Company registration No. 03664571

AWE MANAGEMENT LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2016

AWE MANAGEMENT LIMITED

REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2016

CONTENTS

AWE MANAGEMENT LIMITED

REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2016

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

T I Bradley
I M Coucher
K D Craven
T Hagen
M B McKeon
C W Reynell
H J Saxton
P Seaton
I Tyler
M Valerio

BANKERS

Lloyds TSB Bank plc
Brambletye House
29 Brighton Road
Crawley
West Sussex
RH10 6AE

REGISTERED OFFICE

Atomic Weapons Establishment
Aldermaston
Reading
Berkshire
RG7 4PR

AUDITOR

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

AWE MANAGEMENT LIMITED

STRATEGIC REPORT

The directors present their annual report and their audited financial statements in respect of the Group (consisting of the Company and its wholly owned subsidiary AWE plc and its subsidiary undertaking) for year ended 31 December 2016.

Business Review

During the course of the year, the principal activities continued to be the management and operation of the Atomic Weapons Establishment ('AWE') comprising a number of sites including Aldermaston and Burghfield. The Company holds a contract, the 'Management and Operation Contract' with the Ministry of Defence, which commenced on 1 April 2000 and runs until 31 March 2025. Amendments were agreed to the Management and Operation Contract which came into effect from 31st March 2016. These contract amendments better aligned performance to Ministry of Defence requirements. The Group also performs other commercial services which are related to services delivered for the fulfilment of its principal activities.

Performance of the Management and Operation Contract is executed through AWE plc.

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

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

Performance

Revenue of £966.3m was lower than the prior year (2015: £981.0m) reflecting a slightly lower level of contract expenditure during the year offset in part by a higher fee outturn.

Operating profit of £75.8m was 24% higher than the prior year (2015: £61.2m) reflecting a higher fee outturn including fee arising from the close-out of prior year contract commitments.

The average number of the Group's employees in the year (employed by AWE plc) has reduced to 4,987 (2015: 5,158).

Principal Risks and Uncertainties

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

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

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

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

It is not considered that there is any significant credit risk on the trade accounts receivable held by the Group.

STRATEGIC REPORT (CONTINUED)

On the cessation of the Management and Operation Contract the ordinary shares held by the Company in AWE plc will become non-voting ordinary shares and may be cancelled or redeemed by the Ministry of Defence.

Environment

AWE Environment Policy commits to the following endeavours:

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

AWE has a Head of Environment, Safety & Health responsible for 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.

Approved by the Board and signed on its behalf by:

M B McKeon
Director
27th March 2017

AWE MANAGEMENT LIMITED

DIRECTORS' REPORT

The directors who held office during the period were:

K M Bilger	(Resigned 16 April 2016)
T S Cahill	(Resigned 9 March 2016)
K D Craven	
T I Hagen	(Appointed 12 January 2016)
J W Holly	(Resigned 11 April 2016)
T I Bradley	(Appointed 5 August 2016)
J C McCarthy	(Resigned 5 August 2016)
I M Coucher	(Appointed 16 April 2016)
M B McKeon	
C W Reynell	
M Valerio	(Appointed 11 April 2016)
H J Saxton	
P Seaton	
P Stassi	(Resigned 12 January 2016)
I Tyler	(Appointed 14 March 2016)

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

Dividends
No final dividend is recommended by the directors (2015: £nil). An interim dividend of £16.1m (2015: £12.4m) was declared on 24 March 2016 and paid on 31 March 2016. A second interim dividend of £20.5m (2015: £16.9m) was declared on 16 June 2016 and paid on 28 June 2016. A third interim dividend of £9.8m (2015: £11.1m) was declared on 24 August 2016 and paid on 2 September 2016. A fourth interim dividend of £17.0m (2015: £13.2m) was declared on 15 December 2016 and paid on 23 December 2016.

Future Developments
The Group intends to continue to focus on its principal activity, the management and operation of the Atomic Weapons Establishment and the performance of other commercial services which are related to services delivered for the fulfilment of its principal activities.

Financial Instruments
The Group has established a risk and financial management framework whose primary objectives are to protect the Group from events they hinder the achievement of the group's performance objectives. The objectives aim to limited 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 they the principal customer is the UK Government. The liquidity and cash flow risk is also considered low as this is managed by the funding facilities available from its shareholders and banking arrangements.

