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Ricardo plc Annual Report & Accounts 2008



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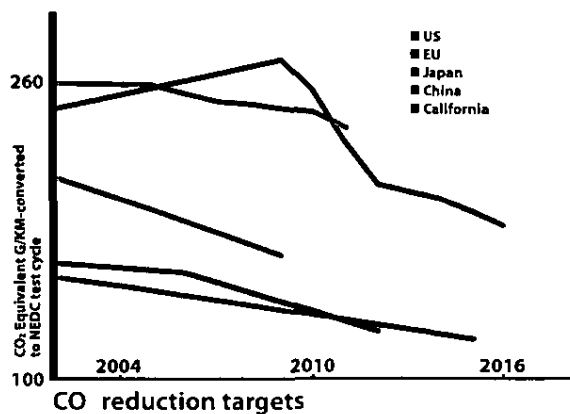
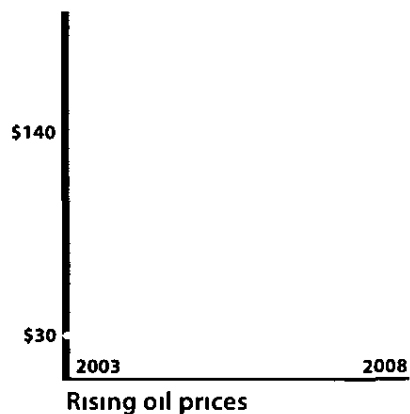
CORPORATE PROFILE

Ricardo is committed to providing engineering solutions to the world's growing energy issues as a leading provider of product innovation, technology, engineering and strategic consulting. Our advanced and well-equipped technical centres in the US, Europe and Asia serve a wide and balanced customer base which includes the world's leading automakers, vehicle component and system manufacturers, government agencies and industry regulatory bodies. Ricardo has an enviable record for research-led product innovation and programme delivery expertise, which is deployed across a range of market sectors, including passenger car, motorcycle, commercial vehicle, off highway, marine, military, locomotive and motorsport. We are also increasingly active in related markets such as renewable energy, power generation and transportation and infrastructure planning.

With a clear focus on delivering profit-enhancing clean-technology solutions, Ricardo addresses all the current core automotive industry drivers of international competition, globalisation and the developing power of the emerging economies, climate change, safety and maximisation of natural energy resources. Two key imperatives face the industry: the reduction of exhaust pollutants as regulators world-wide seek to improve air quality, and the improvement of vehicle fuel economy with the aim of both reducing global CO₂ emissions and making best use of the earth's finite oil reserves. These, along with automotive safety, provide the greatest impetus for Ricardo's self-funded research programme. Along with our proven ability

Financial highlights

Revenue	up by 15% to	£197.7m
Profit before tax	up by 20% to	£14.7m
Net debt	reduced by	£6.9m
Dividends per share (paid and proposed)	up by 6% to	10.6p

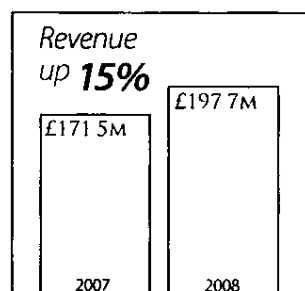


to attract the best of industry talent, it is this research programme that has enabled Ricardo to maintain its technical edge and provided us with crucial first mover advantage at a time of unprecedented increases in energy prices. The fruit of this consistent innovation may be seen in the leading worldwide brand position Ricardo now occupies in the development of advanced clean diesel technology, hybrid and electric vehicle systems, fuel efficient gasoline engines, efficient transmission systems – including dual clutch technology – and vehicle electronic systems integration.

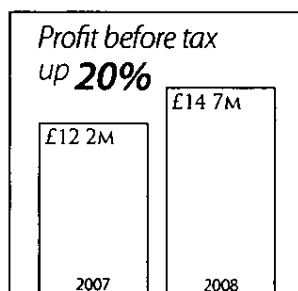
Our commitment is to excellence and professionalism in all we do, and our industry leadership in technology and knowledge is primarily attributable to our most important asset – our people. The Ricardo team consists of highly qualified multi-disciplined professional engineers, strategic consultants and technicians. Together, our vision is to be the first-choice partner for our clients in all sectors. To deliver this we rely on the professional excellence and commitment of the entire Ricardo organisation.

Committed to providing engineering solutions to the world's growing energy issues

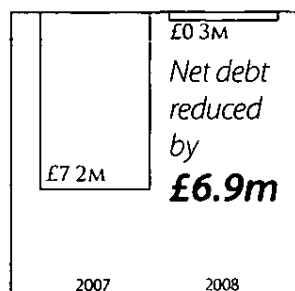
Revenue



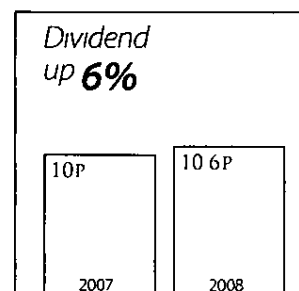
Profit before tax



Net debt



Dividend



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Chairman's statement

Marcus Beresford CBE

I am pleased to report very good performance by Ricardo in the year ended 30 June 2008, with profit before tax increasing by 20% to £14.7m, resulting in earnings per share of 24.2p. Margins have increased, net borrowings have reduced, and the closing order book was higher than at the start of the year.

This is a great credit to the Ricardo team, and further evidence of the strength of Ricardo's strategy, implemented and developed under the leadership of our Chief Executive Officer, Dave Shemmans. We have been well positioned to take advantage of the increasing importance of fuel economy and CO₂ reduction in our core markets, and have now also entered the new energy sector. We have increased our research expenditure by 13%, and we have seen further geographic expansion, with an office opened in India and contracts won in Russia, as well as particularly strong demand coming from Japan.

Our technical and business teams around the world continue to grow in quality as well as quantity. Their commitment and enthusiasm is the key ingredient in Ricardo competitiveness. My thanks and those of the Board go to them all.

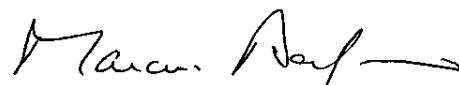
Board changes

There have been a number of changes to the Board during the year. To add to the operational and technology strength of the Board, Mark Garrett has been promoted to the Board as Group Engineering and Products Director, Geoff Bicknell, with

experience from international remits in Europe and America, has joined the Board as Interim Group Finance Director during Paula Bell's maternity leave, and finally, Ian Lee, formerly a partner with Ernst & Young, has joined the Board as a non-executive director and Audit Committee Chairman Designate. Ian Percy has decided to retire from the board at the forthcoming Annual General Meeting in November. Michael Harper will assume Ian's other roles of Deputy Chairman and Senior Independent Director following the Annual General Meeting. I would particularly like to thank Ian Percy for his very considerable contribution to the Group and his wise counsel over nearly nine years.

Looking ahead

We believe it is appropriate to recommend an increase in the final dividend to 7.5 pence per share (from 7.1 pence per share last year), making a total dividend for the year of 10.6 pence per share, a 6% increase on last year. The global economy and the world's motor industry are facing turbulent times and Ricardo will be affected to some degree. However we remain confident that we are better placed than most, as CO₂ reduction, fuel economy and the significance of emerging regions will be the key drivers in our markets. We have made a good start with a strong order book and remain confident of further progress in the year ahead.



Marcus Beresford

Five year performance record

	2004 UK GAAP	2005 IFRS	2006 IFRS	2007 IFRS	2008 IFRS
	£m	£m	£m	£m	£m
Revenue	146.2	158.1	171.9	171.5	197.7
Profit before tax	(2.8)	8.6	14.5	12.2	14.7
Underlying profit before tax	18 ⁽¹⁾	8.6	10.8 ⁽²⁾	12.2	14.7
Net assets	56.2 ⁽¹⁾	36.7	50.1	61.7	67.1
	pence	pence	pence	pence	pence
Earnings per share	(2.6p)	14.8p	24.0p ⁽²⁾	29.6p ⁽³⁾	24.2p
Dividends per share (paid and proposed)	9.0p	9.0p	9.4p	10.0p	10.6p

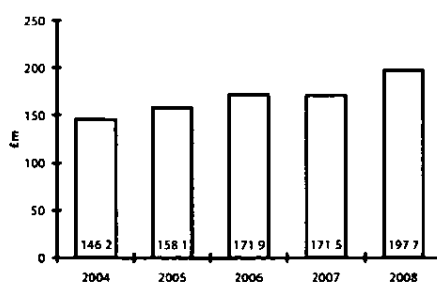
The years from 30 June 2005 onwards have been prepared under International Financial Reporting Standards ("IFRS"). The year ended 30 June 2004 was prepared under UK GAAP.

(1) In 2004 exceptional redundancies of £3.6m and goodwill amortisation of £1.0m were excluded from underlying profit before tax. Also the FRS 17 pensions deficit was excluded from net assets.

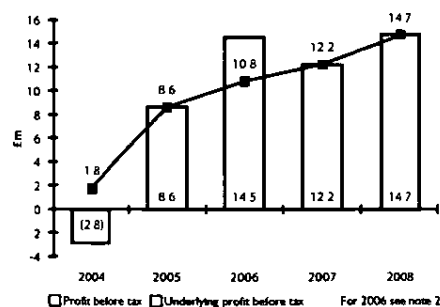
(2) In 2006 a pensions credit of £3.7m due to the capping of future increases in pensionable salaries to RPI was excluded from underlying profit before tax. Underlying earnings per share were 18.8p.

(3) In 2007 £5.2m of retrospective R&D tax credits had a positive impact on earnings per share which otherwise would have been 19.3p.

Revenue



Profit before tax



Strategy delivers business and profit growth

BUSINESS REVIEW

Marketplace
Strategy
Research and development
Performance review
Technical Consulting
Strategic Consulting
Principal risks
Corporate social responsibility
Conclusion

"Ricardo's strategy to increase geographic, customer and sector diversification has again delivered improved performance"

Dave Shemmans Chief Executive Officer

Marketplace

Change brings opportunity for innovation and profit

In previous years we have repeatedly spoken of the increasingly dynamic nature of the global automotive industry in all its sectors – including agriculture, construction, commercial, special vehicles and passenger cars. We have

outlined the environmental, social and technological trends which the industry faces, and we have pointed out the attractive market opportunities that these developments bring for Ricardo as a global but commercially agile advanced technology solutions provider.

legislative targets under discussion are extremely challenging and require fundamental changes in the automotive product mix, with a shift to smaller vehicles and the widespread adoption of new technologies. In Europe, current discussions point towards the targets being set at 130 g/km CO₂ fleet average by 2012. Europe currently sits at 164 g/km CO₂. In the US a target of a 35 mpg fleet average – an improvement of some 40 per cent – is in prospect. The result of these initiatives is an increasing focus on diesel for global application, radical improvements to gasoline, intelligent transmission technology, hybrids, electric vehicles and vehicles which optimise driving performance but which keep fuel economy in mind.

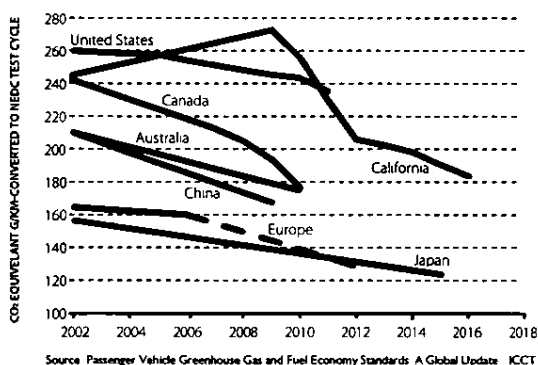
Whilst we rightly predicted the consequent market trends, the timescale of the shift and the volume and global adoption of change have been much more rapid than many less forward-looking organisations had expected. This provides Ricardo with a very significant early mover advantage.

These changes have produced a very dynamic global market for high-quality, robust and rapidly-deployed engineering talent and technology. This demand has been amplified by the rapidly changing geographic landscape as developing regions become increasingly present in the global automotive market – whether as exporters or to feed their domestic requirements. As regions develop, their needs transition from agricultural vehicles to construction

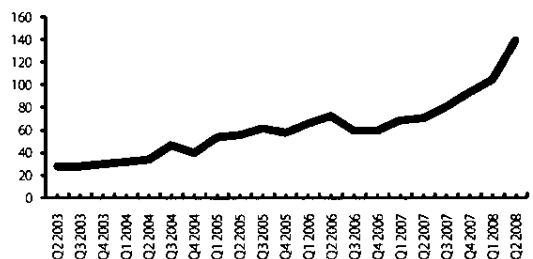
Informed by this market view, we have set out a strategy for the Group enabling us to develop the right mix of products, services and geographic coverage in a proactive manner. Technologies aimed at delivering exceptional fuel economy and low CO₂ have been at the very top of our agenda for many years. These technologies have acquired a heightened and immediate importance in the context of future legislative frameworks on fuel economy and CO₂ emissions in Europe and the US.

The Government-championed

CO₂ reduction targets

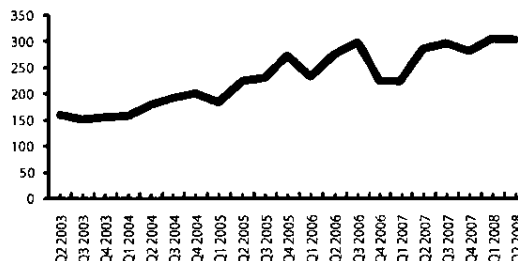


Brent crude - US\$/Barrel



Source: Thomson Reuters

Retail price of gasoline - cents per US Gallon



Source: US Government Energy Information Administration

vehicles, to commercial vehicles and, finally, to passenger cars. Domestic companies grow and develop to serve this need, requiring support from technology providers to ensure that compliance and quality standards are met by their vehicle products.

Averting an energy crisis

In the past year the international competition for energy resources, coupled with constricted production capacity, has led to a sustained increase in the price of oil. In its wake has come an unprecedented hike in the price paid by the consumer at filling stations the world over.

In the US in particular, this appears to be triggering a fundamental rebalancing of the automotive market as a whole – a market where tastes have until very recently centred around large, heavy, high-capacity and high-consumption light truck and SUV products. Years of being warned of the dangers of climate change and the risks of energy security

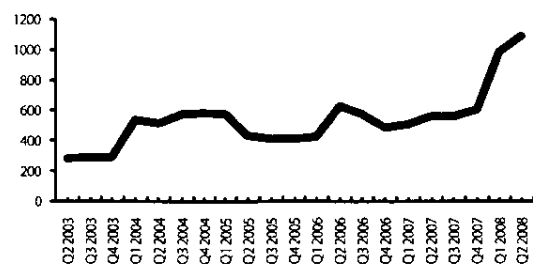
exposure had failed to significantly influence the automotive purchasing decisions of the American consumer. But gasoline prices heading for \$5 a gallon, driven by previously unthinkable price surges of oil smashing through the \$100 per barrel ceiling and continuing at a relentless pace thereafter beyond \$140 per barrel at one point, at last seem to be prompting that long-anticipated step change in the market.

Figures from Automotive News Data Center in Detroit for the first half of 2008 show that retail sales of compact cars are rising by an unprecedented 18 per cent compared with the same period in the previous year, sales of large minivans, pickups and SUVs suffered falls of almost 20 per cent – twice the decline of the overall market. In what might be seen as something of a perfect storm for many automakers, commodity prices have also surged, with spot market prices for steel – one of the staple ingredients of automotive manufacture – almost doubling in the

past year. Logistics costs, too, have risen sharply, placing particular financial strains on those automakers who have configured their organisations with extended supply lines in order to benefit from low-cost sources of manufacture.

Efforts within the global industry to redefine the future product mix in favour of more fuel efficient vehicles are becoming far more pronounced in the expectation of oil prices remaining high and environmental pressure continuing to impose further challenging legislative targets. New product and technology offensives have been rapidly initiated by established automakers.

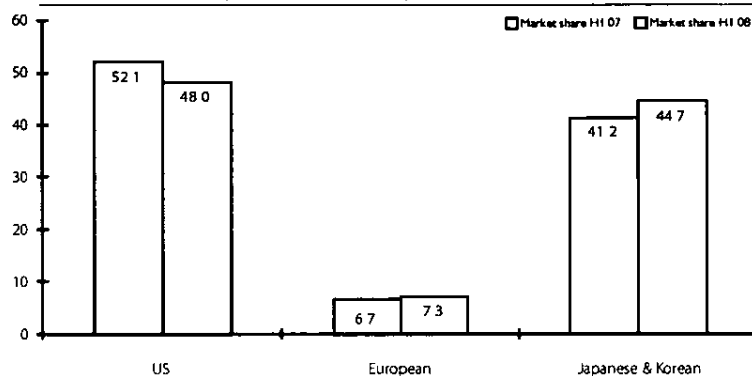
Hot rolled steel coil price - US\$/Tonne



Source: Thomson Reuters

we are thus able to offer a state-of-the-art suite of skills, products, technology and knowledge

US market share by brand nationality (percent)



Brands are classified by nationality of headquarters, not production site (e.g. BMWs produced in US are counted as European)

Source: Automotive News Data Centre

in North America, Europe and Asia, creating strong demand for high-quality engineering talent and for companies offering timely technology-based solutions

The Ricardo perspective

At Ricardo, having focused so much of our research and development effort in recent years on high fuel economy technologies and processes, we are now able to benefit from these accelerating market trends

We have developed a leadership position in hybrid electric powertrains and energy storage and management systems, we are leaders, too, in high fuel efficiency, ultra-clean gasoline and diesel technologies, as well as in biofuel and flex-fuel capable powertrains. Our vehicle engineering capability enables us to integrate the very latest in electronics and control technologies as well as the latest thinking in vehicle structures, chassis and suspension systems and manufacturing

As we face this dynamic and challenging market environment we are thus able to offer a state-of-the-art suite of skills, products, technology and knowledge – a portfolio which is ideally suited to assisting the established automakers in their efforts to accelerate high fuel efficiency product programmes. Moreover, with our growing market presence and track record of flexible, value-driven support, we are equally well placed to assist the new manufacturers in emerging markets such as China, India and Russia. Such

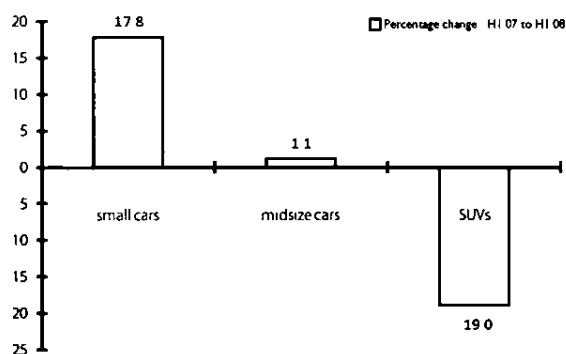
assistance is of critical importance as these new companies strive to develop products for rapidly growing domestic markets as well as creating new and potentially very significant segments such as that in India for ultra low-cost cars – a fresh sector inspired by the Tata Nano, revealed in January this year. As these new manufacturers begin to address export markets we are again extremely well placed to assist them in engineering products to meet the customer tastes and regulatory requirements of mature markets such as Europe and North America

In addition to the positive outlook in our core automotive markets, we are seeing the emergence of new niche opportunities allowing us to deploy our unique mix of skills and technologies to extend our customer base. Defence vehicle engineering is an example where, in the space of less than a decade, the engineering and systems integration requirement has changed fundamentally

In today's world of defence there is no longer any validity to the traditional distinction between frontline operations, in which a clearly identifiable enemy would be engaged, and the wider theatre through which the front line is supplied. Now, defence forces are more likely to be engaged in peacekeeping operations in highly chaotic, unpredictable and potentially hostile environments. As such, the requirements of utility vehicles are beginning to merge with those of fighting vehicles, with crew protection

The Tata Nano has inspired a new and potentially significant market segment in India for the ultra low-cost car

US market trend towards smaller cars



*Small cars: based on EPA size classes minicompact, subcompact and compact, but excluding premium sports cars and other anomalies

Midsize cars are as EPA size class

SUVs include all vehicles defined by EPA as SUVs, minivans, pickups and passenger vans. This comprises all sizes of SUV, including compact vehicles such as the Jeep Wrangler

Source: Automotive News Data Centre

and survivability of paramount importance

Similarly, the payload requirement of defence vehicles is rising as increasingly sophisticated communications equipment and electronic countermeasures are needed as standard fitments. For almost all defence applications, too, the requirement for improved fuel economy hangs over the latest engineering programmes: each litre of fuel required in theatre itself carries potentially significant costs of transport and storage. These new challenges are ideally suited to our automotive skills and technologies mix – from systems simulation to complex systems integration and hybrid electric powertrains.

In motorsport, our skills in hybrid powertrains and associated power management and storage systems have enabled Ricardo to capture an important customer base in the research and development of the kinetic energy recovery systems which will be allowed in Formula One from the 2009 season. While most of our work in this sector is necessarily shrouded in secrecy because of the intense competition between teams, Ricardo's skills at an industry level were very publicly recognised in 2007 with the Company's appointment by the motor racing's governing body, the FIA, as technical consultant supporting the development of energy-efficient and environmentally relevant regulations for the future of Formula One.

Expanding into non-automotive industrial sectors

Outside the automotive industry we are addressing the rapidly growing renewable energy sector. These new smaller initiatives contrast dramatically with the large-scale hydroelectric and geothermal schemes developed over previous decades; these were relatively few in number and typically operate in the powerful gigawatt range. The current revolution in wind, wave, solar and tidal power schemes typically relies on much higher numbers of smaller generating units, ranging from a single kilowatt to around 10 megawatts in capacity.

Many of these technologies are in their infancy. By 2007 the wind energy sector had 8.5 gigawatts of installed generating capacity in Europe alone, but even the most mature of these technologies has yet to develop the type of robust and quality-focused supply chain which would be considered a base entry requirement in the automotive sector. Significant warranty issues have been reported in areas such as wind turbine transmission systems: these concerns tend to act both as a brake on new development and an impediment to the operation of installed capacity.

Ricardo is already applying its engineering and systems integration expertise in the renewable sector, and we see some significant future opportunities where considerable value can be drawn from our skills in design, simulation, systems integration, development through to production

implementation, supply chain management and warranty management.

In setting out our strategy we have committed ourselves to developing technology and products focused on the real-time needs of the automotive and related industries as they face severe and in many cases unprecedented challenges. With our focus on technologies for high fuel efficiency, low-CO₂ and ultra-clean propulsion systems, we have positioned Ricardo so as to maximise the opportunities arising from these challenges – and to do so in a manner which will benefit our customers and the environment as well as our shareholders, while at the same time providing a highly stimulating and rewarding working environment for our employees.

Strategy

The global premium deep content automotive consultancy

AFS Trinity's Ricardo built Extreme Hybrid™ demonstrators go on a US national tour including featuring at Washington's Earth Day celebrations

It is Ricardo's intention to retain its position as the natural first choice at the heart of the value-added automotive consulting market, in the ever-changing global automotive landscape. To do this, it will continue to apply its intellectual capital to issues facing the global automotive and related industries, providing effective solutions for its customers and profitability for its shareholders.

The Company continually reviews, measures and enhances its strategy. In 2008, the strategy, performance

and outlook were reviewed with the conclusion that the business is successfully deploying the strategy set out in 2005. The strategy has led the business to grow its revenue year on year, extend its order book, improve its margins and develop its customer base globally whilst reducing its exposure to possible individual customer, geographical or sector declines. The review concluded that the strategy was robust and fit for the future with the business gathering momentum and well placed against the current industrial and environmental global drivers.

The most recent strategic review concluded in particular that the application of automotive practices, technologies and processes could provide key benefits to related markets, just as the earlier strategy focused on increasing the robustness of the business while providing a platform for growth through geographic, sectoral and customer-base diversification, the present strategy takes this further and

will look to extend diversification into related markets where appropriate.

The strategy and direction have been documented in detail in the 2006 and 2007 editions of the Annual Report and Accounts and, as discussed above, remain largely unchanged. To this end, only an overview and the key achievements of 2008 in line with the strategy will be covered in this year's Annual Report and Accounts.

The strategy of the business is built on four cornerstones, each reflecting the changing nature of the automotive industry:

- 1 The avoidance of cyclical and dependency, whether that be geographic, technical, sectoral or customer-related,
- 2 Focused sustainable growth through careful analysis and selection of key sectors, geographies, products and customers,
- 3 The provision of in-demand services which offer a high value-added content and which bring the maximum benefit to the customer, and
- 4 Low costs through carefully co-ordinated global operation which maximises low-cost resources worldwide wherever possible, and through increased efficiency derived from Group-based resource management.

KPI regarding client dependency

Number of clients generating revenue for Ricardo exceeding 10% of revenue targeting avoidance of over dependency on a small number of clients

1

Year to 30 June 2007

1

Year to 30 June 2008

These four strategic cornerstones are delivered through an integrated framework of key operating themes "Global", "Premium Brand", "World Class Technology and Products", "One Firm", "Right Team, Right Culture" and "World Class Infrastructure"

Global

The "Global" framework reflects the importance of being geographically diverse from both a market and a delivery perspective. Ricardo facilities are matched to the region to ensure that not only do these facilities reflect the customers' needs for local engineering and liaison services, but also that they take advantage of the ever changing global cost base and changing patterns in the supply of high-quality engineering talent.

A change of leadership has re-invigorated the US business and enabled a broader and more aggressive strategy to be implemented. Following a cost-base adjustment, an increase in external focus and a broadening of customer base the business has delivered a turnaround in profits and margin. We are now regularly at the table of the senior executives in the North American automotive industry, working with the US Government on energy and defence programmes and expanding our new energy sector.

In Germany, also under new leadership this year, we are responding to the order and recruitment challenge with increasing business from the leading German automakers and Tier 1 suppliers. The pace of new starters is also increasing. We are not yet fulfilling the total demand of the German market from our German base, so we continue to pass substantial business back to the UK. The UK has benefited from this pass-through as well as from

a buoyant Asian market (particularly Japan), further benefits have come from additional work from the US and the early success of our newly focused attention on Russia, where we have gained good-sized contract wins. The global resourcing strategy, taking in our expanding engineering centre in Prague, can clearly be seen in action as we look to secure business wherever the market is buoyant and to deliver from the most appropriate geographic base.

In Asia, Japan has continued to be a good market as our relationships grow and our delivery history builds. We are now delivering substantial multi-year turnkey programmes to numerous demanding Japanese clients. In China, where we have focused on building a local engineering and management consulting team, we have outgrown our office. We are proving successful in our recruitment and quality programmes and are able to deploy high-quality engineers both on work for domestic clients and on engineering tasks provided from elsewhere in the Group.

In the past year we have opened an office in India to offer our services to the domestic Indian industry and to those players with very visible global aspirations. In Malaysia we have opened a small office to support a long-term client and a current multi-year development programme, whilst in Korea we have focused on expanding the customer base to provide a platform for future growth.

The business is becoming increasingly global, adding significant growth potential as well as resilience. The rationale behind the "One Firm" global resourcing strategy can now be clearly seen, enabling the Company to optimise value from this growth.

Premium Brand

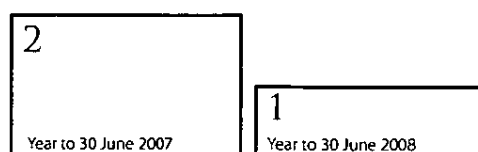
The reputation of the Ricardo brand for excellence, delivery and innovation acts as a catalyst for attracting new business and securing the very best engineering talent. Experience has repeatedly shown us that our long-respected brand enables good early contract wins when we enter new regions, particularly in Asia, subsequently, our successful programme delivery enables repeat business, further enhancing the brand.

To maintain the premium status of the brand we have continued to bring in the best talent and bring on the best talent in terms of recruitment and personal development. So much of the reputation of a global professional services company such as Ricardo revolves around its people. For this reason we are stepping up our efforts and our investments to ensure we secure the very best engineering and business management talent available.

We have increased our marketing efforts to support new objectives for our US business, our moves into new geographic regions and the development of our position in Germany. Marketing initiatives are also in place to assist our increased focus on defence systems and technologies.

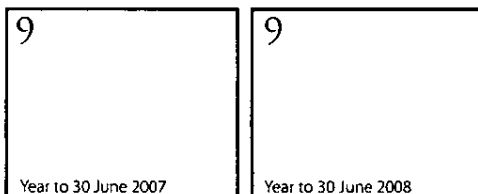
KPI regarding geographical spread

Number of continents for which Ricardo revenue exceeds 20% targeting a good balance of revenue from Europe, the US and the Far East



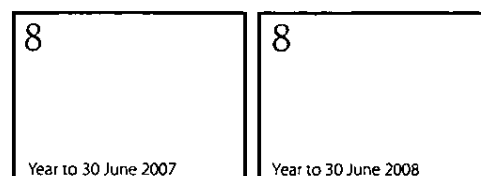
KPI regarding technology dependency

Number of product groups exceeding £10m p a revenue
targeting an increase in major product groups



KPI regarding Premium Brand

Customer Satisfaction using customer satisfaction ratings out of ten across a range of measures



and our entry into new markets such as new energy. These marketing initiatives take several different forms: technical presentations and attendance at industry-leading congresses, sponsorship of industry events such as the European Wind Energy congress, high-impact targeted advertising campaigns in industry journals, particularly in the US, editorials in leading magazines, and increased engagement with international governments supporting strategic industry discussion.

