Half-Year Financial Report 2010/11

AEA Technology Group plc

The AEA Group overview

AEA is one of the World's leading advisors on energy, climate change and sustainability. We ensure that our customers make the best decisions by underpinning our science with innovative IT / data and economic capabilities.

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Highlights

Financial summary

- Orders £39.6 million (2009: £63.1 million)
- Revenue £50.6 million (2009: £51.0 million)
- Adjusted operating profit £2.1 million (2009: £4.2 million) [1]
- Operating loss £6.7 million (2009: profit £3.2 million)
- Adjusted profit before tax £1.1 million (2009: £3.7 million) [1]
- Loss before tax £8.8 million (2009: profit £0.2 million)
- Net cash flow generated from business operations £2.3 million inflow (2009: £0.6 million outflow) [2]
- Secure revenue for the current year of £89.9 million (2009: £99.2 million) [3]
- Net debt £31.7 million (30 September 2009: £32.0 million, 31 March 2010: £26.2 million)

[1] A reconciliation of adjusted operating profit and adjusted profit before tax is given below the Consolidated income statement.
[2] A reconciliation of Net cash flow generated from business operations to Cash (used in)/generated from operations is given below the Consolidated statement of cash flows in the alternative performance measures.
[3] Secure revenue is the element of orders to date that the Group expects to be delivered in the current financial year.

Strategic and operational

- Significant forward order book of c $600 million [1]
- Expect to bid in excess of $400 million in the US this year
- Now a leading advisor to the US Government following the transformational acquisition of ERG
- Excellent growth is already being delivered in the US
- Major contract wins with DOE ($9.8 million) and Patent and Trademark Office ($6.6 million)
- UK market conditions remain tough

[1] Forward order book includes signed contracts where the related revenue is likely to be spread over a number of years plus a conservative estimate of future revenue under framework agreements.

Half-Year Management Report

DELIVERY ON STRATEGY

AEA is now a new Company. Over the last two years, the Company has been transformed into one of the World's leading advisors to governments on climate change, energy and sustainability.

The acquisition of Project Performance Corporation (PPC) in 2008 and the recent acquisition of Eastern Research Group (ERG) means that AEA now has the foundations it needs to deliver strong growth. In the near term this is expected to come principally from the US. The Group is grateful for the strong support of its shareholders and management is determined to repay their confidence.

A good start has been made. The decision to be more aggressive with our bidding is starting to pay dividends and as a result our US revenue rose by 28% in the first half. Going forward we will continue to focus on building the order book and expect revenue and profit to rise strongly in future years as a result. Key orders in the period were with the Department of Energy $9.8 million, Patent and Trademark Office $6.6 million and the Department of Justice $6.2 million. The outlook for our US business is encouraging and good growth in orders, revenue and profit is expected in the second half.

The transformational acquisition of ERG, a key contractor for the EPA and other US Federal agencies, will open up further, larger opportunities in the US. ERG will add significant expertise to the Group, which can now provide the full spectrum of technical services across energy, natural resources and water to existing and new clients. These capabilities are supported by strong IT and data services. ERG also has a strong order book with over $90 million of new contracts in the last few months. The Group's forward order book now stands at around $600 million. Following this acquisition the Group now derives the majority of its revenue from the US market for the first time in its history.

In Europe, the market has remained difficult with the UK Government progressively reigning in public spending – a dynamic re-emphasised by the government's spending review in October 2010. Management took action earlier in the year to ensure costs were appropriately aligned with market conditions. However, if this environment persists, then inevitably there will be an impact on the Group's performance. Whilst much of AEA's work is underpinned by evolving regulation the Group remains very cautious about the UK Government sector in the short to medium term. The Group is also able to mitigate some of these market impacts by redeploying UK people to work on US projects.

AEA is now in a strong position to move forward. The scale of opportunity in the US is exciting and the Group expects to be able to deliver good growth in future years.

FINANCIAL POSITION

AEA anticipated that the first six months of the year would be a period of transition. Management took action in Europe in particular to reduce costs but inevitably because of the curtailment of UK Government expenditure, performance was impacted. In Europe the orders fell by 53% and whilst there have been some delays in the US, performance is now back on track.

Group revenue was down marginally to £50.6 million (2009: £51.0 million). In Europe revenue decreased by 16% as a result of the tough market conditions. The full effects of the slowdown in Europe were substantially outweighed by a 28% increase in revenue in the US in 2010 to £22.6 million (2009: £17.6 million), with a strong performance in US Federal Government, particularly in energy, environment and climate change.

Adjusted operating profit decreased by 50% to £2.1 million in the first half of 2010 (2009: £4.2 million). The main reasons behind this fall were increased bidding costs in the US and the significant reduction in revenue in Europe. The Group anticipated the slowdown in European orders at the outset of the year and took action to reduce overhead expenditure in Europe, mainly through rightsizing the European business. The operating loss of £6.7 million compares to an operating profit of £3.2 million in 2009. The additional reasons for this included charging £0.6 million (2009: £0.6 million) of amortisation of acquired intangibles and £2.4 million (2009: £0.6 million) of integration and restructuring costs. Finally there were Group reorganisation and acquisition costs of £5.8 million (2009: £nil) as a result of the ERG transaction. In 2009 there was a net pension credit from the Scheme closure of £0.2 million compared to £nil in 2010.

