

Deloitte

Company Registration No. 03664571

AWE MANAGEMENT LIMITED

Report and Financial Statements

31 December 2004

**Deloitte & Touche LLP
London**



AWE MANAGEMENT LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Consolidated profit and loss account	6
Consolidated balance sheet	7
Company balance sheet	8
Consolidated cash flow statement	9
Reconciliation of net cash flow to movement in net (debt)/funds	10
Notes to the accounts	11



AWE MANAGEMENT LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G D Beveridge
I Downie
D Grzyb
R C McGuinness
A Romig
H J Saxton
B T Tenner

SECRETARY

N C Franklin

BANKERS

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

REGISTERED OFFICE

Atomic Weapons Establishment
Aldermaston
Reading
Berkshire
RG7 4PR

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

AWE MANAGEMENT LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the group for the year ended 31 December 2004.

ACTIVITIES

The group holds a contract for the management and operation of the Atomic Weapons Establishment, comprising sites at Aldermaston and Burghfield (the 'AWE' facility). The contract, which commenced on 1 April 2000 will run until 2025.

The assets of the AWE facility remain in government ownership with AWE Management Limited having the right to operate the assets through its subsidiary, AWE plc, which holds a licence from the Ministry of Defence.

RESULTS AND DIVIDENDS

The results of the group on page 6, show a profit before tax of £32,227,000 (2003: £24,663,000) and the directors expect 2005 to be another successful year.

No final dividend is recommended by the directors (2003: £nil). An interim dividend of £7,573,500 (2003: £8,418,999) was declared on 25 June 2004 and paid on 30 June 2004. A second interim dividend of £12,771,000 (2003: £11,745,000) was declared on 13 December 2004 and paid on 20 December 2004.

DIRECTORS AND THEIR INTERESTS

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

G D Beveridge	
S B Dauncey	(resigned 18 October 2004)
I Downie	
S E Gibbs	(resigned 18 October 2004)
D Grzyb	(appointed 16 March 2004)
P Majka	(resigned 16 March 2004)
R C McGuinness	
A Romig	(appointed 2 March 2004)
H J Saxton	(resigned 2 March 2004)
H J Saxton	(re-appointed 20 October 2004)
B T Tenner	(appointed 19 October 2004)

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

EMPLOYEES

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

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

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

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

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

The group provides 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.

AWE MANAGEMENT LIMITED

DIRECTORS' REPORT (continued)

CHARITABLE DONATIONS

During the year the group paid £60,130 (2003: £55,085) to charitable organisations.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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



R C McGuinness
Director

7 March 2005

AWE MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AWE MANAGEMENT LIMITED

We have audited the financial statements of AWE Management Limited for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the balance sheets, consolidated cash flow statement, the reconciliation of net cash flow to movement in net (debt)/funds and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

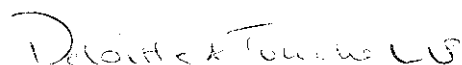
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 December 2004 and the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
7 March 2005

AWE MANAGEMENT LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
TURNOVER	2	335,703	300,717
Cost of sales		(301,904)	(276,125)
GROSS PROFIT		33,799	24,592
Administrative expenses	3	(184)	(282)
OPERATING PROFIT		33,615	24,310
Other interest receivable and similar income	4	660	943
Interest payable and similar charges	5	(2,048)	(590)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	32,227	24,663
Tax on profit on ordinary activities	9	(6,947)	(5,337)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		25,280	19,326
Dividends paid	10	(20,345)	(20,164)
RETAINED PROFIT/(LOSS) FOR THE YEAR	18	4,935	(838)

All results derive from continuing operations.

In accordance with section 230 of the Companies Act 1985 the group has opted not to prepare a profit and loss account for the company. The company made a profit after tax in the year of £20,614,938 (2003: £16,593,634).

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

Accordingly no statement of total recognised gains or losses has been presented.

