

AEAT

# Accelerating progress

## Financial highlights

FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2003

	£m
Turnover	<b>119.3</b>
Operating profit	<b>1.2</b>
Profit before taxation	<b>0.4</b>
EBITDA <sup>(1)</sup>	<b>5.9</b>
Free cash flow	<b>(19.2)</b>
Earnings per share	<b>0.5p</b>
Adjusted earnings per share <sup>(2)</sup>	<b>2.0p</b>
Interim dividend per share	<b>1.5p</b>

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

(2) Adjusted earnings per share is stated before amortisation of goodwill of £1.3 million, profit on sale of businesses of £0.2 million and loss on termination of operations of nil. See note 7 for details of the adjusted earnings per share calculation.

### Contents

- 1 Chairman's statement
  - 2 Operating review – Rail
  - 4 Operating review – Environment
  - 6 Operating review – Development businesses
  - 7 Financial review
  - 8 Consolidated profit and loss account
  - 9 Statement of total recognised gains and losses
  - 10 Consolidated balance sheet
  - 11 Consolidated cash flow statement
  - 12 Notes to the Interim report
  - 16 Independent review report to AEA Technology plc
- IBC Financial calendar

# Chairman's statement

**AEA Technology continues to make good progress. These results, in which the Company returned to profit at the half year, build on the progress we have made through focusing on the growth businesses Rail and Environment. As a result, the Company is now sharper and in a stronger position to continue to deliver improved returns for our shareholders. However, more still remains to be done in continuing to drive growth opportunities in all of our businesses.**

## Returning to profitability

In November 2000 the Company stated that it would continue to focus on two businesses, Rail and Environment, and exit the UK nuclear industry. The continued focus on Rail and Environment is beginning to deliver significant improvements in performance.

Rail continues to grow business with the major players in the sector like Network Rail. This is a result of its strong technical position, broad portfolio of products and services and in-depth market knowledge. Rail has seen the benefit of the increased investment in research and development delivering new products and services. For example AEAT's e-PLD™, an improved system for automated passenger counting on trains, addresses the new SRA mandate for at least 25% fleet coverage of such systems on all new Train Operating Company (TOC) franchises.

The Environment business produced a strong performance in the UK, with Momenta, the programme management business, winning a number of significant contracts. Environment has demonstrated its ability to transfer its expertise of turning policy into practice into other sectors such as transport and education. The business will continue to pursue vigorously opportunities arising from other administrations – for example the US Department of Energy and the Scottish Executive.

Battery Systems, Accentus and QSA have continued to make progress and for the first time have moved into profit as a group. In addition, the focus on project performance and reducing costs within Nuclear Programmes led to a significant reduction in first half losses. On 2 December, the Group disposed of its Nuclear Science business based at Windscale. It is estimated that the disposal will give rise to a super exceptional loss of around £8.0 million, but will generate cash in the second half. This disposal essentially completes the exit from the UK nuclear industry.

## Performance summary

The Company's turnover was £119.3 million, down from £129.3 million last year as a result of the divestment programme. Operating profit was £1.2 million, a turnaround from the £12.4 million loss for the prior half year.

Rail and Environment made good progress in the first half, with combined turnover for the two businesses up 9% at £73.9 million (2002: £67.9 million). Operating profit at £8.5 million was impacted by an increase in pension costs

of £0.9 million across the two businesses. Excluding the increase in pension costs, operating profit would have been £9.4 million (2002: £8.4 million) an increase of 12%.

The portfolio of development businesses returned a profit of £0.2 million compared to a loss of £4.9 million at the last half year. The management actions taken during the last financial year are delivering a strong improvement in performance. Accentus' losses were substantially reduced. Sales in Battery Systems have risen 22% on the prior half year. QSA nearly tripled operating profit compared with the prior year.

Nuclear Programmes reduced losses to £1.8 million (2002: £9.1 million) having made good progress in resolving legacy issues.

## Management

In the last financial year, the management team was restructured to reflect the new shape of the Company. This team is performing well and in the next six months will build on the progress made in the first half by focusing on:

- Further improving our commercial acumen
- Enhancing our intellectual capital
- Retaining tighter controls over projects
- Seeking strategic growth opportunities and acquisitions

The central executive team directly manages a number of small businesses and start-ups that are held for realisation of value in the short term. These activities are reported in a newly identified segment called Central Programmes. It is still the aim to improve the financial performance by also driving down central costs.

During the first half of this financial year, the Board was further strengthened by the appointment of two new non-executive Directors, Dr Paul Golby, Chief Executive of Powergen UK plc, and Rodney Westhead, Group Chief Executive of engineering consultancy Ricardo Group plc.

## Dividend

It is the Board's intention to move towards distributions of around a third of earnings once the disposal programme is complete. In the meantime, the Directors have agreed to an interim dividend of 1.5p per share to be paid on 2 February 2004.

## Outlook

The development businesses are now positioned to take full advantage of the opportunities open to them and their financial performance is expected to make progress.

In Scotland we have established a technical centre at Glengarnock, near Glasgow for the Rail, Environment and Battery Systems businesses to provide us with greater access to the increasingly important Scottish market. In the first half, both Rail and Environment performed broadly in line with management expectations. Both businesses are second half weighted and the Board is confident on the outlook for the full year.



