

RICARDO PLC

05/06 INTERIM RESULTS

Monday 27 February 2006

- ❑ Turnover £87m, up 20%
- ❑ Profit before tax £4.2m, up 37%
- ❑ Order book £67m, up 15.5% year on year
- ❑ Pipeline of prospects £375m at end January (2004: £275m)
- ❑ UK operating profit up 22%
- ❑ US operating profit up 60%
- ❑ Strategic Consulting profit increased significantly to £1.4m
- ❑ Germany into small operating loss for period
- ❑ Interim dividend held at 2.7p

CONSOLIDATED INCOME STATEMENT



£m	Half years ended 31 December		Year ended
	2005	2004	30 June 2005
• Revenue	<u>87.2</u>	<u>72.6</u>	<u>159.9</u>
• Gross margin	23.9	22.1	46.7
• Overheads	<u>(19.0)</u>	<u>(18.1)</u>	<u>(36.6)</u>
• Operating profit	4.9	4.0	10.1
• Interest	<u>(0.7)</u>	<u>(1.0)</u>	<u>(1.9)</u>
• Profit before tax	4.2	3.0	8.2
• Taxation	<u>(0.5)</u>	<u>(0.2)</u>	<u>(1.0)</u>
• Profit after tax	<u>3.7</u>	<u>2.8</u>	<u>7.2</u>

£ m	Turnover		Profit/(Loss)	
	2005	2004	2005	2004
• UK	45.7	38.5	2.9	2.4
• US	20.5	16.1	1.2	0.8
• Germany	12.4	14.9	(0.2)	0.8
• RSC	8.4	2.8	1.4	0.1
• Rest of world	0.3	0.2	(0.4)	(0.1)

BALANCE SHEET HIGHLIGHTS



£ m	31 Dec 2005	31 Dec 2004	30 Jun 2005
• Tangible assets	45.3	48.3	46.7
• Intangible assets	17.0	17.6	16.8
• Stocks and Debtors	58.1	46.8	50.1
• Net borrowings	(8.4)	(15.8)	(11.3)
• Creditors	(42.8)	(34.5)	(35.5)
• Other liabilities	(6.2)	(5.1)	(5.8)
• Net pensions deficit	(23.9)	(22.5)	(24.3)
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• Shareholders funds	39.1	34.8	36.7
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• Gearing	21.5%	45.4%	30.8%

£ m	Half years ended 31 December		Year ended
	2005	2004	30 June 2005
• Operating profit	4.9	4.0	10.1
• Depreciation/loss on sale of fixed asset	4.7	4.6	9.3
• Working capital (increase)/decrease	(1.0)	(6.8)	(8.3)
• Dividend	(3.2)	(3.2)	(4.5)
• Net interest received/(paid)	(0.7)	(1.0)	(1.9)
• Tax refund/(paid)	(0.5)	0.7	0.3
• Fixed assets	(2.8)	(2.9)	(6.1)
• Other inc exchange differences	1.5	(1.8)	0.0
	<u>2.9</u>	<u>(6.4)</u>	<u>(1.1)</u>
• Cash (outflow)/inflow	<u>2.9</u>	<u>(6.4)</u>	<u>(1.1)</u>

Six months to

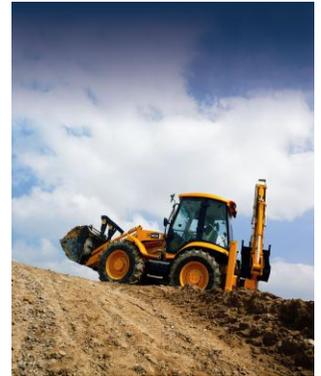
31 Dec 2005

31 Dec 2004

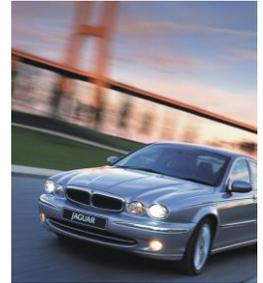
• Order book	£67m	£58m
• Pipeline of prospects	£375m	£275m
• Gross margin	27.4%	30.4%
• Operating profit return on turnover	5.6%	5.5%
• Tax rate	10.6%	7.5%
• EPS before goodwill and exceptionals	7.4p	5.6p
• Dividend	2.7p	2.7p

