

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 30 June 2000.

Business Activity

The principal activities of the Group remained the provision of engineering and technological services to industry, commerce and other agencies. A review of the Group's operations and future prospects is covered in the Chairman's Statement and the Chief Executive's Review. A geographical turnover analysis is given in note 2 to the financial statements.

Dividends

The directors propose a final dividend of 5.0p per ordinary share, amounting to £2,385,000, payable on 24 November 2000 to ordinary shareholders on the register on 27 October 2000. The final dividend proposed will make a total of 7.4p per ordinary share for the year.

Donations

During the year, the Group made donations to charity totalling £13,299. There were no political donations.

Directors

The directors who served on the Board and on Board Committees during the year were:

*Sir Noel Davies, BSc, FCGI, CEng, FIMechE

*C W Foreman, CA

*P T Ward

R J Westhead, FCA

A R Goodburn, FCA

J R Needham, CEng, MIMechE

*non-executive

C W Foreman is resigning as a director at the conclusion of the Annual General Meeting on 3 November 2000.

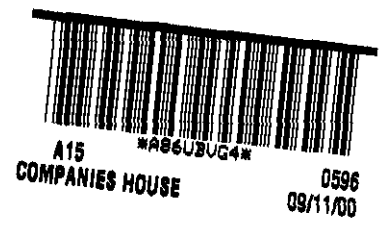
Professor J P Percy, CBE, LLD, CA, who was appointed a non-executive director on 1 July 2000, did not serve on the Board or any Board Committee during the year. He will become Chairman of the Audit Committee, following the resignation of C W Foreman, and become a member of both the Remuneration and Nomination Committees.

Board Committees

Audit: C W Foreman (Chairman); Sir Noel Davies; P T Ward

Remuneration: Sir Noel Davies (Chairman); C W Foreman; P T Ward

Nomination: Sir Noel Davies (Chairman); C W Foreman; P T Ward; R J Westhead



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Non-executive directors

Letters of appointment

Each non-executive director is appointed for a period of two years. The Nomination Committee recommends to the Board whether or not a contract should be renewed.

Remuneration Committee

The report of the Remuneration Committee appears separately on pages 27 to 32. At the forthcoming Annual General Meeting, the members will be invited to pass an ordinary resolution approving the policy set out in the report.

Sections 80 and 95 Authority

The directors will seek to renew authorities, under Sections 80 and 95 of the Companies Act 1985 at the Annual General Meeting, resolution 7, empowering them respectively to allot shares and to allot shares for cash otherwise than pro-rata to existing shareholdings, in both cases subject to specified limits and periods as stated in the notice.

The authority to allot shares would be in respect of ordinary shares with a nominal value of £2,949,854 which represents 24.6% of the issued ordinary share capital at the date hereof.

The maximum nominal value which may be allotted for cash, otherwise than pro-rata to existing shareholdings, would be £599,507, equivalent to 5 per cent. of the issued ordinary share capital at the date hereof. The directors have no present intention to exercise this authority, but will then have flexibility for any suitable opportunities for expansion as and when they arise. 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 a general meeting.

Purchase of Own Shares

The existing Articles permit the Company to buy back its own shares with authority from its members and resolution 13 to this effect will be proposed at the Annual General Meeting. The directors are seeking to renew such authority to buy back up to 10 per cent of its issued shares, which they would only do if circumstances arise in which they consider such purchases to be in the interests of the shareholders generally and eps can be improved further. Performance targets, based on eps, attaching to employee incentive schemes will be adjusted accordingly if the authority is exercised.

Employee Involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

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Share Option Schemes

Ricardo currently operates two executive share option schemes:

- (i) The 1994 Executive Share Option Scheme, which is approved by the Inland Revenue.
- (ii) The 1995 Executive Share Option Scheme, which is unapproved by the Inland Revenue.

The 1995 Executive Share Option Scheme is designed to be operated using market purchased shares held in an Employee Share Ownership Plan ("ESOP") trust. It is intended by the directors that it will play an important role in enabling Ricardo to attract and retain high quality executives who can only participate in the 1994 Executive Share Option Scheme to a limited extent because of restrictions imposed by statute.

The number of shares which can be held under the ESOP is limited to 5 per cent. of the company's issued share capital. The trustee is Mourant & Co Trustees Limited, an independent professional trustee. The Ricardo ESOP is being financed by a non-recourse loan, repayable on demand, of up to £750,000 from Ricardo plc to the trustee. At 30 June 2000, £511,576 of this had been loaned, and at that date, the trustee of the Ricardo ESOP held 224,000 ordinary shares of 25p in Ricardo plc with a market value at 30 June 2000 of 470p. The shares held attract an annual dividend of 0.01p per share.

Sharesave Scheme

Ricardo has been running a savings related share option scheme ("the Old Scheme") approved by the Inland Revenue. However, no further options can be granted under the Old Scheme as it is now more than 10 years since the scheme was adopted. At the forthcoming Annual General Meeting, resolution 8, will be proposed to adopt a new savings related share option scheme ("the Sharesave Scheme"). The adoption of the Sharesave Scheme would enable savings related share options to continue to be granted to employees in the future. The rules of the Sharesave Scheme are broadly similar to the rules of the Old Scheme but reflect minor changes in legislation and market practice. The Sharesave Scheme is designed to provide an incentive to all employees by providing an opportunity for them to benefit from owning shares in the Company. Employees who save a fixed amount each month over 3, 5 or 7 years will be able to purchase shares at a fixed price with their savings.

Further details of the Sharesave Scheme are set out in Appendix A on pages 57 to 58.

All-Employee Share Ownership Plan ("AESOP")

In addition to the Sharesave Scheme, Ricardo is considering the introduction of an AESOP, subject to members' approval, resolution 9, at the forthcoming Annual General Meeting. The AESOP would provide an opportunity for all employees to continue to link share rewards to performance and to align their interests with those of our other shareholders. The Company may adopt an AESOP to give added flexibility to the Company in making share awards to employees in the future.

The new plan, which will be called the Ricardo plc All-Employee Share Ownership Plan, can be sourced using either new or existing shares, but in so far as they are sourced using new shares it incorporates the dilution limits which currently apply to the Company's existing schemes.

Further details of the Ricardo plc All-Employee Share Ownership Plan are set out in Appendix B on pages 59 to 61.

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Long Term Incentive Plan ("LTIP")

The details of the LTIP scheme are dealt with in the Remuneration Committee Report on pages 28 to 29.

Substantial Shareholders

The Company is informed that, at 4 September 2000, the following are holders of more than 3 per cent. of the Company's issued ordinary share capital:

	% of issued ordinary share capital	number of shares
Beneficial		
Standard Life Group	5.60	2,686,132
Equitable Life Assurance Society	3.81	1,825,000
Non-Beneficial		
Hermes Pension Management	5.17	2,481,424
Prudential plc	4.49	2,153,037
Schroder Investment Management Limited	4.39	2,104,200
AXA Sun Life	4.26	2,043,114
Royal and Sun Alliance	3.63	1,740,212
Foreign and Colonial Management Ltd	3.53	1,694,575
Scottish Widows Investment Partnership Ltd	3.45	1,656,300
Morley Fund Management	3.35	1,606,000
Barclays Global Investor Limited	3.31	1,587,265

The repayment of the 10% Cumulative Second Preference Shares (the "Second Preference Shares")

As special business at this year's Annual General Meeting, Resolution 14 is being proposed for the purpose of cancelling and repaying the Second Preference Shares. Such repayment will simplify the capital structure of the Company and save on the administrative expenses of maintaining the Second Preference Shares.

