

AEA Technology plc
Preliminary results for the year ended 31 March 2007

Financial Highlights – continuing operations

- Turnover up 35% to £75.2 million (2006: £55.8 million)
- Adjusted operating profit¹ up 121% to £8.6 million (2006: £3.9 million)
- Operating profit of £9.4 million (2006: £11.6 million)
- Profit before tax of £8.0 million (2006: £8.5 million)
- Orders up 26% to £91.0 million (2006: £72.5 million)
- Non-core assets sold for £41.5 million (realising profit of £16.3 million)
- Substantial reduction in net debt to £21.4 million (31 March 2006: £29.3 million)

Dr Bernard Bulkin, Chairman of AEA Technology said:

“The decision to focus AEA as a consultancy able to serve the environment and energy markets is proving to be wise. The market for the Group is good and continues to get better as Governments harmonise actions to meet the global challenge of climate change.

Andrew McCree, CEO, AEA Technology said:

“The performance is much improved. During the year we have been successful in winning a number of important orders, the conversion of profit to cash has been good and costs have been kept firmly under control.

Good progress has also been made in strengthening the management team. Our focus is now on improving the rate of organic growth and making acquisitions, which will enable us to scale the business more efficiently.

¹ Reconciliation of adjusted operating profit

For the year ended 31 March 2007	Operating profit/(loss) £m	Redundancy charge £m	Pensions curtailment charge/(gain) £m	Pensions past service credit £m	Re-financing costs £m	Adjusted operating profit/(loss) £m
Environment	12.4	-	-	-	-	12.4
Other	(3.0)	-	0.8	(2.0)	0.4	(3.8)
	9.4	-	0.8	(2.0)	0.4	8.6
For the year ended 31 March 2006						
Environment	21.4	0.3	(10.6)	-	-	11.1
Other	(9.8)	1.3	(1.7)	-	3.0	(7.2)
	11.6	1.6	(12.3)	-	3.0	3.9

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The latest financial information on AEA is available on the internet at www.aeat.com

Business Review

Overview of the business and performance of the year

AEA is one of the world's leading energy and climate change consultancies. The Group also has a reputation for excellence in knowledge management, resource efficiency and waste management.

AEA focuses on helping Governments and their Agencies to develop policy and then put that policy into practice. The Group is in a very strong position to capitalise on the harmonisation of Government actions across the globe aimed at reducing the impacts of climate change.

Business performance

AEA has made very good progress this year. Revenue grew by 35% (2006: 12%), adjusted operating profit increased to £8.6 million (2006: £3.9 million) and cash performance has been good with closing net debt of £21.4 million (2006: £29.3 million). Orders were up 26% (2006: 18%). Operating profit for continuing operations decreased to £9.4 million (2006: £11.6 million). This includes significant one-off items of £0.8 million (2006: £7.7 million), as detailed in note 3.

In the UK a number of significant orders were won, which strengthened AEA's position as a leading supplier to Government, the Devolved Administrations and their Agencies.

Very good progress has also been made in Europe. AEA is confident that Europe will be a strong area of growth in the years ahead.

AEA's view of the market

Global concerns about the economic and environmental impacts of climate change and energy security are increasing. These concerns are driving harmonisation of Government action through an increasing number of international agreements. This gives the Group a substantial and exciting growth opportunity. AEA is initially focusing on Government because of the business's strong reputation in the area of policy advice and policy implementation programmes. The accessible market for AEA, when focusing on Governments and their Agencies in the EU and US, is in the region of £3 billion per annum.

It is clear that Governments are beginning to focus on:

- the need to develop new low-carbon technologies;
- the need for human behaviour change;
- the need for an internationally accepted approach to carbon and emissions trading.

AEA is well placed to benefit from all of these trends.

In the US, which has often been criticised in the past for not being a signatory to the Kyoto Protocol, a huge amount of activity has been seen at the state and city level. In states like California, New York and Oregon significant action has been taken to reduce the consumption of energy and alleviate the impact on climate change. This market offers significant opportunity for AEA.

It is also clear that China and India are starting to look at policy options that will enable them to alleviate the consequences of rapid economic development and its potential impact on climate change. At this stage AEA is assisting the EC on a number of aid-related projects in these countries.

The biggest risk to this market is whether international agreements reached by Governments are actually enforced. There are a number of factors which could delay implementation and these range from domestic fiscal pressures through to strategic industrial and economic issues. On balance, however, it is the Group's belief that the market will continue to grow aggressively. AEA is focusing on Government because in this area it believes Governments create the market.

A further growth opportunity for AEA is EU expansion. Romania and Bulgaria acceded to the EU in 2007. In Romania, the energy used per unit of GDP is five times greater than the OECD average. This has to be improved rapidly, not only to meet Europe's climate change objectives but also to improve commercial competitiveness enabling these economies to thrive in the EU marketplace. The Romanian Government has developed long-term strategies to improve in this and other areas such as air quality, resource efficiency and waste management. These are all core areas of expertise for AEA.

Vision

AEA's vision is to be recognised as the thought leader in energy, climate change and knowledge management. As a result the Group aims to become the outstanding supplier to Governments and their Agencies around the world.

Strategy

AEA's strategy is to seek out global excellence in policy advice, policy implementation and behavioural change. By building on its strong UK heritage AEA intends to develop into the premier global brand in energy and climate change, attracting the most talented individuals from around the world.

- **Organic expansion**

There are two aspects to AEA's organic expansion plans:

- to enhance the Group's UK public sector market position and diversify customers within it, and
- to grow in the EU and through EC aid-related work.

In this way AEA will grow and diversify its business in the UK, the EU, Eastern Europe, Russia and China.

The platform of capability to enable this to happen is now being built. In addition AEA will continue with the aggressive recruitment of new consultants as well as investing in the development of graduates who, increasingly, will come from a selected network of university partners.

- **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.

As a first step 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, which enable it to gain selected management and employees. The operating platform must enable AEA to leverage its EU knowledge base and capability into the US whilst at the same time offer new US skills which can be leveraged back into the EU.

Key performance indicators (KPI's)

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

- **Financial measures**

- top line growth is measured by orders growth of 26% at £91.0 million (2006: £72.5 million) and sales growth of 35% at £75.2 million (2006: £55.8 million).
- profitability is measured by adjusted operating profit up from £3.9 million to £8.6 million.
- financial stability and the management of working capital is measured by net debt £21.4 million (2006: £29.3 million).

- **Strategic measures**

- extending and growing the business with UK Government, Devolved Administrations, regional and local government is measured by revenues in the UK of £70.4 million (2006: £52.3 million).
- growing AEA's EC and US international work and globalising the business is measured by revenues not in the UK of £4.8 million (2006: £3.5 million).

- **Brand and thought leadership measures**

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

Business highlights

Business highlights in the year included:

- AEA won Envirowise Scotland - a contract funded by the Scottish Executive. This programme delivers free resource efficiency advice and practical on-site support to help Scottish businesses. AEA also secured contracts worth over £20 million for the continuation of Envirowise programmes in England and Wales.
- Another environmental programme run by AEA is Defra's Market Transformation Programme. Aimed at improving the energy and environmental performance of domestic appliances, and commercial & industrial products through effective national and international policies and programmes. A further year's work was secured on this programme.
- In the energy area, AEA won the DTI's Emerging Energy Technologies Programme. AEA manages grants and provides support on renewable energy and carbon abatement technologies (including clean coal and carbon capture and storage).
- AEA won the contract to manage DTI's Wave and Tidal Stream Energy Demonstration Scheme. It manages the grant competitions and successful projects that arise from this project on behalf of the DTI. This novel scheme incorporates both capital grant and revenue support for electricity generated from wave and tidal stream demonstration projects.
- In another of AEA's core areas, air quality science, AEA retained the contract for managing the National Atmospheric Emissions Inventory for Defra, a programme that includes compilation and reporting of national statistics on emissions of the major air pollutants and Greenhouse Gases and thereby underpins much of the Group's air quality work
- The Group also retained the Defra contract for Baseline Measurements and Analysis of UK Ozone and Ultra Violet Radiation, for a further three years. AEA leads a project team measuring and reporting on the measured column of ozone in the upper atmosphere and the actual ultra violet radiation measurements at ground level.

During the year AEA extended its reach into other Government sectors and this is marked by similar highlights:

- AEA successfully extended one of its largest programmes - the Knowledge Transfer Partnerships (KTP) Programme for DTI. This extension to the DTI's existing KTP Programme reflects the strong demand and success for KTP, which aims to transfer knowledge between industry and academia. KTP is part of AEA's Business Innovation sector.
- Significant wins and contract extensions were achieved in transport, led by the continuing growth of its 'Safe and Fuel Efficient Driving (SAFED)' programmes. The latest win, for Department for Transport (DfT), was 'SAFED for Vans'. The Group also secured a contract from Motorsport Development UK on Energy Efficient Motorsport.
- Work in the agriculture sector continues to grow. Policy support included work on Adaptation to Climate Change in the EU, Food Life Cycle and Sustainable Livestock.

A major win was inclusion in delivery of the England Catchment Sensitive Farming Delivery Initiative, funded by Defra.

Beyond the UK, AEA saw a significant increase in its international work during the year and continues to secure high-profile projects in Russia and China, again capturing the opportunities provided by the global environmental agenda. £5.0 million of the Group's environmental and energy work is international and this is expected to increase strongly. AEA's subsidiary in Romania concentrates on this market. As well as securing initial contracts in Romania, the team has helped secure wins on agency-funded local projects in Russia by supplying specialist expertise.

AEA's international work expanded by 37% during 2006/07, contributing £4.8 million of turnover:

- Environmental and energy work for the EC doubled during 2006/07. This included continuing work on a major energy security project, examining critical energy infrastructure across EU25 and determining the risks from terrorism and possible mitigation measures. AEA also secured ten new environmental policy support contracts totalling £1.0 million.
- In Russia, AEA extended its portfolio of work. Significant wins included a contract to continue work in Russia (with our partners HTSPE Ltd) on the UK-Russia Closed Cities Partnership, a British Government programme aimed at providing new commercial opportunities for Russian scientists. AEA is also expanding its activities in Russia in the area of energy technology, and has been undertaking energy efficiency auditing and market survey work in the country for the European Bank for Reconstruction and Development.
- In China, AEA secured a further extension to the EC funded Energy and Environment Programme, which assists the Chinese Government with the development of energy policy, improving energy efficiency of China's industries and the uptake of renewable energy technologies. The Group's work on the impacts of climate change on Chinese agriculture and potential adaptation policies, funded by Defra, has continued. AEA has also been assisting Defra with the UK-China Sustainable Development Dialogue. In particular on this AEA is assisting the Chinese Government to set up a Market Transformation Programme of its own to enable a more informed approach to their product policy, with consequential benefits for products sold into the UK

AEA's two smaller business streams continued with good performances. The chemical safety and emergency advisory business, National Chemical Emergency Centre (NCEC), remained highly profitable and grew by 11%. AEA also has a laboratory support service contract dedicated to supporting GlaxoSmithKline plc's operations in its research laboratories. This contract remains profitable but growth was much slower.

Financial Performance

The Annual Report 2007, 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.

A segmental analysis of turnover, operating profit and adjusted operating profit is given in note 3.

Management actions

The Group's performance in the year reflects the continued significant management action taken during the period. A significant divestment of the Rail business and a portfolio of companies was approved by shareholders at an EGM held on 31 August 2006. The divestment completed on 2 September 2006 and generated net proceeds of £17.4 million which were used to repay bank debt and make an additional contribution of £10.0 million into the pension scheme to reduce the deficit. A total profit on disposal of £17.4 million was generated from this and other disposals and the discontinued operations generated a loss of £0.7 million (2006: £13.8 million). For details of the companies and businesses disposed of and the associated profit on disposal refer to note 11.

On 31 May 2006 the Group entered into a new facility agreement with Lloyds TSB Bank plc and the Governor and Company of the Bank of Scotland pursuant to which a £55.0 million revolving credit facility and a £5.0 million bonding facility was made available to the Group. This facility replaced pre-existing facilities. Subsequent to the disposal mentioned above the revolving credit facility was reduced to £42.0 million.

During the year the cost reduction programme was completed in the Corporate Centre with costs reduced to an ongoing annual cost of £3.0 million.

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 as disclosed elsewhere in these preliminary results. These one-off items are detailed in note 3.

Revenue and profit

Total turnover for the year was £75.2 million (2006: £55.8 million), an increase of 35%. The turnover increase included £11.5 million (2006: £nil) relating to pass through costs on the Envirowise contract. Excluding this, turnover increased by 14% to £63.7 million (2006: £55.8 million).

Adjusted operating profit for the year was £8.6 million (2006: £3.9 million), an increase of 121%. This has resulted in the adjusted operating profit margin increasing from 7% to 11%, reflecting the reduction in Corporate Centre costs arising from the cost reduction programme.

Operating profit for continuing operations was £9.4 million (2006: £11.6 million). This includes net significant one-off credits of £0.8 million (2006: £7.7 million).

Net finance cost

The finance costs include interest on bank facilities and interest charges in respect of the defined benefit pension scheme accounting. These are analysed in notes 8.

The Group's focus on improving working capital management and cash management along with the disposal proceeds has resulted in a decrease in interest on debt facilities. The net finance cost on the defined benefit pension scheme has improved from a net cost to a net income.

Profit before tax

Profit before tax for continuing operations was £8.0 million (2006: £8.5 million). The decrease from the prior year was primarily due to the inclusion of a £12.3 million pension curtailment gain in 2006. The year to March 2007 benefited from a reduced £1.2 million net gain in respect of one-off pension items.

Taxation

AEA's tax charge continues to benefit from brought forward losses and the overall tax charge to the Group was £0.5 million (2006: £3.7 million). The tax charge in respect of continuing operations was £nil (2006: £0.1 million). As at 31 March 2007 the deferred tax asset was £4.6 million (2006: £7.5 million).

Earnings per share (EPS)

The impact of one-off items in 2006 has resulted in a reduction in basic earnings per share for the continuing business from 8.0p to 6.8p. The Group has two categories of potential dilutive ordinary shares; share options and warrants. Diluted earnings per share has reduced from 7.9p to 6.7p. Adjusted earnings per share has increased to 6.1p (2006: 0.7p) as a result of improved operating margins and organic growth in the business.

Dividends and dividend policy

Given the Group's current financial position the Board is not recommending a dividend in respect of 2007. 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 Company currently has a £222.7 million deficit of distributable reserves as shown in note 23.

Net debt and cashflow

Net debt reduced from £29.3 million to £21.4 million.

