

Financial highlights

- Turnover up 8% to £80.9 million (2007: £75.2 million)
- Adjusted operating profit up 28% to £11.0 million (2007: £8.6 million) ¹
- Adjusted profit before tax up 26% to £9.1 million (2007: £7.2 million) ¹
- Adjusted earnings per share (EPS) up 30% to 7.9 pence (2007: 6.1 pence) ²
- Secure sales for the coming year £50.5 million (2007: £48.5 million) ³
- Net debt £19.4 million (31 March 2007: £21.4 million)

Strategic and operational highlights

- Intention to make strategic acquisition of Project Performance Corporation
- Strong growth in consultancy private sector sales, up 24%
- Renewal of one of the UK's largest Government carbon reduction contracts
- Important strategic business wins in China and the EU
- UN acknowledgement of the quality of AEA's emissions work
- Good progress in reducing legacy issues ⁴

Statutory disclosures

- Operating profit up 5% to £9.9 million (2007: £9.4 million)
- Profit before tax of £8.0 million (2007: £8.0 million)
- Earnings per share of 7.0 pence (2007: 6.8 pence)

Dr. Bernie Bulkin, Chairman of AEA Technology plc, said:

'AEA has again made good progress this year. The Group is confident that its markets are growing and that there are a number of exciting opportunities upon which to build a world class business.'

Andrew McCree, CEO of AEA Technology plc, said:

'AEA has produced a strong financial performance this year. Strong growth in sales to the private sector in particular, has helped AEA to raise margins and deliver a 28% increase in adjusted operating profit.'

'While the outlook for AEA on its own remains positive, as demonstrated by a number of key contract wins this year – the acquisition of PPC in the US, announced today, will offer a wider platform for growth for the combined Group as a global force in climate change consultancy.'

¹ Reconciliation of adjusted operating profit and adjusted profit before tax

	Operating profit		Profit before tax	
	2008	2007	2008	2007
For the year ended 31 March	£m	£m	£m	£m
Operating profit	9.9	9.4		
Profit before tax			8.0	8.0
Acquisition and Rights Issue costs	1.1	-	1.1	-
Curtailed loss in pension scheme	-	0.8	-	0.8
Exceptional past service credit in pension scheme	-	(2.0)	-	(2.0)
Re-financing costs	-	0.4	-	0.4
Adjusted operating profit	11.0	8.6		
Adjusted profit before tax			9.1	7.2

² Adjusted earnings per share is stated using earnings adjusted for certain one-off items. See note 6 for details of the adjusted earnings per share calculation.

³ Secure sales are the element of orders to date that the Group expects to be delivered in the coming financial year.

⁴ Refer to "Financial performance, Legacy".

Business Review

Overview of the business and performance in the year

AEA is one of the world's leading energy and climate change consultancies. Acknowledged by the United Nations as a leading authority in emissions, AEA is an advisor to the UK and other EU governments on energy policy and security, emissions and carbon reduction. In the UK, AEA manages one of the Government's largest resource management and CO₂ reduction programmes Envirowise, which over its lifetime of operation has saved approximately 1% of UK emissions. The Group's reputation for technical excellence in the field of carbon reduction led to the award of AEA as prime contractor on the Near Zero Emissions Coal Initiative for coal fired power stations in China. This contract is a key element in the EU-China partnership on climate change.

Business performance

AEA has continued to make good progress during the year. Turnover grew by 8% (2007: 35%). The reduction in UK Government spend (orders down 14%) did impact revenue but this was offset to a large extent by strong growth in our consultancy private sector sales, which grew by 24% (2007: 9%). Adjusted operating profit grew by 28% to £11.0 million (2007: £8.6 million) and once again the Group delivered a strong cash performance with closing net debt of £19.4 million (2007: £21.4 million). Good growth was achieved in the private sector, the London Development Agency (LDA), in Scotland and in Wales. AEA ended the year with secure sales of £50.5 million (2007: £48.5 million).

Strategic progress

The Group has today announced that it has agreed to acquire 100% of the share capital of Project Performance Corporation (PPC), a US based environmental management and information technology consulting firm. The acquisition is contingent, among other things, upon shareholder approval and obtaining clearance from the relevant authorities.

PPC provides AEA with a strong platform from which to enter the US Federal government market. It also brings new capabilities in water and environmental information systems. The company has a good track record of growth and has won a number of awards in the Washington area.

AEA's view of the market

There is increasing evidence that our planet's climate is changing. Global concerns about the economic and environmental impact of climate change are rising and the UN has begun discussions to put in place a new inter-governmental agreement, which will replace the Kyoto Protocol. AEA believes that the United States will be an active participant and that these discussions are likely to lead to even tougher targets for reductions in carbon emissions. This in turn will require the US and EU to develop new ways of ensuring these targets are met and where incentives and penalties are to be focused, in order to achieve the targets at minimal cost to those economies.

AEA believes that, in order to meet future climate change budgets, it will be important to encourage emerging technologies but in the short term the focus of both government and the private sector will be on incentivising and achieving behavioural change. AEA is a world leader in delivering multi-year, multi-million pound environmental behavioural change programmes. AEA believes that these large programmes, with AEA's proven track record of delivery, are directly transferable into the US and this is the primary reason why the Company has conditionally agreed to acquire PPC.

PPC has a number of contract vehicles to enable AEA to sell its technical services and make behavioural change programmes available in the US. It has contracts with US Federal departments like the Environmental Protection Agency (EPA), Energy, Transport and Defense. PPC has won a number of awards for excellence.

As governments look to focus on climate change targets and policies, AEA believes that they will also seek to shift the burden of cost from government to the private sector. In the EU large new information-gathering programmes, like the Shared Environment Information System (SEIS), are being considered. AEA believes that the need for the public and private sectors to collect and analyse climate change information is rising. SEIS will enable the EU to look at what is happening to the climate in Europe and analyse how effective current policies are. In the private sector, companies will need to know not only what to measure, how to collect and how to store information in order to ensure compliance with regulation, but also how to ensure that they have a strategy in place that is able to meet the forward trajectory of regulation at the least cost.

The biggest risk to this market is one of delay in implementing climate change initiatives brought about by economic uncertainty, including as a result of the current global downturn in financial markets. However, governments are continuing to set demanding climate change targets, led by the EU. In the US AEA believes that significant investment in certain States such as California, means that there is growing evidence of change in the US's approach to climate change. In China rising expectations from an increasingly wealthy population are leading to increased pressures on Government to take action on climate change to prevent damage to the economy. Accordingly, AEA believes that whilst there are risks of delay to implementation of climate change regulation by

governments or the private sector, AEA's market will continue to grow strongly and AEA because of its technical excellence and global brand with government, is very well placed to take advantage of this.

Vision

AEA's vision is to be recognised by its customers as the leading climate change and energy consultancy.

Strategy

AEA's strategy is to take its know-how, specifically large environmental behavioural change programmes and sell them into the US Federal market. In doing so it will seek to leverage the Group's knowledge of regulation in the EU and US to help private sector businesses minimise the costs and get maximum return for their investment in energy and emissions reductions.

- **Organic growth**

The primary focus of organic growth is expected to come from the UK private sector, the Regional Development Agencies (RDA's) and LDA. The Group also sees significant organic growth opportunities in the EU and in China.

- **Acquisitive growth**

AEA's acquisition policy is to focus on strategic acquisitions which enable the business to scale and develop its capabilities to access global markets. In addition the business will look for small bolt-on acquisitions that strengthen AEA's capabilities in existing markets.

A great deal of effort has gone into understanding the US market, potential customers and key competitors. It is clear that there are significant growth opportunities for AEA in the US. The Group's initial focus is to acquire businesses, such as PPC, that enable it to gain selected management and employees. The operating platform must enable AEA to leverage its UK knowledge base and capability into the US whilst at the same time offer new US skills which can be leveraged back into the EU.

Business highlights

Business highlights in the year included:

- AEA won the flagship cleaner coal project in China – the Near Zero Emissions Coal (NZEC) Initiative. This is a key element of the EU-China Partnership on Climate Change and aims to demonstrate coal fired power generation with carbon capture and storage in China. This first feasibility phase is being supported with UK Government funding.
- AEA has been appointed for an initial three-year period, with a possible extension for two further years, as Lead Contractor for Defra's Sustainable Products and Materials Programme (SPM). The SPM Lead Contract replaces the previous Market Transformation Programme (MTP) managed by AEA. This responds to the planned broadening and increasing scale of work on products and materials, the need to engage with and develop practical working relationships with a much wider range of policy customers and stakeholders and the need to focus on driving change through more effective use of evidence. The Programme's aim is to strengthen UK and international measures to improve the environmental performance of products, materials and services.
- The LDA awarded a consortium, led by AEA, the contract to run the London Green500 scheme. This offers businesses and organisations a comprehensive service, including support and mentoring, to reduce their carbon footprint. It is a major element of London's Climate Change Action Plan and over 100 of London's top businesses joined the scheme in the first four months.
- The Technology Strategy Board awarded AEA a major extension for 2008/09 in its role as managing agent of the flagship Knowledge Transfer Partnership (KTP) programme. KTP is Europe's leading knowledge transfer programme helping businesses improve their competitiveness and productivity.
- AEA has retained, for a further five years, the major contract to provide quality assurance and assessment of the UK's air quality data for Defra, the Scottish Government, the Welsh Assembly Government and the Department of the Environment Northern Ireland, through the Automatic Urban and Rural Monitoring Network (AURN). This is an integral part of a suite of programmes that support the measurement, understanding and policy making for the UK's air quality management and reporting under international conventions such as Kyoto.
- The Department for Innovation, Universities and Skills awarded AEA a contract to take forward the initial set up of a new Expert Resource Centre for Public Dialogue in Science and Innovation. Sciencewise, run by AEA since 2006, is a government programme which helps policy makers identify and carry out dialogue with the public in the early stages of science and technology policy development to help inform their decision making.

