13 September 2018

Ricardo plc

Preliminary results for the full year ended 30 June 2018

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

HIGHLIGHTS

- Record order intake at £413m, up £47m on FY 2016/17;
- Record year-end order book at £288m, up £40m on June 2017;
- Revenue up 8% to £380.0m;
- Underlying PBT up 2% to £39.0m on FY 2016/17;
- Strong performance in Asia and electric vehicle order intake, with a good mix of orders across our market sectors;
- Acquisition of Control Point to enhance US defence business;
- Disposals of Chicago and Southern Germany engine test facilities, to balance asset mix with the trend towards electrification;
- Order flow disruption in the second half and the close out of some challenging projects impacted performance in our UK Automotive business. Changes made and swiftly addressed;
- Strong working capital management has reduced net debt to £26.1m from £37.9m at June 2017 (after £6m acquisition of Control Point); and
- Outlook is positive with a good pipeline – dividend increased by 6% to 20.46p from 19.30p.

			% Change	
	FY 2017/18	FY 2016/17	Reported	Organic(3)
Order intake (£m)	**413**	366	+13	+10
Order book (£m)	**288**	248	+16	+14
Revenue (£m)	**380.0**	352.1	+8	+5
Underlying(1)				
Profit before tax (£m)	**39.0**	38.3	+2	-1
Basic earnings per share**(2)** (p)	**57.3**	55.7	+3	+1
Statutory				
Profit before tax (£m)	**28.5**	32.2	-11	-14
Basic earnings per share (p)	**35.2**	46.8	-25	-27
Dividend per share (p)	**20.46**	19.30	+6	n/a
Net debt (£m)	**(26.1)**	(37.9)	+31	n/a

(1) Underlying measures exclude the impact on statutory measures of specific adjusting items, comprised of amortisation of acquired intangible assets of £4.3m (2017: £4.0m), acquisition-related expenditure of £1.4m (2017: £1.7m) and reorganisation costs of £4.8m (2017: £0.4m). Underlying measures are considered to provide a more useful indication of underlying performance and trends over time.

(2) In the current year, underlying earnings also exclude the impact on statutory earnings of specific adjusting items for non-recurring tax charges of £2.2m, comprised of the derecognition of net deferred tax assets in Germany as a result of reorganisation activities during the year.

(3) Excludes the performance of acquisitions (Control Point Corporation).

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

"In this financial year, Ricardo saw solid revenue growth and an increase in the order book to record year-end levels. We also successfully acquired and integrated Control Point Corporation. Our global presence and strategy of sector diversification helped the business to mitigate the continued impact of uncertainty in the UK market. Our growing order intake, particularly in Asia, reflects our clients' continued demand for our high-quality products and services.

"Our test facilities in Chicago and Southern Germany were sold during the year to ensure we continue to move with the trend towards electrification. Actions were taken in our UK Automotive business to respond to issues relating to a disrupted flow of orders in the second half of the year and a small number of challenging projects relating to the new WLTP emissions legislation.

"We enter the new financial year with a more agile business and a confident and positive outlook. Ricardo's global capabilities and presence in a number of growing markets, together with its strong order book, all provide a solid foundation for continued growth."

Further enquiries:

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FINANCIAL REVIEW

Group results

The Group increased its order intake to £413m during the year, an increase of £47m on the prior year. Order intake increased across both Technical Consulting and Performance Products. Within Technical Consulting, there was a good mix of orders across all market sectors, albeit UK Automotive declined compared to the prior year. The financial year ended with another record closing order book of £288m (2017: £248m), a 16% increase on the prior year. The order book includes £5m from Control Point Corporation ('CPC'), a US-based defence engineering, software development and fleet management organisation, which was acquired in September 2017.

		Underlying	
	Reported revenue	**Operating profit**	**Profit before tax**
FY 2017/18 (£m)	**380.0**	**41.2**	**39.0**
Less performance of acquisitions:			
Control Point Corporation (£m)	(10.3)	(1.0)	(1.0)
Organic FY 2017/18 (£m)	**369.7**	**40.2**	**38.0**
FY 2016/17 (£m)	352.1	40.8	38.3
Growth (%)	**8**	**1**	**2**
Organic growth (%)	**5**	**(1)**	**(1)**
Constant currency organic growth (%)	**6**	**(1)**	**-**

Total Group revenues grew to £380.0m, representing an 8% increase on the prior year (2017: £352.1m). Underlying operating profit, which excludes specific adjusting items as set out in more detail in Note 3, has increased by 1% to £41.2m (2017: £40.8m), with the margin reducing from 11.6% to 10.8%. Underlying profit before tax increased by 2% to £39.0m (2017: £38.3m).

Underlying operating profit and profit before tax both include £1.0m from CPC. On an organic basis, underlying operating profit and profit before tax both reduced by 1% compared to the prior year. The performance of CPC has been reported in the Technical Consulting segment.

We have experienced some mixed performance across the Group. We have seen particularly good results within Performance Products. Within Technical Consulting, reduced performance in our UK Automotive and Energy & Environment businesses has been offset by growth in our other Technical Consulting businesses, together with a strong performance from CPC.

Reported profit before tax for the year decreased by 11% to £28.5m (2017: £32.2m). The decrease is primarily as a result of £4.8m of reorganisation costs, incurred as a result of the restructuring of the Automotive businesses in the US and Germany. This was partially offset by a net increase in income from claims under the Research & Development Expenditure Credit ('RDEC') scheme of £1.4m. Net acquisition-related expenditure in the year was £1.4m (2017: £1.7m).

Closing net debt reduced to £26.1m from £37.9m in the prior year. This included £6.3m of consideration paid in respect of CPC (£4.6m net of cash acquired), £1.7m of acquisition-related payments and a £2.3m net cash inflow from restructuring activities. The strong cash performance was driven by the continued focus on working capital across the Group.

Outlook

In this financial year, Ricardo continued to grow its order book and actions were taken to increase the operational efficiency of our Automotive business. Our global presence and broad portfolio of products and services helped the business to mitigate the impact of uncertainty currently in the UK market. Our growing order intake reflects our clients' continued demand for our high-quality products and services, and I remain confident in Ricardo's future progression.

We enter the new financial year with a more agile business, although we face an uncertain environment in the UK in the year ahead. I remain confident in the outlook for the business as Ricardo's global capabilities and presence in a number of growing markets, together with its strong order book, all provide a solid foundation for continued growth.

