

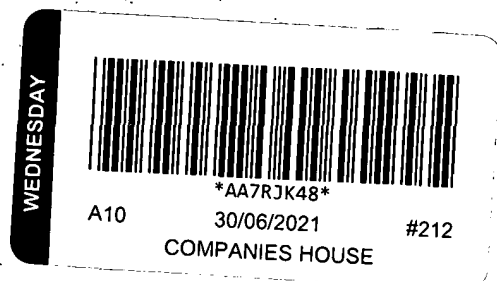
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**Company registration No. 02763902**

**AWE plc**

**Annual Report and Financial Statements**

**For the year ended 31 December 2020**



**AWE plc**

**REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2020**

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**AWE plc**

**REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2020**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

A J Atkinson  
G J Butler (appointed 27 January 2021)  
H Clulow  
I M Coucher (resigned 15 May 2020)  
P G Morton  
G P Nicholson  
J S Rottler (appointed 27 January 2021)  
I P Tyler (appointed 27 January 2021)

**COMPANY SECRETARY**

J D Smith

**BANKERS**

Lloyds Bank plc  
25 Gresham Street  
London  
EC2V 7HN

**REGISTERED OFFICE**

Room 20  
Building F161.2  
Atomic Weapons Establishment  
Aldermaston  
Reading  
Berkshire  
RG7 4PR

**COMPANY REGISTRATION NUMBER**

02763902

**AUDITOR**

Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading  
Berkshire  
RG1 1YE

## STRATEGIC REPORT

The directors present their annual report and their audited financial statements for the year ended 31 December 2020.

### Principal Activities

During the course of the year, the principal activities continued to be the management and operation of the Atomic Weapons Establishment (AWE) comprising a number of sites including Aldermaston and Burghfield on behalf of its parent company AWE Management Limited (AWE ML). AWE ML currently holds a contract, the Management & Operation Contract (M&O) with the Ministry of Defence (MOD), but this is due to be terminated on 30 June 2021 and replaced by an arrangement directly between MOD and the Company. Please see the M&O Contract Termination section below. The Company also performs other commercial services which are related to services delivered for the fulfilment of its principal activities.

The assets of AWE remain in government ownership with AWE plc operating the assets of the MOD within the AWE ML contract arrangements.

AWE provides and maintains the warheads for the UK's nuclear deterrent. AWE covers the whole life cycle of nuclear warheads in a single establishment. This includes initial concept and design, through component manufacture and assembly, to in-service support and, finally, decommissioning and disposal.

### Performance

Revenue of £1,026.2m was higher than the prior year (2019: £971.1m) reflecting the higher level of activity during the current year from the M&O Contract.

Operating profit of £20.5m was higher than the prior year (2019: £17.7m), again mainly reflecting a higher level of activity during the year from the M&O Contract.

The average number of the Company's employees in the year has increased to 5,966 (2019: 5,535).

### M&O Contract Termination

On 2 November 2020 MOD served notice on AWE ML to terminate the existing 25-year contract awarded to AWE ML in 1999 with effect from 30 June 2021. Following termination, AWE ML will transfer its ordinary shares in the Company to MOD on that date and the Company will be wholly owned by MOD from that date, becoming a non-departmental public body (NDPB) operating at arms' length (ALB) from MOD. The Company will contract directly with MOD for work which is currently performed by the Company on behalf of AWE ML under the M&O contract. AWE ML, the MOD and AWE plc are jointly managing the termination of the contract, anticipated to be completed by 30 June 2021.

### COVID-19

The COVID-19 pandemic has continued to have an impact on AWE with key considerations being as follows:

- **Operational:** control and mitigation activities including preventative, resilience and containment measures continue to be in place. AWE has been able to continue to maintain safe and continuous operations with work appropriately prioritised; delivery in some areas has slowed/slipped and due consideration has been taken of the impact on the financial and commercial position.
- **Financial:** AWE has continued to receive timely payments from the MOD and has been able to meet its on-going financial commitments.
- **Commercial:** the pandemic was recognised as a 'force majeure' event and under the terms of the contract, it is not anticipated that the event will have an adverse financial or commercial impact and AWE will be 'no better or worse off' as a result of the pandemic.

The operational impacts of the pandemic have been considered in the key financial judgements, when assessing the likely outcome of performance against milestones, taking into account the status of customer negotiations on contract change orders.

The COVID-19 event had not been separately added to the current principal risks and uncertainties as set out in page 4 since it is considered the current principal operating or strategic risks as set out address the main implications of COVID-19.

The Company has assessed that the COVID-19 event does not adversely impact the Company's ability to continue as a going concern. Further details are set out in note 1 'Going concern' on page 15.

### Corporate Governance Statement

AWE plc does not follow a recognised external corporate governance code, but it is compliant with all regulatory requirements; instead it operates its own mature governance structure which is designed to serve its unique role in the maintenance of the UK's strategic deterrent and the close working relationship which it has with its principal end-customer, the UK's Ministry of Defence (MOD), and its external regulators.

The principal components of AWE plc's corporate governance are as follows:

- **Business purpose and strategy:** AWE plc's principal purpose is clear; through its stewardship of the UK's nuclear warheads and provision of related services, it supports the defence and security of the United Kingdom, as required by MOD and other, principally UK government, customers. It has been operating the strategy adopted in 2016 to be Future Warhead Ready (to be able to meet demand for a successor to the current warhead system, if this is adopted as government policy), to be Trusted and Respected (through its expertise and performance), and to be Adding Value (through focusing on delivering value for money), all underpinned by placing safety at the heart of all that it does. This strategy is executed through the Company's four values of Pride, Excellence, Innovation and Trust which are reinforced throughout the Company including at the core of its employee recognition programme.
- **Leadership:** The Company's statutory board of directors has historically devolved management of the Company to its executive committee, which includes all of the executive members of its statutory board and other executives who between them lead all of the Company's functions. This structure has evolved since the period to which this report relates so that the statutory board now includes non-executive members and provides challenge to and oversight of the executive.
- **Accountability and governance structure:** The Company operates a comprehensive management system as required under the terms of its nuclear site licences. A statement of its management arrangements sets out the areas of accountability of its executive. Decisions are made under the terms of a structured delegation of authority which implements the requirements of the Company's shareholders and its contractual commitments, and through a series of executive and other governance bodies each directly or indirectly appointed by the executive committee, with specific focus areas. These bodies use extensive reporting data including the Company's key safety, risk, financial and production performance levels. As the majority of the Company's activity relates to one contract held by its parent company AWE ML with MOD, there is significant additional review of this contract with both parties, as well as review with external regulators (principally, the Office for Nuclear Regulation).
- **Risk management:** The Company operates a sophisticated risk management process through tiers of monthly risk boards for each business area and discussed in detail both at an executive level and with MOD. This process facilitates investment decisions against a robustly applied risk appetite. The process and key risks are also discussed with the board of the Company's principal shareholder, AWE ML, in its audit committee and board meetings.

