

**Company registration No. 03664571**

**AWE MANAGEMENT LIMITED**

**Annual Report and Consolidated  
Financial Statements**

**For the year ended 31 December 2017**

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15/09/2018  
COMPANIES HOUSE

# **AWE MANAGEMENT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2017**

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# **AWE MANAGEMENT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2017**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

T I Bradley  
I M Coucher  
K D Craven  
T Hagen  
S Keller (Appointed 7 August 2017)  
P R Lutwyche (Appointed 9 August 2017)  
M B McKeon  
C W Reynell  
J S Rottler (Appointed 8 December 2017)  
H J Saxton (Resigned 25th January 2018)  
P Seaton (Resigned 9 August 2017)  
I P Tyler  
M Valerio (Resigned 7 August 2017)

#### **SECRETARY**

J D Smith

#### **BANKERS**

Lloyds Bank plc  
Brambletye 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 2017.

### **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 31st March 2016. These contract amendments better aligned performance to Ministry of Defence requirements. 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 £937.7m was lower than the prior year (2016: £966.3m) reflecting a lower level of contract activity during the year offset by the impact of the conclusion of prior year milestone close out.

Operating profit of £88.1m was 16% higher than the prior year (2016: £75.8m) reflecting the impact of the conclusion of prior year milestone close out.

The average number of the Group's employees in the year (employed by AWE plc) has increased to 5,033 (2016: 4,987).

### **Principal Risks and Uncertainties**

AWE has risk management processes for business and operational risk and has appropriate governance processes in place.

The principal risks and uncertainties that are being managed by the Company include:

- Recruitment and retention: AWE operates in many specialised engineering, technical and scientific domains where there is an increasing demand for similar resources from civil nuclear and related sectors.
- Cyber or other security threats or other disruption: which require constant vigilance and proactive responses to be developed to guard against external challenges.
- Business transformation and delivery of efficiency savings: which are required in order for AWE to meet its fiscal challenges.
- Dependency on a specialist supply chain: AWE must actively work to ensure that it has access to the supply chain to support contract activity as and when required and remain able to seek out viable supply chain alternatives.
- Continued delivery of operational capacity with ageing infrastructure: AWE needs to maintain delivery of operational capacity whilst dealing with the challenges posed, and constraints from, an ageing infrastructure.
- Breach of relevant laws and regulations: AWE must ensure that it always operates in a manner that effectively guards against the risk of any breach of relevant laws and regulations.
- Pension funding and costs are dependent on several economic assumptions: AWE must continue to monitor the extent of the defined benefit pension obligation and the implications from this obligation.
- Delivery of complex new facilities: the successful project management, integration and acceptance of the complex new facilities required to support an enduring programme of work.
- Early cessation of the Management and Operation Contract.

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

## **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 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 Event**

In March 2018 the Company concluded its review of performance and assessment of the associated fee following the completion of 'Rolling Wave 2' of the Management and Operations contract with the Ministry of Defence for the period 1 April 2017 to 31 March 2018. Management did not identify any factors that indicated that this is an adjusting post balance sheet event and as such no adjustments have been made to the accounting and judgements adopted as at the balance sheet date.

Approved by the Board and signed on its behalf by:



M B McKeon

Director

29th March 2018

# **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	(Appointed 7 August 2017)
P R Lutwyche	(Appointed 9 August 2017)
M B McKeon	
C W Reynell	
J S Rottler	(Appointed 8 December 2017)
H J Saxton	(Resigned 25th January 2018)
P Seaton	(Resigned 9 August 2017)
I P Tyler	
M Valerio	(Resigned 7 August 2017)

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 £13.4m (2016: £16.1m) was declared on 15th March 2017 and paid on 31st March 2017. A second interim dividend of £27.0m (2016: £20.5m) was declared on 13th June 2017 and paid on 30th June 2017. A third interim dividend of £14.4m (2016: £9.8m) was declared on 13th September 2017 and paid on 29th September 2017. A fourth and final dividend of £14.9m (2016: £17.0m) was declared on 12th December 2017 and paid on 29th December 2017.

