

11 August 2006

## **AEA Technology plc**

### **Proposed sale of the Portfolio Companies and the Rail Business to Vision Capital**

#### **Highlights**

- AEA Technology plc (“the Company” or “AEA”) has entered into a conditional agreement to sell a portfolio of companies and the Rail Business together (the “Disposal Portfolio”) on a debt free basis, to companies advised by Vision Capital Limited (“Vision Capital” or the “Purchasers”). Going forward, AEA will become focused solely on its growing Environment Business.
- The Disposal Portfolio consists of the Rail Business, the Rail Companies, Kinectrics, ESI and WMT.
- The consideration for the sale is up to £58.3 million. In addition, the Purchasers will assume £18.1 million of Group balance sheet liabilities as at 31 March 2006 in respect of pension and post-retirement employee benefit obligations within the Disposal Portfolio, to give an overall potential disposal value to AEA of £76.4 million.
- Of the £58.3 million consideration, £12.0 million is deferred payable depending on future performance of the Rail Business and the Rail Companies. The consideration is also subject to an expected adjustment of £5.4 million in respect of cash, debt and working capital balances in the Disposal Portfolio at completion.
- Net consideration is therefore £40.9 million of which £5.0 million is payable 6 months after completion. After the deduction of tax and transaction costs of approximately £7.6 million, the Directors intend to use the expected net proceeds of £33.3 million to reduce the Company’s bank debt by £21.2 million, pay £10.0 million into the AEA Technology Pension Scheme, and use £2.1 million for redundancy payments in overhead areas of the continuing group.

Bernard Bulkin, Chairman of AEA Technology plc said,

‘The Board believes this deal is in the best interest of our shareholders. A growing, single mission, business focused on Environment, where AEA Technology plc has a leadership position, offers excellent prospects for the Company. Management has thus completed the restructuring phase; as a consequence both debt levels and the pension deficit have been significantly reduced. The company now has a solid financial base from which to build a future.’

Andrew McCree, Chief Executive of AEA Technology plc said,

‘We are now able to pursue more actively the exciting opportunities in the Environment market. Growing international concern about climate change and energy security is expanding the marketplace internationally, which is good for AEA as we are a leading advisor to government in both the UK and the EU. The business has made a good start to the financial year.’

## **Enquiries:**

AEA Technology plc  
David Lindsay

Tel: 0870 190 1900

The Parkmead Group plc  
Thomas Liaudet

Tel: 020 7494 3080

Oriel Securities Limited  
Simon Bragg  
Natalie Fortescue

Tel: 020 7710 7600

Madano Partnership  
Matthew Moth

Tel: 020 7593 4000

## **Details of the proposed sale of the Disposal Portfolio**

### **1. Introduction**

The Directors of AEA are pleased to announce that the Company has entered into a conditional agreement to sell a portfolio of companies (the "Portfolio Companies") and the Rail Business (together the "Disposal Portfolio") on a debt free basis, to companies advised by Vision Capital. The Directors believe that becoming a single mission business focused wholly on its Environment Business offers the best prospects for the Company going forward. The Directors consider that the Environment sector plays best to AEA's strengths, as underlined by current results, is an area of significant global growth and provides the most exciting area for future growth. As a result, they have conditionally agreed to sell the Rail Business, the Rail Companies, Kinectrics, ESI and WMT in a combined sale, which they believe offers the best value for shareholders for these assets.

The consideration for the sale is up to £58.3 million. In addition, the Purchasers will assume £18.1 million of Group balance sheet liabilities as at 31 March 2006 in respect of pension and post-retirement employee benefit obligations within the Disposal Portfolio, to give an overall potential disposal value to AEA of £76.4 million. Of the £58.3 million consideration, £12.0 million is deferred payable depending on future performance of the Rail Business and the Rail Companies. The consideration is also subject to an adjustment of £5.4 million in respect of the expected cash, debt and working capital balances at completion. Net consideration is therefore £40.9 million.

After the deduction of tax and transaction costs of approximately £7.6 million, the Company expects to receive £33.3 million in cash, plus approximately £5.4 million shortly after completion in respect of the expected cash, debt and working capital adjustments referred to above.