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

Research & Development
Research and development expenditure is principally carried out for the purposes of the performance of the Management and Operation Contract with the Ministry of Defence.

Employees

Employees and their development and sustained commitment are identified as fundamental for the organisation's success.

The Group continues to focus on involving its people in decisions, encouraging innovation and creativity, recognising their achievement, creating a positive working style and developing the skills of staff to deliver to customers.

Involvement is encouraged through a variety of communication methods and the Company continues to modify and improve these. The Group has continued its commitment to improving the business through effective involvement of all concerned, including employee representatives.

The Group seeks to recognise the achievement of its people and operates a range of programmes which recognise both individual and group achievements through effective reward schemes.

The Group believes that leadership, operating with consistent values and behaviours, and training and development remain key strategies in a competitive employment market, in addition to being major enablers for future business success. It invests in a range of occupational and leadership training, operating one of the largest apprentice programmes in the South of England.

The Group provides and encourages equality of opportunity for all applicants for employment, employees and ex-employees and all those working on the organisation's behalf, regardless of disability, gender, gender identity, sexual orientation, religion, race, ethnic origin, age or responsibility for dependants.

Pension Scheme

A wholly owned subsidiary of the Company, AWE plc, operates a defined benefit pension scheme which has been accounted for under Financial Reporting Standard 102 (employee benefits). While AWE plc is required by the Pensions Regulator to ensure that the Scheme has a Funding Plan in place, the Company is not liable for any deficit, nor is it entitled to benefit directly or indirectly from any surplus in the AWE Pension Scheme as a result of the expiry or early termination of the Management and Operation Contract with the Ministry of Defence.

On 31 January 2017 the defined benefit pension scheme closed to new entrants and future accrual for existing members following agreement between AWE, the pension scheme trustees and the Government. Any gain or loss will be considered during 2017. Management are continuing to assess the financial impact on the 2017 financial statements.

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 strategic report on page 2 and in the Accounting Policies on pages 17 to 19.

The Company has sufficient financial resources together with long-term contracts with a government customer. As a consequence, the directors believe that the Company is well placed to manage its business risk successfully.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of signing these financial statements. They continue to adopt the going concern basis of accounting in preparing the annual financial statements.

French Branch

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

Auditors

Deloitte LLP resigned as auditor of the Company with effect from 24 November and a notice of resignation was deposited with the Registrar of Companies with effect from that date. In accordance with section 485 of the Companies Act Ernst & Young LLP was appointed as the Company's auditor by the board of directors effective from 20 December 2016.

DIRECTORS' REPORT (CONTINUED)

Directors' statement as to disclosure of information to auditors

The directors who were members of the board of directors at the time of approving the Directors' Report are listed on page 4. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- so far as they are each aware, there is no relevant audit information (that is, information needed by the Company's auditor in connection with the preparation of the annual report) of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to take to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

M B McKeon
Director
27th March 2107

AWE MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

AWE MANAGEMENT LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AWE MANAGEMENT LIMITED

We have audited the financial statements of AWE Management Ltd for the year ended 31 December 2016 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group and Parent Company Statement of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

AWE MANAGEMENT LIMITED

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Joe Yglesia (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading, UK
29 March 2017

AWE MANAGEMENT LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
TURNOVER	2	966,256	981,004
Other operating income	8	11,000	-
Cost of sales		(899,444)	(917,635)
GROSS PROFIT		77,812	63,369
Administrative expenses	3	(2,025)	(2,210)
OPERATING PROFIT		75,787	61,159
Interest receivable and similar income	4	226	376
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	76,013	61,535
Tax on profit on ordinary activities	8	(14,742)	(4,412)
PROFIT FOR THE FINANCIAL YEAR	17	61,271	57,123

All results derive from continuing operations in both the current and prior year.

