



AWE PLC

Annual Report and Accounts

31 March 2022

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by Command of His Majesty
January 2023

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Strategic Report

Chair's Statement

It gives me great pleasure to introduce the AWE plc Annual Report & Accounts for 2021/22.

The Continuous at Sea Deterrent (CASD) exists to deter the most severe threats to the United Kingdom (UK) and our way of life, helping to guarantee our safety and that of our NATO allies. The Atomic Weapons Establishment (AWE) has a critical role in CASD; manufacturing and maintaining nuclear warheads that are compatible with the Trident Strategic Weapon System and used by both the existing Vanguard Class and future Dreadnought Class submarine fleets. We are a fundamental part of the UK's national security.

The Government's commitment to CASD was reiterated with the announcement in 2020 of a programme to build a replacement warhead, forming a cornerstone of the 2021 Integrated Review of Security, Defence, Development and Foreign Policy. Delivering this replacement warhead as well as AWE's other responsibilities represents a major challenge – we have a great deal to achieve in a short space of time to repay the trust that has been given to us by the Government, and in turn by the people of the UK.

Our new status as a Non-Departmental Public Body (NDPB), wholly owned by the Ministry of Defence (MOD), will help us to meet this requirement, ensuring a close and effective relationship between AWE and the Government. I am hugely grateful to AWE's employees, executives and my fellow Board members for their focus and determination during this complex transition. It has not been without difficulties, but both AWE and the MOD have worked extremely hard, mitigating challenges, to deliver a successful transition. We are already benefitting from this new way of working, and I am hugely confident that this change will continue to be productive.

Over this reporting period, we have defined and laid out a strategic programme which will give us the capabilities necessary to deliver on our current and future missions. No part of the business has been left untouched by this process. It is a fundamental shift in how AWE operates, and there will be a tremendous amount of change that we will need to deliver at pace if we are to meet our requirements. If we are successful in actioning these changes over the coming years, it will improve the speed and quality of what AWE can deliver. We must do this while maintaining and building on our commitment to safety, to meet the standards we set for ourselves and which is expected of us by Government, regulators, and the UK public.

This report, as well as looking at performance, sets out our mission and renewed strategic priorities. There is a demanding yet exciting period ahead for AWE, where further transformation will take place. I look forward to working ever more closely with Alison Atkinson, the AWE Executive team, our people, and our stakeholders across the Defence Nuclear Enterprise as we build this future together.

Sir John Manzoni, Chairman

Chief Executive's Statement

At AWE, we are immensely proud to support CASD and our national security, through our current and future warhead programmes, as well as our technical assistance to arms control, nuclear security and response to nuclear and radiological accidents and terrorism.

This is the first Annual Report since AWE's transition to government ownership, and there has been a great effort throughout the company to make this transition successful while continuing to deliver our existing missions. We have had to reset AWE from a contract-oriented business to one set up for high-performance, safe and secure delivery in its own right. In doing so, our focus is on maintaining stability, and pausing change temporarily where necessary. Already it is possible to see tangible benefits from this transformation, particularly evident through our improved, closer working relationship with the Government, built on transparency and trust.

Over the past year, we have further progressed a programme to design, develop and build the UK's replacement warhead – a once-in-a-generation chance to play a pivotal role in the future defence of our nation. This programme requires a multibillion-pound investment at AWE sites in people, resources, and infrastructure, and we have a responsibility to ensure that every penny of this investment is spent as efficiently and effectively as possible.

These changes have not stopped us from delivering the vital core functions required by the Government and for CASD, and we have worked closely with the MOD to ensure alignment, resilience, and reliability. There have been headwinds along the way, manufacturing some of our product's components is highly challenging and the age of some of our infrastructure has led to unanticipated maintenance work. Despite this, it has been a year of good performance and progress: we have achieved several major milestones to support and maintain the UK's current stockpile of warheads, as well as improving the confidence the Office of Nuclear Regulation has in our management of the Burghfield site, which is now under normal levels of regulatory attention. This report provides further insight into how we have performed during the reporting year, both the successes and the issues given the complex nature of what we at AWE do.

Continuing to meet the requirements of the current warhead stockpile, while also delivering a replacement warhead, represents a significant challenge. Yet it is also an incredible opportunity to transform the way that AWE operates and delivers world-class nuclear science and industrial know-how.

We have undertaken a major programme this year to identify the organisational and operational changes needed to deliver this transformation, and we are laying the groundwork through a series of targeted one-year actions across the business. In turn, these actions form part of an integrated AWE transformation programme over the next three years, focussed on production and manufacturing excellence and dealing with our legacy facilities and processes.

In a year where we have continued to adapt to the impacts of the Covid-19 pandemic, alongside an unsettled geopolitical environment, I sincerely thank all AWE employees for their hard work, commitment, and accountability. I would also like to thank the AWE Board for their scrutiny and invaluable insight since transition. Finally, I want to pay tribute to the rest of the Executive team for their efforts over the past year. We have continued to strengthen that team during this period, with Barry Hunter joining as Chief Financial Officer, Mandy Savage as Executive Director of Engineering and Iain Stevenson as Executive Director for Mission Delivery. Barry, Mandy, and Iain bring a wealth of experience and skills across the civil nuclear and defence sectors.

AWE is central to the UK's nuclear deterrent, and we are the only nuclear weapons laboratory in the UK; no one else does what we do. Together, we will continue to deliver solutions for a safe and secure future.

Alison Atkinson, CEO

AWE and our Mission

AWE Mission

The UK government maintains a CASD to deter the most severe threats to the UK and our way of life. At AWE plc ("AWE" or "the Company") we define our mission simply: it is what we do. Our mission is our role in supporting CASD and in nuclear threat reduction.

We design, manufacture, maintain and develop the UK's nuclear warheads, and apply our unique expertise to support national nuclear security and threat reduction. To do this we must sustain the scientific expertise and industrial know how to manage, integrate and deliver a set of complex programmes and projects safely and securely.

1. The work we carry out for, and in collaboration with, the MOD includes manufacturing and maintaining warheads that enable the UK to deter the most extreme threats to our way of life. This is our Trident Mk 4A mission.
2. Undertaking research and development to keep the current product in service and to be able to design and manufacture a replacement warhead. This is our Replacement Warhead and Warhead Underpinning Technologies mission.
3. Using nuclear know-how and technical expertise to support the UK's counter terrorism and nuclear threat reduction activities. This is our Nuclear Threat Reduction mission.

To support the fulfilment of these three missions, we sustain our capability for the long term – the people, the facilities, the know-how – ensuring that the UK can provide warheads and nuclear threat reduction services not only in the present, but far into the future. We also affirm our commitment to safety and security and to the competent discharge of our responsibilities as a nuclear site licensee. Together we must invest in a complex and ambitious infrastructure programme and support the development of our people. Sustainability is an increasingly important thread running through our strategy and planning.

AWE Purpose

We define our purpose in terms of our impact – it reminds us why we do what we do. Our purpose is captured in the statement: Together, we apply our expertise to support nuclear security and keep our nation and our allies safe.

"The ultimate guarantee of our national security is nuclear deterrence which relies on us having a credible nuclear capability to deter the most extreme threats to the UK and our Allies. As such, there can be no risk to our ability to deploy this without interference. The Treaty on the Non-Proliferation of Nuclear Weapons prohibits nuclear weapons states from transferring nuclear weapons to other states, including other nuclear weapons states. Therefore, while we can acquire the ballistic missiles from the US, the warheads themselves must be produced in the UK." - *MOD Defence & Security Industrial Strategy 2021*

AWE Business Model & Organisational Structure

The MOD owns the AWE sites, including the assets and liabilities. AWE is responsible under a contract with the MOD for operating the sites safely and securely as well as delivering a safe, effective, and efficient nuclear warhead programme. AWE employs the workforce, holds the nuclear site licences, environmental permits, and other regulatory permissions.

The NDPB structure was selected by the Government to strengthen alignment, simplify the relationship with AWE, and improve value for money.

AWE Strategic Imperative

Our strategic imperative is to deliver our missions on time, securely, safely, and sustainably. Achieving this is contingent on living up to the ideals outlined in our vision. Trust and transparency are critical to achieving these because success relies on the effective and efficient collaboration and alignment across the Defence Nuclear Enterprise (DNE), from requirement setting to funding decision-making through to delivering output. AWE's reputation as an employer of choice, particularly in science, engineering and programme management, will ensure we continue to attract the best of the highly skilled.

Our strategy outlines the transformative actions we must undertake over the next 3 years, to ensure that we continue to maintain the trust of our customers, stakeholders and the wider UK economy.

We must 'pivot' AWE from being a contract delivery vehicle to a high-performing business to enable the transformation. This includes aligning accountabilities, embedding performance excellence, and defining critical interfaces within the MOD and the broader DNE.

As we make tangible progress on these actions, the nature, needs and priorities of our continuing and development activities will become clearer. We will complete 5 strategic actions over the next 3 years:

1. **Modernise delivery** – Reduce end-to-end production span times, increase consistency of product configuration and traceability, rationalise design processes and improve assessment capability.
2. **Partner with the wider UK economy** – Optimise the use of supply chain in production, improve infrastructure delivery and decommissioning, invest to regenerate national capacity, and partner with the UK and US National Labs Alliance.
3. **Attract, grow, and retain the best people** – Continue to improve workforce agility, develop an attractive employee value proposition, increase outreach to the national talent pool and including through our apprentice/graduate schemes, all based on being known for UK nuclear security and a great place to work.
4. **Recapitalise and consolidate our estate** – Deliver the estates master plan that encompasses Environmental, Social and Governance (ESG) principles and deliverables which align with strategic partnerships achieving early contract engagement and solutions to accelerate projects.
5. **Support Defence Nuclear Enterprise alignment** – Clarify ways of working, improve alignment of teams, governance, and decision-making, as well as product approvals and technical assurance, and develop approach to real-time international collaboration.

Financial Review

Company financial performance for the 15 months ended 31 March 2022

Following the transition to government ownership AWE plc changed its accounting reference date from December to March to align to the MOD. Accordingly, the annual report and accounts have been prepared for the 15 months ended 31 March 2022.

The financial statements for the 15 months ended 31 March 2022 show the following:

- Revenue of £1,425.7 million (year ended 31 December 2020: £984.2 million).
- Gross loss of £31.2m (year ended 31 December 2020: Gross loss of £4.4m).
- Net loss for the period of £439.2 million (year ended 31 December 2020: net profit of £17.7m).
- Net liabilities of £57.0 million (year ended 31 December 2020: net assets of £17.8 million).
- Capital contribution of £63 million (year ended 31 December 2020: nil) received in relation to an equity contribution from the owner of the Company equal to the amounts paid by the Company to the pension scheme in respect of the deficit funding on the scheme.

Revenues mainly arise from work undertaken in relation to AWE's principal activity. This accounts for 99% of revenue (year ended 31 December 2020: 99%). The increase in revenue reflects both the longer reporting period and an increased level of activity in the period. The increased level of activity reflects mainly the increasing investment in the infrastructure in connection with current and future facilities for the nuclear warhead programme.

Revenues with regards to the principal activity, being the performance of the Management & Operations (M&O) contract in relation to operating the AWE sites owned by the MOD and delivering the nuclear warhead programme, mainly reflect the re-imbursement of costs with fee for expenditure in relation to meeting the trident and replacement warhead commitments, and the delivery of the critical infrastructure projects required to meet these commitments. The costs include those associated with maintaining and operating the site and the costs of the workforce involved in delivering these commitments at Aldermaston, Burghfield and Blacknest, together with the costs of the infrastructure projects. The infrastructure is owned by the MOD, not AWE plc, and accordingly the investment in infrastructure is not capitalised, but expensed. The performance of the M&O contract is addressed in summary in the Performance and KPIs section.

The gross loss in the current period arises as a result of the fee earned on the M&O and other contracts (£2.3 million) which came into effect from 1 July 2021, offset by cost of sales which includes the pension net current service and related interest costs arising in relation to the defined benefit pension scheme (£12.0 million) but excludes MoD funding of the defined benefit scheme deficit funding which is separately dealt with as a contribution from the shareholder as explained further below. Amounts due from MoD under the contract are also reduced further by offsetting amounts received by AWE as RDEC income (this income is recognised in Other operating income) which are returned to the MOD under contract (£21.5 million). The net loss reported for the prior year of £4.4 million arises as a result of the fee then earned offset by costs arising that were not recoverable prior to transition to government ownership and change in contractual arrangements. There was no net profit/loss impact arising with regards to the defined benefit pension scheme in that year as a result of equal and offsetting movements in the amount recoverable under contract for this scheme under the then contracts in place with the AWE Group and the amortisation of the related pension fund asset which was recognised up to the date of transition. Under these previous contractual arrangements the RDEC income was retained.

Net liabilities arise as a result of the write-off of the previously recognised pension related asset referred to above. The impact is offset in part by the reduction in the defined pension scheme liability to £53 million (31 December 2020: £644 million). Further details are provided in note 14 in the financial statements.

Since the change in ownership on 1 July 2021, AWE received £63m in funding from the MOD equal to the amounts paid by the Company to the pension scheme in respect of the deficit funding on the scheme. After detailed and extensive deliberation of the alternative policies for recognition of this income, including with the external auditors, which is explained in more detail in the Report of the Audit and Risk Committee on page 35 this payment has been recorded as a contribution from the equity owner of the Company and is directly recorded in shareholder's equity as a capital contribution. Further details of the accounting policy adopted are also provided in Note 1 Accounting policies.

A detailed account of AWE's finances is provided in the financial statements (pages 56 to 61). The land and properties utilised by AWE for the performance of their activities are owned by the MOD and are therefore not included in AWE's financial statements.

Going concern

The financial statements are prepared on the basis that the company continues as a going concern. Further details regarding this assessment are set out in the Directors' Report on page 31.

Performance and KPIs

This section sets out the performance, KPIs and principal risks of the Company for the 15 months ended 31 March 2022.

Performance and KPIs

The KPIs set out below are those that the Board judge the most effective in assessing progress against objectives or strategy, monitoring principal risks, or are otherwise utilised to measure the development, performance, or position of the entity.

Performance KPIs and objectives were set early in the reporting period when there was an assumption that Covid-19 pandemic would substantially dissipate through the period. In fact, Covid-19 remained a significant disruptive factor during 2021. Since the change in government ownership a revised performance management process and KPIs have been put in place and will be reported on in future.

The reporting period has been a period of significant change for AWE with multiple factors adding additional challenge into the organisation's ability to deliver what had been anticipated when the original objectives were agreed upon. This has meant that the organisation together with the MOD, has had to find new ways to respond to emerging risks and opportunities, whilst always seeking to deliver, safely and securely, against mission priorities.

The four most fundamental factors include:

- The need to improve safety behaviour to ensure AWE plc maintain a safe operational environment.
- Managing the transition to our new shareholder and onboarding the new board of directors for the company following the decision made to take AWE plc into government ownership.
- Managing the continued impact of the Covid-19 pandemic on delivering the programme.
- Managing production in relation to the current Trident programme and also at the same time activities with regards to the future replacement warhead programme.

With this backdrop, performance during the period has been both challenging and positive. AWE has focussed its efforts on the MOD priority areas.

The KPIs, with the performance assessment and explanation of the target and delivery, are set out below in three key themes:

- The MOD priority areas.
- Financial performance and transition.
- Transformation.

KPI	Status	How we performed
MOD Priority Areas		
Meet our Trident commitment	Not disclosed - classified information	Delivered by: Not disclosed – classified information.
Meet our replacement warhead commitments	Not disclosed – classified information	Delivered by: Not disclosed – classified information.
Agree the strategic schedule that defines the programme	Achieved	Delivered by: demonstration of a configured, baselined 'level 2' Programme Master Schedule (PMS) that is agreed with the MOD.
Deliver critical projects	Achieved	Delivered by: delivery to critical project schedules and specific milestones.

KPI	Status	How we performed
Achieve expectations of 2021 SRO (MOD Senior Responsible Officer) review	Partially achieved target	Delivered by: SRO actions delivered. Majority of actions completed but not 100% as per target.
Financial Performance & Transition		
Deliver financial commitments and efficiency targets	Substantially achieved target	Delivered by: Delivery was within funding limits, efficiency target was delivered, with some shortfall in programme milestones.
Support successful transition to full government ownership	Achieved target	Delivered by: ensuring necessary governance instruments, including a new AWE plc board, in effect to ensure successful transition for AWE plc.
AWE Transformation		
Successful implementation of the new AWE plc operating model	Partially achieved target	Delivered by: implementation of organisational change, cultural change programme, and operations way of working and enablers. Measured by employee engagement survey feedback and assessment of improvement in product output and efficiency. Change activity was paused to ensure and successful transition to government ownership, with progress in operations and science and engineering supported by digital backbone development. Employee engagement survey results ahead of expectation.
Implement safe & secure stewardship strategy and plan	Substantially achieved target	Delivered by: AWE Burghfield achieving routine attention levels with the Office for Nuclear Regulation (ONR), delivery of improvement actions for certain Licence Conditions and compliance targets, maintaining OSHA level at world class levels, and implementation of the Environmental, Safety, Health & Quality (ESH&Q) strategy.
Deliver workforce planning	Substantially achieved target	Delivered by: implementation of system to manage resource to programme deployment to improve resource management. Strategic workforce plan has been delivered. Succession mapping completed, and new talent model rolled out and HIPO programme designed and communicated. Bronze award achieved for Employers Network for Equality & Inclusion (ENEI) with no net change in our position. Overall progress was stalled in some areas as a result of Covid-19 impact.
Embed approach to responsible business	Achieved target	Delivered by: demonstrable improvement in delivery objectives as set out in the AWE

KPI	Status	How we performed
		responsible business report 2019/20. Issue of the plan and report on track and Responsible Business Group (RBG) quarterly dashboard reflects improved delivery.

Principal Risks

Following AWE becoming an NDPB in July 2021, the Board identified and assessed the principal risks and uncertainties facing the Group; their potential impact; the mitigating actions proposed in respect of such risks and their change in risk profile during the year (in terms of both impact and likelihood). The risks have been managed to a level to minimise any impact on the delivery of the strategic objectives. Each risk has an assigned Executive Committee member, and the effectiveness of the mitigation actions are monitored through the governance arrangements in place up to the Board. AWE's risk appetite is embedded within the company's assessment of risks and the associated responses. Our risk appetite is regularly reviewed. AWE's principal risks are set out below.

Principal Business Risk		Impact / Mitigation Actions
AWE Infrastructure Risk owner Executive Director Operations	Unavailability of key plant, facilities and enabling infrastructure AWE has a large and complex operation across multiple sites with some ageing plant and supporting infrastructure. Failure to manage risks associated with ageing and obsolescence has potential to result in delays and increased potential of a serious safety incident.	Potential Impact ▪ Delays to operations. ▪ Worker fatality, serious injury, or environmental release. ▪ Increase in frequency &/or significance of Environment, Safety, Health & Quality (ESH&Q) events. ▪ Financial penalties arising from fines, legal action, and project delay / prolongation. Mitigating actions ▪ Delivery of new Capital builds and re kit programme. ▪ Delivery of Estates strategy. ▪ Robust risk-based asset through life management plans implemented. ▪ Single points of failure prioritised for investment. ▪ Continued focus on managing operations safely and securely. ▪ Robust on-site emergency response and business resilience capability.
AWE Sites Risk owner Executive Director Operations	Impediment to the use of AWE sites AWE sites and operations are subject to a variety of external threats that require close management. These include pandemic, environmental and protestor action, and other force majeure events.	Potential impact ▪ Restriction or delays to operations on some or all AWE sites. ▪ Increased cost resulting from recovery of operations and/or project delay / prolongation. Mitigating actions ▪ Business resilience and continuity capability with established routine exercising of continuity plans. ▪ Security controls, including physical and personnel security. ▪ Robust on-site emergency response capability in place and regularly exercised.
People Risk owner Executive Director HR	Inability to attract &/or retain required resource, or access required resource across the broader nuclear enterprise. AWE's employees are critical to its current and	Potential impact ▪ Adverse effect on delivery of AWE's business objectives. ▪ Potential Regulatory and legal compliance issues. ▪ Damage to AWE's brand and reputation as an effective member of the Nuclear Enterprise and Employer of Choice. ▪ Wellbeing issues including overwork, stress, and absence. ▪ Additional cost for higher-than-expected recruitment activity.

