

AWE PLC

**Annual Report and Accounts
31 March 2023**

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Strategic Report

Chair's Statement

It gives me great pleasure to introduce the AWE plc Annual Report & Accounts for the year ended 31 March 2023.

AWE plays a fundamental role in the Continuous at Sea Deterrent (CASD) and defence of the United Kingdom (UK), guarding against the most severe threats to our nation and way of life. AWE maintains and supports the in-service warhead system; designs, produces and assembles components into certified warheads; and supports warhead and Defence Nuclear Material deliveries, while continuing to invest in the underlying infrastructure to support all its activities.

AWE is also undertaking a once-in-a-generation programme to design and deliver a Replacement Warhead, as well as carrying out Nuclear Threat Reduction (NTR) activities. NTR provides a unique contribution to the national security of the UK through expertise in the defence against evolving radiological and nuclear threats.

AWE became a Non-Departmental Public Body (NDPB), wholly owned by the Ministry of Defence (MOD), in 2021. This is the second annual report that has been published since this change. Over the past year, both AWE and the MOD have continued to work together effectively, building on the initial transition period to start realising the full potential of closer integration with government.

This time last year, we had defined and laid out a business transformation programme that will make an important contribution to the capabilities necessary to deliver our current and future programmes. Significant progress on delivering this transformation has been achieved during this reporting period. We are making a fundamental shift in how AWE operates, maturing and performing at pace. Crucially, we have also maintained and delivered our commitment to safety, meeting our own standards as well as those expected of us by government, regulators, and the public.

We have taken a positive and decisive step forward with the renewal of AWE over the past year, and we must continue to deliver our plan for change, as an output-focussed business that embraces simplicity.

Subsequent to the reporting period, an accident on one of the construction programmes at AWE's Aldermaston site resulted in the death of one of the contractor's employees. Although AWE was not directly involved it is supporting the associated investigations. The incident did not affect any of AWE's nuclear installations or materials. Our condolences are with the deceased's family, friends and colleagues at this tragic time.

I would like to thank Alison Atkinson, AWE's former Chief Executive, for her commitment, contribution, and leadership over 18 years. Alison achieved many great things during her AWE career, across both capital projects and technical programmes.

I look forward to working alongside Iain Stevenson, AWE's Interim Chief Executive, the Executive Committee, our people, and partners as we continue to drive the business forward.

Sir John Manzoni, Chair

Chief Executive's Statement

This has been a pivotal year in AWE's proud history. Comparing where we are now, with this time last year, we have made real progress as a business.

This is because we have a clear strategic programme, and we have maintained a relentless focus on delivering it. I have seen our business embrace bold new ways of working, driven by simplicity and efficiency. None of this would have been possible without the hard work of our dedicated people, and I would like to thank them for their commitment and contribution.

Over this reporting period, we have taken forward the 14 key Strategic Initiatives in our Business Plan, at pace, as part of our transformation programme. Our focus on driving these initiatives is paying dividends.

We continue to make significant strides in building an effective, collaborative, and trusting relationship with the MOD, and we are now setting and driving the agenda for our work together. In the past 12 months, we have also established a stand-alone, empowered Engineering function and stood up a Liabilities function, which will re-start high hazard decommissioning in 2023 and deliver our first draft lifetime plan. Our strategy to modernise production is progressing and beginning to realise benefits.

Great progress has been made with the Mark 4/4A warhead, and we have completed the Systems Requirements Review for the Replacement Warhead Programme. We have also taken positive steps in transitioning from enhanced to normal levels of oversight from the Office for Nuclear Regulation, both at our Burghfield and Aldermaston sites – the transition has been completed at the Burghfield site.

We have incredible, world-leading scientific capability at AWE, and we have been publicly credited for the role that we played in the scientific breakthrough of fusion ignition announced by the National Ignition Facility at the Lawrence Livermore National Laboratory in California. Physicists have been pursuing this scientific breakthrough for decades as it will enhance our ability to assure weapon performance without the need for an underground test, and our involvement in this fantastic achievement is a reminder of the brilliant work that we do.

As we prepare for significant milestones ahead, I know that our people will continue to bring their focus, dedication, and expertise to the tasks and challenges.

I would also like to thank my predecessor, Alison Atkinson, for her extraordinary contribution to the business over 18 years. I am honoured and humbled to take on the responsibility of Interim Chief Executive, and it will not be easy to follow in Alison's footsteps. Alison leaves a lasting legacy and, along with all of us at AWE, has laid the foundations for our transformation for the future.

With the support of the Chair and the board, we are in a strong position to succeed, with a wealth of talent and experience among our team. Our unique capability and sheer determination will enable us to build a trusted, safe, and sustainable business to effectively play our part in the defence of our country.

Iain Stevenson, Chief Executive Officer

AWE and our Mission

AWE Mission

AWE's mission is to support the defence and security of the UK.

Since 1945, the people of the UK have elected governments which have maintained a policy to have a nuclear deterrent. The modern form of this is CASD, which deters the most severe threats to the UK and our way of life.

AWE designs, manufactures, maintains and develops the UK's nuclear warheads for CASD, as well as providing 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.

This leads to three programmes which AWE undertakes to support the UK's defence and security:

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 deliver these three programmes, 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.

AWE Vision

Together, delivering solutions for a safe and secure future.

"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. 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 on time, securely, safely, and sustainably. 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 that we continue to attract the most highly skilled employees.

Our Business Plan outlines the transformative actions we must undertake to ensure that we continue to maintain the trust of our customers, stakeholders and the wider UK economy. As we make tangible progress on these actions, the nature, needs and priorities of our continuing and development activities will continue to evolve.

We will complete 5 strategic actions by 2025:

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, provide 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 DNE alignment** – Clarify ways of working, improve alignment of teams, governance, and decision-making, as well as product approvals and technical assurance, and develop and implement an approach to real-time international collaboration.

Financial Review

Company financial performance for the year ended 31 March 2023

The financial statements for the year ended 31 March 2023 show the following*:

- revenue of £1,476.7 million (15 months ended 31 March 2022: £1,425.7 million)
- gross loss of £21.4 million (15 months ended 31 March 2022: gross loss of £31.2 million)
- net profit for the year of £3.9 million (15 months ended 31 March 2022: net loss of £439.2 million)
- net liabilities of £234.1 million (15 months ended 31 March 2022: net liabilities of £57.0 million)
- capital contribution of £nil (15 months ended 31 March 2022: £63.0 million 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 of the scheme)

* Comparisons are for the 15 months ended 31 March 2022 due to the transition to government ownership when AWE plc changed its accounting reference date from December to March to align to the MOD.

Revenues mainly arise from work undertaken in relation to AWE's principal activity. This accounts for 98% of revenue (15 months ended 31 March 2022: 99%). The increase in revenue on a pro rata basis reflects the increased level of activity in the year compared to the prior period. This 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 dealt with as a programme cost. The performance of the M&O contract is addressed in summary in the Performance and KPIs section.

The gross loss for the year ended 31 March 2023 arises as a result of the fee earned on the M&O and other contracts of £1.3 million (15 months ended 31 March 2022: £2.3 million) offset by Research and Development Expenditure Credit (RDEC) income received by AWE (the income received by AWE is recognised in Other operating income) returned to the MOD under contract of £18.4 million (15 months ended 31 March 2022: £21.5 million) and the net current service and related interest costs arising in relation to the defined benefit pension scheme included in cost of sales of £4.0 million (15 months ended 31 March 2022: £12.0 million).

The net profit for the year ended 31 March 2023 arises principally as a result of the gross loss, as explained above, being offset by Research and Development Expenditure Credit (RDEC) income received by AWE of £18.4 million included in Other operating income, together with administrative expenses, finance expense and a tax credit. The net loss in the prior period includes the one-off write off of £423 million in respect of the pension fund asset previously recognised up to 30 June 2021.

Net liabilities principally arise as a result of the net liability in respect of the defined benefit pension scheme. The net liability of the defined pension scheme has increased to £238 million (31 March 2022: £53 million). Further details are provided in note 15 in the financial statements.

A detailed account of AWE's finances is provided in the financial statements (pages 66 to 71). 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 35.

Performance and KPIs

This section sets out the performance and KPIs of the Company for the year ended 31 March 2023.

Performance and KPIs

Overview of KPIs

The KPIs set out below, which incorporate performance against milestones, are those that the AWE 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.

The KPIs and milestones therein, are broadly split between delivery outputs, as a measure of delivery performance, and those activities and benefits that are 'making the business better'.

The KPIs are set out in four sections, addressing our key principles of performance as follows:

- is AWE safe and secure?
- is AWE performing, i.e., is the plan being achieved?
- is AWE in control, i.e., is the plan stable?
- is AWE mobilised with the right resources?

Performance

In overview, the overall health of the business has been assessed as improving, but it is recognised that this is not yet at the pace the board desires. The KPI's are on an improving trajectory, and that is translating into increased confidence in business delivery performance, which must be seen in the context that for AWE this is the first year of a multi-year plan.

This overall assessment is reflected in the mixed performance against targets as set out in the table below. The commentary below provides some additional context to that set out in the table.

- is AWE safe and secure?
 - In this section all targets were met through the reporting year recognising the continued focus on safe and secure operations.
- is AWE performing, i.e., is the plan being achieved?
 - The infrastructure milestones, across a range of the key infrastructure projects were all achieved. However, targets in other areas were not achieved where challenges remain in other areas of the business as we set targets to drive improved performance. Focus continues on making further improvements to production facilities and their performance against schedule. The current outlook is an improving position.
- is AWE in control, i.e., is the plan stable?
 - Financial targets were achieved. Timeliness of investment approvals fell short of the target set, which was for no late submissions and approvals against the plans. The majority of planned dates were met, however given a few fell short the overall target was not achieved. The target set of the proportion of spend under category management was set when the initiative to achieve increasing the amount of expenditure under category management was immature. The target is being revisited in light of further progress in this area, to ensure an appropriate, achievable, level of ambition is set as a target.

Performance and KPIs (continued)

- is AWE mobilised with the right resources?
 - Half of the six targets were delivered in this area. Significant focus continues on ensuring AWE is able to secure the right number of the right resource. Initiatives are in place to address this challenge to deliver to the targets in future periods. Through the reporting period availability of resource has fallen short of that requested by the business and that planned to be delivered to the business. The first shortfall was within target, which anticipated some level of shortfall, but the latter was outside of target. The target regarding building and maintaining diverse teams and an inclusive culture was achieved.

The KPIs, with the performance assessment and explanation of the target and delivery, are set out below in the four sections.

KPI	Target	Outturn	Comment
Is AWE Safe and Secure?			
Occupational Safety and Health Administration (OSHA) rate	< 0.3	0.256	Target achieved. The OSHA rate has remained below target the whole year.
Security incidents per 100,000 hours (12 month rolling)	< 1.5	1.3	Target achieved. Security incidents remained below target the whole year.
Mandatory training compliance	> 95%	99%	Target achieved. Mandatory training compliance was above target the whole year, except for January 2023.
Regulatory enforcement	None	None	Target achieved. No enforcement notices were received through the year.
Is AWE Performing?			
On time delivery of defined milestones (Mission Delivery)	No late milestones	7 missed	Target not achieved. Not all milestones were delivered.
Delivery to order book (cumulative)	> 90%	90%	Target not achieved. Delivery to order book is on an upward trend but was below target.
Production right first time (non-conformance)	>= 95%	95%	Target achieved. Production right first time has remained at a consistent level through the year.
On time delivery of defined milestones (Infrastructure Project Delivery (IPD))	100%	100%	Target achieved. All IPD milestones were delivered on time.
Is AWE in Control?			
Performance against Defence Nuclear Investment Committee (DNIC)/ Investment Approvals Committee (IAC) approved projects (cost/time)	No late	2 late	Target not achieved. 2 delivered on time and to cost. 2 delayed with adverse cost variance.

Performance and KPIs (continued)

KPI	Target	Outturn	Comment
Is AWE in Control? (continued)			
On time delivery of IAC stage gates	No late	1 late	Target not achieved. 9 out of 10 IAC stage gates were on time.
Full Year variance between actual and budget	< +/- 5%	0.4%	Target achieved.
Spend under category management	> 98%	2%	Target not achieved. Spend under category management remained consistently below target. The target has been reassessed as there is now a better understanding of an appropriate target for AWE. The position is also improving with 15% achieved subsequent to the reporting period.
Is AWE Mobilised with the Right Resources?			
Variance between FTE demand and supply	< +/- 10%	-9%	Target achieved. Supplied resource was below demand but within target. In year there was a 51% increase in hires and an improving Time to Offer.
Variance between actual supply and budget	< +/- 2%	-9%	Target not achieved.
Employee net promotor score.	> 10	-4	Target not achieved. Employee net promotor score has been negative through the year since measurement started in September 2022. It has trended upwards in the final quarter.
Core and critical skills for the future	> 90%	91%	Target achieved.
Female hires (12 month rolling)	> 35%	32%	Target not achieved. The upward trend of female hires levelled off towards the end of the year and remained just below target.
Employers Network for Equality & Inclusion (ENEI)	> 70%	79%	Target achieved. ENEI has remained consistently above target all year.

Principal Risks

This section sets out the principal risks identified and being managed by the Company as at the date of this report.

The board has identified and assessed the principal risks and uncertainties facing the Organisation; 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 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. AWE's principal risks are set out below.

Principal Business Risk		Impact / Mitigation Actions
AWE current Capabilities Risk owner Chief Operating Officer	<p>Unavailability of current plant, facilities and enabling infrastructure to support the programme.</p> <p>AWE has a large and complex operation across multiple sites with some ageing plant and supporting infrastructure.</p> <p>Failure to manage risks associated with ageing and obsolescence has potential to result in delays and increased potential of a serious safety incident.</p>	<p>Potential Impact</p> <ul style="list-style-type: none"> ▪ Delays to operations and resource management inefficiencies. ▪ Increase in frequency &/or significance of Environment, Safety, Health & Quality (ESH&Q) events. ▪ Increased costs through extra maintenance and monitoring to keep current facilities operational. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Delivery of re-kit programmes delivering projects to replace equipment and upgrade facilities to required standards. ▪ Delivery of Estates strategy and asset management plans. ▪ Robust risk-based asset through life management plans implemented. ▪ Single points of failure prioritised for investment. ▪ Continued focus on managing operations safely and securely, maintain Licence to Operate controls. ▪ Robust on-site emergency response and business resilience capability.
AWE Future Capabilities Risk owner Chief Operating Officer	<p>Unavailability of future plant, facilities and critical infrastructure to support the programme.</p> <p>As above, the large and complex operations across multiple sites require the right capabilities to be in place at the right time to deliver the long term and future programmes.</p> <p>Failure to manage risks associated with these uncertainties over future capability has the potential to result in delays in delivery and increased potential of a serious safety incident.</p>	<p>Potential Impact</p> <ul style="list-style-type: none"> ▪ Delays to operations. ▪ Increase in frequency &/or significance of ESH&Q events. ▪ Financial penalties arising from fines, legal action and project delay / prolongation. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Delivery of new Capital builds and re-kit programmes. ▪ Delivery of Estates Strategy and Master Plan. ▪ Robust risk-based asset through life management plans implemented. ▪ Single points of failure prioritised for investment. ▪ Investment in utilities through the Infrastructure Capability Plan. ▪ Continued focus on managing operations safely and securely, maintain Licence to Operate.

