Company registration No. 03664571

AWE MANAGEMENT LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2019

AWE MANAGEMENT LIMITED

REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2019

CONTENTS

AWE MANAGEMENT LIMITED

REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2019

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

T I Bradley
I M Coucher (resigned 15 May 2020)
K D Craven
T Hagen
S Keller (resigned 28 October 2019)
P R Lutwyche
P G Morton
C W Reynell
J S Rottler
I P Tyler
G J Butler (appointed 1 July 2019)
S B Hiza (appointed 28 October 2019)
D S Hickton (appointed 8 January 2020)
A J Atkinson (appointed 15 May 2020)

COMPANY SECRETARY

J D Smith

BANKERS

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

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

COMPANY REGISTRATION NUMBER

03664571

AUDITOR

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

STRATEGIC REPORT

The directors present their annual report and their audited financial statements for the year ended 31 December 2019.

Principal Activities

During the course of the year, the principal activities continued to be the management and operation of the Atomic Weapons Establishment ('AWE') comprising a number of sites including Aldermaston and Burghfield. The company holds a contract, the 'Management and Operation Contract' with the Ministry of Defence ('MOD'), which commenced on 1 April 2000 and runs until 31 March 2025, which it delivers through its subsidiary AWE plc; the Company owns all the ordinary shares in AWE plc, the Secretary of State for Defence holding a special share. The Company's Group also performs other commercial services which are related to services delivered for the fulfilment of its principal activities.

The Company has no fixed assets; those used by AWE plc remain in government ownership within the AWE Management Limited contract arrangements.

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

Performance

Revenue of £1,048.7m was higher than the prior year (2018 £1,014.4m) reflecting the higher level of activity during the current year from the Management and Operation Contract.

Operating profit of £95.0m was 6% lower than the prior year (2018: £100.8m), due to a higher level of costs during the year.

The average number of the Group's employees in the year (employed by AWE plc) has increased to 5,535 (2018: 5,250).

COVID-19

At AWE the work is carried out that is considered critical to the UK Government and as a result certain tasks must continue during the COVID pandemic.

The Company continues to work closely with Ministry of Defence on prioritising activities to ensure the Company continues to focus on the highest priority areas while implementing measures to keep everyone safe during the COVID-19 crisis.

AWE has taken the necessary steps to ensure it has been able to respond effectively to the impact of COVID-19. A detailed review and robust assessment of the potential consequences and mitigations has been completed and there is a detailed plan in place to respond, remediate and recover from this pandemic outbreak.

The potential consequences have been assessed as:

- Increased employee absenteeism and lower productivity due to family care obligations, social distancing and fear of infection.
- Closure of critical facilities below key manning numbers.
- Operational disruptions, including interruptions and delays in transportation networks and supply chains.
- Inadequate level of security.
- Regulatory non-compliance, including ability to maintain licence condition commitments.
- Closure of critical facilities below key manning numbers.
- Reputational damage if response to an outbreak is seen as ineffective or the communications with stakeholders is seen as incomplete or misleading.

The control and mitigation activities include targeted action plans and a number of these are set out below. A stakeholder plan is in place to prioritise the order of actions, decisions, and communications.

- Preventative measures: travel restrictions on all non-critical business travel, guidance for primary responders, introduction of hand gels and hand washing signs.
- Resilience measures: facility shut down and response plans, restart planning of operations and opening site after forced closure, and on-site staffing arrangements.
- Containment measures: focus on continued provision of cyber support, financial services, and IT services, working at home measures where possible, on-site staffing arrangements, prevention of gatherings of staff, protection of critical staff including the provision of PPE, introduction of shift patterns to ensure social distancing measures maintained, and restriction of access to certain facilities.

To ensure the focus remains on the prioritised activities and given the consequences of staff non-availability and implementing social distancing protections for our workforce, AWE has taken steps to reduce or pause operations in limited areas in order to prioritise support to these activities.

As a result of the above, including making a number of adjustments in relation to the matters identified, some of which may need to be in place for a sustained period, AWE has been able to and expects to be able to continue to maintain safe and continuous operations.

The Company continue to follow closely the advice put out by the government and work to reflect this advice at AWE.

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

The Company has assessed that the COVID-19 event does not adversely impact the Company's ability to continue as a going concern. Further details are set out in Note 1 'Going concern' on page 18.