**Dr Peter Watson**  
Chairman

## Operating review Rail

AEAT Rail is the leading supplier of advanced technology and expertise to the UK railways where the industry challenge is to run more trains on the existing infrastructure whilst improving performance, safety and value for money. The cost of improving the infrastructure is very high and will take time to deliver results. There is, therefore, increased demand for AEAT's technical solutions that can have an immediate and more cost-effective impact on today's railways. WheelChex™, which detects damaged wheels, has contributed to a 37% reduction in rail breaks over the past two years, each of which causes delays and potentially fatal accidents. In Europe, the trend towards privatisation and outsourcing is resulting in further opportunities for the Rail business.

### Performance

In the first six months, sales grew by 14% from £36.9 million to £42.2 million. This increase, which is due to both organic growth and acquisition, was against a backdrop of continued industry transition. Operating profit was £5.1 million compared with £5.2 million for the prior year. This reflects an increased pension charge of £0.4 million across the business, as well as a further £0.4 million increase in research and development (R&D) investment.

### Business highlights

In the UK, despite the continued industry transition, the key drivers of performance, safety and reliability remain unchanged. Rail has signed a strategic alliance with Network Rail which will improve the understanding of Network Rail's challenges and priorities. This will enable Rail to apply its technical and product development expertise in the areas where they can generate the greatest improvements.

Continued investment in R&D is producing a stream of new products and services. An improved passenger load determination product called e-PLD™ has been introduced which provides a fully automated, real-time 'train to desk' method of counting the number of passengers travelling on trains. With safety a key industry driver, a quick door-release system is being installed on the Great Western fleet that enables passengers to exit to carriage vestibules in the event of an incident.

In Europe, the Dutch subsidiary Rail BV continues to exploit technical solutions originally developed for the UK market. One example is the installation of SmartSander® on Dutch trains to alleviate the perennial problem of leaves on the line. In Spain, AEAT's position has been strengthened through its relationship with Indra, a leading company in air traffic control systems. The two companies are collaborating on the installation of condition monitoring systems for Spain's high speed train link between Madrid and Barcelona.

# Increased investments

### Platform for growth

The strategic alliance with Network Rail will both ensure that AEAT's skills are focused on Network Rail's priorities and that Network Rail understands the abilities of AEAT's key staff. It puts AEAT in a prime position for delivering technology solutions across the entire railway system. It reflects a new approach to resolving some of the challenges facing the UK rail industry.

The privatisation and separation of the London Underground development will present more opportunities for AEAT. As the underground system becomes separated into different accounting units, AEAT can draw upon its experience with the national rail network to provide system-level expertise in the areas of track and rolling stock engineering and management across the different commercial and technical interfaces.

Rail's success in Spain with the subsidiary Global SA, and in the Netherlands with Rail BV has demonstrated the benefit of getting closer to the customer. The establishment of a new technology facility near Glasgow will build on this and provide greater access to the Scottish market.

### Outlook

We anticipate increased activity across the UK rail market and the outlook for our chosen markets in Europe remains good. Our employees have world class expertise, and our increased expenditure on research and development, along with the unique agreement with Network Rail will ensure we stay at the forefront of the industry. We are well positioned to benefit across all sectors of our business.

# Strong partnerships

## Operating review Environment

**AEAT Environment is the leading supplier of environmental consulting services to the UK Government and agencies. The business focuses on the development of environmental policy, its dissemination and its translation into practical solutions. In doing so we are maintaining our approach of leveraging our experience and expertise in the high margin 'resource management' end of the market.**

### Performance

Turnover in the Environment business showed a modest increase at £31.7 million (2002: £31.0 million). Operating profit was £3.4 million against £3.2 million on the prior year. The true performance, however, is masked by an increase in pension costs of £0.5 million this year, despite which the UK business reported a double digit increase in operating profit for the first time.

### Business highlights

UK Government investment in the environment remains strong. It continues to increase as devolved administrations and regional governments seek to implement their environmental agendas. Momenta, the programme management business set up in 2001 is reaping the benefits of the investment made during the last two years. It has seen strong growth as government bodies started to turn environmental policy into practice.

Significant contracts won include the SAFED (Safe And Fuel Efficient Driving) programme which seeks to improve road safety and decrease fuel consumption by altering the driving behaviour of lorry drivers. To date over 100 trainers have been appointed in line with the aim of training 4000 drivers over the next 12 months. In addition, Momenta was awarded the Schools Sports Co-ordinator programme which will enable all sections of the community in England to have equal access to sports facilities and activities.

# Growth markets



The business has continued to build on its presence in Scotland with the establishment of a technical centre near Glasgow so that it can respond locally to that growing market and the opportunities arising from devolved government. In the energy sector, for instance, work is being undertaken for the Scottish Executive, Highlands & Islands Enterprise, and the Carbon Trust, as well as for private sector clients. There is a team of energy staff in Glasgow, and this is planned to grow further given Scotland's commitment to developing its large renewable energy resource.

More generally in the UK, business in both the public and private sector is growing. Industry continues to react to new energy legislation and fiscal incentives designed to deliver the UK's targets. Even large organisations find it difficult to identify the resources to interpret the legislation and respond to opportunities. Environment's Future Energy Solutions business provides advice to companies such as EDF Energy and Safeway on renewable energy, energy saving and the EU emissions trading scheme.

