



# Ricardo plc

Chairman's letter

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Delivering Excellence Through Innovation & Technology



10 September 2014

Dear Shareholder

**Annual General Meeting – 29 October 2014**

I have pleasure in inviting you to the Company's Annual General Meeting ("the AGM") to be held at 10.00am on Wednesday 29 October 2014 at Investec Bank plc, 2 Gresham Street, London, EC2V 7QP.

The notice of meeting is enclosed with this letter and contains a detailed explanation of the business to be conducted at the meeting on pages 4 to 8.

Shareholders are being asked to approve a final dividend of 10.9 pence per ordinary share for the year ended 30 June 2014. If shareholders approve the recommended final dividend, this will be paid on 14 November 2014 to those shareholders on the register at the close of business on 24 October 2014.

Following new requirements the Directors' Remuneration Report now includes a statement by Peter Gilchrist, Chair of the Remuneration Committee and the annual report on remuneration, which sets out payments made in the financial year ended 30 June 2014. Both the statement and the report will, as in the past, be put to an annual advisory shareholder vote by ordinary resolution.

In addition, the Directors' Remuneration Report includes the directors' remuneration policy in relation to future payments to the Directors and former Directors (including the approach to exit payments to Directors). This forward-looking policy is subject to a binding shareholder vote by ordinary resolution.

The Directors' Remuneration Report is set out in full in the Annual Report on pages 55 to 70.

The Directors are also seeking shareholder approval for renewal of Ricardo's Long Term Incentive Plan and Ricardo's Executive Share Option Plan. Details of the principal terms of both plans are contained in the Appendices to this letter.

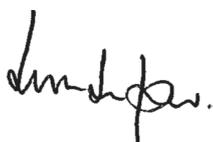
You will also find enclosed with this letter a form of proxy for use in relation to the AGM. Forms of proxy should be completed and returned in accordance with the instructions printed on the forms so that they arrive at the Company's registrars, Capita Asset Services, as soon as possible and in any event no later than 10.00am on 27 October 2014. Completion and return of a form of proxy will not prevent shareholders from attending and voting at the AGM. Alternatively, you may appoint a proxy or proxies and record your vote electronically either by utilising the web-based voting facility or the CREST electronic appointment service, full details of how to do so are set out in the notes to the notice of meeting on pages 8 to 9.

Your Directors believe that the proposed resolutions in the notice of meeting are in the best interests of the Company and its shareholders and recommend that you vote in favour of each of them, as the Directors intend to do in respect of their own beneficial holdings.

We announced on 14 November 2013 that I will retire from the Board at the end of the meeting. Terry Morgan CBE who joined the Board on 2 January 2014, will take over from me as Chairman.

We look forward to seeing you at the meeting and thank you for your continued support.

Yours faithfully



**Michael Harper**  
Chairman

## APPENDIX 1 TO CHAIRMAN'S LETTER

### Summary of the principal terms of the Ricardo plc 2014 Long Term Incentive Plan

The Company has historically used a variety of share schemes to assist with the recruitment, motivation and reward of its Executive Directors, and selected members of the senior management team and wider employee population. In recent years, discretionary share-based incentives have principally been delivered in the form of conditional awards under the Ricardo plc 2006 Long Term Incentive Plan (the "**2006 LTIP**") and the Ricardo plc 2011 Deferred Bonus Plan.

The rules of the 2006 LTIP were approved by Shareholders at the Company's annual general meeting on 10 November 2006 and consequently, the plan will expire in 2016. As Shareholders are being asked to approve both the Company's new remuneration policy and the 2014 ESOP at the Meeting, the Directors considered it to be most efficient to seek Shareholder approval for a replacement to the 2006 LTIP at the same time. This replacement will be in the form of the Ricardo plc 2014 Long Term Incentive Plan (the "**2014 LTIP**") and, if this is approved by Shareholders at the Meeting, no further awards will be granted under the 2006 LTIP (although awards already made under the 2006 LTIP will be unaffected).