STRATEGIC REPORT (CONTINUED)

Corporate Governance Statement

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

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

- Business purpose and strategy: AWE's principal purpose is clear; through its stewardship of the UK's nuclear warheads and provision of related services, it supports the defence and security of the United Kingdom, as required by MOD and other, principally UK government, customers. It has been operating the strategy adopted in 2016 to be Future Warhead Ready (to be able to meet demand for a successor to the current warhead system, if this is adopted as government policy), to be Trusted and Respected (through its expertise and performance), and to be Adding Value (through focusing on delivering value for money), all underpinned by placing safety at the heart of all that it does. This strategy is executed through the Group's four values of Pride, Excellence, Innovation and Trust which are reinforced throughout the Group including at the core of its employee recognition programme.
- Leadership: The Company's board of directors comprises representatives of the three shareholders in the Company; the chief executive officer and chief financial officer of AWE plc; and three non-executive directors, one of whom is the chairman of the Company.
- Accountability and governance structures: The Company operates through board meetings and committees with particular focus on audit; and environment, safety, health and assurance. These arrangements are used to oversee the operation of its subsidiary company AWE plc.
- Risk management: The Group operates a sophisticated risk management process through tiers of monthly risk boards for each business area and discussed in detail both at an executive level and with MOD. This process facilitates investment decisions against a robustly applied risk appetite. The process and key risks are also discussed with the board of and audit committee of the Company.
- People: The Company has no employees of its own; however it oversees the appointment and remuneration of the executive management of AWE plc and its workforce strategy.
- Stakeholders: The Group's stakeholders include its customers; suppliers; employees; regulators; and local communities. It has structures in place to ensure that it has open communications and dialogue with each group. Customer relationships are handled through contractually-provided governance structures and other frequent engagement; regular forums are held to facilitate discussion with key suppliers. The Group has formal structures in place for employee engagement, including through its trades union arrangements and independent employee representatives (Employee Voice), business briefings both in person and through its intranet; and less formal means including regular walk-throughs of operational areas conducted by executive and senior management. Relationships with regulators are supported by frequent meetings and are intrinsic to the way in which regulatory oversight of AWE's activities are carried out.

S172(1) Statement

This is the section 172(1) statement of AWE, made pursuant to the Companies Act s414. It sets out the way in which the directors of AWE have had regard to the matters set out in s172(1)(a) to (f) of that Act.

The board of directors of AWE meets regularly to review the operation and status of its subsidiary company, both as a board and through committees with particular areas of focus.

The main decisions which the board and committees of AWE have undertaken in the year relate to its performance of its principal (Management and Operations ('M&O')) contract with MOD, alongside the performance of AWE's other contracts with MOD and others.

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

- Long term consequences: The nature of AWE's principal activities often require planning ahead for years so that it is able to respond to the requirements of its principal customer. Shorter-term decisions are taken within the context of longer term plans which are developed and shared with MOD.
- Employee interests: The workforce of the Company's subsidiary is fundamental to its ability to discharge its role. The Company reviews the approach taken toward the development, deployment and reward structures enacted by its subsidiary in relation to its people on a regular basis.
- Supplier, customer and other relationships: The directors of the Group recognise that fulfilling its mission requires close liaison with MOD and its other customers, together with careful management of internal resources and best-in-class resources drawn from its supply chain, which includes strategic partners, specialist providers, small and medium enterprises as well as ultimate shareholder resources. Recognising that work for AWE can be of particular significance to the prosperity of some of its specialist providers, the Group takes into account the sustainability of support from its supply chain.
- Community and environment: AWE maintains a regular executive meeting with focus on the engagement between the Group and the wider community and environment. This meeting considers both the impact and potential impact of the Group's operations on the local community and environment, and the opportunities for employment and educational benefits. All decisions taken by the Group with regard to its estate consider not just its obligations to comply with environmental regulation, but also the opportunities to enhance local conditions for flora and fauna on its sites.
- Reputation for high standards of business conduct: AWE takes its corporate responsibility very seriously. As a Group whose operations are of significant national importance, AWE is conscious that its actions are open to scrutiny from the press and public at large as well as parliamentary and other formal forums, and takes its decisions in the light not just of their operational appropriateness, but also in the light of potential scrutiny and associated requirement to demonstrate the integrity and fairness of its decision-making and relationships with others.
- Acting fairly as between members: The Company has three shareholders; the relationship between the Company and the shareholders is set out in a shareholders' agreement and the board of the Company operates in accordance with its provisions.