Principal Risks (continued)

<p>AWE Sites</p> <p>Risk owner Executive Director Liabilities</p>	<p>Impediment to the use of AWE sites to allow operations to continue.</p> <p>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.</p>	<p>Potential impact</p> <ul style="list-style-type: none"> ▪ Restriction or delays to operations on some or all AWE sites. ▪ Increased cost resulting from recovery of operations and/or project delay / prolongation. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ 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.
<p>People</p> <p>Risk owner Chief People Officer</p>	<p>Inability to attract &/or retain the right number of people, with the right skills at the right time (or access the required resource across the nuclear enterprise) which may adversely affect AWE's ability to deliver against its business objectives.</p> <p>AWE's employees are critical to its current and 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.</p>	<p>Potential impact</p> <ul style="list-style-type: none"> ▪ Adverse effect on delivery of AWE's business objectives. ▪ Potential regulatory and legal compliance issues due to lack of Suitably Qualified and Experienced Persons (SQEP). ▪ 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. ▪ Deterioration in safety performance impacting safety and regulatory compliance. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Deliver and execute robust Strategic Workforce Planning to include key skills/ roles of interest. ▪ Location Strategy to promote inclusivity and unlock innovation, diversity and access to talent increases resilience in the organisation. ▪ Reward framework to ensure pay and conditions remain fair, competitive and appropriate. ▪ Strive to maintain an effective and inclusive work environment and culture. ▪ Investment in Leadership and SQEP skills development. ▪ Commitment to drive continuous improvement in employee engagement. ▪ Continue to develop and focus on wellbeing of all employees. ▪ Continue to offer development and growth through training, job progression, career and learning pathways. ▪ Complement staff development with core Science, technology, engineering, and mathematics (STEM) outreach programme and External Technical Partnerships. ▪ Partnering with industry through enduring relationships.

Principal Risks (continued)

<p>Supply Chain</p> <p>Risk owner Chief Finance Officer</p>	<p>Insufficient capability and capacity within the supply chain to fully support the complexity and risk within AWE's programmes of work.</p> <p>AWE relies on its supply chain for delivery of its programmes and projects. Maintaining close and effective working relationships with the supply chain is a priority for AWE. With the significant increase in future procurement activity required by AWE, supplier fragility and the global supply chain challenges remain a concern.</p>	<p>Potential impact</p> <ul style="list-style-type: none"> ▪ Reduced ability to set up longer term agreements and foster collaborative supplier relationships focussed on proactively pre-empting issues. ▪ Unavailability of critical goods and services impacting on delivery delays and increased costs. ▪ Conducting existing business becomes increasingly challenging, with increased cost of materials and supplies. ▪ Damage to relationships with critical suppliers <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Provide a robust forward looking demand plan and procurement pipeline. ▪ Develop and maintain long-term strategic relationships with critical and high risk category supply chain partners and sub-contractors through an industrial strategy across all of the business. ▪ Support delivery focussed contract management in all areas.
<p>Funding</p> <p>Risk owner Chief Finance Officer</p>	<p>Either insufficient funding available to AWE from MOD, or an inability for AWE to persuade MOD and wider government that additional funding is required to fund the short, medium and long term requirements of AWE to provide sovereign and sustainable capability to the UK.</p>	<p>Potential impact</p> <ul style="list-style-type: none"> ▪ Inability to invest sufficiently in both people and capability, adversely affecting delivery of AWE's business objectives. ▪ Cessation of some or all operations in the short/medium term. ▪ Conducting existing business (programmes and projects) becomes increasingly difficult. ▪ Loss of confidence by key stakeholders. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Focus on improved long-term planning with Business Case Assurance reviews. ▪ Build and maintain strong relationships with MOD and wider government to ensure appropriate prioritisation to AWE's programme requirements and governance of programme change.
<p>Environment, Safety & Health</p> <p>Risk owner Director ESH&Q</p>	<p>Failure to maintain safe and sustainable operational environment and prevent a major incident.</p> <p>AWE operations sites are inherently complex with many and varied hazardous operations and significant legacy issues that require continuous management of environmental, health, safety and sustainability issues.</p>	<p>Potential Impact</p> <ul style="list-style-type: none"> ▪ Restriction or delays to operations. ▪ Worker fatality, serious injury or environmental release. ▪ Increased cost resulting from fines or prosecution, and recovery of operations. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Maintain Licence to operate controls. ▪ Business continuity and emergency response capabilities established and exercised. ▪ Continuing process of Periodic Review of Safety (PRS) across critical hazardous facilities. ▪ Continuing programme of decommissioning and replacement. ▪ Continued and enhanced focus on ESH&Q & Employee Engagement strategy, including leadership behaviours, Culture of Care and safety culture.

Principal Risks (continued)

Quality Risk owner 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 <ul style="list-style-type: none"> Quality assurance and quality control failures. Delays to AWE operations and increased cost due to defects, rework and lost production time. Erosion in the MOD confidence in products delivered by AWE. Mitigating actions <ul style="list-style-type: none"> Drive proactive culture of improvement through Quality Improvement Plans and digitisation. Maintain Quality training. Monitoring: Quality risk reviews, Audit and Assurance strategy, non-conformance management through in process inspections, quality failure and escape investigations.
Employee Relations Risk owner Chief People Officer	Deteriorating industrial relations leading to formal industrial action. Not maintaining a positive relationship with employees and Trade Unions generates a risk of industrial action and associated programme disruption.	Potential Impact <ul style="list-style-type: none"> 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, reputation and employee engagement. Mitigating actions <ul style="list-style-type: none"> Continue to positively engage employees and their TU representatives at all levels across National, Regional and local relations. Reward framework and associated processes and employee relations interfaces. Operationally continue to reduce disruption risk by maintaining and further developing 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 major events (e.g., Fukushima) need to be understood and potential consequences managed.	Potential impact <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> Undertake geopolitical risk assessments as part of regular due diligence. Established crisis-response and business resilience capabilities. Strategy, PR, and government-relations teams.

Principal Risks (continued)

<p>Contract Management</p> <p>Risk owner Chief Finance Officer</p>	<p>Failure to manage contracts with suppliers leading to inefficient delivery of AWE's mission.</p> <p>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.</p>	<p>Potential impact</p> <ul style="list-style-type: none"> 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. Negative consumer and public opinion. <p>Mitigating actions</p> <ul style="list-style-type: none"> Senior Responsible Officers are allocated and responsible for operational management of contracts with suppliers. Contract handover plans from Supply Chain Management to the business area. Correct systems, templates and toolsets in place to enable compliance to be measured through government's Internal Controls and Assurance Framework (ICAF). Reporting and performance review of contracts through business as usual supplier relationship management activity. Provision of appropriate training and accreditation.
<p>Project and Programme Baseline Management</p> <p>Risk owner Chief Operating Officer</p>	<p>Failure to maintain programme control.</p> <p>AWE has a large and diverse portfolio of programmes and projects in progress at any one time. Programme and Project Management is key to determine, with high confidence, that AWE's delivery mission is on track.</p>	<p>Potential Impact</p> <ul style="list-style-type: none"> 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 without high quality factual data. Poor project decisions, slow decision making, damage to AWE's reputation and loss of stakeholder confidence. <p>Mitigating actions</p> <ul style="list-style-type: none"> Enterprise Portfolio Management Office (PMO) as the central governing body of AWE's total programmes, bringing together requirements, constructing a coherent and optimised schedule of work and coordinating and reporting the delivery of programme output. Timely and effective engagement with relevant SROs and to identify and address emerging issues in a collaborative manner.
<p>Cyber Security and data loss</p> <p>Risk owner Executive Director Security</p>	<p>AWE is exposed to cyber-attack leading to denial of IS services and loss of data.</p> <p>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.</p>	<p>Potential impact</p> <ul style="list-style-type: none"> Breach of IT security, denial or interruption of services. Escape of sensitive information to the public domain. Financial penalties from Information Commissioner's Office (ICO) for personal data breach. <p>Mitigating actions</p> <ul style="list-style-type: none"> Continual programme of upgrades to technology to respond to changing threats. Effective IT, cyber and data management controls.

Principal Risks (continued)

<p>Environment, Social and Governance.</p> <p>Risk owner Director ESH&Q</p>	<p>Failure to recognise impact of ESG on achieving business objectives or demonstrate sufficient ESG credentials.</p> <p>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.</p>	<p>Potential impact</p> <ul style="list-style-type: none"> ▪ Adversely affect delivery of AWE's business objectives. ▪ Inability to attract and retain required staff and skills. ▪ Loss of key suppliers. ▪ Reputational and financial impacts. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Delivery of Sustainability Plan, Environmental and Social Value and Equalities Policies. ▪ Strive to continually reduce our environmental footprint. ▪ Consideration given to environmental impacts in all investment decisions. ▪ Be leaders in diversity and inclusion, research and development, social impact, and employee benefits, keeping up with and engaging in current developments.
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Environmental Sustainability Report

Environmental Sustainability Reporting

Outstanding environmental performance and sustainability remains important to AWE, it is an essential part of being a responsible and successful Company, helping to deliver the core mission.

AWE's Environmental Sustainability Strategy (ESS) sets out AWE's visions and goals for becoming a more environmentally sustainable business, against three key themes:

- reducing Carbon
- implementing the circular economy
- enhancing Biodiversity

Underpinning the three themes 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; responsible consumption, climate action and life on land.

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) executive board, the Environmental Social Governance (ESG) Committee and overseen by the Board SESH&Q Committee. The environmental goals set in the ESS are delivered in a staged manner and environmental improvement targets are set on an annual basis. Environment and sustainability are also key elements of AWE's Culture of Care behavioural framework so that all employees understand they have a responsibility to help "minimise the environmental footprint of AWE's core mission and strive to deliver the highest standard of environmental protection and sustainability".

Over the last year the AWE Carbon Management Strategy has been updated (<https://www.awe.co.uk/wp-content/uploads/2023/07/Carbon-Management-Plan.pdf>) and both a Nature Recovery Plan and an Implementing the Circular Economy Plan have been endorsed. These documents provide more detail as to how the goals set out in the ESS will be achieved including how the Greening Government Commitments will be met.

This is AWE's second year of reporting progress against the Greening Government Commitments (GGC), improvements will continue to be made to the collection and reporting of data to ensure it meets the reporting requirements. The following section provides a summary of performance against the overarching GGC 2021-2025.

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 AWE's Carbon Management Strategy (CMS) was updated in Autumn 2022 and identifies the key themes for focus including:

- supply of energy and opportunities for renewable energy sources
- 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

Environmental Sustainability Report *(continued)*

Scope 1 and Scope 2 carbon emissions are well understood, and further work has been undertaken 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. The revised CMS now includes a Scope 3 emissions strategy which identifies areas for focus including measuring embodied carbon from construction, further developing the Information Communication and Technology (ICT) carbon footprint, working in collaboration with the supply chain and reducing carbon emissions from business travel and employee commuting. These categories have been selected based on the significance of the carbon contributions, the levels of influence AWE can have in reducing emissions and the priorities set by the Greening the Government Commitments.

In developing the organisational carbon footprint AWE follows the Greenhouse Gas Protocol and uses the UK Government Greenhouse Gas conversion factors for company reporting. A carbon reduction target was set in 2019 for Scope 1 and 2 emissions. Since the baseline year of April 2017 – March 2018 (FY18) AWE's Scope 1 and 2 estate and operational emissions have reduced by 29%. This target has recently been updated to ensure it meets the requirements of a Net Zero Target following guidance from the Science Based Target Initiative (SBTi). This will be reflected in the reduction targets for the year ended 31 March 2024.

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					
		2022/23	2021/22	2020/21	2019/20	2018/19	2017/18
Non-Financial Indicators (tonnes CO ₂ e)	Scope 1 Direct Emissions (Natural Gas, other Fuels and Refrigerant Losses)	32,727	35,033	37,130	35,959	36,595	40,317
	Scope 2 Indirect Emissions (Purchased Electricity - Location Based)	26,357	28,645	31,061	33,870	36,518	43,282
	Scope 2 Indirect Emissions (Purchased Electricity - Market Based)	5	0	0	0	36,518	43,282
	Total Scope 1 & 2 Emissions Location Based	59,084	63,678	68,191	69,829	73,113	83,599
	Total Scope 1 & 2 Emissions Market Based	32,732	35,033	37,130	35,959	73,112	83,599

Environmental Sustainability Report *(continued)*

Related Energy Consumption (KWh) (000s)	Natural gas	174,463	183,923	190,983	188,875	189,943	202,860
	Purchased electricity	136,297	134,908	133,228	132,513	129,005	123,115
Gross Expenditure (£) (Includes purchased electricity, natural gas, and other fuels).	Energy	27,728,743	21,185,187	20,401,354	19,139,911	18,535,260	16,337,624
	Off-Sets	-	-	-	-	-	-

		Financial Year – 1 April to 31 March		
		2022/23	2021/22	2017/18 – 2020/21
Scope 3 Business Travel (tCO₂e)	Domestic air travel	129	46	Not reported
	International air travel (Short Haul)	105	Not reported	
	International air travel (Long Haul)	4,570	Not reported	
	Vehicle hire	245	130	
	Private mileage claims	158	99	
	Rail	27	11	
Gross Expenditure (As charged by travel provider).	Business travel [prior year level of expenditure was lower as a result of impact of Covid-19]	8,888,423	2,077,386	

Table 1 – Carbon Emissions

Environmental Sustainability Report *(continued)*

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 Greenhouse gas (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 as part of a successful trial and plans have been developed for the installation of a further 120 EV charging points by 2025.

