



AWE NUCLEAR SECURITY
TECHNOLOGIES

AWE PLC

**Annual Report and Accounts
31 March 2024**

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31 March 2024**

Presented to Parliament
by the Secretary of State for Defence
by Command of His Majesty
October 2024

CP 1165



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Table of Contents

Strategic Report	4
Chair's Statement	4
Chief Executive's Statement	5
AWE and our Mission	6
AWE Strategic Imperative	7
Financial Review	8
Performance and Key Performance Indicators	9
Principal Risks	13
Environmental Sustainability Report	20
Section 172(1) Statement	39
Corporate Governance Report	41
Directors' Report	42
Statement of Directors' Responsibilities	46
Governance Statement	47
Remuneration Report	61
People Report	65
Independent Auditor's Report to the Members of AWE plc	73
Financial Statements	78
Income Statement	78
Statement of Other Comprehensive Income	79
Balance Sheet	80
Statement of Changes in Shareholder's Equity	82
Cash Flow Statement	84
Notes to the Financial Statements	84
Glossary of Terms and Abbreviations	111

Strategic Report

Chair's Statement

I am pleased to introduce the AWE plc Annual Report & Accounts for the year ended 31 March 2024.

In the context of current geopolitical and geoeconomic shifts, the UK's nuclear deterrent is more important than ever. At AWE, our contribution is crucial in ensuring the Continuous at Sea Deterrent remains effective – protecting our country and our allies.

We are immensely proud to play our part in supporting national security by developing, manufacturing, and maintaining the warheads for the nuclear deterrent, as well as providing unique skills and expertise to the UK's counter terrorism and Nuclear Threat Reduction activities.

We are embarking on the next generation of production to design and deliver a Replacement Warhead that will help secure the future of the Continuous at Sea Deterrent for decades to come. To deliver this programme, while concurrently manufacturing and maintaining the in-service warhead, and providing Nuclear Threat Reduction for the UK, AWE must continue to transform. We need to continue to build capability, attracting and retaining the right nuclear skills. We need to recapitalise our estate and grow our supply chains to ensure our plans are resilient and deliverable.

Last year, I said that a positive and decisive step forward had been taken along the transformation pathway of AWE. In the past financial year, momentum has been maintained and increased. We have a unified purpose and an integrated delivery plan. We have continued to invest in our sites, our leadership, and our talent. We are shifting the dial on AWE's transformation to ensure we can deliver our commitments to the Government, working collaboratively with our partners across the Defence Nuclear Enterprise.

I must also reflect on the incident that occurred in July 2023, in which a Balfour Beatty employee lost his life on one of our construction enclaves. We have learnt from this event and continue to do so, to ensure that the safety and security of our people, our communities, and our sites remain a top priority. Our thoughts remain with the family, friends and colleagues of the man who tragically lost his life.

I thank Iain Stevenson for his leadership of AWE at that difficult time. The board and I also thank Iain for his energy, focus, and skill during his 10 months as AWE's Interim Chief Executive Officer. Iain has accelerated the company's transformation and put AWE on track for future success.

I would like to welcome Nick Elliott, AWE's new permanent Chief Executive Officer. Nick joined the business on 4 March 2024, with Iain moving on to take up a new role outside AWE at the end of July.

The board will continue to offer its strongest support to Nick, the Executive Committee, our people and partners in support of our mission.

Sir John Manzoni, Chair

Chief Executive's Statement

It is a great privilege to lead AWE plc as CEO. I am extremely proud to have joined the company at such an important stage of its history as we deliver a transformational level of investment in both people and infrastructure.

Our purpose, to protect the UK through nuclear science and technology, has never been more important. The investment into our business will ensure that we continue to help deliver the UK's nuclear deterrent, both now and in the future, becoming a world-leader in new nuclear technologies. This multi-billion-pound programme will renew existing facilities for the manufacture and storage of nuclear materials, improve science and analysis capabilities, and invest in renewed capability for material recovery. We will reinforce our own highly skilled workforce by contributing to the UK's skills development as well as investing significantly in the wider industrial base creating jobs across the UK.

