

RICARDO PLC

PRELIMINARY RESULTS

Monday 18 September 2006

- ❑ Revenue £173m, up 9.5%
- ❑ Underlying profit before tax and pensions credit £10.8m up 25.6%
- ❑ Pension deficit reduced by £11m, pensions credit of £3.7m
- ❑ Order book £72m, up 4% year on year
- ❑ Pipeline of prospects at end August remains healthy at £367m (2005: £362m)
- ❑ Germany engineering led recovery under way - small operating profit in last five months
- ❑ Underlying earnings per share up 27% to 18.8p (2005: 14.8p)
- ❑ Proposed final dividend increased to 6.7p (2005: 6.3p), totaling 9.4p for the year (2005: 9p)

- ❑ Triennial valuation as at April 2005 completed which shows the underfunding position increased from £9m to £22m, resulting in the special contribution increasing from £1.6m to £3.3m p.a. from April 2006
- ❑ The increased contribution has now been agreed with the Trustees and is calculated to pay off the deficit over a nine year period
- ❑ IAS 19 gross deficit reduced from £34.7m to £23.6m during the year to June 2006 due to improving bond yields, a solid equity performance and change to pensionable salary increases
- ❑ Future pensionable salary increases now capped to inflation which reduced the deficit by £3.7m – this amendment to benefits classified as a “curtailment” under IAS 19 and treated as a credit to the Income Statement instead of through reserves.

INCOME STATEMENT



£ m	June 2006	Pension Credit	Underlying Performance	June 2005 *
• Revenue	<u>173.1</u>		<u>173.1</u>	<u>158.1</u>
• Gross margin	55.4	(2.1)	53.3	46.7
• Overheads	<u>(39.6)</u>	<u>(1.6)</u>	<u>(41.2)</u>	<u>(36.3)</u>
• Operating profit	15.8	(3.7)	12.1	10.4
• Finance costs	<u>(1.3)</u>		<u>(1.3)</u>	<u>(1.8)</u>
• Profit/(loss) before tax	14.5	(3.7)	10.8	8.6
• Taxation (charge)/credit	<u>(2.3)</u>	<u>(1.1)</u>	<u>(1.2)</u>	<u>(1.1)</u>
• Profit/(loss) after tax	<u>12.2</u>	<u>2.6</u>	<u>9.6</u>	<u>7.5</u>

* Restated for the adoption of IFRS

£ m	Revenue		Operating Profit/(Loss)	
	2006	2005	2006	2005
• UK	98.6	85.2	8.5	5.5
• US including software	35.4	34.1	2.2	2.0
• Germany	24.1	29.7	(0.5)	1.6
• Rest of World, Prague, China, Japan	1.1	0.2	(0.7)	(0.5)
• RSC	13.9	8.9	2.6	1.8
	<u>173.1</u>	<u>158.1</u>	<u>12.1</u>	<u>10.4</u>

BALANCE SHEET HIGHLIGHTS



£ m	June 2006	June 2005 *
• Tangible assets	45.2	46.7
• Intangible assets	17.4	16.6
• Stocks and Debtors	54.3	50.0
• Net borrowings	(5.8)	(11.2)
• Creditors	(38.9)	(35.4)
• Other liabilities	(5.6)	(5.7)
• Net pensions deficit	(16.5)	(24.3)
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• Net Assets	50.1	36.7
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• Gearing	11.6%	30.5%

* Restated for the adoption of IFRS

£ m

	June 2006	June 2005
• Operating profit before pensions credit	12.1	10.4
• Depreciation/loss on sale of fixed asset	9.0	9.3
• Working capital (increase)/decrease	(1.3)	(8.5)
• Dividend	(4.6)	(4.6)
• Net interest received/(paid)	(1.3)	(1.8)
• Tax refund / (paid)	(1.4)	0.3
• Fixed assets	(8.3)	(6.1)
• Other	1.2	(0.0)
• Cash (outflow)/inflow	<u>5.4</u>	<u>(1.0)</u>

- ❑ Agreement with SAIC to set up their UK R&D centre on our Leamington premises.
- ❑ Team of 150 ex Rover engineers recruited into 2010.
- ❑ Ricardo derives income from management and admin fees plus a facilities charge.
- ❑ SAIC has an option to acquire 2010 for £1 and we expect the option to be exercised in new FY
- ❑ 2010 is treated as an asset held for sale on the balance sheet
- ❑ SAIC have indicated they wish to remain on our premises for the foreseeable future.
- ❑ Ricardo UK will continue to provide administrative services and engineering/strategic consultancy to both 2010 and SAIC on normal commercial terms.
- ❑ Exercise of the option will have no material effect on the results for the year ended June 2007 and their continuing presence on our Leamington site retains SAIC as a key client.

