

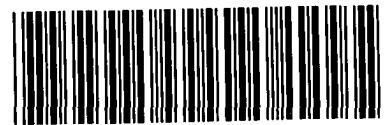
**Company registration No. 03664571**

**AWE MANAGEMENT LIMITED**

**Annual Report and Consolidated  
Financial Statements**

**For the year ended 31 December 2018**

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# **AWE MANAGEMENT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2018**

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# **AWE MANAGEMENT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2018**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

T I Bradley  
I M Coucher  
K D Craven  
T Hagen  
S Keller  
P R Lutwyche  
M B McKeon (resigned 28 June 2018)  
P G Morton (appointed 28 June 2018)  
C W Reynell  
J S Rottler  
H J Saxton (resigned 25 January 2018)  
I P Tyler

#### **COMPANY SECRETARY**

J D Smith

#### **BANKERS**

Lloyds Bank plc  
Bramletye House  
29 Brighton Road  
Crawley  
West Sussex  
RH10 6AE

#### **REGISTERED OFFICE**

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

#### **AUDITOR**

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

# **AWE MANAGEMENT LIMITED**

## **STRATEGIC REPORT**

The directors present their annual report and their audited financial statements in respect of the Group (consisting of the Company and its wholly owned subsidiary AWE plc and its subsidiary undertaking) for the year ended 31 December 2018.

### **Business Review**

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. The Company holds a contract, the 'Management and Operation Contract' with the Ministry of Defence, which commenced on 1 April 2000 and runs until 31 March 2025. Amendments were agreed to the Management and Operation Contract which came into effect from 31 March 2016. These contract amendments better aligned performance to Ministry of Defence requirements. This contract is split into 'Rolling Wave' periods which are periods where a portion of the scope, price and incentives are agreed. The Group also performs other commercial services which are related to services delivered for the fulfilment of its principal activities.

Performance of the Management and Operation Contract is executed through AWE plc. The assets of AWE remain in government ownership with AWE Management Limited having the right to operate the assets through AWE plc.

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 £1,014.4m was higher than the prior year (2017 £937.7m) reflecting the higher level of activity during the year from the Management and Operation Contract.

Operating profit of £100.8m was 14% higher than the prior year (2017: £88.1m), again mainly reflecting a higher level of activity during the year from the Management and Operation Contract.

The average number of the Group's employees in the year (employed by AWE plc) has increased to 5,250 (2017: 5,033).

### **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, monthly Business Performance Reviews and Risk and Opportunity Management Boards.

#### ***Risk Culture***

As a nuclear licensed site we have a risk-averse culture in our day-to-day operations. 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.

## AWE MANAGEMENT LIMITED

### STRATEGIC REPORT (CONTINUED)

#### *Principal Strategic Risks*

Risks that threaten the execution of AWE's strategy, business model and future performance:

- *Serious health and safety incident leading to cessation of operations and reputational damage*: AWE has a strong safety culture, with periodic safety reviews for all critical hazardous facilities, risk assessments and control of work in place. Emergency incident plans and procedures, and business continuity plans are demonstrated and tested through site exercise programmes. Mandatory training is in place for all staff together with Health and Safety reporting and incident management. AWE has a Major Accident Prevention Policy, which highlights the commitment to preventing all major accidents and to limiting the impact on people and the environment.
- *Breach of relevant laws and regulations*: AWE operates in a highly regulated industry and as such has developed safety cases for both sites. These examine every single operation, assessing its risks and seeing how they could be eliminated or reduced. These form part of our robust safety management system, which is routinely audited as part of our site licence conditions.
- *The size, scale and complexity of the capital infrastructure programme is demanding to secure funding and partners*: Enabling the site infrastructure renewal through site optimisation plans and new capital builds, all the time maintaining current safe operations and demands.
- *Delivery of complex new facilities*: Successful project management, integration and acceptance of the complex new facilities are required to support an enduring programme of work.
- *Dependency on specialised supply chain*: AWE actively works to ensure that it has access to a resilient supply chain and is able to seek out viable supply chain alternatives with limited delay. If suppliers and sub-contractors, within the extended supply chain, suffer delays due to social, economic or political changes (e.g., Brexit) these could impact schedule and costs into the future. A targeted investigation into UK major or single point of failure suppliers has been conducted with assurances and mitigations identified.