AEA has taken significant steps to increase its share of the growing private sector market for environmental and climate change advice, with turnover in this area growing by 24%:

- There were key wins in telecoms, retail, paper, fast food, power generation and pharmaceuticals. AEA delivered fifteen major new carbon management programmes for national and international brands.
- AEA will be supplying its renewable energy expertise as one of three selected specialist advisors supporting BT in relation to the UK's biggest corporate wind power projects in the UK.
- A major independent environmental report, published by AEA, on one of the world's largest integrated oil and gas development projects, on Sakhalin Island east of Russia, was published. The report is based on 4,500 man-days of effort in the growing area of environmental due diligence in support of major projects and financial deals.

Environmental customers across the UK voted AEA 'Best Consultancy for Climate Change and Renewables' at the Environmental Data Interactive Exchange (EDIE) Awards in October 2007.

Since the publication of the influential Stern Review on the economics of climate change, there has been growing interest in options to mitigate and adapt to climate change over the longer term. The Group has maintained its position as an energy and climate change consultancy, both in the UK and internationally. In addition to work already mentioned:

- AEA has won a number of advisory contracts for the important new UK Government Committee on Climate Change. This Committee will advise government on the level to set its legally-binding carbon reduction targets.
- The Group has helped its customers understand and address some of the biggest challenges of today, from the sustainability of biofuels, to devising and implementing the UK accreditation scheme for carbon offset schemes, to the likely effects of climate change in various geographies including southern Europe, Kenya and China.
- In Europe the Group continued to win important contracts for the European Commission and its agencies, which will guide the EU as it drives towards ambitious climate change targets. Such projects also ensure AEA stays at the forefront of European policy thinking which gives a competitive edge in winning national and private sector work. Examples include ongoing projects on streamlining EU climate change and air pollution reporting requirements, quantifying the effectiveness of the European Climate Change Programme in delivering reductions in greenhouse gas emissions and reviewing eco-labelling and product policy.
- AEA won the contract to lead the UK-Russia Climate Change Science Collaboration project, funded by the Foreign and Commonwealth Office's Strategic Programme Fund. The aim is to further improve the UK and Russia's understanding of climate change science and the physical and economic impacts on Russia and the UK.

AEA has continued to extend its work for the Devolved Administrations, RDA's and Local Authorities. Opportunities are captured as budgets move out from central Government, further diversifying AEA's UK public sector customer base. Turnover from these customers grew by 30%:

- In both Scotland and Wales there were significant increases in scope and duration for the resource efficiency programme, Envirowise. AEA won influential projects reviewing climate change policy options and further work on the air quality databases and greenhouse gas inventories.
- Projects have also been won for climate change strategies for several RDA's.
- The increasing requirement for more geographically discrete information, understanding, targets and actions on air quality and emissions was also evident at the level of English regions, Local Authorities and cities. This drove 15% growth in turnover for air quality work overall.

Transport is one of the key emerging sectors within the environmental and climate change area. During the year, AEA orders in this area doubled as a result of the following:

- AEA won a large number of consultancy framework contracts, as sole, lead or specialist supplier for: Department for Transport (DfT), Commission for Integrated Transport, Highways Agency, Transport for London and Greater Manchester Passenger Transport Executive.

- AEA assessed the potential impacts of the proposed emissions related congestion charge for London and provided fuel economy advice to haulage operators as part of Transport for London's Freight Operator Recognition Scheme.
- AEA won new orders for its Safe and Fuel Efficient Driving behaviour change programme addressing the vans and aggregates community.
- Aviation is moving further up the agenda. In the area of airport air quality, AEA prepared material for BAA at Stansted for the Public Inquiry and Planning Application for the developments around the current runway and the second runway respectively. For DfT, emission inventories were prepared for the Public Consultation on 'Adding Capacity at Heathrow', including third runway options and AEA assisted at the twelve public exhibitions to present the Department's findings.

Key performance indicators (KPI's)

To measure performance against strategy the following KPI's have been adopted:

Financial measures

- Top line growth is measured by growth in secure sales - the element of orders to date that are expected to be delivered in the coming financial year. Secure sales increased by £2.0 million to £50.5 million (2007: £48.5 million) and turnover grew 8% (2007: 35%) to £80.9 million (2007: £75.2 million).
- Profitability is measured by adjusted operating profit up from £8.6 million to £11.0 million.
- Financial stability and the management of working capital is measured by net debt of £19.4 million (2007: £21.4 million).

Strategic measures

- Extending and growing the business with UK Government, Devolved Administrations, regional and local government is measured by revenues in the UK public sector of £63.5 million (2007: £58.3 million).
- Growing AEA's private sector business in the UK is measured by our consulting business's private sector turnover of £5.2 million (2007: £4.2 million).
- Growing AEA's EU, US and international work and globalising the business is measured by non-UK turnover of £4.5 million (2007: £4.8 million).

Brand and thought leadership measure

- Measuring the extension of the reach of AEA and brand awareness – based on customer responses.

People measures

- Enhancing the current skill base by introducing an expert capability framework, which enables fast track development, integration and a rapid application of new skills that can be effectively deployed into chosen markets internationally. These will be measured by levels of skills, numbers of recruits in key skill areas and regretted people turnover.

Financial performance

The Annual Report 2008 of which this is an extract (see note 1) has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Management actions

On 26 July 2007 the Company successfully placed 5,814,610 new ordinary shares at a price of 115.0 pence per share raising £6.7 million before expenses. The funds raised will be used to help the Company grow the business both organically and by acquisition and will provide greater financial flexibility.

On 26 November 2007 the Group entered into a new facility agreement with Lloyds TSB Bank plc and the Bank of Scotland plc pursuant to which a £42.0 million revolving credit facility and a £5.0 million bonding facility was made available for a period of three years to November 2010. This replaced the previous facility of the same value.

One-off items

Significant items of a one-off nature are included within the reported operating profit. In order to give a clearer analysis of the underlying operating performance these one-off items have been excluded to derive adjusted operating profit figures.

The one-off items in 2008 related to £1.1 million of due diligence and advisors costs on the acquisition and related fundraising exercise being announced today.

Turnover and profit

Total turnover for the year was £80.9 million (2007: £75.2 million) giving growth of 8%. This reflects strong, double-digit turnover growth from AEA's consulting private sector customer base and high turnover growth from regional and local government bodies.

Adjusted operating profit for the year was £11.0 million (2007: £8.6 million), an increase of 28%. This has resulted in the adjusted operating margin increasing from 11% to 14%, reflecting the full year impact of the Corporate Centre cost reduction programme initiated in August 2006. The Group continues to invest, specifically in its talent base, to enable future growth. Gross margins within the business have improved giving a better quality of earnings.

Operating profit was £9.9 million (2007: £9.4 million). This includes £1.1 million of acquisition and Rights Issue expenses, as noted above (2007: net gain of £0.8 million comprising pension curtailment charge of £0.8 million, pension credit due to the impact of "A-day" changes of £2.0 million and re-financing costs of £0.4 million).

Net finance cost

The net finance costs include interest on bank facilities and interest in respect of the defined benefit pension scheme accounting. These are analysed in notes 3 and 4.

The Group's focus on improving working capital management has resulted in a strong cash flow from the operating business, which partly offsets the legacy payments in respect of previous divestments and business closures, resulting in lower interest on debt facilities than the prior year as a result of a reduction in net debt. The net finance cost on the defined benefit pension scheme has switched from a net income of £0.2 million last year to £0.3 million net expense in 2008.

Profit before tax

Profit before tax was £8.0 million (2007: £8.0 million). This is in line with the prior year and results from improved operating margins and organic growth within the business and is offset by the one-off costs arising from the acquisition and Rights Issue. The year to March 2007 benefited from a net gain in respect of one-off items as explained above, which has not recurred in 2008.

Taxation

AEA's tax charge continues to be offset by brought forward losses. The overall impact of tax on the Group was a credit of £0.5 million (2007: £nil for continuing operations). This was in respect of a recovery of overseas tax. As at 31 March 2008 the recognised deferred tax asset was £4.6 million (2007: £4.6 million). Deferred tax assets are recognised for tax losses carried forward and other timing differences, to the extent that the realisation of the related tax benefit through the future taxable profits is probable. In addition the Group has an unrecognised deferred tax asset of £46.5 million (2007: £62.7 million). If conditions permit, the tax losses will be recognised and utilised in future periods.

Earnings per share

Adjusted earnings per share has increased to 7.9p (2007: 6.1p) as a result of improved operating margins and organic growth in the business. Basic earnings per share has increased to 7.0p (2007: 6.8p). Growth has been limited by the impact of one-off items in 2008 and 2007. The Group has two categories of potential dilutive ordinary shares; share options and warrants. The diluted earnings per share has increased from 6.7p to 6.8p.

Dividends and dividend policy

Given the Group's current financial position the Board is not recommending a dividend in respect of 2008. It is the Board's intention to pay dividends in the future commensurate with the Group's overall profitability and when distributable reserves are available.

Net debt and cashflow

Net debt reduced from £21.4 million to £19.4 million.

Cash used in operating activities reduced to £4.0 million (2007: £7.6 million) as a result of reduced legacy payments, strong working capital management and reductions in central costs. Further improvements were achieved from reduced tax payments and lower interest costs arising from the reduction in net debt.

The underlying operating business is cash generative, generating £8.2 million (2007: £8.9 million) from operations in the year and has strong management of working capital. Over 75% of operating profit is converted into cash; with an objective of exceeding 90%, before legacy costs and funding the pension deficit.

Pensions

The Group operates a defined benefit pension scheme for a proportion of its employees. This scheme was closed to new members in 2003 and a defined contribution scheme has been operating since that date for new employees. Full details of the defined benefit scheme are disclosed in note 10. Over the year the total net retirement benefit obligation has reduced to £60.0 million (2007: £92.2 million).