Our quarterly magazine RQ continues to be distributed to the industry and is translated into the many languages in which we operate. We use this journal as our prime communication channel to over 10,000 of our contacts and new customers worldwide. The balance of content has been fine-tuned this year to help promote our new initiatives in the defence and new energy sectors, complementing our core automotive coverage. We have also increased our media coverage and boosted our press-

release programme this year in order to publicise our technical and project achievements on a more regular basis.

World Class Technology and Products

Investment in technology to position Ricardo at the forefront of industry is at the very heart of our strategy. Innovation and technology are core to the Ricardo value proposition and the excellence of delivery of this expertise is essential to support our Premium Brand ethos. Moreover, research and development at this advanced level provides a technically challenging and innovative environment for ambitious engineers, helping us to attract the best of talent.

We have for many years road-mapped future technology and undertaken gap analysis, informed by these analyses, we have focused our investments on emissions control, fuel economy improvements and intelligent vehicles. We look to leverage our internal investments through collaboration with clients, institutions and international government bodies alike. We have continued to increase our investment in R&D this year and have been successful in securing additional collaborative funding.

Our R&D programmes are delivering positive results. Among the most high profile are:

- Clean diesel programmes which meet the most stringent US standards of Tier 2 Bin 2
- Fuel-efficient gasoline 2-stroke/4-stroke switching technology delivering 27 per cent fuel economy benefits,

- Low-cost dual clutch transmissions technology offering performance and efficiency, and

- Intelligent vehicle technologies which link the vehicle to its environment, enabling the vehicle to automatically adapt its behaviour to enhance safety or fuel economy.

We also develop our technical expertise through training, recruitment and the delivery of challenging client programmes. This year we have continued to expand our expertise and cement our position as leaders in the provision of independent hybrid technology support and the core hybrid technology itself. Numerous client programmes are being delivered world-wide. Our electronics capability is expanding and remains in strong demand. This is a strategic competence for the future that is central to almost all technical breakthroughs and technologies, accordingly, we are continually looking to grow this business and it remains the key focus of recruitment, development and business acquisition.

This year we have put a major focus on actively seeking out opportunities to exploit our automotive technology and processes by extending these skills into related markets. This has led us to evaluate and enter the sector for new energy and distributed power generation and also to launch our defence systems and technologies strategic business unit. We are able to apply our simulation and innovation-led automotive expertise to solve key industry issues in these new sectors. Examples include transferring hybrid technology to the defence sector to improve vehicle range, function and fuel economy, using crash simulation.

techniques to model robustness of vehicles under attack, using transmissions expertise and simulation to tackle the increasing warranty issues being faced by the wind power generation industry, and using our hybrid, electronics, software and control expertise to give motorsport Formula One teams a competitive advantage in the new era of kinetic energy recovery systems

Our Strategic Consulting business has also invested to develop its thought leadership this year by continuing to bring in top-level talent. We also strive to develop the best talent internally through leading international business school programmes. In addition, we conduct research into industry issues with a view to the development of process solutions to meet these challenges

Our global coverage allows our Strategic Consulting business to enjoy a complete overview of the key automotive sectors, geographies and business groupings, enabling it to assist clients with accurate and insightful intelligence and recommendations to inform them in their decision-making – whether it be the possibility of expanding overseas, introducing new products, improving their operations or acquiring new businesses

Working closely with the technical teams, our consulting business boasts a key differentiator in relation to the services offered by other management and strategic consultancy organisations: the ability to access deep technical content in practical engineering. This could, for example, help address the technical challenges and costs associated with warranty issues, determine the strategic technology

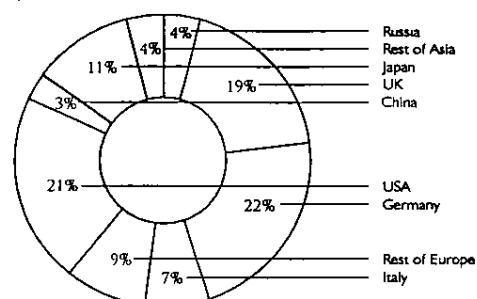
direction and route implementation when evaluating product strategy, and assess new market entrance where localisation of product may be necessary. This year we have secured large combined strategic and technical programmes in the areas described above. Organisations with an individual competence only would have failed

One Firm

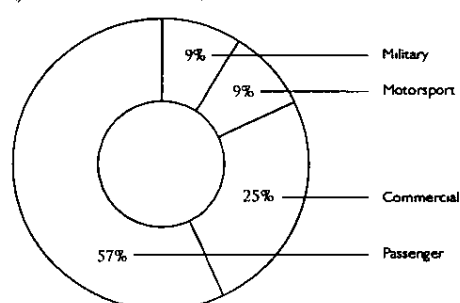
As the strategy unfolds and the success of our global initiatives is demonstrated, the importance of our One Firm strategy is clearly highlighted. We look to secure business where it is most buoyant and find resources for this business where most appropriate. This resourcing decision could be based on financial benefit or the location of key expertise. As competition for talent is so intense we cannot wait until the right resource happens to match the location of a business win; instead, our flexible approach allows us to regularly pass work along the channels which link the key elements within our global Group

This movement of work benefits clients, shareholders and our team alike. It provides important opportunities to access our global network and transmit products and expertise from one market to others. For example, a client may look to adapt for the US market a product we have developed for them for a European market. The ability to transfer work and knowledge to be well prepared for this transition provides a seamless, secure and valuable offering to the client. The ability to transfer work across the Group enables us to take on work and load levels which give us maximum commercial efficiency; under the contrasting 'silo' approach, with all capabilities concentrated in a single location, work might have to be turned

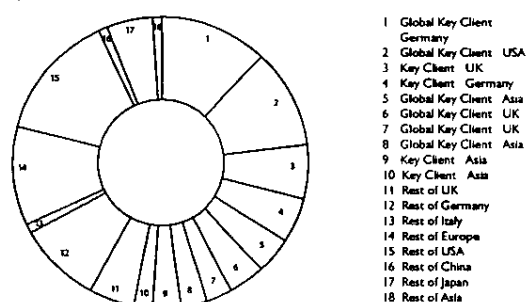
Order intake by geographical source
(year ended 30 June 2008)



Order intake by sector
(year ended 30 June 2008)



Order intake by customer
(year ended 30 June 2008)



away or, at the other extreme, under-utilisation would be a risk

In addition, when it comes to career development, Ricardo offers an easy means of transferring from division to division, providing a globally mobile career path – an attractive feature for ambitious talent. In parallel, Ricardo's global network can also offer a broad variety of activities for those not wishing to be so mobile. Employees can find themselves working on projects

from regions of the world very different to the one where they are based, providing stimulating cultural diversity and experience

Right Team, Right Culture

As highlighted before, the core strength of Ricardo is its people. It is they who develop the technology, seek out new markets, spot opportunities, spread and reinforce the brand, deliver customer excellence, provide a platform for the future and deliver value to shareholders and clients alike.

In a market where engineers and effective business leaders are short in supply, it is imperative that the Company continues to bring in the best and bring on the best by providing a stimulating environment, good career development and an attractive collaborative culture. Appropriate retention mechanisms and excellence in recruitment and branding are further attractions of the Ricardo working environment. We are also focused on continuing to develop the right culture and remuneration mechanisms to encourage an effective One Firm culture where Group success is the key success.

Across the Group we have recruited additional senior talent on the technical and operational levels. The retirement of the previous Group HR Director brought the opportunity to recruit Sarah Murphy, who joined Ricardo from Microsoft in August 2007 as the

new Group HR Director. We have attracted new recruits for our Strategic Consulting division in China as well as recruiting a growing engineering team there. In Germany the pace of recruitment has also increased this year following the recruitment of a dynamic and experienced HR director.

In addition, under our new Group HR Director we have created the specific function of Group Talent Management to ensure that, once attracted into Ricardo, top talent thrives in our corporate environment. Our recruitment activities now span many countries and regions within the US, Europe and Asia. Recruiting talent is a key activity in enabling us to respond to the demand being generated as a result of the success of our global and technology strategy.

Our business is all about talent.

World Class Infrastructure

Ease and efficiency of working and the protection of operations enables the outward facing talent to focus on executing the global strategy and delivery to clients and shareholders. This is provided by good tools, processes, infrastructure and governance. During the year we continued to streamline, enhance and emphasise the Company's support functions and processes in programme management, IT, finance, legal activities and HR. We see these functions as key enablers to the global One Firm

strategy which supports our Premium Brand ethos. We continue to invest to become world class, effective and efficient. We are changing rapidly as a business and have to adapt our practices and processes to support a rapidly growing global business.

Through increasing education, finance business partnering has led to improved commercial terms. Our Group legal function has established coverage and recruited partners with key expertise in the regions in which we operate. As we expand into new regions it is important that we enter with eyes open and take professional advice to avoid downstream issues. On the IT front we have been evaluating new business systems which would allow us to operate more as a single entity by moving, over the next few years, to a common IT platform across the Group. This will enable us to manage multi-site programmes and global resources more easily. We have also recruited a leading programme management director from an international defence business who will bring tremendous experience of programme delivery.

Research & development

The increase in global energy demand and the associated rise in oil prices have been the key drivers in much of the Ricardo R&D portfolio. One outcome from the rise in fuel costs has been increased interest in alternatives to conventional fuel-efficiency technologies such as hybrid combustion/electric powertrains. Whilst Ricardo continues to attract much business with its well-planned research and development in hybrid technologies, the demand for more cost-effective alternatives has created real opportunities for innovation by Ricardo engineers.

A further key driver for research has been the related demands for improved safety, vehicle journey efficiency and maximised road utilisation to control congestion. Ricardo has been very active in creating technologies that can

interact more intelligently with the driver and surrounding infrastructure and traffic, reducing travel times caused by congestion and also reducing the risk of collisions.

Most internally funded research at Ricardo now attracts collaborative support from automotive customers and frequently also involves additional government funding from either the United States, Europe or the UK. The combined R&D programme at Ricardo is organised into a portfolio of Technology Platforms. These platforms align with key product areas and allow a more integrated approach, they have delivered some excellent results during the past year.

- Our programme to develop an advanced light duty diesel vehicle that can cost-effectively achieve

the very severe Tier 2 emissions requirements in the US has made some major breakthroughs this year. Our prototype vehicle has achieved the emissions targets, whilst maintaining or even improving fuel economy. This programme has been a key factor in the substantial growth of our light duty diesel business.

- Our switching 2-stroke to 4-stroke boosted gasoline engine also achieved a significant milestone in the year with successful experimental demonstration of seamless switching between modes. This concept enables very aggressive downsizing, allowing the use of a smaller engine with lower friction losses. Initial simulation has shown the potential for a 27 per cent reduction in fuel consumption compared with a conventional engine of the same power output. This programme has now progressed to the start of a collaborative vehicle demonstration programme, partly supported by the UK's Technology Strategy Board.
- We have successfully implemented a new and innovative low-energy clutch and gear change actuation system on a demonstrator vehicle. This technology offers major benefits compared with conventional electro-mechanical or hydraulic systems and is proving of great interest to our customers.
- We have also integrated a steer-by-wire system, along with our active torque-vectoring unit, in a premium demonstrator vehicle. The compact

Ricardo has been very active in creating technologies that can interact more intelligently with the driver and surrounding infrastructure and traffic

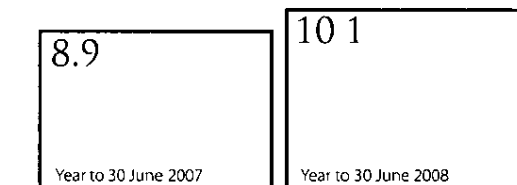
torque vectoring unit is capable of varying the torque from left to right rear wheels via electronic control, whilst the steer-by-wire system offers the potential to combine this with intelligent steering, delivering safer driving but with more sports-oriented handling characteristics. This programme has focused extensively on the issues surrounding safety-critical software and failure mode analysis, an area of increasing interest from our customers.

- The second year of the Roads2HyCom project has been completed. This project is a study of technological and socio-economic issues related to the commercialisation of fuel cells and hydrogen in the stationary and transport energy sectors. Ricardo is

leading a partnership of 29 leading industrial and academic organisations in the field, with support from the European Commission's Framework Six programme. The project has now published a number of key reports, covering the landscape and state-of-the-art in fuel cell and hydrogen technologies, the nature of sustainable energy resources and infrastructures for distributing hydrogen, and the socio-economic characteristics of the growing number of community initiatives that are adopting these technologies with local government support. The project has played a key role in supporting the creation of the new Joint Technology Initiative in Fuel Cells and Hydrogen, launched by the European Commission this year.

KPI regarding technology development

Research spend (£m) on research projects funded by Ricardo or part-funded by government grants targeting development of Ricardo knowledge and innovation



Continued strong performance, revenue up 15%, profit before tax up 20%, and a working capital reduction almost eliminating net debt

Paula Bell Group Finance Director

Performance review

Our strategy to diversify is again demonstrating resilience and delivering overall progress evidenced by revenue growth of 15% to £197.7m (2007 £171.5m) and 20% growth in profit before tax to £14.7m (2007 £12.2m). The order book remains strong at £99m (2007 £92m) and focused cash management has resulted in a reduction of working capital despite a busy period of business growth.

Both Technical and Strategic Consulting divisions have delivered business and profit growth in the year.

Technical Consulting trading
Asia has continued to be a strong market in the year, with record order intake levels. UK revenue and profit have grown as a result of this additional work for Asia together with increased work for Germany and Russia. We are using our UK and Prague facilities to serve customers in other markets where local resources do not currently exist.

The US has also delivered a very pleasing result. New leadership led both to a restructuring of the internal cost base and to a refreshed business development focus. Despite incurring change costs of £0.6m, both revenue and profit growth were delivered in the year. The order book has been increased and a strong platform to exploit new market opportunities in the US has been created, providing some mitigation against the volatile economic environment.

Our German technical consulting business continues to grow strongly and profitably in this important market. The exhaust business within our German operation suffered from the conclusion of a major series production programme and is being restructured to improve profitability.

Strategic Consulting trading

This division has continued to grow its market offering and client base, and has built up a consulting resource to meet increasing demands for its services. We have secured work from new clients and in particular we have developed our business in Asia and opened a new office in Munich, Germany. This has resulted in increased revenue and operating profit and a strong business platform to maximise future prospects.

Tax

In the previous financial year to 30 June 2007 we reported £5.2m of retrospective R&D tax credits, which had a significant impact on our tax charge and resulted in a tax credit to

the income statement. The tax charge for this financial year returned to the more usual level for Ricardo. We continue to benefit from annual R&D tax credits resulting in a 16% effective tax rate and a £2.3m charge to the income statement.

Earnings per share

Earnings per share were 24.2p. Once the impact of the retrospective R&D tax credits enjoyed in 2007 is adjusted for, earnings per share growth continues, driven by increased profit before tax over a relatively consistent share volume. Last year's earnings per share of 29.6p would have been 19.3p if we had not benefited from £5.2m of retrospective R&D tax credits included within the income statement. As communicated last year, we did not expect such material taxation benefits in the year to 30 June 2008.

Dividend

We propose to increase the total dividend to 10.6p per ordinary share (2007 10.0p) following a year of further earnings growth. This results in a 2.3 times dividend cover. The final proposed dividend of 7.5p (2007 7.1p) will be paid on 26 November to all shareholders on the register at the close of business on 31 October 2008, subject to approval at the Annual General Meeting on 18 November 2008.

Net assets

Net assets at 30th June 2008 were £67.1m (2007 £61.7m). The increase driven by ordinary trading was offset by an increase in the pension deficit.

KPI regarding the outlook

Order book (£m) being the value of contracts received but not yet taken into revenue, targeting good forward visibility

92	99
30 June 2007	30 June 2008

KPI regarding liquidity

Net borrowings (£m)

30 June 2007	30 June 2008
72	03

KPI regarding pension commitments

Pension deficit (£m) valued in accordance with IAS 19 targeting the deficit being eliminated by 2015

30 June 2007	30 June 2008
167	199

Capital expenditure in the year was £10.8m, which included £2.9m for the upgrade to some of the buildings at the Shoreham Technical Centre. The balance of the expenditure was to maintain our engineering capability and capacity. At the end of the year capital commitments were £0.8m.

Looking ahead, we plan to continue a significant level of investment over the next two years to support our business growth. This includes investment in a chassis dynamometer test facility in the US. In Germany we plan to increase the number of test beds to meet customer demand. At the same time we need to invest in business systems across the Group to move them to one common platform. This will facilitate management of multi-site programmes and global resource management, as the business expands its facilities across the globe.

Working capital

In a busy growth period for the business we have demonstrably managed working capital effectively with a £6.8m reduction (2007 an increase of £3.9m) resulting in a strong balance sheet position. The net debt balance closed at £0.3m compared to £7.2m at 30 June 2007.

Treasury

At the year end the Group had borrowing facilities of around £41m, which included two euro loans totalling €17m (£13.5m at the year end rate) repayable over the next three years, which act as a hedge against the net euro investment in the German business.

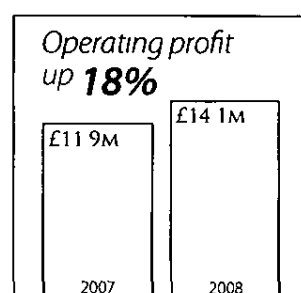
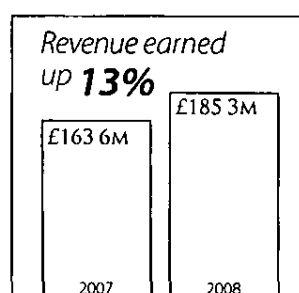
As some of the work carried out in the UK for European customers is contracted in euros, we have an exposure to the euro, which we hedge

as appropriate. Most of the work for our North American customers is undertaken by our US subsidiary. Our exposure to the dollar primarily relates to the translation of our dollar earnings, which we hedge, and the net investment in our US business.

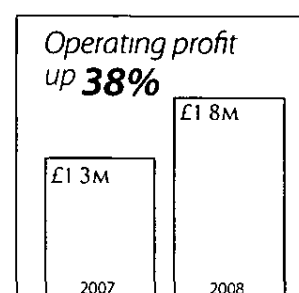
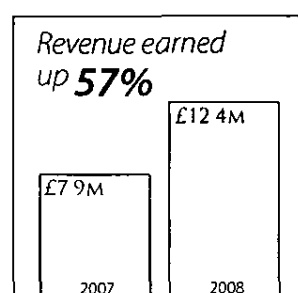
Pensions

The deficit in our defined benefit scheme, as measured in accordance with IAS19 'Employee Benefits', increased from £16.7m to £19.9m, primarily as a result of a drop in the value of equity investments held by the scheme. We continue with our nine year plan, which commenced in 2006 to substantially eliminate the deficit by making additional cash payments. We are currently in the triennial valuation process, which must conclude by July 2009.

Technical Consulting



Strategic Consulting



Divisional results	Revenue earned		Operating profit / (loss)	
	2008 £m	2007 £m	2008 £m	2007 £m
Technical Consulting				
UK*	116.0	102.0	12.3	9.8
US*	39.4	37.4	2.3	1.2
Germany	29.9	24.2	(0.5)	0.9
	185.3	163.6	14.1	11.9
Strategic Consulting	12.4	7.9	1.8	1.3
	197.7	171.5	15.9	13.2

*UK includes facilities primarily supporting the UK. US includes software which is managed from the US.

Technical Consulting

UK

The UK business delivers to clients across the world, sharing its capacity with Ricardo's German and US operations, together with business secured from the Company's major markets of the UK, Europe, Russia and Asia. It has world-class competence in engines, hybrids, transmissions, vehicle engineering and electronics and has had a busy year with the growth in CO₂-related demand and geographic expansion.

This year's growth has been delivered thanks to increased activity from a variety of sources – in particular the resurgence of our vehicle engineering business as it developed its defence activities, secured interesting work in its special vehicles arena and won sizeable business in India and Japan with major automotive manufacturers targeting new markets.

The engines business has experienced strong demand on both gasoline and diesel programmes for motorcycle, passenger car, commercial, construction and agricultural vehicles. The drivers for growth have been

emissions legislation, increased and intensive global focus on CO₂ reduction, and geographic expansion. The business is delivering sizeable state-of-the-art passenger car diesel programmes for Japanese and European clients to meet the most stringent US and European legislation as well as gasoline engine programmes for European, Chinese, Malaysian and Japanese clients and heavy duty engine programmes for Russian, Indian and European clients. Many of the programmes are multi-year, providing good visibility for the future.

The demand for engine engineering talent is driven by three main factors: the need for additional support as new technology challenges are being faced on a global basis, the success and increasing product portfolio of many Japanese manufacturers, and the development of companies requiring increased technology in Russia, China and India.

The controls and electronics business has again been in demand and growing, with a high level of activity and requests for quotation in the areas of hybrids,

emissions control and intelligent vehicles. The controls and electronics business not only serves its own direct customers but also supports the other businesses of engines, transmissions and vehicles as their developments are increasingly centred around electronic innovation. During the year a deal was signed with Delta Electronics to provide a route to manufacture for the electronics designs generated by the business. This relationship is working well and gaining interest, supporting for example one high-profile hybrid programme in China which is close to production launch. On the back of this prior development and world-class talent, our hybrid team is establishing Ricardo as the "go to" place for independent hybrid support worldwide, including the development of new kinetic energy recovery systems for Formula One.

The transmissions engineering business experienced a less busy year as some contracts have ended and have not been immediately replaced. Marketing the division's innovations, particularly in the area of dual clutch technology and torque vectoring, continues.

The breadth of programmes covers contracts or customers in the UK, mainland Europe, Asia and newly secured contracts from Russia, and the order book had increased by the end of the financial year. The range of activity covers the passenger car, motorcycle, commercial vehicle and agricultural sectors. The motorsport transmissions business has had a busy year both in terms of supply, new customer conquests and race wins. It has supplied several top tier race series and supported winners in the US, Europe and Japan in World Rally Championship, open-wheel series and sports cars. The business continues to provide Bugatti with transmissions and is running at high levels of utilisation.

US

The US business had a much improved year, with the managerial and leadership changes generating immediate results. The business is operating at a new heartbeat and has generated increased profits, increased margins and an increased diversity of customer base and sector. This has been achieved even with the absorption of change costs and increased marketing and recruitment efforts.

The cost base was realigned to the prevailing market conditions at the beginning of the year, which provided a good basis from which to move forward. Additional changes were made to the managerial team including internal development and new hires to bring an increased commercial focus to the business. A strategy of customer

and sector diversification (along the lines of the Group strategy) was fully embraced. The resulting customer mix for the year is showing a healthy split, with a good list of new customers in the automotive, commercial vehicle, new energy and government sectors. The final part of the strategy was to raise the profile of the Ricardo brand in the US. This has been achieved through marketing campaigns, governmental involvement and targeted Congress participation as keynote speakers. The outcome is a position for the US business at the top table of the industry and government on the key strategic issue of fuel economy.

Energy security, climate change and the massively increased fuel price in North America have brought fuel economy to the centre stage in the US. These are the issues and realities which are now driving governmental, industry and product strategy. Consumers in the US are now also making their purchases with these issues in mind, creating a significant shift in the passenger car product mix.

This rapid change has left many traditional domestic manufacturers with ill-positioned product lines. Manufacturers – especially Asian – with smaller and more fuel-efficient model ranges have been making large market share gains. These changes have created an enormous dynamic in the US as the government pushes through tough fuel economy legislation and manufacturers urgently look to adopt new technologies and change their

product balance. This shift has created a significant demand for engineering talent, particularly in the areas of diesel, electronics and hybrids, which Ricardo is well positioned to exploit.

The US business has been very busy, not surprisingly, in the areas of diesel (commercial vehicle and passenger car), hybrids (including plug-in hybrids) and electronics – but also securing strong business in the area of gasoline and transmissions. The US business has also delivered good programmes for Asian clients as they tap into specific expertise on V engines within the US business. We see these relationships as important for the future as, for example, the Chinese players look to the US as a market for export.

Defence and military expenditure in the US remains high as the nature of tactical vehicles and their specifications change. More agile, well protected and fuel-efficient vehicles are being developed and the business is supporting the various departments and forces to develop vehicles fit for future theatre.

The US business has also embraced the new energy sector with good growth in this area, delivering and securing programmes on wind farms, solar arrays and fuel cell installations.

All of this activity falls within our areas of core competence at the engineering level and demonstrates the potential to exploit our automotive heritage, brand, expertise and processes in new markets

The software business managed from the US, which develops and commercialises leading-edge engineering software for the auto industry, has sustained its position of the prior year despite a reduction in its Formula One customer base as new regulations limit the opportunity for engine design changes. To deliver its growth agenda, a number of new products have been developed and launched during the year. These are being well received.

Germany

Our engineering consulting business in Germany has continued its development with an increasing rate of recruitment and with investment in management, facilities, marketing and brand-building.

We have secured good levels of repeat business and new business wins from

premium German clients, and in line with the "One Firm" strategy, the German division is working jointly with the UK division on several of these projects. Indeed, the combination of a tangible German business presence coupled with deep experience in the UK is providing a compelling offering. The investments in the business have provided an effective front end and the challenge now is to increase the critical mass of local engineering talent to ensure that we have a sustainable model which is based on an integrated network within the German automotive industry.

We are taking on talented individuals from established automotive companies who are looking to advance their careers in a more dynamic and diverse environment. We are also increasing the talent pipeline to keep up with the increasing demand. It is evident, however, that during a time of recruitment growth an unavoidable

consequence is recruitment charges in the first year of employment of new starters, which inevitably depress the margin locally. As the balance between local demand and supply stabilises, more of the profit will in future be generated locally rather than being passed back to the UK.

The client base this year has included commercial, passenger car and motor cycle companies, including the main leading names from the automaker and Tier 1 sectors. Programmes include gasoline, diesel and transmissions and are often being delivered as part of joint programmes with the UK. The pipeline of opportunities continues to increase with many multi-million euro opportunities emerging as our reputation for delivery and brand spreads more widely within Germany. The business is building its brand reputation through external technical paper presentations at leading congresses, the continued successful delivery of its own German heavy duty diesel congress (the only one in Germany, now well attended and established as a premium event) and increasing links and presentations to universities.

The exhaust manufacturing business experienced a difficult year as the core series production programme concluded and prototyping projects were unable to fully fill capacity. We are therefore taking the necessary cost reduction actions. Follow-on series production has recently been secured and the business is entering the design stage prior to achieving full production.

levels towards the end of 2008/09

Asia

Revenue for our Asian customers, mostly carried out by the UK, has increased by 32% to £36.2m, which is 18% of total revenue, compared to 16% in the prior year

Japan has been an excellent market for Ricardo this year, with the local operation securing over £20m of business, another record year. Moreover, the client base is increasing and we now have many multi-year turnkey programmes from several different customers covering diesel, gasoline and vehicle technology. Projects for electronics and transmissions are also very popular. This record year is again not just a testament to the reputation for delivery and the technology innovation of Ricardo, but also a reflection of the success of Japanese clients worldwide in capturing market share in new and existing regions, with such expansion stretching their internal development capacity. The adoption of outsourcing by Japanese clients, as anticipated by Ricardo, is underway and we continue to pay close attention to this as we deliver to some of the world's most demanding clients. Relocating our office closer to our clients has increased

client interaction and Ricardo now has numerous engineers working on clients' sites delivering programmes. As before, a substantial portion of the work is carried out in the UK.

Ricardo China has undergone further transition this year, with the establishment of a local engineering function delivering to local and overseas clients. Recruitment has been successful, integration has been swift and deployment on programmes has been well received by clients. Our plans are to substantially increase the size of the engineering office. The business has taken on larger premises that will serve our anticipated needs for the next two years.

The local engineering team is delivering technically challenging programmes from a lower cost base and we see this operation supporting the Group's resourcing needs in a similar way to the Prague office – in addition to offering local engineering to the Chinese market. In terms of market development, the business has secured hybrid, transmission and gasoline work, with the first enquiries on diesel for passenger cars materialising. The bulk of the business is passed back to the UK, but wherever possible local content is included to develop the

experience of the raw engineering talent available in China.

During the year, an office was established in India to take Ricardo closer to both the domestic market and, in particular, the domestic manufacturers with global aspirations. The ambition of the Indian industrialists has been clear this year with, for example, the acquisition by Tata Motors of Jaguar Land Rover. In addition, many of the global automakers are looking to India as a new market and we are supporting market entries by re-engineering product to meet the Indian requirements and assisting with the localisation of supply chains. India has a history of low-cost innovation, as exemplified by the emergence of a new market segment started by the 1-Lakh Tata Nano vehicle. Many other companies are looking to enter this ultra-low-cost car market and exploit the low-cost practices elsewhere.

Russia is a market worthy of note as the next planned geographic target for Ricardo. Progress in this region has already been swift, with the initial market evaluation and deployment of skeleton staff on the ground made early in the year. Significant business has already been secured this year from agricultural and commercial clients. The region looks attractive, with a good pipeline of opportunities building up. We will continue to review the market and if appropriate increase our on-the-ground presence as required.

Strategic Consulting

The year for Ricardo Strategic Consulting has been one of profitable growth across all areas of the business. Established and new entrants to the worldwide automotive industry are looking to develop strategies to grow profitably in the face of the challenge and cost of continually tightening legislation on CO₂ emissions. New product offensives in all sectors of the industry continue as all manufacturers strive to increase market share by looking to satisfy increasingly demanding and sophisticated customers in both mature and maturing markets. A major stimulus to demand for our services comes from companies looking towards Asia for growth, as well as from Asian companies looking to invest their domestically generated cash in other growing markets. Against this backdrop the demand for our consulting services has substantially outstripped the growth in the overall management consulting market, and we have taken a number of important steps to meet this heightened demand.