### **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.

## **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**

A wholly owned subsidiary of the Company, AWE plc, operates a defined benefit pension scheme which has been accounted for under Financial Reporting Standard 102 (employee benefits). While AWE plc 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, nor is it entitled to benefit directly or indirectly from any surplus in the AWE Pension Scheme as a result of the expiry or early termination of the Management and Operation Contract with the Ministry of Defence.

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. Full disclosure regarding the pension scheme is included in note 18. The impact of the closure of the scheme to new entrants and future accrual for existing members was a curtailment gain of £34m.

#### **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 4 and in the Accounting Policies on pages 17 to 19.

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.

#### **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 2017.

## **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 4. 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:



M B McKeon

Director

29th March 2018

## **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 2017 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 7, 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 2017 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

29 March 2018

**AWE MANAGEMENT LIMITED****CONSOLIDATED PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2017**

	Notes	2017 £'000	2016 £'000
<b>TURNOVER</b>	2	937,663	966,256
Other operating income	8	11,043	11,000
Cost of sales		<u>(858,291)</u>	<u>(899,444)</u>
<b>GROSS PROFIT</b>		90,415	77,812
Administrative expenses	3	<u>(2,318)</u>	<u>(2,025)</u>
<b>OPERATING PROFIT</b>		88,097	75,787
Interest receivable and similar income	4	<u>159</u>	<u>226</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	88,256	76,013
Tax on profit on ordinary activities	8	<u>(17,812)</u>	<u>(14,742)</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	17	<u><u>70,444</u></u>	<u><u>61,271</u></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 2017**

	Notes	2017 £'000	2016 £'000
Profit for the financial year		70,444	61,271
Actuarial gain / (loss) in relation to pension fund	22	82,000	(265,000)
(Loss) / gain in value on pension undertaking in contract		<u>(82,000)</u>	<u>265,000</u>
<b>Total comprehensive income</b>		<u><u>70,444</u></u>	<u><u>61,271</u></u>

**AWE MANAGEMENT LIMITED****CONSOLIDATED BALANCE SHEET****At 31 December 2017**

	Notes	2017 £'000	2016 £'000
<b>CURRENT ASSETS</b>			
Debtors			
- due within one year	11	84,209	83,919
- due after more than one year	11	495,000	625,000
Cash at bank and in hand		77,172	72,428
		<u>656,381</u>	<u>781,347</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(126,805)</u>	<u>(121,899)</u>
<b>NET CURRENT ASSETS</b>		<u>529,576</u>	<u>659,448</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		529,576	659,448
<b>PROVISIONS FOR LIABILITIES</b>	14	<u>(15,823)</u>	<u>(16,393)</u>
<b>NET ASSETS EXCLUDING PENSION LIABILITIES</b>		513,753	643,055
Defined benefit pension liability	22	<u>(495,000)</u>	<u>(625,000)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITIES</b>		<u>18,753</u>	<u>18,055</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	882	882
Profit and loss account	17	<u>17,871</u>	<u>17,173</u>
<b>SHAREHOLDERS' FUNDS</b>	18	<u>18,753</u>	<u>18,055</u>

The profit for the financial year of AWE Management Limited was £71,048,000 (2016: £59,124,000).

The financial statements of AWE Management Limited, registered number 03664571 were approved by the board of directors and authorised for issue on 29th March 2018.

Signed on behalf of the Board of Directors



M B McKeon  
Director  
29th March 2018

**AWE MANAGEMENT LIMITED****COMPANY BALANCE SHEET****31 December 2017**

	Notes	2017 £'000	2016 £'000
<b>FIXED ASSETS</b>			
Investments	10	<u>50</u>	<u>50</u>
<b>CURRENT ASSETS</b>			
Debtors			
- due within one year	11	29,647	19,063
- due after more than one year	11	495,000	625,000
Cash at bank and in hand		<u>75,842</u>	<u>71,727</u>
		600,489	715,790
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(97,712)</u>	<u>(84,315)</u>
<b>NET CURRENT ASSETS</b>		<u>502,777</u>	<u>631,475</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		502,827	631,525
Defined benefit pension liability	22	<u>(495,000)</u>	<u>(625,000)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITIES</b>		<u>7,827</u>	<u>6,525</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	882	882
Profit and loss account	17	<u>6,945</u>	<u>5,643</u>
<b>SHAREHOLDERS' FUNDS</b>	18	<u>7,827</u>	<u>6,525</u>

The financial statements of AWE Management Limited, registered number 03664571 were approved by the board of directors and authorised for issue on 29th March 2018.