The proposed cancellation and repayment of the Second Preference Shares, which is a reduction of capital, requires the passing of the resolution, referred to above, as a special resolution and the passing, at a separate meeting convened for the purpose, of an extraordinary resolution of the holders of the ordinary shares of the Company.

The separate approval of the ordinary shareholders at a separate class meeting, notice of which is set out on page 64, is required as the payment of the premium of 80p, referred to below, to the holders of the Second Preference Shares involves a variation of the rights attaching to the ordinary shares.

The holders of not less than 75 per cent. of the Second Preference Shares, as required by the articles of association of the Company, have already given their written consent to the cancellation and repayment. If the requisite resolutions are duly passed, the Company will apply to the High Court for confirmation of such reduction of capital. If the Court confirms the reduction of capital, a copy of the Order of the Court will be filed with the Registrar of Companies for registration. On registration of the Order the reduction will become effective, the Second Preference Shares will be cancelled and the holders of the Second Preference Shares will receive £1.80 in cash per share, which represents the amount paid up on each share and a premium of 80p together with an amount equal to the fixed cumulative preferential dividend accrued thereon down to the date of repayment. The cost to the Company of the payment of the premium will be £32,000.

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The Company proposes to repay the Second Preference Shares out of the distributable profits of the Company and will offer to the Court an appropriate undertaking for the protection of its creditors. It is hoped that the cancellation and repayment will take effect before the end of November 2000.

On the effective date for the reduction of capital and the cancellation of the Second Preference Shares, the existing share certificates in respect of the Second Preference Shares will cease to be of any value.

The rights attaching to the Second Preference Shares, including their rights on a return of capital, are contained in Article 3 of the Articles of Association of the Company.

The directors consider that the Company will have sufficient working capital following the repayment to cover current and future capital expenditure and working capital requirements.

Resolution 15 will deal with the adoption of new Articles of Association of the Company which will reflect the fact that the Company will no longer have, as part of its authorised or paid up share capital, any preference shares. The approval of the ordinary shareholders is again required at the separate class meeting as a result of the deletion of references to the preference shares in the variation of rights clause.

Copies of the Articles of Association showing the proposed amendments are available for inspection at the offices of the Company's solicitors, Clifford Chance Limited Liability Partnership, at 200 Aldersgate Street, London EC1A 4JJ and at the registered office during normal business hours on weekdays (Saturdays and public holidays excepted) up to the end of the Annual General Meeting and will also be available at the place of the Annual General Meeting from 15 minutes prior to the meeting until the end of the meeting.

Directors' fees

The amount of directors' fees payable to the directors for their services as directors under article 95 of the Articles of Association is determined by the Board but may not exceed, in aggregate, £150,000 per annum or such larger amount as the Company may by ordinary resolution decide. Your Board considers that the opportunity should be taken to increase the limit to £250,000 per annum in aggregate, a level which, under normal circumstances, will give sufficient flexibility for some time to come. The increased limit will not mean that the controls and safeguards in place for assessing the level of directors' fees will be compromised.

At the forthcoming Annual General Meeting, resolution 10 will be proposed to effect the increased limit as outlined above and the new Articles of Association to be adopted pursuant to resolution 15 will amend article 95 accordingly.

Environment

The Group has a policy of continuing environmental improvement and is committed to the achievement of certification by Lloyds Register to ISO 14001 for all its operations. Both RCE and MTC have achieved this and it is foreseen that RTA, Rinc., GmbH and the facility at

DIRECTORS' REPORT

Prague will achieve this within twelve months. Additionally, all the UK subsidiaries and Rinc. have achieved certification to ISO 9001; certification of GmbH and the Prague facility will follow shortly.

Ricardo continually seeks to reduce the environmental impact of its operations; a good example of this is the engine anechoic test cells at RCE where a water recirculating plant has just been commissioned. This plant provides 80 per cent. reduction in water consumption for these particular test cells and repeats a similar improvement initiative made two years ago on the mainstream engine cells.

The main thrust of Ricardo's activities relates to improving the exhaust emissions performance of engines. Ricardo is actively undertaking development work leading to both gasoline and diesel engines achieving EURO IV requirements before 2005 in Europe and ULEV (Ultra Low Emissions Vehicle) 2 requirements before 2004 in USA. ULEV 2 will be followed by SULEV (Super Ultra Low Emissions Vehicle). In parallel with this are activities leading to reduced CO₂ emissions. Our research activities include the development of a highly efficient small diesel engine which is expected to achieve exhaust emissions that are half the EURO IV requirements and which may well satisfy EURO V requirements. Other research activities include work on particulate filters, after treatment modelling, combustion research and fuel cell modelling.

Ricardo is well aware of the European End of Life Vehicle Directive and works closely with its clients to ensure compliance with these requirements.

Economic and monetary union

Ricardo companies transact business in sterling, euros, dollars and other currencies and will continue to do so as appropriate. Accounting costs incurred to date since the introduction of the euro have been negligible and future costs are not expected to be significant.

Auditors

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

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The operating companies are responsible for agreeing with suppliers the terms of payment at the start of business, ensuring that suppliers are aware of the terms of payment and to make payments in accordance with their contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the year to 30 June 2000 and the amount owed to its trade creditors at 30 June 2000, was 38.2 days.

By order of the Board

M Wightman

Secretary



RICARDO PLC

REMUNERATION COMMITTEE REPORT

The Group's compliance with the Combined Code is described in the Corporate Governance Statement on page 33. The application of the principles with regard to directors' remuneration, set out in Section 1 of the Combined Code, is outlined in this report.

Remuneration Committee

The three non-executive members of the Board comprise the Remuneration Committee, which met six times during the year. The Committee is made up of Sir Noel Davies (Chairman), C.W. Foreman and P.T. Ward.

Apart from their letters of appointment with the Company (details of which are given on page 22 of the Directors' Report) and shareholdings in the Company (details of which are given below), the non-executive directors have no personal financial interest in the Company, no potential conflict of interest arising from cross-directorships and no day-to-day involvement in the running of the business of the Company.

Remuneration Policy

The Committee's overall policy for the Group is to ensure that pay levels are commensurate with levels of responsibility and performance achieved, in relation to similar jobs in competitor companies. The policy provides for incentives to motivate people to remain with the Company, to increase their capabilities and responsibilities and to achieve higher standards of performance. The Committee has always borne in mind the need to attract and retain the highest calibre of executive. Independent advice is sought in determining the remuneration policy.

Executive Directors

Service agreements

- (a) Mr. Westhead was employed during the year on a two-year rolling contract, under a contract dated 9 April 1998. The contract is (subject to specific reasons for termination) for an indefinite period, subject to a normal retirement age of 62 years, but is terminable by the Company giving Mr. Westhead two years' notice or by Mr. Westhead giving to the Company not less than one year's notice.

The Remuneration Committee is fully satisfied that it is in the interests of the Company and necessary for the contract with Mr. Westhead to be for a period longer than one year although this does not comply with the provisions of the Combined Code.

REMUNERATION COMMITTEE REPORT

- (b) Mr. Goodburn was employed during the year on a one-year rolling contract, under a contract dated 7 October 1998. The contract is (subject to specific reasons for termination) for an indefinite period, subject to a normal retirement age of 62 years, but is terminable by the Company giving Mr. Goodburn at least one year's notice or by Mr. Goodburn giving to the Company not less than six months' notice.
- (c) Mr. Needham was employed during the year on a one-year rolling contract, under a contract dated 26 August 1999. The contract is (subject to specific reasons for termination) for an indefinite period, subject to a normal retirement age of 62 years, but is terminable by the Company giving Mr. Needham at least one year's notice or by Mr. Needham giving to the Company not less than six months' notice.