In the public sector, the air quality business Netcen continues to be very successful in maintaining its premier position as the main adviser to UK Government in this area. Three contracts, including the National Atmospheric Emissions Inventory worth over £1.5 million, came up for renewal during the first half of the year and were all won under competitive tendering.

AEAT's air pollution information services saw increased activity this summer. During the August heat wave, air pollution across many areas of the UK reached the highest levels for several years generating prolonged, national media interest.

Netcen was very much involved in disseminating air pollution information and worked closely with its main customer, DEFRA to handle numerous TV, radio and press requests for interviews, briefings and expert opinion on the situation.

Overseas the Kinectrics business continues to make progress in a more challenging market, but remains on track to deliver improved margins.

#### Platform for growth

The diversity of the programmes won by Momenta demonstrates its success in managing programmes for an increasingly wide range of customers. Whereas Environment was originally focused on the energy and environment markets (markets in which the business still has a dominant position), the creation of Momenta resulted in significant contracts in the transport, education and health markets as well as opening up a range of other opportunities. It is now recognised that the opportunities in these markets are greater than those in the UK environment software field. Consequently, the small software activity Lexware, bought at the beginning of the calendar year, has been transferred to Central Programmes.

#### Outlook

The outlook for Environment remains positive. We anticipate continued strong growth in our target markets which we are well positioned to capitalise on.

# New opportunities

## Operating review

### Development businesses

#### Battery Systems

Battery Systems is a business which provides portable power solutions to customers who require superior performance. The business products are batteries and chargers as well as technical consultancy. These premium products deliver superior power, temperature performance, intelligence and reliability.

Sales in the Battery Systems business rose from £4.5 million to £5.5 million. Operating losses have decreased from £1.7 million to £1.3 million, and the business continues to make financial progress.

Business highlights include the successful commencement of volume manufacturing of batteries and chargers which will make a significant contribution to improving the performance in the second half. Market demand for advanced portable power solutions remains strong as customers in market sectors like defence are increasingly looking towards electronics to improve their performance.

In May, Battery Systems signed an agreement with FMC Lithium to jointly develop and licence the next generation rechargeable battery technology.

#### Accentus

Accentus is AEAT's intellectual property business which owns a number of world leading patent protected technologies.

Strong management action taken in the second half of the last financial year has paid off in the first six months. The business reported a loss of £0.2 million against a loss of £3.8 million for the prior year, with turnover marginally lower at £7.2 million (2002: £7.8 million). Accentus remains on target to broadly break even at the full year.

The business has been significantly de-risked. Management is focusing on fewer technologies, and adopting a more commercial approach to securing contracts. The development of our Gas To Liquid (GTL) technology is progressing well. Accentus' GTL competitive advantage is that its process can be easily scaled down onto areas where space is at a premium, for example floating production systems or ships. In the first half improvements were made in recovering increased quantities of valuable gasoil and significantly reducing production plant size.

The plasma programme which includes Electrocat™ continues to progress well. The technology for treating oxides of nitrogen and particulates is expected to have applications beyond the automotive sector. While the automotive market will be driven

by legislation other sectors including defence may well offer more immediate opportunities because of the technical advantages this technology can bring on the battlefield.

In October the Company announced the launch of a battery recycling facility in Golspie, Scotland. This jointly funded (55% Highlands & Islands Enterprise and 45% AEA Technology) R&D project establishes Europe's first centre for recycling Lithium-ion batteries. The technology is being developed by Accentus with a plan to achieve commercial operation late in 2004.

#### QSA

QSA supplies high performance radiation sources and services for industrial, medical, security and research markets.

QSA continues to perform well. Operating profit was £1.7 million, compared with £0.6 million in the prior year, on a turnover of £17.0 million (2002: £17.1 million).

A major step forward has been made in relation to the smoke detector market, with the signing of a new manufacturing agreement with Sprue Aegis plc. This builds on an existing successful contract to manufacture the Sprue Aegis FireAngel smoke detector for the UK market and extends the range of product supply for sale across the broader US and European markets.

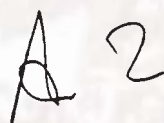
#### Disposal Programme

##### Nuclear Programmes

The strategy to exit the UK nuclear industry at minimum cost is now essentially complete. Turnover decreased from £13.6 million to £11.4 million and operating losses decreased to £1.8 million compared with £4.3 million in the previous year.

On 2 December the Nuclear Science business based at Windscale was sold to BNFL.

The closure of the facilities at Harwell scheduled for March 2004 is proceeding to plan and this business has been significantly de-risked.



**Andrew McCree**  
Group Managing Director

Good  
progress



# Financial review

## Introduction

In the six months to 30 September 2003 the Group continued to focus on its Core businesses, to invest in its Value Development businesses, and to progress with the disposal of the remainder. The segmental analysis in note 3 has been provided on this basis.

## Operating results

The Group's operating profit of £1.2 million (2002: £12.4 million loss) has been analysed on the face of the consolidated profit and loss account into continuing operations (£1.9 million profit) and discontinued operations (£0.7 million loss). The main element of the discontinued operations was Nuclear Science, the Nuclear Programmes Windscale facility which was disposed of on 2 December 2003.

A segmental analysis of turnover and operating profit before and after exceptional operating items is given in note 3.