Overall total net finance costs have decreased by £0.8 million. Net bank interest payable increased to £0.8 million (2009: £0.4 million) due to increases in average interest rates over the period and higher levels of average debt. Net finance costs were positively impacted by a £1.4 million decrease in the non-cash net pension charge to £1.1 million

(2009: £2.5 million), which results from a £3.0 million increase in the expected return on defined benefit pension scheme assets.

There was a loss before tax of £8.8 million in the first half of the year (2009: profit £0.2 million). The adjusted profit before tax was £1.1 million (2009: £3.7 million). The detailed calculations reconciling these two measures are set out in the table under the Consolidated income statement.

Overall the Group had a tax charge of £0.2 million for the first half of the year (2009: £0.1 million).

The adjusted earnings per share figure is 0.3 pence (2009: 1.5 pence). Basic earnings per share reduced to a loss of 3.9 pence (2009: nil pence) per share. The detailed calculations are set out in note 10.

Net debt and cash flow
The Group has continued to make good progress in strengthening cash from business operations. In the first six months despite the drop in revenue in Europe, Group cash generated from business operations rose to £2.3 million (2009: £0.6 million outflow). The turnaround has been achieved by rigorous management of working capital. Going forward the Group sees further opportunities for improvement in working capital and in particular in the US. Cash used in operations improved by £0.3 million from the first half of 2009.

Payments relating to integration and restructuring costs were £2.4 million (2009: £0.6 million), payments for acquisition and Group reorganisation costs were £0.2 million (2009: £nil), payments to settle legacy issues were £2.5 million (2009: £1.4 million) and payments to reduce the pension deficit were £0.6 million (2009: £1.1 million).

Net debt increased from £26.2 million at 31 March 2010 to £31.7 million, an increase of £5.5 million. The overall movement in net debt is shown in the table under the Consolidated statement of cash flows.

Legacy provisions
The Group's legacy provisions in the first half of the year have been utilised as cash outflow of £2.5 million and amounts invoiced of £0.6 million and, as a result, have reduced to £5.9 million at 30 September 2010 (31 March 2010: £9.0 million).

Pensions
The net balance sheet liability for retirement benefits has increased to £161.8 million (31 March 2010: £139.8 million, 30 September 2009: £137.6 million). This increase has mainly occurred as a result of changes to the financial assumptions used in calculating the present value of the funded obligation. In particular, the gap between the discount rate and the inflation assumption has reduced since 31 March 2010 (the discount rate has fallen from 5.6% to 5.0% while the inflation assumption has fallen from 3.6% to 3.1%). The detailed disclosures are set out in note 7.

The UK Government announced its intention in June and July 2010 to change the measure of inflation for the purposes of statutory minimum rates at which pensions must increase for both public and private sector defined benefit schemes. This change will reference the consumer prices index as the measure of inflation rather than the retail prices index as is currently the case. If the change in index had been effective as at 30 September 2010, the Actuary estimates that there would be a 2% reduction in the Scheme liabilities as at that date.

PRINCIPAL RISKS

The mitigation of risk is a key part of the management of AEA. The Group has a well established risk management process that complies with the United Kingdom's Financial Services Authority'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 keeps under review the potential effect of economic circumstances and the changing profile of the principal risks, including the effect of ERG being within the Group from 9 November 2010 and ensures the appropriate management of risk. The principal risks and uncertainties faced by the Group for the period to 30 September 2010, excluding the impact of the acquisition, are as follows:

- achieving organic growth;
- changes in the competitive environment resulting from government policy;
- recruitment and retention of sufficient high calibre people;
- retirement benefits;
- legacy provisions;
- exchange risk; and
- preparedness for climate change.

These have not changed significantly since the publication of the AEA Technology plc 2010 Annual Financial Report and are described in detail on pages 12 and 13 of that document.

RELATED PARTY TRANSACTIONS

There have been no related party transactions that have had a material effect on the financial position or performance of the Group in the first half of the financial year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors listed below (being all the Directors of AEA Technology Group plc) confirm that, to the best of their knowledge, this set of consolidated financial statements has been prepared in accordance with International Accounting Standard 34 as adopted by the European Union, and that the Half-Year Management Report herein includes a fair review of the information required by the Disclosure and Transparency Rules DTR 4.2.7 and DTR 4.2.8 of the United Kingdom Financial Services Authority.

Neither AEA Technology Group plc nor the Directors accept any liability to any person in relation to the Half-Year Financial Report except to the extent that such liability could arise under English law. Accordingly any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A and Schedule 10A of the Financial Services and Markets Act 2000.

