

AEA Technology plc

Annual report and accounts 2001

Who we are

AEA Technology focuses on two growth markets, Rail and Environment.

In these core areas, it provides customers with a portfolio of advanced technology products and services, expert consultancy and deep industry understanding.

It has built on its UK public sector strength to develop increasingly in the UK private sector and abroad and intends to continue to selectively and strategically expand.

The Company aims to use its technology and expertise to help its customers to enhance their performance and, in doing so, to realise greater value for its shareholders and employees.

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Financial summary

Results for the year ended 31 March

	2001 £m	2000 £m
Turnover	378.7	366.0
Operating profit ⁽¹⁾	19.8	34.0
EBITDA ⁽²⁾	30.1	46.6
Free cash flow	16.7	1.2
Adjusted earnings per share ⁽³⁾	13.8p	25.6p
Dividend per share	11.1p	11.1p

Results by business

	Turnover		Operating profit/(loss) ⁽¹⁾	
	2001 £m	2000 ⁽⁴⁾ £m	2001 £m	2000 ⁽⁴⁾ £m
Rail	52.7	36.4	8.3	6.6
Environment	52.1	57.0	3.6	6.3
Future Technologies	63.1	63.1	(7.4)	(1.3)
Engineering Software	61.8	53.5	7.1	7.9
Nuclear Technology	149.0	156.0	8.2	14.5
	378.7	366.0	19.8	34.0

Notes:

- ⁽¹⁾ Operating profit/(loss) is stated before exceptional operating charges of £24.0 million (2000: nil).
- ⁽²⁾ EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional operating charges.
- ⁽³⁾ Adjusted earnings per share is stated before £1.6 million amortisation of goodwill (2000: £1.3 million) and exceptional operating charges of £24.0 million (2000: nil). See note 15 for details of the adjusted earnings per share calculation.
- ⁽⁴⁾ The segmental analysis for the year ended 31 March 2000 has been restated to reflect changes in the business structure (see page 9).

Chairman's letter

Tough decisions and strong actions

This has been a year of tough decisions and strong actions, taken against the backdrop of unacceptable financial results.

Strategic review

During the year, the company undertook a fundamental strategic review of the business, under Chief Executive Peter Watson's leadership, the results of which were announced on 27 November 2000. This was designed to improve operational performance and enhance shareholder value. The financial and operational performance detailed in this report and accounts strongly validates our decision to carry out this review.

A key decision was to focus on two growth businesses where we have strong products, excellent industry knowledge and a solid customer base – Rail and Environment. We said we would look to enhance shareholder value in Engineering Software through partnership and selective divestment. We also planned to raise significant investment capital through the sale of our Nuclear Technology businesses and unlock commercial value in the intellectual property (IP) businesses within Future Technologies.

Difficult trading conditions

The strategy announcement was made against the backdrop of difficult trading conditions, particularly in Engineering Software. Later in the financial year, all our businesses experienced a deterioration in market conditions, with the exception of Rail.

The impact of these trading conditions is reflected in the financial performance, with Group turnover increasing by just 3.5%, from £366.0 million to £378.7 million. Operating profit, before exceptional operating charges, fell from £34.0 million to £19.8 million and the operating margin before exceptional operating charges decreased from 9.3% to 5.2%. A final dividend of 7.3p per share is proposed, bringing the total dividend for the year to 11.1p per share, the same as last year.

Offer discussions

On 3 April 2001, the Board announced that it had received preliminary expressions of interest both for certain of the Group's businesses and for the Company

itself. On 4 June 2001 it was announced that the Board, advised by Lazard, had received and carefully reviewed a number of approaches for the Group but concluded that none of these approaches for the whole of the issued share capital of the Company was likely to lead to an offer which adequately reflected the value inherent in the Group. As a result of the offers received for various parts of the Group, the Board was confident that greater value could be realised for shareholders by accelerating the reshaping of the business announced in November 2000. Accordingly, it terminated discussions with the parties concerned.

Substantial progress

We have made substantial progress in delivering our strategy:

- We have now reached agreement for the sale of one of our four Nuclear Technology businesses, Nuclear Engineering. The disposal of another, Nuclear Consulting, is proceeding well and we expect to reach an agreement in the first half of the financial year. The third, Nuclear Science, is being restructured to concentrate on one facility and we will then commence the formal disposal process. We continue to review the value of the fourth, QSA.
- We are now in exclusive discussions regarding the disposal of Hyprotech, the main Engineering Software business, with the aim of completing terms in the first half of this financial year. After having considered indicative offers for Hyprotech, we have decided that its disposal offers more value than continuing to pursue strategic partnerships. We expect to sell the remainder of the Engineering Software business, Computational Fluid Dynamics (CFX), during the course of 2002.
- In Future Technologies, the IP businesses are now in a new company called Accentus plc. Options for its future are being developed.

We will use the proceeds from the disposals of Nuclear Engineering, Nuclear Consulting and Hyprotech to reduce our debt and to meet the costs of restructuring our Group overhead base. We will also return a significant sum to shareholders before the end of this financial year, while retaining sufficient funds for investment in our core businesses, Rail and Environment.

The Board

During the year we appointed a Chief Operating Officer, Stephen Thornton, formerly a vice president with the BOC Group, to the Board. This was another outcome of the strategic review and his role is to drive business performance improvement. Andrew McCree was also appointed to the Board, as Director, Corporate Affairs and Human Resources. His remit is to strengthen management through development and recruitment. Ray Proctor, Group Finance Director, retired at the end of the financial year. On behalf of the Board, I would like to thank him for his contribution.

Skilled workforce

We have a highly skilled workforce, with many of our people possessing truly world-class science and engineering skills. I would like to thank all of our employees for their contribution during the last year. They have shown great commitment during what is clearly a difficult time.

Community and environment

Despite a demanding year, we remained committed to the community through membership of the Per Cent Club and Business in the Community. We also continued to make progress in limiting our impact on the environment. In the Environment Index of Corporate Environmental Engagement, we were placed in the top third of 51 comparable businesses and were cited as one of the five most improved companies.

Outlook

The reshaping of AEA Technology will essentially be complete within 12 months. Our strategy means that we can concentrate on what we are best at, in the markets where there is most potential for growth.

Our Rail business has already shown what we can do when we are truly focused – selective acquisition, first-class products and strong market understanding have made us one of the best regarded technology providers in the industry. Our Environment business enjoys international standing and is well positioned in a growing market. We expect it to deliver annual double digit growth over time, as a result of organic development and acquisition opportunities. Peter Watson comments on both these businesses in more detail in his Chief Executive's Statement.

Rail and Environment are both growth businesses. The acceleration of our strategy and the firm focus on these two businesses is expected to generate substantially higher value for shareholders in coming years. We face the future with continued confidence.



Sir Anthony Cleaver
Chairman

Chief Executive's statement

Increased focus

The transformation of AEA Technology into a successful enterprise, through the exploitation of its first-class science and engineering capability, is taking longer than anticipated. However, substantial progress has been made.

We have focused the business, down from 21 operating groups in 1997 to five by 2001. We have reduced our dependence on the UK Government sector, from 46% of turnover in 1996 to 20% in 2001, by growing substantially in the UK private sector and overseas. Yet the improvement in performance has not been rapid enough.

In November 2000 we announced the results of our strategic review, designed to accelerate operational performance and enhance shareholder value. We are now firmly focused on two strong businesses, Rail and Environment, both of which are well positioned in growing markets. In addition, we will develop and review selected opportunities in our Future Technologies business. In his letter, the Chairman outlines the substantial progress we have made in delivering the strategy.

Rail

The Rail business is a leading provider of technology to the UK rail industry. It develops and provides advanced technology products for rail infrastructure markets, as well as offering consulting and related services to UK and European rail industry suppliers, operators and regulators.

The business has a strong market reputation based on the former British Rail Research Centre, which was the only provider of advanced technology to the UK railways. As a result of strong organic and acquisition-based development, the business has consistently returned exceptional rates of growth. Continuing demand in the UK for improved safety, reliability and performance, and opportunities to exploit similar trends emerging in other European countries, suggest that strong growth can be maintained.

Market drivers

The market, in the shape of rail industry suppliers, the train operating companies and Railtrack, the infrastructure provider, is being driven by safety, performance and a need for more management information.

Safety Recent rail disasters have increased pressure for improvements to signalling and train protection equipment.

Performance UK industry liberalisation has increased calls for improvements in the performance of both rolling stock and the rail infrastructure.

Management information There is growing demand for more and better management information, which includes passenger numbers, train reliability and infrastructure performance.

We are in a market-leading position in each of these areas and we expect demand to increase for the foreseeable future.

A record of strong growth

Acquisition and strong management have been key to Rail's success. It began with the acquisition of British Rail Research, in December 1996. This gave us market position and a strong technological base, which we were able to blend with existing resources. In August 2000, we acquired the Technical Centre of the Dutch State Railways, NSTO. We expect this to provide a solid base for growth in Europe, which is now seeing the emergence of similar market drivers to those in the UK. We will continue to pursue other attractive European rail investments to help enhance our growth prospects.

In 1995, Rail turned over less than £1.0 million. By 2001, it had a turnover of £52.7 million, with operating profit of £8.3 million. Since 1998, we have delivered improving margins while achieving an annual growth in turnover of 42% (20% being organic growth and 22% coming through acquisitions). We expect to maintain a high growth rate.

Environment

Our Environment business also enjoys a strong market position. It provides consultancy, IT-based products, technical services and programme management covering a wide range of environmental issues across air, land and water. It has an international standing and is widely recognised for its activities in aspects of climate change alleviation, air quality assessment and information, and chemical emergency response.

It is the leading adviser to the UK Government on developing and disseminating environmental best practice. In addition, it has strong relationships with other parts of the public sector base, a growing private sector reputation and a firm foothold overseas.

Market drivers

The environment market is growing: according to independent estimates, between 1999 and 2000, the UK environmental consultancy market grew from £750 million to £1 billion, a 33% increase. The UK Government is continuing to promote best practice, new legislation is incentivising industry to meet set standards and demand is also rising abroad. As a result, the Board believes that the Environment business is well placed to deliver annual double digit growth over time.

High margins

We concentrate on high margin opportunities in the market, where customers will pay a premium for expert information and advice. We have a strong foundation for future growth: we are already supplying the UK Government with policy advice and information on air quality, energy efficiency and climate change and also advising China and the European Union.

Environment enjoys operating profit margins of over 15% and has recently increased focus on higher margin consulting and environmental software businesses, which are considered by the Group to provide a good platform to capture the underlying growth in these markets.

Future Technologies

As part of our strategy we have now consolidated our key patents into an IP-based business, Accentus plc. It will focus on the commercial development and exploitation of IP through partnerships and licensing and has scope for significant value creation. It brings together AEA Technology's exciting innovations in areas with growth potential, such as plasma technology, process intensification, biosciences and materials. It comprises a number of world-class technologies in fields as diverse as

chemical weapons' destruction and diesel particulate reduction. Options for developing Accentus plc are being considered.

We are also looking to develop the value of our Battery Systems business. Activities are now focused on manufacturing at Thurso in Scotland and development at Culham in Oxfordshire. The Board believes the business is well positioned to win a number of Ministry of Defence contracts expected to be announced during 2001.

Cost reduction

At the time of the announcement of the strategy in November 2000, the Board identified that the Group's overhead base would be out of line with the scale and shape of its remaining operations, following the disposals described in the Chairman's Letter. As a result, we will reduce the overhead costs by approximately £6 million per annum as the disposals are completed. This restructuring is expected to be achieved during the course of the current financial year at a total cost of approximately £10 million. We will also continue to drive down costs throughout the Group.

Priorities

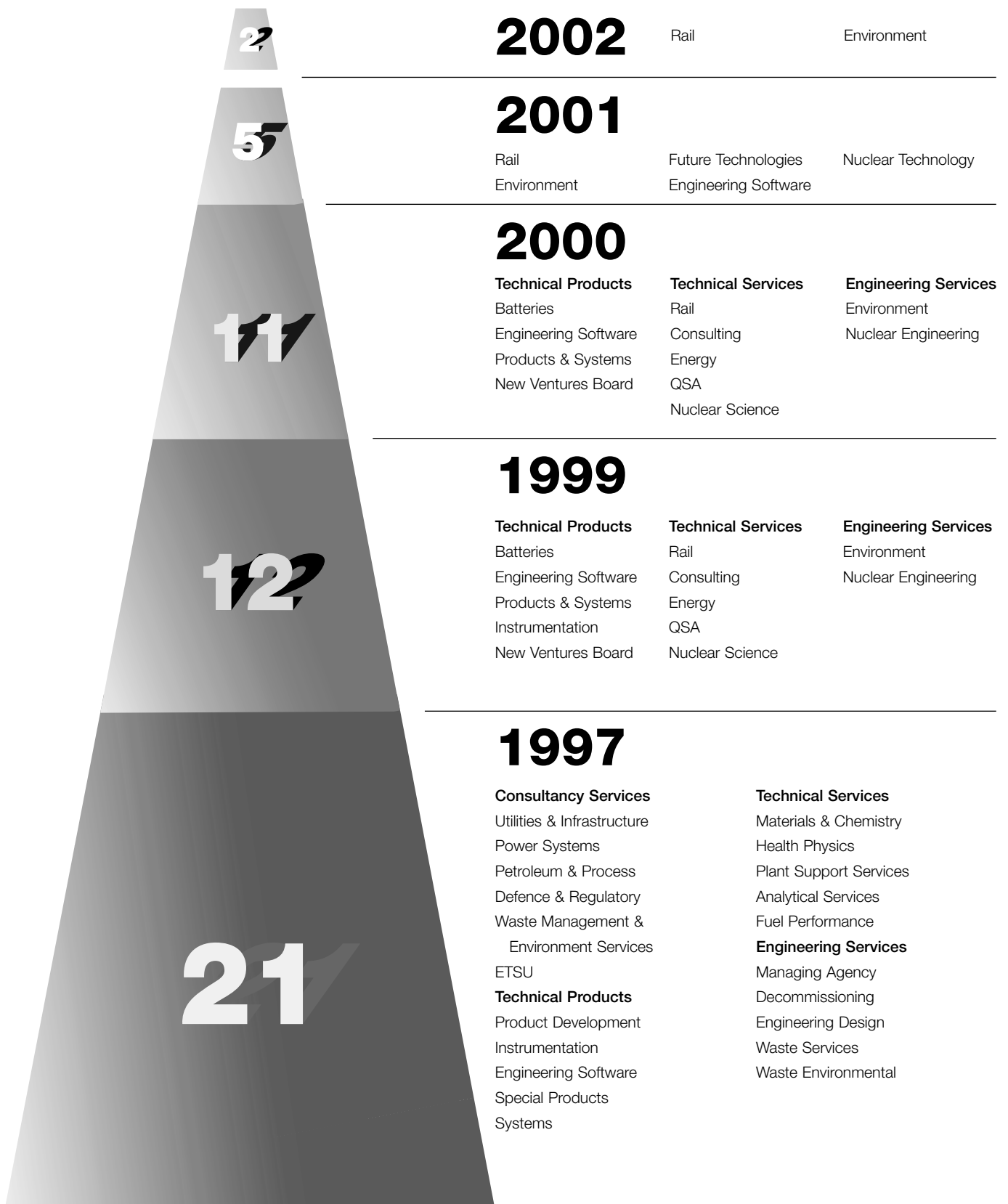
My priorities are to deliver the strategy and to lead the team in maximising operating performance in our core businesses. There is more still to do but we are making good progress at a faster pace.



Dr Peter Watson
Chief Executive

Focusing the Group

How AEA Technology has focused the business since privatisation



Operating businesses

During 2001 the operations of AEA Technology were conducted by five businesses and 21 principal subsidiaries. A brief description of these is given below.

RAIL

Rail

Supplies expertise in enhancing railway performance, such as traction and rolling stock testing and new signalling system development. Also offers strategic and economic consultancy.

Subsidiaries

- **AEA Technology Rail BV** Delivers technology services and solutions to the Dutch and wider European rail markets.
- **Fleet Software Limited** Provides fleet maintenance scheduling software to transport companies.