The 2014 LTIP is a discretionary arrangement that will be administered by the Remuneration Committee (the "**Committee**"). It will allow rights to acquire Ordinary Shares to be granted to selected executives and employees of the Group. If the 2014 LTIP is approved by Shareholders, no further awards will be granted under the 2006 LTIP.

The 2014 LTIP will be broadly similar to the 2006 LTIP save for those changes which are set out on page 66 of the Directors' Remuneration Report.

The 2014 LTIP will provide for the grant of two different forms of awards: "**Performance Awards**" (the vesting of which is subject to the satisfaction of performance conditions normally measured over a 3-year period) or "**Retention Awards**" (which will normally vest after 3 years, but not subject to the satisfaction of any performance conditions) (together "**Awards**"). Awards will be structured either as conditional rights to acquire fully paid Ordinary Shares or nil-cost or nominal-value share options. The 2014 LTIP allows the Committee to grant awards in exceptional circumstances which vest over a shorter period than 3 years. Retention Awards cannot be granted to Executive Directors and the performance period applicable to their Performance Awards cannot be less than 3 years. Each Award would also, in the ordinary course, require participants to remain in employment between the dates of grant and vesting.

If approved by Shareholders, it is intended that the 2014 LTIP will be adopted by the Committee, and the first Awards granted, as soon as reasonably practicable after the Meeting. Thereafter, the 2014 LTIP will be used to make regular annual Awards to the Group's senior management team, including its Executive Directors.

A summary of the principal terms of the 2014 LTIP is set out below.

#### 1. Eligibility

Any person who is an employee or full time Executive Director of the Company and its subsidiary undertakings (the "**Group**") may be selected to participate in the 2014 at the discretion of the Committee.

#### 2. Form and timing of Awards

Awards under the 2014 LTIP will normally take the form of conditional rights to acquire Ordinary Shares, but alternatively may be in the form of share options which either have a nil or normal value exercise price.

Awards may normally be made under the 2014 LTIP, within the period of forty two days after:

- the date on which the plan is first adopted by the Committee;
- a results announcement by the Company in any year; or
- the date on which shareholders approve a change to the Company's Directors' Remuneration Policy.

Additionally, Awards may also be granted at any other time when the Committee considers there to be exceptional circumstances which justify the granting of such Awards.

No payment will be required for the grant of an Award.

No Awards will be made under the 2014 LTIP more than ten years after the date of its approval by Shareholders at the Meeting.

#### 3. Awards personal to the participant

Awards granted under the 2014 LTIP will be personal to the participant and may not be assigned or charged in any way except on death.

#### 4. Vesting of Awards, performance period and performance conditions

Awards granted under the 2014 LTIP will generally vest at the end of a period which will be set by the Committee at the time of grant (although such period will not normally be less than three years). However, the percentage of an Award which vests on this date will normally be determined by the extent to which pre-determined performance conditions have been satisfied. The plan does provide the Committee with the flexibility to grant Retention Awards which are not subject to such performance conditions. These Retention Awards could only be granted to employees below Board level.

The performance conditions applicable to a Performance Award will be set by the Committee at its absolute discretion. The Committee has, however, decided that, initially, all Performance Awards granted under the 2014 LTIP will be subject to the following measures:

- The vesting of 50% of the shares comprised in a Performance Award will be determined by comparing the Total Shareholder Return ("TSR") of the Company over the period of three years from the grant with the TSR for each company in a comparator group comprised of the FTSE Small Cap Index constituents (excluding financial services companies and investment trusts). Vesting will then take place as follows:

TSR ranking of the Company in the comparator group	% of Performance Award shares comprised in the TSR element that would vest
Below median	0%
At median	25%
At upper quartile	100%
Between median and upper quartile	Straight line basis between 25% and 100%

- The vesting of the remaining 50% of the shares comprised in a Performance Award will be determined by reference to the extent to which the growth in the Company's normalised earnings per share ("EPS") over a period of three consecutive financial years (commencing with the financial year in which the Performance Award is granted) exceeds the growth in the Retail Prices Index ("RPI") as follows:

Normalised EPS growth over the performance period	% of Performance Award shares comprised in the EPS element that would vest
Less than RPI + 3% compound p.a.	0%
RPI + 3% compound p.a.	25%
RPI + 10% compound p.a.	100%
Between RPI + 3% compound p.a. and RPI + 10% compound p.a.	Straight line basis between 25% and 100%

The Committee will have the power to vary the terms of the performance conditions attaching to an outstanding Performance Award in exceptional circumstances, provided that, in the opinion of the Committee, the amended conditions are neither materially easier nor more difficult to achieve than they were when the relevant Performance Award was first granted.