The Directors intend to use the net proceeds of £33.3 million (£5.0 million of which is payable 6 months after completion), as follows:

- to reduce the Company's bank debt by £21.2 million;
- to pay £10.0 million into the AEA Technology Pension Scheme ("AEA Scheme"); and
- to use £2.1 million for redundancy payments in overhead areas of the continuing Group.

In view of the size of the sale relative to the Group, it is conditional, inter alia, upon the approval of shareholders. A circular will be sent to shareholders in due course containing information relating to the sale and a notice convening an Extraordinary General Meeting to consider, and if thought fit, approve the sale.

## **2. Background to and reasons for the sale**

AEA, formerly part of the United Kingdom Atomic Energy Authority (“UKAEA”), was privatised by flotation on the London Stock Exchange in September 1996. The Company grew largely by acquisitions, consolidating a presence in the UK rail market by, in particular, the acquisitions of BR Research in 1996, Transportation Consultants International in 1998 and The Engineering Link in 2002, all of which had originally been part of the former British Rail. The Company announced in 2000 its strategy to focus on the environment and rail markets and, as a result, the AEA group (as it was then), sold its main UK nuclear businesses between September 2001 and December 2003.

Following a very poor Group performance in the financial year ended 31 March 2005 and the subsequent appointment of a new management team, a refinancing plan was implemented primarily aimed at reducing Group debt to a sustainable level. All key elements of the plan have been successfully implemented as follows:

- £30.2 million was raised, after expenses, through the Placing and Open Offer in July 2005;
- an aggressive programme of cost reduction has been implemented and has achieved better than expected results;
- a portfolio of non-core businesses was sold in October 2005 to funds advised by Collier Capital Limited for a consideration of £40.0 million after adjustments. These businesses included AEA Battery Systems, AEA HK, QSA, nCode, Accentus, ESR, Safeguard, EASA and Lexware; and
- the deficit in the Schemes was reduced by introducing changes to future benefits and member contributions, plus a one-off payment of £8.1 million into the AEA Scheme as part of the sale of the non-core businesses to funds advised by Collier Capital Limited.

Group debt fell from £59.0 million as at 31 March 2005 to £29.3 million as at 31 March 2006.

The Board has now decided that AEA should become a single mission business focused wholly on its Environment Business. It therefore embarked on a competitive process to sell its other businesses with a number of private equity firms and trade buyers, and eventually decided to enter into detailed discussions with Vision Capital, which had expressed an interest in acquiring the entire Disposal Portfolio through funds it advises. Vision Capital is an independent investment firm which focuses on portfolio transactions involving the purchase of a number of direct investments and their subsequent active management.

Each of the businesses being sold is an established business and some have recently attracted the interest of other potential buyers. However, due to reduced transaction costs and the ability to make a swift exit from all its other businesses, the Directors believe that a single sale as a portfolio is in the best interests of Shareholders rather than an asset-by-asset sale process.

After completion, the continuing Group's trading operations will be focused wholly on its Environment Business. The Directors believe that a move to a single mission business based on AEA Environment is in the best interests of the Company and shareholders for the following reasons:

- there are strong drivers in each of the short, medium and long-term for growth in the markets accessible to the Environment Business. In particular, there are growing international concerns about the future costs and supply of energy, which bear directly on their impact on the environment and which are driving increasing Government interest and spending;
- AEA is a strong player in advising governments in the UK and in the European Union, and sees opportunities to extend this role in Central and Eastern Europe and in the United States of America. This has another advantage of reducing its current dependency on UK Government spending; and
- AEA's chosen markets are not dominated by any one player and are still at an early stage of evolution and growth.

The Directors are confident that AEA must focus its management resources and investments on its Environment Business and seek to become a significant player in a growing market rather than spreading its resources, as at present, over other markets such as rail.

### **3. Information on the Disposal Portfolio**

Information on the Disposal Portfolio is set out below:

#### **The Rail Business and the Rail Companies**

These businesses provide products and services for the operation, management and the maintenance of UK and international railway infrastructures and networks. The UK business is mainly based at Derby and London, and there are subsidiaries in France, the Netherlands and Spain. The core skills of the UK business are to provide advice to companies involved in the UK rail industry and the provision of a broad range of software, hardware and consultancy to improve decision making across the railway infrastructure and control systems.