The Core business profits of Rail and Environment have increased from £8.4 million to £8.5 million despite suffering a £0.9 million increase in pension costs. Each of the three businesses within Value Development progressed well to give a combined profit of £0.2 million in place of the £4.9 million loss reported last half-year. Nuclear Programmes losses were cut from £4.3 million to £1.8 million as we continue to minimise the cost of our exit from this activity. Losses of £1.4 million (2002: £0.2 million profit) were incurred on small start-ups and fledgling businesses that are managed directly by the central executive team under the heading Central Programmes. Central costs were contained at £4.3 million.

## Pension costs

Pension charges to profit have risen from £4.6 million to £5.6 million with a £0.9 million increase arising in the Core businesses. From January 2003 the contributions into the Company scheme were increased to 17.5%, in line with the actuary's recommendation at that time.

## Profit on ordinary activities before taxation

Profit before taxation of £0.4 million (2002: £0.9 million) reflects the £0.2 million profit on disposal of businesses as shown in note 10. The profit on disposal of businesses in 2002 of £16.6 million includes £18.2 million on the sale of Hyprotech.

## Interest

The net interest charge was £1.0 million (2002: £2.9 million). The 2002 £2.9 million charge included a one off payment of £2.3 million related to repayment of the US Private Placement in July 2002.

## Taxation

The overall tax charge on the profit before taxation was £0.3 million (2002: £2.2 million credit) giving an effective tax rate of 150% before disposal of businesses. The effective tax rate is high because the Group has not recognised any additional deferred tax asset in respect of taxable losses incurred by certain UK companies, whereas tax is payable on profits realised in various overseas jurisdictions.

At 30 September the deferred tax asset was £13.7 million (2002: £17.3 million).

No tax is payable in respect of businesses that were disposed of in the half-year.

## Cash flow and borrowings

Net debt has increased by £23.2 million to £36.1 million as shown in note 9.

The increase in debt is explained by the cash movements shown in the consolidated cash flow statement. There is a £19.2 million outflow in free cash (2002: £19.2 million) that includes payments of £7.1 million on restructuring expenditure that was charged to profit in prior periods (2002: £7.8 million).

The £4.0 million spend on disposals and acquisitions includes £2.6 million deferred payment for The Engineering Link Limited which was purchased on 18 October 2002, and £1.1 million of costs related to the disposal of CFX that was completed on 26 February 2003.

## Dividends and dividend policy

It is the Board's intention to move towards distributions of around one third of earnings once the disposal programme is completed. In this further year of transition the Directors propose an interim dividend of £1.0 million equivalent to 1.5p per share to be paid on 2 February 2004.

## Post balance sheet events

On 2 December, the Group disposed of its Nuclear Science business based at Windscale. It is estimated that the disposal will give rise to a super exceptional loss of around £8.0 million, but will generate cash in the second half.



**David Lindsay**  
Group Finance Director

# Consolidated profit and loss account (unaudited)

FOR THE HALF-YEAR ENDED 30 SEPTEMBER	Notes	Continuing operations Half-year 2003 £m	Discontinued operations Half-year 2003 £m	Total Half-year 2003 £m	Continuing operations Half-year 2002 restated £m	Discontinued operations Half-year 2002 restated £m	Total Half-year 2002 £m	Continuing operations Year ended 31 March 2003 restated (audited) £m	Discontinued operations Year ended 31 March 2003 restated (audited) £m	Total Year ended 31 March 2003 (audited) £m
<b>Turnover</b>										
Group and share of joint ventures	2,3	114.5	4.8	119.3	105.4	23.9	129.3	229.2	43.1	272.3
Less : share of joint ventures		(0.1)	–	(0.1)	(0.3)	–	(0.3)	(1.3)	–	(1.3)
		114.4	4.8	119.2	105.1	23.9	129.0	227.9	43.1	271.0
<b>Operating costs</b>										
Operating costs		(113.9)	(7.0)	(120.9)	(109.3)	(28.0)	(137.3)	(231.4)	(47.7)	(279.1)
Less 2003 provision on termination of operations		1.5	1.5	3.0	0.1	0.7	0.8	0.5	1.1	1.6
Exceptional operating charges		–	–	–	–	(4.8)	(4.8)	(1.2)	(5.0)	(6.2)
		(112.4)	(5.5)	(117.9)	(109.2)	(32.1)	(141.3)	(232.1)	(51.6)	(283.7)
<b>Group operating profit/(loss)</b>		2.0	(0.7)	1.3	(4.1)	(8.2)	(12.3)	(4.2)	(8.5)	(12.7)
Share of operating (loss) in joint ventures & associates		(0.1)	–	(0.1)	(0.1)	–	(0.1)	(0.1)	–	(0.1)
<b>Total operating profit/(loss):</b>										
Group and share of joint ventures	2,3	1.9	(0.7)	1.2	(4.2)	(8.2)	(12.4)	(4.3)	(8.5)	(12.8)
Profit on sale of businesses	10	–	0.2	0.2	–	16.6	16.6	–	20.0	20.0
Loss on termination of operations	10	–	–	–	(0.1)	(0.3)	(0.4)	(5.8)	(2.9)	(8.7)
<b>Profit/(loss) on ordinary activities before interest and taxation</b>		1.9	(0.5)	1.4	(4.3)	8.1	3.8	(10.1)	8.6	(1.5)
Net interest payable				(1.0)			(2.9)			(3.9)
<b>Profit/(loss) on ordinary activities before taxation</b>				0.4			0.9			(5.4)
Taxation on ordinary activities	4			(0.3)			2.2			(2.1)
<b>Profit/(loss) on ordinary activities after taxation</b>				0.1			3.1			(7.5)
Minority interests – Equity				0.2			–			(0.6)
<b>Profit/(loss) for the financial period</b>				0.3			3.1			(8.1)
Dividends	5			(1.0)			(45.7)			(48.2)
<b>(Loss) for the financial period</b>				(0.7)			(42.6)			(56.3)
Earnings per share (pence)	7			0.5p			3.7p			(10.5)p
Adjusted earnings per share (pence)	7			2.0p			(9.6)p			(19.0)p
IIMR earnings per share (pence)	7			(1.3)p			(12.9)p			(23.8)p
Diluted earnings per share (pence)	7			0.5p			3.7p			(10.5)p