Pension funding

The latest actuarial valuation of the defined benefit pension scheme was carried out as at 31 March 2005 and indicated that the scheme had an actuarial deficit of £113.3 million. The next actuarial valuation will take place as at 31 March 2008 with the results expected in late 2008. Any changes in longevity assumptions and discount rates will impact the actuarial liability.

In June 2006 the Group reached agreement with the trustees of the scheme regarding funding of the actuarial deficit so that it should be eliminated over a fifteen-year period. During the year ended 31 March 2008 the Group made additional contributions to the scheme of £1.2 million (2007: £10.8 million).

Pension charges

The Group accounts for pension costs under IAS 19 "Employee Benefits" with irregular gains and losses taken to the Statement Of Recognised Income and Expense (the "SORIE"), for example actuarial experience gains and losses. The defined benefit current service cost for the year was £1.8 million (2007: £2.2 million), the reduction reflecting the reducing membership. The total defined benefit pension cost charged to the Consolidated income statement was £2.1 million (2007: £3.2 million) and is analysed in note 10.

The charge relating to defined contribution schemes amounted to £0.6 million (2007: £1.2 million), the decrease reflecting the reduction in membership following the divestments in 2007, partially offset by increased membership due to new recruits.

Pension IAS 19 valuation and accounting treatment

The Group assesses pension scheme funding with reference to actuarial valuations but for reporting purposes uses IAS 19. Under IAS 19 the Group recognised a post-retirement benefit liability of £60.0 million (2007: £92.2 million).

The assumptions used in the IAS 19 valuation are detailed in note 10. The sensitivities regarding the key assumptions are shown below:

Assumption	Change in Assumption	Indicative impact on the scheme's liabilities
Discount rate	Increase/decrease by 0.5 percentage points	Decrease/increase by 12%
Rate of inflation	Increase/decrease by 0.5 percentage points	Increase/decrease by 11%
Longevity	Increase by 1 year	Increase by 2%

Capital structure

The Group had 124.1 million ordinary shares in issue at 31 March 2008 (2007: 118.3 million), full details of which are shown in note 7. Net debt at 31 March 2008 was £19.4 million (2007: £21.4 million), which comprised cash balances of £1.0 million less bank loans, other loans and finance lease creditors of £20.4 million.

At 31 March 2008 the Group's net shareholder deficit amounted to £99.2 million (2007: £144.5 million).

Financial risk management

The Group's operations expose it to a variety of financial risks that include the effects of credit risk, foreign exchange risk, interest rate risk and liquidity risk. AEA has in place a risk management programme that seeks to limit the potentially adverse effects of unpredictable movements in financial markets on the financial performance of the Group.

The policies set by the Board of Directors are implemented by the Group's finance department. The department has a policy and procedures manual that sets out specific guidelines to manage interest rate risk, credit risk, foreign currency risk and circumstances where it would be appropriate to use financial instruments to manage these. The basic principles are detailed below.

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 rates of interest and movements in foreign

currency exchange rates. All such exposures are managed by the Chief Finance Officer (CFO) who operates within written policies approved by the Board and within the internal control framework.

Market risk

(i) Foreign exchange risk

During the year ended 31 March 2008, the Group primarily operated in the UK market and the significant majority of its sales and purchases are transacted in the Group's functional currency. However, the element of trading that is transacted in foreign currencies does expose the Group to foreign exchange risk. The Group is also exposed to movements in exchange rates for the translation of net assets and income statements of foreign subsidiaries. However, this exposure is currently insignificant.

The Group is exposed to a number of currencies on transactions. The most significant transactional currency exposures are the US Dollar and the Euro. The Group seeks to hedge its transactional exposure by the use of forward currency contracts. The objective is to minimise the impact of fluctuations in exchange rates on future transactions and cash flows. The Group has not designated these instruments as cashflow hedges and they are accounted for at fair value through profit and loss.

The Group uses sensitivity analysis to measure the estimated effect on post tax profit of a strengthening or weakening in sterling against the Euro and US Dollar from the rates applicable at 31 March 2008. The effect on post tax profit has been calculated by applying the change in exchange rates to foreign currency exposures in existence at the balance sheet date.

At 31 March, if sterling had strengthened/weakened by 10% against the Euro, with all other variables held constant, equity and post tax profit for the year would be lower/higher by £0.1 million (2007: £0.1 million). This is mainly as a result of foreign exchange translation of Euro denominated trade receivables.

(ii) Cashflow and interest rate risk

The Group's interest rate risk arises from short-term borrowings. The Group's primary loan facility is at a variable rate of interest (dependant on the movement in the London Interbank Offered Rate) and exposes the Group to interest rate risk. The Group manages these risks by using floating-to-fixed interest rate swaps, which have the economic effect of converting borrowings from floating rate to fixed rate. As at the balance sheet date £10.0 million (2007: £5.0 million) of floating rate borrowings have been swapped into fixed rate debt through the use of two separate interest rate swaps. Under these swap instruments the Group agrees with the other parties to exchange, at quarterly intervals, the difference between the floating rate and the fixed rate interest amounts that are payable/receivable on the nominal amount of swapped borrowings.

The Group uses sensitivity analyses to measure the estimated effect on post tax profit of an increase or decrease of 1% in market interest rates (100 basis points), from the rates applicable at 31 March 2008.

Assumptions made in these calculations are as follows:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments.
- Any impact on retirement benefit liabilities has been excluded.
- The effect on post tax profit and equity has been calculated by applying the change in market risk to exposures in existence at the balance sheet date.

Under these assumptions a 1% increase or decrease in market interest rates, with all other variables held constant, would decrease/increase profit for the year by £0.1 million (2007: £0.2 million). This is mainly as a result of the higher/lower interest expense on floating rate borrowings.

Liquidity risk

The Group's liquidity risk relates primarily to the management of its availability of funding and ability to repay borrowings and trade and other payables. Entities within the Group are required by the Group's treasury function to maintain and regularly update detailed cash forecasting models. The treasury function supports the cashflow needs of the underlying businesses and maintains financial flexibility through utilising the available funds under the Group's revolving credit facility (note 9). As at 31 March 2008 £23.6 million of this revolving credit facility remains unutilised and provides sufficient headroom to cover the Group's expected operating cashflow needs over the period of the facility. The acquisition announced after the balance sheet date will be funded through a Rights Issue.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The derivative financial instruments settled net are interest rate swaps. The Group pays or receives net amounts under "pay fixed, receive floating" interest rate swaps. The amounts receivable under floating rates have been calculated using the interest rates in place at the balance sheet dates.

The derivative financial instruments settled gross are forward foreign exchange contracts. The amounts receivable/payable in foreign currencies have been calculated using the closing exchange rates at the balance sheet dates.

The amounts disclosed are the contractual undiscounted cashflows and will not, in some cases, agree to the carrying balance sheet amounts.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Total £m
At 31 March 2008				
Borrowings	20.3	0.1	-	20.4
Derivative financial instruments settled net	-	0.1	-	0.1
Derivative financial instruments settled gross – inflows	1.3	0.1	-	1.4
Derivative financial instruments settled gross – outflows	1.3	0.2	-	1.5
Trade and other payables – cash settled	18.8	-	-	18.8
Provisions for vacant property leases	1.3	0.9	-	2.2
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	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Total £m
At 31 March 2007				
Borrowings	25.0	0.1	-	25.1
Derivative financial instruments settled net	-	-	-	-
Derivative financial instruments settled gross – inflows	0.2	0.1	0.1	0.4
Derivative financial instruments settled gross – outflows	0.2	0.1	0.1	0.4
Trade and other payables – cash settled	20.5	-	-	20.5
Provisions for vacant property leases	1.9	1.3	0.9	4.1

Credit risk management

The Group's credit risk arises primarily in respect of outstanding receivables and committed transactions with private customers. The majority of the Group's sales and trade receivables relate to public sector organisations and hold a low credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before contracts are agreed. The amount of exposure to any individual counterparty is subject to an agreed limit. The Group monitors and manages its exposure to counterparties.

Capital risk management

The Group's objective when managing capital is to ensure that funds are raised in an appropriate, cost-effective manner considering the scale and timeframe of the funding requirement. The Group's primary concern is to maintain its ability to continue as a going concern in order to provide returns for shareholders and stakeholders in the Company. It is the Board's intention to pay dividends in the future commensurate with the Group's overall profitability and when distributable reserves are available.

The Group takes legal, financial and taxation advice when considering changes to the capital structure of the Group.

The Group considers its total capital to be the sum of equity and net borrowings. Changes to equity during the year are detailed in note 7, Share Capital and Share Premium and note 8, Statement of Changes in Shareholders' Equity. Changes to net borrowings during the year are detailed in note 9, Borrowings.

The Group is not subject to any externally imposed capital requirements.

Fair value estimation

The fair value of the Group's derivative financial instruments are determined by using valuation techniques. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The Group obtains these fair values from the relevant contracting banks. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet dates.

Legacy

All residual issues relating to the divested and closed businesses are under the control of an experienced senior manager specifically appointed to the task of resolving these issues. These legacy issues comprise decommissioning costs, onerous leases, redundancy liabilities, warranties and indemnities. The total liability is predominantly represented by provisions as detailed in note 11, with the majority of the associated cash outflow taking place over the next two years. AEA made good progress in resolving legacy issues during the year. Progress is periodically reviewed by the Board.

Accounting policies

A description of the principal accounting policies is set out in the Annual Report, as explained in note 1. The policies followed are in accordance with IFRS as adopted by the EU.

The preparation of the financial statements conforming with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Any revisions to estimates are recognised prospectively.

The accounting policies and areas that require the most significant estimates and judgements to be used in the preparation of the financial statements are in relation to assessment of provisions, contract accounting and defined benefit pension schemes.

Provisions

Assessing provisions and the timing and value of utilisations is uncertain and involves judgement about uncertain events in the future. Management believes the assumptions are appropriate. Any differences between the assumptions and the actual outcome will affect results in future years.