AWE's site-based car hire pool fleet is provided by a third-party supplier, the cars provided are a mixture of mild hybrids (66%) and diesel (35%). Additional hire or lease cars are predominately diesel or petrol. 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

Although carbon emissions from domestic flights continues to be well below the FY18 baseline (954 tCO₂e) and the GGC target of a 30% reduction has been maintained, there has been an increase in emissions from domestic flights compared to FY22. This increase is due to the lifting of all travel restrictions following the pandemic. International business flights have been baselined and are reported for the first time.

A Travel Policy remains in place which encourages employees to consider their travel arrangements and sustainable travel options when making decisions about business travel. AWE continues to leverage IT solutions, reducing the need for face-to-face meetings and reframing what is considered necessary travel and will continue to review the policy in light of emerging opportunities to enhance it with regards to 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 the year ended 31 March 2023, 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. AWE is working with our supplier to obtain this data for future reporting.

Environmental Sustainability Report *(continued)*

	Financial Year – 1 April to 31 March					
	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18
Controlled Waste (tonnes)	3,446	1,662	1,425	2,215	1,822	2,287
Reused Waste (tonnes)	131	57	99	179	162	319
Recycled Waste (tonnes)	2,901	1,163	945	1,401	1,086	1,270
Recovered Waste (tonnes)	334	352	304	432	429	431
Disposed (Incineration and Landfill) (tonnes)	80	90	77	203	145	267
Gross Expenditure (£) (Includes Waste Contract Costs & Electronic Media Shredding)	988,543	851,347	780,759			

Table 2 – Waste Management Performance

The increase in controlled waste between 2021/22 and 2022/23 is due to the removal of assets that are no longer required and disposal of legacy wastes as operations modernise and prepare to move into the new facilities that are being built. It is anticipated that the quantities of controlled waste could increase over the next 2 to 3 years as this transition continues. However, focus will continue the implementation of the waste hierarchy.

During the year ended 31 March 2023 AWE started to segregate and record the quantities of food waste from the Aldermaston site. Since November 2022, 8.8 tonnes of food waste have been sent for anaerobic digestion – a recovery operation. (This excludes food waste generated on the construction/demolition sites).

The quantities of ICT waste are shown below in Table 3. 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					
	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18
ICT Waste (tonnes)	27	15	16	37	29	32

Table 3 – Approximate Information Communication Technology Waste Arisings

Reducing Paper Usage

Since the last reporting period improvements have been made to the collation of data on paper use. The data in Table 4 represents the volumes of printer paper purchased for A3 and A4, the figures previously reported in FY22 have been updated and figures for FY21 have been included.

Printer paper dominates AWE office supply, averaging around 84% of all paper products that it purchases. The introduction of more agile working patterns has helped reduce the level of printing and even after the Covid-19 pandemic there has remained a drop of around 60% in printing, compared to the 2017/18 baseline.

Environmental Sustainability Report (continued)

	Financial Year – 1 April to 31 March		
	2022/23	2021/22 ¹	2020/21 ²
A3 Paper Total No. Reams (500 sheets per ream)	488	1,490 (3,910)	1,790
A3 Paper Total No. Boxes (5 reams per box)	98	298 (782)	358
A4 Paper Total No. Reams (500 sheets per ream)	8,560	10,726 (12,115)	9,684
A4 Paper Total No. Boxes (5 reams per box)	1,712	2,145 (2,423)	1,936

Table 4 – Paper Purchased

¹FY22 data has been updated, figures in brackets are previously reported figures

²Additional data added in the year ended 31 March 2023

Removing Single-Use Plastics

Prior to the latest legislation on single use plastic AWE has removed all single-use plastics in the canteen. All cutlery is either washed and reused or is wooden, take away boxes are made from biodegradable materials 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. During the pandemic there was, as would be expected, an increase in the use of disposal cups, however since July 2022 AWE, has once again driven down the use of disposable cups from catering services, by incentivising the workforce to use reusable cups and has seen a 50% reduction. Whilst not as low as pre-pandemic levels this is a significant reduction and AWE will continue to encourage employees to use re-usable cups.

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. Moving forward there will be continued focus on:

- reducing the consumption of consumer single-use plastics across the business
- reducing onsite chemical inventories and the use of environmentally harmful substances
- 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. Most of the 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.

Managing leaks on the water network is a challenge, especially on an aging infrastructure. The water network is divided into District Metered Areas (DMAs) and data is analysed to identify leakage and target resources appropriately. A two-stage strategy is implemented; firstly, *Find and Fix Campaigns* to accelerate leakage reductions and secondly pressure management on the network to further reduce leakage rates.

There has been a reduction in water abstraction since the baseline year FY18 as shown in Table 5. AWE will continue to identify opportunities to improve water efficiency, reduce usage and set site specific targets. Improvements have been made to data capture and analysis to ensure consistency in reporting. This has resulted in a revision of the figures as indicated in Table 5.

Environmental Sustainability Report *(continued)*

	Financial Year – 1 April to 31 March					
	2022/23	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>	457,296	496,304 (432,595)	483,221 (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>	181,986	146,567	214,147 (214,635)	86,159	123,734	165,706
Aldermaston <i>Main Water Supply m³</i> <i>Scope 2 Water -</i> <i>purchased water</i>	178,840	129,713	116,333	143,323	216,158	177,653
Blacknest <i>Main Water Supply m³</i> <i>Scope 2 Water -</i> <i>purchased water</i>	7,310	6,034	4,739	4,577	11,833	1,316
Total m³	825,432	778,618 (708,875)	818,440 (1,028,336)	600,869 (596,292)	926,035 (914,202)	948,501 (947,185)
Gross Expenditure (£) (Purchased Water)	244,883	189,005	163,631	174,808	266,476	198,383

Table 5 – Water Use
Figures in brackets previously reported in FY22.

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 are currently being implemented that will align AWE closer to the standard.

Environmental Sustainability Report (continued)

Nature Recovery

AWE is committed to protecting and enhancing the biodiversity of the estate it manages. To this end the organisation developed and published its Nature Recovery Plan (NRP) in 2022. The NRP sets out how AWE's Vision, Goal and Objectives relating to enhancing biodiversity, as set out in the ESS and is aligned with the GGC's and the Ministry of Defence Climate Change and Sustainability Strategic Approach. Progress over the last year includes:

- engaging with the Local Nature Partnership, wildlife charities, local planning authority and other organisations in the nuclear sector to ensure actions taken to enhance biodiversity, complement wider regional goals and share best practice with similar organisations
- to raise staff awareness of biodiversity issues several articles have been published in AWE's in-house magazine, awareness presentations given to groups of staff and internal intranet pages covering sustainability have been improved
- all major development projects are on target to achieve at least 10% Biodiversity Net Gain
- protecting and enhancing tree planting and woodland cover through compensatory planting when trees are felled at a 3:1 ratio (new:old). Planting of a traditional orchard habitat has also started, which will eventually cover 2.5 hectares
- to protect and enhance pollinator friendly habitat the area of reduced mow grassland has increased by 5000m² to total of 20,000m²
- recognising the potential of, and deploying, Nature Based Solutions (NBS), an estimate has been made of carbon sequestration benefits of existing woodland areas
- methodologies have been reviewed and selected for the production of a Natural Capital Register, which will form the basis for subsequent assessments of the benefits derived from Ecosystem Services and ultimately the production of a full set of natural capital accounts
- reporting against the NRP and demonstrating progress against key biodiversity indicators and targets, site wide surveys undertaken for the great crested newts (*Triturus cristatus*), breeding birds and over-wintering wetland bird species

Adapting to Climate Change

Over the last year climate change risk assessments have been completed following the Defence Infrastructure Organisation ((DIO) Climate Impacts Risk Assessment Methodology (CIRAM), which is designed to improve the resilience of MOD establishments to climate related hazards and ensure continuity of operations. It identifies the risks posed by current and projected impacts of climate or extreme weather events, any opportunities and actions and measures required to build resilience. The assessments have been undertaken on key facilities at Aldermaston and Burghfield and it is intended to undertake further assessments over the next year. Several project level CIRAM assessments have previously been completed for new build developments.

An assessment against the recommendations from the Task Force on Climate Related Financial Disclosures (TCFD) was also completed in 2022. Further disclosure against TCFD is provided in Taskforce on Climate Related Financial Disclosures set out below. AWE continues to work on strengthening its alignment to the recommendations.

Sustainable Construction

Sustainability Appraisals are required for all projects that could affect the environment, society, or the economy. It helps to identify potential negative impacts, allowing alternative options to be sought or mitigation measures to be implemented, and to identify positive sustainability benefits and enhancement opportunities.

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". Progress against DREAM is tracked and monitored.

Environmental Sustainability Report *(continued)*

All new build projects and significant refurbishment projects are required to produce an Energy and Carbon 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 sustainability opportunities, including the selection and purchasing of key building materials.

Reducing environmental impacts from ICT and digital.

AWE remains committed to modernising and bringing new information and technology capabilities to AWE, improving ways of working and minimising the impact on the environment. ICT suppliers are assessed following AWE's sustainable procurement processes and further supplier engagement is undertaken through the Sourcing Strategy, including how suppliers can demonstrate their current carbon footprint and how they intend to reduce this over the term of the contract. This includes but is not limited to hardware and software provision be it on site or off.

As previously described the quantities of ICT waste are recorded and are removed from site via a DESA contractor and are taken away for checking, repairing and resale. The Sourcing Strategy works is also used to identify where improvements can be made to further drive this behaviour across all our ICT suppliers.

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

This work aligns to the objectives in the Greening Government ICT and Digital Services Strategy, AWE has also provided ICT sustainability data to the Sustainable Technology Advice and Reporting (STAR) team.

Streamlined Energy and Carbon Reporting (SECR)

Energy and Emissions Summary

The consumption and emissions data for AWE has been collated and summarised below. 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 (April 22 – March 23)	Comparison Reporting Year (April 21 – March 22)
Emissions from combustion of gas (Scope 1)	tCO ₂ e	31,848	33,689
Emissions from combustion of fuel for transport purposes (Scope 1)	tCO ₂ e	534	463
Emissions from purchased electricity (Scope 2 - location based)	tCO ₂ e	26,357	28,643
Emissions from purchased electricity (Scope 2 - market based)	tCO ₂ e	5	0
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)	tCO ₂ e	2,411	2,535

Environmental Sustainability Report *(continued)*

	Units	Current Reporting Year (April 22 – March 23)	Comparison Reporting Year (April 21 – March 22)
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)	tCO ₂ e	0	0
Emissions from business travel in rental cars or employee-owned vehicles where Company is responsible for purchasing the fuel (Scope 3)	tCO ₂ e	403	227
Total Gross emissions (Location based)	tCO ₂ e	61,553	65,556
Total Gross emissions (Market based)	tCO ₂ e	32,790	34,379
Energy consumption used to calculate above emissions	kWh	314,642,051	321,741,182
Intensity Measurement	m ² Floor Area	569,531	593,620
Intensity Ratio - location based		0.1081	0.1104
Intensity Ratio - market based		0.0576	0.0579

Table 6 – Energy and Emissions Summary

Quantification and Reporting Methodology

Organisations are required to disclose the methodology used to calculate the data reported. AWE have followed the 2019 HM Government Environmental Reporting Guidelines and GHG Reporting Protocol - Corporate Standard. We have also used the 2022 UK Government's Conversion Factors for Company Reporting. We have used an operational approach to define our boundary and scopes. This data has been independently audited.

This financial report is based upon the year ended 31 March 2023.

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. AWE has one Landlord supplied site, this site is not directly invoiced and landlord supplied data is used.

Liquefied petroleum gas (LPG) usage has been based on delivered quantities. At Aldermaston this was based on the estimated annual usage used in UK Emissions Trading Scheme (ETS) reporting.

On-site (Scope 1) transport data was calculated from litres used, this was taken from dispensing records. Burghfield diesel records did not define the proportion of usage to vehicles. It was assumed that 100% of the Diesel usage is for vehicles.

Company vehicles (Scope 1) transport data was calculated from fuel card data which provided the litres used by company vehicles. Grey Fleet (Scope 3) transport data for private vehicles was calculated using mileage claim data and emissions factors for average vehicle of unknown fuel type. Hire cars were calculated from either litres used or from estimated mileage and average vehicle types.

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.

Environmental Sustainability Report *(continued)*

Energy Efficiency

For the year ended 31 March 2023 AWE delivered the following energy efficiency savings:

- 16,800,000 kWh/year natural gas reduction from multiple building closures and subsequent disconnection from site-wide steam networks
- 20,000 kW/year natural gas reduction from repairs and insulation improvements to multiple building roofs
- 57,000 kWh/year electricity reduction from replacement of fluorescent lighting systems with LED
- 652,000 kWh/year electricity reduction from replacement of hydroboils, motors, fans, and pumps with more efficient models

For the year ended 31 March 2023 AWE also:

- integrated the site heating strategy for decarbonisation of estate heating infrastructure into requirements for all new capital builds and major refurbishment programmes. Resulting in a phased withdrawal from steam and natural gas systems at AWE aligned with programme investments and decarbonisation targets
- commenced a project to install a further 120 electric vehicle charging points on site(s)
- commenced a metering project to improve monitoring and targeting of energy consumption and support behavioural changes
- engaged a supply chain partner to bolster AWEs internal Energy Management team resources and accelerate future reduction activities

Taskforce on Climate Related Financial Disclosures

The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 amend sections 414C, 414CA and 414CB of the Companies Act 2006 to place requirements on certain publicly quoted companies and large private companies to incorporate TCFD aligned climate disclosures in their annual reports.

This year AWE has been working towards its first disclosure against the Taskforce on Climate Related Financial Disclosures' (TCFD) recommendations. A readiness review was undertaken in 2022 which presented an initial view of AWE's climate related risks and opportunities, identified opportunities for improvements to policy documents, governance and strategy processes, and metrics and targets, and developed a roadmap to further align with the TCFD disclosure recommendations.

Since the readiness review was completed, work has been undertaken to identify climate related risks and opportunities using the Defence Infrastructure Organisation (DIO) Climate Impact Risk Assessment Methodology (CIRAM), which forms part of the wider Sustainability and Environmental Appraisal Tools (SEAT), utilised by the Ministry of Defence (MOD).

This work also contributes to Commitment F on Climate Change Adaptation under the Greening Government Commitments (GCC), which requires organisations to develop climate change adaptation strategies, and the MOD Climate Change and Sustainability Strategic Approach (MOD CC&SSA) publication which outlines the initial response required to adapt to and mitigate the challenges of climate change.

