

DELIVERING LEADING EDGE
TECHNOLOGY IN THE MOST
DEMANDING ENVIRONMENTS

AEA TECHNOLOGY IS NOW
SMARTER AND MORE FOCUSED
ON ITS CUSTOMERS

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Results for the year ended 31 March

| | 2002 | 2001 restated |
|--|----------------|------------------|
| | £m | £m |
| Turnover | 334.4 | 368.8 |
| Operating (loss)/profit ⁽¹⁾ | (9.6) | 12.0 |
| EBITDA ⁽²⁾ | – | 22.3 |
| Free cash flow | (18.7) | 16.7 |
| Earning per share | 25.3p | (12.9)p |
| Adjusted earnings per share ⁽³⁾ | (11.4)p | 10.6p |
| Dividend per share | 3.8p | 11.1p |

Results by business

| | Turnover | | Operating profit/(loss) ⁽¹⁾ | |
|----------------------|--------------|------------------|--|------------------|
| | | 2001 restated | | 2001 restated |
| | 2002 | £m | 2002 | £m |
| Rail | 75.3 | 64.6 | 12.3 | 9.4 |
| Environment | 49.4 | 40.7 | 7.9 | 6.9 |
| Future Technologies | 61.4 | 67.3 | (11.0) | (9.9) |
| Engineering Software | 46.6 | 44.5 | (1.4) | – |
| Nuclear Technology | 92.9 | 145.0 | (4.0) | 10.7 |
| Central items | 8.8 | 6.7 | (13.4) | (5.1) |
| | 334.4 | 368.8 | (9.6) | 12.0 |

Notes:

⁽¹⁾ Operating (loss)/profit is stated before exceptional operating charges of £21.1 million (2001: £24.0 million).

⁽²⁾ EBITDA is earnings before interest, tax, depreciation, amortisation, exceptional operating charges, profit on sale of businesses and loss on termination of operations.

⁽³⁾ Adjusted earnings per share is stated before amortisation of goodwill of £1.9 million (2001: £1.6 million), exceptional operating charges of £21.1 million (2001: £24.0 million), profit on sale of businesses of £53.7 million (2001: nil), loss on termination of operations of £5.9 million (2001: nil), and tax credit on exceptional items of £7.7 million (2001: £4.8 million). See note 17 for details of the adjusted earnings per share calculation.



Peter Watson
Chairman

**“OUR STRATEGY
IS RADICAL AND
DELIVERING”**

A year of transformation

In last year's Annual Report, we said that the transformation of AEA Technology would essentially be achieved in 12 months. In this, my first Annual Report as Chairman, I am pleased to say that this goal has been reached.

Our strategy is to focus on two core businesses – Rail and Environment – and invest in a portfolio of small businesses – called value development – where we envisage future growth. This strategy required the disposal of our remaining businesses, including our traditional nuclear interests.

The strategy is delivering. Our core businesses are delivering improved performance, harnessing their world leading technologies and expertise to exploit the growth in their markets. They occupy strong market positions and there is the prospect of more good growth to come. Within the value development portfolio, there has been significant progress in our Battery Systems business and QSA. Accentus has also made satisfactory progress.

The progress we made in the first half of this financial year has been accelerated with the result that the restructuring of the Group is almost complete. We have largely completed our early disposal programme, raising gross sale proceeds of £88.2 million during the financial year and a further £67.5 million following the disposal of Hyprotech in May 2002. We are delivering on our promise to return up to £70 million to shareholders.

We have stripped out costs in the centre and closed under-performing business streams. There have been over 230 redundancies during the year. This tough action has been driven by a relentless determination to drive down costs and create a solid platform for the future.

Improved performance

The benefits of strengthened management teams are being felt. This year, our two core businesses, Rail and Environment, have produced improved performances. Taking the two businesses together, combined sales and operating profit (before exceptional operating items) increased by 18% and 24% respectively to £124.7 million and £20.2 million. This performance was achieved despite the well publicised difficulties within the UK rail industry and the economic climate in which our Environment business was operating.

Rail had turnover of £75.3 million and an operating profit (before exceptional operating items) of £12.3 million, resulting in an operating margin of over 16%; Environment had turnover of £49.4 million and an operating profit (before exceptional operating items) of £7.9 million, resulting in an operating margin of 16%.

“DELIVERING
A RETURN
OF UP TO
£70 MILLION TO
SHAREHOLDERS
FULFILLS
ANOTHER
OF OUR
COMMITMENTS”

Financial overview

Overall Group turnover was £334.4 million (2001: £368.8 million), with a pre-tax profit of £13.5 million (2001: pre-tax loss £17.2 million). Operating loss (before exceptional operating items) was £9.6 million (2001: operating profit £12.0 million). While our core businesses performed strongly, our value development businesses made an £8.4 million operating loss (before exceptional operating items) on a turnover of £65.8 million. Businesses divested in the financial year made a small operating profit (before exceptional operating items) of £0.4 million on a turnover of £82.0 million. There was an exceptional operating charge of £21.1 million relating to restructuring of ongoing businesses and a super exceptional gain of £53.7 million. This figure relates to the disposals during the financial year of Nuclear Consulting, Nuclear Engineering and Value Realisation businesses. There was also a charge of £5.9 million for loss on termination of operations.

The overall financial performance was therefore mixed but should be seen in the context of the restructuring of the business. Exceptional gains and charges relating to the disposals and restructuring should not obscure the strong performance of our two core businesses.

Return of capital and dividend

A final dividend will not be paid for the year to March 2002, given that it is proposed to return some £45 million to shareholders by way of a Special Dividend of 50.0p per share to be paid on 30 August 2002. In addition, the Group intends to use the authority given by shareholders to buy back shares in the market. The capital returned to shareholders from the combination of Special Dividend and share buyback would be up to a total of £70 million. This means that the total dividend for the year, excluding the Special Dividend, was 3.8p per share (In 2001: 11.1p per share but no Special Dividend was paid).

The 'new' AEA

A difficult time within the company's history is drawing to a close during which hard lessons have been learned. From this period of change, a 'new' AEA is emerging. I would like briefly to outline what I mean by, and expect from, the 'new' AEA.

Firstly, there are three common threads running through all our businesses, all of which enable us to sustain a lead in our high-value markets:

- Intellectual capital, specifically, the expert knowledge of our people and our Intellectual Property (IP) portfolio
- First class technology
- Strong market knowledge which has enabled us to define and capture growth.

We use the word 'smart' to encapsulate our aspiration and ability to deliver leading edge technology and innovative solutions in the most demanding environments.

Secondly, we have a clear strategic approach to our markets:

- Focusing on markets we know, where the demand for advice and technology is strong, growing and highly valued
- Exporting expertise and smart systems across markets and countries
- Seeking out acquisitions which fit our criteria
- Enhancing the Group's intellectual capital to anticipate market needs.

Thirdly, we are an ambitious company, determined to accelerate growth and enhance shareholder value.

Smarter and more focused

This company had a wake-up call three years ago with its first profits warning in March 1999. We learned hard lessons and have taken tough actions. We will take more if they are needed.

A key decision was to conduct a strategic review which led to the current strategy. Leading and delivering on that strategy has been my absolute priority.

I am determined that 'new' AEA will be smarter and more focused on markets and customers in which it has a distinctive competitive edge. Delivering smart solutions will require continued investment in technology and, particularly, people. We will continue to strengthen our technical and industry knowledge as well as our commercial acumen. During the year, we increased our research and development spend within our continuing businesses by £2.7 million, from £6.3 million to £9.0 million.

However, investment alone will not be enough, it must translate into performance. For this to happen, it is essential that this company becomes even more commercially focused and competitive. We have made good progress and this is partly reflected in the performance of our core businesses. But more needs to be done and I make it a priority that my senior management team accelerates the commercialisation of our culture.

The future – opportunities for growth

There are excellent opportunities for growth in our core businesses. We have a clear business model, a clear strategy, a focus on performance and an intolerance of failure. Rail and Environment both enjoy strong positions in growth markets and we also see excellent prospects in our Battery Systems business in the wake of the strategically important BOWMAN contract. QSA and Accentus also have significant prospects ahead of them.

Taking these opportunities will require a strong, commercially-driven management and workforce. In the last year we have strengthened management by bringing good, commercially-driven people into the company but I repeat, we need to do more.

“...THE ‘NEW’
AEA WILL BE
SMARTER AND
MORE FOCUSED”

Priorities

Our priority is to accelerate profitable growth in our core businesses and deliver value to our shareholders. We will do this by:

- Driving growth in the core businesses
- Continuing to deliver value
- Completing the disposal programme
- Controlling costs.

Thank you

I would like to thank my management team and all our employees for the hard work that has made the transformation of the company possible. We face a brighter future thanks to their efforts. I would like also to pay tribute to Sir Anthony Cleaver, my predecessor. He conceived AEA Technology and through his determination and vision we went into the private sector. I strongly believe that this company has fundamental strengths which I am determined will deliver real value to investors in the near future.

Outlook

The outlook in our two core businesses is good. We foresee continued growth in the markets for Rail and Environment both domestically and internationally. Both businesses are already cash generative and our aim will be to improve this further.

The outlook is also good for Battery Systems as we see excellent opportunities to capitalise on our strong position in the portable power markets. QSA and Accentus are also making considerable progress.

The business overall is now better structured and financially stronger. We are focused on completing the outstanding disposals, being rigorous with our costs and maximising the potential of our core businesses, all of which will progressively deliver higher value for shareholders.



Dr Peter Watson
Chairman

A re-shaped Group

We have made excellent progress in transforming the Group from one with five divisions to a focus on two core businesses – Rail and Environment – plus our value development portfolio of smaller businesses with growth potential. The exit from the nuclear market is almost complete and, following the sale of Hyprotech in May 2002, we have successfully disposed of our main Engineering Software business.

Within the continuing businesses we focused on our areas of strength and stripped out loss-making activities and costs. We strengthened our management teams and continued to place a priority on commercial focus and competitiveness.

Our core Rail and Environment businesses continued to perform well, with both achieving record sales and operating profit figures. Combined, turnover was £124.7 million and operating profit (before exceptional operating items) £20.2 million, up 18% and 24% respectively over last year.

Disposals

During the financial year we raised gross sale proceeds of £88.2 million. In May 2002 we completed the disposal of our main Engineering Software business, Hyprotech for £67.5 million. We are in discussions regarding the sale of our Nuclear Science business.

Acquisitions

During the year we spent £7.0 million on acquisitions. We strengthened our Environment business with the acquisition of Kinectrics Inc for £5.3 million. Kinectrics Inc is a Canadian business which will broaden our platform into the North American market. We also made two small acquisitions in our Rail business, SoMat Corporation Inc and ERSA Sarl (European Railway Signalling Applications), which will strengthen our international capability.

Operating businesses

Rail and Environment

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.
- nCode International Limited provides fatigue and lifetime destruction software, principally to the automotive industry.
- SoMat Corporation Inc develops portable and rugged data acquisition systems and software tools for field and laboratory data analysis.
- ERSA Sarl develops software for European Rail Traffic Management Systems.
- Fleet Software Limited provides fleet maintenance scheduling software to transport companies.

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.

Subsidiaries:

- Kinectrics Inc operates in technological fields covering generation plant, the environment, transmission and distribution and emerging energy as well as providing energy consulting services.



5AM ON THE TRACK AT CHEDDINGTON, PAUL BROWN, AN ELECTRICAL ENGINEERING GRADUATE, COLLECTS DATA FROM WHEELCHEX, WHICH IDENTIFIES POTENTIAL TRACK DAMAGE.



Cliff Perry
Managing Director

“THIRD
SUCCESSIVE
YEAR OF
STRONG
ORGANIC
GROWTH”

Vision and strategy

Rail’s vision is to be recognised as Europe’s leading technology adviser and supplier. Our strategy is to lead the market in terms of expertise, technology and scope of offering. We will do this by leveraging our intellectual capital and smart systems across high margin growth segments. While the focus is on the UK, we plan to build our presence in selected European markets.

Performance

This was our third year of strong organic growth. Sales were up 17% (13% excluding acquisitions) to a record £75.3 million and operating profit (before exceptional operating items) was up 31% at a record £12.3 million. Cash generation was excellent as a result of improving contract and project management, sound commercial practice and the streamlining of our debt collection processes. Operating cash flow significantly exceeded contribution for the second year running and debtor days fell by 30%. We are looking to continue this performance.

We are pleased with the performance of Rail’s first overseas acquisition, NSTO in the Netherlands, our Dutch business which outperformed expectations by cutting costs and winning margin enhancing business.

Business highlights

Railtrack

A major success was our appointment as Specialist Railway Advisers to the Railtrack administrators, Ernst & Young, reflecting our position as leading strategists in the industry. We also increased our business with Railtrack by 29%, from £17 million to £22 million. This was in the context of a slowing of franchising activity because of the general election, political uncertainty and the entry of Railtrack into administration.

Acquisitions

We strengthened our international capability with the acquisition of US-based SoMat Corporation Inc and ERSA Sarl in Strasbourg. SoMat Corporation Inc strengthens our ability to deliver high quality data acquisition tools in the US and Automotive markets.



There will be more investment in interface management – wheel to rail, train companies to Railtrack – our multi-disciplinary approach is a key strength.

ERSA Sarl simulates and tests the European Railway Traffic Management System (ERTMS) which represents the biggest single technology change facing today's railways in Europe and beyond. The signals are going to move from the trackside to the train, and we are well placed to contribute to the development and adoption of the technology.

Successful roll-outs

During the year we achieved several national roll-outs of our systems across the UK network: our VISION planning tool which provides large-scale simulation of railway traffic and timetables; the Control Centre of the Future (CCF) which delivers improvements to train punctuality through the provision of real-time data across the whole rail network and is becoming the industry performance management tool; and WheelChex™, which prevents damage to tracks by identifying faulty vehicles and excessive wheel loads. We have made good progress on delivering Virgin Trains' new middleware system (VMS) for electronic seat reservations and successfully implemented IECC (Integrated Electronic Control Centre) which provides real-time train control, on the Leeds re-signalling project.

Future growth

In the UK, the rail system is under pressure from rising passenger numbers and freight volumes and the need to improve performance and safety. Last year there were 17 million "delay minutes" costing the industry approximately £50 per minute, 538 rail fractures and 437 Signals Passed At Danger (SPADs). Infrastructure investment is required and planned. We are well placed to provide the appropriate solutions.

Our offering to the market is at the high value end. We are the only supplier to provide a complete one-stop shop portfolio of services and products – from adviser to provider, from economics to engineering and from track to train. We deliver performance, savings and safety improvement throughout the network. We take a systems approach, turning consultancy into products, products into systems and systems into solutions.

In Europe there is a trend towards outsourcing and privatisation and an increasing demand for smart condition monitoring and tracking systems.

Market drivers

The pace of change within the industry continues to accelerate and to create the opportunity for the new solutions and technical innovation at which we excel. This is true of the UK and key international markets, particularly in Europe. Improved performance, safety and value for money are the key drivers in the industry. As a result, the demand for greater integration via smart systems is rising. We estimate that there are potential savings of £1.9 billion to be made through the introduction of smarter systems and hardware.

We are strongly positioned to benefit from key industry trends.

- The trend is towards national, proven solutions. This limits competition and gives advantage to UK-smart systems such as ours
- There will be more investment in interface management - eg wheel-to-rail, train companies and Railtrack - which requires a truly multi-disciplinary approach and is our key area of expertise
- There is a key trend towards predicting the effect of duty on asset condition and hence improve the effectiveness and efficiency of maintenance. This plays to our strengths in condition monitoring, decision support systems and fundamental knowledge of degradation mechanisms
- There is a need to improve the planning and performance of timetable generation. With our operational research capabilities we are extremely well placed to exploit this opportunity via rapid development of our automatic software-based systems
- The Strategic Rail Authority (SRA) is taking responsibility for the future health of the railway. This provides an opportunity for forward-looking proposals and we have just qualified as one of only two main suppliers to the SRA's Rail Industry Development Services panel.

Globalisation of the railway supply market is increasing with new players entering the UK and other markets. We are in a strong position to work with these new players through our unsurpassed knowledge of the UK system. In addition, these relationships will give us access to new markets for our own products and services.

We expect to benefit from improved railway performance, returning customer and investor confidence, improving profitability of key players and the implementation of London Underground's Public Private Partnership.

Priorities

The priority is to accelerate growth within the business by:

- Consolidating and enhancing our position in the UK
- Extending our position in Europe
- Delivering new high value technology and products
- Identifying suitable, earnings enhancing acquisitions.

Outlook for the market

The outlook remains very positive for the business. Investment in the rail industry is increasing and we are well positioned to continue strong growth.



Stuart Hill
Managing Director

Vision and strategy

Our vision is to be recognised as a leading provider of energy and environmental solutions to governments, agencies and industry in Europe and North America. Our strategy is to focus on public sector customers like the UK government, which is driving and defining the marketplace, and high added value niches in the private sector such as environmental information management systems.

Performance

This was a year of good progress. Sales were up 21% (7% excluding acquisitions) on last year's figures to £49.4 million and operating profit (before exceptional operating items) was up 14% to £7.9 million. Our cash performance was excellent with operating cash flow exceeding operating profit.

Our immediate priorities are to continue to grow the UK base and target higher value sectors, enhance margins through better resource utilisation and maintain high levels of customer service in a rapidly changing market. In the longer term, we are looking to use the technology and expertise developed by Kinectrics Inc to leverage our position in North America.

Business highlights

Acquisition

A key highlight was the acquisition of Kinectrics Inc from Ontario Power Generation in Canada which will bring expertise in multiple pollutant control, air quality modelling and emission measurements. It will strengthen our energy and air quality capability, as well as giving access to North America and entry into the power sector.

Restructuring

During the year we completed the restructuring of the business into four business units focused on energy/climate change, public sector programme management, environmental consultancy and monitoring and environmental software solutions. Each are leaders in their respective market sectors. The acquisition of Kinectrics Inc added a North American dimension. We exited non-core market activities and a small number of operations which were failing to match expectations.

“SALES WERE
UP 21% AND
OPERATING
PROFIT UP
14%”

Steven Telling – one of AEA's Air Pollution Specialists who install and check particulate monitoring equipment throughout the UK.





OXFORD STREET AT 4.30AM ON 10 JUNE. THE SUN IS RISING AND SO IS THE POLLUTION LEVEL. AEA TECHNOLOGY HAS SMART MONITORING SYSTEMS TO RECORD CRUCIAL DATA FOR GOVERNMENT.

Contract wins

Our primary customer remains the UK government from whom a number of key contracts were won and renewed. A particular highlight was the £7.5 million per year contract for advice and implementation of energy programmes. This was the first competitive tender for this programme for 15 years. We were successful in retaining significant contracts with DEFRA and the Environment Agency for air quality monitoring.

Notable successes overseas included our work with China to improve waste management and advising European countries wanting to join the EU on improving their environmental legislation.

Future growth

The global market is being driven by governments seeking to honour international commitments and respond to domestic pressure. In the future this legislative framework will accelerate private sector spending. Current trends are towards integrated or smart solutions which prevent pollution from arising in the first place.