Cash used in operating activities reduced to £7.6 million (2006: £18.4 million) as a result of the divestment of cash-utilising businesses 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 continuing business is cash generative, generating £1.2 million (2006: £0.3 million cash outflow) from operations in the year, and has strong management of working capital. Over 80% of operating profit for the continuing business is converted into cash; with an objective of exceeding 90%, before legacy costs and funding of the pension deficit.

Pensions

The Group operates a defined benefit pension scheme, which has a large proportion of employees as members. This scheme was closed to new members in 2005 and a defined contribution scheme established for new employees has been operating since that date. Full details of the defined benefit scheme are disclosed in note 29, which shows that over the year the total retirement benefit obligation has reduced to £92.2 million (2006: £116.2 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 £113.0 million. The next actuarial valuation will take place as at 31 March 2008 and any changes in longevity and other assumptions 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 15 year period. During the year ended 31 March 2007 the Group made additional contributions to the scheme of £10.0 million following the portfolio divestment and £0.1 million per month from June 2006.

Pension charges

The Group accounts for pension costs under IAS 19 "Employee Benefits" with irregular gains and losses taken to the SORIE (for example actuarial experience gains and losses). The defined benefit current service cost for the year was £2.2 million (2006: £2.7 million), the reduction reflecting the reducing membership. The total defined benefit pension cost charged to the consolidated income statement was £3.2 million (2006: £19.5 million credit) and is analysed in note 29.

The charge relating to defined contribution schemes amounted to £1.2 million (2006: £1.7 million), the decrease reflecting the reduced membership following the divestments.

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 £92.2 million. The assumptions used in the IAS 19 valuation are detailed in note 29. 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%	Decrease/increase by 13%
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 12%
Longevity	Increase by 1 year	Increase by 3%

Capital structure

The Group had 118.3 million ordinary shares in issue at 31 March 2007 (2006: 118.3 million), full details of which are shown in note 22. Net debt at 31 March 2007 was £21.4 million (2006: £29.3 million), which comprised cash balances of £3.6 million less bank loans and finance lease creditors of £25.0 million.

At 31 March 2007 the Group's net shareholders' deficit amounted to £144.5 million (2006: £153.7 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 and interest rate risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs.

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 and circumstances where it would be appropriate to use financial instruments to manage these.

Credit risk management

The Group has implemented policies that require appropriate credit checks on potential customers before contracts are agreed. The amount of exposure to any individual counter party is subject to an agreed limit. The Group monitors and manages its exposure to counter parties.

Interest rate risk

The majority of the Group's primary debt is in sterling at a floating rate of interest.

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.

Foreign exchange

The Group is exposed to movements in exchange rates for foreign currency transactions and for the translation of net assets and income statements of foreign subsidiaries.

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 transactions. The objective is to minimise the impact of fluctuations in exchange rates on future transactions and cash flows.

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 predominately represented by provisions as detailed in note 30, with the majority of the associated cash outflow taking place over the next two years. Progress is periodically reviewed by the Board.

Accounting policies

A description of the principal accounting policies appears in note 2. 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 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.

People

The Group employs 750 people and has strengthened its capabilities by investing in and developing its people.

Enhancing senior management

A review of management talent resulted in enhancing 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 147 new recruits in the period. Employee turnover rose to 18%.

Training and development

Training and development investment continues to enable the business to improve its leverage of technical skills, fast track new recruits and put in place a graduate development programme.

Reward

A review of reward and recognition has resulted in proposals for change, to be implemented in the performance year 2007/08.

Working environment

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

Information technology

The Group has a long-term contract with Steria 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 such as the convergence taking place in Personal Digital Assistants. We are also in the process of implementing technologies to enable more flexible working arrangements, both to improve efficiency and also as part of business continuity arrangements.

Post balance sheet events

There were no post balance sheet events.

Corporate responsibilities

General

The Directors accept that they have a responsibility to take account of, and to manage, the balance of interests between shareholders, employees, customers, suppliers and the community.

This includes taking account of the significance of social, environmental and ethical (SEE) matters to the business of the Group. They have identified and assessed the significant risks to the Group's short and long term value arising from SEE matters as well as the opportunities to enhance value by an appropriate response. They have received adequate information during the year to make this assessment and account is taken of SEE matters in the training of Directors. They have ensured that the Group has in place effective systems for managing significant risks which, where relevant, incorporate performance management systems and appropriate remuneration incentives including for the Executive Directors.

The Board reviews SEE matters regularly as part of its wider annual review of risks, including monitoring Group performance through annual reports on health and safety and on environmental management performance, and through quarterly performance statistics and indicators. During the year, Andrew McCree, CEO, had Board level responsibility for all SEE matters.

The Board ensures that systematic policies and procedures exist that define clear standards and expectations of corporate performance and employee behaviour, and that document and manage key risks in these areas. These form part of the Group's integrated quality management system. Performance against them is regularly audited and verified externally by Lloyds Register Quality Assurance.

Values

AEA has been through a great deal of change over the last two years and has emerged a focused and dynamic energy and environmental consultancy business. The Group felt it was important to develop a set of values that would identify the type of company it is, the type of work it does, and the type of people it wishes to employ.

During a series of workshops a cross section of employees identified four areas they felt were important. These were then expressed as four values:

- We keep our promises
- We recognise and develop our people
- We build strong, long lasting relationships
- We make a difference

With each value employees make commitments, to themselves, colleagues, customers and shareholders. For each value there are behaviours that are acceptable and some that should be changed. Importantly these behaviours have been articulated, as have the behaviours that contradict the values. These values and behaviours can be used as a tool to bring clarity and focus to employees, to bring the brand to life and to identify measures for improved performance. AEA's values are the guiding principles for the way in which AEA employees conduct themselves and its business activities and the foundation on which a successful business is built.

The values were launched across the Group in January 2007 and are being integrated into all of AEA's working practices.

Safety, health and environmental management

The Group's goal is to be the best at Safety, Health and Environmental management. The policy, set by the Board, is to comply, as a minimum, with legislation; ensure that the way AEA's employees work reduces the risk of harm to a minimum; and to constantly seek ways to improve against the stated goal of excellence.

Safety and environmental control measures are derived from risk management techniques and form part of the Group's risk-based internal control system. This includes management arrangements implemented by suitably qualified and experienced staff, appropriately monitored and reviewed as part of the annual risk review process overseen by the Board. The Group provides training to employees who are required to have a detailed understanding of requirements affecting their work.

Health and safety

The Group measures all recorded accidents and absences from work for one day or more due to a work related accident or occupational health condition. Every accident is investigated by senior management with a view to learning from them. The most frequent causes are slips, trips and falls, and these areas continue to be priorities for accident reduction activities.

The Board and senior managers regularly review safety performance statistics and monitor a range of KPI's including near miss reporting, timeliness of reporting, speed of occurrence investigation and compliance with the scheduled programme of safety monitoring. In terms of those parts of AEA that were in the Group all the year, key statistics are as follows:

Reportable incidents ¹	3
Non-reportable lost time accidents	7
Near miss reports as ratio to events	3:1
Unusual occurrences reported within 3 working days	92%
Occurrences investigated within target time	88%
Compliance with scheduled programme of safety monitoring	100%

¹ Reportable to the HSE under relevant legislation.

AEA won a RoSPA Gold Award for safety last year for the fifth successive year, an achievement recognised by the further award by RoSPA of a Gold Medal Award.

In the drive for continuous improvement, AEA launched a Safety Excellence Programme during the year. This is aimed at increasing safety awareness in the workplace, including when driving on business, which is regarded as the main hazard to which AEA's employees are exposed. It also included workshops for all line managers to clarify their safety responsibilities. AEA won a RoSPA Behavioural Safety Best Practice Award for the activities in this programme.

Environmental management

The Group's management systems aim to ensure that external requirements are met; that the environmental impact of AEA's activities are minimised; continuous improvement involving target setting and monitoring is driven forward; environmental benefits of AEA's products and services are maximised; and that the Group provides adequate resources, training and information. AEA is certified to ISO14001. The Group also seeks to influence the environmental performance of its suppliers. AEA is the lead sponsor of "Business Commitment to the Environment" Awards Scheme and provides the secretariat.

The Board level environmental KPI's used during the year were compliance with the conditions and limits of authorisations under relevant environment discharge regulations; and maintenance of the ISO14001 certification, which is subject to external audit each year and which requires visible commitment to continuous improvement.

AEA's business activities mainly involve consultancy and programme management, and so the Group is not an intensive user of energy or generator of large amounts of waste. The Group's primary environmental impacts are business travel, utilities consumption and office waste production. Performance last year has been internally audited and shows a reduction in its environmental impact. The total CO₂ emitted as a result of current business activities fell by 10% compared with the previous year.

Gas consumption reduced by nearly 20% per head due to changes in accommodation; and total road miles and air miles travelled were down by some 8% and 7% respectively, reflecting the increased use of videoconferencing.

Office waste also reduced with rises in associated recycling. Average paper consumption reduced by some 20%.

Community involvement

AEA's policy is to focus community involvement in energy and environmental improvements. The Group donated £25,483 (2006: £28,380) plus payments in kind for charitable purposes. No political contributions were made.

People

AEA's employment principles are to pay market rates and to ensure that the Group has access to the widest possible labour market to secure the best employees for its needs, selected and managed on the basis of individual competence, and to create a culture in which the individual motivation and potential of every employee is developed to the benefit of the employee and the Group overall.

Employee involvement and participation is actively encouraged. There is a detailed individual appraisal process involving the setting of objectives and subsequent assessment of achievement against them. Most employees are represented by trade unions and by collective bargaining processes covering, for example, pay and conditions of service. A joint Health, Safety and Environmental Committee meets quarterly. AEA is committed to maintaining the reputation, integrity and independence of its work through training and review processes.

The Group recognises and welcomes its obligations to employ people with disabilities. The Group aims to give people with disabilities equal opportunities for training, promotion and career development.

The Board would like to take this opportunity to thank its employees for all their good work during 2006/07.

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. 73% of AEA's business is with the public sector. While AEA intends to grow this core work even further, it is of strategic importance that the Group diversifies and it intends to do 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 within Government departments that AEA works for; 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, for aid agencies on international projects and in Eastern Europe. Thirdly to seek acquisitions in other economic areas (including the US).

Changes in the competitive environment resulting from Government policy

Work for UK central Government will remain a major component of AEA's business. Future changes in 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 that might affect the DTI, could mean AEA finds itself working for new customers with different detailed priorities. AEA must therefore maintain links with senior officials in key 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 2006/07 AEA introduced management enhancement and key skills recruitment programmes to extend management strength, experience and consulting expertise, combined with developing future plans to implement appropriate reward and retention arrangements. There have been four 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 a further four to six senior, high calibre people during the first and second quarters of 2007/08. 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 2007/08 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 and at present the scheme has an accounting deficit of £92.2 million, including £3.7 million of unfunded obligations. Presently 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.

Outlook

The outlook for the Group remains positive and AEA continues to operate in a strong market. AEA is confident that the continued improvement in customer focus, recruitment and strengthening the management team will enable the Group to achieve further profitable growth.

Dr Bernard Bulkin
Chairman
14 June 2007

Andrew McCree
CEO

Alice Cummings
CFO

Consolidated income statement

For the year ended 31 March	Notes	2007 £m	2006 £m
Continuing operations			
Turnover	3	75.2	55.8
Cost of sales		(49.3)	(33.3)
Gross profit		25.9	22.5
Other operating income	4	6.8	2.4
Selling and marketing costs		(4.4)	(4.4)
Administrative expenses		(18.9)	(8.9)
<i>Analysed as:</i>			
<i>administrative expenses before significant one-off items</i>		<i>(19.7)</i>	<i>(16.6)</i>
<i>Significant one-off items:</i>			
<i>curtailment (loss)/gain in pension schemes</i>	29	<i>(0.8)</i>	12.3
<i>exceptional past service credit in pension scheme</i>	29	<i>2.0</i>	–
<i>re-financing costs</i>		<i>(0.4)</i>	<i>(3.0)</i>
<i>redundancy costs</i>		<i>–</i>	<i>(1.6)</i>
Operating profit		9.4	11.6
Investment income		–	1.3
Finance costs	8	(16.7)	(12.0)
Finance income	9	15.3	7.6
Profit before taxation		8.0	8.5
Tax expense	10	–	(0.1)
Profit for the year from continuing operations		8.0	8.4
Discontinued operations			
Loss for the year from discontinued operations	11	(0.7)	(13.8)
Profit/(loss) on disposal of businesses	11	17.4	(13.8)
Discontinued operations		16.7	(27.6)
Profit/(loss) for the year		24.7	(19.2)
Attributable to:			
Equity holders of the Company		24.7	(19.4)
Minority interests	25	–	0.2
Earnings per share on continuing operations attributable to the equity holders of the Company during the year			
Basic (pence)	12	6.8p	8.0p
Diluted (pence)	12	6.7p	7.9p
Earnings per share on continuing and discontinued operations attributable to the equity holders of the Company during the year			
Basic (pence)	12	20.9p	(18.6)p
Diluted (pence)	12	20.6p	(18.6)p

Statements of recognised income and expense

	Group		Company	
	2007 £m	2006 ¹ £m	2007 £m	2006 ¹ £m
For the year ended 31 March				
Exchange differences arising on translation	(0.7)	2.6	–	–
Actuarial (losses)/gains on defined benefit pension schemes	(15.2)	1.9	(8.7)	3.2
Net (expense)/income recognised directly in equity	(15.9)	4.5	(8.7)	3.2
Profit/(loss) for the year	24.7	(19.2)	(27.2)	(45.5)
Other movements ²	–	–	–	20.0
Total recognised income and expense	8.8	(14.7)	(35.9)	(22.3)
Attributable to:				
Equity holders of the Company	8.8	(14.9)	(35.9)	(22.3)
Minority interests	–	0.2	–	–

¹ The statement of recognised income and expense as reported in the 2006 Annual Report included the fair value of employee share option schemes. The comparatives reported here exclude this reserves movement which is now reported in the statement of changes in shareholders' equity (note 23).

² Other movements is in respect of a gain on disposal of a business to another Group company.