## STRATEGIC REPORT (CONTINUED)

### Corporate Governance Statement (continued)

- **People:** The Company has arrangements with the trades unions Unite and Prospect which, among other things, embody collective bargaining agreements for pay covering much of the workforce. Pay principles for other employees are determined through the Company's executive fora; executive pay (including performance-related components) is determined by the remuneration committee of AWE ML.
- **Stakeholders:** The Company's stakeholders include its parent Company; its customers; suppliers; employees; regulators; and local communities. It has structures in place to ensure that it has open communications and dialogue with each group. Engagement with its parent Company takes place through executive participation in and reporting to that Company's monthly board meetings and other forums; customer relationships are handled through contractually-provided governance structures and other frequent engagement; regular fora are held to facilitate discussion with key suppliers. The Company has formal structures in place for employee engagement, including through its trades union arrangements and independent employee representatives (Employee Voice), business briefings both in person and through its intranet; and less formal means including regular walk-throughs of operational areas conducted by executive and senior management. Relationships with regulators are supported by frequent meetings and are intrinsic to the way in which regulatory oversight of AWE's activities is carried out.

### s172(1) Statement

This is the section 172(1) statement of AWE plc, made pursuant to the Companies Act s414CZA. It sets out the way in which the directors of AWE plc have had regard to the matters set out in s172(1)(a) to (f) of that Act.

The board of directors of AWE plc retains overall challenge to and oversight of the activity of the Company; it has delegated operational management and decision-making of the Company to its executive committee, which includes all of the executive members of its board and other executive leadership. In turn this committee manages the Company through a series of executive and other meetings which are focussed on specific aspects of the Company's operations. Decisions are made within the parameters of the Company's delegation of authority system and in accordance with terms of reference which prescribe their scope of authority as delegated by the executive committee. Consequently the directors exercise their obligations relating to s172 Companies Act through the aggregation of the board and these other meetings.

The main decisions which the board and committees of AWE plc have undertaken in the year relate to its performance, on behalf of its parent company AWE ML, of that Company's M&O contract with MOD, alongside the performance of the Company's other contracts with MOD and others.

In taking such decisions, the board and executive management of the Company take into account the s172(1) factors as follows:

- **Long term consequences:** The nature of AWE plc's principal activities often require planning ahead for years so that it is able to respond to the requirements of its principal customer. Shorter-term decisions are taken within the context of longer term plans which are developed and shared with MOD.
- **Employee interests:** The workforce of AWE plc is fundamental to its ability to discharge its role. In addition to the measures the Company takes to ensure its employees are engaged and that regular dialogue takes place with trades unions and other employee representatives, it convenes a monthly executive meeting whose exclusive focus is employment strategy and oversight.
- **Supplier, customer and other relationships:** The directors of the Company recognise that fulfilling its mission requires close liaison with MOD and its other customers, together with careful management of internal resources and best-in-class resources drawn from its supply chain, which includes strategic partners, specialist providers, small and medium enterprises as well as ultimate shareholder resources. Recognising that work for AWE plc can be of particular significance to the prosperity of some of its specialist providers, the Company takes into account the sustainability of support from its supply chain.
- **Community and environment:** AWE maintains a regular executive meeting with focus on the engagement between the Company and the wider community and environment. This meeting considers both the impact and potential impact of the Company's operations on the local community and environment, and the opportunities for employment and educational benefits. All decisions taken by the Company with regard to its estate consider not just its obligations to comply with environmental regulation, but also the opportunities to enhance local conditions for flora and fauna on its sites.
- **Reputation for high standards of business conduct:** AWE takes its corporate responsibility very seriously. As a Company whose operations are of significant national importance, AWE is conscious that its actions are open to scrutiny from the press and public at large as well as parliamentary and other formal forums, and takes its decisions in the light not just of their operational appropriateness, but also in the light of potential scrutiny and associated requirement to demonstrate the integrity and fairness of its decision-making and relationships with others.
- **Acting fairly as between members:** AWE plc's ordinary shares are held by a single shareholder, AWE ML; a special share is held on behalf of the MOD. Constitutional and contractual provisions are in place to ensure that the holder of the special share benefits from certain rights and protections, and AWE plc's decisions are taken in the light of these provisions. Following the termination of AWE ML's contract with MOD on 30 June 2021, all of the shares in the Company will be held by or on behalf of MOD, as described in the M&O Contract Termination section of this report.

### Employee and other stakeholder engagement

This is the statement of AWE plc, made pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 s11. It sets out the way in which the directors of AWE plc have engaged with the Company's employees, suppliers and customers.

AWE communicates with its employees in multiple ways. These include an annual series of business briefings for all employees, led by the Chief Executive Officer and other executive members; regular meetings with senior leaders; monthly briefings to leaders at all levels and regular notifications to line managers, each of which are then cascaded to other employees as appropriate; a blog written by the Chief Executive Officer available to all employees; a Company intranet; the issue of periodic physical and online magazines which include business information and other articles of interest; and engagement with employee representatives through surveys (including a detailed annual engagement survey), trades unions and a separate Employee Voice forum. Collectively these measures ensure that employees are made aware on a systematic basis of the issues which affect them and of the overall economic and financial background within which the employees operate; and provide opportunities for the Company's leadership to consult with employees through representatives and individually. The Company does not offer a share scheme or other profit-related remuneration for employees as a whole. The information which its survey and representative engagement provides is used by the Company in its decision-making as noted within the s172(1) statement elsewhere in this report.

The measures which the Company takes to have regard to the need to foster the Company's business relationships with its suppliers, customers and others, and the effect of that regard on its decisions, are set out in the s172(1) statement set out elsewhere in this report.

## STRATEGIC REPORT (CONTINUED)

### Principal Risks and Uncertainties

#### Risk Management Framework

AWE applies a structured risk methodology, which identifies threats in the business that have the potential to impact on the Company. Risk and Opportunity Management is embedded in the management processes and reported through the Executive Committee and statutory boards of the Company and AWE ML, monthly Business Performance Reviews and Risk and Opportunity Management Boards. Within the year all the principal risks and their mitigation plans have been reviewed and verified by the Business Risk and Opportunity Management Executive Board.

