



Annual Financial Report 2010
AEA Technology plc



Ambitious for change

AEA Annual Financial Report 2010

AEA is delivering on its strategy of transferring its expertise in public sector environmental consultancy into the US, whilst maintaining its leading position in Europe.

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The AEA Group overview

AEA has many internationally respected experts in the fields of air quality, energy, knowledge transfer and behaviour change and has established an excellent reputation in resource efficiency, climate change, knowledge and data management.

The Group helps its customers respond to climate change and energy challenges by capturing, analysing and advising on the data necessary to make the right decisions and investments for their organisations.

We create wealth through our knowledge.

Highlights

Financial summary

- Orders up 41% to £119.2 million (2009: £84.3 million)
- Revenue up 21% to £113.2 million (2009: £93.7 million)
- Adjusted operating profit up to £12.4 million (2009: £12.0 million) ¹
- Operating profit £10.4 million (2009: £10.4 million)
- Adjusted profit before tax up to £11.0 million (2009: £10.6 million) ¹
- Profit before tax decreased to £3.5 million (2009: £7.5 million)
- Secure sales for the coming year £59.5 million (2009: £57.5 million) ²
- Strong cash generated from operations of £6.0 million (2009: £1.1 million)
- Net debt £26.2 million (31 March 2009: £27.3 million)

Strategic and operational

- Successful entry to large US Federal energy and climate change market whilst maintaining leading position in Europe
- Forward order book reaches record level of \$300 million, including first significant win (\$45.7 million) from the US Department of Energy ³
- Pipeline of further opportunities growing as the US deepens its commitment to progressive environmental policies
- Agreement from the Pensions Regulator cements strategy to address pension deficit

¹ Reconciliation of adjusted operating profit and adjusted profit before tax

	2010	2009		2010	2009
For the year ended 31 March	£m	£m	For the year ended 31 March	£m	£m
Operating profit	10.4	10.4	Profit before tax	3.5	7.5
Amortisation of acquired intangibles	1.2	0.7	Amortisation of acquired intangibles	1.2	0.7
Integration and restructuring costs	1.0	0.9	Integration and restructuring costs	1.0	0.9
Net pension credit from Scheme closure	(0.2)	–	Net pension credit from Scheme closure	(0.2)	–
Adjusted operating profit	12.4	12.0	Net pension finance costs	5.5	1.5
			Adjusted profit before tax	11.0	10.6

² Secure sales are the element of orders to date that the Group expects to be delivered in the coming financial year

³ Forward order book is signed contracts where the related revenue is expected to occur over a number of years plus an estimate of future revenue under framework agreements

Directors' report

We have received awards from our customers and were again recognised at the Annual EDIE awards as the number one consultancy for Climate Change & Renewables by consultants (EDIE Surveys 2006, 2007, 2008 & 2009).

Winner of The Best Carbon Reduction Project for Green500 Programme (EDIE Awards for Environmental Excellence 2009).

The US Department of Justice awarded our US Operation the 'Small Business Subcontracting Accomplishments' Award for managing subcontractors.

We also received the 2009 techMARK Sustainability Award.

Orders

+41%

Orders

£119.2m

Revenue

+21%

Revenue

£113.2m



Red-Eyed Tree Frog (*Agalychnis callidryas*)

The Red-Eyed Tree Frog is commonly known as the "monkey frog" for its jumping abilities. It is a relatively small amphibian, measuring no more than eight centimeters.

Climate change is affecting its natural habitat, the Amazonian rainforest, which is rapidly diminishing.

Business review

Strategic overview

Our strategy is delivering. The acquisition of Project Performance Corporation has been very successful. In our first full year together we have achieved a major contract win, US DOE's Save Energy Now Programme, with a value to AEA of up to \$45.7 million. We have also delivered orders growth year on year of 145% in the US and built up a forward order book of \$300 million. As we anticipated, there is a strong demand inside US Federal Government for the extensive experience and capability that have been built up in Europe over many years. Importantly, we have also improved the operating performance of our US operation, particularly in the collection of cash, which will continue to be a priority for us in both the US and Europe.

President Obama's Administration's deepening commitment to reducing the US's dependence on foreign oil is driving a significant market opportunity across Federal Government in energy efficiency. This is one of our core capabilities and we are able to offer our customers an integrated technical and economic data-driven solution, which draws upon our extensive experience in advising government in this area. The US Government is also looking to create jobs through investment in clean technology and priority is being given to strengthen the regulatory environment so that the economy is able to develop on a more sustainable basis. Our extensive experience in working with government on policy and regulatory frameworks means that we can see significant opportunity for us in the US. Over the next three years we have identified an orders opportunity pipeline for the Group of around \$3 billion. We will be selective in pursuing these opportunities, and the prospects are there from which we can build a solid and reliable growth platform for our shareholders. In the medium term in the US our plan is to leverage the experience and reputation built up by being a trusted advisor to the US Government, into the private sector. We believe that the opportunities for us in the private sector will be very significant once the policy and regulatory framework has been put in place by the Federal Government. The US private sector will offer us good organic growth with good margins.

Our role as a trusted advisor to the UK Government has stood the business in good stead during these challenging economic times and the European management continues to deliver a much improved business performance. The investment made in developing a new business model and capability framework has meant that we are able to be

very flexible and competitive in our pursuit of business. This has also been underpinned by a significant investment in technology so that we can approach the resourcing of projects in a global context. As a result, we have been able to bring new skills from the US successfully into our European customer base and transform our offering so that we can now help our customers meet their objectives at a much reduced cost.

As energy and climate change priorities increasingly drive business and government strategy, the challenge is to operate beyond environmental management and energy efficiency services. Customers expect leadership and innovation and often recognise the need for transformational change to put climate change and sustainability at the core of their business strategy.

Highlights in the European Operations include:

- Our European Operation's solid track record in delivering major UK Government projects has meant that we have continued to enjoy considerable success in winning new business with Defra and its associated delivery agencies. In particular, an important new contract has been won with WRAP to deliver a contact centre which will provide free, confidential and independent advice on all aspects of resource efficiency and key environmental issues to individuals and businesses within the UK.
- We successfully retained a contract from the Department of Energy and Climate Change to provide technical and policy support for the UK's Climate Change Agreements. This is a key policy for reducing industrial energy use and carbon emissions. We will support negotiations on sectoral targets, audit results and advise on policy interactions.

“Our Climate Change Index model is used to provide information produced on daily UK CO₂ emissions broadcast on Sky News.”

Business review (continued)

- The Department for Transport commissioned our sustainable transport team to carry out research on Greenhouse Gas (GHG) emissions from the international aviation and shipping sectors, with a particular focus on examining current levels of emissions, future emission trends out to 2050, and abatement potential. This work also examined the possible use of emissions trading schemes and other market-based measures to control emissions from these two sectors. One of our key experts was invited to present this research at the United Nations' climate negotiations, which took place in Bonn in June 2009, and the study findings were used by the UK Government to help inform their position on possible emissions reduction trajectories for the international aviation and shipping sectors in the lead up to COP-15 negotiations in Copenhagen in December 2009.
- AEA undertook an important research gap analysis for the Department for Transport as part of DfT's biofuels research programme, to help the UK Government develop a strategic approach to biofuels research and development. We are also helping DfT assess the cost-effectiveness of biofuel deployment options and investigate the possible displacement of agriculture in response to the increased production of biofuels, together with the practical steps that could be taken to minimise it. AEA has also provided support for UK representatives in international discussions on bioenergy sustainability.
- As Public Procurement Partners for the Carbon Disclosure Project (CDP) we recently delivered a review of the UK Government's supply chain. This involved developing an appraisal approach to enable the UK Government to map each supplier's carbon maturity. Our 'organisational carbon appraisal' is a pioneering tool which assesses each organisation on a range of issues including its awareness of the risks associated with climate change.
- Our Climate Change Index model was used in the Greenhouse-gas Observatory Service, the world's first model which calculates human GHG emissions in real-time. The information produced on daily UK CO₂ emissions is broadcast on Sky News each week. The service also provides satellite images to the TV company and other media partners and is financed by the European Space Agency. The model will soon be extended to other European Union (EU) countries.
- We also won a new framework contract from the European Environment Agency. Our initial tasks include writing its 2010 Energy & Environment report and reviewing countries' progress towards achieving the goals set out in the European Union's Renewable Energy Directive.

Highlights in the US Operations include:

- Our biggest win in the US was the Department of Energy's (US DOE) Save Energy Now Programme. This was a joint award with a national laboratory and our proportion of it is worth up to \$45.7 million over five years. This is a very significant win because it not only proves the strategy of taking our UK expertise into the US, it also give us an important connection with the US private sector into which we can leverage other AEA skills. Through this contract we will work directly with Fortune 100 US manufacturing companies such as Dow Chemical, United Technologies Corporation, and Proctor & Gamble to assist them in achieving major energy efficiency improvements in their manufacturing operations. We will also manage the training, performance evaluation and IT infrastructure elements of this nation-wide programme.
- Another big win at the US DOE was a contract of \$15.0 million to improve and integrate all of the software tools used to identify energy savings opportunities in US industries. This "Tools Integration" contract places us at the centre of delivering best practices in energy efficiency to the entire US manufacturing base.
- We received \$2.7 million in support contracts to collect and track the American Recovery and Reinvestment Act economic stimulus money spent by the US DOE.

“Our biggest win was at the Department of Energy where we won a major role in implementing the Save Energy Now Programme.”



- For the US DOE Environmental Management Division (EM) we won nearly \$10 million in new orders last year. This work included high-end IT strategy, planning, programming and budget control for the US DOE's nuclear clean-up programmes. Our work was recognised with an award from the US DOE for "significant contributions to the vision and future role of IT throughout EM" at the annual Information Management Conference in San Antonio, Texas.
- We won a number of strategic projects to advise the US Federal Government on how to achieve President Obama's target of 28% GHG emission reductions.
- We were successful in starting and building a Sustainable Transportation practice, which is very closely aligned with the Transportation practice in the UK. The team is working on a major contract to study the air quality impacts of alternative fuels at US airports and is bidding on more than \$40.0 million of related transportation work in the coming year.
- At the Environmental Protection Agency (EPA) we were awarded approximately \$4.4 million in contracts to support five major offices, including the Office of Water and the Office of Research Development. The work includes long term strategic planning, high level policy support, and building business case justification and alternative analyses for key technology investments. We also act as a trusted advisor in providing architectural design services that support the EPA's mission critical systems.
- Another important win was the \$7.1 million contract for the Department of Justice Alcohol Tobacco and Firearms office. The work includes ensuring that the data and information available to the agents in the field is of the highest quality. This is critical for the agents' ability to perform their duties.
- Last year we were awarded contracts with ten new private sector customers, primarily in the Healthcare and Financial Services industries. New accounts in Healthcare include: Medimmune, Independent Health Associates, Johnson & Johnson, and ESAI Pharmaceuticals. For Financial Services, we won new work at TD Bank, Safeco Insurance, Crown Castle, and Inter-American Development Bank. This, combined with the 30 current private sector customers we have, gives us a base upon which we can leverage our other capabilities in energy and climate change.
- At the Nuclear Regulatory Commission (NRC) we were awarded a \$4.8 million contract to design, build and operate the Emergency Response Data System. This mission critical system provides the NRC with nuclear power plant data supporting their incident response role in assessing plant conditions during emergencies.

Outlook

Our strategy is delivering. We have made real progress in the year and are now established as an important advisor to the US Government in climate change and energy. We can also see there is a deepening commitment in the US towards reducing its dependency on foreign oil as well as creating jobs through investment in clean technologies. This is becoming a very exciting market opportunity for us. Our priority will be to continue to win business in the US with the Federal Government and help them deliver a policy and regulatory environment which transforms the US economy onto a more sustainable basis.

In Europe, we anticipate market conditions will be challenging, particularly in the UK where the Central Government is looking to reduce the extent of Government borrowing by cutting back on expenditure. Despite this, we have developed a robust business model, which together with our enhanced capability, means that we are very well placed to help our Government customers meet their objectives at a much reduced cost. In addition, the investment that we have made in technology and people over the last two years has enabled us to have a very flexible approach to winning business opportunities throughout the globe.

We will continue to invest in the business and over the medium term will be looking to strengthen our capabilities in water and economics. We see water as particularly important because of its interconnectivity with energy.

The Board looks forward to the future with confidence.

Key performance indicators (KPIs)

To measure performance against strategy the following KPIs have been adopted:

Financial measures:

- Top line growth is measured by growth in secure sales – the element of orders to date that the Group expects to be delivered in the coming financial year. Secure sales increased by £2.0 million to £59.5 million (2009: £57.5 million) and revenue grew 21% to £113.2 million (2009: £93.7 million).
- Profitability is measured by adjusted operating profit, which is up from £12.0 million to £12.4 million.
- Financial stability and the management of working capital are measured by net debt of £26.2 million (2009: £27.3 million).

Strategic measures:

- Extending and growing the business with UK Government, Devolved Administrations, regional and local government is measured by revenues in the UK public sector of £58.5 million (2009: £55.3 million).
- Growing and globalising the Group's commercial business is measured by the Group's private sector revenue of £13.5 million (2009: £14.0 million).
- Growing the Group's EU, US and international government work and globalising the business in the overseas public sector is measured by overseas government revenue of £41.2 million (2009: £23.5 million).

Financial performance

Current year performance

AEA Group made good progress in the year in the context of a challenging global recessionary climate. There has been a strong performance in orders, which are up by 41% to £119.2 million (2009: £84.3 million), reflecting both a strong performance and a full year of trading for the US Operation following the acquisition of Project Performance Corporation in August 2008. The US Operation continued to perform strongly, with orders up 145% to £50.7 million (2009: £20.7 million). The Group continues to invest significantly in bids in the US as demand for AEA's climate change and energy expertise continues to run at a high level. In Europe there was good orders growth of 8% to £68.5 million (2009: £63.6 million), demonstrating resilience in challenging market conditions. Despite ongoing demand for AEA's core services, the UK Government sector continued to be slow, affected by a reduced level of spend in the final weeks of the financial year and a change in purchasing practice to the awarding of larger framework contracts.

Total Group revenue for the year increased by 21% to £113.2 million (2009: £93.7 million). In Europe, despite difficult market conditions and a smaller number of UK Government contracts awarded towards the end of the year, the revenue increased by 4% to £73.6 million (2009: £70.6 million), with strong growth in waste and resource efficiency, air and the transport areas. In the US, revenue in the year was £39.6 million (2009: £23.1 million) with a strong performance in US Government work, notably in climate change and energy.

AEA has made good progress on its major investment in both strengthening its IT platform, which has enabled the effective targeting of market opportunities within the area of US energy efficiency and climate change, and in bidding for further opportunities in the US. As a result of these investments, adjusted operating profit rose by 3% to £12.4 million (2009: £12.0 million), resulting in a reduction in the adjusted operating margin from 13% to 11%. To enable further orders growth within the business the Group continues to invest in infrastructure, talent and bidding for future opportunities.

Amortisation of acquired intangibles and certain significant items are included within the reported operating profit. In order to give a clearer analysis of the underlying operating performance these items have been excluded to derive the adjusted operating profit figures. The adjusting items in 2009/10 are £1.2 million (2009: £0.7 million) of amortisation of acquired intangibles, £1.0 million (2009: £0.9 million) of integration and restructuring costs and a net pension credit



from Scheme closure of £0.2 million (2009: £nil). Operating profit was £10.4 million (2009: £10.4 million). This includes adjusting items of £2.0 million (2009: £1.6 million), as noted above.

Net finance costs were £6.9 million (2009: £2.9 million). One of the key components of this is the interest on debt facilities of £1.4 million (2009: £1.4 million), which was unchanged from 2008/09 as falling interest rates were offset by an increased margin on the new facility and higher amortised facility set up costs. Net pension finance costs in respect of accounting for the defined benefit pension scheme of £5.5 million (2009: £1.5 million) have increased due to changes in actuarial assumptions (see note 28 to the Financial statements).

The overall impact of tax on the Group was a charge of £0.2 million (2009: £0.5 million). AEA's taxable profits continue to be largely offset by brought forward losses in the UK and additionally by tax losses arising on the acquisition of Project Performance Corporation within the US in 2008/09. The tax charge arises from deferred income tax movements of £0.1 million (2009: £0.3 million) and an overseas income tax charge of £0.1 million (2009: £0.1 million). As at 31 March 2010 the recognised net deferred income tax asset was £4.3 million (2009: £4.4 million). Deferred income 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 future taxable profits is probable. In addition the Group has an unrecognised deferred income tax asset of £65.3 million (2009: £58.8 million). If conditions permit, the tax losses will be recognised and utilised in future periods.

The increased net finance costs on the defined benefit pension scheme, offset partially by the reduced tax charge, resulted in a reduction in profit attributable to the owners of the parent to £3.3 million (2009: £7.0 million). Adjusted profit attributable to the owners of the parent removes the impact of the amortisation of acquired intangibles, certain significant items described above, and the net finance costs on the defined benefit pension scheme. Adjusted profit attributable to the owners of the parent increased by 7% to £10.8 million (2009: £10.1 million).

The adjusted earnings per share, calculated using the adjusted profit attributable to the owners of the parent, reduced to 4.7p (2009: 5.0p) as a result of an increase in the weighted average number of Ordinary shares in issue. Basic earnings per share reduced to 1.4p (2009: 3.5p) as a result of both the increase in the weighted average number of Ordinary shares in issue and the decrease in profit attributable to the owners of the parent. The Group has two categories of

potential dilutive Ordinary shares, namely share options and warrants. The diluted earnings per share declined to 1.4p (2009: 3.5p). These movements are shown in more detail in note 12 to the Financial statements.

Cash flows in the year

Net cash flow generated from business operations of £10.2 million (2009: £16.2 million) converted 82% of adjusted operating profit into cash (2009: 135%). The reduction was mainly due to higher payments to subcontractors in Europe in April 2009 and receipts related to the working capital improvements post acquisition in the US in 2008/09. In the year there has been an increased focus on working capital management that has resulted in the improved performance in debtor days in both businesses. Debtor days in the US improved to 32 days (2009: 41 days) and in Europe improved from an excellent base to 16 days (2009: 17 days).

The net cash flow generated from business operations of £10.2 million (2009: £16.2 million) has been used to fund various significant items including cash outflow on integration and restructuring costs of £1.0 million (2009: £1.3 million), spend on legacy cash flows of £2.1 million (2009: £7.8 million) with a number of payments delayed into the new financial year by other contracting parties and funding the pension deficit of £1.1 million (2009: £6.0 million) related to the first two months of the financial year before the new schedule of contributions came into effect in June 2009. These items, including the net cash flow from business operations, resulted in cash generated from operations of £6.0 million (2009: £1.1 million).

In addition to these operating cash flows the Group has invested in business continuity improvements resulting in the purchase of IT equipment and development assets with total capital expenditure of £1.0 million (2009: £1.0 million).

Net debt decreased from £27.3 million to £26.2 million. The net decrease of £1.1 million (2009: £7.9 million increase) reflects the £5.0 million (2009: £0.1 million) cash generated from operations (after capital expenditure), net interest payments of £1.0 million (2009: £1.3 million), tax payments of £0.1 million (2009: £0.2 million), other investing activities of £0.9 million (2009: £36.4 million, financed by £36.2 million from the proceeds of new equity issues in 2008/09), the net settlement of forward contracts of £2.2 million (2009: £nil), non-cash financing movements of £0.8 million (2009: £nil) and cash inflows in respect of exchange movements on foreign currency borrowings of £1.1 million (2009: £6.3 million outflow).

Financial position

Sources of funding

The funding requirements of AEA are met through three main sources: internally generated cash flows from operations, bank funding and new issues of equity.

Banking facilities and net debt

To ensure the availability of funds when required, the Company renegotiated a new three year bank facility in November 2009, which includes a £42.0 million revolving credit facility (including an overdraft facility of £7.0 million to manage periods of working capital fluctuation) and a £5.0 million bonding facility to support the obligations of members of the Group arising in the ordinary course of business. The new facility will mature in November 2012, save for the overdraft facility, which is renewable annually. Annual extensions are expected as the overdraft facility forms part of the revolving credit facility.

These banking facilities are sufficient to cover the Group's anticipated funding requirements for the foreseeable future.

Net debt at 31 March 2010 was £26.2 million (2009: £27.3 million), which comprised cash balances of £6.0 million (2009: £3.0 million) less bank loans, other loans and finance lease creditors of £32.2 million (2009: £30.3 million). The detailed analysis of the Group's borrowings is shown in note 26 to the Financial statements.

Capital structure

The Company's authorised and issued share capital as at 31 March 2010, together with details of shares issued during the year, are set out in note 22 to the Financial statements. Each Ordinary share carries one vote.

At 31 March 2010 the Group's net shareholder deficit amounted to £130.2 million (2009: £104.4 million).

Dividends and dividend policy

Given the Company's deficit in distributable reserves the Board is not recommending the payment of a dividend in respect of 2010. 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.

Share price and market capitalisation

The closing share price of the Group on 31 March 2010 was 21.25p (2009: 12.75p) and market capitalisation of the Group was £48.6 million (2009: £29.2 million). The high and low share prices during the year were 34.75p and 11.00p respectively.