#### *Principal Operational Risks*

Risks that threaten the effective operation of AWE:

- *Recruitment and retention of specialist nuclear, engineering, technical and scientific staff*: AWE operates in a specialised engineering, technical and scientific domain where future skills shortages through difficulties to recruit and retain employees or a lack of domain specific graduates maybe experienced. AWE tracks engagement through employee opinion surveys, has a commitment to drive year on year improvement to become an employer of choice, and has achieved a place in the 'Sunday Times 25 Best Big Companies to Work For 2019'. Leadership programmes, talent and succession management continue to be developed to compliment the Science, Technology, Engineering Mathematics Outreach programme with university partners, together with strategic workforce planning for future resourcing as key mitigations.
- *Continued delivery of operational capacity with ageing infrastructure, plant and equipment*: AWE needs to maintain delivery of operational capacity whilst dealing with the challenges and constraints from ageing plant. There are planned and preventative inspections, maintenance and repair programmes for all facilities and critical plant.
- *Cyber or other security threat or other disruption resulting in a loss, compromise or unauthorised access to defence data*: AWE requires constant vigilance and proactive responses to be developed to guard against external challenges. Data security is assured through a multi layered approach that includes robust physical security arrangements and data resilience strategies, with mandatory security awareness training for all staff.
- *Defined benefit pension scheme funding obligations*: AWE must continue to monitor the extent of the defined benefit pension scheme obligations and implications of this. The risk has mitigated in part by the closure of the defined benefit scheme to new entrants and future accruals for existing members. A defined contribution scheme has replaced this scheme.
- *Implementation of new significant systems and information technology in the business*: Projects involving change could impact operations through increased capital expenditure, demands on management time and risks of delays or difficulties in transitioning to the new systems.

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

## **AWE MANAGEMENT LIMITED**

### **STRATEGIC REPORT (CONTINUED)**

On the cessation of the Management and Operation Contract the ordinary shares held by the Company in AWE plc will become non-voting ordinary shares and may be acquired by the Ministry of Defence.

#### **Environment**

AWE Environment Policy commits to the following endeavours:

- Introducing sustainable development into all our 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 our sites.

AWE has a Head of Environment, Safety & Health 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**

We are committed to being transparent in our transactions with our customers, our stakeholders and our suppliers. We insist on integrity, honesty and fairness in all aspects of our business and we expect our employees and contractors to be just as diligent.

We have a zero tolerance approach to bribery and corruption and commit to acting professionally, fairly and with integrity in all our business dealings and relationships. We will implement and enforce effective systems to counter bribery wherever we operate. AWE upholds all 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.

AWE plays an important role in its local communities. We recognise that the way in which we manage our business and how we interact with our neighbours and the wider community is critical to our success. We take full responsibility for our operations and how we manage them, working towards a sustainable environment that benefits everyone.

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

#### **Post Balance Sheet Events**

In March 2019 the Company agreed 'Rolling Wave 4' of the Management and Operations contract with the Ministry of Defence for the period 1 April 2019 to 31 March 2022. In April 2019 the Company reviewed its performance and assessment of associated cost and fees following the completion of 'Rolling Wave 3' of the Management and Operations contract with the Ministry of Defence for the period 1 April 2018 to 31 March 2019. The outcome of this review is subject to final contract reconciliation with the Ministry of Defence. Management did not identify any factors that indicated that these events were events that gave rise to the need to make any adjustments to the accounting and judgements adopted as the balance sheet date.

Approved by the Board and signed on its behalf by:



P G Morton  
Director  
22 May 2019

# **AWE MANAGEMENT LIMITED**

## **DIRECTORS' REPORT**

The directors who held office during the period were:

T I Bradley  
I M Coucher  
K D Craven  
T Hagen  
S Keller  
P R Lutwyche  
M B McKeon (resigned 28 June 2018)  
P G Morton (appointed 28 June 2018)  
C W Reynell  
J S Rottler  
H J Saxton (resigned 25 January 2018)  
I P Tyler

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**

An interim dividend of £18.8m (2017: £13.4m) was declared on 20 March 2018 and paid on 22 March 2018. A second interim dividend of £29.3m (2017: £27.0m) was declared on 22 June 2018 and paid on 22 June 2018. A third interim dividend of £16.3m (2017: £14.4m) was declared on 24 September 2018 and paid on 26 September 2018. A fourth and final dividend of £17.3m (2017: £14.9m) was declared on 12 December 2018 and paid on 19 December 2018.

### **Future Developments**

The Group intends to continue to focus on its principal activity, the management and operation of the Atomic Weapons Establishment and the performance of other commercial services which are related to services delivered for the fulfilment of its principal activities. The Company holds a contract, the 'Management and Operation Contract' with the Ministry of Defence, which commenced on 1 April 2000 and runs until 31 March 2025.

### **Financial Instruments**

The Group has established a risk and financial management framework whose primary objectives are to protect the Group from events that hinder the achievement of the group'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 the UK Government. The liquidity and cash flow risk is also considered low as this is managed by the funding facilities available from its shareholders and banking arrangements. It is not considered that there is any significant credit risk on the trade debtors held by the Group.

The Group 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 Management and Operation Contract with the Ministry of Defence. Research and development expenditure is not capitalised as assets remain in government ownership.

## **AWE MANAGEMENT LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **Employees**

Employees and their development and sustained commitment are identified as fundamental for the organisation's success.