In the UK, net government spending on environmental protection alone has grown by nearly 8% per annum over the last four years and now stands at about £4 billion. We are well positioned to address sectors such as waste management, environmental auditing, risk assessment, government policy, air pollution and environmental management systems, giving us a total accessible market of about £450 million.

Market drivers

In our core public sector market in the UK, the focus is on areas such as climate change, renewable energy, landfill and integrated pollution control. Priorities in the most recent UK budget were on tackling air quality and climate change.

We are well placed to advise and deliver solutions on these key areas by drawing on our understanding of the UK government and the European Union. We have been in the forefront of developing and implementing environmental policy and have over 25 years of working with public sector organisations to turn policy into practical achievements.

Because of our unparalleled knowledge, we understand what environmental legislation is trying to achieve and how it affects business. Business is concerned about complying with legislation, performance optimisation, managing liabilities and protecting corporate image. We help business turn legislation into opportunity, developing smart solutions to reduce the cost of compliance and exploit the opportunities for improving our environment. In short, we help and advise businesses to keep legal, protect their reputation, manage liabilities, stay competitive and improve the environment. For example, our software expertise helps integrate environmental data with business systems and to meet environment, health and safety legislation.

Priorities

The priority is to ensure we remain fully aligned to the needs of the growing environment market by:

- Continuing to enhance the performance of our sector-leading businesses
- Using smart solutions to drive organic growth, particularly in the private sector
- Seeking out acquisitions which add value by strengthening our market positions.

Outlook for the market

The outlook for the market in the UK and internationally is positive. We anticipate continued strong growth in our target markets, which we are well positioned to capitalise on.

Operating businesses Future Technologies

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.

Accentus

Invention, development and exploitation of intellectual property.

Subsidiaries:

- Accentus plc was established on 1 April 2001 to invent, develop and exploit an IP portfolio. Key technologies are in the fields of non-thermal plasmas and catalysis; vortex processing and mixing; process intensification; electrochemistry; sonocrystallisation; materials; and bio-pharmaceutical manufacturing.
- 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.

Value Realisation

Provides high-tech systems for space, defence, nuclear, fine chemicals and pharmaceutical markets. Supplies products and services to maximise plant value. Expertise focuses on engineering integrity, inspection, modelling performance, safety and risk management.

Subsidiaries:

- ERG Environmental Resource Group specialises in designing and constructing air pollution control equipment, process plant and liquid effluent treatment plants within the manufacturing and water industries.
- Forensic Alliance Limited provides forensic science services for UK police forces and other customers.

Value development

We have three principal businesses in the value development portfolio, Battery Systems, Accentus and QSA. The aim is to nurture these businesses through a two to three year investment programme which will increase value significantly. In this timeframe, we will decide on the best means of capturing this developed value.

Battery Systems' and Accentus' performance is included within Future Technologies. QSA is included within Nuclear Technology.

Value development turnover was £65.8 million and made an operating loss (before exceptional operating items) of £8.4 million.

Battery Systems

During the year we completed the restructuring of the business by transferring our operations to Thurso, Scotland.

There were two main highlights for the year. The first was the launch of a new Kaizen cell in September which set new standards for cell performance and has attracted worldwide interest. The second was the award of a multi-million pound contract by General Dynamics UK Ltd to the business to advise on and supply portable power systems for the Ministry of Defence's BOWMAN programme.

The contract represented a major breakthrough for the business. It provides a strong platform from which we will seek other markets where customers demand our high added value service and products.

Accentus

There were 80 new inventions during the year and we anticipate generating more than 500 patents per annum by 2005. Silver II™ successfully completed a \$20 million programme for the US Army. We now await the US Army selection decision. Nuclear Fluidics continued its successful work with the US Department of Environment. Electrocatal™ signed a joint development agreement with JEBER SPACHER GMBH & CO KG, Europe's largest independent exhaust systems manufacturer. BOC Edwards signed a joint development agreement for our plasma freon abatement technology.

QSA

The restructuring of the manufacturing capability from the UK to Germany has proceeded well. We enjoyed early successes in the new medical business, for example, the strategic alliance with Novoste, and made significant investment in medical therapies.

QSA reversed a loss-making trend to achieve an operating profit in the second half of the year. This was supported by early impacts of our cost reduction plans. An integral part of our programme is to continue to capitalise on our successful joint venture in China, where turnover increased by 90% during the year.

Operating businesses

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 GmbH manufactures sources for calibration and medical purposes. It also conditions, and disposes of, waste residues from medical and industrial clients.
- AEA Technology QSA Inc manufactures Sentinel products, which serve the non-destructive testing market.
- Shenzhen CIC-AEA Technology Manufacturing Co Limited manufactures detection units for smoke alarms.

Nuclear Programmes

Uses its nuclear facilities and expertise to help its customers optimise the performance and safety of their plants and to manage their waste arisings in an environmentally acceptable and efficient manner.

Nuclear Engineering

Offers comprehensive nuclear plant expertise, including plant design, build and commissioning, engineering consultancy, operational support and decommissioning. This business was disposed of on 1 October 2001.

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. This business was disposed of on 10 September 2001.

Business review

Other businesses

Engineering Software

Our Engineering Software business was split into two separate operations during the year in preparation for their divestment. The Hyprotech business was sold in May 2002, and the CFX business will be marketed in the near future.

Hyprotech

Hyprotech continued the development of its suite of three principal software families, HYSYS, BaSYS and AXSYS, launching new software aimed at broadening its usage base. At the same time it streamlined product development processes to improve efficiency.

The business was successful in securing an increased number of multi-year licence agreements from customers committed to using Hyprotech's applications throughout their process operations. These deals helped deliver a 5% growth in sales.

CFX

CFX invested heavily in the development of a new core product, CFX-5, to replace its two legacy products, CFX-4 and CFX-TASCflow. CFX-5 has been launched to critical acclaim within the industry and is beginning to capture competitor accounts. The business also invested in a start-up business, EASA, whose product, launched in the latter part of the year, promises to make complex software more easily accessible to a wide user base. These developments helped to achieve growth in sales and strengthen the business' market position.

Nuclear Programmes

Nuclear Programmes' performance is included in Nuclear Technology.

Nuclear Programmes covers the work to complete the remaining disposals and closures of AEA Technology's nuclear business activities.

Following the successful sale of Nuclear Consulting and Nuclear Engineering, good progress was made in preparing for the regulatory approvals required for the sale of Nuclear Science. The focus of Nuclear Programmes is to complete the disposal and closure of the remaining business streams safely, promptly and cost effectively.

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. It provides integrated and value-added solutions to major operators in the oil and gas markets.
- Hyprotech Inc provides Hyprotech products to the US.
- Hyprotech Europe SL supplies Hyprotech products in Europe.
- AEA Hyprotech Japan Limited supplies engineering software to Japan.
- EA Systems Inc offers plant design systems and consultancy.
- AEA Technology Engineering Software Inc and AEA Technology Engineering Software Limited (registered in Canada) both serve customers in North America with computational fluid dynamic software.
- AEA Technology Engineering Software Limited supplies CFX products in the UK.
- AEA Technology GmbH provides engineering software licences and consultancy in Germany.
- AEA Technology Sarl resells engineering software in France.

Introduction

The Group's strategy is to focus on its core Rail and Environment businesses, to invest in its value development businesses namely Accentus, Battery Systems and QSA and to dispose of the remainder. The resultant acquisitions and disposals together with the restructuring activity undertaken limit the meaningfulness of year on year comparisons. This review seeks to highlight the transactions and trends in operating results that will aid interpretation of the Group's performance.

Profit on ordinary activities before taxation

Profit before taxation was £13.5 million (2001: loss before taxation £17.2 million), reflecting the exceptional net profit on sale of businesses during the year. The largest divestment, Nuclear Consulting, generated a profit on disposal of £61.0 million whilst other disposals resulted in a loss of £7.3 million (see note 32).

Operating results

The results of discontinued operations are shown separately on the face of the Consolidated Profit and Loss Account and include the results of Hyprotech as described in note 38. A segmental analysis of turnover and of operating profit before and after exceptional items is given in note 3. The 2002 full year and half-year results of the businesses are analysed below in accordance with the Group's strategy.

| | Turnover Full year 2002 £m | Operating profit/(loss) before exceptional items Full year 2002 £m | Turnover Half-year 2002 £m | Operating profit/(loss) before exceptional items Half-year 2002 £m |
|----------------------|-------------------------------------|--|-------------------------------------|--|
| Rail | 75.3 | 12.3 | 36.7 | 4.4 |
| Environment | 49.4 | 7.9 | 19.3 | 3.5 |
| Core business | 124.7 | 20.2 | 56.0 | 7.9 |
| Accentus | 23.4 | (3.7) | 11.8 | (1.1) |
| Battery Systems | 7.0 | (4.2) | 1.7 | (2.8) |
| QSA | 35.4 | (0.5) | 17.9 | (1.3) |
| Value development | 65.8 | (8.4) | 31.4 | (5.2) |
| Value Realisation | 16.0 | (1.8) | 8.8 | 0.1 |
| Engineering Software | 13.3 | (1.6) | 6.4 | (1.2) |
| Nuclear Programmes | 23.8 | (5.0) | 8.9 | (2.0) |
| Disposal programme | 53.1 | (8.4) | 24.1 | (3.1) |
| Nuclear Engineering | 17.9 | (1.1) | 17.5 | (0.4) |
| Nuclear Consulting | 15.8 | 2.6 | 15.8 | 2.9 |
| Value Realisation | 15.0 | (1.3) | 9.0 | (1.9) |
| Engineering Software | 33.3 | 0.2 | 17.4 | 0.8 |
| Disposed businesses | 82.0 | 0.4 | 59.7 | 1.4 |
| Central items | 8.8 | (13.4) | 2.5 | (7.0) |
| Total | 334.4 | (9.6) | 173.7 | (6.0) |

The operating loss principally arises as Accentus, Battery Systems and QSA are in a development phase and incurring losses. The Board is confident that the continuing investment in these businesses is worthwhile and will add value.

The Group has changed its policy on the recognition of income on software license sales as described in note 1. Under the new accounting policy the full contract value is spread over the period of the contract. As a result, turnover to 31 March 2002 decreased by £19.5 million and operating profit decreased by £17.0 million.

Acquisitions

Acquisitions made in the year are detailed in note 31. Rail acquisitions generated £2.1 million of sales in the year. Kinectrics Inc added £6.0 million of sales within Environment in the three months since its acquisition but low profit due to seasonal factors.

Exceptional items

The profit on disposals and costs of termination of operations described above contributed respectively a net profit of £53.7 million and a loss of £5.9 million. These items relate to discontinued business streams and are reported below operating profit. Further details are given in notes 11 and 32.

In addition further steps were taken within the continuing business streams to restructure the Group in order to focus on areas of strength, eliminate loss-making activities, reduce costs and rationalise the Group. As a result exceptional operating charges of £21.1 million (2001: £24.0 million) were incurred as follows:

- £1.2 million in Future Technologies, covering redundancies arising from continuing rationalisation of products and services following review by management of the business's strategic direction and contract portfolio.
- £3.5 million in Nuclear Technology, for redundancy costs and £0.9 million other costs relating to the decision to exit from the Harwell B220 facilities over the next two years.
- £5.2 million of additional decommissioning and waste costs identified following a review of the B220 operations and exit plans.
- £1.8 million in Nuclear Technology covering redundancy costs relating to the decision to cease QSA manufacturing activities in the UK.
- £7.6 million of other redundancy costs (£4.6 million in the Corporate Centre), resulting from rationalisation of activities within the Group.
- £0.9 million of Offer Period costs.

Research and Development

Research and development expenditure increased by £3.5 million to £18.2 million. Details of research and development projects undertaken are given in the Directors' report on page 30.

Interest

Net interest charges decreased from £5.5 million to £3.6 million, due to the reduction in net debt from £67.8 million to £15.4 million following the net receipt of £83.0 million on disposal of businesses.

Taxation

The Group taxation credit of £8.8 million (2001: £5.4 million) on the profit before taxation (note 14) arises because tax relief is available on the Group's trading losses and exceptional operating restructuring costs and because there is no capital gains taxation payable on the disposals. This is due to the high tax basis that AEA Technology plc has in those divested businesses.

The tax credit on the loss before taxation and exceptional items of £13.2 million is £1.1 million, giving an effective tax rate of 8.3%. The key factors influencing the rate of tax are higher tax rates in overseas jurisdictions such as Germany, Japan and Canada, irrecoverable overseas taxes and unrelieved losses in certain subsidiary companies.

The Group has implemented Financial Reporting Standard 19: Deferred Taxation and has recognised a net deferred tax asset of £13.0 million (2001: £0.1 million).

Cash flow and borrowings

As a consequence of cash received on disposals, year-end net debt has reduced by £52.4 million to £15.4 million (2001: £67.8 million) and hence net interest paid has decreased from £5.0 million to £4.1 million.

The operating cash inflow before exceptional items reduced by £32.6 million and in addition a cash outflow of £8.6 million was incurred in respect of exceptional operating charges and closure costs. The key factor for the decrease in operating cashflows is the £21.7 million reduction in operating profit, of which £16.8 million is due to the disposal of Nuclear Consulting and Nuclear Engineering.

Purchases of tangible fixed assets totalled £9.2 million (2001: £6.4 million). The increase in capital expenditure is due to investment in the Battery Systems' manufacturing facility, new premises in Derby for Rail and a facility for the production of Yttrium-90 mainly for use in the medical industry. Disposals of tangible fixed assets totalled £1.1 million (2001: £0.3 million).

Purchases of subsidiaries totalled £7.6 million (2001: £6.5 million) which represented £0.6 million deferred payments on acquisitions made in previous years and £7.0 million relating to acquisitions made during the year (note 31). The principal acquisitions in the year were in Environment and Rail. Environment acquired Kinectrics Inc, the power technology arm of Ontario Power Generation, for £5.3 million. Acquisitions in Rail were SoMat Corporation Inc £0.8 million, a company which designs and manufactures data acquisition hardware and accompanying software for the automotive industry, and ERSA Sarl £0.5 million, a company which develops software for European Rail Traffic Management Systems. The group disposed of several businesses during the year to enhance further the focus on its core activities (note 32). The net cash receipts from these disposals amounted to £83.0 million (2001: £4.0 million) generating a profit on disposal of £53.7 million (2001: £1.1 million). The principal disposals were in the Nuclear Technology business: Nuclear Consulting net cash £66.9 million and Nuclear Engineering net cash £15.8 million. Further cash outflows will be incurred in future years on these disposals as accrued outstanding costs are paid. The current estimate is that future payments could total £14.6 million over the next one to five years.

The Group finances its operations through a combination of retained profits, bank overdrafts, a revolving credit facility, and a seven-year private placement 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 34 to 37.

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 risk continues to be movements in foreign currency exchange 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 required 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% net funding is on a fixed basis. Imbalances which are likely to persist for more than a year are corrected using hedging techniques. At 31 March 2002 £7.0 million (13%) of the Group debt was in US dollars, with the remainder in sterling or US dollars swapped into sterling.

Shareholders' return and value

Earnings per share increased to 25.3p (2001: (12.9)p). After adjusting for exceptional operating charges, profit on sale of businesses, loss on termination of operations and amortisation of goodwill earnings per share fell to (11.4)p (2001: 10.6p).

No final dividend is proposed, bringing the total dividend for the year to 3.8p per share. The dividend is covered 6.6 times by earnings.

During the year AEA Technology shares rose from 157.5p per share at 1 April 2001 to 260.5p per share at 31 March 2002. The Company's shares ranged in price from 156.5p in April 2001 to 348.5p in August 2001.

Information technology

Investment in information technology (IT) is continuing with the emphasis on infrastructure and network development in order to further exploit web based technologies and services both for our internal management information systems and for our customers. The outsourcing agreement has been renegotiated to deliver more flexible IT services and significant cost savings to the Group over the next three years.

Accounting policies

A description of the principal accounting policies appears on pages 52 to 54. The policies followed are consistent with those applied last year except for the implementation of the following new accounting standards:

- Financial Reporting Standard 17: Retirement Benefits has a phased implementation, beginning in 2002 for disclosure, with full implementation in 2004. The new disclosures are given in note 9 and show a net deficit on the Group schemes of £46.1 million. From 1 April 2002 the Company increased its contribution rate from 10.9% to 13.1% to extinguish any funding deficit. As a result the pension charge in the 2003 budget is expected to increase by broadly £4 million compared to the charge for 2002. Statement of Standard Accounting Practice 24: Accounting for Pension Costs continues to be used to calculate the Group pension costs in 2002.
- Financial Reporting Standard 18: Accounting Policies is mandatory for the 2002 financial statements. AEA Technology's accounting policies have been reviewed to assess the appropriateness of all policies under this standard. This resulted in changes to our policy for recognition of software licenses as detailed in note 1. The change in policy reduced turnover and operating profit in 2002 by £19.5 million and £17.0 million respectively.
- Financial Reporting Standard 19: Deferred Taxation is also mandatory for the 2002 financial statements and requires a full rather than partial provision for deferred taxation. The impact of this change is detailed in note 1.

Post balance sheet event

Following shareholder approval, the Group disposed of the Hyprotech business on 31 May 2002 for sale proceeds of £67.5 million. See note 38.



David Lindsay
Group Finance Director
19 June 2002

Directors

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

Executive Directors

Dr Peter Watson (58) Chairman

Dr Peter Watson was appointed Chairman in January 2002 having joined AEA Technology as Chief Executive in June 1994. He chairs the Nomination Committee. Previously, 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.

David Lindsay (46) Group Finance Director

David Lindsay joined the Board in September 2001 upon recruitment as Group Finance Director. Before joining AEA Technology, he was group finance director, Industrial Controls Services Group, having previously worked in the UK and in France for GEC ALSTHOM and for BET plc.

Andrew McCree (44) 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 (45) Chief Operating Officer

Stephen Thornton joined the Board in January 2001 upon his appointment as Chief Operating Officer. Previously, 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 (58)

Dr Leslie Atkinson was appointed to the Board in August 1996. He 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 is a non-executive director of Electrocomponents plc. He is a member of the Audit, Nomination and Remuneration Committees.

Professor Michael Brady (57)

Professor Michael Brady was appointed to the Board of AEA Technology in March 1996 having before that served as a non-executive member of UKAEA. He chairs the Science and Engineering Advisory Committee and is a member of the Nomination and Remuneration Committees. He is BP Professor of Information Engineering at Oxford University, and is an executive director of Guidance Control Systems Limited, Oxford Medical Image Analysis Limited and Oxiva Limited, and deputy chairman of Oxford Instruments Limited.

Lord Sharman of Redlynch (59)

Lord Sharman was appointed to the Board of AEA Technology in March 1996 having been a non-executive member of UKAEA. He chairs the Audit Committee and is a member of the Nomination Committee. 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.

Andrew Shilston (46)

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

Sir Anthony Cleaver resigned as Chairman in December 2001. He had also chaired the Nomination Committee.

David Lindsay, who was appointed by the Board during the year, will retire and stand for election at the forthcoming annual general meeting (AGM).

Dr Watson and Professor Brady 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.

Principal activities

AEA Technology plc and its subsidiaries ("the Group") is a technology and consultancy-based business which has built on its UK public sector strength to develop increasingly in the UK private sector and abroad. It focuses on two growth markets, Rail and Environment, to which it provides customers a portfolio of advanced technology products and services, expert consultancy, and deep industry understanding. In addition, AEA Technology has a value development portfolio of businesses that includes Accentus, Battery Systems, and QSA.