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

AWE MANAGEMENT LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Profit for the financial year		61,271	57,123
Actuarial loss in relation to pension fund	22	(265,000)	(21,000)
Gain in value on pension undertaking in contract		265,000	21,000
Total comprehensive income		61,271	57,123

AWE MANAGEMENT LIMITED

CONSOLIDATED BALANCE SHEET
At 31 December 2016

	Notes	2016 £'000	Restated 2015 £'000
CURRENT ASSETS			
Debtors			
- due within one year	11	83,919	59,036
- due after more than one year	11	625,000	361,000
Cash at bank and in hand		72,428	111,375
		781,347	531,411
CREDITORS: amounts falling due within one year	12	(121,899)	(126,186)
NET CURRENT ASSETS		659,448	405,225
TOTAL ASSETS LESS CURRENT LIABILITIES		659,448	405,225
PROVISIONS FOR LIABILITIES	14	(16,393)	(24,018)
NET ASSETS EXCLUDING PENSION LIABILITIES		643,055	381,207
Pension liability	22	(625,000)	(361,000)
NET ASSETS INCLUDING PENSION LIABILITIES		18,055	20,207
CAPITAL AND RESERVES			
Called up share capital	16	882	1,350
Profit and loss account	17	17,173	18,857
SHAREHOLDERS' FUNDS	18	18,055	20,207

The profit for the financial year of the parent Company was £59,124,000 (2015: £56,303,000).
The financial statements of AWE Management Limited, registered number 03664571 were approved by the board of directors and authorised for issue on 27th March 2017.

Signed on behalf of the Board of Directors

M B McKeon
Director

AWE MANAGEMENT LIMITED

COMPANY BALANCE SHEET
31 December 2016

	Notes	2016 £'000	2015 £'000
FIXED ASSETS			
Investments	10	50	50
CURRENT ASSETS			
Debtors			
- due within one year	11	19,063	22,624
- due after more than one year	11	625,000	361,000
Cash at bank and in hand		71,727	105,740
		715,790	489,364
CREDITORS: amounts falling due within one year	12	(84,315)	(117,590)
NET CURRENT ASSETS		631,475	371,774
TOTAL ASSETS LESS CURRENT LIABILITIES		631,525	371,824
CREDITORS: amounts falling due after more than one year	13	(625,000)	(361,000)
NET ASSETS		6,525	10,824
CAPITAL AND RESERVES			
Called up share capital	16	882	1,350
Profit and loss account	17	5,643	9,474
SHAREHOLDERS' FUNDS	18	6,525	10,824

The financial statements of AWE Management Limited, registered number 03664571 were approved by the board of directors and authorised for issue on 27th March 2016.

Signed on behalf of the Board of Directors

M B McKeon
Director

AWE MANAGEMENT LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
At 1 January 2016	1,350	18,857	20,207
Capital reduction	(468)	468	-
Profit for the financial year	-	61,271	61,271
Dividends paid on equity shares	-	(63,423)	(63,423)
At the 31 December 2016	882	17,173	18,055
Actuarial loss in relation to pension fund	-	(265,000)	(265,000)
Gain in value on pension undertaking in contract	-	265,000	265,000
At 31 December 2016	882	17,173	18,055

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
At 1 January 2016	1,350	9,474	10,824
Derecognition of shares	(468)	468	-
Profit for the financial year	-	59,124	59,124
Dividends paid on equity shares	-	(63,423)	(63,423)
At the 31 December 2016	882	5,643	6,525
Actuarial loss in relation to pension fund	-	(265,000)	(265,000)
Gain in value on pension undertaking in contract	-	265,000	265,000
At 31 December 2016	882	5,643	6,525

AWE MANAGEMENT LIMITED

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Net cash inflow from operating activities	21	24,250	58,494
Cash flows from investing activities			
Interest received		226	372
Net cash inflow from investing activities		226	372
Cash flows from financing activities			
Equity dividends paid		(63,423)	(53,610)
Net cash flow from financing activities		(63,423)	(53,610)
Net (decrease)/increase in cash and cash equivalents		(38,947)	5,256
Cash and cash equivalents at beginning of year		111,375	106,119
Cash and cash equivalents at end of year		72,428	111,375
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		72,428	111,375
Cash and cash equivalents		72,428	111,375

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

1. ACCOUNTING POLICIES

The principal policies are summarised below. They have all been applied consistently throughout the year and to the preceding year

General information and basis of accounting

AWE Management Limited is a company incorporated in England and Wales under the Companies Act. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the strategic report on page 2.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of AWE Management Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

AWE Management Limited meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemption available to it in respect of it's separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to Financial Instruments, presentation of cash flow statement and remuneration of key management personnel.

