Consumer Price Index during the six months to 31 December 2010, as permitted by the scheme rules and agreed by the scheme trustees.

An agreement for the sale of the discontinued German exhaust business was signed on 28 July 2010. As part of the sale agreement the acquiring company entered into a lease of the existing premises. In accordance with IFRS these premises are now shown as investment property.

The Board has declared an increased interim dividend of 3.4p per share (31 December 2009: 3.2p) reflecting the continuing progress made in the business over the last six months. The dividend will be paid on 6 April 2011 to shareholders on the register at the close of business on 11 March 2011.

**MARKET & STRATEGY UPDATE**

The markets in which Ricardo operates have benefited from stabilisation followed by further recovery through the six month period. Some regions including countries such as China, Malaysia and India, are moving at a faster pace as they were not impacted so heavily by the recession or are driven by impending legislation and the need to catch up on development in order to compete internationally.

There is a clear return to development spend on new technology and products as evidenced by our increasing order book and an enquiry rate which grew through the period. Our traditional core market of passenger car engine, transmission and vehicle engineering, which had been at very low levels over the prior year, has started to recover with the return of multi-year programmes from European and Asian clients and a lower but increasing level of engagement from US automakers. This situation is helped by the fact that many customers downsized during the recession and hence have reduced in-house resource.

$CO_2$ legislation and government support have increased the number of hybrid and electric vehicle programme enquiries – a trend applying equally to the commercial vehicle and off-highway sectors. We believe this will continue in response to the recent increases in oil prices. Such legislative and market driven demands for improved $CO_2$ are also having an impact on the high performance vehicle sector and are enabling new products in the motorcycle and scooter arena.

Our defence business remains active as we look to improve fuel economy, performance, safety, and the level of unmanned capability of existing and future vehicles. We have also increased our engagement with US, UK, European, Australian and Indian defence organisations.

Other infrastructure, $CO_2$ and fuel economy driven sectors such as Clean Energy & Power Generation, and Rail remain active although by their nature have a longer investment and decision making cycle. Our progress in these sectors to position Ricardo, secure business and establish a brand has been encouraging during the period.

**TECHNICAL CONSULTING**

**Government**

Government departments and agencies in our major markets are important customers for Ricardo. We provide independent advice, high value data and sophisticated market modelling services. Of particular note is our provision of robust data on the capabilities of future technologies to regulatory bodies to enable future fuel economy and emissions targets to be based on informed projections and not speculation.

Over the past six months we have been very active in providing support for electrification of transport and are helping facilitate its integration with the electricity network. We have provided fuel economy technology forecasts specifically for heavy duty and off-highway vehicles and, in collaboration with our partners, we have also carried out a global assessment of public funding for automotive R&D for the European Commission.

**Passenger Car**

In the developed markets of the EU, US and Japan we are experiencing good levels of order intake on the back of a recovery in product development investment enabled by increased demand. As many OEMs reduced their internal capacity at the height of the downturn, the need to rapidly introduce innovative product lines that both exploit an upturn in the market and meet impending $CO_2$ legislation is creating increased pressure for these OEMs to outsource these programmes. In China investment in domestic capacity, capability and technology continues at pace to support both a general increase in domestic demand and increasing consumer expectations. Additionally, we have been awarded programmes with Malaysian automotive companies.

Against this backdrop we have secured a number of significant multi-year product and technology development programmes. These cover engine, transmission and vehicle engineering and come from major OEMs across our principal geographical markets.

**Motorcycles, Motorsport and High Performance Vehicles**

We are seeing impressive growth in the worldwide motorcycle market driven by growth in developing countries and the desire for low cost vehicles that emit reduced $CO_2$. Ricardo is currently very active in production development programmes for high performance premium motorcycles and smaller, commuter-style motorcycles and scooters in Asia for both established and developing customers.

Our supercar engine development programme has now been completed and is moving into the production phase.

We are also actively engaged as consultants to the motor sport's regulating bodies, in particular the Federation Internationale de l'Automobile, providing technical advice on advanced powertrain technologies.

**Commercial Vehicles**

Manufacturers are once again investing in product development following the economic downturn. Emissions compliance remains a key factor together with the increasing drive towards fuel efficiency improvements and cost optimised operation, for both short and long haul usage. Our success in this sector continues with the award of additional business from existing clients, while emerging markets present opportunities with regional OEMs seeking to advance their product to global standards.

Hybrid technologies are also being explored, with contracts in place and product development already underway. Further discussions are also on-going with a number of OEMs on lighter delivery type vehicles including the use of alternative fuels.