Review of the business and future development

The performance of the Group and its business segments is reviewed on pages 6 to 20.

Results and dividends

This year's results are set out in the Consolidated Profit and Loss Account on page 47. The Directors, as part of their commitment to return capital to shareholders, recommend a Special Dividend of 50.0p per share with no final dividend in respect of 2002. Based on the interim dividend of 3.8p a share, paid in February 2002, this would make a total for the year of 3.8p (2001: 11.1p). Details of the proposed Special Dividend will be given to shareholders in a circular.

Changes in fixed assets

Details of changes in fixed assets, mainly as a result of divestments during the year, are given in note 19 to the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 38.

Directors' interests

The Directors' service agreements and their interests in the Company's shares are described in the Report on Directors' Remuneration on pages 38 to 43.

The only contract of significance to which the Company or any of its subsidiary companies is a party and in which a Director of the Company is materially interested, is an agreement for the joint purchase of property with Dr Peter Watson (see section 2 of the Report on Directors' Remuneration).

Share capital

The issued ordinary share capital increased during the year by 631,732 to 89,264,839 through the issue of new shares to meet the exercise of options under the Group's employee share schemes.

Substantial shareholders

As at 6 June 2002, the Company had been notified under section 198 of the Companies Act 1985 (as amended) of the following notifiable interests in its shares: Schroders Investment Management Limited: 17.05%, Phillips & Drew Life Limited: 3.24%.

Acquisitions, joint ventures and new branches

Acquisitions made in the year are detailed in note 31. The Company has 9 registered branches in other countries.

Research and development

Research and development (R&D) expenditure was £18.2 million (2001: £14.7 million).

R&D investment is controlled by the individual businesses within an overall strategic framework set by the Board. It is directed at the development of new products and ventures in which the Group has a distinctive technological lead as well as longer-term technology developments to underpin future organic growth.

In our two core businesses, the emphasis for R&D expenditure is on maintaining and further developing strong positions in their respective growth markets:

- In Rail, R&D in fields such as signalling, safety and reliability, maintenance and revenue management has been carried out in response to the continuing strong demand for advanced technology, driven by the UK's significant and growing investment in railway infrastructure and rolling stock.
- In Environment, R&D investment has focused on three major growth strands: broadening its position as a leading supplier of environmental know-how to the UK government, developing its capability in environmental software and information systems, and developing products and services that respond to climate change issues and associated regulatory changes.

In the businesses in the value development portfolio, R&D expenditure is supporting them through a two to three year investment programme aimed at increasing their value significantly. In QSA, investment has continued in building its capability in the medical area and in particular in developing a major production facility to supply the radioisotope Yttrium-90 for use in cancer treatment. In Accentus, there continues to be significant R&D investment in developing its IP and patent portfolio in selected technology clusters, for example in developing advanced plasma technology for the destruction of diesel particulates and oxides of nitrogen in vehicle exhausts.

The Innovation Plus™ and University Links schemes continue to be pursued as a means of accessing and securing IP from sources external to the Group. They are managed on behalf of the businesses by Accentus, as part of its IP management capability.

Corporate Social Responsibility

The Directors take regular account of the significance of social, environmental and ethical (SEE) matters to the business of the AEAT Group. They have identified and assessed the significant risks to the Group's short and long term value arising from SEE matters, as well as the opportunities to enhance value that may arise from an appropriate response. They have received adequate information during the year to make this assessment and account is taken of SEE matters in the training of directors. The Board has ensured that the Group has in place effective systems for managing significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives including the Executive Directors. Regular meetings are held with major shareholders in which they have the opportunity to raise SEE matters affecting the Group.

The Board reviews SEE matters regularly as part of its corporate governance, including annual reports on health and safety and on environmental management performance, and through monthly performance statistics and indicators. During the year, Stephen Thornton was the Board member for health, safety and environmental management and Andrew McCree was the Board member for Corporate Affairs and Human Resources. The Group Executive and business boards similarly discuss SEE matters on a regular basis, with health and safety always the first item on the agenda.

The Board includes SEE matters within its wider annual review of risks under the Turnbull guidelines. The three that it has identified as most significant in terms of effect on the Group's short and long term value are: high standards of health, safety and environmental management and observance of regulatory requirements; effective employee relations; and systems and culture that maintain the Group's reputation for scientific and technical integrity and independence. Details of the Company's record on key SEE matters and verification for disclosures is described elsewhere in the Directors' report.

The Board ensures that systematic policies and procedures exist to document and to manage key risks in these areas. These form part of the Group's integrated Quality Management System, and performance against them is regularly audited and verified externally by Lloyds Registrars.

The Board has agreed a code of business ethics which has been distributed to all staff, "Integrity at Work", setting out the standards of behaviour expected of staff in circumstances calling for judgement. The text is on the Company web site.

Commitment to the community is demonstrated in a number of ways, for example, through local site liaison committees, membership of Business in the Environment and of the Per Cent Club. The Group's policy is to focus its corporate community involvement on promoting science and technology, for example in local schools.

The Group donated £30,441 (2001: £61,318) for charitable purposes during the year plus contributions in kind. No political contributions were made in the current or previous year.

Employees

During the year the Group had an average of 4,235 employees.

Employee involvement and participation is actively encouraged. 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 share option invitation was made across the Group in December 2001.

Disabled employees

The Group recognises and welcomes its obligations to employ people with disabilities. To the extent that the demands of the business and aptitude and ability of each individual allows, it aims to give people with disabilities equal opportunities for training, promotion, and career development. This policy applies to 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 Chairman. Stephen Thornton was the Board member for health and safety management last year.

The requirements of our policy are implemented through instructions and guidance notes available to all employees. Compliance is monitored by an internal audit team independent of operational management.

Safety issues, together with the control measures in place, form part of the Group's risk-based internal control system. The Board also reviews annually a report on health and safety performance. Details of the health and safety policy, targets, and performance measures can be found on the Group's website.

Environmental management

The major environmental effects of the Group's activities during the year continued 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. We are continuing to target reductions in energy consumption across the company.

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

The requirements of our policy are implemented through instructions and guidance notes available to all employees. Compliance is monitored by an internal audit team independent of operational management.

The Group's target is to achieve certification to ISO14001. Environment has already achieved such certification. Dialogue has been initiated with the company's most significant suppliers about improving their environmental performance.

More details of our environmental performance, including data on our most significant impacts, can be found on our website, which also includes the Group's environmental policy and management arrangements. Our arrangements include external auditing of the figures by external environmental consultants.

During the year we again took part in the Business in the Environment Index of Corporate Environmental Engagement.

Economic and monetary union

A steering group reviewed the various ways in which the introduction of the Euro would affect business. The Group is committed to ensuring that its procedures and systems suit the new currency. No issues have arisen since the introduction of the Euro notes and coins on 1 January 2002 including within subsidiary companies in those European countries that have adopted the Euro. Costs incurred to date have been negligible and future costs are not expected to be significant.

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 2002 was 34 days (2001: 33 days).

By order of the Board



Keith Russell
Company Secretary
19 June 2002

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

Between 1 April 2001 and 31 December 2001, the Board comprised a non-executive chairman, four Executive Directors in the Group's key management and operational posts, and four other non-executive directors. Between 1 January 2002 and 31 March 2002, after Sir Anthony Cleaver resigned, Dr Peter Watson moved from Chief Executive to Executive Chairman. Between them, the directors have a range of international business and financial expertise.

In line with the Combined Code, the Board publicly justified the appointment of Dr Peter Watson as Executive Chairman. It drew attention to the continuity that his knowledge of the Company would bring and, most importantly, the direct and significant value to the Group of his knowledge and reputation within the rail industry. He is also widely known in a number of government departments where the Environment business is targeting future growth.

The four remaining non-executives are all independent of management and of any business or other relationship which could materially interfere with the exercise of their independent judgement. Lord Sharman is the senior independent director.

All Directors must stand for election by shareholders at the first opportunity after their appointment. They must stand for re-election at intervals of no more than three years.

The Board meets monthly except in August. It decides the direction and strategy of the Group and ensures the best performance of Group resources for shareholders. It has agreed a schedule of matters reserved for its decision. It 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 make recommendations to the Board. It is chaired by Dr Peter Watson and members include all non-executive directors. The Committee met twice last year.

The Remuneration and Audit Committees are described later in this report. All members are independent non-executives.

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 once last year.

Directors' remuneration

The Report on Directors' Remuneration is given on pages 38 to 43. It has regard to Schedule B of the Combined Code.

Shareholders considered and approved the executive remuneration policy by resolution at the 2001 AGM and a similar resolution is being put to the 2002 AGM.

Relations with shareholders

The Group welcomes dialogue with its shareholders and communicates with them through its interim and annual reports and through its 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 on a show of hands. Notice of the AGM and related papers were sent to shareholders at least 20 working days in advance.

The Company continues to monitor interest of shareholders in receiving information electronically, as allowed under new legislation.

Accountability and audit

The Board takes care to ensure that it presents a clear and balanced assessment of the Company and Group position and prospects in statutory and in interim and other price-sensitive public reports and in reports to regulators. It takes advice from professional advisers as part of its processes.

The members of the Audit Committee are Lord Sharman (Chairman), Dr Leslie Atkinson and Andrew Shilston. The Committee met twice during the 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 44.

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 this has been in place for the year ended 31 March 2002 and up to the date of approval of the Annual Report and Accounts, that it covers subsidiaries in which the Group has an interest of 50% 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 ("the Turnbull guidance").

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 is given 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. These 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 actions

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

During the year, the internal audit function reported to the Audit Committee, which approved its programme and considered its recommendations. The Board also received, and decided 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.

Compliance with control procedures was monitored during the year by internal audit and through reviews of compliance with the Quality Management System. Businesses are required to confirm their compliance annually with the internal control systems.

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. The Company Secretary acts as its secretary.

In line with the Financial Services Authority's Combined Code on Corporate Governance, the Committee is responsible, under written terms of reference, for making recommendations to the Board on the framework of executive remuneration and for determining on behalf of the Board the remuneration package for each Executive Director. No matters outside this remit were considered by the Committee in the last year.

In conducting its work, the Committee takes advice from external consultants that it chooses and also talks to the Chairman and Human Resources Director in order to be able to relate its work to pay and other human resources developments within the Group.

In preparing this report, the Board has had regard to Schedule B of the Combined Code.

Non-executive directors

No non-executive director has a service contract 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 comprising all the Executive Directors. 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 at 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. 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 ensure that the Group's remuneration policies and practices are in line with those of cross-sector industrial and service companies of broadly comparable market capitalisation and turnover. The Committee also takes into account pay levels elsewhere in the Group, 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.

Executive remuneration policy is consistent with 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 Fixed elements

A 1 Basic salary

The Committee reviews basic salaries annually, or when changes in responsibilities occur, taking into account external market levels, internal relativities and personal performance.

A 2 Post-retirement benefits

Executive Directors are eligible to participate in the AEA Technology Pension Scheme, a defined benefit scheme, and also benefit from top up provisions in lieu of pension benefits above the pensionable earning cap. Details of Directors' pension arrangements are set out in section 4 below.

A 3 Other benefits

Benefits include the provision of a fully expensed company car and health insurance. The Company also pays for life assurance cover for Dr Peter Watson. The sum of these benefits is recorded in the Directors' emoluments table below.

The Company has invested in a share in a London property occupied by Dr Peter Watson, whose duties require his presence in London for extended periods. The Company's investment in this property is £75,000.

B Performance related elements

B 1 Annual incentives

Executive Directors were eligible to earn a bonus of up to 50% of basic salary in 2002, payable if challenging, quantified targets relating to Group performance were met (50% of the possible bonus) and if personal targets relating to the development of the Group were met (50% of the possible bonus). All 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 2002, Group performance targets related to improvements in earnings per share and cash flow. Bonuses, which are taxable but not pensionable, are paid in cash in the year following that in which they are earned. In 2003 Executive Directors will be eligible to earn a bonus of up to 60% of basic salary.

B 2 Long-term incentives

A Long-Term Incentive Plan (LTIP) introduced in 1997 was used annually to 1999. Conditional awards of shares were 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 1999 LTIP awards was made on 31 March 2002 against comparative performance of FTSE mid 250 companies. Awards made under this plan will not vest. No further awards will be made under the LTIP. Details of movements in LTIP awards during the year are as follows:

| | Scheme | Shares conditionally awarded as at 1 April 2001 | Lapsed in year | Shares conditionally awarded as at 31 March 2002 |
|-----------------|--------|---|----------------|--|
| Dr Peter Watson | 1999 | 36,800 | (36,800) | – |
| Andrew McCree | 1999 | 14,000 | (14,000) | – |

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 schemes during the year are as follows:

| | Date of award | Percentage of salary | Option price | Number of shares | Performance period |
|------------------------------|-------------------|----------------------|--------------|------------------|----------------------------|
| Dr Peter Watson | 26 June 2001 | 200% | £2.965 | 187,042 | 1 April 2001–31 March 2004 |
| David Lindsay ⁽¹⁾ | 26 September 2001 | 150% | £2.380 | 94,537 | 1 April 2001–31 March 2004 |
| Andrew McCree | 26 June 2001 | 150% | £2.965 | 90,923 | 1 April 2001–31 March 2004 |
| Stephen Thornton | 26 June 2001 | 175% | £2.965 | 121,231 | 1 April 2001–31 March 2004 |

⁽¹⁾ Awarded following appointment as Director.

These CSOP awards are subject to a performance target based on the achievement over a three-year period of earnings per share (EPS) growth as set out below. On top of this, vesting and the extent of vesting is additionally dependent on the Remuneration Committee's assessment in 2004 of the success in implementing the November 2000 strategy review and the contribution made by the option holder.

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 Price Index (RPI);

That part of an option award between 101% of salary and 150% 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 IIMR 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.

This performance condition was chosen as being appropriate to the circumstances of the Company and designed to be aligned with the interests of shareholders.

Directors' emoluments

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

| | Basic salary and fees £000 | Benefits £000 | Annual bonus £000 | Termination payment £000 | 2002 Total emoluments £000 | 2001 Total emoluments £000 |
|------------------------------------|----------------------------------|------------------|-------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| Executive | | | | | | |
| Dr Peter Watson | 277 | 42 | 83 | – | 402 | 295 |
| David Lindsay ⁽¹⁾ | 87 | 18 | 25 | – | 130 | – |
| Andrew McCree | 180 | 35 | 54 | – | 269 | 72 |
| Stephen Thornton | 205 | 47 | 62 | – | 314 | 169 |
| Ray Proctor ⁽²⁾ | – | 148 | – | 206 | 354 | 216 |
| Dr Mel Wood ⁽³⁾ | – | – | – | – | – | 220 |
| Dr Chris Wright ⁽³⁾ | – | – | – | – | – | 229 |
| Non-executive | | | | | | |
| Sir Anthony Cleaver ⁽⁴⁾ | 54 | – | – | – | 54 | 71 |
| Dr Leslie Atkinson | 25 | – | – | – | 25 | 25 |
| Professor Michael Brady | 30 | – | – | – | 30 | 30 |
| Lord Sharman | 27 | – | – | – | 27 | 27 |
| Andrew Shilston | 27 | – | – | – | 27 | 27 |
| Dame Steve Shirley ⁽⁵⁾ | – | – | – | – | – | 8 |
| Total | 912 | 290 | 224 | 206 | 1,632 | 1,389 |

⁽¹⁾ David Lindsay was appointed as a Director with effect from 3 September 2001.

⁽²⁾ The termination payment made to Ray Proctor on retirement comprised pay in lieu of notice of £200,000 and non-cash benefits of £6,000. In addition, the Company transferred to Ray Proctor its interest in a London property previously held jointly with Ray Proctor and a company car in return for consultancy services in 2002. The market value of the share of the property transferred on 1 April 2001 was £135,000 and the market value of the car was £12,600. All outstanding CSOP and LTIP awards lapsed on retirement.

⁽³⁾ Dr Mel Wood and Dr Chris Wright retired as directors on 3 May 2000.

⁽⁴⁾ Sir Anthony Cleaver resigned as Chairman and non-executive director on 31 December 2001.

⁽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.

3 Service contracts

Andrew McCree, Stephen Thornton and David Lindsay have service contracts that provide for one year's notice of termination of appointment. 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 has concluded that negotiating a shorter period would not be in the best interests of shareholders. The Committee accepts and endorses the principle of mitigation of damages on termination of a contract.

The service contracts of all four directors run from their date of contract to their date of retirement. Contract dates are as follows:

| | Contract date | Retirement date |
|------------------|-------------------|-----------------|
| Dr Peter Watson | 31 March 1996 | 08 January 2004 |
| David Lindsay | 03 September 2001 | 16 May 2021 |
| Andrew McCree | 27 November 2000 | 19 August 2017 |
| Stephen Thornton | 29 January 2001 | 16 June 2022 |

4 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 and David Lindsay 65. Pensions increase 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 up to the pensionable earnings cap.

In addition to the pension benefits derived from his membership of the AEA Technology Pension Scheme, Dr Peter Watson has an unfunded top-up arrangement which is designed to bring his total pension benefits up to 2/3 final pay once benefits from former employment have been taken into account. The Company makes a provision in the accounts in order to cover these benefits. The accrual made during the year to 31 March 2002 was £216,000 and the total accrual to 31 March 2002 was £1,045,000. David Lindsay, Andrew McCree and Stephen Thornton are paid a cash allowance in lieu of pension benefits which is equal to 25% of the amount by which their salary exceeds the pension cap. There is also an insurance arrangement to provide additional death in service benefits and permanent health insurance for Dr Peter Watson, the cost of which in 2002 was £31,097.

The pension benefits earned in the year to 31 March 2002, calculated in accordance with the recommendations of the Institute and Faculty of Actuaries, are set out below:

| | Total 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 approved benefits | 3,791 | 24,909 | - | - | 46,883 |
| Dr Peter Watson unapproved benefits | 9,273 | 66,989 | - | - | 126,347 |
| David Lindsay ⁽¹⁾ | - | 1,830 | - | - | 8,218 |
| Andrew McCree | 2,633 | 18,487 | 639 | 22,614 | 17,230 |
| Stephen Thornton | 1,897 | 2,375 | - | - | 6,274 |

⁽¹⁾ Appointed 3 September 2001.

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

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

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

Ray Proctor's pension was brought into payment in April 2001 and, in accordance with his contract of employment, was enhanced by one additional year's service providing an additional pension of £6,927 a year. The total pension payable was £45,772 a year, with £8,580 being funded by the AEA Technology Pension Scheme, and £37,192 by the Company.