#### Risk Culture

As the licensee of two nuclear licensed sites, AWE has a 'Cautious Risk Culture' in its day-to-day operations. This is defined as a preference for delivery options that have a low degree of residual risk, applying innovation prudently where the risks are low and are fully understood. Near-term investment will be considered to deliver benefits where there is a high of benefits realisation certainty.

Both management and external stakeholders expect decisions regarding deliverables, current and new technologies and systems to be made carefully and with great attention to detail, risks and safety. The Company accepts some schedule risk on key projects, such as modernisation of the site.

#### Principal Strategic Risks

Following a review in 2020, the Group adopted a systemic, top-down approach to the identification of its principal strategic risks, using the source of risk events and not risk themselves as the starting point. Using this approach, AWE's activities were assessed through the perspective of the key resources which AWE requires in order to operate (e.g. availability of plant and facilities; of people and so on) and the consequences of challenges to the continuing availability of those resources. In addition, the effects of wider issues affecting AWE were considered.

The strategic risks are:

- Unavailability of key plant or facility caused by:
  - Fatality or serious injury (whether or not regulatory stop applied)
  - Breakdown of plant or facility
  - Lack of suitably qualified people
  - Regulatory prohibition on operation
- Mitigation activity:
  - Ensure working practices are fit for purpose and rigorously followed
  - Ensure maintenance schedules are adhered to, prioritised where appropriate
  - Ensure adequate recruitment, retention and training of sufficient people
  - Ensure regulatory confidence in AWE, deliver on safety and security commitments; manage operations safely and securely
- Inability to retain / attract people caused by:
  - Pay and conditions
  - Climate and culture
  - Development
- Mitigation activity:
  - Ensure pay and conditions are clearly communicated, fair and appropriate for the market
  - Ensure AWE is an employer where employees believe they can enjoy doing meaningful work
  - Ensure AWE continues to offer development and growth through training, job progression and secondment
- Impediment to use of site caused by:
  - Pandemic or natural disaster (fire, flood)
  - Withdrawal of site licence
  - Development around sites limiting operations
- Mitigation activity:
  - Maintain resilience strategies enabling work with minimal on-site presence
  - Ensure AWE has confidence of Office for Nuclear Regulation (ONR)
  - Maintain resilience strategies enabling work with minimal on-site presence or to work without access to technology
  - Close liaison with MOD and other stakeholders in relation to planning proposals
- Failure of critical supply chain partner caused by:
  - Suppliers may be unavailable through insolvency, excess demand over supply capacity, or a corporate decision / their government supply to nuclear weapons operations
- Mitigation activity:
  - Identify single points of failure in supply chain and identify contingency plans
- Insufficient finance to implement necessary capital projects, continue production caused by:
  - Inadequate cost management
  - DNO lacks sufficient funding
- Mitigation activity:
  - Maintain rigorous oversight of costs associated with capital programmes
  - Regular dialogue with DNO to ensure appropriate priorities given to capital projects, production and other activities
- Demand for AWE activity ceases caused by:
  - UK does not adopt Replacement Warhead (RW), or abandons Continuous At Sea Deterrent (CASD)
- Mitigation activity:
  - Support Defence Nuclear Organisation (DNO) / MOD in advocating case for RW, CASD and the programme
- Resource constraints in the wider enterprise caused by:
  - Shortage of suitably qualified, experience personnel with AWE's customer and/or regulators to provide timely oversight of and approval for key capital projects (especially given complexity of AWE programme and scarcity of resources in wider nuclear enterprise)
- Mitigation activity:
  - Maximise communication with regulators and customer to enable them to plan work as far as possible; explore opportunities for secondment of skilled personnel / joint training to build capability

The complete list of risks is not published for security reasons.

## STRATEGIC REPORT (CONTINUED)

### Environment

AWE Environment Policy commits to the following endeavours:

- Introducing sustainable development into all its processes and activities.
- Preventing or minimising pollution wherever practicable.
- Reducing the consumption of resources (material, fuel and energy).
- Minimising waste through a commitment to recovery and recycling where feasible.
- Ensuring that the amount of waste produced and accumulated on AWE sites is kept as low as reasonably practicable; with all waste produced as a result of AWE's activities appropriately contained, controlled, classified, recorded, and transferred to the appropriate waste handling, storage or disposal facility, as soon as is reasonably practicable.
- Minimising the holdings and use of hazardous materials, including radioactive materials and explosives.
- Actively managing the ecology and heritage of its sites.

AWE plc has an Executive Director, Environment, Safety, Health & Quality whose responsibilities include environmental matters. It also has an environmental management system which is central in delivering on AWE's commitment to protecting the environment. AWE holds ISO 14001 certification which is a worldwide recognised environmental management standard.

### Business Ethics

AWE is committed to being transparent in its transactions with its customers, stakeholders and suppliers. AWE insists on integrity, honesty and fairness in all aspects of its business and expects its employees and contractors to be just as diligent.

AWE has a zero tolerance approach to bribery and corruption and commits to acting professionally, fairly and with integrity in all its business dealings and relationships. AWE implements and enforces effective systems to counter bribery wherever it operates. AWE upholds all applicable laws relevant to countering bribery and corruption.

AWE has taken steps to ensure that modern slavery and human trafficking is not taking place within AWE's supply chain or any part of its business.

For further information on AWE business ethics policies please visit [www.awe.co.uk/responsible-business/our-values-and-ethics](http://www.awe.co.uk/responsible-business/our-values-and-ethics).

Approved by the Board and signed on its behalf by:



P G Morton  
Director  
18 June 2021

## DIRECTORS' REPORT

The directors who held office during the period were:

A J Atkinson	
G J Butler	(appointed 27 January 2021)
H Chulow	
I M Coucher	(resigned 15 May 2020)
P G Morton	
G P Nicholson	
J S Rottler	(appointed 27 January 2021)
I P Tyler	(appointed 27 January 2021)

The Company has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

### Dividends

No final dividend is recommended by the directors (2019: £nil). The interim dividend of £13.6m (2019: £13.7m) was declared on 25 June 2020 and paid on 26 June 2020.

### Future Developments

The Company will continue to focus on its principal activity, the management and operation of AWE and the performance of other commercial services, which are related to services delivered for the fulfilment of its principal activities. The M&O contract between AWE ML and MOD will be terminated with effect from 30 June 2021. The Company will become a wholly owned subsidiary of the MOD from that date and will no longer support AWE ML's performance of its contract with MOD. The Company will contract directly with MOD, under a new contract, for work which is currently performed by the Company on behalf of AWE ML under the existing M&O contract, which is expected to continue for a number of years. As a consequence, there is a strong basis that the Company to continue as a going concern.