Balance sheets

As at 31 March	Notes	Group		Company	
		2007 £m	2006 £m	2007 £m	2006 £m
ASSETS					
Non-current assets					
Goodwill	13	–	12.1	–	12.8
Other intangible assets	14	0.2	4.4	0.2	3.6
Property, plant and equipment	15	4.0	11.3	4.0	6.5
Investment in subsidiaries	16	–	–	35.4	66.3
Available for sale investments	16	2.0	2.1	2.0	2.1
Deferred tax assets	31	4.6	7.5	4.6	4.6
		10.8	37.4	46.2	95.9
Current assets					
Inventories	17	0.1	7.6	0.1	3.8
Trade and other receivables	18	15.1	41.6	15.1	31.3
Current tax assets	19	0.1	0.4	0.1	0.2
Cash and cash equivalents	20	3.6	8.4	3.6	–
		18.9	58.0	18.9	35.3
Non-current assets classified as held for sale	21	–	4.3	–	0.3
Total assets		29.7	99.7	65.1	131.5
EQUITY					
Capital and reserves attributable to the Company's equity shareholders					
Share capital and premium	22	49.2	49.2	49.2	49.2
Capital redemption reserve	23	0.7	0.7	0.7	0.7
Merger reserve	23	–	–	–	25.0
Fair value and other reserves	23	4.6	14.0	4.6	12.7
Currency translation reserve	23	–	0.7	–	–
Retained deficit	24	(199.0)	(218.3)	(227.3)	(225.1)
Total equity		(144.5)	(153.7)	(172.8)	(137.5)
LIABILITIES					
Non-current liabilities					
Trade and other payables	26	0.5	0.2	0.4	0.1
Borrowings	27	0.1	0.9	0.1	0.9
Retirement benefit liabilities	29	92.2	116.2	92.2	106.7
Provisions for liabilities and charges	30	26.0	35.8	26.0	30.9
		118.8	153.1	118.7	138.6
Current liabilities					
Trade and other payables	26	30.1	59.3	93.9	94.8
Borrowings	27	24.9	36.8	24.9	35.3
Current tax liabilities	32	0.4	–	0.4	–
		55.4	96.1	119.2	130.1
Non-current liabilities classified as held for sale	21	–	4.2	–	0.3
Total liabilities		174.2	253.4	237.9	269.0
Total equity and liabilities		29.7	99.7	65.1	131.5

The financial statements were approved by the Board of Directors and authorised for issue on 14 June 2007.

Signed on behalf of the Board of Directors

Andrew McCree
CEO

Alice Cummings
CFO

Cash flow statements

	Notes	Group		Company	
		2007 £m	2006 £m	2007 £m	2006 £m
For the year ended 31 March					
Cash flows from operating activities					
Cash (used in)/from operations	33	(4.8)	(12.2)	3.3	(8.0)
Interest paid		(3.1)	(4.2)	(3.1)	(4.5)
Interest received		0.8	0.5	0.8	0.5
Taxes paid		(0.5)	(2.5)	–	(0.1)
Net cash (used in)/from operating activities		(7.6)	(18.4)	1.0	(12.1)
Cash flows from investing activities					
Dividends received from available for sale investments		–	1.3	–	4.9
Proceeds from sale of available for sale investments		0.1	–	0.1	–
Net proceeds from disposal of subsidiaries		17.4	22.3	12.0	(24.1)
Expenditure on product development		(0.7)	(2.5)	(0.4)	(1.5)
Purchases of property, plant and equipment		(1.0)	(3.2)	(0.5)	(2.0)
Net cash from/(used in) investing activities		15.8	17.9	11.2	(22.7)
Cash flows from financing activities					
Repayment of borrowings		(73.0)	(89.0)	(68.6)	(89.0)
Draw-down of bank facilities		60.0	60.3	60.0	61.8
Issue of intra-Group loans		–	–	–	34.4
Proceeds from new equity issues		–	30.2	–	30.2
Net cash (used in)/from financing activities		(13.0)	1.5	(8.6)	37.4
Net (decrease)/increase in cash and bank overdrafts		(4.8)	1.0	3.6	2.6
Cash, cash equivalents and bank overdrafts at beginning of year		8.4	7.4	–	(2.6)
Cash and cash equivalents at end of year	20	3.6	8.4	3.6	–

Notes to the financial statements

1 GENERAL INFORMATION

AEA Technology plc (“the Company”) and its subsidiaries (together “AEA Technology Group” or “the Group”) is a leading international group specialising in consultancy, policy support and programme management for policy implementation. The Group’s largest practice is in the field of energy and environment. The programme management business is also growing rapidly in sectors such as energy and environment, agriculture, health, business innovation and transport.

During the period the Group disposed of the Rail business and several companies that the Board considered to be operating in non-core activities.

The Company is a public limited company, incorporated and domiciled in the United Kingdom. The address of the registered office is 329 Harwell, Didcot, Oxfordshire, OX11 0QJ.

The Company is listed on the London Stock Exchange.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2 below.

These consolidated financial statements have been approved for issue by the Board on 14 June 2007.

The information herein does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985, but has been extracted from the statutory financial statements for the year ended 31 March 2007 which will be delivered to the Registrar of companies in due course. The auditors have reported on those accounts and their report was unqualified.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”) and related interpretations, as adopted for use within the European Union.

The following published IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations to existing standards are not yet effective and have not been adopted early by the Group. It is not expected that they will have any significant future impact on the Group’s accounts.

IFRS 7 “Financial instruments: disclosures” and the complementary amendment to IAS 1 “Capital disclosure”;
IFRS 8 “Operating segments”;
IFRIC 8 “Scope of IFRS 2”;
IFRS 9 “Reassessment of embedded derivatives”;
IFRIC 10 “Interim financial reporting and impairment”; and
IFRIC 11 “Group and treasury share transactions”.

These consolidated financial statements of the Company are for the twelve months ended 31 March 2007.

Basis of accounting

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments.

The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the consolidated financial statements, are summarised in the Business review and disclosed in the notes.

Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies; generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group; they are de-consolidated from the date on which control ceases. The purchase method of accounting is used for the acquisition of subsidiaries of the Group. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributed to the acquisition. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group’s share of the identifiable net assets acquired, the difference is recognised directly in the income statement. The results of subsidiaries acquired or sold during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

b) *Associates and joint ventures*

Associates are all entities over which the Group has significant influence, but no control; generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities subject to joint control. Investments in associates and joint ventures are accounted for under the equity method of accounting and initially recognised at cost. The Group's investment in associates includes goodwill, net of any accumulated impairment loss.

Turnover and revenue recognition

Group turnover represents the total value of income (excluding sales taxes and intra-Group sales) earned in respect of products delivered and services rendered to customers, royalties and contributions receivable in support of programmes and the value of long-term contract work completed. Turnover relates to ordinary activities and is stated after trade discounts.

Income from licences where the underlying intellectual property is secure and on which the Group will not incur future costs is recognised on signing of the contract with the licensee. Where the Group will incur future maintenance and support costs and all components of the contract do not operate independently the full contract value is recognised rateably over the period of the contract. Where the components do operate independently and fair values can be allocated to the individual components each component is treated as if it were a separate contract. Any invoices raised or cash received in advance of recognition of the income is included within payments received on account in trade and other payables. As detailed in note 2 income on long-term contracts is recognised based on the value of work completed under the contract. All other income is recognised on delivery of the product or service or once all risks and rewards have passed to the customer.

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular geographic region that is subject to risks and returns that are different from those of segments operating in other geographic regions.

Government grants

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

Investment income

Income from fixed asset investments comprises dividend income, which is recognised when the right to receive payment is established.

Property, plant and equipment

All property, plant and equipment is shown at cost less depreciation and impairment. Freehold land is not depreciated. Cost includes expenditure that is directly related to the acquisition of the assets.

Depreciation is calculated using the straight line method to allocate the costs of each asset to its residual value over its estimated useful life, as follows:

Leasehold land and buildings	up to period of lease or 10 years
Plant and equipment:	
Computers and vehicles	up to 5 years
Other plant and equipment	5 to 10 years
Assets in course of construction	not depreciated

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying value is written down immediately to its recoverable amount if the carrying value is greater than its estimated recoverable amount.

Intangible assets

a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group and Company's share of identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets; goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purposes of impairment testing. Goodwill arising before the date of transition to IFRS has been retained at the previous UK GAAP amounts. Goodwill written off to equity reserves under UK GAAP prior to 1 April 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal of subsidiaries.

b) *Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technical feasibility and costs can be measured reliably. Other development expenditure is recognised as an expense. Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of commercial sale of the product on a straight-line basis over the period of their expected benefit, not exceeding twenty years.

c) *Other intangible assets*

Intangible assets acquired separately are capitalised at cost and those acquired in a business combination are capitalised at fair value as at the date of acquisition.

Intangible assets, excluding development costs, that are created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Intangible assets arising from a business combination are amortised over their remaining useful lives.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful lives are as follows:

Acquired software licences	3 to 5 years
Trademarks and licences	up to 20 years
Other intangibles	5 to 10 years

Intangible assets are tested for impairment annually. Useful lives are also reviewed on an annual basis and adjustments, where applicable, are made on a prospective basis.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profits as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities that affect neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and amended to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Employee benefits

a) *Pension obligations*

The Group operated a number of pension schemes in the UK and overseas and following the disposals during the year only operates schemes in the UK. The Group has both defined benefit and defined contribution schemes.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The defined benefit schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the statement of recognised income and expense.

For defined contribution plans the Group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction of future payment is available.

b) Other post-retirement benefit obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

c) Share-based plans

The Group's management awards high-performing employees bonuses in the form of share options from time to time on a discretionary basis. The options are subject to three to five year service vesting conditions. The fair value at the grant date of the option is recognised as an employee benefit expense on a straight-line basis over the vesting period. The liability is recognised in "fair value and other reserves" until the options are exercised when the proceeds received, net of attributable transaction costs, are credited to share capital and premium.

d) Short-term employee benefits

Accruals are included to reflect the cost of short-term compensation to employees for absences such as paid annual leave.

e) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or where an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date and are discounted to present value where the effect is material.

Provision is made for the future costs arising from the closure and decontamination of certain experimental facilities and the management and final disposal of wastes where these activities are a Group responsibility. The full liability is recognised when operations commence and the facility becomes contaminated.

Inventories and work in progress

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

Trade receivables

Trade receivables are stated initially at fair value then measured at amortised cost less provisions for impairment. Provisions for impairment are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The impairment recorded is the difference between the carrying value of the receivables and the estimated future cash flows discounted where appropriate. Any impairment required is recorded in the income statement.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Long-term contracts

Turnover on long-term contracts is recognised according to the stage reached in the contract by reference to the value of work completed. An appropriate estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The amount by which the turnover exceeds payments on account is shown under trade and other receivables as amounts receivable from long-term contracts.

Leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown as borrowings. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group.

Risk management policies

The risk management policies are documented in the Business review, financial performance section.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to risk from foreign exchange and interest rate fluctuations. The Group does not hold or issue derivative financial instruments for speculative or trading purposes.

To achieve hedge accounting, the Group is required to designate these financial instruments against specific assets, liabilities, income and expenses. All such instruments are recognised initially at fair value and subsequently measured at the new fair value as at the balance sheet date and the effectiveness of each hedge tested against defined criteria. Changes in the fair value of the financial instruments are recognised either in the income statement for the period or, in the case of a cash flow hedge, directly in equity and subsequently recognised in the income statement for the period when the underlying transaction is realised. For financial instruments designated as fair value hedges, changes in the fair value of the hedged item and the derivative instrument are recognised in the income statement for the period. Gains and losses on financial instruments, both realised and unrealised, that do not qualify for hedge accounting are included in the income statement for the period. All financial instruments are recognised as either financial assets or financial liabilities. The Group currently has no derivatives that are designated and qualify as cash flow hedges.

The Company's warrant instruments were issued as part of the re-financing of the Group in July 2005. The value of the equity element of the compound debt/equity instrument was calculated as the difference between the actual cash proceeds and the fair value of the debt element. This value was nil. The cash proceeds will be recognised in the period in which the warrants are exercised. The fair value of the warrants is disclosed in the relevant note of these financial statements (see "Derivative Financial Instruments").

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. The exchange differences are recognised in the income statement unless they qualify for hedge accounting treatment, in which case they are recognised directly in reserves.

For consolidation purposes the assets and liabilities of overseas subsidiaries, joint ventures and associates are translated at the exchange rates ruling at the balance sheet date. The income statements of overseas operations are translated at average rates of exchange during the year. All resulting exchange differences are recognised directly in a separate component of equity. Translation differences that arose before the transition date to IFRS are presented in equity but not as a separate component. When the foreign operation is sold the cumulative exchange differences recognised since the adoption of IFRS are recognised in the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments on the acquisition of a foreign entity are treated as the assets and liabilities of the foreign entity and translated using the closing exchange rate at each balance sheet date. The Group has elected to treat goodwill and fair value adjustments before the date of transition to IFRS as pound sterling denominated assets and liabilities.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as at 1 April 2004.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of Black-Scholes and Monte Carlo models. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. A liability equal to the fair value of the shares likely to vest with employees who are unable to accept equity-settled share-based payments is determined at each balance sheet date.

Investment in subsidiaries

The Company's investment in subsidiaries is shown at cost less any provision for impairment. The cost of the investment includes expenditure directly related to the acquisition of the investment in the subsidiary. The carrying value of the Company's investments in subsidiaries is the lower of cost and recoverable amount.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Discontinued operations

The Group classifies businesses as discontinued operations when the business has been sold in the year or the carrying amounts will be recovered through a sale transaction rather than through continuing use. The anticipated sale transaction is expected to be completed within one year from the date of classification. After being classified as a discontinued operation the business is recorded as a non-current asset or liability held for sale and the assets and liabilities held at the lower of carrying value and fair value less costs to sell.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents is defined as cash in hand and cash held in on-demand bank accounts as well as highly liquid investments that are readily convertible to known amounts of cash with a maturity of less than three months.