The Group continues to focus on involving its people in decisions, encouraging innovation and creativity, recognising their achievement, creating a positive working style and developing the skills of staff to deliver to customers.

Involvement is encouraged through a variety of communication methods and the Company continues to modify and improve these. The Group has continued its commitment to improving the business through effective involvement of all concerned, including employee representatives.

The Group seeks to recognise the achievement of its people and operates a range of programmes which recognise both individual and group achievements through effective reward schemes.

The Group believes that leadership, operating with consistent values and behaviours, and training and development remain key strategies in a competitive employment market, in addition to being major enablers for future business success. It invests in a range of occupational and leadership training, operating one of the largest apprentice programmes in the South of England.

The Group provides and encourages equality of opportunity for all applicants for employment, employees and ex-employees and all those working on the organisation's behalf, regardless of disability, gender, gender identity, sexual orientation, religion, race, ethnic origin, age or responsibility for dependants.

#### **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 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 Management and Operation Contract. The scheme deficit as at 31 December 2018 is £383m. 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 5 and in the Accounting Policies on pages 18 to 20.

The Company has sufficient financial resources for its requirements together with long-term contracts with a government customer. As a consequence, the directors believe that the Company is well placed to manage its business risk successfully.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of signing these financial statements. 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 political and economic environment. The implications of Brexit, together with the current political uncertainty, have both been considered in arriving at this conclusion. The directors have had the various implications of the outcome of Brexit negotiations assessed, considering the implications on direct and indirect service providers (e.g. employees and suppliers) on the Company.

#### **French Branch**

The Group has an overseas branch (of AWE plc) registered in Paris, France.

#### **Auditors**

Ernst & Young LLP was appointed as the Company's auditor by the board of directors effective from 20 December 2016 and this arrangement has continued throughout to date.



## **AWE MANAGEMENT LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **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 5. 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  
22 May 2019

## **AWE MANAGEMENT LIMITED**

### **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.

## **AWE MANAGEMENT LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AWE MANAGEMENT LIMITED**

We have audited the financial statements of AWE Management Ltd for the year ended 31 December 2018 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group and Parent Company Statement of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

#### **Respective responsibilities of directors and auditors**

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **AWE MANAGEMENT LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AWE MANAGEMENT LIMITED (CONTINUED)**

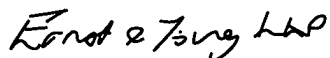
#### **Opinion on other matter prescribed by the Companies Act 2006**

- 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

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

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

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



Joe Yglesia (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Reading, UK  
23 May 2019

**AWE MANAGEMENT LIMITED****CONSOLIDATED PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2018**

	Notes	2018 £'000	2017 £'000
<b>TURNOVER</b>	2	1,014,373	937,663
Other operating income	8	11,808	11,043
Cost of sales		<u>(925,010)</u>	<u>(858,291)</u>
<b>GROSS PROFIT</b>		101,171	90,415
Administrative expenses	3	<u>(393)</u>	<u>(2,318)</u>
<b>OPERATING PROFIT</b>		100,778	88,097
Interest receivable and similar income	4	<u>584</u>	<u>159</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	101,362	88,256
Tax on profit on ordinary activities	8	<u>(19,317)</u>	<u>(17,812)</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	17	<u>82,044</u>	<u>70,444</u>

All results derive from continuing operations in both the current and prior year.

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

**AWE MANAGEMENT LIMITED****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****For the year ended 31 December 2018**

	Notes	2018 £'000	2017 £'000
Profit for the financial year		82,044	70,444
Actuarial gain in relation to pension fund	22	97,000	82,000
Loss in value on pension undertaking in contract		(97,000)	(82,000)
<b>Total comprehensive income</b>		<b>82,044</b>	<b>70,444</b>

# AWE MANAGEMENT LIMITED

## CONSOLIDATED BALANCE SHEET

At 31 December 2018

	Notes	2018 £'000	Restated 2017 £'000
<b>CURRENT ASSETS</b>			
Debtors			
- due within one year	11	81,095	82,253
- due after more than one year	11	383,000	495,000
Cash at bank and in hand		98,067	77,172
		<u>562,162</u>	<u>654,425</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(148,764)</u>	<u>(124,849)</u>
<b>NET CURRENT ASSETS</b>		<u>413,398</u>	<u>529,576</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		413,398	529,576
<b>PROVISIONS FOR LIABILITIES</b>	14	<u>(11,236)</u>	<u>(15,823)</u>
<b>NET ASSETS EXCLUDING PENSION LIABILITIES</b>		402,162	513,753
Defined benefit pension liability	22	<u>(383,000)</u>	<u>(495,000)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITIES</b>		<u>19,162</u>	<u>18,753</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	882	882
Profit and loss account	17	<u>18,280</u>	<u>17,871</u>
<b>SHAREHOLDERS' FUNDS</b>	18	<u>19,162</u>	<u>18,753</u>

The profit for the financial year of AWE Management Limited was £79,228,000 (2017: £71,048,000).