Pension accounting

The Group assesses pension scheme funding with reference to actuarial valuations and for reporting purposes uses IAS 19. Under IAS 19 the Group's post retirement benefit net liability is £139.8 million (2009: £108.2 million). The assumptions used in the IAS 19 valuation and the sensitivities regarding the key assumptions are detailed in note 28 to the Financial statements. The Company agreed a schedule of contributions with the Trustees of the Scheme in June 2009. This has now been confirmed by the Pension Regulator.

Accounting policies

A description of the principal accounting policies appears in note 2 to the Financial statements. The policies followed are in accordance with IFRS as adopted by the European Union (EU).

The preparation of the Financial statements conforming to 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 judgments to be used in the preparation of the Financial statements are in relation to assessment of provisions, contract accounting and defined benefit pension schemes. Further information in respect of these critical accounting estimates and judgments, including an analysis of how various alternative assumptions or outcomes would have an impact, is provided in note 3 to the Financial statements.

Treasury policies and objectives

The Group's finance team manages and monitors external funding and financial risks in support of the CFO, who operates within written policies approved by the Board and within the internal control framework.

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. The main risks arising from the Group's financial instruments are market risk (including foreign exchange risk and cash flow and interest rate risk), credit risk and liquidity risk. The Group's exposures to and management of each of these risks, along with sensitivities, are described in detail in note 4 to the Financial statements.

All entities within the Group are required by the Group's treasury function to maintain and regularly update detailed cash forecasting models. The treasury function supports the cash flow needs of the underlying businesses and maintains financial flexibility through utilising the available funds under the Group's revolving credit facility (note 26 to the Financial statements). As at 31 March 2010 £11.2 million (2009: £14.2 million) of this revolving credit facility remains unutilised and provides sufficient headroom to cover the Group's expected operating cash flow needs over the period of the facility. The Group's banking facilities are described in detail in note 26 to the Financial statements.

There have been no significant changes in the Group's policies in the last year.

“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.”

Net finance costs

Changing net finance costs have a significant impact on AEA's profits. There are two main elements to net finance costs: interest expense in respect of bank borrowings (impacting the Group's cash flow) and net interest expense on the Company's defined benefit pension liability (not directly impacting the Group's cash flow).

The interest expense on bank borrowings will fluctuate in line with the level of borrowings and with changes in interest rates. The interest rate risk is reduced through the Company's use of interest rate swaps. The discussion of AEA's approach to cash flow and interest rate risk is included in note 4 to the Financial statements.

The net interest expense in respect of the Company's defined benefit pension liability (being the net of the expected return on defined benefit pension scheme assets and the accretion of discount on defined benefit pension scheme obligations) will fluctuate in line with market conditions and changing yields on corporate bonds. Note 28 to the Financial statements details the assumptions used in calculating the pension liability and the sensitivity analysis on changes to the key assumptions.

Outstanding legacy issues

The Group has residual issues relating to divested and closed businesses. Settlement of such issues at amounts differing to the estimates provided for will have an impact on the Group's future cash flows and net borrowings requirement. The risks and uncertainties associated with these issues are discussed in the section entitled Risks and uncertainties.

Key supplier relationships

Our top ten suppliers accounted for 25% of total Group procurement in the year and no single supplier accounted for more than 8% of total Group procurement. The Group is therefore not dependent on any single key supplier for its procurement requirement.

Corporate responsibilities

The Directors have put in place effective systems for managing significant risks, which include taking into account social, environmental and ethical (SEE) issues.

Corporate Responsibility (CR) is an important part of how we operate and engage with our employees, our local communities and the environment. We are committed to demonstrating our ethical approach to business and stakeholders and achieving an appropriate balance between interests. 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. Andrew McCree, CEO, has Board level responsibility for all SEE matters.

The Board ensures that there is a robust system for managing risks where relevant and managing performance across all areas. Annual programmes and targets are set by the Board who review CR aspects and performance through quarterly reports. This is underpinned by policies and procedures that define clear standards and expectations across the Group. These policies and procedures form part of the integrated Quality Management System (QMS). Within the European Operation the QMS is audited and verified externally by Lloyds Register Quality Assurance.

In addition to this the Group has an IT Security Programme that manages all security aspects of data storage, dissemination, and transmission. The IT Security Programme adheres to UK and US Government regulations along with industry best practices, including ISO 27001, FISMA, and the Data Protection Act.

AEA's infrastructure systems have received FISMA accreditation and the Group is actively pursuing the ISO 27001 for infrastructure systems that contain customer data and provide knowledge management business services. We are committed to implementing data management arrangements that continue, as a minimum, to meet customer requirements.

People

AEA has a performance-driven culture where individuals are rewarded for their individual contribution to the overall success of the business.

We are committed to the principle of equality of opportunity and preventing discrimination. Our policies support a goal of becoming an employer of choice. Employment opportunities are offered according to capability and we value the diversity of our workforce.

Our organisational model supports a collaborative method of working where networking, knowledge sharing and communication are paramount.

The Group employs 891 people (2009: 937) and continues to strengthen its capabilities through a targeted training and development programme.

We have enhanced our talent pool by recruiting 117 people in the year; 35 people in our European Operation and 82 in our US Operation. Recruitment focused on key technical skills, and exceptional graduate capability, continuing our strategy to leverage technical expertise within a flexible resourcing environment.

Employee annualised turnover remained steady at around 13% within the European Operation. In the US Operation average turnover peaked at 33% and declined during the second half of the year to an average of 25%. The higher levels of turnover reflect re-alignment of capability to business needs and the competitive nature of the market during this period, especially within the Washington DC area.

Investment in people is achieved through a mixture of training, development, assignments, recruitment and reward and remuneration schemes. In each year, the relative level of investment between these components will vary dependent on business needs. In 2009/10 increased focus was placed on training, development, skill enhancement and recruitment and retention – pursuing “Employer of Choice” principles and developing capability.

The introduction of an employee engagement initiative has resulted in continued improvements to the working environment, employee communications, people and project management, and an appreciation of Group direction, resulting in higher levels of employee engagement.

We are committed to providing a world-class working environment in which all our people feel valued, motivated and respected. We strive to build a diverse community, where people have an equal opportunity to contribute to our success and further develop their careers based on capability, regardless of their race, religion/beliefs, disability, marital or civil partnership status, age, sexual orientation or gender.

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.

Environment

We are committed to delivering excellence in environmental performance.

An Environmental Leadership Programme (ELP) has been in place in the European Operation since 2009 to identify opportunities and drive improved environmental performance across the business. The ELP is underpinned by the ISO14001 environmental management system. Within each of our offices we have a network of champions who highlight relevant activities and take ownership for implementing improvements.

The following improvements were delivered:

- a 5% drop in CO₂ emissions from our buildings equating to over 50 tonnes of CO₂ savings and a 10% per person reduction;
- a fall of nearly 10% of total CO₂ emissions including travel;
- 18% reduction in paper use compared with the previous year;
- a continued reduction in office paper consumption;
- elimination of excess servers from the data centre using virtualisation technology saving energy and reducing costs;
- minimising our electronic waste stream; and
- a purchasing code covering child and forced labour, health and safety and discrimination.

Health and Safety

The Group has adopted a proactive approach to the management of health and safety, and the environment. The policy, set by the Board, extends beyond compliance with legislation and ensures that the way AEA's employees work reduces risk of harm to a minimum and constantly seek ways to improve against the stated goal of excellence. This year the Group was awarded the RoSPA Gold Medal for safety for the eighth consecutive year.

The Group reports on all recorded accidents and absences from work of one day or more which result from a work related accident or occupational health condition. Every accident is investigated with a view to identifying lessons learnt. The Board and senior managers regularly review safety performance statistics and monitor a range of KPIs. Legal frameworks, practices and KPIs differ slightly between the Group's European and US Operations. The KPIs include near miss reporting,

timeliness of reporting, speed of occurrence investigation and compliance with the scheduled programme of safety monitoring.

Reportable incidents ¹	1
Non reportable lost time accidents	1
Near miss reports events (ratio) ²	2.35
Occurrences investigated within target time ³	100%
Compliance with scheduled programme of safety monitoring ⁴	100%
Prosecutions	None

¹ Reportable to the oversight body under relevant legislation

² Relates to Group performance

³ Relates to Group performance

⁴ Relates to European performance

Two lost time accidents, one reportable, occurred across the European and US Operations. In both cases they were at the minor end of the spectrum of incidents.

Community involvement

We also believe that it is important to make a contribution towards those communities within which we operate. During the year, we contributed both human and financial support to the following good causes:

- Advised and supported CEOs from SMEs based in Oxfordshire on sustainability and helping them to understand and adapt to the challenges of climate change.
- Donated £5,000 to Didcot First Group. The Group also made a contribution of £5,000 to Antarctic 2041 Ltd, a charity promoting recycling, renewable energy and sustainability to combat the effects of climate change.
- European employees supported a local children's hospice with fundraising events and the Group matched the amount raised; a total donation of £500 was made.
- The Newton Marasco Foundation (environmental education for youth), Homestretch, Our Daily Bread, Fairfax and Montgomery County Public Schools Emotional Disabilities Programmes and the Capital Area Food Bank (helping those in need) received a combination of cash and help in kind from both the Company and employees.

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 recognises that at present it is a leading expert in energy and climate change, specifically within UK central Government. In order to expand organically in the future, and to build upon the opportunities within the US Federal Government brought to the Group by the acquisition of Project Performance Corporation in 2008, the strategy is to leverage this energy and climate change expertise into the US Federal Government and to expand from the Group's current US Department of Energy (US DOE) base into the Environmental Protection Agency (EPA). In this way, by expanding the Group's successful track record within the US Federal Government, the strategy is then to leverage this success and diversify into the higher margin US private sector.

Changes in the competitive environment resulting from Government policy

Work for the UK Government and the US Federal Government will remain a significant component of AEA's business. Future changes in both UK and US government policies, priorities and expenditure levels or delays in implementation of legislation could affect the Group's business. Climate change and environmental priorities are clearly increasingly high priorities for all governments, but AEA will not be complacent. At the very least internal government reorganisation could mean AEA finds itself working with new customers who have different priorities. AEA must therefore maintain ongoing links with senior officials in key UK and US government departments and anticipate and be able to react to future changes. Investment has been made in enhancing customer relationship skills and senior management connections with relevant parts of the customer organisations.

Recruitment and retention of sufficient high calibre people

During the year recruitment activities focused on enhancing skills in key technical areas. In addition, the Group strengthened its sales capability and engaged a number

of industry renowned experts with strong technical and consulting backgrounds.

The recruitment market remained very challenging as demand for high calibre technical experts increased. However, through a combination of challenging and rewarding assignment opportunities, investment in development in both technical and business skills, and market competitive reward packages, the Group has successfully executed its retention strategy.

Retirement benefits

The Group operates both defined contribution and defined benefit pension schemes. The Group has no further payment obligations to the defined contribution schemes in Europe and the US once the contributions have been paid.

The UK defined benefit pension scheme (the Scheme) continues to present significant risks to the Group. However, a major de-risking measure during the year was the closure of the Scheme to future accruals by employees after 31 July 2009.

Defined benefit pension schemes in the UK are subject to a scheme-specific funding requirement in respect of their ongoing obligation to provide benefits for scheme members. The actuarial valuation as at 31 March 2008 was the first valuation of the Scheme, which was undertaken on a scheme-specific funding basis and indicated that the Scheme had an actuarial funding shortfall of £152.7 million.

For calculating the balance sheet retirement benefit obligation the Group uses IAS 19. Full details of the Scheme are disclosed in note 28 to the Financial statements. Over the year the total net retirement benefit obligation under IAS 19 has increased to £139.8 million (2009: £108.2 million). The current year increase in the net retirement benefit obligation substantially reflects an increase in the assumption on future inflation to 3.6% (2009: 3.2%) and a drop in the discount rate to 5.6% (2009: 6.6%).

During the year, the Company agreed a new schedule of contributions with the Scheme Trustee that allowed the Group to spread the cash contributions into the Scheme over approximately 20 years. The Pensions Regulator reviewed the Scheme funding, valuation summary, recovery plan and schedule of contributions and confirmed at the end of March 2010 that it does not propose to take any action in respect of the recovery plan and schedule of contributions. This removes a significant area of uncertainty in the Group's future cash flows.



The risk that the value of the Scheme assets may not match liabilities is inherent in defined benefit schemes. At present, the Scheme's assets comprise a mixture of return seeking and income producing assets.

Factors outside the Company's control may increase the Scheme's past service deficit at future actuarial valuations, which would require the Company either to increase its contributions or to take further steps to control costs. These factors might include changes in actuarial assumptions for example, regarding longevity of Scheme members, changes to interest, inflation and discount rates, the level of pension increases, changes in the investment strategy of the Trustee of the Scheme and fluctuations in world markets as a result of generic economic conditions. If the assumptions made regarding these prove inaccurate, a material difference between the Scheme's assets and liabilities could persist.

Work is on-going to put in place a trigger based approach to a dynamic de-risking strategy on the asset investments and liability management.

Legacy provisions

As detailed in note 29 to the Financial statements, the Group has provided for various liabilities comprising onerous leases, warranties and indemnities in respect of disposals of companies and businesses and in respect of retained decommissioning and waste management obligations relating to discontinued operations. Uncertainty exists around the potential for claims under warranties and indemnities in respect of these disposals, with a number of indemnities continuing for five or more years post divestment, and there is uncertainty in estimating the future costs of decommissioning nuclear facilities. The total liability is predominantly represented by provisions, detailed in note 29 to the Financial statements, with the majority of the associated cash outflow expected to take place over the next two years.

All residual issues relating to the divested and closed businesses are under the control of the CFO. The Group has not become aware of any significant additional liabilities in respect of disposals.

Exchange risk

Following the acquisition of Project Performance Corporation in 2008/09 the Group has operations denominated in US Dollars and also maintains a US Dollar loan. As a result, the Group's profit and net debt is impacted by exchange rate fluctuations, which could have a negative or positive impact on the Group results. This is covered in more detail in the financial instrument disclosures within notes 4, 16 and 27 of the Financial statements.

Preparedness for Climate Change

Following the Group's preliminary assessment of the non-regulatory risks posed to the business by climate change, the Group continues to review the status and reports quarterly on progress.

The results of the initial assessment, which includes physical infrastructure, supply chain, reputation, market and people, showed that the Group has low exposure and sensitivity to climate impacts, as the business is highly flexible and has high adaptive capacity.

AEA's proactive approach ensures the business has a more comprehensive approach than is required by regulation. Through a combination of the Group's ISO14001 accreditation, health and safety and environment management system, and its Environmental Leadership Programme (ELP), AEA continues to mitigate and manage environmental and climate change risks effectively.

AEA is not presently subject to the forthcoming UK Carbon Reduction Commitment (CRC) scheme. However, the Group will continue to reduce its energy consumption to manage any potential future costs from compliance.

“During the year recruitment activities focused on enhancing skills in key technical areas. In addition, the Group strengthened its sales capability and engaged a number of industry renowned experts with strong technical and consulting backgrounds.”

Board of Directors

Dr Paul Golby

Chairman, Chairman of Nomination Committee

Paul Golby was appointed Non-Executive Chairman to the Board of AEA Technology plc on 24 September 2009. Paul joined the Board in August 2003 and is the Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees. He has been, since 2002, Chief Executive of E.ON UK plc and is an Executive Committee member of E.ON AG, its parent company. After training as a mechanical engineer, he had a series of management appointments with Dunlop and BTR before becoming an Executive Director of Clayhithe plc. Paul is a Fellow of the Royal Academy of Engineering, the Institution of Engineering and Technology, the Institution of Mechanical Engineers and the Energy Institute.

Andrew McCree

CEO

Andrew McCree was appointed CEO in April 2005. He was first appointed to the Board in November 2000 as Director for Corporate Affairs and Human Resources, and subsequently Group Managing Director. He has held a number of senior posts in AEA and before that in UKAEA, which he joined in 1991. His earlier career was with BP Exploration.

Alice Cummings

CFO

Alice Cummings was appointed to the Board as CFO in October 2006 having previously been Deputy Group Finance Director. She also has responsibility for legacies and risk management and acts as the Deputy Company Secretary. She has held a number of senior posts in AEA since joining in 1995, including Finance Director Environment, Deputy Managing Director of Nuclear Programmes and Chief Accountant. Her previous career was with South West Water plc after having qualified as a Chartered Accountant with Price Waterhouse. She is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mike Nigro

COO and President of US Operations

Mike Nigro was appointed to the Board in August 2008 on completion of the acquisition of Project Performance Corporation, where he served as CEO. Mike has 25 years of experience building and managing environmental consulting firms working in the Federal, commercial and international markets. He commenced his career with Planning Research Corporation, where he held the role of President prior to its acquisition by Tetrattech, at which time he became Executive Vice President responsible for the management and operation of the company's global Resource Management Group.

Gwen Ventris

COO Europe

Gwen Ventris was appointed COO Europe in May 2009 having been first appointed to the Board as Group Director, Enterprise Development in October 2008. Gwen has 25 years experience in the field of business transformation with significant international experience, having worked in Europe, Asia and the US. She was one of a small executive team working with Sprint Nextel in the US to set up Sprint Enterprise Mobility and before this was a founding Director and senior executive on the board of Syntegra, BT Group's global consulting and systems integration business. Prior to joining BT, Gwen spent several years in IT consultancy, commencing her career with the American multinational, Texas Instruments.

Rodney Westhead

Senior Independent Director (SID), Chairman of Audit Committee, Chairman of Remuneration Committee

Rodney Westhead, Non-Executive Director (NED), was initially appointed to the Board in August 2003. He is the SID, chairs the Audit Committee as well as the Remuneration Committee and is a member of the Nomination Committee. From 1996 until his retirement in 2005, he was Chief Executive of Ricardo plc, a leading automotive engineering consulting company. He is the SID of Mouchel Group plc, a former Chairman of Carter and Carter (in administration), Chairman of Clean Air Power and a Director of Transense Technologies plc. An accountant by profession, he was a partner with Grant Thornton, including Managing Partner of their London office, before moving to Ricardo plc in 1992 as the Group Finance Director.

Lord Moonie stood down from the Board on 23 July 2009. Dr Bernard Bulkin and Dr Leslie Atkinson stood down from the Board on 24 September 2009.

Governance

Statements of appliance of, and compliance with, the Combined Code

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 31 March 2010, and as at the date of this Annual Financial Report, it was compliant with the provisions of, and applied the 14 principles of good governance set out in Section 1 of the 2008 FRC Combined Code on Corporate Governance (the Combined Code, available at www.frc.org.uk) except that, following the resignations of Lord Moonie on 23 July 2009 and of Bernard Bulkin and Leslie Atkinson on 24 September 2009, the NEDs have comprised the Chairman and the SID; since September, the Company, acting through the Nomination Committee, has been actively identifying suitable candidates for appointment to the position of NED and until that is accomplished the Company will be non-compliant in respect of Code provisions C.3.1, A.4.1 and A.3.2. Although the office of Company Secretary is temporarily vacant, the duties of the Company Secretary are being fulfilled by the Deputy Company Secretary in order for the Company to adhere to the principles of good governance of the Combined Code of Corporate Governance (the "Combined Code") as issued by the Financial Reporting Council dated June 2008. The revised Code, renamed "The UK Corporate Governance Code", applies to accounting periods beginning on or after 29 June 2010 (also available at the web address detailed above).

The Board

The Board is collectively responsible for the performance of the Group. Its role is to provide entrepreneurial leadership, to set and implement strategy within a framework of effective internal controls, and to ensure the success of the Group for shareholders. The Board holds scheduled meetings throughout the year and met nine times during 2009/10.

The posts of the Chairman and CEO are separate and the Board has defined their respective responsibilities in writing. The Board has formally agreed a written schedule of matters reserved for its decision that it keeps under regular review. Amongst the reserved decisions are: agreeing the annual financial budget; approval of major acquisitions and divestments; major investment proposals; large contract bids; and major decisions regarding pensions.

Rodney Westhead as the SID is available to shareholders as an independent point of contact to the Chairman and Executive Directors.

The Board has satisfied itself that each NED is independent, meaning in character and in judgment, and free of relationship or circumstance which is likely to affect, or could appear to affect, the exercise of independent judgment.

The Board receives a monthly review of operating, financial and cash performance and regular reviews on key aspects of the Group's activities. Through the Company Secretary, Directors receive papers on all substantive agenda items in sufficient time before meetings to be meaningful and the Chairman ensures that all Directors are properly briefed on issues arising at the Board. All Directors are encouraged to bring an independent judgment to bear on issues of strategy, performance, resources, key appointments and standards of conduct.

Attendance record at Board and Committee meetings

	Board Committee	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings	9	3	6	2
Bernard Bulkin ¹	4			
Andrew McCree	9	3		
Alice Cummings	9	3		
Mike Nigro	9			
Gwen Ventris	9		6	
Leslie Atkinson ¹	4	1	4	
Paul Golby ²	9	3	6	2
Lord Moonie ³	2		3	
Rodney Westhead ⁴	8	3	1	2

¹ Stood down on 24 September 2009

² Chairman of Nomination Committee

³ Stood down on 23 July 2009

⁴ Chairman of Audit Committee and Chairman of Remuneration Committee

Governance (continued)

Performance evaluation

The Combined Code attaches importance to Boards having processes for individual and collective performance evaluation. The Executive undertook a rigorous evaluation of its own performance and its individual Directors in February 2010 as part of its evaluation of the Board, following which the Executive Directors were independently assessed by the SID and the Chairman.