This is both an exciting and challenging programme of work, and to achieve it we are undergoing a major transformation programme. We have made significant progress improving our operational performance, delivering key programme milestones, and driving efficiency. We have invested in our workforce recruiting circa. 1,600 external hires last year, including 278 apprenticeships, 127 graduates, and sponsoring 32 PhDs - with another 67 to start in October 2024. Diversity at AWE is also improving, particularly gender. Female hires reached 34% in FY23, that's compared to a national average of 22% female in the nuclear sector. We are also an integral member of the National Nuclear Skills Task Force (NSTF) and will play our part in ensuring the UK has the right skills across the nuclear sector.

We have welcomed new capability into the business with the transfer of the Defence Radiation Protection Services (DRPS) from the Defence Science Technology Laboratory (Dstl). This has incorporated the people, equipment, and processes of the Radiation Sciences Capability (RSC) Group located in Alverstoke. This will provide AWE with a strong radiological sciences capability that will further enhance AWE's mission. We've done all this while maintaining our status as one of Britain's top 25 big companies to work for. We have built stronger relationships with our Defence customer and have been supported by a committed workforce in delivering these improvements. I look forward to continuing this progress over the next year and to building even stronger relationships, especially with our unions Unite and Prospect, as they support us in delivering our mission.

As a safety critical nuclear business, we must maintain our existing world class levels of safety. The tragic fatality of a construction worker on site last year has reinforced our commitment to all aspects of workforce safety, not only within our nuclear facilities but on our expanding construction sites. We have worked closely with our regulators in the Office for Nuclear Regulation, the Defence Nuclear Safety Regulator, and the Environment Agency to ensure that we effectively manage and reduce our risks. Last year, the site where we assemble and disassemble warheads was recategorized as requiring the lowest level of regulatory attention. Our commitment to environmental sustainability is also crucial to both our employees and stakeholders. We are holding ourselves accountable to deliver against targets which are amongst the most challenging across government.

I would like to thank everyone who has supported the impressive progress that has been made over the last year and I look forward to building on this momentum over the next year.

Nick Elliott, Chief Executive Officer

AWE and our Mission

AWE Purpose and Mission

AWE's purpose is to 'Protect the UK through nuclear science and technology'.

AWE's mission is 'To design and manufacture warheads and provide nuclear services to meet the needs of defence'.

The purpose and mission are underpinned by the six commitments we have made to defence, which align to the DNO Warhead Group Strategic Objectives. These commitments are:

1. Provide enough warheads
2. Possess the science and technology to maintain and design warheads
3. Support counter terrorism and non-proliferation
4. Build and maintain fit for purpose infrastructure
5. Enable our people and transform AWE
6. Support the DNO's Strategic Warhead Plan

AWE's commitments enable the Warhead Group to fulfil their targets and provide an integrated stockpile for Operation RELENTLESS. These commitments are AWE's unique offering to defence, including the Warhead Group, and are the organisation's reason for existence. AWE has moved into the next generation of warhead production and must deliver these commitments to ensure we capitalise on this endeavour. We will ensure stability, consistency and discipline across the portfolio; invest heavily into the future of our people, plants and processes; and commit to a cultural and operational transformation that ensures we are a world class, modern business.

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 Non-Departmental Public Body (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 through our apprentice and graduate schemes, be known for our contribution to UK nuclear security and as 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 drive forward our 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 2024

The financial statements for the year ended 31 March 2024 show the following:

- Revenue of £1,818.2 million (31 March 2023: £1,476.7 million).
- Gross loss of £33.0 million (31 March 2023: gross loss of £21.4 million).
- Net loss for the year of £11.0 million (31 March 2023: net profit of £3.9 million).
- Net liabilities of £201.1 million (31 March 2023: net liabilities of £234.1 million).
- Capital contribution of £30 million (31 March 2023: £nil) received in relation to an equity contribution from the owner of the Company equal to the amounts paid by the Company to the pension scheme in respect of the deficit funding of the scheme).

Revenues mainly arise from work undertaken in relation to AWE's principal activity. This accounts for 99% of revenue (31 March 2023: 98%). The growth in revenue reflects the increased level of activity in the year compared to the prior period. This is primarily due to greater investment in the infrastructure in connection with current and future facilities for the nuclear warhead programme.

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

The gross loss for the year ended 31 March 2024 arises as a result of the fee earned on the M&O and other contracts of £2.5 million (31 March 2023: £1.3 million) offset by the Research and Development Expenditure Credit (RDEC) returned to the MOD under contract of £20.6 million (31 March 2023: £18.4 million), where the RDEC received from the HMRC is recognised in Other operating income, and the net current service and interest costs arising in relation to the defined benefit pension scheme included in cost of sales of £15.0 million (31 March 2023: £4.0 million).

