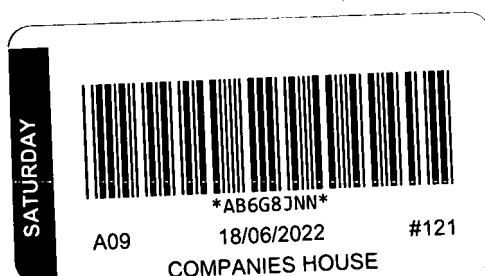


Registration number: 03664571

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2021



Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

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Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Company information

Directors	T I Bradley C W Reynell C T White
Registered office	Hill House 1 Little New Street London United Kingdom EC4A 3TR
Bankers	Lloyds Bank plc 25 Gresham Street London EC2V 7HN
Auditors	Ernst & Young LLP R+ 2 Blagrove Street Reading RG1 1AZ

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Strategic report for the year ended 31 December 2021

The directors present their strategic report and their consolidated audited financial statements of Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited) (the "Company" or "AWE ML"), for the year ended 31 December 2021.

Principal activities

Until the 30 June 2021, 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 Group and Company held a contract, the Management and Operation ('M&O') Contract with the Ministry of Defence ('MOD'), which it delivered through its subsidiary AWE plc. That contract was terminated on 30 June 2021. Further details are set out below in the section on the M&O Contract Termination. The Company owned all the ordinary shares in AWE plc, the Secretary of State for Defence held a special share until the 30 June 2021. The Company's Group also performed 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 Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited) ('AWE ML') contract arrangements.

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

Following termination of the M&O contract and disposal of the company's interest in AWE plc on 30 June 2021, the principal activities were as a holding company with associated administrative activities connected with the termination,

Performance

Revenue of £629.9m was lower than the prior year (2020: £1,082.1m) reflecting the impact of the contract termination on the 30 June 2021 partially offset by the crystallisation of judgements arising from the settlement.

Operating profit of £49.6m was 34% lower than the prior year (2020: £75.0m) reflecting the impact of the contract termination on the 30 June 2021 partially offset by the crystallisation of judgements arising from the settlement. The average number of the Group's employees in the period to 30 June 2021 (employed by AWE plc) increased to 6,459 (2020: 5,966). There were no employees in the company post 30 June 2021.

M&O contract termination

On 2 November 2020 MOD served the Company with notice to terminate the existing 25-year contract awarded to AWE ML in 1999 with effect from 30 June 2021. Following termination, the Company also ceased to have any ownership interest in AWE plc, which became wholly owned by the MOD. AWE ML, the MOD and AWE plc jointly managed the termination of the contract, which was completed by 30 June 2021.

A contract settlement and termination agreement with the MOD was signed on the 30 June 2021. In December 2021 the Company agreed and signed a final financial settlement with the MOD.

COVID-19

The COVID-19 pandemic had an impact on AWE with key considerations, in the period to 30 June 2021, being as follows:

- Operational: control and mitigation activities including preventative, resilience and containment measures continued to be in place. AWE has been able to continue to maintain safe and continuous operations with work appropriately prioritised; although delivery in some areas had slowed/slipped.
- Commercial: the pandemic was recognised as a 'force majeure' event and under the terms of the contract, which continued to apply in the period to 30 June 2021 with no major disruption in the delivery of the programme.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Strategic report for the year ended 31 December 2021 (continued)

COVID-19 (continued)

Post contract termination on the 30 June 2021 there are no longer COVID-19 considerations for the Company.

Corporate governance statement

For the period to 30 June 2021, AWE did not follow a recognised external corporate governance code, but was compliant with all regulatory requirements; instead it operated 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 during that period, 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; environment, safety, health and assurance; programme and production; and infrastructure activity.

These arrangements were used to oversee the operation of its subsidiary Company AWE plc until the disposal on the 30 June 2021.

- **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 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.

Post the contract termination and disposal of its subsidiary AWE Plc the principal components of corporate governance are:

- **Leadership:** The Company's board of directors comprises representatives of the three shareholders in the Company.
- **Accountability and governance structures:** The Company operates through board meetings.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Strategic report for the year ended 31 December 2021 (continued)

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.

Until the disposal on the 30 June 2021, the board of directors of AWE met 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 had undertaken in the year related to its performance of its principal 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 took into account the S172(1) factors as follows:

- Long term consequences: The nature of AWE's principal activities often required 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 are fundamental to its ability to discharge its role. The Company reviewed 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 required 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 included 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 took into account the sustainability of support from its supply chain.
- Community and environment: AWE maintained a regular executive meeting with focus on the engagement between the Group and the wider community and environment. This meeting considered 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 considered 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.