AWE MANAGEMENT LIMITED

CONSOLIDATED BALANCE SHEET 31 December 2004

	Note	2004 £'000	2003 £'000
CURRENT ASSETS			
Stocks and work in progress	12	97	1,676
Debtors	13		
- due within one year		61,318	55,243
- due after more than one year		61,495	25,268
Cash at bank and in hand	17	2,383	2,189
		<u>125,293</u>	<u>84,376</u>
CREDITORS: amounts falling due within one year	14	<u>(106,228)</u>	<u>(71,374)</u>
NET CURRENT ASSETS		<u>19,065</u>	<u>13,002</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		19,065	13,002
CREDITORS: amounts falling due after more than one year			
13% loan stock	16	(3,150)	(3,150)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(2,048)</u>	<u>(920)</u>
NET ASSETS		<u>13,867</u>	<u>8,932</u>
CAPITAL AND RESERVES			
Called up share capital	15	1,350	1,350
Profit and loss account	18	<u>12,517</u>	<u>7,582</u>
EQUITY SHAREHOLDERS' FUNDS	19	<u>13,867</u>	<u>8,932</u>

These financial statements were approved by the Board of Directors on 7 March 2005.

Signed on behalf of the Board of Directors



R C McGuinness
Director

AWE MANAGEMENT LIMITED

COMPANY BALANCE SHEET 31 December 2004

	Note	2004 £'000	2003 £'000
FIXED ASSETS			
Investments	11	50	50
CURRENT ASSETS			
Debtors	13		
- due within one year		59,756	52,863
- due after more than one year		60,838	24,993
Cash at bank and in hand		325	134
		120,919	77,990
CREDITORS: amounts falling due within one year	14	(108,617)	(68,691)
NET CURRENT ASSETS		12,302	9,299
TOTAL ASSETS LESS CURRENT LIABILITIES		12,352	9,349
CREDITORS: amounts falling due after more than one year			
13% loan stock	16	(3,150)	(3,150)
NET ASSETS		9,202	6,199
CAPITAL AND RESERVES			
Called up share capital	15	1,350	1,350
Profit and loss account	18	7,852	4,849
EQUITY SHAREHOLDERS' FUNDS	19	9,202	6,199

These financial statements were approved by the Board of Directors on 7 March 2005.

Signed on behalf of the Board of Directors



R C McGuinness
Director

AWE MANAGEMENT LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Net cash outflow from operating activities	22(a)	(11,116)	(4,267)
Returns on investments and servicing of finance			
Interest paid		(1,849)	(516)
Interest received		672	945
		(1,177)	429
Taxation paid		(4,868)	(2,372)
Equity dividends paid		(20,345)	(20,164)
Management of liquid resources			
Decrease/(increase) in amounts owed by shareholders		3,200	(1,700)
Cash outflow before financing		(34,306)	(28,074)
Financing		34,500	18,000
Increase/(decrease) in cash for the year		194	(10,074)

AWE MANAGEMENT LIMITED

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Increase/(decrease) in cash in the year		194	2,126
Decrease in short term cash deposits		-	(12,200)
(Decrease)/Increase in amounts owed by shareholders		(3,200)	1,700
Increase in bank loans		(34,500)	(18,000)
Movement in net funds in year		(37,506)	(26,374)
Net (debt)/funds at 1 January		(8,761)	17,613
Net debt at 31 December	22(b)	(46,267)	(8,761)

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

1. ACCOUNTING POLICIES

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

Basis of preparation

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

Turnover

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

Basis of consolidation

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

Investments

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

Operating leases

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

Long term contracts

Profit on long-term contracts in progress is taken when a sale is recorded on part-delivery of products or part-performance of services, provided that the outcome of the contract can be assessed with reasonable certainty. Provisions are made for any losses incurred or expected to be incurred on uncompleted contracts. Advance payments received from customers are shown as creditors until there is a right of set-off against the value of work undertaken.

Research and development expenditure

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

Deferred taxation

Deferred taxation is provided in full on timing differences relating to pension and other post retirement benefits calculated at the rates at which it is expected that tax will arise. Deferred taxation is provided on other timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise.

Pensions

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

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

Debtors

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

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

2. TURNOVER

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

3. ADMINISTRATIVE EXPENSES

Administrative expenses represent costs that are not recoverable from contracts.

4. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 £'000	2003 £'000
Bank interest	493	857
Other interest	150	63
Interest receivable on amounts owed by shareholders	17	23
	<u>660</u>	<u>943</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000	2003 £'000
Bank interest	1,638	174
Other interest	-	6
Interest payable on 13% loan stock	410	410
	<u>2,048</u>	<u>590</u>

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2004 £'000	2003 £'000
Rentals under operating leases:		
- Hire of plant and machinery	249	226
Auditors' remuneration:		
- Group and company audit fees	65	60
- Other services	38	157
	<u>352</u>	<u>443</u>

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

7. EMPLOYEES

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

	2004 No.	2003 No.
Scientific and technical	2,015	1,954
Maintenance	1,131	1,100
Administration	410	422
	<u>3,556</u>	<u>3,476</u>
	2004 £'000	2003 £'000
Wages and salaries	109,782	103,745
Social security	9,213	8,404
Other pension costs	16,945	15,061
	<u>135,940</u>	<u>127,210</u>

8. DIRECTORS' REMUNERATION

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

	2004 £'000	2003 £'000
Directors' remuneration		
Aggregate emoluments	<u>14</u>	<u>43</u>
	2004 £'000	2003 £'000
Highest paid director (included in above)		
Aggregate emoluments	<u>9</u>	<u>43</u>

There are no retirement benefits accruing to any director (2003: none).

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

i) Analysis of tax charge on ordinary activities

	2004 £'000	2003 £'000
United Kingdom corporation tax at 30% based on the profit for the year	(4,871)	(5,447)
Adjustment in respect of prior years	1,439	(165)
Consortium relief	(2,436)	-
Adjustment in respect of prior years (consortium relief)	(1,461)	-
Deferred tax		
Timing differences	360	275
Adjustment in respect of prior years	22	-
	<u>(6,947)</u>	<u>(5,337)</u>

ii) Factors affecting tax charge for the current period

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

The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	<u>32,227</u>	<u>24,663</u>
Tax at 30% thereon	(9,668)	(7,399)
Effects of:		
Expenses not deductible for tax purposes	(58)	(58)
Research & development tax credit	2,779	2,285
Short term timing differences	(360)	(275)
Adjustment in respect of prior years	(22)	(165)
Current tax charge for period	<u>(7,329)</u>	<u>(5,612)</u>
Deferred taxation		
Opening balance	(275)	-
Current year credit	(382)	(275)
Closing balance	<u>(657)</u>	<u>(275)</u>

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

10. DIVIDENDS

	2004 £'000	2003 £'000
Interim dividends paid £15.07 per share (2003: £14.936)	20,345	20,164

11. FIXED ASSET INVESTMENTS

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

	£1 Ordinary shares	%
AWE plc	50,000	100

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

12. STOCKS AND WORK IN PROGRESS

	2004 £'000	2003 £'000
Work in progress	97	1,676

13. DEBTORS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year:				
Amounts recoverable on contracts	52,028	41,495	51,264	40,844
Amounts owed by shareholder groups – Serco Group plc	7,000	10,200	7,000	10,200
Other debtors	177	500	43	45
Corporation tax recoverable	703	1,770	1,447	1,770
Income tax recoverable	3	4	-	-
Prepayments and accrued income	1,407	1,274	2	4
	<u>61,318</u>	<u>55,243</u>	<u>59,756</u>	<u>52,863</u>
Amounts falling due after more than one year:				
Amounts recoverable on contract	60,838	24,993	60,838	24,993
Deferred tax	657	275	-	-
	<u>61,495</u>	<u>25,268</u>	<u>60,838</u>	<u>24,993</u>
	<u>122,813</u>	<u>80,511</u>	<u>120,594</u>	<u>77,856</u>

The loan to Serco Group plc was made on 22 December 2004 and was repayable on 4 January 2005 at an interest rate of base rate plus one percent. Further related parties disclosures are given in Note 24.