On behalf of the Directors

Dr Paul Golby	Chairman, Chairman of Nomination Committee
Andrew McCree	CEO
Alice Cummings	CFO
Mike Nigro	COO and President of US Operations
Gwen Ventris	COO Europe
Rodney Westhead	Chairman of Audit Committee, Chairman of Remuneration Committee, Senior Independent Director

OUTLOOK

The Group is now positioned as a leading technical advisor to the UK and US Governments and expects to be able to deliver strong growth in orders, revenue and profit particularly in the US. The two acquisitions provide a very strong base from which we can also leverage our experience in Europe, which for many years has been at the forefront on solving challenges in energy, sustainability and climate change around the World. In the UK in the short term, the Group expects market conditions to remain challenging. Management will continue to take action to mitigate these impacts, while ensuring it capitalises on opportunities that do exist in an evolving situation.

By order of the Board

Andrew McCree	**Alice Cummings**
CEO	CFO
25 November 2010	

Financial statements

Consolidated income statement

	Notes	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Revenue from continuing operations	4	**50.6**	51.0	113.2
Cost of sales		**(32.5)**	(31.8)	(71.5)
Gross profit		**18.1**	19.2	41.7
Other operating income		**1.1**	2.3	4.3
Selling and marketing costs		**(3.7)**	(3.7)	(8.1)
Administrative expenses		**(22.2)**	(14.6)	(27.5)
Operating (loss)/profit	4	**(6.7)**	3.2	10.4
Investment income		**0.1**	-	-
Finance income	8	**10.5**	7.6	14.9
Finance costs	9	**(12.7)**	(10.6)	(21.8)
(Loss)/profit before tax		**(8.8)**	0.2	3.5
Income tax		**(0.2)**	(0.1)	(0.2)
(Loss)/profit for the period attributable to the owners of the parent		**(9.0)**	0.1	3.3
(Loss)/earnings per share for (loss)/profit attributable to the owners of the parent during the period				
Basic (pence)	10	**(3.9)p**	-	1.4p
Diluted (pence)	10	**(3.9)p**	-	1.4p

Consolidated income statement – alternative performance measures (note 3)

Adjusted operating profit	Notes	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Operating (loss)/profit	4	**(6.7)**	3.2	10.4
Amortisation of acquired intangibles		**0.6**	0.6	1.2
Integration and restructuring costs		**2.4**	0.6	1.0
Acquisition and Group reorganisation costs	13	**5.8**	-	-
Net pension credit from Scheme closure	7	**-**	(0.2)	(0.2)
Adjusted operating profit	4	**2.1**	4.2	12.4

Adjusted profit before tax	Notes	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
(Loss)/profit before tax		**(8.8)**	0.2	3.5
Amortisation of acquired intangibles		**0.6**	0.6	1.2
Integration and restructuring costs		**2.4**	0.6	1.0
Acquisition and Group reorganisation costs	13	**5.8**	-	-
Net pension credit from Scheme closure	7	**-**	(0.2)	(0.2)
Net pension finance cost		**1.1**	2.5	5.5
Adjusted profit before tax		**1.1**	3.7	11.0

These supplementary disclosures do not form part of the Consolidated income statement and these tables are not included in the notes to the financial statements.

Consolidated statement of comprehensive income

	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
(Loss)/profit for the period attributable to the owners of the parent	**(9.0)**	0.1	3.3
Other comprehensive expense - net of tax:			
Currency translation differences	**(0.8)**	(1.1)	(0.8)
Actuarial losses on defined benefit pension schemes	**(21.7)**	(29.0)	(28.6)
Other comprehensive expense for the period - net of tax	**(22.5)**	(30.1)	(29.4)
Total comprehensive expense for the period entirely attributable to the owners of the parent	**(31.5)**	(30.0)	(26.1)

Consolidated balance sheet

	Notes	**(Unaudited) At 30 September 2010 £m**	(Unaudited) At 30 September 2009 £m	(Audited) At 31 March 2010 £m
ASSETS				
Non-current assets				
Goodwill		**31.5**	31.0	32.7
Other intangible assets		**3.8**	4.6	4.6
Property, plant and equipment		**4.5**	3.5	3.8
Deferred income tax assets		**5.5**	6.1	5.9
		45.3	45.2	47.0
Current assets				
Contract work in progress		**0.1**	0.4	0.2
Trade and other receivables		**22.3**	24.8	25.7
Derivative financial instruments		**-**	1.1	-
Current income tax assets		**0.6**	-	0.1
Available for sale investment		**2.0**	2.0	2.0
Cash and cash equivalents		**3.5**	2.3	6.0
		28.5	30.6	34.0
Total assets		**73.8**	75.8	81.0
EQUITY				
Capital and reserves attributable to owners of the parent				
Share capital and premium	6	**95.3**	95.3	95.3
Capital redemption reserve		**0.7**	0.7	0.7
Currency translation reserve		**1.0**	1.5	1.8
Fair value and other reserves		**(68.1)**	(47.2)	(46.6)
Retained deficit		**(190.4)**	(184.6)	(181.4)
Total equity		**(161.5)**	(134.3)	(130.2)
LIABILITIES				
Non-current liabilities				
Trade and other payables		**2.4**	2.5	2.5
Borrowings		**32.8**	32.2	29.8
Retirement benefit obligations	7	**161.8**	137.6	139.8
Provisions for liabilities and charges		**2.8**	10.7	2.7
Deferred income tax liabilities		**1.3**	1.7	1.6
		201.1	184.7	176.4
Current liabilities				
Trade and other payables		**27.2**	23.1	25.1
Borrowings		**2.4**	2.1	2.4
Derivative financial instruments		**0.4**	0.1	0.1
Provisions for liabilities and charges		**4.1**	-	7.1
Current income tax liabilities		**0.1**	0.1	0.1
		34.2	25.4	34.8
Total liabilities		**235.3**	210.1	211.2
Total equity and liabilities		**73.8**	75.8	81.0