Principal Business Risk		Impact / Mitigation Actions
	future performance. AWE needs to identify, recruit, and retain the right people with the right skills, experience, and behaviours to ensure current and future delivery.	Mitigating actions ▪ Deliver and execute robust Strategic Workforce Planning. ▪ Ensure pay and conditions remain fair, competitive, and appropriate. ▪ Strive to maintain an effective and inclusive work environment. ▪ Investment in Leadership and Suitably Qualified and Experienced Personnel (SQEP) skills development. ▪ Commitment to drive continuous improvement in employee engagement. ▪ Continue to develop and focus on wellbeing of all employees. ▪ Complement staff development with core STEM outreach and development programme. ▪ Partnering with industry.
Supply Chain Risk owner Chief Finance Officer Director	Insufficient capability and capacity within the supply chain to fully support the complexity and risk within AWE's programmes of work. AWE relies on its supply chain for delivery of its programmes and projects. Maintaining a close and effective working relationship with the supply chain is a priority for AWE. Following Covid-19, exiting the EU, and global price increases, the resilience of suppliers meeting our programme demands has been evidenced well.	Potential impact ▪ Unavailability of critical resources. ▪ Damage to relationships with critical suppliers. Mitigating actions ▪ Develop long-term relationships with critical supply chain partners. ▪ Establish robust forward looking demand plans and procurement pipeline. ▪ Increase supplier pool for capital contracts. ▪ Supply Relationship Management maintained for high risk category suppliers.
Funding Risk owner Chief Finance Officer Director	Either insufficient funding available to AWE from MOD, or an inability for AWE to persuade MOD that additional funding is required to fund the short, medium, and long term requirements of AWE.	Potential impact ▪ Adversely affect delivery of AWE's business objectives. ▪ Delays to operations and projects. ▪ Loss of confidence by key stakeholders. Mitigating actions ▪ Maintain rigorous oversight of costs associated with capital programmes. ▪ Continuing focus on effective process and governance for financial controls. ▪ Continuing focus on improved long-term planning.
Environment, Safety & Health Risk owner Executive Director ESH&Q	Failure to maintain safe and sustainable operational environment and prevent a major incident. AWE operations sites are inherently complex with many and varied	Potential Impact ▪ Restriction or delays to operations. ▪ Worker fatality, serious injury or environmental release. ▪ Increased cost resulting from fines or prosecution, recovery of operations. Mitigating actions ▪ Maintain Licence to Operate controls.

Principal Business Risk		Impact / Mitigation Actions
	hazardous operations and significant legacy issues that require continuous management of environmental, health, safety, and sustainability issues.	▪ Business continuity and emergency response capabilities established and exercised. ▪ Complete Periodic Reviews of Safety (PRS) across critical hazardous facilities. ▪ Continuing programme of decommissioning and replacement. ▪ Continued and enhanced focus on ESH&Q and Employee Engagement strategy, including leadership behaviours, Culture of Care, and safety culture.
Environment, Social and Governance. Risk owner Executive Director ESH&Q	Failure to recognise impact of ESG on achieving business objectives or demonstrate sufficient ESG credentials. As a result of changing views and opinions relative to nuclear deterrence and / or AWE's ESG credentials there is a risk that AWE may experience difficulty recruiting and retaining necessary staff or engaging key supply chain partners.	Potential impact ▪ Adversely affect delivery of AWE's business objectives. ▪ Inability to attract and retain required staff and skills. ▪ Reputational and financial impacts. Mitigating actions ▪ Delivery of Sustainability Plan, Environmental and Social Value and Equalities policies and objectives. ▪ Strive to continually reduce our environmental footprint. ▪ Be leaders in diversity and inclusion, research and development, social impact, and employee benefits.
Quality Risk owner Executive Director ESH&Q	Failure to establish, manage and monitor adequate quality management systems. Quality is a critical enabler to mission success and to Nuclear Safety, Security and Environmental Performance.	Potential impact ▪ Quality assurance and quality control failures. ▪ Delays to AWE operations and increased cost. ▪ Erosion in the MOD confidence in products delivered by AWE. Mitigating actions ▪ Drive proactive culture of improvement through Quality Improvement Plans. ▪ Maintain quality training. ▪ Implementation of a 'Cost of Quality' model. ▪ Maintain strong and effective second and third line of defence oversight of compliance with policy in line with legal and regulatory obligations.

Principal Business Risk		Impact / Mitigation Actions
Employee Relations Risk owner Executive Director HR	Deteriorating industrial relations leading to formal industrial action. Not maintaining a positive relationship with employees' Trade Union (TU) representatives generates a risk of industrial action and associated programme disruption.	Potential Impact ▪ Restriction to, or temporary suspension of operations on some or all AWE sites. ▪ Adverse effect on delivery of AWE's business objectives. ▪ Damage to AWE's brand and reputation. Mitigating actions ▪ Continue to positively engage employees and their TU representatives. ▪ Maintaining a competitively placed reward and employment framework. ▪ Effective employee relations interfaces. ▪ Operationally continue to reduce disruption risk by maintaining resilience strategies.
External Environmental Shock Risk owner Executive Director Assurance	Uncertainties that follow sudden political change, serious accidents or rapidly changing global trends in regulating nuclear operations. Views and opinions related to nuclear deterrence programmes and nuclear operators are changing and potential impacts arising from nuclear disasters need to be understood and potential consequences managed.	Potential impact ▪ Significant change to the funding and scope of work. ▪ Significant change to the requirement, schedule, and programme of work. ▪ Politically motivated regulatory change and increasing regulatory burden. Mitigating actions ▪ Undertake geopolitical risk assessments as part of regular due diligence. ▪ Established crisis-response and business resilience capabilities. ▪ Strategy, PR, and government-relations teams.
Contract Management Risk owner Chief Finance Officer Director	Failure to manage contracts with suppliers leading to inefficient delivery of AWE's mission. Failure to manage contracts effectively and in a timely manner at each stage of a project's lifecycle leading to significant loss and / or delivery delays.	Potential impact ▪ Failure to manage programme and project delivery to meet AWE's financial and schedule targets. ▪ AWE incurring losses against individual contracts. ▪ Claims for breach of contract with the potential for litigation or legal accountability. ▪ Damage to brand and reputation. Mitigating actions ▪ Appropriately qualified and experienced sponsors appointed with responsibility for operational management of contracts with suppliers. ▪ Consistency checks through compliance team. ▪ Increased second line of defence for Supply Chain Management and contract monitoring. ▪ Third line of defence oversight.

Principal Business Risk		Impact / Mitigation Actions
Project and Programme Baseline Management Risk owner Executive Director Mission Delivery	Failure to maintain programme control. AWE has a large and diverse portfolio of programmes and projects in progress at any one time. Changes to programme and project baselines may lead to additional costs being incurred and delivery delays.	Potential Impact ▪ Adverse effect on delivery of AWE's business objectives, cost over or under runs, schedule delays (due to mis-timed procurement, material delivery etc.) and inadequate resourcing. ▪ Poor performance management information. ▪ Poor project decisions, slow decision making and damage to AWE's reputation. Mitigating actions ▪ Portfolio Management Office (PMO) and baseline configuration controls to align, integrate and optimise the entire portfolio of programmes and projects.
Cyber Security and data loss Risk owner Executive Director Security	AWE is exposed to cyber-attack leading to denial of IS services and loss of data. Failure to keep up to date with the cyber-attack landscape as well as protecting from current conventional cyber risks could cause denial of IS services and loss of control of sensitive data.	Potential impact ▪ Breach of IT security, denial, or interruption of services. ▪ Escape of sensitive information to the public domain. ▪ Financial penalties from ICO for personal data breach. Mitigating actions ▪ Continual programme of upgrades to technology to respond to changing threats. ▪ Effective IT and cyber controls.

Environmental Sustainability Report

Environmental Sustainability Reporting 2021 -2022

Outstanding environmental performance and sustainability is crucial to AWE, it is an essential part of being a responsible and successful company, helping to deliver the core mission. In 2020, AWE refreshed its approach towards Environmental Sustainability, setting new and ambitious goals against four themes: carbon, biodiversity, resource consumption and waste.

AWE's focus on sustainability has continued to move on, including AWE transitioning to become an NDPB. Given our new status we have reviewed and updated AWE's Environmental Sustainability Strategy (ESS) to align carbon reduction targets with Net Zero ambitions and to document how AWE intends to contribute to the MOD Strategic Approach to Climate Change and Sustainability and meet the Greening Government Commitments (GGC).

The ESS sets out AWE's visions and goals for becoming a more environmentally sustainable business by 2050, against three key themes:

- Reducing Carbon
- Implementing the circular economy
- Enhancing Biodiversity.

Underpinning the three themes selected are the UN Sustainable Development Goals (SDGs) which provide a blueprint to achieving a better and more sustainable future for all. AWE has identified and prioritised those key SDGs that it will contribute towards; namely, responsible consumption, climate action and life on land.

The environmental goals set in the ESS will be delivered in a staged manner and environmental improvement targets are set on an annual basis where baseline data is already available. A series of baselining activities are also being undertaken, enabling the setting of further activities and targets for the years ahead.

The development and progress of the strategy, including endorsement of the annualised targets and monitoring of progress against them, is governed at Executive level via The Security, Environment, Safety, Health, and Quality (SESH&Q) Committee and the ESG Committee.

Prior to becoming an NDPB the GGC did not contractually apply to AWE and reporting has not previously been undertaken. Improvements will continue to be made to the collection and reporting of data to ensure it meets the reporting requirements. However, the following section provides a summary of performance against the overarching GGC 2021-2025 and provides a basis for future reporting.

Mitigating Climate Change: Working towards net zero by 2050

Reduce Overall Greenhouse Gas Emissions

AWE has the ambition to achieve net zero carbon emissions across the value chain by 2050. To support this ambition a Carbon Management Strategy has been developed and identifies the key themes for focus including:

- Supply of Energy and opportunities for renewable energy source,
- Built Environment, sustainable new builds and improving the energy efficiency of the existing estate,
- Travel and Transport including AWE vehicle fleet, business travel and employee commuting,
- Supply Chain and sustainable procurement,
- Leadership and Culture,
- Climate Change Adaptation.

Whilst Scope 1 and Scope 2 carbon emissions are well understood, more work is required to understand and baseline AWE's Scope 3 emissions which can often represent the largest source of emissions for companies and occur within the wider value chain. In developing the organisational carbon footprint AWE follows the Greenhouse Gas Protocol and uses the Department for Business, Energy, and Industrial Strategy (BEIS) carbon conversion factors.

A carbon reduction target has also been set for Scope 1 and 2 emissions. Since the baseline year of April 2017 – March 2018 (FY18) AWE has reduced Scope 1 and 2 estate and operational emissions by 24%. Table 1 provides a summary of Scope 1 and Scope 2 emissions and Scope 3 emissions from business travel where available:

		Financial Year – 1 April to 31 March				
		2021/22	2020/21	2019/20	2018/19	2017/18
Non-Financial Indicators (tonnes CO₂e)	Scope 1 Direct Emissions (Natural Gas, other Fuels and Refrigerant Losses)	35,033	37,130	35,959	36,595	40,317
	Scope 2 Indirect Emissions (Purchased Electricity – Location Based)	28,645	31,061	33,870	36,518	43,282
	Scope 2 Indirect Emissions (Purchased Electricity - Market Based)	-	-	-	36,518	43,282
	Total Scope 1 & 2 Emissions Location Based	63,678	68,191	69,828	73,112	83,599
	Total Scope 1 & 2 Emissions Market Based	35,033	37,130	35,959	73,112	83,599
Related Energy Consumption (KWh)	Natural Gas	183,923,819	190,983,367	188,875,287	189,943,498	202,860,424
	Purchased Electricity	134,908,898	133,228,586	132,513,236	129,005,820	123,115,025
Gross Expenditure (£) (Includes purchased electricity, natural gas, and other fuels).	Energy	21,185,187	20,401,354	19,139,911	18,535,260	16,337,624
	Off-Sets	-	-	-	-	-
Scope 3 Business Travel (tCO₂e)	Domestic Air Travel	46	Not reported due to accuracy of data			
	Vehicle Hire/Taxis	130				
	Private mileage claims	99				
	Rail	11				
Gross Expenditure (As charged by travel provider).	Business travel	2,077,386				

Table 1 – Carbon Emissions

Scope 2 emissions from purchased electricity are reported using the location-based and market-based methodologies. The location-based method reflects the average emissions intensity of the grid on which energy consumption occurs and uses the UK Government GHG conversion factors. The market-based method reflects emissions from electricity that companies have purposefully chosen. As of April 2019, AWE's purchased electricity has been a "Renewable Backed Supply" through participation in the 'Renewable Energy Guarantees of Origin' (REGOs) scheme, emissions are therefore reported as zero.

Reducing Emissions from AWE Fleet Vehicles

Currently AWE owned vehicles are fuelled with diesel. Future proposals include a phased approach to the transition of AWE's vehicle fleet to Ultra Low Emission Vehicles (ULEV) and the implementation of electric vehicle (EV) charging infrastructure. Ten EV charging points have already been installed.

AWE's site-based car hire pool fleet is provided by a third-party supplier, 66% of the cars provided are mild hybrids and the remaining are diesel. Additional hire or lease cars are predominately diesel although the number of hybrid vehicles that are being provided is beginning to increase. AWE will continue to engage with suppliers working towards increasing the number of ULEV and reducing carbon emissions from transport.

Reducing Emissions from Domestic Flights and Travel Policy

Carbon emissions from domestic flights have reduced by 95% (906 tCO₂e) compared to the baseline year of 2017/18. This reduction has been due to the travel restrictions in place during the Covid-19 pandemic. Over the past two years, AWE leverages IT solutions, reducing the need for face-to-face meetings and reframing what is considered necessary travel. Looking ahead, AWE aims to achieve its targets in this area and maintain a 30% reduction.

A Travel Policy is in place which encourages employees to consider their travel arrangements and sustainable travel options when making decisions about business travel. AWE will continue to review the policy in light of emerging opportunities to enhance it with regards sustainability.

Carbon Offsets

Carbon offsets are not purchased. AWE's purchased electricity is a "Renewable Backed Supply" through participation in the REGOs scheme.

Minimising waste and promoting resource efficiency

Reduce the overall amount of waste generated

AWE is a diverse organisation that produces a wide range of wastes including radioactive, aqueous, gaseous, and explosive waste types. Multiple large demolition and construction projects have also been undertaken in recent years. For this report, 'controlled wastes' have been reported, that is, wastes arising from conventional operations, such as offices, maintenance, laboratories and workshops, that is neither radioactive, explosive nor aqueous discharges. Waste from large demolition and construction projects have also been excluded. Radioactive waste is minimised through the application of Best Available Technique (BAT) and discharges are made in compliance with the Environmental Permits. The quantities of waste generated from demolition and construction projects are also monitored and recorded.

AWE's waste management performance continues to improve. Initial focus was to reduce waste to landfill and in recent years, working up the waste hierarchy, the focus is now to improve reuse and recycling. In 2021/22, the landfill diversion rate was 99% and the reuse and recycle rate was 73%. Asbestos and asbestos containing materials have been excluded from these statistics as at present these wastes can only go to landfill in the UK. Most of the asbestos waste is generated from demolition and construction activities.

Table 2 shows the overall operational controlled wastes categorised by the waste hierarchy. It is acknowledged that to align with the GGC waste categories, data will need to be categorised further including wastes recovered from incineration with and without energy recovery and waste composted/food waste.

	Financial Year – 1 April to 31 March				
	2021/22	2020/21	2019/20	2018/19	2017/18
Controlled Waste (tonnes)	1,662	1,425	2,214	1,822	2,287
Reused Waste (tonnes)	57	99	179	162	319
Recycled Waste (tonnes)	1,163	945	1,401	1,086	1,270
Recovered Waste (tonnes)	352	304	432	429	431
Disposed (Incineration and Landfill) (tonnes)	90	77	203	145	267
Gross Expenditure (£)	851,347	780,759			
(Includes Waste Contract Costs & Electronic Media Shredding)					

Table 2 – Waste Management Performance

Future challenges are to reduce waste arisings. This comes during a period where the organisation is moving to an agile style of working and optimisation of the sites. This in turn is likely to lead to more waste arising as staff are asked to remove any legacy wastes and retire and dispose of discontinued processes as part of modernisation. However, from the data, it can be seen that operational controlled wastes were in the order of 2,300 tonnes in the year 2017/18.

The quantities of Information Communication Technology (ICT) waste are shown below in Table 3. It is acknowledged that there is some leakage of data where some extremely old ICT (pre-2000) may have been disposed of as a hazardous waste. More contemporary ICT waste is removed from site via a Defence Equipment Sales Authority (DESA) contractor and is taken away for checking, repairing and resale.

	Financial Year – 1 April to 31 March				
	2021/22	2020/21	2019/20	2018/19	2017/18
ICT Waste (tonnes)	15	16	37	29	32

Table 3 – Approximate Information Communication Technology Waste Arisings

Reducing Paper Usage

Purchased paper has not previously been reported, however as an estimate, data for April 2021-March 2022 is provided in Table 4. Improvements shall be made to the collection of data to enable future reductions to be demonstrated. The introduction of more agile working patterns has helped reduce the level of printing and during the Covid-19 pandemic there has been a drop of around 60%, demonstrating what is achievable.

	A3 Paper	A4 Paper
Total No. Reams (500 sheets per ream)	3,910	12,115
Total No. Boxes (5 reams per box)	782	2,423

Table 4 – Paper Purchased April 21 – March 2022 (estimated)

Removing Single-Use Plastics

AWE will continue to identify opportunities to embed the principles of the circular economy, to reduce resource consumption, conserve scarce and non-renewable resources and minimise waste generation. Recent measures have been put in place to eliminate single-use plastics in the canteen. All cutlery and take away boxes are made from Vegware which is biodegradable and condiment sachets have been replaced with refillable dispensers. Prior to the Covid-19 pandemic, the introduction of reusable cups had reduced onsite wasting of approximately 4,000 cups a week, a 75% reduction at the time. As AWE emerges from the Covid-19 pandemic the Company looks to remove disposable cups once again from catering services and incentivise the workforce to use reusable cups. There will be continued focus on:

- Reducing the consumption of single-use plastics across the business.
- Reducing onsite chemical inventories and the use of environmentally harmful substances.
- Implementing the recovery of precious and rare earth metals through a closed loop approach within AWE's supply chain.
- Minimising water usage on site.

Reducing Water Use

Water is abstracted from on-site boreholes at the Aldermaston and Burghfield sites. There is also a mains water supply at Aldermaston and Blacknest. The majority of water is used for welfare supplies (i.e., provision of water for staff), however there is some process use, notably within the site boiler houses and the raising of steam for site heating purposes. There has been a reduction in water abstraction since the baseline year 2017/2018 as shown in Table 5. AWE will continue to identify opportunities to improve water efficiency, reduce usage and set site specific targets.

	Financial Year – 1 April to 31 March				
	2021/22	2020/21	2019/20	2018/19	2017/18
Aldermaston <i>Borehole Abstraction m³</i> <i>Scope 1 Water controlled</i> <i>by the organisation</i>	432,595	697,368	366,810	574,310	603,826
Burghfield <i>Borehole Abstraction m³</i> <i>Scope 1 Water controlled</i> <i>by the organisation</i>	146,567	214,635	86,159	123,734	165,706
Aldermaston/Blacknest <i>Main Water Supply m³</i> <i>Scope 2 Water –</i> <i>purchased water</i>	129,713	116,333	143,323	216,158	177,653
Total m³	708,875	1,028,336	596,292	914,202	947,185
Gross Expenditure (£) (Purchased Water)	189,005	163,631	174,808	266,476	198,383

Table 5 – Water Use

Sustainable Procurement

Embedding best practice sustainability measures is a key part of AWE's supplier relationships. AWE's terms and conditions, outlines the Company's expectations and mandatory requirements not just for environmental sustainability, but also areas such as tackling modern slavery and child labour. Support is drawn on from both internal and external experts in environment, ethics, and people management to bolster the procurement processes.

As part of the transition to an NDPB, AWE is further embracing the Government's goals and considerations on areas such as social value, sustainability, and transparency into the Company's procurements. These policies cover a range of criteria to promote new jobs and skills, encourage economic growth and prosperity, and tackling climate change, ultimately driving the goal of being a responsible, ethical, and sustainable business.

As part of AWE's desire to strive for best practice in sustainable procurement, a gap analysis has been undertaken against International Organisation for Standardisation (ISO) 20400: Sustainable Procurement and actions will be implemented to align to the standard.

Nature Recovery

AWE is home to a number of endangered and declining species, including over 50 species of birds, all three native species of newt and a collection of ancient and veteran trees.

A Biodiversity Net Gain (BNG) scheme has been introduced, which aims to leave the AWE sites in better condition after development activities than before. A considerable number of construction projects are being undertaken across the sites, so embedding BNG schemes into processes and procedures will deliver a big impact. A BNG scheme involves avoiding, minimising or compensating biodiversity loss as far as possible, while achieving measurable net gains that contribute towards both local and strategic biodiversity priorities. Good progress is being made towards the goal of achieving a 10% BNG rate across all projects.

In line with AWE's Sustainability Strategy, the organisation has begun to develop a Natural Capital Register for the estate it manages on behalf of the MOD. The target is to produce this, before undertaking an assessment of the value of ecosystem services to the business by 2030. This in turn will enable AWE to integrate Natural Capital and ecosystem services into organisational planning and financial accounting.

To date AWE have:

- Translocated orchid rich turf where it would have been damaged by a development.
- Replaced a lost peregrine nesting site with appropriate nesting boxes.
- Introduced no-mow zones (15,000m² in 2021) to enhance available habitat for pollinating species.
- Supported the creation of wildlife gardens at local schools.

- Undertaken surveys aimed at species groups of conservation concern to establish a baseline for monitoring the impact of AWE's operations. To date AWE has concentrated on breeding birds, great crested newts, and identifying ancient trees.
- Created baseline habitat maps of AWE's sites so the Company can take appropriate action to protect important habitats and species that are present on the Company's estate.