Basis of consolidation

The Group financial statements consolidate the accounts of AWE Management Limited and all of its subsidiary undertakings. All Intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The directors' report further describes the financial position of the Group; its cash flows, liquidity position and borrowing facilities; the Group's objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The directors continue to adopt the going concern basis in preparing the accounts, as, having considered the principal risks and uncertainties, the uncertainties in the current economic environment and the other specific circumstances as detailed in the Directors' Report, they are satisfied that the Group and Company has adequate resources to continue in operation for the foreseeable future, being at least twelve months from the date of signing these financial statements.

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

Turnover

Turnover represents the sale of services and products and is exclusive of VAT. Turnover on long term contracts is recognised by reference to the value of work performed to date as a proportion of the total contract value.

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

Other operating income

Other operating income represents income received from HMRC in respect of research and development tax relief through the Research and Development Expenditure Credit (RDEC) scheme which was adopted during 2016.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

Financial risk management objectives

The Group's Corporate Treasury function provides services to the business and monitors and manages the financial risks relating to the operations of the Group. These risks include currency risk, liquidity risk and cash flow interest rate risk. The Treasury management policy is risk averse and will seek to minimise the effect of these risks through the use of financial instruments. Surplus cash is invested with institutions approved by the board and within the liquidity and maturity constraints set by the AWE Management Limited Audit Committee.

Financial instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently revalued at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss.

Operating leases

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

Finance leases

Where the Group and Company has assets loaned out under a finance lease, income is recognised at an implied interest rate under the terms of the lease.

Research and development expenditure

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

Stocks, work in progress and long-term contracts

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

Current taxation

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

Deferred taxation

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

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

1. ACCOUNTING POLICIES (continued)

Employee benefits

Defined retirement benefits for employees are funded by contributions from AWE plc and its employees. Payments are made in accordance with periodic calculations as advised by the Scheme Actuary.

Under FRS 102 (Employee Benefits), the directors feel that it is appropriate to account for the scheme as a defined benefit scheme, however under current contractual arrangements the Group cannot benefit or suffer from a surplus or deficit arising from the pension fund valuation.

The Group continues to make payments in accordance with periodic calculations as advised by the Scheme Actuary, these are accounted for as a defined benefit scheme under FRS 102 (Employee Benefits).

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Judgements and key sources of estimation uncertainty

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

Performance fee

Turnover arising from performance fees in connection with the delivery of contractual milestones are fully recognised when they have been fully approved by the customer. In circumstances when the contractual milestone has been delivered to the customer, but not yet fully approved by the customer a proportion of the performance fee is recognised on the basis of an assessment of the degree of certainty that the customer will approve the milestone. In circumstances where there is sufficient uncertainty around the customer approval then no performance fee will be recognised for that particular milestone.

Defined benefit pension scheme

The cost of defined benefit pension schemes is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 22.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2016

2. TURNOVER

The Company's turnover is materially all generated within the United Kingdom and derives from the Group and Company's activities in operating the AWE facility.

3. ADMINISTRATIVE EXPENSES

Administrative expenses represent costs that are not recoverable from contracts.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £'000	2015 £'000
Bank interest	226	372
Other interest	-	4
	226	376

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2016 £'000	2015 £'000
Rentals under operating leases:		
- Hire of plant and machinery	32	237
Research and development expenditure	100,000	115,093
Auditors' remuneration:		
The analysis of the Company's auditors' remuneration is as follows:		
Fees payable for the audit of the Company's annual accounts	90	83
The audit of the Company's subsidiaries pursuant to legislation	90	83
Other assurance services	14	-
Total audit fees	194	166
Other services pursuant to legislation		
Tax services	-	17
Other services - consultancy	-	970
Total non-audit fees	-	987

6. EMPLOYEES

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

	2016 No.	2015 No.
Science and technical support	2,091	2,178
Engineering and manufacturing	2,417	2,450
Business services	479	530
	4,987	5,158

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

	2016 £'000	2015 £'000
Wages and salaries	205,704	211,439
Social security	19,844	16,827
Other pension costs	34,000	47,000
Net pension finance expense	13,000	13,000
Pension costs recoverable under contract in future periods	2,537	(6,996)
	275,085	281,270

Net pension finance expenses are the expected return on assets less the interest cost on liabilities.