**Agricultural and Industrial Vehicles**

Traditionally the markets of North America and Europe have been dominant, albeit with many regional variations that are specific to both product and application. Our participation in these markets continues and we have achieved further success in the US with the award of several engine projects.

The last twelve months have further illustrated the dramatic rise in the developing markets of China, India and Russia. Ricardo is well positioned for this market shift and has defined a strategy to address both product and manufacturer needs in these territories.

The European customer base has also experienced an increase in activity and we have been successful in winning new business in support of ongoing engine and emissions programmes. Further discussions are taking place with key customers in respect of additional engine programmes and hybrid technologies. We have been successful in securing the next phase of the Taxibot (semi-robotic aircraft tow tractor) programme.

**Defence**

The Defence sector continues to be a focus of significant activity both in the UK and internationally. The Ocelot vehicle, designed by Ricardo in partnership with Force Protection Europe, was selected by the MoD as their Light Protected Patrol Vehicle, to be known operationally as Foxhound. An initial order for 200 units will be assembled during 2011-2012. The resulting increased interaction with the MoD will offer further future opportunities for vehicle design and technology insertion programmes and Ricardo continues to support the existing fleet of Land Rover based vehicles.

Research based projects continue to dominate the US defence strategy. Discussions are being held with OEMs and lead contractors which we expect will lead to a broadening of the US pipeline. The exploitation strategy behind the successful development of the Ricardo UAV engine is being implemented following strong industry and customer interest.

**Rail**

In the UK, the Rail sector was relatively unaffected by the government's comprehensive spending review, with most significant plans by the sector being kept or at worst delayed. In the US, the freight market has started to show some signs of moving out of the recession with orders being placed for new locomotives. India has suffered relatively little impact from the worldwide recession, and as such, its expenditure on rail is still significant with a wide age range of its incumbent technology needing to be addressed.

We have had interest in our capability to improve fuel efficiency in existing fleets, from optimisation of legacy engines to integrating our patented energy storage systems. Our deep knowledge of diesel engines is also bearing fruit in this sector with our first orders received. The rail market is a valuable opportunity for Ricardo and the past six months have confirmed that we have a strong offering that few companies can rival.

**Clean Energy and Power Generation**

Ricardo continues to grow its activities in the renewable energy sector, with a particular focus on wind, marine energy, concentrated solar power and smart grid technology, along with conventional genset improvements. Ricardo's knowledge across the full product development life-cycle is well suited to addressing key industry issues.

We continue to actively develop new intellectual property to solve critical industry problems. A particularly promising innovation is our patented MultiLife bearing concept that will shortly commence testing to prove its ability to significantly increase wind turbine bearing life.

**Marine**

Ricardo has developed ship propulsion simulation tools that enable the analysis and optimisation of whole propulsion systems and energy management architectures. This is particularly attractive to customers who are facing increasingly strict emissions regulations and rising fuel costs. Additionally, as future ships will have to operate under different emissions control areas, Ricardo has been developing new diesel and gas combustion and engine control technologies that enable the adaptive operation of exhaust after-treatment systems.

**STRATEGIC CONSULTING**

The Strategic Consulting business made a good start to this financial year. The client and sector diversification strategy that was initiated just before the start of the global economic crisis proved successful and provided a strong foundation for growth. This is evidenced by recent engagements for clients in the off-highway, defence, marine, government, clean energy and financial institution sectors. Demand for consulting services from the automotive sector has also increased, with a mix of both strategic and operational projects and increasing interest in vehicle electrification. A global recruitment initiative is now underway to reinforce the team and enable further growth including in new markets such as the energy sector.

## PERFORMANCE PRODUCTS

Demand for Ricardo's motorsports transmissions remained robust throughout the downturn and we have recently been selected to supply the transmission for the 2012-2014 World Series by Renault. This is a great testimony to the Ricardo product as we have supplied the Series since 2002. It also complements our supply to other Series on a global basis including Japan's Formula Nippon and the US Indy Lights Series.

We are continuing to work with companies which make prestige marques and that are expanding their activity to consumers of supercars and sports cars. We continue to supply the driveline system for the Bugatti Veyron. With our expert knowledge of engine design we have commenced assembly of high performance engines on a commercial scale.

### Defence

Performance has been solid with increased defence vehicle production which is set to continue. Ricardo is building strong relationships with defence industry partners to increase opportunities. We are working in innovative ways, utilising our strong track record in the defence sector to maintain direct business with the MoD, whilst also sub-contracting with major defence companies.