STRATEGIC REPORT (CONTINUED)

Employee and other stakeholder engagement

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

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

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

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 AWE plc's Executive Committee, monthly Business Performance Reviews and Risk and Opportunity Management Boards. The Company additionally reviews the efficacy of the risk management process and the handling of the most significant risks.

Risk Culture

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

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

Principal Strategic Risks

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 have 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 are demonstrated and tested through site exercise programmes as are business continuity plans. 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 its robust safety management system, which is routinely monitored and audited as part of AWE's 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 on key capabilities. Long term planning includes requirements for capital projects, and the set strategy to use framework Partner agreements for delivery of capital projects across AWE.
- Delivery of complex new facilities: Successful project management, integration and acceptance of the complex new facilities with delivery partners 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 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. Internally a new supply chain operating model has been implemented to assist the business to deliver efficiencies and reduced risk through the supply chain.

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 may be 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 best 25 big companies for 2019. Leadership and wellbeing programmes, alongside 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. IR35 changes brought new risk to resourcing specialist roles predominantly filled by contingent workers which continue to work through into 2021 for a successful outcome.
- 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. Single point of failure plant is prioritised for investment funding decisions based on criticality and risk assessments to support the business manufacturing demands.

Principal Operational Risks (continued)

- 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 constant investment in robust physical security arrangements and data resilience strategies, with mandatory security awareness training for all staff.
- Defined Benefit Pension funding obligations are dependent on several economic assumptions: AWE must continue to monitor the extent of the defined benefit pension scheme obligations and implications of risks on an annual basis. The risk has been mitigated in part by the closure of the defined benefit scheme to new entrants and future accruals for existing members. A defined contribution pension scheme has replaced this scheme.
- Integration of new significant systems and information technology in the business support areas. Projects involving change could impact operations through increased capital expenditure, demands on management time and risks of delays or difficulties in transitioning to new systems. In 2019, AWE delivered new key IT systems across the business with integration and resilience being key deliverables through good governance and thorough testing. Work continues in this area for future IT projects in 2020.

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

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 MOD.

Environment

AWE Environment Policy commits to the following endeavours:

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

AWE plc has a Director 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

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

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

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

For further information on AWE business ethics policies please visit www.awe.co.uk.

Approved by the Board and signed on its behalf by:

P G Morton

Director

8 June 2020

DIRECTORS' REPORT

The directors who held office during the period were:

T I Bradley
I M Coucher (resigned 15 May 2020)
K D Craven
T Hagen (resigned 8 January 2020)
S Keller (resigned 28 October 2019)
P R Lutwyche
P G Morton
C W Reynell
J S Rottler
I P Tyler
G J Butler (appointed 1 July 2019)
S B Hiza (appointed 28 October 2019)
D S Hickton (appointed 8 January 2020)
A J Atkinson (appointed 15 May 2020)

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 £14,6m (2018: £18.8m) was declared on 20 March 2019 and paid on 27 March 2019. A second interim dividend of £26.4m (2018: £29.3m) was declared on 21 June 2019 and paid on 26 June 2019. A third interim dividend of £14.3m (2018: £16.3m) was declared on 24 September 2019 and paid on 24 September 2019. A fourth and final dividend of £16.5m (2018: £17.3m) was declared on 11 December 2019 and paid on 20 December 2019.

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. AWE Management Limited holds a contract, the 'Management and Operation Contract' with the MOD, 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 the Group's shareholders and banking arrangements. It is not considered that there is any significant credit risk on the trade debtors held by the Group.

The 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 MOD. Research and development expenditure is not capitalised as assets remain in government ownership.

Pension Scheme

AWE 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 AWE is required by the Pensions Regulator to ensure that the Scheme has a Funding Plan in place, AWE 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 2019 was £453m This amount is shown as recoverable under the terms of the contract.

Going concern

The Company's business activities, together with the factors likely to affect its future development, its performance and position, financial risk management objectives, details of its financial instrument and derivative activities are described in the directors' report on page 6 and in the accounting policies on pages 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 external social, political and economic environment. The implications of both COVID-19 and the implications of the UK exiting the European Union have both been considered in arriving at this conclusion. Neither events alter the directors' assessment of the Company's ability to continue as a going concern as set out above. The directors have assessed the impact of these events. The impact of COVID-19 is set out on page 18. The impact of exiting the European Union has been assessed and the implications on both direct and indirect service providers (e.g. employees and suppliers) on the Company have been considered.