LTIP

The Remuneration Committee has responsibility for the operation of the plan which aims to focus the efforts of senior executives on the long term performance of the Group in a way which aligns with shareholder interests. During the year it recommended to the trustee to start a fourth plan cycle under the plan which involved the allocation of 273,598 ordinary shares in the Company to 145 employees ranging from executive directors to managers, the allocation being based on percentage of salary ranging from twenty five to ten depending on seniority. It also recommended the distribution of 298,961 ordinary shares to participants in the plan cycle which expired on 30 June 1999 and the distribution to participants in the plan cycles shown below, whose employment terminated under circumstances which made them eligible to receive an allocation of shares under the terms of the plan. In April 2000, on the recommendation of the Remuneration Committee, the trustee subscribed for 441,248 ordinary shares at a subscription price of 142.4p per share.

REMUNERATION COMMITTEE REPORT

At the end of the year there are three plans in progress:

	1 July 1999 – 30 June 2002		1 July 1998 – 30 June 2001		1 July 1997 – 30 June 2000	
	number of ordinary shares	number of participants	number of ordinary shares	number of participants	number of ordinary shares	number of participants
original allocation	273,598	145	331,642	118	596,484	39
allocations lapsed	(17,033)	(8)	(30,264)	(11)	(149,888)	(11)
distributions made	(3,689)	(5)	(8,544)	(4)	(33,240)	(1)
allocations outstanding	252,876	132	292,834	103	413,356	27

Details of the conditional number of shares allocated and shares awarded under the LTIP, which crystallised on 30 June 1999, to directors holding office at 30 June 2000 are as follow:

	Allocated during the year to			Total shares allocated as at 30 June 2000	Shares awarded in the year to 30 June 2000
	30 June 2000 crystallising on 30 June 2002	30 June 1999 crystallising on 30 June 2001	30 June 1998 crystallising on 30 June 2000		
R.J. Westhead	15,041	11,384	63,904	90,329	69,391
A.R. Goodburn	9,018	6,888	38,652	54,558	18,154
J.R. Needham	9,018	5,434	18,329	32,781	18,638

The eventual number of shares which participants may be awarded, if any, is dependent on the achievement of the performance conditions of the scheme at the end of the three year cycle of each plan. The principal condition is in relation to the Group's earnings per share performance compared with that of a comparator group comprising companies within the FTSE 250 group. Broadly, if the growth in the basic earnings per share ("beps") on a cumulative basis, falls in the range 0% to 49% of the beps of the comparator group, no shares are awarded. However if the beps falls within the range 50% to 89%, shares are awarded ranging from 20% to 98% of the allocation. It is only when the beps falls within the top 10% that an award of 100% of the allocation is made.

As the beps performance is likely to fall within the top 10% of the comparator group, participants in the second plan cycle maturing on 30 June 2000 will probably receive an award of 100% of the ordinary shares allocated to them.

REMUNERATION COMMITTEE REPORT

Directors

Share Options

The Register of Directors' interests contains the following details of directors' options to subscribe:

Director and name of scheme	Options Outstanding at 1 July 1999	Options Exercised during year	Options Granted during year	Options Outstanding at 30 June 2000	Date of grant	Exercisable until	Option price	Market value at date of exercise
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R.J. Westhead

Executive Share Option Scheme	70,000			70,000	Oct 1994	Oct 2004	138.0p	
	70,000			70,000	Mar 1995	Mar 2005	140.0p	
	144,000			144,000	Mar 1996	Mar 2006	114.0p	
Sharesave Scheme	5,637	5,637		-			122.4p	532.5p
	9,015			9,015	Oct 1997	July 2003	114.8p	
			1,376	1,376	Oct 1999	May 2003	281.6p	

A.R. Goodburn

Executive Share Option Scheme	30,000	30,000		-			138.0p	531.5p
	10,000			10,000	Mar 1996	Mar 2006	114.0p	
	100,000			100,000	Dec 1997	Dec 2004	148.0p	
Sharesave Scheme	8,493			8,493	Oct 1997	July 2001	114.8p	

J.R. Needham

Executive Share Option Scheme	6,000	6,000		-			138.0p	531.5p
	10,000	10,000		-			114.0p	531.5p
	124,000			124,000	June 1999	June 2006	286.0p	
Sharesave Scheme	6,912			6,912	Oct 1997	July 2003	114.8p	
			1,857	1,857	Oct 1999	May 2003	281.6p	

Shareholdings

According to the register maintained by the Company for that purpose, the directors' beneficial interests in the ordinary shares of the Company were as follow:

	2000 30 June	1999 30 June
Sir Noel Davies	6,000	6,000
C.W. Foreman	6,626	6,626
R.J. Westhead	41,163	23,892
A.R. Goodburn	35,892	5,000
P.T. Ward	10,500	10,500
J.R. Needham	5,000	-

At 18 September 2000 the respective holdings of the directors had not changed from those at 30 June 2000.

At 30 June 2000 224,000 ordinary shares in the Company were held in the ESOP trust and each of the executive directors of the Company, by virtue of being, together with the other employees of the Company, a potential beneficiary under that trust, is taken to be interested in those shares. In addition 7,125 ordinary shares in the Company were held in the Qualifying

REMUNERATION COMMITTEE REPORT

Employee Share Ownership Trust ("QUEST") and each of the executive directors of the Company, by virtue of being, together with other employees of the Company a potential beneficiary under the QUEST, is taken to be interested in those shares as well.

The middle market price of the Company's ordinary shares on 30 June 2000 was 470p and the range in the year was 311p to 536p with an average price for the year of 427.5p.

Salaries and benefits

	Salary or fees and benefits £'000	Performance related bonus £'000	Gain on exercise of share options £'000	LTIP shares £'000	2000 Total £'000
2000					
Executive					
R.J. Westhead	258	106	23	264	651
A.R. Goodburn	139	63	118	69	389
J.R. Needham	141	63	65	71	340
Non-Executive					
Sir Noel Davies	63	-	-	-	63
C.W. Foreman	28	-	-	-	28
P.T. Ward	25	-	-	-	25
	654	232	206	404	1,496

	Salary or fees and benefits £'000	Performance related bonus £'000	Gain on exercise of share options £'000	LTIP shares £'000	1999 Total £'000
1999					
Executive					
R.J. Westhead	224	98	-	-	322
** J.B. Baker	171	106	214	-	491
A.R. Goodburn	126	59	-	-	185
*J.R. Needham	67	30	-	-	97
Non-Executive					
Sir Noel Davies	60	-	-	-	60
** Sir Philip Foreman	2	-	-	-	2
C.W. Foreman	28	-	-	-	28
P.T. Ward	25	-	-	-	25
	703	293	214	-	1,210

* From date of appointment

** To date of retirement

Executive directors' salaries are subject to review on 1 July in each year. When deciding on salary levels the Committee takes into account any independent advice it has received and other relevant factors. Executive directors are provided with cars, together with medical and life assurance cover.

REMUNERATION COMMITTEE REPORT

For the year ended 30 June 2000, the Group operated a performance related incentive bonus scheme which is geared to growth year upon year in the Company's basic earnings per share of the Company's ordinary shares. Each of the executive directors participated in the scheme.

The value of LTIP shares is based on their market value at the date the shares were awarded.

Pensions

Each executive director is a member of the Ricardo Group Pension Fund and details of the accrued pension at 30 June 2000 for each director is show below. Each executive director (with the exception of Mr Needham who is not subject to the earnings cap) is also a member of a Funded Unapproved Retirement Benefit Scheme ("FURBS"). Pension contributions include contributions to the FURBS. The amount of the taxation element relating to such FURBS as were in existence during the year is also shown below.