KEY PERFORMANCE INDICATORS



	June 2006	June 2005
• Order book	£72m	£69m
• Gross margin	30.8%	29.5%
• Operating profit return on turnover *	7.0%	6.6%
• Tax rate *	11.1%	12.8%
• EPS basic *	18.8p	14.8p
• Proposed dividend	9.4p	9.0p
• Dividend cover	2 times	1.6 times

* excluding pensions credit

The Ricardo added value growth strategy has been further developed and communicated to exploit the global market place, while de-risking against geographical and automotive cyclical

- ❑ Strategy underpinned by four corner stones

De-Risk	Growth/volume
<ul style="list-style-type: none"> ❑ De-risking and avoidance of dependency by increased diversity of customer, sector, geography and product base 	<ul style="list-style-type: none"> ❑ Focused high quality growth from a platform of increased diversity of customer, sector, geography and product base
Increase Margin	Reduce Cost
<ul style="list-style-type: none"> ❑ Focused on high value premium services 	<ul style="list-style-type: none"> ❑ Reduced cost through global operation, sourcing and removal of waste (simplification, avoidance of duplication and tight programme management)

A framework has been implemented to deliver the vision, together with values which provide a focus for our activities, culture and investments



Professionalism in all we do
- no compromise on:

- Client Commitment
- Team Spirit
- Learning
- Innovation
- Shareholder Return

RICARDO UK – diversifying product, geography and sector with innovation and world class technology



- ❑ Ricardo UK profits up 55% compared to 04/05
- ❑ Order book growing with a strong pipeline of opportunities from a broad range of product groups, geographies, sectors and customers. Continued demand for our R&D investment led technology.
- ❑ Asia Pacific continues to be a growth market with clients showing significant interest in Dual Clutch (DCT) transmissions, diesel and electronics
- ❑ UK and European customers continue their focus on technology and vehicle application to meet new emissions legislation. DCT interest for Tier 1s & OEMs.
- ❑ Military related contracts up in the year with continued growth forecast
- ❑ Full production of the Bugatti Veyron transmission and increasing motor sport activities in the F1, World Rally car and other formulae
- ❑ Prague is now fully integrated into the business, headcount has grown to >100 with highly motivated and skilled engineers supporting all products and regions



JCB DIESELMAX – setting the bar for world class Engineering



- ❑ 350mph world land speed record breaker
- ❑ 2 x 6 times uprated Ricardo developed JCB-444 engine = 1500BHP
- ❑ 12 “diggerworth” of power
- ❑ Twice the power of a F1 race car
- ❑ Pushing the boundaries of innovation
- ❑ Teamwork
- ❑ Tyre limited



RICARDO US – diversifying customer & sector with Innovation



- ❑ Ricardo US profits up 10% compared to 04/05
- ❑ Order book growing with a good pipeline of opportunities from a broad range of product groups, sectors and customers
- ❑ Continued increase in business from commercial vehicle and Military sectors on new products, emissions upgrades and cost down activities
- ❑ Heavy duty beds remain in demand with an increasing utilisation of the light duty beds (gasoline and diesel)
- ❑ Passenger car OEMs (“Big 3” and “new domestics”) remain active with activities across the gasoline, diesel, hybrid range for both application and research
- ❑ Leading edge collaborative research programme for US diesel technology
- ❑ Recruitment of Global Product Group Director for Control and Electronics
- ❑ First discussions with a Chinese customer on US targeted programme



RICARDO GERMANY – breaking into new customers with the right team, infrastructure and innovation



