

AEA Technology plc

Annual report 2000

# Turning science into profit



## The Innovation Business:

*cover montage, clockwise, from lower left hand corner*

Medicine is a key growth area for AEA Technology, our miniature sealed radiation sources are helping heart patients to better health; AEA Technology's engineering software expertise helped secure significant licensing contracts in 2000; our Rail business is working with clients to improve rail safety and performance; our Groundhog™ radiation-locating system marks an advance in treating contaminated land; ultra-light, intelligent batteries are now being produced from the Group's new £12 million factory

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## Who we are

*AEA Technology excels in turning science into profit – for the benefit of its customers and its shareholders.*

*Our skill in bringing technology swiftly and successfully to market is why we are increasingly recognised as one of the world's leading innovation businesses.*

# Financial highlights

## Results for the year ended 31 March

	2000 £m	1999 £m	% change
Turnover	366.0	357.8	2.3
Operating profit	34.0	33.0	3.0
Adjusted profit before tax <sup>(1)</sup> <sup>(2)</sup>	31.0	29.5	5.1
Adjusted earnings per share <sup>(1)</sup>	25.6p	24.7p	3.6
Dividend per share	11.1p	10.4p	6.7

<sup>(1)</sup> Adjusted profit before tax is profit before tax stated before £1.3 million amortisation of goodwill (1999: £0.8 million). This has also been added back in calculating adjusted earnings per share. See note 13 for details of the adjusted earnings per share calculation.

<sup>(2)</sup> Restated to remove the tax credit on dividends receivable following the implementation of Financial Reporting Standard 16: Current Taxation.

## Customer analysis of turnover

	2000 £m	%	1999 £m	%
UK Government	77.3	21	77.4	22
UK Public Sector	22.4	6	23.6	6
UK Private Sector	135.1	37	121.5	34
Overseas	131.2	36	135.3	38
	366.0	100	357.8	100

## Results by business segment

	Turnover		Operating profit	
	2000 £m	1999 £m	2000 £m	1999 £m
Engineering Services	103.4	96.8	7.3	5.5
Technical Products	98.8	100.5	11.2	14.1
Technical Services	163.8	160.5	15.5	13.4
	366.0	357.8	34.0	33.0

# Chairman's letter

*We are working to transform our traditional mature customer base to one of high growth and high margin. The figures show we are making progress*

## **Dear shareholder**

This has been a year during which we made good progress towards our goal of becoming a major force in the delivery of first class science and engineering.

Over the last financial year adjusted profit before tax rose 5%, from £29.5 million to £31.0 million. Turnover increased by 2%, from £357.8 million to £366.0 million, and adjusted earnings per share climbed from 24.7p to 25.6p. On the basis of this performance the Board is pleased to recommend a dividend of 11.1p, up 7%.

During the year, we redeemed the 'Golden Share' which enabled the Secretary of State for Trade and Industry to prevent any single shareholder from holding more than 15% of our share capital. This provision was part of our flotation arrangements and was always intended to last for no more than three years.

Our objective has always been to create a major new science and engineering business, able to deliver significant increases in shareholder return. We are on course to achieve this ambition.

Since our September 1996 flotation we have had three principal transitional challenges: to grow in new markets; to lay the foundation for sustained organic growth, and to develop a commercial culture.

## **Growing in new markets**

Since privatisation our priority has been to grow in new markets. In particular, we are working to transform our traditional mature customer base to one of high growth and high margin. The figures show we are making progress. In 1996, sales to UK private sector and overseas customers accounted for 44% of turnover, with sales to the UK Government, including the United Kingdom Atomic Energy Authority (UKAEA), representing 46% of turnover. This year UK private sector and overseas sales improved to 73% of turnover, with sales to the UK Government reduced to 21%.

## **Laying the foundation for growth**

To achieve sustained organic growth, we must concentrate our time and resources on first class products in high growth markets. To help us evaluate which of our many good ideas have the most potential, we have co-developed a systematic process with McKinsey & Company. This process is already beginning to deliver benefits, putting us in a much

better position to invest early in the right products and get them swiftly to market.

## **Developing a commercial culture**

We have always had exceptional products but, to succeed in new markets, we also need first class sales ability and commercial acumen. Our people have high technical ability but, clearly, turning scientists and engineers into business people cannot be achieved overnight. To help develop the necessary skills, we have invested in our people and introduced incentives to encourage them to do even better. This developmental journey will continue but we are already seeing substantial improvements.

## **The Board**

It has been a year of considerable and rapid change and I would like to thank our Board, once again, for their great support. It is indicative of the high calibre of our non-executive directors that two received high honours during the year. Colin Sharman was appointed Lord Sharman of Redlynch and Steve Shirley was appointed a DBE.

The composition of the Board is changing. Dr Mel Wood, deputy chief executive, and Dr Chris Wright, growth director, have decided to leave the Board. I would like to thank them, on behalf of the Board, for the valuable contribution they have made to the Company over many years. In the new financial year, Dame Steve Shirley will also retire. Dame Steve Shirley was a director of UKAEA and among the first non-executive directors of AEA Technology. We have benefited a great deal from her commitment and enthusiasm. Her active participation in key Company committees has been particularly valuable and I would like to thank her for her tremendous contribution.

I would also like to thank our employees for their continuing loyalty and effort. The progress we have made in addressing the three transitional challenges outlined above is, of course, due largely to them.



Sir Anthony Cleaver  
Chairman

# Chief Executive's statement

*Our aim is to focus this business on high growth markets which require first class technology and offer us high margins*

## Focusing on growth

During the year we continued the process of focusing the business which we began four years ago. On flotation in 1996, AEA Technology had 21 operating groups. In 1998 we sharpened this structure to 11 businesses, selling one of them – Instrumentation. During 2000 we continued this process by completing our plans to segment the business into five. That is:

- Rail, Environment and Engineering Software, operating in high growth, high margin markets
- Nuclear Technology including Nuclear Engineering, QSA, Nuclear Science, Consulting and Energy, operating in mature markets offering some growth
- Future Technologies – Products & Systems, New Ventures and Batteries

## Positioned for delivery

Growth is now our top priority: growth in sales, in margin and in earnings for our shareholders. Our performance in 2000 has strengthened our position to deliver such growth.

During the year, we made progress in developing a number of new products and services, while also strengthening our patents position in key areas.

- In Rail, for example, we have a new suite of products to measure track performance, improve signalling safety and increase train reliability.
- In Batteries, we have a strong position in the next generation lithium-ion rechargeable battery technology – lithium polymer. This technology frees manufacturers from the constraints of existing battery shapes.
- In Engineering Software we developed CFX 5.4, the latest version of our computational fluid dynamics

software, which models the flow of liquids and gases around machinery, to enable customers to improve the efficiency of their products and reduce time to market.

- In Environment, technologies that identify toxic materials in brown land will, we believe, create significant opportunities for us.
- We made further significant progress in our Electrocat™ development, which uses plasma technology to destroy diesel particulates. We are currently working on programmes with a number of major automotive companies to take this technology to market. Twenty eight of our inventions in this field are now protected by patents or patent applications in countries across the globe.

We continue to develop and actively manage our intellectual property base, recording the third successive year-on-year increase in new patent activity.

## Prioritising investment

Our flow of innovative ideas continues to strengthen and, through processes co-developed with McKinsey & Company, we now have a much clearer system for prioritising investment.

For example, in medicine, which we see as an important growth area, the Beta-Cath System, which helps to prevent hardening of the arteries, is now on the market.

However, no business has a monopoly on ideas and our **Innovation Plus** scheme has now received over 1,200 ideas from external inventors. Two of the more unusual products include technology enabling human organs to shrink, offering distinct advantages in prostate treatment, and a product replacing gelatine in capsules.

*Investments will focus on the selected growth markets. We will target resources on our growth businesses which will, in turn, concentrate on high margin opportunities*

### **Our markets**

We have seen recovery in the two markets that caused us difficulties in 1999 – oil and environment. The first green shoots were visible in the oil sector, where demand for global licensing engineering software deals increased. In March, we completed a major five year agreement with BP Amoco which positions us as the sole software supplier for the company's refinery and off-shore production plant. However, in our Energy business the oil services sector remained tough as oil companies held back on capital outlay following their experience of operating at low oil prices. The environment market showed signs of growth, with increasing demand for improved environmental performance in the UK and overseas.

Rail continued to be a strong market. Investment by Railtrack, train operating companies and train leasing companies in the use of technology to improve safety and reliability offered significant opportunities. The specialist battery market also promises significant potential, although growth in 2000 was held back due to delays to the Ministry of Defence Bowman contract. The nuclear sector continued to be an important and steady market during the year.

### **Implementing our evolving strategy**

- We will continue to pursue selective investments. Our software and rail acquisitions have been integrated successfully and are now delivering step-change performance improvement. The QSA integration is also

proceeding as planned.

Investments will now focus on, and strengthen our position in, the selected growth markets. In step with our corporate plan, we will target resources on our growth businesses which will, in turn, concentrate on high margin opportunities.

- We will continue to seek new ways to take our technology to market through joint ventures, strategic alliances and spin-offs.
- We will continue to seek new ways of increasing the speed with which we take technology to market.
- We will continue to endeavour to attract the most talented science and engineering graduates from across the globe. This year, I am pleased to note, we received over 1,200 applications from our selected universities.

2000 was an important year of progress. We are now in a stronger position.



Peter Watson  
Chief Executive

# Operating businesses

*During 2000 the key operations of AEA Technology were conducted by 10 businesses and 18 principal subsidiaries within three business segments, as indicated below. Next year we will report on a business by business basis*

## ENGINEERING SERVICES

### Nuclear Engineering

Offering services through all stages of the nuclear plant life-cycle. Including plant design, build and commissioning, engineering consultancy, operational support, decommissioning and decontamination, and waste management consultancy and operations, radiation safety services and liabilities management.

### Environment

Helping governments, agencies and industry to meet environmental challenges. The portfolio includes clean energy technology, energy efficiency, contaminated land solutions, air quality measurement and advice from the National Chemical Emergency Centre, environmental management and consultancy.

### Subsidiary

#### □ ERG Environmental Resource

**Group plc** Specialising in the design and construction of air pollution control equipment, process plant and liquid effluent treatment plants within the manufacturing and water industries.

## TECHNICAL PRODUCTS

### Batteries

An international supplier of specialist cells, batteries and battery technology.

### Engineering Software

Offering engineering software and support services for the manufacturing, chemical and process industries. Including process design, fluid engineering and heat transfer.

### Products & Systems

High-tech systems for space, defence, nuclear, fine chemicals and pharmaceutical markets, including telerobotics and power fluidics. Also offering manufacturing support, prototype design work and product development.

### Subsidiaries

#### □ AEA Technology Battery Systems

**Limited** Providing custom-designed batteries and chargers.

□ **AGM Batteries Limited** Offering specialist lithium-ion cells for industrial and non-consumer applications.

□ **Hyprotech Limited** Specialising in process simulation software, providing integrated and value-added solutions to major operators in the oil and gas markets.

□ **AEA Technology KK** Supplying engineering software to Japan.

□ **AEA Technology GmbH** Providing engineering software licences and consultancy to customers in Germany.

#### □ AEA Technology Engineering Software Inc

□ **Advanced Scientific Computing Limited** Both of the above serving customers in North America with computational fluid dynamics software.

□ **nCode International Limited** Supplying fatigue and lifetime prediction software, principally to the automotive industry.

□ **EA Systems Inc** Providing plant design systems and consultancy.

□ **AEA Technology Engineering Services Inc** Specialising in structural engineering and design and non-destructive testing for power generation companies and utilities in the US, Europe and Japan.

□ **EBIS Harwell Limited** Supplying electron irradiation services, mainly to the medical goods and gemstone industries.

## TECHNICAL SERVICES

### Consulting

Providing safety and risk management services. The safety business is focused mainly on the nuclear industry, while risk management expertise ranges from aviation risk assessment to business continuity.

### Energy

Offering products and services to help maximise plant value. Expertise focuses on engineering integrity, inspection, modelling performance, safety and risk management.

### Nuclear Science

Helping optimise the performance, and improve the safety, of nuclear operations and plant.

### QSA

Supplying products for process control, smoke detection and radiographic inspection. Services include training in safe product use, maintenance, application consultancy and the recycling, conditioning and disposal of waste residues from medical and industrial clients.

### Rail

Offering across-the-board expertise in enhancing railway performance. Also providing strategic and economic consultancy, including passenger demand forecasting and revenue allocation.

### Subsidiaries

□ **AEA Sonomatic BV** Providing non-destructive field testing.

□ **AEA Technology Limited** A customer service centre for QSA products in Pacific Rim countries.

□ **AEA Technology QSA Inc** A manufacturing centre for the Sentinel product range, which serves the non-destructive testing market.

□ **AEA Technology QSA GmbH** Manufacturing sources for calibration and medical purposes. Also conditioning and disposal of waste residues from medical and industrial clients.

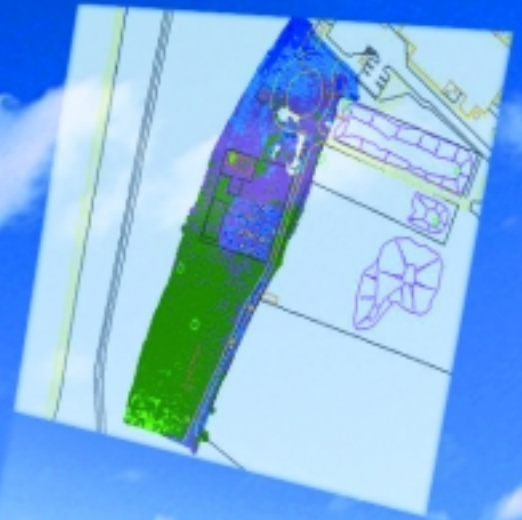
#### □ Shenzhen CIC-AEA Technology Manufacturing Co Limited

Manufacturing detection units for smoke alarms.

#### □ Forensic Alliance Limited

Providing forensic science services to UK police forces and other customers.

# Innovation in action



# Operating review: *Engineering Services*

- *New UK Government pollution-monitoring work*
- *£10 million decommissioning support contract at Dounreay*
- *Strong position established in China*

*Engineering Services is made up of the Environment and Nuclear Engineering businesses*

During the year Engineering Services turnover increased by 6.8% from £96.8 million to £103.4 million. Operating profit rose from £5.5 million to £7.3 million, with margins up from 5.7% to 7.1%.

## Environment

The Environment business enjoyed a much better year than in 1999. It gained a significant improvement in margins and successfully increased its business focus with the divestment of the Analytical Services business.

The UK public sector provided a particularly rich seam of business. The Department of the Environment, Transport and the Regions awarded further contracts for work on monitoring toxic, organic micro-pollutants.

UK private sector income also grew, partly due to the business' ability to help customers meet new fiscal and regulatory requirements. The ERG subsidiary, for example, won contracts in such diverse fields as flue gas desulphurisation and odour control. Abroad, activities in China continued to grow. A registered office was established in Beijing and the £3 million of Chinese orders included a contract to promote Clean Technology.

Looking ahead, the business is set to benefit from an increasing international awareness of environmental issues. It is especially well placed in the fields of climate change, air quality and waste management.

## Nuclear Engineering

Nuclear Engineering benefited as sales to its main customer, the UKAEA, stabilised after a period of substantial decline. Demand was strong, particularly at Dounreay where the business won a seven year, £10 million contract to provide decommissioning support services on the Prototype Fast Reactor.

A further contract, worth £4.7 million, was secured from UKAEA for the remediation of contaminated land at Harwell, in Oxfordshire.

British Nuclear Fuels Limited (BNFL) continued to be a major customer. Nuclear Engineering is currently working with the company on the design and supply of waste treatment plant for Magnox and – in a joint venture with Kvaerner and Carillion – the development of a waste treatment and storage facility at Sellafield.

Groundhog™, the business' innovative automated radiation detector system, boosted revenue. It was, for example, used by AEA Technology's joint venture CTECH on projects in Ontario.

The coming year looks promising. Further opportunities are emerging in North America and, in the UK, the business is well placed to benefit from the anticipated acceleration in decommissioning Dounreay.

## AEA TECHNOLOGY: INNOVATION

Groundhog™, a revolutionary invention that pinpoints radiation, allowing contaminated land to be cleaned up quickly and easily, won AEA Technology a contract with New York-based company Computer Associates.

Richard Owen, associate director of Arup Environmental, consulting engineers to the project, says: "No other company had anything like it on the market at the time. We considered Groundhog™ an extremely useful advance in the way that radioactive-contaminated land could be investigated. It allowed us to do the characterisation work, to identify and locate the contamination, in a much quicker and more robust way."

The Groundhog™ system uses satellite technology to pinpoint radiological contamination. Computer Associates used Groundhog™ to locate contamination on the site of its new European headquarters near Slough, in Berkshire. The former Ministry of Defence site had

been contaminated by radium and mercury used in the manufacture of ship compasses.

Paul Hughes, an Environment Agency radioactive substances inspector, was also impressed when he saw Groundhog™ in action.