	Total accrued pension at 30 June 2000 £'000	Increase in accrued pension during the year £'000	Transfer values of the increases in accrued pension during the year £'000
R.J. Westhead	23	3	42
A.R. Goodburn	20	3	39
J.R. Needham	56	5	60

	FURBS contribution £'000	FURBS taxation £'000	2000 £'000 Total	FURBS contribution £'000	FURBS taxation £'000	1999 £'000 Total
R.J. Westhead	56	37	93	52	34	86
A.R. Goodburn	30	20	50	27	18	45
J.B. Baker	-	-	-	12	8	20

The total accrued pension shown is the amount that would be paid each year on retirement based on service to the end of the current year. The increase in the additional pension earned during the year excludes any increase for inflation

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Notice GN11, less directors' contributions. It does not represent a sum payable to directors and it, therefore, cannot be added meaningfully to annual remuneration.

CORPORATE GOVERNANCE

The Combined Code on Corporate Governance prepared by the Hampel Committee was appended to the listing rules of the London Stock Exchange in June 1998. It embraced both the Cadbury and Greenbury codes and the Committee's own work.

Application and compliance with the Combined Code

The Company has complied throughout the year with the Code by applying the Principles of Good Governance as set out in Section 1 of the Code except that as regards Provision B1.7 (Directors' service contracts) the service contract of the Chief Executive provides for a notice period by the Company in excess of one year as recommended by the Code. There is no plan to reduce this period for the reasons set out in the Remuneration Committee Report.

As regards internal control (Provision D2.1), the Company has adopted the transitional approach set out in the letter from the London Stock Exchange dated 27 September 1999, so comments by the directors have been restricted to internal financial controls only.

The Board of Directors and its Committees

The Board meets at least twelve times a year and consists of three executive and three non-executive members. From 1 July 2000 there will be four non-executive members.

C.W. Foreman is Chairman of the Audit Committee which also has Sir Noel Davies and P.T. Ward as members. All are non-executive directors. The Audit Committee, which has written terms of reference, meets at least twice a year with the external auditors in attendance. The executive directors attend as appropriate.

The Remuneration Committee, which is chaired by Sir Noel Davies, also comprises the non-executive directors and meets at least once a year. The Chief Executive attends when appropriate.

Recommendations of executive and non-executive appointments to the Board are made by the Nomination Committee which meets as the need arises. The Committee comprises Sir Noel Davies as Chairman, C.W. Foreman, P.T. Ward and R.J. Westhead as an executive member.

The non-executive directors are considered by the Board of Directors to be totally independent of management and are free to exercise independence of judgement. The non-executive Deputy Chairman, C.W. Foreman, has been recognised as being the senior independent director.

Re-election

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

Relations with shareholders

The directors meet regularly with and present to institutional shareholders to foster a mutual understanding of objectives.

CORPORATE GOVERNANCE

The directors encourage the participation of private shareholders at the Annual General Meeting and as a matter of policy the level of proxy votes lodged on each resolution is declared.

Going concern

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 accounts.

Risk Management and Internal controls

In November 1999, the directors commissioned an independent professional review of the management of risk throughout the Group. This review has facilitated the necessary procedures to comply with the guidance *Internal Control: Guidance for Directors on the Combined Code* by 30 June 2000 in time for publication in the next annual report.

The directors are responsible for ensuring that the Group maintains a system of internal financial controls, including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication, but any such system can only provide reasonable, and not absolute, assurance against misstatement or loss.

The Group's internal financial control and monitoring procedures include:

- (a) clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- (b) the control of key financial risks through clearly laid down authorisation levels and appropriate segregation of accounting duties;
- (c) detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget;
- (d) reporting on compliance with internal financial controls and procedures by Group internal audit. These reports are reviewed by the Audit Committee prior to the issue of the annual accounts.
- (e) review of reports issued by the external auditors.

The Audit Committee on behalf of the Board has reviewed the effectiveness of the system of internal financial controls for the period covered by the accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the Auditors' Report set out on page 56, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss of the Group for the financial year.

The directors consider that, in preparing the financial statements on pages 36 to 55, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis as the directors have confidence that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

The directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF
RICARDO PLC

We have audited the financial statements on pages 36 to 55 (including the additional disclosures on pages 27 to 32 relating to directors remuneration specified for our review by the Financial Services Authority).

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 35, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 33 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by 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 to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

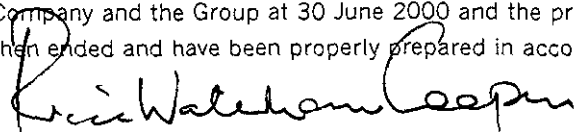
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 2000 and the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
Southampton

18 September 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2000

	Notes	2000 £'000	1999 £'000
Turnover	2	121,107	95,489
Operating profit	3	13,141	10,882
Net interest	4	(341)	(457)
Profit on ordinary activities before taxation	5	12,800	10,425
Taxation on profit on ordinary activities	7	(3,860)	(3,206)
Profit on ordinary activities after taxation		8,940	7,219
Equity minority interest		(17)	-
Profit for the financial year		8,923	7,219
Non-equity preference dividends	8	(4)	(3)
Profit attributable to ordinary shareholders		8,919	7,216
Equity ordinary dividends	8	(3,534)	(3,261)
Amount transferred to reserves	21	5,385	3,955
Basic earnings per ordinary share	9	18.9p	15.5p
Diluted earnings per ordinary share	9	18.4p	14.9p

All results relate to continuing activities.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year, stated above, and their historical cost equivalents.

The notes on pages 40 to 55 part of these financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

as at 30 June 2000

	Notes	Group		Company	
		2000 £'000	1999 £'000	2000 £'000	1999 £'000
Fixed assets					
Intangible assets	10	59	—	—	—
Tangible assets	11	44,219	35,198	565	637
Investment properties	12	490	980	—	—
Investments	13	491	493	32,281	26,593
		45,259	36,671	32,846	27,230
Current assets					
Stocks	14	2,397	2,789	—	—
Debtors	15	37,127	31,981	26,892	31,480
Cash deposit	16	340	340	—	—
Cash at bank and in hand		10,147	5,651	6,097	3,025
		50,011	40,761	32,989	34,505
Creditors – amounts falling due within one year	17	(43,610)	(39,649)	(22,586)	(27,847)
Net current assets		6,401	1,112	10,403	6,658
Total assets less current liabilities		51,660	37,783	43,249	33,888
Creditors – amounts falling due after more than one year	18	(8,678)	(1,826)	(4,714)	(1,775)
Provisions for liabilities and charges	19	(4,809)	(4,579)	(603)	(735)
Net assets		38,173	31,378	37,932	31,378
Capital and reserves					
Called up share capital	20	12,029	11,831	12,029	11,831
Share premium account	21	6,309	4,564	6,309	4,564
Merger reserve	21	967	967	—	—
Revaluation reserve	21	—	—	16,408	10,541
Long term incentive plan reserve	21	467	635	467	635
Profit and loss account	21	18,160	13,381	2,719	3,807
Ricardo shareholders' funds (including non-equity interests)		37,932	31,378	37,932	31,378
Equity minority interest		241	—	—	—
Total shareholders' funds		38,173	31,378	37,932	31,378

The notes on pages 40 to 55 form part of these accounts.

These accounts were approved by the Board of Directors on 18 September 2000.