On 25 November 2010 the Board of Directors approved the financial statements and authorised them for issue. The notes are an integral part of these financial statements.

Signed on behalf of the Board of Directors:

Andrew McCree
CEO

Alice Cummings
CFO

AEA Technology Group plc Registered in Jersey: 106514

Consolidated statement of changes in equity

	Attributable to the owners of the parent						
	Share capital (note 6) £m	**Share premium (note 6) £m**	**Fair value and other reserves £m**	**Capital redemption reserve £m**	**Currency translation reserve £m**	**Retained deficit £m**	**Total Shareholders' equity £m**
Balance as at 1 April 2009	27.9	67.4	(18.3)	0.7	2.6	(184.7)	(104.4)
Profit for the period	-	-	-	-	-	0.1	0.1
Currency translation differences	-	-	-	-	(1.1)	-	(1.1)
Actuarial losses on defined benefit pension schemes	-	-	(29.0)	-	-	-	(29.0)
Total comprehensive (expense)/income for the period ended 30 September 2009	-	-	(29.0)	-	(1.1)	0.1	(30.0)
Fair value of share option schemes	-	-	0.1	-	-	-	0.1
Balance as at 30 September 2009	27.9	67.4	(47.2)	0.7	1.5	(184.6)	(134.3)
Profit for the period	-	-	-	-	-	3.2	3.2
Currency translation differences	-	-	-	-	0.3	-	0.3
Actuarial gains on defined benefit pension schemes	-	-	0.4	-	-	-	0.4
Total comprehensive income for the period ended 31 March 2010	-	-	0.4	-	0.3	3.2	3.9
Fair value of share option schemes	-	-	0.2	-	-	-	0.2
Balance as at 31 March 2010	27.9	67.4	(46.6)	0.7	1.8	(181.4)	(130.2)
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(9.0)**	**(9.0)**
Currency translation differences	**-**	**-**	**-**	**-**	**(0.8)**	**-**	**(0.8)**
Actuarial losses on defined benefit pension schemes	**-**	**-**	**(21.7)**	**-**	**-**	**-**	**(21.7)**
Total comprehensive expense for the period ended 30 September 2010	**-**	**-**	**(21.7)**	**-**	**(0.8)**	**(9.0)**	**(31.5)**
Fair value of share option schemes	**-**	**-**	**0.2**	**-**	**-**	**-**	**0.2**
Balance as at 30 September 2010	**27.9**	**67.4**	**(68.1)**	**0.7**	**1.0**	**(190.4)**	**(161.5)**

Consolidated statement of cash flows

	Notes	**(Unaudited) Six months ended 30 September 2010 £m**	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Cash flows (used in)/generated from operating activities				
Cash (used in)/generated from operations	11	**(3.4)**	(3.7)	6.0
Interest paid		**(0.7)**	(0.4)	(1.7)
Tax paid		**(0.5)**	-	(0.1)
Net cash (used in)/generated from operating activities		**(4.6)**	(4.1)	4.2
Cash flows from/(used in) investing activities				
Dividends received from available for sale investment		**0.1**	-	-
Deferred payment on prior year acquisition of subsidiary		**-**	-	(0.9)
Expenditure on product development costs		**-**	-	(0.4)
Purchases of property, plant and equipment		**(1.4)**	(0.3)	(0.6)
Net cash used in investing activities		**(1.3)**	(0.3)	(1.9)
Cash flows (used in)/from financing activities				
Repayment of borrowings		**(4.3)**	(2.5)	(7.4)
Draw-down of bank facilities		**8.0**	9.5	11.4
Capital element of finance lease repayments		**(0.2)**	-	(0.5)
Settlement of forward contracts		**-**	(2.5)	(2.2)
Net cash generated from financing activities		**3.5**	4.5	1.3
Net (decrease)/increase in cash and cash equivalents		**(2.4)**	0.1	3.6
Cash and cash equivalents at beginning of period		**6.0**	3.0	3.0
Exchange losses on cash and cash equivalents		**(0.1)**	(0.8)	(0.6)
Cash and cash equivalents at end of period		**3.5**	2.3	6.0