- ❑ As highlighted previously, weak market conditions and a delayed start to a niche exhaust production programme impacted the German business results leading to a disappointing loss in the year.
- ❑ The investment, recruitment and restructuring to improve value added capability to Ricardo levels and broaden customer base/appeal is starting to deliver, with the last 5 months of the FY being profitable
- ❑ Significant engineering programme wins with 3 major OEMs and increasing leads with passenger car, commercial vehicle and other automotive OEMs and Tier 1s
- ❑ Upgraded test beds full. Further demand for additional beds from German clients with some work passed through to UK
- ❑ Niche production supply of delayed programme has commenced and will ramp up fully in September
- ❑ We expect the outlook in Germany to remain challenging for the coming year but are seeing clear success in the higher value added activities and investments and expect the business to be profitable in the new year
- ❑ We remain convinced of the importance of the market place and the appeal of a German high value added Ricardo operation to our clients



- ❑ RSC profits up 44% compared to 04/05
- ❑ A key player in automotive consulting market and continues to win business against the established blue chip consulting companies
- ❑ A sustainable business which is recognised by our clients for its deep content and focus upon delivering tangible results
- ❑ Our work in strategy consulting is increasingly leveraging Ricardo engineering knowledge with over 50% of projects involving Ricardo background product and technology knowledge
- ❑ In the year we have undertaken significant programmes with clients in the US, EU and Asia. In particular three substantial projects had a very positive impact on the years results.
- ❑ Product cost down, warranty reduction and business improvement / restructuring remain the key activities. An increasing interest in market, product and technology strategy from clients looking to improve top line
- ❑ Start of the year transition from trading a number of major projects to a broader portfolio of projects of all sizes.
- ❑ Current activity below high levels of 2005/6, but continuing to improve with repeat business and client satisfaction high



Investment in Asia – developing new markets

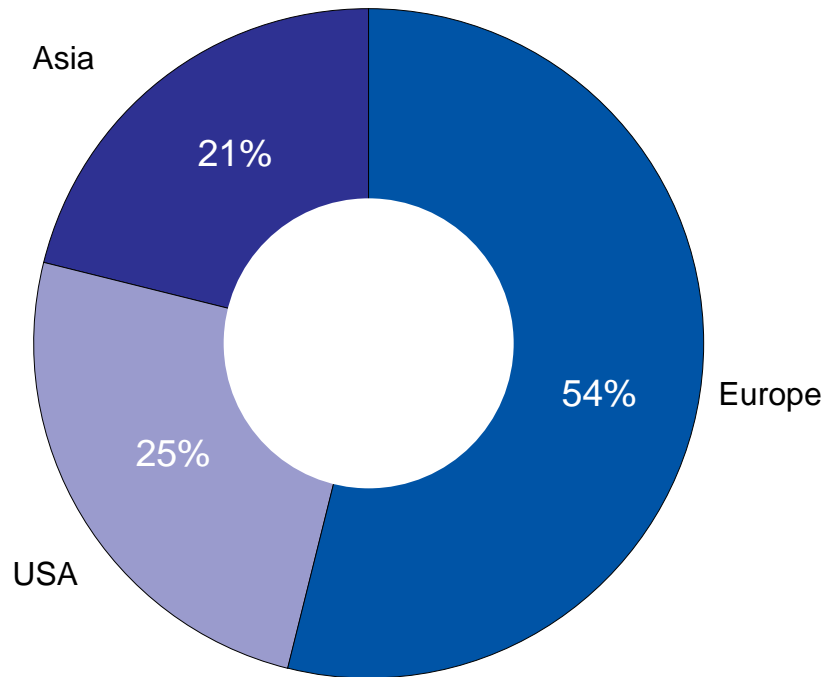
- ❑ Business and relationships with all major Japanese OEMs continue to grow under the new expanded team and leadership
- ❑ Diesel and electronic technology remains of high interest with Japanese clients for global markets
- ❑ Turnkey vehicle development becoming a new area of opportunity from Japanese clients. Strategic consulting business continues
- ❑ Brand becoming better recognized in Japan with mass marketing, increasing direct approaches
- ❑ Shanghai office developing/expanding into engineering office generating significant leads and follow on business, with growth in domestic client base and product range (hybrid, engine, transmissions.)
- ❑ Programmes for the development of cars for export (US and EU)
- ❑ Continued interest from global OEMs on localisation and product cost down opportunities in China
- ❑ India and Korea continue to be active in terms of engine, transmissions and strategic consulting. Key geographical targets for Ricardo moving forward