### Financial Instruments

The Company has established a risk and financial management framework whose primary objectives are to protect the Company from events that hinder the achievement of the Company's performance objectives. The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge its obligation. The directors consider the credit risk to be low given that the principal customer is (including through its parent company) the UK Government. The liquidity and cash flow risk is also considered low as this is managed by the funding facilities available from the Company's shareholders and banking arrangements. It is not considered that there is any significant credit risk on the trade debtors held by the Group.

The Company uses forward currency contracts to hedge certain of its foreign currency cash flows.

### Research & Development

Research and development expenditure is principally carried out for the purposes of the performance of the M&O Contract with the MOD. Research and development expenditure is not capitalised as assets remain in government ownership.

### Pension Scheme

The Company operates both a defined benefit pension scheme and defined contribution scheme which have been accounted for under Financial Reporting Standard 102. The defined benefit scheme was closed to new entrants and future accrual for existing members, other than the members working at Coulport, on 31 January 2017. While the Company is required by the Pensions Regulator to ensure that the Scheme has a Funding Plan in place, the Company is not liable for any deficit and is not entitled to benefit directly or indirectly from any surplus in the AWE Pension Scheme at the expiry or early termination of the M&O Contract. The scheme deficit as at 31 December 2020 was £651m. This amount is also shown as an inter-company receivable in the balance sheet.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, its performance and position, financial risk management objectives, details of its financial instrument and derivative activities are described in the directors' report on page 6 and in the accounting policies on pages 15 to 17.

The Company is expected to continue to generate positive cash flows on its own account until 30 June 2021 under existing contractual customer arrangements. From 1 July 2021, the Company is expected to generate positive cash flows through a new contract between AWE plc and the MOD in line with the forecasts provided by the MOD. The Company currently participates, and will continue to do so until 30 June 2021, in the centralised treasury arrangements of AWE ML and so shares banking arrangements with its parent company. From 1 July 2021 new arrangements will be in place, separate from the current arrangements, whereby the Company will have stand-alone banking facilities and arrangements with its existing banking provider. These arrangements include the provision of sufficient funding secured from the MOD which will enable the Company to continue operating. Based on the new arrangements, the directors believe that the Company will continue to receive support from the MOD in carrying out its principal activities for a number of years, which is corroborated through funding forecasts received from the MOD which indicate this. The directors believe that the existence of the Company's nuclear site licence supports the continuation of the Company's principal activities, as the Non Departmental Public Body responsible for the future of the programme.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of AWE ML, and in light of the intention that the Company should contract directly with MOD for the work previously covered by the AWE ML M&O contract with MOD, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for at least the period through to 30 June 2022, which is the period in which the directors' assessment has been based on. Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In making this assessment the directors have given sufficient consideration to the current external social, political and economic environment. The implications of both COVID-19 and the implications of the UK exiting the European Union have both been considered in arriving at this conclusion. Neither events alter the directors' assessment of the Company's ability to continue as a going concern as set out above.

### French Branch

The Company has an overseas branch registered in Paris, France.



## DIRECTORS' REPORT (CONTINUED)

### Disabled Persons

In 2019 AWE achieved Disability Confident Employer Status, demonstrating our commitment to current and future employees with disabilities. Disability Confident is a government scheme designed to encourage employers to recruit and retain disabled people and those with health conditions. It has replaced the previous Two Ticks Positive About Disabled People scheme. It's voluntary and has been developed by employers and disabled people's representatives.

Individual circumstances regarding disability are taken into account and adjusted for throughout the recruitment process and we comply fully with the Equalities Act 2010 throughout the employee lifecycle including provision of training, learning and career development. With the increase in virtual learning over the last year or so, AWE are committed to ensuring online training material is fully accessible to all learners, regardless of whether they have a disability or not.

AWE has a Disability and Neurodiversity (N-able-D) workstream supporting the Diversity and Inclusion work of the organisation, sponsored by the Executive team. The team raise awareness of disabilities and how to support colleagues.

Should an employee acquire a disability during their employment at AWE, all efforts will be made to ensure reasonable adjustments for the individual circumstance are in place to enable the employee to continue employment with us.

### Auditors

Ernst & Young LLP was appointed as the Company's auditor by the board of directors effective from 20 December 2016 and this appointment remains current.

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board of directors at the time of approving the directors' report are listed on page 6. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- so far as they are each aware, there is no relevant audit information (that is, information needed by the Company's auditor in connection with the preparation of the annual report) of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to take to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:



P G Morton  
Director  
18 June 2021

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company 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 corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AWE plc

### Opinion

We have audited the financial statements of AWE plc for the year ended 31 December 2020 which comprise the Profit and Loss Account, the Balance Sheet, Statement of cash flows, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included assessing the sufficiency of the resources available to the company to continue operating and meet its liabilities as they fall due. This includes assessing the resources which will be made available to the company after the change in ownership from 1 July 2021. We have also considered the anticipated impact caused by the ongoing disruption cause by COVID-19 and the United Kingdom's exit from the European Union.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AWE plc (CONTINUED)

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud  
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 102 and the Companies Act 2006) and the relevant tax compliance and pensions regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations including health and safety, employees, data protection, and anti-bribery and corruption.
- We understood how AWE plc is complying with those legal and regulatory frameworks by making enquires of management, internal audit, and those responsible for legal and compliance procedures. We corroborated our enquires through our review of Board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how management monitors those programmes through entity level controls. We considered the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings and overstate revenue. Our procedures in response included performing a number of journal entry tests, with a focus on searching for and testing: manually processed journals, journals indicating large or unusual transactions, and journals posted by senior management.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved making enquiries of those responsible for legal and compliance matters, key finance personnel, the leaders of each operational pillar, and internal audit.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst & Young LLP*

Joc Yglesia (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Reading, UK  
18 June 2021

**AWE plc**

**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 2020**

	Notes	2020 £'000	2019 £'000
<b>TURNOVER</b>	2	1,026,188	971,075
Other operating income	9	24,739	15,337
Cost of sales		(1,030,393)	(968,416)
<b>GROSS PROFIT</b>		20,534	17,996
Administrative expenses	3	(8)	(315)
<b>OPERATING PROFIT</b>		20,526	17,681
Interest receivable and similar income	6	1	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		20,527	17,681
Tax on profit on ordinary activities	9	(2,868)	(4,038)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	16	17,659	13,643

The notes on pages 15 to 24 form part of these financial statements  
All results derive from continuing operations in both the current and prior year.