Environmental Sustainability Report *(continued)*

The following disclosure presents a summary of AWE's progress with implementation of the TCFD recommendations and planned actions for the year ended 31 March 2024 to further improve alignment across the following areas:

- **governance:** Disclose the organisation's governance around climate related risks and opportunities
- **strategy:** Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material
- **risk management:** Disclose how the organisation identifies, assesses, and manages climate-related risks
- **metrics and targets:** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Governance

As described in the Environmental Sustainability Report outstanding environmental performance is crucial to AWE. It is for this reason that environmental sustainability is identified as a strategic initiative in delivery of the AWE Business Plan.

AWE's Environmental Sustainability Strategy (ESS) sets out AWE's visions and goals for becoming a more environmentally sustainable business against three key themes: Reducing Carbon; Implementing the Circular Economy and Enhancing Biodiversity. Leadership commitment is instrumental in making the ESS a reality. Environment Social Governance (ESG) at AWE is sponsored by ESHQ&EE Executive Director and the ESG committee, attended by Executive members, is responsible for setting the strategic direction for ESG. Therefore, development and progress of the ESS, including endorsement of the annualised targets and monitoring of progress against them, is governed at Executive level via the SESH&Q board and the ESG Committee and overseen by the Board SESH&Q Committee.

AWE's Carbon Management Strategy (CMS) is also endorsed by the SESH&Q board. Progress against the CMS including improvements against the implementation of TCFD recommendations is monitored monthly at the Environmental Sustainability Steering Group chaired by the Head of Environment. Regular progress against the ESS and CMS is presented to the SESH&Q board and ESG Committee including an annual report of progress.

AWE has well established governance processes for risk management. AWE's risk and opportunity management framework is designed to ensure that all risk information is communicated up and down the business. This ensures that the Executive and Customer have a clear understanding of the cumulative risk position of AWE.

During the year ended 31 March 2024 it is intended to integrate the climate related risks and opportunities identified during the recent CIRAM Assessments into AWE's existing risk management process, including the development of a dedicated climate change risk register.

Strategy

AWE's ESS and CMP provide the framework to enable AWE to become a more environmentally sustainable business, including the ambition to achieve Net Zero Carbon by 2050. During the year ended 31 March 2023 AWE have undertaken scenario analysis to identify climate related risks and opportunities using the DIO Climate Impact and Risk Assessment Methodology to produce a Climate Impact Vulnerability Assessment Report. This methodology identifies the risks posed by current and projected impacts of climate change and extreme weather events and identifies actions required to optimise operational capabilities.

Environmental Sustainability Report *(continued)*

AWE assessed physical climate-related risks for 9 facilities, against two climate scenarios. The facilities were chosen as they represent key buildings and enduring capabilities and are representative and transferrable to other facilities. Two scenarios were used, in line with MOD guidance to enable an easy comparison of a lower and more extreme climate change scenarios, specifically the Met Office's UKCP18 datasets:

- RCP2.6: compatible with aims to limit global warming since pre-industrial levels to below 2°C, in line with the Paris agreement
- RCP8.5: considered to be a reasonable worst-case scenario with an increase of around 4.3°C by 2100 above pre-industrial temperatures. It aligns with the MOD's strategic approach ambition to be ready for a climate changed world of between +2°C and +4°C

The assessment identified that the estate will be most impacted by the following climate hazards: flood, temperature extremes, storms and drought. Key climate risks identified across the facilities include flooding, rainwater ingress, high indoor temperatures with potential impact on plant, equipment and staff and lack of water due to drought, with potential to increase capital and operational expenditure. For the physical risks identified, mitigation is already in place or has been planned for the near future.

The TCFD Readiness Review identified a number of climate related transition risks, such as policy and legal risks and reputational risk. These will also be captured within the Climate Risk Register during the year ended 31 March 2024 and further identification and assessment of transitional risks is planned. The CMS is the main mitigation for managing transitional risks. AWE's CMS also identifies some climate-related opportunities including AWE's ambitious new build programme which provides significant opportunity for the construction of sustainable buildings compatible with Net Zero ambitions, improving energy efficiency, reducing future running costs and improving building climate resilience.

Risk Management

Following the requirements of the GGC and MOD CC&SSA the Climate Impact Risk Assessment Methodology (CIRAM) will be used as the means of identifying and assessing climate related risks and opportunities. A formal approach for identifying climate-related transition risks and opportunities will be developed. Relevant risks and opportunities will be assessed and managed via AWE's existing risk management framework including the development of a Climate Change Risk Register. This arrangement shall be formalised in the year ended 31 March 2024

Metrics and Targets

AWE's net zero ambition is supported by a carbon reduction target for Scope 1 and Scope 2 carbon emissions following the Science Based Targets Initiative (SBTi) methodology. This target was originally set in 2019 and was aligned to the below 2-degree pathway. During the year ended 31 March 2023 this target has been realigned to ensure it meets the requirement of a Net Zero target aligned to the 1.5 degree pathway. To date AWE has achieved the annual reduction targets. This is reported as a Tier 1 Executive KPI.

AWE discloses energy usage and carbon emissions as required by the GGC and the mandatory SECR. Scope 3 business travel emissions are also reported, as well as other key environmental metrics including water consumption and waste. Specific metrics for climate related risks will be developed during the year ended 31 March 2024.

Continuing to improve AWE's alignment with the TCFD recommendations had been identified as a key objective against the CMS for the year ended 31 March 2024. A programme of works including the actions identified above is being developed. Progress will be monitored monthly at the Environmental Steering Group and reported to the SESH&Q board and overseen by the Board SESH&Q Committee.

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 overall challenge to and oversight of the activity of the Company. It operates under AWE's Articles of Association and Terms of Reference which includes a statement of those decisions which are reserved to the board.

For national security reasons, this statement does not discuss individual decisions in detail. The board's main areas of focus in the reporting period have been oversight of the Company's performance of its programme of work in alignment with the objectives and mission of MOD, and of the design and execution of the Company's transformation programme.

The board reviewed and approved the Company's first Business Plan since its transfer into public ownership; this Plan sets out among other matters the programme that the Company undertakes in support of the UK's strategic deterrent.

The board also considered and approved the Company's strategy, which underpins the programme of transformation to put the Company into the best position to address and deliver the future demands on its capabilities. This strategy's five themes entail modernising AWE's capability through driving operational excellence, a production-centric operating model and investing in information technology systems; enhancing engagement with national academic and industrial capability; ensuring the Company is able to attract, retain and develop the people it needs to deliver its missions; implementing a substantial construction programme to ensure it has the necessary infrastructure to continue to fulfil its programmes into the future; and enhancing its engagement with the wider defence nuclear enterprise.

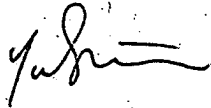
In taking such decisions, the board takes into account the considerations referred to in s172(1) as follows:

- long term consequences: The nature of AWE's principal activities often require planning ahead for many years 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 MOD
- employee interests: The workforce of AWE is fundamental to its ability to discharge its role. The Company has well established processes and ongoing dialogue engaging both with trades unions and other employee representatives. The board has reviewed AWE's programmes of leadership development, its strategic workforce planning and career development structures which underpin the opportunities available to employees, and measures including safety and anti-bullying and harassment training, and the provision of an award-winning programme for health and wellbeing
- supplier, customer, and other relationships: The board recognises that fulfilling AWE's mission requires close liaison with MOD and its other customers, together with careful management of internal resources and skills drawing on best-in-class capabilities from its supply chain, including strategic partners and specialist providers encompassing 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, particularly, of its specialist providers, the Company takes careful account of the reliability and sustainability of support from its supply chain
- community and environment: AWE maintains a regular executive-led meeting with focus on the engagement between the Company and the wider community and environment. This meeting considers both the impact and potential impact of the Company's operations on the local community and environment, and the opportunities for employment and educational benefits. This meeting is complemented by regular liaison with local community groups comprised of local authorities and other representatives. All decisions taken by the Company with regard to its estate consider 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 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 publicly owned 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 parliamentary and other formal forums. AWE 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

Section 172(1) Statement *(continued)*

- 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. The board supports its relationship with the shareholder by ensuring that the Company balances the interests of all of its wider stakeholders in its decision-making and implementation

Approved and signed on behalf of the board on 27 September 2023



Iain Stevenson
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 year ended 31 March 2023. The Company is registered in England and Wales and has registration number 02763902.

Directors who have held office on the AWE board between 1 April 2022 and 31 March 2023 are:

- Sir John Manzoni, Chairman
- Alison Atkinson, Chief Executive Officer (CEO) – resigned 17 April 2023
- Richard Elsy, Non-executive Director
- Claire Flint, Non-executive Director
- Barry Hunter, Chief Financial Officer (CFO)
- Dame Sue Ion, Non-executive Director
- Nicole Kett, MOD-appointed Non-Executive Director – resigned 1 June 2022
- Richard Keys, Non-executive Director
- Henry Lloyd, MOD-appointed Non-Executive Director
- Andrew McNaughton, Non-executive Director (from 6 February 2023, Executive Director)
- Dr J Stephen Rottler, Non-executive Director

Directors who have held office on the AWE board at the time of approving the annual report and accounts:

- Iain Stevenson – appointed 7 June 2023

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, where it was assessed that conflicts of interest could potentially arise, were held by members of the board during the year ended 31 March 2023:

- 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 was an employee of UKGI, which works alongside the SoS for Defence, who is the sole shareholder of the Company
- Andrew McNaughton was a director of Sheffield Forgemasters Limited, a current supplier to the Company. He also carried out consultancy work for the Company through Aczel Limited for a period of 10 weeks
- Alison Atkinson was a director of Kier Group plc who was a potential contractor to the Company

No conflicts have arisen with respect to these interests. A full list of all interests is maintained, however all other interests were not considered to give rise to potential conflicts and are therefore not disclosed.

Directors' Report *(continued)*

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
- 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. On 21 July 2022 MOD provided a guarantee in favour of the trustees of the defined benefit pension scheme (the "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 2023 was £238m (31 March 2022: £53m).

Dividends

The directors have declared no dividends during the current year. In the 15 months ended 31 March 2022 a dividend of £17.7m was paid prior to the transfer of ownership on 30 June 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 year ended 31 March 2023 (15 months ended 31 March 2022: nil).

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 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 its foreign currency cash flows (see Note 18 for further details).

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.

Directors' Report *(continued)*

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 2023 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 Board 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 35 and in the accounting policies on pages 72 to 79.

The Company is expected to continue to generate positive cash flows on its own account under existing contractual and non-contractual arrangements with the MOD. The Company's banking arrangements are dealt with by 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 2024.

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 the current 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

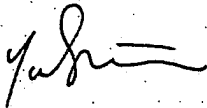
Please see the commentary in relation to Companies Act s172(1) on page 32 and 33.

Directors' Report *(continued)*

Engagement with employees

Please see the commentary in the People Report on page 55.

Approved and signed on behalf of the board on 27 September 2023

A handwritten signature in black ink, appearing to read 'I. Stevenson', with a stylized flourish at the end.

Iain Stevenson
Chief Executive Officer

Statement of Directors' Responsibilities

The directors and Accounting Officer (AO) are responsible for preparing 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
- 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.

The directors and AO confirm that to the best of our knowledge that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the Shareholder to assess the Company's performance, business model and strategy.

Governance Statement

The AWE Board

The AWE board meets around seven 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.

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 His 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 assessments of their effectiveness, including the quality of information provided to them to enable them to discharge their roles. The board conducted what was its first such assessment as a self-assessment during the reporting period.

Board members

The board consists of a chairman, executive directors and non-executive directors; the non-executive directors include representation from the shareholder and form the majority of the board. The Chair is responsible for leading the board. Board members are responsible for 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.

Non-executive directors 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.

Governance Statement *(continued)*

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 in the reporting period have been set out in the Directors' Report on page 35.

Attendance at the AWE board and sub-committees

The following table sets out attendance at board meetings and sub-committees of which the relevant Director was a member. All board members are invited to attend sub-Committees whether or not they are members, except where they have a conflict of interest.

Board member	Board	ARAC	Infra. Cttee	Nom. Cttee	P&P Cttee	Rcm. Cttee	SESHQ Cttee	ESTAC
Sir John Manzoni	8/8*			2/2*				
Alison Atkinson	8/8							
Richard Elsy	8/8*		4/4	2/2	4/4			
Claire Flint	8/8			2/2		6/6*	4/4	
Barry Hunter	8/8							
Dame Sue Ion	8/8				4/4		4/4	5/5*
Nicole Kett ¹	2/2				1/1			
Richard Keys	7/8	6/6*	2/4			5/6		
Henry Lloyd ²	8/8	6/6	4/4	2/2	3/4	6/6	2/4	5/5
Andrew McNaughton	8/8	4/5	4/4*		4/4			
Dr J Stephen Rottler	8/8	6/6			4/4		4/4*	5/5

*Denotes chair of the board or committee

¹ Nicole Kett resigned as a director of the Company as of 1 June 2022.

² Owing to concurrent meetings during the year, Henry Lloyd was unable to attend 2 SESH&Q meetings and appointed alternates for both.

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 (ARAC)

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 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 non-executive director, Richard Keys. The other committee members in the reporting period were non-executive directors, as follows: Henry Lloyd, Andrew McNaughton (for part only of the year) and Dr J Stephen Rottler.

Performance during the period

In the period the Committee met six times, including extra-ordinary meetings. The Committee receives regular reports on the ICAF internal financial control environment second line of defence; key strategic risks, internal controls and the risk management processes; and from internal audit and the National Audit Office (NAO). As part of these reviews the Committee has reviewed the effectiveness of the system of internal controls. Further details on the effectiveness of the control environment is set out on page 47 of this report.

Governance Statement *(continued)*

The Committee has considered a number of discrete matters during the year, including the preparation and audit of the annual report and accounts, and the related accounting principles and policies, including the approach to be taken to segmental reporting. The Committee also had oversight of the annual assurance report delivered to the Department and reviewed and approved the current year corporate assurance and internal audit plans as part of a review of the three year forward programme, as well as the creation and appointment of the new role of Head of Assurance with responsibility for leading the design and delivery of these plans. The Committee also received updates on the proposed future transfer of the management of the Company's Internal Audit function to the Government Internal Audit Agency (GIAA).