5 Directors' interests

Interests in shares

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

| | 31 March 2002 | 1 April 2001 or date of appointment |
|---|---------------|--|
| The Company – ordinary shares of 10p | | |
| Dr Peter Watson | 58,771 | 56,321 |
| David Lindsay | – | – |
| Andrew McCree | 127 | 127 |
| Stephen Thornton | – | – |
| Dr Leslie Atkinson | 11,369 | 11,369 |
| 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 6 June 2002. 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 30) or the Company Share Option Plan (CSOP) and are set out below:

| | 1 April 2001 or date of appointment | Number of options granted in year | 31 March 2002 | 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 |
| | – | 187,042 | 187,042 | £2.965 | 26 June 2004 | 26 June 2011 | CSOP |
| | – | 1,357 | 1,357 | £1.960 | 1 March 2005 | 31 Aug 2005 | SAYE |
| David Lindsay | – | 94,537 | 94,537 | £2.380 | 26 Sept 2004 | 26 Sept 2011 | 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 |
| | – | 90,923 | 90,923 | £2.965 | 26 June 2004 | 26 June 2011 | CSOP |
| Stephen Thornton | 170,731 | – | 170,731 | £2.050 | 1 April 2004 | 1 April 2011 | CSOP |
| | – | 121,231 | 121,231 | £2.965 | 26 June 2004 | 26 June 2011 | CSOP |
| | – | 4,846 | 4,846 | £1.960 | 1 March 2005 | 31 Aug 2005 | SAYE |

The market price of the Company's shares at the end of the financial year was 260.5p and the range of market prices during the year was 156.5p to 348.5p.

Statement of Directors' responsibilities

The Directors are required by UK company law to prepare 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, with the exception of changes arising on the adoption of new accounting standards in the year as explained on page 26. They also confirm that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2002. 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.

A copy of the Annual Report and Accounts of the Company is placed on the AEA Technology plc website. The maintenance and integrity of the website is the responsibility of the Directors' and the work carried out by the auditors does not involve consideration of these matters. Accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Keith Russell
Company Secretary
19 June 2002

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 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 only the Financial Summary, the Chairman's Statement, Operating Businesses, the Operating Review, the Financial Review, the Corporate Governance statement, the Report on Director's Remuneration and the Five Year Summary.

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 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London
19 June 2002

Consolidated profit and loss account

| | Notes | Continuing operations 2002 £m | Discontinued operations 2002 £m | Total 2002 £m | Continuing operations 2001 restated £m | Discontinued operations 2001 restated £m | Total 2001 restated £m |
|--|---------|-------------------------------------|---------------------------------------|---------------------|---|---|---------------------------------|
| FOR THE YEAR ENDED 31 MARCH | | | | | | | |
| Turnover | | | | | | | |
| Group and share of joint ventures | 1,2,3,5 | 251.8 | 82.6 | 334.4 | 220.5 | 148.3 | 368.8 |
| Less: Share of joint ventures | | (2.0) | (1.0) | (3.0) | (2.5) | (2.1) | (4.6) |
| | | 249.8 | 81.6 | 331.4 | 218.0 | 146.2 | 364.2 |
| Operating costs | | | | | | | |
| Operating costs | 5,6 | (259.7) | (81.5) | (341.2) | (219.9) | (132.4) | (352.3) |
| Exceptional operating charges | 4 | (20.9) | (0.2) | (21.1) | (20.9) | (3.1) | (24.0) |
| | | (280.6) | (81.7) | (362.3) | (240.8) | (135.5) | (376.3) |
| Group operating (loss)/profit | | | | | | | |
| Share of operating profit/(loss) in joint ventures | | – | 0.2 | 0.2 | (0.1) | 0.2 | 0.1 |
| Total operating (loss)/profit: Group and share of joint ventures | | | | | | | |
| Profit on sale of businesses | 32 | 0.1 | 53.6 | 53.7 | – | – | – |
| Loss on termination of operations | 11 | (4.5) | (1.4) | (5.9) | – | – | – |
| Income from other fixed asset investments | 12 | – | – | – | 0.3 | – | 0.3 |
| (Loss)/profit on ordinary activities before interest and taxation | | | | | | | |
| Interest receivable and similar income | | | | 1.8 | | | 1.0 |
| Interest payable and similar charges | 13 | | | (5.4) | | | (6.5) |
| Profit/(loss) on ordinary activities before taxation | | | | | | | |
| Taxation on ordinary activities | 14 | | | 8.8 | | | 5.4 |
| Profit/(loss) on ordinary activities after taxation | | | | | | | |
| Minority interests – Equity | | | | 0.1 | | | 0.4 |
| Profit/(loss) for the financial year | | | | | | | |
| Dividends | 16 | | | (3.4) | | | (9.9) |
| Retained profit/(loss) for the year | | | | | | | |
| Earnings per share (pence) | 17 | | | 25.3p | | | (12.9)p |
| Adjusted earnings per share (pence) | 17 | | | (11.4)p | | | 10.6p |
| IIMR earnings per share (pence) | 17 | | | (25.6)p | | | (5.2)p |
| Diluted earnings per share (pence) | 17 | | | 25.1p | | | (12.9)p |

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 restatement of the results for the year ended 31 March 2001 are given in note 1 to the financial statements.

Statement of total recognised gains and losses

| FOR THE YEAR ENDED 31 MARCH | Notes | 2002 £m | 2001 restated £m |
|---|-------|-------------|------------------------|
| Profit/(loss) for the financial year | | 22.4 | (11.4) |
| Currency translation differences on foreign currency net investments ⁽¹⁾ | | 0.1 | (2.7) |
| Total recognised gains and losses for the year | | 22.5 | (14.1) |
| Prior year adjustment | 1 | (22.2) | - |
| Total gains/(losses) recognised since 1 April | | 0.3 | (14.1) |

⁽¹⁾ Included within this is £11,361 credit (2001: £765,000 debit) in respect of exchange differences on foreign currency borrowings that have been used to hedge equity investments. The tax credit on this is nil (2001: nil).

Reconciliation of movements in equity shareholders' funds

| FOR THE YEAR ENDED 31 MARCH | Notes | 2002 £m | 2001 restated £m |
|---|-------|-------------|------------------------|
| Equity shareholders' funds at 1 April (£46.1 million before deducting prior year adjustment of £22.2 million at 1 April 2001) | | 23.9 | 47.5 |
| Profit/(loss) for the financial year | | 22.4 | (11.4) |
| Dividends | 16 | (3.4) | (9.9) |
| New share capital issued | | 1.4 | 0.5 |
| Goodwill arising on acquisitions before 1 April 1998 | 31 | - | 0.2 |
| Goodwill written back to profit on disposals | 31 | 4.3 | - |
| Currency translation differences on foreign currency net investments | | 0.1 | (2.7) |
| Reversal of amounts accrued under the Long-Term Incentive Plan | | - | (0.3) |
| Equity shareholders' funds at 31 March | | 48.7 | 23.9 |

Balance sheet

| AT 31 MARCH | Notes | Group | | Company | |
|--|-------|------------|------------------------|------------|------------------------|
| | | 2002 £m | 2001 restated £m | 2002 £m | 2001 restated £m |
| Fixed assets | | | | | |
| Intangible assets | 18 | 0.3 | 0.4 | – | – |
| Intangible assets – goodwill | 18 | 29.7 | 24.8 | – | – |
| Tangible assets | 19 | 39.5 | 40.0 | 20.0 | 26.5 |
| Investments | 20 | 2.9 | 2.8 | 148.2 | 132.6 |
| Investments in joint ventures: | | 0.3 | 0.4 | – | – |
| Share of gross assets | | 3.2 | 3.2 | – | – |
| Share of gross liabilities | | (2.9) | (2.8) | – | – |
| | | 72.7 | 68.4 | 168.2 | 159.1 |
| Current assets | | | | | |
| Stocks and work in progress | 21 | 19.2 | 21.1 | 7.8 | 15.6 |
| Debtors due after one year | 22 | 27.7 | 10.1 | 26.1 | 8.0 |
| Debtors due within one year | 22 | 125.1 | 131.2 | 65.8 | 113.5 |
| Cash at bank and in hand | | 38.9 | 27.2 | 21.1 | 8.6 |
| | | 210.9 | 189.6 | 120.8 | 145.7 |
| Creditors: amounts falling due within one year | 23 | (139.7) | (158.0) | (77.8) | (124.5) |
| Net current assets | | 71.2 | 31.6 | 43.0 | 21.2 |
| Total assets less current liabilities | | 143.9 | 100.0 | 211.2 | 180.3 |
| Creditors: amounts falling due after more than one year | | | | | |
| Borrowings | 24 | (46.8) | (46.7) | (48.7) | (48.6) |
| Other creditors | 24 | (1.9) | (1.4) | (0.1) | (0.1) |
| Provisions for liabilities and charges | 25 | (46.5) | (27.7) | (33.1) | (19.8) |
| Net assets | | 48.7 | 24.2 | 129.3 | 111.8 |
| Capital and reserves | | | | | |
| Called up share capital | 26 | 8.9 | 8.9 | 8.9 | 8.9 |
| Share premium | 27 | 9.9 | 8.4 | 9.9 | 8.4 |
| Merger reserve | 27 | – | – | 25.0 | 25.0 |
| Other reserve | 27 | – | – | 49.1 | 49.1 |
| Profit and loss account | 27 | 29.9 | 6.6 | 36.4 | 20.4 |
| Equity shareholders' funds | | 48.7 | 23.9 | 129.3 | 111.8 |
| Minority interests – Equity | 28 | – | 0.3 | – | – |
| | | 48.7 | 24.2 | 129.3 | 111.8 |

The financial statements on pages 47 to 86 were approved by the Board on 19 June 2002.

Signed on behalf of the Board of Directors



Dr Peter Watson
Chairman



David Lindsay
Group Finance Director

Consolidated cash flow statement

| FOR THE YEAR ENDED 31 MARCH | Notes | £m | 2002 | £m | £m | 2001 restated | £m |
|--|-------|---------------|------|---------------|----|---------------|--------------|
| Net cash (outflow)/inflow from operating activities | | | | (3.4) | | | 35.2 |
| Dividends from joint ventures | | | | 0.2 | | | – |
| Returns on investments and servicing of finance | | | | | | | |
| Interest received | | 1.9 | | | | 1.0 | |
| Interest paid | | (6.0) | | | | (6.0) | |
| Dividends received from fixed asset investments | | – | | | | 1.3 | |
| Dividends paid to minority interests | | (0.3) | | | | (0.3) | |
| | | | | (4.4) | | | (4.0) |
| Taxation | | | | | | | |
| Corporation tax paid | | | | (3.0) | | | (8.1) |
| Capital expenditure and financial investment | | | | | | | |
| Purchase of intangible assets | | – | | | | (0.1) | |
| Sale of tangible fixed assets | | 1.1 | | | | 0.3 | |
| Purchase of tangible fixed assets | | (9.2) | | | | (6.4) | |
| Sale of fixed asset investment | | 0.1 | | | | – | |
| Purchase of fixed asset investments | | (0.1) | | | | (0.2) | |
| | | | | (8.1) | | | (6.4) |
| Free cash flow | | | | (18.7) | | | 16.7 |
| Acquisitions and disposals | | | | | | | |
| Sale of subsidiaries/businesses | 32 | 83.0 | | | | 4.0 | |
| Purchase of subsidiaries | 31 | (7.6) | | | | (6.5) | |
| Net cash acquired with subsidiaries | 31 | 4.9 | | | | 0.5 | |
| Sale of associated undertaking | | – | | | | 1.2 | |
| Investment in associated undertaking | | – | | | | (0.2) | |
| | | | | 80.3 | | | (1.0) |
| Equity dividends paid | | | | (9.9) | | | (9.8) |
| Cash inflow before management of liquid resources and financing | | | | 51.7 | | | 5.9 |
| Management of liquid resources | | | | – | | | – |
| Financing | | | | | | | |
| Issue of shares | | 1.4 | | | | 0.5 | |
| Borrowings drawn down | | 1.2 | | | | 80.1 | |
| Repayment of loans | | (42.4) | | | | (71.0) | |
| Net cash (outflow)/inflow from financing activities | | | | (39.8) | | | 9.6 |
| Increase in cash in the year | 29 | | | 11.9 | | | 15.5 |

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

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 restated £m | Exceptional items 2001 restated £m | Total 2001 restated £m |
|--|--|------------------------------------|---------------------|--|--|---------------------------------|
| Operating (loss)/profit | (9.8) | (21.1) | (30.9) | 11.9 | (24.0) | (12.1) |
| Amortisation of intangible fixed assets | 2.0 | – | 2.0 | 1.7 | – | 1.7 |
| Depreciation of tangible fixed assets | 7.4 | – | 7.4 | 8.1 | – | 8.1 |
| Impairment of tangible fixed assets | 0.2 | 0.5 | 0.7 | 0.2 | 5.9 | 6.1 |
| Loss on sale of tangible fixed assets | 0.1 | – | 0.1 | 0.2 | – | 0.2 |
| Profit on disposal of subsidiaries/businesses | – | – | – | (1.1) | – | (1.1) |
| Loss on termination of operations | – | (5.9) | (5.9) | – | – | – |
| (Increase)/decrease in stocks and work in progress | (5.3) | 0.2 | (5.1) | (4.0) | 7.0 | 3.0 |
| (Increase)/decrease in debtors | (0.5) | 0.1 | (0.4) | 5.1 | 0.8 | 5.9 |
| Increase in creditors | 9.8 | 6.0 | 15.8 | 8.6 | 0.3 | 8.9 |
| Increase in provisions relating to operating activities | 1.3 | 11.6 | 12.9 | 7.4 | 7.4 | 14.8 |
| Reversal of amounts accrued under the Long-Term Incentive Plan | – | – | – | (0.3) | – | (0.3) |
| Net cash inflow/(outflow) from operating activities | 5.2 | (8.6) | (3.4) | 37.8 | (2.6) | 35.2 |

The cash outflow from operating activities includes an outflow of £5.3 million in respect of current year exceptional operating items and costs on termination of operations. This comprises £3.4 million of redundancies, Offer Period costs of £0.9 million, transfer of equipment of £0.7 million and £0.3 million of closure costs. Of the total exceptional profit and loss items £0.1 million have no cash impact. The remaining cash flows of £16.0 million will be incurred over the next one to four years. In addition a cash outflow of £3.3 million has been incurred in respect of 2001 exceptional items. This comprises £2.2 million of rent, £0.7 million relocation costs and £0.4 million of redundancies.

Group share of operating profits in joint ventures are accounted for in the profit and loss account for the period. Cash flows arising from these entities are accounted for on receipt of dividends as recorded in the Group Cash Flow Statement. Dividends from joint ventures accounted for in the year ended 31 March 2002 represent Group share of profit after tax in respect of the current and previous years.

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.

The Group has adopted the following new accounting standards, the effect of which is disclosed in note 1, and comparative figures have been restated accordingly:

- Financial Reporting Standard 17: Retirement Benefits
- Financial Reporting Standard 18: Accounting Policies
- Financial Reporting Standard 19: Deferred Taxation

Going concern

The financial statements have been prepared on a going concern basis.

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 2002. 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 2002. 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. Turnover relates to ordinary activities and is stated after trade discounts.

Income from licences where the underlying intellectual property is secure and on which AEA Technology will not incur future costs is recognised on signing of the contract with the licensee. Where AEA Technology will incur future maintenance and support costs the full contract value is spread over the period of the contract. Any invoices raised or cash received in advance of recognition of the income is included within payments received on account in creditors. As detailed on page 53 income on long-term contracts is recognised as work is completed under the contract. All other income is recognised on delivery of the product or service or once all risks and rewards have passed to the customer.

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 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.

Pension costs (continued)

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

The transitional arrangements of Financial Reporting Standard 17: Retirement Benefits have been applied in the preparation of these financial statements with the relevant disclosures being made in note 9.

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.

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 useful economic lives of the assets concerned.

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

| | |
|----------------------------------|-----------------|
| 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 economic life of the asset.

Investments 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.

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

Deferred taxation

Deferred taxation is recognised using the incremental liability method whereby deferred taxation is provided on a full provision basis, without discounting, on all timing differences which have arisen but not reversed at the balance sheet date. As required by Financial Reporting Standard 19: Deferred Taxation no timing differences are recognised in respect of:

- i) fixed assets which are revalued without there being any commitment to sell the asset;
- ii) gains on sale of assets which are rolled over into replacement assets; and
- iii) remittance of subsidiary or joint venture earnings which would cause tax to be payable, but where no commitment has been made to the remittance of the earnings.

The deferred taxation balance has been measured at the tax rate expected to apply when the timing differences reverse.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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.

1 Prior year adjustments

The financial statements have been prepared using accounting policies consistent with the Annual Report and Accounts for the year ended 31 March 2001 other than changes necessary to implement the following accounting standards which are mandatory for the current year's Annual Report and Accounts:

- Financial Reporting Standard 17: Retirement Benefits (disclosure only)
- Financial Reporting Standard 18: Accounting Policies, and
- Financial Reporting Standard 19: Deferred Taxation.

Following the implementation of Financial Reporting Standard 18: Accounting Policies, all of the Group's accounting policies have been reviewed for appropriateness. As a result of this review our policy on the recognition of income on software licenses on which AEA Technology will incur future costs has been revised. In previous years the full contract value was recognised on signing a binding contract and a provision made for future maintenance and support costs. Under the new policy the full contract value is spread over the period of the contract. The new policy aligns the recognition of turnover with the payment profile and the period over which the customer obtains the benefit and AEA Technology satisfies its obligation under the contract. This is in line with the policies used by competitors and is a more conservative treatment for the recognition of turnover. Hence this new policy is considered more appropriate. This change in accounting policy decreased turnover to 31 March 2002 by £19.5 million and operating profit by £17.0 million and to 31 March 2001 turnover was reduced by £9.9 million and operating profit by £7.8 million.

The implementation of Financial Reporting Standard 19: Deferred Taxation requires a full rather than partial provision for deferred taxation. This has resulted in a deferred tax asset of £13.0 million being recognised at 31 March 2002 (£0.1 million at 31 March 2001). The restatement of the prior year figures to reflect this change in accounting policy resulted in an increase in the tax credit of £1.8 million to 31 March 2001.

2 Geographical analysis

Turnover can be analysed by geographical destination as follows:

| | Continuing operations 2002 £m | Discontinued operations 2002 £m | Total 2002 £m | Continuing operations 2001 restated £m | Discontinued operations 2001 restated £m | Total 2001 restated £m |
|-------------------|-------------------------------------|---------------------------------------|---------------------|---|---|---------------------------------|
| Government | 32.9 | 16.8 | 49.7 | 35.9 | 41.2 | 77.1 |
| Public sector | 16.7 | 4.5 | 21.2 | 17.5 | 10.8 | 28.3 |
| Private sector | 98.0 | 23.0 | 121.0 | 78.2 | 52.9 | 131.1 |
| Total UK | 147.6 | 44.3 | 191.9 | 131.6 | 104.9 | 236.5 |
| Europe | 34.1 | 9.0 | 43.1 | 32.3 | 13.3 | 45.6 |
| North America | 51.4 | 16.5 | 67.9 | 37.8 | 16.2 | 54.0 |
| Rest of the World | 18.7 | 12.8 | 31.5 | 18.8 | 13.9 | 32.7 |
| | 251.8 | 82.6 | 334.4 | 220.5 | 148.3 | 368.8 |

Turnover can be analysed by geographical origin as follows:

| | Continuing operations 2002 £m | Discontinued operations 2002 £m | Total 2002 £m | Continuing operations 2001 restated £m | Discontinued operations 2001 restated £m | Total 2001 restated £m |
|-------------------|-------------------------------------|---------------------------------------|---------------------|---|---|---------------------------------|
| UK | 192.2 | 50.9 | 243.1 | 174.5 | 121.0 | 295.5 |
| Europe | 21.6 | 2.3 | 23.9 | 14.9 | 1.7 | 16.6 |
| North America | 31.1 | 29.0 | 60.1 | 27.2 | 24.8 | 52.0 |
| Rest of the World | 6.9 | 0.4 | 7.3 | 3.9 | 0.8 | 4.7 |
| | 251.8 | 82.6 | 334.4 | 220.5 | 148.3 | 368.8 |

The Group's share of joint ventures' turnover increased turnover both to and from North America by £1.0 million (2001: £2.1 million) and to and from the Rest of the World by £2.0 million (2001: £2.5 million).