AWE plc

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2020**

	Notes	2020 £'000	2019 £'000
Profit for the financial year		17,659	13,643
Actuarial loss in relation to pension fund	19	(218,000)	(91,000)
Gain in value on pension undertaking in contract		218,000	91,000
<b>Total comprehensive income</b>		<b>17,659</b>	<b>13,643</b>

AWE plc

**BALANCE SHEET**  
At 31 December 2020

	Notes	2020 £'000	2019 £'000
<b>FIXED ASSETS</b>			
Investments	5	1	1
<b>CURRENT ASSETS</b>			
Debtors			
- due within one year	11	179,285	161,336
- due after more than one year	11	644,000	453,000
Cash at bank and in hand		6,065	2,751
		829,350	617,087
<b>CREDITORS: amounts falling due within one year</b>	12	(154,056)	(141,011)
<b>NET CURRENT ASSETS</b>		675,294	476,076
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		675,295	476,077
<b>PROVISIONS FOR LIABILITIES</b>	13	(13,586)	(9,384)
<b>NET ASSETS EXCLUDING PENSION LIABILITIES</b>		661,709	466,693
Defined benefit pension liability	19	(644,000)	(453,000)
<b>NET ASSETS INCLUDING PENSION LIABILITIES</b>		17,709	13,693
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	50	50
Profit and loss account	16	17,659	13,643
<b>SHAREHOLDERS' FUNDS</b>	17	17,709	13,693

Shareholders' funds include a £1 special share held by HM Government (see note 15).

The notes on pages 15 to 24 form part of these financial statements

The financial statements of AWE plc, registered number 02763902 were approved by the board of directors and authorised for issue.

Signed on behalf of the Board of Directors



P.G Morton  
Director  
18 June 2021

AWE plc

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2020**

	Called up share capital	Profit and loss account	Total Equity
	£'000	£'000	£'000
At 1 January 2020	50	13,643	13,693
Profit for the financial year	-	17,659	17,659
Dividends paid on equity shares	-	(13,643)	(13,643)
At 31 December 2020	50	17,659	17,709
Actuarial loss in relation to pension fund	-	(218,000)	(218,000)
Gain in value on pension undertaking in contract	-	218,000	218,000
At 31 December 2020	50	17,659	17,709



## NOTES TO THE ACCOUNTS

For the year ended 31 December 2020

### 1. ACCOUNTING POLICIES

The principal policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

#### General information and basis of accounting

AWE plc is a Company incorporated in England and Wales under the Companies Act. AWE plc is a public Company limited by shares. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on page 2.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of AWE plc is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

AWE plc meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemption available to it in relation to financial instruments, presentation of profit and loss statement, cash flow statement and remuneration of key management personnel.

#### Going concern

The directors continue to adopt the going concern basis in preparing the accounts, as, having considered the principal risks and uncertainties, the uncertainties in the current economic environment and the other specific circumstances regarding the change in ownership as detailed in the directors' report, they are satisfied that the Company has adequate resources to continue in operation for the foreseeable future, which the directors have defined in their assessment as being the period through to 30 June 2022.

In making this assessment the directors have given sufficient consideration to the current external social, political and economic environment, and the impact that may have on the operations and financial performance of the Company. The implications of both the UK exiting the European Union and COVID-19 have been considered in arriving at this conclusion. Neither event alters the directors' assessment of the Company's ability to continue as a going concern. The directors have also given due consideration to the current and future arrangements between the Company and the MOD, with specific regard to the intent and plans for the provision of financial resources to continue to enable the Company to continue deliver its principal activities being the management and operation of AWE and the performance of other commercial services which are related to services delivered for the fulfilment of its principal activities.

The M&O contract between AWE ML and MOD will be terminated with effect from 30 June 2021. The Company will become a wholly owned subsidiary of the MOD from that date and will no longer support AWE ML's performance of its contract with MOD. The Company will contract directly with the MOD, under a new contractual agreement, for the work which is currently performed by the Company on behalf of AWE ML under the existing M&O contract, and which is expected to continue for a number of years.

Based on the new arrangements, the directors believe that the Company will continue to receive support from the MOD in carrying out its principal activities for a number of years, which is corroborated through long-term funding forecasts received from the MOD. The directors believe that the existence of the Company's nuclear site licence supports the continuation of the Company's principal activities as the Non Departmental Public Body responsible for the future of the programme. As a consequence, the Director's have concluded that there is a strong basis for the Company to continue as a going concern.

The impact of exiting the European Union has been assessed and the implications on both direct and indirect service providers (e.g. employees and suppliers) on the Company have been considered. Minimal action was required as a result of the assessment performed, and the operations of the Group and Company will continue largely unaffected following the exit.

In relation to the COVID-19 pandemic the work carried out at AWE is considered critical to the UK Government and as a result certain tasks must be continued during the duration of the pandemic. The Company continues to work closely with MOD on prioritising activities to ensure the Company continues to focus on the highest priority areas while implementing measures to keep everyone safe during the COVID-19 crisis.

Details of the COVID-19 operational impacts are included in the strategic report on page 2, explaining the potential consequences and mitigations in relation to the event.

Scenario planning and impact analysis has been undertaken with regards to financial impacts, including revenue, profitability and liquidity implications; commercial impacts, including contractual considerations; and supply chain considerations, including monitoring of critical suppliers. Scenario modelling included a range that increased the forecast impact a further 100% on the actual impact estimated by the Company, which still did not give rise to liquidity issues. These alternative scenarios do not give any indication that the going concern assumption is not appropriate.

Subsequent to year-end, there has been no significant adverse impact on revenues, profitability or liquidity. As discussions continue between the MOD and AWE ML with regards to the termination of the M&O contract, the directors do not expect any impact to existing judgements which would cause adjusting post balance sheet events in AWE plc. There will be a continuation of the services under a new contract directly between AWE plc and the MOD, for the services which are currently provided under the M&O contract.

#### Group accounts

The Company is exempt from the obligations to prepare and deliver group accounts, and from giving certain disclosures about subsidiary undertakings, by virtue of s400 of the Companies Act 2006. The Company's financial statements present information about it as an individual undertaking and not as a group. The Company is included in the group accounts of AWE ML which is incorporated in England and Wales.

#### Turnover

Turnover represents the sale of services and products and is exclusive of VAT. Turnover on long term contracts is recognised by reference to the value of work performed to date as a proportion of the total contract value.