Consolidated statement of cash flows – alternative performance measures (note 3)

Movement in net debt for the period ended	**(Unaudited) Six months ended 30 September 2010 £m**	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Net cash flow generated from/(used in) business operations	**2.3**	(0.6)	10.2
Integration and restructuring costs	**(2.4)**	(0.6)	(1.0)
Acquisition and Group reorganisation costs	**(0.2)**	-	-
Legacy cash flows	**(2.5)**	(1.4)	(2.1)
Funding of pension deficit	**(0.6)**	(1.1)	(1.1)
Cash (used in)/generated from operations	**(3.4)**	(3.7)	6.0
Net interest and tax paid	**(1.2)**	(0.4)	(1.1)
Net cash used in investing activities	**(1.3)**	(0.3)	(1.9)
Settlement of forward contracts	**-**	(2.5)	(2.2)
Non-cash financing – facility fees	**(0.1)**	-	(0.3)
Non-cash financing – finance leases	**(0.2)**	-	(0.5)
Exchange gains on net debt	**0.7**	2.2	1.1
Net (increase)/decrease in net debt	**(5.5)**	(4.7)	1.1
Net debt at beginning of period	**(26.2)**	(27.3)	(27.3)
Net debt at end of period	**(31.7)**	(32.0)	(26.2)
Closing net debt comprises:			
Cash at bank and in hand	**3.5**	2.3	6.0
Current borrowings	**(2.4)**	(2.1)	(2.4)
Non-current borrowings	**(32.8)**	(32.2)	(29.8)
Net debt at end of period	**(31.7)**	(32.0)	(26.2)

These supplementary disclosures do not form part of the Consolidated 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 Group plc ('the Company') and its subsidiaries ('the Group') is one of the World's leading energy and climate change consultancies. The Group employs 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 Company is a public limited company, incorporated and domiciled in Jersey. The address of the registered office is 22 Grenville Street, St Helier, Jersey, JE4 8PX. The Company is listed on the London Stock Exchange.

These financial statements are presented in pounds sterling, which is the functional currency of the Company, being the currency of the primary economic environment in which AEA Technology plc operated. Foreign operations are included in accordance with the policies described in the annual financial statements of AEA Technology plc for the year ended 31 March 2010.

On 25 November 2010 the consolidated Half-Year Financial Report was authorised for issue by the Board of Directors.

These half-year results do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for AEA Technology plc for the year ended 31 March 2010 were approved by the Board of Directors on 23 June 2010 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an 'emphasis of matter' paragraph and did not contain any statement under section 498 of the Companies Act 2006.

2 BASIS OF PREPARATION

The consolidated financial information for the half-year ended 30 September 2010 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The Half-Year Financial Report should be read in conjunction with the Annual Financial Report of AEA Technology plc for the year ended 31 March 2010, which were prepared in accordance with IFRSs as adopted by the European Union.

AEA Technology Group plc was incorporated under the Companies (Jersey) Law 1991 on the 17 September 2010. On 5 November 2010 AEA Technology Group plc became the ultimate holding company of the Group, pursuant to a 'Scheme of Arrangement' under section 899 of the UK Companies Act 2006, approved by the High Court of Justice in England and Wales and approved by the shareholders of AEA Technology plc, the parent company ('the parent') prior to the Scheme of Arrangement becoming effective (see note 13).

3 ACCOUNTING POLICIES

Except as described below the accounting policies are consistent with those of the Annual Financial Report of AEA Technology plc for the year ended 31 March 2010, as described in pages 37 to 44 of the Annual Financial Report of AEA Technology plc.

The following new standard is mandatory for the first time for the financial year ending 31 March 2011:

- 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. The main changes affect acquisitions achieved in stages and those where less than 100% of the equity is acquired. Additionally, all consideration must now be recorded at fair value as at the date of acquisition, including any contingent consideration. Contingent payments classified as debt are subsequently re-measured through the income statement. Transaction costs should be recognised in the income statement as incurred and may no longer be included as part of the acquisition cost. Purchase accounting must be completed within one year of the acquisition date with no adjustments to goodwill to be made after one year of the acquisition date.

The following new standards, amendments to existing standards or interpretations are mandatory for the first time for the financial year ending 31 March 2011, but either have no significant impact or are not currently relevant for the Group:

- IFRS 2 amendment, 'Share-based payment – Group cash-settled share-based payment transactions', effective for annual periods beginning on or after 1 January 2010;
- IAS 32 amendment, 'Financial instruments: Presentation and classification of rights issues', effective for annual periods beginning on or after 1 February 2010;
- IAS 39 amendment, 'Eligible hedged items', effective for annual periods beginning on or after 1 July 2009;
- 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
- Annual improvements to IFRSs (2009), effective for annual periods beginning on or after 1 January 2010.