Over the past year Ricardo has built a number of relationships throughout the MoD's organisation, providing commercial and operational benefits to both the MoD and Ricardo.

## OPERATIONAL STRATEGY

We continue to drive delivery efficiency across the organisation under the 'One Ricardo' banner through a mixture of engineering process improvements, engineering tools enhancements and optimisation of staff utilisation. We have implemented the first phase of our global SAP-based integrated business solution which went live in late autumn in the US. Further roll-out into the European trading divisions is on track for 2011.

## RESEARCH & DEVELOPMENT

Future technology planning and forecasting enables Ricardo to provide high level "thought leadership" in many of the sectors in which it operates. Collaborative R&D also remains a key strategy, building new relationships to address common future challenges. Collaboration also provides opportunities to obtain grant funding support in our core markets, and funding levels continue at record levels. We are also currently executing a range of R&D programmes that address opportunities in our core market sectors.

Our largest programme 'FuturEVision' addresses the key challenges associated with the electrification of transport and is supported by the UK Government. Ricardo is making good progress with innovations in cost reduction and energy efficiency with several prototype demonstrators rolling out during this financial year. We have also made excellent progress in our collaborative EU funded programme to address the interaction between renewable energy and the electrification of transport. We have completed a number of work packages exploring the needs and behaviours of consumers in European countries and how this will define future vehicle characteristics and infrastructure requirements. We have also led a study to develop a sophisticated vehicle and grid model that can be used to optimise system configuration and define the real capability for energy storage offered by electric vehicles.

Other key programmes have included addressing reliability issues in wind energy and on-going fuel efficiency improvements to internal combustion engines such as our next generation spray guided gasoline technology research.

**PEOPLE**

Major General (retd.) Peter Gilchrist CB was appointed to the Board as a Non-Executive Director on 1 December 2010, bringing the complement of Board positions to three full time Executive Directors and five Non-Executive Directors.

The management team has been strengthened by the appointment of Martin Fausset (formerly Managing Director for the Defence Aerospace business of Rolls-Royce plc) to lead the UK division following restructuring to release the previous post holder to lead increasingly large, global, complex projects.

Selective recruitment has continued, including the appointment of four senior market sector experts, completing the leadership positions to fulfil the diversification strategy. The Global Product Group teams have also been strengthened with the recruitment of an expert with Intelligent Transport Systems business background. These and other recruits give Ricardo an excellent balance of long-serving employees and new employees, energising the broader teams.

Proactive talent management processes are making an impact with internal promotions being managed to fulfil succession opportunities and a growing interest in international assignments from all levels of staff across the business. This helps in knowledge transfer across the globe and delivery in line with customer expectations.

**OUTLOOK**

Overall, this has been a pleasing half year performance with positive signs of recovery in the passenger car market and further progress made with our diversification strategy. Strong order intake in the past six months, up 28% on the same period in the prior year, has yielded an order book at a healthy £117m, up 16% compared with 30 June 2010, with a good pipeline of prospects. The balance sheet is strong, the operating margins have improved, and profit before tax on continuing operations is up 32% on the prior year despite cost overruns on a large engineering design programme, which has now been completed.

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Overall, the market outlook is more positive with the return of passenger car customers and opportunities for diversification. We are pleased with both the results for the first half and the growth of the order book and we are confident of further progress for the full year. Winning multi-year engineering programmes, commencing assembly on the supercar engine, and securing a significant defence programme, provide longer term business visibility.

Dave Shemmans
Chief Executive
28 February 2011

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 2010

| Continuing operations | Notes | **Six months ended 31 December 2010 (Unaudited) £m** | Six months ended 31 December 2009 (Unaudited) £m | Year ended 30 June 2010 (Audited) £m |
|---|---|---|---|---|
| Revenue | 4 & 5 | **90.2** | 81.0 | 162.8 |
| Cost of sales | | **(59.4)** | (53.0) | (103.7) |
| Gross profit | | **30.8** | 28.0 | 59.1 |
| Administration expenses | | **(24.5)** | (23.2) | (46.5) |
| Other Income | | **0.1** | - | - |
| Operating profit | 4 | **6.4** | 4.8 | 12.6 |
| | | | | |
| Finance income | | **0.1** | 0.7 | 1.2 |
| Finance costs | | **(1.5)** | (1.7) | (3.0) |
| **Profit before taxation** | | **5.0** | 3.8 | 10.8 |
| Taxation | 6 | **(0.2)** | (0.6) | (0.5) |
| **Profit for the period from continuing operations** | | **4.8** | 3.2 | 10.3 |
| **Discontinued operations** | | | | |
| Loss for the period from discontinued operations | 12 | **(0.2)** | (0.2) | (2.7) |
| **Profit for the period** | | **4.6** | 3.0 | 7.6 |
| | | | | |
| **Earnings per ordinary share** | 7 | | | |
| From continuing operations | | | | |
| Basic | | **9.4p** | 6.3p | 20.1p |
| Diluted | | **9.3p** | 6.2p | 20.0p |