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

The continuing and discontinued results for the half-year ended 30 September 2002 and the year ended 31 March 2003 have been restated to reflect the continuing position of the Group at 30 September 2003.

# Statement of total recognised gains and losses (unaudited)

FOR THE HALF-YEAR ENDED 30 SEPTEMBER	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 (audited) £m
Profit/(loss) for the financial period	0.3	3.1	(8.1)
Currency translation differences on foreign currency net investments	(1.2)	(0.8)	(0.4)
Total gains/(losses) recognised since 1 April	(0.9)	2.3	(8.5)

## Consolidated balance sheet (unaudited)

AS AT 30 SEPTEMBER	Notes	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 (audited) £m
<b>Fixed assets</b>		<b>72.6</b>	<b>62.7</b>	<b>74.6</b>
<b>Current assets</b>				
Stocks and work in progress		22.1	17.1	18.7
Debtors falling due after more than one year		25.6	32.1	27.5
Debtors falling due within one year		81.5	89.2	79.1
Cash at bank and in hand		10.3	10.8	29.2
		<b>139.5</b>	<b>149.2</b>	<b>154.5</b>
<b>Creditors: amounts falling due within one year</b>		<b>(133.1)</b>	<b>(133.2)</b>	<b>(150.3)</b>
<b>Net current assets</b>		<b>6.4</b>	<b>16.0</b>	<b>4.2</b>
<b>Total assets less current liabilities</b>		<b>79.0</b>	<b>78.7</b>	<b>78.8</b>
<b>Creditors: amounts falling due after more than one year</b>				
Borrowings		(0.3)	(0.2)	(0.3)
Other creditors		(12.6)	(2.0)	(4.4)
<b>Provisions for liabilities and charges</b>		<b>(45.4)</b>	<b>(43.2)</b>	<b>(51.5)</b>
<b>Net assets</b>		<b>20.7</b>	<b>33.3</b>	<b>22.6</b>
<b>Capital and reserves</b>				
Called up share capital		8.2	8.7	8.2
Share premium		10.6	10.5	10.6
Capital redemption reserve		0.7	0.2	0.7
Profit and loss account		0.1	13.9	1.9
<b>Equity shareholders' funds</b>	8	<b>19.6</b>	<b>33.3</b>	<b>21.4</b>
<b>Minority interests – Equity</b>		<b>1.1</b>	<b>–</b>	<b>1.2</b>
		<b>20.7</b>	<b>33.3</b>	<b>22.6</b>

The Interim report was approved by the Board on 3 December 2003.

# Consolidated cash flow statement (unaudited)

FOR THE HALF-YEAR ENDED 30 SEPTEMBER	Notes	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 (audited) £m
<b>Cash flow from operating activities</b>				
Operating profit/(loss)		1.3	(12.3)	(12.7)
Amortisation of intangible fixed assets		1.3	0.8	1.9
Depreciation of tangible fixed assets		3.1	4.0	7.8
Impairment of intangible fixed assets		0.2	–	0.2
Loss on sale of tangible fixed assets		0.5	–	0.5
Loss on termination of operations		–	–	(8.7)
(Increase)/Decrease in stocks and work in progress		(3.1)	2.0	0.4
Decrease in debtors		2.1	17.9	25.6
(Decrease) in creditors		(13.2)	(20.3)	(3.7)
(Decrease)/Increase in provisions relating to operating activities		(6.5)	(3.3)	4.1
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(14.3)</b>	<b>(11.2)</b>	<b>15.4</b>
Dividends from joint ventures		–	–	0.1
Returns on investments and servicing of finance		(1.1)	(3.2)	(4.5)
Taxation		(0.6)	0.5	(0.7)
Capital expenditure and financial investment		(3.2)	(5.3)	(10.1)
<b>Free cash (outflow)/inflow</b>		<b>(19.2)</b>	<b>(19.2)</b>	<b>0.2</b>
Disposals and acquisitions		(4.0)	56.6	57.4
Equity dividends paid		–	(44.6)	(45.7)
Cash (outflow)/inflow before financing		(23.2)	(7.2)	11.9
Financing		4.9	(20.7)	(20.8)
<b>Decrease in cash</b>	9	<b>(18.3)</b>	<b>(27.9)</b>	<b>(8.9)</b>

The £14.3 million cash outflow from operating activities includes £7.1 million outflow in respect of restructuring costs charged to the profit and loss in previous periods (£7.8 million for the half-year to 30 September 2002 and £12.8 million for the year ended 31 March 2003). These payments account for the £6.5 million provision movement and £0.6 million of the creditor movement.