Employee and other stakeholder engagement

This is the statement of AWE ML, 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.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Strategic report for the year ended 31 December 2021 (continued)

Employee and other stakeholder engagement (continued)

Until the 30 June 2021, the Group's workforce were 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

The following is applicable in the period to 30 June 2021

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 Group additionally reviews the efficacy of the risk management process and the handling of the most significant risks.

Risk culture

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

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

Principal strategic risks

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

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Strategic report for the year ended 31 December 2021 (continued)

Principal risks and uncertainties (continued)

The strategic risks are:

Unavailability of key plant or facility caused by:

- Fatality or serious injury (whether or not regulatory stop applied)
- Breakdown of plant or facility
- Lack of suitably qualified people
- Regulatory prohibition on operation

Mitigation activity:

- Ensure working practices are fit for purpose and rigorously followed
- Ensure maintenance schedules are adhered to, prioritised where appropriate
- Ensure adequate recruitment, retention and training of sufficient people
- Ensure regulatory confidence in AWE; deliver on safety and security commitments; manage operations safely and securely

Inability to retain/attract people caused by:

- Pay and conditions
- Climate and culture
- Development

Mitigation activity:

- Ensure pay and conditions are clearly communicated, fair and appropriate for the market
- Ensure AWE is an employer where employees believe they can enjoy doing meaningful work
- Ensure AWE continues to offer development and growth through training, job progression and secondment

Impediment to use of site caused by:

- Pandemic or natural disaster (fire, flood)
- Withdrawal of site licence
- Development around sites limiting operations

Mitigation activity:

- Maintain resilience strategies enabling work with minimal on-site presence
- Ensure AWE has confidence of Office for Nuclear Regulation (ONR)
- Maintain resilience strategies enabling work with minimal on-site presence or to work without access to technology
- Close liaison with MOD and other stakeholders in relation to planning proposals

Failure of critical supply chain partner caused by:

- Suppliers may be unavailable through insolvency, excess demand over supply capacity, or a corporate decision / their government supply to nuclear weapons operations

Mitigation activity:

- Identify single points of failure in supply chain and identify contingency plans

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Strategic report for the year ended 31 December 2021 (continued)

Principal risks and uncertainties (continued)

Insufficient finance to implement necessary capital projects or continue production caused by:

- Inadequate cost management
- DNO lacks sufficient funding

Mitigation activity:

- Maintain rigorous oversight of costs associated with capital programmes
- Regular dialogue with DNO to ensure appropriate priorities given to capital projects, production and other activities

Demand for AWE activity ceases caused by:

- UK does not adopt Replacement Warhead (RW), or abandons Continuous At Sea Deterrent (CASD)

Mitigation activity:

- Support Defence Nuclear Organisation (ONO)/MOD in advocating case for RW, CASD and the programme

Resource constraints in the wider enterprise caused by:

- Shortage of suitably qualified, experience personnel with AWE's customer and/or regulators to provide timely oversight of and approval for key capital projects (especially given complexity of AWE programme and scarcity of resources in wider nuclear enterprise)

Mitigation activity:

- Maximise communication with regulators and customer to enable them to plan work as far as possible; explore opportunities for skilled personnel/joint training to build capability

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

On the cessation of the M&O Contract the ordinary shares held by the Company in AWE plc were 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 an Executive Director, Environment, Safety, Health & Quality whose responsibilities include environmental matters. It also has an environmental management system which is central in delivering on AWE's commitment to protecting the environment. AWE holds ISO 14001 certification which is a worldwide recognised environmental management standard.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Strategic report for the year ended 31 December 2021 (continued)

Business ethics

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

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

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

For further information on AWE business ethics policies please visit www.awe.co.uk/responsible-business/our-values-and-ethics.

Approved by the Board on 6th June 2022 and signed on its behalf by:



C W Reynell
Director

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Directors report for the year ended 31 December 2021

The directors present their annual report on the affairs of the Group, together with the consolidated annual financial statements and auditor's report, for the year ended 31 December 2021.

Directors of the group

The directors who served throughout the year and up until the date of signing, except as noted, were as follows:

T I Bradley

C W Reynell

C T White

J D Smith (resigned 29 June 2021)

A J Atkinson (resigned 30 June 2021)

G J Butler (resigned 30 June 2021)

K D Craven (resigned 30 June 2021)

D S Hickton (resigned 30 June 2021)

S B Hiza (resigned 30 June 2021)

J S Rottler (resigned 30 June 2021)

I P Tyler (resigned 30 June 2021)

P G Morton (resigned 30 September 2021)

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

Dividends

An interim dividend of £13.2m (2020: £18.7m) was paid in March 2021. A second interim dividend of £26.1m (2020: £18.5m) was paid in June 2021. A third interim dividend of £5.9m (2020: £15.2m) was paid in September 2021. A fourth interim dividend of £10.0m (2020: £11.0m) was paid in December 2021.