Sir Noel Davies – Chairman

Rodney Westhead – Chief Executive

RICARDO PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 30 June 2000

	Notes	Group		Company	
		2000 £'000	1999 £'000	2000 £'000	1999 £'000
Profit for the financial year		8,923	7,219	2,450	2,255
Movement in investment in subsidiaries					
to underlying net asset value		—	—	5,867	4,646
Currency translation differences on foreign currency net investments	21	264	(318)	—	—
<hr/>					
Total recognised gains and losses relating to the year		9,187	6,901	8,317	6,901

RECONCILIATION OF MOVEMENTS IN RICARDO
SHAREHOLDERS' FUNDS
for the year ended 30 June 2000

	2000 £'000	1999 £'000
Profit for the financial year	8,923	7,219
Dividends	(3,538)	(3,264)
<hr/>		
	5,385	3,955
Other recognised gains/(losses)	264	(318)
Issue of ordinary shares to the trustees of the LTIP	628	—
Proceeds on issue of new shares under employee share schemes	1,315	311
Long term incentive plan reserve	(168)	623
Quest contributions	(870)	—
<hr/>		
Addition to Ricardo shareholders' funds	6,554	4,571
Opening Ricardo shareholders' funds	31,378	26,807
<hr/>		
Closing Ricardo shareholders' funds	37,932	31,378

The notes on pages 40 to 55 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2000

	Notes	£'000	2000 £'000	£'000	1999 £'000
Net cash inflow from operating activities	22		17,668		18,218
Returns on investments and servicing of finance					
Interest received		379		204	
Interest paid		(883)		(549)	
Interest element of finance lease rental payments		(10)		(21)	
Dividends paid on non-equity shares		(4)		(3)	
Net cash outflow from returns on investment and servicing of finance			(518)		(369)
Taxation			(1,460)		(1,700)
Capital expenditure and financial investment					
Purchase of tangible and intangible fixed assets		(14,952)		(13,279)	
Sale of tangible fixed assets		493		178	
Net cash outflow for capital expenditure and financial investment			(14,459)		(13,101)
Equity dividends paid			(3,340)		(3,114)
Net cash outflow before use of financing			(2,109)		(66)
Financing					
Issue of ordinary share capital		1,315		311	
Proceeds from ESOP share options		—		127	
Purchase of own shares		—		(328)	
Capital elements of finance lease rental payments		(119)		(102)	
Loans taken out		3,766		—	
Loans repaid		(2,008)		(192)	
Issue of shares to minority shareholder		212		—	
			3,166		(184)
Increase/(decrease) in cash	23		1,057		(250)

The notes on pages 40 to 55 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies are described below.

(a) Accounting convention

The Company's investments in subsidiary companies are revalued to the amount of the net assets of the companies concerned. All other items are stated in the accounts under the historical cost accounting convention.

(b) Basis of consolidation

The financial statements incorporate the results of all subsidiaries from the date of acquisition or to the date of disposal.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. From 1 July 1998 goodwill arising on the acquisition of subsidiaries, associates and joint ventures is capitalised and amortised as appropriate. Goodwill arising on acquisitions prior to 1 July 1998 was written off immediately against reserves. This goodwill had been eliminated in line with the accounting policy in place at the time and will be charged or credited in the profit and loss account on the subsequent disposal of the business to which it related.

(d) Turnover

Turnover comprises sales to external customers excluding VAT.

On contracts, the Group records transactions as sales on the basis of value of work done with the corresponding amount being included in trade debtors as amounts recoverable on contracts. Advance payments received from customers are included in creditors and amounts are set off against the value of work undertaken as the contracts progress.

(e) Tangible fixed assets

Depreciation is provided to write off the value (being cost less estimated residual value) of long leasehold property and freehold buildings, and the cost of other tangible fixed assets over their 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 5 and 10 years
Fixtures, fittings and equipment including computer aided design equipment	—Between 3 and 10 years
Motor vehicles	—Between 4 and 5 years

(f) Investment properties

Investment properties are stated at directors' valuation. In accordance with the Statement of Standard Accounting Practice no. 19, the properties are not depreciated, contrary to the Companies Act 1985, in order to show a true and fair view.

(g) Stocks and work in progress

Stocks 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 receivable.

Pre production and development costs relating to specific contracts are included in work in progress to the extent to which they are recoverable.

(h) Research and development

Expenditure on research and development is written off in the year in which it is incurred.

(i) Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange gains and losses arising in the normal course of trading are dealt with in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

(i) Foreign exchange

Trading results of overseas subsidiaries are translated into sterling at average rates and the assets and liabilities of the subsidiaries are translated at the rate of exchange ruling at the balance sheet date. Unrealised exchange gains and losses arising from the retranslation of equity investments in overseas subsidiaries, and the related foreign currency borrowings used to finance those investments, are dealt with through reserves.

(j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

(k) Leases

The costs of operating leases are dealt with by way of a charge to the profit and loss account as incurred.

Assets held under finance leases and hire purchase agreements are included as tangible fixed assets at purchase price and depreciated over their estimated lives. The obligations (net of finance charges) are included, as appropriate, under creditors, due within or after one year.

(l) Pension costs

The expected cost of pensions in respect of the Group's main defined benefit pension scheme is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme.

The pension cost is assessed in accordance with the advice of qualified actuaries. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme.

The pension cost for the Group's defined contribution scheme is charged against profits in the year in which it is incurred.

(m) Share schemes

The Group's Employee Share Ownership Plan ('ESOP') and Qualifying Employee Share Ownership Trust ('QUEST') are separately administered trusts which are funded by loans (the ESOP) and gifts (the QUEST) from the Company, and the assets of which, mainly comprise shares in the Company. Shares in the Company held by the ESOP are shown at the lower of cost and market value. Shares in the QUEST are shown at their estimated recoverable amount being the option price of the shares payable by employees. The amounts contributed to the QUEST in excess of the option price are charged against reserves.

(n) Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged items and must also reduce the risk of foreign exchange currency movements on the Group's operations. Gains and losses on these contracts are recognised in the profit and loss account when the hedged transaction is recognised.

2 Turnover by destination

	2000 £'000	1999 £'000
Europe	75,032	69,459
North America	40,167	19,294
Pacific Basin	4,557	3,806
Rest of the World	1,351	2,930
	<hr/>	<hr/>
	121,107	95,489

NOTES TO THE FINANCIAL STATEMENTS

2 Turnover by destination

The directors consider that the Group operates in one business segment, serving the global automotive market. The United Kingdom is the principal location for operating profits and the net assets of the Group. The only significant overseas operation is in the USA, which is an integral part of the UK operation. As a consequence, it is not meaningful to show its turnover, operating results or net assets separately.

3 Operating profit

	2000 £'000	1999 £'000
Turnover	121,107	95,489
Cost of sales	(83,706)	(64,213)
<hr/>		
Gross profit	37,401	31,276
Administrative expenses	(24,260)	(20,394)
<hr/>		
Operating profit	13,141	10,882

4 Net interest

	2000 £'000	1999 £'000
Interest receivable	379	204
Interest payable on bank loans and overdrafts	(710)	(640)
Interest payable on finance leases	(10)	(21)
<hr/>		
	(341)	(457)

5 Profit on ordinary activities before taxation

	2000 £'000	1999 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Research and development	5,158	4,710
Operating leases: hire of plant and machinery	93	62
other	2,387	1,364
Depreciation: own assets	6,241	4,850
assets held under finance leases	191	197
(Gain)/Loss on sale of tangible fixed assets and investment properties	(23)	2
Provision for diminution in value of investment properties	200	235
Exchange gains	(161)	(147)
<hr/>		
Total auditors' remuneration was as follows:		
Audit fees relating to the Group	152	140
Audit fees relating to the Company	49	48

6 Employees

	2000 £'000	1999 £'000
Staff costs:		
Wages and salaries	42,789	35,355
Social security costs	4,856	3,800
Other pension costs (note 27)	1,616	1,562
<hr/>		
	49,261	40,717
<hr/>		
	2000 Number	1999 Number
Average number of employees during the year:		
Management, administration and sales	204	188
Production and engineering staff	1,089	966
<hr/>		
	1,293	1,154

NOTES TO THE FINANCIAL STATEMENTS

7 Taxation on profit on ordinary activities

	2000 £'000	1999 £'000
UK corporation tax at 30% (1999 - 30.75%)	4,006	1,980
Overseas taxation	435	299
Double tax relief	(415)	(186)
Deferred taxation	540	1,053
Adjustment in respect of prior years	(706)	60
	3,860	3,206

8 Dividends

	2000 £'000	1999 £'000
Non-equity preference dividends:		
10% cumulative second preference	4	3
	4	3
Equity ordinary dividends:		
Interim 2.4p per share (1999 - 2.3p)	1,149	1,070
Proposed final of 5.0p per share (1999 - 4.7p)	2,385	2,191
	3,534	3,261

9 Earnings per share

The calculation of basic earnings per ordinary share and diluted earnings per ordinary share have been calculated in accordance with FRS14.