Critical accounting estimates and judgements

In applying the Group's accounting policies set out above, management is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and updated as necessary. The estimates and judgements that have the most significant effect on the amounts included in these consolidated financial statements are as follows:

- a) *Pensions*
The net liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to longevity, inflation, projected return on investments, salary increases and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligation recognised. Further details on these estimates are set out in note 29.
- b) *Provisions for decontamination and waste management*
The Group is exposed to certain liabilities in respect of decommissioning various nuclear facilities. Provisions for these costs are made in full once the facility becomes contaminated and are calculated on the latest technical assessments of the processes and methods likely to be used in the future and represent estimates derived from a combination of the technical knowledge available, existing legislation and regulations and commercial agreements. The estimates are reviewed annually and changes to the provisions that are required, including price level changes, are accounted for in the year in which they arise, together with the notional interest on provisions that have been discounted.
- c) *Provisions in respect of onerous contracts*
The Group has certain contracts where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. These contracts are in respect of vacant properties and the provision of services. Provisions for these onerous contracts are made for the net cost of exiting the contract which is the lower of the estimated cost of fulfilling the contract and the estimated compensation or penalties arising from failure to fulfil it.
- d) *Provisions in respect of warranties and indemnities*
The Group has certain liabilities in respect of claims under warranties and indemnities. Management are required to estimate the potential exposure in respect of such claims. A determination of the amount of provisions required, if any, is based on a careful analysis of each individual issue with the assistance of outside legal counsel where appropriate. However, actual claims incurred could differ from the original estimates.
- e) *Long-term contracts*
Turnover on long-term contracts is recognised according to the stage reached in the contract by reference to the value of work completed. An appropriate estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty.
- f) *Development costs*
The Group capitalises development costs provided they meet certain criteria. Costs are only capitalised when it is probable that the project will be a success and costs can be measured reliably. Other development expenditure is recognised as an expense.
- g) *Current and deferred taxation*
In determining the Group provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made. Deferred tax assets have been recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.
- h) *Contingent liabilities*
The Group is subject to legal proceedings and other claims arising in the ordinary course of business. The Group is required to assess the likelihood of any adverse judgements or outcomes, as well as potential ranges of probable losses. A determination of the

amount of reserves required, if any, for these contingencies is based on a careful analysis of each individual issue with the assistance of outside legal counsel. However, actual claims incurred could differ from the original estimate.

3 SEGMENTAL INFORMATION

Business segments

At 31 March 2007 the Group is organised into one core business segment, Environment. The "Other" segment represents the costs of the Group's head office and central functions.

Segmental results for the years ended 31 March (continuing operations)

	2007			2006		
	Environment £m	Other £m	Group £m	Environment £m	Other £m	Group £m
External sales	75.2	–	75.2	55.7	0.1	55.8
Inter-segment sales ¹	1.7	(1.7)	–	2.1	(2.1)	–
Turnover	76.9	(1.7)	75.2	57.8	(2.0)	55.8
Adjusted operating profit/(loss)	12.4	(3.8)	8.6	11.1	(7.2)	3.9
Pension curtailment (loss)/gain	–	(0.8)	(0.8)	10.6	1.7	12.3
Exceptional past service credit	–	2.0	2.0	–	–	–
Redundancy costs	–	–	–	(0.3)	(1.3)	(1.6)
Re-financing costs	–	(0.4)	(0.4)	–	(3.0)	(3.0)
Operating profit/(loss)	12.4	(3.0)	9.4	21.4	(9.8)	11.6
Investment income			–			1.3
Finance costs			(16.7)			(12.0)
Finance income			15.3			7.6
Profit before tax			8.0			8.5
Tax expense			–			(0.1)
Profit for the year from continuing operations			8.0			8.4

¹ Inter-segment sales are made at cost and are within the same legal entity.

Depreciation and amortisation (continuing operations)

Depreciation and amortisation included in the segmental results for the years ended 31 March are as follows:

	2007			2006		
	Environment £m	Other £m	Group £m	Environment £m	Other £m	Group £m
Depreciation	0.5	1.2	1.7	0.6	2.0	2.6
Amortisation	–	–	–	–	–	–

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

	Kinectrics £m	Engineering Services Inc £m	AEA Rail £m	Nuclear Programmes £m	QSA £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
Adjusted operating profit/(loss)	0.4	0.3	(0.1)	(1.2)	–	(0.1)	0.1	(0.6)
Significant items	–	–	–	–	–	–	–	–
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 results for the year ended 31 March 2006 (discontinued operations)

	Kinectrics £m	Engineering Services Inc £m	AEA Rail ¹ £m	Nuclear Programmes £m	QSA £m	Battery Systems £m	Other £m	Group £m
External sales	27.2	8.2	55.0	12.1	16.2	10.8	6.1	135.6
Inter-segment sales	–	0.1	0.1	0.2	0.1	–	(0.5)	–
Turnover	27.2	8.3	55.1	12.3	16.3	10.8	5.6	135.6
Adjusted operating profit/(loss)	1.0	1.1	(2.8)	(0.7)	1.8	(2.6)	(2.0)	(4.2)
Pension curtailment gain	–	–	13.2	2.6	0.3	1.8	1.4	19.3
Redundancy costs	(0.2)	–	(7.3)	(0.5)	–	–	(0.5)	(8.5)
Impairment costs	–	–	(15.0)	–	–	–	–	(15.0)
Operating profit/(loss)	0.8	1.1	(11.9)	1.4	2.1	(0.8)	(1.1)	(8.4)
Share in loss of joint venture and associates								(0.4)
Finance costs								(18.3)
Finance income								16.9
Loss before tax								(10.2)
Tax expense								(3.6)
Loss for the year from discontinued operations								(13.8)

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

The segmental assets and liabilities as at 31 March 2007 and capital expenditure in the year then ended are as follows:

	Environment £m	Kinectrics £m	Engineering Services Inc £m	AEA Rail £m	Nuclear Programmes £m	Other ¹ £m	Group £m
Total assets	36.2	–	–	–	–	(6.5)	29.7
Liabilities	(58.7)	–	–	–	–	(115.5)	(174.2)
Capital expenditure	0.4	0.5	0.2	0.2	–	0.4	1.7

The segmental assets and liabilities as at 31 March 2006 and capital expenditure in the year then ended are as follows:

	Environment £m	Kinectrics £m	Engineering Services Inc £m	AEA Rail £m	Nuclear Programmes ¹ £m	Other £m	Group £m
Total assets	29.7	24.1	2.9	39.7	(5.6)	8.9	99.7
Liabilities	(62.8)	(19.2)	8.8	(65.0)	(29.4)	(85.8)	(253.4)
Capital expenditure	0.3	1.5	0.1	1.5	–	2.9	6.3

¹ Negative assets due to bank overdraft with right of set-off against other cash balances.

Total assets represent all non-current assets, current assets and assets classified as held for sale.

Geographical segments

The Group's business segments operate primarily in the UK, the home country of the Company. Additional operations are in Europe and North America.

The geographical analysis of turnover is as follows:

	2007 £m	2006 £m
Turnover by destination		
United Kingdom	70.4	52.3
Europe	4.0	3.1
North America	0.1	–
Rest of World	0.7	0.4
Total turnover	75.2	55.8

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 £73.4 million (2006: £54.1 million) and from licence income is £1.8 million (2006: £1.7 million).

Turnover from the Group's discontinued operations was derived from the United Kingdom £18.7 million (2006: £64.7 million), Europe £4.7 million (2006: £19.0 million), North America £14.4 million (2006: £42.9 million) and Rest of World £0.9 million (2006: £9.0 million).

Total assets

	2007 £m	2006 £m
United Kingdom	29.7	66.0
Europe	–	5.8
North America	–	27.0
Rest of World	–	0.9
Total assets	29.7	99.7

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

Capital expenditure

	2007 £m	2006 £m
United Kingdom	1.0	4.4
Europe	–	0.3
North America	0.7	1.6
Rest of World	–	–
Total capital expenditure	1.7	6.3

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

4 OTHER OPERATING INCOME

	2007 £m	2006 £m
Recovery of pension scheme administration costs	1.4	1.2
Other ¹	5.4	1.2
	6.8	2.4

¹ Other relates to the recovery of rental and other costs from previously disposed businesses in respect of transitional service agreements.

5 REDUNDANCY COSTS

	2007 £m	2006 £m
Environment	–	0.3
Other	–	1.3
	–	1.6

The redundancy costs arose as a result of the Group's cost reduction plan. Redundancy costs incurred in 2007 as a result of the disposal of the Rail business and a portfolio of companies have been charged to the profit on disposal of businesses.

6 EXPENSES

Expenses by nature (continuing operations)

	2007 £m	2006 £m
Change in inventories of finished goods and work in progress	–	0.1
Employee compensation and benefit expense	29.6	32.3
Consultancy costs	27.3	9.7
Property rents:		
minimum lease payments	3.6	2.4
contingent rents	–	0.2
Hire of plant and machinery	0.1	–
Depreciation of plant, property and equipment	1.7	2.5
Impairment of trade receivables	0.1	0.1
Auditors' remuneration for audit services	0.2	0.3
Net foreign exchange gains	(0.1)	(0.2)
Other external charges	10.9	6.9
Total cost of goods sold, selling, marketing, distribution & administrative expenses (excluding significant one-off items)	73.4	54.3

Amounts payable to PricewaterhouseCoopers LLP and their associates by the Group in respect of non-audit services are shown in Auditors' remuneration.

Employee compensation and benefit expense (continuing and discontinued operations)

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Wages and salaries	39.5	76.5	30.9	47.6
Social security costs	3.6	7.4	3.0	4.4
Share options	0.2	0.4	0.2	0.4
Pension costs – defined contribution plans	1.2	1.7	1.1	1.2
Pension costs – defined benefit plans (note 29)	3.2	(19.5)	2.8	(20.4)
Other post-employment benefits (note 29)	0.3	0.7	-	-
	48.0	67.2	38.0	33.2
Severance costs	-	9.6	-	9.6
	48.0	76.8	38.0	42.8

Number of employees (continuing and discontinued operations)

	Group		Company	
	2007 No.	2006 No.	2007 No.	2006 No.
Average headcount:				
United Kingdom	931	1,614	898	1,395
Europe	51	184	-	-
North America	112	306	-	-
Rest of World	3	71	-	-
	1,097	2,175	898	1,395

Auditors' remuneration

	2007	2007	2006	2006
	£m	%	£m	%
Audit services:				
statutory audit	0.2	20%	0.3	17%
Other services pursuant to legislation	0.1	10%	0.2	12%
	0.3	30%	0.5	29%
Tax advisory services	-	-	0.1	6%
Transaction services	0.7	70%	1.1	65%
	1.0	100%	1.7	100%

In addition to the amounts shown above, the auditors received fees of £nil (2006: less than £0.1 million) for the audit of Group pension schemes.

A description of the work of the Audit Committee is set out in the "Corporate governance" section of the Annual Report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7 INVESTMENT INCOME

	2007 £m	2006 £m
Investment income:		
dividends from investments	-	1.3

8 FINANCE COSTS

	2007	2006
	£m	£m
Interest expense:		
interest on bank overdrafts and loans	2.2	3.0
finance leases	0.1	0.1
	2.3	3.1
Accretion of discount on defined pension scheme obligations	14.4	8.9
	16.7	12.0

9 FINANCE INCOME

	2007	2006
	£m	£m
Interest income	0.7	0.2
Expected return on defined pension scheme assets	14.6	7.4
	15.3	7.6

10 TAX EXPENSE

	2007	2006
	£m	£m
UK corporation tax at 30% (2006: 30%):		
tax on income for the year	–	–
adjustments in respect of prior year	–	0.1
Tax expense – continuing operations	–	0.1

	2007	2006
	£m	£m
Profit before tax – continuing operations	8.0	8.5
Effective taxation at 30%	2.4	2.6
Tax calculated at domestic tax rates applicable to profits in respective countries	2.4	2.6
Prior year current tax adjustments	–	0.1
Income not subject to tax (permanent differences)	(0.1)	(0.8)
Expenses not deductible for tax purposes (permanent differences)	1.0	0.6
Unrecognised deferred tax assets	(2.9)	(2.4)
Double tax relief on dividend from overseas Group subsidiary	(0.4)	–
Tax expense – continuing operations	–	0.1

11 DISCONTINUED OPERATIONS

On 1 May 2006 the Company sold the European Implant Foundry Business (“EIF”) to Smart Implant Technology Limited. The sale consideration was less than £0.1 million and the net assets of EIF were written down in the year to 31 March 2006 to reflect the sale proceeds. Final working capital adjustments required a write-back of £0.1 million in the current year to 31 March 2007.

On 18 May 2006 the Company sold the entire issued share capital of Summit AEA Corporation (“SAC”) to Centronic Holdings Limited. The sale consideration was £1 and the net assets of SAC were written down in the year to 31 March 2006 to reflect the sale proceeds. Final working capital adjustments required a write-back of £0.2 million in the current year to 31 March 2007.

On 7 June 2006 the Company sold the entire issued share capital of AGM Batteries Limited (“AGM”) to ABSL Power Solutions Limited, which is owned by funds advised by Collier Capital Limited. AGM designs, manufactures and markets lithium-ion cells for use in a wide range of markets. The sale consideration was £1 and formed part of a wider interim settlement of issues arising between the Company and Collier Capital Limited in respect of the purchase by Collier Capital Limited of a portfolio of non-core assets in October 2005. In the financial year to 31 March 2005 AGM traded at a loss before tax of £2.3 million and, in the financial year to 31 March 2006, it traded at a loss before

tax of £4.8 million. The net assets of AGM were written down in the year to 31 March 2006 to reflect the sale proceeds. Final working capital adjustments required an additional £1.1 million write-down in the current year to 31 March 2007.

Under an agreement signed on 10 August 2006, the Group entered into a conditional agreement to sell the Rail business and a portfolio of companies to companies advised by Vision Capital Limited. Completion took place at midnight on 2 September 2006. The Group companies disposed of with their country of incorporation (where not the United Kingdom) were:

AEA Technology Rail B.V. (The Netherlands)	European Rail Software Applications Sarl (France)
AEA Technology Global S.A. (Spain)	AEA Technology Rail Notified Body Ltd.
Waste Management Technology Ltd.	Kinectrics Incorporated (Canada)
Kinectrics International Incorporated (Canada)	Kinectrics North America Incorporated (Canada)
Kinectrics US Incorporated (USA)	AEA Technology Incorporated (USA)
AEA Technology Engineering Services Incorporated (USA)	

In addition the residual Nuclear Programmes business is shown as discontinued.

The results of the companies and businesses that are shown as discontinued are as follows:

	2007	2006
	£m	£m
Turnover	38.7	135.6
Cost of sales	(20.6)	(78.9)
Gross profit	18.1	56.7
Other operating income	–	1.7
Operating costs	(18.7)	(66.8)
<i>Analysed as:</i>		
<i>operating costs before significant one-off items</i>	<i>(18.7)</i>	<i>(62.6)</i>
<i>curtailment gain in pension schemes</i>	<i>–</i>	<i>19.3</i>
<i>impairment of assets</i>	<i>–</i>	<i>(15.0)</i>
<i>redundancy costs</i>	<i>–</i>	<i>(8.5)</i>
Operating loss	(0.6)	(8.4)
Share in loss of joint venture and associates	–	(0.4)
Finance costs	(7.4)	(18.3)
Finance income	7.8	16.9
Loss before income tax	(0.2)	(10.2)
Income tax expense	(0.5)	(3.6)
Loss for the year from discontinued operations	(0.7)	(13.8)

The cash flows from discontinued operations were as follows:

	2007	2006
	£m	£m
Net cash flows used in operating activities	(8.4)	(15.5)
Net cash flows used in investing activities	(0.9)	(4.1)
Net cash flows (used in)/from financing activities	(0.1)	0.2
	(9.4)	(19.4)

Impairment of assets:

	2007	2006
	£m	£m
Impairment of intangible assets – goodwill	–	13.3
Impairment of leasehold improvements	–	1.3
Impairment of plant and equipment	–	4.4
	–	19.0

The above impairments, with the exception of £3.7 million plant and equipment and £0.3 million of goodwill, relate to the Rail business. The balance of £4.0 million relates to the Batteries business and was reported within the loss on disposal.