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	Group		Company	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans		52,500	18,000	52,500	18,000
Trade creditors		18,830	19,623	-	-
Amounts owed to shareholder groups	24	648	1,533	92	161
Amounts owed to group companies		-	-	33,286	30,064
Corporation tax		4,688	3,970	3,049	3,804
Other taxation and social security		9,016	6,992	13,900	12,189
Other creditors		205	583	-	-
Consortium relief payable	24	3,896	3,221	3,896	3,221
Group relief payable		-	-	1,519	1,116
Accruals and deferred income		16,445	17,452	375	136
		<u>106,228</u>	<u>71,374</u>	<u>108,617</u>	<u>68,691</u>

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

15. CALLED UP SHARE CAPITAL

	2004 No.	2003 No.
Authorised:		
Ordinary shares of £1 each		
Class A	5,000,000	5,000,000
Class B	5,000,000	5,000,000
Class C	5,000,000	5,000,000
	<u>15,000,000</u>	<u>15,000,000</u>
Called up, allotted and fully paid:		
Ordinary shares of £1 each		
Class A	450,000	450,000
Class B	450,000	450,000
Class C	450,000	450,000
	<u>1,350,000</u>	<u>1,350,000</u>
	2004 £'000	2003 £'000
Authorised:		
Ordinary shares of £1 each		
Class A	5,000	5,000
Class B	5,000	5,000
Class C	5,000	5,000
	<u>15,000</u>	<u>15,000</u>
Called up, allotted and fully paid:		
Ordinary shares of £1 each		
Class A	450	450
Class B	450	450
Class C	450	450
	<u>1,350</u>	<u>1,350</u>

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

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

16. 13% LOAN STOCK

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

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Serco Limited	1,050	1,050	1,050	1,050
British Nuclear Fuels plc	1,050	1,050	1,050	1,050
Lockheed Martin UK Holdings Limited	1,050	1,050	1,050	1,050
	<u>3,150</u>	<u>3,150</u>	<u>3,150</u>	<u>3,150</u>

The interest expense for each shareholder is £136,500 (2003: £136,500), totalling £409,500 (2003: £409,500) as disclosed in note 5. At the year end an amount of £101,814 (2003: £101,814) was accrued relating to interest owed to shareholders.

17. PROVISION FOR LIABILITIES AND CHARGES

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
AWE Partnership Share Scheme:				
At 1 January	920	-	-	-
Charged to profit and loss account	<u>1,128</u>	<u>920</u>	<u>-</u>	<u>-</u>
At 31 December	<u>2,048</u>	<u>920</u>	<u>-</u>	<u>-</u>

The AWE Partnership Share Scheme was established in 2003 whereby employees with more than 6 months service were allocated notional shares in the Scheme. A further allocation was made in June 2004 and another allocation may be made in 2005 dependent on the company's performance against its key performance indicators, including assurance. This initial scheme will run for 3 years until June 2006 when payment will be made to the notional shareholders. Funds of £2.169 million (2003: £2.088 million) are held in respect of that Scheme in a separate bank account over which the Ministry of Defence has joint signing authority.

18. PROFIT AND LOSS ACCOUNT

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
At 1 January	7,582	8,420	4,849	6,372
Retained profit/(loss) for the year	<u>4,935</u>	<u>(838)</u>	<u>3,003</u>	<u>(1,523)</u>
At 31 December	<u>12,517</u>	<u>7,582</u>	<u>7,852</u>	<u>4,849</u>

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Opening shareholders' funds	8,932	9,770	6,199	7,722
Profit for the year before dividends	25,280	19,326	20,615	16,593
Dividends paid and proposed to equity shareholders	(20,345)	(20,164)	(20,345)	(20,164)
Dividends received from subsidiaries	-	-	2,733	2,048
Closing shareholders' funds	<u>13,867</u>	<u>8,932</u>	<u>9,202</u>	<u>6,199</u>

20. COMMITMENTS

At 31 December 2004, the group had annual commitments under non-cancellable operating leases as follows:

(a) Operating lease commitments

	Other	
	2004 £'000	2003 £'000
Expiring in less than one year	29	96
Expiring between one and two years	251	23
Expiring between two and five years	-	25
	<u>280</u>	<u>144</u>

