

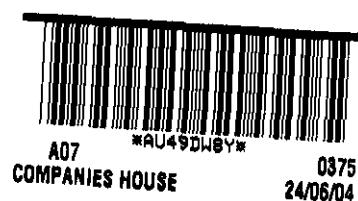
Company Registration No. 03664571

AWE MANAGEMENT LIMITED

Report and Financial Statements

31 December 2003

Deloitte & Touche LLP
London



AWE MANAGEMENT LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

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AWE MANAGEMENT LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G D Beveridge
S B Dauncey
I Downie
R C McGuinness
H J Saxton
P Majka
S E Gibbs

SECRETARY

N C Franklin

BANKERS

Lloyds TSB Bank plc
140 Wharfedale Road
Winnersh Triangle
Winnersh
Berks
RG41 5RB

REGISTERED OFFICE

Atomic Weapons Establishment
Aldermaston
Reading
Berkshire
RG7 4PR

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

AWE MANAGEMENT LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the group for the year ended 31 December 2003.

ACTIVITIES

The group holds a contract for the management and operation of the Atomic Weapons Establishment, comprising sites at Aldermaston and Burghfield (the 'AWE' facility). During the year, the contract, which commenced on 1 April 2000 and was originally for ten years, was extended for a further fifteen years and will now run until 2025.

The assets of the AWE facility remain in government ownership and AWE Management Limited was granted the licence to operate the assets through its 100% subsidiary, AWE plc.

RESULTS AND DIVIDENDS

The results of the group on page 6, show a profit before tax of £24,663,000 and the directors expect 2004 to be another successful year.

No final dividend is recommended by the directors (2002: £nil). An interim dividend of £8,418,999 (2002: £5,157,999) was declared on 12 February 2003 and paid on 24 March 2003. A second interim dividend of £11,745,000 (2002: £8,361,000) was declared on 12 December 2003 and paid on 16 December 2003.

DIRECTORS AND THEIR INTERESTS

The directors of the company, who served throughout the year except as noted, were:

G D Beveridge	
S B Dauncey	
I Downie	
R C McGuinness	(appointed 22 October 2003)
G M Hutchinson	(resigned 22 October 2003)
J DiMarco	(resigned 28 February 2003)
H J Saxton	
P Majka	(appointed 1 March 2003)
S E Gibbs	

No director holds any shares in the capital of the company or other group companies.

EMPLOYEES

The group sees its employees as a key asset and their satisfaction and development are identified as strategic enablers for the success of the organisation.

The key drivers around which the group seeks to deliver its people strategy are focus on involvement of our people, recognition of achievement, leadership and development of our people.

Involvement is encouraged through a variety of communication methods including team listening, newsletters and company newspaper. In addition the group operates a partnership approach aimed at improving the business through *effective involvement of all concerned, including our employee representatives.*

The group seeks to recognise the excellent achievement of all its people and operates a number of programmes to recognise both individual and group achievements. The AWE Partnership Share Scheme, which was established during the year, is one of the programmes which seeks to encourage both a long term focus on the business and a sustained commitment from employees.

The group sees leadership and effective training and development of its people as both a key differentiator in a competitive market, and also a major enabler for future business success.

The group is committed to a policy of equal opportunities for all employees. Great care is exercised in our recruitment and selection procedures to ensure that there is no discrimination, and that training is given to meet individual needs. The group commits to interviewing all applicants with a disability who meet the minimum criteria for a job vacancy and considers them on their abilities. If employees become disabled, every effort is made to ensure their continued employment including the opportunity of retraining for alternative work where necessary.

AWE MANAGEMENT LIMITED

DIRECTORS' REPORT (continued)

CHARITABLE DONATIONS

During the year the group paid £55,085 (2002: £20,750) to charitable organisations.