# Notes to the Interim report

## 1. Basis of preparation and prior year adjustments

The Interim report has been prepared using accounting policies consistent with the Annual report and accounts for the year ended 31 March 2003.

The interim results are unaudited but have been reviewed by the auditors. Their report is set out on page 16. The full year figures are extracted from the Annual report and accounts for the year ended 31 March 2003 on which the auditors gave an unqualified opinion. A copy of the Accounts has been filed with the Registrar of Companies.

The Interim report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

## 2. Geographical analysis

Turnover can be analysed by geographical destination as follows:

	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 £m
Government	17.3	12.3	31.9
Public sector	7.8	10.3	19.4
Private sector	45.6	49.0	103.4
<b>Total UK</b>	<b>70.7</b>	<b>71.6</b>	<b>154.7</b>
Europe	16.3	17.8	37.2
North America	25.7	31.3	61.7
Rest of the World	6.6	8.6	18.7
	<b>119.3</b>	<b>129.3</b>	<b>272.3</b>

Turnover can be analysed by geographical origin as follows:

	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 £m
UK	76.6	81.0	180.2
Europe	14.8	15.1	26.9
North America	23.9	29.4	57.6
Rest of the World	4.0	3.8	7.6
	<b>119.3</b>	<b>129.3</b>	<b>272.3</b>

The Group's share of joint venture's turnover increased turnover both to and from the Rest of the World by £0.1 million (£0.3 million for the half-year to 30 September 2002 and £1.2 million for the year ended 31 March 2003) and to and from the UK by nil (nil for the half-year to 30 September 2002 and £0.1 million for the year ended 31 March 2003).

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

	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 £m
UK	(1.3)	(13.6)	(16.2)
Europe	0.9	(0.6)	1.2
North America	0.5	1.1	0.5
Rest of the World	1.1	0.7	1.7
	<b>1.2</b>	<b>(12.4)</b>	<b>(12.8)</b>

The Group's share of joint venture's operating losses reduced the operating profit from the Rest of the World by £0.1 million (£0.1 million for the half-year to 30 September 2002 and nil for the year ended 31 March 2003) and increased the loss from the UK by nil (nil for the half-year to 30 September 2002 and £0.1 million for the year ended 31 March 2003).

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

	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 £m
UK	18.9	47.7	24.5
Europe	2.7	–	(1.2)
North America	17.3	8.5	8.1
Rest of the World	4.8	3.8	4.1
	<b>43.7</b>	<b>60.0</b>	<b>35.5</b>

### 3. Segmental analysis of turnover and operating profit/(loss)

TURNOVER: CLASS OF BUSINESS	Half-year 2003 £m	Half-year 2002 restated £m	Year ended 31 March 2003 restated £m
Rail	42.2	36.9	84.4
Environment	31.7	31.0	64.5
<b>Core business</b>	<b>73.9</b>	<b>67.9</b>	<b>148.9</b>
Battery Systems	5.5	4.5	9.6
Accentus	7.2	7.8	17.2
QSA	17.0	17.1	35.9
<b>Value development</b>	<b>29.7</b>	<b>29.4</b>	<b>62.7</b>
Nuclear Programmes	11.4	13.6	30.1
Divested businesses (pre 1 April 2003)	–	14.9	22.1
Central Programmes	1.7	1.0	3.3
Central Costs	2.6	2.5	5.2
<b>TOTAL</b>	<b>119.3</b>	<b>129.3</b>	<b>272.3</b>

Inter-segment sales, which have been eliminated in the analysis above, amounted to £9.0 million for the half-year to 30 September 2003 (£10.7 million for the half-year to 30 September 2002 and £25.9 million for the year ended 31 March 2003).

OPERATING PROFIT/(LOSS): CLASS OF BUSINESS	Half-year 2003 Total £m	Before exceptional items restated £m	Half-year 2002 Exceptional operating charges restated £m	Total restated £m	Year ended 31 March 2003 Before exceptional items restated £m	Exceptional operating charges restated £m	Total restated £m
Rail	5.1	5.2	–	5.2	11.2	–	11.2
Environment	3.4	3.2	–	3.2	7.1	–	7.1
<b>Core business</b>	<b>8.5</b>	<b>8.4</b>	<b>–</b>	<b>8.4</b>	<b>18.3</b>	<b>–</b>	<b>18.3</b>
Battery Systems	(1.3)	(1.7)	–	(1.7)	(3.0)	–	(3.0)
Accentus	(0.2)	(3.8)	–	(3.8)	(6.7)	(1.2)	(7.9)
QSA	1.7	0.6	–	0.6	2.6	–	2.6
<b>Value development</b>	<b>0.2</b>	<b>(4.9)</b>	<b>–</b>	<b>(4.9)</b>	<b>(7.1)</b>	<b>(1.2)</b>	<b>(8.3)</b>
Nuclear Programmes	(1.8)	(4.3)	(4.8)	(9.1)	(6.1)	(5.0)	(11.1)
Divested businesses (pre 1 April 2003)	–	(2.7)	–	(2.7)	(3.1)	–	(3.1)
Central Programmes	(1.4)	0.2	–	0.2	0.1	–	0.1
Central Costs	(4.3)	(4.3)	–	(4.3)	(8.7)	–	(8.7)
<b>TOTAL</b>	<b>1.2</b>	<b>(7.6)</b>	<b>(4.8)</b>	<b>(12.4)</b>	<b>(6.6)</b>	<b>(6.2)</b>	<b>(12.8)</b>

Central Programmes is a newly identified segment representing small businesses and start ups managed directly by the central executive, held for realisation of value in the short term.