French Branch

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

Disabled Persons

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

Individual circumstances regarding disability are taken into account and adjusted for throughout the recruitment process and we comply fully with the Equalities Act 2010 throughout the employee lifecycle including provision of training, learning and career development.

AWE has a Disability and Neurodiversity workstream supporting the Diversity and Inclusion work of the organisation, sponsored by the Executive team. The team raise awareness of disabilities and how to support colleagues. In addition, AWE achieved an award for our approach to Neurodiversity in 2019.

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

Auditors

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

Directors' statement as to disclosure of information to auditors

The directors who were members of the board of directors at the time of approving the directors' report are listed on page 6. Having made enquiries of fellow directors and of the Group'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 Group's auditor in connection with the preparation of the annual report) of which the Group'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 Group's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

P G Morton
Director
8 June 2020

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 Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company 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

Opinion

We have audited the financial statements of AWE Management Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the group Profit and Loss Account, the group and parent company Balance Sheet, group Statement of cash flows, the group Statement of comprehensive income, the group and parent Statement of changes in equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

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

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

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

12 June 2020

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
TURNOVER	2	1,048,740	1,014,373
Other operating income	8	15,337	11,808
Cost of sales		(968,416)	(925,010)
GROSS PROFIT		95,661	101,171
Administrative expenses	3	(684)	(393)
OPERATING PROFIT		94,977	100,778
Interest receivable and similar income	4	770	584
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	95,747	101,362
Tax on profit on ordinary activities	8	(18,984)	(19,317)
PROFIT FOR THE FINANCIAL YEAR	17	76,763	82,044
Profit for the financial year attributable to:			
Owners of the parent		39,149	41,843
Non-controlling interests		37,614	40,201

The notes on pages 18 to 33 form part of these financial statements

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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Profit for the financial year		76,763	82,044
Actuarial (loss) / gain in relation to pension fund	22	(91,000)	97,000
Gain / (loss) in value on pension undertaking in contract		91,000	(97,000)
Total comprehensive income		76,763	82,044
Total comprehensive income attributable to:			
Owners of the parent		39,149	41,843
Non-controlling interests		37,614	40,201

AWE MANAGEMENT LIMITED

CONSOLIDATED BALANCE SHEET
At 31 December 2019

	Notes	2019 £'000	2018 £'000
CURRENT ASSETS			
Debtors			
- due within one year	11	86,620	81,095
- due after more than one year	11	453,000	383,000
Cash at bank and in hand		101,291	98,067
		640,911	562,162
CREDITORS: amounts falling due within one year	12	(154,362)	(148,764)
NET CURRENT ASSETS		486,549	413,398
TOTAL ASSETS LESS CURRENT LIABILITIES		486,549	413,398
PROVISIONS FOR LIABILITIES	14	(9,384)	(11,236)
NET ASSETS EXCLUDING PENSION LIABILITIES		477,165	402,162
Defined benefit pension liability	22	(453,000)	(383,000)
NET ASSETS INCLUDING PENSION LIABILITIES		24,165	19,162
CAPITAL AND RESERVES			
Called up share capital	16	882	882
Profit and loss account	17	23,283	18,280
SHAREHOLDERS' FUNDS	18	24,165	19,162

The profit for the financial year of the Group was £76,763,000 (2018: £82,044,000).

The notes on pages 18 to 33 form part of these financial statements

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
8 June 2020

AWE MANAGEMENT LIMITED

COMPANY BALANCE SHEET
31 December 2019

	Notes	2019 £'000	2018 £'000
FIXED ASSETS			
Investments	10	50	50
CURRENT ASSETS			
Debtors			
- due within one year	11	43,674	33,942
- due after more than one year	11	453,000	383,000
Cash at bank and in hand		98,540	96,372
		595,214	513,314
CREDITORS: amounts falling due within one year	12	(131,744)	(124,944)
NET CURRENT ASSETS		463,471	388,370
TOTAL ASSETS LESS CURRENT LIABILITIES		463,521	388,420
Defined benefit pension liability	22	(453,000)	(383,000)
NET ASSETS INCLUDING PENSION LIABILITIES		10,521	5,420
CAPITAL AND RESERVES			
Called up share capital	16	882	882
Profit and loss account	17	9,639	4,538
SHAREHOLDERS' FUNDS	18	10,521	5,420

The profit for the financial year of AWE Management Limited was £76,862,000 (2018: £79,228,000).