7. DIRECTORS' REMUNERATION

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

	2016 £'000	2015 £'000
Directors' remuneration		
Aggregate emoluments	2,766	3,783
Pension emoluments	3	131
	2,769	3,914

There are no retirement benefits accruing to any director (2015: none).

Highest paid director (included in above)		
Aggregate emoluments	1,391	1,023

The above amounts include the cost of UK/US tax equalisation, in-country and relocation expenses paid by related parties for the provision of the services of certain directors. In 2016 a significant part of the highest paid director's salary was for in-country expenses.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2016

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

i) Analysis of tax charge on profit on ordinary activities

	2016 £'000	2015 £'000
Current tax		
United Kingdom corporation tax	14,384	7,987
Adjustment in respect of prior years	(193)	(1,521)
Total current tax	14,191	6,466
Deferred tax		
Timing differences	550	(2,054)
Effect of decrease on tax rate on opening asset	1	-
Group deferred tax	551	(2,054)
Tax on profit on ordinary activities (note 8ii)	14,742	4,412

ii) Factors affecting tax charge for the current period

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

The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	76,013	61,535
Tax at 20.00% (2015 20.25%) thereon	15,203	12,461
Effects of:		
Expenses not deductible for tax purposes	29	24
Research and development tax credit	-	(6,683)
Change in tax law and rates	(297)	131
Adjustment in respect of prior years	(193)	(1,521)
Total tax expense	14,742	4,412

The Finance Act 2015, provides for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

iii) Other operating income

Included in other income is £11,000,000 (2015: £nil) receivable from HMRC in respect of research and development tax relief through the Research and Development Expenditure Credit (RDEC) scheme which was adopted in 2016.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2016

9. DIVIDENDS

	2016 £'000	2015 £'000
Interim dividend paid £11.93 per share (2015: £9.21)	16,105	12,434
Second interim dividend paid £15.21 per share (2015: £12.49)	20,533	16,862
Third interim dividend paid for £7.25 per share (2015: £8.22)	9,788	11,097
Fourth interim dividend paid for £12.59 per share (2015: £9.79)	16,997	13,217
	63,423	53,610

The dividend paid per share is calculated using the number of called up, allotted and fully paid ordinary shares before the capital reduction on 24 August 2016 explained in note 16 on the basis that all dividends in 2016 (and 2015) were distributed on this basis.

10. FIXED ASSET INVESTMENTS

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

	£1 Ordinary shares	%
AWE plc	50,000	100

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

11. DEBTORS

	Notes	Group 2016 £'000	Group 2015* £'000	Company 2016 £'000	Company 2015* £'000
Amounts falling due within one year:					
Amounts recoverable on contracts		63,185	48,962	16,981	22,545
Amounts owed by shareholder groups	23	-	4	-	-
Other debtors		10,060	4,153	-	29
Corporation tax recoverable		2,062	-	2,062	-
Deferred tax recoverable	8	1,787	2,337	-	-
Prepayments and accrued income		6,825	3,580	20	50
		83,919	59,036	19,063	22,624
Amounts falling due after more than one year:					
Pension recoverable under terms of contract		625,000	361,000	625,000	361,000
		708,919	420,036	644,063	383,624

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

* A prior year adjustment has been made between Debtors (increased by £2,337,000) and Provisions for liabilities and charges (increased by £2,337,000). The adjustment is a reclassification of a debtor balance previously reported in Provisions for liabilities and charges.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2016

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Notes	Group 2016 £'000	Group 2015* £'000	Company 2016 £'000	Company 2015* £'000
Trade creditors		37,748	33,750	-	-
Amounts owed to shareholder groups	23	4,181	5,712	-	-
Amounts owed to group companies		-	-	59,432	85,091
Corporation tax		-	3,804	-	3,804
Other taxation and social security		32,920	21,725	15,577	17,357
Other creditors		1,878	7,157	-	5,630
Group relief payable		-	-	8,936	5,656
Accruals and deferred income		45,172	54,038	370	52
		121,899	126,186	84,315	117,590

* A prior year adjustment has been made Trade creditors (reduced by £12,277,000), Other taxation and social security (increased by £1,951,000) and Accruals and deferred income (increased by £10,326,000) with regards to the prior year treatment of supplier invoices that had been received after the year end. The adjustment is a reclassification between balances and there is no net impact on Creditors in total.