We continue to invest in our people and our service offerings. We have developed our business in Asia to the next stage, recruiting an experienced leader and putting in place a team in our offices in Shanghai. In other parts of Asia, particularly in Korea and India, we have further increased our client base. In Germany we have opened a second office located in Munich and have increased the size of our German team. The North American and UK-based organisations have both further increased the size of their teams, adding new skills and new consultants. We have put in place a sustainable recruitment activity in all geographies, this is successfully adding to our ranks senior staff, experienced consultants

and recently graduated MBA students from some of the best business schools in Europe and North America.

To help us continue to grow the business profitably we have put in place an Advisory Board for the Strategic Consulting business. This group includes experienced advisors who have until recently held senior positions in McKinsey and Co, Boston Consulting Group and Booz Allen Hamilton. The role of this group is to act as a sounding board for the Ricardo Strategic Consulting business and to guide the senior Strategic Consulting team through the next stages of its development. For all consultants we have put in place internal and external training and education programmes to reinforce the core values and skills of our particular brand of "deep content consulting" as we grow. In addition, we have promoted a number of our existing team members who have grown with the organisation and demonstrated their abilities, this allows us to retain and reinforce our unique approach to consulting.

We continue to see high levels of repeat business from existing clients, with the increasing average project size over the last three years indicating high levels of customer satisfaction. We have extended our client base within vehicle manufacturers, major suppliers and investor groups, as our capacity to serve additional clients increases. In North America we have developed a more diversified portfolio of clients, many of whom are companies either investing in new products and markets and developing growth strategies outside of their traditional areas of activity or looking to profit from entry into new sectors being created by changes to technology.

These sectors include the areas of new energy, stimulated by the need to diversify away from traditional energy sources, and by the possibilities being opened up by new technologies. In Europe we are working in demanding and high-profile sectors such as Formula One. We are also in partnership with major manufacturers developing their strategies to enhance penetration into the growing Asian markets for trucks and passenger cars, and with Asian investors considering major inward investments into the European market.

This year we have spread our activity into other associated transportation sectors where organisations have found our capability in market, technology, strategic and operational consulting an asset in addressing a number of strategically important challenges. Two examples are the railway vehicle sector where we are addressing strategic and operational needs, and the successful delivery of a number of phases of support to a significant client in the aerospace sector, where the client used our automotive skills in technology management and operational improvement to good effect.

As a result of our strategy of working with high quality clients on issues of strategic importance, the outlook for Strategic Consulting remains solid despite the uncertainties in many sectors of the market. We continue to take business from the long-established strategic consulting firms and, based upon the high levels of repeat business from many of the most prestigious companies in our industry, we are confident that our brand of consulting is aligned with the needs of many executives in the industries we serve.

Principal risks

This section addresses the principal risks and uncertainties to which the Group is exposed. These are factors which could affect the Group's business, its performance or its financial condition.

Customers and markets

The Group is largely dependent on a dynamic marketplace which is exposed to many external pressures, competition and structural change caused by cost-base, environmental and capacity concerns. These can cause delays in projects and in the placement of orders, and redirection or curtailment of contracts due to changes in client product plans. At worst, these could cause the insolvency of a customer and the curtailment or pause in all programmes for that customer. These risks are mitigated by the strategy of broadening the base of the business to reduce exposure to any one specific client, territory or market sector, and the success of this strategy is measured by the key performance indicators for client dependency, geographic spread and technology dependency shown on pages 10 to 12. The insolvency risk is mitigated by robust working capital management and credit insurance where available.

Contracts

The majority of the Group's revenue arises from fixed-priced engineering contracts. This has always been the case for Ricardo. The risks in these contracts are that more work than estimated is required to deliver the projects, thus impacting on margins. These risks are managed by clearly-defined bidding and project management processes, whereby projects are categorised according to their risk level, which in turn dictates the level of review or approval required.

Failure to perform on a contract or the infringement of the rights of others could also potentially subject the business to a claim from a customer. Internal procedures are in place to ensure that the technical content of our output is of good quality and meets client requirements without infringing the rights of others. The spreading of client, territory and sector risks has led to no single contract with a client or supplier being essential to the business of the Group as a whole.

People

Ricardo is a business that is knowledge-driven and people-led. The loss of or failure to develop or recruit Ricardo employees would restrict growth and impact client relationships. Recruiting, developing and retaining talent and knowledge are important. Mitigation of these risks is ensured by actively developing staff, encouraging mobility and professional development and by providing appropriate remuneration and working conditions. Employees as

stakeholders are reviewed further on pages 27 to 28.

Technology

The business is driven by changes in technology to meet the needs of markets and regulators on varying time scales. If the Group invests in the wrong technologies it could lose marketplace advantage as business levels would reduce. Our R&D programmes are developed in consultation with clients and many programmes are collaborative. It is also possible that the time taken to deliver returns from R&D programmes could change if delays occur in the implementation of new regulations, which would in turn delay client programmes dependant on new technology.

Compliance with laws and regulations

The Group's operations are subject to a wide range of domestic and international laws, regulations and restrictions, and non-compliance with

these laws, regulations and restrictions could expose the Group to fines penalties or loss of reputation, or result in trading restrictions which could have a material adverse effect on the business. To mitigate these risks the Group has a number of defined policies and operating procedures, and takes advice where considered necessary, to ensure that employees and others act with the highest ethical standards and within local legal requirements. Also, the Group's internal audit programme includes within its remit the review of compliance with applicable legislation and regulation.

Defined benefit pension scheme

In the UK, Ricardo has a defined benefit pension scheme. The projected liabilities are higher than the value of the assets in the scheme. This deficit is recorded on the balance sheet and contributions towards eliminating the deficit are being made in accordance with an agreement reached with the trustees of the scheme. This agreement will be reviewed and agreed with the trustees prior to 5 July 2009 as a result of the latest triennial valuation. The amount of the contributions required could be affected by a number of

factors including investment returns, interest rates and mortality rates. The scheme has been closed to new entrants, and future increases in pensionable salaries have been capped to inflation. Further details of this scheme are given in the notes to the financial statements.

Other risks and risk management

Additional risks and uncertainties currently unknown to the Group, or which the Group currently deems not to be principal risks, may also have an adverse effect on the financial condition or business of the Group. The Group has risk management and processes in place for contract foreign exchange and other business risks. Contract risks are managed through a project management process, which is closely linked to financial performance measurement. Non-contract risks are controlled by the leaders of global product groups, Group functions and divisional managing directors. These risks are analysed and reviewed regularly and are recorded in the Group's risk register in liaison with the Group's Risk Manager and Head of Internal Audit, who has an independent reporting line to the Audit Committee. Also the Group has an internal audit function to provide assurance regarding the systems of internal control and risk management and, as stated above, compliance with applicable legislation and regulations. This is complemented by the internal audits required as part of maintaining certifications to international standards. These risk management and internal audit processes and their effectiveness are reviewed annually by the Audit Committee. Further information on risk management processes is given on page 51.

Corporate social responsibility

Commitment to stakeholders

Ricardo aims to manage its relationships with its stakeholders and communicate with them professionally and responsibly. The Board recognises its principal stakeholders as shareholders, clients, employees, suppliers and local communities and also recognises its responsibility to the environment. Responsibility to the Board for relations with all our stakeholders lies with the Chief Executive Officer. The Board as a whole reviews key elements of corporate social responsibility at annual or shorter intervals.

To underline the importance of integrity in all relationships between employees and stakeholders, we have ethics, fraud prevention and whistle-blowing policies which are communicated to all employees. Under our ethics policy we do not permit bribery, anti-competition or corrupt business practices in any dealings. Under our fraud prevention policy we do not allow intentional acts by one or more individuals within the business to use deception or theft to gain unjust or illegal advantage. Under our whistle-blowing policy we provide a procedure for any employee to raise any malpractice concerns in an appropriate manner.

Shareholders

Ricardo is fully committed to achieving a sustainable increase in the value of the business for its shareholders, and recognises the importance of demonstrating progress in this objective in terms of business performance, dividends and clear communications with shareholders. Ricardo recognises that good relationships with other stakeholders are key to achieving a sustainable increase in the value of the business, and that a sustainable increase

in the value of the business ultimately protects the long-term interests of all appropriate stakeholders. We also recognise that our shareholders give us an independence that enables us to reassure our clients of our integrity.

Clients

Our commitment to our clients is fundamental to the future success of the business. We work hard to understand our clients, anticipate their needs and deliver outstanding solutions that give client satisfaction and improve client performance. We care about our clients, enjoy working with them, and want them to enjoy working with us. We aim to be quick and flexible in our response and easy to work with; we regularly survey their views on our performance. We rigorously uphold client confidentiality, which is embedded in our values.

Employees

Ricardo believes that tangible benefits are realised through true engagement of its people at work and in their professions. Internal communications meetings and methods are embedded

in Ricardo's way of doing business and such meetings provide platforms for engagement and the sharing of knowledge. Through these forums employees, the Executive and Divisional leadership come together on a regular basis to discuss business results and showcase project successes, thereby sharing best practice and recognising great people performance.

The opportunity now presents itself to build the resilience of the organisation in an ever more demanding marketplace. With the significant strengthening of the Group HR resources, the Company has enhanced its ability to realise its planned strategic direction. There is a drive to better understand the wealth of talent within the organisation and realise the true potential available. It is a business imperative to involve and engage people at work in a manner that each employee can identify with. In an increasingly global, matrixed and diverse business setting, deeper levels of trust, openness and collaboration will enhance and sustain Ricardo as a thriving organisation that is adaptable to future demands and worldwide.

shortages of suitably qualified personnel

The Company believes it will grow most successfully through the personal growth of employees. The philosophy and practice being developed are based on our strong cultural heritage and social identity, an ethos which values technical and professional competence which embraces all irrespective of age, background, gender, colour, physical ability or religion, and which also includes rigour in performance management practice and personal development approaches.

Ricardo is proud to have deep engagement with its clients globally, forming strong collaborative teams for knowledge sharing and skills transfer. Respecting both the prestige and diversity of our employees and clients, we at Ricardo aim to be as leading-edge in our people practices as we are in our technical prowess.

KPI regarding employee and knowledge retention

Employee turnover p a based on voluntary leavers, targeting a level of c 10%

11%

Year to 30 June 2007

12%

Year to 30 June 2008

To ensure the business retains and develops an increasingly knowledgeable and experienced workforce, attrition is monitored and exit rationale is reviewed regularly. Trends and hot issues that identify employee concerns are rapidly redressed.

At the same time, a drive to improve the recruitment approach and reach in each division has delivered an improved time-to-hire and quality of hire. There is a strong graduate intake and thriving collaboration with universities globally.

As a vehicle to manage and optimise growing our people's abilities and help them gain the satisfaction they wish to derive from their careers, we have defined a new concept framework to understand and develop skills, competencies and experiences. The Talent Management Framework has several component parts, the first focus of which is a succession-planning mechanism to ensure that the strength at the top levels of the organisation, both managerial and technical, is maintained and energised.

Engendering the right cultural balance in which people can excel throughout the global matrix is a challenge that Ricardo is actively addressing both through local policy and practice as well as through its over-arching global philosophy and protocol for induction process, performance management, reward mechanisms and recognition programmes.

During the year, Ricardo has maintained the policy of continually reviewing the quality of existing management and making changes where improvement is necessary, when new skills are required or when increasing resource is necessary to achieve growth.

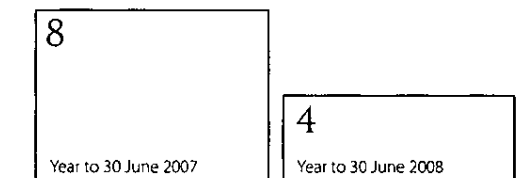
Health and safety

Ricardo is committed to compliance with local health and safety legislation, to maintaining a safe working environment, and to continuous improvement and striving towards a reduction in the level of reportable accidents over time. Training in health and safety awareness, impending changes in relevant legislation and other specialist subjects is fully supported. Health and safety activities are verified by regular internal audits and inspections. During the previous year a Group-wide health and safety policy was launched, the approach to external verification was changed and an objective was set to achieve certification for our UK, German and US businesses to OHSAS 18001 by early 2008. This process was fulfilled when the US business completed the process, complementing the UK and Germany, which had achieved certification in the previous year. This is a demonstration of our commitment to good governance and to being an employer of choice. Good relationships are maintained with local regulators in the main territories in which we operate.

The effects of an increasingly wide geographic base and the need for increased staff flexibility and travel have led to further updates of policy and employee support when away from home. Ricardo is focusing improvement effort on the development of policies on work-related driving and stress,

KPI regarding health and safety

Reportable accidents
based on UK RIDDOR definitions, targeting zero accidents



where new approaches are being delivered in the UK and transferred to other divisions. We have also invested in safety system development as part of the battery centre being built in our Detroit Technology Campus and believe it will be class-leading in this area.

We recognise the level of reportable accidents as a key performance indicator. Whilst we aim for even lower levels, the already low level of accidents reflects the success of our health and safety policies. We are pleased with the reduction achieved during the current year.

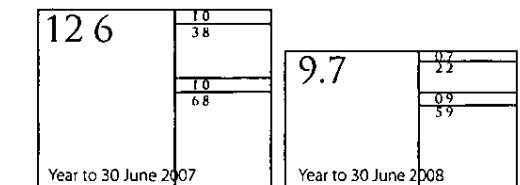
Additionally, our research agenda recognises active safety as a technology platform for research projects, indeed, progress has been made in this area in the year.

Environment

The Board is committed to keeping the environmental impact of the Group's facilities and activities to a minimum. The Board's commitment is embodied in the Ricardo environmental policy, which is widely available via notice boards and the intranet and to the public via the www.ricardo.com website. The drivers for the policy are the need continually to improve and to be responsible members of the local communities in which Ricardo operates. Many of Ricardo's clients require certification to the environmental management system standard ISO 14001 for their key suppliers. We are accredited to this standard in the UK, US and Germany. The application of the policy is defined by appropriate processes and procedures as part of the quality system in each division. Many of these are closely linked to both quality

KPI regarding the environment

CO₂ tonnes per employee calculated using factors from the United Nations Conference on Trade and Development, targeting an efficient use of resources



Key

- Total
- Gasoline
- Diesel
- Gas
- Electricity

and health and safety procedures. Business processes within the ISO 9001 certifications are used to ensure staff are appraised, objectives are set and training needs are identified.

Best practice is shared between divisions via discussions between quality managers and internal audits. The suite of certifications and the supporting internal and external audit programmes are used to check policy effectiveness and identify improvement opportunities.

Ricardo has three principal areas of environmental impact, the first two of which are indirect impacts arising from our work for our customers. The first area is based around the core business of engineering automotive and clean energy sector products and services for the future, where key business drivers are emissions, fuel prices, fuel consumption and noise reduction. This includes Ricardo-funded and client-funded projects and engineering products where technology is developed to provide low emissions and high-efficiency technologies for anticipated emissions and fuel economy requirements across the world.

Material selection is the second key impact area. Ricardo supports the European Union End of Life Directive via close co-operation with its clients in selecting and testing materials for products it designs and develops. These decisions are normally led by client corporate standards for materials and manufacturing processes.

The third impact area is the testing operations, which is the area of the business where the majority of the risks of direct impact on the environment exist. Our testing for customer and research programmes uses fuels

and electrical energy. The resulting negative environmental impacts are mitigated by research into improving test methods, particularly for vehicle testing in calibration programmes. Also it should be noted that, indirectly, these testing programmes may lead to a positive environmental impact, as more fuel efficient and lower emission vehicles developed are released into the marketplace.

Other impacts include the conventional waste streams, which are monitored to identify potential improvement opportunities and to ensure legislative compliance. Higher-risk parts of the facilities, such as fuel stores, have containment and inspection regimes which meet local legislative requirements.

In order to support our customers and develop relationships, we travel to their sites when necessary. We attempt to minimise this impact by the use of video, audio and internet conferencing, however, face-to-face contact is essential to the business. The choice of airline routing and number of staff travelling is generally based on cost and timetable availability, direct flights and

modern aircraft being preferred

The process used to identify these impact areas is derived from ISO 14001, where we are required to identify areas with potential for significant negative environmental impact. These impacts are reviewed during internal and external audits and subjected to specialist risk assessments.

Projects to reduce energy consumption are actively encouraged and have become more important as unit fuel costs have increased. The proportion of regenerative dynamometers in the UK, US and Germany has been increased and will improve further with approved investments. Regenerative dynamometers enable the re-use of electricity generated by testing operations and thereby lead to savings and environmental benefits. Our new buildings are as energy efficient as is economically viable and we have started work with some of our facilities to investigate our first energy recovery systems to reuse waste heat.

To test our environmental focus we measure energy usage in terms of the tonnes of CO₂ produced by the business from the use of diesel and gasoline fuels for testing, and from gas and energy use in our facilities. For ease of understanding this is expressed as a ratio to headcount. Whilst a continuous reduction in CO₂ tonnes per head is targeted, this is not at the expense of taking on testing business that inevitably uses fuels. Only the energy used directly by the Group is measurable. The indirect benefits to the environment from Ricardo's work are not measurable but almost certainly far outweigh any direct negative impacts.

Good relationships are maintained

with national and local regulatory organisations such as the Environment Agency and Environmental Health Departments in the UK and the Environmental Protection Agency and Michigan Department of Environmental Quality in the US. Processes are in place to keep up to date on regulatory issues and are the subject of regular audits. The amount of environmental legislation is growing, resulting in increasing training and compliance costs. Staff training in health, safety and environmental matters is a priority and is reviewed annually as part of normal appraisal processes.

Suppliers

Relations with the supplier community are regarded as an essential ingredient in achieving client and shareholder satisfaction. It is preferred that key suppliers have been certified to ISO 9001 and ISO 14001 as a minimum. All suppliers are encouraged to achieve ISO 9001 certification. It should be noted that in the case of some projects, suppliers and low-volume production materials are nominated by clients; this is normal industry practice. Where choice in suppliers is possible, various procurement methods are used; these depend upon the type of product or service being procured. Local suppliers for service functions on our main sites are used where commercially practical.

There are no significant supply contracts which are essential to the business of the Group. We are not tied to any suppliers in such a manner as to jeopardise the independence of the business. Thanks to initiatives launched by our Group Procurement Director, a number of savings have been delivered through consolidating the supply base and in some cases securing better rates for longer term contracts.



Conclusion

Ricardo's strategy to increase geographic, customer and sector diversification has again delivered improved financial performance and a strong order book. The balance sheet has further strengthened through strong working capital management. This is against a backdrop of increased investment in facilities, technological research and development and expansion into overseas regions, together with an increased dividend to shareholders. With a high quality management team the Group is now well positioned to exploit the global marketplace. It has key technologies to address the increasing demands for CO₂ reduction and fuel economy improvement in a variety of markets

from passenger car, military, motorsport and off highway to new power generation sectors.

In the year we have made major improvements to our US business, delivering a good turnaround under new leadership, and secured high levels of business from the important German market, where we are establishing a good reputation for technology and delivery. We have continued expansion into the key Asian markets of Japan, China, India and Korea, which has improved utilisation of our supporting UK operations. Additionally this year we have entered the Russian market and gained a good foothold in this developing automotive marketplace.

We are also undertaking a small restructuring plan at our exhaust business to improve profitability, which will be largely complete in the first quarter of the new financial year. Our Strategic Consulting business has had a good year of profitable growth.

The new financial year has started well, benefiting from the strong order book and a continued good order intake. We continue to press ahead with our strategy to increase geographic, customer and sector spread, exploiting our research-led innovation and engineering. Despite volatile global economic conditions, our strategy and the good start to the new financial year give us confidence for the future.

Dave Shemmans
(Chief Executive Officer)

Paula Bell
(Group Finance Director)

Cautionary statement

This business review and condensed consolidated financial statements have been prepared in accordance with the accounting policies adopted by Ricardo plc. The information contained in this business review and condensed consolidated financial statements is not intended to constitute an offer of securities or any other financial product, nor is it intended to be used in connection with any such offer. The information contained in this business review and condensed consolidated financial statements is not intended to be used in connection with any such offer.

FEATURES

Helping develop next-generation wind power technology

Taking low carbon technologies to new markets

Defence vehicle engineering

International commercial vehicles

Global leadership in CO₂ technology

Helping develop next-generation **wind power technology**

Renewable energy

With energy security and global warming at the very top of the political agenda in all parts of the world, renewable energy resources are increasingly seen as an important contributor to the future of regional and national grid power supplies. Ricardo is extremely well placed to assist companies wishing to develop renewable energy technologies by virtue of its robust design and development engineering and systems integration capabilities. By applying the latest thinking from the automotive industry in areas such as product development processes, energy management, supply chain and manufacturing optimisation and warranty support, Ricardo is already helping customers in this sector to bring new innovations to market readiness.

One such example is in the support provided to Massachusetts based wind energy company, General Compression. Of the potentially large-scale renewable energy resources, wind is perhaps the most universally available, as virtually every part of the Earth's surface experiences the natural force of the wind. However, as the wind is subject to the vagaries of the weather and as such is inherently unpredictable, wind energy has traditionally been seen as an intermittent source of electrical power. General Compression's proprietary Dispatchable Wind™ system is

described as offering 'wind energy on demand' because it decouples wind energy capture from electrical power generation by substituting the electric generators in its wind turbines with advanced compressor systems linked to a central high pressure compressed air reservoir at each wind farm. The reservoir acts as an energy buffer, storing compressed air which can be passed through an expander plant in order to generate electricity whenever it's needed – not just when the wind is blowing.

Dispatchable Wind is based on the use of the innovative, high energy density *Dragonfly*™ compressor under development by Mechanology, Inc., one of General Compression's major shareholders. Ricardo has been chosen by Mechanology to be one of its key product development partners to assist in developing the *Dragonfly*™ such that it will meet or exceed the rigours of round-the-clock operation with an expected life in excess of 20 years.

The Ricardo engineers working on the *Dragonfly*™ development programme were closely integrated with Mechanology's own engineering team, focusing on those areas where state-of-the-art automotive engine design, analysis and engineering skills and processes could be of greatest assistance. One of the most fundamental considerations was in

Ricardo has been chosen by Mechanology to be one of its key product development partners to assist in developing the Dragonfly™

the detailed design of the various components and sub-systems of the *Dragonfly™*, enabling it to be taken from a 37 kW proof-of-concept model to a 375 kW production-scale prototype device

Ricardo's Computer Aided Engineering (CAE) technology was used to great effect in examining the overall gas dynamics and possible drive mechanisms of the *Dragonfly™*. Like many compressors, the *Dragonfly™* generates its own pulsed flow with consequent pressure wave dynamics. Ricardo's WAVE software, more typically applied to engine, intake and exhaust simulation, was an ideal choice to simulate the complete system of sequenced compressor stages and associated manifolds, ducting and intercoolers installed in the nacelle. While the primary mechanical system is in itself fundamentally in balance, WAVE enables the far more complex system-wide gas dynamics to be considered and optimised.

The *Dragonfly™* drive system also benefited from Ricardo CAE technology in the form of the VALDYN package, more usually applied to optimise the valve train and belt and chain drive systems of automotive engines. While the original drive system as used for the initial 37 kW prototype is being utilized in the first full-size 375 kW prototype, Mechanology requested

that Ricardo investigate two alternative designs in parallel for possible substitution at a later stage of product development. The use of Ricardo's VALDYN software allows engineers to calculate critical parameters such as bearing loads, contact stresses, and resonant vibration modes in a wide variety of configurations very quickly. The overall benefit is a more robust design in a much shorter time period than achievable by conventional design approaches.

The detailed engineering of the *Dragonfly™* components and sub-systems has utilised a range of CAE and design technologies of the automotive industry, the prototype development process too would be familiar to many automotive design engineers. However, whereas multiple engine prototypes will usually be produced to fulfil a range of separate test development applications such as thermal and durability assessment, calibration development and ultimately, in-vehicle prototype development, the scale of the *Dragonfly™* and its intended wind energy application are such that all work will need to be carried out on a single prototype of each version in an integrated manner.

For the next stage of *Dragonfly™* prototype development, Mechanology has built its own 525 kW compressor test facility at its Attleboro base. Testing

of the first full-size 375 kW prototype *Dragonfly™* has already commenced while the lessons learned are fed into the engineering design process of the next stage prototype. Mechanology intends to work with Ricardo and other partners to take this full size prototype forward for evaluation as a complete General Compression compressor array including all four compressor stages and intercoolers. This will be too big for the company's in-house test facility, so will instead be tested at a Department of Energy laboratory – one of very few installations globally capable of accommodating a 1.5 MW, nacelle-sized machinery installation. Testing of this array is planned for 2009 and 2010, following which General Compression intends in 2011 to commission its first prototype wind project, featuring three commercial-scale 'Dispatchable Wind' turbines.

Ricardo's work with General Compression is just one example of the company's growing exposure in the renewable energy sector. With a rapidly expanding market characterised by many concepts and innovations requiring significant advanced engineering resource to bring them to maturity and market readiness, Ricardo's skills and expertise are likely to be in high demand.

Taking **low carbon technologies** to new markets

Developing some of China's first hybrid electric vehicles

Formed as recently as 1997, Chery Automobile Company Ltd has risen to become one of China's most successful automakers. In 2007 the company sold a total of 381,000 passenger cars, an increase of almost 25 per cent on the previous year. As such, Chery now ranks as China's fourth largest passenger vehicle maker, moreover it is also the country's largest independent automaker, given that the top three all have substantial manufacturing joint ventures with overseas partners.

Throughout its history Chery has followed an aggressive marketing strategy, targeting export sales to international markets in addition to satisfying domestic Chinese demand. This strategy has required the acquisition of the latest in automotive technology for both powertrain and vehicle engineering.

Ricardo has an exceptionally strong track record in the development of high fuel efficiency hybrid electric vehicles. It has led high profile joint research programmes with leading automakers demonstrating class-leading performance and new technology deployment in vehicles ranging from a micro-hybrid fitted with a stop-start system, stall protection and regenerative braking kinetic energy recovery, to a full diesel hybrid incorporating advanced energy

management and powertrain control. The latter vehicle boasts one of the world's most energy-efficient and CO₂-optimised powertrains, yet also out-performs its baseline production equivalent.

In addition to these programmes Ricardo has supported many automakers with technology and engineering assistance for commercially available hybrid products in Europe and North America.

With its expertise in hybrid electric vehicles and its wide-ranging skills in systems integration and vehicle control and electronics, Ricardo was a natural choice of engineering partner for Chery when the Chinese automaker decided to develop its first hybrid products. Two new vehicles, both based on its existing A5 sedan model, were identified by Chery. The first was to be a stop-start hybrid based on a 12-volt Belt Starter-Generator (BSG) linked to 1.6 litre gasoline engine, itself linked to a 5-speed manual transmission. The second was a more comprehensive mild-hybrid programme based on the same baseline vehicle but this time equipped with a 1.3 litre gasoline engine and a 12 kW crankshaft-mounted 151-volt Integrated Starter-Generator (ISG). Together, these elements were configured to be capable of providing more significant fuel savings through

fuel consumption improvement of the A5 ISG over the NEDC cycle is expected to approach 15 per cent compared to the 1.6 litre benchmark vehicle

the use of advanced powertrain control technologies and energy management strategies

In addition to developing these two new hybrid products, an important objective of the programme for Chery was technology transfer through integration of the joint programmes with its own engineering processes. For this reason a dedicated on-site engineering office was established at the Ricardo Cambridge Technical Centre. Here, Chery engineers could work alongside colleagues from Ricardo as well as with selected component and sub-system suppliers.

Key Ricardo responsibilities for the BSG programme included full architecture, sub-system and components requirements definition, hybrid control unit design, vehicle and communications interface development, system design including detailed thermal analysis, and powertrain control strategy for safety and efficient operation. The focus of the engineering programme and the efficiency of the development programme were such that the first prototype vehicle was run with production-intent hardware and complete with hybrid strategy and application software just ten months from programme start. The final fuel economy results are no less impressive: in tests on the standard NEDC European homologation drive cycle, the BSG vehicle achieves between 4 and 7 per cent improvement in fuel consumption over the baseline product,

and it is expected that improvements will be even greater in real-world urban driving.

For the more complex ISG product, Ricardo carried full system design authority including specification of the ISG system, power electronics, high-voltage battery pack and battery management system integration, the hybrid control unit, and safety-critical application software development and validation through hardware-in-the-loop testing. With its comprehensive mild-hybrid functionality the ISG-equipped sedan provides a significant increase in performance over the equivalent baseline A5 vehicle fitted with a 1.3 litre engine; peak power and torque of the ISG-equipped vehicle are comparable with that of a larger 1.6 litre engine. Final calibration and testing of the vehicle systems are still taking place, but the fuel consumption improvement of the A5 ISG over the NEDC cycle is expected to approach 15 per cent compared to the 1.6 litre benchmark vehicle. In addition, the system enables engine restart within 200 milliseconds, thus allowing stop-start functionality to be included in the hybrid control strategy.

The new BSG and ISG powertrain equipped A5 models of Chery Automobile Company Ltd underscore the position of this fast-growing Chinese automaker as one of China's automotive technology leaders. Engineered to exacting European emissions requirements, these new

vehicles are due to enter full production shortly and will be available for both domestic and export markets.