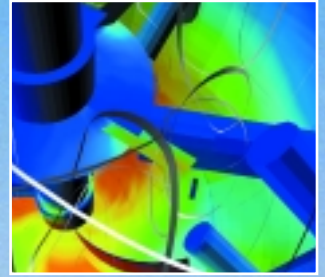
"The area that was remediated was considerable," he explains. "In the past such a survey would have been very slow and imprecise. As Groundhog™ can pinpoint offending waste accurately, this assists in the effective removal of waste and in establishing records of integrity. I would therefore recommend this system for future remediation work of this nature."

Groundhog™ was recently awarded Millennium Product status by the Design Council, highlighting it as one of the most innovative British products of the last five years.



A Groundhog™ site map

AEA Technology provides software engineering solutions to BP Amoco in Alaska, as part of its worldwide support to help the energy company manage production globally



# Continuing progress

The Trans Alaska Pipeline System, pictured, which is part-owned by BP Amoco, transports one million barrels of oil every day



## Operating review: *Technical Products*

- Major licensing agreements with BP Amoco and UOP
- R&D centre wins significant polymer battery order
- Improving focus remains key priority

In the 2000 financial year, turnover fell by 1.7%, from £100.5 million to £98.8 million. Operating profit declined from £14.1 million to £11.2 million, due largely to the delay in the Bowman Batteries contract and to weakness in the Engineering Software market during the first nine months of the year. Margin was down from 14.0% to 11.3%.

### Engineering Software

The Hyprotech business, which supplies process simulation software, was impacted in the first nine months of the year by weak conditions in the key oil refinery sector. However, in the final quarter it secured major licensing agreements with BP Amoco and UOP. Similarly, the Computational Fluid Dynamics (CFX) business had a slow start to the financial year, following the late delivery of a new product (CFX 5.4), which left development costs higher than sales revenue. Like

Hyprotech, CFX saw demand increase in the fourth quarter, securing a substantial licensing agreement with ALSTOM Power. The durability software business, nCode International, performed well with strong demand from the automotive industry, including a major licence deal with DaimlerChrysler.

The upturn in demand in the fourth quarter augurs well for the coming year. Hyprotech starts the new financial year with several significant prospects and scope to build on contracts secured in the previous six months. CFX will benefit from the launch of CFX 5.4 in the first quarter while nCode plans to introduce its product to the aerospace industry.

### Batteries

During the year the Batteries business moved from being a licensing-based technology provider to becoming a supplier of specialised batteries.

*Technical Products is made up of the Engineering Software, Batteries, and Products & Systems businesses*

### AEA TECHNOLOGY: VISION



Gordon Hutchinson

Gordon Hutchinson, head of engineering at BP Amoco, describes AEA Technology as a company with vision.

"We think highly of their technology and appreciate their forward-looking approach," he says. "They came to us with a very clear vision of the potential of this software within a business like ours."

Indeed, BP Amoco was so taken with the potential of AEA

Technology's engineering software that they have entered into a multi-million pound order for products and support that will help them cut their operating costs and increase production.

The energy giant has acquired licences for AEA Technology's entire suite of engineering software for the next five years.

The advanced software models everything from plant design to complex chemical engineering problems to provide designers and operators with a comprehensive understanding of what goes on

inside oil refineries, chemical plants and production platforms. It will be accessible to all BP Amoco's business units, from Texas to Australia.

"This is an alliance in which we will be working very closely with AEA Technology," says Gordon. "They are offering support and training and helping us identify opportunities we might not previously have considered. What's more, it is a very flexible system which allows us to incorporate other software tools to tailor it specifically to our needs."



Pump software model

The new £12 million factory at Thurso, in northern Scotland, was commissioned to time and cost. Early in the year the plant won a contract to supply lithium-ion batteries to the British Army for its new battlefield communications system. However, as actual orders were not placed until March 2000, the contract did not generate significant revenue in this financial year. Elsewhere, the business' Culham research and development centre won a major order to develop lithium-ion polymer batteries for mobile phones.



### Products & Systems

Products & Systems continued to make good progress. Significant orders were won, against stiff competition, from the US Army for chemical weapons destruction using the business' Silver-II technology, from the UK Navy to demonstrate the use of plasmas to clean engine

emissions and from Stanelco for ceramic tubes used in the manufacture of optical fibres. The new Millennium Product Award-winning V-tex™ power fluidics product achieved encouraging sales. Business focus continued to be improved with cost reductions and the divestment of the Lightning Test business. Improving focus will remain a priority in the coming financial year.

## AEA TECHNOLOGY: WORLD LEADING

Mamoru Minami, of Mitsubishi Materials Corporation, says his company chose AEA Technology as a partner because of its world leading reputation in the field of battery technology.

"They were the natural choice for us," he says. "They are at the cutting edge of new advances in battery technology."

AGM Batteries (a consortium of AEA Technology, Mitsubishi Materials Corporation and Japan Storage Battery Co. Ltd) recently began production of ultra-light, rechargeable and intelligent batteries from its new £12 million factory in Thurso, Scotland.



**Mamoru Minami:**  
*'a bright future'*

Cells from the factory are aimed at niche markets such as the medical and aerospace sectors. It is estimated that the targeted markets will be worth £150 million annually, within the next three years. The batteries will



**The £12 million AGM Batteries factory**

also be distributed throughout North America, thanks to a new agreement with world leading power systems manufacturer Eagle-Picher Technologies, LLC.

"We have great confidence in AEA Technology," says Mr Minami, who is on secondment from MMC as AGM Batteries assistant general manager. "We see a bright future for the new technologies and products that we are developing together."

# Operating review: *Technical Services*



- *Contracts secured with Railtrack at all levels*
- *Developments in nuclear medicine and smoke detection*
- *Consulting ups turnover, margin and operating profit*

Technical Services enjoyed an increase in operating profit over the financial year, from £13.4 million to £15.5 million, with margin up from 8.3% to 9.5%. There was an increase in turnover from £160.5 million to £163.8 million.

## **Nuclear Science**

Nuclear Science is a major supplier of radioactive facility operations, with its main customers being the UK Ministry of Defence, BNFL and British Energy.

The highly specialised nature of Nuclear Science's facilities means it tends to enter into multi-year contracts and develop long-term relationships with customers. The maturity of the market, which inevitably limits growth, was a major driver in the proposed joint services company with BNFL Magnox Generation's Technology and Central Engineering division. In the light of changes in the UK Government's plans for BNFL, the proposals were not taken forward. Similar outcomes to the joint services company are being negotiated through a series of partnering agreements.

By contrast with the mature nuclear services sector, specialised isotope production – particularly in medical markets – offers real prospects for growth.

## **Consulting**

The Consulting business had a successful year with increased turnover, margin and operating profit.

Independent nuclear safety assessment work for the UK Ministry of Defence on the Royal Navy's nuclear submarine fleet continued to be the major income stream. Elsewhere in the nuclear sector, an important framework contract was signed with Devonport Royal Dockyard, while safety case support work was secured from BNFL. UKAEA remained an important customer, particularly at Dounreay. In non-nuclear areas, the business provided clients with advice on managing risks associated with the 'Y2K' phenomenon. Inevitably, this work diminished in the fourth quarter but the methodologies developed have been broadened into a wider business continuity and project risk management offering.

Looking forward, pressure on operators to demonstrate robust safety management should generate a strong business stream in the nuclear sector. In non-nuclear areas, the business continuity product is targeting e-business processes and IT security.

## **QSA**

The QSA business, bought from Nycomed Amersham in February 1998, continued to disengage facilities and systems from its former parent. This process is 70% complete and will be finalised by winter 2001. During the year, the introduction of a global enterprise resource planning computing system improved business processes.

*Technical Services includes the Nuclear Science, Consulting, QSA, Rail and Energy businesses*

## **AEA TECHNOLOGY: DYNAMISM**

Dynamic and committed - that's how David Gill, former chief operating officer of Novoste Corporation, describes AEA Technology.

"We are both growing businesses and we liked their entrepreneurial approach," he says.

Novoste is using a miniature sealed radiation source, newly-designed by AEA Technology, to help cardiologists offer better treatment to heart patients. The innovative technology helps prevent restenosis – the re-narrowing of blocked arteries – following angioplasty.

*Keeping blood flowing*



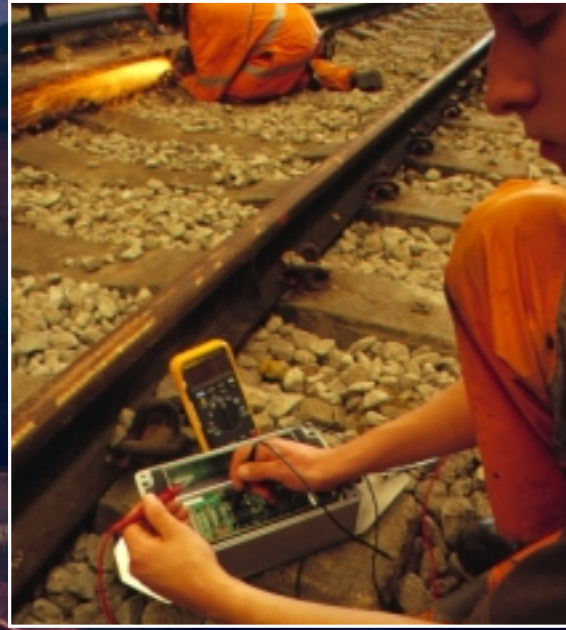
AEA Technology, the world leader in the production of sealed sources, has developed a source so small it can be used to access the smallest coronary arteries. US-based Novoste uses this in its Beta-Cath System for delivery of beta radiation following angioplasty. Three to five minutes exposure to beta radiation can 'freeze' arteries in an expanded position, avoiding the need for further surgery.

"It was obvious from the start that we had their full commitment," says David. "AEA Technology proved to be reliable and conscientious and I consider them one of the leaders in the field."



*Smaller than a watch winder*

AEA Technology's  
WheelChex™ system  
uses strain gauges to  
measure wheel loads  
and identify worn train  
wheels which may be  
damaging the track



# Exploiting opportunities

## QSA (continued)

Margin and operating profit increased following improved efficiencies and cost reduction. However, turnover in the traditional markets of process control and radiographic inspection was flat, particularly in oil well logging. In the medical calibration market a new range of Isotrak-branded products was successfully launched.

There were major developments in two growth areas – nuclear medicine and smoke detection. In nuclear medicine, a long-term contract was signed with the Novoste Corporation for the development and manufacture of the world's smallest sealed radioactive source for the treatment of restenosis in heart patients.

In smoke detection, our joint venture with the China Isotope Corporation moved into a new factory in Shenzhen, China. This move will allow the business – the world's largest supplier of alpha foil components for early smoke detection – to expand production and move up the product value chain. With its development of innovative security systems – combining smoke, intruder and other monitoring functions – the business is well-positioned to enter the rapidly growing market for intelligent homecare systems.

## Rail

The Rail business continued to do well in the expanding UK rail sector. A key driver to growth was the pressure on Railtrack and the train operating companies to improve operational performance and safety (particularly after the Ladbroke Grove rail accident).

Railtrack continues to be the major customer. Contracts were secured with Railtrack at all levels: from the strategic (such as our Strategic Track Management programme, which is helping Railtrack to maintain and improve the smoothness of its track) to operational (including software development for Integrated Electronic Control Centres). The Rail business also contributed to

industry-wide exercises undertaken by the Shadow Strategic Rail Authority, including revenue analysis in connection with franchise replacements.

Sales of rail products – comprising train-based, track-side and depot-based monitoring and communicating systems for predicting, reporting and reacting to changes in train and track characteristics – continued to rise. To further leverage sales, a strategic alliance was signed with ALSTOM, the world's largest transportation supplier, for the global distribution of rail products. Prospects for further growth are good. In the UK, traffic levels and rail investment are increasing and the business is poised for development in Spain and Taiwan. More widely, the global trend to privatisation and deregulation continues to present opportunities.

## Energy

The Energy business continued to be impacted by difficult conditions in the UK oil sector, its major market. Although oil prices increased significantly from their 25-year low, spending budgets remained constrained with little discretionary expenditure. Activity increased towards the end of 2000 but was not translated into orders by the year-end. The business responded to the downturn by cutting costs, with substantial reductions in headcount and accommodation. However it retained sufficient capability to respond to an upturn in demand.

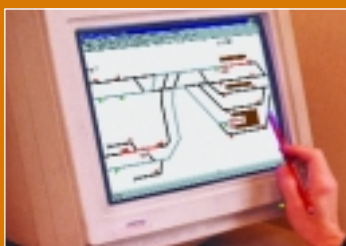
Against this tough background, contracts were secured with the UK Department of Trade and Industry, for work on improving oil recoveries from reservoirs, with BP Amoco, for inspection of its central area transmission system, and with Shell, for safety and health assessments at some of its overseas sites. In the non-oil sector (Engineering Integrity), the business continued to work for Eskom (the South African energy utility) on the development of its pebble bed modular reactor. Improvement in the business will continue to depend on top-line recovery.

## AEA TECHNOLOGY: EXPERTISE

Charles Burch, managing director of ALSTOM Signalling Limited, says AEA Technology's wide-ranging technical expertise is hard to beat. "If someone has a knotty problem related to railway technology, AEA Technology is an obvious first point of call," he says.

AEA Technology is helping to ensure that a new computerised train control system (TCS) being developed by Railtrack and ALSTOM will operate to the highest possible standards.

The expert AEA Technology team is providing reliability, risk assessment and safety assurance support to the West Coast Main Line TCS project, to improve line speeds, capacity and safety between London Euston and Glasgow. By 2005 the new-generation



Rail simulation software

control system, which provides automatic train protection, will overlay the existing signalling system and allow trains to travel safely at 140mph.

"They have provided us with a range of people who have an extensive knowledge of the railway and how it operates," says Charles. "Their breadth and depth of experience makes AEA Technology the logical choice not only for us, but for the whole railway industry."

ALSTOM, which is the world's leading rail infrastructure and services company, recently signed a strategic alliance to distribute, install and service AEA Technology's monitoring and control systems in a number of new markets worldwide.

# Financial review

## Operating results

Turnover increased by £8.2 million (2.3%) from £357.8 million to £366.0 million. The growth in sales has been generated organically through increases in UK private sector sales and sales into Europe. There were no acquisitions in the year. Operating profit increased by £1.0 million (3.0%) from £33.0 million to £34.0 million. Operating profit margin increased slightly to 9.3%.

Net interest payable at £6.1 million (1999: £5.2 million) reflected a higher level of borrowing at the start of the year compared to the previous year as a result of funding for earlier acquisitions.

Profit before tax went up £1.0 million to £29.7 million after an increase in amortisation of goodwill from £0.8 million in 1999 to £1.3 million in 2000. On a pre FRS10 basis (before amortisation of goodwill) profit before tax rose £1.5 million to £31.0 million, an increase of 5.1%.

The taxation charge represents an effective rate of 30%, consistent with the previous year and equal to the UK corporation tax rate.

Since flotation in 1996, AEA Technology has increased turnover and profit each year. Over the last four years sales have increased by 44% (see Five Year Summary on page 67) and adjusted profit before tax (pre FRS10) has increased by 96%.

## Cash flow and borrowings

Net cash inflow from operating activities amounted to £6.3 million (1999: £15.0 million). This is analysed in detail in the 'Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities' on page 37. Movements in debtors and creditors include the equal and opposite settlement of trading balances of £27 million with Nycomed Amersham which had built up in earlier years. Excluding this settlement, the movement in debtors was affected by the strong recovery in the Engineering Software business and the associated year-end increase in sales. The underlying improvement in the management of debtors reported at the half-year has been sustained. In addition, operating cashflow continues to reflect reducing balances for income received in advance of work done on a number of major contracts. Finally, as a consequence of improved procurement processes the average time taken to pay suppliers by the Company has reduced to 30 days (1999: 31 days).

Purchases of tangible fixed assets totalled £9.9 million (1999: £17.5 million). The fall in capital expenditure follows the completion of a number of major infrastructure schemes including the relocation of the Products & Systems and Batteries businesses from Harwell to Culham. AEA Technology's policy is to carry out an investment appraisal, including a discounted cashflow analysis, on all capital expenditure schemes greater than £20,000. All such expenditure requires the prior approval of the Capital Expenditure Committee which meets monthly and is chaired by the Chief Executive. It is also AEA Technology's policy to carry out a post-investment appraisal on a selection of schemes. Future levels of capital expenditure are currently expected to remain broadly consistent with 2000. Disposals of tangible fixed assets totalled £15.5 million (1999: £7.2 million). The main disposal for £14.4 million represented the sale of AEA Technology's remaining property interests at Risley.

Purchases of subsidiaries totalled £17.4 million (1999: £20.2 million) all of which represented deferred payments on acquisitions made in previous years. This was partly offset by the disposal of the Analytical Services business in October 1999 and the Lightning Test business in February 2000; cash received from the disposal of businesses totalled £2.9 million (1999: £5.0 million).