The Committee noted that the provision of a guarantee by the MOD to the trustees of the Company's defined benefit pension scheme (the "Scheme") and surrounding arrangements did not change the accounting position relating to the Scheme's deficit. In providing the guarantee to the trustees, MOD also put in place arrangements to provide practical assurance to the Company's board of Directors as to the Company's ability to continue operating as a going concern should the trustees be in demand of funds and where the guarantee would be involved.

Engineering, Science and Technical Capability Assurance Committee (ESTAC)

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 meets a minimum of four times a year and is chaired by a non-executive director, Dame Sue Ion. The other committee members are Dr J Stephen Rottler (non-executive director), Mr Henry Lloyd (non-executive director) and four independent advisors. The Committee was formed in 2022 with its inaugural meeting in April 2022.

There were 5 full day sessions in the reporting period on 7 April 2022, 29 June 2022, 7 September 2022, 30 November 2022 and 31 January 2023.

Performance during the period

The Committee has considered the following matters during the period:

- overview of AWE organisation's technical governance
- annual capability assessments 2021 and 2022
- Replacement Warhead programme and governance arrangements
- Non-Nuclear Components (NNC) strategy
- science and engineering view of the Hub
- AWE National Nuclear Services Laboratory
- outreach strategy
- Annual Assessment of Stockpile Health (AASH) 2022
- AWE Technical Authorities Advice
- potential Defence Science and Technology Laboratory (DSTL) Radiation Science Group (RSG) transfer to AWE
- hydrodynamics trials plan and capability incl. EPURE and firing point 2
- materials and analytical science and labs capability

The Committee has undertaken tours of the following facilities:

- Non-Nuclear Components Facility (NNC) Facility
- High Performance Computing (HPC) Facility
- hydrodynamics facilities
- forensics, analytical chemistry and radiochemistry facility (joint tour with SESH&Q committee)
- dosimetry and bioassay facility (joint tour with SESH&Q committee)

Governance Statement *(continued)*

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 non-executive director. During the period, the Chair of the committee was initially held by Andrew McNaughton. At the point of his transfer to an Executive position within the organisation, the role of chair was adopted by Richard Elsy who was previously a committee member. The other committee members in the reporting period were non-executive directors – 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 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 alignment between the schedule for the portfolio of projects against the Company's strategic business plan
- the assessment of funding mechanisms for major programmes against the defined delivery outcomes
- the relationship with strategic contractors and suppliers and in particular the relevant commercials selected for the delivery of specific projects

Nominations Committee

The Nominations Committee 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 the board and executive teams, talent management, leadership development and Equality, Diversity & Inclusion strategies and performance.

The Committee meets twice a year and is chaired by the Chairman of the board, Sir John Manzoni, other committee members are Richard Elsy, Claire Flint, and Henry Lloyd.

Performance during the period

The Committee met twice in the reporting period and focused on executive succession, talent management of the leadership population and the advancement of equality, diversity, and inclusion at AWE.

Governance Statement *(continued)*

The principal activities of the Nomination Committee during the year were:

- **Executive and board Succession** The Committee reviewed changes to the Executive team in the year ended 31 March 2023, including the introduction of a Chief Operating Officer role and Executive Director Fissile Infrastructure, and succession for three executives who indicated their intention to leave in or shortly after the end of the reporting period. The Committee reviewed succession plans for each role including CEO. It was noted that the Executive is 30% female and 100% white and there was opportunity in recruitment activity to improve in both gender and ethnic diversity for the Executive team. An improvement in succession for core operational business areas and the number of immediate suitable successors for the Executive team were observed. The Company's newly launched high potential programme was appraised and supported.

In addition the Committee considered the arrangements for board succession, particularly in the light of one non-executive director's transitioning to the Executive Director Fissile Infrastructure role and the need to replace them as a non-executive director. Further, the Committee discussed the fact that the simultaneous appointment of many of the non-executive directors on AWE's transition to NDPB status means that their terms of office expire at the same time, and considered measures to mitigate the impact on board continuity should this mean that a number of non-executive directors stepped down from the board at the same time.

- **Leadership & Manager capability** The Committee reviewed the activity in place to improve leadership and line manager capability aligned with the strategic ambition of the organisation. This included a significant step forward through investment in AWE's leadership development.
- **Equality, Diversity & Inclusion** The Committee agreed and set diversity targets recognising the stretch target for nuclear and defence sector for 40% female for 2030. The committee noted AWE was recruiting more females into the organisation, above the 22% female talent pool, however more was needed to be done to reach the 2030 ambition.

The Committee noted the plans in the strategy, including greater working families support as well and reproductive health, were designed to improve diversity and inclusion at all levels of the organisation. The committee recognised the emerging location strategy would be a key enabler of greater cognitive as well as demographic diversity.

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 non-executive director, Richard Elsy. The other committee members in the reporting period were non-executive directors – 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:

- **Deployment of transformation activities in Operations** To help improve overall operational performance, manufacturing industry "best practice" techniques and processes have been benchmarked and a plan formulated to embrace these within AWE plc Operations. This year has seen us move from the planning phase into the initial stages of implementation.

Governance Statement *(continued)*

- **Investments for the Laboratories and Trials Delivery Unit** A considerable amount of work has been done to define and agree a directional plan for Laboratory and Trials equipment investment needed for AWE's future programmes. One major investment "The Hub" has been approved and will start full construction in 2023 now that the ground has been prepared.
- **Digitising operations** A major programme to fully digitise our engineering and operations, in line with industry best practice has been defined and agreed. Preparation work to get ready for implementation is underway. During 2023 there will be a ramp up of activities within operations to deliver the project, named Odin, and the benefits defined in the business case.
- **Development of Project Endurance** In line with Operations seeking to adopt best practice, our PMO has also undertaken a project to streamline performance and enhance management information systems. The committee has reviewed these plans and supported the implementation of this project, named Endurance.
- **Programme deep dives** Several valuable deep dives into the individual projects that make up the forward plan have been conducted throughout the year and regular updates are reported into the committee across the Warhead Portfolio.
- **Deep dives into specific facilities** A regular schedule of deep dives into the production Technology Centres have been conducted throughout the year focusing on operational excellence and cross-business best practice.

Security, Environment, Safety, Health, and Quality Committee (SESH&Q)

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 non-executive director, Dr J Stephen Rottler. The other committee members in the reporting period were non-executive directors – Claire Flint, Dame Sue Ion and Henry Lloyd, 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 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

Over the past year, the Committee has considered the following significant matters:

- regular review of the Company's security, environment, safety, health, and quality performance
- deep dives into Security and Cyber-Security
- ageing estate and legacy assets. This paper provided an update on AWE's ageing infrastructure position and Asset Management approach to future sustainment
- a brief on the issue, and plan to resolve on site transformers following an event at AWE Aldermaston site, where a high voltage transformer link box failed due to an over pressure. This operated the high voltage switchboard safety devices and shut down the transformer. The investigation has been completed resulting in actions to prevent reoccurrence, a wider learning reference asset management has been identified
- board leadership and sustained safety performance and closure of level 1 regulatory issue. This paper put forward the means of demonstration by the board and its committee members
- the future proofing of Safety case delivery was discussed. Which identified improvement themes to respond to those challenges in terms of capacity, capability and safety case delivery processes

Governance Statement *(continued)*

- an introduction to sustainability and the ESG Framework
- insights to the AWE Supply Chain, discussed observed issues and understood proposed recommendations to manage the issues. Proposals identified several actions to confirm and remedy the identified issues. These include but are not limited to supporting supplier achievement of ISO9001, improvement to and addition of supply processes, and Abolishment of MOTS
- project Fleet progress update. Following feedback from a number of AWE key internal and external stakeholders that the current AWE approvals and governance processes do not always deliver a successful, efficient and timely scrutiny/approval of Nuclear Safety cases and/or submissions, the Executive Director Corporate Assurance and the Executive Director ESHQ&EE have sponsored Project Fleet to re-assess the overall requirements for safety submissions approvals/governance and to propose an efficient system which gives clear accountability and is proportional to the hazards/risks involved

Remuneration Committee

The Remuneration Committee 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 or 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 non-executive director, Claire Flint. The other committee members were non-executive directors as follows: 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 six times during the reporting period. It has considered the 2022 and 2023 pay awards for all employees and conducted a detailed review and benchmarking exercise for Executive incentive schemes. Performance measures and subsequent outcomes for incentive schemes were also agreed. The Committee has monitored the performance management outcomes for all employees and continued, in consultation with HMG, to develop a broad reward framework for all employees that will enable the attraction and retention of the skills and capabilities needed. Willis Towers Watson (WTW) have been appointed to provide advice to the Committee on executive remuneration including benchmarking. 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.

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, Programme 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

Governance Statement *(continued)*

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. AWE is now required to comply with the MOD's Internal Control Assurance Framework which is a similar financial control framework to SOX. AWE's controls are mapped against MODs controls annually, which identified three low-risk gaps (Import Duty, Business Cases and Delegation of Authority) for this year. These gaps are being addressed by process owners.

The Company Management System captures the policies and procedures that the organisation operates to, against 16 high level processes. 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 conducted in a safe and consistent manner, ensuring they comply with regulatory requirements in particular the Office for Nuclear Regulation (ONR) Licence Conditions.

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 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.

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

Internal Regulation 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 produced 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.

Governance Statement *(continued)*

Head of Internal Audit opinion

The Head of Internal Audit's annual report for the year ended 31 March 2023 noted that the Internal Audit programme of work undertaken during the year was developed to provide assurance against the 14 strategic risks. The approach to each activity is risk-based and aims to support the expression of a formal opinion on the overall effectiveness of internal control.

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 consist of clearly defined controls with oversight by a designated compliance team.

Internal Audit place reliance on the activities of the Internal Regulation and Quality Management System Compliance teams for assurance over environment, safety and health and production related activities. Internal Audit reviews the approach and processes of these teams which were given Substantial Assurance.

Recurring themes from individual audits were highlighted including process compliance / improvement, data accuracy and local risk management. Planning of improvement projects was also highlighted, where several medium-risk issues were identified at an individual improvement programme level. Detailed, resourced implementation plans were not available to provide confidence that the benefits would be delivered in the desired timescales.

The report recognised that the Company continues to undertake significant organisational change in order to meet the future programme demand. It also acknowledges that during the period AWE was in the process of maturing its approach to risk management and internal control framework.

The Head of Internal Audit's opinion of Limited Assurance has been accepted and agreed by the Executive noting the context of the significant period of transformation that AWE is undergoing currently. Management actions are in place to address weaknesses specifically identified through the work of Internal Audit and these will continue to be monitored by Internal Audit with appropriate overview from the Audit and Risk Assurance Committee.

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.

Governance Statement *(continued)*

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.

Governance framework

AWE 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. 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).
- **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).
- **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 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 has discharged these responsibilities during the reporting period.

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.

Governance Statement *(continued)*

Accounting Officer's Annual Assurance Report

The report was prepared and submitted to the Department where the AO gave a Limited Assurance opinion. This opinion remains the same as reported in 2021-22. This reflects the changes that have resulted from transition to an NDPB and the ongoing transformation programme. Whilst some improvement initiatives were implemented during the year, they were not fully embedded to change the opinion. The initiatives are designed to transform the way AWE operates, clarifying accountability and providing a more defined control environment and assurance framework.

Conclusion

This report is for the year ended 31 March 2023 and, in relation to significant balance sheet events, to the date of signing.

The Business Plan sets out what AWE needs to achieve and prioritises the need to modernise delivery. AWE's change of operating model during the period will bring with it clarity on the role that functions play, including responsibility for defining, operating, and assessing compliance with the policies and procedures that make up the control environment.

The continued operation of a mature financial control environment provides a solid foundation for developing AWE's other, non-financial controls and ensure their operation is consistently evidenced and monitored.

Through developing and articulating the key controls, the overall control environment will be clarified and strengthened where appropriate. This activity will support the continuing assessment of the efficacy of the control environment in future years.

Performance against the business plan will continue to be closely monitored through the Executive governance structure and the board demonstrating commitment to implementing and embedding improved working practices.

Remuneration Report

Overview

This Remuneration Report includes the remuneration of the Chair and other members of the board of AWE. The Remuneration Committee oversees and governs the remuneration policy and its implementation. Changes in the composition of the board and a summary of its members' attendance at scheduled meetings in the year ended 31 March 2023 are shown in the Directors' Report and Governance Statement on pages 35 and 40 respectively.

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 with its Trade Unions a suitable pay deal for its employees. 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.

In application of the remuneration policy for 2022-23, annual incentive payments were determined by an assessment of company performance as well as individual performance of those board members eligible for incentives. Long-term incentives payments were determined by the overall company and individual performance over the 3-year period to 31 March 2023.

Directors' contracts

Directors were appointed and their remuneration determined as follows:

- **Executive Directors** Appointed with the approval of the MOD, and remuneration reviewed by the Remuneration Committee with reference to the prevailing market conditions:
 - Alison Atkinson (Chief Executive Officer)
 - Barry Hunter (Chief Financial Officer)
 - Andrew McNaughton - a Non-executive Director prior to beginning a new role as Executive Director at AWE on 6 February 2023, however retained his status as a statutory director of AWE plc
- **Chairman** Appointed by the MOD and remuneration decided by the MOD with reference to the prevailing market conditions:
 - Sir John Manzoni (Chairman)
- **Shareholder representative** non-executive director Representative director of the sole shareholder in the Company, appointed by the MOD. They are not separately remunerated for their role as directors of the Company:
 - Henry Lloyd (MOD appointed non-executive director)
 - Nicole Kett (MOD appointed non-executive director) - stepped down from the board on 1 June 2022
- **Non-executive directors** Appointed with the approval of the MOD, and remuneration decided by the MOD in line with the remuneration set for other independent non-executive directors:
 - Richard Elsy
 - Claire Flint
 - Dame Sue Ion
 - Richard Keys
 - Dr J Stephen Rottler

Remuneration Report (continued)

Directors' remuneration

The fees or salaries that were paid to the directors for the year ended 31 March 2023 are shown below. The prior year figures are shown for the 9 month period following AWE becoming an NDPB on 1 July 2021 and ending 31 March 2022 (employed director full year equivalent fees and salary are shown in brackets). Benefits in kind values reflect the premium paid for private medical insurance.