TECHNICAL CONSULTING

Performance

	Reported revenue	Underlying operating profit
FY 2017/18 (£m)	**288.3**	**31.9**
Less performance of acquisitions (£m)	(10.3)	(1.0)
Organic FY 2017/18 (£m)	**278.0**	**30.9**
FY 2016/17 (£m)	280.5	32.8
Growth (%)	**3**	**(3)**
Organic growth (%)	**(1)**	**(6)**

Ricardo's Technical Consulting business generates around 80% of Group revenue and underlying operating profit from its global sectors including Rail, Automotive, Off-Highway & Commercial Vehicles, Energy & Environment, and Defence.

Order intake in the year stood at £324m (2017: £288m) and there has been a good balance of new orders within Technical Consulting across all core regions and with good levels of diversification across different market sectors. Revenue has grown by 3% to £288.3m (2017: £280.5m) and underlying operating profit decreased by 3% to £31.9m (2017: £32.8m). The underlying operating profit margin decreased to 11.1% (2017: 11.7%) due to the mix of orders, an increase in the level of material content and some disruption in the flow of orders into our UK Automotive operation, which led to operational inefficiency. In addition, the delivery of a small number of difficult, complex projects impacted margins.

Our Rail business delivered another year of strong performance and won one of its largest ever assurance projects in Taiwan. The global rail market continues to show positive growth trends, driven by infrastructure investment to support urban and inter-urban mobility – particularly in Asia and the Middle East. The rail industry is striving to exploit new digital technology to improve operational efficiency, availability and overall cost, and to help meet the demand for more efficient public transport. Ricardo Rail, with its extensive engineering consulting and assurance service offering, is well positioned to benefit from these drivers and enjoy access to out-of-sector expertise – such as cyber resilience and autonomous technology – through our other Technical Consulting businesses.

The Automotive sector is undergoing significant change, driven firstly by the move towards increased electrification to deliver the global requirement for CO_2 reduction and, secondly, by the continued focus on cutting tailpipe emissions to improve quality of life in urban centres. New European emissions legislation has resulted in more extensive engine calibration requirements, the scope and complexity of which is proving challenging for the industry as a whole. These parallel changes, together with the opportunity for new entrants to move into the electrified market without the traditional OEMs' burden of historic capital invested in combustion engine technology, have created a very unsettled backdrop to the automotive sector. Our strategic consulting business has had a busy year assisting its automotive clients within this changeable market.

We are seeing a strong market in Asia, particularly in China and Japan. In the year we have acquired new customers on the west coast of the US: these customers are new to the automotive market and are focused on rapid product development. We have also worked with traditional customers in new areas such as electric and hybrid vehicle development, battery development and systems integration. We have however also seen some disruption of order flows from some traditional customers who are looking to navigate the industry change. This was particularly noticeable in the UK during the second half of the financial year, when the effects of the reduction in sales of diesel vehicles were magnified by the continued uncertainty around Brexit.

This disruption in UK order flows, together with the project challenges discussed above, led to inefficiency and some over-capacity in our UK operations, which had an adverse impact on margins. We were pleased to see a return to more normal levels of orders towards the end of the year and into the start of the new financial year.

The US Automotive business improved markedly in the year with a significantly reduced loss which offset the weakness in the UK business. The business broke even in the second half of the year.

Our Automotive business based in China performed well, driven by a doubling of order intake from China and South East Asia, much of which was related to electrification and hybridisation.

Consistent with the general industry direction towards increased electrification, we followed our strategy of reducing international combustion-focused test facilities to create a more flexible cost base, disposing of our test facilities in Chicago and Southern Germany.

Ricardo Energy & Environment continued its focus on international CO_2 reduction and the future impacts of climate change, and on climate mitigation plans. Projects included the preparation of plans for rising sea and river level defence systems and the protection of residential properties and ecologies in the UK, as well as applying our strategic consulting expertise to assist a high-profile wind turbine manufacturer with production planning and their business improvement plans.

High on the agendas of our governmental, local authority and industrial clients were real-world emissions monitoring and air-quality simulations in cities and for shipping. Also important were future regulations and policies on emissions and the electrification of transport, which includes the readiness of the electricity network for the roll-out of vehicle charging infrastructures.

We have also seen an increased focus on waste and recycling, with plastics and the reduction of their use becoming a very productive area of business. Our water consulting activity benefited from the current Asset Management Planning (‘AMP’) cycle in the UK, which ensures water supply and resilience for coming decades against rising populations and temperatures, and from the 2019 Price Review (‘PR19’), driven by the focus of the UK Water Services Regulation Authority on innovation around leakage reduction and the resilience of the water network.

We have been exploiting our cross-sector expertise to benefit our clients in the water sector. One noticeable piece of work is the application of our complex automotive system modelling software, *IGNITE*, to the modelling of Southern Water’s network in the Brighton region in the UK, to assist with capital investment planning. We believe that this is an innovative piece of software that can be applied across the water industry and beyond.

Overall order intake for Energy & Environment was similar to last year, although performance was impacted by recruitment for higher levels of growth than actually achieved.

Ricardo Defense, a business which now combines the capabilities of our existing defence business in the US with those of Control Point Corporation acquired during the year, has won a number of new contracts across the globe in land defence and in the marine sector, both surface and sub-surface.

Market sector highlights

Rail
Ricardo Rail delivered a strong performance for the year with some significant project wins amongst its order intake. The appointment to provide assurance services for a new metro serving suburban Taipei in November 2017, for example, was one of the largest single contracts the business has ever secured and means Ricardo’s expertise will be utilised in the system’s construction through to 2025.

Other notable assignments during the year included providing technical support for the introduction of bi-mode Hitachi rolling stock to the UK network, system integration testing of a new tram system for the city of Utrecht in the Netherlands, and the approvals for a new rail freight service across Saudi Arabia.

The professionalism of our teams was also evident in our support for a new high-speed rail link in South Korea that was commissioned to serve the 2018 Winter Olympics venues around PyeongChang. Despite the strict deadlines of this high-profile national project, our assessors skilfully conducted on-site audits to ensure the signalling technology was compliant with relevant standards, allowing the line to open on schedule and ahead of the start of the Games in February 2018.

Ricardo Certification, a separate and independent business of Ricardo Rail, successfully maintained its multiple accreditations and appointments, and over the course of the year expanded its accredited activities into Dubai and Qatar.