Defined benefit pension schemes

Accounting for pensions involves judgement about uncertain events in the future, such as discount rates, the rate of inflation, the level of salary increases and the longevity of scheme members. Assumptions in respect of pensions are set after consultation with independent qualified actuaries. Management believes the assumptions are appropriate. However, a change in the assumptions used would impact the Group's results and net assets. Any differences between the assumptions and the actual outcome will affect results in future years.

Contract accounting

Profit is recognised on contracts on a percentage completion basis, provided the outcome of the project can be reasonably foreseen. Full provision is made for estimated losses.

The projected outcome of any given contract is necessarily based on estimates of revenues and costs to completion. Whilst the assumptions made are based on professional judgements, subsequent events may mean that estimates calculated prove inaccurate, with a consequent effect on the reporting of results.

Further information in respect of critical accounting estimates and judgements, including an analysis of how various alternative assumptions/outcomes would have impacted the financial statements, is provided in note 2.4 to the Annual Report from which this preliminary announcement has been extracted.

People

The Group employs 723 (2007: 750) people and has strengthened its capabilities through investment and development.

Enhancing senior management

A review of management talent resulted in the enhancement of management strength through a combination of external recruitment, a focused management development programme and ongoing coaching.

Recruitment and retention

In an increasingly competitive market the Group has enhanced its talent pool by recruiting 146 people in the year. This included the specific recruitment of project managers, people managers and sales expertise in addition to technical talent, enabling us to optimise our technical capability and positioning us well for future business growth. This was supported by the ongoing recruitment of exceptional talent at graduate level. Despite the continued targeting of our people by competitors, people turnover reduced to 13% (2007: 18%).

Training and development

Training and development investment continues and is becoming increasingly important in the competitive marketplace as we move towards achieving the position of Employer of Choice. As the demand for skills in this area increases, business growth is enabled through strategies that support the development of internal talent. Investment drives the fast-tracking of new recruits and the continual development of employees through both structured training programmes and the strategic assignment to enhance experience and capability.

Reward

A review of reward and recognition has resulted in proposals for change to be implemented in the performance year 2008/09 to reflect the individual contribution of employees.

Working environment

The introduction of an employee engagement initiative has resulted in improvements to the working environment, health and safety training, general employee communications and an appreciation of Group direction.

Information technology

The Group has a long-term contract with Steria Services Limited for the provision of IT services to operations in the UK. During the year we have continued to review our information technology infrastructure and invest where necessary to maintain secure and robust arrangements to achieve improved efficiency and effectiveness, and to take advantage of advances in technology. A detailed IT strategy has been developed and we are in the process of implementing this strategy which includes technologies to enable more flexible working arrangements, both to improve efficiency and also as part of business continuity arrangements.

Seasonality

Sales of the consultancy services provided by the Group are subject to seasonal fluctuations, with peak demand in the fourth quarter of the financial year. This reflects the pattern of purchasing/procurement by governments, the Group's most significant customers.

Group and Company post balance sheet events

There were no post balance sheet events.

Risks and uncertainties

To achieve AEA's strategic objectives the Group must respond effectively to the associated risks.

AEA has a well established risk management process that complies with the FSA's Combined Code on Corporate Governance and addresses strategic risks and risks specific to individual businesses and contracts including operational risks, financial risks, strategic risks, environmental and safety risks.

The Board reviews material risks identified and the mitigating action plan. The principal risks for the Group are as follows:

Achieving organic growth

AEA is in a very strong market, but recognises that at present it is dominant in one part of that market. Of AEA's business 68% (2007: 69%) is with the UK central Government. While AEA intends to grow this core work even further, it is of strategic importance that the Group diversifies and it is doing this in three ways:

Firstly, to diversify the customer base within the UK public sector; to bring in new senior management and marketing and sales professionals to help increase the number of individuals AEA works for within Government departments; to reduce dependence on narrow areas and to expand work outside Westminster for the Devolved Administrations, Regional Development Agencies and Local Authorities.

Secondly, to seek organic growth, outside the UK public sector, for the private sector, from aid agencies on international projects and in Eastern Europe.

Thirdly, to continue to seek acquisitions in other economic areas, including the US.

The Group would also be impacted, in the short term, by any delay in Government orders.

Changes in the competitive environment resulting from Government policy

Work for UK central Government will remain a significant component of AEA's business. Future changes in UK Government, policies, priorities and expenditure levels could affect the Group's success. Climate change and environmental priorities are clearly increasingly high priorities for all governments, but AEA must not be complacent. At the very least internal government reorganisation could mean AEA finds itself working for new customers with different detailed priorities. AEA must therefore maintain links with senior officials in key UK Government departments and anticipate and be able to react to future changes. Recruitment of senior experienced managers is aimed at improving AEA's approach.

Recruitment and retention of sufficient high calibre people

During the year AEA continued with recruitment programmes to enhance the management team and targeted recruitment of individuals with key skills and experience in management and consulting. This was combined with developing future plans to implement appropriate reward and retention arrangements. There have been further new senior management appointments in the period. The risks associated with absorbing new people, rewarding and retaining them and managing the subsequent business changes in order to respond to market opportunities are regularly under review. Additions in the sales and marketing areas will also strengthen the business outlook. It is planned to add further senior, high calibre people during the first and second quarters of 2008/09. A slippage in the timetable could result in slowing the forward direction of the business. AEA is confident, however, that this infusion of experience and capability will continue to underpin AEA's 2008/09 objectives.

Retirement benefits

The Group operates both defined contribution and defined benefit pension schemes. The defined benefit scheme is closed to new members but continues to cover future service for existing members. The risk that the scheme assets may not match liabilities is inherent in defined benefit schemes. At year-end there is an accounting deficit of £60.0 million (2007: £92.2 million), including £3.4 million (2007: £3.7 million) of unfunded obligations. At year-end the scheme's assets largely comprise equities and the value of the scheme's assets is directly affected by performance of the equity market. The value of the scheme liabilities is affected by discount rates, changes in inflation, longevity of scheme members and the level of salary and pension increases. If the assumptions made regarding these prove inaccurate, a material difference between the scheme's assets and liabilities could persist. The current year reduction in the net liability substantially reflects reductions in the scheme liabilities as a result of an increase in the discount rate applied.

Legacy provisions

As detailed in note 11, the Group has provided for various liabilities in respect of disposals of companies and businesses and in respect of retained decommissioning and waste management obligations relating to discontinued operations. Uncertainty exists around the potential for claims under warranties and indemnities in respect of these disposals with a number of indemnities continuing for five or more years post divestment, and there is uncertainty in estimating the future costs of decommissioning nuclear facilities. All residual issues relating to the divested and closed businesses are under the control of an experienced senior manager specifically appointed to the task of resolving these issues. The Group has not become aware of any significant additional liabilities in respect of disposals.

Outlook

The Group sees encouraging growth opportunities in the US, UK and EU.

In the US there is already a large Federal market for technical consultancy. The Group believes that when the US joins with the EU in combating climate change and becomes a ratifying co-signatory to international agreements, the Federal market for the Group's services will grow significantly. In the medium term the Group sees good private sector opportunities in the US. China and India will also become important markets and AEA has already established itself as an advisor to the Chinese Government on climate change.

In the UK the Group expects the main growth opportunities to come from the private sector where the focus is to reduce energy consumption and CO₂ emissions in advance of forthcoming regulation.

The Group is confident that its markets are growing and that there are a number of exciting opportunities upon which to build a world class business.

Dr. Bernard Bulkin
Chairman

Andrew McCree
CEO

Alice Cummings
CFO

12 June 2008

Consolidated income statement

For the year ended 31 March	Notes	2008 £m	2007 £m
Continuing operations			
Turnover	3	80.9	75.2
Cost of sales		(52.8)	(49.3)
Gross profit		28.1	25.9
Other operating income		5.7	6.8
Selling and marketing costs		(4.9)	(4.4)
Administrative expenses		(19.0)	(18.9)
<i>Analysed as:</i>			
Administrative expenses before significant one-off items		(17.9)	(19.7)
<i>Significant one-off items:</i>			
Curtailed loss in pension scheme	10	-	(0.8)
Exceptional past service credit in pension scheme	10	-	2.0
Re-financing costs		-	(0.4)
Acquisition and Rights Issue costs	15	(1.1)	-
Operating profit		9.9	9.4
Finance costs	3	(20.7)	(16.7)
Finance income	4	18.8	15.3
Profit before taxation		8.0	8.0
Income tax credit	5	0.5	-
Profit for the year from continuing operations		8.5	8.0
Discontinued operations			
Loss for the year from discontinued operations		-	(0.7)
Profit on disposal of businesses		-	17.4
Discontinued operations		-	16.7
Profit for the year		8.5	24.7
Attributable entirely to:			
Equity holders of the Company		8.5	24.7
Earnings per share on continuing operations attributable to the equity holders of the Company during the year			
Basic (pence)	6	7.0p	6.8p
Diluted (pence)	6	6.8p	6.7p
Earnings per share on continuing and discontinued operations attributable to the equity holders of the Company during the year			
Basic (pence)	6	7.0p	20.9p
Diluted (pence)	6	6.8p	20.6p

Statements of recognised income and expense

	Notes	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
For the year ended 31 March					
Exchange differences arising on translation		-	(0.7)	-	-
Actuarial gains/(losses) on defined benefit pension schemes	10	30.3	(15.2)	30.3	(8.7)
Net income/(expense) recognised directly in equity		30.3	(15.9)	30.3	(8.7)
Profit/(loss) for the year		8.5	24.7	3.3	(27.2)
Total recognised income and expense		38.8	8.8	33.6	(35.9)
Attributable entirely to:					
Equity holders of the Company		38.8	8.8	33.6	(35.9)