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 was 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. There were no trade debtors held by the Company at 31 December 2021.

Until the 30 June 2021, the Group used forward currency contracts to hedge certain of its foreign currency cash flows.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Directors report for the year ended 31 December 2021 (continued)

Research and development

In the period to 30 June 2021, research and development expenditure was principally carried out for the purposes of the performance of the M&O Contract with the MOD. Research and development expenditure was not capitalised as assets remained in government ownership.

Pension scheme

In the period to 30 June 2021, AWE operated both a defined benefit pension scheme and defined contribution scheme which have been accounted for under Financial Reporting Standard 102. The defined benefit scheme was closed to new entrants and future accrual for existing members, other than the members working at Coulport, on 31 January 2017. While 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 M&O Contract. The scheme (and all associated assets and liabilities) was disposed of on the 30 June 2021 as part of the contract termination and disposal of its subsidiary, AWE Plc.

Going concern

The impact of the termination of the M&O contract between the MOD and AWE ML has been considered in making the assessment regarding the going concern basis.

Key matters to take into consideration are as follows:

- MOD terminated the contract between themselves and AWE ML on 30 June 2021
- MOD took ownership of AWE plc from AWE ML as from that date
- Thereafter, apart from administrative activities connected with the termination, it is not anticipated that AWE ML will continue to trade

Given the above it is determined that the Company will not continue to operate as a going concern for the foreseeable future following the M&O contract termination on 30 June 2021 since it has no trade.

Other factors that have been considered in the assessment of the going concern basis included the current COVID-19 pandemic, military conflict between Russia and Ukraine, current operational and finance positions, and current financial arrangements. None are indicators that AWE ML is not able to operate as a going concern. The implications of the contract termination is the overriding factor in the determination that AWE ML will not continue as a going concern.

Due consideration has been given to the implications of the contract termination, and other prevailing factors in the assessment of the 'going concern' assumption. It is concluded:

- AWE ML is not a going concern, on the basis the business ceased at contract termination on 30 June 2021, i.e., the going concern basis is not appropriate
- The financial statements, as stated, are reasonably stated and no changes are required to either the accounting policies or the balances in existence at 31 December 2021

Disabled persons

In 2020 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.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Directors report for the year ended 31 December 2021 (continued)

Disabled persons (continued)

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

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

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

There were no employees post the contract termination and disposal of AWE Plc on the 30 June.

Post balance sheet events

An interim dividend of £5.6m (2020: £13.2m) was declared on 17 March 2022 and paid on 23 March 2022. On the 16 March 2022 the Company changed its name by resolution from AWE Management Limited to Defence Contractor Management and Operations Limited.

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. 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.

Reappointment of auditors

For the year ending 31 December 2022, the Company will be entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies and will be pursuing that exemption.

Approved by the Board on 6th June 2022 and signed on its behalf by:



C W Reynell
Director

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Statement of directors' responsibilities

The directors acknowledge their responsibilities 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 apply them consistently;
- make judgements 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 they either intend to liquidate the company or cease operations, or have no realistic alternative but to do so. As explained in note 1 to the financial statements, the directors do not believe the going concern basis to be appropriate and these financial statements have been prepared on a basis other than going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Independent Auditor's Report to the Members of Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Opinion

We have audited the financial statements of Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited) ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 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 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2021 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. We are independent of the group 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.

Emphasis of Matter - financial statements prepared on a basis other than going concern

We draw attention to the accounting policies on page 23 of the financial statements which explains that the Company will not continue to operate as a going concern for the foreseeable future following the M&O contract termination on 30 June 2021 and as such it has no trade. Therefore the directors do not consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than going concern as described in note 1. Our opinion is not modified in respect of this matter.