The net loss for the year ended 31 March 2024 arises principally as a result of the gross loss, as explained above, being offset by Research and Development Expenditure Credit (RDEC) income of £20.6 million (31 March 2023: £18.4 million) included in Other operating income, and Administration expenses, Finance expenses and the charge for corporation tax.

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 decreased to £209 million (31 March 2023: £238 million). This included the £30 million deficit repair payment referred to above. 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 79 to 84). 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 44.

Performance and KPIs

This section sets out the performance and KPIs of the Company for the year ended 31 March 2024.

Performance and KPIs

Overview of KPIs

The KPIs set out below, which incorporate performance against milestones, are those top tier KPIs 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'. This report addresses the top tier of KPIs reported to the board on a regular basis.

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

- Are we Safe and Secure?
- Are we Performing?
- Are we in Control?
- Are we Mobilised?

Performance

In overview, the overall business performance is improving, and the outcomes are being delivered on a more consistent basis. This is as a result of more effective planning and the management of the business against a clear set of objectives and outcomes, agreed with our customer. The KPI's continue to be on an improving trajectory, and that is translating into increased confidence in the ability of AWE to deliver the Business Plan, and the underpinning key objectives and milestones.

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

- Are we Safe and Secure?
 - The KPI target has been met, and while Occupational Safety and Health Administration (OSHA) and Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) rates have been met, and remain at world class levels, they have risen compared to last year.
 - On 6 July 2023, an incident that occurred in which a Balfour Beatty employee tragically lost his life on one of our construction enclaves. The event has been subject to detailed investigation by AWE, the contractor and the relevant authorities. AWE remains wholly committed to the safety of its people and operations and carries out a continuing programme focused on sustaining high standards.
 - For Security, AWE was within target <1.5 (as measured as incidents per 100,000 worked hours) on a 12 months rolling basis through to 31 March 2024.

Performance and KPIs (*continued*)

- Are we Performing?
 - In FY24, 53 (85%) of the Business Plan milestones were delivered, with 48 (77%) of the Business Plan milestones delivered either on time or early compared to plan. This is a significant improvement in on-time delivery from last year.
 - There was a significant improvement in delivery performance of the Technology Centres compared to last year. Technology Centre milestone delivery performance had been on track for most of the year with 98% of the plan delivered within the year. The 2% not delivered represents 23 out of a total planned number of 1,457 milestones.
 - Quality performance fluctuated just below the 95% target throughout most of the year, with sufficient overall performance to end the year in line with the target. This KPI is being updated for the next financial year in order to drive improved outcomes. This will include the addition of a metric on the cost of poor quality in order to drive appropriate decision making around failure costs.
 - The Strategy House, the Company's overarching efficiency programme, delivered its milestones to plan. All planned milestones were delivered either early or on time.
 - Strategy House Hours Harvested, i.e., the time recorded as saved from an initiative within the plan was 88% of the plan in March 2024, showing an increasingly upward trend, with high confidence this will be on track into next year.
 - This programme concludes at the end of FY25. We are currently developing a new, consolidated transformation plan for the future, that will be ready later in 2024.
- Are we in Control?
 - The financial target for expenditure (Actual vs Budget) was not achieved in the current year due to lower expenditure compared to budget principally in infrastructure spend due to a combination of both lower costs and the timing of delivery, including the impact of the investigation into the incident on one of our construction enclaves reported earlier in this section. A revised forecast that was agreed with Defence Nuclear Organisation (DNO), taking account of this in September 2023, was delivered within 1%.
 - The financial efficiencies against the target set by the DNO were more than achieved, delivering 124% of the target.
- Are we Mobilised?
 - There has been considerable progress across the people measures. The focus on Time To Offer (TTO) has contributed significantly to the success of the overall talent acquisition programme. In FY24 we have completed 1,414 external hires, an 84% increase in hires compared to 769 external hires in FY23.
 - We have seen an improving Female Hires KPI. The 35% hires target was ambitious and the achievement of 34.2% female hires, as a proportion of total hires, was achieved through changes in focusing on existing recruitment processes and input from the gender balance working group reflecting strong progress in this area.