Net borrowings increased from £56.7 million to £73.3 million. Interest was covered 5.9 times (1999: 6.5 times) and remains comfortably within limits set by banking covenants. Despite the increase in borrowings, gearing reduced marginally to 112.3% (1999: 113.9%).

Funding is provided by a US \$75 million private placement with a seven-year maturity. US \$65 million has been swapped into sterling and the remainder retained in US dollars to hedge the US portfolio of investments. Further funding is provided by £55.5 million of committed revolving credit facilities and further uncommitted bank lines.

## Shareholders' return and value

Earnings per share adjusted for the amortisation of goodwill increased from 24.7p to 25.6p, an improvement of 3.6%.

The proposed final dividend of 7.3p will bring the total dividend per share for the year to 11.1p (1999: 10.4p) an increase of 6.7%. The dividend is covered 2.3 times based on adjusted earnings (1999: 2.4 times). At 31 March 2000 AEA Technology's share price was 362.5p (1999: 343.5p).

### Financial risk and treasury policies

The Treasury department maintains liquidity, manages relations with the Group's bankers, identifies and manages interest rate and foreign exchange risk, and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of foreign exchange and interest rate risk. Group Treasury is not a profit centre and therefore does not undertake speculative foreign exchange or interest rate dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged by the use of forward currency transactions. Where the Group has a significant overseas operation, foreign currency borrowings are utilised to protect the Group's sterling balance sheet from the movement in exchange rates.

The Group's policy is to finance its operations through a combination of retained profits, short term uncommitted bank borrowings and overdrafts, three-year revolving credit facilities and a seven-year private placement facility. The Group borrows in the desired currencies at both fixed and floating rates of interest and then uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. The Group's policy is to achieve a funding profile such that at least 50% of net funding is on a fixed basis, but with no maximum cap, and the balance on a floating rate basis. Imbalances which are likely to persist for more than a year are corrected using hedging techniques.

### IT system changes

AEA Technology's Year 2000 programme ensured that no significant compliance problems were encountered. The investment in new desktop hardware, platforms and network infrastructure provides an excellent basis for further developments. This includes opportunities for e-business and new product and service ideas which are being stimulated and co-ordinated by a senior management team as a major corporate programme. Several businesses have already implemented e-commerce solutions to enhance their existing operations.

The new financial system Agresso was successfully implemented during the year and has provided a more flexible range of internal services and reporting.

The IT outsourcing contract with Integris is operating well and has been expanded to cover additional sites. The term of the contract has been extended by three years to run until 31 March 2005.

### Accounting policy changes

A description of the principal accounting policies appears on pages 38 to 41. The policies followed are consistent with those applied last year other than the implementation of FRS16: Current Taxation.



**Ray Proctor**  
**Group Finance Director**  
**8 June 2000**



# Directors' report

*The Directors present their annual report and the audited financial statements for the year ended 31 March 2000*

## Principal activities

AEA Technology plc and its subsidiaries ("the Group") is a broadly-based science and engineering business with advanced technologies and a wide range of specialist skills, facilities and products.

## Review of the business and future development

The performance of the Group and its business segments is reviewed on pages 10 to 19.

## Results and dividends

The year's results are set out in the Consolidated Profit and Loss Account on page 33. The Directors recommend a final dividend of 7.3p per share. Together with the interim dividend of 3.8p per share, paid in February 2000, this makes a total for the year of 11.1p (1999: 10.4p). The final dividend, if approved at the annual general meeting (AGM), will be paid on 2 October 2000 to those shareholders on the register at 30 June 2000.

## Changes in fixed assets

The Group's remaining freehold interest in property at Rislely was disposed of during the year. Details of this and of other changes in fixed assets are given in note 15 to the financial statements.

## Directors

Directors of the Company during the year were as follows:

### Sir Anthony Cleaver (62) Chairman

Sir Anthony Cleaver was appointed Chairman of AEA Technology in March 1996, having formerly been chairman of the UKAEA. He is chairman of the Medical Research Council, The Baxi Partnership, IX Holdings and The Strategic Partnership and a non-executive director of Smith & Nephew and Lockheed Martin UK. He is chairman of the Council for Excellence in Management and Leadership.

## Executive directors

### Dr Peter Watson (56) Chief Executive

Dr Peter Watson was appointed Chief Executive of AEA Technology in June 1994. He was with GKN plc before becoming board member for engineering for British Rail. He is a non-executive director of Fairey Group plc.

### Ray Proctor (55) Group Finance Director

Ray Proctor's former career was with British Coal, where he was finance director and director of privatisation. He was appointed Group Finance Director of AEA Technology in October 1995.

### Dr Mel Wood (52) Deputy Chief Executive

Dr Mel Wood has spent most of his career in UKAEA and AEA Technology. He was appointed to the Board of AEA Technology in October 1998.

### Dr Chris Wright (52) Growth Director

As well as UKAEA and AEA Technology, Dr Chris Wright has worked for BOC plc and Rank Hovis McDougall plc. He was appointed to the Board of AEA Technology in October 1998.

## Non-executive directors

### Dr Leslie Atkinson (56)

Dr Leslie Atkinson spent most of his career with BP plc where he became chairman of BP Asia Pacific. Latterly he was executive director of Tarmac plc, responsible for construction services. He holds a number of other non-executive directorships. He was appointed to the Board of AEA Technology in August 1996.

### Professor Michael Brady (55)

Professor Michael Brady is BP Professor of Information Engineering at Oxford University. He was formerly a non-executive member of the UKAEA and was appointed to the Board of AEA Technology in March 1996. He is an

executive director of Guidance Control Systems Limited, Oxford Medical Image Analysis Limited and Oxiva Limited and a non-executive director of Oxford Instruments plc.

#### Lord Sharman (57)

Lord Sharman is chairman of AEGIS plc and a non-executive director of Young & Co's Brewery plc. He retired as chairman of KPMG International in September 1999. He was formerly a non-executive member of the UKAEA and was appointed to the Board of AEA Technology in March 1996.

#### Andrew Shilston (44)

Andrew Shilston is finance director of Enterprise Oil plc and was appointed to the Board of AEA Technology in August 1996.

#### Dame Steve Shirley (66)

Dame Steve Shirley is the founder and life president of the FI Group plc and the patron of the Centre for Tomorrow's Company. She is also a non-executive director of the John Lewis Partnership. She was formerly a non-executive member of the UKAEA and was appointed to the Board of AEA Technology in March 1996.

Membership of Board sub-committees is given in the report on Corporate Governance.

Professor Michael Brady and Lord Sharman will retire from the Board by rotation in accordance with the Company's articles of association and will seek re-election at the forthcoming AGM.

Dame Steve Shirley will retire from the Board by rotation at the AGM and will not seek re-election.

Dr Mel Wood and Dr Chris Wright both left the Board on 3 May 2000.

#### Directors' interests

The Directors' service agreements and their interests in Company shares are detailed in the Report on Directors' Remuneration.

The only contracts of significance to which the Company or any of its subsidiary companies was a party and in which a Director of the Company was materially interested, were the agreements for the joint purchase of property with both Dr Peter Watson and Ray Proctor. (See section 4 of the Report on Directors' Remuneration.)

#### Share capital

The issued ordinary share capital increased by 1,926,136 to 88,407,285. This was the result of the issue of new shares to meet the exercise of options under the Group's employee share schemes.

On 1 October 1999, the Company redeemed at par the £1 redeemable preference special share issued to the government under its articles of association.

#### Substantial shareholders

As at 17 May 2000, the Company had been notified under section 198 of the Companies Act 1985 (as amended) of the following interests in AEA Technology's ordinary share capital:

Schroder Investment Management Limited	11.9%
Phillips & Drew	10.3%

#### Acquisitions, joint ventures and new branches

There were no acquisitions made, or new joint ventures entered into during the year. There was one new branch registration of AEA Technology, in China. The Company now has 13 registered branches around the world, with its one EC office based in Belgium.

#### Research and development

Research and development expenditure was £11.5 million (1999: £10.9 million). It continued to be directed at the launch of new products and ventures alongside the development of underlying technologies to support future organic growth. Other ways of accessing and developing new technologies were pursued:

- The Group carried out a significant amount of customer-funded contract R&D
- Its **Innovation Plus** scheme attracted over 300 enquiries from outside the Group, with some 100 going forward for more detailed consideration
- As part of the Group's programme of strategic partnerships with selected universities, an Advanced Materials Centre was launched at Oxford University. This complements the Advanced Technology Centre established at the University of Cambridge the previous year

The businesses are responsible for R&D in their own areas. They continued to invest in new products and processes. The Group further strengthened its patent position in the Electrocat™ diesel particulate filter which removes harmful carbon particles from diesel exhaust fumes.

Three products were awarded Millennium Product status by the Design Council as being among the most innovative developed in Great Britain over the last five years:

- The Groundhog™ system which uses satellites to pinpoint contaminated land
- Lithium-ion batteries developed in response to the growing demand for lighter rechargeable batteries
- The V-tex™ system which removes contaminants from industrial gases

## Employees

During the year AEA Technology had an average of 4,490 employees based at 85 locations worldwide. Over half are technically qualified scientists and engineers, and more than 10% are qualified to PhD level.

Management actively encourages employee involvement and participation. Elected employee representatives sit as full members on the Group Management Committee and Business boards of management and as trustee directors for pension and employee share schemes. This contributes to ensuring that employee views and interests are effectively represented and taken into account. Constructive negotiations with trade union representatives have led to agreement being reached on new market-related pay and grading arrangements, which are now being implemented with the active involvement of employees and their representatives.

The Directors are committed to enhancing opportunities for employees to share in the success of the Group. Consistent with this policy, at the AGM the Directors will invite shareholders to approve the introduction into AEA Technology of the government's new All-Employee Share Ownership Plan.

The flotation Free and Matching and three-year SAYE plans matured during the year. Many employees became shareholders for the first time. A new SAYE invitation was

made in December 1999 and, for the first time, this was offered simultaneously across the whole Group. The offer was very popular, with nearly 2,000 employees from 15 countries applying. Employees now hold 4% of shares in the Company and options for a further 4.6 million shares.

## Disabled employees

The Group recognises and welcomes its obligations to employ people with disabilities. To the extent that the demands of the business and the aptitude and ability of each individual allow, it aims to give people with disabilities equal opportunities for training, promotion and career development. This policy applies in filling vacancies and in the continuing employment of current employees who may become disabled.

## Environment

AEA Technology continues its commitment to improving its environmental performance, as set out in its environmental policy signed by the Chairman and Chief Executive. This is implemented through instructions and guidance notes available to all employees.

An annual report on environmental performance was presented to the Board in October 1999. This document has been combined with the annual report on health and safety, to produce a safety, health and environmental report which will be posted on the Group's website. It will contain the health and safety and environmental policies together with targets and performance measurements. The Group is working towards the external verification of the report.

The major environmental effects of the Group were reviewed. These remain: the discharge of radioactivity, the consumption of energy for heating and lighting, the production of waste (predominantly paper) and business travel.

Discharges of radioactivity continue to be closely monitored in compliance with regulatory requirements. Discharges were a small fraction of the authorised limits. They are regularly reviewed to ensure that they continue to be as low as practically possible.

In line with Group objectives two of its ten businesses – AEA Technology Environment and AEA Technology Consulting – achieved ISO 14001 certification. In preparation for certification, these businesses carried out environmental audits, talked to key suppliers about environmental standards, reviewed current environmental

emergency arrangements, set local targets for improvements, provided training to employees, and put in place communication schemes to keep employees aware of progress. The other businesses are at various stages of seeking certification.

Energy consumption data was collected for all major AEA Technology sites. This will form the basis of a major Group-wide initiative to reduce energy consumption through awareness and energy saving campaigns and cost effective investments. This initiative will draw upon the successes of the Environment and Consulting businesses in reducing energy consumption.

#### **Economic and monetary union**

A steering group reviews the various ways in which the introduction of the Euro will affect business. The Group is committed to ensuring its procedures and systems suit the new currency. Costs incurred to date have been negligible and future costs are not expected to be significant.

#### **Year 2000 compliance**

The Group did not experience Year 2000 computer problems. Further information is included on page 19 of the Financial Review.

#### **Corporate community involvement**

The Group's policy is to focus its corporate community involvement on promoting science and engineering. AEA Technology is a member of Business in the Community and of the Per Cent Club.

#### **Charitable and political contributions**

The Group donated £78,193 for charitable purposes during the year plus contributions in kind. No political contributions were made.

#### **Payment policy**

AEA Technology is a registered supporter of the CBI's Prompt Payment Code. Its policy is to agree terms of trading which are appropriate for suppliers' markets and to abide by such terms where suppliers' obligations have been met.

The average creditor payment period at 31 March 2000 was 30 days (1999: 31 days).

#### **Auditors**

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the AGM.

**By order of the Board**



**Keith Russell**  
**Company Secretary**  
**8 June 2000**

# Corporate governance

## Statement of appliance of the Combined Code

The Board supports the highest standards of corporate governance and has applied as follows the 14 principles of good governance set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority (the "Combined Code").

## Directors

During the year, the Board comprised the Chairman, Chief Executive, three other Executive Directors in the Group's key operational posts and five non-executive directors. The non-executive directors are independent of management and of any business or other relationship which could materially interfere with the exercise of their independent judgement. They have a range of international business and financial expertise. Lord Sharman is the senior independent director. All Directors must stand for election by shareholders at the first opportunity after their appointment. They must stand for re-election at intervals of no more than three years.

The Board meets monthly. It decides the direction and strategy of the Group and ensures the best performance of Group resources for shareholders. To enable it to do this, it has agreed a schedule of matters reserved for its decision. It also receives a monthly review of performance and regular reviews on key aspects of the Group's activities. The Chairman briefs Directors on issues arising at the Board, which has adopted a process for self-assessment of its operation and performance.

Directors have access to the advice and services of the company secretary and have the right to obtain independent legal advice in connection with the Group's business at its expense. Directors receive induction and continued training.

## Board committees

The Nomination Committee has written terms of reference to consider new Board appointments and makes recommendations to the Board. It is made up of Sir Anthony Cleaver (chairman), Dr Peter Watson and three non-executive directors – Lord Sharman, Professor Michael Brady and Dame Steve Shirley. It met once during the year. The Remuneration and Audit Committees are described below. All members are independent non-executive directors. The Science and Engineering Advisory Committee is chaired by Professor Michael Brady and includes external

members. It reviews, advises on and provides insights into the development of the technology base of the Group, in this way helping to ensure that the technical base of the Group is robust enough to generate significant new products and services. It met four times last year.

## Directors' remuneration

The Remuneration Committee, which is made up of Andrew Shilston (chairman), Dr Leslie Atkinson and Dame Steve Shirley, met three times last year. Under its written terms of reference, it makes recommendations to the Board on the framework of executive remuneration and determines, on behalf of the Board, the remuneration package for each Executive Director. The Report on Directors' Remuneration is given on pages 27 to 30 and has regard to schedule B of the Combined Code.

## Relations with shareholders

The Group welcomes dialogue with its shareholders and communicates with them through its interim and annual reports and website. Regular meetings are held with institutional investors.

At the AGM shareholders can question the Directors, including the chairmen of Board Committees. Separate resolutions are proposed on each substantially different issue so that each receives proper consideration. Resolutions include the approval of the annual report and accounts. Proxy votes are announced after each resolution has been dealt with by a show of hands. Notice of the AGM and related papers are sent to shareholders at least 20 working days in advance.

New shareholder services introduced during the year, and aimed particularly at private investors, were a Dividend Reinvestment Plan and a Company-sponsored ISA.

## Accountability and audit

The Board presents a clear and balanced assessment of the Company's and Group's position and prospects in statutory information and in interim and other price-sensitive public reports and reports to regulators.

The Audit Committee is made up of Lord Sharman (chairman), Dr Leslie Atkinson, Andrew Shilston and Dame Steve Shirley and met twice last year. Under written terms of reference, it reviews draft financial statements before they are considered by the Board. It also reviews the scope, results and cost-effectiveness of internal and external audit. The committee ensures the independence of internal

auditors and reviews the independence and objectivity of external auditors. The Directors' responsibilities for preparing the accounts are set out in the Statement of Directors' Responsibilities on page 31.

### Internal control

The Combined Code requires the Board to review and report on all internal controls including financial, operational, compliance and risk management. The Board confirms that it has established the procedures necessary to implement the associated Turnbull guidance and will report from next year on its review. For this year, in respect of the application of principle D.2 of the Combined Code, the Board has adopted the transitional approach to disclosure set out in the letter from the London Stock Exchange dated 27 September 1999 and continues to report on the internal financial control system. The Board is responsible for, and has reviewed the effectiveness of, the Group's system of internal financial control for safeguarding its assets and the investments of shareholders. This system is designed to manage, rather than to eliminate, risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement and loss.