Other information

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

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

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

We have nothing to report in this regard.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Independent Auditor's Report to the Members of Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited) (continued)

Opinion on other matter 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 Directors report for the financial year 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 and the 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 Statement of directors' responsibilities [set out on page 12], 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Independent Auditor's Report to the Members of Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited) (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS102 and the Companies Act 2006) and the relevant tax compliance and pensions regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations including health and safety, employees' data protection and anti-bribery and corruption.
- We understood how Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited) is complying with those frameworks by making enquiries during the period of those charged with governance, management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through reading Board minutes and papers provided to the Audit Committee and Board of Directors.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management in both finance and operations of the business. We considered the programmes and controls that the Company has established to address risk identified, or that otherwise prevent, deter and detect fraud; and how management monitors those programmes through entity level controls. We considered the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings and overstate revenue and costs incurred.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance, those responsible for legal and compliance matters, key finance personnel, key operational personnel and internal audit. We have also performed a number of journal entry tests, with focus on searching for and testing: manually processed journals, journals indicating large or unusual transactions and journals posted by senior management.

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.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Independent Auditor's Report to the Members of Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited) (continued)

Use of our report

This report is made solely to the company's 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.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP', is written over the printed name of the auditor.

Joe Yglesia (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

R+
2 Blagrove Street
Reading
RG1 1AZ

Date: 6 June 2022

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

**Consolidated profit and loss account
For the year ended 31 December 2021**

	Note	2021 £ 000	2020 £ 000
Turnover	3	629,861	1,082,099
Other operating income		8,662	24,739
Cost of sales		<u>(586,807)</u>	<u>(1,030,393)</u>
Gross profit		51,716	76,445
Administrative expenses		<u>(2,093)</u>	<u>(1,465)</u>
Operating profit		49,623	74,980
Interest receivable and similar income	4	<u>10</u>	<u>256</u>
Profit before taxation	5	49,633	75,236
Tax on profit	8	<u>(10,049)</u>	<u>(13,263)</u>
Profit for the financial year		<u>39,584</u>	<u>61,973</u>
Profit for the financial year attributable to:			
Owners of the company		20,188	31,606
Non-controlling interests		<u>19,396</u>	<u>30,367</u>

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

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

**Consolidated statement of comprehensive income
For the year ended 31 December 2021**

	2021 £ 000	2020 £ 000
Profit for the financial year	39,584	61,973
Actuarial loss in relation to pension fund	-	(218,000)
Gain in value on pension undertaking in contract	-	218,000
Total comprehensive income for the year	39,584	61,973
Total comprehensive income attributable to:		
Owners of the company	20,188	31,606
Non-controlling interests	19,396	30,367
	39,584	61,973

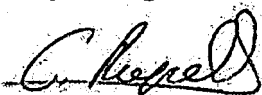
Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

**Consolidated balance sheet
As at 31 December 2021**

	Note	2021 £ 000	2020 £ 000
Current assets			
Debtors	11	82	713,682
Cash at bank and in hand		8,501	119,777
		8,583	833,459
Creditors: amounts falling due within one year	12	(1,431)	(153,060)
Net current assets		7,152	680,399
Total assets less current liabilities		7,152	680,399
Provisions for liabilities	13	-	(13,586)
Net assets excluding pension liability		7,152	666,813
Defined benefit pension liability	18	-	(644,000)
Net assets including pension liabilities		7,152	22,813
Capital and reserves			
Called-up share capital	15	882	882
Profit and loss account		6,270	21,931
Shareholders' funds		7,152	22,813

The financial statements of Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited), registered number 03664571 were approved by the board of directors and authorised for issue on 6th June 2022

They were signed on its behalf by:



C W Reynell
Director

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

**Company balance sheet
As at 31 December 2021**

	Note	2021 £ 000	2020 £ 000
Fixed assets			
Investments	10	-	50
Current assets			
Debtors	11	82	656,813
Cash at bank and in hand		8,501	113,711
		8,583	770,524
Creditors: amounts falling due within one year	12	(1,431)	(765,421)
Net current assets		7,152	5,103
Total assets less current liabilities		7,152	5,153
Capital and reserves			
Called-up share capital	15	882	882
Profit and loss account		6,270	4,271
Shareholders' funds		7,152	5,153

The profit for the financial year of AWE ML was £57,242,157 (2020: £57,957,860).