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. Morton

P G Morton
Director
8 June 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
At 1 January 2019	882	18,280	19,162
Profit for the financial year	-	76,763	76,763
Dividends paid on equity shares	-	(71,761)	(71,761)
At 31 December 2019	882	23,282	24,164
Actuarial (loss) / gain in relation to pension fund	-	(91,000)	(91,000)
Gain / (loss) in value on pension undertaking in contract	-	91,000	91,000
At 31 December 2019	882	23,282	24,164

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
At 1 January 2019	882	4,538	5,420
Profit for the financial year	-	76,862	76,862
Dividends paid on equity shares	-	(71,761)	(71,761)
At 31 December 2019	882	9,639	10,521
Actuarial (loss) / gain in relation to pension fund	-	(91,000)	(91,000)
Gain / (loss) in value on pension undertaking in contract	-	91,000	91,000
At 31 December 2019	882	9,639	10,521

AWE MANAGEMENT LIMITED

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Net cash inflow from operating activities	21	74,215	101,946
Cash flows from investing activities			
Interest received		770	584
Net cash inflow from investing activities		770	584
Cash flows from financing activities			
Equity dividends paid		(71,761)	(81,635)
Net cash flow from financing activities		(71,761)	(81,635)
Net increase in cash and cash equivalents		3,224	20,895
Cash and cash equivalents at beginning of year		98,067	77,172
Cash and cash equivalents at end of year		101,291	98,067
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		101,291	98,067
Cash and cash equivalents		101,291	98,067

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

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. AWE Management Limited is a private company limited by shares. 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 and Company'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 have a reasonable expectation that the Group and 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. In making this assessment the directors have given sufficient consideration to the current external social, political and economic environment, and the impact that may have on the operations and financial performance of the Group and Company. The implications of both the UK exiting the European Union and COVID-19 have been considered in arriving at this conclusion. Neither event alters the directors' assessment of the Group and Company's ability to continue as a going concern.

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

In relation to the COVID-19 pandemic the work carried out at AWE is considered critical to the UK Government and as a result certain tasks must be continued during the duration of the pandemic. The Group and Company's principle operations are under contract with the Ministry of Defence, which commenced on 1 April 2000 and runs until 31 March 2025. The nature of the contract with the Ministry of Defence ('MOD') is such that qualifying services are reimbursed by the customer, with variable levels of margin depending on performance. The Group and Company continues to work closely with MOD on prioritising activities to ensure the Group and Company continues to focus on the highest priority areas while implementing measures to keep everyone safe during the COVID-19 crisis.

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

Scenario planning and impact analysis has been undertaken with regards to financial impacts, including revenue, profitability and liquidity implications; commercial impacts, including contractual considerations; and supply chain considerations, including monitoring of critical suppliers. Scenario modelling included a range that increased the forecast impact a further 100% on the actual impact estimated by the Group or Company, which still did not give rise to liquidity issues. These alternative scenarios do not give any indication that the going concern assumption is not appropriate. In all scenarios there is an underlying assumption that there is no recourse to either any of the UK Government's financial support schemes or to AWE's working capital facilities.

At the current time it is not considered that the implications of the COVID-19 pandemic will have a material degradation, now or in the foreseeable future, in any of these areas set out above and will continue to be evaluated as the situation develops.

Subsequent to year-end, there has been no significant adverse impact on revenues, profitability or liquidity.

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.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2019

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 the profit or loss account.

Operating leases

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

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 MOD and has all been charged to the profit and loss account as incurred. Research and development expenditure is not B538 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.

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 fee is calculated as cost multiplied by fee rate. The fee rate is the contractual rate adjusted for an assessment of prevailing risks associated with the relevant performance obligations. The performance fee is also determined by assumptions of future available funding.

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.

Disallowable cost

The MOD continue to have the ability to challenge whether certain costs are Appropriate, Attributable and Reasonable (AAR) and recoverable. An assessment of the exposure to costs recovered from the MOD being challenged as to their recoverability under the contract is made taking into consideration a number of factors, including past and current experiences and challenges. This assessment is recorded as a reduction to revenue, and a reclassification of cost from cost of sales to administrative expenses.

2. TURNOVER

The Company's turnover is materially all generated within the United Kingdom and derives from the Group and Company's activities in the management and operation of the Atomic Weapons Establishment ('AWE').