In recognition of its achievement in bringing these two new low-carbon vehicles to market, Chery was awarded a contract by the Beijing Organizing Committee for the Games of the XXIX Olympiad to provide a 50-unit fleet of A5 vehicles – comprising 40 BSG and 10 ISG hybrids – to support the logistical requirements of the 2008 Beijing Olympic Games. Known as the "Olympics Green Messengers" these vehicles were testimony to both the technology leadership of Chery in the fast-growing Chinese automotive industry, and to the innovative skills, expertise and flexible business approach of Ricardo which supported and facilitated their development.

Defence vehicle engineering

Meeting new challenges for defence and peacekeeping operations

In the last decade a fundamental change in defence vehicle engineering has occurred. The traditional notion model of the 'front line' across which hostile forces would be engaged and supporting lines of supply led to clearly distinct requirements. Fighting vehicles required heavy armour offering high levels of protection and robust hull structures, while light attack and logistical support vehicles would be optimised for payload and mobility. In the new paradigm of defence engagement where peacekeeping operations are frequently carried out in hostile environments, there is no such clear delineation. Crew protection and survivability are issues for all vehicle types while payload requirements are significantly increased due to the level of sophisticated communications and electronic countermeasures kit that need to be carried. Inevitably this trend has eroded the potential for the adaptation of mainstream automotive platforms for defence vehicles, but if the vehicle engineering challenge is more complex than ever before, the potential range of tools available to create engineering solutions is more extensive too.

In 2007 Ricardo announced the formation of the Defence Systems and Technologies strategic business unit to enable its defence vehicle engineering activity to benefit from next-generation automotive technologies such as advanced combustion systems, hybrid

and electric vehicle powertrains, NVH, transmission and driveline systems, active safety and control & electronics. In addition to this the new business unit provides a focus for many advanced automotive and commercial vehicle diagnostics and prognostics technologies which can enable the deployment on defence vehicles of condition-based maintenance processes which underscore mission assuredness while also offering potentially significant operational cost savings in logistics and total cost of ownership.

Ricardo's capacity to meet the challenges of the new paradigm of defence imperatives is well illustrated by a recent successful collaboration with the North American truckmaker Navistar Inc. on the US Army's Future Tactical Truck System (FTTS). Commissioned by the Tank-Automotive Research, Development and Engineering Center (TARDEC) – the arm of the US military responsible for military vehicle development – the project aim was to produce a technology demonstrator for a new, highly mobile armoured vehicle suited to present and future tactical operations.

TARDEC was keen to exploit technologies already in development or production in other parts of the automotive sector, and Ricardo's record of cost-effective innovation in many key areas made the company

"Many technical achievements were accomplished under extraordinarily tight schedules"

– Gordon Wolverton, chief engineer, Navistar

an obvious choice of project partner for Navistar. As would be expected, the specifications for the FTTS were demanding, and included improvements on existing standards in crew comfort and safety, payload capacity and fuel economy. Fuel economy is a vital imperative in a military context, in which every litre of fuel needed carries potentially significant costs of transport and storage. It is also an area in which Ricardo was able to bring significant expertise – by applying its signature Total Vehicle Fuel Economy (TVFE) holistic approach, in which fuel economy is a main driver throughout the entire vehicle engineering process.

Using the TVFE approach, the projected fuel use of the vehicle was subjected to detailed simulative analysis by Ricardo engineers. The significant power demands of the on-board electrical systems thus identified contributed to the choice of a hybrid powertrain for the demonstrator vehicle, using a bespoke electric machine designed to specifications drawn from Ricardo simulations, and a 3-litre four-cylinder diesel unit made by a Navistar subsidiary. As well as capturing braking energy and providing acceleration assistance, the use of an electric machine allows for silent operation, an important consideration in a defence context. Another innovation was the rear mounting of the diesel engine in the FTTS, allowing easier access for servicing and – by

not impinging on space in the cab – delivering improvements for crew comfort and sightlines. In this location, the engine is also less obvious to heat-seeking weapons.

For the vehicle control systems, Ricardo was able to take advantage of its rCube rapid prototyping technology. One rCube was used as a supervisory controller for the engine and transmission, and another to control the innovative rear-wheel steering system and intelligent thermal systems, efficient control of which reduces another significant energy drain. A CO₂-based air conditioning system was chosen for its weight efficiency, and for its ability to run backwards as a heat pump to warm the cab when necessary.

A totally new chassis platform was developed for the FTTS, including a suspension system that exceeded performance objectives, yet used, where possible, common components to reduce manufacturing costs. To optimise the design of integral armour and mine protection, and thus improve crew protection, Ricardo employed its own advanced CAE simulation techniques. As a result, the vehicle is not reliant on add-on heavy armour which has benefits for its payload.

The project fell into two phases. The first, of nine months, produced a design concept, the second saw the

demonstrator vehicle, along with an integrated trailer, fully designed and built in just 28 weeks for testing and evaluation by TARDEC to prepare the next stage of development. Throughout, the joint Navistar-Ricardo engineering team were co-located in a closed project office at Ricardo's US base in Detroit, forming a close working bond that was crucial to success. Many technical achievements were accomplished under 'extraordinarily tight schedules', says Gordon Wolverton, chief engineer for Navistar. 'The ground-up build and continued support from Ricardo's top-notch technicians is consistent with Navistar Defense's mission for product excellence and customer support.'

For the future development of defence vehicles, the FTTS project sets a clear pattern: their design must offer the optimum combination of mobility, payload capacity, reliability, serviceability, robustness and fuel economy, while providing the best possible environment for crew operations and protection. With the establishment of the new Defence Systems and Technologies strategic business unit, Ricardo is extremely well placed to meet these demanding future challenges.

This article has been reviewed and certified as UNCLASS. Dist A
Approved for public release.

International commercial vehicles

Developing a next-generation engine for a global truckmaker

Ricardo has had a highly successful working relationship with Korea's international automotive giant, Hyundai Motor Corporation (HMC), since the early 1980s. In the last decade Ricardo assisted with the development of HMC's own 12-litre Powertec truck engine, and it was almost exactly ten years later that the company was engaged to work on the H-engine, a 10-litre, six-cylinder heavy-duty diesel unit intended to replace the Powertec in many of HMC's heavy trucks and highway express buses.

The 'H' in the name stands for 'high technology', and the compact and efficient unit sets new standards in the design of heavy-duty diesel engines. Its development timeline was just

forty months from a clean sheet of paper to start of production. This was an extremely demanding timescale, particularly given that the target life of the engine was one million miles without major overhaul, a standard that necessarily takes a long time to validate. This tight timeframe stemmed from the requirement that H-engine must be ready for the Korean market in 2008, when the Euro 4 emissions standards came into force, and it duly went into production in November 2007.

The eleven-month design phase – which included all the CAD and CAE work – saw the Ricardo heavy duty diesel team working alongside professionals from all parts of the HMC operation – from designers to

The challenging deadline of the H-engine project was achieved thanks to a close and highly effective working relationship between Ricardo and HMC

machining, foundry and assembly staff. At times, as many as ten Hyundai staff members were accommodated in the project office at Ricardo's Shoreham Technical Centre. The Ricardo team was led by specialists in heavy duty diesel technology, each with up to thirty years of experience in this challenging engineering environment.

A concept design was required in just three months, which called for swift decision-making. On fuel supply, an early choice was made to use electronic unit injectors made by international automotive systems manufacturer, Delphi. This was partly to give capacity for higher pressure fuel injection in future revised designs aiming to meet future Euro 5 and Euro 6 emissions targets. Provision for forward emissions, performance and fuel economy development also lay behind the specification of a maximum cylinder pressure of 220 bar – around ten per cent higher than is usual for a heavy duty engine. This high pressure capability, however, called for larger heavier connecting rods and crankshaft bearings – a requirement that had to be squared with the imperative for the lowest possible overall engine weight. Consequentially, much effort was put into reducing the weight of the cylinder block casing without compromising the robustness of the structure.

Other examples of the flexibility built into the H-engine design are the use of a wet liner, and of aluminium pistons. A future switch to steel pistons would allow for higher engine pressures, and

therefore greater power. At present the standard output of the engine is 400 PS, further development, it is envisaged, could take this to 500 PS. Ease of assembly and low cost were other key project drivers. One example of economical design was the integration of the inlet manifold and camshaft carrier with the cylinder head, which are cast as a single unit. HMC set a demanding target for engine noise reduction too – a general feature of market expectation in Japan and Korea. To pinpoint sources of excess noise, Ricardo used an acoustic camera, and by corrective work on prototypes, was able to meet noise level requirements without resort to external shielding or a camshaft damper.

Naturally, superior emissions performance was a major imperative for the H-engine design. To assist its conformity with Euro 4 targets on particulate emissions, a particle oxygen catalyst is fitted. The engine comfortably achieves its emissions certification requirements, including the European Load Response test, which demands no visible smoke from the exhaust. The EGR (exhaust gas recirculation) system, to reduce NO_x, presented a particular engineering challenge, given the very high degree of thermal stress on this engine. Ricardo's VECTIS CFD software was used to design the cooling systems. In an engine of this size and performance it was vital to target the coolant precisely in critical locations such as at the top piston ring at top dead centre. Exactly how this has been achieved remains a

closely guarded project secret.

The challenging deadline of the H-engine project was achieved thanks to a close and highly effective working relationship between Ricardo and HMC. "The teams balanced each other perfectly", comments Dr Ku, head of HMC's commercial diesel development group. Dr Ku particularly appreciated the swift responses of Ricardo engineers to specific requests. "They are open-minded and have a positive attitude for collaborating with others." The Hyundai chief speculates that an element of healthy competition between the design teams may have improved the end product – a strong and robust engine with innovative features which offers great potential for current international markets as well as for future development.

Global leadership in CO₂ technology

Defining goals and delivering next-generation solutions

Low carbon technology has been one of the key drivers for Ricardo for many years as the company has sought to maximise the fuel economy of its customers' products

More recently however, concerns surrounding global warming and energy security have propelled issues of CO₂ emissions and fuel efficiency right to the very top of the political agenda on both sides of the Atlantic. As a result, Ricardo's deep base of knowledge, skills and experience has been increasingly in demand by both governments and regulatory authorities as they seek a research basis for future public policy. The following are just a few examples of the public sector engagement of Ricardo in this crucial area for new technology research, development and innovation

Assessing the effectiveness of low-CO₂ technologies for the US Environmental Protection Agency

In December 2007 the United States government's Environmental Protection Agency (EPA) published a landmark report entitled A Study of Potential Effectiveness of Carbon Dioxide Reducing Vehicle Technologies. This reports on work carried out for the EPA by Ricardo as a contractor of Perrin Quarles Associates, Inc

Ricardo's brief, issued in July 2007, was to provide a detailed assessment of the carbon dioxide emissions reduction

potential of a large number of vehicle technology combinations. The EPA selected the vehicle classes to be investigated – the study was restricted to gasoline and diesel powertrains – and the technology packages to be applied. This was a technical study in which findings were presented without subjective recommendation or cost analysis. Vehicle performance, however, was central to Ricardo's analytical remit in order to assess the potential impact of emissions reduction technology on consumer acceptability

Ricardo employed advanced physics-based virtual modelling techniques to gauge the quantitative impact of various emissions technology combinations, with the company's unique proprietary test and analytical data ensuring that each technology package was accurately represented. Significant CO₂ reductions were predicted from several combinations of powertrain and vehicle technologies, notably from the packages featuring integrated starter-generators and electrically-powered accessories such as electric power steering and high-efficiency alternators

Less than four months after programme start a draft report was sent for peer review. A typical response offered "high praise for its breadth and thoroughness, especially considering the accelerated schedule." There were positive comments too for Ricardo's "excellent modelling and analytical methods" and "state-of-the-art methodology"

Ricardo wins project funding from US Department of Energy

Reduced fuel consumption means reduced emissions, and Ricardo's engagement in fuel efficiency R&D programmes by the US Department of Energy (DoE) offers further evidence that decision-makers in the United States recognise the Company's position at the leading edge of these technologies.

In August 2007 the DoE announced a funding programme for research into the fuel efficiency of light duty vehicle engines, with the reduction of greenhouse gases an avowed goal of the programme. Ricardo is involved in two projects, which are being funded to a total value of \$3.4 million. A collaboration with General Motors is investigating engine downsizing by the use of cooled EGR, while a joint project with Bosch is developing efficiency improvements using advanced flex-fuel vehicle (FFV) technologies.

Sentence: linking mobile telecommunications, mapping and vehicle technologies

Ricardo is a partner in Sentence, a unique UK-based collaboration to develop intelligent transport systems to improve fuel efficiency and reduce emissions. This eighteen month programme, announced in November 2007, unites the best in automotive knowledge with the most advanced technology in telecommunications, mapping and telemetry systems. Among Ricardo's partner businesses are the international telecommunications

provider Orange, vehicle manufacturer Land Rover and the UK mapping agency, Ordnance Survey.

Together with Land Rover, Ricardo is charged with the development of advanced vehicles that use GPS and telemetry to improve fuel efficiency and reduce emissions. Fuel economy gains from hybrid powertrains and regenerative braking can be maximised by an intelligent system that enables a vehicle to anticipate difficult traffic environments, such as gradients, junctions and congestion hotspots, and use this information in onboard systems such as intelligent powertrain control and calibration, and adaptive route navigation. Sentence is part-funded by InnovITS, the UK centre of excellence for transport telematics and sustainable mobility.

Three more UK low carbon vehicle projects announced

In May 2008 it was announced that Ricardo would be involved in three low-carbon projects funded by the UK government's Technology Strategy Board. The company will lead a consortium including Jaguar Cars on the 2/4 Car project. This will build on Ricardo's 2/4SIGHT engine concept, utilizing two-stroke/four-stroke switching technology to achieve a 25-30 per cent reduction in CO₂ emissions with no performance losses.

Ricardo will also participate in the Range Extended Electric Vehicle project, to develop an electric and diesel-hybrid powertrain for a large premium sport utility vehicle with a zero emissions range of twelve miles.

Another type of hybrid system will be co-investigated by Ricardo as part of the Flywheel Hybrid System for Premium Vehicles project, which will develop a kinetic energy recovery system for an existing premium segment passenger vehicle.

Informed strategy: the key to future success

Ricardo's strategic vision of the importance of CO₂ emissions reduction and fuel economy improvement has been proved correct. By focusing on the development of low-carbon technologies the company has positioned itself to benefit from the proposed changes in legislative frameworks in these areas in both Europe and North America.

With this trend appearing likely to accelerate, Ricardo is ideally placed to help the public sector as well as commercial customers and has a significant early mover advantage in these highly competitive world markets.

*Ricardo's strategic vision
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GOVERNANCE

Board members
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Board members

David Shemmans

(Chief Executive Officer)

Dave Shemmans, aged 42, joined Ricardo in 1999 as Senior Business Development Manager for Ricardo Consulting Engineers ("RCE"). In 2002 he was appointed Business Development Director for the Ricardo Group and in December 2003 Managing Director of RCE. He was appointed to the Board as Chief Executive Officer Designate and Managing Director International Operations in February 2005 and became the Chief Executive Officer of Ricardo plc on 4 November 2005. Prior to joining Ricardo he was Operations Director and co-founder of Wavedriver Limited (a subsidiary of PowerGen plc). He has also gained consulting and management experience in both listed and private companies. He holds a degree in electronics from UMIST and is a graduate of the Harvard Business School.

Paula Bell

(Group Finance Director)

Paula Bell joined Ricardo plc and took up the position of Group Finance Director in November 2006. She is 41 years old. Paula joined Ricardo from BAA plc where she was the Finance and Property Director for Gatwick Airport. She was previously the Director of Finance for AWG plc and over a ten year period at Rolls-Royce plc. Paula was Finance Director for various divisions before becoming the Business Development Director for their international Transmission and Distribution division leading on strategy and a global merger and acquisition programme. Paula is a fellow of the Chartered Institute of Management Accountants.

Marcus Beresford CBE

(Chairman)

Marcus Beresford was appointed a non-executive director on 1 October 2003 and Chairman on 1 January 2004. He is 66 years old. He has had a long and distinguished career in the engineering industry, principally with Smiths Industries, Siemens and GKN. He joined the Board of GKN plc in 1992 and was Chief Executive from August 2001 until he retired in December 2002. He is currently a non-executive director of Cobham plc. He is a fellow of the Institution of Engineering and Technology. Outside industry he has held various posts, including being a member of the Advisory Committee on Business and the Environment, a member of the Engineering Technology Board and a Council Member of the Open University.

Michael Harper

(Non-Executive)

Michael Harper was appointed a non-executive director on 24 June 2003. He is 63 years old. He was Chief Executive of Kidde plc until he retired from that position in March 2005 and more recently was acting Chief Executive of BBA Aviation plc until June 2007. He is currently Chairman of BBA Aviation plc, Chairman of The Vitec Group plc and a non-executive director of Catlin plc.

Ian Percy, CBE
(Non-Executive Deputy Chairman)

Ian Percy was appointed a non-executive director on 1 July 2000 and is the senior independent director. He is 66 years old. He has held a number of non-executive directorships and former positions have included being Chairman of Kiln plc, Companies House and the Accounts Commission for Scotland. He was President of the Institute of Chartered Accountants of Scotland and has acted in a number of capacities for both the profession and government in relation to professional standards. He is presently Deputy Chairman of the Weir Group plc and Cala Group Ltd. He is also President of the Foundation for Governance Research and Education, Honorary Professor of Accounting at Aberdeen University and Chair of the Court of Queen Margaret University.

Stephen Parker
(Executive Director)

Aged 55, Stephen Parker joined Ricardo on 1 August 2002 as the Managing Director of Ricardo Strategic Consulting from A. T. Kearney, one of the world's leading management consulting practices, and was appointed to the Board on the same day. At A. T. Kearney he was employed as a Vice President of their Global Automotive Practice, having responsibility for the provision of strategy and operational consulting to the executive teams of both automotive manufacturers and Tier 1 suppliers. Previous roles include Director of Business Development and General Manager for Perkins Technology Ltd at Perkins Engine Group, a position he held for eight years, as well as eight years at PSA Peugeot Citroën.

David Hall
(Non-Executive)

David Hall was appointed a non-executive director on 21 February 2006. He is 61 years old. He was formerly at the Boston Consulting Group, the international strategic and management consulting firm, where he started and built up the financial services practice, served on the worldwide Executive Committee, was Chairman of BCG's ten global practice groups and had global responsibility for HR. David is also Chairman of the Financial Services Compensation Scheme and a consultant to the Board of Hoare & Co, a private bank.

David Oglethorpe
(Company Secretary)

David Oglethorpe is 46 years old and qualified as a Chartered Accountant with Deloitte Haskins and Sells in 1988. He joined Ricardo in 1990 and has had various divisional finance director and head office positions before his appointment as Company Secretary in December 2005.

Details of directors appointed since 30 June 2008 are reported on page 61.

Corporate governance in practice

The Combined Code on Corporate Governance

The Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 ('the Code') applies to reporting periods beginning on or after 1 November 2006. Section I of the Code applies to companies and this statement, together with the Directors' Remuneration Report set out on pages 52 to 59, explains how the Company applied its principles throughout the year ended 30 June 2008.

The Board of directors

The Board, which is headed by the non-executive Chairman, Marcus Beresford, included three other non-executive and three executive members throughout the year. Subsequent appointments to the Board are reported in the Directors' Report on page 60.

The role of the Board is to provide entrepreneurial leadership of the Company within a framework of effective controls which enables risk to be assessed and managed. The Board sets strategic aims, reviews management performance and ensures that the necessary financial and human resources are in place to meet its objectives and its obligations to its shareholders and others. The Board has agreed a schedule of matters reserved for the Board, which includes approval of the Group's strategy, acquisitions and disposals of businesses, the annual financial budgets, major capital expenditure, major proposals and certain key policies. The Board approves interim dividends and recommends final dividends. It receives recommendations from the Audit Committee in relation to the appointment of auditors, their remuneration and the policy relating to non-audit services and from the Nomination Committee it receives recommendations regarding Board appointments. The Board agrees the policy for executive directors' remuneration with the Remuneration Committee and determines fees paid to non-executive directors other than the Chairman. The matters reserved for the Board and the terms of reference of its sub-committees are available on the Company's website. Board papers are circulated before Board meetings in sufficient time. The Board delegates to management, through the Chief Executive Officer, the implementation of strategy, the overall performance of the Group and the management of the business in a fit and proper manner in keeping with its values and policies.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined and has been approved by the Board. The Chairman's primary responsibility is ensuring the effectiveness of the Board and setting its agenda. The Chief Executive has direct charge of the Group on a day to day basis and is accountable to the Board for the financial and operational performance of the Group. The Chief Executive also chairs the Ricardo Operating Board which deals with operational issues. It usually meets quarterly and includes the Managing Directors of subsidiary companies and other senior executives. The minutes of the meetings are circulated to the Board.

The performance of the Board is evaluated each year by a rigorous process based around a detailed questionnaire which each director completes. The areas covered include the quality of leadership and the setting of strategy and values, the Board's setting of its own objectives and review of its progress against those objectives, the composition of

the Board, the appropriateness of its skill level and mix of experience and the effectiveness of the various roles, how well the Board members work and communicate together and with others, the appropriateness of Board and senior management succession planning and the induction and training of Board members, the way Board meetings are conducted, the content of those meetings and related processes, the effectiveness of the various committees, and the appropriateness of its risk and control frameworks. The questionnaire also reviews the performance of each individual non-executive director including the Chairman. The results of the questionnaire are analysed and reviewed by the Board and appropriate improvements agreed and implemented.

Each director is appraised through the normal appraisal process. The Chief Executive Officer is appraised by the Chairman, the other executive Board members are appraised by the Chief Executive Officer, and the non-executive Board members other than the Chairman are appraised by the Chairman. Under the leadership of the senior independent director, having consulted with the executive directors, the non-executive Board members hold a meeting without the Chairman being present to appraise the Chairman's performance.

A new director, on appointment, is briefed on the activities of the Company, and receives a full, formal and tailored induction. Non-executive directors including the Chairman are briefed on issues arising at Board meetings if required and non-executive directors have access to the Chairman and the executive directors at any time. Ongoing training is provided as needed including presentations by the operating units on specific aspects of the business, supplemented by visits to key locations and meetings with key senior executives. Directors are updated continually on the Group's business and by means of Board presentations on matters including insurance, pensions, social, ethical, environmental and health and safety issues. In the furtherance of their duties or in relation to acts carried out by the Board or the Company, each director has been informed that they are entitled to seek independent professional advice at the expense of the Company. The Company maintains appropriate cover under a Directors' and Officers' liability insurance policy for legal action taken against any director. Each director has access to the services of the Company Secretary if required.

The non-executive directors including the Chairman are considered by the Board to be independent of management and are free to exercise independence of judgement. They have never been employees of the Company nor have they participated in any of the Company's share schemes, pension schemes or bonus arrangements. They receive no other remuneration from the Company other than the directors' fees and travel expenses. Confirmation is sought and received from each non-executive director including the Chairman annually, and from the Chairman at the date of his appointment, that he

- does not have, and has not had within the last three years, a material business relationship with the Company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company;

	Board meetings	Committee meetings		
		Audit	Remuneration	Nomination
<i>Number of meetings in the year</i>	9	2	4	2
<i>Number attended by each member</i>				
Marcus Beresford	9	–	4	2
Ian Percy	9	2	4	2
Michael Harper	9	2	4	2
David Hall	9	2	3	1
Dave Shemmans	9	–	–	2
Paula Bell	9	–	–	–
Steve Parker	8	–	–	–

- has no close family ties with any of the Company's advisers, directors or senior employees,
- holds no cross-directorships or significant links with other directors through involvement in other companies or bodies, and
- does not represent a significant shareholder

Directors are subject to election at the Annual General Meeting following their appointment and are subject to re-election at least every three years

The Chairman met during the year with the other non-executives and without the executive directors being present. The non-executive Deputy Chairman, Ian Percy, is the senior independent director who is available to shareholders if contact through normal channels is inappropriate or has failed to resolve an issue.

The Board met regularly throughout the year with ad hoc meetings also being held. The table above shows the number of scheduled Board meetings (excluding those held to deal with minor administrative or time-critical matters) and Audit, Remuneration and Nomination Committee meetings held during the year and the attendance of each director.

The Audit Committee

The Audit Committee is established by and is responsible to the Board. It has written terms of reference. Its main responsibilities are:

- to monitor and be satisfied with the truth and fairness of the Company's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law and the Listing Rules of the UK Listing Authority,
- to review the Company's internal financial controls and internal control and risk management systems, and to review the effectiveness of the internal audit function and ensure that it is adequately resourced,
- to make recommendations to the Board in relation to the appointment and re-appointment of the external auditors and their remuneration, following appointment or re-appointment by the shareholders in general meeting, and to review the scope and planning of the audit and be satisfied with the auditors' independence, objectivity and effectiveness on an ongoing basis, and

- to implement the policy relating to any non-audit services performed by the external auditors

Ian Percy, the Chairman of the Audit Committee, has wide experience as Chairman of audit committees, was recently Chairman of Companies House and was formerly Chairman of the Accounts Commission for Scotland, Vice Chair of the UK Auditing Practices Board and President of the Institute of Chartered Accountants of Scotland. He therefore has recent and relevant experience. The other members of the Audit Committee, Michael Harper and David Hall, who are both non-executive directors, have gained wide experience in regulatory and risk issues. Appointments to the Audit Committee are made by the Board on the recommendation of the Nomination Committee which takes into account the particular skills and attributes required to fulfil particular roles. The Audit Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice as is deemed necessary by it. Audit Committee meetings are attended by the Chairman, the Chief Executive Officer and the Group Finance Director, where the Chairman of the Audit Committee considers it appropriate.

Meetings of the Audit Committee are held at least twice a year to coincide with the review of the scope of the external and internal audit, observations arising from their work in relation to internal control and the effectiveness of the external audit, and to review the financial statements in September and February each year. The external auditors are normally invited to all meetings and meet with the Audit Committee without management being present at least once a year. At the Audit Committee meeting in September it carries out a full review of the year end financial statements and of the audit, using as a basis reports prepared by the Finance Director and the external auditors and taking into account any significant accounting policies, any changes to them and any significant estimates or judgements. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations. A similar but less detailed review is carried out in February when the Interim Report is considered.

The Audit Committee receives reports from management and internal audit on the effectiveness of the system of internal controls and risk management systems. The Chairman of the Audit Committee meets regularly with the Head of Internal Audit and executive management on matters of risk. The Committee also receives from the external auditors a report of matters arising during the course of the audit which the auditors deem to be of significance for the Audit Committee's attention.

The external auditors are required to give the Audit Committee information about policies and processes for maintaining their independence and compliance with requirements regarding the rotation of audit partners and staff. The Audit Committee considers all relationships between the external auditors and the Company to ensure that they do not compromise the auditors' judgement or independence particularly with the provision of non-audit services where a policy relating to these has been agreed by the Board. Essentially the external auditors would be excluded from carrying out non-audit services if they are put in the position of auditing their own work, making management decisions for the Company, if a mutual interest between the Company and the auditors is created or if the auditors take on the role of an advocate for the Company. If the external auditors carry out non-audit services and the cost of these services is estimated to exceed £50,000, prior approval by the Audit Committee is required.

The internal audit function is centrally managed. Internal audits are led by suitably skilled staff from head office or parts of the business independent from the business or function being audited, and are resourced by staff from around the Group with suitable skills, experience and independence for the area they are auditing. This approach not only ensures independence in the process but also the relevance of the recommendations and the sharing of best practice around the Group. During the year a review of the internal audit process was carried out. The audit plan for the year was reviewed as was the staffing to carry out the audits. The resources were considered adequate. The internal audit reports were reviewed as was management's response to the findings and recommendations. The Audit Committee considers that the internal audit process is an effective tool in the overall context of the Company's risk management system. The Audit Committee meets annually with the Head of Internal Audit without the management being present. Internal audit scope includes a review of compliance with Group policies, including the ethics and fraud prevention policies.

The 1998 Public Interest Disclosure Act ("the Act") aims to promote greater openness in the workplace and ensure that "whistle-blowers" are protected. The Company maintains a whistle-blowing policy in accordance with the Act, which allows employees to raise concerns on a confidential basis with certain nominated individuals if they have reasonable grounds for believing that there is serious malpractice within the Company. The policy is designed to deal with concerns, which must be raised without malice and in good faith, in relation to specific issues which are in the public interest and which fall outside the scope of other Company policies and procedures. The whistle-blowing policy is overseen by the Chairman of the Audit Committee, has been reviewed during the year and is promoted via the staff briefing process and the Company's intranet site.

The Remuneration Committee

The Remuneration Committee, which is chaired by Michael Harper, comprises the non-executive directors including the Chairman and is described in the Directors' remuneration report on page 52.