ENVIRONMENT

Environment

Provides support and solutions to governments, agencies and industry. Expertise covers the breadth of environmental concerns, including risk assessment, contamination, planning, monitoring, due diligence and programme management.

Subsidiary

- **ERG Environmental Resource Group plc** Specialises in designing and constructing air pollution control equipment, process plant and liquid effluent treatment plants within the manufacturing and water industries.

FUTURE TECHNOLOGIES

Future Technologies

Provides high-tech systems for space, defence, nuclear, fine chemicals and pharmaceutical markets. Includes telerobotics and power fluidics, as well as manufacturing support, prototype design work and product development. Supplies products and services to maximise plant value. Expertise focuses on engineering integrity, inspection, modelling performance, safety and risk management.

Battery Systems

Supplies specialist cells, batteries and battery technology.

Subsidiaries

- **AEA Technology Battery Systems Limited** Offers custom-designed batteries and chargers.
- **AGM Batteries Limited** Produces specialist lithium-ion cells for industrial and non-consumer applications.
- **AEA Technology Engineering Services Inc** Delivers structural engineering and design and non-destructive testing for power generation companies and utilities in the US, Europe and Japan.
- **Forensic Alliance Limited** Provides forensic science services for UK police forces and other customers.

ENGINEERING SOFTWARE

Engineering Software

Offers engineering software and support services for manufacturing, chemical and process industries, including process design, fluid engineering and heat transfer.

Subsidiaries

- **Hyprotech Limited** Specialises in process simulation software. Provides integrated and value-added solutions to major operators in the oil and gas markets.
- **AEA Hyprotech KK** Supplies engineering software to Japan.
- **AEA Technology GmbH** Provides engineering software licences and consultancy in Germany.
- **AEA Technology Engineering Software Inc**
- **AEA Technology Engineering Software Limited** (registered in Canada). Both serving customers in North America with computational fluid dynamics software.
- **Hyprotech Inc** Provides Hyprotech products to the US.
- **Hyprotech Europe SL** Supplies Hyprotech products in Europe.

- **AEA Technology Engineering**

Software Limited Supplies Hyprotech and CFX products in the UK.

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

- **EA Systems Inc** Offers plant design systems and consultancy.

NUCLEAR TECHNOLOGY

QSA

Supplies process control, smoke detection and radiographic inspection products. Services include product training and maintenance, application consultancy and recycling.

Subsidiaries

- **AEA Technology Limited** (registered in Hong Kong). Offers customer services for QSA products in Pacific Rim countries.
- **AEA Technology QSA Inc** Manufactures Sentinel products, which serve the non-destructive testing market.
- **AEA Technology QSA GmbH** Manufactures sources for calibration and medical purposes. Also conditions, and disposes of, waste residues from medical and industrial clients.
- **Shenzhen CIC-AEA Technology Manufacturing Co Limited** Manufactures detection units for smoke alarms.

Nuclear Engineering

Offers comprehensive nuclear plant expertise, including plant design, build and commissioning, engineering consultancy, operational support and decommissioning.

Nuclear Consulting

Provides safety and risk management services to ensure the safety and efficiency of plant, processes and systems. The safety business centres on nuclear customers.

Nuclear Science

Offers experimental techniques to optimise the performance and safety of nuclear operations and plants.

Operating review

A strategy for growth

Rail

An improvement in performance reflected the changing rail marketplace in the UK and overseas

AEA Technology's Rail business is the leading supplier of technology to the UK rail sector. In 2001 it performed strongly, with operating profit rising from £6.6 million to £8.3 million. Turnover climbed from £36.4 million to £52.7 million.

The improvement in performance reflected developments in the rail marketplace. Key factors included:

- The separation of responsibility for rolling stock and infrastructure
- The opening up of markets, through technological development and greater outsourcing
- The consolidation of the global supply chain into multi-national, multi-functional players

In the UK, growth is being driven by continuing public and political scrutiny of the rail industry's safety and punctuality record. A key strategic focus has been on the delivery, to the train operating companies and Railtrack, of high value-added, expert-technology products and services which meet this demand for safety and reliability.

There were several significant developments within the business during the year. The capability to develop innovative, leading-edge products was boosted by the acquisition of Fleet Software Limited. This will improve Rail's business decision support software capability. In

April 2001, nCode, the automotive and aviation durability software producer, was transferred to the Rail business. This will strengthen the business's software capabilities, help Rail move into the broader transport sector, and enable nCode to pursue fatigue analysis in the rail industry.

The business's industry expertise and close customer relationships were underlined by the first ever strategic supplier agreement to be awarded by Railtrack. Meanwhile, last year's comprehensive agreement for sales and services with ALSTOM, one of the world's largest transportation companies, was further expanded to include the Passenger Load Determination product.

Major contract wins reinforced Rail's reputation. In partnership with Cap Gemini and SYSECA, the business won a £2.9 million contract with Virgin Trains to support the train operator's Middleware System software initiative. A further contract saw Connex sign up for the new SmartSander™ system, which detects and remedies slipperiness on rails.

Our strategy for overseas expansion took a significant step forward with the acquisition of NSTO, the Technical Centre of the Dutch State Railways. In South East Asia, meanwhile, work began with Lloyd's Register on the independent verification and validation of the new Taiwanese High Speed Railway project.

Environment

Environment ended the year on a strong note and prospects are favourable for future growth

The Environment business is a major supplier of consultancy, programme management and IT-based products and technical services. It has an international standing in climate change alleviation, air quality assessment and information, and chemical emergency response.

Annual turnover fell during the year from £57.0 million to £52.1 million, due to a fall in sales at the contract engineering subsidiary, ERG Environmental Resource Group plc (ERG). This fall largely reflected the refocusing of ERG towards fewer, more attractive market segments. Again due to ERG's results, operating profit, before exceptional operating charges, fell from £6.3 million to £3.6 million. During the year, ERG was reorganised to prepare it for sale, with increased concentration on niche positions. Due to reduced demand, it was decided that general contracting for the water industry should cease by the end of the calendar year, after existing contracts had been completed. In April 2001, the remainder of ERG became part of the Future Technologies business.

In the UK, growth is being driven by the government's continued investment in the environment, increased legislative activity and growing consumer awareness. Globally, pressure continues to increase for companies to report environmental health and safety issues clearly and objectively to regulators and other stakeholders. This development is creating a new market for IT products and services. Prospects are therefore favourable for future growth.

A key strategic focus is on extending our remit with the UK Government, to whom we are already the leading adviser on developing and disseminating environmental best practice programmes. In 2001, as the business sought to extend its government project management

remit, public sector sales rose by 4%. Wins included a £3.8 million, four-year contract to help reduce greenhouse gas emissions, in a project which the business will co-ordinate on behalf of the International Energy Agency. Another win was the extension, for a further two-and-a-half years, of the contract to manage the DTI's Bio-Wise programme, under which advice is offered to UK industry on the adoption of biotechnologies. The business was also appointed to run a Foreign and Commonwealth Office information drive for travellers, Know Before You Go.

Another key strategic focus is on targeting specific sectors of the UK private sector and during the year sector sales rose by 50%. This was partly due to the business's success in anticipating and meeting industry demand for climate change, air quality and waste management expertise. The launch of a consultancy unit, Cirrus, focusing on managing reputation, risk and fiscal impacts, also boosted private sector performance.

The business is also looking to develop overseas opportunities and during the year there was mixed success. The increasingly competitive aid-funded area yielded a loss and the business now intends to target overseas activity more selectively. In China, where the business believes there is strong potential for future growth, it advised five regions on solid waste disposal and handling, as part of a £0.6 million deal.

The ability to deliver knowledge through software-based solutions will be an important engine of growth for the business. During the year, Environment made good progress in developing its software capability by acquiring a controlling interest in data management company Monitor Pro Limited.

Future Technologies

The Future Technologies business was reorganised in April 2001 into three units: Accentus plc, Battery Systems and Value Realisation

In 2001, Future Technologies achieved £63.1 million turnover, on a par with the previous year. Investment in key start-up businesses contributed to an operating loss, before exceptional operating charges, of £7.4 million, down from last year's operating loss of £1.3 million. An exceptional operating charge of £11.4 million, including costs associated with exiting a number of product areas and redundancy costs, was incurred following a review of the business's strategic direction and contract portfolio.

During 2001, preparations were made for the separation of the Future Technologies business into three units: Accentus plc, Battery Systems and Value Realisation. These units were launched in April 2001.

Accentus plc

Accentus plc includes the following world-class technologies:

- Electrocat™
- SILVER II™
- V-tex™
- Lithium-ion batteries
- ELECTROX™
- Microsystems
- Gas to Liquid

These technologies are protected by more than 1,000 granted patents and patent applications. Further applications will be filed in the coming year.

Accentus plc made progress in a number of important technological and commercial areas. For example, it won two further multi-million dollar testing contracts from the US Department of Defense, for the use of SILVER II™. This patented technology destroys chemical weapon stocks and, unlike other means of disposal, does not produce potentially hazardous by-products.

Accentus plc also includes AEA Technology's **Innovation Plus™** scheme, which seeks out new ideas from outside the Group which are capable of being developed into successful commercial products or services.

Battery Systems

Battery Systems covers the main cell and battery manufacturing activities and includes AGM Batteries Limited and AEA Technology Battery Systems Limited (ABSL). Its business strategy is to focus on market sectors needing specialist, high value-added products based on Li-ion technology. During the year, preparations began on consolidating the business for greater focus and efficiency. In the 2002 financial year, manufacturing will be concentrated at Thurso, with the transfer of the Crawley-based ABSL operations, while development will be focused at Culham.

Value Realisation

Value Realisation comprises a series of small businesses with a wide variety of markets. They include Race Engineering, Sub-Surface Engineering, Inspection and Verification products and services, and Integrated Systems, which includes the design and manufacture of laser-based instruments and robotics. These will be part of a phased divestment programme.

In the 2001 financial year, EBIS, the electron radiation services business, and AEA Sonomatic BV, the non-destructive testing subsidiary, were divested.

Engineering Software

New product launches from each of the three Engineering Software businesses helped boost overall turnover

In 2001, the Engineering Software business had three international divisions – Hyprotech, CFX and nCode. Overall turnover rose to £61.8 million, from £53.5 million. Operating profit reduced from £7.9 million to £7.1 million.

Hyprotech

The Hyprotech business provides process simulation software to the oil and gas refining markets, where pressure for production efficiency and cost reduction is leading to increased use of such software. In these changing markets, customers are increasingly looking for major multi-year licence deals and for broader-based solutions, requiring simulation technology combined with other applications.

To best manage this changing and competitive market, Hyprotech's strategy has focused on:

- Maintaining its strong product position
- Developing significant partnerships and alliances for access to software applications
- Expanding in international markets and adjacent industries

During 2001, Hyprotech continued to develop its strong product set. The Research Institute of the Petroleum Industry (RIPI), a subsidiary of the National Iranian Oil Company (NIOC), was among the first customers to take up its unique product, HYSYS.Refinery™.

The broad range of software products in Hyprotech's offering, and innovative licensing and computing techniques to deploy software across global corporate networks, played a key role in several significant new agreements. These multi-million dollar, multi-year agreements are with major oil, gas, chemical and engineering companies. Major contracts were signed with Fluor and Praxair.

In June 2001, AEA Technology announced that more value would be achieved by selling Hyprotech than by looking for external partners. The sale is expected to go ahead later in the 2001 calendar year.

CFX

CFX's target segments have been growing more strongly than the generic computer-aided engineering market. This has reflected pressure to reduce product development costs and time to market and to improve product performance; increased recognition of the importance of fluid flow analysis, and a shift from academic users to design engineers in corporate research and development centres.

The CFX strategy has focused on:

- Effectively exploiting the most recent release of its flagship product suite CFX-5™ in its existing main markets
- Forging partnerships and alliances to offer technical synergies and provide wider market access

During the year, contracts for CFX-5™ were signed with industry-leading customers such as Bosch and Siemens Power Generation. Interest should continue to build during the coming year, with the roll-out of new versions of the product.

The AEA Technology Board has also announced its intention to sell CFX.

nCode

During 2001, fatigue and lifetime prediction software supplier nCode's strategy was to:

- Maintain a strong software position by new product development
- Improve access to markets via strategic alliances

During the year the nCode global services business has enjoyed outstanding success, with major projects underway at General Motors, Delphi and Scania. Of particular note is nCode's emerging ICE-flow™ technology, which helps customers with systems integration. Building on its automotive strengths, nCode signed its first significant deal in the aerospace sector, with major landing gear manufacturer Messier-Dowty.

As indicated above, in April 2001, nCode was transferred to the Rail business.

Nuclear Technology

Significant milestones were reached in selectively divesting the Nuclear Technology businesses to free cash for investment

Nuclear Technology comprises Nuclear Engineering, Nuclear Consulting and Nuclear Science, which serve the nuclear power and defence sectors, and QSA, which serves the industrial and medical sectors. The nuclear power and defence businesses operate in a mature and highly-regulated market and are being divested.

In the 2001 financial year, turnover declined from £156.0 million to £149.0 million, due partly to increased regulatory pressure in the UK. Such pressure affected the use of Nuclear Technology's highly specialised shielded facilities. Due to static market conditions and increasing competition, it was decided that Nuclear Science should exit its shielded facility at Harwell. Exceptional costs of £10.3 million were incurred and provided for. Operating profit before exceptional operating charges was £8.2 million, down from £14.5 million.

Nuclear Engineering

In Nuclear Engineering, business sales remained steady, and an improved operational performance lifted its profit significantly on the previous year. In the context of the planned divestment, the business worked closely with its key customers to ensure that the changes worked to mutual benefit.

In June 2001, the AEA Technology Board announced the sale of Nuclear Engineering to NUKEM Nuclear Ltd, a member of the international TESSAG Group, subject to regulatory approvals.

Nuclear Consulting

Nuclear Consulting enjoyed buoyant sales in the traditional nuclear areas and growth in aviation safety services. Sales to BNFL grew significantly. A £9.7 million contract was confirmed with the Ministry of Defence for nuclear submarine support.

In June 2001, AEA Technology announced that sale plans for Nuclear Consulting were progressing well and that an agreement was expected in the first half of the 2002 financial year.

Nuclear Science

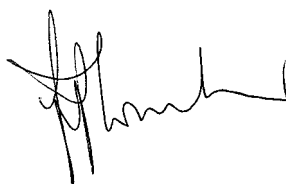
Nuclear Science had a challenging year as a shortfall in waste management work, the loss of a major five-year British Energy contract and cost pressures from key customers affected performance. As indicated above, Nuclear Science is to be restructured to focus on its highly specialised facility at Windscale. Following this restructuring, a formal disposal process will commence.

QSA

The QSA business's traditional markets are in industrial areas, such as smoke detection, process control and non-destructive testing. However, it is now developing a growing base in the medical science arena. During the year, the business continued to disengage plant from the sites of its former parent, Nycomed Amersham.

In the industrial sector, sales were constrained by delayed product launches. Prospects are, however, stronger for the coming financial year, due to the launch of major products and an expected increase in smoke detector sales.

In the medical science area, sales grew strongly. Significant successes included the production of sources for medical gamma cameras and a worldwide supply agreement with a major camera manufacturer. The first major order for miniature radioactive sources was secured from Novoste Corporation. Significant progress was made in developing a facility for the commercial exploitation of yttrium-90 (a key component in a new generation of 'smart drugs' which seek out and destroy cancerous cells).



Stephen Thornton
Chief Operating Officer
25 June 2001

Financial review

Operating results

Group turnover increased by £12.7 million (3.5%) from £366.0 million to £378.7 million. Acquisitions in the year contributed £4.6 million to the increase. Organic growth has been generated in the Rail business with increased demand for improved safety and operational performance, and in the Engineering Software business which secured several large deals with major oil, gas and engineering companies.

Operating profit before exceptional operating charges decreased from £34.0 million to £19.8 million; operating profit margin before exceptional operating charges reduced from 9.3% to 5.2%. Included within operating profit is an increase in research and development investment of £3.2 million (28%) to £14.7 million (2000: £11.5 million). Details of research and development projects undertaken are given in the Directors' Report on pages 20 and 21.