### Control environment

The Board is ultimately responsible for the Group's system of internal financial control and for monitoring its effectiveness. Its organisational structure has clearly defined and communicated levels of responsibility, delegated authority and reporting procedures. Management systems have been externally accredited. The professionalism and competence of employees is maintained through recruitment, performance appraisal, and personal training and development plans. The Board supports the highest levels of commitment and integrity among employees and endorsed a Code of Business Ethics which was then issued to all employees last year.

### Identification of business risk

Managers are required to identify and assess risks that might prevent them meeting their objectives, and then to take timely action to manage or eliminate them. The effectiveness of these actions is monitored and reviewed.

### Information and communication

Financial information on trading performance and cash flow

is produced monthly from corporate systems for each business and for the Group, comparing results with budgets. The Board and business management boards also receive regular reports on a range of other key performance indicators.

### Control procedures

Control procedures, set out in a finance manual that is regularly updated, ensure accounting for financial transactions is complete, accurate and consistent, that reports are reliable and timely, and that risk is managed. These procedures include the setting of budgets, written authorisation limits, appropriate segregations of duties, corporate capital expenditure approval procedures and hedging policies.

### Monitoring and corrective action

The Board approves a three-year business plan and an annual Group budget. It monitors actual performance monthly, considering any significant variations from budget and determining appropriate responses. Cash flow and performance on major contracts on an exception basis are similarly reviewed. The Internal Audit department reports to the Audit Committee, which approves its programme and considers its recommendations. The Board also receives, and decides appropriate action on, reports from the Audit Committee and external auditors.

Compliance with control procedures is monitored by Internal Audit and through wider reviews of compliance with the quality management system. Business boards are required to confirm their compliance annually.

### Statement of compliance with the Combined Code

The Group has been fully compliant throughout the year with the 45 provisions set out in section 1 of the Combined Code, with one exception. This, as explained in the Report on Directors' Remuneration, is the provision in Dr Peter Watson's contract for a two year rolling notice period.

### Statement of going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they consider it appropriate to continue to adopt the going concern basis in preparing financial statements.

# Report on Directors' remuneration

The Remuneration Committee comprises three independent non-executive directors: Andrew Shilston (chairman), Dr Leslie Atkinson and Dame Steve Shirley. The company secretary acts as its secretary.

In accordance with the Financial Services Authority Combined Code, the Committee is responsible for making recommendations to the Board on the Company's framework of executive remuneration and for determining on behalf of the Board the remuneration package for each Executive Director. In preparing this report, the Board has had regard to schedule B of the Combined Code which sets out provisions on what should be included.

## Non-executive directors

Non-executive directors do not have service contracts with the Group. They are appointed for a fixed term which may be renewed upon expiry. The remuneration of the non-executive directors is determined by the Board within the limit set out in the articles of association. The Board has delegated this responsibility to a sub-committee of the Chairman and the Chief Executive, except that the Chairman's remuneration is determined by the Remuneration Committee. In this way, none of the non-executive directors is involved in any discussion relating to their own remuneration, nor do they participate in any vote on their remuneration by the Board.

Non-executive directors are paid a set fee plus set fees for chairing sub-committees. These fees are determined with reference to the findings of external remuneration consultants on the fees paid to non-executive directors in other companies of broadly similar size and complexity. They do not receive share options, performance related bonuses or pension entitlements, but they are entitled to be reimbursed for reasonable expenses in line with the policy applying to the Group's employees.

## Executive Directors' remuneration

### 1 Remuneration policy

The Group's executive remuneration policy is to set total remuneration at levels designed to attract, motivate and retain high calibre executives and to reward them fairly for enhancing shareholder value.

The Remuneration Committee uses external consultants and published survey data to compare the Group's remuneration policies and practices with those of comparable industrial and service companies. Pay levels elsewhere in the Group are taken into account, in

addition to the complexity and responsibility of individual roles and the performance of individual Directors.

The Remuneration Committee intends fixed remuneration (basic salary and benefits) to be broadly in line with the median rates for the comparator group. The variable performance related elements of remuneration are, however, to be highly geared to the Group's performance.

### 2 Remuneration packages

The remuneration arrangements for Executive Directors currently comprise basic salary, annual incentive scheme, post-retirement benefits, Long-Term Incentive Plan and normal non-cash benefits. The following paragraphs describe these elements:

**A Basic salary** Salaries are reviewed annually, taking into account external market levels and internal relativities.

**B Annual incentive** Executive Directors may earn a bonus of up to 40% of basic salary each year, payable if challenging targets relating to the current year have been met and if progress has been made to secure future growth. In 2000 these targets related to improvements in the Group's earnings per share and cash flow, and also included a discretionary element taking account of the contributions made by individual Executive Directors towards improvements in Group performance. Bonuses, which are taxable but not pensionable, are paid in cash in the year following that in which they are earned.

**C Pension benefits** Executive Directors are eligible to participate in the AEA Technology pension scheme, a defined benefit scheme. Details of Directors' pension arrangements, including top-up provisions, are set out in section 4 below.

**D Long-term incentives** In 2000, the Company's Long-Term Incentive Plan (LTIP) applied to Executive Directors and to 68 other senior managers. The plan operates on an annual rolling basis. It provides for a provisional allocation of shares in the Company of up to 60% of base salary for Executive Directors and lower amounts for the other participants. The extent to which the awards vest depends on the performance of the Group relative to a comparator group of companies over a three year period. Performance is assessed in terms of Total Shareholder Return (which takes share price and dividend payments into account).

Twenty five per cent of the award will vest if Group performance over the three year period is assessed as better than half of the companies in the agreed comparator group of companies. All of the award will vest if Group performance is better than 80% of the companies. The level of vesting between these points will be pro-rata. The shares awarded would be retained for a period of one year, in trust, before transferring to the Directors. For 2000, the following conditional awards of shares were made to the Executive Directors under the terms of the LTIP:

	2000 conditional award of ordinary shares	1999 conditional award of ordinary shares
Sir Anthony Cleaver <sup>(1)</sup>	-	7,059
Dr Peter Watson	36,800	12,941
Ray Proctor	27,200	9,529
Dr Mel Wood	25,200	5,392 <sup>(2)</sup>
Dr Chris Wright	25,200	5,147 <sup>(2)</sup>

<sup>(1)</sup> Changed from executive to non-executive director on 1 April 1999.

<sup>(2)</sup> LTIP awards made before they were appointed as executive directors.

The first conditional allocation was made in July 1997 at 60% of basic salary. None have vested and the awards have lapsed. The second and third conditional allocations were made in July 1998 and July 1999 on the same basis. These shares will vest in March 2001 and March 2002 respectively if, and to the extent that, the performance criteria are met. Given the current performance of the Group, it is likely that some awards will vest when the schemes reach maturity. Consequently, in accordance with UITF 17: Employee Share Schemes, the fair value at the date the conditional award was granted of those shares which are likely to vest is charged to the profit and loss account over the performance period. Having regard to existing provisions made for these awards, £0.8 million was released in the year.

### 3 Service contracts

Ray Proctor, Dr Mel Wood and Dr Chris Wright have service contracts providing one year rolling notice periods to be given by the Company. Dr Peter Watson has a two year rolling contract dating from when he was first recruited. The Remuneration Committee has reviewed this arrangement and is satisfied that this length of notice period remains appropriate to the Company's present situation. The Committee accepts and endorses the principle of mitigation of damages on termination of a contract.

### 4 Directors' emoluments

Details of individual Directors' emoluments, excluding pension contributions, for the year are as follows:

	Basic salary and fees £000	Benefits £000	Annual bonus £000	2000 Total emoluments £000	1999 Total emoluments £000
<b>EXECUTIVE</b>					
Dr Peter Watson	230	17	35	282	235
Ray Proctor	170	8	26	204	169
Dr Mel Wood	158	9	11	178	78 <sup>(1)</sup>
Dr Chris Wright	158	12	11	181	79 <sup>(1)</sup>
<b>NON-EXECUTIVE</b>					
Sir Anthony Cleaver <sup>(2)</sup>	60	-	-	60	128
Dr Leslie Atkinson	20	-	-	20	18
Professor Michael Brady	25	-	-	25	23
Lord Sharman	22	-	-	22	20
Andrew Shilston	22	-	-	22	20
Dame Steve Shirley	20	-	-	20	18
<b>TOTAL</b>	<b>885</b>	<b>46</b>	<b>83</b>	<b>1,014</b>	<b>788</b>

<sup>(1)</sup> Became an executive director on 1 October 1998. The figures above are based on emoluments since the date of appointment.

<sup>(2)</sup> Changed from executive to non-executive director on 1 April 1999.

The figures on page 28 represent emoluments earned during the relevant financial year. Such emoluments are paid normally in the same financial year, with the exception of bonuses which are paid in the year following that in which they are earned.

Benefits incorporate all assessable taxable benefits arising from employment by the Company, which relate, in the main, to the provision of a fully-expensed company car and health insurance.

The Company has invested in a share in two separate London properties occupied by Dr Peter Watson and Ray Proctor, whose duties require their presence in London for extended periods. The Company's investment in Dr Peter Watson's property is £75,000 and in Ray Proctor's is £71,250.

### Pensions

All the Executive Directors participate in the senior executive section of the Company pension scheme. The senior executive section provides a two thirds pension at normal pension age subject to Inland Revenue limits and a 37.5% pension payable to a dependant on the death of the scheme member. Normal pension age is 60, but 62 for Dr Peter Watson. The pension increases each year in line with inflation as measured by the Retail Prices Index subject to a maximum annual increase of 6%. The scheme is contributory: employees pay 5% of pensionable salary in the senior executive section.

All the Executive Directors except Dr Mel Wood are affected by the pensionable earnings cap introduced by the 1989 Finance Act. In addition to the pension benefits derived from their membership of the AEA Technology pension scheme, Dr Peter Watson, Ray Proctor and Dr Chris Wright have an unfunded top-up arrangement which is designed to bring their total pension benefits up to 2/3 of final pay once benefits from former employment have been taken into account, subject to a maximum of 1/30 of final pay for each year of service for Ray Proctor and Dr Chris Wright. There are also insurance arrangements which provide additional death in service benefits and permanent health insurance for Dr Peter Watson, the costs in 2000 were £4,047.

The pension benefits earned in the year to 31 March 2000, calculated in accordance with the recommendations of the Institute and Faculty of Actuaries, are set out below:

	Increase in accrued pension during the year £	Total accrued pension at year end £	Increase in accrued lump sum during the year £	Total accrued lump sum at year end £	Transfer value of benefits accrued during the year £
Dr Peter Watson	10,817	56,752	-	-	164,786
Ray Proctor	7,759	27,193	-	-	123,786
Dr Mel Wood	12,527	52,089	20,651	132,426	208,125
Dr Chris Wright	7,451	29,975	4,265	64,992	109,962

The accrued pension entitlement shown is the amount that would be paid each year on retirement based on service to the end of the current year.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN 11, less Directors' contributions.

The Directors, like all members of the AEA Technology pension scheme, have the option of paying additional voluntary contributions. Neither the contributions nor the resulting benefits are included in the table above.

## 5 Directors' interests

### Interests in shares

The interests of the Directors in the shares of the Company were:

	31 March 2000	1 April 1999
<b>THE COMPANY</b> – ordinary shares of 10p		
Sir Anthony Cleaver	33,002	28,985
Dr Peter Watson	54,839	50,285
Ray Proctor	4,010	4,010
Dr Mel Wood	3,906	3,906
Dr Chris Wright	2,466	2,450
Dr Leslie Atkinson	7,991	2,373
Professor Michael Brady	1,147	-
Lord Sharman	5,000	-
Andrew Shilston	683	683
Dame Steve Shirley	15,000	15,000

There were no changes between 1 April and 31 May 2000. No Directors had an interest at any time in the year in the share capital or loan stock of other Group companies.

### Interests in share options

The interests of Directors in options to subscribe for ordinary shares of the Company are all from options granted under the SAYE share option scheme (note 26) and are set out below:

	1 April 1999	Number of options		31 March 2000	Exercise price	Date from which exercisable	Expiry date
		Granted in the year	Exercised in the year				
<b>THE COMPANY</b> – ordinary shares of 10p							
Sir Anthony Cleaver	4,017	-	(4,017)	-	224p	1 November 1999	30 April 2000
Dr Peter Watson	4,017	1,574	(4,017)	1,574	320p	1 March 2003	31 August 2003
Ray Proctor	6,696	-	-	6,696	224p	1 November 2001	30 April 2002
Dr Mel Wood	6,696	-	-	6,696	224p	1 November 2001	30 April 2002
Dr Chris Wright	6,696	-	-	6,696	224p	1 November 2001	30 April 2002

Sir Anthony Cleaver and Dr Peter Watson both exercised options for 4,017 shares at an option price of 224p each under the Company's SAYE scheme in November 1999 resulting in a gain on exercise, for each director, of £7,371.

The market price of the Company's shares at the end of the financial year was 362.5p and the range of market prices during the year was between 492.5p and 311.5p.

# Statement of Directors' responsibilities

The Directors are required by UK company law to prepare annual financial statements that give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently, and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2000. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



**Keith Russell**  
Company Secretary  
8 June 2000

# Auditors' report to the members of AEA Technology plc

We have audited the financial statements on pages 33 to 66.

## Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report. As described on page 31, 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 pages 25 to 26 reflect 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 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 31 March 2000 and of 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**

**London**

**8 June 2000**

# Consolidated profit and loss account

FOR THE YEAR ENDED 31 MARCH	Notes	2000 £m	1999 £m
<b>TURNOVER</b>			
Group and share of joint ventures	1-2	366.0	357.8
Less: Share of joint ventures		(3.5)	(3.4)
		<b>362.5</b>	<b>354.4</b>
<b>OPERATING COSTS</b>			
	3	<b>(328.5)</b>	<b>(321.3)</b>
<b>GROUP OPERATING PROFIT</b>			
Share of operating profit/(loss) in joint ventures		-	(0.1)
<b>GROUP OPERATING PROFIT AFTER JOINT VENTURES</b>			
Share of operating (loss)/profit in associates	2-7	<b>34.0</b>	<b>33.0</b>
		<b>(0.2)</b>	<b>0.1</b>
<b>TOTAL OPERATING PROFIT: GROUP AND SHARE OF JOINT VENTURES AND ASSOCIATES</b>			
Income from other fixed asset investments	8	<b>33.8</b>	<b>33.1</b>
		<b>2.0</b>	<b>0.8<sup>(1)</sup></b>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION</b>			
Interest receivable and similar income (Group)		<b>35.8</b>	<b>33.9</b>
Interest payable and similar charges (Group)	9	<b>0.6</b>	<b>1.1</b>
		<b>(6.7)</b>	<b>(6.3)</b>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			
Tax on ordinary activities	2 10	<b>29.7</b>	<b>28.7</b>
		<b>(8.9)</b>	<b>(8.4)<sup>(1)</sup></b>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>			
Minority interests - Equity		<b>20.8</b>	<b>20.3</b>
		<b>0.2</b>	<b>0.2</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>			
Dividends	11 12	<b>21.0</b>	<b>20.5</b>
		<b>(9.8)</b>	<b>(9.0)</b>
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>			
Earnings per share (pence)	23	<b>11.2</b>	<b>11.5</b>
Earnings per share (pence)	13	<b>24.1p</b>	<b>23.7p</b>
Adjusted earnings per share (pence)	13	<b>25.6p</b>	<b>24.7p</b>
IIMR earnings per share (pence)	13	<b>24.7p</b>	<b>23.5p</b>
Diluted earnings per share (pence)	13	<b>23.6p</b>	<b>22.7p</b>

<sup>(1)</sup> Restated to remove the tax credit following the implementation of Financial Reporting Standard 16: Current Taxation.

All results relate to continuing operations.

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

## Statement of total recognised gains and losses

	2000	1999
	£m	£m
<b>FOR THE YEAR ENDED 31 MARCH</b>		
Profit for the financial year	21.0	20.5
Currency translation differences on foreign currency net investments <sup>(1)</sup>	0.1	(0.5)
<b>TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR</b>	<b>21.1</b>	<b>20.0</b>

<sup>(1)</sup> Included within this is £74,000 debit (1999: £69,000) in respect of exchange differences on foreign currency borrowings that have been used to hedge equity investments. The tax credit on this is £22,000 (1999: £21,000).