The following new standards, amendments to existing standards or interpretations have been issued, but are not effective for the financial year ending 31 March 2011 and have not been adopted early:

- 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;
- IFRIC 14 amendment, 'Prepayments of a minimum funding requirement', effective for annual periods beginning on or after 1 January 2011;
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective for annual periods beginning on or after 1 July 2010; and
- Annual improvements to IFRSs (2010), effective for annual periods beginning on or after 1 January 2011, subject to EU endorsement.

Alternative financial 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 Half-Year 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 the amortisation of acquired intangibles and certain significant items, which include the cost of integration and the restructuring of the Group. Significant items in 2010 include the costs of the acquisition of Eastern Research Group Inc, the rightsizing of the Group's headcount and the Group reorganisation (see note 13). The (loss)/profit before tax is also adjusted in the same way with the additional adjustment to exclude the net pension finance cost. A reconciliation of the (loss)/profit before tax to adjusted profit before tax is shown beneath the Consolidated income statement.

b) Movement in net debt
Beneath the Consolidated 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 10, is calculated by dividing the adjusted earnings attributable to the owners of the parent by the weighted average number of ordinary shares in issue during the year.

d) Net cash flow generated from/(used in) business operations
Beneath the Consolidated statement of cash flows the cash (used in)/generated from operations is split into its component parts, representing net cash flow generated from/(used in) business operations; integration and restructuring costs; acquisition and Group reorganisation costs; legacy cash flows and the funding of the pension deficit.

4 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 segment profit or loss used by the chief operating decision maker (CODM) to assess the performance of the segments is adjusted operating profit. This measurement 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 and are therefore consistent with the amounts presented in the financial statements. Any revenue arising between segments is carried out at arm's length.

The revenue and adjusted operating profit generated by each of the Group's segments are summarised as follows:

	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Europe	**28.0**	33.4	73.6
US	**22.6**	17.6	39.6
Total revenue	**50.6**	51.0	113.2
Europe	**0.1**	2.2	8.3
US	**2.0**	2.0	4.1
Total adjusted operating profit	**2.1**	4.2	12.4

The reconciliation of adjusted operating profit for reportable segments to the (loss)/profit before tax is as follows:

	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Adjusted operating profit for reportable segments	**2.1**	4.2	12.4
Amortisation of acquired intangibles	**(0.6)**	(0.6)	(1.2)
Integration and restructuring costs	**(2.4)**	(0.6)	(1.0)
Acquisition and Group reorganisation costs (note 13)	**(5.8)**	-	-
Net pension credit from Scheme closure	**-**	0.2	0.2
Operating (loss)/profit	**(6.7)**	3.2	10.4
Investment income	**0.1**	-	-
Finance income	**10.5**	7.6	14.9
Finance costs	**(12.7)**	(10.6)	(21.8)
(Loss)/profit before tax	**(8.8)**	0.2	3.5

5 SEASONALITY

European revenues are subject to seasonal fluctuations, with the peak demand in the fourth quarter of the financial year. This reflects the pattern of purchasing/procurement by the UK Government, Europe's most significant customer. US revenues are not subject to seasonal fluctuations.

6 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares (million)	Nominal value of ordinary shares £m	Share premium £m	Total share capital and premium £m
At 1 April 2009, 30 September 2009 and 31 March 2010	228.7	27.9	67.4	95.3
Shares issued	**0.1**	**-**	**-**	**-**
At 30 September 2010	**228.8**	**27.9**	**67.4**	**95.3**

The total authorised number of ordinary shares as at 30 September 2010 for AEA Technology plc was 315,000,000 shares (31 March 2010 and 30 September 2009: 315,000,000 shares) with a par value of 12.2 pence per share. All these issued shares were fully paid.

On 5 November 2010 AEA Technology Group plc became the ultimate holding company of the Group pursuant to a Scheme of Arrangement (see note 13).

Warrants

AEA Technology plc had no remaining warrants in issue as at 30 September 2010 (31 March 2010 and 30 September 2009: 5,633,252 warrants in issue) as 5,633,252 warrants expired on 8 July 2010.

Prior to the expiry date holders of the warrants could subscribe for one ordinary share in AEA Technology plc at a price of 65.0 pence per share. The fair value of these warrants as at 30 September 2009, was £nil calculated by reference to a closing market price of 28.0 pence per share and as at 31 March 2010, was £nil calculated by reference to a closing market price of 21.25 pence per share.