The Chairman talks to each Director at least annually to appraise their performance, and the SID leads an evaluation of the performance of the Chairman in discussion with the SID and taking account of the views of the Executives. The Chairman and the NEDs meet without the Executive Directors present.

Re-election

Under the Company's Articles of Association (Articles), all Directors must stand for election by shareholders at the first opportunity after their appointment and must stand for re-election every three years. Accordingly Paul Golby, Rodney Westhead and Alice Cummings are now subject to re-election.



“The Group encourages dialogue with its shareholders in various ways, including via information placed on its website and a planned investor relations programme.”

Nomination Committee

The Nomination Committee has written terms of reference that meet the guidance of the Combined Code. Its role is to lead the process for new Board appointments and succession planning, and to make recommendations in these areas to the Board. The terms of reference are available on the corporate governance section of the Company's website and make clear that the aim is to identify potential candidates from a wide range of backgrounds on the basis of personal merit and suitability. Paul Golby chairs the Committee, which met on two occasions during the year to 31 March 2010. The terms of reference provide that all NEDs shall be members, subject to a restriction that members must not be involved in processes relating to their successor or to posts for which they may be candidates.

Letters of appointment to NEDs set out the expected time commitment. A check is made in the appointment process that they undertake to have sufficient time to meet what is expected of them. Their other significant commitments are disclosed to the Board and substantial subsequent changes are brought to its attention.

With effect from 1 October 2008 Directors became subject to a statutory duty under the Companies Act 2006 (the Act) to avoid potential as well as actual conflicts of interest. The Act states that Directors may authorise conflicts and potential conflicts where appropriate provided that the Articles contain a provision to this effect. The Articles were revised to allow for this at the 2008 AGM and the Nomination Committee's terms of reference were revised to consider such matters and make recommendations to the Board.

Remuneration Committee and Directors' remuneration

The role and work of the Remuneration Committee is described in the Report on Directors' remuneration on pages 21 to 27.

Audit Committee

The members of the Audit Committee are Rodney Westhead (Chairman) and Paul Golby. Rodney Westhead has professional accounting qualifications and significant recent and relevant financial experience. The Committee held three scheduled meetings in the year, with external auditors (the

Auditors) present. The Committee talks to the Auditors without executive management present. Its Chairman reports the main work and findings of the Committee to the Board. All Directors receive the minutes and papers of Audit Committee meetings.

The Audit Committee's written terms of reference are published on the Company's website. In line with these, it reviews Financial statements before they are considered by the Board, including the accounting policies adopted and the implementation of changes, and it reviews the significant financial reporting judgments in them. There are no significant fair value issues within the Group's accounts. Contingent liabilities are reviewed as part of the Group's risk management processes and the disclosures in the Financial statements are confirmed to applicable accounting standards, which ensures consistency of reporting from year to year. The Board has reserved to itself the review of trading statements and associated announcements.

The Committee reviews the operation of internal controls through papers taken on internal controls and risk and through the review of reports on internal audits conducted in line with a programme agreed by the Committee and reports to the Board on the annual review of the internal control and risk management. Its terms of reference also require the Committee to review the arrangements whereby staff can raise concerns about possible improprieties in financial reporting or other matters, and to satisfy itself that these ensure the proportionate and independent investigation of such matters and appropriate follow-up action. No such concerns were raised in the year.

The Committee is responsible for satisfying itself on the independence of internal auditors and on the independence and objectivity of the Auditors. The Audit Committee reviews the scope, results and cost-effectiveness of internal and external audit through the review of reports. The Committee reviews each year the arrangements for safeguarding Auditor objectivity and independence. It satisfied itself that these were maintained in the last year. Its assessment includes a review of the internal auditor's quality control procedures. No Director has a significant connection with the Auditors.

The Board operates on the basis that non-audit work is not placed with the audit firm without specific prior Board approval taken in the best interest of the Group. The Committee has delegated power from the Board to exercise the power from shareholders to agree fees for the Auditors.

Relations with shareholders

Regular meetings are held between the CEO, the CFO and institutional investors, for example after the publication of Group half-year and annual results, which involve a wide-ranging discussion about the Group's performance and plans. The Group encourages dialogue with its shareholders in various ways, including via information placed on its website and a planned investor relations programme. The SID is available as a channel of communication if shareholders have concerns that are not appropriately handled through other channels. Institutional shareholders also have the opportunity to meet new NEDs.

Whenever possible, all Directors attend the AGM so that shareholders have the opportunity to question them, including in their role as Chairmen of Board Committees. Separate resolutions are proposed on each substantially different issue so that each receives proper consideration. Resolutions include the approval of the Annual Financial Report and adoption of the Report on Directors' remuneration. The proxy form allows shareholders to vote for or against each resolution or to withhold their vote. Proxy votes for and against each resolution, plus "votes withheld", are announced at the meeting after each resolution has been dealt with on a show of hands, and are then published on the Company's website. The Company uses its registrars to ensure that there are effective processes in place for properly receiving and recording the votes cast. Notice of AGM and related papers are sent to shareholders at least 21 days in advance of the meeting.

Internal control

Responsibility and process

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. This system is designed to manage rather than to eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement and loss.

The Board confirms that there is an on-going process for identifying, evaluating and managing the Group's significant risks, that this has been in place for the year ended 31 March 2010 and up to the date of approval of the Annual Financial Report, that it covers subsidiaries in which the Group has an interest of 50% or more, that it is regularly reviewed by the Board and that it accords with the FSA's internal control guidance for Directors on the Combined Code ("the Turnbull guidance").

Control environment

The Group's organisational structure has clearly documented and communicated levels of responsibility, delegated authority and reporting procedures. Management systems have been externally accredited. The professionalism and competence of employees is maintained through recruitment, performance appraisal, written job descriptions and personal training and development plans. The Board supports the highest levels of commitment and integrity from employees and has endorsed a code of business ethics, a copy of which is available to all employees.

Identification of risk

Each area of the business is required to identify and assess risks of meeting objectives, to weight and prioritise these on the basis of their assessed impact and likelihood, and then to take timely actions to manage or eliminate them through compensating internal controls. The relevant management process approved by the Board recognises that risks arise from many internal and external sources and that a wide range should be considered. The effectiveness of these actions is monitored and reviewed regularly. These business reviews form the basis of an annual review to the Executive and Board. Regular management information includes a review of risks with specific contracts such as those with reported technical or financial problems.

Control procedures

Control procedures are documented in the Group's management systems, which are subject to external audit by firms other than the Group's Auditors. These include a finance manual, corporate and business quality assurance manuals, safety procedures and environmental management procedures. Procedures are designed to ensure that work is carried out to meet stated objectives, that risk is managed through risk-based internal controls, that delegations are based on risk assessments, and variances are identified and reported in a timely way to enable corrective actions to be taken. Procedures are also subject to review so that improvements to enhance controls can be made.

Monitoring and corrective actions

The Board approves an annual Group budget. It receives monthly reports, supplemented by other reviews, on a range of key performance and risk indicators and considers possible control issues. The indicators cover financial, operational, safety, environmental and compliance aspects of performance with forecasts revised in response to developments.

Throughout the year, the internal audit function reported to the Audit Committee, which approved its programme and considered its recommendations. The Board also received, and decided appropriate action on, reports from the Audit Committee. For its annual review of the internal control system, the Board took account of its own reviews and monitoring during the year, plus an annual report submitted via the Audit Committee in order to obtain the degree of assurance required under the Combined Code. The Board also has responsibility for satisfying itself with the effectiveness of the Group's risk management processes.

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

Other statutory information

Results and dividends

This year's results are set out in the Consolidated income statement. No interim dividend was paid (2009: £nil) and the Directors recommend that there is no final dividend for the year (2009: £nil).

Share capital

The Company's authorised and issued share capital as at 31 March 2010, together with details of shares issued during the year are set out in note 22 to the Financial statements. Each Ordinary share of the Company carries one vote. None of the Ordinary shares of the Company, each of which carries one vote, was subject to any restrictions on their transfer during the year.

Authority to purchase shares

The Company was authorised at the 2009 AGM to purchase its own shares, within certain limits and as permitted by the Articles. A renewal of this authority will be proposed at the 2010 AGM. Shares repurchased may be cancelled or retained as treasury shares to accommodate requirements for shares under the Group's share incentive schemes. No shares were purchased under this authority during the year ended 31 March 2010.

Substantial shareholders

As at 23 June 2010 the Company has been notified under section 793 of the Companies Act 2006 of the following notifiable interests in its shares:

Schroder Investment Management Limited	20.40%
M&G Investment Management Limited (UK)	17.62%
Artemis Investment Management	14.04%
JO Hambro Capital Management	8.18%
Invesco Perpetual (UK)	9.90%
GAM	5.93%
Cazenove Capital Management	4.13%
Gartmore Investment Management	3.32%

The percentage of the total voting rights, attaching to the issued Ordinary share capital of the Company shown, is the total as at the date of disclosure.

Change of control

There are a number of contracts which would allow the counterparties to terminate or alter those arrangements in the event of a change of control of the Company. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment due to a takeover other than as reported in the Report on Directors' remuneration and

in relation to the Company's Save As You Earn (SAYE) plan. Under the SAYE plan (the plan) options may vest and become exercisable in accordance with the rules of the plan.

Acquisitions, joint ventures and branches

There were no acquisitions or incorporated joint ventures entered into during the year. The Company retains three registered overseas branches. One branch is in Belgium and two are outside the EU.

Indemnities and insurance

AEA maintains Directors and Officers liability insurance and has granted the Directors and former Directors of the Company and its associated companies an indemnity, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Post balance sheet events

There were no post balance sheet events.

Research and development

The Company has capitalised £0.4 million (2009: £nil) in developing new products in the form of tools and services (note 14 to the Financial statements).

Auditors

PricewaterhouseCoopers LLP (PwC) have indicated their willingness to continue in office and a resolution proposing that they be re-appointed will be proposed at the AGM.

The Board has agreed as a policy that work other than statutory reporting work and directly related services will not be placed with the external audit firm unless it gives prior agreement after satisfying itself that to do so is in the best interest of the Group. Other work placed with PwC in the last year was £0.1 million associated with advice on restructuring the Group to enable it to focus on the delivery of the strategy.

Payment policy

AEA is a registered supporter of the CBI's Prompt Payment Code. Its policy is to agree terms of trading that are appropriate for suppliers' markets and to abide by such terms where suppliers' obligations have been met. The average creditor payment period at 31 March 2010 was 40 days (2009: 45 days).

Statement of going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they consider it appropriate to continue to adopt the going concern basis in preparing the Financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Financial Report, the Report on Directors' remuneration and the Financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial statements for each financial year. Under that law the Directors have prepared the Company and Group Financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The Financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those Financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent; and
- State that the Financial statements comply with IFRSs as adopted by the EU.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Financial statements and the Annual Financial Report comply with the Companies Act 2006 and, as regards the Group Financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of Financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Annual Financial Report, confirm that, to the best of his or her knowledge:

- The Company and the Group Financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group; and
- The Directors' report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

All Directors, at the time this report was approved, confirm that so far as they are aware, there is no relevant audit information of which the Company's Auditors have not been made aware; and that they have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

By order of the Board



Andrew McCree

CEO

23 June 2010



Alice Cummings

CFO

Report on Directors' remuneration

This Report complies with the Directors Remuneration Report Regulations 2002, FSA Listing Rules and the principles and provisions of the Combined Code on Corporate Governance. A resolution inviting shareholders to approve the Report will be tabled at the AGM.

The information in sections F and G is subject to audit.

A THE REMUNERATION COMMITTEE AND ITS ADVISORS

The Remuneration Committee has responsibility from the Board to agree the remuneration of the Chairman, the Executive Directors and selected senior managers. Its terms of reference are available on the Company's website. Membership of the Committee in the year ending 31 March 2010 was as follows; one Director is an independent NED and the other is the Chairman:

Rodney Westhead, Chairman (appointed 13 November 2009)

Paul Golby

Leslie Atkinson (resigned 24 September 2009)

Lord Moonie (resigned 23 July 2009)

The Company Secretary acted as the Committee's Secretary. The COO Europe attended part of all meetings by invitation to respond to specific questions raised by the Committee relating to the remuneration of other Directors and selected senior managers.

The Committee has utilised the services of Real Rewards and KPMG LLP to assist in the discharge of its responsibilities in the year.

B EXECUTIVE DIRECTORS

B1 Remuneration policy and approach

The Committee reviews Executive Director remuneration annually to ensure consistency with Group business objectives, relevant comparable companies and with any change in relevant legislation or best practice guidelines.

The Committee's policy is that the level and structure of executive remuneration is to be competitive and performance-related. Specifically, the objectives are to take account of remuneration for similar job functions in comparable companies; that packages should attract, motivate and retain executives with the experience, skills and talents to operate and develop the Group to its maximum potential; and that a significant element of the potential reward is to be related to Group performance, ensuring direct alignment with the interest of shareholders.

B2 Remuneration packages

Individual packages comprise a mix of fixed and variable performance-related elements, with the latter representing a significant part of the potential total reward.

Fixed elements:

a) Basic salaries:

Basic salaries are reviewed annually, or when changes in responsibilities occur, taking into account relevant external market comparisons for similar job functions, the level of responsibility of each Executive, individual skills and experience, salary levels throughout the Group and movements in basic pay in the Group.

b) Pensions:

See section F2.

c) Other benefits:

These include, variously as appropriate: a company car or cash in lieu, health care and Death in Service Benefits in respect of earnings above the pensions earnings cap. The taxable value of these benefits is included in the Directors' emoluments table in section F1. Executive Directors are eligible to participate in the Company's all-employee share plans, namely Save As You Earn (SAYE) and the Share Incentive Plan (called Buy As You Earn or BAYE). Neither plan involves performance conditions.

Report on Directors' remuneration (continued)

B2 Remuneration packages (continued)

Variable performance related elements:

Individual remuneration packages include a significant variable performance-related component, payable only if, and to the extent that, demanding conditions have been met that have increased shareholder value through growth in earnings and contributed significantly to corporate strategy and development.

a) Annual cash bonus:

The Executives are eligible to earn a non-pensionable cash bonus of up to 70% of basic salary. Targets were not achieved this year. Whilst the Company presented a reasonable performance in the context of a very difficult recessionary climate, performance achievement was just short of the original plan.

The Committee sets measures and targets relating to improving shareholder value. These included achieving operating performance targets for orders, profit and net debt and strategic measures such as extending the customer base.

b) Longer term share based incentive:

See section B3.

B3 Performance Share Plans

2008 Performance Share Plan (PSP)

During the acquisition of Project Performance Corporation in August 2008, the Company introduced a new PSP designed to support the integration of the two businesses. The PSP has two components: an overall Group target for earnings per share growth and separate local operating targets. Shareholders approved this PSP at the 2008 EGM. The first awards under this plan were made in August 2009 following further discussions with the Company's advisors and following discussion with the Association of British Insurers on the precise vesting conditions. Given recent events surrounding executive remuneration plans we will continue to monitor developments and review our long term incentive strategy.

Company Share Option Plan (CSOP)

Awards were made to Executive Directors and others between 2000 and 2003 under a CSOP with vesting subject to an earnings per share three-year Company performance period. Options awarded in 2001 at an exercise price of 296.5p per share vested in 2004 and participants have until June 2011 to exercise their options. The interests of the Executives are shown in the table in section G2.

B4 Service contracts

Contract dates as at 31 March 2010 are as follows:

	Contract date	Retirement date	Notice period
Executive Directors			
Andrew McCree	27 November 2000	19 August 2022	12 months
Alice Cummings	22 November 2006	1 November 2028	12 months
Mike Nigro	22 August 2008	Not specified	12 months
Gwen Ventris	23 October 2008	9 February 2017	12 months
Chairman			
Paul Golby	24 July 2003	Not applicable	1 month
NED			
Rodney Westhead	24 July 2003	Not applicable	1 month

B4 Service contracts (continued)

Executive contracts provide for a retirement age of 65, except for Mike Nigro's where no age is specified, and for a rolling 12 month notice period from the Group, with provision for reduced or no notice in the event of dismissal for defined circumstances. The Executives are required to give six months' notice.

The contracts for the Chairman and NEDs provide for a one month notice period on either side.

The Committee accepts and endorses the principle of mitigation of damages on early termination of appointment. Guaranteed termination payments are limited to payment of salary and benefits in respect of the notice period, with all variable elements of compensation (bonus payments, outplacement support and vesting of share options) being at the discretion of the Committee. In the specific event of dismissal within 12 months of a change of control, Andrew McCree's contract provides for payment of outplacement support and half of the maximum bonus payable, with any other payment being at the discretion of the Committee.

B5 Shareholding guidelines

The Committee has agreed the principle that Executive Directors are expected to build up and maintain significant shareholdings in the Company over time, allowing for differences in individuals' circumstances, particularly as awards under variable incentive plans vest.

B6 External directorships

Executive Directors are allowed to hold external NED appointments subject to prior Board agreement, and are allowed to retain any fees payable to them with the consent of the Committee, except where the appointment is as a representative of AEA. At present, none of the Executives holds any external NED appointment that has a fee payable.

C SENIOR MANAGERS

The Committee's remit extends to selected senior managers as determined by the Board, currently employees with a salary in excess of £120,000 or any equivalent in Euros or US Dollars. Their contract structure is similar to that of the Executive Directors, with salaries determined in line with market comparisons and with a split between fixed and variable performance-related elements.

D NEDS AND CHAIRMAN

The NEDs' and Chairman's appointments provide for payment of a fee. The Board has delegated the responsibility for approving fees within the limits in the Articles as follows:

- a) to the Committee for the Chairman; and
- b) to the Executive Directors for the other NEDs.

As the Chairman is a member of the Committee for this reporting period, the other Directors determined the fee for the Chairman such that in this way, no Director was responsible for the setting of his or her own remuneration.

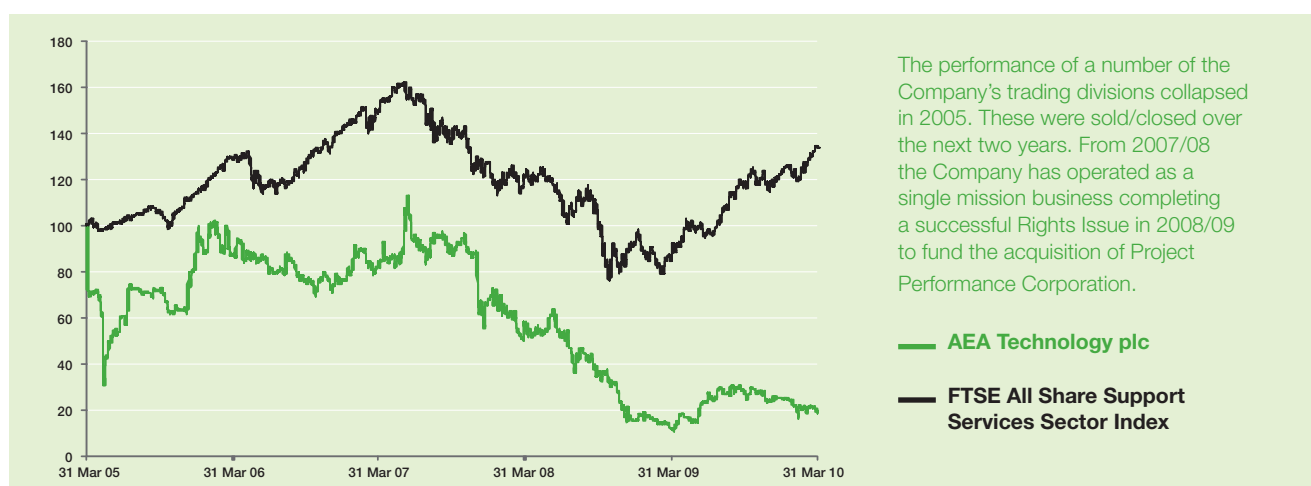
NEDs, including the Chairman, are paid a basic fee plus a fee as appropriate for chairing Board Committees or for acting as the SID, determined by reference to market comparisons. The basic fee in the year was £28,160. Bernard Bulkin's fee as Chairman for the period to 24 September 2009 was £43,500 and Paul Golby's for the period from 24 September 2009 to 31 March 2010 was £43,778.

NEDs do not receive share options, performance related bonus or pension entitlements and are not eligible to participate in all-employee share plans. However, they are entitled to reimbursement of reasonable expenses in line with the policies applying to Group employees.

Report on Directors' remuneration (continued)

E PERFORMANCE GRAPH

The following graph compares the performance of AEA Technology plc, by reference to total shareholder return (TSR), with that of the FTSE Support Services sector for the five years ending 31 March 2010. The Group has been in this sector throughout this period and the Committee uses many of the component companies as market comparators. TSR is shown as the value of £100 invested in the Company and in the FTSE Support Services sector over the same period, measuring share price growth plus dividends paid.



F DETAILS OF DIRECTORS' REMUNERATION

Sections F and G have been externally audited.