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

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Amounts owed to group companies	-	-	625,000	361,000

14. GROUP PROVISIONS FOR LIABILITIES

	2015* £'000	Charge/ (credit) to P&L £'000	Recognised gains & losses £'000	Utilised £'000	2016 £'000
Employee	24,018	-	-	(11,026)	12,992
Contract	-	3,000	-	-	3,000
Other	-	401	-	-	401
	24,018	3,401	-	(11,026)	16,393

Employee provisions comprise obligations to employees other than retirement benefit obligations. Other provisions principally comprise legal claims, legal costs, onerous leases and other commitments.

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

* A prior year adjustment has been made between Debtors (increased by £2,337,000) and Provisions for liabilities and charges (increased by £2,337,000). The adjustment is a reclassification of a debtor balance previously reported in Provisions for liabilities and charges.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 2016

15. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign currency contracts

The following table details the forward foreign currency contracts outstanding at the year-end:

Outstanding contracts	Average contractual exchange rate		Notional value		Fair Value	
	2016	2015	2016	2015	2016	2015
			£'000	£'000	£'000	£'000
Less than 12 months	1.5401	1.5477	1,547	3,804	1,932	3,971
1-2 years	1.5366	1.5401	149	1,547	184	1,603
2-3 years	-	1.5366	-	125	-	129
Purchase USD			1,696	5,476	2,116	5,703
Less than 12 months	1.1452	1.2257	396	679	390	614
1-2 years	-	1.1452	-	396	-	339
2-3 years	-	-	-	-	-	-
Purchase EUR			396	1,075	390	953
			2,092	6,551	2,506	6,656
Fair value adjustment					414	105

Forward foreign currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Outstanding forward contracts	Less than one year	Greater than one year	2016
	£'000	£'000	£'000
Asset	385	35	420
Liability	(6)	-	(6)
	379	35	414

16. CALLED UP SHARE CAPITAL

The authorised share capital of the Company is as follows:

	2016	2015	2016	2015
Authorised:	**No.**	**No.**	**£'000**	**£'000**
Ordinary shares of £1 each				
Class A	5,000	5,000	5,000	5,000
Class B	5,000	5,000	5,000	5,000
Class C	5,000	5,000	5,000	5,000
	15,000	15,000	15,000	15,000

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

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

	2016	2015	2016	2015
Called up, allotted and fully paid:	**No.**	**No.**	**£'000**	**£'000**
Ordinary shares of £1 each				
Class A	216,176	450,000	216,176	450,000
Class B	450,000	450,000	450,000	450,000
Class C	216,176	450,000	216,176	450,000
	882,352	1,350,000	882,352	1,350,000

	2016 No.	2015 No.	2016 £'000	2015 £'000
Ordinary shares of £1 each				
At 1 January	1,350,000	1,350,000	1,350,000	1,350,000
Cancellation of Class A	(233,824)	-	(233,824)	-
Cancellation of Class C	(233,824)	-	(233,824)	-
At 31 December	882,352	1,350,000	882,352	1,350,000

On 24 August 2016 the issued share capital of the Company was reduced from £1,350,000 dividend into 450,000 A ordinary shares of £1 each, 450,000 B ordinary shares of £1 each and 450,000 C ordinary shares of £1 each (all of which are fully paid up) to £882,352 divided into 216,176 A ordinary shares of £1 each, 450,000 B ordinary shares of £1 each and 216,176 C ordinary shares of £1 each by cancelling 233,824 A ordinary shares of £1 each registered in the name of the Company and 233,824 C ordinary shares of £1 each registered in the name of the Company.