## Reconciliation of movements in equity shareholders' funds

	Notes	2000	1999
		£m	£m
<b>FOR THE YEAR ENDED 31 MARCH</b>			
Equity shareholders' funds at 1 April		49.1	39.8
Profit for the financial year		21.0	20.5
Dividends	12	(9.8)	(9.0)
Currency translation differences on foreign currency net investments		0.1	(0.5)
New share capital issued		4.3	0.2
Goodwill arising on acquisitions	27	0.3	(3.3)
Reversal of amounts accrued under the Long-Term Incentive Plan		(0.8)	0.8
Adjustments on the transfer of EBIS from a joint venture to a subsidiary		-	0.6
<b>EQUITY SHAREHOLDERS' FUNDS AT 31 MARCH</b>		<b>64.2</b>	<b>49.1</b>

# Balance sheets

	Notes	Group		Company	
		2000 £m	1999 £m	2000 £m	1999 £m
<b>AT 31 MARCH</b>					
<b>FIXED ASSETS</b>					
Intangible assets	14	24.4	24.5	0.1	0.1
Tangible assets	15	48.3	62.8	35.9	50.7
Investments	16	2.4	2.4	122.8	117.4
Investments in associates		1.1	1.3	-	-
Investments in joint ventures:		0.2	0.3	-	-
Share of gross assets		2.2	2.0	-	-
Share of gross liabilities		(2.0)	(1.7)	-	-
		76.4	91.3	158.8	168.2
<b>CURRENT ASSETS</b>					
Stocks and work in progress	17	24.7	24.3	19.4	17.4
Debtors	18	148.4	131.3	123.0	95.6
Other investments		-	0.2	-	0.2
Cash at bank and in hand		10.7	21.4	3.9	12.7
		183.8	177.2	146.3	125.9
<b>CREDITORS: amounts falling due within one year</b>	19	(92.5)	(109.4)	(77.5)	(78.8)
		91.3	67.8	68.8	47.1
<b>NET CURRENT ASSETS</b>					
		167.7	159.1	227.6	215.3
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
<b>CREDITORS: amounts falling due after more than one year</b>					
Borrowings	20	(82.5)	(77.4)	(84.3)	(79.3)
Other creditors	20	(2.2)	(9.9)	(0.8)	(5.6)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	21	(17.7)	(22.0)	(10.0)	(10.6)
<b>NET ASSETS</b>					
		65.3	49.8	132.5	119.8
<b>CAPITAL AND RESERVES</b>					
Called up share capital	22	8.8	8.6	8.8	8.6
Share premium	23	7.7	0.2	7.7	0.2
Revaluation reserve	23	-	3.1	-	3.1
Merger reserve	23	-	-	25.0	25.0
Other reserve	23	-	-	49.1	48.9
Profit and loss account	23	47.7	37.2	41.9	34.0
<b>EQUITY SHAREHOLDERS' FUNDS</b>					
		64.2	49.1	132.5	119.8
<b>MINORITY INTERESTS – EQUITY</b>					
	24	1.1	0.7	-	-
		65.3	49.8	132.5	119.8

The financial statements on pages 33 to 66 were approved by the Board on 8 June 2000.

Signed on behalf of the Board of Directors



**Sir Anthony Cleaver**  
Chairman



**Ray Proctor**  
Group Finance Director

# Consolidated cash flow statement

FOR THE YEAR ENDED 31 MARCH	Notes	2000		1999	
		£m	£m	£m	£m
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			6.3		15.0
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>					
Interest received		0.6		1.1	
Interest paid		(6.0)		(6.2)	
Dividends paid to minority interests		(0.1)		(0.2)	
Dividends received from fixed asset investments		1.0		1.1	
			(4.5)		(4.2)
<b>TAXATION</b>					
Corporation tax paid			(6.4)		(7.7)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>					
Sale/(purchase) of current asset investment		0.2		(0.2)	
Purchase of tangible fixed assets		(9.9)		(17.5)	
Purchase of intangible assets		-		(0.2)	
Purchase of fixed asset investment		-		(0.1)	
Sale of tangible fixed assets		15.5		7.2	
			5.8		(10.8)
<b>FREE CASH FLOW</b>			1.2		(7.7)
<b>ACQUISITIONS AND DISPOSALS</b>					
Sale of businesses	28	2.9		5.0	
Investment in associated undertaking		-		(0.1)	
Purchase of subsidiaries		(17.4)		(20.2)	
Net cash acquired with subsidiaries		1.7		2.4	
			(12.8)		(12.9)
<b>EQUITY DIVIDENDS PAID</b>			(9.3)		(8.6)
<b>CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>			(20.9)		(29.2)
<b>MANAGEMENT OF LIQUID RESOURCES</b>			-		-
<b>FINANCING</b>					
Issue of shares		4.3		0.2	
Borrowings drawn down		172.3		251.5	
Repayment of loans		(167.4)		(212.3)	
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>			9.2		39.4
<b>(DECREASE)/INCREASE IN CASH IN THE YEAR</b>	25		(11.7)		10.2

# Reconciliation of operating profit to net cash inflow from operating activities

CONTINUING ACTIVITIES	2000 £m	1999 £m
Operating profit	34.0	33.1
Amortisation of intangible fixed assets	1.4	0.9
Depreciation of tangible fixed assets	8.5	8.0
Impairment of tangible fixed assets	0.9	0.4
(Profit)/loss on sale of tangible fixed assets	(0.7)	0.3
Profit on sale of businesses	(1.0)	(1.7)
Increase in stocks and work in progress	(1.4)	(6.9)
Decrease/(increase) in debtors	9.3	(9.5)
Decrease in creditors	(38.9)	(7.7)
Decrease in provisions relating to operating activities	(5.0)	(2.7)
Reversal of amounts accrued under the Long-Term Incentive Plan	(0.8)	0.8
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>6.3</b>	<b>15.0</b>

# Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important Group accounting policies, which have been applied consistently, is set out below:

## Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain tangible fixed assets.

## Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2000. Subsidiaries, joint ventures and associates with an accounting reference date other than 31 March have been consolidated on the basis of management accounts made up to 31 March 2000. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post-acquisition profit and loss account.

## Profit and loss account format

The Group profit and loss account in the 1999 annual report and accounts was prepared on the basis of Format 2 of the Companies Act 1985, under which the operating costs were allocated according to type of expense. In 2000 the Group has adopted Format 1, under which operating costs are divided into cost of sales, administrative expenses and research and development. In the opinion of the Directors such a division is more appropriate for the Group.

## Turnover

Group turnover represents the total value of income (excluding sales taxes and intra-group sales) earned in respect of products delivered and services rendered to customers, royalties and contributions receivable in support of programmes, and the value of long-term contract work completed.

Income from licences where the underlying intellectual property is secure and on which AEA Technology will not incur significant future costs is recognised in full on the signing of a binding contract with a licensee.

## Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

## Government grants

Capital-based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the useful economic lives of the assets to which they relate. Revenue based government grants are credited to operating profit to match the expenditure to which they relate.

## Investment income

Income from fixed asset investments comprises dividends declared for periods up to the balance sheet date. Prior to implementation of Financial Reporting Standard 16: Current Taxation, dividends were grossed up to include the related tax credit. All comparative figures have been restated to remove the tax credit.

## Pension costs

Costs in relation to defined benefit schemes are charged to the profit and loss account so as to spread the cost over the expected average remaining service lives of employees. Variations from regular cost are spread over the average remaining service lives of the members of the schemes. Actuarial valuations of the schemes are carried out periodically and the rates of contribution payable and the pension costs are determined having regard to the results of these valuations. The funding policy may differ from the accounting policy in the recognition of any surplus/deficit or cost of benefit improvements, which may be over a shorter period than the average remaining service lives of employees.

Costs of defined contribution schemes are charged to the profit and loss account at the time the related pensionable pay is charged.

## 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 April 1998 goodwill arising on the acquisition of subsidiaries, joint ventures and associates is capitalised and amortised on a straight line basis over its useful life, which is not expected to exceed 20 years. Provision is made for any impairment. Goodwill arising on acquisitions prior to 1 April 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.

## Intangible fixed assets

The cost of acquired intangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Amortisation is calculated so as to write off the cost of intangible fixed assets on a straight line basis over the expected economic lives of the assets concerned. The principal annual rate used for the amortisation of licences, where acquired, is 20% per annum.

## Tangible fixed assets

Tangible fixed assets are recorded at cost less accumulated depreciation and any provision for impairment. Where assets were vested in the Group under a transfer scheme, made pursuant to section 1 of the Atomic Energy Authority Act 1995, the value at which the assets were vested is deemed to have been the historical cost to the Group. In the case of assets constructed by the Group, directly attributable production overheads are included in the cost capitalised.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected economic lives of the assets concerned.

The estimated useful lives for the main categories of fixed assets are:

Freehold buildings	up to 30 years
Plant and equipment	
– computers and vehicles	up to 5 years
– other plant and equipment	5-10 years
Assets in course of construction	not depreciated
Freehold land	not depreciated

Leasehold land and buildings are amortised over the period of the lease. For assets held under finance leases the depreciation period is the shorter of the period of the lease or the estimated useful life of the asset.

### **Investments, associates and joint ventures**

Investments are stated at cost less any impairment in value. The Group's share of its joint ventures' turnover and profits less losses is included in the consolidated profit and loss account. The Group's share of joint ventures' gross assets and liabilities is included in the consolidated balance sheet. The Group's share of its associates' profits less losses is included in the consolidated profit and loss account. The Group's share of associates' net assets is included in the consolidated balance sheet.

### **Stocks and work in progress (excluding long-term contract work in progress)**

Stocks are valued at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks. Work in progress is valued at cost, less the cost of work invoiced on incomplete contracts and less foreseeable losses. Cost comprises purchase cost plus production and related overheads.

### **Long-term contracts**

Turnover on long-term contracts is recognised according to the stage reached in the contract by reference to the value of work completed. An appropriate estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The amount by which the turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs on long-term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as long-term contract work in progress balances.

### **Decommissioning and waste management**

Provision is made for the future costs arising from the closing down and decontamination of certain experimental facilities and the management and final disposal of wastes where these activities are a Group responsibility. These provisions are made for the full liability when operations commence and the facility becomes contaminated. Many of the liabilities for which provision is being made will not crystallise for many years. The provisions are expressed at current price levels and are discounted at a real rate of interest to take account of the delay in meeting the expenditure. As explained in note 21, liabilities incurred prior to 1 April 1996 remain with the United Kingdom Atomic Energy Authority.

### **Deferred taxation**

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

### **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 item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are recognised in the profit and loss account when the hedged transaction is recognised.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

## Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

## Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. No cost is recognised in respect of share schemes that are offered on similar terms to all or substantially all employees.

## Foreign currencies

All transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date the transaction takes place or at the contracted rate if the transaction is covered by a forward exchange contract. Balances denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date or if appropriate at the forward contract rate. All foreign exchange differences are taken to the profit and loss account in the period in which they arise.

Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies and from the translation of the results of those companies at average rate are taken to reserves, net of exchange differences on related foreign currency borrowings, and are reported in the statement of total recognised gains and losses.

# Notes to the financial statements

## 1. Turnover

Turnover can be analysed by geographical destination as follows:

	2000 £m	1999 £m
UK	234.8	224.5
Europe	48.5	42.4
North America	54.4	58.4
Rest of the World	28.3	32.5
	<b>366.0</b>	<b>357.8</b>

Turnover can be analysed by geographical origin as follows:

	2000 £m	1999 £m
UK	289.6	293.2
Europe	17.2	16.7
North America	50.7	45.2
Rest of the World	8.5	2.7
	<b>366.0</b>	<b>357.8</b>

The Group's share of joint ventures' turnover increased turnover both to and from the UK by nil (1999: £0.2 million), to and from North America by £0.3 million (1999: nil) and to and from the Rest of the World by £3.2 million (1999: £3.2 million).

**2. Segmental analysis by class of business**

	Total turnover £m	2000 Inter- segmental turnover £m	External turnover £m	Total turnover £m	1999 Inter- segmental turnover £m	External turnover £m
<b>TURNOVER: CLASS OF BUSINESS</b>						
Engineering Services	108.3	(4.9)	103.4	107.5	(10.7)	96.8
Technical Products	99.6	(0.8)	98.8	103.6	(3.1)	100.5
Technical Services	167.2	(3.4)	163.8	165.1	(4.6)	160.5
	375.1	(9.1)	366.0	376.2	(18.4)	357.8

The Group's share of joint ventures' turnover increased turnover in Engineering Services by £0.3 million (1999: nil), in Technical Products by nil (1999: £0.2 million) and in Technical Services by £3.2 million (1999: £3.2 million).

	2000 £m	1999 £m
<b>OPERATING PROFIT: CLASS OF BUSINESS</b>		
Engineering Services	7.3	5.5
Technical Products	11.2	14.1
Technical Services	15.5	13.4
	34.0	33.0
Share of operating (loss)/profit in associated undertakings	(0.2)	0.1
Income from other fixed asset investments	2.0	0.8
	35.8	33.9
Profit before interest	(6.1)	(5.2)
Net interest payable		
	29.7	28.7

The Group's share of joint ventures' operating loss decreased operating profit in Engineering Services by nil (1999: £0.1 million).

There have been minor changes to the comparative segmental analysis for the year ended 31 March 1999 to reflect the movement in activities between segments.

	2000 £m	1999 £m
<b>NET OPERATING ASSETS: CLASS OF BUSINESS</b>		
Engineering Services	23.3	20.6
Technical Products	62.8	39.5
Technical Services	57.3	42.3
	143.4	102.4
Central net operating (liabilities)/assets	(4.8)	4.1
Net borrowings	(73.3)	(56.7)
	65.3	49.8
<b>NET ASSETS</b>		

### 3. Operating costs

	2000 £m	1999 £m
Cost of sales <sup>(1)</sup>	250.9	241.4
Administrative expenses	69.6	70.4
Research and development	11.4	10.9
Net other operating income	(3.4)	(1.4)
	<b>328.5</b>	<b>321.3</b>

<sup>(1)</sup> Includes £0.1 million research and development expenditure (1999: nil).

Included within net other operating income is £0.2 million (1999: £0.3 million) in respect of grants received by AGM Batteries Limited.

### 4. Employees

<b>STAFF COSTS IN THE YEAR WERE:</b>	2000 £m	1999 £m
Wages and salaries	137.0	137.9
Social security costs	11.6	12.0
Other pension costs (note 6)	9.7	8.6
	<b>158.3</b>	<b>158.5</b>

An analysis of the average monthly number of employees based on full-time employment (including Executive Directors) is set out below:

	Group		Company	
	2000 Number	1999 Number	2000 Number	1999 Number
Managerial and professional	3,299	3,452	2,643	2,874
Support	603	587	330	337
Technical	401	421	401	421
Manufacturing	187	150	-	-
	<b>4,490</b>	<b>4,610</b>	<b>3,374</b>	<b>3,632</b>



## 6. Pension costs (continued)

### PENSION ARRANGEMENTS (CONTINUED)

Employees who were formerly employees of BR Research Limited prior to their transfer into AEA Technology on 1 April 1997 are members of the BR Research Shared Cost Section of the Railways Pension Scheme which is a contracted out defined benefits pension scheme. Employees currently pay a contribution of 5% of pensionable pay and the employer pays a contribution of 7.5%.

### PENSION COSTS

It was agreed by the Company and the United Kingdom Atomic Energy Authority that no contributions would be made to the pre-privatised pension schemes from 1 April 1996 until privatisation. The holiday in Company pension scheme contributions ceased on 25 September 1996 at which date the Company ceased to participate in the schemes.

The total pension cost for the Group was £9.7 million (1999: £8.6 million). The contributions payable on the Company scheme are 10.9%. The contributions payable on the BR Research shared cost section of the railways pension scheme are 7.5%. The charge to the profit and loss account has been reduced by the effect of spreading the contributions holiday discussed above, over the expected average service lives of the employees from 1 April 1995, and by the effect of spreading the surplus on the Company scheme over the expected service lives of the employees from 1 April 1998.

Included in the Company balance sheet at 31 March 2000 is a provision of £3.6 million (1999: £3.7 million) in respect of pension costs. The provision comprises the excess of accumulated pension charges over the payment of contributions to the Company pension scheme (2000: £2.4 million, 1999: £2.8 million) and the unfunded pension arrangements in respect of Directors (2000: £1.0 million, 1999: £0.6 million) and pension provisions relating to acquisitions (2000: £0.2 million, 1999: £0.3 million). Included in debtors is a pension prepayment of £6.3 million (1999: £3.2 million). £2.3 million (1999: £2.4 million) relates to the funding surplus in respect of the BR Research shared cost section of the railways pension scheme, £1.3 million relates to the surplus on the TCI Pension Scheme (1999: nil) and £2.7 million (1999: £0.8 million) relates to the surplus on the Company scheme.

Contributions of £0.4 million (1999: £0.2 million) have been made in the year in respect of defined contribution schemes operated by the Company and its UK and overseas subsidiaries.

## 7. Profit on ordinary activities before taxation

<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION IS STATED AFTER (CREDITING)/CHARGING:</b>	<b>2000</b>	<b>1999</b>
	<b>£m</b>	<b>£m</b>
Loss on disposal of plant and equipment	0.1	-
(Profit) on disposal of businesses	(1.0)	(1.7)
Loss on disposal of Thomson House	-	0.3
(Profit) on disposal of Risley properties	(0.8)	-
Auditors' remuneration <sup>(1)</sup>		
Audit (Company £0.2 million (1999: £0.2 million))	0.4	0.4
Non-audit fees	0.1	0.2
Hire of plant and equipment – operating leases	4.2	2.9
Hire of other assets – operating leases	7.5	7.1
Depreciation/amortisation charge (including impairment losses) for the year:		
Intangible fixed assets	0.1	0.1
Goodwill	1.3	0.8
Tangible fixed assets	9.4	8.4
Research and development	11.5	10.9

<sup>(1)</sup> In addition to amounts charged to operating profit noted above, PricewaterhouseCoopers received no fees (1999: £0.1 million) for other services or financial advice and assistance in respect of acquisitions which have been capitalised.