7 RETIREMENT BENEFIT OBLIGATIONS

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

	(Unaudited) At 30 September 2010 £m	(Unaudited) At 30 September 2009 £m	(Audited) At 31 March 2010 £m
Present value of funded obligations	**436.5**	394.8	416.4
Fair value of defined benefit pension scheme assets	**(278.7)**	(261.0)	(280.5)
Retirement benefit obligations of the Scheme	**157.8**	133.8	135.9
Present value of unfunded benefits	**4.0**	3.8	3.9
Retirement benefit obligations	**161.8**	137.6	139.8

The retirement benefit obligations have increased to £161.8 million since 31 March 2010 (31 March 2010: £139.8 million, 30 September 2009: £137.6 million). This increase has occurred as a result of changes to the financial assumptions used in calculating the present value of funded obligations and also a decrease in the market value of the pension scheme assets as at 30 September 2010. The asset reduction is mainly due to payments to pensioners in the first half of the year at a time of low cash contributions into the Scheme from AEA Technology plc.

At 30 September 2010 a discount rate of 5.0% (31 March 2010: 5.6%, 30 September 2009: 5.6%) was used to discount the gross liabilities of the Scheme to the present value. The movement in the discount rate is due to changes in corporate bond yields at the consolidated balance sheet date. The result of the movement is an increase in the present value of the obligations, although the effect has been partially compensated by a fall in the inflation assumption from 3.6% to 3.1%. There have been no other significant changes to the assumptions used and disclosed in note 28 of the 2010 Annual Financial Report of AEA Technology plc.

The UK Government announced its intention in June and July 2010 to change the measure of inflation for the purposes of statutory minimum rates at which pensions must increase for both public and private sector defined benefit schemes. This change will reference the consumer prices index as the measure of inflation rather than the retail prices index as is currently the case. If the change in index had been effective as at 30 September 2010, the Actuary estimates that there would be a 2% reduction in the Scheme liabilities as at that date.

The Scheme's past service funding deficit is expected to be cleared over approximately 19 years under a schedule of contributions agreed by AEA Technology plc and the Trustees in June 2009.

The amounts recognised in respect of pension benefits in the Consolidated income statement are as follows:

	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Past service credit	**-**	(0.7)	(0.7)
Curtailment loss	**-**	0.5	0.5
Net credit due to Scheme closure	**-**	(0.2)	(0.2)
Current service cost	**-**	0.4	0.4
Accretion of discount on defined benefit scheme obligations	**11.6**	10.0	20.4
Expected return on defined benefit pension scheme assets	**(10.5)**	(7.5)	(14.9)
Total expense in the Consolidated income statement	**1.1**	2.7	5.7

The past service credit and curtailment loss in prior periods arose from closing the funded defined benefit pension scheme to future accrual and amending the entitlements of certain members of the Scheme in 2009.

8 FINANCE INCOME

	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Interest income	**-**	0.1	-
Expected return on defined benefit pension scheme assets	**10.5**	7.5	14.9
Finance income	**10.5**	7.6	14.9

9 FINANCE COSTS

	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
Interest on bank overdrafts and loans	**0.8**	0.5	1.4
Fair value losses on financial instruments – interest rate swaps	**0.3**	0.1	-
Accretion of discount on defined benefit pension scheme obligations	**11.6**	10.0	20.4
Finance costs	**12.7**	10.6	21.8

10 EARNINGS PER SHARE

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

(a) Basic earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the period attributable to the owners of the parent by the weighted average number of ordinary shares in issue for the period.

	(Unaudited) Six months ended 30 September 2010	(Unaudited) Six months ended 30 September 2009	(Audited) Year ended 31 March 2010
(Loss)/profit for the period attributable to the owners of the parent (£ million)	**(9.0)**	0.1	3.3
Weighted average number of ordinary shares in issue (million)	**228.8**	228.7	228.7
Basic (loss)/earnings per share (pence)	**(3.9)p**	-	1.4p

(b) Diluted earnings per share

Diluted (loss)/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. AEA Technology plc had two categories of potential dilutive ordinary shares; share options and, in the year ended 31 March 2010, warrants. The calculation is performed for the share options and the warrants to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of AEA Technology plc'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 the 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.

	(Unaudited) Six months ended 30 September 2010	(Unaudited) Six months ended 30 September 2009	(Audited) Year ended 31 March 2010
(Loss)/profit for the period attributable to the owners of the parent (£ million)	**(9.0)**	0.1	3.3
Weighted average number of ordinary shares in issue (million)	**228.8**	228.7	228.7
Adjustment for share options and warrants (million)	**-**	2.7	3.8
Weighted average number of ordinary shares for diluted earnings per share (million)	**228.8**	231.4	232.5
Diluted (loss)/earnings per share (pence)	**(3.9)p**	-	1.4p

(c) Adjusted earnings per share – alternative performance measures (note 3)

The adjusted earnings per share is calculated as follows:

	(Unaudited) Six months ended 30 September 2010	(Unaudited) Six months ended 30 September 2009	(Audited) Year ended 31 March 2010
(Loss)/profit for the period attributable to the owners of the parent (£ million)	**(9.0)**	0.1	3.3
Amortisation of acquired intangibles (£ million)	**0.6**	0.6	1.2
Tax benefit of amortisation of acquired intangibles (£ million)	**(0.2)**	(0.2)	(0.4)
Integration and restructuring costs (£ million)	**2.4**	0.6	1.0
Acquisition and Group reorganisation costs (£ million)	**5.8**	-	-
Net pension credit from Scheme closure (£ million)	**-**	(0.2)	(0.2)
Net pension finance cost (£ million)	**1.1**	2.5	5.5
Adjusted earnings attributable to the owners of the parent (£ million)	**0.7**	3.4	10.4
Weighted average number of ordinary shares in issue (million)	**228.8**	228.7	228.7
Adjusted earnings per share (pence)	**0.3p**	1.5p	4.5p

11 CASH (USED IN)/GENERATED FROM OPERATIONS

	(Unaudited) Six months ended 30 September 2010 £m	(Unaudited) Six months ended 30 September 2009 £m	(Audited) Year ended 31 March 2010 £m
(Loss)/profit for the period	**(9.0)**	0.1	3.3
Adjustments for:			
tax	**0.2**	0.1	0.2
depreciation of property, plant and equipment	**0.7**	0.6	1.3
amortisation and impairment	**0.6**	0.6	1.3
share option charge	**0.2**	0.1	0.3
finance interest expense	**12.7**	10.6	21.8
finance interest income	**(10.5)**	(7.6)	(14.9)
dividends received from available for sale investment	**(0.1)**	-	-
other	**-**	0.5	0.3
Changes in working capital:			
work in progress	**0.1**	(0.1)	0.1
trade and other receivables	**3.4**	2.3	1.9
trade and other payables	**2.0**	(7.5)	(5.0)
Changes in retirement benefit liabilities	**(0.8)**	(2.1)	(2.5)
Changes in provisions for liabilities and charges	**(2.9)**	(1.3)	(2.1)
Cash flows (used in)/generated from operations	**(3.4)**	(3.7)	6.0

12 CONTINGENT LIABILITIES

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

13 POST BALANCE SHEET EVENTS

Group reorganisation
On 5 November 2010 AEA Technology Group plc became the ultimate holding company of the Group, pursuant to a 'Scheme of Arrangement' under section 899 of the UK Companies Act 2006, approved by the High Court of Justice in England and Wales and approved by the shareholders of AEA Technology plc. AEA Technology Group plc issued new ordinary shares, which were exchanged on a one-for-one basis by the existing shareholders for the ordinary shares of AEA Technology plc.

As a result of the Scheme of Arrangement, AEA Technology plc became a wholly owned subsidiary of AEA Technology Group plc. The new shares carry substantially the same rights as the old shares. The Scheme of Arrangement did not involve any cash payment for the existing shares of AEA Technology plc. Immediately after the Scheme of Arrangement became effective AEA Technology Group plc had the same Board of Directors, management and corporate governance arrangements as AEA Technology plc had prior to the Scheme of Arrangement. The consolidated assets and liabilities of the Group remained the same immediately before and after the Scheme of Arrangement became effective.

The costs attributable to the Scheme of Arrangement incurred up to 30 September 2010 have been charged to the Consolidated income statement but taken out of adjusted operating profit as a significant item.

Subsequent to the Scheme of Arrangement, AEA Technology Group plc successfully placed 1,111,581,000 new ordinary shares with a nominal value of 1.0 pence at a price of 5.0 pence per share raising £55.6 million before expenses. The net proceeds of the placing were used to fund the acquisition of Eastern Research Group Inc (ERG).

Business combinations
On 8 November 2010, the Group acquired 100% of the share capital of ERG. The purchase consideration of £53.5 million comprised cash of £47.8 million and consideration shares issued at a value of £5.7 million.

ERG is an environmental consulting firm with a very strong relationship with the US Federal Government. It brings complementary core expertise in the areas of environmental and energy consulting and adds significant capability in water. The acquisition advances AEA's strategy to leverage high level UK consultancy expertise in energy and climate change into the US Government and Federal markets.

Transaction costs incurred to 30 September 2010 of £5.8 million have been charged to the Consolidated income statement but taken out of adjusted operating profit as a significant item. The purchase price allocation, including the fair value calculation of acquired tangible and intangible assets, will be undertaken in the second half of the financial year when the information is available and full disclosure of the business combination will be made in the 2011 Annual Financial Report.

On 17 November 2010, following confirmation by the Jersey court, a reduction of capital became effective with all amounts in the Share premium account of AEA Technology Group plc being credited to distributable reserves.

Independent review report to AEA Technology Group plc

Introduction

We have been engaged by the Company to review the set of consolidated financial statements in the Half-Year Financial Report for the six months ended 30 September 2010, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and related notes. We have read the other information contained in the Half-Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the set of consolidated financial statements.

Directors' responsibilities

The Half-Year Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Year Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The set of consolidated financial statements included in this Half-Year Financial Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the set of consolidated financial statements in the Half-Year Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the set of consolidated financial statements in the Half-Year Financial Report for the six months ended 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
25 November 2010
Reading

Notes:

a) The maintenance and integrity of the AEA Technology Group plc website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.