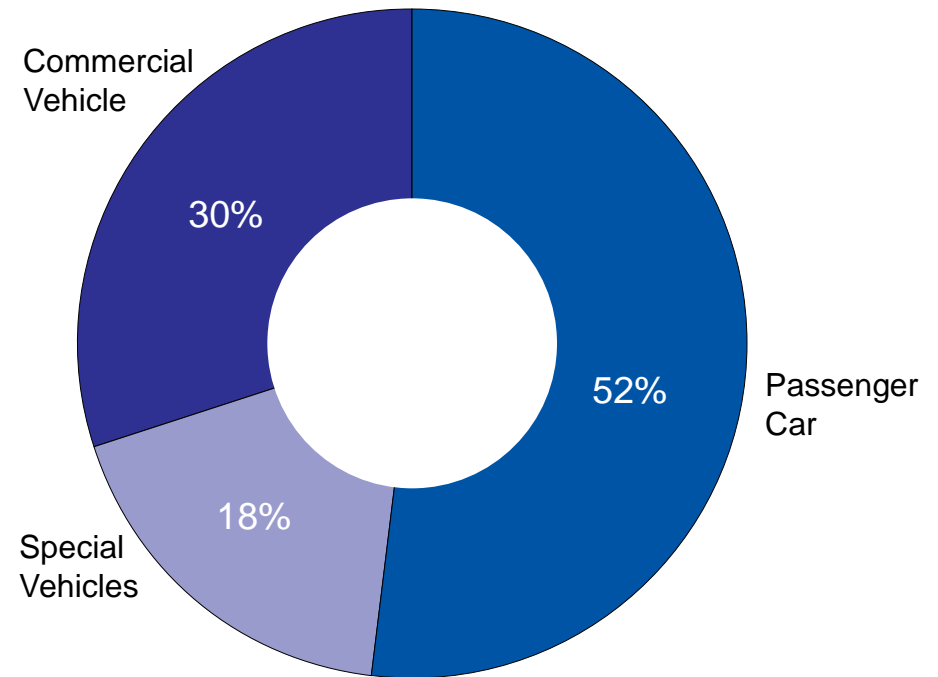
Order intake for the full year 05/06 shows the “Global” strategy in action, with geography and sector spread de-risking and providing a platform for growth