Balance sheets

As at 31 March	Notes	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
ASSETS					
Non-current assets					
Goodwill		-	-	-	-
Other intangible assets		0.2	0.2	0.2	0.2
Property, plant and equipment		2.1	4.0	2.1	4.0
Investment in subsidiaries		-	-	34.6	35.4
Available for sale financial assets		2.0	2.0	2.0	2.0
Deferred tax assets		4.6	4.6	4.6	4.6
		8.9	10.8	43.5	46.2
Current assets					
Inventories		0.2	0.1	0.2	0.1
Trade and other receivables		16.1	15.1	16.2	15.1
Current tax assets		-	0.1	-	0.1
Cash and cash equivalents		1.0	3.6	0.9	3.6
		17.3	18.9	17.3	18.9
Total assets		26.2	29.7	60.8	65.1
EQUITY					
Capital and reserves attributable to the Company's equity shareholders					
Share capital and share premium	7	55.6	49.2	55.6	49.2
Capital redemption reserve	8	0.7	0.7	0.7	0.7
Fair value and other reserves	8	35.0	4.6	35.0	4.6
Retained deficit	8	(190.5)	(199.0)	(224.0)	(227.3)
Total equity		(99.2)	(144.5)	(132.7)	(172.8)
LIABILITIES					
Non-current liabilities					
Trade and other payables		0.1	0.5	0.1	0.4
Borrowings	9	0.1	0.1	0.1	0.1
Retirement benefit liabilities	10	60.0	92.2	60.0	92.2
Provisions for liabilities and charges	11	19.7	26.0	19.7	26.0
		79.9	118.8	79.9	118.7
Current liabilities					
Trade and other payables		25.1	30.1	93.2	93.9
Borrowings	9	20.3	24.9	20.3	24.9
Derivative financial instruments		0.1	-	0.1	-
Current tax liabilities		-	0.4	-	0.4
		45.5	55.4	113.6	119.2
Total liabilities		125.4	174.2	193.5	237.9
Total equity and liabilities		26.2	29.7	60.8	65.1

Approved by the Board on 12 June 2008

Cash flow statements

	Notes	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
For the year ended 31 March					
Cash flows from operating activities					
Cash (used in)/from operations	12	(2.6)	(4.8)	(2.4)	3.3
Interest paid		(1.7)	(3.1)	(1.7)	(3.1)
Interest received		0.1	0.8	0.1	0.8
Taxes received/(paid)		0.2	(0.5)	0.2	-
Net cash (used in)/from operating activities		(4.0)	(7.6)	(3.8)	1.0
Cash flows from investing activities					
Investments in subsidiary		-	-	(0.1)	-
Proceeds from disposal of available for sale investments		-	0.1	-	0.1
Net proceeds from disposal of subsidiaries		-	17.4	-	12.0
Expenditure on product development		(0.1)	(0.7)	(0.1)	(0.4)
Purchases of property, plant and equipment		(0.3)	(1.0)	(0.3)	(0.5)
Net cash (used in)/from investing activities		(0.4)	15.8	(0.5)	11.2
Cash flows from financing activities					
Repayment of borrowings	9	(24.6)	(73.0)	(24.6)	(68.6)
Draw-down of bank facilities	9	20.0	60.0	20.0	60.0
Issue of intra-Group loans		-	-	(0.2)	-
Proceeds from new equity issues	7	6.4	-	6.4	-
Net cash from/(used in) financing activities		1.8	(13.0)	1.6	(8.6)
Net (decrease)/increase in cash and cash equivalents		(2.6)	(4.8)	(2.7)	3.6
Cash and cash equivalents at beginning of year		3.6	8.4	3.6	-
Cash and cash equivalents at end of year		1.0	3.6	0.9	3.6

Notes to the financial statements

1 GENERAL INFORMATION

The financial information set out above and below for the year ended 31 March 2008 does not constitute the statutory accounts for the year but is derived from those accounts. The statutory financial statements for the year, on which the auditors issued an unqualified report, will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The comparative financial information is based on the Group's accounts for the year ended 31 March 2007, which were delivered to the Registrar of Companies and on which the auditors issued an unqualified report.

The Preliminary Announcement has been prepared on the basis of the accounting policies set out in the Annual Report for the year ended 31 March 2008.

2 SEGMENTAL INFORMATION

Geographical segments

The Group's business segments operate primarily in the UK, the home country of the Company. There are additional operations in Europe.

The geographical analysis of turnover is as follows:

	2008	2007
	£m	£m
Turnover by destination		
United Kingdom	76.4	70.4
Europe	4.2	4.0
North America	-	0.1
Rest of World	0.3	0.7
Total turnover	80.9	75.2

Turnover is allocated based on the country in which the customer is located. All turnover originates from the United Kingdom. Turnover from the provision of services is £79.0 million (2007: £73.4 million) and from licence income is £1.9 million (2007: £1.8 million).

Total assets

	2008	2007
	£m	£m
United Kingdom	26.1	29.7
Europe	0.1	-
Total assets	26.2	29.7

Total assets are allocated based on the country in which the asset is located.

Capital expenditure

	2008	2007
	£m	£m
United Kingdom	0.4	1.0
North America	-	0.7
Total capital expenditure	0.4	1.7

Capital expenditure relates to property, plant & equipment and intangible assets. Capital expenditure is allocated based on the country in which the asset is located.

Business segments

Based on risks and returns the Directors consider that the primary reporting format is by business segment. The Directors consider that there is only one business segment, being consultancy, policy support and programme management. Therefore, the disclosures for the primary segment are already given in these financial statements.

The prior year discontinued business segmental results are shown below.

Segmental results for the year ended 31 March 2007 (discontinued operations)

	Kinectrics £m	Engineering Services Inc £m	AEA Rail ¹ £m	Nuclear Programmes £m	Battery Systems £m	Other £m	Group £m
External sales	12.4	2.5	18.6	4.7	0.5	-	38.7
Inter-segment sales	-	-	0.5	-	-	(0.5)	-
Turnover	12.4	2.5	19.1	4.7	0.5	(0.5)	38.7
Operating profit/(loss)	0.4	0.3	(0.1)	(1.2)	(0.1)	0.1	(0.6)
Finance costs							(7.4)
Finance income							7.8
Loss before tax							(0.2)
Tax expense							(0.5)
Loss for the year from discontinued operations							(0.7)

Segmental capital expenditure for the year ended 31 March 2007 (discontinued operations)

	Kinectrics £m	Engineering Services Inc £m	AEA Rail ¹ £m	Nuclear Programmes £m	Battery Systems £m	Other £m	Group £m
Capital expenditure	0.5	0.2	0.2	-	-	-	0.9

¹ Includes ESR Technology Limited and the nCode group of companies.

3 FINANCE COSTS

	2008 £m	2007 £m
Interest expense:		
interest on bank overdrafts and loans	1.6	2.2
finance lease interest	-	0.1
	1.6	2.3
Fair value losses on financial instruments	0.1	-
Accretion of discount on defined benefit pension scheme obligations (note 10)	19.0	14.4
	20.7	16.7

4 FINANCE INCOME

	2008 £m	2007 £m
Interest income on short term bank deposits	0.1	0.7
Expected return on defined benefit pension scheme assets (note 10)	18.7	14.6
	18.8	15.3

5 INCOME TAX CREDIT

	2008 £m	2007 £m
UK corporation tax at 30% (2007: 30%)	-	-
Overseas tax income	0.5	-
Income tax credit	0.5	-

2008 2007

	£m	£m
Profit before tax – continuing operations	8.0	8.0
Effective taxation at 30%	2.4	2.4
Tax calculated at domestic tax rates applicable to profits in respective countries	2.4	2.4
Income not subject to tax	(1.5)	(0.1)
Expenses not deductible for tax purposes	2.6	1.0
Utilisation of previously unrecognised tax losses	(1.5)	-
Current tax losses for which no deferred tax asset was recognised	0.3	1.5
Double tax relief on dividend from overseas Group subsidiary	-	(0.4)
Utilisation of previously unrecognised other deferred tax assets	(2.3)	(4.4)
Overseas tax recovered	(0.5)	-
Recognition of previously unrecognised tax losses	(0.3)	-
Remeasurement of deferred tax with respect to the change in UK tax rate	0.3	-
Income tax credit – continuing operations	(0.5)	-

During the year, as a result of the change in UK corporation tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured. Deferred tax relating to temporary differences that are expected to reverse after 1 April 2008 are measured at the new UK tax rate of 28% as this is the tax rate that will apply on reversal.

6 EARNINGS PER SHARE

Earnings per share on continuing operations

Basic – continuing operations

Basic earnings per share (on continuing operations) is calculated by dividing the profit attributable to equity holders of the Company in respect of continuing operations by the weighted average number of ordinary shares in issue during the year.

	2008	2007
Profit attributable to equity holders of the Company – continuing operations (£ million)	8.5	8.0
Weighted average number of ordinary shares in issue (million)	122.2	118.3
Basic earnings per share – continuing operations (pence per share)	7.0p	6.8p

Diluted – continuing operations

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive ordinary shares. The Company has two categories of potential dilutive ordinary shares; share options and warrants. The calculation is performed for the share options and warrants to determine the number of shares that could have been acquired at fair value determined as the average annual market share price of the Company's shares based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of share options and warrants to give the number of shares deemed to be issued at nil consideration. These dilutive shares are added to the weighted average number of ordinary shares in issue.