The business segment figures have been restated to reflect the new organisational structure splitting out Central Programmes and Central Costs.

The exceptional operating charge of £4.8 million for the half-year ended 30 September 2002 and £5.0 million for the year ended 31 March 2003 represents write-off of work in progress (£3.6 million) and legal costs on two Nuclear Engineering contracts with Hunting BRAE at Aldermaston (£1.2 million for half-year ended 30 September 2002 and £1.4 million for year ended 31 March 2003).

The £1.2 million exceptional charge in Accentus relates to £1.1 million for redundancies and a £0.1 million asset write-off arising from the rationalisation of the business.

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

	Half-year 2003		Half-year 2002 Operating Profit/(Loss) restated £m		Year ended 31 March 2003 Operating Profit/(Loss) restated £m	
	Turnover £m	Operating (Loss) £m	Turnover restated £m	Operating Profit/(Loss) restated £m	Turnover restated £m	Operating Profit/(Loss) restated £m
Accentus	–	–	1.8	(1.0)	2.8	(2.6)
QSA	0.2	–	0.8	0.1	1.6	0.2
Nuclear Programmes	4.6	(0.7)	6.4	(4.6)	16.6	(3.0)
Divested businesses (pre 1 April 2003)	–	–	14.9	(2.7)	22.1	(3.1)
<b>TOTAL</b>	<b>4.8</b>	<b>(0.7)</b>	<b>23.9</b>	<b>(8.2)</b>	<b>43.1</b>	<b>(8.5)</b>

#### 4. Taxation

The taxation charge for half-year ended 30 September 2003 of £0.3 million is calculated on an entity by entity basis giving an effective tax rate of 150%, before disposal of businesses. The effective tax rate is high because the Group has not recognised any additional deferred tax asset in respect of taxable losses incurred by certain UK companies, whereas tax is payable on profits realised in various overseas jurisdictions.

The taxation charge is wholly comprised of a current year corporation tax charge of £0.3 million.

The taxation charge on disposal of businesses is nil (£0.9 million for the half-year to 30 September 2002 and £0.9 million for the year ended 31 March 2003).

The taxation credit in respect of exceptional operating charges was nil (£1.4 million for the half-year ended 30 September 2002 and £4.2 million for the year ended 31 March 2003).

#### 5. Dividends

An interim dividend of 1.5p (2002: 1.4p) per share will be paid on 2 February 2004 to shareholders registered at the close of business on 5 January 2004. The shares become ex-dividend on 31 December 2003.

#### 6. Pensions

The pension charge for the group for the six months to 30 September 2003 was £5.6 million (2002: £4.6 million). The closing net pension asset was £9.4 million (2002: £10.9 million).

#### 7. Earnings per share

Earnings per share is calculated as follows:

	Half-year 2003	Half-year 2002	Year ended 31 March 2003
Profit/(loss) for the period (£m)	0.3	3.1	(8.1)
Weighted average number of ordinary shares for the period (m)	67.5	83.4	77.2
Earnings per share (p)	0.5p	3.7p	(10.5)p

#### Adjusted earnings per share

Adjusted earnings per share is based on the profit for the period before the amortisation of goodwill and before exceptional items.

	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 £m
Profit/(loss) for the financial period	0.3	3.1	(8.1)
Amortisation of goodwill	1.3	0.8	1.9
Exceptional operating charges	–	4.8	6.2
Profit on sale of businesses	(0.2)	(16.6)	(20.0)
Loss on termination of operations	–	0.4	8.7
Tax on exceptional items and disposals	–	(0.5)	(3.4)
<b>Adjusted profit/(loss)</b>	<b>1.4</b>	<b>(8.0)</b>	<b>(14.7)</b>

#### IIMR earnings per share

The Institute of Investment Management and Research earnings per share is calculated as follows:

	Half-year 2003 £m	Half-year 2002 restated £m	Year ended 31 March 2003 £m
Profit/(loss) for the financial period	0.3	3.1	(8.1)
Release of provisions for operating losses on termination	(3.0)	(0.8)	(1.6)
Impairment of intangible fixed assets	0.2	–	0.2
Loss on sale of tangible fixed assets	0.5	–	0.5
Profit on sale of businesses	(0.2)	(16.6)	(20.0)
Loss on termination of operations	–	0.4	8.7
Amortisation of goodwill	1.3	0.8	1.9
Redemption penalty on long-term debt	–	–	2.3
Taxation on above items	–	2.3	(2.3)
<b>IIMR adjusted (loss)</b>	<b>(0.9)</b>	<b>(10.8)</b>	<b>(18.4)</b>
Weighted average number of ordinary shares for the period (m)	67.5	83.4	77.2
IIMR earnings per share (p)	(1.3)p	(12.9)p	(23.8)p