Future objectives and targets include:

- The delivery of a Nature Recovery Plan.
- A target to further protect and enhance tree planting and woodland cover.
- An increase in the area of pollinator-friendly habitat by extending the current reduced mow initiative.
- Recognition of the potential for nature-based solutions, including to mitigate AWE carbon emissions.
- Developing a set of Natural Capital Accounts.

Adapting to Climate Change

AWE is in the early stages of developing a Climate Change Adaptation Strategy. To help inform adaptation planning and decision-making site-wide Climate Change Risk Assessments following the MOD Climate Impacts Risk Assessment Methodology (CIRAM) shall be undertaken. Following this a Climate Change Adaptation Action Plan shall be prepared. Several project level CIRAM assessments have already been completed. An assessment against the recommendations from the Task Force on Climate Related Financial Disclosures (TCFD) is also planned this year and progress will be reported next year.

Sustainable Construction

Sustainability Appraisals are required for all projects that could affect the environment, society, or the economy. Defence Related Environmental Assessment Methodology (DREAM) Assessments are required for certain construction projects, with the expectation that all new builds will achieve a rating of "excellent" and refurbishments shall achieve a rating of "very good".

All new build projects and significant refurbishment projects are required to produce a Carbon and Energy Management Plan to ensure that the energy hierarchy is taken into consideration during the design phase. This will assist progress towards a more sustainable energy system, prioritising energy saving and efficiency opportunities. This will also examine the feasibility of various low/zero carbon or renewable energy options against the concept design, allowing any relevant requirements to be taken forward into the detailed design phase.

AWE is focussed on improving current procurement arrangements to promote sustainable procurement and continues to work closely with supply chain partners to identify opportunities to procure sustainable materials.

Reducing environmental impacts from Information Communication Technology (ICT) and digital.

AWE is committed to modernising and bringing new information and technology capabilities to AWE, that will improve ways of working and minimise the impact on the environment.

The commitment that ICT suppliers are making to reduce carbon emissions and achieve Net Zero is assessed via AWE's sustainable procurement processes as previously described. Work is also being undertaken to determine the carbon footprint of ICT services and goods purchased. AWE has provided ICT sustainability data to the Sustainable Technology Advice and Reporting (STAR) team.

As previously described the quantities of ICT waste have been reducing, are removed from site via a DESA contractor and in some cases taken away for checking, repairing and resale.

All AWE staff receive awareness and training in data hygiene, cyber security and data protection.

Streamlined Energy and Carbon Reporting (SECR)

Energy and Emissions Summary

The consumption and emissions data for AWE has been collated and summarised below. Data has been prepared for Calendar Year 2021 for direct comparison against Year 1 2020 reporting. Energy and Emissions data has also been prepared for the new Financial Year of April 2021 to March 2022; this will facilitate direct comparison in year 3.

It is a mandatory requirement to include the location-based emissions within the SECR report, based on UK Conversion factors. Market based emissions have also been included taking into consideration the renewable electricity contracts. This is not mandatory and has been provided as a voluntary addition.

The below figures differ slightly from those reported in the greenhouse gas emissions section above. This is due to the difference in the information that is required to be reported, e.g., SECR does not include refrigerant losses or report all the fuel data.

	Units	Current Reporting Year (2021)	Comparison reporting year (2020)	New Reporting Year (Apr 2021 - Mar22)
Emissions from combustion of gas (Scope 1)	tCO2e	35,040	34,592	33,689
Emissions from combustion of fuel for transport purposes (Scope 1)	tCO2e	479	397	463
Emissions from purchased electricity (Scope 2 - location based)	tCO2e	28,831	30,760	28,643
Emissions from purchased electricity (Scope 2 - market based)	tCO2e	-	-	-
Emissions from generation of electricity that is consumed in a transmission and distribution system for which the company does not own or control (Scope 3 - location based)	tCO2e	2,551	2,645	2,535
Emissions from generation of electricity that is consumed in a transmission and distribution system for which the company does not own or control (Scope 3 - market based)	tCO2e	-	-	-
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	tCO2e	202	109	227
Total Gross emissions (Location based)	tCO2e	67,103	68,503	65,556
Total Gross emissions (Market based)	tCO2e	35,721	35,098	34,379
Energy consumption used to calculate above emissions	kWh	329,964,597	322,175,858	321,741,182
Intensity Measurement	m ² Floor Area	593,620	599,028	593,620

	Units	Current Reporting Year (2021)	Comparison reporting year (2020)	New Reporting Year (Apr 2021 - Mar22)
Intensity Ratio - location based	tCO ₂ e/m ² Floor Area	0.113	0.114	0.110
Intensity Ratio - market based	tCO ₂ e/m ² Floor Area	0.060	0.059	0.058

Quantification and Reporting Methodology

AWE have followed the 2019 HM Government Environmental Reporting Guidelines and GHG Reporting Protocol - Corporate Standard and have used the 2021 BEIS Conversion Factors for Company Reporting. An operational approach has been used to define the boundary and scopes.

AWE's financial year is changing from calendar year to April to March. This SECR report is based upon the transitional 15 month period of January 2021 to March 2022. Due to the requirement of comparisons in the SECR reporting, the data has been collated for the period January 2021 to December 2021, to be compared against 2020 reporting figures. In addition, the data is shown for the new financial period of April 2021 to March 2022, to enable comparison for the 2022/2023 financial report.

The primary source for gas and electricity data is supplier invoices. Where invoices are not in line with the financial year a pro rata calculation has been used to estimate the usage, which falls within the reporting period.

LPG usage is based on delivered quantities and where this is not available an estimated annual usage is used as per UK ETS reporting.

On-site (Scope 1) transport data was calculated from litres used, this was taken from dispensing records. Burghfield gas oil records did not define the proportion of usage to vehicles. It was assumed that 38% of the gas oil usage is for vehicles, this was based upon the split between plant and transport usage seen in the Aldermaston data.

Scope 1 transport data was calculated from fuel card data which provided the litres used by company vehicles. Scope 3 transport data for private vehicles was calculated using mileage claim data. Private mileage is assumed to be 30% diesel and 70% petrol vehicles. Hire car and pool cars (hired) were calculated from mileage and average vehicle types. Where mileage data was unavailable, litres used was estimated using the monthly cost of fuel, taken from fuel card data, divided by the average monthly price of fuel, taken from the AA website.

Energy Efficiency Narrative

In 2021 AWE delivered the following energy efficiency activities:

- 2,840,000 kWh/year natural gas reduction from steam network insulation.
- 540,000 kWh/year electricity reduction from building lighting upgrades (to LED).
- 6,009,000 kWh/year natural gas reduction from building heating electrification and steam disconnection.
- 2,870,000 kWh/year electricity reduction from IT chiller upgrades & replacement to improve free cooling.
- 1,350,000 kWh/year electricity reduction from BMS control improvements in facilities.

AWE also:

- Successfully delivered energy efficiency from Public Sector Decarbonisation Scheme funding to achieve the above efficiencies/savings.
- Developed a site heating strategy for decarbonisation of estate heating infrastructure aligned to capital programme and other AWE strategies.
- Developed a low carbon electricity sourcing strategy to underpin development of low carbon electricity generation assets to AWE sites.

Intensity Measurement

The chosen intensity measurement ratio is tCO₂e per m² floor area. This is calculated by gross external floor area of the buildings, multiplied by the number of levels.

Section 172(1) Statement

This is the section 172(1) statement of AWE, made pursuant to the Companies Act s414CZA. It sets out the way in which the directors of AWE have had regard to the matters set out in s172(1)(a) to (f) of that Act.

The board of directors of AWE retains oversight of and overall challenge to the activities of the Company. It operates under AWE's Articles of Association and Terms of Reference drawn up in conjunction with its sole shareholder which includes a statement of those decisions which are reserved to the Board. These reserved matters relate to Company strategy, major bids and contracts, executive management composition, remuneration policy, company governance, control and delegation levels. Day to day operational authority is delegated to the CEO who also has in place a process of sub-delegation where appropriate.

For national security reasons, this statement does not discuss individual decisions. However, it is noted that the Board has had two main areas of focus in the reporting period. The first area relates to AWE's transition into public ownership effective from 1 July 2021, including the Board's oversight of preparations and the process for transition and of the activities that followed. The second area relates to the Company's performance of the Management and Operations (M&O) Contract entered into on 1 July 2021 alongside the performance of the Company's other contracts with the MOD and others.

In fulfilling these objectives, the Board takes into account the considerations referred to in s172(1) as follows:

- Long term consequences: The nature of AWE's principal activities require long term planning for many years ahead so that it is able to respond to the requirements of its principal customer, the MOD. Near-term decisions are taken within the context of longer-term plans which are developed and shared with the MOD and the Company's regulators.
- Employee interests: The decision to enter into the new M&O Contract with the MOD secured the Company's continuing work for the MOD and so a stable and enduring demand for its workforce. The workforce of AWE is fundamental to its ability to discharge its role. The Board's focus is to ensure the Company takes as a priority the need to ensure its employees are engaged and that regular dialogue continues including regular engagement with trade unions and other employee representatives. This is further discussed in the People Report.
- Supplier, customer, and other relationships: The Board recognises that fulfilling its mission requires close liaison with the MOD and its other customers, together with careful management of internal resources and utilisation of best-in-class resources drawn from its supply chain including 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 Company focuses accordingly on the sustainability of support from its supply chain.
- Community and environment: AWE maintains a regular dialogue with appropriate executive sponsorship and focus on the engagement between the Company and the wider community and environment. This reflects both the impact and potential impact of the Company's operations on the local community and environment together with the opportunities for employment and educational benefits. All decisions taken by the Company with regard to its estate require consideration of not just its obligations to comply with environmental regulation, but also the opportunities to enhance local conditions for flora and fauna on its sites and for the wider community.
- Reputation for high standards of business conduct: AWE takes its corporate responsibility very seriously. As a company and, since its change of ownership a public body, 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 by parliamentary and other formal forums. It takes its decisions in the light not just of their operational appropriateness, but also in the light of the requirement to demonstrate the integrity and fairness of its decision-making including impacts on and relationships with others.
- Acting fairly as between members: Following transition to public ownership, the sole shareholder of AWE is the Secretary of State (SoS) for Defence so that the issue of competing interests among the Company's members does not arise.

Approved and signed on behalf of the Board on 19th January 2023


Alison Atkinson
Chief Executive Officer

Corporate Governance Report

Directors' Report

Directors' names

The directors present their report together with the financial statements of the Company for the 15 months ended 31 March 2022. The Company is registered in England and Wales and has registration number 02763902.

Directors who have held office on the AWE Board between 1 January 2021 and 31 March 2022 are:

- Ian Tyler, Chairman – appointed 27 January 2021, resigned 29 June 2021
- Sir John Manzoni, Chairman – appointed 30 June 2021
- Alison Atkinson, Chief Executive Officer (CEO) – director throughout reporting period
- Gary Butler, Non-Executive Director (NED) – appointed on 27 January 2021, resigned 30 June 2021
- Haydn Clulow, Executive Director – resigned 29 June 2021
- Richard Elsy, Non-Executive Director – appointed 1 July 2021
- Claire Flint, Non-Executive Director – appointed 1 July 2021
- Barry Hunter, Chief Financial Officer (CFO) – appointed 11 October 2021
- Dame Sue Ion, Non-Executive Director – appointed 1 July 2021
- Nicole Kett, MOD-appointed Non-Executive Director – appointed 30 June 2021, resigned 1 June 2022
- Richard Keys, Non-Executive Director – appointed 1 July 2021
- Henry Lloyd, MOD-appointed Non-Executive Director – appointed 30 June 2021
- Andrew McNaughton, Non-Executive Director – appointed 1 July 2021
- Peter Morton, CFO – resigned 30 September 2021
- Graeme Nicholson, Executive Director – resigned 29 June 2021
- Dr. J. Stephen Rottler, Non-Executive Director – appointed 27 January 2021

Directors' interests

We have established procedures in place, in accordance with the Company's Articles of Association, to ensure compliance with the directors' conflicts of interest duties within the Companies Act 2006. This includes requiring each director to identify all external interests (whether or not they present an actual or potential conflict with the interests of the company). Where any actual or potential conflict is identified, appropriate procedures are agreed on and recorded. These typically entail the relevant director's recusing themselves from all decision-making associated with the conflict.

The following interests were held by members of the Board during the 2021/22 period:

- Claire Flint was a director of National Nuclear Laboratory Limited, a current supplier to the Company
- Nicole Kett was an employee of the MOD, the SoS for Defence being the sole shareholder of the Company
- Henry Lloyd is an employee of UKGI, which works alongside the SoS for Defence, who is the sole shareholder of the Company

No conflicts have arisen with respect to these interests.

External auditor

The directors who were members of the board of directors at the time of approving the Directors' Report are listed above. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- so far as they are each aware, there is no relevant audit information (that is, information needed by the Company's auditor in connection with the preparation of the annual report) of which the Company's auditor is unaware; and

- each director has taken all the steps a director might reasonably be expected to take to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Pensions

The Company operates both a defined benefit pension scheme and defined contribution scheme which have been accounted for under International Financial Reporting Standards (IFRS). 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. After the end of the reporting period, the MOD entered into a guarantee in favour of the trustees of the defined benefit pension scheme, under which it committed to meet any payment due to the trustees in relation to the scheme that was not met by AWE when due. The scheme deficit at 31 March 2022 was £53m.

Capital contributions

Since the change in ownership on 1 July 2021, AWE received £63m in funding from the MOD equal to the amounts paid by the Company to the pension scheme in respect of the deficit funding on the scheme. After detailed and extensive deliberation of the alternative policies for recognition of this income, including with the auditors, which is explained in more detail in the Report of the Audit and Risk Committee on page 35 this payment has been recorded as a contribution from the equity owner of the Company and is directly recorded in shareholder's equity as a capital contribution. Further details of the accounting policy adopted are also provided in Note 1 Accounting policies.

Dividends

Dividends paid during the year comprise an interim dividend in respect of the 6 month period ended 30 June 2021 of £353.18 per share. These dividends were all paid prior to the transfer of ownership on 30 June 2021 and were met out of the distributable reserves of the Company available at the time.

The directors have declared no dividends since the change in ownership on 1 July 2021.

Personal data

There were no disclosures of any personal data breaches during the reporting period that were reportable to the Information Commissioner's Office.

Political donations and expenditure

The Company made no political donations or expenditure during the reporting period.

Financial Instruments

The Company has established a risk and financial management framework whose primary objectives are to protect the Company from events that hinder the achievement of the Company's performance objectives. The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge its obligation. The directors consider the credit risk to be low given that the principal customer is the MOD, and therefore the UK Government. The liquidity and cash flow risk is also considered low as this is managed through the government banking facilities, the Government Banking Service (GBS), which AWE is now part of. It is not considered that there is any significant credit risk on the trade debtors held by the Company.

The Company uses forward currency contracts to hedge certain of its foreign currency cash flows.

Research & Development

Research and development expenditure is principally carried out for the purposes of the performance of the M&O Contract with the MOD. Research and development expenditure is not capitalised as assets remain in government ownership.

Likely future developments

The company expects to continue with its principal activities for the foreseeable future. No other significant developments are anticipated.

Overseas branches

The Company maintains a branch in France.

Events after the reporting period

There have been no events since 31 March 2022 to the date the accounts were authorised for issue which would affect the understanding of these accounts. International Accounting Standards require AWE to disclose the date on which the accounts are authorised for issue. The Accounting Officer has authorised these accounts to be issued on the date they were certified by the Comptroller and Auditor General.

Going concern

The Company's business activities, together with the factors likely to affect its future development, its performance and position, financial risk management objectives, details of its financial instrument and derivative activities are described in the Directors' Report on page 30 and in the accounting policies on pages 62 to 70.

The Company is expected to continue to generate positive cash flows on its own account under existing contractual arrangements with the MOD. Prior to 1 July 2021, the Company participated in the centralised treasury arrangements of its then parent company AWE Management Limited (AWE ML) and so shared banking arrangements with that parent company. Since 1 July 2021 revised arrangements have been in place, and the Company has moved its banking arrangements from its previous banking provider to Government Banking. Government Banking provides a shared banking service across central government and wider public sector customers. Current arrangements include the provision of sufficient funding secured from the MOD which will enable the Company to continue operating.

The directors consider that the Company has a secure long-term position on which to found their expectation that the Company will continue as a going concern, based on the national requirement and associated funding for the activities carried on at the facilities operated by the Company, and the Company's practical tenure as the operator. The only UK facilities currently capable of maintaining and manufacturing the nuclear warheads necessary to deliver the UK's CASD posture are those managed and operated by the Company. The directors have considered the possibility that the Company could be replaced with another operator of these facilities within the timeframe to be considered for going concern purposes. They have been advised that such a change would require lengthy and substantial regulatory and other processes and that consequently there is a sound basis for assuming that the Company will continue to be the manager and operator of the facilities for that timeframe at a minimum, and that the continuation of the UK's CASD policy means that the requirement for the activity conducted by the Company at the facilities will continue for the foreseeable future.

Based on these arrangements, the directors believe that the Company will continue to receive support from the MOD in carrying out its principal activities for a number of years, which is corroborated through funding forecasts received from the MOD which indicate this.

On the basis of their assessment of the Company's financial position, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for at least the period through to 30 September 2023.

In making this assessment the directors have given sufficient consideration to the current external social, political, and economic environment and have considered the impact of plausible downside scenarios including the plausibility of a reverse stress case. The implications of Covid-19, the implications of the UK exiting the European Union and the current adverse economic and business environment have been considered in arriving at this conclusion. These events and circumstances do not alter the directors' assessment of the Company's ability to continue as a going concern as set out above.

Engagement with suppliers, customers and other in a business relationship with the company

Please see the commentary in relation to Companies Act s172(1) on page 27.

Engagement with employees

Please see the commentary in the People Report on page 46.

Approved and signed on behalf of the Board on 19th January 2023



Alison Atkinson
Chief Executive Officer

Statement of Directors' Responsibilities

The directors and Accounting Officer (AO) are responsible for preparing that the Annual Report and financial statements in accordance with applicable law and regulations and for ensuring that proper accounting records are maintained that disclose, with reasonable accuracy at any time, the financial position of AWE 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors and AO 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.

The SoS for Defence has also directed AWE to prepare for each financial period a set of financial statements in the form and on the basis set out in the Framework Document. The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of AWE and of its income and expenditure, balance sheet and cash flows for the financial period.

In preparing the accounts, the directors and AO, who is also a director, are required to comply with the requirements of the Companies Act 2006, and apply additional disclosure requirement of the Government Financial Reporting Manual (FReM) where these are compatible with the requirements of the Companies Act, and in particular to:

- observe the Accounts Direction detailed in the Framework Document, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- make judgements and estimates on a reasonable basis.
- prepare the accounts on a going concern basis.
- confirm that the Annual Report and Accounts as a whole is fair, balanced, and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced, and understandable.
- state whether applicable accounting standards as set out in the relevant statutes, primarily Companies Act 2006 and as specified in the Framework Agreement, principally International Financial Reporting Standards as adopted in the UK, including reference where relevant to the FReM, have been followed, and disclose and explain any material departures in the financial statements.

The Permanent Secretary of the MOD, as Departmental AO, has designated the CEO of AWE plc as an additional AO of AWE plc. The responsibilities of an AO, including responsibility for the propriety and regularity of the public finances for which the AO is answerable, for keeping proper records and for safeguarding AWE's assets, are set out in Managing Public Money published by the HM Treasury.

The directors have taken all the steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that AWE's auditors are aware of that information. So far as they are aware, there is no relevant audit information of which the auditors are unaware.

Governance Statement

The AWE Board

The AWE Board meets around eight times a year. The role of the Board is set out in the Framework Document. The Board has seven committees, whose roles and activities in the reporting period are described elsewhere in this report, which undertake closer scrutiny and challenge on behalf of the Board.

Following transition to public ownership, AWE's Board was restructured. The Board is accountable to the Responsible Minister as representative of the shareholder, for all aspects of AWE's activities and performance including responsibility for:

- Providing effective leadership of AWE and setting the standards and values within a framework of prudent and effective controls.
- For determining AWE's Strategy, and Corporate Plan and Business Plans and seeking its approval by the SoS for Defence.
- Establishing and taking forward the strategic aims and objectives of AWE consistent with its overall strategic direction and within the policy framework and resources determined by the SoS for Defence.
- Ensuring that the SoS for Defence is kept informed of any significant changes which are likely to impact on the strategic direction of AWE or on the attainability of its targets, and determining the steps needed to deal with such change.
- Ensuring that the AWE Board operates within the limits of the delegated authority agreed with the MOD, and in accordance with any other conditions relating to the use of public funds and that, in reaching decisions, AWE Board takes into account guidance issued by Her Majesty's Government (HMG) as notified to it by the MOD.
- Reviewing regular financial and other relevant information concerning the management of AWE ensuring it is informed in a timely manner about any material concerns about the activities of AWE, and where relevant, providing positive assurance to the Shareholder that appropriate action has been taken on such concerns.
- Ensuring that effective arrangements are in place to provide assurance on AWE's major projects, programmes and procurements, risk management, governance, health, environment, safety, and security, finance, and internal controls, alongside ensuring the effective performance of AWE generally.
- Ensuring the necessary financial and human resources are in place for AWE to meet its objectives.
- Reviewing management performance in light of AWE's strategic aims, objectives, Corporate and Business Plans and budgets.
- Fostering a culture of partnership and transparency between the MOD and AWE.