2 Geographical analysis (continued)

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

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 restated £m | Exceptional items 2001 restated £m | Total 2001 restated £m |
|-------------------|--|------------------------------------|---------------------|--|--|---------------------------------|
| UK | (17.5) | (21.0) | (38.5) | 10.5 | (24.0) | (13.5) |
| Europe | 1.7 | – | 1.7 | 0.7 | – | 0.7 |
| North America | 4.4 | (0.1) | 4.3 | (0.2) | – | (0.2) |
| Rest of the World | 1.8 | – | 1.8 | 1.0 | – | 1.0 |
| | (9.6) | (21.1) | (30.7) | 12.0 | (24.0) | (12.0) |

Included within the UK operating loss shown above is a loss of £6.5 million relating to discontinued operations, Europe profit £0.7 million, North America profit £5.4 million and Rest of the World profit £0.5 million (2001: UK profit £9.2 million, Europe profit £0.1 million, North America profit £1.4 million, Rest of World profit £0.2 million).

The Group's share of joint ventures' operating profit increased operating profit in North America by £0.2 million (2001: £0.1 million).

Net operating assets can be analysed by geographical origin as follows:

| | 2002 £m | 2001 restated £m |
|-------------------|-------------|------------------------|
| UK | 54.1 | 80.0 |
| Europe | 4.9 | 5.1 |
| North America | 2.6 | 5.0 |
| Rest of the World | 2.5 | 1.9 |
| | 64.1 | 92.0 |

The Group's share of joint ventures' net operating assets increased net operating assets in North America by nil (2001: £0.1 million) and in the Rest of the World by £0.3 million (2001: £0.3 million).

3 Segmental analysis by class of business

| TURNOVER: CLASS OF BUSINESS | Total turnover 2002 £m | Intersegmental turnover 2002 £m | External turnover 2002 £m | Total turnover restated 2001 £m | Intersegmental turnover restated 2001 £m | External turnover restated 2001 £m |
|-----------------------------|---------------------------------|--|------------------------------------|---|--|--|
| Rail | 75.8 | (0.5) | 75.3 | 65.3 | (0.7) | 64.6 |
| Environment | 50.2 | (0.8) | 49.4 | 44.0 | (3.3) | 40.7 |
| Future Technologies | 62.4 | (1.0) | 61.4 | 69.1 | (1.8) | 67.3 |
| Engineering Software | 46.6 | – | 46.6 | 44.6 | (0.1) | 44.5 |
| Nuclear Technology | 94.2 | (1.3) | 92.9 | 148.7 | (3.7) | 145.0 |
| Central items | 8.8 | – | 8.8 | 6.7 | – | 6.7 |
| | 338.0 | (3.6) | 334.4 | 378.4 | (9.6) | 368.8 |

The Group's share of joint ventures' turnover increased turnover in Nuclear Technology by £3.0 million (2001: £4.6 million).

3 Segmental analysis by class of business (continued)

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 restated £m | Exceptional items 2001 restated £m | Total 2001 restated £m |
|---|--|------------------------------------|---------------------|--|--|---------------------------------|
| OPERATING PROFIT/(LOSS): CLASS OF BUSINESS | | | | | | |
| Rail | 12.3 | (0.5) | 11.8 | 9.4 | – | 9.4 |
| Environment | 7.9 | (1.5) | 6.4 | 6.9 | (1.0) | 5.9 |
| Future Technologies | (11.0) | (1.2) | (12.2) | (9.9) | (10.7) | (20.6) |
| Engineering Software | (1.4) | (1.0) | (2.4) | – | – | – |
| Nuclear Technology | (4.0) | (11.4) | (15.4) | 10.7 | (10.3) | 0.4 |
| Central items | (13.4) | (5.5) | (18.9) | (5.1) | (2.0) | (7.1) |
| | (9.6) | (21.1) | (30.7) | 12.0 | (24.0) | (12.0) |
| Profit on sale of businesses | – | 53.7 | 53.7 | – | – | – |
| Loss on termination of operations | – | (5.9) | (5.9) | – | – | – |
| Income from other fixed asset investments | – | – | – | 0.3 | – | 0.3 |
| (Loss)/profit before interest | (9.6) | 26.7 | 17.1 | 12.3 | (24.0) | (11.7) |
| Net interest payable | (3.6) | – | (3.6) | (5.5) | – | (5.5) |
| (Loss)/profit before taxation | (13.2) | 26.7 | 13.5 | 6.8 | (24.0) | (17.2) |

The Group's share of joint ventures' operating profit reduced the operating loss in Nuclear Technology by £0.2 million (2001: £0.1 million).

In previous years corporate overheads were all allocated proportionally to the business segments. As the businesses become more autonomous the directors consider that it is no longer appropriate to allocate all of these costs. Corporate overheads of £3.2 million (2001: £9.0 million) have been allocated based on the businesses' use of operational capital. The segmental analysis has been restated with the remaining unallocated corporate overheads disclosed separately as central items.

In addition, the business segment figures have been restated to reflect the organisational structure disclosed in the 2001 Annual Report and Accounts.

Turnover and operating profit/(loss) relating to discontinued operations may be analysed by segment as follows:

| | Turnover 2002 £m | Operating profit/(loss) 2002 £m | Turnover 2001 restated £m | Operating (loss)/profit 2001 restated £m |
|----------------------|------------------------|--|------------------------------------|--|
| Rail | 0.6 | – | 0.7 | (0.4) |
| Future Technologies | 15.0 | (1.3) | 27.2 | (8.0) |
| Engineering Software | 33.3 | 0.2 | 31.8 | 1.0 |
| Nuclear Technology | 33.7 | 1.5 | 88.6 | 18.3 |
| Central items | – | (0.3) | – | – |
| Total | 82.6 | 0.1 | 148.3 | 10.9 |

3 Segmental analysis by class of business (continued)

Net operating assets/(liabilities) may be analysed by class of business as follows:

| NET OPERATING ASSETS/(LIABILITIES): CLASS OF BUSINESS | Total 2002 £m | Total 2001 restated £m |
|---|---------------------|---------------------------------|
| Rail | 21.8 | 26.1 |
| Environment | (0.9) | 3.3 |
| Future Technologies | 15.4 | 20.5 |
| Engineering Software | 3.3 | 12.6 |
| Nuclear Technology | 2.0 | 28.4 |
| | 41.6 | 90.9 |
| Central net operating assets | 22.5 | 1.1 |
| Net operating assets | 64.1 | 92.0 |
| Net borrowings | (15.4) | (67.8) |
| Net assets | 48.7 | 24.2 |

The Group's share of joint ventures' operating assets increased operating assets in Nuclear Technology by £0.3 million (2001: £0.4 million).

4 Exceptional operating charges

Exceptional operating charges relating to the continuing business streams comprise:

- (i) £8.8 million for redundancies following continuing rationalisation of activities within the Group in line with the strategic review announced in November 2000 and a cost reduction and restructuring exercise arising from this review;
- (ii) £1.8 million for redundancies following the decision to cease QSA manufacturing operations in the UK;
- (iii) £3.5 million for redundancies and £0.9 million of other costs relating to the decision to exit from the Harwell B220 facilities;
- (iv) £5.2 million of additional decommissioning and waste costs identified following a review of the B220 operations and exit plans;
- (v) £0.9 million of costs relating to the Offer Period.

These exceptional operating charges can be analysed as follows:

| | Redundancy £m | Decommissioning £m | Other £m | Total £m |
|----------------------|------------------|-----------------------|-------------|-------------|
| Rail | 0.5 | – | – | 0.5 |
| Environment | 1.5 | – | – | 1.5 |
| Future Technologies | 1.2 | – | – | 1.2 |
| Engineering Software | 1.0 | – | – | 1.0 |
| Nuclear Technology | 5.3 | 5.2 | 0.9 | 11.4 |
| Central items | 4.6 | – | 0.9 | 5.5 |
| | 14.1 | 5.2 | 1.8 | 21.1 |

5 Operating results of acquisitions

Acquisitions during the year had the effect of increasing turnover by £8.1 million and operating profit by nil and decreasing net operating assets by £3.3 million as detailed below:

| | Turnover £m | Operating profit £m | Net operating assets/ (liabilities) £m |
|--------------|----------------|---------------------------|--|
| Rail | 2.1 | – | 0.4 |
| Environment | 6.0 | – | (3.7) |
| Total | 8.1 | – | (3.3) |

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

| | Total 2002 £m |
|----------------------------|---------------------|
| Cost of sales | 5.5 |
| Administrative expenses | 2.2 |
| Research and development | 0.4 |
| Net other operating income | – |
| | 8.1 |

6 Operating costs

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 restated £m | Exceptional items 2001 restated £m | Total 2001 restated £m |
|------------------------------|--|------------------------------------|---------------------|--|--|---------------------------------|
| Cost of sales ⁽¹⁾ | 214.2 | 5.5 | 219.7 | 254.4 | 15.1 | 269.5 |
| Administrative expenses | 116.3 | 15.6 | 131.9 | 88.1 | 8.9 | 97.0 |
| Research and development | 13.1 | – | 13.1 | 11.6 | – | 11.6 |
| Net other operating income | (2.4) | – | (2.4) | (1.8) | – | (1.8) |
| | 341.2 | 21.1 | 362.3 | 352.3 | 24.0 | 376.3 |

⁽¹⁾ Includes £5.1 million research and development expenditure (2001: £3.1 million).

Operating costs may be analysed between continuing and discontinued activities as follows:

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 restated £m | Exceptional items 2001 restated £m | Total 2001 restated £m |
|---------------------------------|--|------------------------------------|---------------------|--|--|---------------------------------|
| Continuing activities: | | | | | | |
| Cost of sales ⁽¹⁾ | 163.5 | 5.5 | 169.0 | 153.0 | 12.3 | 165.3 |
| Administrative expenses | 90.8 | 15.4 | 106.2 | 62.9 | 8.6 | 71.5 |
| Research and development | 7.8 | – | 7.8 | 5.7 | – | 5.7 |
| Net other operating income | (2.4) | – | (2.4) | (1.7) | – | (1.7) |
| | 259.7 | 20.9 | 280.6 | 219.9 | 20.9 | 240.8 |
| Discontinued activities: | | | | | | |
| Cost of sales ⁽²⁾ | 50.7 | – | 50.7 | 101.4 | 2.8 | 104.2 |
| Administrative expenses | 25.5 | 0.2 | 25.7 | 25.2 | 0.3 | 25.5 |
| Research and development | 5.3 | – | 5.3 | 5.9 | – | 5.9 |
| Net other operating income | – | – | – | (0.1) | – | (0.1) |
| | 81.5 | 0.2 | 81.7 | 132.4 | 3.1 | 135.5 |

⁽¹⁾ Includes £1.2 million research and development expenditure (2001: £0.6 million).

⁽²⁾ Includes £3.9 million research and development expenditure (2001: £2.5 million).

Included within net other operating income of continuing activities is £0.1 million (2001: £0.1 million) in respect of grants received by AGM Batteries Limited.

7 Employees

| STAFF COSTS IN THE YEAR WERE | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 £m | Exceptional items 2001 £m | Total 2001 £m |
|------------------------------|--|------------------------------------|---------------------|--|------------------------------------|---------------------|
| Wages and salaries | 140.9 | 17.2 | 158.1 | 143.1 | 2.9 | 146.0 |
| Social security costs | 12.3 | – | 12.3 | 12.2 | – | 12.2 |
| Other pension costs (note 9) | 6.3 | – | 6.3 | 6.4 | 0.2 | 6.6 |
| | 159.5 | 17.2 | 176.7 | 161.7 | 3.1 | 164.8 |

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

| | Group | | Company | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | 2002 Number | 2001 Number | 2002 Number | 2001 Number |
| Managerial and professional | 2,445 | 3,318 | 1,670 | 2,614 |
| Support | 845 | 619 | 438 | 350 |
| Technical | 868 | 415 | 418 | 394 |
| Manufacturing | 77 | 197 | 22 | – |
| | 4,235 | 4,549 | 2,548 | 3,358 |

8 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Report on Directors' Remuneration on pages 38 to 43.

| REMUNERATION PAYABLE TO DIRECTORS | 2002 £000 | 2001 £000 |
|-----------------------------------|--------------|--------------|
| Aggregate emoluments | 1,632 | 1,389 |

Retirement benefits accrued to the Chairman and three Directors under the Company's defined benefits schemes. Prior to 26 September 1996 retirement benefits accrued to the Chairman and one Director under UKAEA's defined benefits scheme.

| EMOLUMENTS PAYABLE TO THE HIGHEST PAID DIRECTOR | 2002 £000 | 2001 £000 |
|---|--------------|--------------|
| Aggregate emoluments | 402 | 295 |
| Defined benefit scheme: accrued pension at the year end | 92 | 78 |

9 Pension costs

The Group operates a number of pension schemes around the world. The major schemes are of the defined benefit type and the assets of the schemes are largely held in separate trustee administered funds. The Group has continued to account for pensions in accordance with Statement of Standard Accounting Practice 24: Accounting for Pensions Costs for the current period. The additional disclosures required under the transitional rules of Financial Reporting Standard 17: Retirement Benefits are also presented below.

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 that the long-term cost will be at 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 was 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 to 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%.

9 Pension costs (continued)

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 £6.3 million (2001: £6.6 million). 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 2002 is a provision of £3.4 million (2001: £3.7 million) in respect of pension costs. The provision comprises the excess of accumulated pension charges over the payment of contributions to the Company pension scheme (2002: £1.5 million, 2001: £1.9 million) and the unfunded pension arrangements in respect of Directors (2002: £1.9 million, 2001: £1.6 million). Included in debtors is a pension prepayment of £14.9 million (2001: £11.0 million). £2.2 million (2001: £2.2 million) relates to the funding surplus in respect of the AEA Technology Rail Shared Cost Section of the Railways Pension Scheme, £1.3 million (2001: £1.3 million) relates to the surplus on the AEA Technology Rail (TCI) Shared Cost Section of the Railways Pension Scheme and £11.4 million (2001: £7.5 million) relates to the surplus on the Company scheme.

Contributions of £0.1 million (2001: £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.

Financial Reporting Standard 17: Retirement Benefits (FRS 17) Disclosures

The most recent actuarial valuations for the defined benefit schemes operated by the Group have been updated to 31 March 2002 by independent actuaries. The dates of the most recent full actuarial valuations, the main financial assumptions used to calculate the liabilities of the Group's schemes as at 31 March 2002 under FRS 17, and the contribution rates for the current and following year are as follows:

| | Company scheme | AEAT Rail | AEAT Rail (TCI) | Kinectrics Inc | QSA Inc | QSA GmbH |
|--|----------------|-----------|-----------------|----------------|---------|----------|
| Date of most recent full actuarial valuation | 31.3.00 | 31.8.00 | 31.8.00 | 1.1.01 | 31.3.01 | 31.3.02 |
| Main financial assumptions: | | | | | | |
| Rate of increase in salaries | 4.8% | 4.0% | 4.0% | 3.5% | 5.0% | 4.0% |
| Rate of increase in pensions payment | 2.8% | 2.5% | 2.5% | – | – | 2.5% |
| Rate of increase of deferred pensions | – | 2.5% | 2.5% | – | – | – |
| Discount rate of scheme liabilities | 6.1% | 5.75% | 5.75% | 7.0% | 7.5% | 7.0% |
| Inflation rate | 2.8% | 2.5% | 2.5% | 2.5% | 3.0% | 2.5% |
| Contribution rates: | | | | | | |
| 1 April 2001 – 31 March 2002 | 10.9% | 7.5% | 7.5% | 13.38% | 5.0% | 6.5% |
| 1 April 2002 – 31 March 2003 | 13.1% | 7.5% | 7.5% | 13.38% | 5.0% | 6.5% |

The expected rates of return on the assets of the defined benefit schemes operated by the Group as at 31 March 2002 were as follows:

| | Company scheme | AEAT Rail | AEAT Rail (TCI) | Kinectrics Inc | QSA Inc | QSA GmbH ⁽¹⁾ |
|----------|----------------|-----------|-----------------|----------------|---------|-------------------------|
| Equities | 8.2% | 7.50% | 7.50% | 5.6% | 9.0% | n/a |
| Bonds | 6.2% | 5.25% | 5.25% | 5.6% | 9.0% | n/a |
| Property | n/a | 6.50% | 6.50% | n/a | 9.0% | n/a |
| Other | 3.7% | n/a | n/a | 5.6% | 9.0% | 9.4% |

⁽¹⁾ Unfunded scheme.

9 Pension costs (continued)

FRS 17 Disclosures (continued)

The market values of the assets of the defined benefit schemes operated by the Group as at 31 March 2002 are set out below together with the present value of scheme liabilities calculated under the projected unit method, the related deferred taxation credit/(charge) and the resulting net pension (liability)/asset.

| | Company scheme £m | AEAT Rail £m | AEAT Rail (TCI) £m | Kinectrics Inc £m | QSA Inc £m | QSA GmbH ⁽¹⁾ £m | Total £m |
|--------------------------------------|-------------------------|-----------------|--------------------------|-------------------------|---------------|-------------------------------|---------------|
| Equities | 219.3 | 34.9 | 17.9 | 27.2 | 0.8 | – | 300.1 |
| Bonds | 24.8 | 3.9 | 2.0 | 18.8 | 0.4 | – | 49.9 |
| Property | – | 2.2 | 1.2 | – | – | – | 3.4 |
| Other | 5.6 | 0.1 | – | 2.6 | 0.5 | 1.8 | 10.6 |
| Market value of scheme assets | 249.7 | 41.1 | 21.1 | 48.6 | 1.7 | 1.8 | 364.0 |
| Present value of scheme liabilities | (304.1) | (37.7) | (19.6) | (44.2) | (2.7) | (1.8) | (410.1) |
| Scheme (deficit)/surplus | (54.4) | 3.4 | 1.5 | 4.4 | (1.0) | – | (46.1) |
| Deferred taxation | 16.3 | (1.0) | (0.5) | – | – | – | 14.8 |
| Net pension (liability)/asset | (38.1) | 2.4 | 1.0 | 4.4 | (1.0) | – | (31.3) |

⁽¹⁾ Unfunded scheme.