17. PROFIT AND LOSS ACCOUNT

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
At 1 January	18,857	15,344	9,474	6,781
Profit for the financial year	61,271	57,123	59,124	56,303
Capital reduction	468	-	468	-
Dividends paid to equity shareholders	(63,423)	(53,610)	(63,423)	(53,610)
At 31 December	17,173	18,857	5,643	9,474

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
At 1 January	20,207	16,694	10,824	8,131
Profit for the financial year	61,271	57,123	59,124	56,303
Dividends paid to equity shareholders	(63,423)	(53,610)	(63,423)	(53,610)
At 31 December	18,055	20,207	6,525	10,824

19. COMMITMENTS

a) Operating lease commitments

At 31 December 2016, the Group had annual commitments under non-cancellable operating leases as follows:

	2016	2015
	£'000	£'000
Expiring:		
in less than one year	50	23
between one and two years	6	58
between two and five years	149	60
after five years	-	-
	205	141

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

b) Purchase commitments

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Contracted for but not provided	590,785	491,216	-	-

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

20. CONTINGENT LIABILITIES

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Bank bond	2,000	2,000	2,000	2,000

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

21. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated by operations

	2016	2015
	£'000	£'000
Operating profit	75,787	61,159
(Increase) in debtors	(23,371)	(3,079)
(Decrease) / increase in creditors	(7,853)	5,130
(Increase) in RDEC debtor	(11,000)	-
Corporation tax paid	(9,313)	(4,716)
Cash generated by operations	24,250	58,494

22. PENSION SCHEME

The employees and directors of AWE plc belong to a defined benefit pension scheme, the assets of which are held separately from the Company.

Under FRS 102 (Retirement Benefits), the directors feel it is appropriate to account for the scheme as a defined benefit scheme under FRS 102 (Retirement Benefits) (Note 1), however AWE Management Limited is not liable for any deficiency, nor is it entitled to benefit directly or indirectly from any surplus in the AWE Pension Scheme at the expiry or early termination of the Management and Operation Contract.

The Group continues to make payments in accordance with periodic calculations as advised by the Scheme Actuary. These are accounted for as a defined benefit scheme under FRS 102 (Retirement Benefits) the details of which are set out below.

Pension contributions of £49,537,000 (2015: £53,004,000) were made in the year in respect of the AWE pension scheme.

The Company operates a defined benefit pension scheme in the UK. The most recent actuarial valuation for funding purposes was carried out at 31 March 2015. A full actuarial valuation of the Scheme for FRS 102 purposes has been carried out as at 31 March 2015 using the assumptions below.

On 31 January 2017 the defined benefit pension scheme closed to new entrants and future accrual for existing members following agreement between AWE, the pension scheme trustees and the Government. Any gain or loss will be considered during 2017. Management are continuing to assess the financial impact on the 2017 financial statements.

	2016	2015	2014	2013	2012
Assumptions					
Rate of increase in salaries	2.30%	2.00%	3.50%	3.50%	3.35%
Rate of increase in pensions in payment	2.30%	2.00%	2.00%	2.40%	2.10%
Rate of increase in pensions in deferment	2.30%	2.00%	2.00%	2.40%	2.10%
Discount rate	2.60%	3.70%	3.40%	4.40%	4.10%
Inflation assumption (RPI to 2009, CPI from 2010	2.30%	2.00%	2.00%	2.40%	2.10%
Mortality assumption - life expectancy at age 60 for current pensioner (male, normal health, industrial grade)	27.7	27.5	27.4	27.3	27.2
Mortality assumption - life expectancy at age 60 for current non-pensioner (male, normal health, industrial grade)	29.8	29.8	29.7	29.7	29.6

22. PENSION SCHEME (continued)

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

		2016	2015		2014		2013		2012
	**	£m	£m	%	£m	%	£m	%	£m
Equities		515	412	7.50	332	7.50	308	7.50	247
Property		211	128	7.00	120	7.00	101	7.00	85
Infrastructure			66	7.50	120	7.50	110	7.50	91
Absolute return		273	171	7.50	171	7.50	140	7.50	126
Active currency		-	-	7.50	-	7.50	-	7.50	-
High yield / EMD		-	-	7.50	91	7.50	82	7.50	85
Bonds		182	155	3.70	115	3.70	124	3.20	133
Bank loans		-	-	3.70	-	3.20	43	7.50	32
Global macro		-	-	7.50	52	7.50	42	7.50	41
Other		237	246	7.50	109	7.50	-	7.50	-
Cash		61	5	0.50	19	0.50	14	0.50	13
Total fair value of assets		1,479	1,183		1,129		964		853
Present value of scheme liabilities		(2,104)	(1,544)		(1,682)		(1,394)		(1,395)
Deficit in the scheme		(625)	(361)		(553)		(430)		(542)