Significant steps have been taken over the course of the year to focus on areas of strength, eliminate loss-making activities, reduce costs and rationalise the Group. As a result exceptional operating charges of £24.0 million (2000: nil) were incurred as follows:

- £11.4 million in Future Technologies, covering redundancies, asset impairments, vacant property provisions and contract losses arising from rationalisation of products and services following review by management of the business's strategic direction and contract portfolio
- £10.3 million in Nuclear Technology, covering accelerated decommissioning, asset impairments and vacant property provisions relating to the decision to exit from the Harwell B220 facilities over the next three years. Costs relating to any redundancies resulting from this decision will be provided for in future years
- £2.0 million of central redundancy costs, resulting from consolidation into five businesses. Redundancy costs of £0.3 million were also incurred in the Environment business following the rationalisation of activities at ERG Environmental Resource Group plc, its contract engineering subsidiary based in Horsham

Net interest charges decreased from £6.1 million to £5.5 million. This reflects the unwinding of both lower levels of discounted deferred consideration on acquisitions and higher levels of discounted accrued income on multi-year licence deals in the Engineering Software business.

Following a request from the trustees of the Company pension scheme, a valuation of the scheme

was carried out as at 31 March 2000. This used the market valuation approach (note 8) as a first step towards implementing Financial Reporting Standard 17: Retirement Benefits; previously the actuarial method had been used. The total pension cost for the Group was £6.6 million (2000: £9.7 million).

Decommissioning liabilities which arose before 1 April 1996 remain with AEA Technology's former parent United Kingdom Atomic Energy Authority (UKAEA). Group policy is to provide fully for all new decommissioning liabilities as soon as a facility becomes contaminated. Decommissioning charges made in the year (note 23) totalled £3.3 million (2000: £0.3 million) of which £1.4 million is included within exceptional operating charges. During the year new facilities were commissioned by QSA as part of its disengagement from premises owned by its former parent Nycomed Amersham.

Since the announcement of the half-year results, the Board of Hunting BRAE Limited, in which AEA Technology holds an 18% investment, changed its intended dividend policy. £4.1 million non-recurring investment income included in the half-year accounts has been removed and has not been included in the Group's full-year profit and loss account. Instead cash received of £4.5 million has been included in net debt.

Profit before tax (before exceptional operating charges) reduced from £29.7 million to £14.6 million. After exceptional operating charges of £24.0 million the loss before tax was £9.4 million.

The overall tax credit on the loss before tax was £0.4 million (2000: charge of £8.9 million). The tax charge on the profit before tax before exceptional operating charges was £4.4 million, an effective rate of 30% (2000: 30%). This relatively low Group rate of tax is due to the release of over-provisions for taxation made in prior years (note 12). The taxation credit on the exceptional operating charges has been calculated on the basis that many of these items are disallowable.

Cash flow and borrowings

A key target this year has been to improve cash flow. Management of working capital has improved significantly resulting in an increase in net cash inflow from operating activities of £28.9 million to £35.2 million (2000: £6.3 million). The improvement in the management of debtors is reflected in Group debtor days

which have reduced from 82 days to 60 days. In addition, operating cash flows reflect increasing balances for income received in advance of work done on a number of major contracts, particularly in the Rail business. Creditors days for the Company were 33 days at the year end (2000: 30 days).

Purchases of tangible fixed assets totalled £6.4 million (2000: £9.9 million). All capital expenditure requires the prior approval of the Capital Expenditure Committee, which meets monthly and is chaired by the Chief Executive. All major investments over £2.0 million require Board approval. It is also AEA Technology policy to carry out a post investment appraisal on a selection of schemes. Disposals of tangible fixed assets totalled £0.3 million (2000: £15.5 million). The main disposal in 2000 for £14.4 million was the sale of AEA Technology's remaining property interests at Risley.

Purchases of subsidiaries totalled £6.5 million (2000 £17.4 million) which represented £2.7 million deferred payments on acquisitions made in previous years and £3.8 million relating to acquisitions made during the year (note 29). The principal acquisitions in the year were both in the Rail business: Fleet Software Limited (£1.6 million) based in Barnsley, a software company specialising in products that help bus and train operators improve the management and control of their fleets, and NSTO (£0.7 million), the Technical Centre of Nederlandse Spoorwegen, the Dutch State Railway Organisation. The Group disposed of several small businesses during the year to enhance further the focus on its core activities (note 30). The cash receipts from these disposals amounted to £5.0 million (2000: £2.9 million) generating a profit on disposal of £1.1 million (2000: £1.0 million).

As a consequence of improved cash flow from operations, year-end net debt has reduced by £5.5 million to £67.8 million (2000: £73.3 million). Group interest, based on the profit before interest and exceptional operating charges, was covered 3.7 times (2000: 5.9 times). The net debt to EBITDA ratio (before exceptional operating charges) was 2.3 times (2000: 1.6 times). The Group finances its operations through a combination of retained profits, bank overdrafts, a three-year syndicated revolving credit facility, a number of bilateral credit facilities and a seven-year private placement facility. The Group is in negotiations to replace the three-year revolving credit facility.

Risk management and treasury policies

The Board has an established risk management process that complies with the Turnbull Committee guidance on internal control. This is detailed in Corporate Governance on pages 23 to 24.

Treasury management

The Group uses various financial instruments in order to manage the exposures that arise in its business operations as a result of movements in financial markets. The Group does not undertake speculative foreign exchange or interest rate dealings for which there is no underlying exposure. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions. All treasury activities are focused on the management of risk. There have been no significant changes in the Group's policies in the last year. The main risks continue to be movements in foreign currency exchange rates and interest rates. All such exposures are managed by the Group Treasury function, which reports to the Group Finance Director and operates within written policies approved by the Board and within the internal control framework.

Foreign exchange

The Group is exposed to movements in exchange rates for foreign currency transactions and for the translation of net assets and profit and loss accounts of foreign subsidiaries. Where the Group has a significant overseas operation, foreign currency borrowings are utilised to protect the Group's balance sheet from the movement in exchange rates. The Group is exposed to a number of currencies. The most significant transactional currency exposures are the US dollar, Canadian dollar, Japanese yen and the euro. The Group seeks to hedge its transactional exposure using a variety of financial instruments. Exposures resulting from sales and purchases in foreign currencies are matched where possible and the net exposure may be hedged by the use of forward currency transactions. The objective is to minimise the impact of fluctuations in exchange rates on future transactions and cash flows.

Credit risk management

The Group's policy is to monitor and manage its exposure to counter-parties.

Interest rate risk

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 rate profile 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. Imbalances which are likely to persist for more than a year are corrected using hedging techniques.

Shareholders' return and value

The earnings per share adjusted for exceptional operating charges and amortisation of goodwill fell to 13.8p (2000: 25.6p).

A final dividend of 7.3p per share is proposed, bringing the total dividend for the year to 11.1p per share. This is the same as the 2000 dividend level. The dividend is covered 1.1 times by earnings before exceptional operating charges.

During the year AEA Technology shares fell from 362.5p per share to 157.5p per share. The Company's shares ranged in price from 157.5p in March 2001 to 482.5p in October 2000.

Information technology

Continued investment in information technology (IT) means that desktop hardware is now being replaced on a three-year rolling programme. The first phase of the IT infrastructure development project has been delivered, providing a secure extranet capability to enable AEA Technology to exploit further e-business and collaborative working with our partners.

Accounting policies

A description of the principal accounting policies appears on pages 37 to 40. The policies followed are consistent with those applied last year.

The Accounting Standards Board has recently issued three new standards. Financial Reporting Standard 17: Retirement Benefits has a phased implementation, beginning in 2002 for disclosure, with full implementation in 2003. Financial Reporting Standard 18: Accounting Policies is mandatory for the 2002 financial statements. AEA Technology's accounting policies are currently being reviewed to assess the appropriateness of all policies under this standard. Financial Reporting Standard 19: Deferred Taxation is also mandatory for the 2002 financial statements.



Mark Alexander
Acting Group Finance Director
25 June 2001

Directors' report

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 11 to 18.

Results and dividends

The year's results are set out in the Consolidated Profit and Loss Account on page 32. The Directors recommend a final dividend of 7.3p per share. Together with the interim dividend of 3.8p per share, paid in February 2001, this would make a total for the year of 11.1p (2000: 11.1p). The final dividend, if approved at the annual general meeting (AGM), will be paid on 1 October 2001 to those shareholders on the register at 6 July 2001.

Changes in fixed assets

Details of changes in fixed assets are given in note 17 to the financial statements.

Post balance sheet events

As announced on 4 June 2001, the Board has agreed to sell the Group's Nuclear Engineering business to NUKEM Nuclear Ltd. Completion is subject to the approvals of the Nuclear Installations Inspectorate and the German competition authorities. In 2001, on an unaudited basis, Nuclear Engineering had a turnover of £43.8 million, profit before taxation of £2.3 million and unaudited net operating assets of £3.6 million.

Directors

The Directors of the Company during the year were as follows:

Sir Anthony Cleaver (63)

Chairman

Sir Anthony Cleaver was appointed Chairman of AEA Technology in March 1996, having formerly been chairman of UKAEA. He also chairs the Nomination Committee. He is chairman of the Medical Research Council, IX Europe and STthree, and a non-executive director of Smith & Nephew and Lockheed Martin UK. He is also chairman of the Council for Excellence in Management and Leadership.

Executive Directors

Dr Peter Watson (57)

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 Spectris plc and of the Martin Currie Enhanced Income Trust. He is a member of the Nomination Committee.

Ray Proctor (56)

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 and retired on 31 March 2001.

Andrew McCree (43)

Director, Corporate Affairs and Human Resources

Andrew McCree was appointed to the Board in November 2000. He has held a number of senior posts in corporate affairs and human resources in AEA Technology and, before that, in UKAEA which he joined in 1991. He was previously with BP plc.

Stephen Thornton (43)

Chief Operating Officer

Stephen Thornton joined the Board in January 2001 upon his appointment as Chief Operating Officer. In his previous career, he was managing director British Steel Asia before joining the BOC Group where he was vice president, Europe, Middle East, Africa.

Non-executive directors

Dr Leslie Atkinson (57)

Dr Leslie Atkinson worked for many years with BP plc where he became chairman of BP Asia Pacific. He later was an executive director of Tarmac plc responsible for construction services. He holds a number of other director appointments including Electrocomponents plc. He was appointed to the Board of AEA Technology in August 1996. He is a member of the Audit and Remuneration Committees.

Professor Michael Brady (56)

Professor Michael Brady is BP Professor of Information Engineering at Oxford University. He was formerly a non-executive member of 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 deputy chairman of Oxford Instruments Limited. He chairs the Science and Engineering Advisory Committee and is a member of the Nomination and Remuneration Committees.

Lord Sharman of Redlynch (58)

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

Andrew Shilston (45)

Andrew Shilston is finance director of Enterprise Oil plc and was appointed to the Board of AEA Technology in August 1996. He chairs the Remuneration Committee and is a member of the Audit Committee.

Dr Chris Wright and Dr Mel Wood retired as Directors on 3 May 2000 and Dame Steve Shirley retired as a Director on 20 July 2000.

Dr Leslie Atkinson and Andrew Shilston 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.

Andrew McCree and Stephen Thornton, who were appointed by the Board during the year, will retire and stand for election at the forthcoming AGM.

Directors' interests

The Directors' service agreements and their interests in the Company's shares are described 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 agreements for the joint purchase of property with each of Dr Peter Watson and Ray Proctor (see section four of the Report on Directors' Remuneration).

Share capital

The issued ordinary share capital increased during the year by 225,822 to 88,633,107 shares as a result of the issue of new shares to meet the exercise of options under the Group's employee share schemes.

Substantial shareholders

As at 4 June 2001, the Company had been notified under section 198 of the Companies Act 1985 (as amended) of the following notifiable interests in its shares:

- Schroder Investment Management Limited 13.3%
- Newton Investment Management Limited 10.9%
- UBS Asset Management Limited 9.9%.

Acquisitions, joint ventures and new branches

Acquisitions made in the year are detailed in note 29. The Company has 12 registered branches in other countries, opening a new branch in Bangalore, India during the year.

Research and development

Research and development (R&D) expenditure was £14.7 million (2000: £11.5 million). It continued to be directed at the launch of new products and ventures as well as longer-term technology developments to underpin future organic growth.

The individual businesses directly control much of the R&D investment in their own areas and are responsible for investing in new products and processes as appropriate to their individual needs.

In Rail, the close customer relationships and deep understanding of industry issues has enabled a continuing stream of new and improved products and services to be brought rapidly (and profitably) to market during the year which has helped fuel the high organic growth rate of the business in the past year.

In Environment, the main focus of their R&D has been on building a strong web-enabled services and software products portfolio to assist businesses in achieving cost effective compliance with regulations and realising business advantage through excellence in environmental management. Progress towards this goal has been significantly accelerated through the acquisition of a small environmental data management software company (Monitor Pro Limited) – a good example of acquisition and organic growth investment combining to help realise a strategic business objective as rapidly as possible.

In Future Technologies, much of the R&D investment has been directed towards strengthening the IP position in the key areas that are being taken forward for exploitation in the newly formed Accentus plc.

In Engineering Software, significant investment has gone into developing 'next generation' products (including web-enabled products that might be exploited through a variety of e-business models) in all the major divisions. Market testing of the new product concepts has been positive, with orders from 'early adopters' beginning to develop – particularly in nCode around a product enabling a more integrated approach to be taken to engineering design in the automotive industry.

In Nuclear Technology, the main investment has been in the QSA business, with particular emphasis on nuclear medicine for both therapeutic and diagnostic applications.

Other channels to securing IP and access to relevant R&D have continued to be pursued:

- The **Innovation Plus**[™] scheme attracted over 300 enquiries from outside the Group, of which 60 went forward for detailed evaluation
- The Group's programme of strategic partnerships with selected universities has been enhanced by its support of a new Chair in Engineering for Sustainable Development at Cambridge University, co-sponsored with the Royal Academy of Engineering and the Department of the Environment, Transport and Regions

Employees

During the year AEA Technology had an average of 4,549 employees.

Management actively encourages employee involvement and participation. Elected employee representatives sit as full members on the Group Executive Meeting 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.

The Directors are committed to enhancing opportunities for employees to become shareholders in the Company. Another annual save-as-you-earn invitation was made across the Group in December with over 1,000 employees applying.

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.

Health and safety

AEA Technology's commitment to the health and safety of its staff is set out in its health, safety and environmental policy signed by the Chief Executive, who was the Director responsible for health and safety management last year. Safety issues, together with the control measures in place, form part of the Group's risk-based internal control system. The Board also takes annually a report on health and safety performance. Details of the health, safety and environmental policy, and of health and safety targets and performance measurements, can be found on the Group's website.

Environment

The major environmental effects of the Group's activities continue to be the discharge of radioactivity, energy consumption for heating and lighting, office waste production and business travel.

Discharges of radioactivity are closely monitored in compliance with regulatory requirements. Discharges in the year were well within authorised limits. They are regularly reviewed to ensure that they continue to be as low as reasonably practicable. On the basis of monitoring energy consumption for the past three years we have set a target of at least a 3% reduction over the first 12 months from launch.

AEA Technology's environmental commitment is set out in its health, safety and environmental policies signed by the Chief Executive. Environmental risks to the Group, together with the control measures in place, form part of the wider risk-based internal control process in place in the Group. The Board also reviews annually a report on environmental performance.

The requirements of our policies are implemented through instructions and guidance notes available to all employees. Compliance is monitored by an independent internal audit team. An Environmental Forum acts as a focus for encouraging staff champions and supports improvement initiatives.

The Group's policy is to achieve certification to ISO 14001. Environment and Nuclear Consulting have achieved such certification. As part of the preparation for certification, employees were given training in environmental management. Dialogue has been initiated with major suppliers about their environmental policies.