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 March 2002 would have been reported as follows:

| | As at 31 March 2002 £m |
|--|---------------------------------|
| Net assets excluding pension liability and SSAP 24 balances | 38.4 |
| Net pension liability | (31.3) |
| Net assets including pension liability | 7.1 |
| Profit and loss reserve excluding pension reserve and SSAP 24 balances | 19.6 |
| Pension reserve | (31.3) |
| Profit and loss reserve | (11.7) |

10 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 £m | Exceptional items 2001 £m | Total 2001 £m |
|---|--|------------------------------------|---------------------|--|------------------------------------|---------------------|
| Loss on disposal of plant and equipment | 0.1 | – | 0.1 | 0.2 | – | 0.2 |
| (Profit) on disposal of subsidiaries/businesses | – | (53.7) | (53.7) | (1.1) | – | (1.1) |
| Auditors' remuneration ⁽¹⁾ | | | | | | |
| Audit fees (Company £0.3 million 2001: £0.2 million) | 0.4 | – | 0.4 | 0.4 | – | 0.4 |
| Non audit fees ⁽²⁾ | 0.6 | 0.4 | 1.0 | 0.2 | – | 0.2 |
| Hire of plant and equipment – operating leases | 5.2 | – | 5.2 | 4.3 | – | 4.3 |
| Hire of other assets – operating leases | 10.6 | – | 10.6 | 9.1 | – | 9.1 |
| Depreciation/amortisation charge for the year: | | | | | | |
| Intangible fixed assets | 0.1 | – | 0.1 | 0.1 | – | 0.1 |
| Goodwill | 1.9 | – | 1.9 | 1.6 | – | 1.6 |
| Tangible fixed assets | 7.4 | – | 7.4 | 8.1 | – | 8.1 |
| Impairment of tangible fixed assets | 0.2 | 0.5 | 0.7 | 0.2 | 5.9 | 6.1 |
| Research and development | 18.2 | – | 18.2 | 14.7 | – | 14.7 |

⁽¹⁾ In addition to amounts charged to operating profit noted above, PricewaterhouseCoopers received nil (2001: £0.1 million) for other services, financial advice and assistance in respect of acquisitions which have been capitalised.

⁽²⁾ Relates to £0.1 million (2001: £0.2 million) paid for taxation services, £0.5 million (2001: nil) for financial advice and assistance in respect of acquisitions and disposals and £0.4 million (2001: nil) for consultancy services.

11 Loss on termination of operations

In focusing and rationalising the Group various business streams have been discontinued in the year or the decision to exit has been announced and activities will terminate over the next twelve months. The costs relating to these closures and provisions for future costs comprise redundancy payments, asset impairments and provisions for future operating losses. The split by segment is as follows:

| | 2002 £m |
|---------------------|------------|
| Future Technologies | 3.5 |
| Nuclear Technology | 2.4 |
| Total | 5.9 |

Included within the £2.4 million for Nuclear Technology are redundancy payments of £1.8 million in respect of part of the B220 operations. These relate to business streams within B220 which are closing and will not be carried on elsewhere in the Group. The results of business streams that have been discontinued by 19 June 2002 are included in discontinued operations. The turnover for these operations was £2.6 million (2001: £6.6 million) and operating loss was £0.6 million (2001: £4.2 million).

12 Income from other fixed asset investments

| | 2002 £m | 2001 £m |
|----------------------|------------|------------|
| Dividends receivable | – | 0.3 |

13 Interest payable and similar charges

| | 2002 £m | 2001 £m |
|---|------------|------------|
| Interest payable on bank loans and overdrafts | 5.2 | 6.3 |
| Interest payable on finance leases | – | 0.1 |
| Notional finance cost related to deferred consideration on acquisitions | 0.2 | 0.1 |
| | 5.4 | 6.5 |

14 Taxation

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 restated £m | Exceptional items 2001 restated £m | Total 2001 restated £m |
|---|--|------------------------------------|---------------------|--|--|---------------------------------|
| TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES | | | | | | |
| UK Corporation tax at 30% (2001: 30%) | | | | | | |
| Current | – | – | – | 2.3 | (4.8) | (2.5) |
| Deferred taxation | (5.0) | (7.7) | (12.7) | (2.2) | – | (2.2) |
| Overseas deferred taxation | (0.2) | – | (0.2) | – | – | – |
| Overseas taxation | 3.8 | – | 3.8 | 2.6 | – | 2.6 |
| Under/(over) provision in respect of prior years – current | 0.3 | – | 0.3 | (3.3) | – | (3.3) |
| | (1.1) | (7.7) | (8.8) | (0.6) | (4.8) | (5.4) |
| Share of joint ventures taxation | – | – | – | – | – | – |
| | (1.1) | (7.7) | (8.8) | (0.6) | (4.8) | (5.4) |

The table below reconciles the UK standard rate of Corporation tax of 30% on profit/(loss) on ordinary activities before taxation to the Group's taxation charge:

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 restated £m | Exceptional items 2001 restated £m | Total 2001 restated £m |
|---|--|------------------------------------|---------------------|--|--|---------------------------------|
| (Loss)/profit on ordinary activities before taxation | (13.2) | 26.7 | 13.5 | 6.8 | (24.0) | (17.2) |
| Expected taxation charge at UK Corporation tax rate of 30% (2001: 30%) | (3.9) | 8.0 | 4.1 | 2.0 | (7.2) | (5.2) |
| Income not taxable | – | (18.3) | (18.3) | (0.1) | – | (0.1) |
| Expenses not deductible for tax purposes | 1.8 | 2.6 | 4.4 | 1.3 | 2.4 | 3.7 |
| Utilisation of tax losses | 0.1 | – | 0.1 | – | – | – |
| Net effect of higher and lower tax rates on overseas earnings | 0.6 | – | 0.6 | (0.5) | – | (0.5) |
| Under/(over) provision in respect of prior years | 0.3 | – | 0.3 | (3.3) | – | (3.3) |
| Tax on profit/(loss) on ordinary activities | (1.1) | (7.7) | (8.8) | (0.6) | (4.8) | (5.4) |

15 Profit/(loss) 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 operating charges of £19.8 million (2001: £22.7 million) and net exceptional profits on disposals and termination of operations of £53.0 million (2001: nil) was a profit of £19.5 million (2001: loss £10.5 million).

16 Dividends

| | 2002 £m | 2001 £m |
|--|------------|------------|
| DIVIDENDS ON EQUITY SHARES | | |
| Ordinary – Interim paid of 3.8p per share (2001: 3.8p per share) | 3.4 | 3.4 |
| Ordinary – Final proposed of nil (2001: 7.3p per share) | – | 6.5 |
| | 3.4 | 9.9 |

17 Earnings per share

Earnings per share is calculated for both the current and previous years using the profit/(loss) for the year. The earnings per share calculation is based on 88.7 million shares (2001: 88.5 million shares), being the weighted average number of ordinary shares in issue for the year.

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

| | 2002 £m | 2001 restated £m |
|---|---------------|------------------------|
| Profit/(loss) for the financial year | 22.4 | (11.4) |
| Amortisation of goodwill | 1.9 | 1.6 |
| Exceptional operating charges (note 4) | 21.1 | 24.0 |
| Profit on sale of businesses (note 32) | (53.7) | – |
| Loss on termination of operations (note 11) | 5.9 | – |
| Tax on exceptional items (note 14) | (7.7) | (4.8) |
| Adjusted (loss)/profit | (10.1) | 9.4 |

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

| | Before exceptional items 2002 £m | Exceptional items 2002 £m | Total 2002 £m | Before exceptional items 2001 restated £m | Exceptional items 2001 restated £m | Total 2001 restated £m |
|---|--|------------------------------------|---------------------|--|--|---------------------------------|
| (Loss)/profit for the financial year | (12.0) | 34.4 | 22.4 | 7.8 | (19.2) | (11.4) |
| Impairment of tangible fixed assets | 0.2 | 0.5 | 0.7 | 0.2 | 5.9 | 6.1 |
| Loss on sale of tangible fixed assets | 0.1 | – | 0.1 | 0.2 | – | 0.2 |
| Profit on sale of subsidiaries/businesses | – | (53.7) | (53.7) | (1.1) | – | (1.1) |
| Loss on termination of operations | – | 5.9 | 5.9 | – | – | – |
| Amortisation of goodwill | 1.9 | – | 1.9 | 1.6 | – | 1.6 |
| IIMR adjusted (loss)/profit | (9.8) | (12.9) | (22.7) | 8.7 | (13.3) | (4.6) |

Diluted earnings per share is based on the profit/(loss) for the year and 89.1 million shares (2001: 89.1 million shares). The number of shares is equal to the weighted average number of ordinary shares in issue adjusted to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

| | Before exceptional items 2002 | Exceptional items 2002 | Total 2002 | Before exceptional items 2001 restated | Exceptional items 2001 restated | Total 2001 restated |
|---|--|------------------------------|---------------|--|--|---------------------------|
| Earnings per share based on profit/(loss) for the financial year | (13.5)p | 38.8p | 25.3p | 8.8p | (21.7)p | (12.9)p |
| Adjusted earnings per share based on adjusted (loss)/profit | (11.4)p | – | (11.4)p | 10.6p | – | 10.6p |
| IIMR earnings per share based on IIMR adjusted (loss)/profit | (11.1)p | (14.5)p | (25.6)p | 9.8p | (15.0)p | (5.2)p |
| Diluted earnings per share | (13.5)p | 38.6p | 25.1p | 8.8p | (21.7)p | (12.9)p |

18 Intangible fixed assets

| GROUP | Goodwill £m | Licences £m | Other £m | Total £m |
|---|----------------|----------------|-------------|-------------|
| Cost | | | | |
| At 1 April 2001 | 28.4 | 0.7 | 0.1 | 29.2 |
| Currency translation differences | - | 0.1 | - | 0.1 |
| Additions | - | - | - | - |
| Additions in relation to acquisitions (note 31) | 6.6 | - | - | 6.6 |
| At 31 March 2002 | 35.0 | 0.8 | 0.1 | 35.9 |
| Accumulated amortisation | | | | |
| At 1 April 2001 | 3.6 | 0.3 | 0.1 | 4.0 |
| Currency translation differences | (0.2) | 0.1 | - | (0.1) |
| Charge for year | 1.9 | 0.1 | - | 2.0 |
| At 31 March 2002 | 5.3 | 0.5 | 0.1 | 5.9 |
| Net book value at 31 March 2002 | 29.7 | 0.3 | - | 30.0 |
| Net book value at 31 March 2001 | 24.8 | 0.4 | - | 25.2 |

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 assets.

| COMPANY | Other intangibles £m |
|--|----------------------------|
| Cost at 1 April 2001 and at 31 March 2002 | 0.1 |
| Amortisation at 1 April 2001 and 31 March 2002 | 0.1 |
| Net book value at 31 March 2001 and 31 March 2002 | - |

19 Tangible fixed assets

| GROUP | Freehold land and buildings £m | Leasehold improvements £m | Plant and equipment £m | Assets in course of construction £m | Total £m |
|--|---|---------------------------------|------------------------------|--|-------------|
| Cost or valuation | | | | | |
| At 1 April 2001 | 1.2 | 13.7 | 64.1 | 8.1 | 87.1 |
| Currency translation differences | - | - | (0.1) | - | (0.1) |
| Additions | - | 0.3 | 5.0 | 3.2 | 8.5 |
| Acquisitions | - | 0.1 | 3.2 | 0.1 | 3.4 |
| Disposals | (1.2) | (3.0) | (13.5) | - | (17.7) |
| Transfers | 0.6 | 0.2 | 4.8 | (5.6) | - |
| At 31 March 2002 | 0.6 | 11.3 | 63.5 | 5.8 | 81.2 |
| Accumulated depreciation | | | | | |
| At 1 April 2001 | 0.1 | 4.5 | 33.9 | - | 38.5 |
| Charge for year | 0.1 | 1.0 | 6.3 | - | 7.4 |
| Disposals | (0.1) | (1.4) | (10.3) | - | (11.8) |
| At 31 March 2002 | 0.1 | 4.1 | 29.9 | - | 34.1 |
| Provision for impairment | | | | | |
| At 1 April 2001 | 0.1 | 0.6 | 5.2 | 2.7 | 8.6 |
| Impairment losses | - | 0.2 | 0.5 | - | 0.7 |
| Disposals | (0.1) | (0.3) | (1.3) | - | (1.7) |
| Transfers | - | - | 1.5 | (1.5) | - |
| At 31 March 2002 | - | 0.5 | 5.9 | 1.2 | 7.6 |
| Net book value at 31 March 2002 | 0.5 | 6.7 | 27.7 | 4.6 | 39.5 |
| Net book value at 31 March 2001 | 1.0 | 8.6 | 25.0 | 5.4 | 40.0 |

19 Tangible fixed assets (continued)

Group (continued)

Depreciation has not been charged on freehold land, which is stated at its cost of £0.1 million (2001: £0.3 million).

Included within plant and equipment are assets held under finance leases with a net book value of £0.2 million (2001: £0.5 million) and a depreciation charge for the year of £0.1 million (2001: £0.2 million).

The freehold land and buildings at Horsham, which ERG Environmental Resource Group occupied, were disposed of during the year ended 31 March 2002. As at 31 March 2002 no assets were held at a valuation.

| COMPANY | Freehold land and buildings £m | Leasehold improvements £m | Plant and equipment £m | Assets in course of construction £m | Total £m |
|--|-----------------------------------|------------------------------|---------------------------|--|-------------|
| Cost | | | | | |
| At 1 April 2001 | 0.1 | 12.3 | 40.1 | 7.3 | 59.8 |
| Additions | – | 0.1 | 0.9 | 3.1 | 4.1 |
| Disposals | (0.4) | (2.8) | (16.4) | – | (19.6) |
| Transfers | 0.6 | 0.2 | 4.4 | (5.2) | – |
| At 31 March 2002 | 0.3 | 9.8 | 29.0 | 5.2 | 44.3 |
| Accumulated depreciation | | | | | |
| At 1 April 2001 | – | 3.4 | 21.3 | – | 24.7 |
| Charge for year | – | 0.8 | 2.9 | – | 3.7 |
| Disposals | – | (1.0) | (10.4) | – | (11.4) |
| At 31 March 2002 | – | 3.2 | 13.8 | – | 17.0 |
| Provision for impairment | | | | | |
| At 1 April 2001 | 0.1 | 0.6 | 5.2 | 2.7 | 8.6 |
| Impairment losses | – | 0.2 | 0.5 | – | 0.7 |
| Disposals | (0.1) | (0.3) | (1.6) | – | (2.0) |
| Transfers | – | – | 1.5 | (1.5) | – |
| At 31 March 2002 | – | 0.5 | 5.6 | 1.2 | 7.3 |
| Net book value at 31 March 2002 | 0.3 | 6.1 | 9.6 | 4.0 | 20.0 |
| Net book value at 31 March 2001 | – | 8.3 | 13.6 | 4.6 | 26.5 |

Included within plant and equipment are assets held under finance leases with a net book value of £0.1 million (2001: nil) and a depreciation charge for the year of nil (2001: nil).

Property clawback

Arrangements have been put in place 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 the year ended 31 March 2000. Clawback payments are to be made annually by reference to gains arising in each year commencing 1 September in the clawback period.

20 Fixed asset investments

| GROUP | Other investments £m |
|--------------------------------|----------------------------|
| Cost and net book value | |
| At 1 April 2001 | 2.8 |
| Additions | 0.1 |
| At 31 March 2002 | 2.9 |

Included within fixed asset investments is an investment of £8,000 in Sprue Aegis plc which was admitted to OFEX in June 2001. The aggregate market value of this investment at the mid-price quoted on 31 March 2002 was £154,000.

| COMPANY | Subsidiary undertakings Shares £m | Loans £m | Joint ventures shares £m | Other investments £m | Total £m |
|--|--|-------------|-----------------------------------|----------------------------|--------------|
| Cost | | | | | |
| At 1 April 2001 | 116.8 | 14.5 | 0.3 | 2.8 | 134.4 |
| Additions | 11.3 | 11.4 | - | 0.1 | 22.8 |
| Disposals | - | - | - | (0.4) | (0.4) |
| Repayments | - | (0.9) | - | - | (0.9) |
| At 31 March 2002 | 128.1 | 25.0 | 0.3 | 2.5 | 155.9 |
| Provision | | | | | |
| At 1 April 2001 | 1.8 | - | - | - | 1.8 |
| Provision in year | 5.9 | - | - | - | 5.9 |
| At 31 March 2002 | 7.7 | - | - | - | 7.7 |
| Net book value at 31 March 2002 | 120.4 | 25.0 | 0.3 | 2.5 | 148.2 |
| Net book value at 31 March 2001 | 115.0 | 14.5 | 0.3 | 2.8 | 132.6 |

20 Fixed asset investments (continued)

Principal subsidiary undertakings as at 31 March 2002:

| Name | Country of incorporation | Description of shares held | Proportion of nominal value of issued shares held by the Group | Nature of business |
|--|--------------------------|--|--|---|
| AEA Technology Rail BV | The Netherlands | DFL 1,000 shares | 100% ⁽¹⁾ | Consultancy to rail market |
| nCode International Limited | England and Wales | Ordinary £1 shares | 100% | Engineering software |
| SoMat Corporation Inc | USA | Common Stock | 100% ⁽¹⁾ | Data acquisition systems |
| ERSA Sarl | France | Ordinary shares | 100% | Rail engineering software |
| Fleet Software Limited | England and Wales | Ordinary £1 shares Preference £1 shares | 100% ⁽¹⁾ 100% | Fleet maintenance software |
| Kinectrics Inc | Canada | Common Stock | 100% ⁽¹⁾ | Energy and environment technologies and consulting |
| ERG Environmental Resource Group plc | England and Wales | Ordinary £1 shares | 100% | Environmental engineers and consultants |
| Forensic Alliance Limited | England and Wales | Ordinary £1 shares | 55% | Forensic science services |
| AEA Technology Battery Systems Limited | England and Wales | Ordinary £1 shares 'A' Ordinary £1 shares | 100% 100% | Specialist battery pack manufacturer |
| AGM Batteries Limited | England and Wales | 'A' Ordinary £1 shares | 60.5% | Specialist battery cell manufacturer |
| Accentus plc | England and Wales | Ordinary £1 shares | 100% | Intellectual property |
| AEA Technology Engineering Services Inc | USA | Common stock with no par value | 100% ⁽¹⁾ | Nuclear engineering services & US Government utilities contractor |
| 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 |
| Shenzhen CIC-AEA Technology Manufacturing Co Limited | China | Ordinary | 51% ⁽¹⁾ | Quality and Safety Assurance |
| Hyprotech Limited | Canada | Class A Common shares | 100% ⁽¹⁾ | Process industry software |
| Hyprotech Inc | USA | Common stock | 100% ⁽¹⁾ | Engineering software |
| Hyprotech Europe SL | Spain | Ordinary 1,000 PSTA shares | 100% ⁽¹⁾ | Engineering software |
| Hyprotech Japan Limited | Japan | Yen 50,000 | 100% | Engineering software |
| EA Systems Inc | USA | Common stock | 100% ⁽¹⁾ | Plant design systems and consultancy |
| AEA Technology Engineering Software Inc | USA | \$1 common stock | 100% ⁽¹⁾ | Engineering software |
| AEA Technology Engineering Software Limited | Canada | Common shares | 100% ⁽¹⁾ | Engineering software |
| AEA Technology Engineering Software Limited | England and Wales | Ordinary £1 shares | 100% | Engineering software |
| AEA Technology GmbH | Germany | 50,000 DM | 100% | Engineering software and consultancy |
| AEA Technology Sarl | France | Ordinary | 100% | Engineering software |
| AEA Technology Inc | USA | \$1 common stock | 100% | Holding company |

⁽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.