F1 Directors' emoluments

Details of individual Directors' emoluments, excluding contributions by the Group into a pension scheme (see section F2), for the year are as follows:

	Salary or fee £000	Benefits £000	Annual bonus £000	2010 Total emoluments £000	2009 Total emoluments £000
Executive Directors					
Andrew McCree ¹	295	97	-	392	415
Alice Cummings	177	31	-	208	222
Mike Nigro ²	171	7	-	178	116
Gwen Ventris ^{1,3}	279	48	-	327	170
NEDs and Chairman					
Bernard Bulkin ⁴	44	-	-	44	95
Leslie Atkinson ⁴	16	-	-	16	35
Paul Golby	60	-	-	60	36
Lord Moonie ⁵	10	-	-	10	31
Rodney Westhead	32	-	-	32	36
	1,084	183	-	1,267	1,156

¹ Salary includes pension contributions made by the Company under an HMRC approved salary sacrifice arrangement

² Appointed to the Board on 22 August 2008

³ Appointed to the Board on 28 October 2008

⁴ Resigned 24 September 2009

⁵ Resigned 23 July 2009

F1 Directors' emoluments (continued)

The Benefits column includes, variously as appropriate, provision of a company car and fuel, health care, and a cash salary supplement payment in lieu of pension benefits in respect of salary above the earnings cap, see F2.

All of the directors waived 10% of their salary or fee, as appropriate, with effect from 1 May 2009. These waivers were without prejudice to any existing entitlements to pension contributions and to their entitlements to emoluments in the future.

F2 Pensions

Features of the current pension and associated arrangements for each Executive Director are set out below. The value of cash salary supplements paid in the year is shown in the table at F1 above.

Andrew McCree is a member of the AEA Technology Corporate Pension Plan, a defined contribution stakeholder arrangement, which is open to all employees. The Company matches his contribution up to 8% of salary. He receives a taxable cash salary supplement in lieu of pension benefits above the earnings cap, worth 30% of salary above the earnings cap. The Group also takes out insurance to provide additional Death in Service benefits in respect of salary above the earnings cap (2010 cost: £821).

Alice Cummings is not a member of a Group pension scheme. She receives a taxable cash salary supplement worth 20% of salary above the earnings cap.

Mike Nigro is a member of a US 401(K) retirement programme. Under the current match program, employees receive a 40% contribution from the Company. The Group also takes out insurance to provide Death in Service and Disability benefits (2010 cost: \$798).

Gwen Ventris is a member of the AEA Technology Corporate Pension Plan, a defined contribution stakeholder arrangement, which is open to all employees. The Company matches her contribution up to 8% of salary. She receives a taxable cash salary supplement worth 20% of salary above the earnings cap.

The information in the following table shows the total value of pension benefits for Andrew McCree built up in the Scheme prior to its closure to future accrual.

Columns (a) and (b) show the deferred pension benefit entitlements at 31 March 2010 and 31 March 2009 respectively.

Column (c) is the transfer value of the deferred pension benefit in (a) calculated at 31 March 2010 by the Scheme Actuary.

Column (d) is the equivalent transfer value at 31 March 2009 of the deferred benefits in (b) on the assumption that the Director left service at that date, again calculated by the Scheme Actuary.

Column (e) shows the change in the transfer value between (c) and (d).

Column (f) is the increase in benefit built up during the year, recognising the additional service completed and the effect of pay changes in "real" (inflation adjusted) terms on the benefit already earned at the start of the year.

Column (g) is the capital transfer value of the deferred pension benefit in column (f).

The transfer values are calculated in accordance with actuarial guidance note GN11.

	(a) Accrued benefit at 31/3/10 £	(b) Accrued benefit at 31/3/09 £	(c) Transfer value at 31/3/10 £	(d) Transfer value at 31/3/09 £	(e) Change in transfer value (c) – (d) £	(f) Additional benefit earned in year £	(g) Transfer value of the increase £
Andrew McCree ¹							
Approved pension	40,859	38,220	671,841	563,915	107,926	2,639	39,775
Approved lump sum	27,392	26,061	-	-	-	-	-

¹ Separate lump sum benefits accrue under the Closed Section scale of the Company's pension scheme. The transfer values shown include the value of pension and lump sum benefits.

Report on Directors' remuneration (continued)

F3 Payment to former Directors

There are unfunded top-up arrangements transferred to AEA on separation from UKAEA in 1996 to provide benefits in excess of the HMRC earnings cap for certain individuals. The Company makes a provision in the accounts in order to cover these benefits.

Details of payments made to former Directors in the year are as follows:

Unfunded Pension	2010 £000	2009 £000
Ray Proctor	47	45
Dr Peter Watson	121	115
Dr Chris Wright	10	10
	178	170

G DIRECTORS' INTERESTS IN SHARES AND OPTIONS

G1 Interests in shares

The interests of the Directors in the Ordinary shares of the Company are as follows:

	31 March 2010	1 April 2009
Andrew McCree	140,045	131,972
Alice Cummings	21,129	14,669
Mike Nigro	1,965,424	1,965,424
Gwen Ventris	14,271	6,198
Paul Golby	31,312	31,312
Rodney Westhead	18,876	18,876

The holdings of Andrew McCree, Alice Cummings and Gwen Ventris increased by 2,295, 1,834 and 2,295 Ordinary shares respectively in the period 1 April 2010 to 23 June 2010 through their participation in the AEA Technology Buy As You Earn Plan.

No Director had an interest at any time in the year in the share capital or loan stock of other Group companies.

G2 Interests in share options and awards

The interests of Executive Directors over Ordinary shares of the Company under the SAYE scheme, the CSOP and the PSP are set out below:

	1 April 2009	Options granted in year	Options lapsed in year	31 March 2010	Exercise price	Date from which exercisable	Expiry date	Scheme
Andrew McCree	90,923	-	-	90,923	£2.965	26/06/04	26/06/11	CSOP
	2,622	-	(2,622)	-	£1.87	01/04/09	30/09/09	SAYE
	-	570,175	-	570,175	£0.00	11/08/12	10/09/12	PSP
Alice Cummings	15,177	-	-	15,177	£2.965	26/06/04	26/06/11	CSOP
	5,064	-	(5,064)	-	£0.96	01/04/09	30/09/09	SAYE
	2,362	-	-	2,362	£0.80	01/04/10	30/09/10	SAYE
	3,840	-	-	3,840	£0.70	01/04/11	30/09/11	SAYE
	34,821	-	-	34,821	£0.14	01/04/12	30/09/12	SAYE
	-	307,895	-	307,895	£0.00	11/08/12	10/09/12	PSP
Mike Nigro	-	257,142	-	257,142	£0.00	11/08/12	10/09/12	PSP
Gwen Ventris	66,964	-	-	66,964	£0.14	01/04/12	30/09/12	SAYE
	-	410,526	-	410,526	£0.00	11/08/12	10/09/12	PSP

The PSP Awards granted in the year have two performance components; an overall Group target for earnings per share growth over the performance period 1 April 2009 to 31 March 2012 and separate local operating targets. The element related to earnings per share growth will be paid at a sliding scale with no vesting for growth below RPI plus 3% and 100% vesting for growth of RPI plus 7%.

The market price of the Company's shares at 31 March 2010 was 21.25p. During the year, the share price varied between 11.00p and 34.75p.

By order of the Board



Rodney Westhead

Chairman of the Remuneration Committee

23 June 2010

Independent
Auditors' report
to the members
of AEA
Technology plc



Independent Auditors' report to the members of AEA Technology plc

We have audited the Financial statements of AEA Technology plc for the year ended 31 March 2010, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Group and parent Company Balance Sheets, the Group and parent Company Statement of changes in equity, the Group and parent Company Statement of cash flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent Company Financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 20, the Directors are responsible for the preparation of the Financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial statements sufficient to give reasonable assurance that the Financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial statements.

Opinion on Financial statements

In our opinion:

- the Financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2010 and of the Group's profit and Group's and parent Company's cash flows for the year then ended;
- the Group's Financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent Company's Financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on Directors' remuneration which is required to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the Financial statements are prepared is consistent with the Financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company's Financial statements and the part of the Report on Directors' remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 19, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



Miles Saunders (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading.

23 June 2010

Financial statements

The consolidated Financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and related interpretations, as adopted for use within the EU and the Companies Act 2006 applicable to companies reporting under IFRS.



Consolidated income statement

For the year ended 31 March	Notes	2010 £m	2009 £m
Revenue from continuing operations	5	113.2	93.7
Cost of sales		(71.5)	(59.5) ¹
Gross profit		41.7	34.2
Other operating income	6	4.3	4.3
Selling and marketing costs		(8.1)	(8.1)
Administrative expenses		(27.5)	(20.0) ¹
Operating profit	7	10.4	10.4
Finance income	9	14.9	19.2
Finance costs	10	(21.8)	(22.1)
Profit before tax		3.5	7.5
Income tax	11	(0.2)	(0.5)
Profit for the year attributable to the owners of the parent		3.3	7.0
Earnings per share for profit attributable to the owners of the parent during the year			
Basic (pence)	12	1.4p	3.5p
Diluted (pence)	12	1.4p	3.5p

Consolidated income statement – alternative performance measures (note 2)

Adjusted operating profit	Notes	2010 £m	2009 £m
Operating profit	7	10.4	10.4
Amortisation of acquired intangibles		1.2	0.7
Integration and restructuring costs		1.0	0.9
Net pension credit from Scheme closure	28	(0.2)	–
Adjusted operating profit	5	12.4	12.0
Adjusted profit before tax			
	Notes	2010 £m	2009 £m
Profit before tax		3.5	7.5
Amortisation of acquired intangibles		1.2	0.7
Integration and restructuring costs		1.0	0.9
Net credit from pension Scheme closure	28	(0.2)	–
Net pension finance costs		5.5	1.5
Adjusted profit before tax		11.0	10.6

¹ Restated on a consistent basis.

Consolidated statement of comprehensive income

For the year ended 31 March	Notes	2010 £m	2009 £m
Profit for the year attributable to the owners of the parent		3.3	7.0
Other comprehensive (expense)/income:			
currency translation differences – net of tax	23	(0.8)	2.6
actuarial losses on defined benefit pension schemes – net of tax	28	(28.6)	(53.4)
Other comprehensive expense recognised for the year – net of tax		(29.4)	(50.8)
Total comprehensive expense for the year attributable to the owners of the parent		(26.1)	(43.8)

Balance sheets

As at 31 March	Notes	Group		Company	
		2010 £m	2009 £m	2010 £m	2009 £m
ASSETS					
Non-current assets					
Goodwill	13	32.7	34.6	-	-
Other intangible assets	14	4.6	5.8	0.5	0.2
Property, plant and equipment	15	3.8	4.0	2.5	2.2
Investments in subsidiaries	17	-	-	34.5	34.5
Available for sale financial assets	18	-	2.0	-	2.0
Trade and other receivables	20	-	-	34.5	38.8
Deferred income tax assets	30	5.9	6.5	4.8	4.8
		47.0	52.9	76.8	82.5
Current assets					
Contract work in progress	19	0.2	0.3	0.2	0.3
Trade and other receivables	20	25.7	28.5	14.5	15.4
Current income tax assets		0.1	0.1	-	-
Available for sale financial assets	18	2.0	-	2.0	-
Cash and cash equivalents	21	6.0	3.0	3.2	-
		34.0	31.9	19.9	15.7
Total assets	5	81.0	84.8	96.7	98.2
EQUITY					
Capital and reserves attributable to owners of the parent					
Share capital and share premium	22	95.3	95.3	95.3	95.3
Capital redemption reserve	23	0.7	0.7	0.7	0.7
Currency translation reserve	23	1.8	2.6	-	-
Fair value and other reserves	23	(46.6)	(18.3)	(46.6)	(18.3)
Retained deficit		(181.4)	(184.7)	(181.5)	(216.8)
Total equity		(130.2)	(104.4)	(132.1)	(139.1)
LIABILITIES					
Non-current liabilities					
Trade and other payables	25	2.5	2.6	0.1	-
Borrowings	26	29.8	0.4	29.8	0.4
Retirement benefit obligations	28	139.8	108.2	139.8	108.2
Provisions for liabilities and charges	29	2.7	3.6	2.7	3.6
Deferred income tax liabilities	30	1.6	2.1	-	-
		176.4	116.9	172.4	112.2
Current liabilities					
Trade and other payables	25	25.1	31.3	46.8	84.3
Borrowings	26	2.4	29.9	2.4	29.9
Derivative financial instruments	27	0.1	2.6	0.1	2.6
Provisions for liabilities and charges	29	7.1	8.4	7.1	8.3
Current income tax liabilities		0.1	0.1	-	-
		34.8	72.3	56.4	125.1
Total liabilities	5	211.2	189.2	228.8	237.3
Total equity and liabilities		81.0	84.8	96.7	98.2

The notes on pages 37 to 77 are an integral part of these Financial statements. The Financial statements were approved and authorised for issue by the Board of Directors on 23 June 2010.

Signed on behalf of the Board of Directors



Andrew McCree
CEO



Alice Cummings
CFO

Statement of changes in equity

Group	Attributable to owners of the parent						Total share-holders' equity
	Share capital	Share premium	Fair value and other reserves	Capital redemption reserve	Currency translation reserve	Retained deficit	
	(note 22)	(note 22)	(note 23)	(note 23)	(note 23)		
	£m	£m	£m	£m	£m	£m	£m
Balance as at 1 April 2008	15.2	40.4	35.0	0.7	–	(190.5)	(99.2)
Profit for the year	–	–	–	–	–	7.0	7.0
Currency translation differences	–	–	–	–	2.6	–	2.6
Actuarial losses on defined benefit pension schemes	–	–	(53.4)	–	–	–	(53.4)
Total comprehensive (expense)/income for the year	–	–	(53.4)	–	2.6	7.0	(43.8)
Fair value of share option schemes	–	–	0.1	–	–	–	0.1
Loss on issue of shares between Group companies	–	–	–	–	–	(1.2)	(1.2)
Shares issued (note 22)	12.7	27.0	–	–	–	–	39.7
Balance as at 31 March 2009	27.9	67.4	(18.3)	0.7	2.6	(184.7)	(104.4)
Profit for the year	–	–	–	–	–	3.3	3.3
Currency translation differences	–	–	–	–	(0.8)	–	(0.8)
Actuarial losses on defined benefit pension schemes	–	–	(28.6)	–	–	–	(28.6)
Total comprehensive (expense)/income for the year	–	–	(28.6)	–	(0.8)	3.3	(26.1)
Fair value of share option schemes	–	–	0.3	–	–	–	0.3
Balance as at 31 March 2010	27.9	67.4	(46.6)	0.7	1.8	(181.4)	(130.2)

Company	Share capital	Share premium	Fair value and other reserves	Capital redemption reserve	Retained deficit	Total share-holders' equity
	(note 22)	(note 22)	(note 23)	(note 23)		
	£m	£m	£m	£m	£m	£m
Balance as at 1 April 2008	15.2	40.4	35.0	0.7	(224.0)	(132.7)
Profit for the year	–	–	–	–	7.2	7.2
Actuarial losses on defined benefit pension schemes	–	–	(53.4)	–	–	(53.4)
Total comprehensive (expense)/income for the year	–	–	(53.4)	–	7.2	(46.2)
Fair value of share option schemes	–	–	0.1	–	–	0.1
Shares issued (note 22)	12.7	27.0	–	–	–	39.7
Balance as at 31 March 2009	27.9	67.4	(18.3)	0.7	(216.8)	(139.1)
Profit for the year	–	–	–	–	35.3	35.3
Actuarial losses on defined benefit pension schemes	–	–	(28.6)	–	–	(28.6)
Total comprehensive (expense)/income for the year	–	–	(28.6)	–	35.3	6.7
Fair value of share option schemes	–	–	0.3	–	–	0.3
Balance as at 31 March 2010	27.9	67.4	(46.6)	0.7	(181.5)	(132.1)

Statement of cash flows

For the year ended 31 March	Notes	Group		Company	
		2010 £m	2009 £m	2010 £m	2009 £m
Cash flows from/(used in) operating activities					
Cash generated from/(used in) operations	31	6.0	1.1	1.3	(5.6)
Interest paid		(1.7)	(1.5)	(1.7)	(1.5)
Interest received		–	0.2	0.7	0.9
Taxes paid		(0.1)	(0.2)	–	–
Net cash generated from/(used in) operating activities		4.2	(0.4)	0.3	(6.2)
Cash flows from/(used in) investing activities					
Deferred payment on prior year acquisition of subsidiary		(0.9)	–	–	–
Acquisition of subsidiary		–	(36.4)	–	(0.1)
Expenditure on product development costs		(0.4)	–	(0.4)	–
Purchases of property, plant and equipment		(0.6)	(1.0)	(0.6)	(0.8)
Net cash used in investing activities		(1.9)	(37.4)	(1.0)	(0.9)
Cash flows from/(used in) financing activities					
Repayment of borrowings		(7.4)	(34.4)	(7.4)	(34.4)
Draw-down of bank facilities		11.4	37.9	11.4	37.9
Capital element of finance lease repayments		(0.5)	–	(0.5)	–
Issue of inter-company loans		–	–	–	(33.5)
Proceeds from inter-company loans		–	–	2.6	–
Proceeds from new equity issues	22	–	36.2	–	36.2
Settlement of forward contracts		(2.2)	–	(2.2)	–
Net cash generated from financing activities		1.3	39.7	3.9	6.2
Net increase/(decrease) in cash and cash equivalents					
Cash and cash equivalents at beginning of year	21	3.0	1.0	–	0.9
Exchange (losses)/gains on cash and cash equivalents		(0.6)	0.1	–	–
Cash and cash equivalents at end of year	21	6.0	3.0	3.2	–

Statement of cash flows (continued)

Statement of cash flows – alternative performance measures (note 2)

	Notes	Group		Company	
		2010 £m	2009 £m	2010 £m	2009 £m
Movement in net debt for the year ended 31 March					
Net cash flow generated from business operations	5	10.2	16.2	5.4	8.6
Integration and restructuring costs		(1.0)	(1.3)	(0.9)	(0.4)
Legacy cash flows		(2.1)	(7.8)	(2.1)	(7.8)
Funding of pension deficit		(1.1)	(6.0)	(1.1)	(6.0)
Cash generated from/(used in) operations	31	6.0	1.1	1.3	(5.6)
Net interest and tax paid		(1.1)	(1.5)	(0.3)	(0.6)
Net cash used in investing activities		(1.9)	(37.4)	(1.0)	(0.9)
Proceeds from new equity issues		–	36.2	–	36.2
Settlement of forward contracts		(2.2)	–	(2.2)	–
Non-cash financing - facility fees		(0.3)	–	(0.3)	–
Non-cash financing - finance leases		(0.5)	–	(0.5)	–
Exchange losses on net debt		1.1	(6.3)	1.7	(6.4)
Inter-company loans		–	–	2.6	(33.5)
Net decrease/(increase) in net debt		1.1	(7.9)	1.3	(10.8)
Net debt at beginning of year		(27.3)	(19.4)	(30.3)	(19.5)
Net debt at end of year		(26.2)	(27.3)	(29.0)	(30.3)

Closing net debt comprises:

	Notes	Group		Company	
		2010 £m	2009 £m	2010 £m	2009 £m
Cash at bank and in hand	21	6.0	3.0	3.2	–
Current borrowings	26	(2.4)	(29.9)	(2.4)	(29.9)
Non-current borrowings	26	(29.8)	(0.4)	(29.8)	(0.4)
Net debt at end of year		(26.2)	(27.3)	(29.0)	(30.3)

These supplementary disclosures do not form part of the Statement of cash flows and these tables are not included in the notes to the Financial statements.

Notes to the Financial statements

1 GENERAL INFORMATION

AEA Technology plc ("the Company") and its subsidiaries ("the Group") is one of the world's leading energy and climate change consultancies. An overview of the business is given in the Directors' report on pages 2 to 27.

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

The Company is listed on the London Stock Exchange.

The Financial statements are presented in Sterling, which is the functional currency of the Company, being the currency of the primary economic environment in which the Company operates. Foreign operations are included in accordance with the policies set out in note 2.

2 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 years presented, unless otherwise stated.

Basis of preparation

The consolidated Financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations, as adopted for use within the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. These consolidated Financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss.

The preparation of Financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions or estimates are significant to the consolidated Financial statements, are summarised in note 3.

After making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they consider it appropriate to continue to adopt the going concern basis in preparing the Financial statements.

Application of new standards and interpretations

The following new standards, amendments to existing standards or interpretations are mandatory for the financial year ending 31 March 2010:

- IFRS 2 amendment, 'Share based payment – vesting conditions and cancellations', effective for periods beginning on or after 1 January 2009. The amendment addresses the definition of, and accounting for, non-vesting conditions. The amendment is fully retrospective and the impact on the Group has been that for the equity-settled share-based employee compensation plans in place, a review of the fair value of the awards has been made to take into account the effect of non-vesting conditions. The accounting policy for share-based payments has been revised so that if there is a failure to meet a non-vesting condition the IFRS 2 expense is recognised immediately rather than being spread over future periods. The impact of this change on the current year results was immaterial. The prior year impact of these changes was immaterial and therefore no prior year adjustment has been made.
- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. This new standard requires a management approach to be taken to segmental reporting where information is presented on the same basis as that used for internal reporting purposes. This has had no effect on the segments previously reported under IAS 14, which were Europe and the US. This is consistent with the way in which information is reported internally to the Chief Operating Decision Maker (CODM), which has been identified as the body of Executive Directors who consider the allocation of resources between operating segments. The requirements of IFRS 8 have been applied retrospectively.
- IAS 1 (revised), 'Presentation of Financial statements: a revised presentation', effective for annual periods beginning on or after 1 January 2009. The Financial statements have been prepared under the revised disclosure requirements. The Group has elected to present two statements (the Consolidated income statement and the Consolidated statement of comprehensive income). The revised standard also requires that, in some situations, an additional statement of financial position is required as at the beginning of the earliest period presented. Such a situation would be the retrospective application of a new accounting policy, such as the amendment to IFRS 2 or IAS 1 (revised). This additional comparative information has not been included as it is considered immaterial and does not affect any statement of financial position.