The financial statements of AWE Management Limited, registered number 03664571 were approved by the board of directors and authorised for issue.

Signed on behalf of the Board of Directors



P G Morton  
Director  
22 May 2019

# AWE MANAGEMENT LIMITED

## COMPANY BALANCE SHEET

31 December 2018

	Notes	2018 £'000	Restated 2017 £'000
<b>FIXED ASSETS</b>			
Investments	10	<u>50</u>	<u>50</u>
<b>CURRENT ASSETS</b>			
Debtors			
- due within one year	11	33,942	38,863
- due after more than one year	11	383,000	495,000
Cash at bank and in hand		<u>96,372</u>	<u>75,842</u>
		513,314	609,705
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(124,944)</u>	<u>(106,928)</u>
<b>NET CURRENT ASSETS</b>		<u>388,370</u>	<u>502,777</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		388,420	502,827
Defined benefit pension liability	22	<u>(383,000)</u>	<u>(495,000)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITIES</b>		<u>5,420</u>	<u>7,827</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	882	882
Profit and loss account	17	<u>4,538</u>	<u>6,945</u>
<b>SHAREHOLDERS' FUNDS</b>	18	<u>5,420</u>	<u>7,827</u>

The financial statements of AWE Management Limited, registered number 03664571 were approved by the board of directors and authorised for issue.

Signed on behalf of the Board of Directors



P G Morton  
Director  
22 May 2019



**AWE MANAGEMENT LIMITED****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2018**

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total Equity £'000</b>
At 1 January 2018	882	17,871	18,753
Profit for the financial year	-	82,044	82,044
Dividends paid on equity shares	-	(81,635)	(81,635)
At 31 December 2018	882	18,280	19,162
Actuarial gain in relation to pension fund	-	97,000	97,000
Loss in value on pension undertaking in contract	-	(97,000)	(97,000)
At 31 December 2018	882	18,280	19,162

**AWE MANAGEMENT LIMITED****COMPANY STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2018**

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total Equity £'000</b>
At 1 January 2018	882	6,945	7,827
Profit for the financial year	-	79,228	79,228
Dividends paid on equity shares	-	(81,635)	(81,635)
At 31 December 2018	882	4,538	5,420
Actuarial gain in relation to pension fund	-	97,000	97,000
Loss in value on pension undertaking in contract	-	(97,000)	(97,000)
At 31 December 2018	882	4,538	5,420

# **AWE MANAGEMENT LIMITED**

## **CONSOLIDATED CASH FLOW STATEMENT**

**For the year ended 31 December 2018**

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
		<b>£'000</b>	<b>£'000</b>
<b>Net cash inflow from operating activities</b>	<b>21</b>	<b>101,946</b>	<b>74,331</b>
<b>Cash flows from investing activities</b>			
Interest received		<u>584</u>	<u>159</u>
<b>Net cash inflow from investing activities</b>		<u>584</u>	<u>159</u>
<b>Cash flows from financing activities</b>			
Equity dividends paid		<u>(81,635)</u>	<u>(69,746)</u>
<b>Net cash flow from financing activities</b>		<u>(81,635)</u>	<u>(69,746)</u>
<b>Net increase in cash and cash equivalents</b>		<u>20,895</u>	<u>4,744</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>77,172</u>	<u>72,428</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>98,067</u></u>	<u><u>77,172</u></u>
<b>Reconciliation to cash at bank and in hand</b>			
Cash at bank and in hand		<u>98,067</u>	<u>77,172</u>
<b>Cash and cash equivalents</b>		<u><u>98,067</u></u>	<u><u>77,172</u></u>

# **AWE MANAGEMENT LIMITED**

## **NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2018**

### **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 Management Limited is a company incorporated in England and Wales under the Companies Act. The address of the registered office is given on page 1. The nature of the group'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 Management Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

AWE Management Limited meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemption available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of profit and loss statement, cash flow statement and remuneration of key management personnel.

#### **Basis of consolidation**

The Group financial statements consolidate the accounts of AWE Management Limited and all of its subsidiary undertakings. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### **Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the strategic report. The directors' report further describes the financial position of the Group; its cash flows, liquidity position and borrowing facilities; the Group's objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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 as detailed in the directors' report, they are satisfied that the Group and Company have adequate resources to continue in operation for the foreseeable future, being at least twelve months from the date of signing these financial statements.

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

#### **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.

# **AWE MANAGEMENT LIMITED**

## **NOTES TO THE ACCOUNTS (continued)**

**For the year ended 31 December 2018**

### **1. ACCOUNTING POLICIES (continued)**

#### **Financial risk management objectives**

The Group's Corporate Treasury function provides services to the business and monitors and manages the financial risks relating to the operations of the Group. These risks include currency risk, liquidity risk and cash flow interest rate risk. The Treasury management policy is risk averse and will seek to minimise the effect of these risks through the use of financial instruments. Surplus cash is invested with institutions approved by the board and within the liquidity and maturity constraints set by the AWE Management Limited Audit Committee.