The Nomination Committee

The Nomination Committee, having evaluated the balance of skills, knowledge and experience on the Board, makes recommendations to the Board of executive and non-executive appointments. Before such recommendations are made, descriptions of the roles and skills required in fulfilling these roles are prepared for particular appointments. To attract suitable candidates, appropriate external advice is taken and interviews conducted by at least two members of the Nomination Committee to ensure a balanced view. When an appointment of a non-executive director is made, a formal letter is sent setting out clearly what is expected regarding time commitment, committee membership and involvement outside Board meetings. The chosen candidate is required to disclose to the Board any other significant commitments before the appointment can be ratified. The Committee has written terms of reference, and comprises Marcus Beresford (Chairman), the other non-executive directors (Ian Percy, Michael Harper and David Hall) and Dave Shemmans (Chief Executive Officer) and meets at least once a year and at other times as appropriate. The Chairman of the Committee is the Chairman of the Board, Marcus Beresford, except when a new Chairman of the Board is being sought, when it is the senior independent director, Ian Percy. The leadership needs and succession planning of the Company are regularly monitored as are the size and structure of the Board with consideration being given to the training needs of the executive and non-executive members. Non-executive directors including the Chairman are subject to rigorous review when they are continuing to serve on the Board for any term beyond six years.

On 1 July 2008, a new executive director position of Global Engineering and Products Director was created to give greater technical and operational strength to the Board. Mark Garrett was appointed to this role, and his biographical details are given on page 61. Also on 1 July 2008, Geoff Bicknell was appointed to the Board as an executive director on an interim basis in the light of the maternity leave of the Group Finance Director, Paula Bell. Geoff Bicknell's biographical details are given on page 62.

Ian Lee was appointed to the Board on 1 August 2008 as a non-executive director and Audit Committee Chairman Designate in the light of Ian Percy's retirement from the Board and Chairmanship of the Audit Committee at the conclusion of the Annual General Meeting on 18 November 2008. Ian Lee was previously a partner with Ernst & Young, and is currently a non-executive director and Chairman of the Audit Committee at Clyde Process Solutions plc and a non-executive member of the NHS Greater Glasgow and Clyde Board.

Also from the conclusion of the Annual General Meeting, Michael Harper will be appointed Deputy Chairman and Senior Independent Director.

Directors' remuneration report

Introduction

This report describes the Group's remuneration policy as it applies both to directors and more generally to senior executives. Detailed disclosures in relation to directors' remuneration are provided. The report explains how the Group has applied the principles of the Combined Code on Corporate Governance in relation to the remuneration of directors and has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. These regulations require that part of the information is subject to audit, and this information is set out on pages 57 to 59.

The Company will seek the approval of this report by shareholders at the forthcoming Annual General Meeting on 18 November 2008.

The Remuneration Committee

The Board of Directors is responsible for executive remuneration policy. During the year under review the Remuneration Committee was chaired by Michael Harper and further comprised the other non-executive directors – Marcus Beresford, David Hall and Ian Percy. The non-executive directors have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interest arising from cross directorships and no day-to-day involvement in running the business. Biographical details of the members of the Committee are shown on pages 46 and 47, details of attendance at the meetings of the Committee during the year ended 30 June 2008 are shown on page 49, and directors' shareholdings are shown on page 59. The remuneration of the non-executive directors other than the Chairman of the Board is the responsibility of the Board members other than those non-executive directors.

The Remuneration Committee has written terms of reference, which are available at www.ricardo.com, and its responsibilities include:

- recommending to and agreeing with the Board the policy for executive remuneration,
- agreeing the terms and conditions of employment for executive directors, including their individual annual remuneration and pension arrangements,
- agreeing the targets for any executive directors' performance related bonus and share schemes,
- agreeing the remuneration of the Chairman of the Board (which is done in his absence),
- ensuring that on termination, contractual terms and payments made are fair both to the Company and the individual so that failure is not rewarded and that the duty to mitigate loss is recognised, and
- agreeing the terms of reference of any remuneration consultants it appoints for the purpose of giving advice.

Deloitte & Touche LLP are appointed as independent remuneration advisors to the Remuneration Committee. The Committee is supported internally by the Group Human Resources Director, formerly Malcolm Greenslade and post his retirement on 30 September 2007, Sarah Murphy, and the Company Secretary, David Oglethorpe. During the year under review Deloitte also provided services in the following areas: expatriate employee and overseas corporate tax advice. The Committee considers that the provision of these services did not affect the independence of the advice that it received from Deloitte's executive remuneration consultancy.

Executive remuneration policy

The objective of the executive remuneration policy is to provide remuneration packages that will retain talented people in the business and enable the recruitment of appropriately skilled and experienced newcomers. Ricardo's executive remuneration policy is to set levels of salary and other remuneration package elements such that in total they are competitive relative to similar roles in other companies and consultancy organisations of Ricardo's size, complexity and international reach.

Remuneration packages for each executive director and their fixed and variable elements are reviewed annually. A significant element of potential remuneration is performance linked, both through the annual bonus scheme and through participation in share incentive schemes. The proportion of potential aggregate target annual short and long-term incentive pay, relative to the total package varies according to individual package structure and is typically around 53%.

Share incentive plans, coupled with the share retention policy, ensure that the interests of executive directors are closely aligned with shareholders' interests. Through its Chairman, the Remuneration Committee maintains contact with and seeks the views of the Company's principal shareholders as necessary.

During the year the Committee reviewed remuneration arrangements and concluded that the remuneration strategy and its various component parts remain appropriate. A number of relatively minor adjustments to the future operation of the strategy are detailed below.

Basic salary

Basic salaries are normally reviewed annually on 1 July, and are based on a number of factors, principally market rates in companies of similar size, complexity and sector, as well as the individual director's experience, scope of responsibilities, and performance.

Annual performance related bonus

For the Group Chief Executive Officer and the Group Finance Director, bonuses for the year ending 30 June 2008 were based on achievement against profit before tax, margin and cash targets. The scheme gave rise to a bonus of 62% of maximum potential bonus payment. In light of the overall performance of the Group, the remuneration Committee was satisfied that the bonus should be paid. During the year the Committee reviewed the annual bonus targets and determined that for the year

The Group has a policy of appointing industry experts to participate in its local operating boards, thus bringing broader global experience to the Group. Sivert Hiljemark, formerly at Volvo Cars (UK), Walter Aspatore of Amherst Partners, LLC, Professor Wallentowitz of Aachen University (retired in July 2008) and Akira Kijima, formerly at Mitsubishi Motor Corporation, have been members of the UK, US, German and Japanese local operating boards respectively throughout the year ended 30 June 2008.

Shareholder communications

The Annual General Meeting ("AGM") in November 2007 was attended by all directors General office at the time of the meeting The directors encourage the participation of all shareholders, including private investors, at the AGM and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting and displayed on the Company's website The Annual Report and Accounts is mailed to shareholders and others who request it and is published on the Company's website www.ncardo.com

After making enquiries, the directors have confidence that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Report and Accounts.

The Board is responsible for the Group's system of internal controls and risk management systems and for reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

As part of the risk management process, directors and senior managers are required to certify on a bi-annual basis that they have established effective controls to manage risk and to comply with legislation and Group procedures. Procedures are in place to ensure that effective control and risk management is embedded in the Group and that the Group is in a position to react as appropriate as new risks arise. The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group. The processes have been in place during the year under review and up to the date of approval of the Annual Report and Accounts.

- clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely management information

- the control of key financial risks through clearly laid down authorisation levels and appropriate segregation of accounting duties
- the control of key project risks through project delivery and review systems and the control of other key business risks via a number of processes and activities recorded in the Group's risk register,
- detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget,
- reporting on compliance with internal financial controls and procedures by Group internal audit, and
- review of reports issued by the external auditors

Compliance with the Code

On behalf of the Board

Mar. Ref

Marcus Beresford

Chairman

23 September 2008

Jan Perry

Ian Percy

**Senior Independent Director and
Chairman of the Audit Committee**

Directors' remuneration report

Introduction

This report describes the Group's remuneration policy as it applies both to directors and more generally to senior executives. Detailed disclosures in relation to directors' remuneration are provided. The report explains how the Group has applied the principles of the Combined Code on Corporate Governance in relation to the remuneration of directors and has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. These regulations require that part of the information is subject to audit, and this information is set out on pages 57 to 59.

The Company will seek the approval of this report by shareholders at the forthcoming Annual General Meeting on 18 November 2008.

The Remuneration Committee

The Board of Directors is responsible for executive remuneration policy. During the year under review the Remuneration Committee was chaired by Michael Harper and further comprised the other non-executive directors – Marcus Beresford, David Hall and Ian Percy. The non-executive directors have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interest arising from cross directorships and no day-to-day involvement in running the business. Biographical details of the members of the Committee are shown on pages 46 and 47, details of attendance at the meetings of the Committee during the year ended 30 June 2008 are shown on page 49, and directors' shareholdings are shown on page 59. The remuneration of the non-executive directors other than the Chairman of the Board is the responsibility of the Board members other than those non-executive directors.

The Remuneration Committee has written terms of reference, which are available at www.ricardo.com, and its responsibilities include

- recommending to and agreeing with the Board the policy for executive remuneration,
- agreeing the terms and conditions of employment for executive directors, including their individual annual remuneration and pension arrangements,
- agreeing the targets for any executive directors' performance related bonus and share schemes,
- agreeing the remuneration of the Chairman of the Board (which is done in his absence),
- ensuring that on termination, contractual terms and payments made are fair both to the Company and the individual so that failure is not rewarded and that the duty to mitigate loss is recognised, and
- agreeing the terms of reference of any remuneration consultants it appoints for the purpose of giving advice.

Deloitte & Touche LLP are appointed as independent remuneration advisors to the Remuneration Committee. The Committee is supported internally by the Group Human Resources Director, formerly Malcolm Greenslade and post his retirement on 30 September 2007, Sarah Murphy, and the Company Secretary, David Oglethorpe. During the year under review Deloitte also provided services in the following areas: expatriate employee and overseas corporate tax advice. The Committee considers that the provision of these services did not affect the independence of the advice that it received from Deloitte's executive remuneration consultancy.

Executive remuneration policy

The objective of the executive remuneration policy is to provide remuneration packages that will retain talented people in the business and enable the recruitment of appropriately skilled and experienced newcomers. Ricardo's executive remuneration policy is to set levels of salary and other remuneration package elements such that in total they are competitive relative to similar roles in other companies and consultancy organisations of Ricardo's size, complexity and international reach.

Remuneration packages for each executive director and their fixed and variable elements are reviewed annually. A significant element of potential remuneration is performance linked, both through the annual bonus scheme and through participation in share incentive schemes. The proportion of potential aggregate target annual short and long-term incentive pay, relative to the total package varies according to individual package structure and is typically around 53%.

Share incentive plans, coupled with the share retention policy, ensure that the interests of executive directors are closely aligned with shareholders' interests. Through its Chairman the Remuneration Committee maintains contact with and seeks the views of the Company's principal shareholders as necessary.

During the year the Committee reviewed remuneration arrangements and concluded that the remuneration strategy and its various component parts remain appropriate. A number of relatively minor adjustments to the future operation of the strategy are detailed below.

Basic salary

Basic salaries are normally reviewed annually on 1 July, and are based on a number of factors, principally market rates in companies of similar size, complexity and sector, as well as the individual director's experience, scope of responsibilities, and performance.

Annual performance related bonus

For the Group Chief Executive Officer and the Group Finance Director, bonuses for the year ending 30 June 2008 were based on achievement against profit before tax, margin and cash targets. The scheme gave rise to a bonus of 62% of maximum potential bonus payment. In light of the overall performance of the Group, the remuneration Committee was satisfied that the bonus should be paid. During the year the Committee reviewed the annual bonus targets and determined that for the year

Basic annual salary and bonus

	For the year ended 30 June 2008			From 1 July 2008	
	Basic salary	Maximum bonus entitlement	Actual bonus payout	Basic salary	Maximum bonus entitlement
	£'000 pa	% salary	% salary	£'000 pa	% salary
Dave Shemmans	330	90%	56%	360	100%
Paula Bell	212	80%	50%	227	80%
Steve Parker	338	200%	98%	355	200%
Mark Garrett	—	—	—	150	70%

ending 30 June 2009 the measures would be repositioned to focus on the two key performance measures, profit before tax and cash

The bonus of the Managing Director of Ricardo Strategic Consulting is comprised of two profit before tax elements: Group profit before tax (30% of the bonus) and profit before tax for the Ricardo Strategic Consulting division (70% of the bonus). For the year ending 30 June 2008, 49% of the maximum bonus potential was earned based on performance against targets.

For the year ending 30 June 2009 the Chief Executive Officer's maximum bonus potential will be increased from 90% to 100% of base salary. Bonus potentials for the Group Finance Director and the Managing Director of Ricardo Strategic Consulting will remain the same as for the year ended 30 June 2008. Following his appointment to the Board on 1 July 2008, Mark Garrett's maximum bonus opportunity will be 70% of base salary.

Salaries and bonus payouts for the year ended 30 June 2008 are summarised in the table above, together with the currently intended forward policy on these remuneration elements.

Bonus deferral

Bonus payouts are subject to a compulsory deferral into shares policy. For the Chief Executive Officer, Group Finance Director and the Group Engineering and Products Director one third of all bonus earned is deferred into shares, and for the Managing Director of Ricardo Strategic Consulting one half of the bonus element relating to the Strategic Consulting business is deferred. The purpose of bonus deferral is to

- provide for further alignment of executives' and shareholders' interests,
- provide an enhanced retention element, and
- facilitate executive directors to attain a target shareholding to a value of at least basic annual salary within five years of appointment.

No matching awards are provided in relation to bonus deferrals. Release of deferred bonuses is normally subject to continued employment for a three-year period from the award date (or in the case of the Managing Director of Ricardo Strategic Consulting for a two-year period from the award date).

Long term incentives

The Committee's policy is that the main form of long term incentive is performance shares, awarded under the terms of the 2006 Long Term Incentive Plan ("2006 LTIP").

The diversity of the Company's business in terms of geography and sector also requires the flexibility to grant share options from time to time under the terms of the 2004 Executive Approved/Unapproved Share Option Plan ("2004 ESOP"). Such grants may be made in key recruitment, retention and promotion circumstances, and in other circumstances in order to create further alignment with shareholders and to incentivise further business growth.

2006 LTIP and 2004 ESOP awards are intended to focus motivation on the long-term performance of the Group in order to incentivise shareholder value creation.

The maximum 2006 LTIP and 2004 ESOP awards that can be made to any executive are 100% of basic salary each year under each plan.

During the year the Committee reviewed the LTIP opportunities and decided to increase the Chief Executive Officer award for the year ended 30 June 2009 to 100% of base salary. The Group Finance Director will be made an award of 75% of base salary in respect of the year ended 30 June 2009. Following his appointment to the Board Mark Garrett will also be made an award of 30% of base salary under the LTIP. The Managing Director of Ricardo Strategic Consulting will not participate in the LTIP for the year ending 30 June 2009.

2006 LTIP awards are subject to the following performance conditions:

- 50% of any award is subject to Total Shareholder Return (share price movement plus dividends reinvested – "TSR") relative to the FTSE Small Cap Index (excluding financial services companies and investment trusts), and
- 50% of any award vests according to normalised EPS growth performance.

The Committee believes that TSR and EPS are appropriate measures for the LTIP as they are strongly aligned to shareholder value creation.

The Committee currently intends that the TSR performance condition will remain unchanged from year to year, although this will be kept under review.

The Committee sets, for each plan cycle, scaled normalised EPS performance targets, which are suitably stretching, taking into account the economic/market outlook, the business plan and investor expectations at the time of each award.

The TSR and EPS performance conditions for 2006 LTIP awards made during the financial year ended 30 June 2008 are set out in the tables

below. During the year the Committee reviewed the EPS targets and considered that it was appropriate to increase the stretch of the targets for awards made in the coming year. For reference purposes, the EPS performance conditions that are currently intended to apply to LTIP awards made in the financial year ending 30 June 2009 are also detailed

All 2006 LTIP awards – TSR performance condition

Vesting level	TSR performance compared to FTSE Small Cap Index
Nil vesting of that element of award subject to TSR	Below median
25% vesting of that element of award subject to TSR	At median
100% vesting of that element of award subject to TSR	At upper quartile
Straight line basis	Between median and upper quartile

2006 LTIP awards – EPS growth performance condition

Vesting level	Awards made during financial year ending 30 June 2008	Current intention for all awards made during financial year ending 30 June 2009
Nil vesting of that element of award subject to EPS	Less than 3% per annum	Less than 4% per annum
30% vesting of that element of award subject to EPS	3% per annum	4% per annum
100% vesting of that element of award subject to EPS	10% per annum	11% per annum
Straight line basis	Between 3% and 10% per annum	Between 4% and 11% per annum

The Remuneration Committee believes that the amended EPS growth target range for awards made in the year ending 30 June 2009 will be appropriately stretching, taking account of current business forecasts and plans.

2006 LTIP performance targets will be reviewed for any subsequent awards taking account of prevailing conditions at the time.

Planned and subsisting LTIP awards under plan cycles not yet complete and including awards made under the terms of the previous LTIP are as follows:

Maximum awards in relation to basic salary at time of award (actual amounts vesting will depend on performance)	Plan Cycle ending 2008	Plan Cycle ending 2009	Plan Cycle ending 2010	Plan Cycle ending 2011
Dave Shemmans	75%	85%	85%	100%
Paula Bell	–	50%	50%	75%
Mark Garrett	–	–	–	30%

Executive share options

Share options granted under the terms of the 2004 ESOP are subject to a scaled EPS growth performance condition, although it is recognised that in most circumstances the key performance driver for such grants is share price growth.

The EPS growth performance condition is again subject to review at the time of any grant. No share option grants have been made during the year ending 30 June 2008. Previous grants made under the terms of the 2004 ESOP have been as follows:

2004 ESOP – EPS growth performance condition for all grants made to date

Vesting level	EPS growth over three years for grants made 2004 - 2005	EPS growth over three years for grants made in 2006
Nil vesting	Less than RPI plus 3% pa	Less than RPI plus 3% pa
30% of grant vesting	RPI plus 3% pa	RPI plus 3% pa
100% of grant vesting	RPI plus 6% or more pa	RPI plus 10% or more pa

All-employee share plans

For its UK employees the Company operates from time to time HMRC-approved Share Incentive Plan ("SIP") and Save As You Earn ("SAYE") arrangements, which are intended to encourage wider interest in the performance of Ricardo's shares, and share ownership. Executive directors are eligible to participate in these arrangements.

The SIP provides for partnership, matching and free shares, either by delivery of market purchased or newly issued shares. The Company has initially offered partnership shares only.

The SAYE is an all employee savings contract scheme. No SAYE options have been granted since October 2002.

The tax-approved status of the SIP and SAYE only applies to UK employees and therefore neither of these arrangements nor any approximate equivalents currently apply to Ricardo's overseas employees, although this position is reviewed from time to time.

Transition to IFRS

The impact of conversion to International Financial Reporting Standards ("IFRS") on the vesting of executive share options has been considered, in order to ensure that performance is measured on a consistent basis. For all those executive share options where the performance period (including the base period) starts before and ends after the date of transition to IFRS, there is no impact. For all those executive share options where the base period for performance starts at or after the date of transition to IFRS, performance will be measured wholly under IFRS.

Dilution limits

The number of shares that may be issued under all Ricardo employee share plans in any ten year rolling period will be restricted to 10% of the issued ordinary share capital of the Company and 5% of the issued ordinary share capital of the Company for discretionary employee share plans.

At the end of the year under review, the Company's overall dilution was 5.0%, of which 3.5% related to discretionary share plans

Pensions

The Chief Executive Officer, Dave Shemmans, and Steve Parker are members of the Ricardo Group Pension Fund ("RGPF") at the invitation of the Company

The RGPF is established under a trust, contracted out of the State Earnings Related Pension Scheme and approved by HMRC under the Income and Corporation Taxes Act 1988. Since its disappearance as a statutory UK tax concept in April 2006, the Company continues to apply a notional cap currently £117,600, within the terms of the RGPF.

At retirement, members may commute a portion of their pension for a cash sum. Under the rules of the RGPF performance related bonuses do not form part of pensionable earnings. The RGPF is now closed to new employees.

The RGPF provides Dave Shemmans with a pension of up to two thirds of basic salary up to the cap on retirement at age 65 after 25 or more years' service. Retirement before 65 is subject to actuarial reduction. Member contributions are based on an age-related scale and are currently required at the rate of 6.35% of pensionable earnings.

The RGPF provides Steve Parker with a pension of up to two thirds of basic salary up to the cap on retirement at age 62 after 20 or more years' service. Retirement before 60 is subject to actuarial reduction. Member contributions are required at the rate of 8% of pensionable earnings. In addition, employer contributions for Steve Parker are made on a defined contribution basis. Total employer contributions in respect of Steve Parker (including the funding of the RGPF company contributions) are capped at £125,000.

The right to a pension from the RGPF on early retirement is available with the consent of the Company and the Trustees if the individual is over 50 or retiring due to ill health. The total pension paid by the fund in excess of the guaranteed minimum pension will increase annually at the rate of 5% compound or by the rise in the Retail Prices Index if lower. On death after retirement, a spouse's pension is paid at 50% of the member's pre-commutation pension. If death occurs within five years after retirement a lump sum is paid equal to the member's monthly rate of pensionable pay by the fund at the date of death multiplied by the number of unpaid monthly instalments to the end of that five year period.

On death in service, Dave Shemmans and Steve Parker are entitled, subject to the medical requirements of the insurance company, to a lump sum of four times annual salary at date of death, together with a spouse's pension of 35% of annual salary and a pension per child of 12.5% of annual salary, subject to a maximum limit of 25%, until the child attains the age of 18 (or 21 if in full time education).

Paula Bell is a member of the Ricardo International Pension Scheme ("RIPS"), a defined contribution pension scheme. The RIPS is established under trust, is not contracted out of the State Earnings Related Pension Scheme and is approved by HMRC under the Income and Corporation Taxes Act 1988. At retirement, members may commute a portion of their pension for a cash sum. Early retirement is available with the consent of the Company and the Trustees if the individual is over 50 or retiring due to ill health. Employer's contributions for Paula Bell were

made at the rate of 20% of basic salary over the Lower Earnings Limit for the period to 30 June 2008. On death in service, Paula Bell, subject to the medical requirements of the insurance company, is entitled to a lump sum of four times annual salary at date of death.

Mark Garrett is also a member of RIPS. His terms are as above for Paula Bell save that employer's contributions for Mark Garrett are made at a rate of 10% of basic salary up to the cap.

Other benefits

The Company provides other cash benefits and benefits in kind in line with market practice. These include a company car or cash alternative, private fuel, private medical insurance and life assurance. During the year to 30 June 2008, for Dave Shemmans, payment in lieu of pension provision for UK earnings over the notional cap was made at the rate of 15% of basic salary over the cap. It is intended to increase that payment to 20% for future years in order to align that element with the wider UK market place for Chief Executives of companies of Ricardo's size and complexity.

The Company also pays or reimburses non-executive directors in respect of taxable travel expenses.

Service agreements

The Board's policy on setting notice periods for directors is that these should not exceed one year. It recognises, however, that it may be necessary in the case of new executive appointments to offer an initial longer notice period, which would subsequently reduce to one year after the expiry of that period. All future appointments to the Board will comply with this requirement.

As an interim measure to cover a period of maternity leave for Paula Bell, Geoff Bicknell has been appointed as interim Group Finance Director effective from 1 July 2008. Mr Bicknell will be paid £1,000 per day for his services. He will not be eligible to receive an annual bonus or participate in share incentive arrangements.

All current executive directors have rolling service agreements terminable on one year's notice. The dates of the service contracts of the executive directors are as follows:

	Date of service contract
Dave Shemmans	7 April 2005
Paula Bell	9 October 2006
Steve Parker	2 November 2005
Mark Garrett	1 July 2008

The contractual termination provision is payment in lieu of notice equal to one year's basic salary and benefits or if termination is part way through the notice period the amount of any unexpired notice and any accrued bonus to the date of termination. There is an obligation on directors to mitigate any loss which they may suffer if the Company terminates their service contract and this will be taken into account by the Committee when determining what compensation, if any, should be paid to the departing director. In the case of the contracts for Dave Shemmans, Paula Bell and Mark Garrett, specific mitigation provisions are included. No compensation is paid for summary dismissal.

Share retention policy

The Board operates a share retention policy for the executive directors. Each is required within five years of the later of the date of appointment and any award under any of the share plans subsequent to the adoption of the policy in November 2004 to own shares in the Company with a value at least equal to one times basic annual salary. Executive directors are not required to purchase shares to fulfil this requirement but are expected to retain all shares earned under various share plans until the requirement is met.

External appointments

The Board recognises the benefit that Ricardo can obtain if executive directors of Ricardo serve as non-executive directors of other companies. Subject to review in each case, the Remuneration Committee's general policy is that executive directors may accept non-executive directorships with other companies, so long as there is no conflict of interest and their effectiveness is not impaired. Non-executive appointments in other companies are summarised in the Directors' biographies on pages 46 and 47. Directors may retain any fees in respect of such appointments.

Non-executive directors

The fees for non-executive directors are set in line with prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. The Chairman's fees are determined by the Remuneration Committee. The Chairman and the executive directors determine the fees paid to the other non-executive directors. Non-executive directors are not present at meetings for any discussion or decision about their own remuneration. The aggregate limit for fees paid to non-executive directors is laid down in the Articles of Association.

The fees were reviewed during the year and were adjusted to reflect prevailing market practice. Non-executive director fees for the current and forthcoming year are as follows:

	Year to 30 June 2008 £'000	From 1 July 2008 £'000
Chairman's total fees	115	120
Other non-executive fees		
Basic fee	34	37
Additional fee for Audit and Remuneration Committee Chairmen	3	5
Additional fee for the Senior Independent Director	5	5

The non-executive directors do not participate in any of the Company's share schemes, pension schemes or bonus arrangements nor do they have service agreements. They are appointed for a period of two or three years by letter of appointment and are entitled to one month's notice of early termination for which no compensation is payable. The unexpired terms of the non-executive directors at 30 June 2008 are:

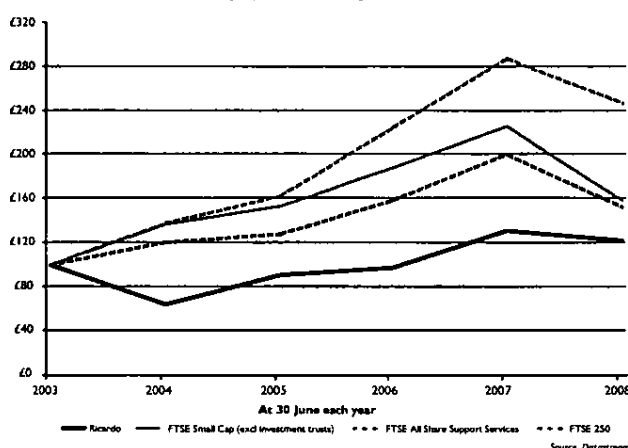
Marcus Beresford	27 months
Ian Percy	12 months
Michael Harper	24 months
David Hall	16 months

Ian Lee has been appointed to replace Ian Percy who retires within 12 months, so that a full and effective hand-over can take place. Ian Lee will assume the role of Chairman of the Audit Committee in addition to his non-executive director position. Michael Harper will become the Deputy Chairman and retain his non-executive director and Chairman of the Remuneration Committee roles.

Performance graph

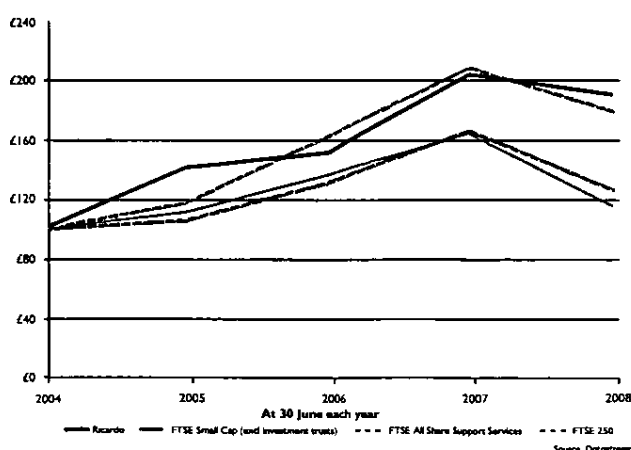
The chart below shows, for a notional amount invested of £100, the Company's Total Shareholder Return ("TSR") – share price movement plus dividends reinvested) over the last five financial years compared to the performance of the FTSE Small Cap and FTSE 250 indices, using the average data for the three months prior to each data point. In the directors' opinion, the Small Cap index (excluding investment trusts) represents an appropriate index against which the Company should be compared when considering the Company's size. The FTSE 250 index was used for LTIP performance criteria under the previous LTIP, and Ricardo plc's business is classified as Support Services. Hence these indices are also detailed on the chart.

TSR chart for the 5 years 1 July 2003 to 30 June 2008



Since 30 June 2004 Ricardo's TSR has outperformed the relevant market comparator indices, as can be seen from the four year TSR chart below, which better illustrates Ricardo's TSR performance for the LTIP plan cycles ending with the financial years ended 30 June 2007 and 2008.

TSR chart for the 4 years 1 July 2004 to 30 June 2008



Auditable part

The auditable part of the directors' remuneration report is set out below on pages 57 to 59

Directors' emoluments

Totals for the year ended 30 June 2008

	Basic salary and fees £'000	Performance related bonus £'000	Other cash benefits (a) £'000	Benefits in kind (b) £'000	Total 2008 £'000	Total 2007 (c) £'000
<i>Executive directors</i>						
Dave Shemmans	330	184	48	5	567	510
Paula Bell	212	105	12	4	333	206
Steve Parker	338	331	12	9	690	400
<i>Non-executive directors</i>						
Marcus Beresford	115	–	–	13	128	116
Ian Percy	42	–	4	–	46	48
Michael Harper	37	–	–	–	37	36
David Hall	34	–	–	–	34	31
<i>Directors not serving in the year</i>	–	–	–	–	–	714
	1,108	620	76	31	1,835	2,061

(a) Other cash benefits include company car allowances, payments in lieu of pension provision for UK earnings over the notional HMRC cap and payments for life assurance. The Company also reimburses non-executive directors in respect of taxable travel expenses.