**Condensed consolidated statement of comprehensive income**
for the six months ended 31 December 2010

| | **Six months ended 31 December 2010 (Unaudited) £m** | Six months ended 31 December 2009 (Unaudited) £m | Year ended 30 June 2010 (Audited) £m |
|---|---|---|---|
| **Profit for the period** | **4.6** | 3.0 | 7.6 |
| **Other comprehensive income** | | | |
| Currency translation on foreign currency net investments | **0.7** | 1.8 | 0.6 |
| Fair value gain/ (loss) on foreign currency net investment hedges | **0.3** | (1.4) | - |
| Fair value loss on foreign currency cash flow hedges | **(0.1)** | - | (0.7) |
| Actuarial losses on defined benefit scheme (note 13) | **8.4** | (1.8) | (7.2) |
| Deferred tax on items taken directly to equity | **(2.3)** | 0.7 | 2.1 |
| **Total other comprehensive income for the period (net of tax)** | **7.0** | (0.7) | (5.2) |
| **Total comprehensive income for the period** | **11.6** | 2.3 | 2.4 |

**Condensed consolidated statement of changes in equity**
as at 31 December 2010

| | Issued share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|
| At 1 July 2010 | 12.9 | 13.8 | 5.2 | 32.9 | 64.8 |
| Total comprehensive income for the period | - | - | 1.2 | 10.4 | 11.6 |
| Share-based payments | - | - | - | 0.1 | 0.1 |
| Ordinary Share dividends | - | - | - | (3.9) | (3.9) |
| **At 31 December 2010 (unaudited)** | **12.9** | **13.8** | **6.4** | **39.5** | **72.6** |
| | | | | | |
| 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 2009 | 12.9 | 13.7 | 5.2 | 35.1 | 66.9 |
| Total comprehensive income for the period | - | - | - | 2.4 | 2.4 |
| Share-based payments | - | - | - | 0.9 | 0.9 |
| Proceeds from shares issued | - | 0.1 | - | - | 0.1 |
| Ordinary Share dividends | - | - | - | (5.5) | (5.5) |
| At 30 June 2010 (audited) | 12.9 | 13.8 | 5.2 | 32.9 | 64.8 |

**Condensed statement of financial position**
as at 31 December 2010

| | Notes | **31 December 2010 (Unaudited) £m** | 31 December 2009 (Unaudited) £m | 30 June 2010 (Audited) £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non current assets** | | | | |
| Goodwill | | **16.1** | 16.7 | 15.4 |
| Other intangible assets | | **4.8** | 2.9 | 3.7 |
| Property, plant and equipment | | **45.8** | 46.3 | 47.7 |
| Investment property | 14 | **1.9** | - | - |
| Derivative financial instruments | | **-** | 0.7 | 0.1 |
| Deferred tax assets | | **19.1** | 16.6 | 20.4 |
| | | **87.7** | 83.2 | 87.3 |
| **Current assets** | | | | |
| Inventories | | **6.4** | 5.4 | 7.7 |
| Trade and other receivables | | **62.8** | 49.1 | 55.2 |
| Derivative financial assets | | **0.1** | 0.2 | 0.3 |
| Current taxation | | **1.1** | 0.4 | 0.7 |
| Cash and cash equivalents | | **10.3** | 8.3 | 7.8 |
| Assets held for sale | 12 | **-** | 8.6 | 1.4 |
| | | **80.7** | 72.0 | 73.1 |
| **Total assets** | | **168.4** | 155.2 | 160.4 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Bank loans and overdrafts | | **(17.5)** | (14.5) | (15.2) |
| Trade and other payables | | **(47.3)** | (37.0) | (39.9) |
| Derivative financial liabilities | | **(0.2)** | (1.0) | (0.1) |
| Current tax liabilities | | **(3.1)** | (2.5) | (3.6) |
| Provisions | | **(0.4)** | (0.5) | (0.5) |
| Liabilities associated with assets held for sale | 12 | **-** | (1.6) | - |
| | | **(68.5)** | (57.1) | (59.3) |
| **Net current assets** | | **12.2** | 14.9 | 13.8 |
| **Non current liabilities** | | | | |
| Bank loans | | **(0.3)** | (0.5) | (0.4) |
| Retirement benefit obligations | 13 | **(25.0)** | (30.2) | (34.4) |
| Derivative financial liabilities | | **-** | - | (0.2) |
| Deferred tax liabilities | | **(2.0)** | (1.7) | (1.3) |
| | | **(27.3)** | (32.4) | (36.3) |
| **Total liabilities** | | **(95.8)** | (89.5) | (95.6) |
| **Net assets** | | **72.6** | 65.7 | 64.8 |
| | | | | |
| **Shareholders' equity** | | | | |
| Share capital | | **12.9** | 12.9 | 12.9 |
| Share premium | | **13.8** | 13.8 | 13.8 |
| Other reserves | | **6.4** | 5.8 | 5.2 |
| Retained earnings | | **39.5** | 33.2 | 32.9 |
| **Total equity** | | **72.6** | 65.7 | 64.8 |