3. ADMINISTRATIVE EXPENSES

Administrative expenses represent costs that are not recoverable from contracts.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019	2018
	£'000	£'000
Bank interest	770	584

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2019	2018
	£'000	£'000
Rentals under operating leases:		
- Hire of plant and machinery	116	148
Research and development expenditure	107,000	107,000
Auditors' remuneration:		
The analysis of the Company's auditors' remuneration is as follows:		
Fees payable for the audit of the Company's annual accounts	166	176
The audit of the Company's subsidiaries pursuant to legislation	166	176
Other non-assurance services	-	13
Total audit fees	332	365

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2019

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:

	2019 No.	2018 No.
Science and technical support	2,388	2,147
Engineering and manufacturing	2,559	2,569
Business services	588	534
	5,535	5,250

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

	2019 £'000	2018 £'000
Wages and salaries	266,871	249,653
Social security	27,336	25,074
Other pension costs	5,000	6,000
Net pension finance expense	9,500	12,000
Pension costs recoverable under contract in future periods	16,113	10,201
	324,820	302,928

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:

	2019 £'000	2018 £'000
Directors' remuneration		
Aggregate emoluments	3,066	3,303
Pension emoluments	49	83
	3,115	3,386

There are no retirement benefits accruing to any director (2018: none).

Highest paid director (included in above)		
Aggregate emoluments	1,153	977

Group and Company do not have a share options scheme therefore the highest paid director had no share options to exercise

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

i) Analysis of tax charge on profit on ordinary activities

	2019 £'000	2018 £'000
Current tax		
Current income tax charge	17,801	18,788
Adjustment in respect of prior years	768	410
Total current tax	18,569	19,198
Deferred tax		
Current year charge	415	119
Total deferred tax	415	119
Tax on profit on ordinary activities (note 8ii)	18,984	19,317

ii) Factors affecting tax charge for the current period

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

The differences are explained below:

	2019 £'000	2018 £'000
Profit on ordinary activities before tax	95,747	101,362
Tax at 19.00% (2018 19.00%) thereon	18,192	19,259
Effects of:		
Expenses not deductible for tax purposes	26	25
Other short term timing differences	(3)	(377)
Adjustment in respect of prior years	768	410
Total tax expense	18,984	19,317

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.

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

iii) Other operating income

Included in other income is £15,336,624 (2018: £11,808,025) receivable from HMRC in respect of research and development tax relief through the Research and Development Expenditure Credit (RDEC) scheme.

iv) Deferred tax recoverable

The deferred tax recoverable in note 11 refers to the lifetime effect on corporation tax of the employee provisions as set out in note 14. These payments will hit the profit and loss account in future accounting periods, therefore reducing the corporation tax liability in those years.

9. DIVIDENDS

	2019	2018
	£'000	£'000
Interim dividend paid £16.52 per share (2018: £21.35)	14,576	18,838
Second interim dividend paid £29.93 per share (2018: £33.16)	26,409	29,259
Third interim dividend paid for £16.19 per share (2018: £18.42)	14,285	16,253
Fourth interim dividend paid for £18.69 per share (2018: £19.59)	16,491	17,285
	71,761	81,635

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 MOD to assume full ownership and control of AWE plc on completion or early termination of the Management and Operation Contract.

AWE plc registered office is Room 20, Building F161.2, Atomic Weapons Establishment, Aldermaston, Reading, Berkshire, RG7 4PR.

11. DEBTORS

	Notes	Group 2019	Group 2018	Company 2019	Company 2018
		£'000	£'000	£'000	£'000
Amounts falling due within one year:					
Amounts recoverable on contracts		45,323	49,159	30,780	33,942
Other debtors		26,768	22,953	34	-
Deferred tax recoverable	8	819	1,234	-	-
Group relief receivable		-	-	12,860	-
Prepayments and accrued income		13,710	7,749	-	-
		86,620	81,095	43,674	33,942
Amounts falling due after more than one yeai					
Pension recoverable under terms of contract		453,000	383,000	453,000	383,000
		539,620	464,095	496,674	416,942

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

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2019

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Notes	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Trade creditors		47,680	42,076	-	-
Amounts owed to shareholder groups	23	4,854	3,526	-	-
Amounts owed to group companies		-	-	105,532	99,148
Corporation tax payable		8,414	10,198	8,414	10,198
Other taxation and social security		25,423	18,983	17,767	13,385
Other creditors		237	79	-	-
Group relief payable		-	-	-	1,694
Accruals and deferred income		67,754	73,902	30	519
		154,362	148,764	131,743	124,944

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

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Amounts owed to group comp	-	-	453,000	383,000

14. PROVISIONS FOR LIABILITIES

Group	2018 £'000	Charge to profit and loss account £'000	Utilised £'000	2019 £'000
Employee	11,236	346	(2,198)	9,384
	11,236	346	(2,198)	9,384

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

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

Company

The company has no provisions for liabilities.