(b) Benefits in kind include company cars, private fuel, private medical insurance, life assurance cover and taxable travel costs paid on behalf of Marcus Beresford.

(c) Paula Bell was appointed on 9 October 2006. The 2007 amount for directors not serving in the year ended 30 June 2008 includes amounts for Andrew Goodburn who resigned from the Board on 5 January 2007 and for Jeremy Holt who resigned from the Board on 16 May 2007.

Directors' pensions

(a) With respect to defined benefit pension schemes

	Additional accrued pension benefits earned in the year £'000	Additional pension benefits earned in the year (excluding inflation) £'000	Accrued pension entitlement £'000	Transfer value at 30 June 08 £'000	Transfer value at 30 June 07 £'000	Change in transfer value less members contributions £'000	Transfer value of additional accrued pension (excluding inflation) £'000
Dave Shemmans	4	3	17	55	60	(5)	11
Steve Parker	5	4	23	219	216	1	38

The increase in the accrued pension entitlement is the difference between the accrued benefit at the year-end and that at the previous year-end. All transfer values have been calculated on the basis of actuarial advice consistent with Actuarial Guidance Notice GN11. The increase in the transfer value less directors' contributions is the increase in the value of accrued benefits during the year after deducting the director's personal contributions. The transfer value of the increase in accrued benefits, required by the Listing Rules, discloses the current value of the increase in accrued benefits that the director has earned in the period, whereas the change in his transfer value, required by the Companies Act, discloses the absolute increase or decrease in his transfer value and includes the change in value of the accrued benefits that results from market volatility affecting the transfer value at the beginning of the year, as well as the additional value earned in the year.

(b) With respect to defined contribution pension schemes

	Paid or payable in the year £'000
Employer contributions	
Paula Bell	41
Steve Parker	85

In respect of Dave Shemmans, a cash benefit amount of £33,000 was paid in lieu of pension provision for UK earnings over the notional cap, as reported on page 55.

Directors' interests in shares provisionally awarded under the Long Term Incentive Plan

	Cycle Ending	Award date	Share price		Number of provisional shares			At 30 June 2008	Value of shares vested £'000	Vesting date
			at award date in pence	At 1 July 2007	Allocated	Lapsed	Vested			
Dave Shemmans	Jun 08	Dec 05 ¹	301.0	53,571	–	28,928	24,643	–	79	30.6.08
Dave Shemmans	Jun 09	Oct 06 ¹	303.3	85,801	–	–	–	85,801	–	–
Dave Shemmans	Jun 10	Oct 07 ²	283.6	–	98,906	–	–	98,906	–	–
Paula Bell	Jun 09	Oct 06 ¹	303.3	30,283	–	–	–	30,283	–	–
Paula Bell	Jun 10	Oct 07 ²	283.6	–	37,376	–	–	37,376	–	–

¹ Awards made under the 1996 LTIP. These awards vest based on Ricardo plc's TSR performance against FTSE 250 companies (excluding investment trusts and financial service companies). Awards lapse at performance below median. 25% of the award vests for median performance. Awards vest in full for upper quartile performance. For levels of performance between median and upper quartile, there is partial vesting on a sliding scale.

² Awards made under the 2006 LTIP performance conditions as outlined on page 54.

The mid-market closing price of the Company's shares on 30 June 2008 was 320.0p (2007 345.75p).

Directors' interests in shares provisionally awarded under the Deferred Share Bonus Plan

	Award date	Deferral period	Share price		Number of provisional shares			At 30 June 2008
			at award date in pence	At 1 July 2007	Awarded	Dividend shares	Vested	
Dave Shemmans	Oct 07	3 years	283.6	–	19,040	619	–	19,659
Paula Bell	Oct 07	3 years	283.6	–	7,421	241	–	7,662
Steve Parker	Sep 05	2 years	301.0	43,314	–	–	43,314	–
Steve Parker	Sep 06	2 years	297.2	77,731	–	2,524	–	80,255

Amounts allocated include shares equivalent to dividends on provisional shares.

Directors' interests in share options

The 2004 Executive Share Option Scheme

	Number of share options				At 30 June 2008	Exercise price per share in pence	Date from which exercisable	Expiry date
	At 1 July 2007	Granted	Exercised	Lapsed				
Dave Shemmans	80,000	–	–	–	80,000 ¹	267.5	22.02.08	21.02.15
Paula Bell	25,000	–	–	–	25,000 ²	300.0	20.10.09	19.10.16
Steve Parker	60,000	–	–	–	60,000 ¹	267.5	22.02.08	21.02.15
Steve Parker	50,000	–	–	–	50,000 ²	300.0	20.10.09	19.10.16

¹ The performance conditions for options granted in 2005 are outlined on page 54 of the Remuneration Report.

² The performance conditions for options granted in 2006 are outlined on page 54 of the Remuneration Report.

The 1994 Executive Share Option Scheme

	Number of share options			At 30 June 2008	Exercise price per share in pence	Date from which exercisable	Expiry date
	At 1 July 2007	Granted	Exercised				
Dave Shemmans	45,000	–	–	45,000	185.0	25.06.07	n/a
Steve Parker	100,000	–	50,000	–	186.5	21.09.07	20.09.14

The performance conditions for the above options granted under the 1994 Scheme require that the Group's normalised EPS must increase on average by at least 7.5% per annum (adjusted for inflation), over the three year period after the grant date, before the options may be exercised. If the Group's adjusted EPS performance fails to meet this target, the period over which performance is measured is extended to four years and if necessary again to five years, in both cases still requiring the average growth in adjusted EPS over the period to exceed 7.5% per annum (adjusted for inflation). In the case of the above options granted to Dave Shemmans, the Group's EPS performance has failed to achieve this target after five years, and therefore the options have lapsed. In the case of the options granted to Steve Parker, the performance conditions over the three year period after the grant date have been met and therefore vest in full. Options over 50,000 shares were exercised on 4 March 2008, on which date the closing share price was 355.0p.

The Ricardo plc 2000 Savings Related Share Option Scheme

	Number of share options			At 30 June 2008	Exercise price per share in pence	Date from which exercisable	Expiry date
	At 1 July 2007	Granted	Exercised				
Dave Shemmans	2,814	–	2,814	–	233.4	1.12.07	n/a

The share price at the date of exercise was 328.0 pence. The mid-market closing price of the Company's shares on 30 June 2008 was 320.0p. The highest price of the Company's shares during the financial year was 365.0p. The lowest price of the Company's shares during the financial year was 281.25p.

Directors' interests in shares

The interests of directors and their connected persons in ordinary shares, excluding any interests in share options and shares provisionally awarded under the Long Term Incentive Plan and Deferred Bonus Plan, are all beneficial interests and are as follows:

	At 30 June 2008 No of shares	At 30 June 2007 No of shares
Dave Shemmans	16,185	960
Paula Bell	3,333	–
Steve Parker	74,339	16,195
Marcus Beresford	20,000	20,000
Ian Percy	–	–
Michael Harper	20,000	20,000
David Hall	15,000	5,000

At 23 September 2008 the interests in shares of these directors who were all still in office were unchanged from those at 30 June 2008. Also at 23 September 2008, Mark Garrett held a beneficial interest in 3,926 ordinary shares, and neither Geoff Bicknell nor Ian Lee had interests in any ordinary shares.

On behalf of the Board



Michael Harper
Chairman of the Remuneration Committee

23 September 2008

Directors' report

The directors present their report and the financial statements for the year ended 30 June 2008

Business review

The principal activities of the Group are the provision of technical and strategic consulting to industry, commerce and other agencies

The directors have prepared a Business review which is set out on pages 5 to 31 and amongst other things covers

- a review of the Group's marketplace, strategy, research and development and principal risks,
- business operations, performance and prospects,
- employee involvement and diversity, and
- corporate social responsibility

In addition a segmental analysis is given in note 2 to the financial statements, and financial risks and policies are given in note 19 to the financial statements

Directors

The directors who served on the Board during the year were

Non-executive directors

Marcus Beresford, CBE, M A Mech Sc, FIET, Chairman
Professor Ian Percy, CBE, LLD, CA, Deputy Chairman
Michael Harper, MSc, CCMI, FRAeS
David Hall, MA, MSc

Executive directors

Dave Shemmans, BEng
Paula Bell, FCMA
Steve Parker

On 1 July 2008 Mark Garrett was appointed to the Board as Group Engineering and Products Director. On the same date Geoff Bicknell was appointed to the Board as Interim Group Finance Director in light of the maternity leave of Paula Bell. Ian Lee was appointed a non-executive director on 1 August 2008

Pursuant to the Company's Articles of Association, shareholders have the right to appoint directors by ordinary resolution, either to fill a vacancy or as an additional member of the Board. In addition, the Board has the power to appoint new directors, but a director appointed in this way may only then hold office until the conclusion of the next Annual General Meeting following their appointment unless they are re-appointed by shareholders during the course of that meeting. At each Annual General Meeting (subject to certain additional requirements) one third of the directors must retire from office and may, if they so wish, offer themselves for re-appointment by shareholders. In addition to powers of removal of a director conferred by legislation from time to time, the Articles of Association also allow shareholders to remove a director from office by ordinary resolution of which special notice has been given.

The directors are responsible for the management of the business of the Company, and they may (subject to specific restrictions as may be imposed by law and the Memorandum and Articles of Association of the Company) exercise all powers of the Company whether relating to the management of the business or not. The Board is specifically empowered to delegate any of its powers and authorities to directors holding executive offices and to committees, local management and agents, in each case on such terms as it thinks fit.

Board Committees

The directors who served on Board Committees during the year were

Audit Committee Ian Percy (Chairman), Michael Harper, David Hall,

Remuneration Michael Harper (Chairman), Marcus Beresford, Ian Percy, David Hall

Nomination Marcus Beresford (Chairman), Ian Percy, Michael Harper, David Hall, Dave Shemmans

Details of the roles of the Board of Directors and Board Committees can be found on pages 48 to 50 and of the role of the Remuneration Committee on page 52

Ian Percy will be retiring from the Board with effect from the conclusion of the Annual General Meeting on 18 November 2008. As a consequence, and also with effect from the conclusion of the Annual General Meeting, Michael Harper will be appointed Deputy Chairman and Senior Independent Director, and Ian Lee will be appointed Chairman of the Audit Committee.

Statement of directors' responsibilities in respect of the Annual report, the Directors' remuneration report and the financial statements

The directors are responsible for preparing the Annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, state whether the financial statements comply with IFRSs as adopted by the European Union, and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The directors confirm that they have complied with these requirements in preparing the financial statements.

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Remuneration: Michael Harper (Chairman), Marcus Beresford, Ian Percy, David Hall

Nomination: Marcus Beresford (Chairman), Ian Percy, Michael Harper, David Hall, Dave Shemmans

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Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period

In preparing those financial statements, the directors are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, state whether the financial statements comply with IFRSs as adopted by the European Union, and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The directors confirm that they have complied with these requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 1985 ("the Act") and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than a third party indemnity provision between each director and the Company and service contracts between each executive director and the Company.

The Company has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provisions in the Company's Articles of Association. The Company has entered into letter agreements for the benefit of the directors of the Company in respect of liabilities which may attach to them in their capacity as directors of the Company or associated companies. These provisions are qualifying third party indemnity provisions as defined in section 234 of the Companies Act 2006.

Details of directors' remuneration, service contracts and interests in the shares of the Company are set out in the Directors' remuneration report on pages 52 to 59.

Supplier payment policy

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by the terms of payment. Creditor days for the year ended 30 June 2008 were 31 (2007: 36).

Disclosure of information

So far as the directors in service at the date of approval of this report are aware, there is no information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Change of control provisions

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole.

Share transfers and dealings

On a transfer of shares, the directors may only refuse to register the transfer concerned in certain limited and standard circumstances, including where the share concerned is not fully paid or where the form of transfer has not been properly stamped (where required).

There are no general requirements in existence for shareholders to obtain the approval of either the Company or other shareholders for a transfer of the Company's securities. However, in accordance with the Listing Rules, the Company operates a share dealings code, which restricts the ability of directors and certain other employees from dealing in the Company's securities. In particular, the code requires that restricted persons must not deal in any securities of the Company without obtaining clearance in advance.

Subject to such specific authorities as are required by companies legislation, the Articles of Association give the Board general and unconditional authority to allot, grant options over and otherwise deal with or dispose of shares in the Company. At the 2007 Annual General Meeting, shareholder resolutions were passed authorising the directors to allot relevant securities of the Company up to a maximum nominal amount of £4,182,645. In addition, at the same meeting shareholders authorised the Company to make market purchases of its own ordinary shares up to a maximum of 5,069,873 shares (although as at the date hereof this authority has not been used). As described below, it is proposed that both of these authorities be renewed at the forthcoming Annual General Meeting.

Annual General Meeting

The 2008 Annual General Meeting of the Company will take place at 10.00 a.m. on 18 November 2008 at the offices of Royal Bank of Scotland, 250 Bishopsgate, London. A separate notice of meeting will be sent to shareholders.

Dividend (resolution 3)

The directors propose a final dividend of 7.5p (2007 – 7.1p) per share, amounting to £3,828,418 (2007 – £3,599,610) payable on 26 November 2008 to shareholders on the register at close of business on 31 October 2008. The final dividend proposed will make a total of 10.6p (2007 – 10.0p) per share for the year.

Auditors (resolution 4)

The directors propose that PricewaterhouseCoopers LLP be re-appointed as auditors of the Company, and a resolution to that effect will be proposed at the Annual General Meeting.

Election and Re-election of directors (resolutions 5 to 9)

Mark Garrett, Geoff Bicknell and Ian Lee have been appointed as directors since the previous Annual General Meeting and will therefore be submitted for election. The Board believes that the election of these individuals will be in the best interests of the Company.

Mark Garrett was appointed as Group Engineering and Products Director on 1 July 2008. He is 45 years old. Mark joined Ricardo in August 1998 as Manager – Gasoline Engines, coming from the position of Small Car Powertrain Manager at Rover Group. Since joining Ricardo he has performed a number of key roles, including Global Product Group Director for Gasoline Engines and various key project leadership roles. Mark holds an honours degree in mechanical engineering from Bristol University and is a Chartered Engineer.

Geoff Bicknell was appointed an executive director for an interim period from 1 July 2008 in the light of Paula Bell's maternity leave. Geoff Bicknell has over 40 years of experience covering international remits and has lived in Europe and America. He is currently a non-executive director of Trafficmaster plc, Brady plc and Acta SpA and within the last five years he was also a director of Maxima Holdings plc.

Ian Lee was appointed to the Board on 1 August 2008 as a non-executive director in the light of Ian Percy's retirement from the Board and Chairmanship of the Audit Committee at the conclusion of the 2008 Annual General Meeting. Ian Lee was previously a partner with Ernst & Young, and is currently a non-executive director and Chairman of the Audit Committee at Clyde Process Solutions plc and a non-executive member of the NHS Greater Glasgow and Clyde Board.

Paula Bell and Marcus Beresford will be subject to retirement by rotation at the Annual General Meeting and will also be proposed for re-election. Biographical details of these directors and the other directors in office at 30 June 2008 are shown on pages 46 to 47.

All the directors and the Board as a whole are subject to rigorous performance evaluation. All the directors continue to be effective and are committed to their roles. All directors are planning to be present at the Annual General Meeting and welcome that opportunity to meet with shareholders.

Sections 80 and 95 authorities, (resolutions 10 and 11)

The directors will seek to renew authorities under Sections 80 and 95 of the Act at the Annual General Meeting, empowering them respectively to allot shares and to allot shares for cash other than pro rata to existing shareholders (as would otherwise be required by Section 89 of the Act), in both cases subject to specified limits and periods as stated in the notice. The authority to allot shares will, if passed, be in respect of ordinary shares with a maximum nominal value of £4,211,260, which represents 33% of the issued ordinary share capital at the date hereof and will expire 15 months following the date of passing of the resolution or, if earlier, at the conclusion of the 2009 Annual General Meeting. The directors have no present intention to exercise this authority, but would then have the flexibility to issue new shares up to this limit should they decide that it would be in the interests of the Company to do so.

The maximum nominal value of shares which may be allotted for cash otherwise than pro rata to existing shareholders would be £638,070, equivalent to 5% of the issued ordinary share capital at the date hereof.

No issue will be made which would effectively alter the control of the Company, or the nature of its business, without the prior approval of the shareholders in general meeting. In addition, in accordance with institutional investor guidelines, the Company would not seek to issue shares equivalent to more than 7.5% of its issued ordinary share capital in any rolling three year period without suitable advance consultation and explanation, other than to existing shareholders on a pro rata basis.

Purchase of own shares (resolution 12)

The Company's Articles permit the Company to buy back its own shares with authority from its members and a resolution to this effect will be proposed at the Annual General Meeting. The directors are seeking to renew the authority to buy back up to 10% of its issued shares, which has not been exercised since the previous Annual General Meeting, and which they will exercise only if circumstances arise in which they consider such purchases to be in the interests of shareholders generally and earnings per share ("EPS") can be improved further. Performance targets based on EPS attaching to employee incentive schemes will be

adjusted accordingly if the authority is exercised.

The Company can either cancel shares which have been purchased or hold them as treasury shares or a combination of both. Treasury shares are shares which have been repurchased by the Company and which the Company is allowed to hold pending either reselling them for cash, cancelling them or using them for the purposes of employee share plans. The directors believe that it is desirable for the Company to have that choice. The Company holds no treasury shares at the date hereof.

New Articles of Association (resolution 13)

The directors are asking shareholders to approve a new set of Articles of Association primarily to reflect the provisions of the Companies Act 2006. An explanation of the main changes between the proposed and the existing articles is contained in an appendix to the Notice of Annual General Meeting.

Voting and other rights

The Company's share capital is divided into ordinary shares of 25 pence each. All ordinary shares rank equally for all dividends and distributions that may be declared on such shares. At general meetings of the Company, each member who is present (in person, by proxy or by representative) is entitled to one vote on a show of hands and, on a poll, to one vote per share. With respect to shares held on behalf of participants in the all employee Share Incentive Plan, the trustees are required to vote as the participants direct them to do so in respect of their plan shares.

Electronic voting

This year the Company is again offering those members who wish to do so the choice of recording a proxy vote electronically. Details of how to do this are to be found in the notice of the Annual General Meeting and on the proxy form. Recording a proxy vote, either electronically or by filling in the form by hand, does not preclude members from attending and voting at the meeting should they so wish.

Substantial shareholders

The Company is informed pursuant to the Disclosure and Transparency Rules that, at 23 September 2008, being a date not more than one month prior to the date of the notice of Annual General Meeting, the following are holders of more than 3% of the Company's issued share capital, all of which are non-beneficial interests.

	Number of shares	% of issued share capital
Aviva plc Group	4,619,051	9.0
Lloyds TSB Group	3,886,304	7.6
Legal & General Assurance plc	3,635,388	7.1
Montanaro Group	2,988,735	5.9
Baillie Gifford & Co	2,850,581	5.6
Impax Asset Management	2,547,144	5.0
Standard Life Investments	2,559,429	5.0
JP Morgan Asset Management	2,532,299	5.0

By order of the Board



David Oglethorpe
Secretary

23 September 2008

Independent auditors' report

Independent auditors' report to the members of Ricardo plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Ricardo plc for the year ended 30 June 2008 which comprise the Consolidated income statement, the Group and Parent Company Statements of recognised income and expense, the Group and Parent Company Balance sheets, the Group and Parent Company Cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' report.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the statement of Corporate governance in practice reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Corporate Profile, the Chairman's statement, the Five year performance record, the Business review,

the Features, the statement of Corporate governance in practice, the Directors' report and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

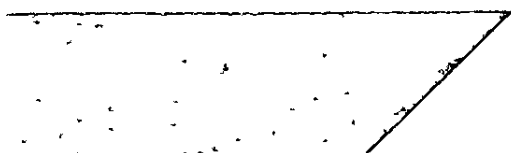
Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of its profit and cash flows for the year then ended,
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 June 2008 and cash flows for the year then ended,
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton
23 September 2008



FINANCIAL STATEMENTS

Consolidated income statement
Statements of recognised income and expense
Balance sheets
Cash flow statements
Notes to the financial statements

Consolidated income statement for the year ended 30 June 2008

Continuing operations	Notes	2008 £m	2007 £m
Revenue	2	197.7	171.5
Cost of sales		(128.5)	(114.0)
Gross profit		69.2	57.5
Administration expenses		(53.3)	(44.3)
Operating profit	4	15.9	13.2
Finance income	6	1.5	2.0
Finance costs	6	(2.7)	(3.0)
Profit before taxation		14.7	12.2
Taxation	7	(2.3)	2.9
Profit for the year		12.4	15.1
Profit attributable to minority interest		0.1	0.1
Profit attributable to equity shareholders		12.3	15.0
Earnings per ordinary share	9		
Basic		24.2p	29.6p
Diluted		23.9p	29.5p

Statements of recognised income and expense for the year ended 30 June 2008

		Group		Company	
	Notes	2008 £m	2007 £m	2008 £m	2007 £m
Currency translation differences on net investment in foreign operations	26	3 8	(1 5)	1 1	(1 1)
Fair value (loss)/gain on net investment hedge	26	(2 0)	0 4	–	0 4
Cash flow hedges					
- net fair value losses	26	(1 5)	–	–	–
- recycled and reported in net profit	26	1 1	–	–	–
Actuarial (loss)/gain on the defined benefit pension scheme	27	(5 7)	4 2	(5 7)	4 2
Tax on items recognised directly in equity	7	1 8	(1 7)	1 7	(1 7)
Net (expense)/income recognised directly in equity		(2 5)	1 4	(2 9)	1 8
Profit for the year		12 4	15 1	5 1	5 8
Total recognised income and expense for the year		9 9	16 5	2 2	7 6
Attributable to minority interest		0 1	0 1	–	–
Attributable to equity shareholders		9 8	16 4	2 2	7 6

Balance sheets as at 30 June 2008

	Notes	2008 £m	Group 2007 £m	2008 £m	Company 2007 £m
Assets					
Non current assets					
Goodwill	10	17.9	15.6	-	-
Other intangible assets	11	2.1	1.9	0.1	-
Property plant and equipment	12	48.0	44.5	9.4	9.5
Investments	13	-	-	21.7	18.0
Deferred tax assets	21	12.2	11.6	6.3	5.9
		80.2	73.6	37.5	33.4
Current assets					
Inventories	14	9.1	7.5	-	-
Trade and other receivables	15	54.2	55.6	55.7	63.4
Current taxation		1.1	0.5	0.3	0.1
Cash and cash equivalents		37.3	15.4	20.3	3.8
		101.7	79.0	76.3	67.3
Total assets		181.9	152.6	113.8	100.7
Liabilities					
Current liabilities					
Bank loans and overdrafts	17	(27.7)	(9.1)	(18.7)	(2.0)
Trade and other payables	16	(49.7)	(43.9)	(16.6)	(15.1)
Current tax liabilities		(2.9)	(2.1)	(0.4)	-
Provisions	22	(0.8)	(0.5)	-	-
		(81.1)	(55.6)	(35.7)	(17.1)
Net current assets		20.6	23.4	40.6	50.2
Non current liabilities					
Bank loans	17	(9.9)	(13.5)	(4.8)	(11.4)
Retirement benefit obligations	20	(19.9)	(16.7)	(19.9)	(16.7)
Deferred tax liabilities	21	(3.9)	(5.1)	(0.8)	(0.8)
		(33.7)	(35.3)	(25.5)	(28.9)
Total liabilities		(114.8)	(90.9)	(61.2)	(46.0)
Net assets		67.1	61.7	52.6	54.7
Shareholders' equity					
Share capital	23	12.9	12.7	12.9	12.7
Share premium	25	13.7	13.3	13.7	13.3
Other reserves	26	0.9	(0.5)	-	(1.1)
Retained earnings	27	39.2	35.7	26.0	29.8
Total shareholders' equity		66.7	61.2	52.6	54.7
Minority interest in equity	28	0.4	0.5	-	-
Total equity		67.1	61.7	52.6	54.7

The financial statements on pages 65 to 95 were approved by the Board of Directors on 23 September 2008 and signed on its behalf by

Dave Shemmans, Chief Executive Officer



Paula Bell, Group Finance Director



Cash flow statements for the year ended 30 June 2008

		Group		Company	
	Notes	2008 £m	2007 £m	2008 £m	2007 £m
Cash flows from operating activities					
Cash generated/(used) by operations	29	29 3	15 6	8 9	(24 3)
Interest received		1 6	2 0	2 2	2 5
Interest paid		(2 8)	(3 0)	(1 2)	(1 3)
Tax (paid)/refunded		(2 0)	(1 6)	(0 1)	0 2
Net cash generated/(used) by operating activities		26 1	13 0	9 8	(22 9)
Cash flows from investing activities					
Proceeds of sale of property, plant and equipment		0 1	–	–	–
Purchase of intangible assets		(1 0)	(1 0)	(0 1)	–
Purchase of property, plant and equipment		(9 8)	(8 5)	–	–
Purchase of investments in subsidiary undertakings		–	–	(3 7)	–
Net cash used by investing activities		(10 7)	(9 5)	(3 8)	–
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		0 5	–	0 5	–
Net proceeds from issue of new bank loan		1 1	3 9	–	–
Repayment of borrowings		(2 4)	(2 1)	(2 0)	(2 1)
Dividends paid to shareholders	8	(5 2)	(4 9)	(5 2)	(4 9)
Dividends paid to minority interests	28	(0 2)	(0 1)	–	–
Dividends received from subsidiaries		–	–	5 0	5 0
Net cash used by financing activities		(6 2)	(3 2)	(1 7)	(2 0)
Effect of exchange rate changes		(0 5)	(0 3)	2 2	–
Net increase/(decrease) in cash and cash equivalents		8 7	–	6 5	(24 9)
Cash and cash equivalents at 1 July		12 7	12 7	3 8	28 7
Cash and cash equivalents at 30 June		21 4	12 7	10 3	3 8
At 1 July					
Cash and cash equivalents		15 4	49 8	3 8	28 7
Bank overdrafts		(2 7)	(37 1)	–	–
		12 7	12 7	3 8	28 7
At 30 June					
Cash and cash equivalents		37 3	15 4	20 3	3 8
Bank overdrafts	17	(15 9)	(2 7)	(10 0)	–
		21 4	12 7	10 3	3 8

Notes to the financial statements

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years ended 30 June 2007 and 30 June 2008.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations adopted by the European Union ('EU') and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, with the following exceptions:

- equity-settled share-based payments, derivative financial instruments and defined benefit pension assets are measured at fair value, and
- defined benefit pension liabilities are measured at present value adjusted for unrecognised past service cost.

In 2007 the Group adopted IFRS 7 'Financial Instruments Disclosures' and related amendment to IAS 1 'Presentation of Financial Statements', IFRIC 10 'Interim Financial Reporting' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'. As this only resulted in amended disclosures, including comparatives, this has had no effect on the Group's reported profit and equity.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Ricardo plc ('the Company') and all of its subsidiaries (together 'the Group') made up to the end of the financial period. Businesses acquired are accounted for as acquisitions with effect from the date the power to control passes. Those disposed of are accounted for up until the power to control passes at the date of disposal. All intra group transactions and balances are eliminated on consolidation. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the Group are also separately disclosed.

(c) Additional performance measures

The directors consider that adjusted income statement and earnings per share measures provide additional useful information on the underlying performance of the business. These measures are consistent with how business performance is measured internally. However they are not defined under IFRS and may not be directly comparable with additional performance measures used by other companies, and exclude the impact of exceptional one off profits and losses such as those arising from pensions curtailments and impairments.

(d) Management judgements and key accounting estimates

In preparing the financial statements, management is required to exercise judgement in making estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The following accounting policies have been identified as being particularly sensitive to complex or subjective judgements or estimates:

Retirement benefit costs

The Group operates a defined benefit pension scheme that provides benefits to a number of current and former employees. This scheme is closed to new entrants. The value of the deficit is particularly sensitive to the market value of the scheme's assets, discount rates and actuarial assumptions related to mortality. Further details are given in note 20.

Revenue recognition for fixed price contracts

The Group derives revenue from the supply of professional services under contracts, most of which are normally fixed price contracts that may extend for a significant period of time. While fixed price contracts are in progress, revenue is recognised based on their expected profitability and extent of completion. Profit is only taken once the outcome of the contract can be estimated reliably, however unforeseen future events may adversely impact the accuracy of those estimates. Further details are given in note 14.

Current and deferred taxation

Legislation related to taxation is complex and its impact on the Group may be uncertain. In preparing the Group's financial statements management estimates its taxation liability having taken appropriate professional advice. Determination of an agreed amount of taxation payable may take several years, and the final amounts paid may differ from the liabilities recorded in these financial statements.

The recognition of assets and liabilities related to deferred taxation also requires the exercise of management judgement, in particular the extent to which assets should be recognised.

Goodwill

Goodwill arising on the acquisition of subsidiaries is not amortised but is tested annually for impairment. The impairment test employs estimates related to the future ability of the acquired business to generate cash. Further details are given in note 10.