More details of our health, safety and environmental performance, including data on our most significant impacts, can be found on our website, which also includes the Group's health and safety and environmental policies and management arrangements. The figures have been peer reviewed by environmental professionals.

During the year we again took part in the Business in the Environment Index of Corporate Environmental Engagement. Our position in this widely accepted ranking system continued to improve. We are now placed 13th out of 51 participating companies in our economic group, and we were cited as one of the five most improved companies last year.

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 that its procedures and systems suit the new currency. Costs incurred to date have been negligible and future costs are not expected to be significant.

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 £61,318 for charitable purposes during the year plus contributions in kind. No political contributions were made.

Payment policy

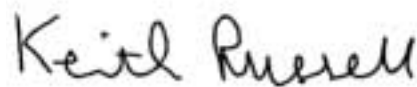
AEA Technology is a registered supporter of the CBI's Prompt Payment Code. Its policy is to agree terms of trading which are appropriate for suppliers' markets and to abide by such terms where suppliers' obligations have been met.

The average creditor payment period at 31 March 2001 was 33 days (2000: 30 days).

Auditors

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

By order of the Board



Keith Russell
Company Secretary
25 June 2001

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 one of the Combined Code on Corporate Governance issued by the Financial Services Authority (the "Combined Code").

Directors

During the last year, the Board comprised the non-executive Chairman, the Chief Executive, Executive Directors in the Group's key operational posts and five other non-executive directors (four, after Dame Steve Shirley retired in July 2000). These last four are all independent of management and of any business or other relationship which could materially interfere with the exercise of their independent judgement. The Directors 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 normally 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. The members are Sir Anthony Cleaver (Chairman), Professor Michael Brady, Lord Sharman and Dr Peter Watson. It met once during the year.

The Remuneration and Audit Committees are

described elsewhere. 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, thus helping to ensure that the technical base of the Group is robust enough to generate significant new products and services. It met twice last year.

Directors' remuneration

The Report on Directors' Remuneration is given on pages 25 to 29. It has regard to Schedule B of the Combined Code.

Shareholders considered and approved the executive remuneration policy by resolution at the 2000 AGM.

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.

The Company is consulting shareholders about the level of interest in receiving information electronically, as allowed under new legislation.

Accountability and audit

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

The members of the Audit Committee are Lord Sharman (Chairman), Dr Leslie Atkinson and Andrew Shilston. Dame Steve Shirley was a member until she retired from the Board. The Committee 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 30.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. 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.

The Board confirms that there is an on-going process for identifying, evaluating and managing the Group's significant risks, that it has been in place for the year ended 31 March 2001 and up to the date of approval of the annual report and accounts, that it covers subsidiaries in which the Group has a 50% interest or more, that it is regularly reviewed by the Board, and that it accords with the Financial Services Authority's internal control guidance for directors on the Combined Code.

Control environment

The Group's organisational structure has clearly documented 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 from employees and has endorsed a Code of Business Ethics which has been issued to all employees.

Identification of business risk

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

Control procedures

Control procedures are documented in the Group's management systems, which are subject to external audit. They include a finance manual, corporate and business quality assurance manuals, safety procedures

and environmental management procedures. Procedures are designed to ensure that work is carried out to meet stated objectives, that risk is managed, and that variances are identified and reported in a timely way to enable corrective actions to be taken.

Monitoring and corrective action

The Board approves a business plan and an annual Group budget. It receives monthly reports, supplemented by annual reviews, on a range of key performance and risk indicators, and considers possible control issues. The indicators cover financial, operational, safety and environmental and compliance aspects of performance. 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.

For its annual review of the internal control system, the Board took account of its own reviews and monitoring during the year plus documentation from the Group Executive, in order to obtain the degree of assurance required under the Combined Code.

The Group Executive and business boards similarly receive regular reports. Compliance with control procedures is monitored by internal audit and through wider reviews of compliance with the Quality Management System. Business managing directors are required to confirm their compliance annually with the internal control system.

Statement of compliance with the Combined Code

The Group has been fully compliant throughout the year with the 45 provisions set out in section one of the Combined Code, with one exception. This, as explained in the Report on Directors' Remuneration, is that Dr Peter Watson's contract provides 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 the financial statements.

Report on Directors' remuneration

The Remuneration Committee comprises three independent non-executive directors: Andrew Shilston (Chairman), Dr Leslie Atkinson and Professor Michael Brady. Dame Steve Shirley also served on the Committee until she retired from the Board in July 2000. The Company Secretary acts as its secretary.

In line with the Financial Services Authority's Combined Code, the Committee is responsible, under written terms of reference, 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.

Non-executive directors

With the exception of the Chairman, non-executive directors do not have service contracts with the Company. 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 limits 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.

Market comparators

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.

The Group's executive remuneration policy reflects that applying more generally within the Group, where the objectives are to set basic pay levels in line with median market rates of relevant comparator organisations, to revise basic pay levels each year taking account of movements in market pay rates and company performance, and to reward individual and team performance through the use of bonuses.

2 Remuneration packages

The remuneration arrangements for Executive Directors comprise basic salary, annual incentive scheme, post-retirement benefits, Company Share Option Plan (which has superseded the former Long-Term Incentive Plan arrangements) and normal non-cash benefits. The following paragraphs describe these elements:

A Basic salary There are annual salary reviews which take into account external market levels and internal relativities.

B Annual incentives Executive Directors may earn a bonus of up to 50% of basic salary each year, payable if challenging, quantified targets relating to the current year have been met and if progress has been made to meet strategic objectives. Quantified targets are reviewed each year by the Remuneration Committee and changed where judged appropriate to ensure that these remain challenging and focused on incentivising directors to enhance shareholder value. In 2001, 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.

Report on Directors' remuneration

Annual report 2001

C Post-retirement 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 four below.

D Long-term incentives A Long-Term Incentive Plan (LTIP) introduced in 1997 was used annually to July 1999. Conditional awards of shares are subject to Group performance criteria being met over a three-year period from the date of the award. The final measurement of the performance criteria for the 1998 LTIP award was made on 31 March 2001. Awards made under this plan will not vest. The performance period for the 1999 LTIP award runs to 31 March 2002. On current performance it is unlikely that these awards will vest. Should awards vest, Ray Proctor will receive an award pro rata to his employment during the performance period for the plan (two out of the three years).

Details of movements in LTIP awards during the year are as follows:

	Scheme	Shares conditionally awarded as at 1 April 2000	Lapsed in year	Shares conditionally awarded as at 31 March 2001
Sir Anthony Cleaver	1998	7,059	(7,059)	-
Dr Peter Watson	1999	36,800	-	36,800
	1998	12,941	(12,941)	-
Ray Proctor	1999	27,200	-	27,200
	1998	9,529	(9,529)	-
Andrew McCree	1999	14,000	-	14,000
	1998	4,412	(4,412)	-

A Company Share Option Plan (CSOP) was introduced in July 1999 and extended to Executive Directors in July 2000.

The CSOP is in two parts: an approved part, under which participants can hold up to £30,000 worth of options free of income tax on exercise, and an unapproved part for higher amounts.

Details of awards made to Directors under the CSOP during the year are as follows:

	Date of award	Percentage of salary	Option price	Number of shares	Performance period
Dr Peter Watson	8 August 2000	200%	£4.475	113,966	1 April 2000 – 31 March 2003
	20 September 2000		£4.425	6,779	
Ray Proctor ⁽¹⁾	8 August 2000	150%	£4.475	60,335	1 April 2000 – 31 March 2003
	20 September 2000		£4.425	6,779	
Andrew McCree ⁽²⁾	30 June 2000	100%	£3.975	31,446	1 April 2000 – 31 March 2003
Stephen Thornton	26 February 2001	175%	£2.050	170,731	1 April 2001 – 31 March 2004

⁽¹⁾ Awards lapsed on 1 April 2001.

⁽²⁾ Awarded before appointment as Director.

CSOP awards are subject to a performance target based on the achievement over a three-year period of an earnings per share (EPS) growth as follows:

Options with a value of up to 100% of a participant's annual salary may be exercised where real growth in the Institute of Investment Management and Research (IIMR) EPS is equal to or greater than 3% per year above the level of the UK Retail Prices Index (RPI);

That part of an option award above 100% of salary and below 151% of salary may be exercised where real growth in the IIMR EPS is equal to or greater than 5% per year above the level of the UK RPI. For performance between RPI plus 3% and 5%, this part of an option award may be exercised pro rata;

That part of an option award above 150% of salary may be exercised where real growth in the ILMR EPS is equal to or greater than 8% per year above the level of the UK RPI. For performance between RPI plus 5% and 8%, this part of an option award may be exercised pro rata.

3 Service contracts

Andrew McCree and Stephen Thornton have service contracts that provide for two years' notice of termination of appointment in the first year of contract, reducing thereafter to one year. Dr Peter Watson has a two-year notice period in his 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	Compensation for loss of office £000	2001 Total emoluments £000	2000 Total emoluments £000
EXECUTIVE						
Dr Peter Watson	270	25	-	-	295	282
Ray Proctor ⁽¹⁾	200	16	-	-	216	204
Andrew McCree ⁽²⁾	60	12	-	-	72	-
Stephen Thornton ⁽³⁾	162	7	-	-	169	-
Dr Mel Wood ⁽⁴⁾	14	1	-	205	220	178
Dr Chris Wright ⁽⁴⁾	14	1	-	214	229	181
NON-EXECUTIVE						
Sir Anthony Cleaver	71	-	-	-	71	60
Dr Leslie Atkinson	25	-	-	-	25	20
Professor Michael Brady	30	-	-	-	30	25
Lord Sharman	27	-	-	-	27	22
Andrew Shilston	27	-	-	-	27	22
Dame Steve Shirley ⁽⁵⁾	8	-	-	-	8	20
TOTAL	908	62	-	419	1,389	1,014

⁽¹⁾ The compensation for loss of office for Ray Proctor, who retired as a Director on 31 March 2001, comprised pay in lieu of notice and non-cash benefits of approximately £309,900. This was not paid until the 2002 financial year and will be reported in the 2002 annual report.

⁽²⁾ Andrew McCree was appointed a Director on 27 November 2000.

⁽³⁾ Stephen Thornton was appointed a Director on 29 January 2001. His emoluments include a joining fee of £128,205.

⁽⁴⁾ The compensation for loss of office for Dr Mel Wood and Dr Chris Wright, who retired as Directors on 3 May 2000, comprised pay in lieu of notice and non-cash benefits.

⁽⁵⁾ Dame Steve Shirley retired as a non-executive director on 20 July 2000.

The figures above 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 include all assessable taxable benefits, mainly the provision of a fully expensed company car, health insurance and a cash allowance in lieu of pension benefits above the pensionable earnings cap.

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 property is £71,250.

Report on Directors' remuneration

Annual report 2001

Pensions

All the Executive Directors participate in the Senior Executive section of the Company pension scheme. This provides for a two thirds pension at normal pension age provided that 30 years' service is completed. The Senior Executive section provides for a 37.5% pension payable to a dependant on the death of the scheme member. Dr Peter Watson has a pension age of 62, Andrew McCree 60, and Stephen Thornton 65. The pension increases each year in line with inflation as measured by the RPI subject to a maximum annual increase of 6% in the Senior Executive section. Directors contribute 5% of salary.

All the Executive Directors 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 and Ray Proctor have an unfunded top-up arrangement which is designed to bring their total pension benefits up to 2/3 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. Stephen Thornton and Andrew McCree are paid a cash allowance in lieu of pension benefits above the cap. There are also insurance arrangements which provide additional death in service benefits and permanent health insurance for Dr Peter Watson and Ray Proctor, the costs of which in 2001 were £14,900.

The pension benefits earned in the year to 31 March 2001, 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	19,970	78,054	-	-	269,410
Ray Proctor	17,845	45,772	-	-	334,410
Andrew McCree ⁽¹⁾	1,869	15,697	-	21,757	14,419
Stephen Thornton ⁽²⁾	-	473	-	-	2,154
Dr Mel Wood ⁽³⁾	-	53,140	-	132,426	-
Dr Chris Wright ⁽³⁾	6,151	36,755	-	65,505	124,513

⁽¹⁾ Appointed a Director on 27 November 2000.

⁽²⁾ Appointed a Director on 29 January 2001.

⁽³⁾ Up to ceasing employment on 8 June 2000.

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 or to the date of resignation.

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 above table.

5 Directors' interests

Interests in shares

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

	31 March 2001	1 April 2000 or date of appointment
THE COMPANY – ordinary shares of 10p		
Sir Anthony Cleaver (Chairman)	33,002	33,002
Dr Peter Watson	56,321	54,839
Ray Proctor	4,010	4,010
Andrew McCree	127	127
Stephen Thornton	-	-
Dr Leslie Atkinson	11,369	7,991
Professor Michael Brady	1,147	1,147
Lord Sharman	5,000	5,000
Andrew Shilston	683	683

There were no changes between 1 April and 4 June 2001. No Director 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 28) or the Company Share Option Plan (CSOP) and are set out below:

	1 April 2000 or date of appointment	Number of options granted in year	31 March 2001	Exercise price	Date from which exercisable	Expiry date	Scheme
THE COMPANY – ordinary shares of 10p							
Dr Peter Watson	1,574	-	1,574	£3.200	1 March 2003	31 Aug 2003	SAYE
	-	113,966	113,966	£4.475	8 Aug 2003	8 Aug 2010	CSOP
	-	6,779	6,779	£4.425	20 Sept 2003	20 Sept 2010	CSOP
	-	820	820	£2.360	1 March 2004	31 Aug 2004	SAYE
Ray Proctor	6,696	-	6,696	£2.240	1 Nov 2001	30 April 2002	SAYE
	-	60,335	60,335 ⁽¹⁾	£4.475	8 Aug 2003	8 Aug 2010	CSOP
	-	6,779	6,779 ⁽¹⁾	£4.425	20 Sept 2003	20 Sept 2010	CSOP
Andrew McCree	950	-	950	£3.630	1 March 2003	31 Aug 2003	SAYE
	31,446	-	31,446	£3.975	30 June 2003	30 June 2010	CSOP
Stephen Thornton	-	170,731	170,731	£2.050	1 April 2004	31 March 2011	CSOP

⁽¹⁾ Lapsed on 1 April 2001.

The market price of the Company's shares at the end of the financial year was 157.5p and the range of market prices during the year was 157.5p to 482.5p.

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 2001. 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.

The Directors are responsible for maintaining the integrity of the financial information, including the annual report, on the AEA Technology plc website.

By order of the Board



Keith Russell
Company Secretary
25 June 2001

Independent Auditors' report to the members of AEA Technology plc

We have audited the financial statements which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Equity Shareholders' Funds and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 Companies Act 1985. 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. The other information comprises Who We Are, the Financial Summary, the Chairman's Letter, the Chief Executive's Statement, Focusing the Group, Operating Businesses, the Operating Review, the Financial Review, the Directors' Report, the Corporate Governance statement, the Report on Directors' Remuneration, the Five Year Summary, Shareholders' Information and list of Advisers.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our

review by the Listing Rules, 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 2001 and of the loss 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
25 June 2001

Consolidated profit and loss account

FOR THE YEAR ENDED 31 MARCH	Notes	Before exceptional items 2001 £m	Exceptional items 2001 £m	Total 2001 £m	Total 2000 £m
TURNOVER					
Group and share of joint ventures	1,2,4	378.7	-	378.7	366.0
Less: Share of joint ventures		(4.6)	-	(4.6)	(3.5)
		374.1	-	374.1	362.5
OPERATING COSTS					
	4,5	(354.4)	(24.0)	(378.4)	(328.5)
GROUP OPERATING PROFIT/(LOSS)					
Share of operating profit in joint ventures		19.7	(24.0)	(4.3)	34.0
		0.1	-	0.1	-
GROUP OPERATING PROFIT/(LOSS) AFTER JOINT VENTURES					
Share of operating loss in associates	1-9	19.8	(24.0)	(4.2)	34.0
		-	-	-	(0.2)
TOTAL OPERATING PROFIT/(LOSS): GROUP AND SHARE OF JOINT VENTURES AND ASSOCIATES					
Income from other fixed asset investments	10	19.8	(24.0)	(4.2)	33.8
		0.3	-	0.3	2.0
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION					
Interest receivable and similar income (Group)		20.1	(24.0)	(3.9)	35.8
Interest payable and similar charges (Group)	11	1.0	-	1.0	0.6
		(6.5)	-	(6.5)	(6.7)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION					
Taxation on ordinary activities	2	14.6	(24.0)	(9.4)	29.7
	12	(4.4)	4.8	0.4	(8.9)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION					
Minority interests - Equity		10.2	(19.2)	(9.0)	20.8
		0.4	-	0.4	0.2
PROFIT/(LOSS) FOR THE FINANCIAL YEAR					
Dividends	13	10.6	(19.2)	(8.6)	21.0
	14	(9.9)	-	(9.9)	(9.8)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR					
Earnings per share (pence)	25	0.7	(19.2)	(18.5)	11.2
Earnings per share (pence)	15	12.0p	(21.7)p	(9.7)p	24.1p
Adjusted earnings per share (pence)	15	13.8p	-	13.8p	25.6p
IIMR earnings per share (pence)	15	13.0p	(15.0)p	(2.0)p	24.7p
Diluted earnings per share (pence)	15	11.9p	(21.7)p	(9.7)p	23.6p

All results relate to continuing operations.