	Earnings £'000	Number of Shares '000	2000 Per share amount	Earnings £'000	Number of shares '000	1999 Per share amount
Profit for the financial year	8,923			7,219		
Non-equity preference dividends	(4)			(3)		
Basic EPS:						
Profit attributable to ordinary shareholders	8,919	47,105	18.9p	7,216	46,442	15.5p
Effect of dilutive securities:						
Options		1,007			789	
LTIP		455			1,098	
Diluted EPS:						
Profit attributable to ordinary shareholders	8,919	48,567	18.4p	7,216	48,329	14.9p

The weighted average number of shares in issue may be reconciled to the number used in the earnings per share calculation as follows:

	2000 '000	1999 '000
Weighted average number		
Ordinary shares in issue	47,435	46,999
Shares held by Employee Share Ownership Plan	(224)	(224)
Shares held by Long Term Incentive Plan Trustee	(106)	(333)
	47,105	46,442

NOTES TO THE FINANCIAL STATEMENTS

10 Intangible fixed assets – goodwill

Goodwill of £59,000 arose from a payment to the minority shareholder to establish a 55% controlling interest in Ricardo Meda Technical Services Inc. No assets or liabilities were acquired. The goodwill is to be amortised on a straight line basis over five years. No amortisation was charged in the year as the incorporation was close to the year end.

11 Tangible fixed assets

	Land and Buildings			Plant & Machinery £'000	Fixtures, Fittings & Equipment £'000	Total £'000
	Freehold £'000	Long Leasehold £'000	Short Leasehold £'000			
GROUP						
Cost:						
At 1 July 1999	6,058	416	1,200	44,352	13,807	65,833
Reclassifications	—	3	(52)	52	(3)	—
Additions	—	—	347	11,730	3,148	15,225
Disposals	—	—	—	(77)	(541)	(618)
Foreign exchange adjustment	11	—	—	648	293	952
At 30 June 2000	6,069	419	1,495	56,705	16,704	81,392
Depreciation:						
At 1 July 1999	903	6	204	20,613	8,909	30,635
Reclassifications	—	4	(11)	11	(4)	—
Depreciation for the year	26	4	132	3,758	2,512	6,432
Disposals	—	—	—	(67)	(394)	(461)
Foreign exchange adjustment	—	—	7	363	197	567
At 30 June 2000	929	14	332	24,678	11,220	37,173
Net Book Amount 2000	5,140	405	1,163	32,027*	5,484	44,219
Net Book Amount 1999	5,155	410	996	23,739*	4,898	35,198

Included in the figures shown thus (*) are assets that are under the course of construction which have not been depreciated in the year of £4,853,000 (1999 – £5,578,000).

Group fixtures, fittings and equipment and plant and machinery include assets held under finance leases with net book amounts of £88,000 (1999 – £115,000).

	Short Leasehold £'000	Fixtures, Fittings & Equipment £'000	Total £'000
COMPANY			
Cost:			
At 1 July 1999	555	243	798
Disposals	—	(17)	(17)
Inter group transfer	—	(42)	(42)
At 30 June 2000	555	184	739
Depreciation:			
At 1 July 1999	37	124	161
Depreciation for the year	37	18	55
Disposals	—	(17)	(17)
Inter group transfer	—	(25)	(25)
At 30 June 2000	74	100	174
Net Book Amount 2000	481	84	565
Net Book Amount 1999	518	119	637

NOTES TO THE FINANCIAL STATEMENTS

12 Investment Properties

	Group	
	2000 £'000	1999 £'000
At 1 July 1999	980	1,215
Provision for diminution in value	(200)	(235)
Sold	(290)	—
At 30 June 2000	490	980

13 Investments

	Group Own Shares £'000	Group Total £'000	Company Shares in Subsidiaries £'000	Company Own Shares £'000	Company Total £'000
At 1 July 1999	493	493	26,100	493	26,593
Revaluation	—	—	5,867	—	5,867
Provision	(2)	(2)	(177)	(2)	(179)
At 30 June 2000	491	491	31,790	491	32,281

The investment in the Company's own shares, stated at cost, relates to 224,000 Ordinary Shares of 25p each held by the Group's Employee Share Ownership Plan ('ESOP') Trust. The book value and market value of the shares at 30 June 2000 were 220.0p and 470.0p respectively. The assets and liabilities of the ESOP have been treated as assets and liabilities of Ricardo plc.

14 Stocks

	Group	
	2000 £'000	1999 £'000
Raw materials and consumables	2,061	2,300
Work in progress	336	489
	2,397	2,789

15 Debtors

Amounts falling due within one year

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Trade debtors	19,964	17,607	144	63
Amounts recoverable on contracts	15,330	12,302	—	—
Amounts owed by Group undertakings	—	—	26,358	29,935
Prepayments	1,439	1,218	97	93
Other debtors	394	854	293	1,389
	37,127	31,981	26,892	31,480

16 Cash deposit

This cash is held on deposit at Lloyds TSB Bank Plc and can only be utilised to redeem the loan notes referred to in note 17. The interest attaching to the deposit is receivable by the Group. The deposit has been excluded from cash in the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

17 Creditors – amounts falling due within one year

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Loan notes	340	340	—	—
Bank loans and overdrafts	5,829	7,603	4,309	11,217
Payments received in advance	11,920	10,974	—	—
Trade creditors	7,934	6,328	58	84
Amounts owed to Group undertakings	—	—	13,674	12,890
Finance lease obligations	52	121	—	—
Other creditors	2,803	1,537	1,861	1,080
UK corporation tax	3,188	1,323	72	—
Other taxes and social security	944	1,001	55	43
Dividends	2,385	2,191	2,385	2,191
Accruals	8,215	8,231	172	342
	43,610	39,649	22,586	27,847

The interest on the reducing guaranteed floating rate unsecured loan notes 2004 is payable at the rate of 1½ per cent. below Lloyds TSB Bank Plc base rate. The loan notes are redeemable at the option of the holder. Payment is being guaranteed by Lloyds TSB Bank Plc. The Group has made an equivalent deposit with the bank (see note 16).