	2008	2007
Profit attributable to equity holders of the Company – continuing operations (£ million)	8.5	8.0
Weighted average number of ordinary shares in issue (million)	122.2	118.3
Adjustment for warrants (million)	1.8	1.6
Adjustment for share options (million)	0.1	0.1
Weighted average number of ordinary shares for diluted earnings per share (million)	124.1	120.0
Diluted earnings per share – continuing operations (pence per share)	6.8p	6.7p

Adjusted – continuing operations

The adjusted earnings per share is calculated as follows:

	2008	2007
Profit attributable to equity holders of the Company – continuing operations (£ million)	8.5	8.0
Pension curtailment loss (£ million)	-	0.8
Exceptional credit for pension past service cost (£ million)	-	(2.0)
Acquisition and Rights Issue costs (£ million)	1.1	-
Re-financing costs (£ million)	-	0.4
Adjusted earnings attributable to equity holders of the Company – continuing operations (£ million)	9.6	7.2
Weighted average number of ordinary shares in issue (million)	122.2	118.3

Adjusted earnings per share – continuing operations (pence per share)	7.9p	6.1p
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Earnings per share on continuing and discontinued operations

Basic – continuing and discontinued operations

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008	2007
Profit attributable to equity holders of the Company (£ million)	8.5	24.7
Weighted average number of ordinary shares in issue (million)	122.2	118.3
Basic earnings per share (pence per share)	7.0p	20.9p

Diluted – continuing and discontinued operations

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive ordinary shares. The Company has two categories of potential dilutive ordinary shares; share options and warrants. The calculation is performed for the share options and warrants to determine the number of shares that could have been acquired at fair value determined as the average annual market share price of the Company's shares based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of share options and warrants to give the number of shares deemed to be issued at nil consideration. These dilutive shares are added to the weighted average number of ordinary shares in issue.

	2008	2007
Profit attributable to equity holders of the Company (£ million)	8.5	24.7
Weighted average number of ordinary shares in issue (million)	122.2	118.3
Adjustment for warrants (million)	1.8	1.6
Adjustment for share options (million)	0.1	0.1
Weighted average number of ordinary shares for diluted earnings per share (million)	124.1	120.0
Diluted earnings per share (pence per share)	6.8p	20.6p

Adjusted – continuing and discontinued operations

The adjusted earnings per share is calculated as follows:

	2008	2007
Profit attributable to equity holders of the Company (£ million)	8.5	24.7
Pension curtailment loss (£ million)	-	0.8
Exceptional credit for pension past service cost (£ million)	-	(2.0)
Acquisition and Rights issue costs (£ million)	1.1	-
Re-financing costs (£ million)	-	0.4
Profit on disposal of businesses (£ million)	-	(17.4)
Adjusted earnings – attributable to equity holders of the Company (£ million)	9.6	6.5
Weighted average number of ordinary shares in issue (million)	122.2	118.3
Adjusted earnings per share (pence per share)	7.9p	5.5p

7 SHARE CAPITAL AND SHARE PREMIUM

Group and Company	Number of shares millions	Ordinary shares £m	Share premium £m	Total £m
At 1 April 2006	118.3	14.5	34.7	49.2
Shares issued	-	-	-	-
At 31 March 2007	118.3	14.5	34.7	49.2
Shares issued	5.8	0.7	5.7	6.4
At 31 March 2008	124.1	15.2	40.4	55.6

The total authorised number of ordinary shares is 196,363,620 shares (2007: 196,363,620 shares) with a par value of 12.2 pence per share (2007: 12.2 pence per share). All issued shares are fully paid.

On 26 July 2007 the Company successfully placed 5,814,610 new ordinary shares at a price of 115.0 pence per share raising £6.7 million before expenses (£6.4 million net of expenses). The funds raised will be used to help the Company grow the business both organically and by acquisition and will provide greater financial flexibility. The shares were admitted to the Official List and commenced trading on 1 August 2007.

Warrants

The placing of new ordinary shares in July 2007 entitled the holders of the Company's warrant instruments to additional shares on exercise of those warrants. The Company has in issue 5,987,560 warrants (2007: 5,707,047) giving the holders the right to subscribe in cash for shares in the Company.

8 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share capital £m	Share premium £m	Total other reserves £m	Retained deficit £m	Total shareholders' equity £m
At 1 April 2006	14.5	34.7	15.4	(218.3)	(153.7)
Currency translation differences	-	-	(0.5)	-	(0.5)
Fair value of share option schemes	-	-	0.4	-	0.4
Actuarial losses on defined benefits	-	-	(15.2)	-	(15.2)
Profit for the year	-	-	-	24.7	24.7
Disposal of subsidiaries	-	-	5.2	(5.4)	(0.2)
At 31 March 2007	14.5	34.7	5.3	(199.0)	(144.5)
Fair value of share option schemes	-	-	0.1	-	0.1
Actuarial gains on defined benefits	-	-	30.3	-	30.3
Shares issued	0.7	5.7	-	-	6.4
Profit for the year	-	-	-	8.5	8.5
At 31 March 2008	15.2	40.4	35.7	(190.5)	(99.2)

9 BORROWINGS

Group and Company	2008 £m	2007 £m
Non-current borrowings		
Finance lease liabilities	0.1	0.1
Non-current borrowings	0.1	0.1
Current		
Unsecured bank and other loans	20.1	24.2
Finance lease liabilities	0.2	0.7
Current borrowings	20.3	24.9
Total borrowings	20.4	25.0

Maturity of borrowings is as follows:

Group and Company	2008 £m	2007 £m
Within one year	20.3	24.9
Between one and two years	0.1	0.1
	20.4	25.0

The fair values of non-current borrowings are not materially different from the carrying values stated above.

The Group's borrowings are all denominated in sterling.

Unsecured bank and other loans

Group and Company	2008	2007
	£m	£m
Syndicated bank debt – revolving credit facility	18.4	22.2
Capitalised loan arrangement fees	(0.3)	-
Non-bank debt	2.0	2.0
	20.1	24.2

Syndicated debt

At 31 March 2008 the Company had a £42.0 million loan facility agreement with Lloyds TSB Bank plc and Bank of Scotland plc. A £5.0 million bonding facility is also provided by the same banks. The facility is denominated in sterling and bears interest at LIBOR plus 1.5%. The agreement contains financial covenants in relation to the ratio of net borrowings to PBITDA and the ratio of PBITDA to net interest payable.

This new facility agreement, entered into in November 2007 for a period of three years, replaced the existing £42.0 million multi-currency revolving credit facility agreement with Lloyds TSB Bank plc and the Governor and Company of the Bank of Scotland. The facility in place as at 31 March 2007 bore interest at LIBOR plus 2%.

At 31 March the following amounts were outstanding under the facility and were included within current borrowings:

	2008			2007		
	Available £m	Utilised £m	Unutilised £m	Available £m	Utilised £m	Unutilised £m
Bank debt						
Allocated to the Company	42.0	18.4	23.6	42.0	22.2	19.8
Total bank debt	42.0	18.4	23.6	42.0	22.2	19.8

Non-bank debt

Non-bank debt is a cash advance from the Company's available for sale investment. This is repayable on demand and bears no interest.

Obligations under finance leases – gross

	Minimum lease payments	
	2008	2007
	£m	£m
Amounts payable under finance leases:		
Within one year	0.2	0.8
In the second to fifth years inclusive	0.1	0.1
	0.3	0.9
Less: future finance charges	-	(0.1)
Present value of lease obligations	0.3	0.8

Obligations under finance leases – present value

	Present value of minimum lease payments	
	2008	2007
	£m	£m
Amounts payable under finance leases:		
Within one year	0.2	0.7
In the second to fifth years inclusive	0.1	0.1
	0.3	0.8
Less: amount due for settlement within 12 months (shown under current borrowings)	(0.2)	(0.7)
Amount due for settlement after 12 months	0.1	0.1

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is three years. Interest rates are fixed at the contract date. Leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

Currency and interest rate analysis

The Group's borrowings are denominated in sterling. The interest rate analysis of the Group's borrowings is as follows:

	Total £m	Interest Free £m	Floating Rate £m	Fixed Rate £m	Fixed Interest Rate %	Time Fixed Years
At 31 March 2008	20.4	2.0	18.1	0.3	4% to 7%	0-3 years
At 31 March 2007	25.0	2.0	22.2	0.8	4% to 7%	1-3 years

Exposures to variable interest rates on £10.0 million (2007: £5.0 million) of floating rate borrowings are hedged through use of interest rate swaps.

The movement in the Group's total net debt is as follows:

	Group			31 March 2008
	1 April 2007 £m	Debt decrease £m	Debt increase £m	£m
Cash in hand and at bank	3.6	-	(2.6)	1.0
Current borrowings	(24.9)	24.6	(20.0)	(20.3)
Non-current borrowings	(0.1)	-	-	(0.1)
	(21.4)	24.6	(22.6)	(19.4)

	Group			31 March 2007
	1 April 2006 £m	Debt decrease £m	Debt increase £m	£m
Cash in hand and at bank	8.4	-	(4.8)	3.6
Current borrowings	(36.8)	71.9	(60.0)	(24.9)
Non-current borrowings	(0.9)	0.8	-	(0.1)
	(29.3)	72.7	(64.8)	(21.4)

10 RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

The Company operates a defined contribution stakeholder plan for all new qualifying employees joining the Company since 1 April 2003, an additional voluntary contribution scheme for qualifying members of the defined benefit plans and a shift pay pension plan. The assets of the pension plans are held separately from those of the Group in funds under the control of trustees and insurance companies. The only obligation of the Group with respect to these retirement plans is to make the specified contributions.

The Company provides death in service benefits to those employees who are active contributing members of the stakeholder plan through the life assurance section of the AEA Technology Pension Scheme.

The total cost charged to the income statement of £0.6 million (2007: £1.2 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 March 2008 contributions of £0.1 million (2007: £0.1 million) due in respect of the current year had not been paid over to the plans.

Defined benefit schemes – funded obligations

In the UK the Company operates the AEA Technology Pension Scheme ("the Scheme") for a proportion of its UK employees. The Scheme is a registered Pension Scheme (within the meaning of Part 4 of the Finance Act 2004), is contracted out of the State Earnings Related Pension Scheme and provides defined benefits. The fund does not invest in equity or debt securities issued by the Company. The Scheme was closed to new employees on 31 March 2003.

Members currently build up retirement benefits between 1.25% and 1.66% of final pensionable earnings for each year of future pensionable service upon attainment of a retirement age of 60/65.

International Accounting Standard 19 'Employee Benefits' requires the Group to include in the balance sheet the surplus or deficit on the Scheme calculated as at the balance sheet date. It is a snapshot view that can be significantly influenced by short-term market factors. The calculation of the surplus or deficit is, therefore, dependent on factors which are beyond the control of AEA – principally the value at the balance sheet date of equity shares in which the scheme has invested and long-term interest rates, which are used to discount future liabilities.