The Group's accounting policy is to test annually for impairment of intangible assets. Impairment of property, plant and equipment is tested where there is an indication that the carrying value exceeds the recoverable amount. Due to the adverse market conditions faced by the Rail business, its assets were tested for impairment during the year ended 31 March 2006.

Impairment reviews require estimates to be made of the value in use of cash generating units (CGU's). Forecast operating cash flows are based on approved budgets and plans, based on past performance and expectations of the development of the CGU. Further estimates of the long-term growth rates of the CGU are made to enable forecast operating cash flows to be made for 10 years in the future. The resulting cash flows were discounted using a discount rate of 13%.

The impairment test in 2006 showed a deficit of £15.0 million of value in use over carrying value in the Rail business, £13.0 million of this impairment was allocated against the goodwill and £2.0 million to certain tangible fixed assets. The tests also showed a deficit of £4.0 million of value in use over carrying value in the Batteries business, £3.7 million allocated against certain tangible fixed assets and £0.3 million allocated against goodwill.

The aggregated balance sheet of the companies and businesses that were disposed of during the period at the date control passed to the purchaser was as follows:

	At disposal 2007 £m	At disposal 2006 £m
ASSETS		
Non-current assets		
Goodwill	12.1	2.6
Other intangible assets	4.2	6.7
Property, plant and equipment	5.9	4.8
Investment in other companies	-	0.5
Deferred tax asset	2.9	-
	25.1	14.6
Current assets		
Inventories	5.2	14.5
Trade and other receivables	22.0	18.7
Current income tax asset	0.5	-
Cash and cash equivalents	5.4	2.5
	33.1	35.7
Total assets	58.2	50.3
EQUITY		
Capital and reserves attributable to the Company's equity shareholders		
Retained earnings	3.9	21.6
Minority interests	-	0.9
Total equity	3.9	22.5
LIABILITIES		
Non-current liabilities		
Retirement benefit liabilities	26.6	3.9
Provisions and other liabilities and charges	4.9	3.6
Borrowings	0.2	-
Deferred income tax liabilities	-	1.7
	31.7	9.2
Current liabilities		
Trade and other payables	22.4	18.6
Borrowings	0.2	-
	22.6	18.6
Total liabilities	54.3	27.8
Total equity and liabilities	58.2	50.3

Profit/(loss) on disposal

	2007 £m	2006 £m
Proceeds	41.5	40.0
Net assets sold	(3.9)	(21.6)
Curtailment loss in pension schemes	(1.8)	(2.3)
Provisions and other charges	(10.7)	(22.8)
Costs of disposal	(9.0)	(7.1)
Foreign exchange reserves released	0.2	1.2
	16.3 ¹	(12.6)
Loss recognised on assets and liabilities held for sale as at 31 March 2006 and disposed in 2007	(0.8) ²	(1.2)
Adjustment to provisions in respect of prior year disposal	1.9	–
Profit/(loss) on disposal	17.4	(13.8)

¹ Profit on disposal in respect of the 2 September 2006 disposal.

² £1.1 million loss in respect of the AGM disposal, £0.2 million profit in respect of the SAC disposal and £0.1 million profit in respect of the EIF disposal.

Net proceeds received in respect of the 2 September disposal were as follows:

	2007 £m	2006 £m
Cash received	41.5	40.0
Payments to pension schemes	(10.0)	(8.1)
Cash divested	(5.4)	(2.5)
Disposal costs	(8.7)	(7.1)
Net proceeds	17.4	22.3
Reduction of banking facilities	(13.0)	(19.1)
	4.4	3.2

Loss recognised on assets and liabilities held for sale

	2007 £m	2006 £m
Net assets held for sale	–	(1.2)
Fair value adjustments	–	0.3
Provisions	–	(0.3)
Loss recognised on assets and liabilities held for sale	–	(1.2)
Loss on disposal	(0.8)	–
	(0.8)	(1.2)

12 EARNINGS PER SHARE**Earnings per share on continuing operations****Basic**

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, excluding ordinary shares purchased by the Company and held as treasury shares.

	2007	2006
Profit attributable to equity holders of the Company – continuing operations (£ million)	8.0	8.4
Weighted average number of ordinary shares in issue (million)	118.3	104.5
Basic earnings per share – continuing operations (pence per share)	6.8p	8.0p

Diluted

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.

	2007	2006
Profit attributable to equity holders of the Company – continuing operations (£ million)	8.0	8.4
Weighted average number of ordinary shares in issue (million)	118.3	104.5
Adjustment for warrants (million)	1.6	1.3
Adjustment for share options (million)	0.1	–
Weighted average number of ordinary shares for diluted earnings per share (million)	120.0	105.8
Diluted earnings per share – continuing operations (pence per share)	6.7p	7.9p

Adjusted earnings

The adjusted earnings per share is calculated as follows:

	2007	2006
Profit attributable to equity holders of the Company – continuing operations (£ million)	8.0	8.4
Pension curtailment loss/(gain) (£ million)	0.8	(12.3)
Exceptional credit for pension past service cost (£ million)	(2.0)	–
Redundancy costs (£ million)	–	1.6
Re-financing costs (£ million)	0.4	3.0
Adjusted earnings attributable to equity holders of the Company – continuing operations (£ million)	7.2	0.7
Weighted average number of ordinary shares in issue (million)	118.3	104.5
Adjusted earnings per share – continuing operations (pence per share)	6.1p	0.7p

Earnings per share on continuing and discontinued operations

Basic – continuing and discontinued operations

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2007	2006
Profit/(loss) attributable to equity holders of the Company (£ million)	24.7	(19.4)
Weighted average number of ordinary shares in issue (million)	118.3	104.5
Basic earnings per share (pence per share)	20.9p	(18.6)p

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.

	2007	2006
Profit/(loss) attributable to equity holders of the Company (£ million)	24.7	(19.4)
Weighted average number of ordinary shares in issue (million)	118.3	104.5
Adjustment for warrants (million)	1.6	–
Adjustment for share options (million)	0.1	–
Weighted average number of ordinary shares for diluted earnings per share (million)	120.0	104.5
Diluted earnings per share (pence per share)	20.6p	(18.6)p

Adjusted earnings – continuing and discontinued operations

The adjusted earnings per share is calculated as follows:

	2007	2006
Profit/(loss) attributable to equity holders of the Company (£ million)	24.7	(19.4)
Impairment of assets (£ million)	–	15.0
Pension curtailment loss/(gain) (£ million)	0.8	(31.6)
Exceptional credit for pension past service cost (£ million)	(2.0)	–
Redundancy costs (£ million)	–	10.1
Re-financing costs (£ million)	0.4	3.0
(Profit)/loss on disposal of businesses (£ million)	(17.4)	13.8
Adjusted profit/(loss) – attributable to equity holders of the Company (£ million)	6.5	(9.1)
Weighted average number of ordinary shares in issue (million)	118.3	104.5
Adjusted earnings per share (pence per share)	5.5p	(8.7)p

13 GOODWILL

Group	2007 £m	2006 £m
Cost		
At 1 April	25.3	28.9
Businesses sold	(25.3)	(3.6)
At 31 March	–	25.3
Accumulated impairment losses		
At 1 April	13.2	0.9
Impairment loss	–	13.3
Businesses sold	(13.2)	(1.0)
At 31 March	–	13.2
Net book value at 31 March	–	12.1
Company		
	2007 £m	2006 £m
Cost		
At 1 April	26.3	26.3
Businesses sold	(26.3)	–
At 31 March	–	26.3
Accumulated impairment losses		
At 1 April	13.5	0.4
Impairment loss	–	13.1
Businesses sold	(13.5)	–
At 31 March	–	13.5
Net book value at 31 March	–	12.8

14 OTHER INTANGIBLE ASSETS

Group

	Development costs £m	Other intangibles £m	Total £m
Cost			
At 1 April 2005	8.8	1.7	10.5
Additions	2.4	0.1	2.5
Businesses sold	(7.0)	(0.5)	(7.5)
At 31 March 2006	4.2	1.3	5.5
Additions	0.3	0.4	0.7
Disposals	(0.2)	–	(0.2)
Businesses sold	(4.2)	(1.6)	(5.8)
At 31 March 2007	0.1	0.1	0.2
Accumulated amortisation			
At 1 April 2005	0.6	0.3	0.9
Charge for year	0.7	0.3	1.0
Businesses sold	(0.8)	–	(0.8)
At 31 March 2006	0.5	0.6	1.1
Charge for year	0.3	0.2	0.5
Businesses sold	(0.8)	(0.8)	(1.6)
At 31 March 2007	–	–	–
Net book value at 31 March 2007	0.1	0.1	0.2
Net book value at 31 March 2006	3.7	0.7	4.4

Company

	Development costs £m	Other intangibles £m	Total £m
Cost			
At 1 April 2005	2.6	–	2.6
Additions	1.3	–	1.3
At 31 March 2006	3.9	–	3.9
Additions	0.3	0.1	0.4
Disposals	(0.2)	–	(0.2)
Businesses sold	(3.9)	–	(3.9)
At 31 March 2007	0.1	0.1	0.2
Accumulated amortisation			
At 1 April 2005	0.1	–	0.1
Charge for year	0.2	–	0.2
At 31 March 2006	0.3	–	0.3
Charge for year	0.3	–	0.3
Businesses sold	(0.6)	–	(0.6)
At 31 March 2007	–	–	–
Net book value at 31 March 2007	0.1	0.1	0.2
Net book value at 31 March 2006	3.6	–	3.6

Amortisation is charged to administration expenses in the income statement.

15 PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2005	0.6	8.3	49.8	6.4	65.1
Currency translation differences	–	–	1.2	–	1.2
Additions	–	0.9	2.4	0.5	3.8
Disposals	(0.3)	(0.1)	(0.9)	(0.1)	(1.4)
Transfers	(0.2)	0.2	3.5	(3.5)	–
Businesses sold	–	(1.8)	(21.5)	(1.5)	(24.8)
At 31 March 2006	0.1	7.5	34.5	1.8	43.9
Currency translation differences	–	–	(0.7)	–	(0.7)
Additions	–	0.1	0.9	–	1.0
Disposals	(0.1)	(0.1)	(0.6)	(1.8)	(2.6)
Businesses sold	–	(2.9)	(19.9)	–	(22.8)
At 31 March 2007	–	4.6	14.2	–	18.8
Accumulated depreciation					
At 1 April 2005	0.1	3.8	28.6	–	32.5
Currency translation differences	–	–	0.9	–	0.9
Charge for year	–	0.8	4.7	–	5.5
Disposals	(0.1)	(0.1)	(0.6)	–	(0.8)
Businesses sold	–	(1.3)	(8.4)	–	(9.7)
At 31 March 2006	–	3.2	25.2	–	28.4
Currency translation differences	–	–	(0.5)	–	(0.5)
Charge for year	–	0.5	1.9	–	2.4
Disposals	–	(0.1)	(0.5)	–	(0.6)
Businesses sold	–	(1.1)	(14.5)	–	(15.6)
At 31 March 2007	–	2.5	11.6	–	14.1
Accumulated impairment losses					
At 1 April 2005	–	0.3	5.4	1.8	7.5
Impairment losses	–	1.3	4.4	–	5.7
Businesses sold	–	(0.2)	(8.8)	–	(9.0)
At 31 March 2006	–	1.4	1.0	1.8	4.2
Impairment losses	–	–	0.6	–	0.6
Disposals	–	–	–	(1.8)	(1.8)
Businesses sold	–	(1.3)	(1.0)	–	(2.3)
At 31 March 2007	–	0.1	0.6	–	0.7
Net book value at 31 March 2007	–	2.0	2.0	–	4.0
Net book value at 31 March 2006	0.1	2.9	8.3	–	11.3

The carrying amount of the Group's plant and equipment includes an amount of £0.7 million (2006: £1.9 million) in respect of assets held under finance leases.

The impairment loss for the year to 31 March 2007 relates to plant and equipment retained by AEA but previously used by disposed businesses and no longer utilised by AEA.

Following the poor performances of the Rail business segment at the start of the 2006 financial year, an impairment review was carried out. A £15.0 million charge arose due to the calculated impairment of certain tangible (£2.0 million) and intangible (£13.0 million) assets. The charge was calculated using value in use calculations based on discounted future cash flows at 13%. The £2.0 million charge in respect of tangible assets in 2006 relates to leasehold land and buildings (£1.3 million) and plant and equipment (£0.7 million). A further impairment loss of £3.7 million on plant and equipment arose in 2006 in the Batteries business. This impairment was based on value in use and resulted from the disposal of a subsidiary to whom sales generated from specific retained assets had subsequently declined.