**8. Income from other fixed asset investments**

	2000 £m	1999 £m
Dividends receivable	2.0	0.8 <sup>(1)</sup>

<sup>(1)</sup> Restated to remove the tax credit of £0.3 million on dividends receivable following the implementation of Financial Reporting Standard 16: Current Taxation.

**9. Interest payable and similar charges**

	2000 £m	1999 £m
Interest payable on bank loans and overdrafts	5.9	5.0
Interest payable on finance leases	0.1	0.1
Notional finance cost related to deferred consideration on acquisitions	0.7	1.2
	6.7	6.3

**10. Taxation**

	2000 £m	1999 £m
<b>TAX ON PROFIT ON ORDINARY ACTIVITIES</b>		
United Kingdom corporation tax at 30% (1999: 31%)		
Current	6.7	5.6 <sup>(1)</sup>
Deferred taxation	0.9	-
Double taxation relief	(0.9)	(0.7)
Overseas deferred taxation	(0.2)	1.2
Overseas taxation	2.4	3.2
Tax credits on franked investment income	-	0.2
Overprovision in respect of prior years – current	-	(1.2)
	8.9	8.3
Share of joint ventures taxation	-	0.1
	8.9	8.4

<sup>(1)</sup> Restated to remove the tax credit of £0.3 million on dividends receivable following the implementation of Financial Reporting Standard 16: Current Taxation.

**11. Profit for the financial year**

As permitted by section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been included in the financial statements. The result for the financial year of the parent Company was a profit of £18.8 million (1999: £14.4 million).

**12. Dividends**

	2000 £m	1999 £m
<b>DIVIDENDS ON EQUITY SHARES</b>		
Ordinary – Interim paid of 3.8p per share (1999: 3.5p per share)	3.3	3.0
Ordinary – Final proposed of 7.3p per share (1999: 6.9p per share)	6.5	6.0
	9.8	9.0

### 13. Earnings per share

Earnings per share is calculated for both the current and previous years using the profit for the year. The earnings per share calculation is based on 87.2 million shares (1999: 86.4 million shares), being the weighted average number of ordinary shares in issue for the year.

The adjusted earnings per share is based on the profit for the year before the amortisation of goodwill.

	2000 £m	1999 £m
Profit for the financial year	21.0	20.5
Amortisation of goodwill	1.3	0.8
<b>ADJUSTED PROFIT</b>	<b>22.3</b>	<b>21.3</b>

A reconciliation of earnings per share with the Institute of Investment Management and Research (IIMR) earnings per share is as follows:

	2000 £m	1999 £m
Profit for the financial year	21.0	20.5
Impairment of tangible fixed assets	0.9	0.4
(Profit)/loss on sale of tangible fixed assets	(0.7)	0.3
Profit on sale of businesses	(1.0)	(1.7)
Amortisation of goodwill	1.3	0.8
<b>IIMR ADJUSTED PROFIT</b>	<b>21.5</b>	<b>20.3</b>

Diluted earnings per share is based on the profit for the period and 89.0 million shares (1999: 90.1 million shares). The number of shares is equal to the weighted average number of ordinary shares in issue adjusted to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

	2000	1999
Earnings per share based on profit for the financial year	<b>24.1p</b>	23.7p
Adjusted earnings per share based on adjusted profit	<b>25.6p</b>	24.7p
IIMR earnings per share based on IIMR adjusted profit	<b>24.7p</b>	23.5p
Diluted earnings per share	<b>23.6p</b>	22.7p

**14. Intangible fixed assets**

<b>GROUP</b>	<b>Goodwill £m</b>	<b>Licences £m</b>	<b>Other £m</b>	<b>Total £m</b>
<b>COST</b>				
At 1 April 1999	24.8	0.5	0.1	25.4
Currency translation differences	-	0.1	-	0.1
Additions in relation to acquisitions (note 27)	1.2	-	-	1.2
<b>AT 31 MARCH 2000</b>	<b>26.0</b>	<b>0.6</b>	<b>0.1</b>	<b>26.7</b>
<b>AMORTISATION</b>				
At 1 April 1999	0.8	0.1	-	0.9
Charge for year	1.3	0.1	-	1.4
<b>AT 31 MARCH 2000</b>	<b>2.1</b>	<b>0.2</b>	<b>-</b>	<b>2.3</b>
<b>NET BOOK VALUE AT 31 MARCH 2000</b>	<b>23.9</b>	<b>0.4</b>	<b>0.1</b>	<b>24.4</b>
Net book value at 31 March 1999	24.0	0.4	0.1	24.5

In accordance with the Group's accounting policy, costs in respect of internally developed intellectual property rights and patents are written off to the profit and loss account as incurred.

The goodwill arising on acquisitions post the implementation of FRS 10: Goodwill and Intangible Fixed Assets is being amortised on a straight line basis over 20 years. This is the period over which the Directors estimate that the values of the underlying businesses are expected to exceed the values of the underlying assets.

<b>COMPANY</b>	<b>Other intangibles £m</b>
<b>COST AND NET BOOK VALUE AT 1 APRIL 1999 AND AT 31 MARCH 2000</b>	<b>0.1</b>

**15. Tangible fixed assets**

GROUP	Freehold land and buildings £m	Leasehold improvements £m	Plant and equipment £m	Assets in course of construction £m	Total £m
<b>COST OR VALUATION</b>					
At 1 April 1999	14.1	14.0	53.3	10.1	91.5
Currency translation differences	-	-	-	(0.1)	(0.1)
Additions	-	-	2.2	6.5	8.7
Disposals	(12.9)	(0.2)	(2.8)	(0.1)	(16.0)
Transfers	-	0.3	8.9	(9.2)	-
<b>AT 31 MARCH 2000</b>	<b>1.2</b>	<b>14.1</b>	<b>61.6</b>	<b>7.2</b>	<b>84.1</b>
<b>ACCUMULATED DEPRECIATION (AND PROVISION FOR IMPAIRMENT)</b>					
At 1 April 1999	0.5	2.3	25.9	-	28.7
Currency translation differences	-	-	(0.1)	-	(0.1)
Charge for year	0.2	1.2	7.1	0.9	9.4
Disposals	(0.6)	-	(1.6)	-	(2.2)
Transfers	-	0.3	(0.3)	-	-
<b>AT 31 MARCH 2000</b>	<b>0.1</b>	<b>3.8</b>	<b>31.0</b>	<b>0.9</b>	<b>35.8</b>
<b>NET BOOK VALUE AT 31 MARCH 2000</b>	<b>1.1</b>	<b>10.3</b>	<b>30.6</b>	<b>6.3</b>	<b>48.3</b>
Net book value at 31 March 1999	13.6	11.7	27.4	10.1	62.8
<b>COST OR VALUATION AT 31 MARCH 2000 IS REPRESENTED BY</b>					
Valuation in 1998	0.7	-	-	-	0.7
Cost	0.5	14.1	61.6	7.2	83.4
	<b>1.2</b>	<b>14.1</b>	<b>61.6</b>	<b>7.2</b>	<b>84.1</b>

Depreciation has not been charged on freehold land, which is stated at its revalued amount of £0.3 million (1999: £7.3 million).

Included within plant and equipment are assets held under finance leases with a net book value of £0.9 million (1999: £0.3 million) and a depreciation charge for the year of £0.1 million (1999: nil).

The transitional provisions in Financial Reporting Standard 15: Tangible Fixed Assets are being followed and the valuations on previously revalued land and buildings have not been updated.

The freehold land and buildings at Horsham, which ERG Environmental Resource Group occupies, were valued independently as at 12 February 1998.

The valuations of the freehold properties were on the basis of existing use value with the valuation on the freehold parcel of land being on an open market value basis. All the valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the United Kingdom. The valuations of the freehold properties do not exceed their open market values.

If freehold land and buildings had not been revalued they would have been included at the following amounts:

	£m
Cost	0.7
Aggregate depreciation based on cost	-
<b>NET BOOK VALUE BASED ON COST</b>	<b>0.7</b>

**15. Tangible fixed assets (continued)**

COMPANY	Freehold land and buildings £m	Leasehold improvements £m	Plant and equipment £m	Assets in course of construction £m	Total £m
<b>COST OR VALUATION</b>					
At 1 April 1999	13.0	12.6	37.6	7.0	70.2
Additions	-	0.5	1.6	3.9	6.0
Disposals	(12.9)	(0.2)	(2.0)	(0.1)	(15.2)
Transfers	-	-	4.3	(4.3)	-
<b>AT 31 MARCH 2000</b>	<b>0.1</b>	<b>12.9</b>	<b>41.5</b>	<b>6.5</b>	<b>61.0</b>
<b>ACCUMULATED DEPRECIATION (AND PROVISION FOR IMPAIRMENT)</b>					
At 1 April 1999	0.5	1.6	17.4	-	19.5
Charge for year	0.1	1.3	5.1	0.9	7.4
Disposals	(0.6)	-	(1.2)	-	(1.8)
<b>AT 31 MARCH 2000</b>	<b>-</b>	<b>2.9</b>	<b>21.3</b>	<b>0.9</b>	<b>25.1</b>
<b>NET BOOK VALUE AT 31 MARCH 2000</b>	<b>0.1</b>	<b>10.0</b>	<b>20.2</b>	<b>5.6</b>	<b>35.9</b>
Net book value at 31 March 1999	12.5	11.0	20.2	7.0	50.7

Depreciation has not been charged on freehold land, which is stated at its revalued amount of nil (1999: £7.0 million).

Included within plant and equipment are assets held under finance leases with a net book value of £0.5 million (1999: £0.3 million) and a depreciation charge for the year of nil (1999: nil).

Following the disposal of the revalued properties during the year all items included in the closing cost or valuation figures are stated at cost.

**PROPERTY CLAWBACK**

Arrangements have been put in place to entitle the Secretary of State for the Department of Trade and Industry to a proportion of any property gains accruing to the Company as a result of disposals or events treated as disposals for clawback purposes after 1 September 1996 but on or before 31 August 2008. The Clawback Debenture applies these clawback arrangements to the Company's freehold land and buildings at Risley and to leases vested in the Company by the Transfer Scheme where the landlord is not the UKAEA. These remaining Risley properties were disposed of during the year. Clawback payments are to be made annually by reference to gains arising in each year commencing 1 September in the clawback period.

**16. Fixed asset investments**

<b>GROUP</b>	Joint ventures and associates loans £m	Other investments £m	Total £m
<b>COST AND NET BOOK VALUE AT 1 APRIL 1999 AND 31 MARCH 2000</b>	0.3	2.1	2.4

None of the above investments is listed.

<b>COMPANY</b>	Subsidiary undertakings		Joint ventures and associates		Other investments	Total £m
	Shares £m	Loans £m	Shares £m	Loans £m	£m	
<b>COST</b>						
At 1 April 1999	101.4	14.8	0.7	0.3	2.1	119.3
Additions	6.0	5.9	-	-	-	11.9
Disposal	-	-	(0.1)	-	-	(0.1)
Currency translation differences	-	0.1	-	-	-	0.1
Repayments	-	(6.6)	-	-	-	(6.6)
<b>AT 31 MARCH 2000</b>	107.4	14.2	0.6	0.3	2.1	124.6
<b>PROVISION</b>						
At 1 April 1999	1.8	-	0.1	-	-	1.9
Disposal	-	-	(0.1)	-	-	(0.1)
<b>AT 31 MARCH 2000</b>	1.8	-	-	-	-	1.8
<b>NET BOOK VALUE AT 31 MARCH 2000</b>	105.6	14.2	0.6	0.3	2.1	122.8
Net book value at 31 March 1999	99.6	14.8	0.6	0.3	2.1	117.4

None of the above investments is listed.

**16. Fixed asset investments (continued)****PRINCIPAL SUBSIDIARY UNDERTAKINGS AS AT 31 MARCH 2000**

Name	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group	Nature of business
ERG Environmental Resource Group plc	England and Wales	Ordinary £1 shares	100%	Environmental engineers and consultants
AEA Technology Battery Systems Limited	England and Wales	Ordinary £1 shares 'A' Ordinary £1 shares	100% 100%	Specialist battery pack manufacturer
AGM Batteries Limited	England and Wales	Ordinary £1 shares	55%	Specialist battery cell manufacturer
Hyprotech Limited	Canada	Class A common shares	100% <sup>(1)</sup>	Process industry software
AEA Technology KK	Japan	Yen 50,000	100%	Non-nuclear science and engineering services and products
AEA Technology GmbH	Germany	50,000 DM	100%	Engineering software and consultancy
Advanced Scientific Computing Limited	Canada	Common shares	100% <sup>(1)</sup>	Engineering software
nCode International Limited	England and Wales	Ordinary £1 shares	100%	Engineering software
EA Systems Inc	USA	Ordinary	100% <sup>(1)</sup>	Plant design systems and consultancy
AEA Technology Engineering Software Inc	USA	\$1 common stock	100% <sup>(1)</sup>	Engineering software
AEA Technology Engineering Services Inc	USA	Common stock with no par value	100% <sup>(1)</sup>	Nuclear engineering services & US Government utilities contractor
AEA Technology Inc	USA	\$1 common stock	100%	Holding company
EBIS Harwell Limited	England and Wales	Ordinary £1 shares	95%	Electron beam irradiation of medical and other products
AEA Sonomatic BV	The Netherlands	DFL 100 shares	100%	Non-destructive field testing
AEA Technology Limited	Hong Kong, China	Ordinary	100%	Quality and Safety Assurance
AEA Technology QSA Inc	USA	Ordinary	100% <sup>(1)</sup>	Quality and Safety Assurance
AEA Technology QSA GmbH	Germany	Ordinary	100%	Quality and Safety Assurance
Shenzhen CIC-AEA Technology Manufacturing Co Limited	China	Ordinary	51% <sup>(1)</sup>	Quality and Safety Assurance
Forensic Alliance Limited	England and Wales	Ordinary £1 shares	55%	Forensic science services

<sup>(1)</sup>Held by a subsidiary of AEA Technology plc.

The information above relates to those subsidiary undertakings which principally affected the results or financial position of the Group.

In addition to those listed above, the Company has other subsidiary undertakings which operate in the UK, the US, Germany, Canada, Spain, France, Hungary, Thailand and Hong Kong. All subsidiaries are included in the consolidated accounts.

**16. Fixed asset investments (continued)****JOINT VENTURES AS AT 31 MARCH 2000**

Name	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group and Company	Accounting year end	Nature of business
Summit AEA Corporation	Japan	Yen 50,000	50%	31 March	Nuclear services
CTECH	Canada	N/A	50%	31 December	Nuclear services

**ASSOCIATES AS AT 31 MARCH 2000**

Name	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group and Company	Accounting year end	Nature of business
Synexus Limited	England and Wales	Ordinary £1 shares	28.4%	31 March	Clinical trials

**17. Stocks and work in progress**

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Raw materials and consumables	9.8	9.2	5.1	5.0
Work in progress	14.9	15.1	14.3	12.4
	24.7	24.3	19.4	17.4

**18. Debtors**

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<b>AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:</b>				
Other debtors	0.5	0.6	0.5	0.6
Amounts due in respect of decommissioning and waste management (note 21)	0.9	1.0	0.9	1.0
Accrued income	0.9	1.2	0.8	1.2
Pension prepayment <sup>(1)</sup>	5.9	2.9	3.7	0.6
	8.2	5.7	5.9	3.4
<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>				
Trade debtors	90.1	80.2	61.5	49.2
Amounts recoverable on long-term contracts	17.6	14.9	17.1	14.9
Amounts owed by group undertakings	-	-	23.0	11.3
Amounts owed by joint ventures	1.7	2.5	1.7	2.5
Other debtors	4.0	5.8	2.0	1.5
Prepayments and accrued income	26.7	21.9	11.7	12.5
Amounts due in respect of decommissioning and waste management (note 21)	0.1	0.3	0.1	0.3
	140.2	125.6	117.1	92.2
<b>TOTAL DEBTORS</b>	<b>148.4</b>	<b>131.3</b>	<b>123.0</b>	<b>95.6</b>

<sup>(1)</sup>As part of the adjustments to arrive at fair value in relation to the acquisition of BR Research Limited in 1997, a sum of £2.3 million (1999: £2.4 million) has been included on the balance sheet (£2.2 million debtors due after more than one year and £0.1 million debtors due within one year), representing the funding surplus in respect of the BR Research shared costs section of the railways pension scheme at the date of acquisition. This surplus will be amortised in future periods. The remaining £4.0 million relates to a surplus on the AEA Technology plc scheme of £2.7 million (1999: £0.8 million) of which £0.3 million is due within one year, and a surplus on the TCI scheme of £1.3 million (1999: nil).