Performance and KPIs (continued)

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

KPI	Target	Outturn	Comment
Are we Safe and Secure?			
Occupational Safety and Health Administration (OSHA) Rate	< 0.3	0.287	Target achieved. However, the number of incidents and overall, OSHA rate has increased on previous year's performance. A fatality occurred on one of our construction sites.
Security Incidents per 100,000 hours (12 months rolling average)	< 1.5	1.425	Target achieved.
Mandatory Training Compliance	>95%	98.4%	Target achieved. Mandatory training compliance remains high with an average of 98.9% through FY24. We would not expect to reach 100% as we continue to see headcount growth, new starters, employees on long term sick and family leave.
Are we Performing?			
Total Number of Business Plan Milestones Delivered	62	53	Target not achieved. 85% of Business Plan milestones delivered. 9 milestones moved into FY25 for delivery. 48 (91%) of the Business Plan milestones delivered were delivered within time, of which 16 were delivered early.
Technology Centre Delivery against Business Plan	>90%	98%	Target achieved. 1,434 out of 1,457 individual Technology Centre items delivered.
Right First Time	>95%	95%	Target achieved. KPI has been fluctuating just below the target throughout the year but ended in line with the target.
Delivery of Strategy House Business Plan Milestones	7	7	Target achieved. All of the milestones were delivered in year in time.
Are we in Control?			
Expenditure - Actual v Budget	<+/-1%	-4.8%	Target not achieved. Spend was below budget throughout the year, with key drivers and events occurring within the infrastructure programme.

Performance and KPIs (continued)

KPI	Target	Outturn	Comment
Are we in Control? (continued)			
Financial Efficiencies	>95%	124%	Target achieved. Full year efficiency target exceeded with 124% delivered.
Spend under Category Management	>50%	70.7%	Target achieved. Spend with suppliers that have a category strategy in place finished 20.7% above target.
Are we Mobilised?			
Variance between FTE Demand and Supply	<+/-10%	-3.8%	Target achieved.
Female Hires	>35%	34.2%	Target not achieved; however, it is an improving position. The Female Hires measure is an annual rolling average. We continued to see steady progress towards the target through FY24. The position improved compared to prior years (FY23 - 29.9%; FY22 - 24.5%). With sustained effort and innovation, we have held the metric above 25% all year, demonstrating incremental improvement. The 35% target, reflecting industry best practice, was an ambitious target to focus attention. A STEM (Science, Technology, Engineering, and Mathematics) returners programme was launched for 2024.
Female Headcount	>30%	26.7%	Target not achieved. We have seen an improving female hires position and no notable trends to suggest we have a female leaver issue. Campaigns/ policy changes and culture continue to be the main way to increase female hires and ultimately female headcount.
Employee Net Promoter Score	>10	-18	Target not achieved. The first year of running this insight has enabled us to baseline engagement. As anticipated monthly results vary and are influenced by many factors including pay which has been in the top three of detractor responses since July 2023. The 2023 pay negotiations have had a significant impact on this metric and it is acknowledged that it may take time to recover from that position.

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 Company; 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 owner, 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 and Mitigation Actions
<p>AWE Current Capabilities</p> <p>Risk owner Chief Operating Officer</p>	<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 and/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.
<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.</p> <p>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.

Principal Risks (continued)

Principal Business Risk		Impact and Mitigation Actions
<p>AWE Future Capabilities</p> <p>Risk owner Chief Operating Officer</p>	<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 and increased costs 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.
<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 focused contract management in all areas.

Principal Risks *(continued)*

Principal Business Risk		Impact and Mitigation Actions
<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. ▪ Damage to AWE's brand and reputation as an effective member of the Nuclear Enterprise and Employer of Choice. ▪ Potential regulatory and legal compliance issues due to lack of Suitably Qualified and Experienced Persons (SQEP). ▪ 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 STEM outreach programme and External Technical Partnerships. ▪ Partnering with industry through enduring relationships.

Principal Risks (continued)

Principal Business Risk		Impact and Mitigation Actions
<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>AWE's source of funding is principally from the MOD. The appropriate funding is necessary to deliver AWE's business objectives. The level of funding is influenced by scope and cost.</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, and focus on culture.