**Condensed consolidated cash flow statement**
for the six months ended 31 December 2010

| | **Six months ended 31 December 2010 (Unaudited) £m** | Six months ended 31 December 2009 (Unaudited) £m | Year ended 30 June 2010 (Audited) £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated by operations (note 10) | **10.7** | 5.5 | 11.9 |
| Interest received | **0.1** | 0.6 | 1.3 |
| Interest paid | **(0.5)** | (0.8) | (1.6) |
| Defined benefit pension scheme financing costs | **(1.0)** | (0.9) | (1.7) |
| Tax paid | **(1.4)** | (0.8) | (1.8) |
| Net cash generated by operating activities | **7.9** | 3.6 | 8.1 |
| **Cash flows from investing activities** | | | |
| Proceeds of sale of property, plant and equipment - continuing operations | **-** | - | 0.1 |
| Proceeds of disposal of discontinued operations | **1.4** | - | - |
| Purchase of intangible assets | **(1.4)** | (0.8) | (2.0) |
| Purchase of property, plant and equipment - continuing operations | **(3.2)** | (1.8) | (5.5) |
| Purchase of property, plant and equipment - discontinued operations | **-** | - | (0.1) |
| Net cash used by investing activities | **(3.2)** | (2.6) | (7.5) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of ordinary share capital | **-** | 0.1 | 0.1 |
| Net proceeds from issue of new bank loan | **14.2** | 2.3 | 8.6 |
| Repayment of borrowings | **(9.0)** | (2.6) | (9.3) |
| Dividends paid to shareholders | **(3.9)** | (3.8) | (5.5) |
| Net cash generated/(used) by financing activities | **1.3** | (4.0) | (6.1) |
| Effect of exchange rate changes | **(0.4)** | 0.1 | 0.3 |
| **Net increase/ (decrease) in cash and cash equivalents** | **5.6** | (2.9) | (5.2) |
| Cash and cash equivalents at beginning of period | **4.7** | 9.9 | 9.9 |
| **Net cash and cash equivalents at the end of period** | **10.3** | 7.0 | 4.7 |

**Notes to the financial statements**
for the six months ended 31 December 2010

## 1. General information

Ricardo plc is a limited liability company incorporated in the UK with a primary listing on the London Stock Exchange. The company's registered office is at the Shoreham Technical Centre, Shoreham-by-Sea, West Sussex, BN43 5FG, and its registered number is 222915.

This interim report was approved for issue by the Board of Directors on 28 February 2011. 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 2010 have been extracted from the 2010 Annual Report and Accounts, which was approved by the Board of Directors on 27 September 2010 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 2010 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 2010, 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 2010. This interim report shows investment property for the first time and our policy is described below.

*Investment Property:*
Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are recorded at cost less accumulated depreciation and any recognised impairment losses.

The new, revised or amended standards and interpretations shown below are mandatory for the first time for the financial year ending 30 June 2011, none of which have had any significant impact on these financial statements. New, revised or amended standards and interpretations that are not yet effective have not been early adopted.

*New International Financial Reporting Standards*
April 2009 Annual Improvements

New International Financial Reporting Interpretations
IFRIC 15 Arrangements for construction of real estates
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

*Amended International Financial Reporting Standards*
IFRS 1 First-time Adoption of International Financial Report Standards
IFRS 2 Share-based payments
IAS 32 Financial Instruments: Presentation

## 4. Segmental reporting

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

Following an anticipated increase in activity in our Performance Products business, the financial information provided to the Chief Operating Decision Maker has been amended to separately disclose this segment for the first time.