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

Details of the exceptional items are given in note 3.

Statement of total recognised gains and losses

FOR THE YEAR ENDED 31 MARCH	2001 £m	2000 £m
(Loss)/profit for the financial year	(8.6)	21.0
Currency translation differences on foreign currency net investments ⁽¹⁾	-	0.1
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	(8.6)	21.1

⁽¹⁾ Included within this is £765,000 debit (2000: £74,000) in respect of exchange differences on foreign currency borrowings that have been used to hedge equity investments. The tax credit on this is nil (2000: £22,000).

Reconciliation of movements in equity shareholders' funds

FOR THE YEAR ENDED 31 MARCH	Notes	2001 £m	2000 £m
Equity shareholders' funds at 1 April		64.2	49.1
(Loss)/profit for the financial year		(8.6)	21.0
Dividends	14	(9.9)	(9.8)
Currency translation differences on foreign currency net investments		-	0.1
New share capital issued		0.5	4.3
Goodwill arising on acquisitions	29	0.2	0.3
Reversal of amounts accrued under the Long-Term Incentive Plan		(0.3)	(0.8)
EQUITY SHAREHOLDERS' FUNDS AT 31 MARCH		46.1	64.2

Balance sheets

AT 31 MARCH	Notes	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
FIXED ASSETS					
Intangible assets	16	0.4	0.5	-	0.1
Intangible assets – goodwill	16	24.8	23.9	-	-
Tangible assets	17	40.0	48.3	26.5	35.9
Investments	18	2.8	2.4	132.6	122.8
Investments in associates		-	1.1	-	-
Investments in joint ventures:		0.4	0.2	-	-
Share of gross assets		3.2	2.2	-	-
Share of gross liabilities		(2.8)	(2.0)	-	-
		68.4	76.4	159.1	158.8
CURRENT ASSETS					
Stocks and work in progress	19	21.2	24.7	15.7	19.4
Debtors falling due after more than one year	20	21.2	13.9	8.0	5.9
Debtors falling due within one year	20	133.6	134.5	112.6	117.1
Cash at bank and in hand		27.2	10.7	8.6	3.9
		203.2	183.8	144.9	146.3
CREDITORS: amounts falling due within one year	21	(141.8)	(92.5)	(124.2)	(77.5)
NET CURRENT ASSETS		61.4	91.3	20.7	68.8
TOTAL ASSETS LESS CURRENT LIABILITIES		129.8	167.7	179.8	227.6
CREDITORS: amounts falling due after more than one year					
Borrowings	22	(46.7)	(82.5)	(48.6)	(84.3)
Other creditors	22	(1.4)	(2.2)	(0.1)	(0.8)
PROVISIONS FOR LIABILITIES AND CHARGES	23	(35.3)	(17.7)	(20.4)	(10.0)
NET ASSETS		46.4	65.3	110.7	132.5
CAPITAL AND RESERVES					
Called up share capital	24	8.9	8.8	8.9	8.8
Share premium	25	8.4	7.7	8.4	7.7
Merger reserve	25	-	-	25.0	25.0
Other reserve	25	-	-	49.1	49.1
Profit and loss account	25	28.8	47.7	19.3	41.9
EQUITY SHAREHOLDERS' FUNDS		46.1	64.2	110.7	132.5
MINORITY INTERESTS - EQUITY	26	0.3	1.1	-	-
		46.4	65.3	110.7	132.5

The financial statements on pages 32 to 70 were approved by the Board on 25 June 2001.

Signed on behalf of the Board of Directors



Sir Anthony Cleaver
Chairman



Dr Peter Watson
Chief Executive

Consolidated cash flow statement

FOR THE YEAR ENDED 31 MARCH	Notes	2001		2000	
		£m	£m	£m	£m
NET CASH INFLOW FROM OPERATING ACTIVITIES			35.2		6.3
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		1.0		0.6	
Interest paid		(6.0)		(6.0)	
Dividends received from fixed asset investments		1.3		1.0	
Dividends paid to minority interests		(0.3)		(0.1)	
			(4.0)		(4.5)
TAXATION					
Corporation tax paid			(8.1)		(6.4)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of intangible fixed assets		(0.1)		-	
Sale of tangible fixed assets		0.3		15.5	
Purchase of tangible fixed assets		(6.4)		(9.9)	
Purchase of fixed asset investments		(0.2)		-	
Sale of current asset investment		-		0.2	
			(6.4)		5.8
FREE CASH FLOW			16.7		1.2
ACQUISITIONS AND DISPOSALS					
Sale of subsidiaries/businesses	30	4.0		2.9	
Purchase of subsidiaries/businesses	29	(6.5)		(17.4)	
Net cash acquired with subsidiaries/businesses	29	0.5		1.7	
Sale of associated undertaking	30	1.2		-	
Investment in associated undertaking		(0.2)		-	
			(1.0)		(12.8)
EQUITY DIVIDENDS PAID			(9.8)		(9.3)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING			5.9		(20.9)
MANAGEMENT OF LIQUID RESOURCES			-		-
FINANCING					
Issue of shares		0.5		4.3	
Borrowings drawn down		80.1		172.3	
Repayment of loans		(71.0)		(167.4)	
NET CASH INFLOW FROM FINANCING ACTIVITIES			9.6		9.2
INCREASE/(DECREASE) IN CASH IN THE YEAR	27		15.5		(11.7)

Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	Before exceptional items 2001 £m	Exceptional items 2001 £m	Total 2001 £m	Total 2000 £m
CONTINUING ACTIVITIES				
Operating profit/(loss)	19.7	(24.0)	(4.3)	34.0
Amortisation of intangible fixed assets	1.7	-	1.7	1.4
Depreciation of tangible fixed assets	8.1	-	8.1	8.5
Impairment of tangible fixed assets	0.2	5.9	6.1	0.9
Loss/(profit) on sale of tangible fixed assets	0.2	-	0.2	(0.7)
Profit on sale of subsidiaries/businesses	(1.1)	-	(1.1)	(1.0)
(Increase)/decrease in stocks and work in progress	(4.1)	7.0	2.9	(1.4)
(Increase)/decrease in debtors	(3.3)	0.8	(2.5)	9.3
Increase/(decrease) in creditors	9.3	0.3	9.6	(38.9)
Increase/(decrease) in provisions relating to operating activities	7.4	7.4	14.8	(5.0)
Reversal of amounts accrued under the Long-Term Incentive Plan	(0.3)	-	(0.3)	(0.8)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	37.8	(2.6)	35.2	6.3

The total cash inflow from operating activities includes an outflow of £2.6 million in respect of exceptional items. This comprises £2.3 million of redundancy costs and £0.3 million of closure costs. Of the total exceptional profit and loss items £13.7 million have no cash impact. The remaining cash flows of £7.7 million will be incurred over the next one to five years.

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 2001. 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 2001. The results of subsidiaries acquired or sold are included in the Consolidated Profit and Loss Account from or to the date on which control passes. Intra-group sales and profits are eliminated fully on consolidation.

Acquisitions are accounted for under the acquisition method. 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.

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 expected useful economic lives of the assets to which they relate. Revenue based government grants are credited to operating profit to match to the expenditure to which they relate.

Investment income

Income from fixed asset investments comprises dividends declared for periods up to the balance sheet date.

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 between five and a maximum of 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.

Negative goodwill is included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.

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 one 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 23, liabilities incurred prior to 1 April 1996 remain with UKAEA.

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. The Company has applied the exemption in Urgent Issues Task Force Abstract 17: Employee Share Schemes for Inland Revenue approved SAYE schemes and equivalent overseas schemes. As a result no cost is recognised in respect of shares offered under these schemes.

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 balance sheet date 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. Geographical analysis

Turnover can be analysed by geographical destination as follows:

	2001 £m	2000 ⁽¹⁾ £m
Government	77.1	78.1
Public sector	28.3	24.1
Private sector	132.3	130.0
TOTAL UK	237.7	232.2
Europe	48.2	44.2
North America	57.8	51.4
Rest of the World	35.0	38.2
	378.7	366.0

⁽¹⁾ The geographical analysis of turnover for the year ended 31 March 2000 has been restated to reflect changes in the analysis.

Turnover can be analysed by geographical origin as follows:

	2001 £m	2000 £m
UK	297.3	289.6
Europe	17.2	17.2
North America	59.4	50.7
Rest of the World	4.8	8.5
	378.7	366.0

The Group's share of joint ventures' turnover increased turnover both to and from North America by £2.1 million (2000: £0.3 million) and to and from the Rest of the World by £2.5 million (2000: £3.2 million).

Operating profit/(loss) can be analysed by geographical origin as follows:

	Before exceptional items 2001 £m	Exceptional items 2001 £m	Total 2001 £m	Total 2000 £m
UK	11.0	(24.0)	(13.0)	31.5
Europe	1.0	-	1.0	1.3
North America	6.1	-	6.1	0.4
Rest of the World	1.7	-	1.7	0.8
	19.8	(24.0)	(4.2)	34.0

The Group's share of joint ventures' operating profit increased operating profit in North America by £0.1 million (2000: nil).

Net operating assets/(liabilities) can be analysed by geographical origin as follows:

	2001 £m	2000 £m
UK	91.0	119.5
Europe	1.6	(0.9)
North America	18.9	18.5
Rest of the World	2.7	1.5
	114.2	138.6

The Group's share of joint ventures' net operating assets increased net operating assets in North America by £0.1 million (2000: decrease £0.1 million) and in the Rest of the World by £0.3 million (2000: £0.3 million).

2. Segmental analysis by class of business

TURNOVER: CLASS OF BUSINESS	Total	2001	External	Total	2000 ⁽¹⁾	External
	turnover	Inter-	turnover	turnover	Inter-	turnover
	£m	segmental	£m	£m	segmental	£m
Rail	52.8	(0.1)	52.7	36.8	(0.4)	36.4
Environment	55.6	(3.5)	52.1	59.1	(2.1)	57.0
Future Technologies	64.7	(1.6)	63.1	66.7	(3.6)	63.1
Engineering Software	61.9	(0.1)	61.8	53.6	(0.1)	53.5
Nuclear Technology	152.5	(3.5)	149.0	159.8	(3.8)	156.0
	387.5	(8.8)	378.7	376.0	(10.0)	366.0

⁽¹⁾ The segmental analysis has been restated to reflect the 2001 business structure (see page 9).

The Group's share of joint ventures' turnover increased turnover in Nuclear Technology by £4.6 million (2000: £3.5 million).

OPERATING PROFIT/(LOSS): CLASS OF BUSINESS	Before	Exceptional	Total	Total
	exceptional	items		
	items	2001	2001	2000 ⁽¹⁾
	£m	£m	£m	£m
Rail	8.3	-	8.3	6.6
Environment	3.6	(0.3)	3.3	6.3
Future Technologies	(7.4)	(11.4)	(18.8)	(1.3)
Engineering Software	7.1	-	7.1	7.9
Nuclear Technology	8.2	(10.3)	(2.1)	14.5
Central redundancy costs	-	(2.0)	(2.0)	-
	19.8	(24.0)	(4.2)	34.0
Share of operating loss in associated undertakings	-	-	-	(0.2)
Income from other fixed asset investments	0.3	-	0.3	2.0
PROFIT/(LOSS) BEFORE INTEREST	20.1	(24.0)	(3.9)	35.8
Net interest payable	(5.5)	-	(5.5)	(6.1)
PROFIT/(LOSS) BEFORE TAXATION	14.6	(24.0)	(9.4)	29.7

⁽¹⁾ The segmental analysis has been restated to reflect the 2001 business structure (see page 9).

The Group's share of joint ventures' operating profit increased operating profit in Nuclear Technology by £0.1 million (2000: nil).

NET OPERATING ASSETS/(LIABILITIES): CLASS OF BUSINESS	2001	2000 ⁽¹⁾
	£m	£m
Rail	22.4	24.9
Environment	3.2	5.1
Future Technologies	38.3	47.6
Engineering Software	31.9	25.7
Nuclear Technology	36.5	42.9
	132.3	146.2
Central net operating liabilities	(18.1)	(7.6)
NET OPERATING ASSETS	114.2	138.6
Net borrowings	(67.8)	(73.3)
NET ASSETS	46.4	65.3

⁽¹⁾ The segmental analysis has been restated to reflect the 2001 business structure (see page 9).

The Group's share of joint ventures' net operating assets increased net operating assets in Nuclear Technology by £0.4 million (2000: £0.4 million).

3. Exceptional items

EXCEPTIONAL OPERATING CHARGES COMPRISE:

(i) £10.4 million for redundancies, asset impairments and contract losses arising on rationalisation of Future Technologies' products and services following review by management of that business's strategic direction and contract portfolio.

(ii) £1.0 million for redundancies and vacant property provisions relating to AEAT Battery Systems Limited.

(iii) £10.3 million of charges for accelerated decommissioning, asset impairments and vacant property provisions relating to the decision to exit from the Harwell B220 facilities over the next three years. Costs relating to any redundancies resulting from this decision will be provided for in future years.

(iv) £0.3 million for redundancies consequent on the announcement in February 2001 of the plan for the rationalisation of the activities of the ERG Environmental Resource Group plc.

(v) £2.0 million of central redundancy costs as a result of the process of consolidating into five businesses.

These exceptional operating charges can be analysed as follows:

	Redundancy £m	Asset impairment £m	Contract write-offs £m	Decom- missioning £m	Other £m	Total £m
Future Technologies	1.2	2.7	6.3	-	1.2	11.4
Nuclear Technology	-	3.2	0.7	1.4	5.0	10.3
Environment	0.3	-	-	-	-	0.3
Central items	2.0	-	-	-	-	2.0
	3.5	5.9	7.0	1.4	6.2	24.0

4. Operating results of acquisitions and disposals

Acquisitions during the year had the effect of increasing turnover by £4.6 million, operating profit by £0.5 million and decreasing net operating assets by £0.3 million as detailed below:

	Turnover £m	Operating profit £m	Net operating liabilities £m
Rail	4.5	0.5	(0.3)
Environment	0.1	-	-
	4.6	0.5	(0.3)

Acquisitions during the year had the following impact on operating costs:

	2001 £m
Cost of sales	2.4
Administrative expenses	1.6
Research and development	0.1
Net other operating income	-
	4.1

Disposals during the year contributed £2.8 million to turnover and £0.4 million to operating profit as detailed below:

	Turnover £m	Operating profit £m
Future Technologies	2.6	0.4
Nuclear Technology	0.2	-
	2.8	0.4

Disposals during the year had the following impact on operating costs:

	2001 £m
Cost of sales	1.5
Administrative expenses	1.1
Research and development	-
Net other operating income	(0.2)
	2.4

5. Operating costs

	Before exceptional items 2001 £m	Exceptional items 2001 £m	Total 2001 £m	Total 2000 £m
Cost of sales ⁽¹⁾	256.6	15.1	271.7	250.9
Administrative expenses	88.0	8.9	96.9	69.6
Research and development	11.6	-	11.6	11.4
Net other operating income	(1.8)	-	(1.8)	(3.4)
	354.4	24.0	378.4	328.5

⁽¹⁾ Includes £3.1 million research and development expenditure (2000: £0.1 million).