Company

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2005	0.3	6.7	20.0	5.3	32.3
Additions	–	0.9	0.7	–	1.6
Disposals	–	–	(0.6)	–	(0.6)
Transfers	(0.2)	0.2	3.5	(3.5)	–
Businesses sold	–	(0.4)	(4.2)	–	(4.6)
At 31 March 2006	0.1	7.4	19.4	1.8	28.7
Additions	–	0.1	0.4	–	0.5
Disposals	(0.1)	(0.6)	(1.3)	(1.8)	(3.8)
Businesses sold	–	(2.3)	(4.3)	–	(6.6)
As at 31 March 2007	–	4.6	14.2	–	18.8
Accumulated depreciation					
At 1 April 2005	–	2.7	13.4	–	16.1
Charge for year	–	0.8	2.5	–	3.3
Disposals	–	–	(0.1)	–	(0.1)
Businesses sold	–	(0.3)	(1.0)	–	(1.3)
At 31 March 2006	–	3.2	14.8	–	18.0
Charge for year	–	0.4	1.4	–	1.8
Disposals	–	(0.3)	(1.3)	–	(1.6)
Businesses sold	–	(0.8)	(3.3)	–	(4.1)
At 31 March 2007	–	2.5	11.6	–	14.1
Accumulated impairment losses					
At 1 April 2005	–	0.3	0.4	1.8	2.5
Impairment loss	–	1.3	0.7	–	2.0
Businesses sold	–	(0.2)	(0.1)	–	(0.3)
At 31 March 2006	–	1.4	1.0	1.8	4.2
Impairment loss	–	–	0.6	–	0.6
Disposals	–	–	–	(1.8)	(1.8)
Businesses sold	–	(1.3)	(1.0)	–	(2.3)
At 31 March 2007	–	0.1	0.6	–	0.7
Net book value at 31 March 2007	–	2.0	2.0	–	4.0
Net book value at 31 March 2006	0.1	2.8	3.6	–	6.5

16 INVESTMENTS

Group

	Joint ventures and associated companies £m	Available for sale investments £m	Total £m
Cost			
At 1 April 2005	–	3.3	3.3
Additions	0.3	–	0.3
Disposals	–	(0.1)	(0.1)
Share of loss	(0.3)	–	(0.3)
Fair value adjustments	–	0.2	0.2
Other movements	–	(0.5)	(0.5)
Businesses sold	–	(0.5)	(0.5)
At 31 March 2006	–	2.4	2.4
Disposals	–	(0.1)	(0.1)
At 31 March 2007	–	2.3	2.3
Provision for impairment			
At 1 April 2005	–	0.2	0.2
Impairment losses	–	0.1	0.1
At 31 March 2006 and 31 March 2007	–	0.3	0.3
Net book value at 31 March 2007	–	2.0	2.0
Net book value at 31 March 2006	–	2.1	2.1

Available for sale investments are held at market value.

The Group's interests in its principal associates, neither of which were listed, were as follows:

	Name	Country of incorporation	Interest held %	Assets £m	Liabilities £m	Revenue £m	Loss £m
31 March 2005	GTL Microsystems AG	Switzerland	40.0%	1.4	0.7	–	1.4
	Canadian Power Utility Services Ltd	Canada	23.3%	0.2	0.2	0.5	–

Sales by the Group to its associates in the year were £nil (2006: £0.7 million) and purchases from the associates were £nil (2006: £nil). The Group made no margin on sales to associates. The Group sold both these associates during the year ended 31 March 2006.

Available for sale investments as at 31 March 2007 comprise unlisted securities held by AEA Technology plc. Available for sale investments as at 31 March 2006 comprised listed and unlisted securities held by AEA Technology plc. The Group holds these investments in entities where the Group has previously entered into corporate joint venture arrangements. Listed investments offer the Group the opportunity for return through fair value gains; listed and unlisted investments offer the Group the opportunity for return through dividend income.

Available for sale investments include the following:

	2007 £m	2006 £m
Listed securities:		
equity securities – United Kingdom	–	0.1
Unlisted securities:		
equity securities – United Kingdom	2.0	2.0
	2.0	2.1

Company

	Subsidiary companies		Total investments in subsidiaries £m	Available for sale investments £m	Total £m
	Shares £m	Loans £m			
Cost					
At 1 April 2005	61.9	38.9	100.8	2.9	103.7
Additions	23.1	6.3	29.4	–	29.4
Disposals	–	–	–	(0.1)	(0.1)
Loans waived	–	(24.7)	(24.7)	(0.6)	(25.3)
Transfers	(3.3)	–	(3.3)	3.3	–
Fair value adjustments	–	–	–	(3.1)	(3.1)
Reclassifications	–	(3.7)	(3.7)	–	(3.7)
At 31 March 2006	81.7	16.8	98.5	2.4	100.9
Additions	10.9	0.2	11.1	–	11.1
Disposals	(39.7)	(0.4)	(40.1)	(0.1)	(40.2)
Repayments ¹	(11.0)	(3.1)	(14.1)	–	(14.1)
At 31 March 2007	41.9	13.5	55.4	2.3	57.7
Provision for impairment					
At 1 April 2005	18.7	27.8	46.5	0.3	46.8
Impairment loss	0.6	6.6	7.2	0.3	7.5
Loans waived	–	(21.5)	(21.5)	(0.3)	(21.8)
At 31 March 2006	19.3	12.9	32.2	0.3	32.5
Disposals	(12.2)	–	(12.2)	–	(12.2)
At 31 March 2007	7.1	12.9	20.0	0.3	20.3
Net book value at 31 March 2007	34.8	0.6	35.4	2.0	37.4
Net book value at 31 March 2006	62.4	3.9	66.3	2.1	68.4

Available for sale investments are held at market value.

¹ Repayments relate to reduction in share capital in, and repayment of loans from, overseas subsidiaries prior to disposal (see note 11).

Principal subsidiary undertakings as at 31 March 2007

Name	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group	Nature of business
AEAT Holdings Ltd	UK	Ordinary shares	100%	Holding company
AEA Mediu Consulting S.R.L.	Romania	Ordinary shares	100%	Energy and Environment consultancy

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

In addition to those listed above, the Group has other subsidiary undertakings, which operate in the UK. All subsidiaries are included in the consolidated accounts. All subsidiaries have an accounting year end of 31 March, except AEA Mediu Consulting S.R.L. which has a 31 December accounting year end.

17 INVENTORIES

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Raw materials and consumables	–	0.2	–	–
Work in progress	0.1	7.4	0.1	3.8
Total inventories	0.1	7.6	0.1	3.8

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Current				
Trade receivables	14.5	34.7	14.5	25.3
Less provision for impairment of receivables	(3.2)	(2.7)	(3.2)	(2.6)
Trade receivables – net	11.3	32.0	11.3	22.7
Receivables from long term contracts	1.0	3.9	1.0	3.7
Prepayments and accrued income	1.8	5.2	1.8	4.4
Other debtors	1.0	0.5	1.0	0.5
Current trade and other receivables	15.1	41.6	15.1	31.3
Total trade and other receivables	15.1	41.6	15.1	31.3

The fair value of trade and other receivables are not materially different to the book value above. The majority of the Group's trade receivables relate to public sector organisations and hold a low credit risk. No further credit risk provisions, over and above the provisions shown above, are deemed necessary. There are no non-current trade and other receivables.

19 CURRENT TAX ASSETS

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Current tax asset recoverable within one year	0.1	0.4	0.1	0.2

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Cash at bank and in hand	1.3	1.4	1.3	–
Short term bank deposits	2.3	7.0	2.3	–
Total cash and cash equivalents	3.6	8.4	3.6	–

The effective interest rate on short-term bank deposits was 4.5% (2006: 3.9%). £2.3 million of these deposits have an average maturity of 3 days (2006: £5.0 million with an average maturity of 16 days and £2.0 million on deposit on a daily basis).

21 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Property, plant and equipment	–	1.3	–	–
Inventories	–	1.3	–	–
Trade and other receivables	–	2.4	–	0.5
Fair value adjustments	–	(0.7)	–	(0.2)
Total assets classified as held for sale	–	4.3	–	0.3

Liabilities classified as held for sale

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Trade and other payables	–	4.0	–	–
Provisions and other liabilities and charges	–	0.2	–	0.3
Total liabilities classified as held for sale	–	4.2	–	0.3

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares millions	Ordinary shares £m	Share premium £m	Company and Group Total £m
At 1 April 2005	67.6	8.3	10.7	19.0
Shares issued	50.7	6.2	24.0	30.2
At 31 March 2006	118.3	14.5	34.7	49.2
Shares issued	–	–	–	–
At 31 March 2007	118.3	14.5	34.7	49.2

On 14 June 2005 the Company announced details of a re-financing of the Group through a Placing and Open Offer of 50,682,656 new ordinary shares at 65 pence per share to raise £33.0 million (£30.2 million net of expenses). Applications were received from qualifying shareholders in respect of 44,575,931 of the 50,682,656 new ordinary shares offered under the Placing and Open Offer. This represented 88% of the new ordinary shares offered under the Open Offer. 6,106,725 new ordinary shares not applied for by qualifying shareholders under the Open Offer were taken up under the Placing pursuant to the Placing and Open Offer agreement.

The total authorised number of ordinary shares is 196,363,620 shares (2006: 196,363,620 shares) with a par value of 12.2 pence per share (2006: 12.2 pence per share). All issued shares are fully paid.

Warrants

The Company has in issue 5,707,047 (2006: 6,369,117) warrants giving the holders the right to subscribe in cash for shares in the Company. Holders of individual 'A' warrants may subscribe for one Ordinary Share in the Company at a price of 65 pence and these warrants may be exercised at any time prior to 8 July 2008 (for 1,544,829 warrants) and any time to 8 July 2010 (for 2,913,553 warrants). Holders of individual 'B' warrants may subscribe for one Ordinary Share in the Company at a price of 109 pence and these warrants may be exercised at any time prior to 31 May 2009 (for 1,248,665 warrants). The fair value of these warrants as at 31 March 2007, calculated by reference to a closing market price of 106.25 pence per share is £1.8 million. The fair value of the warrants, omitted from the 2006 Annual Report, as at 31 March 2006 was £2.1 million, calculated by reference to the closing market price of 111.25 pence per share.

Employee share schemes

All-employee share plans

The Group operates UK Save As You Earn (“SAYE”) schemes whereby employees are given the opportunity to apply for options in ordinary shares of the Company. Options are granted at a price 20% below the market price ruling at the date of grant. Grants are exercisable after three or five years of savings by the employees. All options will be equity settled.

Period of option	Number of shares 2007	Number of shares 2006	Subscription price per share pence
1 March 2006 to 31 August 2006	–	65,606	236
1 March 2007 to 31 August 2007	48,660	136,520	196
1 April 2006 to 30 September 2006	–	846,453	127
1 April 2007 to 30 September 2007	84,458	200,717	187
1 April 2008 to 30 September 2008	77,432	351,130	127
1 April 2008 to 30 September 2008	144,371	474,115	125
1 April 2009 to 30 September 2009	22,196	75,449	187
1 April 2009 to 30 September 2009	357,919	1,208,459	96
1 April 2010 to 30 September 2010	59,852	170,613	125
1 April 2010 to 30 September 2010	422,001	–	80
1 April 2011 to 30 September 2011	109,201	157,161	96
	1,326,090	3,686,223	

Discretionary share plans

The Group operates long-term incentive plans for senior managers and Directors. Details of the Company Share Option Plans (“CSOP”) and Performance Share Plans (“PSP”) are given below and in the Report on Directors’ remuneration. All CSOP options will be equity settled and 42,651 PSP options in respect of overseas employees will be cash settled. For the PSP scheme the exercise price is nil.

CSOP Scheme	Performance period	Outstanding options at 31 March 2007	Outstanding options at 31 March 2006	Option price pence
2001	1 April 2001 to 31 March 2004	596,011	1,213,671	296.5
2001	1 April 2001 to 31 March 2004	94,537	94,537	238.0
2003	1 April 2003 to 31 March 2006	–	386,348	220.0
		690,548	1,694,556	

PSP Scheme	Performance period	Outstanding options at 31 March 2007	Outstanding options at 31 March 2006
2004	18 August 2004 to 17 August 2007	738,757	918,802
2005	8 July 2005 to 7 July 2008	918,024	1,870,553
2005	19 July 2005 to 18 July 2008	194,037	297,069
2005	8 December 2005 to 7 December 2008	14,791	66,395
		1,865,609	3,152,819

Options outstanding – SAYE

	2007		2006	
	Options No.	Average exercise price pence	Options No.	Average exercise price pence
At 1 April	3,686,223	124.2	4,035,958	150.9
Granted in year	431,215	80.0	1,369,051	96.0
Exercised in year	(32,688)	97.0	–	–
Forfeited in year	(2,758,660)	125.3	(1,718,786)	164.4
At 31 March	1,326,090	108.2	3,686,223	124.2
Exercisable as at 31 March	123,774	126.6	61,908	320.0

Options outstanding – CSOP

	2007		2006	
	Options No.	Average exercise price pence	Options No.	Average exercise price pence
At 1 April	1,694,556	276.0	4,577,436	242.8
Lapsed in year	(1,004,008)	267.1	(2,882,880)	223.3
At 31 March	690,548	288.5	1,694,556	276.0
Exercisable as at 31 March	690,548	288.5	1,694,556	276.0

No CSOP options were exercised during the years ended 31 March 2006 and 2007.

Options outstanding – PSP

	2007		2006	
	Options No.	Average exercise price pence	Options No.	Average exercise price pence
At 1 April	3,152,819	–	1,284,861	–
Granted in year	–	–	2,394,350	–
Lapsed in year	(1,287,210)	–	(526,392)	–
At 31 March	1,865,609	–	3,152,819	–
Exercisable as at 31 March	–	–	–	–

The inputs into the Black-Scholes model for the SAYE schemes are as follows:

	2007	2006
Weighted average share price	112p	127p
Weighted average exercise price	80p	96p
Expected volatility	56.0%	55.3%
Expected life	3.0 years	3.2 years
Risk free interest rate	5.4%	4.3%
Expected dividend yield	0.0%	0.3%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 or 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The inputs into the Monte Carlo/Black-Scholes model for the PSP schemes are as follows:

	2007	2006
Weighted average share price	–	79p
Expected volatility	–	47.5%
Expected life	–	3 years
Risk free interest rate	–	4.3%
Expected dividend yield	–	0.3%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of £0.2 million (2006: £0.4 million) related to equity-settled share based payment transactions.