The financial statements of AWE ML, registered number 03664571, were approved by the board of directors and authorised for issue on 6th June 2022

They were signed on its behalf by:



C W Reynell
Director

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

**Consolidated statement of changes in equity
For the year ended 31 December 2021**

	Called-up share capital £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2020	882	23,283	24,165
Profit for the year	-	61,973	61,973
Dividends	-	(63,326)	(63,326)
At 31 December 2020	882	21,930	22,812
Actuarial loss in relation to pension fund	-	218,000	218,000
Gain in value on pension undertaking in contract	-	(218,000)	(218,000)
At 31 December 2020	882	21,930	22,812
	Called-up share capital £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2021	882	21,930	22,812
Profit for the year	-	39,584	39,584
Dividends	-	(55,244)	(55,244)
At 31 December 2021	882	6,270	7,152

The notes on pages 24 to 39 form an integral part of these financial statements.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

**Company statement of changes in equity
For the year ended 31 December 2021**

	Called-up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2020	882	9,639	10,521
Profit for the year	-	57,958	57,958
Dividends	-	(63,326)	(63,326)
At 31 December 2020	<u>882</u>	<u>4,271</u>	<u>5,153</u>
	Called-up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2021	882	4,271	5,153
Profit for the year	-	57,242	57,242
Dividends	-	(55,244)	(55,244)
At 31 December 2021	<u>882</u>	<u>6,270</u>	<u>7,152</u>

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

**Consolidated statement of cash flows
For the Year Ended 31 December 2021**

	Note	2021 £ 000	2020 £ 000
Cash flows from operating activities			
Operating profit		49,623	74,980
(Increase)/decrease in trade debtors	11	(41,125)	25,888
Increase in trade creditors	12	36,217	10,911
Decrease/(increase) in RDEC debtor		11,241	(9,339)
Corporation tax paid		(12,300)	(20,884)
Net cash flow from operating activities		<u>43,656</u>	<u>81,556</u>
Cash flows from investing activities			
Net cash outflow on disposal of subsidiary		(99,698)	-
Interest received		10	256
Net cash flows from investing activities		<u>(99,688)</u>	<u>256</u>
Cash flows from financing activities			
Dividends paid		(55,244)	(63,326)
Net increase in cash and cash equivalents		(111,276)	18,486
Cash and cash equivalents at 1 January		<u>119,777</u>	<u>101,291</u>
Cash and cash equivalents at the end of year		<u>8,501</u>	<u>119,777</u>

The consolidated cash flows from operating activities include intra-group movements in working capital balances which were disposed of when the Group divested its interest in AWE plc on 30 June 2021.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021

1 General information

Defence Contractor Management and Operations Limited (formerly known as AWE ML) and referred to hereafter as "AWE ML" is a company incorporated in England and Wales under the Companies Act. AWE ML 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 functional currency of AWE ML 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 ML 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.

2 Accounting policies

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

Basis of consolidation

The Group financial statements consolidate the accounts of AWE ML 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 impact of the termination of the M&O contract between the MOD and AWE ML has been considered in making the assessment regarding the going concern basis.

Key matters taken into consideration are as follows:

- MOD terminated the contract between themselves and AWE ML on the 30 June 2021
- MOD took ownership of AWE plc from AWE ML as from that date
- Thereafter it is not anticipated that AWE ML will continue to trade and, apart from administrative activities associated with the termination, it has not continued to trade in the period since.

Given the above it is determined that the Company will not continue to operate as a going concern for the foreseeable future following the M&O contract termination on 30 June since it has no trade.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

2 Accounting policies (continued)

Going concern (continued)

Other factors that have been considered in the assessment of the going concern basis included the current COVID-19 pandemic, military conflict between Russia and Ukraine, current operational and finance positions, and current financial arrangements. None are indicators that AWE ML is not able to operate as a going concern. The implications of the contract termination is the overriding factor in the determination that AWE ML will not continue as a going concern.

Due consideration has been given to the implications of the contract termination, and other prevailing factors in the assessment of the 'going concern' assumption. It is concluded:

- AWE ML is not a going concern, on the basis the business has ceased at contract termination on 30 June 2021, i.e., the going concern basis is not appropriate
- The financial statements, as stated, are reasonably stated and no changes are required to either the accounting policies or the balance in existence at 31 December 2021

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.

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 ML 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.

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.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

2 Accounting policies (continued)

Research and development expenditure

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

Stocks, work in progress and long-term contracts

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

Current taxation

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

Deferred taxation

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

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

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 comprehensive income.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

2 Accounting policies (continued)

Employee benefits (continued)

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. AWE ML have the right to be reimbursed for all the pension contributions and charges, and management fees as per clauses of the pension contract with the MOD. AWE ML were not liable for any deficiency in the AWE Pension Scheme at the expiry or earlier termination of the M&O Contract or on the earlier winding-up of the AWE Pension Scheme or at any other time. A receivable to reflect this is therefore recognised in the Financial Statements with movements during the year recognised as the Statement of comprehensive income. The scheme (and all associated assets and liabilities) was disposed of on the 30 June 2021 as part of the contract termination and disposal of its subsidiary, AWE Plc.