Included within net other operating income is £0.1 million (2000: £0.2 million) in respect of grants received by AGM Batteries Limited.

6. Employees

STAFF COSTS IN THE YEAR WERE:	Before	Exceptional	Total 2001 £m	Total 2000 £m
	exceptional items 2001 £m	items 2001 £m		
Wages and salaries	143.1	2.9	146.0	137.0
Social security costs	12.2	-	12.2	11.6
Other pension costs (note 8)	6.4	0.2	6.6	9.7
	161.7	3.1	164.8	158.3

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

	Group		Company	
	2001 Number	2000 Number	2001 Number	2000 Number
Managerial and professional	3,318	3,299	2,614	2,643
Support	619	603	350	330
Technical	415	401	394	401
Manufacturing	197	187	-	-
	4,549	4,490	3,358	3,374

7. Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Report on Directors' Remuneration on pages 25 to 29.

REMUNERATION PAYABLE TO DIRECTORS	2001 £000	2000 £000
Aggregate emoluments	1,389	998
Sums paid to third parties for Directors' services	-	16 ⁽¹⁾

⁽¹⁾ This comprises £11,000 of Lord Sharman's fees which were paid to KPMG International and £5,000 of Dame Steve Shirley's fees which were paid to Shirley Consultancy Limited.

Retirement benefits accrued to the Chairman and six Directors under the Company's defined benefits schemes. Prior to 26 September 1996 retirement benefits accrued to the Chairman and three Directors under UKAEA's defined benefits scheme. The Chairman's retirement benefits accrued under an unfunded pension arrangement prior to 26 September 1996.

EMOLUMENTS PAYABLE TO THE HIGHEST PAID DIRECTOR	2001 £000	2000 £000
Aggregate emoluments	295	282
Defined benefit scheme: accrued pension at year end	78	57

8. Pension costs

PENSION ARRANGEMENTS

Following privatisation, the Company set up a new funded defined benefits pension scheme (the AEA Technology Pension Scheme) covering the Company's employees. The Company scheme is an exempt approved occupational pension scheme, is contracted out of the State Earnings Related Pension Scheme and provides final salary benefits. The scheme comprises three sections. Employees at the date of privatisation were eligible to transfer their accrued benefits from the pre-privatisation statutory defined benefit schemes into the closed section of the pension scheme on a past service reserve basis and the total amount transferred in to cover this liability was £147.5 million. Independent actuarial advice in respect of the likely costs of funding and operating the pension scheme estimates

8. Pension costs (continued)

PENSION ARRANGEMENTS (CONTINUED)

that the long-term cost is 10.9% of pensionable pay. The open section is the arrangement for new recruits to the Company and some subsidiaries, but pre-privatisation employees were also able to join. The Senior Executive section is available to senior staff by invitation only. The contributions payable were 10.9% for the year under review.

The defined benefit scheme is valued regularly by independent actuaries. Following a request from the trustees of the pension scheme the latest valuation of the Company scheme was carried out as at 31 March 2000 using a market valuation basis. In line with a general consensus within the pension industry the actuarial valuation method has changed from a traditional actuarial approach to a market related approach where assets are valued at their market value. This approach is easier to understand and does not artificially smooth results. However, this approach does not hide the volatility in the value of pension scheme assets and can result in successive valuations varying substantially. The move to this method of valuation is the first step in the implementation of Financial Reporting Standard 17: Retirement Benefits.

The main actuarial assumptions are:

Investment return	6.3% pa
Salary growth	4.8% pa
Pension increases	
– closed section	2.9% pa
– open section	2.7% pa
– executive section	2.8% pa

The valuation used for accounting purposes differs from that used for funding purposes. To produce a more realistic actuarial valuation the investment return was increased by 0.5% to 6.3% for accounting purposes. The yield on long-dated gilts at the valuation date was 4.8%. Based on long-term historical trends an equity risk premium of 3% could be expected. Therefore, an investment return of 6.3% is considered reasonably prudent.

The market value of the Company scheme's assets as at 31 March 2000 was £282.2 million. The results of the valuation indicated that the actuarial value of the assets represents 116% of the actuarial value of the accrued liabilities.

The Company also provides, on a defined contribution basis, an additional voluntary contribution scheme and a shift pay pension plan. Other defined contribution pension arrangements exist for some employees in subsidiaries.

Employees who were formerly employees of BR Research Limited prior to their transfer into AEA Technology on 1 April 1997 are members of the AEA Technology Rail Shared Cost Section of the Railways Pension Scheme. Similarly employees who were formerly employees of TCI Limited prior to their transfer into AEA Technology on 1 April 1999 are members of the AEA Technology Rail (TCI) Shared Cost Section of the Railways Pension Scheme. Both of these sections are contracted out defined benefits pension schemes. 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 UKAEA 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 £6.6 million (2000: £9.7 million). The decrease in the pension cost for the year of £3.1 million has arisen as a result of the new valuation and is partly attributable to the change in the actuarial

8. Pension costs (continued)

PENSION COSTS (CONTINUED)

valuation method. The contributions payable on the Company scheme are 10.9%. The contributions payable on the AEA Technology Rail 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 provision built up during the contributions holiday discussed above, over the expected average service lives of the employees from 1 April 1996, and by the effect of spreading the surplus on the Company scheme over the expected service lives of the employees from 1 April 2000.

Included in the Company balance sheet at 31 March 2001 is a provision of £3.7 million (2000: £3.6 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 (2001: £1.9 million, 2000: £2.4 million) and the unfunded pension arrangements in respect of Directors (2001: £1.6 million, 2000: £1.0 million) and pension provisions relating to acquisitions (2001: £0.2 million, 2000: £0.2 million). Included in debtors is a pension prepayment of £11.0 million (2000: £6.3 million). £2.2 million (2000: £2.3 million) relates to the funding surplus in respect of the AEA Technology Rail Shared Cost Section of the Railways Pension Scheme, £1.3 million (2000: £1.3 million) relates to the surplus on the AEA Technology Rail (TCl) Shared Cost Section of the Railways Pension Scheme and £7.5 million (2000: £2.7 million) relates to the surplus on the Company scheme.

Contributions of £0.4 million (2000: £0.4 million) have been made in the year in respect of defined contribution schemes operated by the Company and its UK and overseas subsidiaries.

9. Profit/(loss) on ordinary activities before taxation

PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION IS STATED AFTER CHARGING/(CREDITING):	Before	Exceptional	Total 2001 £m	Total 2000 £m
	exceptional items 2001 £m	items 2001 £m		
Loss on disposal of plant and equipment	0.2	-	0.2	0.1
(Profit) on disposal of subsidiaries/businesses	(1.1)	-	(1.1)	(1.0)
(Profit) on disposal of Risley properties	-	-	-	(0.8)
Auditors' remuneration ⁽¹⁾ :				
Audit (Company £0.2 million (2000: £0.2 million))	0.4	-	0.4	0.4
Non-audit fees ⁽²⁾	0.2	-	0.2	0.1
Hire of plant and equipment – operating leases	4.3	-	4.3	4.2
Hire of other assets – operating leases	9.1	-	9.1	7.5
Depreciation/amortisation charge for the year:				
Intangible fixed assets	0.1	-	0.1	0.1
Goodwill	1.6	-	1.6	1.3
Tangible fixed assets	8.1	-	8.1	8.5
Impairment of tangible fixed assets	0.2	5.9	6.1	0.9
Research and development	14.7	-	14.7	11.5

⁽¹⁾ In addition to amounts charged to operating profit noted above, PricewaterhouseCoopers received £0.1 million (2000: nil) for other services, financial advice and assistance in respect of acquisitions which have been capitalised.

⁽²⁾ Relates to fees paid for taxation services and for financial advice and assistance in respect of acquisitions and disposals.

10. Income from other fixed asset investments

	2001 £m	2000 £m
Dividends receivable	0.3	2.0

11. Interest payable and similar charges

	2001 £m	2000 £m
Interest payable on bank loans and overdrafts	6.3	5.9
Interest payable on finance leases	0.1	0.1
Notional finance cost related to deferred consideration on acquisitions	0.1	0.7
	6.5	6.7

12. Taxation

	Before exceptional items 2001 £m	Exceptional items 2001 £m	Total 2001 £m	Total 2000 £m
TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES				
United Kingdom corporation tax at 30% (2000: 30%):				
Current	2.6	(4.8)	(2.2)	6.7
Deferred taxation	(0.4)	-	(0.4)	0.9
Double taxation relief	-	-	-	(0.9)
Overseas deferred taxation	2.9	-	2.9	(0.2)
Overseas taxation	2.6	-	2.6	2.4
Overprovision in respect of prior years – current	(3.3)	-	(3.3)	-
	4.4	(4.8)	(0.4)	8.9
Share of joint ventures taxation	-	-	-	-
	4.4	(4.8)	(0.4)	8.9

13. (Loss)/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 after exceptional items of £22.7 million (2000: nil) was a loss of £12.1 million (2000: profit of £18.8 million).

14. Dividends

	2001 £m	2000 £m
DIVIDENDS ON EQUITY SHARES		
Ordinary – Interim paid of 3.8p per share (2000: 3.8p per share)	3.4	3.3
Ordinary – Final proposed of 7.3p per share (2000: 7.3p per share)	6.5	6.5
	9.9	9.8

15. Earnings per share

Earnings per share is calculated for both the current and previous years using the (loss)/profit for the year. The earnings per share calculation is based on 88.5 million shares (2000: 87.2 million shares), being the weighted average number of ordinary shares in issue for the year.

The adjusted earnings per share is based on the (loss)/profit for the year before the amortisation of goodwill and exceptional items.

	2001 £m	2000 £m
(Loss)/profit for the financial year	(8.6)	21.0
Amortisation of goodwill	1.6	1.3
Exceptional items (note 3)	24.0	-
Tax on exceptional items (note 12)	(4.8)	-
ADJUSTED PROFIT	12.2	22.3

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

	Before exceptional items 2001 £m	Exceptional items 2001 £m	Total 2001 £m	Total 2000 £m
Profit/(loss) for the financial year	10.6	(19.2)	(8.6)	21.0
Impairment of tangible fixed assets	0.2	5.9	6.1	0.9
Loss/(profit) on sale of tangible fixed assets	0.2	-	0.2	(0.7)
Profit on sale of subsidiaries/businesses	(1.1)	-	(1.1)	(1.0)
Amortisation of goodwill	1.6	-	1.6	1.3
IIMR ADJUSTED PROFIT/(LOSS)	11.5	(13.3)	(1.8)	21.5

Diluted earnings per share is based on the profit/(loss) for the year and 89.1 million shares (2000: 89.0 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.

	Before exceptional items 2001	Exceptional items 2001	Total 2001	Total 2000
Earnings per share based on profit/(loss) for the financial year	12.0p	(21.7)p	(9.7)p	24.1p
Adjusted earnings per share based on adjusted profit	13.8p	-	13.8p	25.6p
IIMR earnings per share based on IIMR adjusted profit/(loss)	13.0p	(15.0)p	(2.0)p	24.7p
Diluted earnings per share	11.9p	(21.7)p	(9.7)p	23.6p

16. Intangible fixed assets

GROUP	Goodwill £m	Licences £m	Other £m	Total £m
COST				
At 1 April 2000	26.0	0.6	0.1	26.7
Currency translation differences	0.2	-	-	0.2
Additions	-	0.1	-	0.1
Additions in relation to acquisitions (note 29)	3.5	-	-	3.5
Disposals (note 30)	(1.3)	-	-	(1.3)
AT 31 MARCH 2001	28.4	0.7	0.1	29.2
AMORTISATION				
At 1 April 2000	2.1	0.2	-	2.3
Currency translation differences	-	0.1	-	0.1
Charge for year	1.6	-	0.1	1.7
Disposals (note 30)	(0.1)	-	-	(0.1)
AT 31 MARCH 2001	3.6	0.3	0.1	4.0
NET BOOK VALUE AT 31 MARCH 2001	24.8	0.4	-	25.2
Net book value at 31 March 2000	23.9	0.4	0.1	24.4

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 Financial Reporting Standard 10: Goodwill and Intangible Fixed Assets is being amortised on a straight line basis over five to 20 years. This is the period over which the Directors estimate that the value of the underlying businesses is expected to exceed the value of the underlying net assets.

COMPANY	Other intangibles £m
COST AT 1 APRIL 2000 AND AT 31 MARCH 2001	0.1
AMORTISATION	
At 1 April 2000	-
Charge for year	0.1
AT 31 MARCH 2001	0.1
NET BOOK VALUE AT 31 MARCH 2001	-
Net book value at 31 March 2000	0.1

17. Tangible fixed assets

GROUP	Freehold land and buildings £m	Leasehold improve- ments £m	Plant and equipment £m	Assets in course of construction £m	Total £m
COST OR VALUATION					
At 1 April 2000	1.2	14.1	61.6	7.2	84.1
Currency translation differences	-	0.1	1.0	-	1.1
Additions	-	0.1	2.9	3.6	6.6
Acquisitions (note 29)	-	-	0.8	-	0.8
Disposals	-	(1.7)	(3.8)	-	(5.5)
Transfers	-	1.1	1.6	(2.7)	-
AT 31 MARCH 2001	1.2	13.7	64.1	8.1	87.1
ACCUMULATED DEPRECIATION (AND PROVISION FOR IMPAIRMENT)					
At 1 April 2000	0.1	3.8	31.0	0.9	35.8
Currency translation differences	-	0.1	0.7	-	0.8
Charge for year	-	1.1	7.0	-	8.1
Impairment losses	0.1	0.6	3.6	1.8	6.1
Disposals	-	(0.5)	(3.2)	-	(3.7)
AT 31 MARCH 2001	0.2	5.1	39.1	2.7	47.1
NET BOOK VALUE AT 31 MARCH 2001	1.0	8.6	25.0	5.4	40.0
Net book value at 31 March 2000	1.1	10.3	30.6	6.3	48.3
COST OR VALUATION AT 31 MARCH 2001 IS REPRESENTED BY					
Valuation in 1998	0.7	-	-	-	0.7
Cost	0.5	13.7	64.1	8.1	86.4
	1.2	13.7	64.1	8.1	87.1

Depreciation has not been charged on freehold land, which is stated at its revalued amount of £0.3 million (2000: £0.3 million).

Included within plant and equipment are assets held under finance leases with a net book value of £0.5 million (2000: £0.9 million) and a depreciation charge for the year of £0.2 million (2000: £0.1 million).

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

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

The valuations of the freehold properties were on the basis of existing use value and the freehold parcel of land was 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	-
NET BOOK VALUE BASED ON COST	0.7

17. Tangible fixed assets (continued)

COMPANY	Freehold land and buildings £m	Leasehold improve- ments £m	Plant and equipment £m	Assets in course of construction £m	Total £m
COST					
At 1 April 2000	0.1	12.9	41.5	6.5	61.0
Additions	-	-	1.2	3.3	4.5
Disposals	-	(1.7)	(4.0)	-	(5.7)
Transfers	-	1.1	1.4	(2.5)	-
AT 31 MARCH 2001	0.1	12.3	40.1	7.3	59.8
ACCUMULATED DEPRECIATION (AND PROVISION FOR IMPAIRMENT)					
At 1 April 2000	-	2.9	21.3	0.9	25.1
Charge for year	-	1.0	4.4	-	5.4
Impairment losses	0.1	0.6	3.6	1.8	6.1
Disposals	-	(0.5)	(2.8)	-	(3.3)
AT 31 MARCH 2001	0.1	4.0	26.5	2.7	33.3
NET BOOK VALUE AT 31 MARCH 2001	-	8.3	13.6	4.6	26.5
Net book value at 31 March 2000	0.1	10.0	20.2	5.6	35.9

Included within plant and equipment are assets held under finance leases with a net book value of nil (2000: £0.5 million) and a depreciation charge for the year of nil (2000: nil).