Profit on long-term contracts in progress is taken when a sale is recorded on part delivery of products or part performance of services, provided that the outcome of the contract can be assessed with reasonable certainty. Provisions are made for any losses incurred or expected to be incurred on uncompleted contracts. Advance payments received from customers are shown as payments on account until there is a right to offset against the value of work undertaken.

#### Other operating income

Other operating income represents income received from HMRC in respect of research and development tax relief through the Research and Development Expenditure Credit (RDEC) scheme.

#### Investments

Fixed assets investments are stated at cost less any provision for impairment.

**NOTES TO THE ACCOUNTS (continued)**  
**For the year ended 31 December 2020**

**1. ACCOUNTING POLICIES (continued)**

**Financial instruments**

The Group uses derivative financial instruments to manage its exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently revalued at their fair value at each reporting date. The resulting gain or loss is recognised in the profit or loss account.

**Operating leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

**Finance leases**

Where the Company has assets loaned out under a finance lease, income is recognised at an implied interest rate under the terms of the lease.

**Research and development expenditure**

All research and development expenditure has been carried out under the terms of contractual arrangements with AWE ML and has been charged to the profit and loss account as incurred. Research and development expenditure is not capitalised as assets remain in government ownership.

**Current taxation**

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**Deferred taxation**

Deferred taxation is provided on other timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**Employee benefits**

Payments to the defined contribution pension scheme are charged as an expense as they fall due.

For the defined benefit pension scheme the Company continues to make payments in accordance with periodic calculations as advised by the Scheme Actuary and these are accounted for as a defined benefit scheme under FRS 102 (Employee Benefits). Payments are made in accordance with periodic calculations as advised by the Scheme Actuary.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

**Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

**Cash flow statement**

As a wholly owned subsidiary of AWE ML, a Company incorporated in the England and Wales, whose group financial statements contain a cash flow statement, the Company is exempt from the requirement to produce a cash flow statement under FRS102.

**NOTES TO THE ACCOUNTS (continued)**  
**For the year ended 31 December 2020.**

**1. ACCOUNTING POLICIES (continued)**

**Judgements and key sources of estimation uncertainty**

**Key judgements**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However the nature of estimation means that actual outcomes could differ from those estimates. The following judgement has had the most significant effect on amounts recognised in the financial statements:

**Defined benefit pension scheme**

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 19.

**COVID-19 pandemic**

The COVID-19 pandemic has continued to have a significant impact on AWE with key considerations being as follows:

- Operational: control and mitigation activities including preventative, resilience and containment measures continue to be in place; AWE has been able to continue to maintain safe and continuous operations with work appropriately prioritised; delivery in some areas has slowed/slipped and due consideration has been taken of the impact on the financial and commercial position.
- Financial: AWE has continued to receive timely payments from the MOD and has been able to meet its on-going financial
- Commercial: the pandemic was recognised as a 'force majeure' event and under the terms of the contract, it is not anticipated that the event will have an adverse financial or commercial impact and AWE will be 'no better or worse off' as a result of the pandemic.

The operational impacts of the pandemic have been considered in the key financial judgements, when assessing the likely outcome of performance against milestones, taking into account the status of customer negotiations on contract change orders.

**2. TURNOVER**

The Company's turnover is materially all generated within the United Kingdom and derives from the Company's activities in the M&O of AWE.

**3. ADMINISTRATIVE EXPENSES**

Administrative expenses represent costs that are not recoverable from contracts.

**NOTES TO THE ACCOUNTS (continued)**  
**For the year ended 31 December 2020**

**4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

Profit on ordinary activities before taxation is stated after charging:

	2020 £'000	2019 £'000
Rentals under operating leases:		
- Hire of plant and machinery	286	116
Research & development	141,600	107,000
Auditors' remuneration:		
Fees payable for the audit of the Company's annual accounts	189	166
Total audit fees	189	166

**5. INVESTMENTS**

The Company holds 1,000 £1 ordinary shares in AWE Pension Trustees Limited, the other share is owned by the MOD. AWE Pension Trustees Limited is incorporated in England and Wales and is a trustee of the AWE Pension Fund.

**6. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2020 £'000	2019 £'000
Bank interest	1	-

**7. EMPLOYEES**

The average number of persons employed by the Company (including directors) during the year was as follows:

	2020 No.	2019 No.
Science and technical support	2,608	2,388
Engineering and manufacturing	2,733	2,559
Business services	625	588
	5,966	5,535

Staff costs incurred by the Company (including directors) during the year were as follows:

	2020 £'000	2019 £'000
Wages and salaries	302,256	266,871
Social security	29,845	27,336
Other pension costs	6,000	5,000
Net pension finance expense	9,000	9,500
Pension costs recoverable under contract in future periods	18,304	16,113
	365,405	324,820

Net defined benefit pension finance expenses are the expected return on assets less the interest cost on liabilities.

**8. DIRECTORS' REMUNERATION**

The total emoluments paid to directors in respect of their services for the year were as follows:

	2020 £'000	2019 £'000
Directors' remuneration		
Aggregate emoluments	3,115	2,657
Pension emoluments	-	49
	3,115	2,706

	2020 £'000	2019 £'000
Highest paid director (included in above)		
Aggregate emoluments	1,000	1,153

AWE plc does not have a share options scheme therefore the highest paid director had no share options to exercise.

**NOTES TO THE ACCOUNTS (continued)**  
**For the year ended 31 December 2020**

**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**i) Analysis of tax charge on profit on ordinary activities**

	2020 £'000	2019 £'000
Current tax		
Current income tax charge	3,615	2,968
Adjustment in respect of prior years	(941)	655
<b>Total current tax</b>	<b>2,674</b>	<b>3,623</b>
Deferred tax		
Current year charge	194	415
<b>Total deferred tax</b>	<b>194</b>	<b>415</b>
<b>Tax charge on profit on ordinary activities (note 9ii)</b>	<b>2,868</b>	<b>4,038</b>

**ii) Factors affecting tax charge for the current period**

The tax assessed for the period is higher than that resulting from applying the standard rate of corporation tax in the UK.

The differences are explained below:

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	20,527	17,681
Tax at 19.00% (2019 19.00%) thereon	3,900	3,359
Effects of:		
Expenses not deductible for tax purposes	(2)	26
Other short term timing differences	(89)	(3)
Adjustment in respect of prior years	(941)	655
<b>Total tax expense</b>	<b>2,868</b>	<b>4,038</b>

The Finance Act 2016, provides for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017. The reduction has been reflected in the calculation of deferred tax at the balance sheet date. The plan to reduce the rate further to 17% effective from 1 April 2020, was overturned in the Nov19 Autumn statement, hence tax remains at 19%.