The following new standards, amendments to existing standards or interpretations are mandatory for the first time for the financial year ending 31 March 2010, but either have no significant impact on the Group or are not currently relevant for the Group:

- IFRS 1 and IAS 27 amendment, 'Cost of an investment in a subsidiary, jointly controlled entity or associate', effective for periods beginning on or after 1 January 2009;
- IFRS 7 amendment, 'Improving disclosures about financial instruments', effective for periods beginning on or after 1 January 2009;
- IAS 23, 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009;

Notes to the Financial statements (continued)

- IAS 32 and IAS 1 amendment, 'Puttable financial instruments and obligations arising on liquidation', effective for annual periods beginning on or after 1 January 2009;
- IFRIC 9 and IAS 39, 'Embedded derivatives', effective for annual periods beginning on or after 1 July 2008 but EU endorsed for use from 27 November 2009;
- IFRIC 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008 but EU endorsed for use 1 January 2009; and
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', effective for annual periods beginning on or after 1 January 2008 but EU endorsed for use from 1 January 2009.

The following new standards, amendments to existing standards or interpretations have been issued, but are not effective for the financial year ending 31 March 2010 and have not been adopted early:

- IFRS 2 amendment, 'Share-based payment – Group cash-settled share-based payment transactions', effective for annual periods beginning on or after 1 January 2010;
- IFRS 3 (revised), 'Business combinations' and related amendments to IAS 27 'Consolidated and separate Financial statements', effective for annual periods beginning on or after 1 July 2009;
- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement;
- IAS 24 (revised), 'Related party disclosures', effective for annual periods beginning on or after 1 January 2011, subject to EU endorsement;
- IAS 39 amendment, 'Eligible hedged items', effective for annual periods beginning on or after 1 July 2009;
- IFRIC 14 amendment, 'Prepayments of a minimum funding requirement', effective for annual periods beginning on or after 1 January 2011, subject to EU endorsement;
- IFRIC 15, 'Agreements for the construction of real estate', effective for annual periods beginning on or after 1 January 2009 but EU endorsed for use from 1 January 2010;
- IFRIC 16, 'Hedges of a net investment in a foreign operation', effective for annual periods beginning on or after 1 October 2008 but EU endorsed for use from 1 July 2009;
- IFRIC 17, 'Distribution of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009;
- IFRIC 18, 'Transfers of assets from customers', effective from 1 July 2009 but EU endorsed for use from 31 October 2009; and
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective for annual periods beginning on or after 1 July 2010, subject to EU endorsement.

IFRS 3 (revised) may have an impact on the Group's Financial statements when implemented, depending upon future acquisition activity by the Group. Some of the other statements will require additional disclosures but otherwise will not have a material impact on the Group's Financial statements when they are adopted.

Alternative performance measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice (non-GAAP)) financial measures, which are not defined by IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and as such these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Annual Financial Report:

a) Adjusted operating profit and adjusted profit before tax

Beneath the Consolidated income statement adjusted operating profit is separately disclosed. This is defined as operating profit before amortisation of acquired intangibles and significant items which include the cost of restructuring the Group to enable it to focus on the delivery of the strategy as set out in the Business review and the cost of restructuring the IT function. Profit before tax is also adjusted in the same way with the additional adjustment to exclude net pension finance costs. A reconciliation of profit before tax to adjusted profit before tax is shown beneath the Consolidated income statement.

b) Movement in net debt

Beneath the Statement of cash flows a Statement of movement in net debt is shown being the movement between opening and closing net debt. An analysis of net debt by Balance sheet heading is also shown.

c) Adjusted earnings per share

Adjusted earnings per share as shown in note 12 is calculated by dividing the adjusted profit attributable to the owners of the parent by the weighted average number of Ordinary shares in issue during the year.

Notes to the Financial statements

d) Net cash flow from business operations

Beneath the Statement of cash flows the 'Cash generated from/(used in) operations' is split into its component parts, representing cash flow from business operations, integration and restructuring costs, legacy cash flows and the funding of the pension deficit.

Basis of consolidation

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 Consolidated 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.

Inter-company transactions, balances and related unrealised gains/losses are eliminated on consolidation. Accounting policies are consistently applied across the Group.

Significant accounting policies

a) Foreign currency translation

(i) Functional and presentational currency

The Consolidated financial statements are presented in Sterling (units in millions), which is the Group's presentational currency and the Company's functional currency. This is the primary economic environment in which the Group operates.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date at the exchange rates ruling at that point. The gains and losses thus generated and the foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Consolidated income statement unless they are designated as qualifying cash flow hedges, in which case they are recognised directly in reserves.

(iii) Overseas subsidiaries

For consolidation purposes the assets and liabilities of overseas subsidiaries that have a functional currency different to the Group's presentational currency are translated into the Group's presentational currency at the exchange rates ruling at the balance sheet date. The income statements of overseas subsidiaries are translated into the Group's presentational currency at the average rates of exchange during the year. The resulting exchange differences are recognised directly in a separate component of equity (the "Currency translation reserve", see note 23). Certain long-term inter-company balances are in substance part of the Company's net investment in foreign operations. The exchange differences arising on such balances are recognised in the Currency translation reserve on consolidation. When the foreign operation is sold, the cumulative exchange differences recorded in equity are recycled in the Consolidated income statement as part of the profit or loss on disposal.

b) Revenue recognition

Revenue represents the total value of income (excluding sales taxes) 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. Revenue 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 the date that the contract commences 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 deferred income in trade and other payables. As detailed in note 3 income on long-term contracts is recognised based on the value of work completed under the contract. The revenue in respect of long-term contracts represents the cost appropriate to the stage of completion of each contract plus attributable profits, less amounts recognised in previous years where relevant. The unbilled element of this revenue is included in trade and other receivables as "receivables from long-term contracts". All other income is recognised on delivery of the product or service or once all risks and rewards have passed to the customer.

c) 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.

Notes to the Financial statements (continued)

d) Other operating income

Income from third parties that is not in respect of the Group's ordinary trading activities or from investment activities is reported within other operating income. This principally comprises the recovery of property and other costs from previously discontinued businesses under transitional service agreements, income from retained contracts of discontinued businesses that had not been novated on sale but are in run-off, and the recovery of pension scheme administration costs from the trustees of the Group's defined benefit pension scheme.

e) Income tax

The net income tax expense represents the sum of current income tax and deferred income tax.

The current income tax is based on the taxable profit for the year together with adjustments, where necessary, in respect of prior years. Taxable profit differs from profits as reported in the Consolidated 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 tax deductible. The Group's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income 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 income tax liabilities are generally recognised for all taxable temporary differences and deferred income 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 income tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 income 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 income tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply in the year when the liability is settled or the asset is realised. Deferred income tax is charged or credited to the Consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

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

f) Intangible assets

(i) 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 is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to Cash Generating Units (CGUs) for the purposes of impairment testing.

(ii) Customer contracts and relationships

Customer contracts and relationships acquired in a business combination are capitalised at fair value as at the date of acquisition. They are amortised on a straight line basis over five years and are stated at fair value less accumulated amortisation.

(iii) Development costs

Costs incurred on development projects (relating to the design and testing of new or improved products and services) 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 20 years.

(iv) Other intangibles

Other intangibles acquired separately are stated at cost less accumulated amortisation. Intangible assets, excluding development costs, that are created within the business are not capitalised and expenditure is charged against profit or loss 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, and are stated at cost less accumulated amortisation.

Amortisation on other intangibles is charged to the Consolidated income statement on a straight-line basis over the estimated useful lives of the intangible assets (five to ten years).

Notes to the Financial statements

Intangible assets are tested for impairment whenever there is an indication of impairment. Useful lives are reviewed on an annual basis and adjustments, where applicable, are made on a prospective basis.

g) **Property, plant and equipment**

All property, plant and equipment is shown at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly related to the acquisition of the assets.

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

Leasehold land and buildings	up to the period of the lease
Plant and equipment:	
Computers and vehicles	up to five years
Other plant and equipment	five to ten years

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.

h) **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. At each balance sheet date the Group assesses whether or not there is any evidence of impairment.

i) **Available for sale financial assets**

Available for sale financial assets are included in current assets as the Group intends to dispose of the investments within the next year. Investments are recognised initially at fair value. At each balance sheet date the Group assesses whether or not there is any evidence of impairment. Changes to fair value are recognised in equity.

j) **Contract work in progress**

Contract 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.

k) **Trade and other receivables**

Trade and other 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.

l) **Trade and other payables**

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

m) **Long-term contracts**

Where the outcome of a long-term contract can be estimated reliably, and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured based on the value of work completed as a proportion of the total value of work to be provided. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Where the outcome of a long-term contract cannot be estimated reliably contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the year in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

n) **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.

o) **Employee benefits**

(i) *Pension obligations*

The Group operates a defined contribution pension scheme (the UK Plan). The AEA defined benefit pension scheme (the Scheme) was closed to future accrual on 31 July 2009.

Notes to the Financial statements (continued)

For the UK Plan, the assets are held separately from those of the Company in individual accounts under the control of the pension provider. The only obligation of the Company with respect to the UK Plan is to make the specified contributions.

For the Scheme, the liability recognised in the Balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of Scheme 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the Consolidated Statement of Comprehensive Income (SOCl) in the period in which they arose.

(ii) Share-based plans

The Group runs a number of equity-settled, share-based employee compensation plans. 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, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The liability is recognised in the share option reserve until the options are exercised when the proceeds received, net of attributable transaction costs, are credited to share capital and share premium.

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.

(iii) Short-term employee benefits

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

p) 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.

Provisions were 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 were a Group responsibility. The full liability was recognised when operations commenced and the facility became contaminated.

q) Derivative financial instruments

The Group uses various derivative instruments to manage its exposure to foreign exchange rate risk and interest rate fluctuations, including foreign currency forward contracts and floating to fixed interest rate swaps. Derivatives are initially measured at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the balance sheet date. Changes in the fair value of forward exchange contracts are recognised immediately in the Consolidated income statement within administrative expenses. Changes in the fair value of interest rate swaps are recognised immediately in the Consolidated income statement within finance income or finance costs, reported as "Fair value losses/gains on financial instruments". Further details of the derivative financial instruments are given in note 27.

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 note 22.

r) Cash and cash equivalents

Cash and cash equivalents are 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.

s) 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 anticipates that the balance is expected to remain outstanding one year after the balance sheet date.

t) 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.

u) Risk management policies

The risk management policies are documented in the Risks and uncertainties section of the Directors' report and in note 4.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In applying the Group's accounting policies, previously described, management is required to make certain estimates and judgments concerning the future. These estimates and judgments are regularly reviewed and updated as necessary. The estimates and judgments 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 28.

b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the Cash Generating Units (CGUs) to which goodwill has been allocated. The calculation of value in use requires estimates to be made of the future cash flows to arise from the CGUs and selection of appropriate discount rates to calculate present values. No impairments were made to goodwill during the year and the carrying value is £32.7 million (2009: £34.6 million). An increase of 1.0% to the discount rates used (note 13) will have no impact on the carrying value.

c) Provisions for decommissioning 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. Any changes in costs compared to those currently estimated by management will result in an equivalent change in the carrying liability (note 29), prior to it being settled.

d) 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 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 fulfill it. Any changes in costs compared to those currently estimated by management will result in an equivalent change in the carrying liability (note 29), prior to it being settled.

e) Provisions in respect of warranties and indemnities

The Group has certain liabilities in respect of claims under warranties and indemnities. Management is 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. Any changes in costs compared to those currently estimated by management will result in an equivalent change in the carrying liability (note 29), prior to it being settled.

f) Long-term contracts

Profits are recognised on long term contracts once the outcome of the contract can be assessed with reasonable certainty. An estimate is made of the proportion of work completed to date considered to be low risk and an appropriate estimate of the profit attributable to this work is recognised. The estimates are based on management reviews of the actual proportion of low risk work completed and profit margins.

An asset of £1.4 million (2009: £2.0 million) is held on the Balance sheet in respect of the estimated revenue recognised on long-term contracts in progress in excess of amounts invoiced to the customer, and specific amounts of accrued income (note 20). If management's estimate of the proportion of the cost of work done upon which it is appropriate to recognise revenue were to increase/decrease by ten percentage points, the carrying value of the receivable from long-term contracts would increase/decrease by £0.2 million, and profit recognised would increase/decrease by less than £0.1 million. A reasonable change in the estimate of profit attributable to this work would have minimal impact on the profit recognised.

g) Deferred income tax

Deferred income 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. Any revisions to management's estimate of future taxable profit will result in a proportional change to the deferred income tax asset.

Notes to the Financial statements (continued)

h) Legal and other disputes

The Group is subject to legal proceedings and other claims arising in the ordinary course of business. The Group assesses the likelihood of any adverse judgments or outcomes, and the potential costs, based on a careful analysis of each individual issue with the assistance of outside legal counsel. Where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome, then a provision for the amount is made (note 29). No provisions have been made where no reasonable estimate of the likely outcome can be made. Any changes in costs compared to those currently estimated by management will result in an equivalent change in the carrying liability (note 29), or the creation of a liability, prior to it being settled.

4 FINANCIAL RISK MANAGEMENT

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

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

Treasury management

The Group uses various financial instruments in order to manage the exposures that arise in its business operations as a result of movements in financial markets. The Group does not undertake speculative foreign exchange or interest rate dealings for which there is no underlying exposure. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions. All treasury activities are focused on the management of risk. The main risk continues to be movements in rates of interest and movements in foreign currency exchange rates. The CFO, who operates within written policies approved by the Board and within the internal control framework, manages all such exposures.

a) Market risk

(i) Foreign exchange risk

During the year ended 31 March 2010, the Group operated 58% (2009: 67%) in the UK market and the majority of its sales and purchases were transacted in the Group's functional currency. However, the element of trading that is transacted in foreign currencies does expose the Group to foreign exchange risk. The Group is also exposed to movements in exchange rates for the translation of net assets and income statements of foreign subsidiaries and for the translation of foreign currency assets and liabilities held in the UK, primarily in US Dollar denominated borrowings and US Dollar denominated receivables from 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. Where currency balances in receivables and payables cannot be offset, the Group seeks to hedge its transactional exposure by the use of forward currency contracts. The objective is to minimise the impact of fluctuations in exchange rates on future transactions and cash flows. The Group has not designated these instruments as cash flow hedges and they are accounted for at fair value through profit or loss.

Certain long-term inter-company foreign currency loan balances are in substance part of the Company's net investment in foreign operations. Such balances are not covered by forward currency contracts as the exchange differences on such balances are recognised in the currency translation reserve on consolidation.

The Group uses sensitivity analysis to measure the estimated effect on post tax profit of a strengthening or weakening in Sterling against the US Dollar and Euro from the rates applicable at 31 March 2010. The effect on post tax profit has been calculated by applying the change in exchange rates to foreign currency exposures in existence at the balance sheet date.

At 31 March 2010, if Sterling had strengthened/weakened by 20% against both currencies, with all other variables held constant, equity and post tax profit for the year would be lower/higher by £0.3 million (2009: £0.4 million). Foreign exchange translation of Euro denominated trade receivables and cash held in Euros contributed £0.2 million (2009: £0.2 million) to this movement. US Dollar denominated inter-company creditors and net US Dollar cash balances and borrowings contributed £0.1 million (2009: £0.2 million).

(ii) Cash flow and interest rate risk

The Group's interest rate risk arises from borrowings. The Group's primary loan facility is at a variable rate of interest (dependant on the movement in the London Interbank Offered Rate) and exposes the Group to interest rate risk. The Group's policy is to hedge up to 50% of the floating rate debt and it manages these risks by using floating-to-fixed interest rate swaps, which have the economic effect of converting borrowings from floating rate to fixed rate. As at the balance sheet date £13.2 million (2009: £14.0 million) of floating rate borrowings have been swapped into fixed rate debt through the use of US dollar denominated interest rate swaps of \$20.0 million (2009: \$20.0 million). Under these swap instruments the Group agrees with the other parties to exchange, at monthly intervals, the difference between the floating rate and the fixed rate interest amounts that are payable/receivable on the nominal amount of swapped borrowings.

The Group uses sensitivity analysis to measure the estimated effect on post tax profit of an increase or decrease of 1% in market interest rates (100 basis points) from the rates applicable at 31 March 2010.

Assumptions made in these calculations are as follows:

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

Under these assumptions a 1% increase or decrease in market interest rates, with all other variables held constant, would decrease/increase post tax profit for the year by £0.1 million (2009: £0.1 million). This is mainly as a result of the higher/lower interest expense on the net amount of floating rate borrowings not covered by interest rate swaps.

b) Liquidity risk

The Group's liquidity risk relates primarily to the management of its availability of funding and ability to repay borrowings and trade and other payables. Entities within the Group are required by the Group's treasury function to maintain and regularly update detailed cash forecasting models. The treasury function supports the cashflow needs of the underlying business and maintains financial flexibility through utilising the available funds under the Group's revolving credit facility (note 26). As at 31 March 2010 £11.2 million (2009: £14.2 million) of this facility remains unutilised, which provides sufficient headroom to cover the Group's expected operating cashflow needs over the period of the facility.

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

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

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

The amounts disclosed in the table below are the contractual undiscounted cash outflows (unless stated) and will not, in some cases, agree to the carrying balance sheet amounts. For the forward foreign exchange contracts settled gross, the related cash inflows have also been included.

	Less than one year £m	Between one and two years £m	Between two and five years £m	Total £m
At 31 March 2010				
Derivative financial instruments:				
derivative financial instruments settled net	(0.1)	-	-	(0.1)
Non-derivative financial liabilities:				
unsecured bank and other loans	(2.0)	-	(29.4)	(31.4)
finance lease liabilities	(0.4)	(0.4)	-	(0.8)
trade payables	(7.5)	-	-	(7.5)
accruals – cash settled	(7.7)	-	-	(7.7)

Notes to the Financial statements (continued)

	Less than one year £m	Between one and two years £m	Between two and five years £m	Total £m
At 31 March 2009				
Derivative financial instruments:				
derivative financial instruments settled net	(0.1)	–	–	(0.1)
derivative financial instruments settled gross – inflows	8.8	–	–	8.8
derivative financial instruments settled gross – outflows	(11.3)	–	–	(11.3)
Non-derivative financial liabilities:				
unsecured bank and other loans	(29.6)	–	–	(29.6)
finance lease liabilities	(0.3)	(0.4)	–	(0.7)
trade payables	(9.6)	–	–	(9.6)
accruals – cash settled	(9.9)	–	–	(9.9)
provisions for vacant property leases	(0.9)	–	–	(0.9)

c) Credit risk

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

Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

d) Capital risk

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

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

The Group considers its total capital to be the sum of equity and net borrowings. Changes to equity during the year are detailed in notes 22 and 23. Changes to net borrowings during the year are detailed in note 26.

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

e) Fair value estimation

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

The carrying values less impairment provisions of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5 SEGMENTAL INFORMATION

The Group has only one product or service, being that of consultancy, policy support, programme management and data management. The measure of reported segmental profit or loss used by the CODM (see note 2, IFRS 8) to assess the performance of the segments is adjusted operating profit. This measure excludes the effect of amortisation of acquired intangibles and significant items.

All amounts provided to the CODM are measured in accordance with the Group's accounting policies as stated in note 2 and are therefore consistent with the amounts presented in the Financial statements. Any sales between segments are carried out at arms length.

The revenue and adjusted operating profit generated by each of the Group's segments, together with the depreciation and amortisation charge for each segment, are summarised as follows:

	2010 £m	2009 £m
Europe	73.6	70.6
US	39.6	23.1
Total revenue	113.2	93.7

	2010 £m	2009 £m
Europe	8.3	8.5
US	4.1	3.5
Total adjusted operating profit	12.4	12.0

	2010 £m	2009 £m
Europe	0.9	0.7
US	0.5	0.4
Total depreciation and amortisation charged in adjusted operating profit	1.4	1.1

Net cash flow generated from business operations by segment is as follows:

	2010 £m	2009 £m
Europe	5.4	9.6
US	4.8	6.6
Net cash flow generated from business operations	10.2	16.2

A reconciliation from segmental net cash flow generated from business operations to cash generated from/(used in) operations is given within the alternative performance measures, movement in net debt shown beneath the Statement of cash flows.

Reportable segment assets and liabilities represent the operational working capital balances of each of the reportable segments.