#### **WMT**

WMT provides services to nuclear and non-nuclear customers for the packaging and management of radioactive wastes and is based at Winfrith, Dorset. It aims to provide innovative, economically viable and environmentally acceptable solutions based on a skilled and experienced workforce and specialist plant and facilities. The business was operated as a division of the Company until March 2006 when the business, assets and staff were transferred into WMT, a wholly-owned subsidiary of the Company, with a view to its subsequent sale.

#### **ESI**

ESI, based in Pittsburgh, Pennsylvania, USA, provides specialist technical and engineering services to clients in the energy, environmental and homeland security markets. Its customers include the United States Government, public utilities and a range of public and private sector organisations.

## Kinectrics

Kinectrics, based in Toronto, Ontario, Canada, provides life cycle management services to the energy industry, principally in the fields of nuclear power, electricity transmission and distribution and environment. It was acquired by AEA in 2002 from Ontario Power and now operates as a successful services company, with three main divisions focused on key market sectors: generation plant, transmission and distribution, and environment and nuclear services.

For the twelve months ended 31 March 2006, the Disposal Portfolio generated losses before interest and tax of £10.7 million and losses before tax of £9.4 million on revenue of £90.6 million. As at 31 March 2006 the Disposal Portfolio had net assets of £13.6 million and gross assets of £66.1 million.

#### **4. Principal terms of the sale**

Under the Master Purchase Agreement, which was signed on 10 August 2006, AEA has agreed to sell the Disposal Portfolio to the Purchasers.

The consideration payable by the Purchasers to the Company in respect of the sale is up to £58.3 million, subject to adjustments, comprising:

- up to £12.0 million deferred consideration payable depending on the future performance of the Rail Business and the Rail Companies (described further below).
- Approximately £5.4 million in relation to the expected net cash and debt balances in the Disposal Portfolio and the expected difference between the normalised level of working capital for the Disposal Portfolio as agreed by the parties and the actual level of working capital at completion.

Net of these adjustments, the Company expects to receive £40.9 million, of which £5.0 million is payable six months after completion. After expenses of £7.6 million, net proceeds will be £33.3 million.

The gross value of the sale to the Company also includes £18.1 million in recognition of the assumption by the Purchasers, directly or indirectly, of audited balance sheet obligations and liabilities at the Group level as at 31 March 2006, for pension and post-retirement employee benefits, namely, £8.7 million for the combined IAS19 deficits in the Railways Scheme, £0.8 million for the IAS19 deficit in the Kinectrics Scheme, and an unfunded obligation of £8.6 million for Kinectrics post-employment medical and other retirement benefits. Therefore, the total value of the sale to AEA could amount to £76.4 million.

The purchase price is not subject to any adjustment at completion except as indicated above.

The deferred element of the consideration will be payable on a pound for pound basis depending on the Rail Business and the Rail Companies achieving certain EBITDA targets. In respect of the performance in the year ending 31 March 2007, up to £3.0 million will be payable for EBITDA in excess of £3.0 million and up to £6.0 million; and up to a further £3.5 million for EBITDA in excess of £8.0 million and up to £11.5 million. Similarly, in respect of the performance in the financial year ending 31 March 2008, up to £2.0 million will be payable for EBITDA in excess of £5.0 million and up to £7.0 million, and up to a further £3.5 million for EBITDA in excess of £10.0 million and up to £13.5

million. The Directors recognise that these targets are challenging and exceed their current EBITDA expectations of the Rail Business and the Rail Companies for both 2006/7 and 2007/8. Therefore there is a risk that some or all of the £12.0 million deferred consideration will not be received. However, this arrangement enables the Company to share in the benefits from any significant improvement in performance of the Rail Business whilst under new management.

The Company has agreed with certain directors of subsidiary undertakings of the Company that they will receive bonuses related to the Disposal Portfolio.

In connection with obtaining UKAEA consent to the transfer of WMT, the Company has entered into an agreement with UKAEA and the WMT Purchaser setting out the apportionment of liabilities relating to the business of WMT before and after Completion and establishing the contractual arrangements to be put in place between such parties with effect from Completion.

Under this agreement and in accordance with the Master Purchase Agreement, the Company has entered into a series of agreements with the UKAEA, the WMT Purchaser and WMT to novate to WMT with effect from Completion a series of operational agreements relating to the business of WMT.