**19. Creditors: amounts falling due within one year**

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans and overdrafts	1.4	0.6	-	-
Payments received on account	16.3	21.2	14.1	17.7
Trade creditors	24.7	28.1	18.2	19.6
Amounts owed to group undertakings	-	-	4.2	1.5
Taxation and social security	8.7	9.0	7.3	7.9
Corporation tax:				
Corporation tax	8.7	6.6	7.6	5.0
Advance corporation tax	-	0.8	-	0.7
Other creditors	7.6	19.5	4.9	9.9
Accruals	18.5	17.5	14.6	10.4
Finance lease creditors	0.1	0.1	0.1	0.1
Dividend payable	6.5	6.0	6.5	6.0
	92.5	109.4	77.5	78.8

**20. Creditors: amounts falling due after more than one year**

	Group		Company	
	2000	1999	2000	1999
<b>BORROWINGS</b>	£m	£m	£m	£m
Bank loans	82.3	77.2	82.3	77.1
Debenture loan	-	-	2.0	2.0
Finance lease creditors	0.2	0.2	-	0.2
	<b>82.5</b>	<b>77.4</b>	<b>84.3</b>	<b>79.3</b>

The debenture loan is repayable to a subsidiary and does not bear interest. Of the Group and Company bank loans of £82.3 million, £45.7 million is repayable in six years and of this £30.3 million bears interest at 7.3%, £6.3 million at 6.66% and £9.1 million at LIBOR plus 0.75%. The remainder is repayable in less than two years and £30 million bears interest at LIBOR plus 42.5 base points and £6.6 million at LIBOR plus 32.5 base points.

The maturity of obligations under finance leases is as follows:

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Within one year	0.1	0.1	0.1	0.1
In the first to second years	0.1	-	-	-
In the second to fifth years	0.1	0.2	-	0.2
	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>	<b>0.3</b>

	Group		Company	
	2000	1999	2000	1999
<b>OTHER CREDITORS</b>	£m	£m	£m	£m
<b>PAYMENTS RECEIVED ON ACCOUNT</b>				
Repayable as follows:				
- between one and two years	-	0.2	-	0.2
<b>OTHER CREDITORS</b>				
Repayable as follows:				
- between one and two years	0.9	5.8	0.8	3.4
- two to five years	0.1	3.6	-	2.0
- after five years	1.2	0.3	-	-
	<b>2.2</b>	<b>9.9</b>	<b>0.8</b>	<b>5.6</b>

**21. Provisions for liabilities and charges**

	Acquisitions £m	Decommissioning and waste management £m	Pensions and similar obligations £m	Other £m	Deferred tax £m	Total £m
<b>GROUP</b>						
At 1 April 1999	3.5	3.9	5.7	6.6	2.3	22.0
Charge/(credit) for the year	(0.4)	0.3	7.9	2.9	0.7	11.4
Contributions paid to the Group pension schemes	-	-	(7.8)	-	-	(7.8)
Utilised in the year	(0.5)	(0.4)	(0.3)	(6.7)	-	(7.9)
<b>AT 31 MARCH 2000</b>	<b>2.6</b>	<b>3.8</b>	<b>5.5</b>	<b>2.8</b>	<b>3.0</b>	<b>17.7</b>
<b>COMPANY</b>						
At 1 April 1999	2.7	1.5	3.7	2.7	-	10.6
Transfer from subsidiary undertakings	-	-	-	0.8	-	0.8
Charge/(credit) for the year	(0.4)	0.2	7.7	2.1	0.9	10.5
Contributions paid to the Company pension schemes	-	-	(7.8)	-	-	(7.8)
Utilised in the year	(0.3)	(0.4)	-	(3.4)	-	(4.1)
<b>AT 31 MARCH 2000</b>	<b>2.0</b>	<b>1.3</b>	<b>3.6</b>	<b>2.2</b>	<b>0.9</b>	<b>10.0</b>

**ACQUISITIONS**

These provisions relate to QSA and cover costs of relocating the operations to AEA Technology sites. They will be utilised over the next two years.

**DECOMMISSIONING AND WASTE MANAGEMENT**

On 31 March 1996, certain properties, rights and liabilities of the UKAEA were vested in the Company in accordance with a transfer scheme made pursuant to section 1 of the Atomic Energy Authority Act 1995.

A supplemental agreement entered into pursuant to the transfer scheme provides that liabilities for decommissioning any nuclear facility in existence as at 31 March 1996 and for any waste transferred to the United Kingdom Atomic Energy Authority ("the Authority") for disposal prior to 31 March 1996 are to remain with the Authority. The Group is liable for certain decommissioning and other clean-up costs at 31 March 1995 and will receive funding from the Authority for these costs. This funding is recognised in debtors (note 18). All new or incremental decommissioning, waste management and clean up liabilities arising after 1 April 1996 will be assumed by the Group except for certain liabilities which have been transferred to or assumed by third parties.

Provisions for these costs are made in full once the facility becomes contaminated and are calculated on the latest technical assessments of the processes and methods likely to be used in the future and represent estimates derived from a combination of the technical knowledge available, existing legislation and regulations and commercial agreements. The estimates are reviewed annually and changes to the provisions that are required, including price level changes, are accounted for in the year in which they arise, together with the notional interest on provisions which have been discounted.

The utilisation of these provisions is uncertain and costs will be incurred when the facilities are decommissioned and the waste disposed of. It is currently anticipated that utilisation will occur between 2001 and 2036.

**PENSIONS AND SIMILAR OBLIGATIONS**

The breakdown of the Company pension provision is given in note 6. Part of this provision will be utilised over the average service lives of employees and the remainder once the Executive Directors retire.

## 21. Provisions for liabilities and charges (continued)

### PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

The Group provision also includes pension provisions relating to the QSA acquisition. These arose from following Statement of Standard Accounting Practice 24: Accounting for Pension Costs and will be utilised over the average service lives of the employees in the QSA group undertakings.

### OTHER

Other provisions principally comprise projected losses on long-term contracts and building lease related provisions such as dilapidations and wear and tear provisions and provisions for leases on vacant properties. These will be utilised when the costs are incurred on the long-term contracts, as lease payments are made on the vacant properties and as dilapidation repairs are carried out. As the provisions for losses on long-term contracts and for wear and tear are utilised these are likely to be replaced with provisions on other long-term contracts and new wear and tear provisions.

### DEFERRED TAXATION

Deferred taxation provided in the financial statements is as follows:

GROUP	2000 £m	1999 £m
Other timing differences:		
UK <sup>(1)</sup>	1.7	0.8
Overseas	1.3	1.5
	<b>3.0</b>	<b>2.3</b>

<sup>(1)</sup> As part of the adjustments to arrive at fair value in relation to the acquisition of BR Research Limited in 1997, a £0.8 million deferred tax provision was made.

For the Group and Company the unprovided amount of deferred taxation arising from accelerated capital allowances is £3.1 million (1999: £4.3 million). Deferred taxation has not been provided on retained overseas earnings because dividends will only be remitted to the UK if there is no further tax liability. The Company itself has a deferred taxation provision of £0.9 million (1999: nil) arising from accelerated capital allowances.

## 22. Called up share capital

AUTHORISED	2000 £m	1999 £m
120 million ordinary shares of 10p each	12.0	12.0
1 special rights redeemable preference share of £1	-	-
	<b>12.0</b>	<b>12.0</b>

### ALLOTTED, CALLED UP AND FULLY PAID

88,407,285 ordinary shares of 10p each (1999: 86,481,149 ordinary shares of 10p each)	8.8	8.6
Nil (1999: 1) special rights redeemable preference share of £1	-	-
	<b>8.8</b>	<b>8.6</b>

### CHANGES IN SHARE CAPITAL

1,926,136 shares were issued for a consideration of £4.3 million to meet commitments under the Company's employee share schemes.

### SPECIAL SHARE

On 1 October 1999, the Company redeemed at par the special rights redeemable preference share of £1 (the special share) held by the Secretary of State for Trade and Industry.

**23. Reserves**

	Share premium £m	Revaluation reserve £m	Profit and loss account £m
<b>GROUP</b>			
At 1 April 1999	0.2	3.1	37.2
Issue of share capital (note 22)	7.5	-	(3.4)
Goodwill written back (note 27)	-	-	0.3
Reversal of amounts accrued under the Long-Term Incentive Plan	-	-	(0.8)
Transfer of revaluation reserve to the profit and loss account reserve on sale of Risley property	-	(3.1)	3.1
Currency translation differences	-	-	0.1
Profit retained for the year	-	-	11.2
<b>AT 31 MARCH 2000</b>	<b>7.7</b>	<b>-</b>	<b>47.7</b>

Net cumulative goodwill of £75.8 million has been eliminated against reserves on acquisitions made prior to 1 April 1998.

	Share premium £m	Revaluation reserve £m	Merger reserve £m	Other reserve £m	Profit and loss account £m
<b>COMPANY</b>					
At 1 April 1999	0.2	3.1	25.0	48.9	34.0
Issue of share capital (note 22)	7.5	-	-	-	(3.4)
Goodwill written back (note 27)	-	-	-	0.2	-
Reversal of amounts accrued under the Long-Term Incentive Plan	-	-	-	-	(0.8)
Transfer of revaluation reserve to the profit and loss account reserve on sale of Risley property	-	(3.1)	-	-	3.1
Profit retained for the year	-	-	-	-	9.0
<b>AT 31 MARCH 2000</b>	<b>7.7</b>	<b>-</b>	<b>25.0</b>	<b>49.1</b>	<b>41.9</b>

Under the terms of the Atomic Energy Authority Act 1995, the other reserve is deemed to be distributable to the extent that it was not capitalised after 31 March 1996.

**24. Equity minority interests**

	2000 £m
<b>GROUP</b>	
At 1 April 1999	0.7
Acquisitions	0.7
Dividends paid	(0.1)
Profit and loss account	(0.2)
<b>AT 31 MARCH 2000</b>	<b>1.1</b>

## 25. Reconciliation of net cash flow to movement in net debt

	2000 £m	1999 £m
<b>MOVEMENT IN NET FUNDS IN THE YEAR:</b>		
(Decrease)/increase in cash in the year	(11.7)	10.2
Cash inflow from (increase) in debt	(4.9)	(39.4)
Change in net (debt) resulting from cash flow	(16.6)	(29.2)
Net (debt) at 1 April	(56.7)	(27.5)
<b>NET (DEBT) AT 31 MARCH</b>	<b>(73.3)</b>	<b>(56.7)</b>

	At 1 April 1999 £m	Cash flow £m	Other non cash changes £m	At 31 March 2000 £m
<b>ANALYSIS OF NET (DEBT)</b>				
Cash in hand and at bank	21.4	(10.7)	-	10.7
Bank overdrafts	-	(1.0)	(0.1)	(1.1)
	21.4	(11.7)	(0.1)	9.6
Debt due after 1 year	(77.4)	(5.4)	0.3	(82.5)
Debt due within 1 year	(0.7)	0.5	(0.2)	(0.4)
	(56.7)	(16.6)	-	(73.3)

## 26. Employee share schemes

### PROFIT SHARING SHARE SCHEMES

The Company has established an Inland Revenue-approved scheme under which the flotation Free and Matching Offers were, and any annual appropriations of shares for profit-sharing are, made. The scheme operates through a trust deed and rules entered into between the Company and AEA Technology Trustee Limited. Similar schemes have been set up for overseas employees, established by a trust deed and rules entered into between the Company and Bacon & Woodrow Trust Company (CI) Limited in Guernsey.

The shares allocated under the Free and Matching Offers were transferred to the trustees by the Secretary of State and, after being held for three years, were transferred to the beneficiaries in September 1999. In respect of the year to 31 March 1997 and subsequent years, the Company and participating subsidiaries may make payments to the trustees who will use the funds either to subscribe for shares, or to buy shares in the market. Such payments are discretionary and can only be made if the operating profit of the companies participating in the share scheme has increased over the previous financial year. Not more than 5% of such profits may be used for the acquisition of shares which must be held for three years. No payment was made in 2000 in respect of performance in 1999.

Shares held by the trustees pursuant to the share scheme are held for the benefit of participants. They are entitled to receive dividends, to vote by instructing the trustees and to rights in capitalisation issues in the same way as other shareholders.

### SAVINGS-RELATED SHARE OPTION SCHEMES

The Company has established an Inland Revenue-approved scheme, and equivalent schemes for overseas employees, which provides for Executive Directors and eligible employees of the Company and subsidiaries who enter into a save-as-you-earn contract ('savings contract') to be granted an option to acquire shares at a price which is fixed at the time the option was granted (or, for employees in some countries, a cash payment in lieu).

Options may be exercised three or five years after the commencement of the savings contract.

## 26. Employee share schemes (continued)

### SAVINGS-RELATED SHARE OPTION SCHEMES (CONTINUED)

Options under the Inland Revenue-approved scheme are awarded through a Qualifying Employee Share Trust (QUEST), for which the trustee is AEA Technology Employee Share Trust Trustee Limited.

Options have been granted for 10p ordinary shares under these schemes as follows:

Period of option	Number of shares 2000	Number of shares 1999	Subscription price per share
1 November 1999 to 30 April 2000	56,143	1,931,097	224p
1 January 2001 to 30 June 2001	81,331	100,569	224p
1 March 2001 to 31 August 2001	23,935	35,641	224p
1 March 2001 to 31 August 2001	565,860	649,069	363p
1 June 2001 to 30 November 2001	15,087	70,238	498p
1 October 2001 to 31 March 2002	14,688	28,239	558p
1 November 2001 to 30 April 2002	1,520,558	1,649,105	224p
1 November 2001 to 30 April 2002	3,190	56,554	639p
1 December 2001 to 31 May 2002	-	23,630	639p
1 March 2002 to 31 August 2002	67,942	363,128	595p
1 March 2003 to 31 August 2003	593,734	687,330	363p
1 March 2004 to 31 August 2004	46,286	252,110	595p
1 March 2003 to 31 August 2003	1,008,424	-	320p
1 March 2005 to 31 August 2005	345,006	-	320p
	4,342,184	5,846,710	

### COMPANY SHARE OPTION PLAN

The Company has established an Inland Revenue-approved scheme and an unapproved scheme for which all employees (excluding Executive Directors) are eligible. At 31 March 2000, awards for 342,846 options were outstanding under the two schemes at an option price of 367.5p. They are subject to Company share price performance over a three-year performance period starting 1 April 1999.

## 27. Goodwill

### ADJUSTMENTS TO 1999 GOODWILL

The following adjustments have been made to the goodwill figure during 2000:

	TCI Limited £m	ERG Environmental Resource Group plc £m	QSA Industrial Services £m	Total £m
Debtors	(1.2)	-	-	(1.2)
Reduction in consideration	-	0.2	0.1	0.3
<b>REDUCED/(ADDITIONAL) GOODWILL</b>	<b>(1.2)</b>	<b>0.2</b>	<b>0.1</b>	<b>(0.9)</b>

In 1999 the goodwill in respect of TCI Limited was declared as provisional. The only material change in the fair value adjustments is the reduction in the TCI pension surplus from £2.5 million to £1.3 million. The consideration on ERG Environmental Research Group has decreased due to revisions to the deferred consideration in the light of additional trading information. The consideration on QSA Industrial Services has reduced as a result of agreement with Nycomed Amersham.

	Group £m	Company £m
<b>GOODWILL WRITTEN OFF AGAINST RESERVES</b>		
At 1 April 1999	76.1	7.3
Written back to reserves in respect of 1998 acquisitions	(0.3)	(0.2)
<b>AT 31 MARCH 2000</b>	<b>75.8</b>	<b>7.1</b>

## 28. Sale of businesses

NET ASSETS DISPOSED OF:	Total £m
Fixed assets	0.8
Work in progress	1.0
Stocks	0.1
Debtors	0.1
Creditors	(0.1)
Profit on disposal	1.0
<b>CONSIDERATION ON DISPOSAL</b>	<b>2.9</b>
<b>SATISFIED BY</b>	
Cash	2.9

## 29. Derivatives and other financial instruments

Page 19 of the Financial Review provides an explanation of the role that financial instruments have had during the year in creating or changing the risks the Group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13: Derivatives and Other Financial Instruments: Disclosures (FRS13). Certain financial assets and liabilities such as investments in subsidiary and associated companies, obligations under employee share option plans and employee share schemes, pension assets and rights and obligations arising under operating leases are excluded from the scope of these disclosures.

As permitted by FRS13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

### INTEREST RATE PROFILE

After taking into account interest rate swaps and forward foreign currency contracts entered into by the Group, the interest rate profile of the Group's financial liabilities at 31 March 2000 was as follows:

CURRENCY	Borrowings on which no interest is paid £m	Fixed rate £m	Floating rate £m	Total £m
Sterling	0.2	30.8	45.9	76.9
US dollar	-	6.2	-	6.2
Other	-	-	0.9	0.9
<b>TOTAL</b>	<b>0.2</b>	<b>37.0</b>	<b>46.8</b>	<b>84.0</b>

Included within the £30.8 million of sterling fixed rate loans is \$50 million which has been swapped into sterling. The £45.9 million of sterling floating rate loans include \$15 million swapped into sterling.