A significant number of projects have been approved during the financial year including:

- More than 60 (2017: 30) Safety Assessment Reports as an Assessment Body under the EU Common Safety Method Risk Assessment and Evaluation Regulations, principally from the UK, the Netherlands, Denmark and Spain;
- Over 360 (2017: 80) certificates as a Notified Body or Designated Body under national regulations that satisfy the requirements of the EU Interoperability Directive, principally from the UK, the Netherlands, Denmark and Spain;
- More than 60 (2017: 50) Accredited Independent Safety Assessment ('ISA') reports, principally from Spain and China; and
- Over 60 (2017: 50) Railway Product Certifications, all from China.

Automotive

During the year, while CO_2 reduction remained a top global priority for the sector, the public debate shifted the focus of consumers and governments onto air quality and, in particular, nitrogen dioxide ('NO_2') emissions. This resulted in a continued increase in the demand for all aspects of vehicle electrification, from mild hybrids to full battery electric vehicles ('BEVs').

We have secured a range of programmes in vehicle systems, hybrid and electric systems and advanced drivelines, and in the core powertrain areas of our business, focused on both new and existing product upgrades. This year we saw an increase in order intake in connection with vehicle electrification programmes which accounted for 26% (2017: 15%) of order intake for Technical Consulting and 21% (2017: 17%) of total Group order intake.

R-Intellect is our integrated approach to electrified vehicle development and it forms the basis of our differentiated solution approach for electrified vehicles. We continue to invest in advanced combustion and transmission solutions and other key technologies in areas related to improvements in overall vehicle system efficiency such as lightweighting, intelligent drivelines, and vehicle electrification. In addition to these areas, the Ricardo collaboration with Roke to develop cyber security solutions for vehicles is attracting much interest from new and existing customers. The collaborative capabilities of both organisations are also leading to further opportunities in both the rail and energy sectors.

Ricardo Motorcycle, which delivers complete development of motorcycles, scooters and urban mobility vehicles, including their powertrains, has seen growth driven by tightening emissions legislation, increased consumer demand for higher capacity motorcycles in developing markets, and growing interest in electric motorcycles.

Off-Highway & Commercial Vehicles

Growth continued in the medium- and heavy-duty sectors, particularly in Asia, and we have secured several large engine and transmission projects across both sectors. Our order book and pipeline of opportunities across Europe and Asia includes a broad mix of largely engine and transmission programmes. In the US, there was continued focus on powertrain and trailer efficiency, emissions control and the use of hydrogen fuel cells, driven by tighter standards for the emission of greenhouse gasses and nitrogen oxides ('NOx'). In the medium-duty market, compliance requirements for in-service On-Board Diagnostics ('OBD') has driven increased engine test activity.

Commercial vehicle platooning remains an important growth market and Ricardo has developed a class-leading capability for control strategy and safety case development.

In the off-highway market, Asia is showing renewed growth – especially in transmissions and drivelines – and activity is increasing in Europe. In the medium-term we expect solid customer demand for our services to meet EU, US and Asian emissions regulations and 2020 emissions targets. Our focus in the medium- and long-term is on assisting customers with the introduction of new technologies for efficiency improvements such as electrification and autonomy.

Ricardo provides the power generation and marine markets with services in failure analysis, investigation, and specialist design and development. In these markets we see increasing demand for high-speed diesel generator sets and main propulsion systems for marine vessels, and for the conversion of engines for gas or dual-fuel operation.

Energy & Environment
This year our Energy & Environment business has seen a broadening of its client base and offerings. The surge of interest in plastic and its impact on the environment has created new demand from customers and we have been working with organisations across the supply chain to ensure that where plastic needs to be used, the environmental impact is minimised, and at the end of its life the plastic is captured and reused or recycled.

We have won a number of projects in the UK to support leading national organisations in the development and evaluation of resources efficiency and waste management policies and systems.

Our UK experience has resonated well and our work on waste and resources has seen growing interest from around the world, especially in Australia where we have already secured a number of projects.

We continue to support customers around the world with our air-quality services and products. In China, we are providing support to a number of cities to establish long-term, cost-effective air-quality action plans to bring about significant improvements in air quality and health whilst maximising co-benefits such as reductions in greenhouse gas emissions. A key project, commissioned by the Asian Development Bank ('ADB'), is providing detailed evaluation of policy options using Ricardo's *RapidAir*® air quality modelling system and is designed to support the billion-dollar investments being made by ADB in north-eastern China.

Africa is urbanising faster than any other region in the world and by 2050 more than 20% of the world's total urban population is expected to live in cities in sub-Saharan Africa. The region contains some of the lowest greenhouse gas emitting countries in the world, but many are investing in infrastructure to support population growth and economic development. There is a narrow window of opportunity to avoid high carbon 'lock-in' and to support climate-resilient development by factoring climate change into long-term investments and planning decisions.

Ricardo is working with nine cities in six countries in sub-Saharan Africa, on behalf of the C40 Cities Climate Leadership Group, to build capacity within local government and develop common tools and frameworks. This will enable action planning for transformational, long-term and low-carbon development, consistent with limiting the rise in global temperatures to 1.5 degrees Celsius and achieving sustainable development goals.

In the UK we have seen high demand for our services in air quality: much of this demand comes through our support of UK cities which are under intense pressure to accelerate the delivery of cleaner air to achieve compliance with air-quality standards and consequent improvements to public health. Our work, in close partnership with local government leaders, is shaping the design of 'Clean Air Zones' through the identification of targeted options, tailored to local circumstances, that cut air pollution and public exposure through locally deliverable action.

We have also seen a steep increase in our work on water resource management, attributable to the statutory plans that the UK's water companies are required to produce every five years. These plans set out the strategy for securing reliable, sustainable water supplies over the next 25 years and beyond. We have provided strategic environmental assessment and planning for the delivery of those plans for 12 water companies, ensuring that they met the stringent requirements for environmental assessment, including resilience of the water supply system and ecosystem services assessments.

Our National Chemical Emergency Centre ('NCEC') has further broadened its offering by using its complimentary skills and capabilities as the world's leading chemical emergency response centre to create a service for businesses outside of the chemicals sector to report different types of incidents – for example, fires, floods, explosions and break-ins. The business also offers planning and training on crisis and business continuity. The new offering has been successful, and the business has seen increasing customer demand for these new services.