- ❑ IAS 19 net deficit reduced from £24.3m to £23.9m since June 2005 despite reduced bond yields increasing the liability
- ❑ Triennial valuation as at April 2005 nearing completion and expected to show underfunding increased from £9m to £22m, resulting in higher contributions from April 2006
- ❑ Company currently negotiating new payments schedule with Trustees - anticipated additional cash cost of around £1.6m per annum
- ❑ Minimal profit impact
- ❑ Dunn & Bradstreet risk band rating of 100 for the new PPF levy scale

- ❑ H1 Profits up 22% compared to 2004/5
- ❑ Solid order book from a broad EU and Asian customer base in engines, electronics & transmissions. Vehicle engineering order book improved.
- ❑ Asian customers requesting new engine/transmissions design, development and technology programmes
- ❑ European customers requesting “applications based”, upgrade and technology demonstration rather than new design.
- ❑ Demand for engine test beds in the period was high.
- ❑ High demand for diesel (passenger car and commercial vehicle), hybrids and DCT transmissions on the back of previous technology investments and pending legislation



- ❑ Continued high demand for our electronic and hybrid expertise from across the globe. Focus on recruitment to meet demand.
- ❑ Vehicle business continues to be driven by increased EU special vehicle requirements and new passenger car product introductions.
- ❑ Bugatti Veyron and Ford GT Supercar transmissions in full production and continued motorsport wins including McLaren F1 transmission components supply
- ❑ SAIC – relationship, progress and expansion to plan. Work also being secured for other divisions as well as conducted within business unit
- ❑ Cost effective engineering continues to grow and broaden in Prague: mechanical, electrical, software and a small laboratory



- ❑ Significant increase in US profits, up 60%, despite continued pressures within the US passenger car industry
- ❑ Passenger car OEMs remain valued and important customers with key product developments, introductions, localisation and cost down activities
- ❑ Broadening of customer base with continued increase in business from commercial vehicle and Military sectors on new products, emissions upgrades and cost down activities
- ❑ Order book up 22% year on year
- ❑ Heavy duty beds remain in demand
- ❑ Good engineering and strategic consulting joint business



- ❑ As predicted market conditions weakened, impacting the German business
- ❑ Prototype and niche exhausts activities held up well in the period but the lowest value add engineering activities were significantly impacted by customer budget controls
- ❑ Investment continues to improve value added capability to Ricardo levels and broaden customer base/appeal, with high quality senior/technical recruits to drive the business forward
- ❑ Investment in new in-demand heavy duty cells
- ❑ Customer orders, spread and leads are improving on the back of recent changes and pending heavy duty legislation
- ❑ We expect the outlook in Germany to remain challenging for the second half but are seeing success in the higher value added activities and investments
- ❑ We remain convinced of the importance of the market place and the appeal of a German high value added Ricardo operation to our clients