In addition, the Committee will review (and may amend) the performance conditions prior to each grant of Performance Awards to ensure that they remain appropriate, challenging and in line with best practice / investor guidelines.

#### 5. Rights attaching to the Shares

Awards will not confer any shareholder rights until they have vested and the participants have received their Ordinary Shares.

However, the Committee will have the ability to grant Awards on the basis that the number of Ordinary Shares comprised therein will be increased to reflect the dividends that would have been paid on such shares during the vesting period. However, consistent with the approach taken to 2006 LTIP awards in recent years, the Committee does not intend to grant Awards which will benefit from these additional rights.

In addition, the Committee has the discretion to satisfy vested Awards in cash.

Any Ordinary Shares allotted in connection with the 2014 LTIP will otherwise carry the same rights as any other Ordinary Shares and application will be made, as required, for any new issue shares to be listed by the UK Listing Authority and traded on the London Stock Exchange.

## 6. Maximum value of Awards

Subject to the exception noted below, the maximum total market value of Ordinary Shares over which Awards may be granted to a participant under the 2014 LTIP during any financial year is 100% of his basic salary (i.e. excluding bonuses and benefits in kind).

If, during a particular financial year, the Committee decides that exceptional circumstances exist in relation to a participant (including, for the avoidance of doubt, on his/her recruitment) then Awards over Ordinary Shares having a total market value of up to 200% of his basic salary may be granted to him during the financial year in question.

Within these limits, the value of Ordinary Shares over which an Award is granted will be determined at the sole discretion of the Committee.

For the purposes of applying the above limits, the market value of Ordinary Shares comprised in an Award will be determined by reference to the middle market quotation of an Ordinary Share derived from the Daily Official List for the dealing day immediately preceding the date of grant (or, if the Committee so determines, the average of such middle market quotations for five dealing days immediately preceding the date of grant).

## 7. Source of Ordinary Shares and dilution limits

Awards may be satisfied either by the issue of new Ordinary Shares, the transfer of Ordinary Shares from treasury or the transfer of existing Ordinary Shares purchased in the market. In all cases, the Ordinary Shares will normally be subscribed for or acquired by the trustee of the Company's existing employee benefit trust who will, in turn, transfer them on to the relevant participants. However, the rules of the 2014 LTIP place two limitations on the number of new Ordinary Shares which may be allocated from the issued share capital of the Company.

The first limit referred to above specifies that the number of Ordinary Shares which may be allocated on any day shall not, when added to the aggregate number of Ordinary Shares which have been allocated in the previous ten years under the 2014 LTIP and any other discretionary share scheme operated by the Company, exceed such number as represents 5% of the Ordinary Share capital of the Company in issue immediately prior to that day.

The second limit referred to above specifies that the number of Ordinary Shares which may be allocated on any day shall not, when added to the aggregate number of Ordinary Shares which have been allocated in the previous ten years under the 2014 LTIP and any other employees' share scheme operated by the Company, exceed such number as represents 10% of the Ordinary Share capital of the Company in issue immediately prior to that day.

For the purposes of these limits:

- awards, options and other rights to acquire Ordinary Shares which have lapsed or been released without being exercised will not be counted;
- awards, options and other rights to acquire Ordinary Shares which are, or are to be, satisfied by the transfer of existing Ordinary Shares purchased in the market will not be counted; and
- Ordinary Shares transferred from treasury will count as new issue shares but will cease to so count if institutional investor bodies decide that they should not count.

## 8. Cessation of employment

As a general rule, if a participant ceases to be an employee before his Award vests, it will lapse.