Defence

In the US, our existing Ricardo Defense Systems entity completed the acquisition of Control Point Corporation, now known as Ricardo Defense, Inc., which has delivered a strong performance in the year. The integration of the acquisition is progressing well, and the combined Ricardo Defense business has won a number of new contracts and offers an expanding range of services to improve safety, reduce costs, and minimise risk for defence forces on land and at sea.

In the UK, we are delivering contracts to develop new engine and transmission designs for land vehicles for an overseas customer.

PERFORMANCE PRODUCTS

Performance

	Reported revenue	**Underlying operating profit**
FY 2017/18 (£m)	**91.7**	**9.3**
FY 2016/17 (£m)	71.6	8.0
Growth (%)	**28**	**16**

The Performance Products business accounts for around 20% of Group revenue and underlying operating profit. A large proportion of the revenue is generated through the supply of products and services to a single customer.

Revenue increased by 28% to £91.7m (2017: £71.6m) and underlying operating profit increased by 16% to £9.3m (2017: £8.0m). Operating profit margins reduced to 10.1% (2017: 11.2%). Profit was higher than the prior year, primarily due to increased volumes in respect of the engine supply contract for McLaren, a full year of production of transmissions for the Bugatti Chiron and an increased demand for Porsche Cup transmissions. Order intake in the year increased by 14% to £89m (2017: £78m), with the Aston Martin order received in the prior year being more than offset by the increased demand in this financial year from McLaren, Bugatti and Porsche.

The business continues to focus on the development of long-term strategic relationships with customers, and the consistent achievement of high-quality and on-time delivery of our products in order to win new and large contracts.

Market sector highlights

High-Performance Vehicles & Motorsport

Demand for the production of McLaren engines continues to grow in line with expectations: this year we delivered over 4,300 engines across an increased number of engine variants, including the McLaren 540C, 570S Coupé, 570GT, 570S Spider, 720S and Senna.

We manufacture and assemble the world’s most advanced transmissions and we made good progress in the preparations for the supply contract for the Aston Martin Red Bull Valkyrie hypercar transmission. We also continued to support Bugatti with the supply of the complete driveline system for the Chiron, together with the supply of transmissions for the Porsche 991 Cup race cars.

Ricardo remains a key supplier to the motorsport sector. This year the Performance Products business developed the transmission for the M-Sport Bentley GT customer racing programme and continued to support key manufacturers within the Formula E Championship for the second consecutive season.

We continue to manufacture for Formula One, the Japanese Super Formula Championship, Indy Lights and the World Series Formula V8 3.5. We also operate supply programmes of Ricardo-designed transmissions for BMW, the Multimatic-built Ford GT3, the M-Sport World Rally Championship Ford Fiesta and the Hyundai R5 Rally car.

Defence
In the UK, Ricardo supports the British Army’s fleet of Cougar and Weapons Mount Installation Kit (‘WMIK’) vehicles with the supply of spare parts.

In the US, Ricardo Defense has received its first orders and started production of our bespoke anti-lock brake and electronic stability control system for the High-Mobility Multipurpose Wheeled Vehicle (‘HMMWV’, or Humvee). The system is proven to be effective at reducing loss of control and the occurrence of single-vehicle crashes, saving the lives of its occupants as a result. We continue to work closely with both the U.S. Army and major suppliers to deliver this important technology onto the vehicles.

OTHER FINANCIAL MATTERS

Acquisitions and acquisition-related intangible assets
As set out in more detail in Note 6, the Group acquired the entire issued share capital of CPC on 8 September 2017, for a total consideration, including expected earn out payments, of £8.0m ($10.5m). This investment added goodwill of £3.4m ($4.4m) to a new Ricardo Defense cash-generating unit. Acquisition-related intangible assets were identified, with a net book value at year-end of £1.9m ($2.5m).

The Group incurred net acquisition-related expenditure of £1.4m (2017: £1.7m) during the year, £0.8m of which was in respect of CPC, with the remainder primarily relating to fees incurred on an aborted transaction and integration costs in respect of prior acquisitions. The acquisition-related expenditure and amortisation of acquisition-related intangible assets have been charged to the Consolidated Income Statement as specific adjusting items.

Restructuring activities
During the year the Group completed the sale of its Chicago Technical Centre (‘CTC’) and Schechingen Technical Centre (‘SchTC’) in Germany, and significantly reduced its footprint in Schwäbisch Gmünd.

The sale of CTC was completed in April 2018 for a consideration of £4.1m ($5.5m), generating a profit on sale of the assets of £1.4m ($1.9m). In addition, £0.7m ($0.9m) of professional fees, contractors, and redundancy costs were incurred as a result of the asset sale and wider restructuring process in the US.

The sale of SchTC was completed by year-end for a total consideration of £4.4m (€5.0m), generating a profit on disposal of £0.2m (€0.2m). Of the total proceeds, £2.5m (€2.8m) for the land and buildings was held in escrow at year-end and received post year-end following approval from the German land registry. Redundancy costs of £0.3m were also incurred.

Redundancy costs of £2.7m (€3.0m) were incurred in relation to the downsizing of our footprint in Schwäbisch Gmünd, of which £1.8m (€2.0m), in addition to the SchTC redundancy costs, remained unpaid as at 30 June 2018, as these were paid during or at the end of notice periods. Professional fees and other costs of £1.8m (€2.0m) were incurred due to the activities in Germany.

Certain back-office functions were migrated from the Shoreham Technical Centre ('STC') to the newly set up Prague shared service centre. Redundancy, contractor and other transition costs of £0.5m were incurred. Redundancy costs of £0.4m were also incurred in the UK for members of the senior management team as a result of the restructuring of the business.

The combined cost of these activities was £4.8m in the year, with a net cash inflow of £2.3m.

Research and Development

The Group continues to invest in R&D and spent £9.5m (2017: £9.5m) before government grant income of £1.6m (2017: £2.4m). Costs capitalised this year in accordance with IFRS were £5.1m (2017: £3.0m) and reflect the impact of investment in developers in our Software business, and new technology, tools and processes in our European Automotive and Energy & Environment businesses.

The total Research and Development Expenditure Credit ('RDEC') recognised in the current year is £8.0m (2017: £6.6m). This comprises an estimated RDEC credit in respect of the current year of £6.9m (2017: £5.2m), together with £1.1m (2017: £1.4m) arising from the routine amendment of open applications as a result of further analysis of the qualifying expenditure incurred.