STRATEGIC CONSULTING



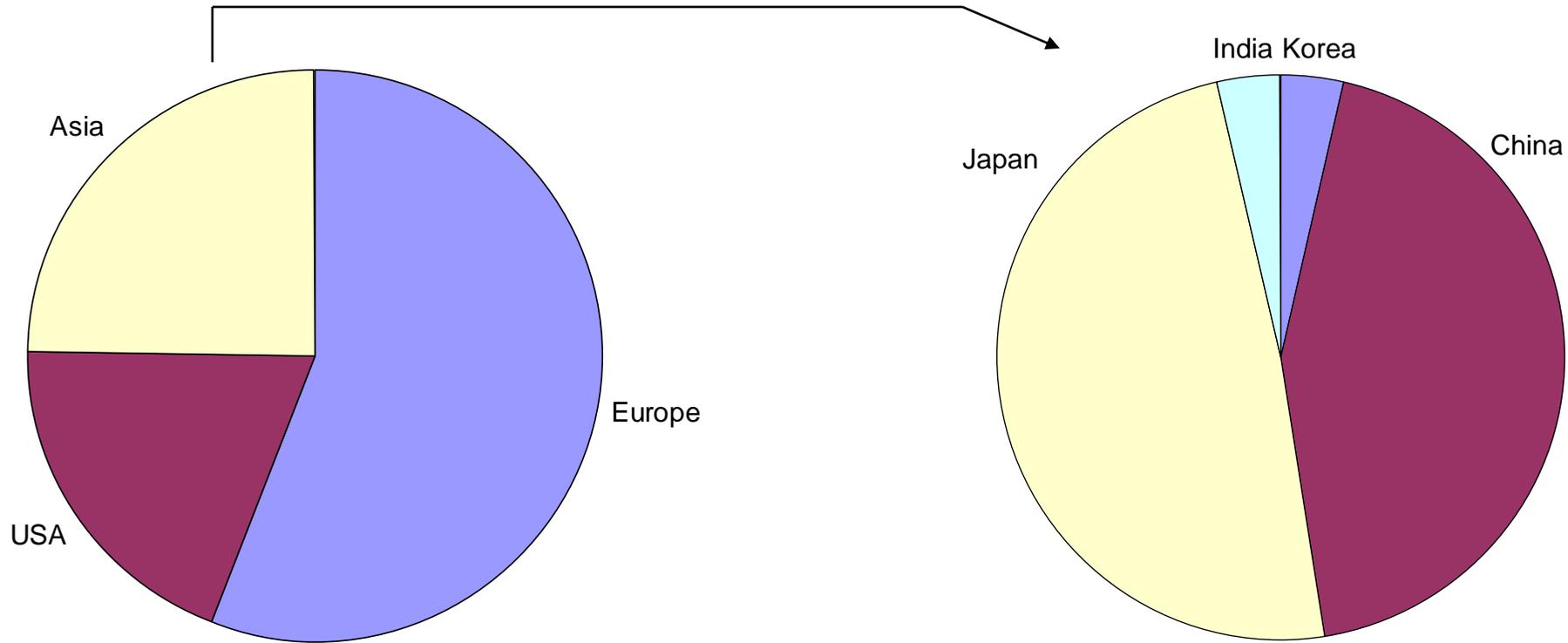
- ❑ Ricardo is now firmly established in this market place and winning work against the major global consulting practices and passing many in terms of size
- ❑ Deep content consulting leveraging Ricardo engineering knowledge remains a unique and welcome offering by our clients
- ❑ Excellent start to the year in terms of growth in profit, turnover and client base, with teams in UK, Germany and the US regularly pulling in other technical areas of the Ricardo Group
- ❑ Significant programmes with clients in the US, EU and Asia
- ❑ Product cost down, warranty reduction and business improvement/restructuring remain the key activities
- ❑ Prospects for the second half look encouraging



- ❑ Japanese company established with Tokyo office operational following formal opening in October attended by many clients
- ❑ Growing business and relationships with all major Japanese OEMs, which has been enhanced by the recruitment of a President for our Japanese business, from the automotive consulting sector
- ❑ Diesel and electronic technology remains of high interest with Japanese clients for global markets
- ❑ Shanghai office continues to develop significant leads and business for UK divisions, with growth in client base and product range (hybrid, engine, transmissions.)
- ❑ 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 leads and are key geographical targets for Ricardo moving forward