AUDITORS

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



G D Beveridge
Director

25 March 2004

AWE MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AWE MANAGEMENT LIMITED

We have audited the financial statements of AWE Management Limited for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, consolidated cash flow statement, the reconciliation of net cash flow to movement in net funds and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

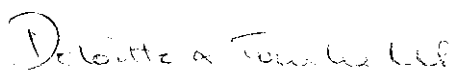
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 December 2003 and the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
31 March 2004

AWE MANAGEMENT LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
TURNOVER	2	300,717	272,457
Cost of sales		(276,125)	(249,754)
GROSS PROFIT		24,592	22,703
Administrative expenses	3	(282)	(1,059)
OPERATING PROFIT		24,310	21,644
Other interest receivable and similar income	4	943	517
Interest payable and similar charges	5	(590)	(457)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	24,663	21,704
Tax on profit on ordinary activities	9	(5,337)	(4,924)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		19,326	16,780
Dividends paid	10	(20,164)	(13,519)
RETAINED (LOSS)/PROFIT FOR THE YEAR	19	(838)	3,261

All results derive from continuing operations.

In accordance with section 230 of the Companies Act 1985 the group has opted not to prepare a profit and loss account for the company. The company made a profit after tax in the year of £18,258,183 (2002: £14,732,479).

There are no recognised gains or losses for the current financial year and preceding financial year for the group other than as disclosed in the profit and loss account above.

AWE MANAGEMENT LIMITED

CONSOLIDATED BALANCE SHEET

31 December 2003

	Note	2003 £'000	2002 £'000
CURRENT ASSETS			
Stocks and work in progress	12	1,676	-
Debtors	13		
- due within one year		55,243	52,471
- due after more than one year		25,268	-
Investments	14	-	12,200
Cash at bank and in hand	18	2,189	63
		<u>84,376</u>	<u>64,734</u>
CREDITORS: amounts falling due within one year	15	<u>(71,374)</u>	<u>(51,814)</u>
NET CURRENT ASSETS		<u>13,002</u>	<u>12,920</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		13,002	12,920
CREDITORS: amounts falling due after more than one year			
13% loan stock	17	(3,150)	(3,150)
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(920)</u>	<u>-</u>
NET ASSETS		<u>8,932</u>	<u>9,770</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,350	1,350
Profit and loss account	19	7,582	8,420
EQUITY SHAREHOLDERS' FUNDS	20	<u>8,932</u>	<u>9,770</u>

These financial statements were approved by the Board of Directors on 25 March 2004.

Signed on behalf of the Board of Directors


G D Beveridge
Director

AWE MANAGEMENT LIMITED

COMPANY BALANCE SHEET

31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Investments	11	50	50
CURRENT ASSETS			
Debtors	13		
- due within one year		52,863	50,125
- due after more than one year		24,993	-
Investments	14	-	12,200
Cash at bank and in hand		134	274
		77,990	62,599
CREDITORS: amounts falling due within one year	15	(68,691)	(51,777)
NET CURRENT ASSETS		9,299	10,822
TOTAL ASSETS LESS CURRENT LIABILITIES		9,349	10,872
CREDITORS: amounts falling due after more than one year			
13% loan stock	17	(3,150)	(3,150)
NET ASSETS		6,199	7,722
CAPITAL AND RESERVES			
Called up share capital	16	1,350	1,350
Profit and loss account	19	4,849	6,372
EQUITY SHAREHOLDERS' FUNDS	20	6,199	7,722

These financial statements were approved by the Board of Directors on 25 March 2004.

Signed on behalf of the Board of Directors


G D Beveridge
Director

AWE MANAGEMENT LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Net cash (outflow)/inflow from operating activities	23	(4,267)	35,438
Returns on investments and servicing of finance			
Interest paid		(516)	(457)
Interest received		944	455
		428	(2)
Taxation paid		(2,372)	(7,376)
Equity dividends paid		(20,164)	(13,519)
Management of liquid resources			
Increase in amounts owed by shareholders		(1,700)	(2,500)
Cash (outflow)/inflow before financing		(28,075)	12,041
Financing		18,000	-
(Decrease)/increase in cash for the year		(10,075)	12,041

AWE MANAGEMENT LIMITED**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS****For the year ended 31 December 2003**