(e) Segmental reporting

The Group considers its primary reporting format for segmental reporting should be reporting by business segments, and considers the relevant segments to be Technical Consulting and Strategic Consulting. Inter-segmental revenue is charged at prevailing market prices. The Group considers its geographical segments by location of assets to be the United Kingdom, North America, Germany and Rest of the World, and its geographical segments by location of customer to be Europe, North America, Asia and Rest of the World.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

(f) Revenue

The Group earns revenue through the supply of professional services and products to customers. Revenue is stated net of value added and other sales taxes.

Professional services

The majority of the Group's revenue is earned from contracts for professional services. The mix of fixed price and time and materials projects varies as projects close and new orders are received.

Where the outcome can be estimated reliably, contract revenue recognition is based on the extent to which the services have been performed. For fixed price contracts, performance is measured based on costs incurred to date as a percentage of total expected costs. For contracts awarded on a time and materials basis, performance is measured based on the expected sales value of the time worked and costs incurred to date.

Profit is not recognised on a contract, and revenue is not recognised in excess of recoverable costs, unless its outcome can be estimated reliably. A loss on a contract is recognised immediately it becomes probable that the contract costs will exceed the total contract revenue.

Revenue from contract variations closely linked to underlying fixed price contracts is recognised based on performance under the contract as a whole, but only to the extent that it can be reliably measured and it is probable that the customer will approve both the variation and the amount of additional revenue. Contract variations not closely linked to underlying contracts are treated as separate contracts.

Revenue derived from leasing of software and supply of related services is recognised on a straight line basis over the period during which the service is supplied.

Assets arising from the recognition of revenue are recorded in trade and other receivables, initially as amounts recoverable on contracts and transferred to trade receivables when invoiced. Amounts receivable from customers not yet recognised as revenue are initially classified as payments in advance within trade and other payables, and transferred to revenue as the related revenue is recognised.

Supply of products

Revenue is recognised when control and all the significant risks and rewards of ownership of the assets have been transferred to the customer, when the amount of revenue and costs can be measured reliably, and when it is probable that the Group will receive the economic benefits associated with the sale.

The Group's product revenue is principally derived from the outright sale of tangible goods, developed and managed within the Technical Consulting business based on contractually determined prices, such as high-performance transmissions and exhaust systems. In practice, revenue is recognised for such sales when the goods have been delivered to the customer because, except for normal warranty terms on some products, no substantive obligations exist and there are no substantive return risks after that point in time.

A small proportion of product revenue is derived from the sale of software licences. The Group's software products are standard version controlled products available for general sale. Normally there are no substantive obligations to fulfil following sale and revenue is recognised on delivery.

(g) Research and development

Expenditure on research and development is recognised as an expense in the period in which it is incurred, except when development expenditure meets the criteria for recognition as an intangible asset.

Research and development expenditure expensed in the income statement is disclosed in note 4, other than where the activity is performed for customers, and includes all directly attributable costs. The expenditure relates both to research expenditure and to

development expenditure for which either there is no identifiable and separable intangible asset, or the way in which the output is expected to be used is such that it is not possible to demonstrate satisfactorily the existence of a market for the intangible asset's output.

(h) Government grants

The Group receives income-related grants from various national and supranational government agencies, principally as part funding of research and development projects. A grant is not recognised in the income statement until there is reasonable assurance that the Group will comply with its conditions and that the grant will be received. Grants are presented in the income statement as a deduction from the related expenses.

Grants are not normally received until after qualification conditions have been met and the related expenditure has been incurred. Where this is not the case, they are recorded within trade and other payables as a payment in advance.

(i) Retirement benefit costs

The Group operates one defined benefit and several defined contribution retirement benefit schemes. Payments to defined contribution schemes are charged as an expense as they fall due. Payments to state-managed schemes are dealt with as payments to defined contribution schemes as the Group's obligations under the schemes are similar in nature.

For the defined benefit retirement benefit scheme, the cost of providing benefits is determined using the Projected Unit Credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. Gains and losses are reported in the statement of recognised income and expense except where they result from settlements or curtailments, in which case they are reported in the income statement.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(j) Share-based payments

Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period based on the Group's estimate of participants eligible to receive shares at the point of vesting.

Fair value is measured by use of a Black Scholes model for share options, and a Monte Carlo model for the Long Term Incentive Plans ("LTIP"). The expected life used in the model is adjusted for the effects of exercise restrictions and behavioural considerations.

The Group has elected not to apply this accounting policy to options granted before 7 November 2002, and no cost has been recognised in the income statement for those options.

(k) Leases

The costs of operating leases and amortisation of operating lease incentives are charged to the income statement on a straight line basis over the period of the lease

(l) Foreign currency*Transactions*

The functional currency of the Company and the Group is pounds sterling. The functional currency of each subsidiary is determined by its individual circumstances. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the date when the transaction occurred. Gains and losses arising on retranslation and settlements are included in the income statement for the period.

Consolidation

On consolidation, the assets and liabilities of foreign operations, including goodwill and fair value adjustments are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates of the period unless exchange rates fluctuate significantly. Exchange differences arising from 1 July 2004, the date of transition to IFRS, are classified as equity and recognised in the translation reserve. Exchange differences arising before that date are not separately reported. On disposal of an operation or part thereof, the related cumulative translation differences are recognised in the income statement as a component of the gain or loss arising on disposal.

(m) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Dividends

Dividends are recognised as a liability in the period in which they are fully authorised, or in the case of interim dividends when paid.

(o) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired. As permitted by IFRS, goodwill arising on acquisitions prior to 1 July 2004 has not been restated, but is retranslated using exchange rates prevailing at each balance sheet date.

Goodwill is recognised as an asset, and is not subject to amortisation, but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of an operation, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(p) Other intangible assets

The cost of a purchased intangible asset is the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Certain directly attributable costs which are incurred in the development of an intangible asset are capitalised. These costs are recognised as an asset once the Group has determined that:

- it has the intention and the necessary resources to complete the relevant project,
- it is probable that the resulting asset will generate economic benefits for the Group, and
- the attributable expenditure can be measured reliably.

These criteria have been met for the development costs of certain software products, which have finite useful lives.

Amortisation is provided to write off the amortisable amount (being cost less residual value estimated at the latest balance sheet date) of intangible assets over estimated useful lives as follows:

Purchased software	Between 2 and 10 years
Capitalised software development	Between 2 and 5 years

(q) Property, plant and equipment

The cost of an item of property, plant and equipment is the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Depreciation is provided to write off the depreciable amount (being cost less residual value estimated at the latest balance sheet date) of items of property, plant and equipment on a straight line basis over estimated useful lives as follows:

Freehold buildings	Between 25 and 50 years
Long and short leasehold property	Over the term of the lease
Plant and machinery	Between 4 and 10 years
Fixtures, fittings and equipment	Between 2 and 10 years

Freehold land is not depreciated

(r) Investments

Investments in subsidiaries are stated at cost less any impairment in value

(s) Impairment of non-current assets

Goodwill arising is allocated to the cash-generating units expected to benefit from the business combination. Its carrying value is tested annually, regardless of whether there is any indication of impairment, as part of the impairment testing of the cash-generating unit to which it belongs.

Other intangible assets with finite useful lives and items of property, plant and equipment are tested whenever there is an indication that its carrying value may exceed its recoverable amount. The Group assesses at each reporting date whether there is any indication of impairment or reversal of impairments recognised in prior years.

Where assets do not generate cash flows independently from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

Impairment losses arising on goodwill are not reversed. Where an impairment loss on other assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

(t) Inventories

Inventories are stated at the lower of cost, including attributable overheads, and net realisable value. Work in progress is stated at cost, including attributable overheads, less any foreseeable losses and progress payments received and receivable.

(u) Financial instruments

Non-derivative financial instruments

The group's non-derivative financial instruments comprise trade receivables, trade payables, cash and cash equivalents, bank loans and overdrafts. Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less at inception. Bank overdrafts repayable on demand are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Trade receivables and payables are measured initially at fair value, and subsequently at amortised cost. Trade receivables are stated net of allowances for irrecoverable amounts.

Bank loans are recognised initially at fair value less directly attributable transaction costs. Subsequently bank loans are recorded at amortised cost using the effective rate method. Differences between initial value and redemption value are recorded in the income statement over the period of the loan.

The fair values of non-derivative financial instruments other than loans due for repayment after more than one year are approximately equal to their book values. The fair value of loans due for repayment after more than one year is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The Group has financed its net investment in Germany using a Euro loan. Hedge accounting has been applied to the exchange differences arising on this loan.

Derivative financial instruments

Derivative financial instruments are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is designated as a cash flow hedging instrument as described below.

The group employs derivative financial instruments, generally forward foreign exchange contracts, to mitigate currency exposures on trading transactions. Fair values of derivative financial instruments are based on the market values of similar instruments at the balance sheet date.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are recognised separately as derivative financial instruments where their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of separately-recognised embedded derivatives are reported in the income statement.

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

Gains or losses on cash flow hedges that are highly effective are recognised in equity. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity are recycled to the income statement. The Group does not hedge forecast transactions that will result in the recognition of a non-financial asset or liability.

The Group hedges net investments in certain foreign entities through currency borrowings that qualify for hedge accounting, accordingly gains or losses on retranslation are recognised in equity. Accumulated gains and losses are recycled to the income statement when the foreign operation is disposed of.

The ineffective portion of any hedges is recognised immediately in the income statement. Where a hedge no longer meets the effectiveness criteria, any gains or losses previously deferred in equity are only transferred to the income statement when the

committed or forecasted transaction is recognised in the income statement

Where hedge accounting has been applied to a cash flow hedge for a forecasted or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity is transferred to the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

(v) Non-current assets and disposal groups held for sale

Non-current assets or disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

(w) Provisions

A provision is required when the Group has a present legal or constructive obligation at the balance sheet date as a result of a past event, and it is probable that settlement will be required of an amount that can be reliably estimated. Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's liability.

(x) New standards and interpretations

At 30 June 2008, the International Accounting Standards Board and IFRIC had issued the standards and interpretations, shown below, that are effective, subject to adoption by the EU, for accounting periods commencing later than 1 July 2008.

Issued standards and interpretation not yet effective		Effective date (periods commencing)	Adopted by the EU
<i>International Financial Reporting Standards</i>			
IFRS 8	Operating Segments	01-Jan-09	Yes
IFRS 3	Business Combinations	01-Jul-09	No
<i>Amendments to International Financial Reporting Standards</i>			
IFRS 2	Share-based payments	01-Jan-09	No
IAS 1	Presentation of Financial information	01-Jan-09	No
IAS 23	Borrowing Costs	01-Jan-09	No
IAS 27	Consolidated and Separate Financial Statements	01-Jul-09	No
IAS 32	Financial Instruments Presentation	01-Jan-09	No
<i>International Financial Reporting Interpretations</i>			
IFRIC 12	Service Concession Arrangements	01-Jan-08	No
IFRIC 13	Customer loyalty programmes	01-Jul-08	No
IFRIC 14	IAS19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction	01-Jan-08	No

2 Segmental reporting

Business segments

Continuing operations – revenue and results	Technical Consulting		Strategic Consulting		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Revenue earned	185.3	163.6	12.4	7.9	197.7	171.5
Adjustment for inter-segmental revenue	(0.3)	(0.6)	0.3	0.6	–	–
Revenue from third parties	185.0	163.0	12.7	8.5	197.7	171.5
Operating profit	14.1	11.9	1.8	1.3	15.9	13.2
Finance income					1.5	2.0
Finance costs					(2.7)	(3.0)
Profit before tax					14.7	12.2
Tax					(2.3)	2.9
Profit for the year					12.4	15.1
Continuing operations – assets & liabilities	Technical Consulting		Strategic Consulting		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Segment assets	154.9	138.0	13.7	2.5	168.6	140.5
Unallocated assets					13.3	12.1
Consolidated total assets					181.9	152.6
Segment liabilities	100.2	82.1	7.8	1.6	108.0	83.7
Unallocated liabilities					6.8	7.2
Consolidated total liabilities					114.8	90.9
Capital expenditure – Intangible assets	1.0	1.0	–	–	1.0	1.0
Capital expenditure – Property, plant and equipment	9.8	8.5	–	–	9.8	8.5
Depreciation and amortisation	8.8	8.8	–	–	8.8	8.8

Unallocated assets and liabilities related to deferred and current tax balances

Geographical Segments

Continuing operations by location of customer		Revenue			
	2008 £m	2007 £m			
Europe	126.0	105.0			
North America	35.2	38.6			
Asia	36.2	27.5			
Rest of the World	0.3	0.4			
	197.7	171.5			
Continuing operations by location of assets		Capital Spend		Assets	
	2008 £m	2007 £m	2008 £m	2007 £m	
UK	7.7	4.2	102.5	79.6	
North America	1.3	2.0	21.0	21.2	
Germany	1.5	3.1	41.9	37.3	
Rest of the World	0.3	0.2	3.2	2.4	
	10.8	9.5	168.6	140.5	
Unallocated assets			13.3	12.1	
			181.9	152.6	

3 Revenue

	2008 £m	2007 £m
Rendering of services	165.2	142.4
Sale of goods	32.5	29.1
	197.7	171.5

4 Operating profit

	2008 £m	2007 £m
The following items have been charged in arriving at operating profit		
Amortisation of intangible assets recognised as expense	0.8	0.6
Depreciation of property, plant and equipment	8.0	8.2
Inventories consumed and recognised as expense	28.9	28.5
Other operating lease rentals payable		
– plant and machinery	0.8	0.8
– property	2.8	3.0
Repairs and maintenance on property, plant and equipment	2.6	2.6
Trade receivables impairment	1.2	0.2
Foreign exchange losses	0.4	–
	2008 £m	2007 £m
With respect to the Group research and development activities the following items have been charged/(credited) in arriving at operating profit		
Research and development expenditure in the period	10.1	8.9
Government grant income received in respect of part of this expenditure	(1.0)	(1.1)
	9.1	7.8
	2008 £m	2007 £m
During the year the Group obtained the following services from the Group's auditors and network firms		
Fees payable to parent company auditor for the audit of the parent and consolidated financial statements	0.3	0.3
Fees payable to the company's auditor and its associates for other services	0.1	–
	0.4	0.3

5 Employees

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Staff costs for the Group during the year				
Wages and salaries	70.2	67.9	3.3	2.1
Social security costs	9.5	8.5	0.3	0.2
Other pension costs (note 20)	3.2	2.7	0.6	0.4
Share-based payments	0.3	0.2	0.3	0.1
	83.2	79.3	4.5	2.8

	Group		Company	
	2008 Number	2007 Number	2008 Number	2007 Number
Average number of employees (including executive directors) during the year				
Management, administration and sales	297	283	30	20
Production and engineering staff	1,502	1,363	-	-
	1,799	1,646	30	20

	2008 £m	2007 £m
Key management compensation		
Salaries and short-term employee benefits	2.5	2.3
Post-employment benefits	0.3	0.5
Termination benefits	-	0.3
Share-based payments	0.5	0.4
	3.3	3.5

The key management personnel are the Board of Directors, the Managing Directors of the UK, US and German businesses and the Global Product and Engineering Director. Details of the directors' remuneration, pensions contributions and share-based payments are provided in the Directors' Remuneration Report.

6 Finance income and costs

	2008 £m	2007 £m
Finance income		
Bank interest receivable	1.5	2.0
	1.5	2.0
Finance costs		
Interest payable on bank borrowings	2.2	2.6
Defined benefit pension scheme net finance costs (note 20)	0.5	0.4
	2.7	3.0

7 Taxation

	2008 £m	2007 £m
Current tax		
UK corporation tax at 28% (2007 30%)	0.1	–
Adjustment in respect of prior years	(0.5)	(1.3)
Total UK tax	(0.4)	(1.3)
Foreign corporation tax	2.7	2.3
Total current tax	2.3	1.0
Deferred tax		
Charge for year relating to temporary differences excluding tax on pensions credit	1.3	0.9
Credit for year relating to changes in tax rates	–	(0.2)
Adjustment in respect of prior years	(1.3)	(4.6)
Total deferred tax	–	(3.9)
Taxation	2.3	(2.9)
Tax on items recognised directly in equity	(1.8)	1.7
Total current tax charge	2.3	1.0
Total deferred tax credit	(1.8)	(2.2)

The 2007 adjustments in respect of prior years included a benefit of £5.2m as a result of retrospective R&D tax credits

The tax charge for the year is lower (2007 lower) than the standard rate of corporation tax in the UK. The differences are set out below

	2008		2007	
	%	£m	%	£m
Profit for the year before tax		14.7		12.2
Profit for the year multiplied by rate of corporation tax in the UK ⁽¹⁾	28.0	4.1	30.0	3.7
Effects of				
Losses not recognised	–		0.7	
Expenses not deductible for tax purposes	3.6		2.5	
Government tax incentives	(14.0)		(17.0)	
Irrecoverable overseas tax	8.5		7.3	
Adjustments to taxation in respect of prior years ⁽²⁾	(13.6)		(46.9)	
Change in corporation tax rates	1.6		(1.8)	
Other differences in tax rate/other	1.5		1.0	
Total taxation	15.6	2.3	(24.2)	(2.9)

(1) The UK corporation tax rate changed from 30% to 28% from April 2008

(2) Including 19% regarding £2.8m of retrospective R&D tax credits (2007 38.6% regarding £4.7m)

8 Dividends

	2008 £m	2007 £m
Final paid 7.1p per share (2007 6.7p)	3.6	3.4
Interim paid 3.1p per share (2007 2.9p)	1.6	1.5
Equity dividends paid	5.2	4.9
Dividend paid to minority shareholders	0.2	0.1
Total dividend paid	5.4	5.0

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 June 2008 of 7.5p per share which will absorb £3.8m of retained profits. It will be paid on 26 November 2008 to shareholders who are on the register of members at the close of business on 31 October 2008, subject to approval at the Annual General Meeting on 18 November 2008.

9 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 LTIP 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 where the exercise price is less than the market price of the Company's ordinary shares during the year

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below

	2008 £m	2007 £m
Earnings attributable to equity shareholders	12.3	15.0
	Number of shares millions	Number of shares millions
Basic average number of shares in issue	50.9	50.7
Effect of dilutive potential shares	0.5	0.1
Diluted average number of shares in issue	51.4	50.8
	Per share amount pence	Per share amount pence
Earnings per share		
Basic	24.2	29.6
Diluted	23.9	29.5

10 Goodwill

Group	£m
Deemed cost at 1 July 2006	15.9
Exchange adjustments	(0.3)
At 30 June 2007	15.6
Exchange adjustments	2.3
At 30 June 2008	17.9

£15.2m of the net book amount at 30 June 2008 (2007: £12.9m) relates to the German business. The recoverable amounts were based on value in use. The key assumptions in the value in use calculations for the German business are those regarding the discount rates and growth rates. The discount rate assumed is 10.8% (2007: 9.0%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the German business. The growth rates are based on cash flow forecasts derived from the most recent financial budgets approved by management for the next five years. Growth rates for the sixth and following years at 3% (2007: 3%) are based on the estimated nominal Gross Domestic Product for the market in which the German business operates. Potential variances to cash flow forecasts and discount rates were evaluated.

The remaining £2.7m (2007: £2.7m) of the net book amount relates to two businesses within the UK: Gemini and Tarragon. The same approach was taken as with Germany however using a higher discount rate, mainly due to the differences in the relative risk-free rates. For all three elements of goodwill the recoverable amounts exceeded the carrying values. No reasonable possible changes in key assumptions for these businesses have been identified that would cause the carrying values of recognised goodwill to exceed their recoverable amounts.

11 Other intangible assets

Group	Purchased software £m	Capitalised software development £m	Total £m
Cost			
At 1 July 2006	6.8	0.3	7.1
Additions	0.9	0.1	1.0
Disposals	(0.2)	–	(0.2)
At 30 June 2007	7.5	0.4	7.9
Additions	1.0	–	1.0
Disposals	(0.1)	–	(0.1)
Exchange rate adjustments	0.2	–	0.2
At 30 June 2008	8.6	0.4	9.0
Amortisation			
At 1 July 2006	5.6	–	5.6
Charge for the year	0.6	–	0.6
Disposals	(0.2)	–	(0.2)
At 30 June 2007	6.0	–	6.0
Charge for the year	0.8	–	0.8
Disposals	(0.1)	–	(0.1)
Exchange rate adjustments	0.2	–	0.2
At 30 June 2008	6.9	–	6.9
Net book amounts			
At 30 June 2008	1.7	0.4	2.1
At 30 June 2007	1.5	0.4	1.9
At 30 June 2006	1.2	0.3	1.5

Company	Purchased software £m	Total £m
Cost		
At 1 July 2006 and 30 June 2007	–	–
Additions	0.1	0.1
At 30 June 2008	0.1	0.1
Amortisation		
At 1 July 2006, 30 June 2007 and 30 June 2008	–	–
Net book amounts		
At 30 June 2008	0.1	0.1
At 30 June 2006 and 30 June 2007	–	–

12 Property, plant and equipment

Group	Land and buildings Freehold £m	Short leasehold £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost					
At 1 July 2006	108	71	76.9	20.0	114.8
Additions	1.9	0.1	4.8	1.7	8.5
Reclassifications	0.7	-	2.3	(3.0)	-
Disposals	-	-	(0.5)	(5.0)	(5.5)
Exchange rate adjustments	(0.1)	(0.1)	(1.5)	(0.4)	(2.1)
At 30 June 2007	13.3	7.1	82.0	13.3	115.7
Additions	3.0	0.1	5.4	1.3	9.8
Disposals	-	-	(0.7)	(0.2)	(0.9)
Exchange rate adjustments	1.1	-	0.9	0.6	2.6
At 30 June 2008	17.4	7.2	87.6	15.0	127.2
Depreciation					
At 1 July 2006	1.6	1.5	51.7	14.8	69.6
Charge for the year	0.2	0.4	6.2	1.4	8.2
Reclassifications	0.2	-	0.4	(0.6)	-
Disposals	-	-	(0.5)	(5.0)	(5.5)
Exchange rate adjustments	-	-	(0.9)	(0.2)	(1.1)
At 30 June 2007	2.0	1.9	56.9	10.4	71.2
Charge for the year	0.3	0.2	6.0	1.5	8.0
Disposals	-	-	(0.7)	(0.2)	(0.9)
Exchange rate adjustments	0.2	-	0.3	0.4	0.9
At 30 June 2008	2.5	2.1	62.5	12.1	79.2
Net book amounts					
At 30 June 2008	14.9	5.1	25.1	2.9	48.0
At 30 June 2007	11.3	5.2	25.1	2.9	44.5
At 30 June 2006	9.2	5.6	25.2	5.2	45.2

The additions within freehold land and buildings include £3.0m (2007: £0.4m) in respect of assets under construction

Company	Land and buildings Freehold £m	Short leasehold £m	Total £m
Cost			
At 1 July 2006, 30 June 2007 and 30 June 2008	5.6	6.1	11.7
Depreciation			
At 1 July 2006	1.0	0.9	1.9
Charge for the year	-	0.3	0.3
At 30 June 2007	1.0	1.2	2.2
Charge for the year	-	0.1	0.1
At 30 June 2008	1.0	1.3	2.3
Net book amounts			
At 30 June 2008	4.6	4.8	9.4
At 30 June 2007	4.6	4.9	9.5
At 30 June 2006	4.6	5.2	9.8

The gross carrying amounts of property, plant and equipment are measured using a historic cost basis

At 30 June 2008, contracts had been placed for future capital expenditure, which have not been provided for in the financial statements, amounting to £0.8m (2007: £0.5m)

13 Investments

Company	Shares in subsidiaries £m
Cost at 1 July 2006 and 30 June 2007	33.4
Additions	3.7
Cost at 30 June 2008	37.1
Provisions at 1 July 2006, 30 June 2007 and 30 June 2008	15.4
Net book value at 30 June 2008	21.7
Net book value at 30 June 2007	18.0
Net book value at 30 June 2006	18.0

During the year the Company purchased Ricardo Tarragon Limited from Ricardo UK Limited

14 Inventories

Group	2008 £m	2007 £m
Raw materials and consumables	4.3	6.1
Work in progress	4.8	1.4
	9.1	7.5

In respect of contracts in progress at the year end the aggregate amount of costs incurred and recognised profits (less recognised losses) to date was £193.9m (2007 £161.0m). Progress billings in respect of this amount to £194.9m (2007 £155.2m). Contract revenue in the year for contracts designated under IAS 11 'Construction Contracts' as construction contracts amounted to £159.5m (2007 £138.9m).

15 Trade and other receivables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade receivables	29.7	32.8	–	–
Less: provision for impairment of receivables	(1.5)	(0.2)	–	–
Trade receivables – net	28.2	32.6	–	–
Amounts recoverable on contracts	20.5	19.3	–	–
Amounts owed by Group undertakings	–	–	55.4	62.9
Prepayments and accrued income	2.4	2.2	0.2	0.3
Other receivables	3.1	1.5	0.1	0.2
	54.2	55.6	55.7	63.4
Provision for doubtful debts				
At 1 July	(0.2)	(0.2)	–	–
Income statement charge	(1.2)	(0.2)	–	–
Amounts utilised	–	0.1	–	–
Exchange rate adjustments	(0.1)	0.1	–	–
At 30 June	(1.5)	(0.2)	–	–

In respect of the Company, amounts owed by Group undertakings are interest-bearing at normal commercial rates.

The provision for doubtful debts has been calculated based on past experience and is in relation to specific customers.

16 Trade and other payables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade payables	6.5	12.5	–	0.3
Other tax and social security payable	0.3	3.0	–	0.2
Amounts owed to Group undertakings	–	–	13.3	11.2
Accruals	15.9	11.6	0.9	1.4
Payments received in advance	22.4	13.1	–	–
Other payables	4.6	3.7	2.4	2.0
	49.7	43.9	16.6	15.1

In respect of the Company, amounts owed to Group undertakings are interest-free

17 Bank loans and overdrafts

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Bank overdrafts	15.9	2.7	10.0	–
Current bank loans	11.8	6.4	8.7	2.0
Total current borrowings	27.7	9.1	18.7	2.0
	2008 £m	2007 £m	2008 £m	2007 £m
Maturity of non current debt (bank loans)				
Between one and two years	4.2	7.7	2.4	7.4
Between two and five years	5.4	5.3	2.4	4.0
In five years or more	0.3	0.5	–	–
	9.9	13.5	4.8	11.4

The bank loans are denominated in sterling, euros and swiss francs. The sterling loan is variable rate. There are both variable and fixed rate euro and swiss franc loans. The variable interest rates vary from 0.8% above Euribor to 0.85% above LIBOR. There are also two euro loans which attract interest at a variable rate, which are normally fixed monthly, and are currently 4.67%. There are fixed rate loans which are denominated both in euros and swiss francs. Interest rates on these loans vary from 2.05% to 5.6%. Loan balances include £3.1m (2007 £2.9m) of loans in respect of Ricardo GmbH which are secured on buildings belonging to the Company.

The Group has banking facilities for its UK companies which together have a net overdraft limit. The balances are shown gross in the financial statements as cash and cash equivalents and bank overdrafts.

18 Fair value of financial assets and liabilities

The fair values of financial assets and liabilities approximate to their carrying values as follows

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash at bank and in hand	37.3	15.4	20.3	3.8
Bank overdrafts	(15.9)	(2.7)	(10.0)	–
Loans repayable within one year	(11.8)	(6.4)	(8.7)	(2.0)
Loans repayable after more than one year	(9.9)	(13.5)	(4.8)	(11.4)
Trade receivables	28.2	32.6	–	–
Trade payables	(6.5)	(12.5)	–	(0.3)
Amounts owed by Group undertakings	–	–	55.4	62.9
Amounts owed to Group undertakings	–	–	(13.3)	(11.2)
Accrued interest receivable	–	0.1	–	–
Accrued interest payable	(0.1)	(0.2)	–	–
Derivative financial assets	0.1	–	–	–
Derivative financial liabilities	(0.4)	–	–	–
	21.0	12.8	38.9	41.8

*Summary of methods and assumptions***Short term borrowing and deposits –**

The fair value of short term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments

Long term borrowings –

The fair value of bank loans approximates to the carrying value in the balance sheet as they are mainly floating rate loans where payments are reset to market rates at regular intervals

Net exchange gains / (losses)

	2008 £m	2007 £m
Profit / (loss)		
On financial assets and liabilities at fair value through profit and loss	0.5	(0.1)
On loans and receivables	(1.7)	–
	(1.2)	(0.1)
Equity		
On financial assets and liabilities at fair value through profit and loss	–	–
On loans and receivables	1.9	(0.4)
	1.9	(0.4)

19 Financial risks*(a) Objectives, policies and strategies*

The financial risks faced by the Group, and the Company, comprise capital risk, liquidity risk, credit risk and market risk, comprising interest rate risk and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks. The Group and the Company have no material exposure to commodity price fluctuations, and this situation is not expected to change in the foreseeable future.

The Group's financial instruments comprise fixed and floating rate borrowings, the main purpose of which is to raise finance for the Group's operations and forward foreign exchange contracts used to manage currency risks. The Company's financial instruments comprise floating rate borrowings.