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2019

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 2019	Average contractual exchange rate 2018	Notional value 2019 £'000	Notional value 2018 £'000	Fair Value 2019 £'000	Fair Value 2018 £'000
< 12 months	1.2765	-	1,576	-	1,518	-
1-2 years	1.2869	-	761	-	732	-
Purchase USD			2,337	-	2,250	-
< 12 months	1.1362	1.1162	5,147	927	5,004	934
1-2 years	1.0773	1.0847	484	944	452	946
2-3 years	1.0639	1.0639	506	506	473	509
Purchase EUR			6,137	2,377	5,929	2,389
			8,474	2,377	8,179	2,389
Fair value adjustmer					(295)	12

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 £'000	Greater than one year £'000	2019 £'000
Asset	-	-	-
Liability	(201)	(94)	(295)
	(201)	(94)	(295)

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2019

16. CALLED UP SHARE CAPITAL

The authorised share capital of the Company is as follows:

	2019	2018	2019	2018
Authorised:	**No.**	**No.**	**£'000**	**£'000**
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
	15,000,000	15,000,000	15,000	15,000

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:

	2019	2018	2019	2018
Called up, allotted and fully paid:	**No.**	**No.**	**£**	**£**
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	882,352	882,352	882,352	882,352

17. PROFIT AND LOSS ACCOUNT

	Group		Company	
	2019	**2018**	**2019**	**2018**
	£'000	**£'000**	**£'000**	**£'000**
At 1 January	18,280	17,871	4,538	6,945
Profit for the financial year	76,763	82,044	76,862	79,228
Dividends paid to equity shareholders	(71,761)	(81,635)	(71,761)	(81,635)
At 31 December	23,282	18,280	9,639	4,538

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2019

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
At 1 January	19,162	18,753	5,420	7,827
Profit for the financial year	76,763	82,044	76,862	79,228
Dividends paid to equity shareholders	(71,761)	(81,635)	(71,761)	(81,635)
At 31 December	24,165	19,162	10,521	5,420

19. COMMITMENTS

a) Operating lease commitments

At 31 December 2019, the Group had annual commitments under non-cancellable operating leases as follows:

	2019	2018
	£'000	£'000
Expiring:		
in less than one year	32	-
between one and five years	84	148
after five years	-	-
	116	148

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

b) Purchase commitments

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Contracted for but not provided	633,747	660,035	-	-

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 MOD.

20. CONTINGENT LIABILITIES

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Bank bond	2,000	2,000	2,000	2,000

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

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2019

21. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated by operating activities

	2019 £'000	2018 £'000
Operating profit	94,977	100,778
Decrease in debtors	(2,340)	1,038
Increase in creditors & provisions	5,531	17,933
Increase in RDEC debtor	(3,600)	(745)
Cash generated by operations	94,568	119,004
Corporation tax paid	(20,353)	(17,058)
Net cash inflow from operating activities	74,215	101,946

22. PENSION SCHEME

Pension contributions of £30,612,866 (2018: £28,200,594) 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 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.

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 2019 to be estimated, using the assumptions below, based on the calculated liability as at 31 March 2018.

	2019	2018	2017	2016	2015
Assumptions					
Rate of increase in pensionable pay	2.20%	2.30%	2.20%	2.30%	2.00%
Rate of increase in pensions in payments	2.20%	2.30%	2.20%	2.30%	2.00%
Rate of increase in pensions in deferment	2.20%	2.30%	2.20%	2.30%	2.00%
Discount rate	2.00%	2.80%	2.40%	2.60%	3.70%
Inflation assumption (CPI)	2.20%	2.30%	2.20%	2.30%	2.00%
Mortality assumption - life expectancy at age 60 for current pensioner (male, normal health, industrial grade)	26.9	26.8	27.8	27.7	27.5
Mortality assumption - life expectancy at age 60 for current non-pensioner aged 40 (male, normal health, industrial grade)	29.0	28.9	30.0	29.8	29.8

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2019

22. PENSION SCHEME (continued)

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

	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Equities	447	516	568	515	412
Property	108	123	133	211	128
Infrastructure	52	57	74	-	66
Absolute return	289	277	260	273	171
Bonds	419	256	230	182	155
Other (Liability Driven Investment)	384	274	323	237	246
Cash	17	8	18	61	5
Total fair value of assets	1,716	1,512	1,606	1,479	1,183
Present value of sche	(2,169)	(1,895)	(2,101)	(2,104)	(1,544)
Deficit in the scheme	(453)	(383)	(495)	(625)	(361)

From January 2019 to March 2019, deficit recovery contributions of £2.6m a month were payable. From April 2019, deficit recovery contributions increased to £2.7m in line with CPI increases.