	Note	2003 £'000	2002 £'000
Increase/(decrease) in cash in the year		2,126	(159)
(Decrease)/increase in short term cash deposits		(12,200)	12,200
Increase in amounts owed by shareholders		1,700	2,500
Increase in bank loans		(18,000)	-
Movement in net funds in year		(26,374)	14,541
Net funds at 1 January		17,613	3,072
Net (debt)/funds at 31 December	23(b)	(8,761)	17,613

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

1. ACCOUNTING POLICIES

These accounts have been prepared under the historical cost convention, in compliance with the Companies Act 1985 and in accordance with applicable United Kingdom accounting standards. The principle accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Basis of preparation

Amounts payable under the contract in respect of future periods are not provided for until the amounts are due and become recoverable under the Management and Operation Contract.

Turnover

Turnover represents net sales of services and products and is exclusive of VAT.

Basis of consolidation

The group financial statements consolidate the accounts of AWE Management Limited and all of its subsidiary undertakings.

Investments

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

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.

Long term contracts

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 creditors until there is a right of set-off against the value of work undertaken.

Research and development expenditure

All research and development expenditure has been carried out under the terms of the group's Management and Operation Contract with the Ministry of Defence and has been charged to the profit and loss account as incurred.

Deferred taxation

Deferred taxation is provided in full on timing differences relating to pension and other post retirement benefits calculated at the rates at which it is expected that tax will arise. 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.

Pensions

Retirement benefits for employees are funded by contributions from AWE plc and its employees. In compliance with SAAP 24 the costs charged to the profit and loss account in the group accounts are equal to the contributions made on advice from the scheme actuary.

This accounting treatment for pensions in AWE ML group is as for a defined contribution scheme with the charge in the year being solely the contributions paid or payable.

Debtors

Receivables due from the Ministry of Defence in more than one year have been disclosed separately. These debtors have not been discounted because they are matched back-to-back with loans which have not been discounted either.

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

2. TURNOVER

The group's turnover is all generated within the UK and derives from the group's activities in operating the AWE facility.

3. ADMINISTRATIVE EXPENSES

Administrative expenses represent costs that are not recoverable from contracts.

4. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £'000	2002 £'000
Bank interest	857	420
Other interest	63	86
Interest receivable on amounts owed by shareholders	23	11
	<u>943</u>	<u>517</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Bank interest	174	47
Other interest	6	-
Interest payable on 13% loan stock	410	410
	<u>590</u>	<u>457</u>

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2003 £'000	2002 £'000
Rentals under operating leases:		
- Hire of plant and machinery	226	417
Auditors' remuneration:		
- Group and company audit fees	60	55
- Other services	157	61
	<u>443</u>	<u>533</u>

AWE MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS****For the year ended 31 December 2003****7. EMPLOYEES**

The average number of persons employed by the group during the year (all of whom are employed by AWE plc) was as follows:

	2003	2002
	No.	No.
Scientific and technical	1,954	2,004
Maintenance	1,100	1,136
Administration	422	403
	<u>3,476</u>	<u>3,543</u>

	2003	2002
	£'000	£'000
Wages and salaries	103,745	100,911
Social security	8,404	7,515
Other pension costs	15,061	12,516
	<u>127,210</u>	<u>120,942</u>

8. DIRECTORS' REMUNERATION

One director received £43,200 (2002: £41,650) in respect of his services to the group. One of the directors who served during the year was paid a total of £131,300 (2002: £125,619) by a subsidiary undertaking for qualifying services. The other directors received no remuneration for their services.

There are no retirement benefits accruing to any director (2002: none).