PROPERTY CLAWBACK

Arrangements were put in place at the Company's flotation to entitle the Secretary of State for 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 UKAEA. These remaining Risley properties were disposed of during last year. Clawback payments are to be made annually by reference to gains arising in each year commencing 1 September in the clawback period.

18. Fixed asset investments

GROUP	Joint ventures and associates		Other loans investments		Total £m	
	£m	£m	£m	£m		
COST AND NET BOOK VALUE						
At 1 April 2000		0.3	2.1		2.4	
Additions		0.2	0.7		0.9	
Disposals		(0.5)	-		(0.5)	
AT 31 MARCH 2001		-	2.8		2.8	
COMPANY						
	Subsidiary undertakings		Joint ventures and associates		Other investments	Total £m
	Shares £m	Loans £m	Shares £m	Loans £m		
COST						
At 1 April 2000	107.4	14.2	0.6	0.3	2.1	124.6
Currency translation differences	-	0.3	-	-	-	0.3
Additions	9.9	3.1	-	0.2	0.7	13.9
Disposals	(0.5)	-	(0.3)	(0.5)	-	(1.3)
Repayments	-	(3.1)	-	-	-	(3.1)
AT 31 MARCH 2001	116.8	14.5	0.3	-	2.8	134.4
PROVISION						
AT 1 APRIL 2000 AND AT 31 MARCH 2001	1.8	-	-	-	-	1.8
NET BOOK VALUE AT 31 MARCH 2001	115.0	14.5	0.3	-	2.8	132.6
Net book value at 31 March 2000	105.6	14.2	0.6	0.3	2.1	122.8

18. Fixed asset investments (continued)**PRINCIPAL SUBSIDIARY UNDERTAKINGS AS AT 31 MARCH 2001**

Name	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group	Nature of business
AEA Hyprotech KK	Japan	¥ 50,000	100%	Non-nuclear science and engineering services and products
AEA Technology Battery Systems Limited	England and Wales	Ordinary £1 shares 'A' Ordinary £1 shares	100% 100%	Specialist battery pack manufacturer
AEA Technology Engineering Services Inc	USA	Common stock with no par value	100% ⁽¹⁾	Nuclear engineering services & US Government utilities contractor
AEA Technology Engineering Software Inc	USA	\$1 common stock	100% ⁽¹⁾	Engineering software
AEA Technology Engineering Software Limited	England and Wales	Ordinary £1 shares	100%	Engineering software
AEA Technology Engineering Software Limited	Canada	Common shares	100% ⁽¹⁾	Engineering software
AEA Technology GmbH	Germany	50,000 DM	100%	Engineering software and consultancy
AEA Technology Inc	USA	\$1 common stock	100%	Holding company
AEA Technology Limited	Hong Kong, China	Ordinary HK\$1 shares	100%	Quality and Safety Assurance
AEA Technology QSA GmbH	Germany	50,000 DM	100%	Quality and Safety Assurance
AEA Technology QSA Inc	USA	Common stock	100% ⁽¹⁾	Quality and Safety Assurance
AEA Technology Rail BV	The Netherlands	DFL 1,000 shares	100% ⁽¹⁾	Consultancy to rail market
AGM Batteries Limited	England and Wales	'A' Ordinary £1 shares	55%	Specialist battery cell manufacturer
EA Systems Inc	USA	Common stock	100% ⁽¹⁾	Plant design systems and consultancy
ERG Environmental Resource Group plc	England and Wales	Ordinary £1 shares	100%	Environmental engineers and consultants
Fleet Software Limited	England and Wales	Ordinary £1 shares Preference £1 shares	100% ⁽¹⁾ 100%	Fleet maintenance software
Forensic Alliance Limited	England and Wales	Ordinary £1 shares	55%	Forensic science services
Hyprotech Europe SL	Spain	Ordinary 1,000 PSTA shares	100% ⁽¹⁾	Engineering software
Hyprotech Inc	USA	Common stock	100% ⁽¹⁾	Engineering software
Hyprotech Limited	Canada	Class A Common shares	100% ⁽¹⁾	Process industry software
nCode International Limited	England and Wales	Ordinary £1 shares	100%	Engineering software
Shenzhen CIC-AEA Technology Manufacturing Co Limited	China	Ordinary	51% ⁽¹⁾	Quality and Safety Assurance

⁽¹⁾ 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, Canada, Spain, France, Hungary, Thailand, Malaysia and India. All subsidiaries are included in the consolidated accounts.

18. Fixed asset investments (continued)**JOINT VENTURES AS AT 31 MARCH 2001**

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	¥ 50,000	50%	31 March	Nuclear services
CTECH	Canada	N/A	N/A	31 December	Nuclear services

19. Stocks and work in progress

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Raw materials and consumables	8.3	9.8	3.2	5.1
Work in progress	12.9	14.9	12.5	14.3
	21.2	24.7	15.7	19.4

20. Debtors

	Group		Company	
	2001 £m	2000 ⁽¹⁾ £m	2001 £m	2000 £m
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:				
Other debtors	0.4	0.5	0.4	0.5
Amounts due in respect of decommissioning and waste management (note 23)	0.8	0.9	0.8	0.9
Accrued income	11.2	6.6	0.1	0.8
Pension prepayment ⁽²⁾	8.8	5.9	6.7	3.7
	21.2	13.9	8.0	5.9
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Trade debtors	87.4	90.1	55.1	61.5
Amounts recoverable on long-term contracts	17.6	17.6	15.1	17.1
Amounts owed by group undertakings	-	-	26.3	23.0
Amounts owed by joint ventures	1.5	1.7	1.5	1.7
Corporation tax recoverable	3.3	-	2.9	-
Other debtors	3.6	4.0	1.3	2.0
Prepayments and accrued income	20.2	21.0	10.4	11.7
Amounts due in respect of decommissioning and waste management (note 23)	-	0.1	-	0.1
	133.6	134.5	112.6	117.1
TOTAL DEBTORS	154.8	148.4	120.6	123.0

⁽¹⁾ Restated to reflect correct split of accrued income falling due after more than one year.

⁽²⁾ As part of the adjustments to arrive at fair value in relation to the acquisition of BR Research Limited in 1997, a sum of £2.2 million (2000: £2.3 million) has been included on the balance sheet (£2.1 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 AEA Technology Rail Shared Costs Section of the Railways Pension Scheme at the date of acquisition. This surplus continues to be amortised. The remaining £8.8 million relates to a surplus on the AEA Technology plc pension scheme of £7.5 million (2000: £2.7 million), of which £2.1 million is due within one year, and a surplus on the AEA Technology Rail (TCI) Shared Cost Section of the Railways Pension Scheme of £1.3 million (2000: £1.3 million).

21. Creditors: amounts falling due within one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Loans and overdrafts	48.1	1.4	46.0	-
Payments received on account	19.8	16.3	17.6	14.1
Trade creditors	27.7	24.7	19.5	18.2
Amounts owed to group undertakings	-	-	5.3	4.2
Taxation and social security	12.3	8.7	10.0	7.3
Corporation tax	-	8.7	-	7.6
Other creditors	5.4	7.6	3.4	4.9
Accruals	21.8	18.5	15.9	14.6
Finance lease creditors	0.2	0.1	-	0.1
Dividend payable	6.5	6.5	6.5	6.5
	141.8	92.5	124.2	77.5

Of the Group and Company loans and overdrafts, £4.5 million is a cash advance, repayable on demand, bearing no interest, from our investment in Hunting BRAE Limited, £30.0 million bore interest at LIBOR plus 42.5 base points, £6.5 million at LIBOR plus 32.5 base points and £5.0 million at LIBOR plus 35.0 base points. The remaining Group balance of £2.1 million relates to subsidiaries' overdrafts.

22. Creditors: amounts falling due after more than one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
BORROWINGS				
Bank loans	46.6	82.3	46.6	82.3
Debenture loan	-	-	2.0	2.0
Finance lease creditors	0.1	0.2	-	-
	46.7	82.5	48.6	84.3

The debenture loan is repayable to a subsidiary and does not bear interest. Of the Group and Company bank loans, £46.6 million is repayable in 4.5 years and of this £30.4 million bears interest at 7.3%, £7.0 million at 6.66% and £9.2 million at LIBOR plus 0.75%.

The maturity of obligations under finance leases is as follows:

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Within one year	0.2	0.1	-	0.1
In the first to second years	0.1	0.1	-	-
In the second to fifth years	-	0.1	-	-
	0.3	0.3	-	0.1

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
OTHER CREDITORS				
Repayable as follows:				
- between one and two years	0.2	0.9	0.1	0.8
- two to five years	0.3	0.1	-	-
- after five years	0.9	1.2	-	-
	1.4	2.2	0.1	0.8

23. Provisions for liabilities and charges

GROUP	Acquisitions £m	Decommissioning and waste management £m	Pensions and similar obligations £m	Other £m	Deferred taxation £m	Total £m
At 1 April 2000	2.6	3.8	5.5	2.8	3.0	17.7
Currency translation differences	-	0.2	0.1	0.1	-	0.4
Acquisitions	-	-	-	0.3	-	0.3
Charge for the year	-	3.3	-	15.9	2.9	22.1
Contributions paid to the Group pension schemes	-	-	7.6	-	-	7.6
Utilised in the year	(1.0)	(0.4)	(7.3)	(3.7)	(0.4)	(12.8)
AT 31 MARCH 2001	1.6	6.9	5.9	15.4	5.5	35.3

COMPANY	Acquisitions £m	Decommissioning and waste management £m	Pensions and similar obligations £m	Other £m	Deferred taxation £m	Total £m
At 1 April 2000	2.0	1.3	3.6	2.2	0.9	10.0
Charge for the year	-	2.5	-	12.1	-	14.6
Contributions paid to the Company pension scheme	-	-	7.4	-	-	7.4
Utilised in the year	(0.9)	(0.4)	(7.3)	(2.7)	(0.3)	(11.6)
AT 31 MARCH 2001	1.1	3.4	3.7	11.6	0.6	20.4

ACQUISITIONS

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

DECOMMISSIONING AND WASTE MANAGEMENT

On 31 March 1996, certain properties, rights and liabilities of UKAEA were vested in the Company in accordance with a transfer scheme made pursuant to section one 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 UKAEA ("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 20). 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. Of this provision £1.6 million relates to the B220 facilities at Harwell. These costs will be incurred over the next three years as the business exits the premises.

23. Provisions for liabilities and charges (continued)

PENSIONS AND SIMILAR OBLIGATIONS

The breakdown of the Company pension provision is given in note 8. Part of this provision will be utilised over the average service lives of employees and the remainder once the Executive Directors retire.

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

Included in the other provisions are exceptional redundancy and vacant property provisions totalling £1.0 million (Group only) for AEAT Battery Systems Limited. These provisions will be utilised during the next one to two years.

The remainder of other provisions principally comprise projected losses or commitments on long-term contracts (Group £7.4 million, Company £4.9 million) and building lease related provisions such as dilapidations and wear and tear provisions (Group and Company £0.7 million) and provisions for leases on vacant properties (Group and Company £4.8 million). 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. Included within the vacant property provisions is £4.7 million for the B220 lease. This will be utilised in the period from 1 April 2001 to 31 March 2006.

DEFERRED TAXATION

Deferred taxation provided in the financial statements is as follows:

GROUP	2001	2000
	£m	£m
Other timing differences:		
UK ⁽¹⁾	1.3	1.7
Overseas	4.2	1.3
	5.5	3.0

⁽¹⁾ 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 taxation provision was made.

For the Group and Company the unprovided amount of deferred taxation arising from accelerated capital allowances is £0.8 million (2000: £3.1 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 £0.6 million (2000: £0.9 million) arising from accelerated capital allowances.

24. Called up share capital

	2001 £m	2000 £m
AUTHORISED		
120 million ordinary shares of 10p each	12.0	12.0
1 special rights redeemable preference share of £1	-	-
	12.0	12.0
ALLOTTED, CALLED UP AND FULLY PAID		
88,633,107 ordinary shares of 10p each	8.9	8.8
(2000: 88,407,285 ordinary shares of 10p each)		
	8.9	8.8

CHANGES IN SHARE CAPITAL

225,822 shares were issued for a consideration of £0.5 million to meet commitments under the Company's employee share schemes.

25. Reserves

GROUP	Share premium £m	Profit and loss account £m
At 1 April 2000	7.7	47.7
Issue of share capital (note 24)	0.7	(0.3)
Goodwill written back (note 29)	-	0.2
Reversal of amounts accrued under the Long-Term Incentive Plan	-	(0.3)
Loss for the year	-	(18.5)
AT 31 MARCH 2001	8.4	28.8

Net cumulative goodwill of £75.6 million (2000: £75.8 million) has been eliminated against reserves on acquisitions made prior to 1 April 1998.

COMPANY	Share premium £m	Merger reserve £m	Other reserve £m	Profit and loss account £m
At 1 April 2000	7.7	25.0	49.1	41.9
Issue of share capital (note 24)	0.7	-	-	(0.3)
Reversal of amounts accrued under the Long-Term Incentive Plan	-	-	-	(0.3)
Loss for the year	-	-	-	(22.0)
AT 31 MARCH 2001	8.4	25.0	49.1	19.3

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.

26. Equity minority interests

GROUP	2001
	£m
At 1 April 2000	1.1
Disposal	(0.1)
Dividends paid	(0.3)
Profit and loss account	(0.4)
AT 31 MARCH 2001	0.3

27. Reconciliation of net cash flow to movement in net debt

MOVEMENT IN NET (DEBT) IN THE YEAR:	2001	2000
	£m	£m
Increase/(decrease) in cash in the year	15.5	(11.7)
Cash inflow from increase in debt	(9.1)	(4.9)
CHANGE IN NET FUNDS/(DEBT) RESULTING FROM CASH FLOW	6.4	(16.6)
Loans acquired on acquisitions	(0.1)	-
Exchange on loans	(0.8)	-
Net (debt) at 1 April	(73.3)	(56.7)
NET (DEBT) AT 31 MARCH	(67.8)	(73.3)

ANALYSIS OF NET (DEBT)	At 1 April 2000	Cash flow	Transfer to Acquisitions due within one year	and disposals	Exchange	At 31 March 2001
	£m	£m	£m	£m	£m	£m
Cash in hand and at bank	10.7	16.5	-	-	-	27.2
Bank overdrafts	(1.1)	(1.0)	-	-	-	(2.1)
	9.6	15.5	-	-	-	25.1
Debt due after one year	(82.5)	(4.8)	41.5	(0.1)	(0.8)	(46.7)
Debt due within one year	(0.4)	(4.3)	(41.5)	-	-	(46.2)
	(73.3)	6.4	-	(0.1)	(0.8)	(67.8)

28. Employee share schemes**PROFIT SHARING SHARE SCHEMES**

The Company has established an Inland Revenue-approved scheme under which 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 (Cl) Limited in Guernsey.

Each year 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 2001 in respect of performance in 2000.

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.

The shares allocated in August 1997 were transferred to beneficiaries on 22 August 2000.

28. Employee share schemes (continued)

SAVINGS-RELATED SHARE OPTION SCHEMES

The Company has established an Inland Revenue-approved scheme, and equivalent schemes for overseas employees. These provide 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.

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.

Outstanding options granted for 10p ordinary shares in the Company under these schemes are as follows:

Period of option	Number of shares 2001	Number of shares 2000	Subscription price per share
1 November 1999 to 30 April 2000	-	56,143	224p
1 January 2001 to 30 June 2001	-	81,331	224p
1 March 2001 to 31 August 2001	-	23,935	224p
1 March 2001 to 31 August 2001	530,651	565,860	363p
1 June 2001 to 30 November 2001	10,838	15,087	498p
1 October 2001 to 31 March 2002	4,786	14,688	558p
1 November 2001 to 30 April 2002	1,401,199	1,520,558	224p
1 November 2001 to 30 April 2002	2,014	3,190	639p
1 March 2002 to 31 August 2002	52,227	67,942	595p
1 March 2003 to 31 August 2003	513,925	593,734	363p
1 March 2004 to 31 August 2004	34,221	46,286	595p
1 March 2003 to 31 August 2003	836,697	1,008,424	320p
1 March 2005 to 31 August 2005	308,748	345,006	320p
1 March 2004 to 31 August 2004	765,868	-	236p
1 March 2006 to 31 August 2006	275,727	-	236p
	4,736,901	4,342,184	

COMPANY SHARE OPTION PLAN

In July 1999 the Company established an Inland Revenue-approved scheme and an unapproved scheme for which all employees (excluding Executive Directors) were eligible. At 31 March 2001, awards for 285,705 options were outstanding under these 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.