Net finance costs

Finance income was £0.4m (2017: £0.2m). Finance costs were broadly in line with the prior year at £2.6m (2017: £2.7m), giving net finance costs of £2.2m (2017: £2.5m).

Taxation

The total tax charge for the year was £9.6m (2017: £7.4m), with the total effective rate of tax being 33.7% (2017: 23.0%). The increase reflects the impact of improved performance in our US operations, combined with the derecognition of a £2.2m net deferred tax asset, relating to historic losses in Germany, due to the restructuring activities completed in the year (2017: £1.5m).

The underlying effective tax rate was 21.3% (2017: 23.0%), with the decrease on the prior year driven by a change in the mix of profits across the territories in which the Group operates and reduction in the tax rates globally.

A deferred tax asset of £5.5m ($7.2m) relating to R&D tax credits in the US continues to be recognised. The Directors have considered the recoverability of this asset and remain satisfied that it is probable that sufficient taxable profits will be generated in the foreseeable future, against which the recognised assets can be utilised.

Earnings per share

Basic earnings per share decreased by 25% to 35.2p (2017: 46.8p). The Directors consider that an underlying earnings per share provides a more useful indication of underlying performance and trends over time. Underlying basic earnings per share for the year increased by 3% to 57.3p (2017: 55.7p).

Basic earnings per share, with a reconciliation to an underlying basic earnings per share, which excludes the net-of-tax impact of specific adjusting items, is disclosed in Note 4.

Dividend

The total (paid and proposed) dividend for the year has increased by 6% to 20.46p per ordinary share (2017: 19.3p) and amounts to £10.9m (2017: £10.3m). The proposed final dividend of 14.71p (2017: 13.88p) will be paid on 23 November 2018 to shareholders who are on the register of members at the close of business on 9 November 2018, subject to approval at the Annual General Meeting on 15 November 2018.

Capital investment
Cash expenditure on property, plant and equipment was £7.8m (2017: £6.3m) as we continue to invest in our business operations. This expenditure included new and upgraded test cell equipment and IT hardware.

Net debt
Closing net debt was £26.1m (2017: £37.9m). The Group had a net cash inflow of £11.8m (2017: £3.5m), after £4.6m (2017: £1.9m) of consideration paid in respect of acquisitions, net of cash acquired, £1.7m acquisition-related payments (2017: £0.8m), and a £2.3m net cash inflow (2017: £0.4m) from restructuring activities. The composition of net debt is defined in Note 8.

The Group's focus on the management of working capital has driven the reduction in net debt in the year. Significant progress has been made across the Group in ensuring timely billing and cash collection throughout the year.

Banking facilities
At the end of the financial year, the Group held total facilities of £90.9m (2017: £91.1m), which included committed facilities of £75.0m (2017: £75.0m). Of the committed facilities, a £35.0m facility is available until September 2019 and £40.0m is available until April 2020. In addition, the Group has uncommitted facilities including overdrafts of £15.9m (2017: £16.1m), which mature throughout the next financial year and are renewable annually.

Committed facilities of £49.8m (2017: £59.7m) net of direct issue costs were drawn primarily to fund acquisitions. These are denominated in Pounds Sterling and have variable rates of interest dependent upon the Group's adjusted leverage, which range from 1.6% to 2.6% above LIBOR and are repayable in the year ending 30 June 2020.

After the year-end on 20 July 2018, the Group completed a refinance of its banking facilities, entering into a new £150m Revolving Credit Facility ('RCF') which provides the Group with committed funding for the next five years through to July 2023 primarily for acquisitions and strategic investments. This multi-currency facility has a variable interest rate which ranges from 1.4% to 2.2% above LIBOR and is dependent upon the Group's adjusted leverage.

Foreign exchange
On consolidation, income and expense items are translated at the average exchange rates for the period. The roup is exposed to movements in the Pound Sterling exchange rate, principally from work carried out with customers that transact in Euros, US Dollars and Chinese Renminbi. Compared to the previous financial year, the average value of Pound Sterling strengthened against the US Dollar (6.3%) and Chinese Renminbi (1.5%). The marginal negative impact on profit from this was partially offset by Sterling weakening against the Euro (3.0%).

Had the current year results been stated at constant exchange rates, revenue would have been £3.1m higher and underlying profit before tax would have been £0.3m higher. Reported profit before tax would have been £0.4m higher.

Pensions
The Group's defined benefit pension scheme operates within the UK. The accounting deficit measured in accordance with IAS 19 'Employee Benefits' was £4.6m before tax (2017: £22.2m), or £3.8m after tax (2017: £18.1m).

The £17.6m reduction in the pre-tax pension deficit since the prior year was due to the positive return on plan assets of £2.1m, and the effect of using updated census data giving a gain of £7.0m, together with £4.3m of cash contributions paid to the scheme during the financial year. There was also a further favourable movement of £7.7m primarily from an increase in the discount rate assumption to 2.85% (2017: 2.60%), offset by £3.0m from the use of an updated set of mortality assumptions and £0.5m of net interest cost on the scheme. The value of the scheme's assets at year-end was £131.0m, in line with the prior year (2017: £131.0m).

Ricardo has committed to continue to pay £4.3m throughout the next financial year to fund the pension deficit, increasing to £4.6m per annum from July 2019 until September 2022.

Appointment of independent auditors

Subsequent to a detailed audit tender process, the Board has recommended the appointment of KPMG LLP as the Group's external auditors for the year ending 30 June 2019. A resolution to approve the Board's recommendation will be proposed to shareholders at the Annual General Meeting on 15 November 2018.