The size and composition of the Board is agreed with the Shareholder from time to time, having regard to guidance and best practice on other boards in the public and private sectors, in order to ensure the right balance of skills, experience and challenge. However, the majority of the Board members will be independent.

The Board and its committees conduct annual self-assessments of their effectiveness, including the quality of information provided to them to enable them to discharge their roles. The first such self-assessment is however being conducted after the end of the reporting period so as to encompass a full year of activity of the new Board following the Company becoming an NDPB.

Board members

The Board consists of a chairman, two executive directors and eight NEDs. The Chair is responsible for leading the Board. Board members are responsible for the overseeing and challenging the management of AWE and setting the strategy for the Company. As individuals the members must ensure compliance with the *Code of Conduct for Board Members of Public Bodies and AWE Board Terms of Reference* (TOR) as well as their obligations under company law.

NEDs are responsible for bringing independent judgement to bear on a wide range of issues – from strategy and performance to resourcing, key appointments and standards of conduct. Under the Articles of Association, the Shareholder has the right to appoint and remove any person as a director of the company by notice in writing.

Board commitment and attendance

Biographies of the current Board members are published on the www.awe.co.uk website. The appointment and resignation or retirement dates of Board members have been set out in the Directors' Report on page 29.

Attendance at the AWE Board and sub-committees

Board member	AWE Board	Audit & Risk Assurance Committee	Infrastructure Committee	Nominations Committee	Production and Programme Committee	Remuneration Committee	Security, Environment, Safety, Health, and Quality Committee
Ian Tyler	5/5*						2/2
Sir John Manzoni	5/5*			1/1*			
Alison Atkinson	13/13						
Gary Butler	6/6						
Haydn Clulow	4/5						
Richard Elsy	4/5		1/1	1/1	1/1*		
Claire Flint	5/5			1/1		3/3*	2/2
Barry Hunter	3/3						
Dame Sue Ion	5/5				1/1		2/2
Nicole Kett	5/5	5/5		1/1	1/1		2/2
Richard Keys	5/5	5/5*	1/1			3/3	
Henry Lloyd	5/5		1/1	1/1	1/1	3/3	
Andrew McNaughton	5/5	5/5	1/1*		1/1		
Peter Morton	10/10						
Graeme Nicholson	4/5						
Dr. J. Stephen Rottler	12/13	5/5			1/1		4/4*

*Denotes chair of the Board or Committee

Board sub-committees

There are seven sub-committees of the Board with advisory or decision-making delegations, as set out in their Terms of Reference. Reports on these committees are set out below.

Audit and Risk Assurance Committee

The role of the Audit and Risk Assurance Committee is to support the Board in monitoring the Company's business control systems and in reviewing the Company's financial statements. The remit of the Committee also includes oversight of: the risk management processes of the company; the appointment of the external auditor, including their performance, remuneration and terms of engagement; and the internal audit function including the appointment of the head of internal audit, the review, approval and performance of the function's annual audit work plan and their findings and reports. The Committee meets a minimum of four times a year and is chaired by a NED, Richard Keys. The other committee members in the reporting period were NEDs – Dame Sue Ion, Nicole Kett, Andrew McNaughton and Dr. J. Stephen Rottler.

The auditors have challenged the Company's accounting for monies received from MOD under the Pension Management contract (PMC) in respect of the defined benefit pension scheme deficit payments. In the Company's view, based upon independent professional accounting and legal advice, the obligation to meet the deficit payments arises from its obligations as employer and forms part of the ordinary activities of the company conducted under the M&O and PMC contracts. It follows, therefore, that the receipts from the MOD to fund this obligation, claimed once the deficit payments have been made, should be reflected as revenues related to the Company's ordinary activities as indeed are all other pension monies received under the PMC contract. In view of the material amounts involved, these receipts would be separately disclosed as a component of revenue. Based on the advice received, the directors are satisfied that this approach would result in both compliance with IFRS and in the financial statements providing a true and fair view.

The auditors do not agree that the deficit payments are costs of providing the services under the M&O contract and therefore the income arising from MOD is similarly not related to services provided. The auditors accordingly do not

believe that the amounts received fall within the scope of IFRS 15 and that therefore there is no basis for their recognition as part of total comprehensive income. As a consequence, in the auditor's opinion the related income falls to be treated as a contribution from the equity owner and dealt with within the balance sheet, as a capital contribution, and a true and fair opinion can only be achieved on this basis.

Based on subsequent Counsel's advice, the directors believe that a reasonable interpretation of the contractual position, taking into account the requirements of the Defence Reform Act (and regulations made thereunder) is that the defined benefit pension funding deficit payments received under the PMC may be distinguished from the payments received for regular cost of service pension provision, primarily in respect of the defined contribution scheme which remain accounted for as revenue in income statement. This is on the basis that the deficit funding is provided as a reimbursement of payments made by AWE under a commitment undertaken by MOD in respect of liabilities principally incurred in periods prior to the acquisition of AWE by MOD. This MOD funding obligation is also reflected in the guarantee given by HM Treasury to the defined benefit scheme pension trustees in respect of the deficit funding liability, to meet the liability directly should AWE be unable to do so. Accordingly, the deficit funding contributions would not be recognised as a transaction with MOD as customer but as shareholder and dealt with as an equity contribution.

The Committee have considered carefully the merits of this alternative accounting treatment of the pension fund deficit payments from MoD. They have also been advised that it is reasonably possible for two alternative policies to provide a true and fair view. The Committee have accordingly determined to advise the Board and the Accounting Officer that it is in the best interests of the company to adopt an accounting policy in this matter that does not result in a disagreement with the auditors. The financial statements including the related accounting policies have been drawn up on this basis.

Following the change in approach the accounting treatment to the recognition of the deficit repair payments in relation to the defined benefit pension scheme the comparatives have been restated on the same basis to reflect this change as set out in Note 25.

Performance during the period

The Committee was formed in July 2021 and since then has considered a number of matters, including those relating to the transition of AWE into public ownership. Amongst these issues has been reviewing: non-statutory accounts prepared by the Company in connection with its change of ownership; recommending to the Board the appointment of the National Audit Office as statutory auditors of the Company; the consideration of specific accounting matters in the light of the Company's transition to public ownership, including the transition to reporting under IFRS and the preparation and audit of the annual report and accounts; and overseeing the Company's first annual assurance report delivered to the Ministry. The Committee also receives reports from internal audit and risk at each meeting.

Remuneration Committee

The Remuneration Committee was formed in July 2021 and supports the Board by conducting oversight of the management of reward. This includes ensuring that AWE's remuneration policies fit within public sector pay policies and the freedoms granted to AWE by government, whilst enabling it to attract and retain people with the experience, skills and capabilities to deliver the AWE mission. The Committee meets at least four times a year and is chaired by a NED, Claire Flint. The other committee members were NEDs – Richard Keys and Henry Lloyd. The chair of the Committee issues a report providing appropriately detailed commentary on remuneration approach, rationale and outcomes (including effectiveness of any freedoms) on an annual basis through the Remuneration Report section of the AWE Annual Report and Accounts.

Performance during the period

The Committee has met three times during the reporting period and considered the Company's approach towards the 2022 annual pay review for staff and, in consultation with HMG, determining a comprehensive reward framework for all employees. This focus will continue into the new financial year. Willis Towers Watson (WTW) have been appointed to provide advice to the Committee on remuneration. The Committee considers the advice provided by WTW alongside other information and data as part of its decision making. WTW also provide investment and actuarial advice on pensions to the Company. There is no connection between any individual director and WTW.

Infrastructure Committee

The Infrastructure Committee reviews the planning and execution of AWE's capital infrastructure new build and refurbishment programme in support of its current and future operations. This includes the overview of processes adopted for the planning and execution of individual projects and programmes and the measures taken to address risks

associated with the programme delivery. It reports to the Board on the adequacy of controls in place and the validity of the cost and schedule projections provided to the MOD. The Committee also receives updates on safety performance across the capital portfolio.

The Committee meets a minimum of three times a year and more frequently if there are specific programme considerations. The Committee is chaired by a NED, Andrew McNaughton. The other committee members in the reporting period were NEDs – Richard Elsy, Richard Keys, and Henry Lloyd.

The Committee has significant interface with the Production and Programme Committee given the need to implement significant infrastructure investment whilst maintaining full operational capability.

Performance during the period

The Committee was formed in July 2021 and since then has considered the following significant matters:

- The management and performance of supply chain.
- The effectiveness of the Company's approach to sequencing of programmes to deconflict between individual projects and operational requirements.
- The progress of each programme against its plan, to include cost, schedule, and anticipated outcomes against approved funding levels.
- The relationship with strategic contractors and suppliers.

Nominations Committee

The Nominations Committee was formed in July 2021 and reviews the membership and composition of the Board and its Committees, including the appointment of directors and executives. The Committee also considers succession planning for directors and executives, and talent management at all levels in the Company.

The Committee meets twice a year and is chaired by the Chairman of the Board, Sir John Manzonì. The other committee members in the reporting period were NEDs – Richard Elsy, Claire Flint, Henry Lloyd, and Nicole Kett.

Performance during the period

The Committee met once in the reporting period and focused on executive succession planning. In addition, the Committee considered the Company's strategies for enhancing diversity and inclusion across the whole of its workforce, and its training and development initiatives.

Production and Programme Committee

The Production and Programmes Committee reviews the execution by the Company of the programme of work it is undertaking for its customers, with particular focus on that carried out for the MOD. In doing this it reviews the forward plan of programmes, projects and business cases coming to the Board for approval.

The Committee also reviews the output of the company's production facilities and its performance against schedule.

The Committee was established in September 2021 and meets four times per year and as matters arise. The Committee is chaired by a NED, Richard Elsy. The other committee members in the reporting period were NEDs – Andrew McNaughton, Henry Lloyd, Nicole Kett, Dame Sue Ion and Dr. J. Stephen Rottler.

The Terms of Reference for the Committee also allow for representation from industrial experts to provide the Company with guidance and experience from other advanced manufacturing sectors.

Performance during the period

The Committee has considered the following matters during the period:

- Investments into digital manufacturing systems.
- Investments for laboratory testing and trials.
- Planned enhancements in manufacturing capability.
- Skills and talent development in Production and Programme Management.

- Deep dives into specific facilities.

Security, Environment, Safety, Health, and Quality Committee

The SESH&Q Committee provides independent assurance to the Board that effective arrangements are in place for the management of security, environment, safety, health, and quality matters at AWE. The SESH&Q committee monitors and reviews the Company's SESH&Q performance and supports the executive team on effective strategies for eliminating or mitigating related risks. As a key part of its remit, the Committee reviews the principles, policies, and processes adopted by the company in complying with statutory and regulatory requirements in relation to SESH&Q matters affecting the Company's business. It provides assurance to the Board that the executive team is effectively managing risk and exercising suitable controls with respect to SESH&Q matters.

The Committee meets quarterly and is chaired by a NED, Dr. J. Stephen Rottler. The other committee members in the reporting period were NEDs – Claire Flint, Dame Sue Ion, and Nicole Kett, supported by independent advisors. Every other month, the chair meets one-on-one and in small groups with Company management and staff to review and discuss the Company's SESH&Q performance, risk management, and related improvement programmes. The Committee chair also meets quarterly with the Office for Nuclear Regulation (ONR) Deputy Chief Inspector for Operating Facilities to discuss the Company's performance as a nuclear licensee and review ONR concerns about the Company.

Performance during the period

The Committee was established in February 2021 and since then has considered the following significant matters:

- Regular review of the Company's security, environment, safety, health, and quality performance.
- Transition of the Company from a government-owned, contractor-operated facility to an arm's-length NDPB governance arrangement.
- Employee health and well-being while assuring the successful delivery of CASD during the Covid-19 pandemic.
- Regular review of the Company's performance as a nuclear licensee and corresponding improvement programmes to move the Company from Enhanced Regulatory Attention to Routine Regulatory Attention at one of its licensed sites.
- Quality concerns and the resulting Quality Improvement Programme.
- The management of an ageing estate and legacy assets and related risk management strategies.
- Effectiveness of relevant first, second, and third lines of defence that underpin assured delivery of the Company's mission.

Engineering, Science and Technical Capability Assurance Committee

The role of the Engineering, Science and Technical Capability Assurance Committee is to support the Board by reviewing the status of the Company's engineering, science, technology and nuclear threat reduction capabilities and of its technical outreach and international relations.

The Committee was formed shortly before the end of the reporting period and did not hold its inaugural meeting until after it had ended. It is intended that the Committee will meet a minimum of four times a year and will be chaired by a NED, Dame Sue Ion. The other committee members are Dr. J. Stephen Rottler (NED) and three independent advisors.

Risk management

AWE's risk management framework aligns with HM Treasury Guidance and the Cabinet Office Framework for the Management of Risk in Government and ISO 31000:2018 Risk Management.

AWE applies a structured risk methodology, which identifies threats in the business that have the potential to impact on the Company. Risk and Opportunity Management is embedded in the management processes and reported through the Executive Committees, monthly Business Performance Reviews and Risk and Opportunity Management Boards. As a nuclear licenced site, AWE has a 'Cautious Risk Culture' in our 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.
- Consideration of some near-term investment to deliver benefits where there is high 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. We accept some schedule risk on key projects, such as modernisation of the site.

AWE's risk appetite is embedded within the company's assessment of risks and the associated responses. Our risk appetite is regularly reviewed.

Modern Slavery Act

The Company supports the Government's objectives to eradicate modern slavery and human traffic. It carries out measures in relation to its employees and its supply chain to verify that it is not supporting these practices either directly or indirectly. Further information is set out in the modern slavery statement on the Company's website.

Effectiveness of control environment

Internal Control

AWE has a mature financial control framework which is designed to mitigate the risk of material financial error or misstatement. The financial control framework was introduced in 2017 when AWE was required to demonstrate conformance with US Sarbanes Oxley (SOX), following Lockheed Martin's acquisition of a controlling interest in AWE ML, AWE's then parent company. There is clear ownership of financial processes and individual controls, a compliance testing regime, and a process to monitor controls in need of remediation. Following transition, AWE is required to comply with the MOD's Internal Control Assurance Framework which is a similar financial control framework to SOX.

The Company Management System is the collection of interlinked processes and documents that are used to run AWE. It describes what AWE does and how it does it through 16 end-to-end processes that operate across functions to reflect the way work and information flows. It contains high level policies, processes, and detailed procedures to ensure that activities are carried out in a safe and consistent manner, ensuring they comply with regulatory requirements in particular the Office for Nuclear Regulation (ONR) Licence Conditions.

New requirements resulting from transition are being reflected within the documentation on the Company Management System.

The Company Management System has been approved against ISO9001:2015 (Quality Management) and ISO14001:2015 (Environmental Management) standards.

Assurance

The Company adopts the three lines of defence model as recommended within the HM Treasury guidance and is continuing to mature the associated Assurance Map.

There is a designated Corporate Assurance and Legal (CAL) function which consists of Internal Audit, Internal Regulation, Technical Assurance and Legal. The purpose of CAL is to provide independent and objective assurance and legal advice to the company. It also oversees its board and executive level governance structures and those of its governing bodies.

Internal Audit provides risk-based assurance over the operation of risk management, internal control, and governance processes.

The Internal Regulation team provides independent peer review of safety submissions, audit/inspection against ONR Licence Conditions and a programme of facility surveillance, providing independent technical assessment to the executive along with Regulators.

Technical Assurance deliver a programme of independent reviews of AWE technical capability. They assess specific technical areas within the business and provide the AWE Executive and key stakeholders information to help inform decision making.

A combined plan of the Corporate Assurance activities is being developed to demonstrate coverage of the strategic risks and allow for progress against the plan to be monitored and discussed at the appropriate Executive Committee meeting and relevant Board sub-committee.

Head of Internal Audit opinion

The Head of Internal Audit's annual report for the period January 2021 to March 2022 noted that the Internal Audit programme of work undertaken prior to 1 July 2021 was determined by the requirements of AWE's then owners. While risk based and focused on key areas of risk, particularly internal financial control, the programme was not designed to support the expression of a formal opinion on the overall effectiveness of internal control. Previously, environment, safety and health and production related activities had been outside the scope of Internal Audit with management placing reliance on the activities of Internal Regulation, Technical Assurance and Quality in those areas. This represents a limitation in the scope of work required to give an overall opinion as required in the Public Sector Internal Audit Standards and will be addressed in subsequent years.

Taking into consideration the limited work conducted in the year, an opinion of Limited Assurance is provided by the Head of Internal Audit on the adequacy and effectiveness of governance, risk management and control. This opinion corresponds to a finding that the system of internal controls is operating effectively except for some areas where significant weaknesses have been identified.

The report noted that Internal Financial Control is an area where an opinion of Substantial Assurance is provided. This is based on the adequacy of the related governance, risk management and controls which were in place prior to 1 July 2021, and which have since been continued, consisting of clearly defined controls with oversight by a designated compliance team.

The limited risk-focussed programme of work undertaken in the period on other areas of internal control, indicates a lower level of maturity in the risk and control framework in those other areas of AWE which were reviewed, as demonstrated through 44% of the audits having a Limited Assurance opinion. However, this conclusion should be read in the context of the scope limitation in the work conducted.

Recurring findings across multiple audits were summarised into six overarching themes for consideration by management. These included a lack of awareness or ownership within delivery areas for the elements of centrally owned policies for which individual owners are accountable; and instances of documented policies or procedures which were found to be unclear, resulting in inconsistent practices or a failure to reflect current practices.

Several medium-risk issues were also identified at an operational level relating to the accuracy of data where it was either incomplete or supporting evidence was not readily available. There were also some instances where data that could have supported decision making was either not captured or not made use of.

The Head of Internal Audit's annual report recognised that the Company is undergoing significant organisational and operational model change and the ongoing process of addressing compliance with new public sector regulations and obligations following the transition to an NDPB. It also acknowledges that during the period AWE was in the process of maturing its approach to risk management, including a thorough review of its strategic risks in the context of both the new ownership structure and programme arrangements. Internal Audit will therefore provide assurance over the updated risk management process and strategic risks during 2022/23.

The report confirmed that management action plans were agreed for all medium and high-risk weaknesses identified during internal audit activities and are monitored by Internal Audit to closure.

Anti-corruption and bribery

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.

The Company provides training on compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and the AWE Code of Conduct to all employees joining the firm, and every two years thereafter. It keeps under review its anti-bribery systems and controls to ensure that these meet the requirements of legislation.

Whistleblowing arrangements

AWE offers a number of mechanisms through which employees and contractors can raise concerns or blow the whistle. These include an internal phone number and e-mail address, a helpline and website supported by an external provider, Safecall, and an Ethics office. The mechanisms for contact are all monitored by the Ethics Manager who carries out any investigations that are required, including working with Subject Matter Experts as appropriate. Anonymous reports can be made through the internal phone line and through the external provider. The non-executive lead on ethics for the board of directors is Claire Flint.

AWE keeps a record of the number of contacts with the Ethics department. Whilst the overall number of contacts continues to increase none of the cases raised in the period would be described as whistleblowing in the legal sense of the word.

The increase in contacts between these two years indicates that the methods for raising issues are increasingly used and effective, enabling minor issues to be resolved informally and more serious issues to go through due process. A range of methods to promote the ways to raise concerns are used including regular articles in in-house publications, presentations to teams and posters circulated to all buildings on all sites. A Whistleblowing policy and procedure are available in addition to the Code of Ethics. There is also an Ethics intranet site which has information for workers including links to relevant documents and the details for raising concerns.

Annual ethics training is mandatory for all employees and typically 97% of those required to complete it do so within a four-week period. An additional (and optional) whistleblowing course is also available, and a small number of employees have completed this.

Governance framework

Prior to 1 July 2021, AWE did not follow a recognised external corporate governance code, but complied with all regulatory requirements; instead, it operated its own mature governance structure which was designed to serve its unique role in the maintenance of the UK's strategic deterrent and the close working relationship which it had with its principal customer, the MOD, and its external regulators. Since that date, AWE has continued to build on and develop this role as explained elsewhere in this report and, in addition, has adopted an internal governance model which is generally consistent with the principles of the Financial Reporting Council's UK Corporate Governance Code 2018. There are certain respects in which AWE does not comply with the Code, principally as a result of its being an NDPB and that this change occurred part way through the reporting period. These are as follows:

General. AWE's report and accounts have been prepared in accordance with IFRS as explained in the accounts and having regard to the HM Treasury Financial Reporting Manual (FReM), which contains requirements for disclosure on similar lines to those addressed by the Code. Where differences exist between the requirements of the Code and the FReM, AWE has addressed disclosure in light of the FReM requirements.

Workforce engagement. AWE's communication and engagement with its workforce is described in the People Report. This is a comprehensive set of processes building on those in place under the previous ownership structure and includes full engagement by the Board and remuneration committee on key areas. The Board is satisfied, at the present time, that this provides the most optimal approach and has not adopted any of the three options suggested by the Code. (Provision 5).

Senior Independent Director (SID). AWE postponed appointing a SID for the first 12 months of its new ownership and Board membership while the potential candidates became better known and the nature of arrangements with the single shareholder became better established. Claire Flint was appointed as SID in June 2022. (Provision 12).

Annual re-election of directors. Under AWE's Articles of Association its single shareholder may terminate the appointment of a director on notice taking immediate effect, so directors are not subject to annual re-election. (Provision 18).