20 Fixed asset investments (continued)

In addition to those listed above, the Group has other subsidiary undertakings which operate in the UK, the US, Canada, Spain, Japan, Hungary, Thailand, Malaysia and India. All subsidiaries are included in the consolidated accounts. All subsidiaries have an accounting year end of 31 March except Kinectrics Inc, which was acquired in the year, where the year end is 31 December.

Joint ventures as at 31 March 2002

| Name | Country of incorporation | Description of shares held | Proportion of nominal value of issued shares held by the Group and Company | Accounting year end | Nature of business |
|------------------------|--------------------------|----------------------------|--|---------------------|---------------------------|
| Summit AEA Corporation | Japan | Yen 50,000 | 50% | 31 March | Nuclear services |
| Spectrum | n/a | n/a | n/a | 31 March | Rail maintenance software |

21 Stocks and work in progress

| | Group | | Company | |
|-------------------------------|------------|------------------------|------------|------------------------|
| | 2002 £m | 2001 restated £m | 2002 £m | 2001 restated £m |
| Raw materials and consumables | 9.5 | 8.3 | 1.4 | 3.2 |
| Work in progress | 9.7 | 12.8 | 6.4 | 12.4 |
| | 19.2 | 21.1 | 7.8 | 15.6 |

22 Debtors

| | Group | | Company | |
|--|--------------|------------------------|-------------|------------------------|
| | 2002 £m | 2001 restated £m | 2002 £m | 2001 restated £m |
| Amounts falling due after more than one year: | | | | |
| Other debtors | 0.1 | 0.4 | 0.1 | 0.4 |
| Amounts due in respect of decommissioning and waste management (note 25) | 0.9 | 0.8 | 0.9 | 0.8 |
| Accrued income | 0.1 | 0.1 | 0.1 | 0.1 |
| Pension prepayment ⁽¹⁾ | 13.6 | 8.8 | 11.2 | 6.7 |
| Deferred tax (note 25) | 13.0 | – | 13.8 | – |
| | 27.7 | 10.1 | 26.1 | 8.0 |
| Amounts falling due within one year: | | | | |
| Trade debtors | 88.9 | 87.4 | 38.6 | 55.1 |
| Amounts recoverable on long-term contracts | 10.5 | 17.6 | 8.0 | 15.1 |
| Amounts owed by group undertakings | – | – | 6.6 | 26.3 |
| Amounts owed by joint ventures | 0.8 | 1.5 | 0.8 | 1.5 |
| Corporation tax recoverable | 7.0 | 7.6 | 2.6 | 3.1 |
| Other debtors | 6.3 | 3.6 | 2.9 | 1.3 |
| Prepayments and accrued income | 11.6 | 13.4 | 6.3 | 10.1 |
| Deferred tax (note 25) | – | 0.1 | – | 1.0 |
| | 125.1 | 131.2 | 65.8 | 113.5 |
| Total debtors | 152.8 | 141.3 | 91.9 | 121.5 |

⁽¹⁾ 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 (2001: £2.2 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 Cost Section of the Railways Pension Scheme at the date of acquisition. This surplus continues to be amortised. The remaining £12.7 million relates to a surplus on the AEA Technology plc scheme of £11.4 million (2001: £7.5 million) of which £1.2 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 (2001: £1.3 million).

23 Creditors: amounts falling due within one year

| | Group | | Company | |
|------------------------------------|--------------|------------------------|-------------|------------------------|
| | 2002 £m | 2001 restated £m | 2002 £m | 2001 restated £m |
| Loans and overdrafts | 7.4 | 48.1 | 5.6 | 46.0 |
| Payments received on account | 47.1 | 36.1 | 12.8 | 17.9 |
| Trade creditors | 27.6 | 27.7 | 18.0 | 19.5 |
| Amounts owed to group undertakings | – | – | 2.7 | 5.3 |
| Taxation and social security | 6.8 | 12.3 | 5.1 | 10.0 |
| Other creditors | 5.1 | 5.4 | 1.7 | 3.4 |
| Accruals | 45.6 | 21.7 | 31.9 | 15.9 |
| Finance lease creditors | 0.1 | 0.2 | – | – |
| Dividend payable | – | 6.5 | – | 6.5 |
| | 139.7 | 158.0 | 77.8 | 124.5 |

Of the Group and Company bank loans and overdrafts £5.6 million is a cash advance, repayable on demand, from our investment in Hunting BRAE. Of the £5.6 million, £4.5 million bears no interest and £1.1 million bears interest at 6.0%. The remaining Group balance of £1.8 million relates to subsidiaries' overdrafts.

24 Creditors: amounts falling due after more than one year

| | Group | | Company | |
|-------------------------|-------------|-------------|-------------|-------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m |
| BORROWINGS | | | | |
| Bank loans | 46.6 | 46.6 | 46.6 | 46.6 |
| Debenture loan | – | – | 2.0 | 2.0 |
| Finance lease creditors | 0.2 | 0.1 | 0.1 | – |
| | 46.8 | 46.7 | 48.7 | 48.6 |

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 3.5 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 | |
|------------------------------|------------|------------|------------|------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m |
| Within one year | 0.1 | 0.2 | – | – |
| In the first to second years | 0.1 | 0.1 | – | – |
| In the second to fifth years | 0.1 | – | 0.1 | – |
| | 0.3 | 0.3 | 0.1 | – |

| | Group | | Company | |
|-----------------------------|------------|------------|------------|------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m |
| OTHER CREDITORS | | | | |
| Repayable as follows: | | | | |
| – between one and two years | 0.4 | 0.2 | 0.1 | 0.1 |
| – two to five years | 0.5 | 0.3 | – | – |
| – after five years | 1.0 | 0.9 | – | – |
| | 1.9 | 1.4 | 0.1 | 0.1 |

25 Provisions for liabilities and charges

| GROUP | Acquisitions £m | Decommissioning and waste management £m | Pensions and similar obligations £m | Other £m | Total £m |
|---|--------------------|--|--|-------------|-------------|
| At 1 April 2001 (restated) | 1.6 | 6.9 | 5.8 | 13.4 | 27.7 |
| Currency translation differences | – | – | 0.1 | – | 0.1 |
| Acquisitions | – | – | 5.6 | 1.1 | 6.7 |
| Disposals | – | – | – | (0.4) | (0.4) |
| Charge for the year | – | 6.5 | – | 15.7 | 22.2 |
| Contributions paid to the Group pension schemes | – | – | 8.9 | – | 8.9 |
| Utilised in the year | (1.0) | (0.7) | (8.3) | (8.1) | (18.1) |
| Released in the year | – | – | – | (0.6) | (0.6) |
| At 31 March 2002 | 0.6 | 12.7 | 12.1 | 21.1 | 46.5 |

| COMPANY | Acquisitions £m | Decommissioning and waste management £m | Pensions and similar obligations £m | Other £m | Total £m |
|---|--------------------|--|--|-------------|-------------|
| At 1 April 2001 (restated) | 1.1 | 3.4 | 3.7 | 11.6 | 19.8 |
| Disposals | – | – | – | (0.4) | (0.4) |
| Charge for the year | – | 6.5 | – | 14.4 | 20.9 |
| Contributions paid to the Company pension schemes | – | – | 7.8 | – | 7.8 |
| Utilised in the year | (0.8) | (0.5) | (8.1) | (5.1) | (14.5) |
| Released in the year | – | – | – | (0.5) | (0.5) |
| At 31 March 2002 | 0.3 | 9.4 | 3.4 | 20.0 | 33.1 |

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 year.

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 1 of the Atomic Energy Authority Act 1995.

A supplemental agreement entered into pursuant to the Transfer Scheme provides that liabilities for decommissioning any nuclear facility in existence as at 31 March 1996 and for any waste transferred to 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 22). 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 2002 and 2036. Of this provision £6.2 million relates to the B220 facilities, these costs will be incurred over the next two years as the business exits the premises.

Pensions and similar obligations

The breakdown of the Company pension provision is given in note 9. Part of this provision will be utilised over the average service lives of employees and the remainder once the Executive Directors retire.

25 Provisions for liabilities and charges (continued)

Pensions and similar obligations (continued)

The Group provision also includes pension provisions relating to the QSA and Kinectrics Inc acquisitions. The QSA provision 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. The Kinectrics Inc provision is for the unfunded supplementary pension and other post retirement benefits.

Other

Included in the other provisions are exceptional redundancy provisions (Company £7.5 million, Group £7.8 million), vacant property provisions (Company and Group £2.6 million) and provisions for closure costs (Company £1.0 million, Group £1.3 million). These provisions will be utilised during the next one to four years.

The remainder of other provisions principally comprise projected losses or commitments on long-term contracts (Company £6.9 million, Group £7.1 million) and building lease related provisions such as dilapidations and wear and tear provisions (Company and Group £1.0 million) and provisions for leases on vacant properties (Company £0.2 million and Group £0.5 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.

Deferred taxation

The amounts of deferred taxation accounted for in the financial statements are as follows:

| GROUP | Accelerated capital allowances £m | Tax losses carried forward £m | Provisions £m | Other £m | Total £m |
|--|--------------------------------------|----------------------------------|------------------|--------------|-------------|
| At 1 April 2001 (restated) | (3.5) | – | 4.3 | (0.7) | 0.1 |
| Credited to profit and loss account | 0.7 | 10.2 | 1.9 | 0.1 | 12.9 |
| At 31 March 2002 | (2.8) | 10.2 | 6.2 | (0.6) | 13.0 |
| THE NET DEFERRED TAX ASSET IS DISCLOSED AS FOLLOWS: | | | | | 2002 £m |
| Debtors – amounts falling due after more than one year (note 22) | | | | | 13.0 |
| COMPANY | Accelerated capital allowances £m | Tax losses carried forward £m | Provisions £m | Total £m | |
| At 1 April 2001 (restated) | (2.7) | – | 3.7 | 1.0 | |
| Credited to profit and loss account | 0.8 | 9.5 | 2.5 | 12.8 | |
| At 31 March 2002 | (1.9) | 9.5 | 6.2 | 13.8 | |

The company made a loss before exceptional items in the current year and has recognised a deferred taxation asset of £13.8 million. Based on current budgets and a three year strategic plan adequate profits will be made in the future to recover this asset.

Deferred taxation has not been provided on retained overseas earnings because dividends will only be remitted to the UK if there is no further taxation liability.

26 Called up share capital

| | 2002 £m | 2001 £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 | | |
| 89,264,839 ordinary shares of 10p each (2001: 88,633,107 ordinary shares of 10p each) | 8.9 | 8.9 |
| | 8.9 | 8.9 |

Changes in share capital

631,732 shares were issued in the year for total consideration of £1.6 million to meet commitments under the Company/s employee share schemes.

27 Reserves

| GROUP | Share premium £m | Profit and loss account £m |
|---|------------------------|-------------------------------------|
| At 1 April 2001 (restated) | 8.4 | 6.6 |
| Issue of share capital (note 26) | 1.5 | (0.1) |
| Goodwill written back to profit on disposal (note 32) | – | 4.3 |
| Currency translation difference on foreign currency net investments | – | 0.1 |
| Profit for the year | – | 19.0 |
| At 31 March 2002 | 9.9 | 29.9 |

Net cumulative goodwill of £71.3 million (2001: £75.6 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 2001 (restated) | 8.4 | 25.0 | 49.1 | 20.4 |
| Issue of share capital (note 26) | 1.5 | – | – | (0.1) |
| Profit for the year | – | – | – | 16.1 |
| At 31 March 2002 | 9.9 | 25.0 | 49.1 | 36.4 |

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.

28 Equity minority interests

| GROUP | 2002 £m |
|-------------------------|------------|
| At 1 April 2001 | 0.3 |
| Acquisition | 0.1 |
| Dividends paid | (0.3) |
| Profit and loss account | (0.1) |
| At 31 March 2002 | – |

29 Reconciliation of net cash flow to movement in net debt

| | 2002 £m | 2001 £m |
|---|---------------|------------|
| MOVEMENT IN NET DEBT IN THE YEAR | | |
| Increase in cash in the year | 11.9 | 15.5 |
| Cash flow from decrease/(increase) in debt | 41.2 | (9.1) |
| Change in net funds resulting from cash flow | 53.1 | 6.4 |
| Loans acquired on acquisitions | (0.7) | (0.1) |
| Exchange on loans | – | (0.8) |
| Net (debt) at 1 April | (67.8) | (73.3) |
| Net (debt) at 31 March | (15.4) | (67.8) |

| | At 1 April 2001 £m | Cash flow £m | Acquisitions and disposals £m | Exchange £m | At 31 March 2002 £m |
|-----------------------------|--------------------------|-----------------|--|----------------|---------------------------|
| ANALYSIS OF NET DEBT | | | | | |
| Cash in hand and at bank | 27.2 | 11.7 | – | – | 38.9 |
| Bank overdrafts | (2.1) | 0.2 | – | 0.1 | (1.8) |
| | 25.1 | 11.9 | – | 0.1 | 37.1 |
| Debt due after one year | (46.7) | – | – | (0.1) | (46.8) |
| Debt due within one year | (46.2) | 41.2 | (0.7) | – | (5.7) |
| | (67.8) | 53.1 | (0.7) | – | (15.4) |

30 Employee share schemes

Profit sharing share schemes

The Company established an Inland Revenue-approved scheme in 1996 under which any annual appropriations of shares for profit-sharing have been made. The scheme operated through a trust deed and rules entered into between the Company and AEA Technology Trustee Limited. Similar schemes were set up for overseas employees, established by a trust deed and rules entered into between the Company and Bacon & Woodrow Trust Company (CI) Limited in Guernsey.

The last allocation of shares under the approved profit sharing scheme, and its overseas equivalents, was in 1998 and shares allocated were then transferred to beneficiaries on 20 August 2001.

No further allocations of shares will be made under the profit sharing schemes.

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 to enter into a save-as-you-earn contract (“savings contract”). Under this contract participants are 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 savings commence.

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.

30 Employee share schemes (continued)

Savings-related share option schemes (continued)

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

| Period of option | Number of shares 2002 | Number of shares 2001 | Subscription price per share |
|----------------------------------|-----------------------|-----------------------|------------------------------|
| 1 March 2001 to 31 August 2001 | – | 530,651 | 363p |
| 1 June 2001 to 30 November 2001 | – | 10,838 | 498p |
| 1 October 2001 to 31 March 2002 | – | 4,786 | 558p |
| 1 November 2001 to 30 April 2002 | 471,284 | 1,401,199 | 224p |
| 1 November 2001 to 30 April 2002 | – | 2,014 | 639p |
| 1 March 2002 to 31 August 2002 | 34,890 | 52,227 | 595p |
| 1 March 2003 to 31 August 2003 | 320,386 | 513,925 | 363p |
| 1 March 2004 to 31 August 2004 | 21,301 | 34,221 | 595p |
| 1 March 2003 to 31 August 2003 | 444,580 | 836,697 | 320p |
| 1 March 2005 to 31 August 2005 | 154,430 | 308,748 | 320p |
| 1 March 2004 to 31 August 2004 | 498,324 | 765,868 | 236p |
| 1 March 2006 to 31 August 2006 | 179,346 | 275,727 | 236p |
| 1 March 2005 to 31 August 2005 | 1,083,821 | – | 196p |
| 1 March 2007 to 31 August 2007 | 403,704 | – | 196p |
| | 3,612,066 | 4,736,901 | |

Company share option plan (CSOP)

In 1999 the Company established an Inland Revenue-approved CSOP and an unapproved CSOP for which all employees (excluding Executive Directors) were eligible at the discretion of the Company. In 2000 the Company, with shareholder approval, amended the schemes and opened them to Executive Directors. A further award of options was made in 2001.

Outstanding options granted under these schemes and their performance conditions are as follows:

| Scheme | Option price | Outstanding options at 31 March 2002 | Performance condition | Performance period |
|--------------------------|--------------|--------------------------------------|---|-------------------------------|
| 1999 CSOP ⁽¹⁾ | 367.5p | 261,216 | Increase in share price | 1 April 1999 to 31 March 2002 |
| 2000 CSOP ⁽²⁾ | 397.5p | 170,731 | Growth in earnings per share equals or exceeds 3% above RPI per annum | 1 April 2000 to 31 March 2003 |
| 2001 CSOP ⁽³⁾ | 296.5p | 1,756,963 | Growth in earnings per share equals or exceeds 3% above RPI per annum | 1 April 2001 to 31 March 2004 |

⁽¹⁾ The performance condition was not met. As is permissible under the rules of the scheme the performance period has been moved to 1 April 2000 to 31 March 2003.

⁽²⁾ Awards to Executive Directors were made separately and are detailed in section 2 of the Report on Directors' Remuneration.

⁽³⁾ Includes awards to Directors in post at award date. An award was made separately to David Lindsay following his appointment. Details of Directors' awards in section 2 of the Report on Directors Remuneration.

31 Acquisitions and goodwill

Acquisitions completed during the year were as follows

| Name | Date | Percentage of share capital acquired |
|------------------------------|-------------------------|--------------------------------------|
| SoMat Corporation Inc | 12 June 2001 | 100% |
| ERSA Sarl | 14 December 2001 | 100% |
| Kinectrics Inc | 1 January 2002 | 100% |
| CSAT | 1 January 2002 | 49% |

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

SoMat Corporation Inc

The assets and liabilities of SoMat Corporation Inc and its subsidiaries are set out below:

| | Book value £m | Accounting policy alignment £m | Fair value adjustments £m | Fair value £m |
|-------------------------------|------------------|---|---------------------------------|------------------|
| Fixed assets | | | | |
| Tangible fixed assets | 0.2 | (0.1) | – | 0.1 |
| Intangible fixed assets | 0.1 | (0.1) | – | – |
| Current assets | | | | |
| Stocks and work in progress | 0.6 | – | (0.2) | 0.4 |
| Debtors | 0.5 | – | (0.1) | 0.4 |
| Cash | 0.1 | – | – | 0.1 |
| Total assets | 1.5 | (0.2) | (0.3) | 1.0 |
| Liabilities | | | | |
| Creditors | (0.4) | – | (0.1) | (0.5) |
| Borrowings | (0.7) | – | – | (0.7) |
| Provisions | 0.1 | (0.1) | – | – |
| Net assets | 0.5 | (0.3) | (0.4) | (0.2) |
| Goodwill | | | | 1.3 |
| Purchase consideration | | | | 1.1 |
| Satisfied by | | | | |
| Cash | | | | 0.7 |
| Deferred consideration | | | | 0.3 |
| Acquisition expenses | | | | 0.1 |
| | | | | 1.1 |

Fair value adjustments have been made to write off obsolete stock and a specific bad debt and to recognise additional accruals. Other adjustments were made to bring accounting policies in line with those of the Group.

Of the £0.3 million deferred consideration, £0.1 million is payable within one year and £0.2 million within two years. The deferred consideration 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.