Analysis of the amount charged to operating profit

	2019	2018
	£million	£million
Curtailment gain	-	-
Current service cost (net of employees' contributions)	5	6
Past service cost	-	5
	5	11

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

22. PENSION SCHEME (continued)

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

	2019 £million	2018 £million
Actual return less expected return on pension scheme assets	183	(112)
Experienced gains arising on the scheme liabilities	(1)	42
Changes in assumptions underlying the present value of the scheme liabilities	(273)	167
	(91)	97

Movement in scheme deficit during the year

	2019 £million	2018 £million
At 1 January	(383)	(495)
Current service cost	(5)	(6)
Contributions - employer's	35	38
Past service costs	-	(5)
Net finance expense	(10)	(12)
Actuarial (loss)/gain	(91)	97
At 31 December	(453)	(383)

History of experienced gains and losses

	FRS102				
	2018	2017	2016	2015	2014
Difference between the expected and the actual return on scheme					
Amount (£million)	183	(112)	102	240	(8)
Percentage of scheme assets	11%	(7%)	6%	16%	(1%)
Experienced gains and (losses) on scheme liabilities:					
Amount (£million)	(1)	42	30	(5)	(110)
Percentage of present value of scheme liabilities	(0%)	2%	1%	(0%)	(7%)
Total actuarial (loss)/gain					
Amount (£million)	(91)	97	82	(265)	(21)
Percentage of present value of scheme liabilities	(4%)	5%	4%	(13%)	(1%)

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. A review was performed in prior year to estimate the past service cost, resulting in a reserve of £5m (0.25% of the pension liability). In current year, a re-review of the data relevant to GMP equalisation was performed, and due to better available information and refined methodology, it was concluded that a reduction of the reserve from £5m to £1m (0.25% of the liability to 0.05%) is appropriate. The £4m gain has been recognised in Other Comprehensive Income. This is a change in accounting estimate, and therefore the impact has been recorded in the current year numbers. There is no impact on prior year results.

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	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Serco Holdings Limited (and group companies)	8,428	7,308	-	-
Lockheed Martin UK Strategic Systems Limited (and group companies)	20,106	22,561	-	-
JEG Acquisition Company Limited (and group companies)	16,394	15,495	-	-
	44,928	45,364	-	-

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	2019	2018
		£'000	£'000
Serco Holdings Limited (and group companies)		681	587
Lockheed Martin UK Strategic Systems Limited (and group companies)		1,979	2,281
JEG Acquisition Company Limited (and group companies)		2,194	658
		4,854	3,526
Amounts owed by shareholder groups		-	-
Amounts owed to shareholder groups	12	4,854	3,526
		4,854	3,526

No consortium relief was owed to shareholders during the year (2018: Nil).

24. ULTIMATE PARENT COMPANY

The directors consider Lockheed Martin Corporation, Inc, a company registered in the USA, as the ultimate parent undertaking and controlling entity. Copies of the ultimate parent's group financial statements may be obtained from Lockheed Martin Investor Department, 6801 Rockledge Drive, Bethesda, Maryland, 28017, USA. Lockheed Martin Corporation, Inc is the parent undertaking of the largest and smallest group of undertakings for which group financial statements are drawn up and of which the company is a member.

The company's immediate parent undertaking is 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 EVENT

The COVID-19 pandemic has been assessed as a non-adjusting post balance sheet event and has no impact on the conditions or the measurement of assets and liabilities in the accounts at the balance sheet date.

Detailed impact assessments and scenario planning was undertaken and has taken into account various factors including: financial, commercial, supply chain, regulatory, operational, and employee related considerations. At the current time it is not considered that the implications of the COVID-19 pandemic will have a material degradation in any of these areas, now or in the foreseeable future, and the situation will be to be evaluated as it continues to develop.

Further detail of the assessment performed is set out in the strategic report on page 2, and Note 1 accounting policies on page 18.

An interim dividend of £18.7m (2019: £14.6m) was declared on 24 March 2020 and paid on 25 March 2020.