Board evaluation. As set out elsewhere in this Governance Statement, Board evaluation was undertaken after the end of the reporting period so as to allow for a full year of activity under AWE's new Board arrangements. (Provisions 21, 22 and 23 (part)).

Appointment of external auditor. Under the terms of the Framework Agreement between AWE and the MOD, the Comptroller and Auditor General assisted by the National Audit Office acts as AWE's external independent auditor and was appointed by AWE to carry out this role without a tendering exercise. (Provision 26).

Remuneration of non-executive directors and Chair. The remuneration of the non-executive Chair and of the non-executive directors is set by the Secretary of State in each case. (Provisions 33 and 34).

Accounting Officer's introduction

The Chief Executive Officer and designated Accounting Officer (AO) of AWE is personally responsible for safeguarding the public funds under their control, for ensuring propriety, regularity, and value for money in the handling of those public funds, for keeping proper records, for safeguarding the Company's assets, and for the day-to-day operations and management of AWE. The AO is required to ensure that AWE is run on the basis of the governance, decision-making and financial management standards that are set out in HM Treasury's 'Managing Public Money'. This Governance Statement sets out how the AO have discharged these responsibilities during the period from 1 July 2021, when AWE became a public sector body, to 31 March 2022.

Role of the Accounting Officer

The AO's role is fully set out in the Framework Document. The AO's responsibilities include ensuring that effective systems of corporate governance are in place including adequate systems for internal and financial control and effective measures against fraud and theft.

Conclusion

This report is for the 15 months ended 31 March 2022 and, in relation to significant balance sheet events, to the date of signing.

Remuneration Report

Overview

The MOD assumed ownership of AWE as an NDPB on 1 July 2021, at which point the current Remuneration Committee was established. This Remuneration Report for AWE includes the remuneration of the members of the Board who were appointed and/or were retained as directors following AWE becoming an NDPB with the exception of the CFO. Changes in the composition of the Board and a summary of its members' attendance at scheduled meetings in 2021/22 are shown in the Directors' Report and Governance Statement on pages 29 and 35 respectively.

Prior to 30 June 2021, AWE was subject to the Companies Act, but not the Government Financial Reporting Manual ("FReM"). Disclosure of remuneration in the notes to the accounts is fully compliant with the Companies Act for the 15 months ended 31 March 2022.

From 1 July 2021 and in respect of its annual report and accounts for this period, AWE is subject both to the Companies Act and to FReM. FReM (paragraph 6.5.3) requires that AWE discloses the names and remuneration of each director. For the current reporting period there are some exceptions to the FReM requirements following the change in ownership as set out below which have been agreed with the MOD as sponsor of the NDPB.

For the purposes of this first remuneration report following the change in ownership the following is disclosed:

- For the members of the Board who were appointed and/or were retained as directors in the period following AWE becoming an NDPB on 1 July 2021 until 31 March 2022, their remuneration for the 9 month period is disclosed. This excludes payments made in relation to and ahead of the change in ownership.
- For members of the Board prior to change in ownership (up to September 2021), or who were only retained for the purposes of the transitional period of the change in ownership, the remuneration is shown in aggregate.
- Fair Pay Disclosures are more limited than the full FReM requirement but do still provide a summary of the relationship between the remuneration (including performance pay from pre 1 July 2021) of the highest paid director and the upper, median and lower quartile remuneration of the Company's workforce.

This recognises that the latter group of directors were in place in advance of the requirement to adopt the FReM. This approach has been agreed as reasonable by the MOD.

Remuneration policy

The Committee's priority is to ensure that remuneration policy is sufficient for AWE to be able to attract and retain talented staff with the skills, values and behaviours required to deliver AWE's mission.

As an NDPB, AWE is required to align with the Government's approach to public sector pay policy and ensure that pay awards are fair to public sector workers and the taxpayer. To meet its unique needs and ensure it can retain a competitive offering, AWE has been granted exemption from the Public Sector Pay Remit to allow it to separately negotiate a suitable pay deal for its personnel. The use of these freedoms, and wider AWE remuneration policy, is overseen by the Committee to ensure they remain in line with wider public sector policy and company performance.

Directors' contracts

Directors were appointed and their remuneration determined as follows:

- **Alison Atkinson** (Chief Executive Officer) was appointed by AWE ML and with the approval of the MOD. Her remuneration was decided by AWE ML with reference to the prevailing market conditions. Mrs Atkinson was Acting CEO from April 2020 to April 2021 when she was confirmed in post.
- **Barry Hunter** (Chief Financial Officer) was appointed by the MOD and his remuneration decided by the MOD with reference to the prevailing market conditions.
- **Sir John Manzoni** (Chairman) was appointed by the MOD and his remuneration decided by the MOD with reference to the prevailing market conditions.
- **Dr. J. Stephen Rottler** was appointed by AWE ML and with the approval of the MOD. His remuneration prior to 1 July 2021 was set by AWE ML with reference to the prevailing market conditions. His remuneration from 1 July 2021 was decided by the MOD in line with the remuneration set for the other independent NEDs.

- **Nicole Kett and Henry Lloyd** (representative directors of the sole shareholder in the Company) were appointed by the MOD. They are not separately remunerated for their role as directors of the Company.
- **Richard Elsy, Claire Flint, Richard Keys, Andrew McNaughton and Dame Sue Ion** (independent NEDs) were appointed by the MOD following a competitive appointment process supported by Russell Reynolds. Their remuneration has been set by the MOD with reference to prevailing market conditions.

Directors' remuneration

The fees or salaries that were paid to the directors who are, or were, members of the Board during the 9 month period following AWE becoming an NDPB on 1 July 2021 and ending 31 March 2022 as shown below. Benefits in kind values reflect the premium paid for private medical insurance. Employed director full year equivalent salary and fees/allowances are shown in brackets.

Full name	Fees & salary (£)	Annual bonus (£)	Long-term incentive payment (£)	Benefits in kind (£)	Pension Benefits (£)	Total (£)
Period from 1 July 2021 to 31 March 2022						
Sir John Manzoni	112,500	-	-	-	-	112,500
Alison Atkinson	296,625 (395,500)	-	-	2,894	-	299,519
Richard Elsy	22,496	-	-	-	-	22,496
Claire Flint	22,496	-	-	-	-	22,496
Barry Hunter	109,523 (250,000)	-	-	1,260	-	110,783
Dame Sue Ion	22,496	-	-	-	-	22,496
Nicole Kett ¹	-	-	-	-	-	-
Richard Keys	22,496	-	-	-	-	22,496
Henry Lloyd ¹	-	-	-	-	-	-
Andrew McNaughton	22,496	-	-	-	-	22,496
Dr. J Stephen Rottler	22,907	-	-	-	-	22,907

¹ Nicole Kett and Henry Lloyd were Civil Service employees who receive no additional remuneration for their duties as directors of AWE.

Former Directors

As described above for members of the Board prior to change in ownership, or those who were only retained for the purposes of the transitional period of the change in ownership after 1 July 2021, the remuneration in aggregate paid to these directors in the period prior to and after AWE becoming an NDPB was £1,720,000.

Pension entitlements

AWE offers a defined contribution scheme. Executive directors are entitled to the same contribution structure as all employees. In the reported period only one director, Barry Hunter, participated in this plan and received employer contributions at 13% of his salary. Alison Atkinson, the other executive director received a taxable payment in lieu of pension equivalent to 13% of her base salary.

Fair Pay Disclosures

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director and the median remuneration of the Company's workforce.

Category	Remuneration element	2021-22 (annualised)
Highest paid director	Salary and allowances	£395,500
Average for employees		£50,162
Highest paid director	Performance pay and bonuses	£359,243
Average for employees		£1,219

Employee's figure excludes the highest paid director.

Remuneration in the ratios table below and staff ranges refers to annualised salary, performance pay and benefits. It does not include any pension values.

Pay ratios vs highest paid director:

Year	25 th percentile pay ratio	Median pay ratio	75 th percentile pay ratio
2021-22	21:1	16:1	13:1

Reporting bodies are required to set out for each of the ratios the total pay, performance pay and benefits, and the salary component of this:

Percentile	Staff figure: pay including performance pay and benefits	Salary element only
25 th percentile	£35,890	£33,813
Median	£46,626	£43,639
75 th percentile	£59,478	£55,672

Actual staff remuneration on an annualised basis for full-time work on 31 March 2022 (including the highest paid director and performance pay; excluding pension benefits) ranges from £11,000 to £754,743 per annum (2020: £11,000 - £1,199,762).

AWE was a private sector company prior to 1 July 2021 and its remuneration policy to this point reflected private sector practice and benchmarks. The levels and differentials were considered appropriate for the status of the business within this market. On transition, existing employees retained contractual entitlements to elements of remuneration including incentives. Since transitioning to public ownership, the Committee recognises the need to be aware of public sector pay constraints and policies, which it must seek to balance with the need to remain competitive in a private sector market. Base pay and incentive levels continue to be carefully reviewed and monitored to ensure they meet the needs of the business, in consultation with the MOD.

People Report

Overview

AWE is committed to driving high performance in its people through creating a culture of inclusivity, agility, and empowerment. The People Strategy is designed to deliver this whilst ensuring the continued attraction, retention, and motivation of highly skilled employees. Many employees work in high hazard environments, and a strong safety culture, underpinned by a full programme of training is maintained. Alongside safety, security is paramount, given the importance of AWE's mission and role in maintaining national security. Many skills are in short supply and the local employment market is highly competitive, so it is imperative that AWE's overall employee value proposition is compelling. The information below is set out in line with reporting requirements to indicate the effectiveness and ongoing delivery of this strategy.

Employee Voice

AWE participates in the 'Best Companies' engagement survey. The survey within the period of this report was conducted in February 2021. Under the survey methodology, AWE scored 682.4 on the engagement index, which places it within the range of 'One Star' companies within the Best Companies' survey participation group. The maximum possible is Three Star (for a score of 738). This was an increase from 654.7 in October 2019, at which stage AWE was rated in the 'Ones to Watch' category. The employee response rate to this survey was 74%, which compares to a 61% industry average. As a result of this survey and through the Best Companies rankings, AWE was rated in the 'Top 25 Big Companies to work for – 2021'.

As an organisation undergoing transformational change, internal communications and engagement are vitally important. AWE's internal communications and engagement strategy is informed by organisational priorities, results of engagement surveys and regular meetings with Trade Unions and other listening forums including Engagement Champions and Employee Voice groups.

Comprehensive internal communications and engagement plans are developed using a number of channels including, but not exhaustive, a company intranet, a Communications Briefing Group and subsequent Team Talk cascade, an in-house magazine, channels focused on the leadership community and more targeted briefing and 'toolbox talks' for those working in manufacturing facilities and project sites. Recognising that line managers are employees' most trusted source of information, AWE invests in ensuring they are able communicators and credible leaders. Several channels, including a Leadership Conference, bi-annual Leadership Workshops, monthly ezine and Leadership Hub provide messages and the supporting narrative needed to cascade company information. AWE engages with its employees through its two Trade Unions (Prospect and Unite the Union) under its voluntary recognition agreement, and via an Employee Forum.

AWE's Executive team are highly visible to employees through the delivery of annual Business Briefings, regular all employee CEO Q&A sessions, personal blogs, and, more locally, through walkabouts and at All Hands meetings.

A programme of mandatory training is in place for all employees alongside role specific training. Line managers are accountable for working with their direct reports to create career development plans. Opportunities for internal secondments to gain different experiences are provided. Base pay is benchmarked against comparable roles of the same size in wider industry to create pay ranges for each grade and job family. Pay progression is related to competence, qualifications, and performance.

AWE plc has an Executive Director, Environment, Safety, Health & Quality whose responsibilities include all safety and 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. A focus on safety is maintained through regular safety briefings, 'safety moments' and a 'stop for safety' initiative whereby the whole of AWE pauses for a short time to listen, review, and learn about a topical safety issue. AWE's RIDDOR Injury Rate in the period of the report was 0.032 which compares favourably to industry benchmarks.

Trade Union Relationships

The Company has arrangements with the Trade Unions Unite and Prospect which, among other things, embody collective bargaining agreements for pay covering much of the workforce. The data below has been collated in line

with the Trade Union (Facility Time Publications Requirements) Regulations 2017 for the period 1 April 2021 to 31 March 2022.

Table 1 – Relevant Union Officials:

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
39	37.3

Tables 2 and 3 – Percentage of time spent on Facility Time:

Percentage of time	Number of employees
0%	-
1-50%	35
51%-99%	4
100%	-

Total cost of Facility Time	£434,342
Total Pay Bill	£299,022,972
Percentage of pay bill spent on facility time	0.15%

Table 4 – Paid Trade Union activities:

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100	100%
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Employee Health & Wellbeing

Sickness absence has fluctuated between 4.16% and 2.85% during the 15 month period from 1 January 2021 to 31 March 2022 (sickness absence rates are calculated based on hours sick as a percentage of available hours). The peaks in sickness absence during this period coincided with high Covid-19 prevalence.

AWE has a dedicated Wellbeing Manager who has introduced a wellbeing strategy designed to move from reactive to preventative wellbeing. The focus has been on improved use of support tools and the training of over 100 wellbeing champions across the business. Mental health remains a priority and is supported through counselling and proactive return to work programmes. A Health Operational Governance Board with Executive sponsorship has been created to review absence data in detail and coordinate initiatives. This is underpinned by a full programme of line manager training to manage improved attendance.

Employment of Disabled Persons

In 2019 AWE achieved Disability Confident Employer Status, demonstrating its 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 is voluntary and has been developed by employers and disabled people's representatives.

AWE gives full and fair consideration to applications made by disabled persons. Individual circumstances regarding disability are considered and adjusted for throughout the recruitment process by asking if any adjustments are required at the application form and throughout. AWE complies fully with the Equalities Act 2010 throughout the employee

lifecycle including provision of training, learning and career development. With the increase in virtual learning AWE is committed to ensuring online training material is fully accessible to all learners, regardless of whether they have a disability or not.

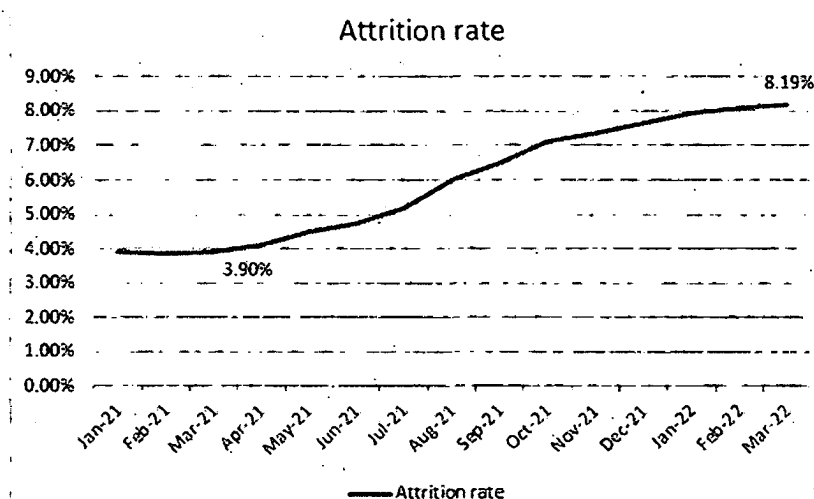
AWE has a Disability and Neurodiversity (N-able-D) workstream supporting the Diversity and Inclusion work of the organisation, sponsored by the Executive team. The team raise awareness of disabilities and how to support colleagues.

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. AWE has the Passport to Work initiative, which is for employees who have a disability, medical or neurodivergent condition that requires adjustments to be made for them in the work environment and helps the employee and their manager identify and understand the adjustments required.

Employee Turnover

Attrition in AWE is calculated by taking the number of staff exiting the organisation in the 12 months period prior to the reporting date and dividing by the average headcount for the same period. Average headcount is calculated by summing the headcount at each accounting period end and dividing by 12.

The attrition rate for March 2022 was 8.19%. Following a downward trend during the first 12 months of the Covid-19 pandemic, the Company's attrition rates have been on the increase since April 2021.



Staff composition (FTE)

2021/22 staff composition

The overall proportion of female staff based on full-time equivalent (FTE) at 31 March 2022 is 23.7% compared to 23.5% reported at 31 December 2020 (excluding Zero Hours contracts). The total employee figure disclosed below is different to the total disclosed in the staff costs and numbers section of this report. This is due to the figures below reflecting the position at period end whilst the figures used in the staff costs and numbers section reflect the average across each reporting period.

Analysis of the number of people of each sex:

Staff category	31 March 2022		31 December 2020	
	Number (FTE)	%	Number (FTE)	%
Directors	Total Directors – 11		Total Directors – 4	
Male	7	63.6%	3	75.0%
Female	4	36.4%	1	25.0%
Executive	Total Executive Team - 10		Total Executive Team - 7	
Male	9	90.0%	4	57.1%

Staff category	31 March 2022		31 December 2020	
	Number (FTE)	%	Number (FTE)	%
Female	1	10.0%	3	42.9%
Senior managers	Total senior managers – 243		Total senior managers - 248	
Male	188	77.4%	194	78.2%
Female	55	22.6%	54	21.8%
Employees	Total employees – 6,025		Total employees - 5,932	
Male	4,600	76.3%	4,540	76.5%
Female	1,425	23.7%	1,392	23.5%

Off-payroll engagements

As part of the review of tax arrangements of public sector appointees, published by the Chief Secretary to the Treasury on 23 May 2012, bodies have been asked to report on their off-payroll engagements and related tax arrangements for the periods and scope outlined by HM Treasury. The report does not include independent panel members. This data is shown in the following tables.

Highly paid off-payroll worker engagements as at 31 March 2022, earning £245 per day or greater:

Number of existing arrangements as of 31 March 2022	142
Of which, no. that existed:	
Less than 1 year	31
For between 1 and 2 years	33
For between 2 and 3 years	23
For between 3 and 4 years	20
For 4 or more years	35

All highly paid off-payroll worker engagements at any point during the year ended 31 March 2022, earning £245 per day or greater:

Number of temporary off-payroll workers engaged during the 15 months ended 31 March 2022	142
Of which:	
Not subject to off-payroll legislation	-
Subject to off-payroll legislation and determined as in-scope of IR35	-
Subject to off-payroll legislation and determined as out-of-scope of IR35	142
No. of engagements reassessed for compliance or assurance purposes during the year	90
Of which: No. of engagements that saw a change to IR35 status following review	4

Employment Legislation (IR35) changed in April 2021 to include private sector organisations to make an IR35 determination of off-payroll workers employment status for tax. AWE engaged Brookson Legal Services (BLS) in September 2019 to assess all contingent worker positions for IR35. Status Determination Statements were produced for all positions and the determinations were issued to the respective Suppliers and their Contingent Workers, to ensure the correct tax is applied. From April 2020, BLS supported AWE to continue IR35 assessments inhouse and adopted the same consultative approach to the assessments. The AWE approach to IR35 has been subject to HMRC validation and internal and external audits.

There were no off-payroll engagements for any Board Members in the period of this report.

Staff Costs and Staff Numbers

Staff costs comprise	15 months to 31 March 2022			12 months to 31 December 2020		
	Permanent staff (£'000)	Agency staff (£'000)	Total (£'000)	Permanent staff (£'000)	Agency staff (£'000)	Total (£'000)
Salaries and wage costs	401,579	36,901	438,480	301,827	41,247	343,074
Social security costs	41,002	-	41,002	29,845	-	29,845
Pension costs	45,478	-	45,478	33,304	-	33,304
Redundancy and severance payments	972	-	972	429	-	429
Total	489,031	36,901	525,932	365,405	41,247	406,652

Employee Numbers (FTE) by Job Family:

Category	15 months to 31 March 2022				12 months to 31 December 2020			
	Permanent staff	Agency staff	Secondes	Total	Permanent staff	Agency staff	Secondes	Total
Science	1,143	5	3	1,152	2,608	11	1	2,620
Engineering and manufacturing	2,358	86	34	2,479	2,733	125	18	2,876
Business services	2,751	102	12	2,865	625	172	14	811
Total	6,252	193	49	6,496	5,966	308	33	6,307

During the period, technical support staff, who had previously been recognised under the science and technical support category (SET), were reassigned to business services. This accounts for the significant movement in the two categories disclosed above. SET will now be referred to as Science to reflect this change in staff allocation.

Exit packages

Exit package cost band	15 months to 31 March 2022			12 months to 31 December 2020		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	13	13	-	3	3
£10,000 - £25,000	-	4	4	-	3	3
£25,000 - £50,000	-	2	2	-	5	5
£50,000 - £100,000	-	7	7	-	4	4
£100,000 - £150,000	-	4	4	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	1	1	-	-	-
£250,000 - £300,000	-	-	-	-	-	-
Total number of	-	31	31	-	15	15

Exit package cost band	15 months to 31 March 2022			12 months to 31 December 2020		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
exit packages						
Total cost of exit packages	-	£1,380,113	£1,380,113	-	£561,586	£561,586

Consultancy

Spend for the period on consultancy delivered via individuals contracted to provide services for AWE was £33.1m. The number of individuals engaged in consultancy contracts has reduced by a third over the last two years.