Total reportable segment assets are as follows:

	2010 £m	2009 £m
Europe	13.4	13.6
US	10.6	11.7
Total reportable segment assets	24.0	25.3

Notes to the Financial statements (continued)

Total reportable segment liabilities are as follows:

	2010 £m	2009 £m
Europe	14.8	19.2
US	4.2	5.0
Total reportable segment liabilities	19.0	24.2

A reconciliation of adjusted operating profit for reportable segments to profit before tax is as follows:

	2010 £m	2009 £m
Adjusted operating profit for reportable segments	12.4	12.0
Amortisation of acquired intangibles	(1.2)	(0.7)
Integration and restructuring costs	(1.0)	(0.9)
Net pension credit from Scheme closure	0.2	–
Net finance costs	(6.9)	(2.9)
Profit before tax	3.5	7.5

Reportable segment assets are reconciled to total assets as follows:

	2010 £m	2009 £m
Reportable segment assets	24.0	25.3
Non-current assets	47.0	52.9
Contract work in progress	0.2	0.3
Other receivables	1.7	3.2
Current income tax assets	0.1	0.1
Available for sale financial assets	2.0	–
Cash and cash equivalents	6.0	3.0
Total assets per Balance sheet	81.0	84.8

Reportable segment liabilities are reconciled to total liabilities as follows:

	2010 £m	2009 £m
Reportable segment liabilities	19.0	24.2
Non-current liabilities	176.4	116.9
Other payables	6.1	7.1
Borrowings	2.4	29.9
Derivative financial instruments	0.1	2.6
Provisions for liabilities and charges	7.1	8.4
Current income tax liabilities	0.1	0.1
Total liabilities per Balance sheet	211.2	189.2

Entity-wide disclosures

The Group is domiciled in the UK. The following table shows external revenue by country based on the destination of service. Revenues are disclosed for the country of domicile, the US and other countries in total.

	2010 £m	2009 £m
UK	66.0	62.7
US	39.6	23.3
Other	7.6	7.7
Total revenue	113.2	93.7

Revenues of £36.2 million (2009: £34.6 million) are derived from a single external customer attributable to the Europe segment. Revenues of £35.1 million (2009: £18.1 million) are derived from a single external customer attributable to the US segment. These revenues are considered to be from single customers as they are from numerous departments and agencies under the control of the UK or US national governments.

The locations of non-current assets, other than deferred income tax assets, are as follows:

	2010 £m	2009 £m
UK	3.0	4.4
US	38.1	42.0
Non-current assets	41.1	46.4

6 OTHER OPERATING INCOME

	2010 £m	2009 £m
Recovery of pension scheme administration costs	1.2	1.0
Other	3.1	3.3
	4.3	4.3

Other relates to the recovery of rental and other costs from previously disposed businesses in respect of transitional service agreements together with other income from third parties that is not in respect of the Group's ordinary trading or investment activities.

7 OPERATING PROFIT

The following items have been charged/(credited) within operating profit:

	2010 £m	2009 £m
Employee benefit expense	46.9	37.4
Sub-contractor costs	31.9	25.6
Operating lease payments	5.5	5.7
Amortisation of intangibles (note 14)	1.3	0.8
Depreciation of plant, property and equipment (note 15)	1.3	1.0
Creation and release of trade receivables impairment (note 20)	–	(0.1)
Other losses/(gains) – net (note 8)	0.2	(1.0)
Integration and restructuring costs	1.0	0.9
Other external charges	19.0	17.3
Total cost of sales, selling and marketing costs and administrative expenses	107.1	87.6

	2010 £m	2009 £m
Fees payable to the Company's Auditor and its associates		
Transaction services	–	0.7
Other services	0.1	0.1
	0.1	0.8
Statutory audit (Group consolidation and parent Company)	0.2	0.2
	0.3	1.0

A description of the work of the Audit Committee is set out in the "Corporate governance" section of the Annual Financial Report and includes an explanation of how Auditor objectivity and independence is safeguarded when the Auditors provide non-audit services.

	2010 £m	2009 £m
Employee benefit expense charged to the Consolidated income statement		
Wages and salaries	40.2	32.3
Social security costs	3.6	2.9
Share options	0.3	0.1
Pension costs – defined contribution plans (note 28)	2.6	0.9
Pension costs – defined benefit schemes (note 28)	5.7	2.7
	52.4	38.9

Directors' remuneration details are given in the Report on Directors' remuneration on pages 21 to 27.

Notes to the Financial statements (continued)

Number of employees

	Group		Company	
	2010 No.	2009 No.	2010 No.	2009 No.
Average headcount (including Executive Directors)				
Consultants	466	484	415	430
Technical specialists	227	161	58	50
Management and services	196	182	143	149
Sales and marketing	30	21	21	17
Facilities management	–	18	–	18
	919	866	637	664

8 OTHER LOSSES/(GAINS) - NET

	2010 £m	2009 £m
Net foreign exchange losses/(gains)	0.5	(3.5)
Fair value (gains)/losses on financial instruments at fair value through profit or loss: foreign exchange forward contracts	(0.3)	2.5
	0.2	(1.0)

9 FINANCE INCOME

	2010 £m	2009 £m
Interest income on short term bank deposits	–	0.1
Fair value gains on financial instruments at fair value through profit or loss: interest rate swaps	–	0.1
Expected return on defined benefit pension scheme assets (note 28)	14.9	19.0
	14.9	19.2

10 FINANCE COSTS

	2010 £m	2009 £m
Interest on bank overdrafts and loans	1.4	1.4
Interest on finance leases	–	0.1
Fair value losses on financial instruments at fair value through profit or loss: interest rate swaps	–	0.1
Accretion of discount on defined benefit pension scheme obligations (note 28)	20.4	20.5
	21.8	22.1

11 INCOME TAX

	2010 £m	2009 £m
UK corporation tax at 28% (2009: 28%)	–	0.1
Overseas tax charge	0.1	0.1
Deferred income tax – origination and reversal of temporary differences (note 30)	0.1	0.3
Income tax expense	0.2	0.5

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

	2010 £m	2009 £m
Profit before tax	3.5	7.5
Tax calculated at domestic tax rates applicable to profits in respective countries	1.2	2.1
Income not subject to tax	(0.4)	(0.9)
Expenses not deductible for tax purposes	0.7	2.4
Utilisation of previously unrecognised tax losses	–	(0.2)
Current tax losses for which no deferred tax asset was recognised	1.0	0.5
Utilisation of previously unrecognised other deferred tax assets	(0.4)	(3.4)
Overseas tax	0.1	0.1
Recognition of previously unrecognised tax losses	(2.0)	(0.1)
Income tax expense	0.2	0.5

12 EARNINGS PER SHARE

Details of basic, diluted and adjusted earnings per share are set out below:

Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the parent by the weighted average number of Ordinary shares in issue during the year.

	2010	2009
Profit attributable to the owners of the parent (£ million)	3.3	7.0
Weighted average number of Ordinary shares in issue (million)	228.7	200.9
Basic earnings per share (pence per share)	1.4p	3.5p

Notes to the Financial statements (continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary 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.

	2010	2009
Profit attributable to the owners of the parent (£ million)	3.3	7.0
Weighted average number of Ordinary shares in issue (million)	228.7	200.9
Adjustment for share options (million)	3.8	0.6
Weighted average number of Ordinary shares for diluted earnings per share (million)	232.5	201.5
Diluted earnings per share (pence per share)	1.4p	3.5p

Adjusted – alternative performance measures (note 2)

The adjusted earnings per share is calculated as follows:

	2010	2009
Profit attributable to the owners of the parent (£ million)	3.3	7.0
Amortisation of acquired intangibles (£ million)	1.2	0.7
Integration and restructuring costs (£ million)	1.0	0.9
Net pension credit from Scheme closure (£ million)	(0.2)	–
Net pension finance costs (£ million)	5.5	1.5
Adjusted profit attributable to owners of the parent (£ million)	10.8	10.1
Weighted average number of Ordinary shares in issue (million)	228.7	200.9
Adjusted earnings per share (pence per share)	4.7p	5.0p

13 GOODWILL

Group	2010 £m	2009 £m
Cost and net book value		
At 1 April	34.6	–
Additions	–	26.6
Foreign exchange	(1.9)	8.0
At 31 March	32.7	34.6

Impairment tests for goodwill

No impairment losses in respect of goodwill have been recognised in the year ended 31 March 2010 or 31 March 2009.

For the purpose of performing impairment reviews, goodwill has been allocated to the Group's CGUs identified according to segment as presented as follows:

	2010 £m	2009 £m
Europe	17.3	18.3
US	15.4	16.3
	32.7	34.6

No intangible assets other than goodwill have indefinite useful lives. The impairment reviews compare the carrying value of each CGU, including allocated goodwill, with the present value of future cash flows arising from the use of assets in the unit (value in use).

These calculations use cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond this period are extrapolated into perpetuity (as appropriate for such long-term businesses) based on an estimated long-term growth rate of 2.3% (2009: 2.3%). This rate reflects inflation rates and is in line with long-term growth rates for the industry.

The discount rate for the European and US CGUs of 10.5% is derived from the Group WACC, which is then adjusted based upon a long-term assessment of the average cost of equity and debt of comparable companies within the market and territories that the Group operates.

This gives a post-tax discount rate that is then applied to the cash flow projections, which include tax cash flows at the statutory rate for the relevant country. The discount rates used are equivalent to pre-tax discount rates as follows:

	2010 %	2009 %
Europe	13.8	14.6
US	15.9	16.3

The valuations indicate sufficient headroom such that reasonable changes in the assumptions are unlikely to result in an impairment of the goodwill.

14 OTHER INTANGIBLE ASSETS

Group	Customer contracts/ relationships £m	Product development costs £m	Other intangibles £m	Total £m
Cost				
At 1 April 2008	–	0.1	0.2	0.3
Acquisition of a subsidiary	4.9	–	0.1	5.0
Foreign exchange	1.5	–	–	1.5
At 31 March 2009	6.4	0.1	0.3	6.8
Additions	–	0.4	–	0.4
Foreign exchange	(0.4)	–	–	(0.4)
At 31 March 2010	6.0	0.5	0.3	6.8
Accumulated amortisation				
At 1 April 2008	–	–	0.1	0.1
Charge for year	0.7	–	0.1	0.8
Foreign exchange	0.1	–	–	0.1
At 31 March 2009	0.8	–	0.2	1.0
Charge for year	1.2	–	0.1	1.3
Foreign exchange	–	–	(0.1)	(0.1)
At 31 March 2010	2.0	–	0.2	2.2
Net book value at 31 March 2010	4.0	0.5	0.1	4.6
Net book value at 31 March 2009	5.6	0.1	0.1	5.8
Net book value at 1 April 2008	–	0.1	0.1	0.2

Amortisation is charged to administrative expenses in the Consolidated income statement.

Notes to the Financial statements (continued)

Company	Product development costs £m	Other intangibles £m	Total £m
Cost			
At 1 April 2008 and 31 March 2009	0.1	0.2	0.3
Additions	0.4	–	0.4
At 31 March 2010	0.5	0.2	0.7
Accumulated amortisation			
At 1 April 2008 and 31 March 2009	–	0.1	0.1
Charge for year	–	0.1	0.1
At 31 March 2010	–	0.2	0.2
Net book value at 31 March 2010	0.5	–	0.5
Net book value at 31 March 2009	0.1	0.1	0.2
Net book value at 1 April 2008	0.1	0.1	0.2

15 PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and buildings £m	Plant and equipment -owned £m	Plant and equipment -leased £m	Total £m
Cost				
At 1 April 2008	2.8	3.2	9.3	15.3
Additions	0.1	0.3	0.6	1.0
Acquisition of a subsidiary	0.5	1.0	–	1.5
Disposals	(0.2)	(0.3)	–	(0.5)
Foreign exchange	0.1	0.3	–	0.4
At 31 March 2009	3.3	4.5	9.9	17.7
Additions	0.1	0.6	0.5	1.2
Disposals	–	(0.1)	–	(0.1)
Foreign exchange	–	(0.1)	–	(0.1)
At 31 March 2010	3.4	4.9	10.4	18.7
Accumulated depreciation and impairment				
At 1 April 2008	1.5	2.7	9.0	13.2
Charge for year	0.2	0.5	0.3	1.0
Disposals	(0.2)	(0.3)	–	(0.5)
At 31 March 2009	1.5	2.9	9.3	13.7
Charge for year	0.2	0.7	0.4	1.3
Disposals	–	(0.1)	–	(0.1)
At 31 March 2010	1.7	3.5	9.7	14.9
Net book value at 31 March 2010	1.7	1.4	0.7	3.8
Net book value at 31 March 2009	1.8	1.6	0.6	4.0
Net book value at 1 April 2008	1.3	0.5	0.3	2.1

Lease rentals of £5.5 million (2009: £5.6 million) and £nil (2009: £0.1 million) relating to the lease of property and equipment respectively, are included in the Consolidated income statement (note 7).

Depreciation expense of £1.3 million (2009: £0.9 million) has been charged to administrative expenses and £nil (2009: £0.1 million) has been charged to cost of sales.

Company	Leasehold land and buildings £m	Plant and equipment -owned £m	Plant and equipment -leased £m	Total £m
Cost				
At 1 April 2008	2.8	3.2	9.3	15.3
Additions	0.1	0.1	0.6	0.8
Disposals	(0.2)	(0.3)	–	(0.5)
At 31 March 2009	2.7	3.0	9.9	15.6
Additions	0.1	0.5	0.5	1.1
Disposals	–	(0.1)	–	(0.1)
At 31 March 2010	2.8	3.4	10.4	16.6
Accumulated depreciation and impairment				
At 1 April 2008	1.5	2.7	9.0	13.2
Charge for year	0.2	0.2	0.3	0.7
Disposals	(0.2)	(0.3)	–	(0.5)
At 31 March 2009	1.5	2.6	9.3	13.4
Charge for year	0.2	0.2	0.4	0.8
Disposals	–	(0.1)	–	(0.1)
At 31 March 2010	1.7	2.7	9.7	14.1
Net book value at 31 March 2010				
Net book value at 31 March 2009	1.2	0.4	0.6	2.2
Net book value at 1 April 2008	1.3	0.5	0.3	2.1

Notes to the Financial statements (continued)

16 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's various categories of financial instruments are as follows:

Group	Available for sale financial assets £m	Loans and receivables £m	Financial liabilities at fair value through profit or loss £m	Financial liabilities at amortised cost £m	Total £m
At 31 March 2010					
Available for sale financial assets	2.0	-	-	-	2.0
Derivative financial instruments	-	-	(0.1)	-	(0.1)
Net trade receivables	-	13.2	-	-	13.2
Trade payables	-	-	-	(7.5)	(7.5)
Accruals - cash settled	-	-	-	(7.7)	(7.7)
Borrowings	-	-	-	(32.2)	(32.2)
Cash and cash equivalents	-	6.0	-	-	6.0
	2.0	19.2	(0.1)	(47.4)	(26.3)
At 31 March 2009					
Available for sale financial assets	2.0	-	-	-	2.0
Derivative financial instruments	-	-	(2.6)	-	(2.6)
Net trade receivables	-	13.1	-	-	13.1
Trade payables	-	-	-	(9.6)	(9.6)
Accruals - cash settled	-	-	-	(9.9)	(9.9)
Provisions for vacant property leases	-	-	-	(0.9)	(0.9)
Borrowings	-	-	-	(30.3)	(30.3)
Cash and cash equivalents	-	3.0	-	-	3.0
	2.0	16.1	(2.6)	(50.7)	(35.2)

The carrying amounts of the Company's various categories of financial instruments are as follows:

Company	Available for sale financial assets £m	Loans and receivables £m	Financial liabilities at fair value through profit or loss £m	Financial liabilities at amortised cost £m	Total £m
At 31 March 2010					
Available for sale financial assets	2.0	-	-	-	2.0
Derivative financial instruments	-	-	(0.1)	-	(0.1)
Net trade receivables	-	8.0	-	-	8.0
Receivables from subsidiaries	-	34.6	-	-	34.6
Trade payables	-	-	-	(5.3)	(5.3)
Payable to subsidiaries	-	-	-	(26.9)	(26.9)
Accruals - cash settled	-	-	-	(5.8)	(5.8)
Borrowings	-	-	-	(32.2)	(32.2)
Cash and cash equivalents	-	3.2	-	-	3.2
	2.0	45.8	(0.1)	(70.2)	(22.5)
At 31 March 2009					
Available for sale financial assets	2.0	-	-	-	2.0
Derivative financial instruments	-	-	(2.6)	-	(2.6)
Net trade receivables	-	8.2	-	-	8.2
Receivables from subsidiaries	-	39.0	-	-	39.0
Trade payables	-	-	-	(7.4)	(7.4)
Payable to subsidiaries	-	-	-	(59.7)	(59.7)
Accruals - cash settled	-	-	-	(7.7)	(7.7)
Provisions for vacant property leases	-	-	-	(0.9)	(0.9)
Borrowings	-	-	-	(30.3)	(30.3)
	2.0	47.2	(2.6)	(106.0)	(59.4)

Fair value measurement

Financial instruments held at fair value are classified into one of three levels reflecting the significance of inputs used in measuring fair value. These are as follows:

Level one: derived from unadjusted quoted prices in active markets for identical assets and liabilities;

Level two: derived from other observable market data for the assets; and

Level three: derived from valuation techniques using data that is not market data.

Based on the above the financial instruments measured at fair value through profit or loss are grouped into fair value hierarchies as follows:

	2010			2009		
	Level two £m	Level three £m	Total £m	Level two £m	Level three £m	Total £m
Assets						
Available for sale financial assets	-	2.0	2.0	-	2.0	2.0
	-	2.0	2.0	-	2.0	2.0
Liabilities						
Currency derivatives	-	-	-	2.5	-	2.5
Interest rate swaps	0.1	-	0.1	0.1	-	0.1
	0.1	-	0.1	2.6	-	2.6

Notes to the Financial statements (continued)

The fair values of the Group's derivative contracts are calculated using observable market data, such as market exchange and interest rates obtained from the Group's bankers, and so are considered to fall into Level two.

The available for sale financial assets comprise an unlisted Sterling denominated security held by AEA Technology plc (see note 18). The asset is held at fair value calculated by reference to the equity value of the unlisted investment.

There have been no movements within Level three during the year, and no movements between categories in the year.

17 INVESTMENTS IN SUBSIDIARIES

Company	Shares £m	Loans £m	Total £m
Cost			
At 1 April 2008	34.5	0.3	34.8
Additions	0.1	–	0.1
Repayments	–	(0.2)	(0.2)
At 31 March 2009	34.6	0.1	34.7
Written-off	(0.1)	(0.1)	(0.2)
At 31 March 2010	34.5	–	34.5
Provision for impairment			
At 1 April 2008	–	0.2	0.2
Impairment losses	0.1	–	0.1
Reversal of impairment	–	(0.1)	(0.1)
At 31 March 2009	0.1	0.1	0.2
Reversal of impairment	(0.1)	(0.1)	(0.2)
At 31 March 2010	–	–	–
Net book value at 31 March 2010	34.5	–	34.5
Net book value at 31 March 2009	34.5	–	34.5
Net book value at 1 April 2008	34.5	0.1	34.6

The investment in AEA Mediu Consulting SRL was written off during the year. The investment was fully impaired at the time that it was written off.

Principal subsidiary undertakings as at 31 March 2010

Name	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group	Nature of business
Project Performance Corporation	US	Ordinary shares	100%	Environmental and information management consultancy

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

In addition to the subsidiary listed, the Group has other subsidiary undertakings. All subsidiaries are included in the consolidated Financial statements. All subsidiaries have an accounting year-end of 31 March.

The Directors consider that the value of investments is supported by the underlying assets.

18 AVAILABLE FOR SALE FINANCIAL ASSETS

Group and Company at fair value	Total £m
At 1 April 2008, 31 March 2009 and 31 March 2010	2.0

Available for sale financial assets as at 31 March 2010 and 31 March 2009 comprise unlisted Sterling denominated securities held by AEA Technology plc. The Group holds this investment in an entity where the Group has previously entered into corporate joint venture arrangements and they offer the Group the opportunity for return through dividends paid and a return of capital. The available for sale financial asset has been classified as a current asset for the year ended 31 March 2010 as the capital will be returned to the Company within one year of the balance sheet date. In previous years this was a non-current asset.

Available for sale financial assets are held at fair value.

Available for sale financial assets are unlisted UK equity securities of £2.0 million (2009: £2.0 million).

19 CONTRACT WORK IN PROGRESS

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Contract work in progress	0.2	0.3	0.2	0.3

20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Non-current				
Receivables from subsidiaries	–	–	34.5	38.8
Non-current trade and other receivables	–	–	34.5	38.8
Current				
Trade receivables	13.7	13.7	8.4	8.6
Less provision for impairment of receivables	(0.5)	(0.6)	(0.4)	(0.4)
Trade receivables - net	13.2	13.1	8.0	8.2
Receivables from long-term contracts	1.4	2.0	1.4	2.0
Prepayments and accrued income	10.9	13.2	4.8	4.7
Receivables from subsidiaries	–	–	0.1	0.2
Other receivables	0.2	0.2	0.2	0.3
Current trade and other receivables	25.7	28.5	14.5	15.4
Total trade and other receivables	25.7	28.5	49.0	54.2

The fair values of trade and other receivables are not materially different to the book values above. The majority (over 70%) of the Group's trade receivables relate to public sector organisations and hold a low credit risk. The remainder of the Group's trade receivables relate to numerous private sector customers. No customer accounts for more than 9% of the total gross trade receivables balance. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. Therefore, no further credit risk provisions, over and above the provisions shown above, are deemed necessary. The Group does not hold any collateral as security.