31 Acquisitions and goodwill (continued)

Kinectrics Inc

The assets and liabilities of Kinectrics Inc are set out below:

| | Book value £m | Accounting policy alignment £m | Fair value adjustments £m | Fair value £m |
|-------------------------------|------------------|---|---------------------------------|------------------|
| Fixed assets | | | | |
| Tangible fixed assets | 3.3 | – | – | 3.3 |
| Current assets | | | | |
| Stocks and work in progress | 0.5 | – | – | 0.5 |
| Debtors | 9.8 | (2.8) | (0.2) | 6.8 |
| Cash | 4.5 | – | – | 4.5 |
| Total assets | 18.1 | (2.8) | (0.2) | 15.1 |
| Liabilities | | | | |
| Creditors | (7.6) | – | – | (7.6) |
| Provisions | (6.2) | – | (0.5) | (6.7) |
| Net assets | 4.3 | (2.8) | (0.7) | 0.8 |
| Goodwill | | | | 4.5 |
| Purchase consideration | | | | 5.3 |
| Satisfied by | | | | |
| Cash | | | | 5.2 |
| Acquisition expenses | | | | 0.1 |
| | | | | 5.3 |

Fair value adjustments have been made for additional bad debt provisions to reflect the amounts receivable, additional contract provisions to provide for forecast losses and additional provisions for property dilapidations and decommissioning to reflect the full cost to the company.

Other acquisitions

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

| | Book value £m | Accounting policy alignment £m | Fair value adjustments £m | Fair value £m |
|-------------------------------|------------------|---|---------------------------------|------------------|
| Current assets | | | | |
| Debtors | 0.3 | – | – | 0.3 |
| Cash | 0.3 | – | – | 0.3 |
| Total assets | 0.6 | – | – | 0.6 |
| Liabilities | | | | |
| Creditors | (0.5) | – | – | (0.5) |
| Net assets | 0.1 | – | – | 0.1 |
| Goodwill | | | | 0.8 |
| Purchase consideration | | | | 0.9 |
| Satisfied by | | | | |
| Cash | | | | 0.8 |
| Acquisition expenses | | | | 0.1 |
| | | | | 0.9 |

31 Acquisitions and goodwill (continued)

Impact on cash flows

The acquisition of SoMat Corporation Inc contributed a £0.8 million inflow to the Group's operating and total cash flows. The acquisition of Kinectrics Inc contributed a £0.2 million outflow to the Group's operating cash flow and £0.1 million to the outflow on capital expenditure. Other acquisitions contributed a £0.1 million outflow to the Group's operating and total cash flows.

Adjustments to 2001 goodwill

The following adjustment has been made to goodwill during 2002 in relation to AEA Technology Rail BV (previously NSTO) which was acquired in August 2000. This adjustment relates to additional asset impairments and now finalises the goodwill figure relating to this acquisition.

| | Total £m |
|--|-----------------------|
| Reduction in fair value of net assets acquired | 0.1 |
| Increased goodwill | 0.1 |
| | |
| | Group £m |
| GOODWILL WRITTEN OFF AGAINST RESERVES | Company £m |
| At 1 April 2001 | 75.6 |
| Goodwill on disposals | (4.3) |
| At 31 March 2002 | 71.3 |

32 Sale of subsidiaries/businesses

Disposals completed during the year were as follows:

| Name | Date | Percentage of share capital disposed of |
|--|-------------------|--|
| Ion Implantation (assets and trade) | 22 May 2001 | n/a |
| Bowsprit Contracting Limited | 2 July 2001 | 100% |
| Nuclear Consulting (assets and trade) | 10 September 2001 | n/a |
| Nuclear Engineering (assets and trade) | 1 October 2001 | n/a |
| Activity Process Controls Limited | 17 October 2001 | 100% |
| Lancy Water / Process Plant (assets and trade) | 24 January 2002 | n/a |
| Tandem (assets and trade) | 8 February 2002 | n/a |
| Analytical Services Group Stage 2 (assets) | 22 February 2002 | n/a |
| Membranes (assets and trade) | 6 March 2002 | n/a |
| Value Realisation business streams (assets and trade) | 31 March 2002 | n/a |

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

| | Nuclear Consulting £m | Nuclear Engineering £m | Other £m | Total £m |
|--------------------------------------|-----------------------------|------------------------------|-------------|-------------|
| NET ASSETS DISPOSED OF | | | | |
| Tangible fixed assets | 1.3 | 0.8 | 1.0 | 3.1 |
| Share of joint ventures' net assets | - | 0.1 | - | 0.1 |
| Stocks and work in progress | 2.6 | 4.7 | 0.6 | 7.9 |
| Debtors | 0.3 | 7.0 | 1.2 | 8.5 |
| Creditors | (3.3) | (4.0) | (1.0) | (8.3) |
| Provisions | (0.1) | (0.2) | (0.5) | (0.8) |
| Goodwill | - | - | 4.3 | 4.3 |
| Profit/(loss) on disposal | 61.0 | (1.9) | (5.4) | 53.7 |
| Net consideration on disposal | 61.8 | 6.5 | 0.2 | 68.5 |
| Satisfied by: | | | | |
| Net cash proceeds | 61.8 | 6.5 | 0.2 | 68.5 |

32 Sale of subsidiaries/businesses (continued)

The loss on disposal of the Nuclear Engineering business remains provisional as at 31 March 2002 subject to the settlement of the completion accounts relating to this transaction.

The results of all disposals are included in discontinued activities. Turnover in respect of disposals was £46.5 million (2001: £109.6 million) and operating profit £0.6 million (2001: £14.0 million).

Impact on cash flows

Companies sold during the year contributed £5.1 million inflow to the Group's operating cash flows and spent £0.1 million in respect of capital expenditure.

33 Derivatives and other financial instruments

Pages 24 and 25 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 2002 was as follows:

| CURRENCY | Borrowings on which no interest is paid £m | Fixed rate £m | Floating rate £m | Total £m |
|--------------|---|------------------|---------------------|-------------|
| Sterling | 4.5 | 31.8 | 10.3 | 46.6 |
| US Dollar | – | 7.0 | – | 7.0 |
| Other | – | – | 0.7 | 0.7 |
| Total | 4.5 | 38.8 | 11.0 | 54.3 |

Included within the £31.8 million of sterling fixed rate loans is US\$50 million which has been swapped into sterling. The £10.3 million of sterling floating rate loans include US\$15 million swapped into sterling.

The profile at 31 March 2001 for comparison purposes 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 |

The Group also has amounts payable in respect of deferred consideration of £0.3 million (2001: £0.2 million), additional pension obligations for Directors due after one year of £2.5 million (2001: £2.0 million) provisions for onerous property contracts of £2.8 million (2001: £5.3 million) and redundancy costs due after one year of £5.0 million (2001: nil). 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.

33 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 | 2002 £m | 2001 £m |
|---|-------------|-------------|
| Sterling cash deposits | 19.7 | 15.0 |
| US dollar cash deposits | 7.2 | 6.3 |
| Canadian dollar cash deposits | 7.6 | 0.4 |
| Euro and Euro equivalent cash deposits | 2.7 | 4.2 |
| Other cash deposits | 1.7 | 1.3 |
| Total | 38.9 | 27.2 |

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 £1.0 million (2001: £1.2 million) and accrued income falling due after one year of £0.1 million (2001: £0.1 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 as 31 March is as follows:

| CURRENCY | 2002 Fixed rate | | 2001 Fixed rate | |
|--------------|----------------------------------|---|----------------------------------|---|
| | Weighted average interest rate % | Weighted average period for which rate is fixed Years | Weighted average interest rate % | Weighted average period for which rate is fixed Years |
| Sterling | 7.3 | 3.5 | 7.3 | 4.5 |
| US dollar | 6.7 | 3.5 | 6.7 | 4.5 |
| Other | – | – | – | – |
| Total | 7.2 | 3.5 | 7.2 | 4.5 |

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.

Currency exposures

As explained on pages 24 and 25 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.

33 Derivatives and other financial instruments (continued)

Currency exposures (continued)

As at 31 March 2002 these exposures were as follows:

| FUNCTIONAL CURRENCY OF GROUP OPERATION | Sterling £m | Net foreign currency monetary assets | | | Total £m |
|--|----------------|--------------------------------------|------------|-------------|-------------|
| | | US dollar £m | Euro £m | Other £m | |
| Sterling | – | 4.0 | 2.9 | 1.1 | 8.0 |
| Canadian dollar | – | 0.4 | – | – | 0.4 |
| Other | 0.1 | – | 0.2 | – | 0.3 |
| Total | 0.1 | 4.4 | 3.1 | 1.1 | 8.7 |

The restated exposures at 31 March 2001 for comparison purposes were as follows:

| FUNCTIONAL CURRENCY OF GROUP OPERATION | Sterling £m | Net foreign currency monetary assets/(liabilities) | | | Total £m |
|--|----------------|--|------------|--------------|-------------|
| | | US dollar £m | Euro £m | Other £m | |
| Sterling | – | 2.8 | 5.6 | (3.6) | 4.8 |
| Canadian dollar | – | 0.6 | – | – | 0.6 |
| Other | 0.1 | 1.0 | – | 0.4 | 1.5 |
| Total | 0.1 | 4.4 | 5.6 | (3.2) | 6.9 |

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:

| | 2002 £m | 2001 £m |
|---|-------------|-------------|
| In one year or less | 7.5 | 48.3 |
| In more than one year but not more than two years | 0.1 | 0.1 |
| In more than two years but not more than five years | 46.7 | 46.6 |
| Total | 54.3 | 95.0 |

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

| | 2002 £m | 2001 £m |
|---|-------------|--------------|
| In one year or less | 9.0 | 50.0 |
| In more than one year but not more than two years | 6.3 | 1.2 |
| In more than two years but not more than five years | 47.5 | 49.6 |
| In more than five years | 2.1 | 1.7 |
| Total | 64.9 | 102.5 |

Borrowing facilities

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

| | 2002 £m | 2001 £m |
|--------------------------------|-------------|-------------|
| Expiring in less than one year | 25.0 | 20.0 |
| Total | 25.0 | 20.0 |

33 Derivatives and other financial instruments (continued)

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:

| | 2002 | | 2001 | |
|---|------------------|------------------|------------------------------|------------------------------|
| | Book value £m | Fair value £m | Book value restated £m | Fair value restated £m |
| Primary financial instruments held or issued to finance the Group's operations | | | | |
| Short-term financial liabilities and current proportion of long-term borrowings | (7.5) | (7.5) | (48.3) | (48.3) |
| Long-term borrowings | (46.8) | (50.8) | (46.7) | (49.2) |
| Other financial liabilities | (10.6) | (10.6) | (7.5) | (7.5) |
| Cash deposits | 38.9 | 38.9 | 27.2 | 27.2 |
| Other financial assets | 1.1 | 1.1 | 1.3 | 1.3 |
| Derivative financial instruments held to manage the interest rate and currency profile | | | | |
| Interest rate swaps | – | 6.6 | – | (0.6) |
| Forward foreign currency contracts | – | – | – | (0.9) |

As at 31 March 2002 the Group also held open various currency swaps and forward contracts that the Group had taken out to hedge expected future foreign currency sales.

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

Gains and losses on hedges

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

34 Commitments

Annual commitments under non-cancellable operating leases which expire as follows:

| | Plant and equipment at 31 March | | | |
|----------------------------|---------------------------------|---------------------|------------|-----------------------|
| | 2002 £m | Group 2001 £m | 2002 £m | Company 2001 £m |
| Within one year | 1.8 | 2.7 | 0.6 | 2.5 |
| In two to five years | 2.4 | 3.2 | 1.6 | 2.5 |
| After more than five years | 0.1 | – | – | – |
| | 4.3 | 5.9 | 2.2 | 5.0 |

| | Land and buildings at 31 March | | | |
|----------------------------|--------------------------------|---------------------|------------|-----------------------|
| | 2002 £m | Group 2001 £m | 2002 £m | Company 2001 £m |
| Within one year | 1.4 | 2.4 | 0.3 | 1.2 |
| In two to five years | 7.3 | 6.5 | 3.0 | 3.4 |
| After more than five years | 4.3 | 2.6 | 2.9 | 1.1 |
| | 13.0 | 11.5 | 6.2 | 5.7 |

| CAPITAL COMMITMENTS | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m |
| Future capital expenditure contracted but not provided for in the financial statements: | | | | |
| Group | 3.8 | 1.4 | 2.6 | 1.4 |

35 Contingent liabilities

There is a cross guarantee in place in respect of overdrafts included within the Lloyds TSB offset arrangement, of which AEA Technology plc and ten subsidiaries are a part. At 31 March 2002 the gross overdraft guaranteed by the companies within this set off arrangement was £27.4 million (2001: £20.5 million).

AEA Technology plc also guarantees the credit facilities, overdraft facilities, BACS facilities and leasing obligations for certain subsidiary companies. At 31 March 2002 these guarantees totalled £9.9 million (2001: £8.8 million).

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

36 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 £23.2 million (2001: £20.9 million). The cost of administering the overall programmes and the relating income received has been included in the profit and loss account.

37 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 | 2002 £m | 2001 £m |
|---|------------|------------|
| Sales to joint ventures and associated undertakings on normal trading terms | 3.6 | 3.5 |
| Purchases from joint ventures and associated undertakings on normal trading terms | 0.1 | 0.1 |
| Amounts due from joint ventures and associated undertakings | 1.1 | 1.5 |

Details of the Group's principal joint ventures at 31 March 2002 are set out in note 20.

Except for an agreement to purchase property jointly with an Executive Director, there are no contracts of significance that 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. This agreement involved investment totalling £75,000 in part-share of the property in which the relevant Director resides when required to be in London. See section 2 of the Report on Directors' Remuneration on pages 38 to 43.

38 Post balance sheet events

On 21 April 2002 the Group disposed of the assets and trade of the Imaging Centre within Future Technologies. The proceeds on disposal were £40,000 giving rise to a loss of £20,000 to be recorded in 2003. Turnover of £0.2 million (2001: £0.3 million) and operating loss of £0.1 million (2001: profit £0.1 million) have been included in discontinued activities.

On 31 May 2002 the Group disposed of the Hyprotech business within Engineering Software. The proceeds on disposal were £67.5 million and the profit on disposal will be recorded in 2003. Turnover of £33.3 million (2001: £31.8 million) and operating profit of 0.2 million (2001: £1.0 million) have been included in discontinued activities.

Five year summary

| FOR THE FIVE YEARS ENDED 31 MARCH | 2002 £m | 2001 restated £m | 2000 ⁽⁴⁾ £m | 1999 ⁽⁴⁾ £m | 1998 ⁽⁴⁾ £m |
|---|--------------|------------------------|---------------------------|---------------------------|---------------------------|
| Sales and results | | | | | |
| Group and share of joint ventures' turnover: | | | | | |
| Continuing operations | 249.8 | 218.0 | 362.5 | 354.4 | 305.8 |
| Discontinued operations | 81.6 | 146.2 | – | – | – |
| Share of joint ventures | 3.0 | 4.6 | 3.5 | 3.4 | 2.6 |
| | 334.4 | 368.8 | 366.0 | 357.8 | 308.4 |
| Operating (loss)/profit: | | | | | |
| Continuing operations | (9.9) | (1.9) | 34.0 | 33.1 | 30.7 |
| Discontinued operations | 0.1 | 13.8 | – | – | – |
| Group operating (loss)/profit before exceptional items | (9.8) | 11.9 | 34.0 | 33.1 | 30.7 |
| Joint ventures | 0.2 | 0.1 | – | (0.1) | – |
| Exceptional operating charges | (21.1) | (24.0) | – | – | – |
| Profit on sale of businesses | 53.7 | – | – | – | – |
| Loss on termination of operations | (5.9) | – | – | – | – |
| Other income and expenses ⁽¹⁾ | – | 0.3 | 1.8 | 0.9 | 0.9 |
| Profit/(loss) on ordinary activities before interest | 17.1 | (11.7) | 35.8 | 33.9 | 31.6 |
| Net interest payable and similar charges | (3.6) | (5.5) | (6.1) | (5.2) | (2.9) |
| Profit/(loss) before taxation | 13.5 | (17.2) | 29.7 | 28.7 | 28.7 |
| Taxation ⁽¹⁾ | 8.8 | 5.4 | (8.9) | (8.4) | (8.8) |
| Profit/(loss) after taxation | 22.3 | (11.8) | 20.8 | 20.3 | 19.9 |
| Minority interests | 0.1 | 0.4 | 0.2 | 0.2 | – |
| Dividends and appropriations | (3.4) | (9.9) | (9.8) | (9.0) | (8.3) |
| Retained profit/(loss) | 19.0 | (21.3) | 11.2 | 11.5 | 11.6 |
| Net assets employed | | | | | |
| Fixed assets | 72.7 | 68.4 | 76.4 | 91.3 | 62.3 |
| Net current assets | 71.2 | 31.6 | 91.3 | 67.8 | 44.8 |
| | 143.9 | 100.0 | 167.7 | 159.1 | 107.1 |
| Borrowings | (46.8) | (46.7) | (82.5) | (77.4) | (35.0) |
| Provisions and creditors due after more than one year | (48.4) | (29.1) | (19.9) | (31.9) | (32.1) |
| Net assets | 48.7 | 24.2 | 65.3 | 49.8 | 40.0 |
| Ratios | | | | | |
| Operating (loss)/profit as a % of turnover ⁽²⁾ | (2.9)% | 3.3% | 9.3% | 9.2% | 10.0% |
| Adjusted earnings per share ⁽³⁾ | (11.4)p | 10.6p | 25.6p | 24.7p | 23.5p |
| IIMR earnings per share | (25.6)p | (5.2)p | 24.7p | 23.5p | 22.2p |

⁽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⁾ Operating (loss)/profit before exceptional items as a percentage of turnover.

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

⁽⁴⁾ The figures for 1998, 1999 and 2000 have not been restated for the changes in accounting policy (see note 1) because it has not been practical to do so.

Shareholders' information

| SHARES AS AT 31 MARCH 2002 | Number of shareholders | Percentage of total shareholders | Percentage of ordinary shares |
|----------------------------|------------------------|----------------------------------|-------------------------------|
| 1-100 | 2,384 | 24 | 0.1 |
| 101-1,000 | 5,306 | 53 | 2.9 |
| 1,001-5,000 | 1,757 | 18 | 4.0 |
| 5,001-50,000 | 322 | 3 | 5.0 |
| 50,001-100,000 | 50 | 1 | 4.0 |
| Over 100,000 | 104 | 1 | 84.0 |
| | 9,923 | 100 | 100.0 |

SHAREHOLDER CALENDAR

| | |
|---------------------------------------|-----------------|
| Financial year end | 31 March |
| Annual general meeting | 25 July 2002 |
| 2003 interim results announcement | December 2002 |
| 2003 interim dividend payment | 3 February 2003 |
| 2003 preliminary results announcement | June 2003 |

Shareholder contact

If you have any general comments or queries, you are welcome to write to Keith Russell, the Company Secretary, at 329, Harwell, Oxfordshire OX11 0QJ. If you have a query for a specific director, 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 in writing to them at The Causeway, Worthing, West Sussex BN99 6DA, or by telephoning 0870 600 3970.

You can now find a number of shareholder services on-line. 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, please 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 an 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, 0.55% on the next £145,000 and 0.3% thereafter, with a £10 minimum. 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 by ringing Lloyds TSB Registrars on 0870 241 3018.

The DRIP will not apply to the Special Dividend currently being proposed.

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 need 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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