Independent Auditor's Report to the Members of AWE plc

Opinion on financial statements

I have audited the financial statements of AWE plc for the 15 month period ended 31 March 2022 which comprise the AWE plc:

- Balance Sheet as at 31 March 2022;
- Income Statement, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the period then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards.

In my opinion the financial statements:

- give a true and fair view of the state of AWE plc's affairs as at 31 March 2022 and its loss for the period then ended; and
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and applicable law. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of AWE plc in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that AWE plc's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included a review of the evidence supporting the directors' assessment which included consideration of the long-term plans and continued programme of work under the main contract with the MOD.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on AWE plc's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information.

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

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which I report by exception

In the light of the knowledge and understanding of AWE plc and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report or the Directors' Report. I have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the company; or
- I have not received all of the information and explanations I require for my audit;

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the AWE plc'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 entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the applicable law and International Standards on Auditing (ISAs) (UK).

My 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 a report that includes my 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the AWE plc's accounting policies, key performance indicators and performance incentives.
- Inquiring of management, AWE plc's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to AWE plc's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including AWE plc's controls relating to AWE plc's compliance with the Companies Act 2006 and Managing Public Money;
- discussing among the engagement team and involving relevant internal and external specialists, including pensions and financial instruments experts regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within AWE plc for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of AWE plc's framework of authority as well as other legal and regulatory frameworks in which AWE plc operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of AWE plc. The key laws and regulations I considered in this context included Companies Act 2006, Atomic Weapons Establishment Act 1991, Managing Public Money, employment law, tax legislation and health and safety legislation, Office for Nuclear Regulation, Environmental Agency regulations and anti-money laundering regulations.

In addition, I considered:

- the results of analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reviews of internal audit reports; and
- knowledge gained through enquiries of management to understand the governance and control processes relating to compliance with laws and regulations.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;

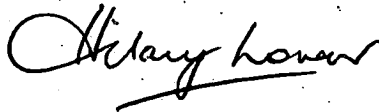
- enquiring of management, the Audit and Risk Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- attendance at Audit and Risk Assurance Committee meetings and regular communication with management and internal audit to identify any instances of fraud, non-compliance with laws and regulations and irregular transactions.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Other auditor's responsibilities

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Hilary Lower (Senior Statutory Auditor) 23 January 2023

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road Victoria

London SW1W 9SP

Financial Statements

Income Statement

for 15 months ended 31 March 2022

	Note	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000 Restated ¹
Revenue	2	1,425,739	984,188
Cost of sales	4	(1,456,898)	(988,576)
Gross profit		(31,159)	(4,388)
Other operating income	3	21,473	24,739
Administrative expenses	4	(1,199)	(8)
<i>Exceptional items:</i>			
Write-off of pension asset previously recoverable under contract	4	(423,000)	-
Operating (loss)/profit	5,6	(433,885)	20,343
Financial income	7	-	205
Financial expenses	7	(30)	(27)
Net financing expense		(30)	178
(Loss)/profit before tax		(433,915)	20,521
Taxation	8	(5,235)	(2,868)
(Loss)/profit for the period		(439,150)	17,653

¹ Following the change in approach the accounting treatment to the recognition of the deficit repair payments in relation to the defined benefit pension scheme the comparatives have been restated on the same basis to reflect this change. This has been corrected by restating each of the affected financial statement captions for the prior period. Further details are set out in Note 25.

Statement of Other Comprehensive Income

for 15 months ended 31 March 2022

	Note	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
(Loss)/profit for the period		(439,150)	17,653
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
(Loss)/gain in value of pension asset previously recoverable under contract (to date of write off)		(219,000)	218,000
Actuarial movement in relation to pension fund	14	538,000	(218,000)
Other comprehensive income for the period		319,000	
Total comprehensive (loss)/income for the period		(120,150)	17,653

Balance Sheet

at 31 March 2022

	Note	31 March 2022 £'000	31 December 2020 £'000	1 January 2020 £'000
Non-current assets				
Trade and other receivables	11	-	644,000	453,000
Investments in group companies	9	1	1	1
Other financial assets	17	5	9	-
Deferred tax assets	10	351	625	819
Right-of-use assets	18	1,492	1,942	1,853
		1,849	646,577	455,673
Current assets				
Contract assets	2	59,400	859	10,436
Other financial assets	17	9	4	-
Trade and other receivables	11	116,806	166,872	150,696
Cash and cash equivalents	12	74,868	6,065	2,751
		251,083	173,800	163,883
Total assets		252,932	820,377	619,556
Current liabilities				
Lease liabilities	18	822	785	561
Trade and other payables	13	226,713	149,242	139,690
Tax payable		261	-	-
Contract liabilities	2	23,118	2,147	-
Provisions	15	1,176	1,269	1,582
Other financial liabilities	17	106	71	201
		252,196	153,514	142,034
Non-current liabilities				
Lease liabilities	18	614	1,038	1,167
Trade and other payables	13	2,406	1,944	6,256
Employee benefits	14	53,000	644,000	453,000
Provisions	15	1,694	2,020	3,187
Other financial liabilities	17	3	33	94
		57,717	649,035	463,704
Total liabilities		309,913	802,549	605,738
Net (liabilities)/assets		(56,981)	17,828	13,818

Balance Sheet (continued)

at 31 March 2022

	Note	31 March 2022	31 December 2020	1 January 2020
		£'000	£'000	£'000
Equity				
Share capital	16	50	50	50
Retained earnings		(120,031)	17,778	13,768
Capital reserve	16	63,000	-	-
Total equity		(56,981)	17,828	13,818

These financial statements were approved and signed on behalf of the Board on 19th January 2023



Alison Atkinson
Chief Executive Officer

Company registered number: 02763902

Statement of Changes in Shareholder's Equity

	Note	Share capital £'000	Retained earnings £'000	Capital reserves £'000	Total equity £'000
Balance at 1 January 2020		50	13,768	-	13,818
Total comprehensive income for the period					
Profit for the period		-	17,653	-	17,653
Other comprehensive income		-	-	-	-
Total comprehensive income for the period			17,653	-	17,653
Transactions with owners, recorded directly in equity					
Dividends	16	-	(13,643)	-	(13,643)
Balance at 31 December 2020		50	17,778	-	17,828

		Share capital £'000	Retained earnings £'000	Capital reserves £'000	Total equity £'000
Balance at 1 January 2021		50	17,778	-	17,828
Total comprehensive income for the period					
Loss for the period		-	(439,150)	-	(439,150)
Other comprehensive income		-	319,000	-	319,000
Total comprehensive income for the period			(120,150)	-	(120,150)
Transactions with owners, recorded directly in equity					
Dividends	16	-	(17,659)	-	(17,659)
Capital contributions	16	-	-	63,000	63,000
Total contributions by and distributions to owners		-	(17,659)	63,000	45,341
Balance at 31 March 2022		50	(120,031)	63,000	(56,981)

Cash Flow Statement

for 15 months ended 31 March 2022

	Note	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Cash flows from operating activities			
(Loss)/profit for the year		(439,150)	17,653
<i>Adjustments for:</i>			
Fair value losses/(gains) on derivatives	7	4	(204)
Interest received	7	-	(1)
Interest paid	7	26	27
Depreciation of right-of-use assets	18	1,154	755
Write-off of pension asset	14	423,000	-
RDEC Tax Settlement		(6,392)	-
Taxation	8	5,235	2,868
		(16,123)	21,098
Decrease in trade and other receivables	11	52,065	10,825
(Increase)/decrease in contract assets/contract liabilities	2	(37,570)	11,724
Increase in trade and other payables	13	79,624	2,566
(Decrease) in employee benefits	14	(53,000)	(27,000)
(Decrease) in provisions	15	(419)	(1,480)
		40,700	17,733
Tax paid		-	-
Net cash from operating activities		24,578	17,733
Cash flows from investing activities			
Interest received	7	-	1
Net cash from investing activities		-	1
Cash flows from financing activities			
Dividends paid	16	(17,659)	(13,643)
Capital contributions	16	63,000	-
Principal repayments on leases	18	(1,090)	(750)
Interest repayments on leases	18	(26)	(27)
Net cash from financing activities		44,225	(14,420)
Net increase in cash and cash equivalents		68,803	3,314
Cash and cash equivalents at 1 January	12	6,065	2,751
Cash and cash equivalents at 31 March (31 December)	12	74,868	6,065

Notes to the Financial Statements

1 Accounting policies

AWE is a public limited company incorporated, domiciled, and registered in England in the UK. The registered number is 02763902 and the registered address is Room 20, Building F161.2, Atomic Weapons Establishment, Aldermaston, Reading, Berkshire, RG7 4PR. The Company's principal activities are the management and operation of AWE comprising a number of sites including Aldermaston and Burghfield on behalf of its parent company the MOD.

These financial statements present information about the Company as an individual undertaking and not about its group. They have been prepared on the basis set out in the Framework Document as directed by the SoS for Defence.

The Company financial statements have been prepared and approved by the directors in accordance with international accounting standards in accordance with UK-adopted international accounting standards ("UK-adopted IFRS"). Following the transition to government ownership AWE plc changed its accounting reference date from December to March to align to the MOD. Accordingly, the financial statements have been prepared for the 15 months ended 31 March 2022. As a result, the amounts presented in the financial statements are not entirely comparable.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. They have been applied in preparing an opening IFRS balance sheet at 1 January 2020 for the purposes of the transition from UK GAAP to UK-adopted IFRSs. As an NDPB, the Company also, where considered appropriate, adopts the interpretations but not adaptations of IFRS in the Government Financial Reporting Manual (FReM) for 2021/22. The Company applies additional disclosure requirements in the FReM, where these are compatible with the requirements of the Companies Act. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed on page 70.

Transition to UK-adopted IFRSs

The Company is preparing its financial statements in accordance with UK-adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition from UK GAAP to UK-adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 24.

IFRS 1 grants certain exemptions from the full requirements of UK-adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements

- Leases
 - a. account for all leases with a lease term less than 12 months as if they were short-term leases accounted for in accordance with paragraph 6 of IFRS 16.
 - b. elect not to apply the requirements of IFRS 16 to leases for which the underlying asset is of a low value.
 - c. exclude initial direct costs from the measurement of the right-of-use asset at the date of transition.
 - d. use hindsight to determine the lease term if the contract contains options to extend or terminate the lease.
- Revenue
 - a. No requirement to disclose the amount of the transaction price allocated to the remaining performance obligations and explanation of when revenue is expected to be recognised.

Measurement convention

The financial statements are prepared on the historical cost basis except certain financial assets and liabilities (including derivatives) that are measured at their fair value.

Going concern

The Company's business activities, together with the factors likely to affect its future development, its performance and position, financial risk management objectives, details of its financial instrument and derivative activities are described in the Directors' Report on page 30 and in the accounting policies on pages 62 to 70.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Going concern *(continued)*

The Company is expected to continue to generate positive cash flows on its own account under existing contractual arrangements with the MOD. Prior to 1 July 2021, the Company participated in the centralised treasury arrangements of its then parent company AWE Management Limited (AWE ML) and so shared banking arrangements with that parent company. Since 1 July 2021 revised arrangements have been in place, and the Company has moved its banking arrangements from its previous banking provider to Government Banking. Government Banking provides a shared banking service across central government and wider public sector customers. Current arrangements include the provision of sufficient funding secured from the MOD which will enable the Company to continue operating.

The directors consider that the Company has a secure long-term position on which to found their expectation that the Company will continue as a going concern, based on the national requirement and associated funding for the activities carried on at the facilities operated by the Company, and the Company's practical tenure as the operator. The only UK facilities currently capable of maintaining and manufacturing the nuclear warheads necessary to deliver the UK's CASD posture are those managed and operated by the Company. The directors have considered the possibility that the Company could be replaced with another operator of these facilities within the timeframe to be considered for going concern purposes. They have been advised that such a change would require lengthy and substantial regulatory and other processes and that consequently there is a sound basis for assuming that the Company will continue to be the manager and operator of the facilities for that timeframe at a minimum, and that the continuation of the UK's CASD policy means that the requirement for the activity conducted by the Company at the facilities will continue for the foreseeable future.

Based on these arrangements, the directors believe that the Company will continue to receive support from the MOD in carrying out its principal activities for a number of years, which is corroborated through funding forecasts received from the MOD which indicate this.

On the basis of their assessment of the Company's financial position, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for at least the period through to 30 September 2023. In making this assessment the directors have given sufficient consideration to the current external social, political, and economic environment and have considered the impact of plausible downside scenarios including the plausibility of a reverse stress case. The implications of Covid-19, the implications of the UK exiting the European Union and the current adverse economic and business environment have been considered in arriving at this conclusion. These events and circumstances do not alter the directors' assessment of the Company's ability to continue as a going concern as set out above.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Financial instruments (continued)

Financial assets

(ii) Classification and subsequent measurement

The Company holds financial assets that are either classified as measured at amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Derivative financial instruments, like the forward foreign currency contracts held by the Company, are measured at FVTPL. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The Company has elected to not adopt hedge accounting under IFRS 9.

Investments in subsidiaries are accounted for in accordance with IFRS 9.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Financial liabilities and equity

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

Loss allowances for trade receivables and contract assets are measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held), or
- the financial asset is more than 90 days past due.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

Financial instruments (*continued*)

(iv) Derecognition

Financial assets

The Company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
 - the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans and other post-employment benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the accounting period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income (OCI) and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs. The Company then calculates the current service cost for the remainder of the reporting period, post the amendment or curtailment, using the same actuarial assumptions as those used to remeasure the net defined benefit liability/(asset).

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Employee benefits *(continued)*

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the company in connection with the settlement.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Revenue

Income principally comprises revenue from the provision of supplies and services arising from contracts with customers. It is included within operating income, exclusive of related VAT, where applicable.

Income from contracts with customers is recognised in accordance with IFRS 15: *Revenue from Contracts with Customers* which has been applied in full. The Company follows the five-step model in IFRS 15 by applying the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise the revenue when (or as) the entity satisfies a performance obligation.

The bulk of what the Company provides to external customers is the provision of services on a rolling basis, i.e., the M&O and secondments. The performance obligations in these projects are satisfied over time using output methods to recognise revenue on the basis of direct measurement of value to the customer using items such as milestones and time elapsed. In some instances, the Company provides goods and services where the performance obligations are satisfied at a point in time. In these cases, the performance obligations are deemed to be met when the customer assumes control of the relevant asset.

The profile of invoicing and/or cash payments is not the primary driver of revenue recognition as these are payment mechanisms and may not be linked to the transfer of control to the customer as explained below.

Invoices issued and/or paid before performance of the service or delivery of goods will not be included in revenue for the accounting period and will be shown as a contract liability on the balance sheet. Revenue is recognised as detailed above and where revenue exceeds the value that has been invoiced, it accumulates as a contract asset.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Revenue *(continued)*

The primary contract with MoD is the M&O contract. This is a Qualifying Defence Contract and requires AWE to deliver and maintain the nuclear warhead capability of the United Kingdom on behalf of MoD. A suite of agreements govern the delivery of this obligation which, in addition to the M&O contract, include the Pension Scheme Management Contract (PMC). Under the M&O contract AWE is recompensed for all costs and liabilities arising together with a small contractual margin.

For the duration of AWE's obligations under the M&O, it is obliged, inter alia, to provide suitably qualified and experienced personnel to discharge its obligations and acts as employer incurring all the costs, expenses and liabilities of doing so. This includes the provision of pension benefits for both current employment and the maintenance of benefits for current and former employees who have deferred pension rights as members of the company's defined benefit pension scheme. The M&O also requires the company to undertake the effective management and administration of the pension schemes and in exchange AWE is recompensed for all costs and liabilities arising pursuant to the PMC contract; this obligation contained in the M&O contract being fully extended by that contract and being applicable to services provided under the PMC.

While the M&O and PMC are separate contracts they are closely linked and the latter cannot exist in its current form without the former being in place and in force. In the opinion of the directors and following the receipt of independent legal advice, they are satisfied that in substance the PMC is an extension of the M&O and is based on the same commercial principles of provision of services for consideration. Accordingly, these contracts are treated as linked for the purposes of assessing revenues under IFRS15.

The Company receives payments with regards to its pension schemes as part of the MOD's fulfilment of the Pension Management Contract (PMC). The PMC sets out that the MOD is obliged to pay to AWE plc the contributions and the charges with regards to the 'operation, management and administration' of all AWE pension schemes, including both the defined benefit and defined contribution schemes. Charges include all costs and expenses and include payments in relation to past service deficits.

The payments received by the Company in respect of the defined benefit pension scheme deficit funding are distinguished from the payments received for regular cost of service pension provision primarily in respect of the defined contribution scheme. These latter payments are accounted for as revenue in the income statement. Payments in respect of the deficit funding are provided as a direct reimbursement of payments made by the Company under a commitment from MOD in respect of liabilities incurred principally in periods prior to the acquisition of the company by MOD. This funding obligation is also reflected in the guarantee provided by HM Treasury to the trustees of the defined benefit scheme to meet that liability directly should the Company be unable to do so. Accordingly, the deficit funding payments from MOD are recognised as a transaction with MOD as shareholder and dealt with as a contribution to equity.

Expenses

Financing income and expenses

Financing expenses include interest payable and finance charges on lease liabilities recognised in profit or loss using the effective interest method; unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy).

Financing income comprise interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Current tax takes into consideration the tax payable on any imputed profit over and above the profit recorded in the taxable income or loss for the year with regards to the performance of contracts with customers. The imputed profit arises in circumstances where the profit applied for the purposes of assessing the tax liability on any contract is assessed to be different to the profit reported in revenue, and therefore the taxable income or loss.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration (right-of-use asset).

As a lessee

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company accounts for each lease component separately from the non-lease components. The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability as explained below.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Leases *(continued)*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments.
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- amounts expected to be payable under a residual value guarantee.
- the exercise price under a purchase option that the Company is reasonably certain to exercise.
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option.
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. To the extent that the right-of-use asset is reduced to nil, any further adjustment required from the remeasurement is recorded in profit or loss.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases (i.e., leases with a lease term of less than 12 months). The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

UK-adopted IFRS not yet applied

The following UK-adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements:

IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current.

Amendments to IAS 37: Onerous Contracts—Cost of Fulfilling a Contract.

Amendments to References to the Conceptual Framework in IFRS 3.

Amendments to IAS 16: Property, Plant and Equipment—Proceeds before Intended Use.

Annual Improvements to IFRS Standards 2018-2020.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgements: Disclosure of Accounting Policies.

Amendments to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements has had the most significant effect on amounts recognised in the financial statements:

Defined benefit pension scheme

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 14.

Revenue recognition – Input method

Where performance obligations are satisfied over time, the Company uses the input method to recognise revenue. This method is based on efforts or inputs to the satisfaction of a performance obligation relative to total expected inputs to the satisfaction of that performance obligations. For example - resources consumed, costs incurred, time elapsed labour hour expenses or machine hours used.

Other operating income - Research and development tax credit

Refer to note 3 for consideration of the accounting estimates and judgements relating to the research and development tax credit.

Provisions

Refer to note 15 for consideration of the accounting estimates and judgements relating to provisions.

Leases

None of the underlying lease contracts had an identifiable internal rate of borrowing (IBR). In these cases, the Company has applied the HM Treasury IBR (Incremental Borrowing Rate) of 0.95%.

2 Revenue

(i) Disaggregation of revenue

In the table below, revenue is disaggregated by the type of customer and timing of revenue recognition. 100% of the Company's revenue is derived from UK sources. The Company's Executive does not review the business on a geographical basis. Therefore, a geographical analysis would not be necessary to aid users' understanding of these financial statements.

	15 months to 31 March 2022	12 months to 31 December 2020
	£'000	£'000
Type of customer		
MOD	1,409,812	974,983
Non-MOD	15,927	9,205
Total	1,425,739	984,188

Notes to the financial statements (continued)

2 Revenue (continued)

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Timing of transfer of goods or services		
Products and services transferred at a point in time	356	94
Products and services transferred over time	1,425,383	984,094
Total	1,425,739	984,188

(ii) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	Note	31 March 2022 £'000	31 December 2020 £'000
Receivables	11	68,456	776
Contract assets		59,400	859
Contract liabilities		(23,118)	(2,147)

The contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date on the contract with the MOD. The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advance consideration received for the contract with the MOD.

The amount of revenue recognised in the current period from performance obligations satisfied (or partially satisfied) in previous periods was £nil (2020: £nil).

The amount of revenue recognised in the current period that was included in the contract liability balance at the beginning of the period was £2,147k (2020: £nil).

There was a significant movement in contract assets during the reporting period of £58,541k. This was due to a change in the billing method to the MOD. Prior to the change in ownership on 30 June 2021, the Company would invoice 100% of the billing log (agreed costs that the Company believed would be incurred during a particular month) before completing a true-up process in the following month. From 1 July 2021, it was agreed with the MOD that only 33% of the total billing log would be invoiced prior to the true-up process. This has resulted in an increase in the work completed but not billed amount, i.e., contract asset as at 31 March 2022.

(iii) Performance obligations

The M&O contract and its dependent contracts with the MOD are treated as a single performance obligation. This is based on the premise that in the absence of the M&O contract the other contracts would not be in place. A single fee rate is used to calculate revenue for all components of the combined contracts. The M&O and its dependents are accounted for as service contracts and revenue is recognised over time. As all allowable costs under the M&O contract and its dependents are reimbursable, the revenue on these contracts is calculated using the 'cost plus' method.