Signed on behalf of the Board of Directors



M B McKeon  
Director  
29th March 2018

# **AWE MANAGEMENT LIMITED**

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the year ended 31 December 2017**

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total Equity £'000</b>
At 1 January 2017	882	17,173	18,055
Profit for the financial year	-	70,444	70,444
Dividends paid on equity shares	-	(69,746)	(69,746)
At 31 December 2017	882	17,871	18,753
Actuarial gain / (loss) in relation to pension fund	-	82,000	82,000
(Loss) / gain in value on pension undertaking in contract	-	(82,000)	(82,000)
At 31 December 2017	882	17,871	18,753

**AWE MANAGEMENT LIMITED****COMPANY STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2017**

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total Equity £'000</b>
At 1 January 2017	882	5,643	6,525
Profit for the financial year	-	71,048	71,048
Dividends paid on equity shares	-	(69,746)	(69,746)
At 31 December 2017	882	6,945	7,827
Actuarial gain / (loss) in relation to pension fund	-	82,000	82,000
(Loss) / gain in value on pension undertaking in contract	-	(82,000)	(82,000)
At 31 December 2017	882	6,945	7,827

# **AWE MANAGEMENT LIMITED**

## **CONSOLIDATED CASH FLOW STATEMENT**

**For the year ended 31 December 2017**

	<b>Notes</b>	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<b>Net cash inflow from operating activities</b>	21	74,331	24,250
<b>Cash flows from investing activities</b>			
Interest received		159	226
<b>Net cash inflow from investing activities</b>		159	226
<b>Cash flows from financing activities</b>			
Equity dividends paid		(69,746)	(63,423)
<b>Net cash flow from financing activities</b>		(69,746)	(63,423)
<b>Net increase / (decrease) in cash and cash equivalents</b>		4,744	(38,947)
<b>Cash and cash equivalents at beginning of year</b>		72,428	111,375
<b>Cash and cash equivalents at end of year</b>		77,172	72,428
<b>Reconciliation to cash at bank and in hand</b>			
Cash at bank and in hand		77,172	72,428
<b>Cash and cash equivalents</b>		77,172	72,428

# **AWE MANAGEMENT LIMITED**

## **NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2017**

### **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 which was adopted during 2016.

# **AWE MANAGEMENT LIMITED**

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

**For the year ended 31 December 2017**

### **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.

#### **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 2017**

### **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 2017**

#### **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>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest	<u>159</u>	<u>226</u>

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

Profit on ordinary activities before taxation is stated after charging:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Rentals under operating leases:		
- Hire of plant and machinery	<u>23</u>	<u>32</u>
Research and development expenditure	<u>100,000</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	190	90
The audit of the Company's subsidiaries pursuant to legislation	190	90
Other assurance services	<u>15</u>	<u>14</u>
Total audit fees	<u>395</u>	<u>194</u>

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

### 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:

	2017	2016
	No.	No.
Science and technical support	2,118	2,091
Engineering and manufacturing	2,422	2,417
Business services	493	479
	<u>5,033</u>	<u>4,987</u>

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

	2017	2016
	£'000	£'000
Wages and salaries	219,892	205,704
Social security	22,276	19,844
Other pension costs	10,000	34,000
Net pension finance expense	15,000	13,000
Pension costs recoverable under contract in future periods	3,349	2,537
	<u>270,517</u>	<u>275,085</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:

	2017	2016
	£'000	£'000
<b>Directors' remuneration</b>		
Aggregate emoluments	2,318	2,766
Pension emoluments	38	3
	<u>2,356</u>	<u>2,769</u>

There are no retirement benefits accruing to any director (2016: none).