In contrast the funding of the scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries. The method used for the calculation is as prescribed by IAS 19. The calculations for the Scheme are based on the liabilities determined at the funding valuation as at 31 March 2005 on a going concern basis. The valuation was carried out by the Company's actuaries, Hewitt Associates Limited. The results are then adjusted by the actuaries each year, allowing for the IAS 19 financial and demographic assumptions and rolling forward the liabilities to the balance sheet date in an approximate manner.

The expected return on assets assumption reflects the average of the Group's best estimates for the long-term expected rates of return on the Scheme's main asset classes, having taken professional advice. Mortality assumptions have been chosen with regard to the latest available tables that have common characteristics to the membership of the Group's pension plans. Details of the assumptions are given within this note.

In June 2006 the Company and the Trustee agreed a schedule of employer contributions to clear the Scheme's past service funding deficit over approximately 15 years. £10.0 million was paid into the Scheme in September 2006 from the sale of the Rail business and portfolio of companies in addition to contributions of 5.5% of pensionable earnings, plus £0.1 million per month until 31 March 2008. In addition the Company pays a contribution equal to the Pension Protection Fund levy that for the year to 31 March 2008 amounted to £0.5 million (2007: £0.1 million). The estimated amount of contributions expected to be paid to the Scheme during the financial year to 31 March 2009 is £8.0 million.

As at 31 March 2008 contributions of £0.2 million (2007: £0.2 million) due in respect of the year to 31 March had not been paid over to the Scheme.

Defined benefit schemes – unfunded obligations

In the UK the Company operates a formal, employer financed retirement benefit scheme to provide benefits in excess of the HMRC earnings cap for a former director and also has unfunded top-up arrangements in place to provide benefits to certain former employees.

The value of the pensions reserve required to be recognised under IAS 19 is calculated by the Company's actuaries using the same assumptions as used for the funded Company Scheme, with the exception of post-retirement mortality. The post-retirement mortality assumption, given within this note, adopted for the unapproved reserves is less pessimistic than that adopted for the mixed population of the funded Company Scheme. This reflects the lower mortality rates typically experienced by individuals with above average levels of personal wealth.

Other discontinued schemes

Plans in the UK and Canada operated during the prior year. These plans related to businesses that were sold during that year (the Rail business in the UK and Kinectrics in Canada). The Group also operated an unfunded post retirement healthcare plan in the Canadian subsidiary, Kinectrics, which was sold during the prior year. Liabilities passed to the purchaser in all cases.

The most recent actuarial valuations of those plan assets and the present value of defined benefit obligations were carried out as at 31 December 2004 for the three sections of the Railways Pension Scheme by Watson Wyatt Limited and as at 1 January 2004 for the Canadian Pension and Healthcare plans by Towers Perrin HR Services. The present value of the defined benefit obligations, the related current service cost and past service costs were measured using the projected unit credit method.

Pension benefits

The amounts recognised in the income statement and the balance sheet are summarised as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance sheet liabilities for:				
pension benefits	60.0	92.2	60.0	92.2
Balance sheet liability	60.0	92.2	60.0	92.2
Income statement charge for:				
pension benefits	2.1	3.2	2.1	2.9
post-employment medical benefits	-	0.3	-	-
Income statement charge	2.1	3.5	2.1	2.9

The amounts recognised in the balance sheet are determined as follows:

	2008 £m	2007 £m
Present value of funded obligations	315.0	363.2
Fair value of plan assets	(258.4)	(274.7)
	56.6	88.5
Present value of unfunded obligations	3.4	3.7
	60.0	92.2

The amounts recognised in the income statement are as follows:

	2008	2007					
	Company Scheme £m	Company Scheme £m	AEA Rail £m	AEA Rail (TCI) £m	AEA Rail (TEL) £m	Kinectrics £m	Total £m
Continuing operations							
Current service cost	1.8	2.2	-	-	-	-	2.2
Interest cost	19.0	14.4	-	-	-	-	14.4
Expected return on plan assets	(18.7)	(14.6)	-	-	-	-	(14.6)
Curtailment loss during year	-	0.8	-	-	-	-	0.8
Past service income	-	(2.0)	-	-	-	-	(2.0)
	2.1	0.8	-	-	-	-	0.8
Discontinued operations							
Current service costs	-	0.4	0.5	0.1	0.1	0.7	1.8
Interest cost	-	2.7	1.3	0.5	0.7	1.3	6.5
Expected return on plan assets	-	(2.8)	(1.7)	(0.7)	(0.8)	(1.7)	(7.7)
	-	0.3	0.1	(0.1)	-	0.3	0.6
Profit on disposal – curtailment loss	-	1.8	-	-	-	-	1.8
Amount included in staff costs	2.1	2.9	0.1	(0.1)	-	0.3	3.2

The continuing operations curtailment loss of £0.8 million reported in the prior year resulted from a further reduction in numbers of members of the Scheme due to the Company's redundancy programme. The curtailment loss arising from the disposal of businesses in the prior year was £1.8 million and was charged to the profit on disposal.

The past service income of £2.0 million reported in the prior year relates to "A-day" changes. From 6 April 2006 new legislation allowed for a larger lump sum to be provided to pension scheme members on retirement. As a result of this increase there is expected to be a reduction in the Scheme's obligations. This expected reduction has been credited to the income statement.

£1.8 million current service costs (2007: £0.2 million combined current and past service costs) were included in the continuing operations income statement. These costs were split between cost of sales and administrative expenses. The prior year curtailment loss of £0.8 million was included in 'administrative expenses: significant one-off items'. The interest cost of £19.0 million (2007: £14.4 million) and the expected return on plan assets of £18.7 million (2007: £14.6 million) are included in continuing operations 'finance costs' and 'finance income' respectively. The actual loss on plan assets was £8.6 million (2007: return of £10.8 million).

The movement in the pension obligation recognised in the balance sheet is as follows:

	Funded Company Scheme £m	Unfunded Company Scheme £m	AEA Rail £m	AEA Rail (TCI) £m	AEA Rail (TEL) £m	Kinectrics £m	Total £m
At 1 April 2006	354.4	3.6	62.9	24.4	32.0	60.3	537.6
Exchange differences	-	-	-	-	-	(3.1)	(3.1)
Interest cost	17.1	-	1.3	0.5	0.7	1.3	20.9
Current and past service costs	0.6	-	0.7	0.1	0.2	0.7	2.3
Actuarial (gains) and losses	(1.4)	0.3	0.1	(0.2)	-	4.8	3.6
Contributions by plan participants	0.3	-	-	-	-	0.2	0.5
Benefits paid	(10.4)	(0.2)	(2.1)	(0.8)	(1.2)	(0.3)	(15.0)
Curtailment and settlements	2.6	-	-	-	-	-	2.6
Businesses sold	-	-	(62.9)	(24.0)	(31.7)	(63.9)	(182.5)
At 31 March 2007	363.2	3.7	-	-	-	-	366.9
Interest cost	19.0	-	-	-	-	-	19.0
Current service costs	1.8	-	-	-	-	-	1.8
Actuarial gains	(57.6)	-	-	-	-	-	(57.6)
Contributions paid by employer	-	(0.3)	-	-	-	-	(0.3)
Contributions by plan participants	0.3	-	-	-	-	-	0.3
Benefits paid	(11.7)	-	-	-	-	-	(11.7)
At 31 March 2008	315.0	3.4	-	-	-	-	318.4

The movement in the pension asset recognised in the balance sheet is as follows:

	Funded Company Scheme £m	Unfunded Company Scheme £m	AEA Rail £m	AEA Rail (TCI) £m	AEA Rail (TEL) £m	Kinectrics £m	Total £m
At 1 April 2006	260.0	-	57.0	25.3	28.3	59.4	430.0
Exchange differences	-	-	-	-	-	(2.8)	(2.8)
Expected return on plan assets	17.4	-	1.7	0.7	0.8	1.7	22.3
Actuarial losses	(7.5)	-	(0.9)	(1.2)	(0.4)	(1.5)	(11.5)
Contributions paid by employer	14.9	-	0.3	-	0.1	0.5	15.8
Contributions by plan participants	0.3	-	0.2	-	0.1	0.2	0.8
Benefits paid	(10.4)	-	(2.1)	(0.8)	(1.2)	(0.3)	(14.8)
Businesses sold	-	-	(56.2)	(24.0)	(27.7)	(57.2)	(165.1)
At 31 March 2007	274.7	-	-	-	-	-	274.7
Expected return on plan assets	18.7	-	-	-	-	-	18.7
Actuarial losses	(27.3)	-	-	-	-	-	(27.3)
Contributions paid by employer	3.7	-	-	-	-	-	3.7
Contributions by plan participants	0.3	-	-	-	-	-	0.3
Benefits paid	(11.7)	-	-	-	-	-	(11.7)
At 31 March 2008	258.4	-	-	-	-	-	258.4

The net pension obligation is as follows:

	Total £m
At 31 March 2008	60.0
At 31 March 2007	92.2

A £30.3 million gain (2007: £15.1 million loss) in respect of actuarial gains and losses has been reported in the Statement of Recognised Income and Expense ('SORIE') and the cumulative total of actuarial gains and losses reported through the SORIE is a net £33.1 million gain.

The principal actuarial assumptions used were as follows:

	2008	2007
	%	%
Discount rate	6.6%	5.3%
Inflation	3.7%	3.2%
Expected return on plan assets		
– equities	8.3%	8.1%
– corporate bonds	5.8%	5.2%
– government bonds	n/a	4.5%
– infrastructure	8.3%	8.1%
– other	6.0%	5.5%
Future salary increases	3.3%	2.9%
Future pension increases	3.7%	3.2%

The discount rate is based on the yield on AA-rated corporate bonds with terms to maturity of over 20 years. Projected inflation rates and future pension increases are derived from the difference between yields on fixed interest and index-linked government bonds.