Dave Shemmans Chief Executive Officer	Ian Gibson Chief Financial Officer

12 September 2018

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

Consolidated income statement
for the year ended 30 June 2018

	Note	2018 Underlying £m	2018 Specific adjusting items(1) £m	2018 Total £m	2017 Underlying £m	2017 Specific adjusting items(1) £m	2017 Total £m
Revenue	*2*	**380.0**	**-**	**380.0**	352.1	-	352.1
Cost of sales		**(241.1)**	**-**	**(241.1)**	(219.2)	-	(219.2)
Gross profit		**138.9**	**-**	**138.9**	132.9	-	132.9
Administrative expenses		**(98.4)**	**(10.5)**	**(108.9)**	(92.6)	(6.1)	(98.7)
Other income		**0.7**	**-**	**0.7**	0.5	-	0.5
Operating profit		**41.2**	**(10.5)**	**30.7**	40.8	(6.1)	34.7
Finance income		**0.4**	**-**	**0.4**	0.2	-	0.2
Finance costs		**(2.6)**	**-**	**(2.6)**	(2.7)	-	(2.7)
Net finance costs		**(2.2)**	**-**	**(2.2)**	(2.5)	-	(2.5)
Profit before taxation		**39.0**	**(10.5)**	**28.5**	38.3	(6.1)	32.2
Taxation		**(8.3)**	**(1.3)**	**(9.6)**	(8.8)	1.4	(7.4)
Profit for the year		**30.7**	**(11.8)**	**18.9**	29.5	(4.7)	24.8
Profit attributable to:							
- Owners of the parent		**30.6**	**(11.8)**	**18.8**	29.5	(4.7)	24.6
- Non-controlling interests		**0.1**	**-**	**0.1**	-	-	-
		30.7	**(11.8)**	**18.9**	29.5	(4.7)	24.8
Earnings per ordinary share attributable to the owners of the parent during the year							
Basic	*4*	**57.3p**	**(22.1)p**	**35.2p**	55.7p	(8.9)p	46.8p
Diluted	*4*	**57.1p**	**(20.0)p**	**35.1p**	55.2p	(8.8)p	46.4p

(1) Specific adjusting items comprise amortisation of acquired intangible assets, acquisition-related expenditure, reorganisation costs and derecognition of related net deferred tax assets. Further details are given in Note 3.

Consolidated statement of comprehensive income
for the year ended 30 June 2018

	2018 **£m**	2017 £m
Profit for the year	**18.9**	24.8
Items that will not be reclassified to profit or loss:		
Remeasurements of the defined benefit pension scheme	**13.8**	(4.4)
Deferred tax on remeasurements of the defined benefit scheme	**(2.7)**	0.8
Total items that will not be reclassified to profit or loss	**11.1**	(3.6)
Items that may be subsequently reclassified to profit or loss:		
Currency translation on foreign currency net investments	**0.1**	3.0
Total items that may be subsequently reclassified to profit or loss	**0.1**	3.0
Total other comprehensive income/(loss) for the year (net of tax)	**11.2**	(0.6)
Total comprehensive income for the year	**30.1**	24.2
Attributable to:		
- Owners of the parent	**30.0**	24.2
- Non-controlling interests	**0.1**	-
	30.1	24.2

Consolidated statement of financial position
as at 30 June 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Goodwill		**65.5**	62.0
Other intangible assets		**31.7**	32.4
Property, plant and equipment		**45.3**	48.0
Deferred tax assets		**7.6**	14.3
		150.1	156.7
Current assets			
Inventories		**13.3**	13.9
Trade and other receivables		**141.8**	137.6
Derivative financial assets		**0.1**	0.9
Current tax assets		**1.3**	0.6
Cash and cash equivalents	*8*	**33.1**	27.9
		189.6	180.9
Non-current assets held for sale		**-**	2.8
		189.6	183.7
Total assets		**339.7**	340.4
Liabilities			
Current liabilities			
Borrowings	*8*	**(9.4)**	(6.0)
Trade and other payables		**(82.5)**	(82.1)
Current tax liabilities		**(6.3)**	(6.3)
Derivative financial liabilities		**(1.0)**	(0.7)
Provisions		**(2.8)**	(1.3)
		(102.0)	(96.4)
Net current assets		**87.6**	87.3
Non-current liabilities			
Borrowings	*8*	**(49.8)**	(59.8)
Retirement benefit obligations		**(4.6)**	(22.2)
Deferred tax liabilities		**(3.9)**	(5.0)
Provisions		**(2.9)**	(1.3)
		(61.2)	(88.3)
Total liabilities		**(163.2)**	(184.7)
Net assets		**176.5**	155.7
Equity			
Share capital		**13.4**	13.3
Share premium		**14.3**	14.3
Other reserves		**15.7**	15.6
Retained earnings		**132.7**	112.2
Equity attributable to owners of the parent		**176.1**	155.4
Non-controlling interests		**0.4**	0.3
Total equity		**176.5**	155.7

Consolidated statement of changes in equity
for the year ended 30 June 2018

	Attributable to owners of the parent						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 July 2017	13.3	14.3	15.6	112.2	155.4	0.3	155.7
Profit for the year	-	-	-	18.8	18.8	0.1	18.9
Other comprehensive income for the year	-	-	0.1	11.1	11.2	-	11.2
Total comprehensive income for the year	-	-	0.1	29.9	30.0	0.1	30.1
Equity-settled transactions	-	-	-	1.0	1.0	-	1.0
Tax credit relating to share option schemes	-	-	-	0.1	0.1	-	0.1
Proceeds from shares issued	0.1	-	-	-	0.1	-	0.1
Ordinary share dividends (Note 5)	-	-	-	(10.5)	(10.5)	-	(10.5)
At 30 June 2018	**13.4**	**14.3**	**15.7**	**132.7**	**176.1**	**0.4**	**176.5**
At 1 July 2016	13.2	14.3	12.6	99.4	139.5	-	139.5
Profit for the year	-	-	-	24.8	24.8	-	24.8
Other comprehensive income/(loss) for the year	-	-	3.0	(3.6)	(0.6)	-	(0.6)
Total comprehensive income for the year	-	-	3.0	21.2	24.2	-	24.2
Reclassification of non-controlling interests	-	-	-	(0.3)	(0.3)	0.3	-
Equity-settled transactions	-	-	-	1.6	1.6	-	1.6
Tax credit relating to share option schemes	-	-	-	0.1	0.1	-	0.1
Proceeds from shares issued	0.1	-	-	-	0.1	-	0.1
Ordinary share dividends (Note 5)	-	-	-	(9.8)	(9.8)	-	(9.8)
At 30 June 2017	13.3	14.3	15.6	112.2	155.4	0.3	155.7