** Under FRS 102, the rate of expected return on assets is no longer required for future accounting periods.
The contribution rate was 34.5% of pensionable earnings.

Analysis of the amount charged to operating profit

	2016	2015
	£million	£million
Current service cost (net of employees' contributions)	34	47

An allowance for expenses has been charged to the P&L by increasing the current service cost in relation to expenses, including the Scheme's PPF levy payments and investment expenses

22. PENSION SCHEME (continued)

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

	2016 £million	2015 £million
Actual return less expected return on pension scheme assets	240	(8)
Experienced gains arising on the scheme liabilities	(5)	(110)
Changes in assumptions underlying the present value of the scheme liabilities	(500)	97
	(265)	(21)

Movement in scheme deficit during the year

	2016 £million	2015 £million
At 1 January	(361)	(553)
Current service cost	(51)	(64)
Contributions - employees'	17	17
Contributions - employer's	48	52
Curtailments	-	221
Net finance expense	(13)	(13)
Actuarial loss	(265)	(21)
	(625)	(361)

On 1 May 2015 the Scheme benefits were changed such that Pensionable Pay was frozen until 31 March 2017 and from 1 April 2017 Pensionable Pay increases were limited to the increase in CPI inflation. For the purpose of these accounting figures, this change has been recognised as curtailment gain in 2015.

History of experienced gains and losses

	FRS102			FRS17	
	2016	2015	2014	2013	2012
Difference between the expected and the actual return on scheme assets:					
Amount (£million)	240	(8)	101	32	13
Percentage of scheme assets	16%	1%	9%	3%	2%
Experienced gains and (losses) on scheme liabilities:					
Amount (£million)	(5)	(110)	26	54	(15)
Percentage of present value of scheme liabilities	0%	7%	2%	4%	1%
Total actuarial (loss)/gain					
Amount (£million)	(265)	(21)	(109)	108	(155)
Percentage of present value of scheme liabilities	13%	1%	6%	8%	11%

23. RELATED PARTY TRANSACTIONS

There are related party transactions with AWE Management Limited's three shareholders: Serco Holdings Limited, JEG Acquisition Company Ltd and Lockheed Martin UK Holdings Limited and other companies within their respective groups.

The Group traded with its shareholders as follows:

	Gross supplies and services purchased during the period		Gross sales made during the period	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Serco Holdings Limited (and group companies)	6,182	7,282	-	63
Lockheed Martin UK Holdings Limited (and group companies)	28,919	25,797	-	-
JEG Acquisition Company Limited (and group companies)	38,741	39,710	-	-
	73,842	72,789	-	63

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

The Group had the following balances due to / (from) the shareholders:

	Notes	2016	2015
		£'000	£'000
Serco Holdings Limited (and group companies)		518	503
Lockheed Martin UK Holdings Limited (and group companies)		1,557	2,920
JEG Acquisition Company Limited (and group companies)		2,106	2,285
		4,181	5,708
Amounts owed by shareholder groups	11	-	(4)
Amounts owed to shareholder groups	12	4,181	5,712
		4,181	5,708

No consortium relief was owed to shareholders during the year (2015: Nil)

24. POST BALANCE SHEET EVENT

On 31 January 2017 the defined benefit pension scheme closed to new entrants and future accrual for existing members following agreement between AWE, the pension scheme trustees and the Government. Any gain or loss will be considered during 2017. Management are continuing to assess the financial impact on the 2017 financial statements.

25. ULTIMATE PARENT COMPANY

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

The company's immediate parent undertaking is Lockheed Martin UK Holdings Limited (Company No.3184898), a company incorporated in England and Wales. Copies of the financial statements of Lockheed Martin UK Holdings Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