However, if such cessation occurs by reason of death, injury or disability, redundancy or because the participant's employing company or part of the business in which he is employed is transferred out of the Group, or in any other circumstances determined by the Committee at its discretion, the Awards will not lapse and will continue to vest at the end of the original vesting period, but only if, and to the extent that, in the case of Performance Awards, any applicable performance conditions have been satisfied at that time. However, the amount of the Award which vests in these circumstances will generally be pro-rated for the time elapsed between the award date and the cessation of employment. (The Committee will retain the discretion to allow vesting on the date of cessation depending on the circumstances, for example death in service.)

## 9. Change of control provisions

On the occurrence of a takeover of the Company (or certain other major corporate events), Awards will vest immediately but, in the case of Performance Awards, such vesting will normally only occur if, and to the extent that, the applicable performance conditions have been satisfied at that time.

In addition, the amount of an Award which vests in the above circumstances will generally be pro-rated for the time elapsed between the award date and the takeover transaction.

As an alternative to the above provisions the Committee may, in connection with a takeover of the Company or other similar event, require a participant to surrender their existing rights under the 2014 LTIP in consideration for the grant to him / her of equivalent rights over shares in the acquiring company (or a member of its group).

## 10. Clawback

If, prior to the date on which an Award vests, the Committee determines that:

- the financial results of the Company for the last financial year in the performance period have been significantly misstated;
- there has been a material error in the assessment of any applicable performance conditions; or
- some fraud or misconduct has taken place (that which causes Ricardo to suffer reputational damage),

and consequently that a number of shares should be clawed back from a participant then the Committee may (i) reduce the number of shares comprised in other vested awards that would or may otherwise be released to participants; (ii) reduce the level of future bonuses which would otherwise be paid to participants; or (where failing) (iii) require the participant to pay to the Company (or other member of the Group) such amount as would satisfy the clawback obligation.

## 11. Variation of share capital

Awards may be adjusted if there is a variation in the share capital of the Company such as a rights or bonus issue, or if the Company implements a demerger, or other exceptional event, that would affect the value of Awards.

## 12. Amendments to the rules of the 2014 LTIP

The rules of the 2014 LTIP may at any time be altered by the Committee in any respect. However, the provisions relating to:

- the class of persons eligible to participate in the 2014 LTIP;
- the maximum entitlement and the basis for determining the entitlement of any one participant;
- the terms upon which Ordinary Shares may be transferred to a participant under an Award;
- the adjustments to Awards in the event of a variation of capital;
- the limitations on the number of Ordinary Shares which may be issued under the 2014 LTIP; and
- the amendment rule,

cannot be altered to the advantage of participants without the prior approval of shareholders (except for minor amendments to benefit the administration of the 2014 LTIP, to comply with or take account of a change in legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the 2014 LTIP or for the Company or any other member of the Group).

In addition, no alteration can be made to the rules of the 2014 LTIP which would materially abrogate or adversely affect the subsisting rights of a participant, unless participants are invited to indicate whether they approve the change and the proposed alteration is approved by at least 75% of participants who provide such an indication.

## 13. Overseas jurisdictions

The Committee may develop and approve overseas jurisdiction variants to the 2014 LTIP rules under the terms of which awards may be made in such a way as to satisfy or take advantage of securities and tax legislation in such jurisdictions. Any plan variants will otherwise be of similar structure and economic intent as the main 2014 LTIP Awards and will count towards the overall 2014 LTIP limits described above.

## 14. General

Benefits derived from the 2014 LTIP will not constitute pensionable earnings of any individual.

## APPENDIX 2 TO CHAIRMAN'S LETTER

### Summary of the principal terms of the Ricardo plc 2014 Executive Share Option Plan

The current share option plan operated by the Company (being the Ricardo plc 2004 Executive Share Option Plan (the "2004 ESOP")) is approaching the 10th anniversary of its original adoption date after which no further awards can be granted pursuant to its terms. As a result, and in order to maintain the flexibility to grant market value share options in the future, the Company is seeking the approval of Shareholders at its 2014 annual general meeting (the "Meeting") for the adoption of a replacement arrangement, namely the Ricardo plc 2014 Executive Share Option Plan (the "2014 ESOP").