Geographic Spread



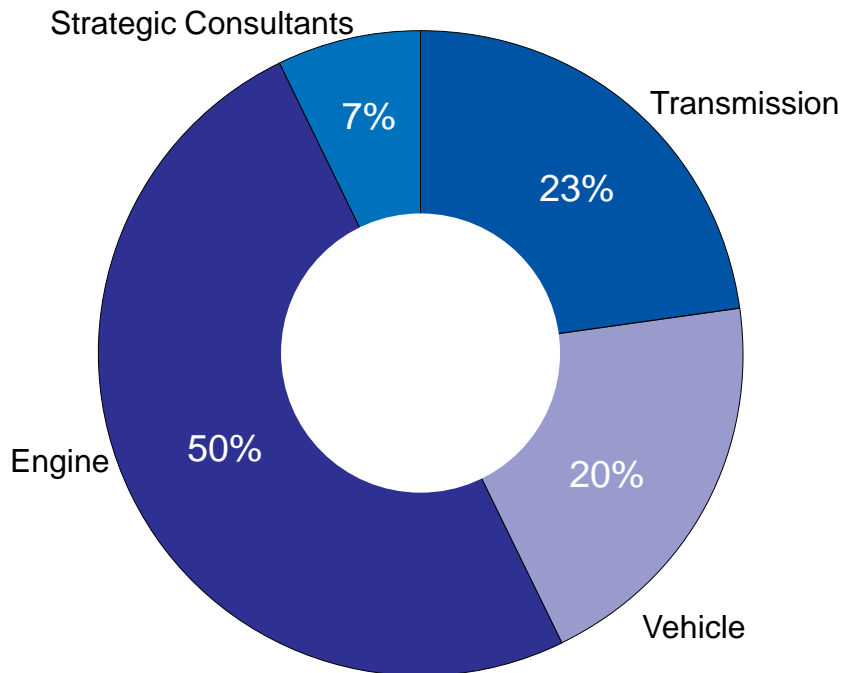
Sector Spread



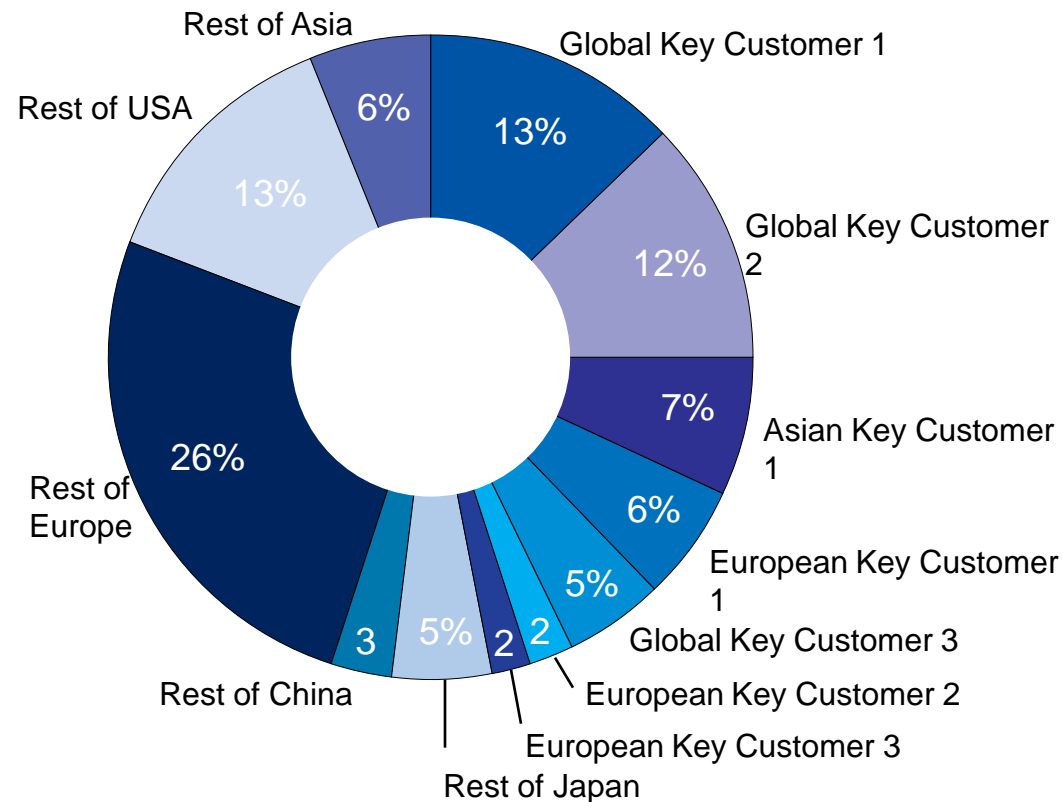
Order intake for the full year 05/06 shows the “Global” strategy in action, with Product and Customer spread de-risking and providing a platform for growth