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

Aggregate emoluments	<u>1,332</u>	<u>1,391</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. In 2017 a significant part of the highest paid director's salary was for in-country expenses.

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	2017 £'000	2016 £'000
Current tax		
United Kingdom corporation tax	16,420	14,384
Adjustment in respect of prior years	959	(193)
Total current tax	17,379	14,191
Deferred tax		
Timing differences	433	550
Effect of decrease on tax rate on opening asset	-	1
Group deferred tax	433	551
Tax on profit on ordinary activities (note 8ii)	17,812	14,742

#### 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:

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	88,256	76,013
Tax at 19.25% (2016 20.00%) thereon	16,989	15,203
Effects of:		
Expenses not deductible for tax purposes	26	29
Change in tax law and rates	(162)	(297)
Adjustment in respect of prior years	959	(193)
Total tax expense	17,812	14,742

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 £11,042,587 (2016: £11,000,000) receivable from HMRC in respect of research and development tax relief through the Research and Development Expenditure Credit (RDEC) scheme which was adopted in 2016.

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

### 9. DIVIDENDS

	2017 £'000	2016 £'000
Interim dividend paid £15.17 per share (2016: £11.93)	13,388	16,105
Second interim dividend paid £30.63 per share (2016: £15.21)	27,031	20,533
Third interim dividend paid for £16.35 per share (2016: £7.25)	14,424	9,788
Fourth interim dividend paid for £16.89 per share (2016: £12.59)	14,903	16,997
	<u>69,746</u>	<u>63,423</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

Notes	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<b>Amounts falling due within one year:</b>				
Amounts recoverable on contracts	48,757	63,185	16,820	16,981
Other debtors	11,639	10,060	-	-
Corporation tax recoverable	12,827	2,062	12,827	2,062
Deferred tax recoverable	8 1,354	1,787	-	-
Prepayments and accrued income	9,632	6,825	-	20
	<u>84,209</u>	<u>83,919</u>	<u>29,647</u>	<u>19,063</u>
<b>Amounts falling due after more than one year:</b>				
Pension recoverable under terms of contract	495,000	625,000	495,000	625,000
	<u>579,209</u>	<u>708,919</u>	<u>524,647</u>	<u>644,063</u>

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

Under current contractual arrangements the Group cannot benefit or suffer from a surplus or deficit arising from the pension fund valuation. Accordingly this reflects as a pension recoverable balance under the terms of the contract.

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

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

	Notes	Group		Company	
		2017	2016	2017	2016
		£'000	£'000	£'000	£'000
Trade creditors		34,202	37,748	-	-
Amounts owed to shareholder groups	23	3,216	4,181	-	-
Amounts owed to group companies		-	-	79,572	59,432
Other taxation and social security		27,830	32,920	12,546	15,577
Other creditors		3,150	1,878	-	-
Group relief payable		-	-	4,678	8,936
Accruals and deferred income		58,407	45,172	916	370
		<u>126,805</u>	<u>121,899</u>	<u>97,712</u>	<u>84,315</u>

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

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Amounts owed to group companies	-	-	495,000	625,000
	<u>-</u>	<u>-</u>	<u>495,000</u>	<u>625,000</u>

### 14. GROUP PROVISIONS FOR LIABILITIES

	2016	Charge/ (credit) to P&L	Utilised	2017
	£'000	£'000	£'000	£'000
Employee	12,992	3,281	(2,350)	13,923
Contract	3,000	(1,100)	-	1,900
Other	401	(401)	-	-
	<u>16,393</u>	<u>1,780</u>	<u>(2,350)</u>	<u>15,823</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.