23 OTHER RESERVES

	Share option reserve £m	Actuarial pension reserve £m	Total fair value and other reserves £m	Capital redemption reserve £m	Currency translation reserve £m	Total other reserves £m
At 1 April 2005	1.0	10.7	11.7	0.7	(0.7)	11.7
Currency translation differences	–	–	–	–	2.6	2.6
Fair value of share option schemes	0.4	–	0.4	–	–	0.4
Actuarial gains on defined benefits	–	1.9	1.9	–	–	1.9
Disposal of subsidiaries	–	–	–	–	(1.2)	(1.2)
At 31 March 2006	1.4	12.6	14.0	0.7	0.7	15.4
Currency translation differences	–	–	–	–	(0.5)	(0.5)
Fair value of share option schemes	0.4	–	0.4	–	–	0.4
Actuarial losses on defined benefits	–	(15.2)	(15.2)	–	–	(15.2)
Disposal of subsidiaries	–	5.4	5.4	–	(0.2)	5.2
At 31 March 2007	1.8	2.8	4.6	0.7	–	5.3

Company

	Share option reserve £m	Actuarial pension reserve £m	Total fair value and other reserves £m	Capital redemption reserve £m	Merger reserve £m	Total other reserves £m
At 1 April 2005	0.8	8.3	9.1	0.7	25.0	34.8
Fair value of share option schemes	0.4	–	0.4	–	–	0.4
Actuarial gains on defined benefits	–	3.2	3.2	–	–	3.2
At 31 March 2006	1.2	11.5	12.7	0.7	25.0	38.4
Transfer to retained earnings on realisation	–	–	–	–	(25.0)	(25.0)
Fair value of share option schemes	0.6	–	0.6	–	–	0.6
Actuarial losses on defined benefits	–	(8.7)	(8.7)	–	–	(8.7)
At 31 March 2007	1.8	2.8	4.6	0.7	–	5.3

**Statement of changes in shareholders' equity
Group**

	Share capital £m	Share premium £m	Total other reserves £m	Retained earnings £m	Total Shareholders' equity £m
At 1 April 2005	8.3	10.7	11.7	(200.1)	(169.4)
Currency translation differences	–	–	2.6	–	2.6
Fair value of share option schemes	–	–	0.4	–	0.4
Actuarial gains on defined benefits	–	–	1.9	–	1.9
Loss for the year	–	–	–	(19.4)	(19.4)
Disposal of subsidiaries	–	–	(1.2)	1.2	–
Shares issued	6.2	24.0	–	–	30.2
At 31 March 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)

Distributable reserves

The Company currently has a £222.7 million deficit of distributable reserves (2006: £232.4 million). Distributable reserves comprise retained earnings, the share option reserve and the actuarial pension reserve.

24 RETAINED DEFICIT

Group	2007 £m	2006 £m
At 1 April	(218.3)	(200.1)
Profit/(loss) for the year attributable to equity shareholders	24.7	(19.4)
Disposal of subsidiaries	(5.4)	1.2
At 31 March	(199.0)	(218.3)

Company

	2007 £m	2006 £m
At 1 April	(225.1)	(199.6)
Loss for the year	(27.2)	(45.5)
Transfer of merger reserve on realisation	25.0	–
Other movements ¹	–	20.0
At 31 March	(227.3)	(225.1)

¹ Other movements is in respect of a gain on disposal of a business to another Group company and was excluded from distributable reserves (note 23) as at 31 March 2006. Following the disposal to a third party in September 2006 (note 11) this is now included in distributable reserves as at 31 March 2007.

Loss for the year

As permitted by section 230 of the Companies Act 1985, the parent Company's income statement has not been included. The result for the financial year of the parent Company was a loss of £27.2 million (2006: £45.5 million). This is stated after charging the parent Company's element of the loss on disposal of businesses of £29.6 million (2006: £34.8 million), impairment losses of £nil (2006: £15.0 million) and pension curtailment losses of £0.8 million (2006: gains of £31.6 million) and income in respect of pension past service credits of £2.0 million (2006: £nil).

25 MINORITY INTERESTS

Group	2007 £m	2006 £m
At 1 April	–	0.7
Share of profit after tax for the year	–	0.2
Subsidiaries sold	–	(0.9)
At 31 March	–	–

In 2007 the minority interests were entitled to £nil of the Group's profit after tax (2006: £0.2 million).

26 TRADE AND OTHER PAYABLES

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Payments received on account	0.3	–	0.3	–
Other liabilities	0.2	0.2	0.1	0.1
Non-current trade and other payables	0.5	0.2	0.4	0.1
Current				
Trade payables	7.2	10.9	7.0	8.6
Payments received on account	8.2	18.1	8.2	14.0
Accruals and deferred income	11.2	21.2	11.2	17.9
Payables to subsidiaries	–	–	64.0	47.5
Social security and taxation	2.6	4.7	2.6	3.1
Government grants	0.5	0.5	0.5	0.5
Other liabilities	0.4	3.9	0.4	3.2
Current trade and other payables	30.1	59.3	93.9	94.8
Total trade and other payables	30.6	59.5	94.3	94.9

The fair value of trade and other payables are not materially different to the carrying values above.

A grant has been received in respect of the creation of jobs and capital expenditure at one of the Company's premises. Less than £0.1 million was credited to income in 2007 (2006: £0.1 million).

27 BORROWINGS

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Finance lease liabilities	0.1	0.9	0.1	0.9
Non-current borrowings	0.1	0.9	0.1	0.9
Current				
Unsecured bank and other loans	24.2	35.8	24.2	34.7
Finance lease liabilities	0.7	1.0	0.7	0.6
Current borrowings	24.9	36.8	24.9	35.3
Total borrowings	25.0	37.7	25.0	36.2

Maturity of borrowings is as follows:

	Company	
	2007 £m	2006 £m
Within one year	24.9	36.8
Between one and two years	0.1	0.5
Between two and five years	–	0.4
	25.0	37.7

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

Syndicated debt

At 31 March 2006 the Company had a £53.7 million loan facility agreement with a syndicate of lenders to finance working capital. The facility was denominated in sterling and bore interest at LIBOR plus 2%.

On 31 May 2006 the Company entered into a new facility agreement with Lloyds TSB Bank plc and the Governor and Company of the Bank of Scotland pursuant to which a £55.0 million multi-currency revolving credit facility and a £5.0 million bonding facility was made available to the Company for a 364 day period with terms allowing further extension. This new facility also bearing interest at LIBOR plus 2% replaced the facility detailed above. During the year £13.0 million of this loan was repaid and the facility reduced by the same amount. At 31 March 2007 the facility stood at £42.0 million. All amounts utilised are in Sterling.

Post year-end the Company exercised the existing option to extend the facility to 29 June 2008. Interest accrues at 2.0% over LIBOR. The agreement contains financial covenants in relation to the ratio of net borrowings to PBITDA and the ratio of PBIT to net interest payable.

At 31 March the following amounts were outstanding under the facility:

	Current borrowings £m	Non-current borrowings £m	2007 Total £m	Current borrowings £m	Non-current borrowings £m	2006 Total £m
Utilised loan facility	22.2	–	22.2	33.8	–	33.8

	Available £m	2007 Utilised £m	2007 Unutilised £m	Available £m	2006 Utilised £m	2006 Unutilised £m
Loan						
Allocated to the Company	42.0	22.2	19.8	52.7	32.8	19.9
Allocated to subsidiaries	–	–	–	1.0	1.0	–
	42.0	22.2	19.8	53.7	33.8	19.9

Obligations under finance leases – gross

	Minimum lease payments	
	2007 £m	2006 £m
Amounts payable under finance leases:		
Within one year	0.8	1.0
In the second to fifth years inclusive	0.1	1.0
	0.9	2.0
Less: future finance charges	(0.1)	(0.1)
Present value of lease obligations	0.8	1.9

Obligations under finance leases – present value

	Present value of minimum lease payments	
	2007 £m	2006 £m
Amounts payable under finance leases:		
Within one year	0.7	1.0
In the second to fifth years inclusive	0.1	0.9
	0.8	1.9
Less: amount due for settlement within 12 months (shown under current liabilities)	(0.7)	(0.9)
Amount due for settlement after 12 months	0.1	1.0

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 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.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates 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 currency and interest rate analysis of the Group's borrowings are as follows:

	Total £m	Interest free £m	Floating rate £m	Fixed rate £m	Fixed interest rate %	Time fixed years
At 31 March 2006						
Currencies						
Sterling	37.3	2.0	33.8	1.5	4% to 7%	1–3 years
Euro	0.2	-	-	0.2	5%	4 years
Canadian dollar	0.2	-	-	0.2	3% to 6%	1-3 years
Borrowings	37.7	2.0	33.8	1.9	3% to 7%	1–4 years

At 31 March 2007

Currencies						
Sterling	25.0	2.0	22.2	0.8	4% to 7%	1–3 years
Borrowings	25.0	2.0	22.2	0.8	4% to 7%	1–3 years

The exposure of the Group's floating rate borrowings to interest-rate changes are as follows:

	6 months or less £m	6–12 months £m	1–5 years £m	Over 5 years £m	Total £m
Total borrowings					
At 31 March 2006	33.8	–	–	–	33.8
At 31 March 2007	22.2	–	–	–	22.2

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

	Group			
	2006 £m	Cash inflows £m	Cash outflows £m	2007 £m
Cash in hand and at bank	8.4	–	(4.8)	3.6
Bank overdrafts	–	–	–	–
	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)

	Group			
	2005 £m	Cash inflows £m	Cash outflows £m	2006 £m
Cash in hand and at bank	7.4	1.0	–	8.4
Bank overdrafts	–	–	–	–
	7.4	1.0	–	8.4
Current borrowings	(65.2)	88.7	(60.3)	(36.8)
Non-current borrowings	(1.2)	0.3	–	(0.9)
	(59.0)	90.0	(60.3)	(29.3)

28 DERIVATIVE FINANCIAL INSTRUMENTS

Currency derivatives

The Group utilises currency derivatives to hedge significant future receipts from long-term contracts. The Group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At 31 March the total notional amount of outstanding forward foreign exchange contracts that the Group has committed are as below:

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Forward foreign exchange contracts	0.4	15.8	0.4	15.8

These contracts cover a range of maturity dates from 1 month to 30 months (2006: 1 month to 42 months). A fair value gain of less than £0.1 million (2006: less than £0.1 million) has been recognised in the income statement.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. A single swap has been active during the period. A contract with nominal value of £5.0 million (2006: £nil) has fixed interest payments of 5.87% for a period up to 6 February 2009 and has floating interest receipts at LIBOR for the same period. The fair value of swaps entered into as at 31 March 2007 is estimated at less than £0.1 million (2006: £nil). These amounts are based on market estimates of equivalent instruments at the balance sheet date. This interest rate swap is not designated as a hedge and is accounted for at fair value through profit and loss. An amount of less than £0.1 million (2006: £nil) has been charged to the income statement in the period.

29 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 £1.2 million (2006: £1.7 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 March 2007 contributions of £0.1 million (2006: £0.1 million) due in respect of the current year had not been paid over to the plans.

Defined benefit schemes

In the UK the Company operates the AEA Technology Pension Scheme ("the Scheme") for the majority of its UK employees. The Scheme is an exempt approved occupational pension scheme, 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 other than recruits with rights under the terms of the Public Sector Transfer Club ("the Club"). The Club is a network of final salary pension schemes that calculate transfer values in a common way when an employee in a Club scheme resigns and takes up employment with another employer whose scheme is also in the Club. The Group withdrew from the Club on 23 February 2007.

From July 2005 changes were made to the rate that benefits build up for future service including the closure of the Senior Executive section of the Scheme. These changes were aimed to protect the benefits already built up, and to ensure that future benefits build up in an affordable way for both the Company and Scheme members. Members currently build up retirement benefits between 1.25% and 1.66% of 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 results are then adjusted by allowing for the IAS 19 financial and demographic assumptions and rolling forward the liabilities to 31 March 2007 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.

The Company and the Trustee have 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 the next actuarial valuation as at 31 March 2008. In addition the Company pays a contribution equal to the Pension Protection Fund levy that for the year to 31 March 2007 amounted to £133,000.

As at 31 March 2007 contributions of £0.2 million (2006: £0.6 million) due in respect of the current reporting period had not been paid over to the scheme.

Other Schemes

Plans in the UK and Canada operated during the year related to businesses that were sold during the 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 year. Liabilities passed to the purchaser in all cases.

The most recent actuarial valuation of 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	
	2007 £m	2006 £m	2007 £m	2006 £m
Retirement benefit liabilities				
Balance sheet liabilities:				
pension benefits	92.2	107.6	92.2	106.7
post-employment medical benefits	–	8.6	–	–
Retirement benefit obligations	92.2	116.2	92.2	106.7
Income statement charge/(credit) for:				
pension benefits	3.2	(19.5)	2.9	(20.4)
post-employment medical benefits	0.3	0.7	–	–
Income statement charge	3.5	(18.8)	2.9	(20.4)

Pension benefits

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

	Company Scheme £m	AEA Rail £m	AEA Rail (TCI) £m	AEA Rail (TEL) £m	Kinectrics £m	Total £m
At 31 March 2007						
Present value of funded obligations	363.2	–	–	–	–	363.2
Fair value of plan assets	(274.7)	–	–	–	–	(274.7)
	88.5	–	–	–	–	88.5
Present value of unfunded obligations	3.7	–	–	–	–	3.7
	92.2	–	–	–	–	92.2
At 31 March 2006						
Present value of funded obligations	354.4	62.9	24.4	32.0	60.0	533.7
Fair value of plan assets	(260.0)	(57.0)	(25.3)	(28.3)	(59.4)	(430.0)
	94.4	5.9	(0.9)	3.7	0.6	103.7
Present value of unfunded obligations	3.6	–	–	–	0.3	3.9
	98.0	5.9	(0.9)	3.7	0.9	107.6

The amounts recognised in the income statement are as follows:

	Company Scheme £m	AEA Rail £m	AEA Rail (TCI) £m	AEA Rail (TEL) £m	Kinectrics £m	QSA Inc £m	QSA GmbH £m	Total £m
At 31 March 2007								
Continuing operations								
Current service cost	2.2	–	–	–	–	–	–	2.2
Interest cost	14.4	–	–	–	–	–	–	14.4
Expected return on plan assets	(14.6)	–	–	–	–	–	–	(14.6)
Curtailment loss during year	0.8	–	–	–	–	–	–	0.8
Past service income	(2.0)	–	–	–	–	–	–	(2.0)
	0.8	–	–	–	–	–	–	0.8
Discontinued operations								
Current service cost	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	2.9	0.1	(0.1)	–	0.3	–	–	3.2
	Company Scheme £m	AEA Rail £m	AEA Rail (TCI) £m	AEA Rail (TEL) £m	Kinectrics £m	QSA Inc £m	QSA GmbH £m	Total £m
At 31 March 2006								
Continuing operations								
Current service cost	2.7	–	–	–	–	–	–	2.7
Interest cost	8.9	–	–	–	–	–	–	8.9
Expected return on plan assets	(7.4)	–	–	–	–	–	–	(7.4)
Curtailment gain during year	(12.3)	–	–	–	–	–	–	(12.3)
Past service costs	0.1	–	–	–	–	–	–	0.1
	(8.0)	–	–	–	–	–	–	(8.0)
Discontinued operations								
Current service cost	2.2	1.1	0.2	0.5	1.4	0.1	0.1	5.6
Interest cost	7.9	2.8	1.3	1.5	2.9	0.1	0.1	16.6
Expected return on plan assets	(6.5)	(3.3)	(1.5)	(1.7)	(3.7)	(0.1)	–	(16.8)
Curtailment gain during year	(15.6)	(1.9)	(0.8)	(1.0)	–	–	–	(19.3)
Past service costs	0.1	–	–	–	–	–	–	0.1
Settlements	2.3	–	–	–	–	–	–	2.3
	(9.6)	(1.3)	(0.8)	(0.7)	0.6	0.1	0.2	(11.5)
Amount included in staff costs	(17.6)	(1.3)	(0.8)	(0.7)	0.6	0.1	0.2	(19.5)

The continuing operations curtailment loss of £0.8 million (2006: £12.3 million gain) arises from a further reduction in numbers of members of the pension scheme due to the Company's redundancy programme. The curtailment loss arising from the disposal of businesses (note 11) was £1.8 million (2006: £2.3 million) and has been charged to the profit on disposal (note 11).