Notes to the financial statements (continued)

3 Other operating income

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Research and development tax credit	21,473	24,739
	<u>21,473</u>	<u>24,739</u>

The other operating income balance relates to research and development tax relief received from HMRC through the Research and Development Expenditure Credit (RDEC) scheme.

The RDEC income for the current period represents the best estimate of qualifying research and development expenditure at period-end, which is based on project manager and subject matter expert assessments made at the commencement of, and during, the period. Variations to the actual income received could arise as a result of changes arising during the completion of a further detailed review of the RDEC assessment in advance of the submission of the claim to HMRC and/or HMRC making adjustments to the claim thereafter.

4 Expenses and auditor's remuneration

Included in profit/loss are the following:

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
<i>Included in cost of sales:</i>		
Foreign exchange loss/(gain) (except those arising on financial instruments at FVTPL)	340	(203)
Depreciation on right-of-use assets	<u>1,154</u>	<u>755</u>
<i>Included in administrative expenses:</i>		
Impairment loss on other trade receivables	<u>184</u>	<u>52</u>
<i>Included in exceptional items:</i>		
Write-off of pension asset previously recoverable under contract	<u>423,000</u>	-

The write-off of £423m relates to a pension asset that could no longer be recognised following the change in ownership structure with effect from 1 July 2021. The asset was revalued at the transition date of 30 June 2021 and the full amount was written-off to the profit/loss.

Auditor's remuneration:

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Audit of these financial statements	250	189

Notes to the financial statements (continued)

4 Expenses and auditor's remuneration (continued)

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Amounts receivable by the company's auditor and its associates in respect of:		
Audit related assurance services	222	-

Following the transfer of ownership of AWE from AWE ML to MOD on 30 June 2021, the NAO replaced Ernst & Young LLP (EY) as statutory auditors.

The amount charged for the audit of the 2020 financial statements of £189k was in respect of EY services whilst the £250k charged for the audit of the 2022 financial statements is in respect of services provided by NAO. EY continued to assist AWE with production of their non statutory transition accounts as at 30 June 2021 before resigning on 12 January 2022. The balance included in audit-related assurance services of £222k relates entirely to this work.

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	15 months to 31 March 2022	12 months to 31 December 2020
Science	1,143	2,608
Engineering and manufacturing	2,358	2,733
Business services	2,751	625
	6,252	5,966

During the period, technical support staff, who had previously been recognised under the science and technical support category (SET), were reassigned to Business services. This accounts for the significant movement in the two categories disclosed above. SET will now be referred to as Science to reflect this change in staff allocation. Please refer to the People Report for a more detailed breakdown of staff numbers.

The aggregate payroll costs of these persons were as follows:

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Wages and salaries	402,551	302,256
Social security costs	41,002	29,845
Expenses related to defined benefit plans	9,000	6,000
Net interest on net defined benefit pension plan liability	10,000	9,000
Defined benefit plan costs previously recoverable under contract	(7,000)	(15,000)
Contributions to defined contribution plans	45,478	33,304
	501,031	365,405

Notes to the financial statements (continued)

6 Directors' remuneration

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Directors' remuneration	1,932	3,115
Post-retirement benefit costs	15	-
Amounts receivable under long term incentive schemes	1,412	463
Compensation for loss of office	235	-
	3,594	3,578

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,498,000 (2020: £967,000). This aggregate remuneration includes £713,000 of payments in relation to long term incentive schemes, including both a payment of £570,000 in relation to the buyout of the full entitlement to in-flight long term incentive schemes in advance of the change in ownership in order to align the remuneration arrangements to that of the public sector, and £143,000 in relation to performance in the period 1 January 2018 to 31 December 2020. This aggregate remuneration also includes a £80,000 retention payment in recognition of the need to retain the director after transition.

None of the directors accrued any retirement benefits in the company defined benefit schemes in the 15 month period ending 31 March 2022 (2020: none). The amounts paid to the post-retirement benefit scheme relate to a single director.

7 Finance income and expense

Recognised in profit or loss

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Finance income	-	1
Net gains on forward foreign currency contracts measured at FVTPL	-	204
Total finance income	-	205

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Net loss on forward foreign currency contracts measured at FVTPL	4	-
Interest expense on lease liabilities	26	27
Total finance expense	30	27

The net gain on the forward foreign currency contracts of £204k has been reclassified from cost of sales in the comparative period to better reflect the nature of the item.

Notes to the financial statements (continued)

8 Taxation

Recognised in the income statement

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
Current tax expense		
Current year	4,490	3,615
Adjustments for prior years	471	(941)
Current tax expense	<u>4,961</u>	<u>2,674</u>
Deferred tax expense	<u>274</u>	<u>194</u>
Total tax expense	<u>5,235</u>	<u>2,868</u>

Reconciliation of effective tax rate

	15 months to 31 March 2022 £'000	12 months to 31 December 2020 £'000
(Loss)/profit before tax for the year	(433,915)	20,527
Tax using the UK corporation tax rate of 19% (2020: 19%)	(82,444)	3,900
Non-taxable items - write-off of pension asset previously recoverable under contract	80,370	-
Pension scheme tax deduction	2,280	-
Tax arising on imputed fee	4,527	-
Non-deductible expenses	-	(2)
Other short term timing differences	31	(89)
Adjustment in respect of prior years	471	(941)
Total tax expense	<u>5,235</u>	<u>2,868</u>

The imputed fee arises as a result of the fee applied for the purposes of assessing the tax liability on certain contracts. This has been assessed as higher than the actual fee reported in revenue, and therefore the taxable income or loss is increased accordingly. The imputed profit rate used in the tax calculation which is based on provisional advice received is an estimate as it is not yet agreed with HMRC. A variance of +/-1% to the assumed imputed fee would cost +/-£1.6m.

The current corporation tax rate is 19% which came into effect from 1 April 2017. The corporation tax rate will remain at 19% from 1 April 2022 but will increase to 25% from 1 April 2023. The Company has remeasured its deferred tax asset at the end of the reporting period using the higher rate of 25%. The impact of this change in tax rate is a £54k increase in the deferred tax asset.

Notes to the financial statements (continued)

9 Investments in subsidiaries

The Company has the following investments in subsidiaries:

	Class of shares held	Ownership	
		31 March 2022	31 December 2020
AWE Pension Trustees Limited	Room 20, Building F161.2 Atomic Weapons Establishment, Aldermaston, Reading, England, RG7 4PR Ordinary	100%	100%

AWE Pension Trustees Limited is incorporated in England and Wales and is a trustee of the AWE Pension Fund.

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

A deferred tax asset arises with regards to the Annual Compensation Payment (ACP) provision. The movement in the deferred tax balance is as follows:

	Deferred tax asset £'000
Balance at 1 January 2020	819
Recognised in income	(194)
Balance at 31 December 2020	625
Balance at 1 January 2021	625
Recognised in income	(274)
Balance at 31 March 2022	351

11 Trade and other receivables

	31 March 2022 £'000	31 December 2020 £'000
Current		
Trade receivables due from related parties	68,433	-
Other trade receivables	23	776
VAT receivable	-	2,432
Other receivables due from related parties	-	100,777
Other receivables	26,027	41,808
Prepayments	22,323	21,079
	116,806	166,872

Notes to the financial statements (continued)

11 Trade and other receivables (continued)

	31 March 2022 £'000	31 December 2020 £'000
Non-current		
Other receivables	-	644,000

The £644m non-current balance in the comparative year relates to a pension asset that could no longer be recognised following the change in ownership of the Company. The asset was revalued at the transition date of 30 June 2021, with £219m being recognised in OCI and £2m being recognised in the profit/loss. The remaining balance of £423m was then written-off to the profit/loss.

Prior to the transition on 1 July 2021, the company participated in a group banking arrangement whereby all UK sterling cash funds held by the company were swept on a nightly basis to the benefit of AWE ML. This resulted in the recognition of a receivable from AWE ML in 2020 of £100.8m. This arrangement ceased following the change in ownership from 1 July 2021.

The Company has reclassified several of the comparative figures. Please refer to note 21 for further details of the individual reclassifications and a reconciliation of the comparative figures compared to the prior year financial statements.

12 Cash and cash equivalents/ bank overdrafts

	31 March 2022 £'000	31 December 2020 £'000
Opening balance	6,065	2,751
Net change in cash and cash equivalent balances	68,803	3,314
Closing balance	74,868	6,065
Analysis of cash and cash equivalents:		
Cash held with Government Banking Service	71,663	-
Cash held in commercial bank account	3,205	6,065
	74,868	6,065

As explained in note 10, prior to 1 July 2021, all UK sterling cash funds held by the company were transferred to AWE ML each night. Cash balances remaining were in respect of foreign currency accounts. Following transition, all AWE funds are held directly by the Company.

Notes to the financial statements (continued)

13 Trade and other payables

	31 March 2022	31 December 2020
	£'000	£'000
Current		
Trade payables due to related parties	1,353	3,759
Other trade payables	32,163	46,246
VAT payable	33,111	-
Social security cost payable	9,127	9,121
Non-trade payables and accrued expenses	150,959	90,116
	<u>226,713</u>	<u>149,242</u>
Non-current		
Accrued expenses	2,406	1,944
	<u>2,406</u>	<u>1,944</u>

The payables expected to be settled in more than 12 months consist of employee bonus and holiday accruals.

The Company has reclassified several of the comparative figures. Please refer to note 24 for further details of the individual reclassifications and a reconciliation of the comparative figures compared to the prior year financial statements.

14 Employee benefits

Pension plans - defined benefit

On 31 January 2017 the defined benefit pension scheme closed to new entrants and future accruals for existing members, other than the members working at Coulport, following agreement between the Company, the pension scheme trustees and the Government.

The Company continues to make payments in accordance with periodic calculations as advised by the Scheme Actuary.

The Trustee has a risk register that outlines all risks associated with the Scheme. The Trustee has a Statement of Investment Principles that outlines how Scheme assets are invested.

There have been no plan amendments, curtailments or settlements in the 15 months ending 31 March 2022.

The information disclosed below is in respect of the one defined benefit scheme for which the Company is the sponsoring employer.

	31 March 2022	31 December 2020
	£'000	£'000
Defined benefit asset	(1,995,000)	(1,939,000)
Defined benefit liability	2,048,000	2,583,000
(Net asset)/liability for defined benefit obligations (see following table)	<u>53,000</u>	<u>644,000</u>

Notes to the financial statements (continued)

14 Employee benefits (continued)

Movement in net defined benefit liability/asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	31 March 2022	31 December 2020	31 March 2022	31 December 2020	31 March 2022	31 December 2020
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance	2,583,000	2,169,000	(1,939,000)	(1,716,000)	644,000	453,000
Included in profit or loss						
Current service cost	9,000	6,000	-	-	9,000	6,000
Interest cost/(income)	41,000	43,000	(31,000)	(34,000)	10,000	9,000
Included in OCI						
Remeasurements loss/(gain):						
Actuarial (gain)/loss	(498,000)	424,000	(40,000)	(206,000)	(538,000)	218,000
Other						
Contributions paid by the employer	-	-	(72,000)	(42,000)	(72,000)	(42,000)
Benefits paid	(87,000)	(59,000)	87,000	59,000	-	-
Closing balance	2,048,000	2,583,000	(1,995,000)	(1,939,000)	53,000	644,000

Contributions paid by the employer relate entirely to payments in relation to the past service deficit except for £0.3m of contributions in relation to the members working at Coulport.

Plan assets

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

	31 March 2022	31 December 2020
	£'000	£'000
Cash and cash equivalents	165,000	26,000
Equity instruments	492,000	482,000
Debt instruments e.g., Government bonds	498,000	467,000
Real estate	111,000	115,000
Infrastructure	-	43,000
Derivatives	400,000	515,000
Investment funds	329,000	291,000
Total	1,995,000	1,939,000

Notes to the financial statements (continued)

14 Employee benefits (continued)

All equity securities and government bonds have quoted prices in active markets. All government bonds included in the debt instruments above are issued by European governments and are AAA- or AA-rated. All other plan assets are not quoted in an active market.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

	31 March 2022	31 December 2020
Discount rate at period end	2.7%	1.3%
Rate of increase in pensionable pay	3.2%	2.4%
Rate of increase in pensions in payments		
Uncapped	3.2%	2.4%
Subject to 5%pa cap	3.1%	2.3%
Rate of increase in pensions in deferment		
Uncapped	3.2%	2.4%
Subject to 5%pa cap	3.1%	2.3%
Inflation assumption (CPI)	3.2%	2.4%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: male - 22.7 years (2020: 23.1 years), female 24.6 years - (2020: 24.7 years).
- Future retiree upon reaching 65 (current age 45): male - 24.3 years (2020: 25.0 years), female - 26.0 years (2020: 26.6 years).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out below. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by -½ per cent a year. Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

	31 March 2022
	£'000
Discount rate	213,000
Future pension increases	(178,000)

Sensitivity analysis has not been provided for the comparative period as the Company were not required to disclose this information under previous GAAP.

In valuing the liabilities of the pension fund at 31 March 2022, mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2022 would have increased by £72m.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 March 2021 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Notes to the financial statements (continued)

14 Employee benefits (continued)

Funding

The contributions due to the Scheme are set out in the schedule of contributions. The most recent schedule of contributions was signed on 1 August 2022 as part of the actuarial valuation of the scheme as at 31 March 2021. On 21 July 2022 a Crown Guarantee from the Secretary of State for Defence to the Trustee of the Scheme became effective.

The Company expects to pay £nil in contributions to its defined benefit plan in the year to 31 March 2023 as those due over this period were paid in a lump sum of £34.4m in March 2022. The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years.

Pension plans - defined contribution

The Company operates a number of defined contribution pension plans.

15 Provisions

	ACP provision £'000	Contract provisions £'000	Total £'000
Balance at 1 January 2021	3,289	-	3,289
Provisions made during the period	-	1,025	1,025
Provisions utilised during the period	(1,444)	-	(1,444)
Balance at 31 March 2022	1,845	1,025	2,870
Non-current	895	799	1,694
Current	950	226	1,176
	1,845	1,025	2,870

ACP provision:

The Annual Compensation Payment (ACP) provision reflects the anticipated payments due to ex-employees who have left the company with a redundancy package or settlement agreement. All annual payments are approved at the outset of the agreement and are payable until the recipient reaches 65 years of age. The liability arises substantially in respect of a collective redundancy package put in place 2015. This package is due to have completed in December 2025 and covers 34 ex-employees. In addition, there is one further arrangement due to complete in January 2024 having started in April 2016.

The provision represents the estimated cost to be incurred until the end of the agreements and is reduced monthly by the amount paid to recipients.

There are two uncertainties within the provision. The annual payment amount per person increases each April in-line with inflation. This is estimated and included in the provision for future years with a true up reflected in April once the actual inflation amount is known. In addition, payment and therefore the company's remaining liability ceases in respect of a recipient should they die during the period of the arrangement.

Notes to the financial statements (continued)

15 Provisions (continued)

Contract provisions - Pain/gain:

Certain engineering contracts provide a mechanism whereby the benefits of cost savings (contractor gain) or burdens of cost overruns (contractor pain) are shared with the contractor when certain thresholds are met. This results in the recognition of an asset or liability on the Company's balance sheet depending on the contract position.

A review of the contract position is triggered when thresholds relating to percentage completion of contract and cost to complete are breached. There is a de minimis limit applied at +/- £0.2m on all pain/gain calculations before the adjustment will be recognised.

As at the balance sheet date, there were two contracts in progress where these thresholds had been reached, one in a savings position, with an asset of £4.9m (2020: £5.1m) recognised in other receivables, and the other in a loss position, with a liability of £0.2m (2020: £nil) recognised in contract provisions.

The entire pain/gain provision is expected to be utilised within 12 months.

Contract provisions - Coulport:

The other contract provision recognised in these financial statements relates to a savings shortfall to the guarantee of savings (GoS) target within the Coulport contract (15 year contract to 2027). As at the reporting date, a £0.8m shortfall exists between the savings target and the forecast savings.

The assumption by the Company of responsibility for this contractual arrangement and the resulting obligation to meet the shortfall has arisen from the change of ownership as at 1 July 2021. The contractual arrangement was previously held directly by AWE ML. The Company accordingly has recognised a provision of £0.8m on 31 March 2022.

The Company has reclassified several of the comparative figures. Please refer to note 24 for further details of the individual reclassifications and a reconciliation of the comparative figures compared to the prior year financial statements.

16 Capital and reserves

Share capital

	Ordinary shares		Special shares	
	31 March 2022	31 December 2020	31 March 2022	31 December 2020
On issue at 1 January	50,000	50,000	1	1
Issued for cash	-	-	-	-
Transfer of special shares to ordinary shares	1	-	(1)	-
On issue at 31 March 2022 (31 December 2020)	50,001	50,000	-	1

The special share was previously owned by HM Government which enabled the MOD to assume full ownership and control of the Company on early termination of the M&O contract with AWE ML. This option was exercised resulting in the change in ownership from Lockheed Martin to the MOD on 30 June 2021, effective from 1 July 2021, which resulted in the special share being transferred to ordinary share capital.

Notes to the financial statements (continued)

16 Capital and reserves (continued)

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

	31 March 2022	31 December 2020
	£	£
50,001 (2020: 50,000) ordinary shares of £1 each	50,001	50,000
	<u>50,001</u>	<u>50,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The Company did not issue any ordinary shares during the year.

Dividends

The dividends below were paid during the period, all of which were paid prior to 30 June 2021. These dividends were met out of distributable reserves of the Company available at the time.

	15 months to 31 March 2022	12 months to 31 December 2020
	£'000	£'000
£353.18 (2020: £272.86) per qualifying ordinary share	17,659	13,643

The directors have declared no dividends since the change in ownership on 1 July 2021.

Capital reserve

	31 March 2022	31 December 2020
	£'000	£'000
Balance at 1 January	-	-
Capital contribution	63,000	-
Balance at 31 March	<u>63,000</u>	<u>-</u>

Since the change in ownership on 1 July 2021, AWE received £63m in funding from the MOD equal to the amounts paid by the Company to the pension scheme in respect of the deficit funding on the scheme.

17 Financial instruments

Fair values

Fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements (continued)

17 Financial instruments (continued)

During the financial year no financial instruments were transferred from Level 1 to Level 2 because quoted prices in the market were no longer regularly available.

At 31 March 2022 the Company did not have any liabilities classified at level 3 of the fair value hierarchy.

All trade receivables and payables recognised by the Company at the reporting date are measured at their transaction price and not fair value as they do not contain a significant financing component. The carrying amounts of these financial instruments have been disclosed in Notes 1.1 and 13 respectively.

The fair value of the derivative financial instruments is discussed below.

Market risk:

The Company holds the following financial instruments that are exposed to exchange rate risk:

31 March 2022	Euro £'000	US Dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	1,283	1,570	-	2,853
Trade payables	(25)	(669)	-	(694)
	1,258	901	-	2,159
31 December 2020	Euro £'000	US Dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	5,548	492	-	6,040
Trade payables	(20)	(30)	(9)	(59)
	5,528	462	(9)	5,981

The Company enters into forward foreign currency contracts for Euros and US dollars to mitigate against the risk that cash inflows and outflows will be affected by changes in exchange rates. The Company has determined not to seek to utilise hedge accounting for these instruments and they are measured at fair value through the profit or loss. The following table details the forward foreign currency contracts outstanding at the year-end. These contracts are valued at Level 2 in the fair value hierarchy using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Notes to the financial statements (continued)

17 Financial instruments (continued)

Outstanding contracts	Average contractual exchange rate		Notional value		Fair Value	
	31	31	31	31	31	31
	March 2022	December 2020	March 2022	December 2020	March 2022	December 2020
	£'000	£'000	£'000	£'000	£'000	£'000
Less than 12 months	1,3477	1,2891	208	1,007	453	950
1-2 years	1,3419	1,3134	212	356	210	341
2-3 years	1,3997		33	-	34	-
Purchase USD			453	1,363	697	1,291
Less than 12 months	1,1330	1,0773	1,486	484	1,844	470
1-2 years		1,0639	-	506	-	489
2-3 years			-	-	-	-
Purchase EUR			1,486	990	1,844	959
Less than 12 months	1,3038	1,2998	(89)	(87)	(86)	(83)
1-2 years	1,3089	1,3064	(90)	(179)	(88)	(171)
2-3 years			-	-	-	-
Purchase GBP sell USD			(179)	(266)	(174)	(254)
			1,760	2,087	2,367	1,996
Fair value adjustment					(95)	(91)
Outstanding forward contracts	Current		Non-current		Total	
	31	31	31	31	31	31
	March 2022	December 2020	March 2022	December 2020	March 2022	December 2020
	£'000	£'000	£'000	£'000	£'000	£'000
Asset	9	4	5	9	14	13
Liability	(106)	(71)	(3)	(33)	(109)	(104)

Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

The Company's customer base consists almost entirely of UK government departments and other UK governmental bodies. As a result, the credit risk exposure associated with the Company's trade receivables and contract assets are low given the balances are ultimately owed by the UK government.

Accordingly, the probability of default is considered to be very low, and no impairment loss allowance has been recognised on trade receivables or contract assets at the reporting date.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Notes to the financial statements (continued)

17 Financial instruments (continued)

The liquidity and cash flow risk is also considered low as this is managed by the funding provided by and available from the Company's shareholder, the MOD.