## 29. Derivatives and other financial instruments (continued)

### INTEREST RATE PROFILE (CONTINUED)

The profile at 31 March 1999 for comparison purposes was as follows:

CURRENCY	Fixed rate £m	Floating rate £m	Total £m
Sterling	30.6	40.7	71.3
US Dollar	6.2	-	6.2
Other	0.6	-	0.6
<b>TOTAL</b>	<b>37.4</b>	<b>40.7</b>	<b>78.1</b>

The Group also has amounts payable in respect of deferred consideration of £3.2 million (1999: £19.1 million), other creditors due after one year of £1.4 million (1999: £1.4 million) and provisions for onerous contracts of £0.1 million (1999: £0.2 million). These do not bear any interest but the deferred consideration creditors are discounted and the unwinding of the discount is charged to interest payable in the profit and loss account. These amounts are all payable in sterling or have been hedged in sterling.

The interest rate profile of the financial assets of the Group as at 31 March was as follows:

ASSETS HELD AS PART OF THE FINANCING ARRANGEMENTS FOR THE GROUP:	2000 £m	1999 £m
Sterling cash deposits	1.8	12.7
US Dollar cash deposits	2.9	2.8
Canadian Dollar cash deposits	0.3	1.3
Euro and Euro equivalent cash deposits	4.1	2.9
Other cash deposits	1.6	1.7
	<b>10.7</b>	<b>21.4</b>

The cash deposits comprise cash at bank and on overnight deposits at the relevant LIBID rate (in the case of sterling deposits) or equivalent relevant rate for overseas deposits.

The Group also has other debtors falling due after one year of £7.3 million (1999: £4.5 million) and accrued income falling due after one year of £0.9 million (1999: £1.2 million). These do not attract interest but are discounted and the unwinding of the discount is credited to interest receivable in the profit and loss account.

Further analysis of the interest rate profile at 31 March is as follows:

CURRENCY	2000 Fixed rate		1999 Fixed rate	
	Weighted average interest rate (%)	Weighted average period for which rate is fixed Years	Weighted average interest rate (%)	Weighted average period for which rate is fixed Years
Sterling	7.3	6	7.3	7
US Dollar	6.7	6	6.7	7
Other	-	-	2.0	1
<b>GROUP</b>	<b>7.2</b>	<b>6</b>	<b>7.1</b>	<b>7</b>

## 29. Derivatives and other financial instruments (continued)

### INTEREST RATE PROFILE (CONTINUED)

The floating rate financial liabilities comprise bank borrowings bearing interest rates fixed in advance for periods ranging from one to six months by reference to the relevant LIBOR rate.

### CURRENCY EXPOSURES

As explained on page 19 of the Financial Review, the Group's objectives in managing the currency exposures arising from its net investment overseas (in other words, its structural currency exposures) are to maintain a low cost of borrowing and to retain some potential for currency-related appreciation while partially hedging against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the Statement of Total Recognised Gains and Losses.

The table below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that were not denominated in the operating (or "functional") currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. As at 31 March 2000 these exposures were as follows:

FUNCTIONAL CURRENCY OF GROUP OPERATION	Net foreign currency monetary assets (liabilities)				Total £m
	Sterling £m	US Dollar £m	Euro £m	Other £m	
Sterling	-	(1.9)	7.4	1.8	7.3
Other	(0.5)	-	-	0.3	(0.2)
<b>TOTAL</b>	<b>(0.5)</b>	<b>(1.9)</b>	<b>7.4</b>	<b>2.1</b>	<b>7.1</b>

The exposures at 31 March 1999 for comparison purposes were as follows:

FUNCTIONAL CURRENCY OF GROUP OPERATION	Net foreign currency monetary assets (liabilities)				Total £m
	Sterling £m	US Dollar £m	Euro £m	Other £m	
Sterling	-	(1.0)	5.7	(0.3)	4.4
Other	(0.3)	-	-	(0.2)	(0.5)
<b>TOTAL</b>	<b>(0.3)</b>	<b>(1.0)</b>	<b>5.7</b>	<b>(0.5)</b>	<b>3.9</b>

The amounts shown in the tables above take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage these currency exposures.

### MATURITY OF FINANCIAL LIABILITIES

The maturity profile of the Group's financial liabilities at 31 March was as follows:

	2000 £m	1999 £m
In one year or less	1.5	0.7
In more than one year but not more than two years	36.7	-
In more than two years but not more than five years	0.1	31.5
In more than five years	45.7	45.9
<b>TOTAL</b>	<b>84.0</b>	<b>78.1</b>

## 29. Derivatives and other financial instruments (continued)

### BORROWING FACILITIES

The Group had undrawn committed borrowing facilities at 31 March, in respect of which all conditions precedent had been met, as follows:

	2000 £m	1999 £m
Expiring in more than one year but not more than two years	20.0	-
Expiring in more than two years but not more than five years	-	25.0
<b>TOTAL</b>	<b>20.0</b>	<b>25.0</b>

### FAIR VALUES

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 March:

	2000		1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>PRIMARY FINANCIAL INSTRUMENTS HELD OR ISSUED TO FINANCE THE GROUP'S OPERATIONS</b>				
Short-term financial liabilities and current proportion of				
long-term borrowings	(1.5)	(1.5)	(0.7)	(0.7)
Long-term borrowings	(82.5)	(85.1)	(77.4)	(81.7)
Cash deposits	10.7	10.7	21.4	21.4
<b>DERIVATIVE FINANCIAL INSTRUMENTS HELD TO MANAGE THE INTEREST RATE AND CURRENCY PROFILE</b>				
Interest rate swaps	-	(2.1)	-	(1.8)
Forward foreign currency contracts	-	(0.1)	-	0.1

As at 31 March 2000 the Group also held open various currency swaps and forward contracts that the Group had taken out to hedge expected future foreign currency sales.

The fair values of the interest rate swaps and forward foreign currency contracts with a carrying amount of nil have been determined by reference to prices available from the markets on which the instruments involved are traded. The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

### GAINS AND LOSSES ON HEDGES

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies immediately those sales are transacted. It also uses interest rate swaps to manage its interest rate profile. Using Statement of Standard Accounting Practice 20: Foreign Currency Translation, all hedged transactions are recorded at the hedged rate so there are no unrecognised foreign currency contracts and interest rate swaps.

### 30. Commitments

Annual commitments under non-cancellable operating leases which expire:

	Group		Plant and equipment		Company	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
- within one year	0.7	0.6	0.5	0.4		
- in two to five years	5.0	3.7	4.4	3.5		
- after more than five years	0.1	0.1	-	-		
	5.8	4.4	4.9	3.9		

	Group		Land and buildings		Company	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
- within one year	0.7	0.8	-	0.1		
- in two to five years	3.4	4.7	1.6	2.7		
- after more than five years	2.2	1.3	0.7	0.7		
	6.3	6.8	2.3	3.5		

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<b>CAPITAL COMMITMENTS</b>				
Future capital expenditure contracted but not provided for in the financial statements	1.2	2.8	0.8	1.6

### 31. Contingent liabilities

There is a cross guarantee in place in respect of overdrafts included within the Lloyds offset arrangement, of which AEA Technology plc and seven subsidiaries are a part. At 31 March 2000 the gross overdraft guaranteed by the companies within this set off arrangement was £10.4 million (1999: £11.2 million).

AEA Technology plc also guarantees the credit facilities, overdraft facilities, BACS facilities and leasing obligations for certain subsidiary companies and the overdraft and loan facility of Hunting Brae and Hunting Knightsbridge Finance Limited. At 31 March 2000 these guarantees totalled £20.3 million (1999: £19.6 million).

The Group has contingent liabilities in respect of contracts entered into in the normal course of business. It is not expected that these will have a material effect on the financial position of the Group.

### 32. Transactions with the Department of Trade and Industry and other government departments

Turnover and cost of sales exclude reimbursements and the relating payments made in respect of certain contracts with the Department of Trade and Industry and other government departments. Under the terms of these agreements, the Group receives funding from the Department of Trade and Industry and other government departments in respect of certain programmes and pays such monies directly to third parties in connection with work carried out under these programmes. The Group does not make any profit or loss directly from these contract payments. The gross value of the payments made and received under these programmes was £19.8 million (1999: £15.0 million). The cost of administering the overall programmes and the relating income received has been included in the profit and loss account.

### 33. Related party transactions

The Group's related parties, the nature of the relationship and the extent of transactions with them, as defined by Financial Reporting Standard 8: Related Party Transactions are summarised below:

<b>JOINT VENTURES AND ASSOCIATED UNDERTAKINGS</b>	<b>2000</b>	<b>1999</b>
	<b>£m</b>	<b>£m</b>
Sales to joint ventures and associated undertakings on normal trading terms	7.1	4.8
Purchases from joint ventures and associated undertakings on normal trading terms	0.2	-
Amounts due from joint ventures and associated undertakings	1.7	2.6
Loans to joint ventures and associated undertakings	0.3	0.3

Details of the Group's principal joint ventures and associated undertakings at 31 March 2000 are set out in note 16.

During the year Shenzhen CIC-AEA Technology Manufacturing Co Limited and AEA Technology Limited had a trading relationship with transactions taking place at arm's length prices. Purchases by AEA Technology Limited were £1.7 million and sales by AEA Technology Limited were £0.9 million. At the year-end a net amount of £0.2 million was owed by AEA Technology Limited to Shenzhen CIC-AEA Technology Manufacturing Co Limited.

Except for two agreements to purchase property jointly with Executive Directors, there are no contracts of significance that subsisted during or at the end of the year to which the Company and its subsidiary undertakings were a party and in which an Executive Director of the Company was materially interested. These agreements involved investments totalling £146,250 in part-shares of the properties in which the relevant Directors reside, when required to be in London. See section 4 of the Report on Directors' Remuneration on pages 27 to 30.

# Five year summary

FOR THE FIVE YEARS ENDED 31 MARCH 2000	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
<b>SALES AND RESULTS</b>					
<b>GROUP AND SHARE OF JOINT VENTURES' TURNOVER</b>					
Continuing operations	362.5	354.4	305.8	264.1	253.3
Share of joint ventures	3.5	3.4	2.6	0.2	0.1
	<b>366.0</b>	<b>357.8</b>	<b>308.4</b>	<b>264.3</b>	<b>253.4</b>
<b>OPERATING PROFIT</b>					
Continuing operations	34.0	33.1	30.7	24.1	19.8
Joint ventures	-	(0.1)	-	(0.2)	(0.3)
Provisions for fundamental restructuring	-	-	-	(5.0)	(3.1)
Other income and expenses <sup>(1)</sup>	1.8	0.9	0.9	0.5 <sup>(2)</sup>	0.5 <sup>(2)</sup>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>	<b>35.8</b>	<b>33.9</b>	<b>31.6</b>	<b>19.4</b>	<b>16.9</b>
Net interest payable and similar charges	(6.1)	(5.2)	(2.9)	(1.1)	(1.1)
<b>PROFIT BEFORE TAXATION</b>	<b>29.7</b>	<b>28.7</b>	<b>28.7</b>	<b>18.3</b>	<b>15.8</b>
Taxation <sup>(1)</sup>	(8.9)	(8.4)	(8.8)	(5.9)	-
<b>PROFIT AFTER TAXATION</b>	<b>20.8</b>	<b>20.3</b>	<b>19.9</b>	<b>12.4</b>	<b>15.8</b>
Minority interests	0.2	0.2	-	-	-
Dividends and appropriations	(9.8)	(9.0)	(8.3)	(6.7)	(3.8)
<b>RETAINED PROFIT</b>	<b>11.2</b>	<b>11.5</b>	<b>11.6</b>	<b>5.7</b>	<b>12.0</b>
<b>NET ASSETS EMPLOYED</b>					
Fixed assets	76.4	91.3	62.3	53.8	47.9
Net current assets	91.3	67.8	44.8	51.9	27.2
	<b>167.7</b>	<b>159.1</b>	<b>107.1</b>	<b>105.7</b>	<b>75.1</b>
Borrowings	(82.5)	(77.4)	(35.0)	(35.0)	-
Provisions and creditors due after more than one year	(19.9)	(31.9)	(32.1)	(17.6)	(11.4)
	<b>65.3</b>	<b>49.8</b>	<b>40.0</b>	<b>53.1</b>	<b>63.7</b>
<b>RATIOS</b>					
Operating profit as a % of turnover	9.3%	9.2%	10.0%	9.0%	7.7%
Adjusted earnings per share <sup>(3)</sup>	25.6p	24.7p	23.5p	19.6p	15.9p
IIMR earnings per share	24.7p	23.5p	22.2p	15.9p	19.9p

<sup>(1)</sup> Dividends receivable and taxation have been restated to reflect the removal of the associated tax credit as required by Financial Reporting Standard 16: Current Taxation.

<sup>(2)</sup> The comparatives have been restated to show separately the Group's share of joint ventures' losses of £0.2 million for 1997 and £0.3 million for 1996.

<sup>(3)</sup> Adjusted earnings per share is after the write back of goodwill and exceptional items.

# Shareholders' information

SHARES AS AT 31 MARCH 2000	Number of shareholders	Percentage of total shareholders	Percentage of ordinary shares
1-100	1,566	14	-
101-1,000	6,662	59	4
1,001-5,000	2,357	21	6
5,001-50,000	445	4	8
50,001-100,000	68	1	5
Over 100,000	128	1	77
	11,226	100	100

## FINANCIAL CALENDAR

Financial year end	31 March
Ex-dividend date	26 June 2000
Record date	30 June 2000
AGM	20 July 2000
2000 final dividend payable	2 October 2000
2001 interim results announced	27 November 2000
2001 interim dividend payment	1 February 2001
2001 preliminary results announced	June 2001

## CREST

The Company's shares are available for electronic settlement by CREST.

If you would like to find out more about the CREST settlement system, please contact Lloyds TSB Registrars for a free information leaflet.

## Low cost share dealing service

Our brokers, Cazenove & Co., offer a special postal dealing service for buying and selling AEA Technology plc shares, where the commission is 1% on the first £5,000, 0.5% on the next £145,000 and 0.3% thereafter, with a £10 minimum charge. You can get full details by contacting: Cazenove & Co., AEA Technology plc Share Dealing Service, 12 Tokenhouse Yard, London EC2R 7AN, telephone: 020 7606 1768.

## Shareholder contact

If you have any general comments or queries, you are welcome to write to the company secretary, AEA Technology plc, 329 Harwell, Didcot, Oxfordshire OX11 0QJ. If you have a query for a specific Director, please write to them at the same address.

If you have an administrative query about your shareholding, such as a dividend payment, recording a change of address, or reporting the loss of a share certificate, please direct these to Lloyds TSB Registrars, either by writing to them at The Causeway, Worthing, West Sussex BN99 6DA, or by telephoning 0870 600 3970.

You can now find a number of shareholder services on-line on the Lloyds TSB Registrar website [www.shareview.co.uk](http://www.shareview.co.uk). This offers a range of different options for you to access, including checking on your shareholding in AEA Technology.

### **Dividend reinvestment plan (DRIP)**

We have introduced a dividend reinvestment plan which gives shareholders the opportunity to use the whole of their cash dividends to buy additional ordinary shares in the Company in the market at competitive dealing rates. Full details of the plan can be obtained from Lloyds TSB Registrars whose address is given on this page.

The latest date for a shareholder to elect to join the DRIP plan in respect of the next dividend payment (the 2000 final dividend payment, payable on 2 October 2000) is Monday 11 September 2000. The election form must be with Lloyds TSB Registrars by this date.

### **Individual savings accounts (ISAs)**

We have introduced a Company Sponsored ISA enabling shareholders to hold AEA Technology plc shares in a tax advantageous manner. An ISA enables you to invest without paying tax – no personal income tax and no capital gains tax on any profits should you decide to sell some or all of your investment. You do not have to show details of your ISA on your tax return.

For details of our Corporate Sponsored ISA, please contact Lloyds TSB Registrars, ISA Team, The Causeway, Worthing, West Sussex BN99 6DA, telephone: 0870 242 4244.

### **AEA Technology's internet address is:**

[www.aeat.co.uk](http://www.aeat.co.uk)

The Company is able to conduct web-based transactions.

### **Registration details**

Registered in England and Wales No. 3095862

# Advisers

## Company secretary

Keith Russell FCIS

## Registered office

329 Harwell  
Didcot  
Oxfordshire  
OX11 0QJ

## Registrars

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

## Auditors

PricewaterhouseCoopers  
1 Embankment Place  
London WC2N 6NN

## Principal bankers

Lloyds TSB plc  
6-8 Eastcheap  
London EC3M 1LL

## Solicitors

Eversheds  
Senator House  
85 Queen Victoria Street  
London EC4V 4JL

Linklaters & Alliance  
One Silk Street  
London EC2Y 8HQ

## Brokers

Cazenove and Co.  
12 Tokenhouse Yard  
London EC2R 7AN

## Financial advisers

Lazard Brothers & Co. Limited  
21 Moorfields  
London EC2P 2HT