• Technical Consulting provides services in relation to the development and implementation of engineering projects and low volume precision manufacturing. Technical Consulting is further analysed by geographical sector to reflect the differing economic factors in these markets. This is consistent with the information provided to the Chief Operating Decision Maker.

• Strategic Consulting generates income from management and operational consultancy.

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

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

No operating segments have been aggregated to from the above reportable operating segments.
Management monitors the operating results of its strategic business units separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on operating profit before exceptional items. Included within the head office and consolidation adjustments column in the tables below are functions managed by a central division (including the costs of running the public company).

**Revenue from continuing operations:**

| (a) | **Six months ended 31 December 2010** | | | | |
|---|---|---|---|---|---|
| | **External customers £m** | **Inter-segment £m** | **Total £m** | **Carried out by other segments £m** | **Revenue earned £m** |
| Technical Consulting | | | | | |
| UK | **40.0** | **2.6** | **42.6** | **(3.2)** | **39.4** |
| Germany | **9.0** | **1.8** | **10.8** | **(0.9)** | **9.9** |
| US | **18.0** | **0.4** | **18.4** | **(2.4)** | **16.0** |
| Total Technical Consulting | **67.0** | **4.8** | **71.8** | **(6.5)** | **65.3** |
| Strategic Consulting | **5.0** | **1.0** | **6.0** | **(0.5)** | **5.5** |
| Performance Products | **18.2** | **1.3** | **19.5** | **(0.1)** | **19.4** |
| | **90.2** | **7.1** | **97.3** | **(7.1)** | **90.2** |

| (b) | Six months ended 31 December 2009 | | | | |
|---|---|---|---|---|---|
| | External customers £m | Inter-segment £m | Total £m | Carried out by other segments £m | Revenue earned £m |
| Technical Consulting | | | | | |
| UK | 44.4 | 6.7 | 51.1 | (5.5) | 45.6 |
| Germany | 8.4 | 4.8 | 13.2 | (6.1) | 7.1 |
| US | 11.0 | 0.4 | 11.4 | (0.5) | 10.9 |
| Total Technical Consulting | 63.8 | 11.9 | 75.7 | (12.1) | 63.6 |
| Strategic Consulting | 4.4 | 0.3 | 4.7 | (0.2) | 4.5 |
| Performance Products | 12.8 | 0.1 | 12.9 | - | 12.9 |
| | 81.0 | 12.3 | 93.3 | (12.3) | 81.0 |

| (c ) | Year ended 30 June 2010 | | | | |
|---|---|---|---|---|---|
| | External customers | Inter-segment | Total | Carried out by other segments | Revenue earned |
| | £m | £m | £m | £m | £m |
| Technical Consulting | | | | | |
| UK | 80.3 | 7.5 | 87.8 | (8.0) | 79.8 |
| Germany | 16.4 | 5.6 | 22.0 | (6.9) | 15.1 |
| US | 28.6 | 1.7 | 30.3 | (0.7) | 29.6 |
| Total Technical Consulting | 125.3 | 14.8 | 140.1 | (15.6) | 124.5 |
| Strategic Consulting | 9.2 | 0.9 | 10.1 | (0.7) | 9.4 |
| Performance Products | 28.3 | 0.6 | 28.9 | - | 28.9 |
| | 162.8 | 16.3 | 179.1 | (16.3) | 162.8 |

**Segmental operating profit**

| | **Six months ended 31 December 2010** | Six months ended 31 December 2009 | Year ended 30 June 2010 |
|---|---|---|---|
| | £m | £m | £m |
| Technical Consulting | | | |
| UK | **1.4** | 3.8 | 5.4 |
| Germany | **(0.3)** | (0.7) | (0.8) |
| US | **0.9** | (0.1) | 3.1 |
| Technical Consulting | **2.0** | 3.0 | 7.7 |
| Strategic Consulting | **1.0** | 0.6 | 1.8 |
| Performance Products | **3.2** | 1.0 | 3.3 |
| Head Office and consolidation adjustments | **0.2** | 0.2 | (0.2) |
| **Operating profit per financial statements** | **6.4** | 4.8 | 12.6 |
| | | | |
| Add finance income | **0.1** | 0.7 | 1.2 |
| Less finance costs | **(1.5)** | (1.7) | (3.0) |
| **Profit before tax** | **5.0** | 3.8 | 10.8 |