Notes to the Financial statements (continued)

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Sterling	13.1	14.2	13.1	14.6
Euro	1.3	0.7	1.3	0.7
US Dollar	11.3	13.5	34.6	38.9
Other	–	0.1	–	–
	25.7	28.5	49.0	54.2

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
At 1 April	0.6	0.5	0.4	0.5
Acquisition of a subsidiary	–	0.2	–	–
Provision for receivables impairment	0.1	0.1	0.1	0.1
Receivables written off during the year as uncollectable	(0.1)	(0.1)	–	–
Unused amounts reversed	(0.1)	(0.2)	(0.1)	(0.2)
Foreign exchange	–	0.1	–	–
At 31 March	0.5	0.6	0.4	0.4

The creation and release of provisions for impaired receivables have been included in administrative expenses.

Receivables of £0.1 million (2009: £0.1 million) were written off during the year, as there was no expectation of recovering additional cash.

The Group impairment provision is for individually impaired receivables of £0.5 million (2009: £0.6 million) included within trade receivables. The provision is predominantly in respect of an overseas debt relating to a discontinued business where recovery is still being pursued but is doubtful.

The length of time past due of these receivables is as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Three to six months	–	0.1	–	–
Six months to one year	0.1	0.1	–	–
Over one year	0.4	0.4	0.4	0.4
	0.5	0.6	0.4	0.4

As of 31 March 2010 Group trade receivables of £2.4 million (2009: £2.9 million) were past due but not impaired. These relate to numerous customers, none of whom have a history of default with the Group. The ageing of these receivables is as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Up to three months	2.0	2.3	1.2	0.8
Three to six months	0.1	0.1	–	–
Over six months	0.3	0.5	–	0.4
	2.4	2.9	1.2	1.2

The other classes of financial assets within trade and other receivables do not contain impaired assets.

21 CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Cash at bank and in hand	6.0	3.0	3.2	–

The Company's bank accounts are held with Lloyds TSB Bank plc, which holds an A+ long-term rating with Standard & Poor's as at 31 March 2010. Subsidiary overseas bank accounts are held with TD Bank N.A. which holds an AA- long-term rating with Standard & Poor's as at 31 March 2010. The fair value of cash and cash equivalents is equal to the carrying value.

22 SHARE CAPITAL AND SHARE PREMIUM

Group and Company	Number of shares millions	Ordinary shares £m	Share premium £m	Total £m
At 1 April 2008	124.1	15.2	40.4	55.6
Rights issue	99.3	12.1	24.1	36.2
Consideration shares issued on acquisition of subsidiary	5.3	0.6	2.9	3.5
At 31 March 2009 and 31 March 2010	228.7	27.9	67.4	95.3

The total authorised number of Ordinary shares is 315,000,000 shares (2009: 315,000,000 shares) with a par value of 12.22p per share (2009: 12.22p per share). All issued shares are fully paid.

Warrants

The Company has in issue 5,633,252 warrants (2009: 8,047,502 warrants) giving the holders the right to subscribe in cash for shares in the Company. During the year 2,414,250 warrants expired.

Holders of these warrants may subscribe for one Ordinary share in the Company at a price of 65.00p per share and these warrants may be exercised at any time prior to 8 July 2010. The fair value of these warrants as at 31 March 2010, calculated by reference to a closing market price of 21.25p per share is £nil (2009: £nil, calculated by reference to the closing market price of 12.75p 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.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Period of option	Expiry date 30 September	Number of shares 2010	Number of shares 2009	Exercise price per share Pence
1 April 2009 to 30 September 2009	2009	–	15,379	187.0
1 April 2009 to 30 September 2009	2009	–	177,148	96.0
1 April 2010 to 30 September 2010	2010	30,403	35,425	125.0
1 April 2010 to 30 September 2010	2010	138,096	184,398	80.0
1 April 2011 to 30 September 2011	2011	33,739	36,756	96.0
1 April 2011 to 30 September 2011	2011	157,805	295,489	70.0
1 April 2012 to 30 September 2012	2012	4,932,790	5,180,552	14.0
		5,292,833	5,925,147	

Notes to the Financial statements (continued)

Employee share schemes - discretionary share plans

The Group operates long-term incentive plans for senior managers and Directors. Details of the CSOP and the PSP are given below and in the Report on Directors' remuneration. All CSOP options will be equity settled. For the PSP scheme the exercise price is nil pence.

CSOP Scheme	Performance period	Expiry date	Outstanding options at 31 March 2010	Outstanding options at 31 March 2009	Option price Pence
2001	1 April 2001 to 31 March 2004	26 June 2011	213,878	234,114	296.5

PSP Scheme	Performance period	Expiry date	Outstanding options at 31 March 2010	Outstanding options at 31 March 2009	Option price Pence
2009	1 April 2009 to 31 March 2012	10 September 2012	2,109,435	–	nil
2009	1 April 2009 to 31 March 2012	16 January 2013	1,171,310	–	nil
			3,280,745	–	

Options outstanding – SAYE

	2010		2009	
	Options No.	Weighted average exercise price Pence	Options No.	Weighted average exercise price Pence
At 1 April	5,925,147	22.9	1,271,589	68.4
Granted in year	–	–	5,180,552	14.0
Exercised in year	(13,749)	14.0	–	–
Lapsed in year	(192,527)	103.3	(167,733)	125.6
Forfeited in year	(426,038)	41.2	(359,261)	83.8
At 31 March	5,292,833	18.6	5,925,147	22.9
Exercisable as at 31 March	–	–	–	–

Options outstanding – CSOP

	2010		2009	
	Options No.	Weighted average exercise price Pence	Options No.	Weighted average exercise price Pence
At 1 April	234,114	296.5	256,647	296.5
Lapsed in year	(20,236)	296.5	(22,533)	296.5
At 31 March	213,878	296.5	234,114	296.5
Exercisable as at 31 March	213,878	296.5	234,114	296.5

No CSOP options were exercised during the years ended 31 March 2009 and 2010.

Options outstanding – PSP

	2010		2009	
	Options No.	Weighted average exercise price Pence	Options No.	Weighted average exercise price Pence
At 1 April	–	–	1,084,730	nil
Granted in year	3,280,745	nil	–	–
Lapsed in year	–	–	(1,084,730)	nil
At 31 March	3,280,745	nil	–	–
Exercisable as at 31 March	–	–	–	–

No SAYE options were granted during the year. The fair value of SAYE options granted during 2009 was 8.7p, as determined using the Black-Scholes model. The inputs into the model for the SAYE schemes were as follows for the year ended 31 March 2009:

	2009
Weighted average share price at the grant date	18.5p
Exercise price	14.0p
Expected volatility	53.5%
Expected life	3.0 years
Risk free interest rate	2.2%
Expected dividend yield	0.0%

Expected volatility is determined by calculating the historical volatility of the Group's share price over the previous three 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 fair values of the PSP options granted during the year were 30.0p (for the scheme expiring 10 September 2012) and 26.5p (for the scheme expiring 16 January 2013). The exercise price of the options granted was nil pence and the fair value was equal to the closing share price on the grant date.

The Group recognised total expenses of £0.3 million (2009: £0.1 million) related to equity-settled share based payment transactions.

Notes to the Financial statements (continued)

23 OTHER RESERVES

Group	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 2008	1.9	33.1	35.0	0.7	–	35.7
Currency translation differences	–	–	–	–	2.6	2.6
Actuarial losses on defined benefit pension schemes	–	(53.4)	(53.4)	–	–	(53.4)
Fair value of share option schemes	0.1	–	0.1	–	–	0.1
At 31 March 2009	2.0	(20.3)	(18.3)	0.7	2.6	(15.0)
Currency translation differences	–	–	–	–	(0.8)	(0.8)
Actuarial losses on defined benefit pension schemes	–	(28.6)	(28.6)	–	–	(28.6)
Fair value of share option schemes	0.3	–	0.3	–	–	0.3
At 31 March 2010	2.3	(48.9)	(46.6)	0.7	1.8	(44.1)

Company	Share option reserve £m	Actuarial pension reserve £m	Total fair value and other reserves £m	Capital redemption reserve £m	Total other reserves £m
At 1 April 2008	1.9	33.1	35.0	0.7	35.7
Actuarial losses on defined benefit pension schemes	–	(53.4)	(53.4)	–	(53.4)
Fair value of share option schemes	0.1	–	0.1	–	0.1
At 31 March 2009	2.0	(20.3)	(18.3)	0.7	(17.6)
Actuarial losses on defined benefit pension schemes	–	(28.6)	(28.6)	–	(28.6)
Fair value of share option schemes	0.3	–	0.3	–	0.3
At 31 March 2010	2.3	(48.9)	(46.6)	0.7	(45.9)

The share option reserve represents credits relating to equity settled share-based employee compensation plans. When the options are exercised the proceeds, net of attributable transaction costs, are credited to share capital and share premium.

The actuarial pension reserve represents the actuarial gains and losses on defined benefit pension schemes.

The capital redemption reserve represents the nominal value of shares bought back by the Group during the year to 31 March 2003.

The currency translation reserve represents the accumulated gains and losses recognised on translation of the net assets of foreign subsidiaries at the exchange rates ruling at the balance sheet date and the income statements at the average rate of exchange during the year. On disposal of foreign subsidiaries these gains or losses are recognised in the Consolidated income statement as part of the profit or loss on disposal.

Distributable reserves

The Company currently has a £228.1 million deficit of distributable reserves (2009: £235.1 million). Distributable reserves comprise retained earnings, the share option reserve and the actuarial pension reserve.

24 COMPANY PROFIT

As permitted by section 408 of the Companies Act 2006, the parent Company's income statement, and statement of comprehensive income has not been included. The result for the financial year of the parent Company was a profit of £35.3 million (2009: £7.2 million). This is stated after writing off inter-company loans payable of £0.8 million (2009: £2.8 million), receiving dividends from subsidiaries of £32.6 million (2009: £nil), impairing investments of £nil (2009: £0.1 million) and the reversing an impairment of an inter-company loan receivable of £nil (2009: £0.2 million).

25 TRADE AND OTHER PAYABLES

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Non-current				
Other liabilities	2.5	2.6	0.1	–
Non-current trade and other payables	2.5	2.6	0.1	–
Current				
Trade payables	7.5	9.6	5.3	7.4
Deferred income	4.8	5.8	4.5	5.1
Accruals	9.0	11.0	6.5	8.2
Payable to subsidiaries	–	–	26.9	59.7
Social security and tax	3.1	2.6	3.0	2.5
Government grants	0.1	0.2	0.1	0.2
Other liabilities	0.6	2.1	0.5	1.2
Current trade and other payables	25.1	31.3	46.8	84.3
Total trade and other payables	27.6	33.9	46.9	84.3

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. £0.1 million was credited to income in 2010 (2009: £0.1 million).

26 BORROWINGS

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Non-current borrowings				
Unsecured bank and other loans	29.4	–	29.4	–
Finance lease liabilities	0.4	0.4	0.4	0.4
Non-current borrowings	29.8	0.4	29.8	0.4
Current borrowings				
Unsecured bank and other loans	2.0	29.6	2.0	29.6
Finance lease liabilities	0.4	0.3	0.4	0.3
Current borrowings	2.4	29.9	2.4	29.9
Total borrowings	32.2	30.3	32.2	30.3

Maturity of borrowings is as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Within one year	2.4	29.9	2.4	29.9
Between one and two years	0.4	0.4	0.4	0.4
Between two and five years	29.4	–	29.4	–
	32.2	30.3	32.2	30.3

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

Notes to the Financial statements (continued)

Unsecured bank and other loans excluding finance leases

	2010	2009
Group and Company	£m	£m
Syndicated bank debt – revolving credit facility	30.8	27.8
Capitalised loan arrangement fees	(0.7)	(0.2)
Revaluation of bank debt	(0.7)	–
Non-bank debt	2.0	2.0
Total non-current and current unsecured bank and other loans	31.4	29.6

Syndicated bank debt

At 31 March 2010 the Company had a £42.0 million loan facility agreement (the ‘facility’) with Lloyds TSB Bank plc and Bank of Scotland plc. This facility was entered into in November 2009 for a period of three years. The same banks also provide a £5.0 million bonding facility. The facility is denominated in Sterling, although borrowings under the facility are in Sterling and US Dollars. The utilised amounts bear interest at LIBOR plus 2.75% or US Dollar – LIBOR plus 2.75%. The agreement contains financial covenants in relation to the ratio of net borrowings to PBITDA and the ratio of PBITDA to net interest payable.

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

	2010			2009		
	Available £m	Utilised £m	Unutilised £m	Available £m	Utilised £m	Unutilised £m
Syndicated bank debt – revolving credit facility	42.0	30.8	11.2	42.0	27.8	14.2

In the current year these amounts are shown in non-current borrowings. In the prior year these amounts were shown in current borrowings.

Non-bank debt

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

Obligations under finance leases – gross

	Minimum lease payments	
Amounts payable under finance leases	2010	2009
	£m	£m
Within one year	0.4	0.3
Between one and five years	0.4	0.4
Present value of lease obligations	0.8	0.7

Obligations under finance leases – present value

	Present value of minimum lease payments	
Amounts payable under finance leases	2010	2009
	£m	£m
Within one year	0.4	0.3
Between one and five years	0.4	0.4
	0.8	0.7
Less: amount due for settlement within one year (shown under current borrowings)	(0.4)	(0.3)
Amount due for settlement after one year	0.4	0.4

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

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

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

Currency and interest rate analysis

The currency and interest rate analysis of the Group's borrowings is as follows:

	Total £m	Interest free £m	Floating rate £m	Fixed rate £m	Fixed interest rate %	Time fixed Years
At 31 March 2010						
Sterling	9.1	2.0	6.3	0.8	1% to 4%	0-3 years
US Dollar	23.1	-	23.1	-	-	-
Total	32.2	2.0	29.4	0.8	1% to 4%	0-3 years
At 31 March 2009						
Sterling	4.4	2.0	1.7	0.7	3% to 5%	0-3 years
US Dollar	26.7	-	26.7	-	-	-
Euro	(0.8)	-	(0.8)	-	-	-
Total	30.3	2.0	27.6	0.7	3% to 5%	0-3 years

The loan facility held by the Group allows certain cash balances held to be set off against gross borrowings. The Euro amount shown at 31 March 2009 in the currency analysis above is one such cash balance.

Exposure to variable interest rates on £13.2 million (2009: £14.0 million) of floating rate borrowings are hedged through use of interest rate swaps.

27 DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments are as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Currency derivatives	-	2.5	-	2.5
Interest rate swaps	0.1	0.1	0.1	0.1
	0.1	2.6	0.1	2.6

Currency derivatives

The Group has used currency derivatives to cover significant future receipts and payments in the management of its exchange rate exposures from long-term contracts. As at 31 March 2010 there were no currency derivatives held.

As at 31 March 2009 a forward contract covered the excess of US Dollar denominated loans made to subsidiaries over the Group's external US Dollar borrowings.

At 31 March the total notional amount of outstanding forward foreign exchange contracts to which the Group is committed are as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Forward foreign exchange contracts				
Long term contract receipts and payments	-	0.2	-	0.2
Loans to subsidiaries	-	8.7	-	8.7
	-	8.9	-	8.9

In 2009 these contracts covered a range of maturity dates from one month to six months. A fair value gain of £0.3 million (2009: loss of £2.5 million) has been recognised in administrative expenses (note 8).

The net amount to be paid on maturity of the forward foreign exchange contracts is £nil (2009: £2.5 million).

Notes to the Financial statements (continued)

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The notional amount of the outstanding interest rate swap contract as at 31 March 2010 is £13.2 million (2009: £14.0 million). The fixed interest payment rates are 1.85% and 1.94% (2009: 1.63%). The floating rate receipts are at LIBOR.

The fair values of interest rate swaps are based on market estimates of equivalent instruments at the balance sheet date. These interest rate swaps are accounted for at fair value through the Consolidated income statement. An amount of less than £0.1 million (2009: £0.1 million) has been charged to finance costs (note 10).

The net amount to be paid over the remaining duration of the interest rate swap is £0.1 million (2009: £0.1 million).

28 RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

In Europe, the Company operates a defined contribution stakeholder plan (the UK Plan) for all qualifying employees. Participants may make voluntary contributions to the UK Plan up to the maximum amount allowable by UK law. The assets of the UK Plan are held separately from those of the Company in individual accounts under the control of the pension provider. The only obligation of the Company with respect to the UK Plan is to make the specified contributions.

The US subsidiary, Project Performance Corporation, operates a defined contribution 401(K) profit sharing plan (the US Plan) for all eligible employees. Participants may make voluntary contributions to the US Plan up to the maximum amount allowable by US law. Employer contributions to the US Plan are at the discretion of management and vest to the participants over a five-year period. The assets of the US Plan are held separately from those of Project Performance Corporation in funds under the control of trustees and insurance companies. The only obligation of Project Performance Corporation with respect to the US Plan is to make the specified contributions.

Project Performance Corporation 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.

The total cost charged to the income statement of £2.6 million (2009: £0.9 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit schemes – funded obligations

The AEA Technology Pension Scheme (the Scheme), a defined benefit pension scheme, was closed to future accrual on 31 July 2009 and no further benefits will be built up with effect from that date.

The funding of the Scheme is based on long-term trends and assumptions relating to market growth, as advised by the Scheme Actuary. The calculations for the Scheme are based on the liabilities determined at the funding valuation as at 31 March 2008 in accordance with the requirements of the Pensions Act 2004. The Scheme's past service funding deficit is expected to be cleared over approximately 20 years under a schedule of contributions agreed by the Company and Trustees in June 2009.

International Accounting Standard 19 'Employee Benefits' (IAS 19) requires the Group to include in the Balance sheet the surplus or deficit on the Scheme calculated as at the balance sheet date. The method used for the calculation is as prescribed by IAS 19. 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 the Group – principally the value at the balance sheet date of the assets in which the Scheme has invested and long-term interest rates, which are used to discount future liabilities.

The Company's Actuaries, Hewitt Associates Limited, carried out the valuation. The results are then adjusted by the Actuaries each year, allowing for the IAS 19 financial and demographic assumptions and rolling forward the liabilities to the balance sheet date in an approximate manner.

AEA Technology plc employs a building block approach in determining the long-term rate of return on pension scheme assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets at 31 March 2009 was derived aggregating the expected return for each asset class over the actual asset allocation for the Scheme at the start of the accounting year. The overall long-term expected rate of return on assets at 31 March 2010 is derived by modelling the expected returns on the agreed strategic asset allocation at the start of the accounting year, taking into account the interactions between asset classes to derive an expected return for the portfolio as a whole.

The estimated amount of contributions expected to be paid to the Scheme during the financial year to 31 March 2011 is approximately £1.8 million. In addition the Company pays a contribution equal to the Pension Protection Fund levy that for the year to 31 March 2010 amounted to £0.3 million (2009: £0.4 million).

As at 31 March 2010 contributions of £nil (2009: £0.1 million) due in respect of the year to 31 March have not been paid over to the Scheme.

Defined benefit schemes – unfunded obligations

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

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

Pension benefits

The amounts recognised in the Balance sheet and the Consolidated income statement in respect of the defined benefit scheme are summarised as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Balance sheet obligation for pension benefits	139.8	108.2	139.8	108.2
Income statement charge for pension benefits	5.7	2.7	5.7	2.7

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

	2010 £m	2009 £m
Present value of funded obligations	416.4	310.3
Fair value of defined benefit pension scheme assets	(280.5)	(205.5)
Retirement benefit obligations of the Scheme	135.9	104.8
Present value of unfunded obligations	3.9	3.4
Retirement benefit obligations	139.8	108.2

The amounts recognised in the Consolidated income statement are as follows:

	2010 £m	2009 £m
Past service credit	(0.7)	–
Curtailment loss	0.5	–
Net pension credit from the Scheme closure	(0.2)	–
Current service cost	0.4	1.2
Accretion of discount on defined benefit pension scheme obligations	20.4	20.5
Expected return on defined benefit pension scheme assets	(14.9)	(19.0)
Amount included in employee benefit costs	5.7	2.7

The net pension credit from the Scheme closure arises from closing the Scheme to future accrual on 31 July 2009 and amending the entitlements of certain members of the Scheme.

Current service costs of £0.4 million (2009: £1.2 million) are included in the Consolidated income statement. These costs are split between cost of sales and administrative expenses. The accretion of discount on defined benefit pension scheme obligations of £20.4 million (2009: £20.5 million) and the expected return on defined benefit pension scheme assets of £14.9 million (2009: £19.0 million) are included in 'finance costs' and 'finance income' respectively. The total of the expected return on defined benefit pension scheme assets (£14.9 million) and the actuarial gain on defined benefit pension scheme assets (£67.3 million that is credited to the pension reserve) equates to an actual gain on defined benefit pension scheme assets of £82.2 million (2009: loss of £49.4 million).