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

COVID-19 pandemic

The COVID-19 pandemic had an impact on AWE with key considerations, in the period to 30 June 2021, being as follows:

- Operational: control and mitigation activities including preventative, resilience and containment measures continued to be in place. AWE has been able to continue to maintain safe and continuous operations with work appropriately prioritised; although delivery in some areas had slowed/slipped.
- Commercial: the pandemic was recognised as a 'force majeure' event and under the terms of the contract, which continued to apply in the period to 30 June 2021 with no major disruption in the delivery of the programme.

Post contract termination on the 30 June 2021 there are no longer COVID-19 considerations for the Company.

3 Revenue

The analysis of the group's revenue for the year is as follows:

	2021	2020
	£ 000	£ 000
Sale of goods	629,861	1,082,099

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 AWE.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

4 Interest receivable and similar income

	2021	2020
	£ 000	£ 000
Interest income on bank deposits	<u>10</u>	<u>256</u>

5 Profit before taxation

Profit before taxation is stated after charging:

	2021	2020
	£ 000	£ 000
Rentals under operating leases:		
Hire of plant and machinery	63	286
Research and development expenditure	<u>70,800</u>	<u>141,600</u>
	<u>70,863</u>	<u>141,886</u>

Auditors' remuneration

The analysis of the Company's auditors' remuneration is as follows:

	2021	2020
	£ 000	£ 000
Fees payable for the audit of the Company's annual accounts	67	189
Fees payable for other services to the Group		
The non statutory audit of the subsidiary AWE Plc	<u>220</u>	<u>188</u>
	<u>287</u>	<u>377</u>

6 Staff costs

The aggregate payroll costs, in the 6 months to 30 June 2021 (2020 - 12 months) (including directors' remuneration) were as follows:

	2021	2020
	£ 000	£ 000
Wages and salaries	163,271	302,256
Social security costs	16,937	29,845
Other pension costs	2,000	6,000
Net pension finance expense	5,000	9,000
Pension costs recoverable under contract in future periods	<u>10,928</u>	<u>18,304</u>
	<u>198,136</u>	<u>365,405</u>

The average number of persons employed by the Group (including directors) in the 6 months to 30 June 2021 (2020 - 12 months) analysed by category was as follows:

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

6 Staff costs (continued)

	2021	2020
	No.	No.
Science and technical support	2,671	2,608
Engineering and manufacturing	3,352	2,733
Business services	436	625
	<u>6,459</u>	<u>5,966</u>

Net defined benefit pension finance expenses are the expected return on assets less the interest cost on liabilities. The Company had no staff post 30 June 2021.

7 Directors' remuneration

The directors' remuneration in the 6 months to 30 June 2021 (2020 - 12 months) was as follows:

	2021	2020
	£ 000	£ 000
Remuneration	<u>2,829</u>	<u>4,455</u>

There are no retirement benefits accruing to any director (2020: none).

In respect of the highest paid director:

	2021	2020
	£ 000	£ 000
Aggregate emoluments	<u>1,125</u>	<u>1,986</u>

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

No directors' remuneration was paid post 30 June 2021.

8 Taxation

Tax charged in the profit and loss account

	2021	2020
	£ 000	£ 000
Current taxation		
UK corporation tax	9,295	14,010
UK corporation tax adjustment to prior periods	<u>641</u>	<u>(941)</u>
Total current tax	9,936	13,069
Deferred taxation		
Arising from origination and reversal of timing differences	<u>113</u>	<u>194</u>
Tax expense in the profit and loss account	<u>10,049</u>	<u>13,263</u>

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

8 Taxation (continued)

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2020: the same as the standard rate of corporation tax in the UK) of 19% (2020: 19%).

The differences are reconciled below:

	2021	2020
	£ 000	£ 000
Profit before tax	49,633	75,236
Corporation tax at standard rate	9,430	14,295
Expenses not deductible tax purposes	-	(2)
Other short term timing differences	(22)	(89)
Adjustment in respect of prior years	641	(941)
Total tax charge	10,049	13,263

Factors that may affect future tax charges

Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 December 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date but there are no longer deferred tax balances held.

Other operating income

Included in other income is £8,662,000 (2020: £24,739,004) receivable from HMRC in respect of research and development tax relief through the Research and Development Expenditure Credit (RDEC) scheme. £8,500,000 is in respect of the six month period ended 30 June 2021, and £162,000 is in respect of the year ended 31 December 2020 following a revision in the estimate.