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

9. TAXATION

i) Analysis of tax charge on ordinary activities

	2003 £'000	2002 £'000
United Kingdom corporation tax at 30% based on the profit for the year	(5,447)	(4,925)
Adjustment in respect of prior years	(165)	1
Deferred tax	275	-
	<u>(5,337)</u>	<u>(4,924)</u>

ii) Factors affecting tax charge for the current period

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

The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	<u>24,663</u>	<u>21,704</u>
Tax at 30% thereon	(7,399)	(6,511)
Effects of:		
Expenses not deductible for tax purposes	(58)	(49)
Research & development tax credit	2,285	1,636
Short term timing differences	(275)	-
Rounding	-	(1)
Prior period adjustments	(165)	1
Current tax charge for period	<u>(5,612)</u>	<u>(4,924)</u>
	2003 £'000	2002 £'000
Deferred taxation		
Opening balance	-	-
Current year credit	(275)	-
Closing balance	<u>(275)</u>	<u>-</u>

There is no deferred tax provided in the financial statements (2002: none). There were no amounts unprovided (2002: none).

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

10. DIVIDENDS

	2003 £'000	2002 £'000
Interim dividends paid £14.936 per share (2002: £10.01)	20,164	13,519

11. FIXED ASSET INVESTMENTS

The company's principal subsidiary, which is registered in England and Wales is:

	£1 Ordinary shares	%
AWE plc	50,000	100

HM Government retain a £1 share in AWE plc which attracts special rights, enabling the Ministry of Defence to assume full ownership and control of AWE plc on completion or early termination of the Management and Operation Contract.

12. STOCKS AND WORK IN PROGRESS

	2003 £'000	2002 £'000
Work in progress	1,676	-

13. DEBTORS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due within one year:				
Amounts recoverable on contracts	41,495	38,324	40,844	37,497
Amounts owed by shareholder groups				
– Serco Group plc	10,200	8,500	10,200	8,500
Other debtors	500	559	45	57
Corporation tax recoverable	1,770	1,123	1,770	1,122
Income tax recoverable	4	3	-	-
Prepayments and accrued income	1,274	3,962	4	2,949
	<u>55,243</u>	<u>52,471</u>	<u>52,863</u>	<u>50,125</u>
Amounts falling due after more than one year:				
Amounts recoverable on contract	24,993	-	24,993	-
Deferred tax	275	-	-	-
	<u>25,268</u>	<u>-</u>	<u>24,993</u>	<u>-</u>
	<u>80,511</u>	<u>52,471</u>	<u>77,856</u>	<u>50,125</u>

The loan to Serco Group plc was made on 23 December 2003 and was repayable in two instalments on 2 January 2004 and 5 January 2004 at an interest rate of base rate plus one percent. Further related parties disclosures are given in Note 25.

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

14. CURRENT ASSET INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Short term cash deposits	-	12,200	-	12,200

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		Group		Company	
	Note	2003	2002	2003	2002
		£'000	£'000	£'000	£'000
Bank loans		18,000	-	18,000	-
Trade creditors		19,623	9,745	-	4
Amounts owed to shareholder groups	25	1,533	366	161	94
Amounts owed to group companies		-	-	30,064	34,856
Corporation tax		3,970	2,180	3,804	2,180
Other taxation and social security		6,992	8,480	12,189	11,814
Other creditors		583	165	-	-
Consortium relief payable		3,221	1,122	3,221	1,122
Group relief payable		-	-	1,116	1,420
Accruals and deferred income		17,452	29,756	136	287
		<u>71,374</u>	<u>51,814</u>	<u>68,691</u>	<u>51,777</u>

16. CALLED UP SHARE CAPITAL

	2003	2002
	No.	No.
Authorised:		
Ordinary shares of £1 each		
Class A	5,000,000	5,000,000
Class B	5,000,000	5,000,000
Class C	5,000,000	5,000,000
	<u>15,000,000</u>	<u>15,000,000</u>
Called up, allotted and fully paid:		
Ordinary shares of £1 each		
Class A	450,000	450,000
Class B	450,000	450,000
Class C	450,000	450,000
	<u>1,350,000</u>	<u>1,350,000</u>

All classes of shares rank pari passu in all respects with one another.

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

17. 13% LOAN STOCK

The loan stock is in the form of unsecured loan notes redeemable at par on 31 March 2010. The loan stock was issued on 31 March 2000 to the shareholders of AWE Management Limited.