**Segmental assets**

| | **31 December 2010** | 31 December 2009 | 30 June 2010 |
|---|---|---|---|
| | **£m** | £m | £m |
| Technical Consulting | | | |
| UK | **64.9** | 54.5 | 57.8 |
| Germany | **36.8** | 27.6 | 35.2 |
| US | **24.4** | 19.4 | 22.6 |
| Technical Consulting | **126.1** | 101.5 | 115.6 |
| Strategic Consulting | **3.4** | 2.6 | 5.2 |
| Performance Products | **15.1** | 17.3 | 15.4 |
| | **144.6** | 121.4 | 136.2 |
| Head Office and consolidation adjustments | **23.8** | 25.2 | 22.8 |
| Discontinued operations | **-** | 8.6 | 1.4 |
| **Total assets in the financial statements** | **168.4** | 155.2 | 160.4 |

## 5. Revenue by customer location

| | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| UK | **32.1** | 29.5 | 42.7 |
| Germany | **12.7** | 10.7 | 21.6 |
| Rest of Europe | **6.3** | 9.8 | 27.5 |
| Europe total | **51.1** | 50.0 | 91.8 |
| | | | |
| US | **21.4** | 15.6 | 40.6 |
| | | | |
| China | **5.3** | 4.8 | 10.2 |
| Japan | **6.9** | 4.3 | 9.8 |
| Rest of Asia | **5.2** | 5.9 | 9.7 |
| Asia total | **17.4** | 15.0 | 29.7 |
| | | | |
| Rest of the world | **0.3** | 0.4 | 0.7 |
| | **90.2** | 81.0 | 162.8 |

## 6. Taxation

| | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| UK | **(0.1)** | 0.4 | (1.2) |
| Overseas | **0.3** | 0.2 | 1.7 |
| **Tax charge on profits** | **0.2** | 0.6 | 0.5 |

## 7. Earnings per share

| | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| Earnings attributable to equity shareholders | **4.6** | 3.0 | 7.6 |
| Adjustments to exclude loss from discontinued operations | **0.2** | 0.2 | 2.7 |
| **Earnings from continuing operations** | **4.8** | 3.2 | 10.3 |

| | **Number of shares millions** | Number of shares millions | Number of shares millions |
|---|---|---|---|
| Basic average number of shares in issue | **51.3** | 51.2 | 51.3 |
| Effect of dilutive potential shares | **0.2** | 0.1 | 0.2 |
| **Diluted average number of shares in issue** | **51.5** | 51.3 | 51.5 |

| **Earnings per share** | **pence** | pence | pence |
|---|---|---|---|
| From continuing operations | | | |
| Basic | **9.4** | 6.3 | 20.1 |
| Diluted | **9.3** | 6.2 | 20.0 |
| From continuing and discontinued operations | | | |
| Basic | **9.0** | 5.9 | 14.8 |
| Diluted | **8.9** | 5.8 | 14.8 |
| From discontinued operations | | | |
| Basic | **(0.4)** | (0.4) | (5.3) |
| Diluted | **(0.4)** | (0.4) | (5.2) |

## 8. Dividends

| | **Six months ended 31 December 2010 pence/share** | Six months ended 31 December 2009 pence/share | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m |
|---|---|---|---|---|
| Amounts distributed in the period | **7.5p** | 7.5p | **3.8** | 3.8 |
| Interim dividend | **3.4p** | 3.2p | **1.7** | 1.6 |

## 9. Related party transactions

| Compensation for key management personnel | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| Salaries and other short-term employee benefits | **1.4** | 0.8 | 1.9 |
| Post employment benefits | **-** | 0.1 | 0.3 |
| Share-based payments | **0.2** | 0.2 | 0.3 |
| | **1.6** | 1.1 | 2.5 |

The key management personnel are the Board of Directors and the Managing Directors of the Technical Consulting businesses in the UK, US and Germany and the Managing Director of Strategic Consulting. The number of key management personnel at 31 December 2010 has increased from 30 June 2010 and 31 December 2009.