#### **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 profit or loss.

#### **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 Group and Company have 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**

The majority of research and development expenditure has been carried out under the terms of the Company's Management and Operation Contract with the Ministry of Defence and has all been charged to the profit and loss account as incurred. Research and development expenditure is not capitalised as assets remain in government ownership.

#### **Stocks, work in progress and long-term contracts**

Cumulative costs incurred net of amounts transferred to cost of sales, less provision, if any, are included as long-term contract balances in stock. 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.

#### **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.

# **AWE MANAGEMENT LIMITED**

## **NOTES TO THE ACCOUNTS (continued)**

**For the year ended 31 December 2018**

### **1. ACCOUNTING POLICIES (continued)**

#### **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 Group 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 total recognised gains and losses.

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.

#### **Judgements and key sources of estimation uncertainty**

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 judgements have had the most significant effect on amounts recognised in the financial statements:

##### **Performance fee**

Turnover arising from performance fees in connection to the delivery of contractual milestones is recognised on a percentage of completion basis in relation to actual costs incurred to the total estimated cost at completion. In certain circumstances where the contractual milestone has not yet been delivered to the customer or has been delivered but not yet approved by the customer an assessment will be made regarding the appropriate level of performance fee to be recognised.

##### **Defined benefit pension scheme**

The cost of defined benefit pension schemes 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 22.

## **AWE MANAGEMENT LIMITED**

### **NOTES TO THE ACCOUNTS (continued)**

**For the year ended 31 December 2018**

#### **2. TURNOVER**

The Company's turnover is materially all generated within the United Kingdom and derives from the Group and Company's activities in operating the AWE facility.

#### **3. ADMINISTRATIVE EXPENSES**

Administrative expenses represent costs that are not recoverable from contracts.

#### **4. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest	<u>584</u>	<u>159</u>

#### **5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

Profit on ordinary activities before taxation is stated after charging:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Rentals under operating leases:		
- Hire of plant and machinery	<u>148</u>	<u>23</u>
Research and development expenditure	<u>107,000</u>	<u>100,000</u>
Auditors' remuneration:		
The analysis of the Company's auditors' remuneration is as follows:		
Fees payable for the audit of the Company's annual accounts	176	190
The audit of the Company's subsidiaries pursuant to legislation	176	190
Other assurance services	<u>13</u>	<u>15</u>
Total audit fees	<u>365</u>	<u>395</u>

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 6. EMPLOYEES

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

	2018	2017
	No.	No.
Science and technical support	2,147	2,118
Engineering and manufacturing	2,569	2,422
Business services	534	493
	<u>5,250</u>	<u>5,033</u>

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

	2018	2017
	£'000	£'000
Wages and salaries	249,653	219,892
Social security	25,074	22,276
Other pension costs	6,000	10,000
Net pension finance expense	12,000	15,000
Pension costs recoverable under contract in future periods	10,201	3,349
	<u>302,928</u>	<u>270,517</u>

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

### 7. DIRECTORS' REMUNERATION

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

	2018	2017
	£'000	£'000
<b>Directors' remuneration</b>		
Aggregate emoluments	3,303	2,318
Pension emoluments	83	38
	<u>3,386</u>	<u>2,356</u>

There are no retirement benefits accruing to any director (2017: none).

#### Highest paid director (included in above)

Aggregate emoluments	<u>977</u>	<u>1,332</u>
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The above amounts include the cost of UK/US tax equalisation, in-country and relocation expenses paid by related parties for the provision of the services of certain directors.



# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	2018 £'000	2017 £'000
Current tax		
Current income tax charge	18,788	16,420
Adjustment in respect of prior years	410	959
Total current tax	19,198	17,379
Deferred tax		
Current year charge	119	433
Adjustments in respect of prior periods	-	-
Total deferred tax	119	433
Tax on profit on ordinary activities (note 8ii)	19,317	17,812

#### 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:

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	101,362	88,256
Tax at 19.00% (2017 19.25%) thereon	19,259	16,989
Effects of:		
Expenses not deductible for tax purposes	25	26
Other short term timing differences	(377)	(162)
Adjustment in respect of prior years	410	959
Total tax expense	19,317	17,812

The Finance Act 2016, provides for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

#### iii) Other operating income

Included in other income is £11,808,025 (2017: £11,042,587) receivable from HMRC in respect of research and development tax relief through the Research and Development Expenditure Credit (RDEC) scheme.