The 2014 ESOP is a discretionary arrangement and will be administered by the Remuneration Committee of the Board (the "Committee"). It is intended that the 2014 ESOP will comply with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 ("Schedule 4") and may be used to grant tax-favoured "market value" options to selected employees of the Company and its wider group (the "Group") in the future. To the extent that the Committee proposes to grant options in excess of the Schedule 4 limit (currently £30,000 worth of shares), these can be granted pursuant to the Non-Schedule 4 Part of the 2014 ESOP, which is identical to the Schedule 4 Part except for the absence of this limit.

A summary of the principal terms of the 2014 ESOP (which are intended to be broadly similar to those which applied to the 2004 ESOP, save for certain changes to take account of market practice over the years since the 2004 ESOP was adopted) is set out below.

#### 1. Eligibility

All employees of the Group (including the Company's Executive Directors) will generally be eligible to participate in the 2014 ESOP at the discretion of the Committee.

#### 2. Grant of options

Options to acquire Ordinary Shares may normally be granted under the 2014 ESOP within the period of forty two days after:

- the date on which the plan is first adopted by the Committee; and
- a results announcement by the Company in any year.

Additionally, options may be granted under the 2014 ESOP within 42 days of the date on which Shareholders approve an amendment to the Company's Directors' Remuneration Policy or at any other time if the Committee considers there are exceptional circumstances which justify the grant.

No option may be granted after the tenth anniversary of the approval of the 2014 ESOP by Shareholders. No payment is required for the grant of an option.

#### 3. Options personal to the participant

Options granted under the 2014 ESOP will be personal to the participant and may not be assigned or transferred in any way, except on death.

#### 4. Exercise price

The price payable for each Ordinary Share on the exercise of an option granted under the 2014 ESOP will be specified by the Committee but will not be less than the higher of:

- the market value of an Ordinary Share on the date of grant; and
- (for newly issued Ordinary Shares) their nominal value.

For the above purposes, the market value of an Ordinary Share on the date of grant will be equal to its middle market quotation (as derived from the London Stock Exchange Daily Official List) for the immediately preceding dealing day (or, if the Committee so determines, the average of such quotations for the five dealing days immediately preceding the date of grant).

#### 5. Performance conditions

The Committee shall make the exercise of an option subject to objective performance conditions. The Committee will have the power to vary the terms of the performance conditions attaching to an outstanding option if events occur which cause it to consider that such conditions have ceased to be appropriate or fair measures of performance.

## 6. Exercise and lapse of options

Options will generally vest and become capable of exercise following the third anniversary of their grant and then only if, and to the extent that, any applicable performance conditions have been satisfied.

Options will lapse on the day immediately preceding the tenth anniversary of the date of grant or sooner on the occurrence of certain corporate events or where the participant ceases to hold employment with the Group (subject to certain exceptions, details of which are set out below).

Ordinary Shares will normally be transferred or allotted on the exercise of an option within thirty days of the date of exercise. Any Ordinary Shares issued to participants will rank *pari passu* with other Ordinary Shares in issue at the date of allotment.

Options will not confer any shareholder rights unless and until they have been exercised and the participants have received their Ordinary Shares.

## 7. Maximum value of options

No person may at any time hold options granted under the Schedule 4 Part of the 2014 ESOP (or any other non savings-related tax-favoured share option scheme operated by the Group) over Ordinary Shares having a total market value at the time of grant of more than £30,000.

The maximum total market value (at date of grant) of Ordinary Shares over which an individual may be granted options under the 2014 ESOP (and any other discretionary "market value" option scheme operated by the Company) in any financial year will not exceed 100% of his basic salary (i.e. excluding bonuses and benefits in kind).

## 8. Source of Ordinary Shares and dilution limit

Options granted under the 2014 ESOP may be satisfied either by the issue of new Ordinary Shares, the transfer of Ordinary Shares from treasury or the transfer of existing Ordinary Shares purchased in the market. However, the rules of the 2014 ESOP place two limitations on the number of new Ordinary Shares which may be allocated from the unissued share capital of the Company.