9 Dividends

	2021	2020
	£ 000	£ 000
Interim dividend paid £14.91 per share (2020: £21.16)	13,156	18,671
Second interim dividend paid £29.60 per share (2020: £29.93)	26,118	18,459
Third interim dividend paid £6.74 per share (2020: £16.19)	5,947	15,185
Fourth interim dividend paid £11.36 per share (2020: £18.69)	10,023	11,011
	55,244	63,326

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

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

10 Investments

Company

	2021	2020
	£ 000	£ 000
Investments in subsidiaries	-	50

Details of undertakings

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			2021	2020
AWE plc	Room 20, Building F161.2, Atomic Weapons Establishment, Aldermaston, Reading, Berkshire, RG7 4PR	50,000 Ordinary shares	0%	100%

HM Government retained 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 M&O Contract. This right was executed on 30 June 2021.

On 30 June 2021, AWE plc and its subsidiary AWE Pensions Trustees were disposed of, being 100% of the issued share capital of the entity (£50,000).

11 Debtors

	Note	Group		Company	
		2021	2020	2021	2020
		£ 000	£ 000	£ 000	£ 000
Amounts recoverable on contracts		-	6,157	-	6,157
Other debtors		-	36,760	-	6,656
Pension recoverable under terms of contract		-	644,000	-	644,000
Prepayments		-	26,140	-	-
Corporation tax	8	82	-	82	-
Deferred tax recoverable	8	-	625	-	-
		82	713,682	82	656,813

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

12 Creditors

		Group		Company	
	Note	2021	2020	2021	2020
		£ 000	£ 000	£ 000	£ 000
Amounts falling due within one year					
Trade creditors		29	46,758	29	-
Amounts owed to shareholder groups	19	-	3,759	-	100,777
Social security and other taxes		298	25,842	298	19,153
Pension related amounts owed to group companies		-	-	-	644,000
Accruals and deferred income		1,104	76,103	1,104	893
Corporation tax payable	8	-	598	-	598
		<u>1,431</u>	<u>153,060</u>	<u>1,431</u>	<u>765,421</u>

13 Provisions for liabilities

Group

	Employee benefits
	£ 000
At 1 January 2021	13,586
Provisions used	(13,586)
At 31 December 2021	-

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

The Group no longer has employees or provisions since the disposal of its subsidiary AWE Plc.

Company

The Company has no provisions for liabilities.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

14 Derivative financial instruments

Forward foreign currency contracts

There were no foreign currency contracts outstanding at the year-end:

Outstanding contracts	Average contractual exchange rate		Notional value		Fair value	
	2021	2020	2021 £ 000	2020 £ 000	2021 £ 000	2020 £ 000
<12 months	-	1.2891	-	1,007	-	950
1-2 years	-	1.3134	-	356	-	341
Purchased EUR			-	1,363	-	1,291
<12 months	-	1.0773	-	484	-	470
1-2 years	-	1.0639	-	506	-	489
2-3 years	-	-	-	-	-	-
Purchased USD				990		959
<12 months	-	1.2998	-	(87)	-	(83)
1-2 years	-	1.3064	-	(179)	-	(171)
Purchase GBP sell USD			-	(266)	-	(254)
			-	2,087	-	1,996
Fair value adjustment					-	(91)

15 Called-up share capital

	2021 No.	2020 No.	2021 £ 000	2020 £ 000
Authorised:				
Ordinary shares of £1 each				
Class A	5,000,000	5,000,000	5,000	5,000
Class B	5,000,000	5,000,000	5,000	5,000
Class C	5,000,000	5,000,000	5,000	5,000
	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000</u>	<u>15,000</u>

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

15 Called-up share capital (continued)

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:

	2021	2020	2021	2020
	No.	No.	£	£
Called-up, allotted and fully paid:				
Ordinary shares of £1 each				
Class A	216,176	216,176	216,176	216,176
Class B	450,000	450,000	450,000	450,000
Class C	216,176	216,176	216,176	216,176
At 31 December	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>
	2021	2020	2021	2020
	No.	No.	£	£
Ordinary shares of £1 each				
At 1 January	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>
At 31 December	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>	<u>882,352</u>

16 Commitments

Operating lease commitments

At 31 December 2021, the Group had no annual commitments under non-cancellable operating leases:

	2021	2020
	£ 000	£ 000
Expiring:		
- in less than one year	-	220
- between one and five years	-	66
	<u>-</u>	<u>286</u>

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

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

16 Commitments (continued)

Purchase commitments

	Group		Company	
	2021	2020	2021	2020
	£ 000	£ 000	£ 000	£ 000
Contracted for but not provided	-	556,886	-	-

The M&O contract has been terminated on the 30 June 2021.