The past service income of £2.0 million reported in the current 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 pension scheme's obligation. This expected reduction has been credited to the income statement.

£0.2 million combined current and past service costs (2006: £2.8 million) and £0.8 million curtailment loss (2006: £12.3 million gain) were included in the continuing operations 'administrative expenses' and 'curtailment losses/gains' respectively. The interest cost of £14.4 million (2006: £8.9 million) and the expected return on plan assets of £14.6 million (2006: £7.4 million) are included in continuing operations 'finance costs' and 'finance income' respectively. The actual return on plan assets was £10.8 million (2006: £81.8 million).

The net pension obligation is as follows:

	Total £m
At 31 March 2007	92.2
At 31 March 2006	107.6

A £15.1 million loss (2006: £2.4 million gain) 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 £2.8 million.

The principal actuarial assumptions used were as follows:

	Company scheme %	AEA Rail %	AEA Rail (TCI) %	AEA Rail (TEL) %	Kinectrics %
At 31 March 2007					
Discount rate	5.3%				
Retail price index	3.2%				
Expected return on plan assets					
– equities	8.1%				
– corporate bonds	5.2%				
– government bonds	4.5%				
– infrastructure	8.1%				
– other	5.5%				
Future salary increases	2.9%				
Future pension increases	3.2%				
At 31 March 2006					
Discount rate	4.9%	4.9%	4.9%	4.9%	5.4%
Retail price index	2.9%	2.9%	2.9%	2.9%	2.3%
Expected return on plan assets					
– equities	7.7%	7.7%	7.7%	7.7%	7.5%
– bonds	4.4%	4.0%	4.0%	4.0%	7.5%
– property	–	5.9%	5.9%	5.9%	–
– other	4.5%	4.5%	4.5%	4.5%	7.5%
Future salary increases	2.3%	4.9%	4.9%	4.9%	2.3%
Future pension increases	2.9%	2.9%	2.9%	2.9%	2.3%

The expected rates of return on categories of plan assets are determined by reference to relevant indices. The overall rate of expected return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

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

	2007	2006
Future pensioners	PNxA00 Year of Use tables. Improvements in line with the Medium Cohort. Scaling factor of 112.5%.	PxA92 Calendar Year 2026. Improvements in line with the Short Cohort. Scaling factor of 112.5%.
Current pensioners	PNxA00 Year of Use tables. Improvements in line with the Medium Cohort. Scaling factor of 112.5%.	PxA92 Calendar Year 2016. Improvements in line with the Short Cohort. Scaling factor of 112.5%.

The analysis of the scheme assets and expected rate of return at 31 March was as follows:

	Expected return		Fair value of assets	
	2007	2006	2007	2006
	%	%	£m	£m
Equity instruments	8.1	7.7	217.3	340.4
Corporate bonds	5.2	5.7	22.7	55.0
Government bonds	4.5	4.0	21.5	23.0
Infrastructure	8.1	5.9	6.3	10.6
Other assets	5.5	5.5	6.9	1.0
			274.7	430.0

The five year history of experience adjustments is as follows:

Year ended 31 March	2007	2006	2005	2004 ¹	2003 ¹
	£m	£m	£m	£m	£m
Present value of defined benefit obligations	366.9	537.6	493.1	470.5	451.8
Fair value of scheme assets	(274.7)	(430.0)	(341.4)	(308.3)	(270.5)
	92.2	107.6	151.7	162.2	181.3

Year ended 31 March	2007	2006	2005	2004 ¹	2003 ¹
Experience adjustments on scheme liabilities					
Amount (£ million)	3.6	2.9	19.2	(2.7)	(10.9)
Percentage of scheme liabilities (%)	1.0	0.5	3.9	0.6	2.4
Experience adjustments on scheme assets					
Amount (£ million)	11.5	57.6	14.1	45.5	(100.0)
Percentage of scheme assets (%)	4.2	13.4	4.1	14.8	37.0

The estimated amount of contributions expected to be paid to the schemes during the current financial year is £3.2 million.

¹ Information based on FRS17.

Development of net pension deficit over the year to 31 March 2007

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 Statement of Recognised Income and Expense (the "SORIE").

Demographic assumptions (post-retirement mortality)

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

	2007	2006
	Years	Years
Males retiring today	25.4	24.7
Males retiring in 20 years`	26.7	25.4
Females retiring today	27.9	27.5
Females retiring in 20 years	29.0	28.2

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 13%
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 12%
Rate of mortality	Increase by 1 year	Increase by 3%

Post-employment medical benefits

Prior to the disposal of Kinectrics (note 11) 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 balance sheet are determined as follows:

	Group	
	2007	2006
	£m	£m
Present value of unfunded obligations	–	8.6

The amounts recognised in the income statement are as follows:

	Group	
	2007	2006
	£m	£m
Current service cost	0.1	0.3
Interest cost	0.2	0.4
Amount included in staff costs	0.3	0.7

£0.1 million (2006: £0.3 million) was included in discontinued operations 'administrative expenses'.

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

	Group	
	2007	2006
	£m	£m
At 1 April	8.6	6.8
Exchange differences	–	0.7
Total expensed in income statement	0.3	0.7
Actuarial gains and losses	0.1	0.5
Contributions paid	(0.1)	(0.1)
Businesses sold	(8.9)	–
At 31 March	–	8.6

30 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Decommissioning and waste management				Total £m
	£m	Restructuring £m	Contracts £m	Other £m	
At 1 April 2005	9.4	2.1	5.9	3.4	20.8
Exchange differences	0.1	–	–	–	0.1
Transfers	2.3	(1.7)	–	(0.6)	–
Charged to the income statement:					
additional provisions	1.5	21.9	5.3	0.5	29.2
unused amounts released	(0.1)	–	–	(0.2)	(0.3)
Utilised	(0.8)	(6.7)	(1.2)	(1.4)	(10.1)
Businesses sold	(3.5)	(0.2)	–	(0.2)	(3.9)
At 31 March 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

Company	Decommissioning and waste management	Restructuring	Contracts	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2005	5.9	1.1	5.9	3.1	16.0
Exchange differences	–	0.1	–	–	0.1
Transfers	1.0	(0.3)	–	(0.7)	–
Charged to the income statement:					
additional provisions	1.3	19.9	3.5	0.4	25.1
unused amounts released	–	–	–	(0.2)	(0.2)
Utilised	(0.4)	(6.6)	(1.2)	(1.5)	(9.7)
Businesses sold	–	(0.2)	–	(0.2)	(0.4)
At 31 March 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

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Provisions for liabilities and charges				
Non-current	15.2	26.9	15.2	23.6
Current	10.8	8.9	10.8	7.3
	26.0	35.8	26.0	30.9

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 will be assumed by the Group except for certain liabilities which have been transferred to or assumed by third parties.

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

The utilisation of these provisions is uncertain and costs will be incurred as the facilities continue to be decommissioned and the waste disposed of. Of this provision £5.6 million (2006: £7.1 million) relates to the building 220 facilities at the Harwell site. These costs will be incurred over the next 2 to 3 years.

Restructuring

The Group has undergone a significant level of restructuring in the years to March 2006 and March 2007. In the year to March 2006 the Rail business was successfully restructured and several non-core businesses were disposed. In the year to March 2007 AEA completed the transformation of its business with the sale of its Rail, Kinectrics, Engineering Services and Waste Management Technology businesses. Included within Restructuring provisions are provisions in respect of resulting redundancies of £1.6 million (2006: £5.2 million) and for other costs associated with the restructuring, primarily warranties and indemnities given under sale agreements. The charge to the income statement this year of £6.3 million is predominantly in respect of warranties and indemnities (£3.9 million) and redundancies (£2.2 million). 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. The charge to the income statement this year is in respect of contracts that became onerous following the disposal of the portfolio of businesses in September 2006. 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.

31 DEFERRED TAXATION

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Deferred tax assets				
Deferred tax asset recoverable after one year	4.6	6.6	4.6	4.6
Deferred tax asset recoverable within one year	–	0.9	–	–
Deferred tax assets	4.6	7.5	4.6	4.6

The gross movement on the deferred tax account is as follows:

	Group	
	2007	2006
	£m	£m
At 1 April	7.5	5.9
Reclassifications	–	0.4
Income statement charge for year	0.1	(0.5)
Businesses sold	(3.0)	1.7
At 31 March	4.6	7.5

The movement in deferred tax assets and liabilities during the year is as follows:

	Accelerated tax depreciation	Other movements	Total
	£m	£m	£m
At 1 April 2005	(0.3)	6.2	5.9
Exchange differences	–	(0.1)	(0.1)
Offset against tax credits	–	0.4	0.4
Charged/(credited) to income statement	0.6	(1.0)	(0.4)
Businesses sold	–	1.7	1.7
At 31 March 2006	0.3	7.2	7.5
(Credited)/charged to income statement	(0.3)	0.4	0.1
Businesses sold	–	(3.0)	(3.0)
At 31 March 2007	–	4.6	4.6

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. The Group did not recognise deferred income tax assets of £62.7 million (2006: £57.7 million). Total UK tax losses carried forward amount to £107.2 million (2006: £100.3 million). If trading performance permits then these losses will be recognised and utilised in future periods.

32 CURRENT TAX LIABILITIES

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Current tax liabilities				
Total current tax liabilities – payable within one year	0.4	–	0.4	–

33 CASH USED IN OPERATIONS

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Profit/(loss) for the year	24.7	(19.2)	(27.2)	(25.5)
Adjustments for:				
taxation	0.5	3.7	0.2	5.2
depreciation of property, plant & equipment	2.4	5.5	1.8	3.4
amortisation	0.5	1.0	0.3	0.2
share option charge	0.3	0.5	0.3	0.4
impairment of intangibles	–	13.0	–	13.0
impairment of property, plant & equipment	–	2.0	–	2.0
(profit)/loss on disposal of subsidiaries	(17.4)	13.8	29.6	14.8
share of loss from associates	–	0.3	–	–
Interest expense	24.1	30.2	25.4	27.9
interest income	(23.1)	(24.4)	(21.4)	(21.5)
dividend income	–	(1.3)	–	(4.9)
other	0.4	–	0.4	1.2
Changes in working capital:				
inventories	2.1	(1.0)	2.0	(0.2)
trade and other receivables	4.9	1.2	4.9	7.9
trade and other payables	(8.0)	(6.9)	3.3	(7.6)
Changes in provisions for liabilities and charges:				
retirement benefit liabilities	(3.6)	(34.4)	(5.4)	(42.7)
provisions for liabilities and charges	(12.6)	3.8	(10.9)	18.4
Cash (used in)/from operations	(4.8)	(12.2)	3.3	(8.0)

34 CONTINGENT LIABILITIES

AEA Technology plc guarantees the credit facilities, overdraft facilities, BACS facilities and leasing obligations of certain subsidiary companies and certain disposed companies that have ceased to be subsidiaries. At 31 March 2007 these guarantees totalled £0.1 million (2006: £0.5 million).

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. It is not expected that these will have a material effect on the financial position of the Group.

35 COMMITMENTS

	Group	
	2007	2006
	£m	£m
Operating lease commitments		
Future commitments under non-cancellable operating property leases at 31 March expiring:		
within one year	2.9	3.0
between one and five years	8.3	10.3
after five years	7.2	10.7
	18.4	24.0
Future commitments under non-cancellable operating plant and equipment leases at 31 March expiring:		
within one year	0.1	0.3
between one and five years	0.1	0.5
	0.2	0.8
Contracted commitment for acquisition of property, plant and equipment		
Plant and equipment	–	0.6
Operating lease commitments as lessor		
At the balance sheet date the Group had contracted with tenants for the following future minimum lease payments (receipts to AEA):		
within one year	0.4	0.2
between one and five years	0.7	0.3
after five years	0.9	–
	2.0	0.5

36 TRANSACTIONS WITH GOVERNMENT DEPARTMENTS

Turnover and cost of sales exclude reimbursements and the related payments made in respect of certain contracts with various Government departments (the Department of Education and Science, the Department for Environment, Food and Rural Affairs and the Department of Trade and Industry). Under the terms of these agreements, the Group receives funding from the Government departments in respect of certain programmes and pays such moneys directly to third parties in connection with work carried out under these programmes. The Group does not make any profit or loss directly from these contract payments. The gross value of payments made and received under these programmes was £170.8 million (2006: £126.1 million).

37 RELATED PARTIES

	Group	
	2007	2006
	£m	£m
Sales of goods and services		
Sales of services:		
associates	–	0.7

No profit has been recognised on sales of services.

There are no purchases of services from related parties in the years ended 31 March 2006 and 31 March 2007.

	2007	2006
	£m	£m
Key management compensation (Group and Company)		
Salaries and other short term employment benefits	1.7	1.1
Post-employment benefits	–	0.2
Termination benefits	0.4	–
Share based payments	0.2	0.2
	2.3	1.5

Key management are Directors (both Executive and Non-Executive) and key other managers with authority and responsibility to control, direct or plan the activities.

Receivables from related parties	2007 £m	2006 £m
Associates	–	–
Joint ventures	–	0.1
	–	0.1

There are no payables to related parties.

During the year ended 31 March 2007 the Company generated revenue amounting to £0.6 million (2006: £3.3 million) through sales to other Group companies. The Company purchased services from other Group companies for £0.1 million (2006: £0.3 million). The Company paid interest to other Group companies of £2.4 million (2006: £0.5 million) and received interest of £0.1 million (2006: £0.5 million) from other Group companies. As at 31 March 2007 the Company owed less than £0.1 million (2006: £3.6 million) related to trading and a net £64.0 million (2006: £45.5 million) related to working capital loans. At that date Group companies owed the Company £nil (2006: £nil) related to trading.

38 POST BALANCE SHEET EVENTS

There were no post balance sheet events.