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 9. DIVIDENDS

	2018	2017
	£'000	£'000
Interim dividend paid £21.35 per share (2017: £15.17)	18,838	13,388
Second interim dividend paid £33.16 per share (2017: £30.63)	29,259	27,031
Third interim dividend paid for £18.42 per share (2017: £16.35)	16,253	14,424
Fourth interim dividend paid for £19.59 per share (2017: £16.89)	17,285	14,903
	<u>81,635</u>	<u>69,746</u>

The dividend paid per share is calculated using the number of called up, allotted and fully paid ordinary shares.

### 10. 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 retains 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.

### 11. DEBTORS

	Group		Company	
		Restated*		Restated*
Notes	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
<b>Amounts falling due within one year:</b>				
Amounts recoverable on contracts	49,159	48,757	33,942	38,863
Other debtors	22,953	22,510	-	-
Deferred tax recoverable	8 1,234	1,354	-	-
Prepayments and accrued income	7,749	9,632	-	-
	<u>81,095</u>	<u>82,253</u>	<u>33,942</u>	<u>38,863</u>
<b>Amounts falling due after more than one year:</b>				
Pension recoverable under terms of contract	383,000	495,000	383,000	495,000
	<u>464,095</u>	<u>577,253</u>	<u>416,942</u>	<u>533,863</u>

\* Company: A prior year adjustment in relation to a R&D receivable item has been made between Trade debtors within Amounts recoverable on contracts (increased by £22,043,000) and Corporation tax receivable (increased by £22,043,000). Subsequently a further adjustment was made between Corporation tax payable (increased by £9,215,000) and Corporation tax receivable (increased by £9,215,000). All prior year adjustments are reclassifications to the balance sheet and net assets remain unchanged.

\* Group: A prior year adjustment in relation to a VAT asset has been made between Other debtors (reduced by £11,171,000) and Other tax and social security (reduced by £11,171,000). A prior year adjustment in relation to a R&D receivable item has been made between Other debtors (increased by £22,043,000) and Corporation tax receivable (increased by £22,043,000). Subsequently a further adjustment was made between Corporation tax payable (increased by £9,215,000) and Corporation tax receivable (increased by £9,215,000). All prior year adjustments are reclassifications to the balance sheet and net assets remain unchanged.

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

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

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

	Notes	Group		Company	
		2018	Restated 2017*	2018	Restated 2017*
		£'000	£'000	£'000	£'000
Trade creditors		42,076	34,202	-	-
Amounts owed to shareholder groups	23	3,526	3,216	-	-
Amounts owed to group companies		-	-	99,148	79,572
Corporation tax payable		10,198	9,215	10,198	9,215
Other taxation and social security		18,983	16,659	13,385	12,546
Other creditors		79	3,150	-	-
Group relief payable		-	-	1,694	4,678
Accruals and deferred income		73,902	58,407	519	916
		<u>148,764</u>	<u>124,849</u>	<u>124,944</u>	<u>106,927</u>

\* Company: A prior year adjustment in relation to a R&D receivable item has been made between Trade debtors within Amounts recoverable on contracts (increased by £22,043,000) and Corporation tax receivable (increased by £22,043,000). Subsequently a further adjustment was made between Corporation tax payable (increased by £9,215,000) and Corporation tax receivable (increased by £9,215,000). All prior year adjustments are reclassifications to the balance sheet and net assets remain unchanged.

\* Group: A prior year adjustment in relation to a VAT asset has been made between Other debtors (reduced by £11,171,000) and Other tax and social security (reduced by £11,171,000). A prior year adjustment in relation to a R&D receivable item has been made between Other debtors (increased by £22,043,000) and Corporation tax receivable (increased by £22,043,000). Subsequently a further adjustment was made between Corporation tax payable (increased by £9,215,000) and Corporation tax receivable (increased by £9,215,000). All prior year adjustments are reclassifications to the balance sheet and net assets remain unchanged.

### 13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Amounts owed to group companies	-	-	383,000	495,000

### 14. PROVISIONS FOR LIABILITIES

Group	2017	Charge/ (credit) to P&L	Utilised	2018
		£'000		
		£'000	£'000	£'000
Employee	13,923	(74)	(2,613)	11,236
Contract	1,900	(1,900)	-	-
	<u>15,823</u>	<u>(1,974)</u>	<u>(2,613)</u>	<u>11,236</u>

Employee provisions comprise obligations to employees other than retirement benefit obligations. Other provisions principally comprise legal claims, legal costs, onerous leases and other commitments.

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.

The Company has no provisions for liabilities.