Product Spread



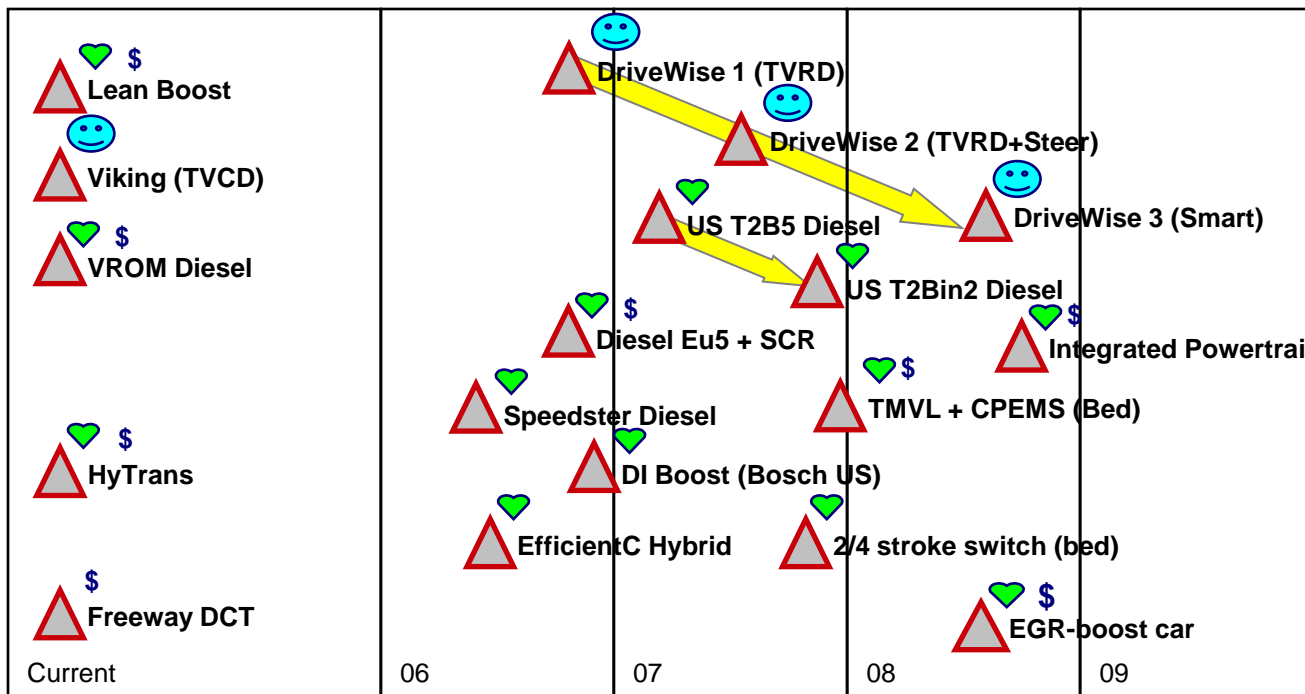
Customer Spread



Technology pipeline is building, boosted by collaborative funding. Internal investment up 15% from £3.9m to £4.5m



- ❑ Fuel economy, emissions reduction and safety enhancing solutions to meet future legislation
- ❑ Low emissions diesel (US/Eu), fuel efficient gasoline, active dynamic transmissions, advanced hybrid powertrains and drive by wire systems
- ❑ Ricardo investments into Hybrids have already led to more than 60 contracts



Environment	♥
Cost	\$
Safety	😊



Diesel hybrid vehicle based on a Citroën Berlingo achieving 76mpg, 99 g/km CO₂. One of the world's most efficient powertrains

- ❑ UK DfT created competition to build Ultra Low Carbon Car
- ❑ £3M, 30 month program culminating in the delivery of a management quality demonstrator vehicle

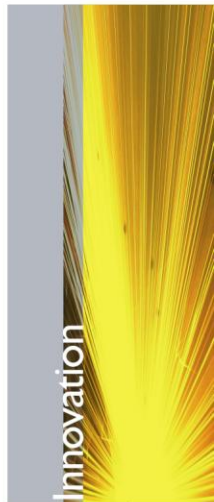


efficient-c

- ❑ 99 g/km CO₂ = 3.75 l/100km = 76mpg
- ❑ 35% improvement in cycle fuel consumption compared with 2.0l base vehicle
- ❑ Range, based on NEDC usage with 60 litre tank = 990 miles
- ❑ 13 second 0-100 km/h acceleration
- ❑ 5 km to 10 km all electric range
- ❑ Entering a world demonstration phase

- ❑ Profit recovery continues to plan
- ❑ Key growth areas of Electronics, Asia and Strategic consulting performing well
- ❑ China and Japan are now major markets for Ricardo with in region investments continuing to secure long term position. India business growing also.
- ❑ Emissions and world event drivers adding to growth and diversification of business through passenger car, commercial vehicle and defense programmes
- ❑ Investments and restructuring in Germany starting to deliver, with mainland Europe becoming more active as a market. Key “new clients” secured
- ❑ Profits and order book up with good prospects from a broader product, geographical and customer base
- ❑ Continued emissions legislation and focus on fuel economy driving technical developments and business
- ❑ Strong pipeline of R&D demonstrators and collaborative funding

- “Overall a satisfactory start to the new year, despite activity being lower than last year for the US and, as expected, Strategic Consulting. The UK and Germany are ahead of prior year and the Group’s order prospects continue to build, which together with our strategy of increasing the geographic, sector and customer spread, gives us confidence for further progress in the new financial year”



And finally

- ❑ Andrews 19th and last results announcement
- ❑ Retiring in January
- ❑ Replacement recruited, Paula Bell – ex Rolls Royce plc, AWG, BAA
- ❑ Joins October, takes the reins at AGM in November
- ❑ Will be coming to meet you all soon with Andrew as part of the handover process
- ❑ A huge thanks to Andrew from all for his stewardship and tight control of the finances over the past 9 years.
- ❑ And a personal thanks from me for his invaluable help and guidance this year