Principal Risks (continued)

Principal Business Risk		Impact and Mitigation Actions
<p>Quality</p> <p>Risk owner Director ESH&Q</p>	<p>Failure to establish, manage and monitor adequate quality management systems.</p> <p>Quality is a critical enabler to mission success and to Nuclear Safety, Security and Environmental Performance.</p>	<p>Potential impact</p> <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 MOD confidence in products delivered by AWE. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Drive proactive culture of improvement through Quality Improvement Plans and digitisation. ▪ Maintain Quality training. ▪ Monitoring: Quality risk reviews, focused assurance processes, non-conformance management through in process inspections, quality failure and escape investigations.
<p>Employee Relations</p> <p>Risk owner Chief People Officer</p>	<p>Deteriorating industrial relations leading to formal industrial action.</p> <p>Not maintaining a positive relationship with employees and Trade Unions generates a risk of industrial action and associated programme disruption.</p>	<p>Potential Impact</p> <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. <p>Mitigating actions</p> <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.
<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)*

Principal Business Risk		Impact and Mitigation Actions
<p>External Environmental Shock</p> <p>Risk owner Executive Director Assurance</p>	<p>Uncertainties that follow sudden political change, serious accidents or rapidly changing global trends in regulating nuclear operations.</p> <p>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.</p>	<p>Potential impact</p> <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. <p>Mitigating actions</p> <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.
<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. ▪ Robust system of internal controls to enable compliance. ▪ Reporting and performance review of contracts through business as usual supplier relationship management activity. ▪ Provision of appropriate training and accreditation.

Principal Risks (continued)

Principal Business Risk		Impact and Mitigation Actions
<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.
<p>Environmental Sustainability and Climate Change</p> <p>Risk owner Director ESH&Q</p>	<p>Failure to deal with the transition to a lower-carbon economy and the physical impacts of climate change.</p> <p>Failure to mitigate, adapt and respond to the transitional consequences and evolving nature and scale of climate change, including exposure to more frequent extreme weather events, impacts on both our operating environment and our longer-term strategy including achieving net zero carbon.</p>	<p>Potential impact</p> <ul style="list-style-type: none"> ▪ High cost of adapting to low carbon economy. ▪ Extreme weather disruption on operations, supply chain, resources, and programme delivery. ▪ Environmental impact and regulatory non-compliance. ▪ Global conflict, instability and civil unrest arising from climate migration. <p>Mitigating actions</p> <ul style="list-style-type: none"> ▪ Carbon management strategy. ▪ Climate change risk assessment and adaptation planning. ▪ Decarbonisation of heat and implementation of heating strategy. ▪ Sustainable procurement through Supply Chain Management.

Environmental Sustainability Report

Environmental sustainability reporting

The environmental data and associated financial costs presented in the following pages are consistent with the requirements of HM Treasury's Sustainability Reporting Guidance 2023 to 2024 and includes the Taskforce on Climate Related Financial Disclosure (TCFD), performance against the Greening Government Commitments (GGC) and Streamlined and Energy Carbon Reporting (SECR).

AWE is committed to minimising the environmental footprint of its operations and strives to deliver the highest standard of environmental protection and sustainability. 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.

The ESS is underpinned by the Carbon Management Strategy (CMS) (https://www.awe.co.uk/wp-content/uploads/2023/07_Carbon-Management-Plan.pdf) and the Nature Recovery Plan (https://www.awe.co.uk/wp-content/uploads/2024/02/Nature-Recovery-Plan_A4_V5.pdf). These documents provide more detail as to how the goals set out in the ESS will be achieved and are aligned to Greening Government Commitments and the MOD Climate Change and Sustainability Strategic Approach.

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: SDG 12 responsible consumption; SDG 13 climate action; and SDG 15 life on land.

Task Force on Climate-related Financial Disclosures (TCFD)

Introduction

Last year, AWE made its first disclosure against the TCFD recommendations. In this second year of reporting this disclosure summarises progress in implementing the TCFD recommendations, and planned actions for the year ended 31 March 2025.

The TCFD was established in 2017 by the Financial Stability Board and set out eleven recommendations aligned to four pillars for climate reporting.

- **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.

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. Alongside this, in July 2022, HM treasury released "TCFD-aligned disclosure application guidance" in consultation with the Financial Reporting Advisory Board (FRAB), requiring UK Government departments and many arms-length bodies (ALBs) to incorporate TCFD aligned climate disclosures in their annual reports. AWE's disclosure has been prepared to align with both sets of requirements.

Environmental Sustainability Report (*continued*)

AWE has reported on climate-related financial disclosures consistent with HM Treasury's TCFD-aligned disclosure application guidance, which interprets and adapts the framework for the UK public sector. Ahead of the implementation timetable, AWE has made disclosures against all recommendations under the four TCFD pillars, Governance, Strategy, Risk Management, and Metrics and Targets.