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 15. 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		Fair Value	
	2018	2017	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Less than 12 months	-	1.5366	-	125	-	142
1-2 years	-	-	-	-	-	-
2-3 years	-	-	-	-	-	-
Purchase USD			-	125	-	142
Less than 12 months	1.1162	-	927	-	934	-
1-2 years	1.0847	-	944	-	946	-
2-3 years	1.0639	-	506	-	509	-
Purchase EUR			2,377	-	2,389	-
			2,377	125	2,389	142
Fair value adjustment					12	17

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	2018
	£'000	£'000	£'000
Asset	12	-	12
Liability	-	-	-
	12	-	12

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 16. CALLED UP SHARE CAPITAL

The authorised share capital of the Company is as follows:

	2018 No.	2017 No.	2018 £'000	2017 £'000
<b>Authorised:</b>				
Ordinary shares of £1 each				
Class A	5,000,000	5,000,000	5,000	5,000
Class B	5,000,000	5,000,000	5,000	5,000
Class C	5,000,000	5,000,000	5,000	5,000
	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000</u>	<u>15,000</u>

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

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

	2018 No.	2017 No.	2018 £	2017 £
<b>Called up, allotted and fully paid:</b>				
Ordinary shares of £1 each				
Class A	216,176	216,176	216,176	216,176
Class B	450,000	450,000	450,000	450,000
Class C	216,176	216,176	216,176	216,176
At 31 December	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>

### 17. PROFIT AND LOSS ACCOUNT

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
At 1 January	17,871	17,173	6,945	5,643
Profit for the financial year	82,044	70,444	79,228	71,048
Dividends paid to equity shareholders	(81,635)	(69,746)	(81,635)	(69,746)
At 31 December	<u>18,280</u>	<u>17,871</u>	<u>4,538</u>	<u>6,945</u>

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
At 1 January	18,753	18,055	7,827	6,525
Profit for the financial year	82,044	70,444	79,228	71,048
Dividends paid to equity shareholders	(81,635)	(69,746)	(81,635)	(69,746)
At 31 December	19,162	18,753	5,420	7,827

### 19. COMMITMENTS

#### a) Operating lease commitments

At 31 December 2018, the Group had annual commitments under non-cancellable operating leases as follows:

	2018	2017
	£'000	£'000
Expiring:		
in less than one year	-	190
between one and two years	64	22
between two and five years	84	84
after five years	-	-
	148	296

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

#### b) Purchase commitments

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Contracted for but not provided	660,035	665,452	-	-

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.

### 20. CONTINGENT LIABILITIES

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Bank bond	2,000	2,000	2,000	2,000

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 (continued)

For the year ended 31 December 2018

### 21. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated by operating activities	Restated*	
	2018	2017
	£'000	£'000
Operating profit	100,778	88,097
Decrease in debtors	1,038	21,213
Increase in creditors & provisions	17,933	(7,088)
Increase in RDEC debtor	(745)	(11,043)
Cash generated by operations	119,004	91,179
Corporation tax paid	(17,058)	(16,848)
Net cash inflow from operating activities	101,946	74,331

\*A prior year adjustment has been recognised in relation to balance sheet reclassifications as noted within Note 11 and 12.

### 22. PENSION SCHEME

Pension contributions of £28,200,594 (2017: £24,250,494) were made in the year in respect of the AWE defined contribution pension scheme.

All pension contributions to the AWE defined benefit scheme ceased in 2017 (2017: £4,098,080) 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 following agreement between AWE, the pension scheme trustees and the Government. The impact of the closure of the scheme to new entrants and future accrual for existing members was a curtailment gain of £34m.

Under FRS 102 (Retirement Benefits), the directors feel it is appropriate to account for the scheme as a defined benefit scheme under FRS 102 (Retirement Benefits) (Note 1), however 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 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 to enable the liability at 31 December 2017 to be estimated, using the assumptions below, based on the calculated liability as at 31 March 2018.

	2018	2017	2016	2015	2014
<b>Assumptions</b>					
Rate of increase in pensionable pay	2.30%	2.20%	2.30%	2.00%	3.50%
Rate of increase in pensions in payment	2.30%	2.20%	2.30%	2.00%	2.00%
Rate of increase in pensions in deferment	2.30%	2.20%	2.30%	2.00%	2.00%
Discount rate	2.80%	2.40%	2.60%	3.70%	3.40%
Inflation assumption (CPI)	2.30%	2.20%	2.30%	2.00%	2.00%
Mortality assumption - life expectancy at age 60 for current pensioner (male, normal health, industrial grade)	26.8	27.8	27.7	27.5	27.4
Mortality assumption - life expectancy at age 60 for current non-pensioner (male, normal health, industrial grade)	28.9	30.0	29.8	29.8	29.7

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 22. PENSION SCHEME (continued)

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

	2018		2017		2016		2015		2014
	**	£m	**	£m	**	£m	**	£m	% £m
Equities		516		568		515		412	7.50 332
Property		123		133		211		128	7.00 120
Infrastructure		57		74		-		66	7.50 120
Absolute return		277		260		273		171	7.50 171
High yield		-		-		-		-	7.50 91
Bonds		256		230		182		155	3.70 115
Bank loans		-		-		-		-	3.70 -
Global macro		-		-		-		-	7.50 52
Other		274		323		237		246	7.50 109
Cash		8		18		61		5	0.50 19
Total fair value of assets		1,512		1,606		1,479		1,183	1,129
Present value of scheme liabilities		(1,895)		(2,101)		(2,104)		(1,544)	(1,682)
Deficit in the scheme		(383)		(495)		(625)		(361)	(553)

\*\* Under FRS 102, the rate of long term expected return on assets is no longer required for future accounting periods.