Consolidated statement of cash flow

for the year ended 30 June 2018

	Note	**2018 £m**	2017 £m
Cash flows from operating activities			
Cash generated from operations	*7*	**44.3**	24.3
Net finance costs		**(2.2)**	(1.4)
Tax paid		**(7.6)**	(7.6)
Net cash generated from operating activities		**34.5**	15.3
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	*6*	**(4.6)**	(1.9)
Purchases of property, plant and equipment		**(7.8)**	(6.3)
Proceeds from sale of property, plant and equipment		**6.4**	4.0
Purchases of intangible assets		**(6.6)**	(5.6)
Net cash used in investing activities		**(12.6)**	(9.8)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**0.1**	0.1
Proceeds from borrowings		**15.0**	31.5
Repayments of borrowings		**(25.0)**	(26.4)
Dividends paid to shareholders	*5*	**(10.5)**	(9.8)
Net cash used in financing activities		**(20.4)**	(4.6)
Effect of exchange rate changes on cash and cash equivalents		**0.3**	0.7
Net increase in cash and cash equivalents	*8*	**1.8**	1.6
Net cash and cash equivalents at 1 July		**22.0**	20.4
Net cash and cash equivalents at 30 June	*8*	**23.8**	22.0

Notes to the financial statements
for the year ended 30 June 2018

1. General information

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

This preliminary announcement is based on the audited Annual Report & Accounts 2018, which was approved for issue on 12 September 2018, and which has been prepared in accordance with International Financial Reporting Standards ('IFRS'), IFRS Interpretations Committee ('IFRS-IC') interpretations adopted by the European Union ('EU') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006.

2. Operating segments

Year ended 30 June 2018	**Technical Consulting £m**	**Performance Products £m**	**Head Office £m**	**Total £m**
Total segment revenue	**288.6**	**95.8**	**-**	**384.4**
Inter-segment revenue	**(0.3)**	**(4.1)**	**-**	**(4.4)**
Revenue from external customers	**288.3**	**91.7**	**-**	**380.0**
Underlying operating profit	**31.9**	**9.3**	**-**	**41.2**
Specific adjusting items	**(9.9)**	**-**	**(0.6)**	**(10.5)**
Operating profit	**22.0**	**9.3**	**(0.6)**	**30.7**
Net finance costs	**-**	**-**	**(2.2)**	**(2.2)**
Profit before taxation	**22.0**	**9.3**	**(2.8)**	**28.5**

Year ended 30 June 2017	Technical Consulting £m	Performance Products £m	Head Office £m	Total £m
Total segment revenue	280.6	73.3	-	353.9
Inter-segment revenue	(0.1)	(1.7)	-	(1.8)
Revenue from external customers	280.5	71.6	-	352.1
Underlying operating profit	32.8	8.0	-	40.8
Specific adjusting items	(5.0)	-	(1.1)	(6.1)
Operating profit	27.8	8.0	(1.1)	34.7
Net finance costs	-	-	(2.5)	(2.5)
Profit before taxation	27.8	8.0	(3.6)	32.2

3. Specific adjusting items

	2018 £m	2017 £m
Amortisation of acquisition-related intangible assets	**4.3**	4.0
Acquisition-related expenditure[(1)]	**1.4**	1.7
Reorganisation costs[(2)]	**4.8**	0.4
Total before tax	**10.5**	6.1
Derecognition of net deferred tax assets[(3)]	**2.2**	-
Tax impact of specific adjusting items[(4)]	**(0.9)**	(1.4)
Total after tax	**11.8**	4.7

(1) Acquisition-related expenditure in the current year comprised £0.1m (2017: £0.3m) of costs incurred for services rendered to, and consumed by, the Group to effect the Control Point Corporation acquisition (see Note 6), together with £0.2m on its subsequent integration into the Ricardo Group and £0.5m of associated earn-out arrangements. Costs of £0.4m (2017: £0.5m) were also incurred to finalise the integration of the LR Rail and Motorcycle Engineering Italia (Exnovo) businesses into the Ricardo Group, together with £0.2m of professional fees incurred in relation to due diligence of a subsequently aborted acquisition process. The prior year also included £0.2m of professional fees and £0.7m of earn-out costs in relation to acquisitions completed previously.

(2) Reorganisation costs relate to non-recurring expenditure incurred as part of a fundamental restructuring of the Group's Automotive businesses across Europe and North America. These costs included:

- The sale of the test assets at the Chicago Technical Centre ('CTC') in the US was completed on 2 April 2018 for cash consideration of £4.1m ($5.5m), which generated a profit on disposal of £1.4m ($1.9m). In addition, £0.7m ($0.9m) (2017: £0.2m ($0.2m)) of professional fees, contractor costs, and redundancy costs were incurred as a result of the asset sale and wider restructuring process;
- The sale of the Schechingen Technical Centre ('SchTC') in Germany was completed on 30 June 2018 for cash consideration of £4.4m (€5.0m), which generated a profit on disposal of £0.2m (€0.2m). Redundancy costs of £0.3m were also incurred;
- Redundancy costs of £2.7m (€3.0m) in relation to the downsizing of our footprint in Schwäbisch Gmünd, Germany;
- Additional costs of £1.8m (€2.0m) were incurred as a result of our downsizing activities in Germany, including professional fees, contractors, and the recognition of an onerous lease provision for the Schwäbisch Gmünd premises;
- Costs incurred of £0.5m in relation to the set-up of our new Shared Service Centre in Prague, Czech Republic, including dual-running costs for the transition of the transactional finance team from our Shoreham Technical Centre, together with associated costs for travel, redundancy and retention payments for staff made redundant following the transition, and contractor costs to backfill the roles of employees that managed the transition (2017: £0.2m); and
- UK senior management redundancy payments of £0.4m, as a result of the restructuring activities.

(3) A net deferred tax asset of £2.2m (€2.5m) which primarily comprised £2.4m (€2.7m) of historical losses incurred in the consolidated tax group controlled by Ricardo GmbH, partially offset by £0.2m (€0.2m) of deferred tax liabilities, was brought forward from the prior year. Due to the various restructuring actions taken in Germany during the year, the Directors now consider it unlikely that sufficient relevant future taxable profits will be available in the foreseeable future, against which the carrying value of the brought forward deferred tax asset can be utilised. Consequently, this brought forward deferred tax asset was derecognised during the year.

(4) The tax impact on amortisation of acquisition-related intangible assets, acquisition-related expenditure and reorganisation costs.

4. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the year, excluding those held by an employee benefit trust for the Long-Term Incentive Plan ('LTIP') and by the Share Incentive Plan ('SIP') for the free share scheme which are treated as cancelled for the purposes of the calculation.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These include potential awards of LTIP shares and options granted to employees. The assumed proceeds from these is regarded as having been received at the average market price of ordinary shares during the year.