The first limit specifies that the number of new Ordinary Shares which may be allocated on any day shall not, when added to the aggregate number of Ordinary Shares which have been allocated in the previous ten years under the 2014 ESOP and any other discretionary employees' share scheme adopted by the Company (such as the Ricardo plc 2014 Long Term Incentive Plan to be proposed at the Meeting), exceed such number as represents 5% of the Ordinary Share capital of the Company in issue immediately prior to that day.

The second limit specifies that the number of new Ordinary Shares which may be allocated on any day shall not, when added to the aggregate number of Ordinary Shares which have been allocated in the previous ten years under the 2014 ESOP and any other employees' share scheme adopted by the Company (including all-employee arrangements such as the Ricardo plc Share Incentive Plan), exceed such number as represents 10% of the Ordinary Share capital of the Company in issue prior to that day.

For the purposes of this limit:

- options and other rights to subscribe for Ordinary Shares which have lapsed or been released without being exercised will not be counted;
- awards, options and other rights to acquire Ordinary Shares which are, or are to be, satisfied by the transfer of existing Ordinary Shares purchased in the market will not be counted; and
- Ordinary Shares transferred from treasury will count as new issue Ordinary Shares but will cease to so count if institutional investor bodies decide that they should not count.

## 9. Cessation of employment

As a general rule, an unexercised option will lapse immediately if the participant ceases to be an employee of the Group. However, special rules will apply if the cessation occurs for the following reasons:

- injury or disability;
- redundancy;
- retirement;
- the transfer out of the Group of the individual's employing company or business; or
- any other reason at the discretion of the Committee.

The treatment of an option in these "good leaver" circumstances will depend upon whether it has already become exercisable and, if it has not, whether it remains subject to any outstanding performance conditions at the date of termination. In summary:

- an option which has already become exercisable will remain so for a period of 6 months from cessation of employment; and
- an option that is subject to outstanding performance conditions will continue to become exercisable at the same time as it otherwise would have but for the cessation of employment. Options will then remain exercisable for a period of 6 months from vesting.

Where an option vests pursuant to the above provisions, the number of Ordinary Shares over which it may be exercised will, unless the Committee determines otherwise, be pro-rated by reference to the amount of the original vesting period that has elapsed at the date of cessation of employment.

Finally, if a participant dies then his or her option may be exercised during the following period of 12 months disregarding any applicable performance conditions.

## 10. Corporate events

In the event of a takeover of the Company (or similar event), but subject to the alternative provisions described below, all options will be exercisable for a limited period at the end of which they will lapse provided that any applicable performance conditions are satisfied over the period ending with the takeover. In addition, vesting levels will, unless the Committee determines otherwise, be pro-rated by reference to the amount of the original vesting period that has elapsed at the date of the takeover etc.

As an alternative to the above provisions, when another company obtains control of the Company (as a result, for example, of a takeover) options may, with the agreement of the acquiring company, be exchanged for equivalent options over shares in the acquiring company (or a member of its group).

## 11. Variation of share capital

On a variation in the Company's share capital, the Committee may adjust the number of Ordinary Shares under option and the price payable on the option's exercise.

## 12. Alteration

Although the Committee will have the power to amend the rules of the 2014 ESOP, the provisions relating to:

- the class of persons eligible to participate in the plan;
- limitations on the number or amount of the securities, cash or other benefits subject to the plan;
- the maximum entitlement for any one participant and the determination of the price at which Ordinary Shares may be acquired by the exercise of options; and
- the basis for determining a participant's entitlement to, and the terms of, securities, cash or other benefit to be provided and for the adjustment thereof (if any) in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital,

cannot be altered to the advantage of present or future participants or employees without the prior approval of the Company's Shareholders in general meeting (except for minor amendments to benefit the administration of the 2014 ESOP, to comply with or take account of the provisions of any proposed or existing legislation, law or other regulatory requirements or to obtain or maintain favourable tax, exchange control or regulatory treatment for the Company, any other member of the Group or any participant).

## 13. Alteration

Benefits derived from the 2014 ESOP will not constitute pensionable earnings of any individual.



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