From January 2018 to March 2018, deficit recovery contributions of £2.5m a month were payable. From April 2018, deficit recovery contributions increased to £2.6m in line with CPI increases.

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

	2018	2017
	£million	£million
Curtailment gain	-	(34)
Current service cost (net of employees' contributions)	6	10
Past service cost	5	-
	11	(24)

An allowance for expenses has been charged to the P&L by increasing the current service cost in relation to expenses, including the Scheme's PPF levy payments and investment expenses



# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 22. PENSION SCHEME (continued)

#### Analysis of the actuarial gain / (loss) in the statement of total recognised gains and losses

	2018	2017
	£million	£million
Actual return less expected return on pension scheme assets	(112)	102
Experienced gains arising on the scheme liabilities	42	30
Changes in assumptions underlying the present value of the scheme liabilities	167	(50)
	<u>97</u>	<u>82</u>

#### Movement in scheme deficit during the year

	2018	2017
	£million	£million
At 1 January	(495)	(625)
Current service cost	(6)	(12)
Contributions - employees'	-	2
Contributions - employer's	38	39
Past service costs	(5)	-
Curtailment	-	34
Net finance expense	(12)	(15)
Actuarial gain	97	82
At 31 December	<u>(383)</u>	<u>(495)</u>

#### History of experienced gains and losses

	FRS102				
	2018	2017	2016	2015	2014
					Restated
<b>Difference between the expected and the actual return on scheme assets:</b>					
Amount (£million)	(112)	102	240	(8)	101
Percentage of scheme assets	(7%)	6%	16%	1%	9%
<b>Experienced gains and (losses) on scheme liabilities:</b>					
Amount (£million)	42	30	(5)	(110)	26
Percentage of present value of scheme liabilities	2%	1%	0%	7%	2%
<b>Total actuarial (loss)/gain</b>					
Amount (£million)	97	82	(265)	(21)	(109)
Percentage of present value of scheme liabilities	5%	4%	13%	1%	6%

Following guidance on GMP equalisation the year end valuation has included a reserve in respect of the cost of converting all post-88 GMP in scope.

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2018

### 23. RELATED PARTY TRANSACTIONS

There are related party transactions with AWE Management Limited's three shareholders: Serco Holdings Limited, JEG Acquisition Company Ltd and Lockheed Martin UK Strategic Systems Limited and other companies within their respective groups.

The Group traded with its shareholders as follows:

	Gross supplies and services purchased during the period		Gross sales made during the period	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Serco Holdings Limited (and group companies)	7,308	7,157	-	-
Lockheed Martin UK Strategic Systems Limited (and group companies)	22,561	22,102	-	-
JEG Acquisition Company Limited (and group companies)	15,495	18,839	-	-
	<u>45,364</u>	<u>48,098</u>	<u>-</u>	<u>-</u>

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

The Group had the following balances due to / (from) the shareholders:

	Notes	2018	2017
		£'000	£'000
Serco Holdings Limited (and group companies)		587	499
Lockheed Martin UK Strategic Systems Limited (and group companies)		2,281	940
JEG Acquisition Company Limited (and group companies)		658	1,776
		<u>3,526</u>	<u>3,216</u>
Amounts owed by shareholder groups		-	-
Amounts owed to shareholder groups	12	<u>3,526</u>	<u>3,216</u>
		<u>3,526</u>	<u>3,216</u>

No consortium relief was owed to shareholders during the year (2016: Nil)

## **AWE MANAGEMENT LIMITED**

### **NOTES TO THE ACCOUNTS (continued)**

**For the year ended 31 December 2018**

#### **24. ULTIMATE PARENT COMPANY**

The directors consider Lockheed Martin Corporation, 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, 28017, USA. Lockheed Martin Corporation 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 Lockheed Martin UK Strategic Systems Limited (Company No.SC353450), a company incorporated in Scotland. Copies of the financial statements of Lockheed Martin UK Strategic Systems Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ

#### **25. POST BALANCE SHEET EVENTS**

In March 2019 the Company agreed 'Rolling Wave 4' of the Management and Operations contract with the Ministry of Defence for the period 1 April 2019 to 31 March 2022. In April 2019 the Company reviewed its performance and assessment of associated cost and fees following the completion of 'Rolling Wave 3' of the Management and Operations contract with the Ministry of Defence for the period 1 April 2018 to 31 March 2019. The outcome of this review is subject to final contract reconciliation with the Ministry of Defence. Management did not identify any factors that indicated that these events were events that gave rise to the need to make any adjustments to the accounting and judgements adopted as the balance sheet date.