French tax is immaterial and therefore not included in the tax estimate. Despite the branch's UK/French tax status, it could not have a material impact on the tax disclosure.

**iii) Other operating income**

Included in other income is £24,739,004 (2019: £15,336,624) receivable from HMRC in respect of research and development tax relief through the Research and Development Expenditure Credit (RDEC) scheme.

**iv) Deferred tax recoverable**

The deferred tax recoverable in note 11 refers to the lifetime effect on corporation tax of the employee provisions as set out in note 13. These payments will impact the profit and loss account in future accounting periods, therefore reducing the corporation tax liability in those years.

**NOTES TO THE ACCOUNTS (continued)**  
**For the year ended 31 December 2020**

**10. DIVIDEND**

	2020	2019
	£'000	£'000
Interim dividend paid £272.86 (2019: £274.85) per ordinary share	13,643	13,742

**11. DEBTORS**

	Notes	2020	2019
		£'000	£'000
Amounts falling due within one year:			
Amounts recoverable on contracts		-	14,543
Amounts owed by group companies		100,776	105,531
Other debtors		36,760	26,734
Income tax recoverable		14,984	-
Deferred tax recoverable	9	625	819
Prepayments and accrued income		26,140	13,709
		179,285	161,336
Amounts falling due after more than one year:			
Amounts owed by group companies, pension recoverable under contract		644,000	453,000
		823,285	614,336

The components of the deferred tax recoverable balance are due to short term timing differences.

**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Notes	2020	2019
		£'000	£'000
Trade creditors		46,758	47,680
Amounts owed to the parent company's shareholder groups	20	3,759	4,854
Other taxation and social security		21,672	7,656
Other creditors		-	237
Group relief payable		6,656	12,860
Accruals and deferred income		75,211	67,724
		154,056	141,011

**13. PROVISIONS FOR LIABILITIES**

	2019	Charge to the profit and loss account	Utilised	2020
	£'000	£'000	£'000	£'000
Employee	9,384	5,682	(1,480)	13,586
	9,384	5,682	(1,480)	13,586

Employee provisions comprise obligations to employees other than retirement benefit obligations.

The majority of provisions are expected to be utilised within five years. Provisions are made for the directors' best estimate of known legal claims, investigations and legal actions in progress.

**NOTES TO THE ACCOUNTS (continued)**  
**For the year ended 31 December 2020**

**14. DERIVATIVE FINANCIAL INSTRUMENTS**

Forward foreign currency contracts

The following table details the forward foreign currency contracts outstanding at the year-end:

Outstanding contracts	Average contractual exchange rate		Notional value £'000		Fair Value £'000	
	2020	2019	2020	2019	2020	2019
Less than 12 months	1.2891	1.2765	1,007	1,576	950	1,518
1-2 years	1.3134	1.2869	356	761	341	732
Purchase USD			1,363	2,337	1,291	2,250
Less than 12 months	1.0773	1.1362	484	5,147	470	5,004
1-2 years	1.0639	1.0773	506	484	489	452
2-3 years		1.0639		506		473
Purchase EUR			990	6,137	959	5,929
Less than 12 months	1.2998		(87)		(83)	
1-2 years	1.3064		(179)		(171)	
Purchase GBP sell USD			(266)		(254)	
			2,087	8,474	1,996	8,179
Fair value adjustment					(91)	(295)

Forward foreign currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Outstanding forward contracts	Less than one year	Greater than one year	2020
	£'000	£'000	£'000
Asset	4	9	13
Liability	(71)	(33)	(104)
	(67)	(24)	(91)

**15. CALLED UP SHARE CAPITAL**

The authorised, issued and fully paid up share capital of the Company are as follows:

	2020	2019
	£	£
50,000 (2019: 50,000) ordinary shares of £1 each	50,000	50,000
One (2019: one) special share of £1	1	1
	50,001	50,001

HM Government retains a £1 special share, which attracts special rights, enabling the MOD to assume full ownership and control of AWE plc on completion or early termination of the M&O Contract with AWE ML.

**16. PROFIT AND LOSS ACCOUNT**

	2020	2019
	£'000	£'000
At 1 January	13,643	13,742
Profit for the financial year	17,659	13,643
Dividends paid to equity shareholders	(13,643)	(13,742)
At 31 December	17,659	13,643

**17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2020	2019
	£'000	£'000
At 1 January	13,693	13,792
Profit for the financial year	17,659	13,643
Dividends paid to equity shareholders	(13,643)	(13,742)
At 31 December	17,709	13,693

**NOTES TO THE ACCOUNTS (continued)****For the year ended 31 December 2020****18. COMMITMENTS****a) Operating lease commitments**

At 31 December 2020, the Company had annual commitments under non-cancellable operating leases as follows:

	2020 £'000	2019 £'000
Expiring:		
in less than one year	220	32
between one and five years	66	84
	<u>286</u>	<u>116</u>

The Company has no operating lease commitments in relation to land or buildings

**b) Purchase commitments**

	2020 £'000	2019 £'000
Contracted for but not provided	<u>556,886</u>	<u>633,747</u>

The Company has a number of commitments under the parent company's M&amp;Os Contract but these are not provided for until they fall due for payment and consequently become recoverable in full from the MOD by the parent company.

**19. PENSION SCHEME**

Pension contributions of £33,303,850 (2019: £30,612,866) were made in the year in respect of the AWE defined contribution pension scheme.

All pension contributions, other than those in relation to members working at Coulport, to the AWE defined benefit scheme ceased in 2017 after the scheme was closed 31 January 2017.

On 31 January 2017 the defined benefit pension scheme closed to new entrants and future accrual for existing members, other than the members working at Coulport, following agreement between AWE, the pension scheme trustees and the Government.

Under FRS 102 (Retirement Benefits), the directors consider it is appropriate to account for the scheme as a defined benefit scheme under FRS 102 (Retirement Benefits) (note 1).

The Company continues to make payments in accordance with periodic calculations as advised by the Scheme Actuary.

A full actuarial valuation of the Scheme for FRS 102 purposes has been carried out as at 31 March 2018. Sufficient additional data has been supplied by the Scheme's administrators (Aon) to enable the liability at 31 December 2020 to be estimated, using the assumptions below, based on the calculated liability as at 31 March 2018.