## 10. Cash generated by operations

| | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Profit from operations | **6.4** | 4.8 | 12.6 |
| Adjustments for: | | | |
| Share-based payments | **0.1** | 0.2 | 0.9 |
| Cash flow and net investment hedges | **0.4** | 0.1 | 0.1 |
| Depreciation and amortisation | **4.1** | 4.1 | 8.2 |
| Operating cash flows before working capital movements | **11.0** | 9.2 | 21.8 |
| Decrease/(increase) in inventory | **1.2** | (0.3) | (2.5) |
| Increase in trade and other receivables | **(8.9)** | (4.3) | (9.3) |
| Increase in payables | **8.7** | 2.3 | 4.7 |
| Decrease in provisions | **-** | (0.3) | (0.3) |
| Pension payments in excess of pension costs | **(1.0)** | (1.0) | (2.2) |
| **Cash generated by continuing operations** | **11.0** | 5.6 | 12.2 |
| | | | |
| **Discontinued operations** | | | |
| Loss from operations | **(0.2)** | (0.2) | (0.5) |
| Operating cash flows before working capital movements | **(0.2)** | (0.2) | (0.5) |
| Increase in inventory | **-** | (0.9) | (0.6) |
| Decrease in trade and other receivables | **1.5** | 0.3 | 0.2 |
| (Decrease)/increase in payables | **(1.6)** | 0.7 | 0.6 |
| **Cash used by discontinued operations** | **(0.3)** | (0.1) | (0.3) |
| **Cash generated by operations** | **10.7** | 5.5 | 11.9 |

## 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 2010 £m** | 31 December 2009 £m | 30 June 2010 £m |
|---|---|---|---|
| Cash and cash equivalents (current assets) | **10.3** | 8.3 | 7.8 |
| Bank overdrafts (current liabilities) | **-** | (1.3) | (3.1) |
| Net cash and cash equivalents | **10.3** | 7.0 | 4.7 |
| Bank loans maturing within one year | **(17.5)** | (13.2) | (12.1) |
| Bank loans maturing after one year | **(0.3)** | (0.5) | (0.4) |
| **Net debt** | **(7.5)** | (6.7) | (7.8) |

| Movements in period | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| Net debt at start of period | **(7.8)** | (3.5) | (3.5) |
| Net increase/ (decrease) in cash and cash equivalents | **5.6** | (2.9) | (5.2) |
| Add back net repayment of bank loans | **(5.2)** | 0.3 | 0.7 |
| Effect of exchange rate changes on bank loan | **(0.1)** | (0.6) | 0.2 |
| **Net debt at end of period** | **(7.5)** | (6.7) | (7.8) |

## 12. Discontinued operations

At 31 December 2010 and 30 June 2010, the Group's exhaust business in Germany was classified as held for sale, and as a discontinued business. The sale agreement for the transfer of the business, plant and equipment and inventories for cash consideration of €2.0m was signed on the 28 July 2010.

| Results of discontinued operations | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| Revenue | **0.9** | 5.3 | 11.5 |
| Operating costs | **(1.1)** | (5.5) | (12.0) |
| Operating loss | **(0.2)** | (0.2) | (0.5) |
| Finance costs | **-** | (0.1) | (0.2) |
| Loss before tax | **(0.2)** | (0.3) | (0.7) |
| Attributable tax credit | **-** | 0.1 | 0.2 |
| Write down of assets held for sale | **-** | - | (2.9) |
| Tax effect of write down | **-** | - | 0.7 |
| **Net loss attributable to discontinued operations** | **(0.2)** | (0.2) | (2.7) |

| Assets and liabilities classified at the reporting date as held for sale | **Six months ended 31 December 2010 £m** | Six months ended 31 December 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| Property, plant and equipment | **-** | 3.1 | 0.2 |
| Inventories | **-** | 3.9 | 1.2 |
| Trade and other receivables | **-** | 1.6 | - |
| Total assets classified as held for sale | **-** | 8.6 | 1.4 |
| Trade and other payables | **-** | (1.6) | - |
| Total liabilities associated with assets classified as held for sale | **-** | (1.6) | - |
| **Net assets of the disposal group** | **-** | **7.0** | **1.4** |

## 13. Retirement benefit obligations

The actuarial reduction of £8.4m in the defined benefit pension deficit is mainly due to improved asset performance and the change of the revaluation basis for deferred pension obligations from Retail Price Index to Consumer Price Index during the six months to 31 December 2010.

## 14. Investment property

Following of the sale of the German exhaust business on 28 July 2010, the freehold properties occupied by this business are now rented to the business purchaser and as such, these have now been classified as investment properties.

The investment properties are recorded at cost less depreciation and are being depreciated over their estimated useful lives of between 25 and 40 years.

## 15. Capital commitments

At 31 December 2010, contracts had been placed for future capital expenditure, which have not been provided for in the financial statements, amounting to £0.6m (December 2009: £1.5m)

## 16. Risks and uncertainties

The Board regularly reviews key risks and uncertainties and have concluded that the disclosures on pages 25 to 26 of the Group's Annual Report for the year ended 30 June 2010 remain appropriate. These should be read in conjunction with the interim management report for the half year ended 31 December 2010.