A maturity analysis for lease liabilities has been included in Note 18. The entire balance included in trade and other payables (with the exception of employee bonus/holiday pay accruals which is immaterial) is expected to be settled within 12 months, therefore a maturity analysis has not been provided for these financial liabilities.

18 Leases

The Company occupies facilities, utilise motor vehicles, pieces of plant and machinery and IT equipment which are treated as lease obligations and valued in accordance with IFRS 16. All contractual future cash flows are fixed and have been reflected in the measurement of the lease liabilities below. As at the reporting date the remaining lease terms of the facilities span between one and seven years.

Right-of-use assets

Net book values	Buildings £'000	Motor vehicles £'000	Plant & machinery £'000	IT equipment £'000	Total £'000
Balance at 1 January 2020	1,335	89	296	133	1,853
Additions to right-of-use assets	34	541	269	-	844
Depreciation charge for the year	(362)	(196)	(159)	(38)	(755)
Balance at 31 December 2020	1,007	434	406	95	1,942
	Buildings £'000	Motor vehicles £'000	Plant & machinery £'000	IT equipment £'000	Total £'000
Balance at 1 January 2021	1,007	434	406	95	1,942
Additions to right-of-use assets	-	611	93	-	704
Depreciation charge for the year	(457)	(362)	(288)	(47)	(1,154)
Balance at 31 March 2022	550	683	211	48	1,492

Notes to the financial statements (continued)

18 Leases (continued)

Lease liabilities

	31 March 2022 £'000	31 December 2020 £'000
<i>Maturity analysis - contractual undiscounted cash flows</i>		
Less than one year	995	935
One to five years	1,092	2,186
More than five years	43	123
Total undiscounted cash flows	<u>2,130</u>	<u>3,244</u>

Lease liabilities included in the statement of financial position

Non-current	614	1038
Current	822	785
	<u>1,436</u>	<u>1,823</u>

Amounts recognised in profit or loss:

Interest on lease liabilities	<u>26</u>	<u>27</u>
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Amounts recognised in statement of cash flows

Total cash outflow for leases	<u>1,116</u>	<u>777</u>
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No payments were made during the year (2020: nil) relating to short-term leases, low-value leases or variable lease payments.

19 Contingencies

A contingent liability is a potential liability that may occur depending on the outcome of an uncertain future event; they do not meet the criteria for a provision. Unless their likelihood is considered to be remote, the Company discloses them as contingent liabilities. As at the balance sheet date the Company does not have any contingent liabilities.

Remote contingent liabilities

Under IFRS contingent liabilities that are considered to be remote are not disclosed, however, their narrative disclosure is required by the FReM. Remote contingent liabilities occur where the possibility of future settlement is very small. As at the balance sheet date the Company does not have any remote contingent liabilities.

20 Losses and special payments

Managing Public Money requires the Company to provide a statement showing losses and special payments by value and by type where they exceed £300,000 in total and those that, individually, exceed £300,000.

The Company only holds losses and special payments data for the period from 1 July 2021 to 31 March 2022. This is because the requirement to disclose this data arises from Managing Public Money, which became applicable to the Company from 1 July 2021.

During this period, no losses or special payments were incurred/made that were individually or in aggregate in excess of £300,000.

Notes to the financial statements *(continued)*

21 Related parties

Prior to 1 July 2021, the Company was a subsidiary of AWE ML, a group of companies ultimately owned by Lockheed Martin Corporation Inc (Lockheed). On 30 June 2021, AWE ML transferred its ordinary shares in the Company to the MOD. This resulted in AWE becoming an NDPB of the MOD, with the MOD regarded as the ultimate controlling party. During the 9 months to 31 March 2022, AWE has had a significant number of material transactions with the MOD, predominantly sales totalling £978.2m and receivables outstanding at period-end totalling £67.5m. The amount billed to the MOD each month represents an individually significant transaction. In total there were transactions with other central government bodies totalling £11.7m and receivables and payables outstanding at period-end totalling £964k and £42k respectively.

Prior to 1 July 2021, the shareholders of the company's parent entity AWE ML (Lockheed, Serco Holdings Limited, and JE Acquisition Company Limited) were classified as related parties. Details of the related party transactions that occurred in the period from 1 January 2020 to 30 June 2021 have been disclosed below. No receivables or payables balances have been disclosed as at 31 March 2022 as the entities ceased to be related parties from 1 July 2021.

Transactions between the Company's subsidiary, AWE Pension Trustees Limited, and other related parties (i.e., other entities that are under the control/significant influence of AWE directors) for the 15 month period ended 31 March 2022 have also been disclosed below.

	Gross supplies and services purchased		Payables outstanding	
	15 months to 31 March 2022	12 months to 31 December 2020	31 March 2022	31 December 2020
	£'000	£'000	£'000	£'000
Serco	899	2,197	N/a	118
Lockheed	17,310	26,004	N/a	1,222
Jacobs (JEG Acquisition Co Ltd)	16,298	25,970	N/a	2,419
AWE ML	-	-	N/a	-
AWE Pensions Trustees Limited	4,839	3,841	292	-
Other related parties	7,536	151	1,019	-
	46,882	58,163	1,311	3,759

As at 31 December 2020, AWE ML held £100.8m of cash in a current account on behalf of AWE. This resulted in the recognition of a receivable in AWE's accounts. Following transition on 1 July 2021, all cash held by AWE ML was transferred to AWE current accounts. Therefore, receivables outstanding from AWE ML as at 31 March 2022 was £nil.

As at 31 March 2022, a total provision of £22k was held in relation to bad or doubtful debts in respect of amounts owed by MOD. No expense has been recognised in the current period. A credit of £4k was recognised in the prior period in relation to a doubtful debt balance of £17k relating to the MOD. No guarantees have been given or received and none of the outstanding balances are secured.

Other than their remuneration and business-related expenses, none of the Board Members have undertaken any material transactions with the Company or its related parties during the 15 months ended 31 March 2022 (2020: none), and none (2020: none) have a financial interest in the activities of the Company such as to influence their work with the Company.

Transactions with key management personnel

Compensation with key management personnel has been disclosed in Note 6 and the Directors' Remuneration Report.

Notes to the financial statements *(continued)*

22 Ultimate parent company and parent company of larger group

The ultimate controlling party is the MOD.

The largest and smallest group in which the results of the Company are consolidated is that headed by the MOD, Whitehall, London, SW1A 2HB, United Kingdom. The consolidated financial statements of this group are available on the gov.uk website.

Prior June 2021, the largest group in which the results of the Company were consolidated was that headed by Lockheed Martin Corporation, Inc. The consolidated financial statements of this group may be obtained from Lockheed Martin Investor Department, 6801 Rockledge Drive, Bethesda, Maryland, 20817, USA. The smallest group in which the results of the Company were consolidated was that headed by AWE ML, Room 20, Building F161.2, Atomic Weapons Establishment, Aldermaston, Reading, Berkshire, RG7 4PR. The consolidated financial statements of this group are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

23 Events after the reporting period

There have been no events since the 31 March 2022 to the date the accounts were authorised for issue which would affect the understanding of these accounts. International Accounting Standards require AWE to disclose the date on which the accounts are authorised for issue.

The Accounting Officer has authorised these accounts to be issued on the date they were certified by the Comptroller and Auditor General.

Notes to the financial statements (continued)

24 Explanation of transition to UK-adopted IFRSs

As stated in note 1, these are the Company's first financial statements prepared in accordance with UK-adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the 15 months ended 31 March 2022, the comparative information presented in these financial statements for the year ended 31 December 2020 and in the preparation of an opening IFRS balance sheet at 1 January 2020 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to UK-adopted IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

	Note	1 January 2020				31 December 2020			
		UK GAAP	Reclassifications	Effect of transition to UK-adopted IFRSs	UK-adopted IFRSs	UK GAAP	Reclassifications	Effect of transition to UK-adopted IFRSs	UK-adopted IFRSs
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets									
Trade and other receivables		453,000	-	-	453,000	644,000	-	-	644,000
Investments in group companies	1	-	-	-	1	1	-	-	1
Other financial assets	a	-	-	-	-	-	9	-	9
Deferred tax assets	b	-	819	-	819	-	625	-	625
Right-of-use assets	i	-	-	1,853	1,853	-	-	1,942	1,942
		453,001	819	1,853	455,673	644,001	634	1,942	646,577
Current assets									
Contract assets	c	-	10,436	-	10,436	-	859	-	859
Other financial assets	a	-	-	-	-	-	4	-	4

Notes to the financial statements (continued)

24 Explanation of transition to UK-adopted IFRSs (continued)

		1 January 2020				31 December 2020			
		UK GAAP	Reclassifications	Effect of transition to UK-adopted IFRSs	UK-adopted IFRSs	UK GAAP	Reclassifications	Effect of transition to UK-adopted IFRSs	UK-adopted IFRSs
Note		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other receivables	d	161,336	(10,640)	-	150,696	179,285	(12,413)	-	166,872
Cash and cash equivalents		2,751	-	-	2,751	6,065	-	-	6,065
		164,087	(204)	-	163,883	185,350	(11,550)	-	173,800
Total assets		617,088	615	1,853	619,556	829,351	(10,916)	1,942	820,377
Current liabilities									
Lease liabilities	ii	-	-	561	561	-	-	785	785
Trade and other payables	e	141,011	(1,321)	-	139,690	154,056	(4,814)	-	149,242
Contract liabilities	f	-	-	-	-	-	2,147	-	2,147
Provisions	g	-	1,582	-	1,582	-	1,269	-	1,269
Other financial liabilities	h	-	201	-	201	-	71	-	71
		141,011	462	561	142,034	154,056	(1,327)	785	153,514

Notes to the financial statements (continued)

24 Explanation of transition to UK-adopted IFRSs (continued)

		1 January 2020				31 December 2020			
	Note	UK GAAP £'000	Reclassifications £'000	Effect of transition to UK-adopted IFRSs £'000	UK- adopted IFRSs £'000	UK GAAP £'000	Reclassifications £'000	Effect of transition to UK-adopted IFRSs £'000	UK- adopted IFRSs £'000
Non-current liabilities									
Lease liabilities	ii	-	-	1,167	1,167	-	-	1,038	1,038
Trade and other payables	e	-	6,256	-	6,256	-	1,944	-	1,944
Employee benefits		453,000	-	-	453,000	644,000	-	-	644,000
Provisions	g	9,384	(6,197)	-	3,187	13,586	(11,566)	-	2,020
Other financial liabilities	h	-	94	-	94	-	33	-	33
		462,384	153	1,167	463,704	657,586	(9,589)	1,038	649,035
Total liabilities		603,395	615	1,728	605,738	811,642	(10,916)	1,823	802,549
Net assets		13,693	-	125	13,818	17,709	-	119	17,828
Equity									
Share capital		50	-	-	50	50	-	-	50
Retained earnings	iii	13,643	-	125	13,768	17,659	-	119	17,778
Total equity		13,693	-	125	13,818	17,709	-	119	17,828

Notes to the financial statements (continued)

24 Explanation of transition to UK-adopted IFRSs (continued)

Notes to the reconciliation of equity

Reclassifications:

As part of ensuring its financial statements are prepared in accordance with IFRS and the information presented is comparable with the information presented for the 15 month period ending 31 March 2022, the Company has made the following presentational changes to the comparative financial statements:

- a) The financial asset relating to forward foreign currency contracts has been reclassified from other receivables in current trade and other receivables to the other financial asset caption on the face of the balance sheet, split by current/non-current.
- b) The deferred tax asset has been reclassified from trade and other receivables to the deferred tax asset caption on the face of the balance sheet.
- c) Accrued income has been reclassified from trade receivables in current trade and other receivables to the contract asset caption on the face of the balance sheet.

d) At 31 December 2020, other trade receivables were in a net credit position of £512k, which was reclassified to other trade payables. Accrued income of £859k and deferred income of £2,147k, which were part of the other trade receivables balance, have been reclassified to contract assets and contract liabilities respectively as mentioned above. The £512k transfer to other trade payables has been reversed to reflect the fact that the other trade receivables balance is no longer in a net credit position.

As mentioned above, £625k relating to the deferred tax asset has been reclassified from current trade and other receivables to the deferred tax asset caption in non-current assets. £13k relating to the forward foreign currency contracts has been reclassified from other receivables in current trade and other receivables to other financial assets. A further £5,061k relating to the pain/gain asset (refer to note 15 for further details) has been reclassified from prepayments to other receivables to reflect that the future economic benefit of this asset is the right to receive other financial assets rather than goods or services.

A £12,551k credit relating to VAT payable has been reclassified from other taxation and social security in current trade and other payables to VAT receivable (creating a net VAT receivable balance of £2,433k) to better reflect the nature of the item as VAT is paid/received on net basis. The aggregate impact of these reclassifications is a £12,413k reduction to the current trade and other receivables balance at 31 December 2020.

e) At 31 December 2020, £512k from other trade payables to other trade receivables and £12,551k was reclassified from other taxation and social security to VAT receivable as mentioned in note d) above. An additional £104k was reclassified from accrued expenses in current trade and other payables to other financial liabilities as considered in note h) below. £10,297k relating to the employee holiday pay accrual has been reclassified from provisions to current accrued expenses. £6,656k that had been recognised in group relief payable has been reclassified to accrued expenses (both captions sit within current trade and other payables). A further £1,944k relating to the bonus accrual has been reclassified from current accrued expenses to non-current accrued expenses as the balance was not expected to be settled within 12 months of the balance sheet date. The aggregate impact of these reclassification is a £4,814k decrease in current trade and other payables and a £1,944k increase in non-current trade and other payables.

Notes to the financial statements (continued)

24 Explanation of transition to UK-adopted IFRSs (continued)

e) (continued) At 1 January 2020, a £615k debit relating to VAT was reclassified from other taxation and social security to VAT receivable. An additional £295k was reclassified from other creditors to other financial liabilities as considered in note h) below. £4,615k relating to the employee holiday accrual has been reclassified from provisions to current accrued expenses. A further £6,256k relating to the bonus accrual has been reclassified from current accrued expenses to non-current accrued expenses as the balance was not expected to be settled within 12 months of the balance sheet date. The aggregate impact of these reclassifications is a £1,321k decrease in current trade and other payables and a £6,256k increase in non-current trade and other payables.

f) Deferred income has been reclassified from other trade receivables in current trade and other receivables to the contract asset caption on the face of the balance sheet.

g) As discussed in note e) above, at 31 December 2020, £10,297k relating to the employee holiday pay accrual has been reclassified from non-current provisions to current accrued expenses. A further £1,269k has been reclassified from non-current provisions to current provisions as the balance was expected to be settled within 12 months at the balance sheet date. The aggregate impact of these reclassifications is a £11,566k decrease in non-current provisions.

At 1 January 2020, £4,615k relating to the employee holiday pay accrual has been reclassified to current accrued expenses. A further £1,582k has been reclassified from non-current provisions to current provisions as the balance was expected to be settled within 12 months at the balance sheet date. The aggregate impact of these reclassifications is a £6,197k decrease in non-current provisions.

h) The financial liability relating to forward foreign currency contracts has been reclassified from accrued expenses/other creditors (2020/2019) in current trade and other payables to the other financial liability caption on the face of the balance sheet, split by current/non-current.

IFRS transition adjustments:

i) Previous GAAP allowed users to recognise 'off balance sheet leases' where rental payments were recognised as an expense in the income statement. IFRS 16 requires all underlying assets that meet the definition of a lease to be capitalised by recognising the present value of the lease payments and showing them as a right-of-use asset on the balance sheet. The £1,853k adjustment relates to the initial recognition of the leased assets under the new standard at the transition date. The £1,942k represents this initial adjustment net of any newly capitalised leases and accumulated depreciation.

ii) IFRS 16 also requires users to recognise a corresponding financial liability that represents the Company's obligation to make future lease payments. This is initially valued using the same method as the right-of-use asset and then held at amortised cost in-line with IFRS 9.

iii) The Company has measured the right-of-use asset equal to the carrying amount as if IFRS 16 had been applied since the commencement of the individual leases. The difference between the asset value and the liability value at 1 January 2020 was £125k. This difference decreased to £119k at 31 December 2020. The movement of £6k has been recognised in profit/loss (see below).

Notes to the financial statements (continued)

24 Explanation of transition to UK-adopted IFRSs (continued)

Reconciliation of profit/loss for year ended 31 December 2020

	Note	UK GAAP	12 months to 31 December 2020 Effect of transition to UK- adopted IFRSs	UK-adopted IFRSs
		£'000	£'000	£'000
Revenue		1,026,188	-	1,026,188
Cost of sales	a	(1,030,597)	21	(1,030,576)
Gross profit		(4,409)	21	(4,388)
Other operating income		24,739	-	24,739
Administrative expenses		(8)	-	(8)
Operating profit before net financing costs		20,322	21	20,343
Financial income		205	-	205
Financial expenses	b	-	(27)	(27)
Net financing expense		205	(27)	178
Profit before tax		20,527	(6)	20,521
Taxation		(2,868)	-	(2,868)
Profit for the year		17,659	(6)	17,653

Notes to the reconciliation of profit/loss

a) The adjustment relates to the reversal of operating lease payments that had been recognised in profit/loss under UK GAAP less the depreciation charged on the right-of-use asset during the year ended 31 December 2020.

b) The adjustment relates to the interest expense charged on the lease liability during the year ended 31 December 2020.

Explanation of material adjustments to the cash flow statement for year ended 31 December 2020

Under UK GAAP, the Company was not required to, and did not, prepare a cash flow statement.

Notes to the financial statements (continued)

25 Restatement of prior period balances

In prior periods, AWE had recognised funding from the MOD equal to the amounts paid by the Company to the pension scheme in respect of the deficit on the scheme as revenue in the accounts. This balance was fully offset by an equal and opposite balance recognised in cost of sales, arising from the movement in amortisation of the related pension fund asset which was recognised up to the date of transition. This reflected the fact that AWE's defined benefit pension deficit was fully-guaranteed by its then parent company and the Company was not liable to pay the associated costs.

Following the change in approach the accounting treatment to the recognition of the deficit repair payments in relation to the defined benefit pension scheme the comparatives have been restated on the same basis to reflect this change. This has been corrected by restating each of the affected financial statement captions for the prior period. The below table summarises the impact on the Company's profit/loss.

As the adjustment has a net nil impact on the Company's profit/loss, restatement of the Company's opening equity position for the earliest prior period presented is not required.

Statement of profit/loss:

	12 months to 31 December 2020		
	UK-adopted IFRSs (per note 24)	Adjustments	UK-adopted IFRSs (restated)
	£'000	£'000	£'000
Revenue	1,026,188	(42,000)	984,188
Cost of sales	(1,030,576)	42,000	(988,576)
Gross profit	(4,388)	-	(4,388)

Glossary of Terms and Abbreviations

ACP	Annual Compensation Payment
AO	Accounting Officer
BAT	Best Available Technique
BEIS	Department for Business, Energy, and Industrial Strategy
BNG	Biodiversity Net Gain
CAL	Corporate Assurance and Legal
CASD	Continuous at sea deterrent
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DESA	Defence Equipment Sales Authority
DNE	Defence Nuclear Enterprise
DREAM	Defence Related Environmental Assessment Methodology
ECL	Expected credit losses
ENEI	Employers Network for Equality & Inclusion
ESH&Q	Environment, Safety, Health & Quality
ESS	Environmental Sustainability Strategy
ETS	Emissions Trading Scheme
Framework Document	The Framework Document is publicly available at: https://www.gov.uk/government/publications/awe-plc-framework-document
FReM	Government Financial Reporting Manual
FTE	Full-time equivalent
FVTPL	Fair value through profit or loss
GAAP	Generally accepted accounting principles
GBS	Government Banking Service
GGC	Greening Government Commitments
GHG	Greenhouse Gas
HMG	Her Majesty's Government
IBR	Incremental borrowing rate
ICO	Information Commissioner's Office
ICT	Information Communication Technology
IFRS	International Financial Reporting Standards

IR35	Employment legislation
ISO	International Organisation for Standardisation
LPG	Liquefied petroleum gas
M&O	Management and operations
MOD	Ministry of Defence
NAO	National Audit Office
NDPB	Non-department public body
NED	Non-Executive Director
ONR	Office for Nuclear Regulation
OSHA	Occupational Safety and Health Administration
PMO	Portfolio Management Office
PMS	Programme Master Schedule
PRS	Periodic Reviews of Safety
RBG	Responsible Business Group
RDEC	Research and Development Expenditure Credit
REGO	Renewable Energy Guarantees of Origin
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
SDS	Sustainable Development Goals
SECR	Streamlined Energy and Carbon Reporting
SESH&Q	Security, Environment, Safety, Health, and Quality
SET	Science, and technical support
SID	Senior Independent Director
SoS	Secretary of State
SOX	Sarbanes Oxley
SQEP	Suitably Qualified and Experienced Personnel
SRO	Senior Responsible Officer
STAR	Sustainable Technology Advice and Reporting
STEM	Science, technology, engineering, and mathematics
TCFD	Task Force on Climate Related Financial Disclosures
TOR	Terms of Reference
TU	Trade Union
ULEV	Ultra-Low Emission Vehicles