In July 2000 the Company awarded further options and with shareholder approval opened the schemes to Executive Directors. At 31 March 2001, awards for 980,083 options were outstanding under these schemes at an option price of 397.5p (excluding awards to Directors). They are subject to performance against Company earnings per share growth targets over a three-year performance period starting 1 April 2000. A further 390,036 options awarded to Directors were outstanding under the 2000 CSOP at 31 March 2001. Details of the option prices, performance targets and performance periods of these options are given in section two of the Report on Directors' Remuneration.

29. Acquisitions and goodwill

Acquisitions completed during the year were:

Name	Date	Percentage of share capital acquired
ANT Holdings Limited ⁽¹⁾	14 April 2000	100%
Index Data Systems Limited	11 May 2000	100%
NSTO (assets and trade) ⁽²⁾	25 August 2000	n/a
Monitor Pro Limited	13 October 2000	90%
OMI (assets and trade)	17 November 2000	n/a

⁽¹⁾ Holding company of Fleet Software Limited.

⁽²⁾ Technical Centre of Nederlandse Spoorwegen, the Dutch State Railway Organisation.

All acquisitions were accounted for using acquisition accounting. All goodwill arising on these acquisitions has been capitalised as an intangible asset.

ACQUISITIONS

The assets and liabilities of all acquisitions are set out below:

	Book and fair value £m
FIXED ASSETS	
Tangible fixed assets	0.8
CURRENT ASSETS	
Debtors	1.7
Cash	0.5
TOTAL ASSETS	3.0
LIABILITIES	
Creditors	(2.1)
Borrowings	(0.1)
Provisions	(0.3)
NET ASSETS	0.5
Goodwill	3.5
PURCHASE CONSIDERATION	4.0
SATISFIED BY	
Cash	2.6
Deferred consideration	1.1
Acquisition expenses	0.3
	4.0

Goodwill is finalised on all acquisitions except for NSTO, where the goodwill is still provisional. Work is continuing on determining the position on contracts before the fair value adjustments can be finalised.

Of the £1.1 million deferred consideration, £0.8 million is payable within one year and hence has not been discounted. The remaining £0.3 million has been discounted from the anticipated settlement dates at a rate equating to the Group's cost of borrowing. The difference between this present value and the purchase amount will be accrued through notional charges to interest payable in future periods.

IMPACT ON CASH FLOWS

Acquisitions contributed £0.8 million to the Group's operating and total cash flows.

29. Acquisitions and goodwill (continued)**ADJUSTMENTS TO 2000 GOODWILL**

The following adjustments have been made to the goodwill figure during 2001:

	ERG Environmental Resource Group plc £m	nCode International Limited £m	Total £m
Reduction in consideration	0.1	0.1	0.2
REDUCED GOODWILL	0.1	0.1	0.2

The consideration for ERG Environmental Research Group plc and nCode International Limited has decreased due to revisions in the contingent deferred consideration in the light of additional trading information.

GOODWILL WRITTEN OFF AGAINST RESERVES	Group £m	Company £m
At 1 April 2000	75.8	7.1
Written back to reserves in respect of pre-1998 acquisitions	(0.2)	-
AT 31 MARCH 2001	75.6	7.1

30. Sale of subsidiaries/businesses

Disposals completed during the year were:

Name	Date	Percentage of share capital disposed of
Materials & Chemical Process Assessment (assets and trade)	30 August 2000	n/a
AEAT Sonomatic BV	22 September 2000	100%
Instrumentation stage 2 (assets)	9 February 2001	n/a
Synexus Limited	13 February 2001	25.9%
AEA Technology EBIS (assets and trade)	28 February 2001	n/a
Composite business (assets and trade)	30 March 2001	n/a

The net assets disposed of and the related sale proceeds were as follows:

NET ASSETS DISPOSED OF:	Total £m
Tangible fixed assets	1.5
Share of associates net assets	0.9
Work in progress	0.2
Stocks	0.4
Debtors	0.1
Creditors	(0.3)
Goodwill	1.2
Profit on disposal	1.1
CONSIDERATION ON DISPOSAL	5.1
SATISFIED BY	
Cash	5.1

IMPACT ON CASH FLOWS

Companies sold during the year contributed £0.8 million to the Group's operating cash flows and received £0.1 million in respect of net returns on investments and servicing of finance.

31. Derivatives and other financial instruments

Pages 17 to 18 of the Financial Review provide 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 2001 was as follows:

CURRENCY	Borrowings on which no interest is paid £m	Fixed rate £m	Floating rate £m	Total £m
Sterling	4.5	30.7	51.9	87.1
US dollar	-	7.0	-	7.0
Other	-	-	0.9	0.9
TOTAL	4.5	37.7	52.8	95.0

Included within the £30.7 million of sterling fixed rate loans is US\$50 million which has been swapped into sterling. The £51.9 million of sterling floating rate loans include US\$15 million swapped into sterling.

The profile at 31 March 2000 for comparison purposes 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
TOTAL	0.2	37.0	46.8	84.0

The Group also has amounts payable in respect of deferred consideration of £0.2 million (2000: £3.2 million), additional pension obligations for Directors due after one year of £2.0 million (2000: £1.4 million) and provisions for onerous property leases of £5.3 million (2000: £0.1 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.

31. Derivatives and other financial instruments (continued)**INTEREST RATE PROFILE (CONTINUED)**

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:	2001	2000
	£m	£m
Sterling cash deposits	15.0	1.8
US dollar cash deposits	6.3	2.9
Canadian dollar cash deposits	0.4	0.3
Euro and euro equivalent cash deposits	4.2	4.1
Other cash deposits	1.3	1.6
TOTAL	27.2	10.7

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 £1.2 million (2000: £1.4 million) and accrued income falling due after one year of £11.2 million (2000: £6.6 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	2001		2000	
	Weighted average interest rate %	Fixed rate Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate Weighted average period for which rate is fixed Years
Sterling	7.3	4.5	7.3	6
US dollar	6.7	4.5	6.7	6
Other	-	-	-	-
GROUP	7.2	4.5	7.2	6

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 or equivalent relevant rate for overseas borrowings.

31. Derivatives and other financial instruments (continued)

CURRENCY EXPOSURES

As explained on page 17 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 borrowings 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 2001 these exposures were as follows:

FUNCTIONAL CURRENCY OF GROUP OPERATION	Net foreign currency monetary assets/(liabilities)				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
Sterling	-	2.8	5.6	(3.6)	4.8
Canadian dollars	-	8.1	-	-	8.1
Other	0.6	1.0	-	0.4	2.0
TOTAL	0.6	11.9	5.6	(3.2)	14.9

The exposures at 31 March 2000 for comparison purposes were as follows:

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

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 borrowings at 31 March was as follows:

	2001 £m	2000 £m
In one year or less	48.3	1.5
In more than one year but not more than two years	0.1	36.7
In more than two years but not more than five years	46.6	0.1
In more than five years	-	45.7
TOTAL	95.0	84.0

31. Derivatives and other financial instruments (continued)**MATURITY OF FINANCIAL LIABILITIES (CONTINUED)**

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

	2001 £m	2000 £m
In one year or less	50.0	4.0
In more than one year but not more than two years	1.2	37.6
In more than two years but not more than five years	49.6	0.3
In more than five years	1.7	46.8
TOTAL	102.5	88.7

BORROWING FACILITIES

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

	2001 £m	2000 £m
Expiring in less than one year	20.0	-
Expiring in more than one year but not more than two years	-	20.0
TOTAL	20.0	20.0

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:

	2001		2000	
	Book value £m	Fair value £m	Book value £m	Fair value £m
PRIMARY FINANCIAL INSTRUMENTS HELD OR ISSUED TO FINANCE THE GROUP'S OPERATIONS				
Short-term financial liabilities and current proportion of long-term borrowings	(48.3)	(48.3)	(1.5)	(1.5)
Long-term borrowings	(46.7)	(49.2)	(82.5)	(85.1)
Other financial liabilities	(7.5)	(7.5)	(4.7)	(4.7)
Cash deposits	27.2	27.2	10.7	10.7
Other financial assets	12.4	12.4	8.0	8.0
DERIVATIVE FINANCIAL INSTRUMENTS HELD TO MANAGE THE INTEREST RATE AND CURRENCY PROFILE				
Interest rate swaps	-	(0.6)	-	(2.1)
Forward foreign currency contracts	-	(0.9)	-	(0.1)

As at 31 March 2001 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.

31. Derivatives and other financial instruments (continued)

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.

32. Commitments

Annual commitments under non-cancellable operating leases which expire:

	Plant and equipment at 31 March		Company	
	2001	2000	2001	2000
	£m	£m	£m	£m
– within one year	2.7	0.7	2.5	0.5
– in two to five years	3.2	5.0	2.5	4.4
– after more than five years	-	0.1	-	-
	5.9	5.8	5.0	4.9

	Land and buildings at 31 March		Company	
	2001	2000 ⁽¹⁾	2001	2000 ⁽¹⁾
	£m	£m	£m	£m
– within one year	2.4	1.4	1.2	0.7
– in two to five years	6.5	5.6	3.4	3.8
– after more than five years	2.6	2.5	1.1	1.0
	11.5	9.5	5.7	5.5

⁽¹⁾ Restated to reflect corrections to the comparatives.

CAPITAL COMMITMENTS	Group		Company	
	2001	2000	2001	2000
	£m	£m	£m	£m
Future capital expenditure contracted but not provided for in the financial statements	1.4	1.2	1.4	0.8

33. 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 eight subsidiaries are a part. At 31 March 2001 the gross overdraft guaranteed by the companies within this set off arrangement was £20.5 million (2000: £10.4 million).

AEA Technology plc also guarantees the credit facilities, overdraft facilities, BACS facilities and leasing obligations for certain subsidiary companies. At 31 March 2001 these guarantees totalled £8.8 million (2000: £20.3 million).

The Group has contingent liabilities in respect of contracts and unincorporated joint ventures 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.

34. 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 moneys 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 £20.9 million (2000: £19.8 million). The cost of administering the overall programmes and the relating income received has been included in the profit and loss account.

35. 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:

JOINT VENTURES AND ASSOCIATED UNDERTAKINGS	2001	2000
	£m	£m
Sales to joint ventures and associated undertakings on normal trading terms	3.5	7.1
Purchases from joint ventures and associated undertakings on normal trading terms	0.1	0.2
Amounts due from joint ventures and associated undertakings	1.5	1.7
Loans to joint ventures and associated undertakings	-	0.3

Details of the Group's principal joint ventures at 31 March 2001 are set out in note 18.

Except for two agreements to purchase property jointly with Executive Directors, there are no contracts of significance 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 which the relevant Directors use when required to be in London. See section four of the Report on Directors' Remuneration on pages 25 to 29.

36. Post balance sheet events

Details of post balance sheet events are given in the Directors' Report on page 19.

Five year summary

FOR THE FIVE YEARS ENDED 31 MARCH 2001	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
SALES AND RESULTS					
GROUP AND SHARE OF JOINT VENTURES' TURNOVER					
Continuing operations	374.1	362.5	354.4	305.8	264.1
Share of joint ventures	4.6	3.5	3.4	2.6	0.2
	378.7	366.0	357.8	308.4	264.3
OPERATING PROFIT/(LOSS)					
Continuing operations	19.7	34.0	33.1	30.7	24.1
Joint ventures	0.1	-	(0.1)	-	(0.2) ⁽²⁾
Exceptional operating charges	(24.0)	-	-	-	(5.0)
Other income and expenses ⁽¹⁾	0.3	1.8	0.9	0.9	0.5 ⁽²⁾
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	(3.9)	35.8	33.9	31.6	19.4
Net interest payable and similar charges	(5.5)	(6.1)	(5.2)	(2.9)	(1.1)
(LOSS)/PROFIT BEFORE TAXATION	(9.4)	29.7	28.7	28.7	18.3
Taxation ⁽¹⁾	0.4	(8.9)	(8.4)	(8.8)	(5.9)
(LOSS)/PROFIT AFTER TAXATION	(9.0)	20.8	20.3	19.9	12.4
Minority interests	0.4	0.2	0.2	-	-
Dividends and appropriations	(9.9)	(9.8)	(9.0)	(8.3)	(6.7)
RETAINED (LOSS)/PROFIT	(18.5)	11.2	11.5	11.6	5.7
NET ASSETS EMPLOYED					
Fixed assets	68.4	76.4	91.3	62.3	53.8
Net current assets	61.4	91.3	67.8	44.8	51.9
	129.8	167.7	159.1	107.1	105.7
Borrowings	(46.7)	(82.5)	(77.4)	(35.0)	(35.0)
Provisions and creditors falling due after more than one year	(36.7)	(19.9)	(31.9)	(32.1)	(17.6)
NET ASSETS	46.4	65.3	49.8	40.0	53.1
RATIOS					
Operating profit as a percentage of turnover ⁽³⁾	5.2%	9.3%	9.2%	10.0%	9.0%
Adjusted earnings per share ⁽⁴⁾	13.8p	25.6p	24.7p	23.5p	19.6p
IIMR earnings per share	(2.0)p	24.7p	23.5p	22.2p	15.9p

⁽¹⁾ 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.

⁽²⁾ The comparatives have been restated to show separately the Group's share of joint ventures' losses of £0.2 million for 1997.

⁽³⁾ Operating profit before exceptional operating charges as a percentage of turnover.

⁽⁴⁾ Adjusted earnings per share is after the write-back of goodwill and exceptional operating charges.

Shareholders' information

SHARES AS AT 31 MARCH 2001	Number of shareholders	Percentage of total shareholders	Percentage of ordinary shares
1-100	1,708	18	-
101-1,000	5,505	57	3
1,001-5,000	1,859	19	4
5,001-50,000	339	4	6
50,001-100,000	60	1	5
Over 100,000	108	1	82
	9,579	100	100

FINANCIAL CALENDAR

Financial year end	31 March
Ex-dividend date	4 July 2001
Record date	6 July 2001
Annual general meeting	26 July 2001
2001 final dividend payable	1 October 2001
2002 interim results announcement	December 2001
2002 interim dividend payment	1 February 2002
2002 preliminary results announcement	June 2002

Shareholder contact

If you have any general comments or queries, you are welcome to write to Keith Russell, the Company Secretary, AEA Technology plc, 329 Harwell, Oxfordshire OX11 0QJ. If you have a query for specific Directors, please write to them at the same address.

Registrar services

If you have an administrative query about your shareholding (such as details of previous dividend payments, 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 shareholders' services on-line. The portfolio service from Lloyds TSB Registrars gives you access to more information on your investments including balance movements, indicative share prices, and information on recent dividends. For more details on this and practical help on transferring shares or updating your details, visit www.shareview.co.uk. This also gives you the opportunity to register an interest in receiving information from the Company electronically, should this option be offered at some stage.

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, 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, AEA Technology plc Share Dealing Service, 12 Tokenhouse Yard, London EC2R 7AN, telephone 020 7606 1768.

Dividend reinvestment plan (DRIP)

We offer 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 can be obtained from Lloyds TSB Registrars.

The latest date for a shareholder to elect to join the DRIP in respect of the next dividend payment (the 2001 final dividend payment due on 1 October 2001) is Monday 10 September. The election form must be with Lloyds TSB Registrars by this date.

Individual savings account (ISA)

We have 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, please contact Lloyds TSB Registrars ISA Team at the address given earlier or telephone 0870 242 4244.

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