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Serco Limited	1,050	1,050	1,050	1,050
British Nuclear Fuels plc	1,050	1,050	1,050	1,050
Lockheed Martin UK Holdings Limited	1,050	1,050	1,050	1,050
	<u>3,150</u>	<u>3,150</u>	<u>3,150</u>	<u>3,150</u>

The interest expense for each shareholder is £136,500 (2002: £136,500), totalling £409,500 (2002: £409,500) as disclosed in note 5. At the year end an amount of £101,814 (2002: £101,814) was accrued relating to interest owed to shareholders.

18. PROVISION FOR LIABILITIES AND CHARGES

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
AWE Partnership Share Scheme:				
At 1 January	-	-	-	-
Charged to profit and loss account	920	-	-	-
At 31 December	<u>920</u>	<u>-</u>	<u>-</u>	<u>-</u>

The AWE Partnership Share Scheme was established during the year, employees with more than 6 months service were allocated notional shares in the Scheme. Further allocations may be made in June 2004 and June 2005 dependent on the company's performance against its key performance indicators, including assurance. This initial scheme will run for 3 years until June 2006 when payment will be made to the notional shareholders. Funds of £2.088 million are held in a separate bank account over which the Ministry of Defence has joint signing in respect of this Scheme.

19. RESERVES

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
At 1 January	8,420	5,159	6,372	4,775
Retained (loss)/profit for the year	(838)	3,261	(1,523)	1,597
At 31 December	<u>7,582</u>	<u>8,420</u>	<u>4,849</u>	<u>6,372</u>

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Opening shareholders' funds	9,770	6,509	7,722	6,125
Profit for the year	19,326	16,780	16,593	14,732
Dividends paid and proposed to equity shareholders	(20,164)	(13,519)	(18,116)	(13,135)
Closing shareholders' funds	<u>8,932</u>	<u>9,770</u>	<u>6,199</u>	<u>7,722</u>

21. COMMITMENTS

At 31 December 2003, the group had annual commitments under non-cancellable operating leases as follows:

(a) Operating lease commitments

	Other	
	2003	2002
	£'000	£'000
Expiring in less than one year	96	116
Expiring between one and two years	23	88
Expiring between two and five years	25	13
	<u>144</u>	<u>217</u>

(b) Purchase commitments

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Contracted for but not provided	<u>100,342</u>	<u>47,964</u>	<u>-</u>	<u>-</u>

(c) Other commitments

The group has a number of commitments under the Management and Operation Contract but these are not provided for until they fall due for payment and consequently become recoverable in full from the Ministry of Defence.

22. CONTINGENT LIABILITIES

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank bond	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>

The bank bond was issued in favour of the Ministry of Defence in respect of the condition of certain assets being returned to the Ministry of Defence on the expiry of the Management and Operation Contract.

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

23. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2003 £'000	2002 £'000
Operating profit	24,310	21,644
Increase in stocks and work in progress	(1,676)	-
Increase in debtors	(25,419)	(6,324)
(Decrease)/increase in creditors	(2,402)	20,118
Increase in provisions	920	-
Net cash (outflow)/inflow from operating activities	<u>(4,267)</u>	<u>35,438</u>

(b) Analysis of net funds/(debt)

	2003 1 January £'000	2003 Cash flow £'000	2003 31 December £'000
Cash in hand and at bank	63	2,126	2,189
Short term cash deposits	12,200	(12,200)	-
Loans to shareholders	8,500	1,700	10,200
13% loan stock	(3,150)	-	(3,150)
Bank loans	-	(18,000)	(18,000)
Net funds/(debt)	<u>17,613</u>	<u>(26,374)</u>	<u>(8,761)</u>

	2002 1 January £'000	2002 Cash flow £'000	2002 31 December £'000
Cash in hand and at bank	222	(159)	63
Short term cash deposits	-	12,200	12,200
Loans to shareholders	6,000	2,500	8,500
13% loan stock	(3,150)	-	(3,150)
Net funds	<u>3,072</u>	<u>14,541</u>	<u>17,613</u>