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

### 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	
	2017	2016	2017	2016	2017	2016
			£'000	£'000	£'000	£'000
Less than 12 months	1.5366	1.5401	125	1,547	142	1,932
1-2 years	-	1.5366	-	149	-	184
2-3 years	-	-	-	-	-	-
Purchase USD			<u>125</u>	<u>1,696</u>	<u>142</u>	<u>2,116</u>
Less than 12 months	-	1.1452	-	396	-	390
1-2 years	-	-	-	-	-	-
2-3 years	-	-	-	-	-	-
Purchase EUR			<u>-</u>	<u>396</u>	<u>-</u>	<u>390</u>
			<u>125</u>	<u>2,092</u>	<u>142</u>	<u>2,506</u>
Fair value adjustment					<u>17</u>	<u>414</u>

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	2017
	£'000	£'000	£'000
Asset	17	-	17
Liability	-	-	-
	<u>17</u>	<u>-</u>	<u>17</u>

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

### 16. CALLED UP SHARE CAPITAL

The authorised share capital of the Company is as follows:

	2017 No.	2016 No.	2017 £'000	2016 £'000
<b>Authorised:</b>				
Ordinary shares of £1 each				
Class A	5,000	5,000	5,000	5,000
Class B	5,000	5,000	5,000	5,000
Class C	5,000	5,000	5,000	5,000
	<u>15,000</u>	<u>15,000</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:

	2017 No.	2016 No.	2017 £'000	2016 £'000
<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
	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>

	2017 No.	2016 No.	2017 £'000	2016 £'000
Ordinary shares of £1 each				
At 1 January	882,352	1,350,000	882,352	1,350,000
Cancellation of Class A	-	(233,824)	-	(233,824)
Cancellation of Class C	-	(233,824)	-	(233,824)
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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At 1 January	17,173	18,857	5,643	9,474
Profit for the financial year	70,444	61,271	71,048	59,124
Capital reduction	-	468	-	468
Dividends paid to equity shareholders	<u>(69,746)</u>	<u>(63,423)</u>	<u>(69,746)</u>	<u>(63,423)</u>
At 31 December	<u>17,871</u>	<u>17,173</u>	<u>6,945</u>	<u>5,643</u>

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

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

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At 1 January	18,055	20,207	6,525	10,824
Profit for the financial year	70,444	61,271	71,048	59,124
Dividends paid to equity shareholders	(69,746)	(63,423)	(69,746)	(63,423)
At 31 December	18,753	18,055	7,827	6,525

### 19. COMMITMENTS

#### a) Operating lease commitments

At 31 December 2017, the Group had annual commitments under non-cancellable operating leases as follows:

	2017 £'000	2016 £'000
Expiring:		
in less than one year	190	50
between one and two years	22	6
between two and five years	84	149
after five years	-	-
	296	205

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

#### b) Purchase commitments

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Contracted for but not provided	665,452	590,785	-	-

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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'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 2017

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

#### Reconciliation of operating profit to cash generated by operating activities

	2017	2016
	£'000	£'000
Operating profit	88,097	75,787
Decrease / (increase) in debtors	10,042	(23,371)
Increase / (decrease) in creditors & provisions	4,083	(7,853)
(Increase) in RDEC debtor	(11,043)	(11,000)
Corporation tax paid	(16,848)	(9,313)
Net cash inflow from operating activities	74,331	24,250

### 22. PENSION SCHEME

Pension contributions of £24,250,494 (2016: nil) were made in the year in respect of the AWE defined contribution pension scheme.

A number of the employees and directors of AWE plc are participants in a defined benefit pension scheme, the assets of which are held separately from the Company. Pension contributions of £4,098,080 (2016: £49,537,000) were made in the year in respect of the AWE defined benefit pension scheme.

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 2015. 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 2015.

	2017	2016	2015	2014	2013
<b>Assumptions</b>					
Rate of increase in salaries	2.20%	2.30%	2.00%	3.50%	3.50%
Rate of increase in pensions in payment	2.20%	2.30%	2.00%	2.00%	2.40%
Rate of increase in pensions in deferment	2.20%	2.30%	2.00%	2.00%	2.40%
Discount rate	2.40%	2.60%	3.70%	3.40%	4.40%
Inflation assumption (RPI to 2009, CPI from 2010)	2.20%	2.30%	2.00%	2.00%	2.40%
Mortality assumption - life expectancy at age 60 for current pensioner (male, normal health, industrial grade)	27.8	27.7	27.5	27.4	27.3
Mortality assumption - life expectancy at age 60 for current non-pensioner (male, normal health, industrial grade)	30.0	29.8	29.8	29.7	29.7