(b) Purchase commitments

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Contracted for but not provided	<u>119,730</u>	<u>100,342</u>	<u>-</u>	<u>-</u>

(c) Other commitments

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

21. CONTINGENT LIABILITIES

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank bond	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>

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

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

22. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2004 £'000	2003 £'000
Operating profit	33,615	24,310
Decrease/(increase) in stocks and work in progress	1,579	(1,676)
Increase in debtors	(46,200)	(25,419)
Decrease in creditors	(1,238)	(2,402)
Increase in provisions	1,128	920
Net cash outflow from operating activities	<u>(11,116)</u>	<u>(4,267)</u>

(b) Analysis of net funds/(debt)

	2004 1 January £'000	Cash flow £'000	31 December £'000
Cash in hand and at bank	2,189	194	2,383
Loans to shareholders	10,200	(3,200)	7,000
13% loan stock	(3,150)	-	(3,150)
Bank loans	<u>(18,000)</u>	<u>(34,500)</u>	<u>(52,500)</u>
Net debt	<u>(8,761)</u>	<u>(37,506)</u>	<u>(46,267)</u>

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

AWE MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS****For the year ended 31 December 2004****23. PENSION SCHEME**

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

The group therefore recognises its obligations in accordance with the cash contributions paid. Pension contributions of £16,951,000 (2003: £15,050,000) were made in the year in respect of the AWE pension scheme.

24. RELATED PARTY TRANSACTIONS

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

In addition to the loan stock issued to the shareholders as disclosed in note 16 and the amounts owed by Serco Group plc as disclosed in note 13, the group traded with its shareholders as follows.

	Gross supplies and services purchased during the period		Gross sales made during the period	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Serco Group plc (and subsidiaries)	1,573	1,147	67	41
Lockheed Martin Inc (and subsidiaries)	4,882	1,546	-	-
British Nuclear Fuels plc (and subsidiaries)	1,680	2,407	4	-
	<u>8,135</u>	<u>5,100</u>	<u>71</u>	<u>41</u>

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

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

24. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2004 £'000	2003 £'000
Serco Limited	-	13
Serco Group plc	17	10
	<u>17</u>	<u>23</u>

There was no other interest expense to related parties apart from as disclosed in note 16.

Excluding the amounts owed by shareholders and the loan stock balances disclosed in notes 13 and 16, the group had the following balances with related parties.

	2004			
	Accrued interest receivable £'000	Accrued interest payable (Note 16) £'000	Trading balances due as at 31 December £'000	Net due as at 31 December £'000
Serco Group plc (and subsidiaries)	(10)	34	327	351
Lockheed Martin Inc (and subsidiaries)	-	34	(96)	(62)
British Nuclear Fuels plc (and subsidiaries)	-	34	325	359
	<u>(10)</u>	<u>102</u>	<u>556</u>	<u>648</u>

	2003			
	Accrued interest receivable £'000	Accrued interest payable (Note 16) £'000	Trading balances due as at 31 December £'000	Net due as at 31 December £'000
Serco Group plc (and subsidiaries)	(11)	34	458	481
Lockheed Martin Inc (and subsidiaries)	-	34	509	543
British Nuclear Fuels plc (and subsidiaries)	-	34	475	509
	<u>(11)</u>	<u>102</u>	<u>1,442</u>	<u>1,533</u>

AWE MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004

24. RELATED PARTY TRANSACTIONS (CONTINUED)

Amounts owed by shareholders during the year were as follows:

	At 1 January 2004 £'000	Amount advanced £'000	Amount repaid £'000	At 31 December 2004 £'000
Serco Group plc	10,200	9,500	(12,700)	7,000
	<u>10,200</u>	<u>9,500</u>	<u>(12,700)</u>	<u>7,000</u>

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

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

	At 1 January 2004 £'000	Relief taken £'000	Amount paid £'000	At 31 December 2004 £'000
Magnox Electric plc	1,451	2,440	(1,451)	2,440
Serco Group plc	1,062	1,456	(1,062)	1,456
Serco Investments Ltd	708	-	(708)	-
	<u>3,221</u>	<u>3,896</u>	<u>(3,221)</u>	<u>3,896</u>

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