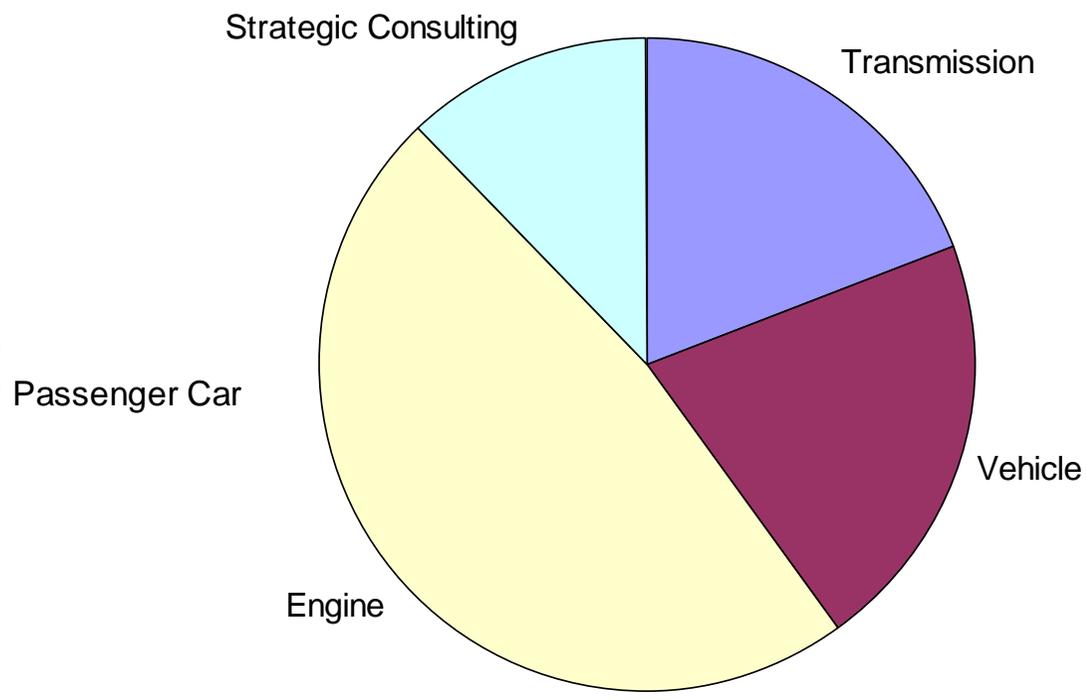
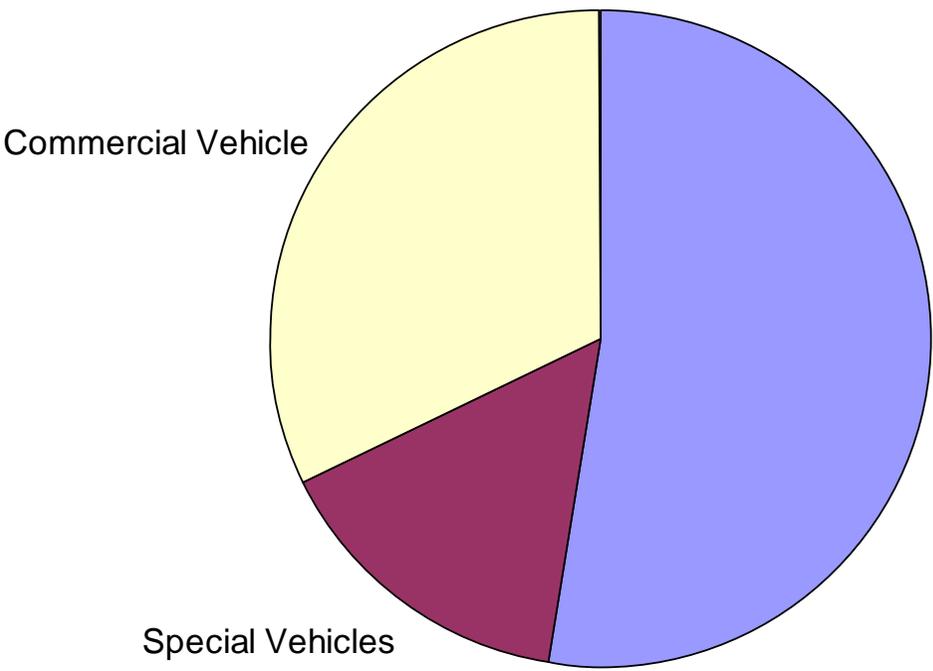