As part of the arrangements for the transfer of WMT and as envisaged by the terms of the leases granted to the Company at the time of the Transfer Scheme, the Company has also entered into an authorised guarantee agreement under which it provides a guarantee in respect of the tenant's covenants in the lease of the premises leased by the UKAEA to WMT. The WMT Purchaser and WMT provide a counter-indemnity in respect of any claim made by the UKAEA against the Company under the authorised guarantee agreement.

The sale is conditional, inter alia, upon the approval of shareholders. If the conditions to the sale are not satisfied or (other than in respect of the approval of shareholders) waived by the Purchasers and the Company on or before 31 August 2006 (in relation to the shareholders' approval condition) and 31 December 2006 (in relation to all other conditions), either the Company or the Purchasers can elect not to proceed with the sale. In the event that shareholders do not approve the sale, the Company has agreed to pay the Purchasers' reasonable fees and expenses incurred by them in instructing advisers in relation to the transaction (such amount not, in any event, to exceed £750,000).

## **5. Pensions Regulator**

On the occurrence of specific events that the Pensions Regulator considers to be financially detrimental to a defined benefit pension scheme in deficit, the Pensions Regulator has power to issue a notice requiring additional contributions to be paid into the scheme by participating employers and associated parties. Parties to a transaction, such as the sale, can apply to the Pensions Regulator for a clearance statement to the effect that they will not be subject to such a notice in respect of the transaction. The Company and Vision Capital made joint applications in respect of each of the AEA Scheme and the Railway Scheme, and the Pensions Regulator has issued a clearance statement for both applications.

## **6. Contributions to the AEA Scheme**

The Directors, following negotiations with the Trustee of the AEA Scheme, have entered into an agreement with the Trustee under which the Company will pay £10.0 million of the net cash proceeds of the Sale into the AEA Scheme as part of an agreed package of proposals with the Trustee of the AEA Scheme upon completion. This payment does not constitute full and final settlement of the ongoing past service deficit of this scheme and, as part of the package and also conditional upon the sale, the Company and the Trustee have agreed on a schedule of employer contributions to clear the Scheme's past service funding deficit. This involves, in addition to paying employer contributions at a rate of 5.5% of salary of active members in respect of new accrued benefits, payments of additional contributions at a rate of £100,000 a month from the date of completion until March 2008 and then at a rate of £540,000 a month, which the Scheme Actuary estimates on current assumptions, will be sufficient to eliminate the deficit over the period of 15 years from April 2008. This payment profile has regard to the nuclear exit and other legacy costs that the Company expects to have to pay until March 2008. In addition, the Company has agreed to pay to the Trustee one third of any of the deferred consideration payable for Rail's performance under the terms of the sale, and, for the period up to March 2008, to extend to the Trustee the same negative pledges it has given to its bankers, to provide regular reports to the Trustee of spend on legacy costs, and to consult the Trustee before making any recommendation to shareholders in support of a takeover bid for the Company and before entering into equity fundraisings such as rights issues. The Pensions Regulator took account of this agreement between the Company and the Trustee in giving approval to the clearance application submitted for the sale in respect of the AEA Scheme.

The AEA Scheme is a defined benefit scheme now closed to new joiners which has an ongoing past service deficit calculated by the Scheme Actuary of £81.3 million as at 31 March 2005. On an IAS19 basis, as at 31 March 2006, the past service deficit was £94.4 million, compared to £127.0 million as at 31 March 2005. The Continuing Group will continue to be responsible for this scheme.

The payment of £10.0 million at completion will also satisfy the debt to the Trustee of the AEA Scheme created by the sale of WMT, which has been a Participating Employer since 23 March 2006 but whose participation will end on completion.

## **7. Financial effects of the sale**

The sale is expected to be earnings dilutive in the short term, but the net proceeds will provide the Continuing Group with funds to continue to meet its existing obligations and those expected by the Directors to fall due for payment by or before 30 September 2007, including that of debt repayment and £12 million of existing nuclear exit and legacy costs.

## **8. Current trends in trading and prospects**

The Continuing Group

The Continuing Group's trading operations will be focused exclusively on the Environment Business. The Directors believe that the prospects for the Continuing Group for the current financial year are satisfactory and that, following the sale, the Continuing Group will be well-placed to improve its financial and trading performance. The Environment Business has made a good start to the current financial year,