17 Contingent liabilities

	Group		Company	
	2021	2020	2021	2020
	£ 000	£ 000	£ 000	£ 000
Bank bond	-	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 M&O Contract. The bank bond was cancelled in July 2021.

18 Pension schemes

Pension contributions of £17,928,180 (2020: £633,303,850) were made in the year in respect of the AWE defined contribution pension scheme.

The AWE plc defined contribution pension scheme was disposed of in June 2021.

	2021	2020	2019	2018	2017
Assumptions					
Rate of increase in pensionable pay	-	2.40%	2.20%	2.30%	2.20%
Rate of increase in pensions in payments	-	2.40%	2.20%	2.30%	2.20%
Rate of increase in pensions in deferment	-	2.40%	2.20%	2.30%	2.20%
Discount rate	-	1.30%	2.00%	2.80%	2.40%
Inflation assumption (CPI)	-	2.40%	2.20%	2.30%	2.20%
Mortality assumption - life expectancy at age 60 for current pensioner (male, normal health, industrial grade)	-	27.0	26.9	26.8	27.8
Mortality assumption - life expectancy at age 60 for current non-pensioner aged 40 (male, normal health, industrial grade)	-	29.0	29.0	28.9	30.0

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

18 Pension schemes (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:

	2021	2020	2019	2018	2017
	£m	£m	£m	£m	£m
Equities	-	482	447	516	568
Property	-	115	108	123	133
Infrastructure	-	43	52	57	74
Absolute return	-	291	289	277	260
Bonds	-	467	419	256	230
Other (Liability Driven Investment)	-	514	384	274	323
Cash	-	26	17	8	18
Total fair value of assets	-	1,938	1,716	1,511	1,606
Present value of scheme liabilities	-	(2,583)	(2,169)	(1,895)	(2,101)
Deficit in the scheme	-	(644)	(453)	(383)	(495)

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

	2021	2020
	£m	£m
Current service cost (net of employees' contributions)	-	6

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

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

	2021	2020
	£m	£m
Actual return less expected return on pension scheme assets	-	206
Experienced gains arising on the scheme liabilities	-	11
Changes in assumptions underlying the present value of the scheme liabilities	-	(435)
	-	(218)

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

18 Pension schemes (continued)

Movement in scheme deficit during the year

	2021	2020
	£m	£m
At 1 January	(644)	(453)
Current service cost	-	(6)
Contributions - employer's	-	42
Net finance expense	-	(9)
Actuarial (loss)/gain	-	(218)
Disposed	644	-
At 31 December	-	(644)

History of experienced gains and losses

	FRS 102				
	2021	2020	2019	2018	2017
Difference between the expected and the actual return on scheme assets:					
Amount (£million)	-	206	183	(112)	102
Percentage of scheme assets	-	11%	11%	(7%)	6%
Experienced gains and (losses) on scheme liabilities:					
Amount (£million)	-	11	(1)	42	30
Percentage of present value of scheme liabilities	-	0%	0%	2%	1%
Total actuarial (loss)/gain					
Amount (£million)	-	(218)	(91)	97	82
Percentage of present value of scheme liabilities	-	(8%)	(4%)	5%	4%

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

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

19 Related party transactions

There are related party transactions with the Company'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:

	2021	2020
	£ 000	£ 000
Gross supplies and services purchased during the period		
Serco Holdings Limited (and group companies)	899	2,197
Lockheed Martin UK Strategic Systems Limited (and group companies)	16,185	26,004
JEG Acquisition Company Limited (and group companies)	16,306	25,970
	<u>33,390</u>	<u>54,171</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	2021	2020
		£ 000	£ 000
Serco Holdings Limited (and group companies)		-	118
Lockheed Martin UK Strategic Systems Limited (and group companies)		-	1,222
JEG Acquisition Company Limited (and group companies)		-	2,419
		<u>-</u>	<u>3,759</u>
Amounts owed to shareholder groups	12	<u>-</u>	<u>3,759</u>

20 Ultimate parent company

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

The Company's immediate parent undertaking is 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.

Defence Contractor Management and Operations Limited (formerly known as AWE Management Limited)

Notes to the financial statements for the year ended 31 December 2021 (continued)

21 Post balance sheet event

An interim dividend of £5.6m (2020: £13.2m) was declared on 17 March 2022 and paid on 23 March 2022. On the 16 March 2022 the Company changed its name by resolution from AWE Management Limited to Defence Contractor Management and Operations Limited.