	2020	2019	2018	2017	2016
<b>Assumptions</b>					
Rate of increase in pensionable pay	2.40%	2.20%	2.30%	2.20%	2.30%
Rate of increase in pensions in payments	2.40%	2.20%	2.30%	2.20%	2.30%
Rate of increase in pensions in deferment	2.40%	2.20%	2.30%	2.20%	2.30%
Discount rate	1.30%	2.00%	2.80%	2.40%	2.60%
Inflation assumption (CPI)	2.40%	2.20%	2.30%	2.20%	2.30%
Mortality assumption - life expectancy at age 60 for current pensioner (male, normal health, industrial grade)	27.0	26.9	26.8	27.8	27.7
Mortality assumption - life expectancy at age 60 for current non-pensioner aged 40 (male, normal health, industrial grade)	29.0	29.0	28.9	30.0	29.8



**NOTES TO THE ACCOUNTS (continued)**  
**For the year ended 31 December 2020**

The fair value of the assets in the scheme and the present value of the liabilities in the scheme at each balance sheet date were:

	2020	2019	2018	2017	2016
	£m	£m	£m	£m	£m
Equities	482	447	516	568	515
Property	115	108	123	133	211
Infrastructure	43	52	57	74	-
Absolute return	291	289	277	260	273
Bonds	467	419	256	230	182
Other (Liability Driven Investment)	514	384	274	323	237
Cash & other	26	17	8	18	61
<b>Total fair value of assets</b>	<b>1,939</b>	<b>1,716</b>	<b>1,512</b>	<b>1,606</b>	<b>1,479</b>
<b>Present value of scheme liabilities</b>	<b>(2,583)</b>	<b>(2,169)</b>	<b>(1,895)</b>	<b>(2,101)</b>	<b>(2,104)</b>
<b>Deficit in the scheme</b>	<b>(644)</b>	<b>(453)</b>	<b>(383)</b>	<b>(495)</b>	<b>(625)</b>

\* assets valued at bid price (where available and applicable)  
 Individual figures may not sum to the total due to rounding

From 1 January 2020 to 31 March 2020, deficit recovery contributions of £2.6m a month were paid. With the agreement of the Trustee, in March 2020, the employer accelerated the payment of the monthly deficit contributions due for the period 1 April 2020 to 31 March 2021, making a one-off payment amounting to £32.5m. No further monthly deficit contributions were then paid during 2020.

**Analysis of the amount charged to operating profit**

	2020	2019
	£million	£million
Current service cost (net of employees' contribution)	6	5

An allowance for expenses has been charged to the profit and loss account by increasing the current service cost in relation to expenses, including the Scheme's PPF levy payments and investment expenses.

**Analysis of the actuarial loss in the statement of total recognised gains and losses**

	2020	2019
	£million	£million
Actual return less expected return on pension scheme assets	206	183
Experienced gains arising on the scheme liabilities	11	(1)
Changes in assumptions underlying the present value of the scheme liabilities	(435)	(273)
	(218)	(91)

**Movement in scheme deficit during the year**

	2020	2019
	£million	£million
At 1 January	(453)	(383)
Current service cost	(6)	(5)
Contributions - employer's	42	35
Net finance expense	(9)	(10)
Actuarial (loss) / gain	(218)	(91)
At 31 December	(644)	(453)

Individual figures may not sum to the total due to rounding

**History of experienced gains and losses**

	FRS102				
	2020	2019	2018	2017	2016
<b>Difference between the expected and the actual return on scheme assets:</b>					
Amount (£million)	206	183	(112)	102	240
Percentage of scheme assets	11%	11%	(7%)	6%	16%
<b>Experienced gains and (losses) on scheme liabilities:</b>					
Amount (£million)	11	(1)	42	30	(5)
Percentage of present value of scheme liabilities	0%	(0%)	2%	1%	(0%)
<b>Total actuarial (loss)/gain</b>					
Amount (£million)	(218)	(91)	97	82	(265)
Percentage of present value of scheme	(8%)	(4%)	5%	4%	(13%)

Following guidance on Guaranteed Minimum Pension (GMP) equalisation, the year end valuation has included a reserve in respect of the cost of converting all post-88 GMP in scope. Last year a GMP equalisation reserve equal to 0.05% of the assessed liabilities (around £1m) was included in the FRS 102 liabilities as at 31 December 2019 to allow for the impact of potential future benefit changes relating to the requirement to equalise male and female GMPs accrued from 17 May 1990. In November 2020, a further judgment in the Lloyds case was delivered which confirmed schemes also needed to equalise historical transfer-outs. This is unlikely to have a material impact on the Scheme due to the low general impact of GMP equalisation and level of transfer outs historically seen. Therefore the GMP equalisation reserve is unchanged from last year.

**NOTES TO THE ACCOUNTS (continued)**  
**For the year ended 31 December 2020**

**20. RELATED PARTY TRANSACTIONS**

The Company has taken advantage of the exemption granted by section 33 of Financial Reporting Standard 102 not to disclose related party transactions with entities that are part of the AWE ML group.

The Company traded with the shareholders of its parent company, AWE ML as follows:

	Gross supplies and services purchased during the period		Gross sales made during the period	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Serco Holdings Limited (and group companies)	2,197	8,428	-	-
Lockheed Martin UK Strategic Systems Limited (and group companies)	26,004	20,106	-	-
JEG Acquisition Company Limited (and group companies)	25,970	16,394	-	-
	<u>54,171</u>	<u>44,928</u>	<u>-</u>	<u>-</u>

The costs incurred by the Company from these companies were for: contractors and consultants; materials and services; and salary recharges.

The Company had the following balances due to / (from) the shareholders of its parent company:

	2020 £'000	2019 £'000
Serco Holdings Limited (and group companies)	118	681
Lockheed Martin UK Strategic Systems Limited (and group companies)	1,222	1,979
JEG Acquisition Company Limited (and group companies)	2,419	2,194
	<u>3,759</u>	<u>4,854</u>
Notes		
Amounts owed to shareholder groups	12	
	<u>3,759</u>	<u>4,854</u>
	<u>3,759</u>	<u>4,854</u>

No consortium relief was owed to shareholders during the year (2019: Nil).

**21. ULTIMATE PARENT COMPANY**

The directors consider Lockheed Martin Corporation, Inc, a company registered in the USA, as the ultimate parent undertaking and controlling entity. Copies of the ultimate parent's group financial statements may be obtained from Lockheed Martin Investor Department, 6801 Rockledge Drive, Bethesda, Maryland, 20817, USA. Lockheed Martin Corporation, Inc is the parent undertaking of the largest and smallest group of undertakings for which group financial statements are drawn up and of which the company is a member.

The Company's immediate parent undertaking is AWE Management Limited (Company No.03664571), a Company incorporated in England and Wales. Copies of the group financial statements of AWE Management Limited are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.