Full name	Year	Fees & salary (£)	Annual bonus (£)	Long-term incentive payment (£)	Benefits in kind (£)	Pension Benefits (£)	Total (£)
Sir John Manzoni	2022-23	150,000	-	-	-	-	150,000
	2021-22	112,500	-	-	-	-	112,500
Alison Atkinson ⁴	2022-23	407,365	173,250	-	-	-	580,615
	2021-22	296,625 (395,500)	-	-	2,894	-	299,519
Barry Hunter	2022-23	257,500	-	-	2,520	33,475	293,495
	2021-22	109,523 (250,000)	-	-	1,260	14,812	125,595
Richard Elsy	2022-23	29,995	-	-	-	-	29,995
	2021-22	22,496	-	-	-	-	22,496
Claire Flint	2022-23	29,995	-	-	-	-	29,995
	2021-22	22,496	-	-	-	-	22,496
Dame Sue Ion	2022-23	29,995	-	-	-	-	29,995
	2021-22	22,496	-	-	-	-	22,496
Nicole Kett ^{1,2}	2022-23	-	-	-	-	-	-
	2021-22	-	-	-	-	-	-
Richard Keys	2022-23	29,995	-	-	-	-	29,995
	2021-22	22,496	-	-	-	-	22,496
Henry Lloyd ¹	2022-23	-	-	-	-	-	-
	2021-22	-	-	-	-	-	-
Andrew McNaughton (to 5 Feb 2023) ³	2022-23	24,996	-	-	-	-	24,996
	2021-22	22,496	-	-	-	-	22,496
Andrew McNaughton (from 6 Feb 2023) ³	2022-23	60,478 (395,500)	-	-	-	-	60,478
	2021-22	-	-	-	-	-	-
Dr J Stephen Rottler	2022-23	29,995	-	-	-	-	29,995
	2021-22	22,907	-	-	-	-	22,907

¹ Nicole Kett and Henry Lloyd were Civil Service employees who received no additional remuneration for duties as a director of AWE.

² Nicole Kett resigned as a Shareholder representative non-executive director on 1 June 2022.

³ Andrew McNaughton began a new role as Executive Director on 6 February 2023, however retained his status as a statutory director of AWE. He was paid £24,996 in fees up to 5 February 2023 for his role as a non-executive director.

⁴ Following Alison Atkinson submitting notice of her resignation, a clawback provision was triggered in respect of a buyout payment made in 2021 prior to change of ownership for in-flight long term incentive schemes. As per the terms of this buyout, Alison Atkinson was required to repay part of this payment, equating to £142,500. This was repaid in June 2023, and has therefore not been deducted from the 2022-23 salary figures disclosed in this report.

Remuneration Report (continued)

Pension entitlements

AWE offers a defined contribution scheme (Group Personal Pension). Executive directors are entitled to the same contribution structure as all employees. In the reported period only one Executive director, Barry Hunter, participated in this plan and received employer contributions at 13% of his salary, which is detailed in the remuneration table. Alison Atkinson and Andrew McNaughton (for the period since commencing his Executive Director role), the other Executive directors, received a taxable payment in lieu of pension equivalent to 13% of their base salary. This payment is included within the Fees & salary figure in the remuneration table.

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.

Remuneration element	Category	2022-23 (annualised)	2021-22 (annualised)	% Change
Salary and allowances	Highest paid director	£407,365	£395,500	3%
	Average for employees	£52,546	£50,162	5%
Performance pay and bonuses	Highest paid director	£173,250	£359,243	(52%)
	Average for employees	£2,757	£1,219	126%

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
2022-23	14:1	11:1	9:1
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. The figures for the ratios for the year ended 31 March 2023 are below:

Percentile	Staff figure: pay including performance pay and benefits	Salary element only
25 th percentile	£40,119	£34,634
Median	£51,084	£44,835
75 th percentile	£65,654	£60,118

The pay ratios for all reported statistics have reduced compared to the ratios for the prior period (9 months ended 31 March 2022). This has been driven by a lower performance pay and bonus figures for the highest paid director, as well the introduction of a performance bonus for other employees who were not previously eligible for a performance bonus. The ratios are consistent with the pay, reward and progression policies of AWE.

Actual staff remuneration on an annualised basis for full-time work on 31 March 2023 (including the highest paid director and performance pay; excluding pension benefits) ranges from £11,000 to £580,615 per annum (2022: £11,000 - £754,743).

Remuneration Report *(continued)*

The Remuneration 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 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 May 2022. Under the survey methodology, AWE scored 662.7 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 a decrease from 682.4 in October 2021, but still maintaining the 'One Star' status. The employee response rate to this survey was 73%, 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 Best Big Companies to work for – 2022'.

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 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 & Enterprise Excellence 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 Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) Injury Rate in the period of the report was 0.032 which compares favourably to industry benchmarks.

People Report *(continued)*

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 year ended 31 March 2023.

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
46	43.42

Table 1 – Relevant Union Officials

Percentage of time	Number of employees
0%	-
1-50%	41
51%-99%	5
100%	-

Table 2 – Percentage of time spent on Facility Time

Activity	Spend
Total cost of Facility Time	£502,048
Total Pay Bill	£391,046,755
Percentage of pay bill spent on facility time	0.13%

Table 3 – Percentage of pay bill spent on Facility Time

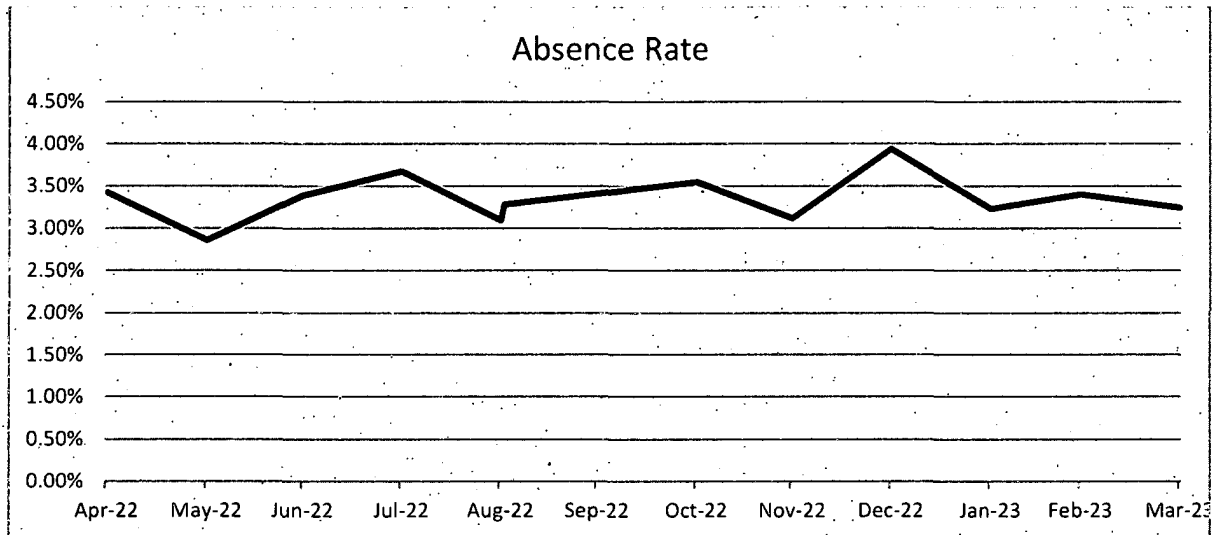
Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100	100%
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Table 4 – Paid Trade Union activities

People Report *(continued)*

Employee Health & Wellbeing

Sickness absence has been between 2.9% and 3.9% during the 12-month period from 1 April 2022 to 31 March 2023 (sickness absence rates are calculated based on hours sick as a percentage of available hours).



AWE won three accolades in the 2021 Employee Benefit Awards. These are prestigious industry awards and an endorsement of our focus on this aspect of our People Strategy. 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 200 wellbeing champions across the business. Mental health remains a priority and is supported through the Mental Health action plan which delivers counselling and proactive return to work programmes as well as line manager training. 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; toolbox talks and awareness campaigns in line with the Wellbeing comms plan.

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.

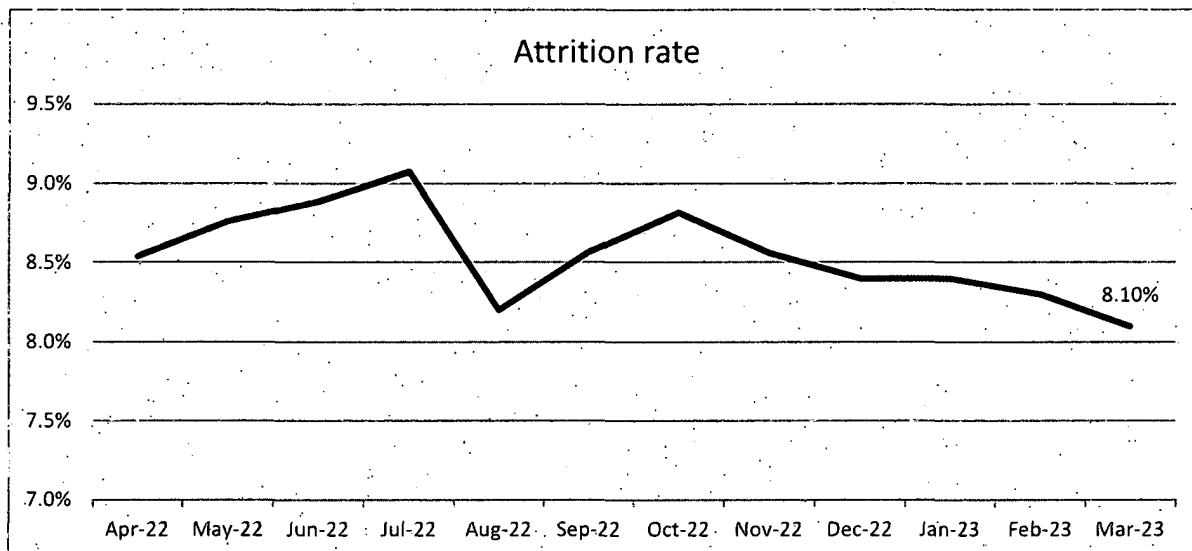
Should an employee acquire a disability during their employment at AWE, all efforts will be made to ensure reasonable adjustments for the individual circumstance are in place to enable the employee to continue employment with us. AWE has the Passport to Work initiative, which is for employees who have 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.

People Report *(continued)*

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 2023 was 8.10%. We experienced an increase in attrition from April 2022, we are currently seeing a downward trend since October 2022, reflective of external market conditions and the economic climate.



Staff composition (FTE)

Staff composition for year ended 31 March 2023

The overall proportion of female staff based on full-time equivalent (FTE) at 31 March 2023 is 24.3% compared to 23.7% reported at 25 March 2022 (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.

Staff category	31 March 2023		31 March 2022	
	Number (FTE)	%	Number (FTE)	%
Directors	Total Directors – 10		Total Directors – 11	
Male	7	70.0%	7	63.6%
Female	3	30.0%	4	36.4%
Executive	Total Executive Team – 11		Total Executive Team – 10	
Male	9	81.8%	9	90.0%
Female	2	18.2%	1	10.0%

People Report (continued)

Staff category	31 March 2023		31 March 2022	
	Number (FTE)	%	Number (FTE)	%
Senior managers	Total senior managers – 265		Total senior managers – 243	
Male	204	77.0%	188	77.4%
Female	61	23.0%	55	22.6%
Employees	Total other employees – 6,387		Total other employees – 6,025	
Male	4,832	75.7%	4,600	76.3%
Female	1,555	24.3%	1,425	23.7%

Excluding zero hours and secondees in.

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.

The table below sets out the highly paid off-payroll worker engagements as at 31 March 2023, earning £245 per day or greater.

Number of existing arrangements as of 31 March 2023	173
Of which, no. that existed:	
Less than 1 year	70
For between 1 and 2 years	41
For between 2 and 3 years	14
For between 3 and 4 years	14
For 4 or more years	34

Table 5 – Highly paid off-payroll worker engagements as at 31 March 2023, earning £245 per day or greater

The table below sets out all highly paid off-payroll worker engagements at any point during the year ended 31 March 2023, earning £245 per day or greater.

Number of temporary off-payroll workers engaged during the year ended 31 March 2023	193
Of which:	
Not subject to off-payroll legislation	18
Subject to off-payroll legislation and determined as in-scope of IR35	66
Subject to off-payroll legislation and determined as out-of-scope of IR35	109
No. of engagements reassessed for compliance or assurance purposes during the year	104
Of which: No. of engagements that saw a change to IR35 status following review	11

Table 6 – Highly paid off-payroll worker engagements at any point during the year ended 31 March 2023, earning £245 per day or greater

People Report (continued)

Employment Legislation (IR35) changed in April 2021 to include private sector organisations to provide an IR35 determination of off-payroll workers employment status for tax. AWE assess all contingent worker positions for IR35 before advertising the requirement with Public Sector Resourcing to ensure the determination is known from the outset of the recruitment process. A Status Determination Statement is produced and provided to the Contingent Worker and Public Sector Resourcing between point of offer and before commencement of the assignment. The AWE approach to IR35 has been subject to HMRC validation, 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	Year ended 31 March 2023			15 months ended 31 March 2022		
	Permanent staff (£'000)	Agency staff (£'000)	Total (£'000)	Permanent staff (£'000)	Agency staff (£'000)	Total (£'000)
Salaries and wage costs	353,290	24,756	378,046	401,579	36,901	438,480
Social security costs	38,370	-	38,370	41,002	-	41,002
Pension costs	39,147	-	39,147	45,478	-	45,478
Redundancy and severance payments	116	-	116	972	-	972
Total	430,923	24,756	455,679	489,031	36,901	525,932

Table 7 – Staff costs and staff numbers

Employee Numbers (FTE) by Job Family

Category	Year ended 31 March 2023				15 months ended 31 March 2022			
	Permanent staff	Agency staff	Secondes	Total	Permanent staff	Agency staff	Secondes	Total
Science	1,169	2	5	1,176	1,143	5	3	1,152
Engineering and manufacturing	2,948	67	17	3,032	2,358	86	34	2,479
Business services	2,391	90	1	2,482	2,751	102	12	2,865
Total	6,508	159	23	6,690	6,252	193	49	6,496

Table 8 – Employee numbers (FTE) by Job Family

The Craft job family (including roles that carry out various activities on plant and equipment (e.g., installation, repairs, replacement, calibration, testing, modifications) was allocated to Business Services in the 15 months ended 31 March 2022, but now sits within Engineering and manufacturing in the year ended 31 March 2023.