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

### 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:

	2017	2016	2015	2014	2013
	** £m	** £m	** £m	% £m	% £m
Equities	568	515	412	7.50 332	7.50 308
Property	133	211	128	7.00 120	7.00 101
Infrastructure	74	-	66	7.50 120	7.50 110
Absolute return	260	273	171	7.50 171	7.50 140
High yield / EMD	-	-	-	7.50 91	7.50 82
Bonds	230	182	155	3.70 115	3.70 124
Bank loans	-	-	-	3.70 -	3.20 43
Global macro	-	-	-	7.50 52	7.50 42
Other	323	237	246	7.50 109	7.50 -
Cash	18	61	5	0.50 19	0.50 14
Total fair value of assets	1,606	1,479	1,183	1,129	964
Present value of scheme liabilities	(2,101)	(2,104)	(1,544)	(1,682)	(1,394)
Deficit in the scheme	(495)	(625)	(361)	(553)	(430)

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

The contribution rate was 26% of pensionable earnings to 31 January 2017. From 1 February to 31 December, deficit recovery contributions of £2.5m a month were payable, increased in line with CPI from April 2017.

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

	2017	2016
	£million	£million
Curtailment gain	(34)	0
Current service cost (net of employees' contributions)	10	34
	(24)	34

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 2017

### 22. PENSION SCHEME (continued)

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

	2017	2016
	£million	£million
Actual return less expected return on pension scheme assets	102	240
Experienced gains arising on the scheme liabilities	30	(5)
Changes in assumptions underlying the present value of the scheme liabilities	(50)	(500)
	<u>82</u>	<u>(265)</u>

#### Movement in scheme deficit during the year

	2017	2016
	£million	£million
At 1 January	(625)	(361)
Current service cost	(12)	(51)
Contributions - employees'	2	17
Contributions - employer's	39	48
Curtailment	34	-
Net finance expense	(15)	(13)
Actuarial gain / (loss)	<u>82</u>	<u>(265)</u>
	<u>(495)</u>	<u>(625)</u>

#### History of experienced gains and losses

	FRS102				FRS17
	2017	2016	2015	2014	2013
				Restated	
<b>Difference between the expected and the actual return on scheme assets:</b>					
Amount (£million)	102	240	(8)	101	32
Percentage of scheme assets	6%	16%	1%	9%	3%
<b>Experienced gains and (losses) on scheme liabilities:</b>					
Amount (£million)	30	(5)	(110)	26	54
Percentage of present value of scheme liabilities	1%	0%	7%	2%	4%
<b>Total actuarial (loss)/gain</b>					
Amount (£million)	82	(265)	(21)	(109)	108
Percentage of present value of scheme liabilities	4%	13%	1%	6%	8%

# AWE MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 2017

### 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	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Serco Holdings Limited (and group companies)	7,157	6,182	-	-
Lockheed Martin UK Strategic Systems Limited (and group companies)	22,102	28,919	-	-
JEG Acquisition Company Limited (and group companies)	18,839	38,741	-	-
	<u>48,098</u>	<u>73,842</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	2017	2016
		£'000	£'000
Serco Holdings Limited (and group companies)		499	518
Lockheed Martin UK Strategic Systems Limited (and group companies)		940	1,557
JEG Acquisition Company Limited (and group companies)		1,776	2,106
		<u>3,216</u>	<u>4,181</u>
Amounts owed by shareholder groups	11	-	-
Amounts owed to shareholder groups	12	3,216	4,181
		<u>3,216</u>	<u>4,181</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 2017**

#### **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 EVENT**

In March 2018 the Company concluded its review of performance and assessment of the associated fee following the completion of 'Rolling Wave 2' of the Management and Operations contract with the Ministry of Defence for the period 1 April 2017 to 31 March 2018. Management did not identify any factors that indicated that this is an adjusting post balance sheet event and as such no adjustments have been made to the accounting and judgements adopted as at the balance sheet date.