#### Diluted earnings per share

Diluted earnings per share is calculated as follows:

	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 £m
Profit/(loss) for the period (£m)	0.3	3.1	(8.1)
Weighted average number of ordinary shares for the period (m)	69.0	83.9	77.4
Diluted earnings per share (p)	0.5p	3.7p	(10.5)p

## 8. Reconciliation of movements in equity shareholders' funds

	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 £m
<b>FOR THE HALF-YEAR ENDED 30 SEPTEMBER</b>			
Opening equity shareholders' funds	21.4	48.7	48.7
Repurchase of shares	–	(4.5)	(9.6)
New share capital issued	–	0.6	0.6
Profit/(loss) for the period	0.3	3.1	(8.1)
Dividends	(1.0)	(45.7)	(48.2)
Goodwill written back to profit on disposals	0.1	31.9	38.4
Currency translation differences on foreign currency net investments	(1.2)	(0.8)	(0.4)
<b>Closing equity shareholders' funds</b>	<b>19.6</b>	<b>33.3</b>	<b>21.4</b>

The dividends paid in the half-year to 30 September 2002 and the year ending 31 March 2003 include a special dividend of £44.7 million, declared on 30 August 2002 at 50.0p per share.

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

	Half-year 2003 £m	Half-year 2002 £m	Year ended 31 March 2003 £m
<b>MOVEMENT IN NET DEBT IN THE PERIOD</b>			
(Decrease) in cash in the period	(18.3)	(27.9)	(8.9)
Cashflow from (increase)/decrease in debt	(4.9)	16.6	11.7
<b>Change in net debt resulting from cash flow</b>	<b>(23.2)</b>	<b>(11.3)</b>	<b>2.8</b>
Loans acquired on acquisitions	–	–	(0.3)
Opening net (debt) at 1 April	(12.9)	(15.4)	(15.4)
<b>Closing net (debt)</b>	<b>(36.1)</b>	<b>(26.7)</b>	<b>(12.9)</b>
	At 1 April 2003 £m	Cash flow £m	At 30 Sept 2003 £m
<b>ANALYSIS OF NET DEBT</b>			
Cash net of overdraft	28.2	(18.3)	9.9
Debt due after one year	(0.3)	–	(0.3)
Debt due within one year	(40.8)	(4.9)	(45.7)
	(12.9)	(23.2)	(36.1)

## 10. Sale of businesses and termination of activities

Disposals completed during the period were as follows:

Name	Date	Percentage of share capital disposed of
Monserco Ltd	16 May 2003	100%
Stat Attack – Industrial division trade and assets	27 June 2003	N/A

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

	Monserco £m	Other £m	Total £m
Sale proceeds net of disposal costs	0.5	0.1	0.6
Net assets disposed of	(0.2)	–	(0.2)
Goodwill written off	–	(0.2)	(0.2)
<b>Profit/(loss) on disposal</b>	<b>0.3</b>	<b>(0.1)</b>	<b>0.2</b>

Businesses disposed of during the half-year to 30 September 2003 are included within discontinued activities.

## 11. Post balance sheet events

On 2 December 2003 the Group disposed of its interests in the trade and assets of its Nuclear Programmes operations at Windscale. The sale will give rise to an estimated £8.0 million super exceptional loss in the second half of the financial year.

## 12. Shareholder information

The Interim report is being sent to all shareholders in December 2003 and copies are available to the public at the Registered Office of the Company at 329 Harwell, Didcot, Oxfordshire, OX11 0QJ. The Interim report will also be made available on the Company's website. The Company's registered number is 3095862.

We offer shareholders a Dividend Reinvestment Plan (DRIP) under which shareholders can reinvest their cash dividends in ordinary shares in the Company, bought in the market at competitive dealing rates. If you have elected to join the DRIP, there is no further action for you to take.

If you would like to join for the first time, please contact our Registrars at the address below. Completed forms returned to the Registrars by 12 January 2004 will apply to the interim dividend payable on 2 February 2004.

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

# Independent review report to AEA Technology plc

## Introduction

We have been instructed by the Company to review the financial information which comprises Consolidated Profit and Loss Account, Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes to the Interim report. We have read the other information contained in the Interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' responsibilities

The Interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

This report has been for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2003.



## PricewaterhouseCoopers LLP

Chartered Accountants  
Reading  
3 December 2003

## Note:

The maintenance and integrity of the AEA Technology plc website is the responsibility of the Directors; the work carried out by the accountants does not involve consideration of these matters and, accordingly, the accountants accept no responsibility for any changes that may have occurred to the Interim report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

# Financial calendar

## Year End

31 March 2004

## Dividend

Interim – 2 February 2004

Final – 1 October 2004

## Results

Interim – announcement

4 December 2003

Full year – preliminary results announcement

June 2004

Report and accounts –

circulation June 2004

Annual General Meeting –

22 July 2004

The latest financial information on  
AEA Technology is available on the internet:

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

AEA Technology plc  
329 Harwell  
Didcot  
Oxfordshire OX11 0QJ

Telephone +44 (0)870 190 1900  
Facsimile +44 (0)870 190 8261  
Email [enquiry@aeat.co.uk](mailto:enquiry@aeat.co.uk)  
Website [www.aeat.co.uk](http://www.aeat.co.uk)