People Report *(continued)*

Exit packages

Exit package cost band	Year ended 31 March 2023			15 months ended 31 March 2022		
	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	-	7	7	-	13	13
£10,000 - £25,000	-	3	3	-	4	4
£25,000 - £50,000	-	1	1	-	2	2
£50,000 - £100,000	-	-	-	-	7	7
£100,000 - £150,000	-	-	-	-	4	4
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	-	-	-	1	1
£250,000 - £300,000	-	-	-	-	-	-
Total number of exit packages	-	11	11	-	31	31
Total cost of exit packages	-	£115,856	£115,856	-	£1,380,113	£1,380,113

Consultancy

Spend for the year ended 31 March 2023 on consultancy delivered via individuals contracted to provide services for AWE was £24.4m (15 months ended 31 March 2022 - £33.1m).

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 year ended 31 March 2023 which comprise the AWE plc:

- Balance Sheet as at 31 March 2023;
- Income Statement, Statement of Cash Flows and Statement of Changes in Shareholder's 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 2023 and its profit 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 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.

Independent Auditor's Report to the Members of AWE plc *(continued)*

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 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 statement; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within AWE plc from whom the auditor determines it necessary to obtain audit evidence;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006;
- ensuring such internal controls are in place as directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- preparing the Annual Report, in accordance with the Companies Act; and
- assessing 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 have no realistic alternative but to do so.

Independent Auditor's Report to the Members of AWE plc (continued)

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, I:

- considered 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.
- Inquired 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 on:
 - identifying, evaluating and complying with laws and regulations;
 - detecting and responding to the risks of 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.
- Inquired of management, AWE plc's head of internal audit and those charged with governance whether:
 - they were aware of any instances of non-compliance with laws and regulations; and
 - they had knowledge of any actual, suspected or alleged fraud.
- Discussed with 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. I focused 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 regulations, Environmental Agency regulations and anti-money laundering regulations.

Independent Auditor's Report to the Members of AWE plc (continued)

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

To respond to identified risks resulting from the above procedures:

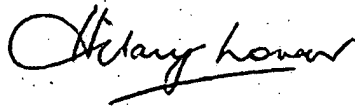
- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed 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; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- attended Audit and Risk Assurance Committee meetings and had regular communication with management and internal audit to identify any instances of fraud, non-compliance with laws and regulations and irregular transactions.

I 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)

27 September 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

Year ended 31 March 2023

	<i>Note</i>	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Revenue	3	1,476,666	1,425,739
Cost of sales	5	(1,498,112)	(1,456,898)
Gross loss		(21,446)	(31,159)
Other operating income	4	18,405	21,473
Administrative expenses	5	1,316	(1,199)
<i>Exceptional items:</i>			
Write-off of pension asset previously recoverable under contract	5	-	(423,000)
Operating loss		(1,725)	(433,885)
Financial expenses	8	91	(30)
Net financing expense		91	(30)
Loss before tax		(1,634)	(433,915)
Taxation	9	5,543	(5,235)
Profit/(Loss) for the period		3,909	(439,150)

Statement of Other Comprehensive Income

Year ended 31 March 2023

	<i>Note</i>	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Profit/(Loss) for the period		3,909	(439,150)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Loss in value of pension asset previously recoverable under contract (to date of write off)		-	(219,000)
Actuarial movement in relation to pension fund	15	(181,000)	538,000
Other comprehensive (loss)/income for the period		(181,000)	319,000
Total comprehensive loss for the period		(177,091)	(120,150)

Balance Sheet

at 31 March 2023

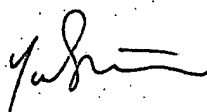
	Note	31 March 2023 £'000	31 March 2022 £'000
Non-current assets			
Investments in group companies	10	1	1
Other financial assets	18	4	5
Deferred tax assets	11	5,161	351
Right-of-use assets	19	1,635	1,492
		6,801	1,849
Current assets			
Contract assets	3	107,093	59,400
Other financial assets	18	19	9
Trade and other receivables	12	76,353	116,806
Cash and cash equivalents	13	123,371	74,868
		306,836	251,083
Total assets		313,637	252,932
Current liabilities			
Lease liabilities	19	542	822
Trade and other payables	14	289,013	226,713
Tax payable		-	261
Contract liabilities	3	16,404	23,118
Provisions	16	800	1,176
Other financial liabilities	18	7	106
		306,766	252,196
Non-current liabilities			
Lease liabilities	19	1,051	614
Trade and other payables	14	1,515	2,406
Employee benefits	15	238,000	53,000
Provisions	16	376	1,694
Other financial liabilities	18	-	3
		240,942	57,717
Total liabilities		547,708	309,913
Net liabilities		(234,071)	(56,981)

Individual figures may not sum to the total due to rounding

Balance Sheet (continued)
at 31 March 2023

	<i>Note</i>	31 March 2023 £'000	31 March 2022 £'000
Equity			
Share capital	17	50	50
Retained earnings		(297,121)	(120,031)
Capital reserves	17	63,000	63,000
Total equity		(234,071)	(56,981)

These financial statements were approved and signed on behalf of the board on 27 September 2023



Iain Stevenson
Chief Executive Officer

Company registered number: 02763902

Statement of Changes in Shareholder's Equity

Year ended 31 March 2023

	<i>Note</i>	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	15	-	319,000	-	319,000
Total comprehensive income for the period		-	(120,150)	-	(120,150)
Transactions with owners, recorded directly in equity					
Dividends	17	-	(17,659)	-	(17,659)
Capital contributions	17	-	-	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)

	<i>Note</i>	Share capital £'000	Retained earnings £'000	Capital reserves £'000	Total equity £'000
Balance at 1 April 2022		50	(120,031)	63,000	(56,981)
Total comprehensive income for the year					
Profit for the year		-	3,909	-	3,909
Other comprehensive income		-	(181,000)	-	(181,000)
Total comprehensive income for the year		-	(177,091)	-	(177,091)
Balance at 31 March 2023		50	(297,121)	63,000	(234,071)

Cash Flow Statement

Year ended 31 March 2023

	Note	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Cash flows from operating activities			
Profit for the year		3,909	(439,150)
<i>Adjustments for:</i>			
Fair value (gains)/losses on derivatives	8	(112)	4
Interest paid	8	21	26
Depreciation of right-of-use assets	19	1,056	1,154
Write-off of pension asset	5	-	423,000
RDEC settlement		-	(6,392)
Taxation	9	(5,543)	5,235
		(668)	(16,123)
Decrease in trade and other receivables	12	40,453	52,065
Increase in contract assets/contract liabilities	3	(54,407)	(37,570)
Increase in trade and other payables	14	67,066	79,624
Increase/(decrease) in employee benefits	15	4,000	(53,000)
Decrease in provisions	16	(1,694)	(419)
		55,418	40,700
Tax paid		(5,184)	-
Net cash from operating activities		49,566	24,578
Cash flows from financing activities			
Dividends paid	17	-	(17,659)
Capital contribution	17	-	63,000
Principal repayments on leases	19	(1,043)	(1,090)
Interest repayments on leases	19	(20)	(26)
Net cash from financing activities		(1,063)	44,225
Net increase in cash and cash equivalents		48,503	68,803
Cash and cash equivalents at 1 April (1 January)	13	74,868	6,065
Cash and cash equivalents at 31 March (31 December)	13	123,371	74,868

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 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 UK-adopted international accounting standards ("UK-adopted IFRS"). The financial statements have been prepared for the year ended 31 March 2023.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. As an NDPB, the Company also, where considered appropriate, adopts the interpretations but not adaptations of IFRS in the FReM. 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 79.

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 35 and in the accounting policies on pages 72 to 79.

The Company is expected to continue to generate positive cash flows on its own account under existing contractual arrangements with the MOD. The Company has its banking arrangements with 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 2024. 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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Going concern *(continued)*

the plausibility of a reverse stress case. 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.

(ii) Classification and subsequent measurement

Financial assets

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Financial liabilities and equity (continued)

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.

(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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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).

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.

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

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.

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Revenue *(continued)*

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.

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.

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

Leases (*continued*)

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.

The lease liability is initially measured at the present value of the lease payments that are unpaid 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 for mandatory implementation from January 2023.

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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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.

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 15.

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 4 for consideration of the accounting estimates and judgements relating to the research and development tax credit.

Provisions

Refer to note 16 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 3.51% (15 months ended 31 March 2022 0.95%) for any new contracts entered.

Notes to the financial statements (continued)

2 Segmental Analysis

AWE have assessed its operating segments based on the manner in which it reports and reviews management information and performance internally.

In the table below, revenue is disaggregated by these operating segments.

The four segments that form part of the M&O contract are: Mission Delivery, which aligns and integrates the programme delivering the AWE core programmes (Trident, Replacement Warhead (RW), Nuclear Threat Reduction (NTR), and Warhead Underpinning Technology (WUT)); Operations, which produces warheads and supports the underwriting of product performance; Infrastructure Programme Delivery (IPD), which enhances and renews AWE's critical infrastructure; and Enabling and Corporate functions, which provide the specialist skills and knowledge to the programmes and enterprise, including engineering and science functions.

The other operating segments are: Pension, which provides the pension provisions for the company; Other Government Departments (OGDs) which comprises work undertaken for HMG outside of M&O contract; Coulport, which comprises work undertaken in relation to the ABL alliance contract at the Royal Naval Armament Depot (RNAD) at Coulport; Other, which is for all other activity principally commercial activity outside of government. RDEC (Research & Development Expenditure Credit) is the income received from HMRC in respect of our expenditure on research and development.

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Mission Delivery	227,740	254,814
Operations	227,100	260,470
Infrastructure Programme Delivery	713,868	606,119
Enabling and Corporate Functions	251,390	231,637
Total M&O	1,420,098	1,353,040
Pension	18,695	22,700
Other Government Departments (OGDs)	39,505	52,213
Coulport	14,297	16,931
Other	2,476	2,328
Total Non M&O	74,973	94,172
RDEC	(18,405)	(21,473)
Total Revenue	1,476,666	1,425,739

Notes to the financial statements (continued)

3 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.

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Type of customer		
MOD	1,446,883	1,409,812
Non-MOD	29,783	15,927
	<u>1,476,666</u>	<u>1,425,739</u>
	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Timing of transfer of goods or services		
Products and services transferred at a point in time	49	356
Products and services transferred over time	1,476,617	1,425,383
Total	<u>1,476,666</u>	<u>1,425,739</u>

(ii) Contract balances

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

	Note	31 March 2023 £'000	31 March 2022 £'000
Receivables	12	5,122	68,456
Contract assets		107,093	59,400
Contract liabilities		<u>(16,404)</u>	<u>(23,118)</u>

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 (15 months ended 31 March 2022: £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 £23,118k (15 months ended 31 March 2022: £2,147k). The amount of deferred revenue at 31 March 2023 is circa £4m.

Notes to the financial statements (continued)

3 Revenue (continued)

(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.

4 Other operating income

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Research and development tax credit	<u>18,405</u>	<u>21,473</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.

5 Expenses and auditor's remuneration

Included in profit/loss are the following:

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
<i>Included in cost of sales:</i>		
Foreign exchange (gain)/loss (except those arising on financial instruments at FVTPL)	(51)	340
Depreciation on right-of-use assets	<u>1,056</u>	<u>1,154</u>
<i>Included in administrative expenses:</i>		
Impairment loss on other trade receivables	<u>-</u>	<u>184</u>
<i>Included in exceptional items:</i>		
Write-off of pension asset previously recoverable under contract	<u>-</u>	<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.

Notes to the financial statements (continued)

5 Expenses and auditor's remuneration (continued)

Auditor's remuneration:

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Audit of these financial statements	210	250
	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'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 financial statements relates to work performed by NAO. No fees were paid for audit-related assurance services in the year ended 31 March 2023 (£222k in the 15 months ended 31 March 2022 for EY support with the production of non statutory transition accounts as at 30 June 2021)

6 Staff numbers and costs

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

	Number of employees Year ended 31 March 2023	15 months ended 31 March 2022
Science	1,178	1,143
Engineering and manufacturing	2,962	2,358
Business services	2,324	2,751
	6,464	6,252

The Craft job family was allocated to Business Services in the 15 months ended 31 March 2022, but now sits within Engineering and manufacturing in the year ended 31 March 2023 – comparatives remain unchanged.

Notes to the financial statements (continued)

6 Staff number and costs (continued)

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Wages and salaries	353,406	402,551
Social security costs	38,370	41,002
Expenses related to defined benefit plans	4,000	9,000
Net interest on net defined benefit pension plan liability	2,000	10,000
Defined benefit plan costs previously recoverable under contract	-	(7,000)
Contributions to defined contribution plans	39,147	45,478
	436,923	501,031

7 Directors' remuneration

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Directors' remuneration	1,188	1,932
Post-retirement benefit costs	38	15
Amounts receivable under long term incentive schemes	-	1,412
Compensation for loss of office	-	235
	1,226	3,594

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director in the year ended 31 March 2023 was £581k (15 months ended 31 March 2022: £1,498k).

None of the directors were accruing retirement benefits in the company defined benefit schemes in the year ended 31 March 2023 (15 months ended 31 March 2022: none).

8 Finance income and expense

Recognised in profit or loss

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Net (gain)/loss on forward foreign currency contracts measured at FVTPL	(112)	4
Interest expense on lease liabilities	21	26
Total finance expense	(91)	30

Notes to the financial statements (continued)

9 Taxation

Recognised in the income statement

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Current tax		
Current year	3,756	4,490
Adjustments for prior years	(4,490)	471
Current tax (credit)/expense	<u>(734)</u>	<u>4,961</u>
Deferred tax		
Current year	4,960	274
Adjustment for prior years	(9,770)	-
Deferred tax (credit)/expense	<u>(4,810)</u>	<u>274</u>
Total tax (credit)/expense	<u>(5,543)</u>	<u>5,235</u>

Reconciliation of effective tax rate

	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Loss for the period	(1,634)	(433,915)
Tax using the UK corporation tax rate of 19% (2022: 19%)	(310)	(82,444)
Non-taxable items - write-off of pension asset previously recoverable under contract	-	80,370
Pension scheme contributions	(380)	-
Pension scheme tax deduction	1,140	2,280
Tax arising on imputed fee	8,087	4,527
Other short term timing differences	180	31
Adjustment in respect of prior years	(14,260)	471
Total tax (credit)/expense	<u>(5,543)</u>	<u>5,235</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 is based on an estimate disclosed to, but not yet agreed with HMRC. HMRC have not challenged the position to date.

The current corporation tax rate is 19%, which came into effect from 1 April 2017, 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%.