The expected rates of return on categories of plan assets are determined by reference to relevant indices and are shown net of investment expenses. A risk premium, based on historic performance, is added to the expected yield on government bonds to derive an expected yield on equities.

Post-retirement mortality assumptions for the funded Company Scheme were as follows:

2008	2007
PNxA00 Year of Use tables. Improvements in line with the Medium Cohort, subject to a minimum annual improvement of 1.0% p.a. for males and 0.5% p.a. for females. Scaling factor of 112.5%.	PNxA00 Year of Use tables. Improvements in line with the Medium Cohort. Scaling factor of 112.5%.

Post-retirement mortality assumptions for the unfunded Company pension arrangements were as follows:

PNxA00 Year of Use tables. Improvements in line with the Medium Cohort, subject to a minimum annual improvement of 1.0% p.a. for males and 0.5% p.a. for females. Scaling factor of 105%.	PNxA00 Year of Use tables. Improvements in line with the Medium Cohort. Scaling factor of 105%.
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Demographic assumptions (post-retirement mortality)

Based on the mortality assumptions adopted, the following table shows the expected future lifetime of a Scheme member on retirement at age 60:

	2008	2007
	Years	Years
Males retiring today	25.9	25.4
Males retiring in 20 years	28.0	26.7
Females retiring today	28.0	27.9
Females retiring in 20 years	29.3	29.0

Sensitivity analysis of the principal assumptions used to measure Scheme liabilities

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 12%
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 11%
Rate of mortality	Increase by 1 year	Increase by 2%

The analysis of the Scheme assets and expected rate of return at 31 March is as follows:

	Expected return		Fair value of assets	
	2008	2007	2008	2007
	%	%	£m	£m
Equity instruments	8.3	8.1	210.8	217.3
Corporate bonds	5.8	5.2	22.2	22.7
Government bonds	-	4.5	-	21.5
Infrastructure	8.3	8.1	17.5	6.3
Other assets	6.0	5.5	7.9	6.9
			258.4	274.7

The five year history of pension obligations and plan assets:

	2008	2007	2006	2005	2004 ¹
	£m	£m	£m	£m	£m
Present value of defined benefit obligations	318.4	366.9	537.6	493.1	470.5
Fair value of plan assets	(258.4)	(274.7)	(430.0)	(341.4)	(308.3)
Deficit	60.0	92.2	107.6	151.7	162.2

The five year history of experience adjustments is as follows:

	2008	2007	2006	2005 ¹	2004 ¹
Experience adjustments on plan liabilities					
Amount (£ million)	(57.6)	3.6	2.9	19.2	(2.7)
Percentage of plan liabilities (%)	18.1	1.0	0.5	3.9	0.6
Experience adjustments on plan assets					
Amount (£ million)	27.3	11.5	57.6	14.1	45.5
Percentage of plan assets (%)	10.6	4.2	13.4	4.1	14.8

¹ Information based on FRS 17.

Development of net pension deficit over the year to 31 March 2008

The pensions cost recognised in the income statement is calculated based on assumptions made at the beginning of the year. If experience over the year is in line with assumptions made at the start of the year, the pension deficit would reduce by the excess of the cash contributions made over the income statement charge. Actuarial gains and losses due to differences between actual experience and the assumptions made at the start of the year are recognised in full in the SORIE.

Post-employment medical benefits

Prior to the disposal of Kinectrics the Group operated a post-retirement medical benefit scheme in Canada. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The amounts recognised in the income statement are as follows:

	Group	
	2008	2007
	£m	£m
Current service cost	-	0.1
Interest cost	-	0.2
Amount included in staff costs	-	0.3

£nil (2007: £0.1 million) was included in discontinued operations 'administrative expenses'.

The movement in the liability recognised in the balance sheet is as follows:

	Group	
	2008 £m	2007 £m
At 1 April	-	8.6
Total expensed in income statement	-	0.3
Actuarial losses	-	0.1
Contributions paid	-	(0.1)
Businesses sold	-	(8.9)
At 31 March	-	-

11 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Decommissioning and waste management £m	Restructuring £m	Contracts £m	Other £m	Total £m
At 1 April 2006	8.9	15.4	10.0	1.5	35.8
Balance sheet reclassifications	-	0.3	0.9	-	1.2
Charged to the income statement:					
additional provisions	0.2	6.3	3.1	1.2	10.8
unused amounts released	-	(2.4)	(0.3)	-	(2.7)
Utilised	(1.7)	(6.7)	(5.7)	(0.2)	(14.3)
Businesses sold	(1.5)	(1.3)	(1.2)	(0.8)	(4.8)
At 31 March 2007	5.9	11.6	6.8	1.7	26.0
Balance sheet reclassifications	0.4	-	-	(0.1)	0.3
Charged to the income statement:					
additional provisions	-	0.6	0.3	0.1	1.0
Utilised	(1.5)	(4.1)	(1.9)	(0.1)	(7.6)
At 31 March 2008	4.8	8.1	5.2	1.6	19.7

Company	Decommissioning and waste management £m	Restructuring £m	Contracts £m	Other £m	Total £m
At 1 April 2006	7.8	14.0	8.2	0.9	30.9
Balance sheet reclassifications	(0.5)	0.8	0.9	-	1.2
Charged to the income statement:					
additional provisions	0.2	6.3	3.1	1.2	10.8
unused amounts released	-	(2.4)	(0.3)	-	(2.7)
Utilised	(1.6)	(5.8)	(5.1)	(0.2)	(12.7)
Businesses sold	-	(1.3)	-	(0.2)	(1.5)
At 31 March 2007	5.9	11.6	6.8	1.7	26.0
Balance sheet reclassifications	0.4	-	-	(0.1)	0.3
Charged to the income statement:					
additional provisions	-	0.6	0.3	0.1	1.0
Utilised	(1.5)	(4.1)	(1.9)	(0.1)	(7.6)
At 31 March 2008	4.8	8.1	5.2	1.6	19.7

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Provisions for liabilities and charges				
Non-current	6.8	15.2	6.8	15.2
Current	12.9	10.8	12.9	10.8
	19.7	26.0	19.7	26.0

Decommissioning and waste management

On 31 March 1996 certain properties, rights and liabilities of UKAEA were vested in the Company in accordance with the 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. All new or incremental decommissioning, waste management and clean up liabilities arising after 1 April 1996 were assumed by the Group except for certain liabilities which have been transferred to, or assumed by, third parties.

Provisions for these costs were made in full once facilities became contaminated and were 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 timing of the utilisation of these provisions is uncertain and costs will be incurred as the facilities continue to be decommissioned and the waste disposed of. The majority of this provision relates to the Building 220 facilities at the Harwell site where the timing of decommissioning is uncertain.

Restructuring

In the two years to March 2007 AEA completed the transformation of its business from a diverse group to a single mission company focused on climate change and energy consultancy. Provisions related to this restructuring are held for associated redundancies and for warranties and indemnities given under business sale agreements. These provisions will be utilised within the next 1 to 2 years.

Contracts

Contract provisions are in respect of projected losses or commitments on long-term contracts, including onerous lease contracts on properties no longer fully occupied by the Company. These provisions will be utilised when the costs are incurred on the long-term contracts and as lease payments are made on the vacant properties. Applying a risk adjusted discount rate does not give a result materially different from the undiscounted provision and no adjustment for the effect of discounting has been made.

Other

The remainder of the provisions are primarily dilapidations and wear and tear provisions on the Company's property assets. These provisions will be utilised as dilapidation repairs are carried out.

12 CASH USED IN OPERATIONS

	Group		Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
Profit/(loss) for the year	8.5	24.7	3.3	(27.2)
Adjustments for:				
taxation	(0.5)	0.5	(0.5)	0.2
depreciation of property, plant & equipment	1.3	2.4	1.3	1.8
amortisation	0.1	0.5	0.1	0.3
loss on disposal of property, plant & equipment	0.9	-	0.9	-
share option charge	0.1	0.3	0.1	0.3
(profit)/loss on disposal of subsidiaries	-	(17.4)	-	29.6
interest expense	20.7	24.1	24.7	25.4
interest income	(18.8)	(23.1)	(18.8)	(21.4)
other	0.1	0.4	1.4	0.4
Changes in working capital:				
inventories	(0.1)	2.1	(0.1)	2.0
trade and other receivables	(1.0)	4.9	(1.0)	4.9
trade and other payables	(5.4)	(8.0)	(5.3)	3.3
Changes in retirement benefit liabilities	(2.2)	(3.6)	(2.2)	(5.4)
Changes in provisions for liabilities and charges	(6.3)	(12.6)	(6.3)	(10.9)
Cash (used in)/from operations	(2.6)	(4.8)	(2.4)	3.3

13 CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of contracts entered into in the normal course of business and in respect of the disposal of businesses and subsidiaries. Other than those items provided for, see note 11, it is not expected that these will have a material effect on the financial position of the Group.

14 POST BALANCE SHEET EVENTS

There were no post balance sheet events.

15 OTHER NON-STATUTORY INFORMATION

The Group is intending to acquire 100% of the share capital of PPC, a US-based environmental management and information technology consultancy firm. The acquisition of PPC is contingent, among other things, upon shareholder approval and obtaining clearance from the relevant authorities.

As at 31 March 2008 the Group had incurred £1.1 million of costs in respect of this proposed transaction and the related fundraising exercise. These costs have been charged to administrative expenses within the Consolidated income statement but have been categorised as a significant one-off item.

16 ANNUAL ACCOUNTS AND ANNUAL GENERAL MEETING

Copies of the Annual Report are available in electronic format today on www.aeat.com. Copies will be sent to shareholders in June 2008 and will be available from the Company's registered office, 329 Harwell, Didcot, Oxfordshire, OX11 0QJ.

The Annual General Meeting will be held at Linklaters, One Silk Street, London EC2Y 8HQ in September 2008.