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

24. PENSION SCHEME

The group contributes into a funded, defined benefits pension scheme which was set up on 1 April 1993. Members comprise ex-civil servants whose transfer values were calculated by the Government Actuary's Department, ex-civil servants who did not have past service benefits transferred, and new employees who have joined the scheme since that date. Pension costs are assessed in accordance with the advice of the Government Actuary's Department. AWE Management Limited is not liable for any deficiency, nor is it entitled to benefit directly or indirectly from any surplus in the AWE Pension Scheme at the expiry or early termination of the Management and Operation Contract.

The group therefore recognises its obligations in accordance with the cash contributions paid. Pension contributions of £15,050,000 (2002 - £12,505,000) were made in the year in respect of the AWE pension scheme.

25. RELATED PARTY TRANSACTIONS

There are related party transactions with AWE Management Limited's three shareholders: Serco Limited, British Nuclear Fuels plc, and Lockheed Martin UK Holdings Limited and other companies within their respective groups.

In addition to the loan stock issued to the shareholders as disclosed in note 17 and the amounts owed by Serco Group plc as disclosed in note 13, the group traded with its shareholders as follows.

	Gross supplies and services purchased during the period		Gross sales made during the period	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Serco Group plc (and subsidiaries)	1,147	677	41	76
Lockheed Martin Inc (and subsidiaries)	1,546	1,217	-	-
British Nuclear Fuels plc (and subsidiaries)	2,407	1,527	-	10
	<u>5,100</u>	<u>3,421</u>	<u>41</u>	<u>86</u>

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

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NOTES TO THE ACCOUNTS
For the year ended 31 December 2003
25. RELATED PARTY TRANSACTIONS (CONTINUED)

Interest income from related parties during the year was as follows.

	2003 £'000	2002 £'000
Serco Limited	13	11
Serco Group plc	10	-
	<u>23</u>	<u>11</u>

There was no other interest expense to related parties apart from as disclosed in note 17.

Excluding the amounts owed by shareholders and the loan stock balances disclosed in notes 13 and 17, the group had the following balances with related parties.

	2003			
	Accrued interest receivable £'000	Accrued interest payable (Note 17) £'000	Trading balances due as at 31 December £'000	Net due as at 31 December £'000
Serco Group plc (and subsidiaries)	(11)	34	458	481
Lockheed Martin Inc (and subsidiaries)	-	34	509	543
British Nuclear Fuels plc (and subsidiaries)	-	34	475	509
	<u>(11)</u>	<u>102</u>	<u>1,442</u>	<u>1,533</u>

	2002			
	Accrued interest receivable £'000	Accrued interest payable (Note 17) £'000	Trading balances due as at 31 December £'000	Net due as at 31 December £'000
Serco Group plc (and subsidiaries)	(8)	34	92	118
Lockheed Martin Inc (and subsidiaries)	-	34	66	100
British Nuclear Fuels plc (and subsidiaries)	-	34	114	148
	<u>(8)</u>	<u>102</u>	<u>272</u>	<u>366</u>

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Amounts owed by shareholders during the year were as follows:

	At 1 January 2003 £'000	Amount advanced £'000	Amount repaid £'000	At 31 December 2003 £'000
Serco Limited	8,500	11,300	(19,800)	-
Serco Group plc	-	10,200	-	10,200
	<u>8,500</u>	<u>21,500</u>	<u>(19,800)</u>	<u>10,200</u>

Consortium relief owed to shareholders during the year was as follows:

	At 1 January 2003 £'000	Relief taken £'000	Amount paid £'000	At 31 December 2003 £'000
Magnox Electric plc	1,122	1,451	(1,122)	1,451
Serco Group plc	-	1,062	-	1,062
Serco Investments Ltd	-	708	-	708
	<u>1,122</u>	<u>3,221</u>	<u>(1,122)</u>	<u>3,221</u>