18 Creditors – amounts falling due after more than one year

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Bank loans	8,677	1,775	4,714	1,775
Finance lease obligations	1	51	—	—
	8,678	1,826	4,714	1,775
Maturity of debt:				
Repayable on demand or within one year	5,881	7,724	4,309	11,217
Between one and two years	1,983	643	—	592
Between two and five years	6,695	1,183	4,714	1,183
	14,559	9,550	9,023	12,992

The interest rates on the outstanding loans, which are denominated in US dollars, vary between 0.85% above UK bank base rate and 0.85% above LIBOR, as appropriate, and 0.9% above US prime rate or 0.75% above LIBOR, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

19 Provisions for liabilities and charges

	Deferred Taxation £'000	Warranty provision £'000	Pension costs £'000	Total £'000
Group:				
As at 1 July 1999	3,601	377	601	4,579
Charged in the year	540	25	2	567
Released in the year	—	(337)	—	(337)
As at 30 June 2000	4,141	65	603	4,809
Company:				
As at 1 July 1999		134	601	735
Charged in the year		—	2	2
Released in the year		(134)	—	(134)
As at 30 June 2000		—	603	603

The warranty provision has been recognised for expected warranty claims in products sold during the last three financial years.

Deferred taxation comprises	2000		1999	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Group:				
For capital allowances in excess of depreciation	3,749	2,467	2,132	3,651
Other timing differences	392	(226)	1,469	(227)
	4,141	2,241	3,601	3,424
Company:				
For depreciation in excess of capital allowances	—	(18)	—	(18)
Other timing differences	—	(203)	—	(227)
	—	(221)	—	(245)

20 Share capital

	2000 £'000	Authorised 1999 £'000	Allotted and fully paid 2000 £'000	Allotted and fully paid 1999 £'000
10% cumulative second preference shares of £1	40	40	40	40
Ordinary shares of 25p	14,940	14,940	11,989	11,791
Total authorised and allotted share capital*	14,980	14,980	12,029	11,831
Movements in ordinary share capital			Number of shares '000	Allotted and fully paid £'000
Shares issued at 1 July 1999			47,162	11,791
Shares issued upon exercise of share options			353	88
Shares issued to the trustee of the LTIP			441	110
Shares issued at 30 June 2000			47,956	11,989

* Included in the total are 106,183 ordinary shares of 25p allotted to directors under the LTIP with a nominal value of £26,546.

The consideration received for shares allotted under the share option schemes during the year was £1,315,000.

NOTES TO THE FINANCIAL STATEMENTS

20 Share capital

Share Options

The Company has an Inland Revenue approved executive share option scheme under which options to subscribe for ordinary shares may be granted. It is more than 10 years since the savings related share option scheme, which is also inland Revenue approved, was adopted so no further options can be granted; however there are options outstanding under it. Details of outstanding options under both schemes, which are exercisable up to March 2006, are as follow:

Number of Ordinary Shares	Exercise Price
4,097	102.4p
74,000	138.0p
70,000	140.0p
192,000	114.0p
58,941	122.4p
789,981	114.8p
427,373	281.6p

At 30 June 2000 and 30 June 1999, the ESOP held 224,000 ordinary shares to satisfy outstanding options under the 1995 Executive Share Option Scheme. Of the outstanding options 100,000 are exercisable until December 2004 at an exercise price of 148.0p and the balance is exercisable until June 2006 at an exercise price of 286.0p.

Rights of 10 per cent. cumulative second preference shares

The preference dividend is paid half yearly in arrears, on 31 December and 30 June, at a rate of 10 per cent. plus an attributable tax credit of 10 per cent. Preference shares have priority in the event of any winding up of the Company. In this event the shareholders would be entitled to the paid up value of the shares plus any arrears or deficiency of the fixed dividend up to the date of the return of capital.

The preference shares are non voting upon any resolution (other than a resolution winding up the company, reducing its share capital or varying/abrogating any special rights attached to those preference shares) unless the dividend on the class of shares concerned is six months in arrears at the date of the notice convening the meeting at which the resolution is to be proposed.

A resolution will be proposed at the forthcoming Annual General Meeting and at a separate meeting convened for the purpose, to cancel and repay the preference shares.

NOTES TO THE FINANCIAL STATEMENTS

21 Reserves

Group	Share premium account £'000	Merger reserve £'000	LTIP reserve £'000	Profit and loss account £'000
Balance as at 1 July 1999	4,564	967	635	13,381
Exchange rate movements	—	—	—	264
Arising on shares issued	1,745	—	—	—
Long term incentive plan charge	—	—	460	—
LTIP shares issued to trustees	—	—	(628)	—
Quest contributions	—	—	—	(870)
Profit for year	—	—	—	5,385
Balance as at 30 June 2000	6,309	967	467	18,160

The cumulative value of goodwill at 30 June 2000 and 30 June 1999 resulting from acquisitions, which has been written off to reserves, is £14,183,000.

Company	Share premium account £'000	Revaluation reserves £'000	LTIP reserve £'000	Profit and loss account £'000
Balance as at 1 July 1999	4,564	10,541	635	3,807
Arising on shares issued	1,745	—	—	—
Revaluation of investments	—	5,867	—	—
Long term incentive plan charge	—	—	460	—
LTIP shares issued to trustees	—	—	(628)	—
Loss for year	—	—	—	(1,088)
Balance as at 30 June 2000	6,309	16,408	467	2,719

The holding company profit and loss account has not been presented as permitted by Section 230 of the Companies Act 1985. The Company has made a profit for the financial year of £2,450,000 (1999 – £2,255,000) before dividends of £3,538,000 (1999 – £3,264,000).

22 Net cash inflow from operating activities

	2000 £'000	1999 £'000
Operating profit	13,141	10,882
Depreciation charges	6,432	5,047
(Profit)/loss on sale of tangible fixed assets and investment properties	(23)	2
Long term incentive plan charge	460	623
Quest contributions – written off to reserves	(870)	—
Provision for diminution in value of investment properties	200	235
Decrease/(increase) in stock	395	(81)
Increase in debtors	(4,219)	(712)
Increase in creditors	2,152	2,222
Net cash inflow from operating activities	17,668	18,218

NOTES TO THE FINANCIAL STATEMENTS

23 Reconciliation of net cash flow to movement in net debt

	2000 £'000	1999 £'000
Increase/(decrease) in cash	1,057	(250)
Decrease in debt and lease financing	(1,639)	(55)
Change in net debt from cash flows	(582)	(305)
New finance leases	—	(18)
Exchange movement	69	295
Movement in net debt in year	(513)	(28)
Net debt at 1 July	(3,899)	(3,871)
Net debt at 30 June	(4,412)	(3,899)

24 Analysis of net debt

	At 1 July 1999 £'000	Cash flow £'000	Non cash flow movements £'000	Exchange movements £'000	At 30 June 2000 £'000
Cash at bank and in hand	5,651	4,339	—	157	10,147
Overdrafts	(2,656)	(3,282)	—	109	(5,829)
Debt due after 1 year	2,995	1,057	—	266	4,318
Debt due within 1 year	(1,775)	(3,766)	(2,939)	(197)	(8,677)
Finance leases	(4,947)	2,008	2,939	—	—
	(172)	119	—	—	(53)
	(3,899)	(582)	—	69	(4,412)

25 Changes in financing during the year

	Share capital (including premium)		Finance lease obligations	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Balance at 1 July	16,395	16,084	172	256
Issue of ordinary share capital	1,315	311	—	—
Shares issued with respect to LTIP for non cash consideration	628	—	—	—
Inception of finance lease contracts	—	—	—	18
Capital element of finance lease rental payments	—	—	(119)	(102)
Balance at 30 June	18,338	16,395	53	172

NOTES TO THE FINANCIAL STATEMENTS

26 Commitments

(a) Capital commitments

The Group's commitments for capital expenditure not provided for were as follow:

	2000 £'000	1999 £'000
Contracted	1,267	1,492

The Company had no capital commitments at 30 June 2000 or 30 June 1999.