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

	2018 £m	2017 £m
Earnings attributable to owners of the parent	**18.8**	24.8
Add back amortisation of acquisition-related intangible assets (net of tax)	**3.5**	3.1
Add back acquisition-related expenditure (net of tax)	**1.4**	1.3
Add back reorganisation costs (net of tax)	**4.7**	0.3
Add back derecognition of deferred tax assets	**2.2**	-
Underlying earnings attributable to owners of the parent	**30.6**	29.5

	2018 Number of shares millions	2017 Number of shares millions
Basic weighted average number of shares in issue	**53.4**	53.0
Effect of dilutive potential shares	**0.2**	0.4
Diluted weighted average number of shares in issue	**53.6**	53.4

Earnings per share	**2018 pence**	2017 pence
Basic	**35.2**	46.8
Diluted	**35.1**	46.4

Underlying earnings per share	**2018 pence**	2017 pence
Basic	**57.3**	55.7
Diluted	**57.1**	55.2

5. Dividends

	2018 £m	2017 £m
Final dividend for the year ended 30 June 2017 of 13.88p (2016: 13.03p) per share	**7.4**	6.9
Interim dividend for the year ended 30 June 2018 of 5.75p (2017: 5.42p) per share	**3.1**	2.9
Equity dividends paid	**10.5**	9.8

Directors are proposing a final dividend in respect of the financial year ended 30 June 2018 of 14.71p per share which will utilise £7.8m of retained earnings. It will be paid on 23 November 2018 to shareholders who are on the register of members at the close of business on 9 November 2018, subject to approval at the Annual General Meeting on 15 November 2018.

6. Acquisitions

Control Point Corporation

The Group acquired the entire issued share capital of Control Point Corporation ('CPC'), which was subsequently renamed Ricardo Defense, Inc. on 8 September 2017 for initial cash consideration of £6.3m ($8.3m) and contingent cash consideration of £1.7m ($2.2m), based upon CPC achieving certain financial performance targets. The acquisition of CPC expands upon the Group's vehicle engineering capabilities in the Defence sector and adds expertise in distributed software-based systems and fleet management technologies.

The following table sets out the cash consideration payable to acquire CPC, together with the fair value of the assets acquired and liabilities assumed:

	£m
Initial cash consideration	6.3
Contingent cash consideration	1.7
Total cash consideration	**8.0**
Fair value of identifiable assets acquired and liabilities assumed	
Customer contracts and relationships	2.0
Software	0.3
Property, plant and equipment	0.1
Trade and other receivables	2.1
Cash and cash equivalents	1.7
Trade and other payables	(0.8)
Provisions	(0.4)
Deferred tax liabilities	(0.4)
Total fair value of identifiable net assets	4.6
Goodwill	3.4
Total	8.0

All of the initial cash consideration of £6.3m ($8.3m) was paid in the year, net of cash acquired of £1.7m ($2.2m).

Adjustments have been made to identifiable assets and liabilities on acquisition to reflect their fair value. These include the recognition of customer-related intangible assets amounting to £2.0m ($2.6m) and developed software assets of £0.3m ($0.4m). The fair values of net assets acquired were identified following a valuation exercise in accordance with the requirements of IFRS 3 *'Business Combinations'*.

The goodwill arising on acquisition can be ascribed to the existence of a skilled, active workforce, developed expertise and processes and the opportunities to obtain new contracts and develop the business. None of these meet the criteria for recognition as intangible assets separable from goodwill. The goodwill recognised is expected to be deductible for tax purposes.

The fair value of trade and other receivables of £2.1m ($2.8m) includes net trade receivables of £2.0m ($2.6m) and amounts recoverable on contracts of £0.1m ($0.1m), all of which is expected to be collectible.

Acquisition-related expenditure of £0.8m has been charged to the Consolidated Income Statement for the year ended 30 June 2018 and is included as a specific adjusting item in Note 3.

The revenue included in the Consolidated Income Statement in relation to the acquired business was £10.3m. The underlying operating profit over the same period was £1.0m. This is reported in the Technical Consulting segment in Note 2.

Had CPC been acquired and consolidated from 1 July 2017, revenue and underlying operating profit in the Consolidated Income Statement would be £2.2m and £0.2m higher, respectively, based on available information for the period from 1 July 2017 to the acquisition date.

7. Cash generated from operations

	2018 £m	2017 £m
Profit before tax	**28.5**	32.2
Adjustments for:		
Share-based payments	**1.0**	1.6
Cash flow hedges	**1.2**	(3.2)
Profit on disposal of property, plant and equipment	**(1.6)**	(0.7)
Net finance costs	**2.2**	2.5
Depreciation and amortisation	**15.9**	16.3
Operating cash flows before movements in working capital	**47.2**	48.7
Decrease/(increase) in inventories	**0.6**	(2.9)
Decrease/(increase) in trade and other receivables	**2.9**	(15.5)
Decrease in trade and other payables	**(5.1)**	(1.1)
Increase/(decrease) in provisions	**3.1**	(0.5)
Defined benefit payments	**(4.4)**	(4.4)
Cash generated from operations	**44.3**	24.3

8. Net debt

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

Analysis of net debt	2018 £m	2017 £m
Cash and cash equivalents (current assets)	**33.1**	27.9
Bank overdrafts (current liabilities)	**(9.3)**	(5.9)
Net cash and cash equivalents	**23.8**	22.0
Borrowings maturing within one year	**(0.1)**	(0.1)
Borrowings maturing after one year	**(49.8)**	(59.8)
At 30 June	**(26.1)**	(37.9)

Movement in net debt	2018 £m	2017 £m
Net debt at start of year	**(37.9)**	(34.4)
Net increase in cash and cash equivalents	**1.8**	1.6
Proceeds from borrowings	**(15.0)**	(31.5)
Repayments of borrowings	**25.0**	26.4
At 30 June	**(26.1)**	(37.9)

9. Events after the reporting date

On 20 July 2018, the Group completed a refinance of its banking facilities, entering into a new £150.0m committed multi-currency Revolving Credit Facility ('RCF'). The banking facilities were used to repay and cancel the previous bi-lateral committed RCFs provided by HSBC (£35.0m) and Lloyds (£40.0m). The refinanced banking facilities will provide the Group with sufficient funding for the next five years through to July 2023 to support future acquisitions, strategic investments and new projects, and will also be used for general corporate purposes. The interest rate of the facility ranges from 1.4% to 2.2% above LIBOR and is dependent upon the Group's adjusted leverage.