Order intake for the first half continues from a broad geographical base

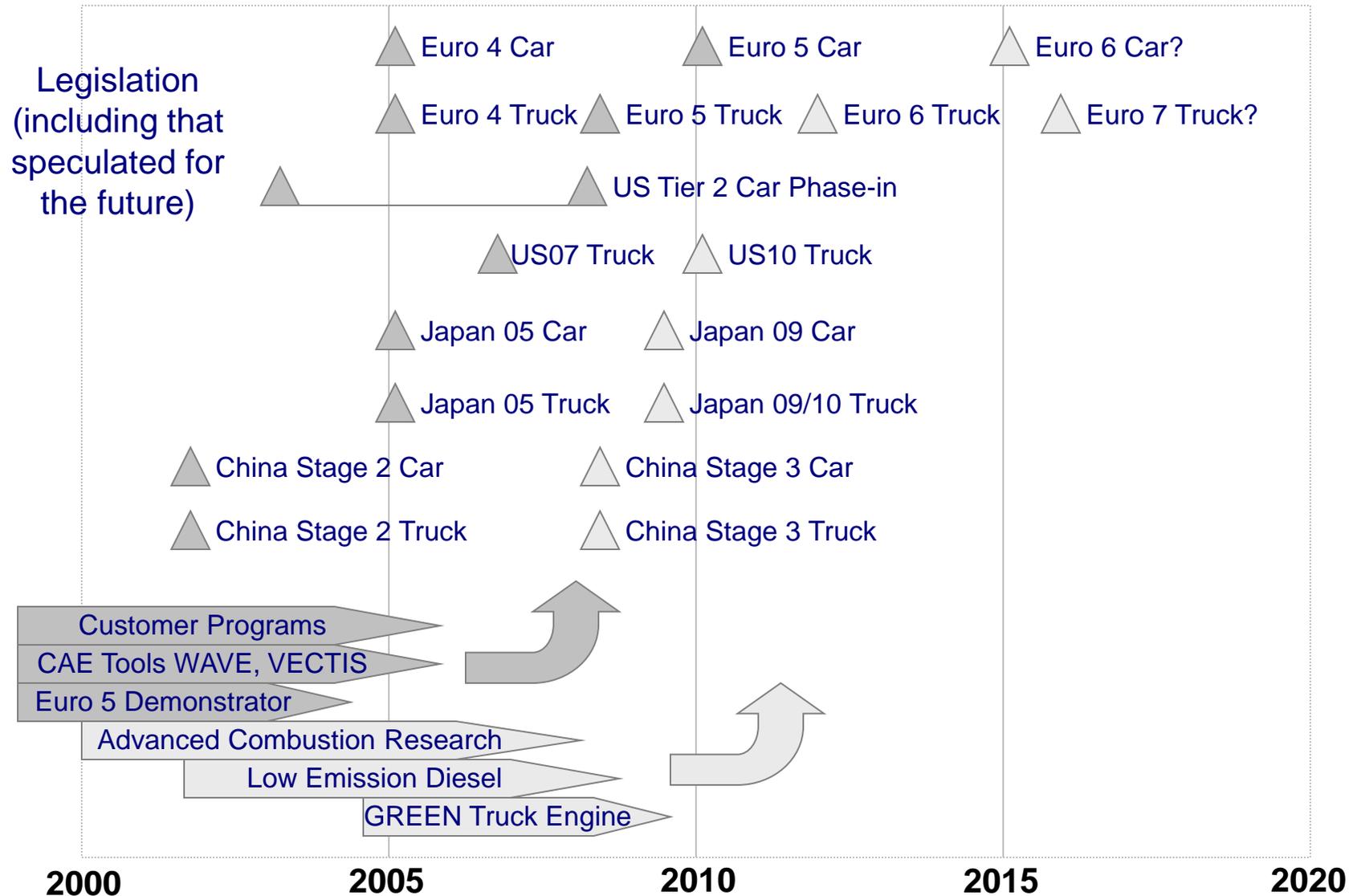


Full year should be considered to remove budget/seasonality

Order intake for the first half continues from a broad customer, sector and product base.



Pending commercial vehicle emission legislation is driving demand for heavy duty diesel technology, development and testing services

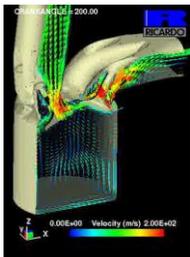


**Ricardo
R&D**

Technology continues to drive Ricardo and our customers – investments leading to business and industry recognition



- ❑ Euro V diesel technology and demonstrators winning good business
- ❑ Collaborative funding boosting research
- ❑ Hybrid technology winning business on three continents
- ❑ US moving towards diesel introduction
- ❑ Torque vectoring improving safety and performance
- ❑ Dual Clutch Technology and 2/4 stroke switching gasoline win awards
- ❑ More technology on the blocks – next generation hybrids, drive-by-wire demonstrator, time reduction and virtual engineering.



- ❑ Profit recovery continues to plan
- ❑ Key areas of Electronics, Asia and Strategic Consulting continue to grow
- ❑ China and Japan have become major markets for Ricardo
- ❑ Commercial vehicles and military business adding to growth and diversification
- ❑ Strong activity in Asia offsetting subdued European and US passenger car industry
- ❑ Order book up with good prospects from a broader product, geographical and customer base
- ❑ Emissions legislation and the continued focus on fuel economy and safety are driving technical developments and business

- ❑ The second half trading has started well, apart from Germany
- ❑ Order prospects in the medium term, including those for Germany, continue to build
- ❑ Although we have not changed our outlook for the full year, our confidence for the future continues to grow