Notes to the financial statements (continued)

10 Investments in subsidiaries

The Company has the following investments in subsidiaries:

	Class of shares held	Ownership	
		31 March 2023	31 March 2022
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.

11 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 and the tax losses arising in the 15 months ended 31 March 2022. The latter is reported as a prior year adjustment in the current year on the basis this position was crystallised on the completion of the final tax return during the year ended 31 March 2023. The movement in the deferred tax balance is as follows:

	Provisions £'000	Tax loss £'000	Total £'000
Balance at 1 January 2021	625	-	625
Recognised in income statement	(274)	-	(274)
Balance at 31 March 2022	351	-	351
Balance at 1 April 2022	351	-	351
Adjustment in respect of prior years	-	9,770	9,770
Recognised in income statement	(127)	(4,833)	(4,960)
Balance at 31 March 2023	224	4,937	5,161

12 Trade and other receivables

	31 March 2023 £'000	31 March 2022 £'000
Current		
Trade receivables due from related parties	5,120	68,433
Other trade receivables	2	23
Other receivables	45,766	26,027
Prepayments	25,465	22,323
	76,353	116,806

Notes to the financial statements (continued)

13 Cash and cash equivalents

	31 March 2023 £'000	31 March 2022 £'000
Opening balance	74,868	6,065
Net change in cash and cash equivalent balances	48,503	68,803
Closing balance	<u>123,371</u>	<u>74,868</u>
Analysis of cash and cash equivalents:		
Cash held with Government Banking	123,371	71,663
Cash held in commercial bank account	-	3,205
	<u>123,371</u>	<u>74,868</u>

14 Trade and other payables

	31 March 2023 £'000	31 March 2022 £'000
Current		
Trade payables due to related parties	2,880	1,353
Other trade payables	107,100	32,163
VAT payable	3,391	33,111
Social security cost payable	9,694	9,127
Non-trade payables and accrued expenses	165,948	150,959
	<u>289,013</u>	<u>226,713</u>
Non-current		
Accrued expenses	<u>1,515</u>	<u>2,406</u>

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

15 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. On 21 July 2022 MOD provided a guarantee in favour of the trustees of the defined benefit pension scheme (the "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 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 year ended 31 March 2023 (15 months ended 31 March 2022 – none).

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

Notes to the financial statements (continued)

15 Employee benefits (continued)

	31 March 2023 £'000	31 March 2022 £'000
Defined benefit asset	(1,292,000)	(1,995,000)
Defined benefit liability	1,530,000	2,048,000
Net liability for defined benefit obligations (see following table)	<u>238,000</u>	<u>53,000</u>

Movement in net defined benefit liability/asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Opening balance	2,048,000	2,583,000	(1,995,000)	(1,939,000)	53,000	644,000
Included in profit or loss						
Current service cost	4,000	9,000	-	-	4,000	9,000
Interest cost/(income)	55,000	41,000	(53,000)	(31,000)	2,000	10,000
Included in OCI						
Remeasurements loss/(gain):						
Actuarial (gain)/loss	(512,000)	(498,000)	693,000	(40,000)	181,000	(538,000)
Other						
Contributions paid by the employer	-	-	(2,000)	(72,000)	(2,000)	(72,000)
Benefits paid	(65,000)	(87,000)	65,000	87,000	-	-
Closing balance	<u>1,530,000</u>	<u>2,048,000</u>	<u>(1,292,000)</u>	<u>(1,995,000)</u>	<u>238,000</u>	<u>53,000</u>

Contributions paid by the employer in the year ended 31 March 2023 relate entirely to payments in relation to the members working at Coulport (£0.3m) and expenses reimbursed to the pension scheme (£2.0m). In the prior period the payments were in relation to both to members working at Coulport (£0.3m), the past service deficit (£72.0m of which £63.0m was funded by the MOD after change in ownership) and expenses reimbursed to the pension scheme (£2.0m). There were no past service deficit payments made in the year ended 31 March 2023.

Notes to the financial statements (continued)

15 Employee benefits (continued)

Plan assets

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

	31 March 2023 £'000	31 March 2022 £'000
Cash and cash equivalents	50,000	165,000
Equity instruments	323,000	492,000
Debt instruments e.g., Government bonds ¹	402,000	498,000
Real estate	96,000	111,000
Derivatives	102,000	400,000
Investment funds	319,000	329,000
Total	1,292,000	1,995,000

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 2023	31 March 2022
Discount rate at period end	4.7%	2.7%
Rate of increase in pensionable pay	2.8%	3.2%
Rate of increase in pensions in payments		
Uncapped	2.8%	3.2%
Subject to 5%pa cap	2.7%	3.1%
Rate of increase in pensions in deferment		
Uncapped	2.8%	3.2%
Subject to 5%pa cap	2.7%	3.1%
Inflation assumption (CPI)	2.8%	3.2%

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 - 22.8 years (2022: 22.7 years), female 24.7 years - (2022: 24.6 years).
- Future retiree upon reaching 65 (current age 45): male - 24.4 years (2022: 24.3 years), female - 26.1 years (2022: 26.0 years).

¹ Balance is net of some repurchase agreements.

Notes to the financial statements (*continued*)

15 Employee benefits (*continued*)

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 2023	31 March 2022
	£'000	£'000
Discount rate	122,000	213,000
Future pension increases	(106,000)	(178,000)

In valuing the liabilities of the pension fund at 31 March 2023, 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 2023 would have increased by £45.0m (*15 months ended 31 March 2022 – £72.0m*).

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.

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 has not paid any contributions into the defined benefit plan in the year ended 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 31 March 2023 is 16 years (31 March 2022: 20 years).

Pension plans - defined contribution

The Company operates a defined contribution pension plan.

Notes to the financial statements (continued)

16 Provisions

	ACP provision £'000	Contract provisions £'000	Total £'000
Balance at 1 April 2022	1,845	1,025	2,870
Provisions raised	-	1,657	1,657
Provisions utilised	(951)	-	(951)
Provisions released	-	(2,400)	(2,400)
Balance at 31 March 2023	894	282	1,176
Non-current	376	-	376
Current	518	282	800
	894	282	1,176

ACP provision:

The 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 60 years of age. The liability arises substantially in respect of a collective redundancy package put in place 2015. This package is due to complete in December 2025 and covers 25 ex-employees (31 March 2022: 34). 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.

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.

At 31 March 2023 there is one contract (31 March 2022: two) in progress where the threshold had been reached, which is in a loss position with a liability of £0.3m recognised in contract provisions (31 March 2022: £4.7m net asset, being one contract in a savings position with an asset of £4.9m recognised in other receivables and one contract in a loss position with a liability of £0.2m recognised in contract provisions).

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

Contract provisions - Coulpport:

At the close of the prior period at 31 March 2022 contract provisions included £0.8m relating to a savings shortfall to the Guarantee of Savings (GoS) target within the Coulpport contract (15 year contract to 2027). As at 31 March 2023 there is no contract provision held in relation to this matter. On 19 April 2023 it was agreed that GoS savings shortfall liability would be removed from the Coulpport contract and the accumulated contract provision of £2.4m has been written back in the year ended 31 March 2023 as this has been determined as an adjusting post balance sheet event.

Notes to the financial statements *(continued)*

17 Capital and reserves

Share capital

On Issue	Ordinary shares		Special shares	
	31 March 2023	31 March 2022	31 March 2023	31 March 2022
At 1 April 2022/1 January 2022	50,001	50,000	-	1
Transfer of special shares to ordinary shares	-	1	-	(1)
At 31 March 2023/31 March 2022	<u>50,001</u>	<u>50,001</u>	<u>-</u>	<u>-</u>

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.

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

	31 March 2023	31 March 2022
	£	£
50,001 (2022: 50,001) ordinary shares of £1 each	<u>50,001</u>	<u>50,001</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.

	Year ended 31 March 2023	15 months ended 31 March 2022
	£'000	£'000
£nil (2022: £353.18) per qualifying ordinary share	<u>-</u>	<u>17,659</u>

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

Capital reserve

	31 March 2023	31 March 2022
	£'000	£'000
Balance at 1 April	63,000	-
Capital contribution	-	63,000
Balance at 31 March	<u>63,000</u>	<u>63,000</u>

Notes to the financial statements (continued)

17 Capital and reserves (continued)

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.

18 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).

During the financial year financial instruments remained in Level 1.

At 31 March 2023 the Company did not have any liabilities classified at level 2 or 3.

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 12 and 14 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 2023	Euro £'000	US Dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	1,008	425	-	1,433
Trade payables	(677)	(458)	-	(1,135)
	331	(33)	-	298
31 March 2022				
Cash and cash equivalents	1,283	1,570	-	2,853
Trade payables	(25)	(669)	-	(694)
	1,258	901	-	2,159

Notes to the financial statements (continued)

18 Financial instruments (continued)

Outstanding contracts	Average contractual exchange rate		Notional value		Fair Value	
	31 March 2023	31 March 2022	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Less than 12 months	1.3419	1.3477	212	208	231	453
1-2 years	1.3997	1.3419	33	212	38	210
2-3 years		1.3997	-	33	-	34
Purchase USD			245	453	269	697
Less than 12 months	-	1.1330	-	1,486	-	1,844
1-2 years			-	-	-	-
2-3 years			-	-	-	-
Purchase EUR			-	1,486	-	1,844
Less than 12 months	1.3089	1.3038	(90)	(89)	(97)	(86)
1-2 years		1.3089	-	(90)	-	(88)
2-3 years			-	-	-	-
Purchase GBP sell USD			(90)	(179)	(97)	(174)
			155	1,760	172	2,367
Fair value adjustment					17	(95)

Outstanding forward contracts

	Current		Non-current		Total	
	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Asset	19	9	4	5	24	14
Liability	(7)	(106)	-	(3)	(7)	(109)

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.

Notes to the financial statements (continued)

18 Financial instruments (continued)

Liquidity risk:

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

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

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.

19 Leases

Right-of-use assets

Net book values	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

	Buildings £'000	Motor vehicles £'000	Plant & machinery £'000	IT equipment £'000	Total £'000
Balance at 1 April 2022	550	683	211	48	1,492
Additions to right-of-use assets	1,199	-	-	-	1,199
Depreciation charge for the year	(607)	(334)	(76)	(38)	(1,056)
Balance at 31 March 2023	1,141	349	135	10	1,635

Notes to the financial statements (continued)

19 Leases (continued)

Lease liabilities

	31 March 2023 £'000	31 March 2022 £'000
<i>Maturity analysis - contractual undiscounted cash flows</i>		
Less than one year	545	995
One to five years	968	1,092
More than five years	110	43
Total undiscounted cash flows	<u>1,623</u>	<u>2,130</u>
<i>Lease liabilities included in the statement of financial position</i>		
Non-current	1,051	614
Current	<u>542</u>	<u>822</u>
	<u>1,593</u>	<u>1,436</u>

Amounts recognised in profit or loss:

Interest on lease liabilities	<u>21</u>	<u>26</u>
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Amounts recognised in statement of cash flows

Total cash outflow for leases	<u>1,063</u>	<u>1,116</u>
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No payments were made during the year (15 months ended 31 March 2022: nil) relating to short-term leases, low-value leases or variable lease payments.

20 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.

21 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.

During this period, no losses or special payments were incurred/made that were individually or in aggregate in excess of £300,000 (15 months ended 31 March 2022: £nil).

Notes to the financial statements (continued)

22 Related parties

During the year ended 31 March 2023, AWE had a significant number of material transactions with the MOD, predominantly sales totalling £1,632.5m (9 months post transition period ended 31 March 2022: £978.2m) and receivables outstanding at 31 March 2023 of £3.8m (31 March 2022: £67.5m). The amount billed to the MOD each month represents an individually significant transaction.

During the year ended 31 March 2023 there were transactions with other central government bodies totalling £18.1m (9 months post transition period ended 31 March 2022: £11.7m) and receivables and payables outstanding at year ended 31 March 2023 £1,323k (31 March 2022: £964k) and £416k (31 March 2022: £42k) respectively.

On 30 June 2021, AWE ML, a group of companies owned by Lockheed Martin Corporation Inc (Lockheed), 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. The table below details the related party transactions that occurred in the period 1 January 2020 to 30 June 2021 in relation to AWE ML.

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 year ended 31 March 2023 have been disclosed below.

	Gross supplies and services purchased		Payables outstanding	
	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	15 months ended 31 March 2022 £'000
Serco	N/a	899	N/a	N/a
Lockheed	N/a	17,310	N/a	N/a
Jacobs (JEG Acquisition Co Ltd)	N/a	16,298	N/a	N/a
AWE ML	N/a	-	N/a	N/a
AWE Pensions Trustees Limited	2,200	4,839	-	292
Sheffield Forgemasters Engineering Limited (SFEL)	25,652	2,573	1,594	125
Office for Nuclear Regulation	6,647	4,151	576	671
Other related parties	2,622	812	295	223
	37,121	46,882	2,465	1,311

As at 31 March 2023, there were no provisions held in relation to bad or doubtful debts in respect of amounts owed by MOD (31 March 2022: £22k related to a 2017 invoice which has now been written-off).

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 year ended 31 March 2023 (15 months ended 31 March 2022: none), and none have a financial interest in the activities of the Company such as to influence their work with the Company (15 months ended March 2022: none).

Transactions with key management personnel

Compensation with key management personnel has been disclosed in Note 7 and the Directors' Remuneration Report.

Notes to the financial statements *(continued)*

23 Other commitments

AWE has entered into non-cancellable contracts as follows:

	31 March 2023	31 March 2022
	£'000	£'000
Not later than one year	829,204	238,241
Later than one year but not later than 5 years	121,288	274,179
Later than 5 years	190	4,661
Total purchase commitments (contracted for but not provided)	<u>950,682</u>	<u>517,081</u>

24 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.

25 Events after the reporting period

Except as noted below there have been no events since the 31 March 2023 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.

On 19 April 2023 it was agreed that GoS savings shortfall liability would be removed from the Coulport contract and the accumulated contract provision of £2.4m has been written back in the year ended 31 March 2023 as this has been determined as an adjusting post balance sheet event. More details are provided in note 16.

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

Glossary of Terms and Abbreviations

AASH	Annual Assessment of Stockpile Health
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
DNIC	Defence Nuclear Investment Committee
DREAM	Defence Related Environmental Assessment Methodology
DSTL	Defence Science and Technology Laboratory
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	His Majesty's Government
HPC	High Performance Computing

IAC	Investment Approvals Committee
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
NNC	Non-Nuclear Components
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
RSG	Radiation Science Group
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