(b) Capital risk

The objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Capital is monitored on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as bank loans less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

The gearing ratios at 30 June 2008 and 2007 were as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Bank loans (note 17)	21.7	19.9	13.5	13.4
Less: cash and cash equivalents	(21.4)	(12.7)	(10.3)	(3.8)
Net debt	0.3	7.2	3.2	9.6
Total equity	67.1	61.7	52.6	54.7
Total capital	67.4	68.9	55.8	64.3
Gearing ratio	–	10%	6%	15%

(c) Liquidity risk

The Group's policy towards managing its liquidity risk is to maintain a mix of short and medium term borrowing facilities with its bankers. Short term flexibility is provided by bank overdraft facilities. In addition, the Group maintains term borrowing facilities in order to provide the appropriate level of finance to support the current and future requirements of its businesses. At the year end, the Group had facilities of £41.0m (2007: £39.0m) with its banks, 52.9% (2007: 51%) of which, net of credit balances where appropriate, was drawn down. These facilities are subject to periodic review.

The Company's policy towards managing its liquidity risk is to maintain a mix of short and medium term borrowing facilities with its bankers. Short term flexibility is provided by bank overdraft facilities. In addition, the Company maintains term borrowing facilities in order to provide the appropriate level of finance to support the current and future requirements of the Group's businesses.

	Group		Company	
Maturity of bank loans	2008 £m	2007 £m	2008 £m	2007 £m
Maturing				
Within 1 month	(4.4)	–	(2.4)	–
After 1 month and within 3 months	(0.1)	(4.4)	–	–
After 3 months and within 12 months	(7.3)	(2.0)	(6.3)	(2.0)
After 12 months and within 5 years	(9.6)	(13.0)	(4.8)	(11.4)
After 5 years	(0.3)	(0.5)	–	–
	(21.7)	(19.9)	(13.5)	(13.4)

Property, plant and equipment with a value of £3.5m (2007 £3.0m) held by Ricardo Deutschland GmbH is pledged as security for loans to that company

(d) Credit risk

The Group is exposed to credit risk in respect of its trade receivables, which are stated net of provision for estimated doubtful receivables. Exposure to this risk is mitigated by careful evaluation of the granting of credit and the use of credit insurance where practicable.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, the directors believe there is no further credit risk provision required in excess of any normal provision for doubtful receivables.

Ageing of trade receivables	2008 £m	2007 £m
Not overdue	15.7	21.2
Overdue but not impaired		
0 - 90 days overdue	10.9	8.6
91 - 180 days overdue	0.9	2.3
Over 180 days overdue	0.7	0.5
	28.2	32.6

	Group		Company	
Maximum exposure to bank counterparty risk	2008 £m	2007 £m	2008 £m	2007 £m
Cash at bank and in hand	37.3	15.4	20.3	3.8
Accrued interest receivable	–	0.1	–	–
Derivative financial assets	0.1	–	–	–
	37.4	15.5	20.3	3.8

In addition, the Group is exposed to bank credit risk in respect of money held on deposit and certain derivative hedging transactions entered into with banks. Exposure to this form of risk is mitigated as material transactions are only undertaken with bank counterparties that have high credit ratings assigned by international credit-rating agencies. The Group further limits risk in this area by setting an overall credit limit for all transactions with each bank counterparty in accordance with the institution's credit standing.

The Company's exposure to credit risk comprises receivables from related parties as disclosed in note 18, and money held on deposit and certain derivative hedging transactions entered into with banks. Exposure to this form of risk is mitigated as material transactions are only undertaken with bank counterparties that have high credit ratings assigned by international credit-rating agencies. The Company further limits risk in this area by setting an overall credit limit for all transactions with each bank counterparty in accordance with the institution's credit standing.

(e) Market risk

Interest rate risk

The Group and Company borrowings and cash balances are principally at floating interest rates and are therefore exposed to cash flow interest rate risk. The exposure to interest rate movements is not currently hedged, either by the Group or the Company, as its exposures are relatively small, although the policy is reviewed on an ongoing basis.

	Group		Company	
Financial assets and liabilities by interest type	2008 £m	2007 £m	2008 £m	2007 £m
Floating rate financial liabilities	(36.2)	(20.4)	(23.5)	(13.4)
No interest financial liabilities	(6.9)	(12.6)	(13.3)	(11.5)
Fixed rate financial liabilities	(1.4)	(2.2)	–	–
Floating rate financial assets	37.3	15.4	75.7	66.7
No interest financial assets	28.2	32.6	–	–
	21.0	12.8	38.9	41.8

Foreign exchange risk

The Group faces currency exposures on trading transactions undertaken by its subsidiaries in foreign currencies and balances arising therefrom, and on the translation of profits earned in and net assets of overseas subsidiaries, primarily in the US and in Germany

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities are

	Assets		Liabilities	
	2008 £m	2007 £m	2008 £m	2007 £m
US Dollar	6.4	7.0	(1.7)	(1.5)
Euro	11.5	10.4	(1.8)	(4.6)

The Group hedges transactional exposures relating to its foreign currency exposures on contracts by taking out forward foreign exchange contracts or other derivative financial instruments. The Group hedges all significant forecast profits from its overseas businesses by taking out forward foreign exchange contracts or other derivative financial instruments.

The Group has financed its net investment in the German business using euro denominated borrowings to which hedge accounting has been applied.

It is the Group's policy not to undertake any speculative currency transactions using derivatives.

The Company faces currency risk on its euro denominated borrowings and its euro and dollar denominated receivables from related parties.

Embedded Derivatives

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', management have reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There are some contracts within Ricardo UK denominated in euros which fail to meet the requirements outlined by IAS 39, and so the derivative related to the contract currency is accounted for separately to the rest of the contract. As at 30 June 2008, the fair value of this embedded derivative was an asset of £0.1m (2007: nil). This derivative is recorded at fair value based on discounted future cash flows with gains and losses passing through the income statement. A gain of £0.1m (2007: £0.1m) is recorded in the income statement.

*(f) Analysis of sensitivity of financial instruments to market risk**Exchange rate sensitivity*

The table below shows the sensitivity of financial instruments at the period end to foreign exchange rates, where the financial instruments are not in the functional currency of the entity that holds them.

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<i>Impact on profit for the year</i>				
10% weakening of the US dollar	(0.1)	0.1	(0.1)	–
10% weakening of the euro	(0.2)	(0.3)	(0.3)	–
<i>Impact on equity</i>				
10% weakening of the US dollar	–	0.1	–	–
10% weakening of the euro	0.5	0.6	0.5	0.8

A 10% strengthening of these currencies against sterling would have an equal and opposite effect.

Interest rate sensitivity

The table below shows the sensitivity of the Group's floating rate financial instruments at the period end to interest rates. Debt with a maturity or interest re-setting within one year is floating rate for this calculation. The Group's main exposure is to the euro interest rate.

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<i>Impact on profit for the year and equity</i>				
1% increase in euro interest rates	–	(0.1)	(0.1)	(0.1)

*(g) Hedges and hedge accounting**Fair values of hedging instrument at the reporting date*

	2008 £m	2007 £m
Hedges of net investment in foreign operations	(13.5)	(15.7)
Cash flow hedges	(0.4)	–
Total	(13.9)	(15.7)

Hedge of net investment in foreign operation

At the reporting date the Group held €17m (2007: €20m) of loans, which are a hedge of the first €17m of net investment in Ricardo's German subsidiaries, with inter company loans of €14.8m regarded as equity, hedging the risk in the change of the euro/sterling spot rate that affects the value of the net investment.

Cash flow hedges

The Group uses forward sales of foreign currencies designated as cash flow hedges to hedge the exposure arising from orders in foreign currencies that could affect the income statement.

The risk being hedged is the euro/sterling spot and US dollar/sterling and interest rate differential exchange rate risk arising from orders in foreign currencies.

The spot and interest rate differential component of the forward contracts taken out is designated as a hedge of the change in fair value of the cash flows on the firm orders in foreign currencies that are attributable to movements in the euro/sterling and US dollar/sterling spot and interest rates.

Provided the hedge is effective, changes in the fair value of the hedging instrument are initially recognised in the hedging reserve in equity. They are transferred to the income statement and included within administration expenses when the hedged transaction affects profit or loss. The ineffective portion of the change in the fair value of the instrument (if any) is recognised directly in profit or loss.

Amounts relating to cash flow hedges in the period	2008 £m	2007 £m
Recognised in equity	(1.5)	–
Removed from equity and included in profit and loss	1.1	–
Cash flows expected to occur and affect profit and loss	2008 £m	2007 £m
Within 3 months	3.3	–
After 3 months and within 12 months	7.7	–
After 1 and within 3 years	2.4	–
	13.4	–

20 Retirement benefit obligations

Group and Company

The Group operates various defined contribution pension schemes, the assets of which are held in separately administered funds. The Group also operates a defined benefit pension scheme, the Ricardo Group Pension Fund ("RGPF"). The scheme is closed to new entrants. The pension costs relating to the RGPF are assessed in accordance with the advice of Watson Wyatt Limited, qualified actuaries, using the Projected Unit Credit method.

The last completed triennial valuation of the RGPF was at 5 April 2005. At that date, the assets of the fund had a market value of £47 million and were sufficient to cover 66% of the benefits that had accrued to members after allowing for expected future increases in earnings. On the alternative minimum funding requirement valuation basis, which was required under the Pensions Act 1995 as part of the triennial valuation of the scheme, the ratio of assets to liabilities was 86%. The principal assumptions made by the actuaries in 2005 were that investment returns in the long term would comprise 4.9% per annum post retirement and 7.9% pre retirement. Pensionable salaries would be capped to future price inflation and therefore rise by 2.7% per annum. Pensions would rise at 3.25% per annum in respect of benefits accrued prior to 1 July 2002 and 2.7% per annum in respect of benefits accrued after 30 June 2002. It was assumed that future price inflation would rise at a rate of 2.7% per annum.

The capping of pensionable salaries to future price inflation led to a credit to the income statement in the year to 30 June 2006 of £3.7m (£2.6m net of tax). Current contribution rates payable by the Company are 15.2% of pensionable salaries for active members plus a monthly lump sum increased to £277,000 to make good previous deficits over a nine year period.

The next triennial valuation of the RGPF is currently under preparation as at 5 April 2008, and is due to be completed at the latest by 5 July 2009.

IAS 19 'Employee Benefits' valuations were completed as at 30 June 2007 and 30 June 2008 by Watson Wyatt Limited, qualified actuaries.

The post-retirement mortality assumptions used in both years are the standard "00" series tables published by the Continuous Mortality Investigation ("CMI"), projected using medium cohort improvement rate with reference to each individual's year of birth. Under these mortality assumptions, the expected future lifetime at age 65 for a current male pensioner, who is currently aged 65 is 21.7 years, and for a current female pensioner aged 65 is 24.0 years. The expected future lifetime at age 65 for a male pensioner who is currently aged 45 is 22.9 years, and for a female pensioner currently aged 45 is 25.0 years.

The other major assumptions made were

	At 30 June 2008	At 30 June 2007
Discount rate	6.7%	5.8%
Expected return on plan assets	7.6%	7.3%
Inflation	4.1%	3.3%
Rate of increase in pensionable salaries	4.1%	3.3%
Rate of increase in pensions in payment		
Pre 1 July 2002 accrual	4.1%	3.3%
Post 1 July 2002 accrual	4.1%	3.3%
Rate of increase in pension in deferment	4.1%	3.3%
Percentage of pension to be commuted for a lump sum at retirement	15.0%	10.0%

The expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation, and the return assumption is a net rate after expenses.

The assets of the scheme and the expected rate of return were

	Long term rate of return expected at 30 June 08	Value at 30 June 2008 £m	Long term rate of return expected at 30 June 07	Value at 30 June 2007 £m
Equities	8.9%	37.3	8.2%	45.5
Bonds	5.6%	22.9	5.3%	16.2
Cash	5.1%	0.8	4.3%	0.4
Property	7.2%	4.6	6.8%	4.9
Total assets	7.6%	65.6	7.3%	67.0

The expected rate of return on the assets of the scheme is the weighted average of the long term rate of return expected on the individual asset classes.

Movements in the fair value of scheme assets and present value of defined benefit obligations were as follows

	Assets £m	2008 Obligations £m	Net total £m	Assets £m	2007 Obligations £m	Net total £m
At 1 July	67 0	(83 7)	(16 7)	57 5	(81 1)	(23 6)
Current service cost	–	(1 3)	(1 3)	–	(1 1)	(1 1)
Past service cost	–	–	–	–	–	–
Expected return/(interest cost)	4 2	(4 7)	(0 5)	3 8	(4 2)	(0 4)
Credit/(charge) to the income statement	4 2	(6 0)	(1 8)	3 8	(5 3)	(1 5)
Actuarial (losses)/gains charged/credited to the statement of recognised income and expense	(7 1)	1 4	(5 7)	4 1	0 1	4 2
Contributions from sponsoring companies	4 3	–	4 3	4 2	–	4 2
Contributions from scheme members	–	–	–	0 2	(0 2)	–
Benefits paid	(2 8)	2 8	–	(2 8)	2 8	–
Total movements	(1 4)	(1 8)	(3 2)	9 5	(2 6)	6 9
At 30 June	65 6	(85 5)	(19 9)	67 0	(83 7)	(16 7)

Cumulative actuarial gains and losses recognised in equity are as follows

	At 30 June 2008 £m	At 30 June 2007 £m
At 1 July	3 0	(1 2)
Net actuarial (losses)/gains recognised in the year	(5 7)	4 2
At 30 June	(2 7)	3 0

The five year history of experience adjustments contributing to achieving gains and losses is as follows

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	(85 5)	(83 7)	(81 1)	(84 1)	(69 2)
Fair value of scheme assets	65 6	67 0	57 5	49 4	41 9
Deficit in the scheme	(19 9)	(16 7)	(23 6)	(34 7)	(27 3)
Experience adjustments on scheme liabilities					
Amount (£m)	1 4	0 1	2 8	(11 8)	0 3
Percentage of scheme liabilities (%)	2%	–	3%	(14)%	–
Experience adjustments on scheme assets					
Amounts (£m)	(7 1)	4 1	3 9	3 9	1 4
Percentage of scheme assets (%)	(11)%	6%	7%	8%	3%

Historical data for 2004 is as stated under UK GAAP, FRS 17 'Retirement Benefits'

Amounts charged in the income statement in respect of pensions (excluding the pensions credit) are as follows

	2008 £m	2007 £m
In respect of defined contribution schemes	1 9	1 6
In respect of defined benefit schemes	1 8	1 5
	3 7	3 1
Included within		
Staff costs	3 2	2 7
Finance costs	0 5	0 4
	3 7	3 1

21 Deferred tax*(a) Deferred tax analysis by balance sheet category*

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Deferred tax assets				
Current	2 2	1 7	0 6	0 5
Non-current	10 0	9 9	5 7	5 4
	12 2	11 6	6 3	5 9
Deferred tax liabilities				
Current	(0 3)	(0 4)	–	–
Non-current	(3 6)	(4 7)	(0 8)	(0 8)
	(3 9)	(5 1)	(0 8)	(0 8)
Net deferred tax asset	8 3	6 5	5 5	5 1

The balance sheet deferred tax comparatives have been reclassified, by £1 7m (Company £0 5m) from current to non current assets and by £0 4m (Company £nil) from current to non current liabilities, in order to simplify comparability with other entities

(b) Movements in net deferred tax assets and liabilities

Group	Accelerated capital allowances £m	Retirement benefit obligations £m	Tax losses and credits £m	Unrealised capital gains £m	Other £m	Total £m
At 1 July 2006	(5 3)	7 2	2 4	(0 8)	0 8	4 3
Credited/(charged) to the income statement	1 0	(0 6)	2 8	0 1	0 6	3 9
Charged to statement of recognised income and expense	–	(1 7)	–	–	–	(1 7)
At 30 June 2007	(4 3)	4 9	5 2	(0 7)	1 4	6 5
Credited/(charged) to the income statement	0 9	(0 8)	(0 6)	–	0 5	–
Credited to statement of recognised income and expense	–	1 6	–	–	0 2	1 8
At 30 June 2008	(3 4)	5 7	4 6	(0 7)	2 1	8 3

The change in UK Corporation Tax rates from April 2008 from 30% to 28% has resulted in a charge of £0 2m (2007 credit £0 2m) to the income statement and £nil (2007 £0 3m) to the statement of recognised income and expense

At the balance sheet date there were no temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities has been recognised (2007 £nil). No liability would be recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future

Company	Accelerated capital allowances £m	Retirement benefit obligations £m	Tax losses and credits £m	Unrealised capital gains £m	Other £m	Total £m
At 1 July 2006	(0 1)	7 1	0 1	(0 8)	0 6	6 9
Credited/(charged) to the income statement	0 1	(0 6)	0 3	0 1	–	(0 1)
Charged to statement of recognised income and expense	–	(1 7)	–	–	–	(1 7)
At 30 June 2007	–	4 8	0 4	(0 7)	0 6	5 1
Charged to the income statement	–	(0 7)	(0 4)	–	(0 2)	(1 3)
Credited to statement of recognised income and expense	–	1 6	–	–	0 1	1 7
At 30 June 2008	–	5 7	–	(0 7)	0 5	5 5

22 Provisions

Group	Short term warranty provision £m
At 1 July 2007	0.5
Charged to income statement	0.3
At 30 June 2008	0.8

The warranty provision reflects the directors' best estimate of the cost needed to fulfil the Group's warranty obligations within a number of contracts. This is expected to unwind over the life of the products to which they relate, which is expected to be a period of less than five years.

23 Called up share capital

Group and Company

	2008 Number	2007 Number	2008 £m	2007 £m
Authorised				
Ordinary shares of 25p each	80,000,000	80,000,000	20.0	20.0
Allotted, called up and fully paid				
At 1 July	50,698,733	50,698,733	12.7	12.7
Allotted under share option schemes	178,542	–	0.1	–
Allotted under LTIP scheme	168,304	–	0.1	–
At 30 June 2008	51,045,579	50,698,733	12.9	12.7

The consideration received for shares allotted under the share option schemes and LTIP during the year ended 30 June 2008 was £0.4m (2007 nil).

Dividends were paid at the reduced rate of 0.01p per share for interim and final dividends in respect of shares held by an employee benefit trust in relation to the LTIP. There were 1,379 such shares at 30 June 2008 (3,826 at 30 June 2007).

24 Share-based payments

Potential issues of shares

The Company currently has two HMRC-approved employee share option schemes under which options to subscribe for shares may be granted, the 2004 Ricardo plc Executive Share Option Plan (the "2004 Plan") and the Ricardo plc 2000 Savings Related Share Option Scheme (the "SAYE Scheme"). During the year ended 30 June 2008 50,000 options over shares were exercised and options over 45,000 shares lapsed under the previous 1994 Share Option Scheme (the "1994 Scheme"). Options over 75,410 shares were also granted under the 2004 Plan with an exercise price of 305.0p and which are exercisable between 2010 and 2017. No options were granted under the SAYE Scheme. Under this scheme 128,542 options over shares were exercised and options over 2,196 shares lapsed during the year.

The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below.

Calendar year of grant	Scheme	Exercise price Pence	Exercise Period	2008 Numbers	2007 Numbers
2000	SAYE Scheme	416.0	2007–2008	883	883
2002	SAYE Scheme	233.4	2009–2010	34,368	165,106
2004	1994 Scheme	185.0	2007–2014	–	45,000
2004	1994 Scheme	186.5	2007–2014	50,000	100,000
2005	2004 Plan	267.5	2008–2015	140,000	140,000
2006	2004 Plan	307.0	2009–2016	27,761	27,761
2006	2004 Plan	300.0	2009–2016	75,000	75,000
2007	2004 Plan	366.5	2010–2017	50,000	50,000
2008	2004 Plan	305.0	2010–2017	75,410	–
				453,422	603,750

Under the Group's LTIP awards may be made to beneficiaries resulting in the issue of up to 388,324 ordinary shares vesting by 30 June 2010.

Equity-settled Executive Share Options

The Group plans include the 2004 Plan and the 1994 Scheme, which are described in the Directors' remuneration report and provide for an exercise price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is generally three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are normally forfeited if the employee leaves the Group before the options vest.

Movements in Executive Share Options

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	437,761	260p	362,761	254p
Granted during the year	75,410	305p	125,000	327p
Lapsed during the year	(45,000)	185p	–	–
Forfeited during the year	–	–	(50,000)	381p
Exercised during the year	(50,000)	300p	–	–
Outstanding at the end of the year	418,171	285p	437,761	260p
Exercisable at the end of the year	190,000	246p	–	–

There were 50,000 executive share options exercised in the year. The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2008 was 300p. The options outstanding at 30 June 2008 had a weighted average exercise of 285p (2007: 260p) and a weighted average remaining contractual life of 7.7 years (2007: 8.1 years).

For those options granted after 7 November 2002 for which the performance criteria are expected to be met, the Black Scholes model has been used to calculate the charge to the income statement. The inputs into the model are as follows:

	2008	2007
Number of employees	6	5
Shares under option	418,171	392,761
Weighted average option price	nil	nil
Weighted average exercise price	285p	268p
Expected volatility	32%	32%
Expected life from date of grant	5 yrs	5 yrs
Risk free rate	5%	4%
Dividend yield	3.14%	3.70%
Possibility of ceasing employment before vesting	nil	nil
Expectations of meeting performance criteria	89%	98%
Weighted average fair value per option	64p	59p

Expected volatility was determined by calculating the historical volatility of the Company's share price over the five years preceding the date of grant. The expected life used in the model is based on management's best estimate, taking into account the effects of non-transferability, exercise restrictions, and behavioural considerations.

Equity-settled Long Term Incentive Plan (LTIP)

The current LTIP is described in the Directors' remuneration report. Awards are forfeited if the employee leaves the Group before the awards are given.

	2008 Shares allocated	2007 Shares allocated
Outstanding at beginning of year	486,758	810,005
Provisionally awarded during the year	228,415	207,367
Forfeited during the year	(102,617)	(169,428)
Expired during the year	(119,762)	(144,375)
Vested during the year	(104,470)	(216,811)
Outstanding at the end of the year	388,324	486,758

Shares allocated and vested in the year of 104,470 include 102,023 shares vesting for the plan cycle ended 30 June 2008, for which shares were not yet issued at 30 June 2008.

For the LTIP plan cycles outstanding at the start of the year where the performance criteria are based on the Group's Total Shareholder Return ("TSR") performance relative to the comparator group, as the TSR is dependent on the future market price of shares, the charge to the income statement has been calculated using the Monte Carlo model, using the following assumptions for the plan cycles commencing in these years

	2008	2007
Number of employees	8	7
Number of shares provisionally awarded	228,415	207,367
Weighted average share price of date of award	290p	297p
Expected volatility	30%	37%
Expected life	2.5 yrs	2.5 yrs
Risk free rate	5.16%	5.00%
Dividend yield	3.14%	3.50%
Possibility of ceasing employment before vesting	10%	10%
Fair value per LTIP as a % of a share at date of award	64%	51%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the three financial years preceding the date of the award

SAYE Scheme

No options have been granted under this scheme since 7 November 2002 and therefore no charge is required under IFRS 2

25 Share premium account

	Group and Company £m
At 1 July 2006 and 30 June 2007	13.3
Arising on shares issued in 2008	0.4
At 30 June 2008	13.7

26 Other reserves

Group	Hedging reserve £m	Merger reserve £m	Translation reserve £m	Total £m
At 1 July 2006	(0.4)	1.0	–	0.6
Movement in year	0.4	–	–	0.4
Exchange rate adjustments	–	–	(1.5)	(1.5)
At 30 June 2007	–	1.0	(1.5)	(0.5)
Movement in year	(2.4)	–	–	(2.4)
Exchange rate adjustments	–	–	3.8	3.8
At 30 June 2008	(2.4)	1.0	2.3	0.9

The hedging reserve movement is the fair value gain/(loss) on cash flow hedges and a net investment hedge and is shown in the statement of recognised income and expense

Company	Hedging reserve £m	Translation reserve £m	Total £m
At 1 July 2006	(0.4)	–	(0.4)
Movement in year	0.4	–	0.4
Exchange rate adjustments	–	(1.1)	(1.1)
At 30 June 2007	–	(1.1)	(1.1)
Movement in year	–	1.1	1.1
Exchange rate adjustments	–	–	–
At 30 June 2008	–	–	–

27 Retained earnings

	Group £m	Company £m
At 1 July 2006	22.9	26.3
Profit for the year	15.0	5.8
Actuarial gains on the defined benefit pension scheme	4.2	4.2
Tax on items recognised directly in equity	(1.7)	(1.7)
Dividends paid	(4.9)	(4.9)
Value of employee service	0.2	0.1
At 30 June 2007	35.7	29.8
Profit for the year	12.3	5.1
Actuarial (losses) on the defined benefit pension scheme	(5.7)	(5.7)
Tax on items recognised directly in equity	1.8	1.7
Dividends paid	(5.2)	(5.2)
Value of employee service	0.3	0.3
At 30 June 2008	39.2	26.0

The company has not presented its own income statement as permitted by Section 230 of the Companies Act 1985

28 Minority interests

Group	£m
At 1 July 2006	0.6
Share of profit for the year	0.1
Dividend paid to minority shareholding	(0.1)
Exchange rate adjustments	(0.1)
At 30 June 2007	0.5
Share of profit for the year	0.1
Dividend paid to minority shareholding	(0.2)
At 30 June 2008	0.4

29 Cash generated by operations

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Continuing operations				
Profit/(loss) from operations	15.9	13.2	0.7	(0.2)
Adjustments for				
Share-based payments	0.3	0.2	0.3	0.1
Depreciation and amortisation	8.8	8.8	0.1	0.3
Operating cash flows before movements in working capital	25.0	22.2	1.1	0.2
Increase in inventory	(1.1)	(0.5)	-	-
Decrease/(increase) in trade and other receivables	3.0	(9.3)	0.2	0.2
Decrease/(increase) in inter company balances	-	-	10.7	(22.1)
Increase in payables	4.6	5.9	(0.6)	0.1
Increase in provisions	0.3	-	-	-
Pension payments in excess of pension costs	(2.5)	(2.7)	(2.5)	(2.7)
Cash generated/(used) by operations	29.3	15.6	8.9	(24.3)

30 Operating leases

By date of commitments Group	2008 £m	2007 £m
Total commitments under non-cancellable operating leases expiring		
Within one year	3 4	2 4
Between one and five years	7 3	6 8
After five years	16 5	18 0
	27 2	27 2
<hr/>		
By nature of commitments Group	2008 £m	2007 £m
Total commitments under non-cancellable operating leases		
Plant and machinery	15 0	16 3
Land and buildings	11 6	10 3
Other	0 6	0 6
	27 2	27 2

31 Contingent liabilities

The Group is involved in various disputes or litigation in the normal course of business. Whilst the result of such disputes cannot be predicted with certainty, the directors of the Company believe that the ultimate resolution of these disputes will not have a material effect on the Group's financial position or results.

32 Related party transactions

	2008 £m	2007 £m
The Company had the following transactions with Group undertakings		
Sale of services	3.8	2.4
Finance income	1.0	0.8
Dividend income	5.0	5.0
The Company had the following year end balances with related parties		
Amounts owed by Group undertakings	55.4	62.9
Amounts owed to Group undertakings	(13.3)	(11.2)

During the year the Company paid administration expenses of £0.3m (2007: £0.2m) on behalf of the Group's pension schemes.

33 Principal operating subsidiaries

Each subsidiary company operates principally in the country in which it is incorporated, and undertakes technology and strategic consulting.

The Company owns directly(*), or indirectly, 100% of the issued share capital of the following principal operating subsidiaries which are included in the consolidated accounts:

Subsidiary	Country of incorporation
Ricardo UK Limited*	Great Britain (and registered in England and Wales)
Ricardo, Inc *	USA
Ricardo GmbH	Germany
Ricardo Deutschland GmbH	Germany
Ricardo Strategic Consulting GmbH	Germany
Ricardo Prague S R O	Czech Republic
Ricardo Japan K K *	Japan
Ricardo Shanghai Company Limited	China
Ricardo, Inc. owns a 55% share in Ricardo MEDA Technical Services, LLC	

CORPORATE INFORMATION

**Company Secretary and
Registered Office**

David Oglethorpe, MA, ACA
Ricardo plc
Shoreham Technical Centre
Shoreham-by-Sea
West Sussex
BN43 5FG

Ricardo plc company number 222915

Website www.ricardo.com

A pdf version of this Report and Accounts can be downloaded from the Investors page of our website

Key Dates

Final dividend record date	31 October 08
Annual General Meeting	18 November 08
Final dividend payment date	26 November 08

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Shareholder Services

Capita Registrars provide a share portal service, which allows shareholders to access a variety of services online, including viewing shareholdings, buying and selling shares online, registering change of address details and bank mandates to have dividends paid directly into your bank account. Any shareholder who wishes to register with Capita to take advantage of this service should visit www.capitaregistrars.com/shareholders

Shareholder enquiries

Tel 0870 162 3131 (from the UK)
Tel +44 20 8639 3131 (for non-UK callers)

Auditors

PricewaterhouseCoopers LLP
Savannah House
3 Ocean Way
Ocean Village
Southampton
SO14 3TJ

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Principal Bankers

Lloyds TSB Bank plc
55 Corn Street
Bristol
BS99 7LE

Stockbrokers

RBS Hoare Govett Ltd
250 Bishopsgate
London
EC2M 4AA
Tel 020 7678 8000

Financial Advisers

NM Rothschild & Sons
New Court
St Swithin's Lane
London
EC4P 4DU

HSBC Bank plc
Global House
High Street
Crawley
West Sussex
RH10 1DL