Notes to the Financial statements (continued)

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

	Funded Company Scheme £m	Unfunded Company Scheme £m	2010 £m	Funded Company Scheme £m	Unfunded Company Scheme £m	2009 £m
At 1 April	310.3	3.4	313.7	315.0	3.4	318.4
Accretion of discount on defined benefit obligations	20.2	0.2	20.4	20.5	–	20.5
Past service credit	(0.7)	–	(0.7)	–	–	–
Curtailement loss	0.5	–	0.5	–	–	–
Current service costs	0.4	–	0.4	1.2	–	1.2
Actuarial losses/(gains)	95.3	0.6	95.9	(15.2)	0.2	(15.0)
Contributions paid by employer	–	(0.3)	(0.3)	–	(0.2)	(0.2)
Contributions paid by Scheme participants	0.1	–	0.1	0.2	–	0.2
Benefits paid	(9.7)	–	(9.7)	(11.4)	–	(11.4)
At 31 March	416.4	3.9	420.3	310.3	3.4	313.7

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

	Funded Company Scheme £m	Unfunded Company Scheme £m	2010 £m	Funded Company Scheme £m	Unfunded Company Scheme £m	2009 £m
At 1 April	205.5	–	205.5	258.4	–	258.4
Expected return on defined benefit pension scheme assets	14.9	–	14.9	19.0	–	19.0
Actuarial gains/(losses)	67.3	–	67.3	(68.4)	–	(68.4)
Contributions paid by employer	2.4	–	2.4	7.7	–	7.7
Contributions paid by Scheme participants	0.1	–	0.1	0.2	–	0.2
Benefits paid	(9.7)	–	(9.7)	(11.4)	–	(11.4)
At 31 March	280.5	–	280.5	205.5	–	205.5

The net pension obligation is as follows:

	Total £m
At 31 March 2010	139.8
At 31 March 2009	108.2

A £28.6 million loss (2009: £53.4 million) in respect of actuarial losses and gains is reported in the Consolidated statement of comprehensive income (SOCl) and the cumulative total of actuarial losses and gains reported through the SOCl is a net £48.9 million loss (2009: £20.3 million).

The principal actuarial assumptions used are as follows:

	2010 %	2009 %
Discount rate	5.6	6.6
Inflation	3.6	3.2
Expected return on plan assets:		
equities	8.9	8.4
corporate bonds	5.6	5.8
infrastructure	8.9	8.4
property	9.4	n/a
other	0.6	1.6
Future salary increases	n/a	2.7
Future pension increases	n/a	3.2

The discount rate is based on future projected cash flows and the AA-corporate bond yield curve as at 31 March 2010, with an adjustment so that the yield relates to bonds that were AA-rated as at 31 March 2010. The assumed rate of inflation has been calculated based on future projected cash flows and the inflation curve as at 31 March 2010, with an allowance for an inflation risk premium.

Post-retirement mortality assumptions are as follows:

	2010	2009
Funded Company Scheme	<p>“S1PxA” Year of Use tables. Improvements in line with 80% of the Long Cohort for males and 60% of the Long Cohort for females, subject to a minimum annual improvement of 1.0%. Scaling factor of 95%.</p>	<p>“S1PxA” Year of Use tables. Improvements in line with 80% of the Long Cohort for males and 60% of the Long Cohort for females, subject to a minimum annual improvement of 1.0%. Scaling factor of 95%.</p>
Unfunded Company Scheme	<p>“S1PxA Light” Year of Use tables. Improvements in line with 80% of the Long Cohort for males and 60% of the Long Cohort for females, subject to a minimum annual improvement of 1.0%. No scaling factor.</p>	<p>“S1PxA Light” Year of Use tables. Improvements in line with 80% of the Long Cohort for males and 60% of the Long Cohort for females, subject to a minimum annual improvement of 1.0%. No scaling factor.</p>

Demographic assumptions (post-retirement mortality)

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

	2010 Years	2009 Years
Males retiring today	27.0	26.9
Females retiring today	29.1	29.0
Males retiring in 20 years	29.1	28.9
Females retiring in 20 years	30.9	30.9

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 10%
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 9%
Rate of mortality	Increase by one year	Increase by 2%

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

	Expected return		Fair value of assets	
	2010 %	2009 %	2010 £m	2009 £m
Equity instruments	8.9	8.4	173.6	157.9
Corporate bonds	5.6	5.8	44.0	22.1
Infrastructure	8.9	8.4	30.5	23.8
Property	9.4	–	9.8	–
Other assets	0.6	1.6	22.6	1.7
			280.5	205.5

Notes to the Financial statements (continued)

The five-year history of defined benefit pension scheme obligations and defined benefit pension scheme assets is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	420.3	313.7	318.4	366.9	537.6
Fair value of defined benefit pension scheme assets	(280.5)	(205.5)	(258.4)	(274.7)	(430.0)
Retirement benefit obligation	139.8	108.2	60.0	92.2	107.6

The five-year history of experience adjustments is as follows:

	2010	2009	2008	2007	2006
Experience (losses)/gains on defined benefit scheme obligations					
Amount (£ million)	(95.9)	15.0	57.6	(3.6)	(2.9)
Percentage of Scheme liabilities	22.8%	4.8%	18.1%	1.0%	0.5%
Experience gains/(losses) on defined benefit pension scheme assets					
Amount (£ million)	67.3	(68.4)	(27.3)	(11.5)	57.6
Percentage of Scheme assets	24.0%	33.3%	10.6%	4.2%	13.4%

Development of net retirement benefit obligation over the year to 31 March 2010

The pension cost recognised in the Consolidated income statement is calculated based on assumptions made at the beginning of the year. If experience over the year is in line with the assumptions made at the start of the year, the retirement benefit obligation 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 SOCI.

29 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Decommissioning and waste				Total £m
	management £m	Restructuring £m	Contracts £m	Other £m	
At 1 April 2008	4.8	8.1	5.2	1.6	19.7
Balance sheet reclassifications	0.1	(0.4)	0.6	–	0.3
Acquired with subsidiary	–	–	0.1	0.1	0.2
Charged to the Consolidated income statement	–	–	–	0.1	0.1
Utilised	(0.6)	(4.5)	(3.1)	(0.1)	(8.3)
At 31 March 2009	4.3	3.2	2.8	1.7	12.0
Utilised	(0.2)	(0.3)	(1.5)	(0.1)	(2.1)
Foreign exchange	–	–	(0.1)	–	(0.1)
At 31 March 2010	4.1	2.9	1.2	1.6	9.8

Company	Decommissioning and waste				Total £m
	management £m	Restructuring £m	Contracts £m	Other £m	
At 1 April 2008	4.8	8.1	5.2	1.6	19.7
Balance sheet reclassifications	0.1	(0.4)	0.6	–	0.3
Charged to the income statement	–	–	–	0.1	0.1
Utilised	(0.6)	(4.5)	(3.1)	–	(8.2)
At 31 March 2009	4.3	3.2	2.7	1.7	11.9
Utilised	(0.2)	(0.3)	(1.5)	(0.1)	(2.1)
At 31 March 2010	4.1	2.9	1.2	1.6	9.8

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Provisions for liabilities and charges				
Current	7.1	8.4	7.1	8.3
Non-current	2.7	3.6	2.7	3.6
	9.8	12.0	9.8	11.9

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

Provisions for these costs were made in full once facilities became contaminated and were calculated on the latest technical assessments of the processes and methods likely to be used in the future and represent estimates derived from a combination of the technical knowledge available, existing legislation and regulations and commercial agreements.

The majority of the provision is expected to be utilised within one year of the balance sheet date.

Restructuring

In the two years to 31 March 2007 the Group completed the transformation of its business from a diverse Group to a single mission company focused on climate change and energy consultancy. Provisions related to this restructuring are held for associated warranties and indemnities given under business sale agreements. These provisions are expected to be utilised within the next one to two years.

Contracts

Contract provisions are in respect of projected losses or commitments on long-term contracts. These provisions will be utilised when the costs are incurred on the long-term contracts. 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.

Notes to the Financial statements (continued)

30 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax jurisdiction. The offset amounts are as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Deferred income tax assets recoverable within one year	3.3	2.4	2.1	1.3
Deferred income tax assets recoverable after one year	2.6	4.1	2.7	3.5
Deferred income tax assets	5.9	6.5	4.8	4.8
Deferred income tax liabilities recoverable within one year	(0.4)	(0.5)	-	-
Deferred income tax liabilities recoverable after one year	(1.2)	(1.6)	-	-
Deferred income tax liabilities	(1.6)	(2.1)	-	-
Deferred income tax assets (net)	4.3	4.4	4.8	4.8

The gross movement on the net deferred income tax asset is as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
At 1 April	4.4	4.6	4.8	4.6
Consolidated income statement (charge)/credit for year	(0.1)	(0.3)	-	0.2
Acquisition of a subsidiary	-	0.1	-	-
At 31 March	4.3	4.4	4.8	4.8

The movement in deferred income tax liabilities and assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities

Group	Fair value of intangibles £m	Accelerated tax depreciation £m	Other £m	Total £m
Acquisition of a subsidiary	(1.9)	(0.1)	(2.9)	(4.9)
Credited to the Consolidated income statement	0.3	-	0.7	1.0
Exchange differences	(0.6)	-	(0.8)	(1.4)
At 31 March 2009	(2.2)	(0.1)	(3.0)	(5.3)
Credited to the Consolidated income statement	0.4	0.1	0.9	1.4
Exchange differences	0.1	-	0.2	0.3
At 31 March 2010	(1.7)	-	(1.9)	(3.6)

“Other” deferred income tax liabilities arise in the subsidiary, Project Performance Corporation, which was acquired in 2008. Project Performance Corporation was, prior to acquisition, treated as an “S-Corp” and therefore adopted cash accounting for tax purposes. On acquisition Project Performance Corporation was required to switch its tax status to become a “C-Corp” and to adopt a normal accruals method of accounting for tax. This “cash to accruals” conversion led to the creation, on acquisition, of a deferred income tax liability.

Deferred income tax assets	Retirement benefit obligations				
	Provisions	Tax losses	Other	Total	
Group	£m	£m	£m	£m	£m
At 1 April 2008	1.3	3.3	–	–	4.6
Acquisition of a subsidiary	–	0.1	–	4.9	5.0
(Charged)/credited to the Consolidated income statement	(1.3)	(1.8)	6.3	(4.5)	(1.3)
Exchange differences	–	–	0.3	1.1	1.4
At 31 March 2009	–	1.6	6.6	1.5	9.7
Charged to the Consolidated income statement	–	(0.4)	(1.1)	–	(1.5)
Exchange differences	–	–	(0.2)	(0.1)	(0.3)
At 31 March 2010	–	1.2	5.3	1.4	7.9

Deferred income tax assets	Retirement benefit obligations				
	Provisions	Tax losses	Other	Total	
Company	£m	£m	£m	£m	£m
At 1 April 2008	1.3	3.3	–	–	4.6
(Charged)/credited to the income statement	(1.3)	(1.7)	3.2	–	0.2
At 31 March 2009	–	1.6	3.2	–	4.8
(Charged)/credited to the income statement	–	(0.4)	0.4	–	–
At 31 March 2010	–	1.2	3.6	–	4.8

Deferred income 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 utilisation against future taxable profits is probable. The Group has not recognised deferred tax assets of £65.3 million (2009: £58.8 million). Total UK tax losses carried forward amount to £89.5 million (2009: £96.4 million). Non-UK tax losses carried forward amount to £4.4 million (2009: £8.8 million). These non-UK tax losses carried forward expire in the year 2029. If conditions permit then these losses will be recognised and utilised in future years.

Notes to the Financial statements (continued)

31 CASH GENERATED FROM/(USED IN) OPERATIONS

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Profit for the year	3.3	7.0	35.3	7.2
Adjustments for:				
tax	0.2	0.5	–	(0.1)
depreciation of property, plant and equipment	1.3	1.0	0.8	0.7
amortisation and impairment	1.3	0.8	0.1	0.2
share option charge	0.3	0.1	0.3	0.1
finance interest expense	21.8	22.1	22.2	24.9
finance interest income	(14.9)	(19.2)	(16.5)	(20.4)
dividends receivable from subsidiaries	–	–	(32.6)	–
waiver of payables to subsidiaries	–	–	(0.8)	(2.8)
reversal of impairment of receivables from subsidiaries	–	–	–	(0.2)
costs cross-charged to subsidiaries	–	–	(0.5)	(1.3)
other	0.3	–	0.7	–
Changes in working capital:				
work in progress	0.1	(0.1)	0.1	(0.1)
trade and other receivables	1.9	1.5	0.7	0.8
trade and other payables	(5.0)	2.0	(4.6)	(0.3)
inter-company balances	–	–	0.7	0.2
Changes in retirement benefit obligations	(2.5)	(6.7)	(2.5)	(6.7)
Changes in provisions for liabilities and charges	(2.1)	(7.9)	(2.1)	(7.8)
Cash generated from/(used in) operations	6.0	1.1	1.3	(5.6)

32 CONTINGENT LIABILITIES

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

33 OPERATING LEASE COMMITMENTS

The Group leases various offices under non-cancellable operating leases. The remaining lease terms are between one month and eight years. The Group also leases various items of plant and equipment under operating leases. The total future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Operating lease commitments as lessee	Group	
	2010 £m	2009 £m
Within one year	4.5	5.4
Between one and five years	18.5	17.2
After five years	4.8	9.1
	27.8	31.7

At the balance sheet date the Group had contracted with tenants for the following future minimum lease payments:

Operating lease commitments as lessor	Group	
	2010 £m	2009 £m
Within one year	1.6	1.8
Between one and five years	1.6	2.0
After five years	1.1	0.7
	4.3	4.5

34 TRANSACTIONS WITH GOVERNMENT DEPARTMENTS AND OTHER PUBLIC BODIES

Revenue and cost of sales excludes reimbursements and the related payments made in respect of certain contracts with various Government departments (predominantly Defra, the Department for Children, Schools and Families, the Department for Transport and the Department for Business, Innovation and Skills) and other public bodies (such as the Technology Strategy Board, the Big Lottery Fund UK and the South West Regional Development Agency). Under the terms of these agreements, the Group receives funding from these Government departments and other public bodies in respect of certain programmes and pays such monies 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 values of payments made and received under these programmes were £165.7 million and £159.0 million respectively (2009: £173.4 million and £177.8 million respectively). Amounts received that have not been paid out at 31 March 2010 are held in bank accounts not belonging to the Group and not consolidated within Group assets.

35 RELATED PARTIES

The Group has no sales or purchases of services from related parties in the years ended 31 March 2010 and 31 March 2009.

	Group		Company	
	2010	2009	2010	2009
Key management compensation (Group and Company)	£m	£m	£m	£m
Salaries and other short term employment benefits	1.5	1.7	1.4	1.6
Post employment benefits	0.5	–	0.5	–
Share-based payments	0.1	–	–	–
	2.1	1.7	1.9	1.6

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

The Group has no receivables from or payables to related parties as at 31 March 2010 or 31 March 2009.

During the year ended 31 March 2010 the Company generated revenue amounting to £1.3 million (2009: £0.5 million) through sales to other Group companies. The Company purchased services from other Group companies for £0.7 million (2009: £0.8 million). The Company purchased capital items from other Group companies for £0.3 million (2009: £nil). The Company paid interest to other Group companies of £0.4 million (2009: £2.8 million) and received interest of £1.6 million (2009: £1.3 million) from other Group companies. As at 31 March 2010 the Company owed other Group companies £1.0 million (2009: £0.3 million) related to trading and a net £25.9 million (2009: £59.4 million) related to working capital loans. At that date Group companies owed the Company £0.1 million (2009: £0.2 million) related to trading and £34.5 million (2009: £38.8 million) related to loans of which £10.9 million was an equity loan (2009: £nil).

Loans payable by the Company of £0.8 million (2009: £2.8 million) were waived by subsidiaries during the year. Loans payable by subsidiaries of £0.1 million (2009: £nil) were waived by the Company during the year, these had been fully impaired in a prior year.

36 POST BALANCE SHEET EVENTS

There were no post balance sheet events.

Additional information

Five year summary

	2010 £m	2009 £m	2008 £m	2007 £m	2006 ⁵ £m
Continuing and discontinued operations					
Revenue	113.2	93.7	80.9	113.9	191.4
Operating profit	10.4	10.4	9.9	8.8	3.2
Adjusted operating profit ¹	12.4	12.0	11.0	8.6	3.9
Profit/(loss) before tax	3.5	7.5	8.0	25.2	(15.5)
Adjusted profit before tax ²	11.0	10.6	9.4	7.0	2.3
Profit/(loss) attributable to owners of the parent	3.3	7.0	8.5	24.7	(19.2)
Minority interests	–	–	–	–	(0.2)
Retained profit/(loss)	3.3	7.0	8.5	24.7	(19.4)
Net liabilities	(130.2)	(104.4)	(99.2)	(144.5)	(153.7)
Basic earnings per share (pence) ³	1.4p	3.5p	5.8p	17.4p	(15.3)p

	2010 £m	2009 £m	2008 £m	2007 £m	2006 ⁵ £m
Continuing operations					
Revenue	113.2	93.7	80.9	75.2	55.8
Operating profit	10.4	10.4	9.9	9.4	11.6
Adjusted operating profit ¹	12.4	12.0	11.0	8.6	3.9
Adjusted profit before tax ²	11.0	10.6	9.4	7.0	2.3
Adjusted earnings per share (pence) ^{3,4}	4.7p	5.0p	6.8p	4.9p	1.8p

¹ Adjusted operating profit is reported operating profit, for continuing operations only, excluding amortisation of acquired intangibles and certain significant items.

² Adjusted profit before tax is reported profit before tax, for continuing operations only, excluding amortisation of acquired intangibles, certain significant items and net pension finance costs.

³ Basic and adjusted earnings per share figures for 2008 and prior years have been restated to reflect the impact on numbers of shares in issue due to the Rights issue.

⁴ Adjusted earnings per share is calculated using earnings for continuing operations only, adjusted for certain significant items. See note 12 for details of the adjusted earnings per share calculation.

⁵ Data from 2006 has been restated to reflect the different composition of continuing operations compared to that reported in the Annual Financial Report 2006.

Shareholders' information

Shares as at 31 March 2010 (in total)	Number of shareholders	Percentage of total shareholders	Percentage of Ordinary shares
1 – 100	1,826	27.61%	0.03%
101 – 1,000	3,441	52.02%	0.61%
1,001 – 5,000	1,028	15.54%	0.92%
5,001 – 50,000	240	3.63%	1.63%
50,001 – 100,000	23	0.35%	0.76%
Over 100,000	56	0.85%	96.05%
Totals	6,614	100.00%	100.00%

Financial Calendar

Financial year end	31 March
Interim management statement	July/August 2010 and January/February 2011
2010 Annual general meeting	September 2010
2010 Half-yearly results announcement	November 2010
2011 Preliminary results announcement	May/June 2011

Shareholder contact

If you have any general comments or queries you are welcome to write to the Company Secretary, at 329 Harwell, Oxfordshire OX11 0QJ. If you have a query for a specific Director please write to him or her at the same address.

Registrar services

If you have an administrative query about your shareholding (such as details of previous dividend payments, recording a change of address, or reporting the loss of a share certificate), please direct these to Equiniti, either in writing to them at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA or by telephoning +44 (0)871 384 2354 or via their textphone number, UK only, 0871 384 2255. If you are dialling from outside the UK please telephone on +44 (0)121 415 7047.

You can now find a number of shareholder services on-line. The portfolio service from Equiniti gives you access to more information on your investments including balance movements, indicative share prices and information on recent dividends. For more details on this and practical help on transferring shares or updating your details, please visit www.shareview.co.uk. This also gives you the opportunity to register an interest in receiving information from the Company electronically.

Amalgamation of shareholdings

If you have received more than one copy of this report your shareholding may be registered under two or more shareholder reference numbers. Please contact Equiniti to amalgamate these accounts.

CREST

The Company's shares are available for electronic settlement by CREST. If you would like to find out more about the CREST settlement system please contact Equiniti for an information leaflet.

Individual savings account (ISA)

AEA has a Company sponsored ISA enabling shareholders to hold AEA Technology plc shares in a tax advantageous manner. Dividends will attract the basic rate of income tax only, any profits should you later sell some or all of your investment are exempt from capital gains tax and you do not need to show details of your ISA on your tax return. For details please contact the Equiniti ISA Team at the address given above or telephone +44 (0)871 384 2244.

ShareGift

Shareholders who only have a small number of shares whose market value makes selling uneconomic may wish to consider donating them to charity through ShareGift, an independent charity share donation scheme. ShareGift is administered by the Orr Mackintosh Foundation, registered charity number 1052686. Further information may be obtained on +44 (0)207 828 1151 or from www.sharegift.org.

Registered office

329 Harwell
Didcot
Oxfordshire
OX11 0QJ

Company registration

Registered in England and Wales
No: 3095862

Website

www.aeat.com

Secretary and advisors

Secretary

The Company Secretary
AEA Technology plc
329 Harwell
Didcot
Oxfordshire OX11 0QJ

Principal bankers

Lloyds TSB Bank plc
1st Floor
48 Chiswell Street
London EC1Y 4XX

Bank of Scotland plc
155 Bishopsgate
London EC2M 3YB

Broker and financial advisors

RBS Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA

Financial advisors

The Parkmead Group plc
2nd Floor
84 Brook Street
London W1K 5EH

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Solicitors

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Eversheds LLP
Senator House
85 Queen Victoria Street
London EC4V 4JL

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
9 Greyfriars Road
Reading
Berkshire RG1 1JG



AEA Technology plc

329 Harwell
Didcot
Oxfordshire OX11 0QJ

Telephone +44 (0)870 190 1900
Facsimile +44 (0)870 190 8109
E-mail enquiry@aeat.co.uk