(b) Operating leases

The Group's commitments for operating lease payments due in the next year are as follow:

	2000		1999	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
In respect of leases expiring:				
Within one year	108	204	95	63
Between one and five years	783	834	414	534
After five years	370	—	540	—
	1,261	1,038	1,049	597

The Company's commitments for operating lease payments due in the next year are as follow:

	2000 Land and Buildings £'000	1999 Land and Buildings £'000
In respect of leases expiring:		
Within one year	—	—
Between one and five years	—	—
After five years	370	370
	370	370

(c) Obligations under finance leases

	Group 2000 £'000	Group 1999 £'000
Payable within one year	53	131
Payable between one and five years	1	62
	54	193
Less future finance charges	(1)	(21)
	53	172
Included in creditors due within one year	52	121
Included in creditors due after one year	1	51

27 Pensions

The Group operates pension schemes available to all of its United Kingdom employees, the assets of which are held in separate trustee administered funds. The largest funds are the Ricardo Group Pension Fund, a defined benefit scheme, and Ricardo International Pension Scheme, a defined contribution scheme. The pension costs relating to the Ricardo Group Pension Fund are assessed in accordance with the advice of Barnett Waddingham, qualified actuaries, using the attained age method. The latest actuarial valuation was at 5 April 1999. At that date, the market value of the assets of the fund amounted to £41.3 million and was sufficient to cover 103 per cent. 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 96 per cent. The next triennial valuation is scheduled to be carried out at a date no later than 5 April 2002.

The principal assumptions made by the actuaries were that investment returns would comprise 5.5 per cent. per annum on gilts, in the long term, and 8.5 per cent., in the long term, on equities, pensionable salaries would rise by 5.5 per cent. per annum and pensions would rise at a minimum of 3 per cent. per annum on the whole pension. It is assumed that future price inflation would rise at a rate of 4.0 per cent. per annum.

The pension charge of £1,616,000 (1999: £1,562,000) covers both schemes and includes a net reduction of £201,000 (1999: £392,000) in respect of the spreading of the surplus in the Ricardo Group Pension Fund, using the mortgage method over 12 years, the average remaining service lives of employees. A provision of £603,000 (1999: £601,000) is held within the balance sheet in accordance with the SSAP24 — Accounting for Pension Costs.

28 Contingent liabilities

At 30 June 2000 subsidiaries had entered into guarantees and performance bonds totalling £854,000 (1999: £474,000). The Company has given a guarantee in respect of certain bank overdrafts of its subsidiaries.

29 Derivatives and other financial instruments

Set out below are the narrative and numerical disclosures relating to financial instruments. The Group has taken advantage of the exemption available under Financial Reporting Standard 13 "Derivatives and other financial instruments" not to provide numerical disclosures in relation to short-term trade debtors and creditors.

(i) Narrative disclosures financial instruments

The Group's financial instruments, other than derivatives, comprise borrowings, some cash and various items such as trade debtors, trade creditors, etc, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group from time to time uses forward foreign currency contracts to manage transactional currency risks arising from the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. These policies have remained unchanged throughout the year.

Interest rate risk

The Group finances its operations through a mixture of retained profits and borrowings. There is also a small amount of finance lease commitment. The Group places its cash balances on deposit at floating rates of interest and also borrows in sterling and US dollars at floating rates of interest. No interest rate swaps are used.

29 Derivatives and other financial instruments

Liquidity rate risk

As regards liquidity, the Group's policy has throughout the year been to maintain a mix of short and medium-term borrowings with their bankers. Short-term flexibility is achieved by overdraft facilities. Details of the year-end position, which is in accordance with this policy, are given in note 17. It is, in addition, the Group's policy to maintain undrawn committed borrowing facilities in order to provide flexibility in the management of the Group's liquidity. At the year-end the Group had committed facilities of £38.8 million with their banks, 10.54 per cent. of which was drawn down. These facilities are subject to review at varying intervals.

Currency risk

Although the Group is based in the UK, it has subsidiaries both in the USA and Germany. The Group's sterling balance sheet will be to a very limited extent affected by movements in the D.mark/sterling exchange rate and to a much greater extent by movements in the US dollar/sterling exchange rates.

The Group mitigates the effect of this structural currency exposure by purchasing or selling US dollars as appropriate. The Group also has cash balances in euros and deutsche marks.

The Group has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the unit's functional currency. The Group's policy to minimise currency exposure is to match payments and receipts together with, from time to time, entering into forward exchange contracts.

(ii) Numerical disclosures of interest rates and currency profile of financial assets and liabilities:

	2000			
	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Floating rate financial assets £'000
Currency				
Sterling	7,202	(340)	(40)	7,582
US dollars	(12,402)	(14,873)	—	2,471
Deutsche mark	348	—	—	348
Euro	400	—	—	400
	(4,452)	(15,213)	(40)	10,801

	1999			
	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Floating rate financial assets £'000
Currency				
Sterling	1,814	(340)	(1,034)	3,188
US dollars	(6,280)	(4,834)	(1,446)	—
Deutsche mark	117	—	—	117
Euro	410	—	—	410
	(3,939)	(5,174)	(2,480)	3,715

The fixed rate sterling financial liability at 30 June 1999 was at 9.4% for a four year period. The US dollar liabilities had fixed rates of interest ranging from 8.2 per cent. to 8.5 per cent. for a four year period.

Further details on the interest profile of the floating liabilities can be found in note 18.

NOTES TO THE FINANCIAL STATEMENTS

29 Derivatives and other financial instruments

(iii) Fair value of financial assets and liabilities

The following are the book values of the Groups financial assets and liabilities at 30 June 2000. The fair values closely approximate to book values.

	2000 £'000	1999 £'000
Cash at bank and in hand	10,147	5,651
Bank overdrafts	(5,829)	(2,656)
Loans repayable within one year	—	(4,947)
Loans repayable after more than one year	(8,677)	(1,775)
Cash deposit	340	340
Loan notes	(340)	(340)
Finance lease obligations	(53)	(172)
10% cumulative second preference shares	(40)	(40)
	(4,452)	(3,939)

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 all floating rate loans where payment are reset to market rates at regular intervals.

(iv) Numerical disclosures relating to currency exposures

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences arising on the retranslation of the assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

As previously mentioned it is the Group's policy to partially hedge currency denominated net assets by currency borrowings. As these are not formally matched the group recognises all gains and losses in the period they arise.

At 30 June 2000 the Group had no unrecognised or deferred gains or losses on forward contracts.

	2000			
	Sterling £'000	US Dollar £'000	Euro £'000	Deutsche Mark £'000
Functional Currency of Group operation				
Sterling	—	(363)	312	644
US Dollar	(853)	—	—	—
	(853)	(363)	312	644

	1999			
	Sterling £'000	US Dollar £'000	Euro £'000	Deutsche Mark £'000
Functional Currency of Group operation				
Sterling	—	567	253	(139)
US Dollar	(609)	—	—	—
	(609)	567	253	(139)

NOTES TO THE FINANCIAL STATEMENTS

30 Principal operating subsidiaries

Each subsidiary company operates principally in the country in which it is incorporated.

The Company owns directly, or indirectly, 100 per cent. of the issued ordinary share capital of the following principal operating subsidiaries which are included in the consolidated accounts:

*Incorporated in Great Britain
(and registered in England and Wales)*

Ricardo Consulting Engineers Ltd. ("RCE")

Ricardo Test Automation Ltd. ("RTA")

Ricardo MTC Ltd. ("MTC")

Incorporated in Germany

Ricardo GmbH. ("GmbH")

Incorporated in the USA

Ricardo Inc. ("Rinc.")

During the year the Group acquired a 55% interest in Ricardo Meda Technical Services Inc.

The subsidiaries owned directly by the Company are included in investments (note 13).