It is recognised that implementation is not yet fully aligned to some of the TCFD recommendations, and it is therefore planned to further develop and enhance reporting and disclosures on Strategy, Risk Management and Metrics and Targets in future reporting periods.

Key disclosure milestones for FY24

Since last year AWE has made Environmental Sustainability and Climate Change one of the Company's fourteen strategic risks (referred to as Climate Change Risk). This represents an important step in raising climate change to be considered as part of enterprise risk management throughout the organisation, with ultimate accountability and oversight resting with the AWE plc Board.

In Q1 2024, AWE also took advice from external climate risk specialists who assessed AWE's progress in implementing TCFD. This activity identified areas for future focus and improvement in FY25 and beyond. This work also supports the Greening Government Commitment on Climate Change Adaptation.

Key areas of focus for FY25

A TCFD Working Group has been formed and over the next year work is planned on the following areas to progress the maturity of AWE's TCFD implementation including:

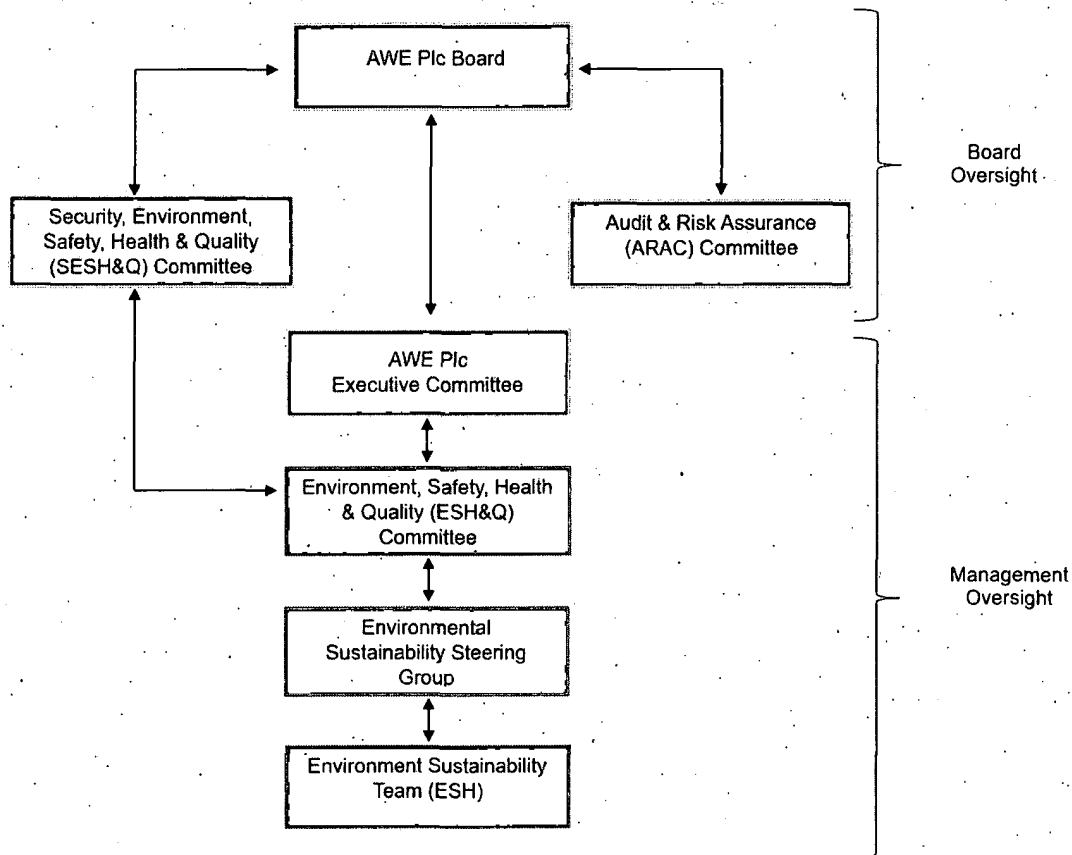
- Focus on the development of a climate-related transition plan to align the climate adaptation approach with existing Net Zero commitments.
- Expand climate risk scenario analysis to include transition risks and opportunities, building on high level transition risks already identified.
- Broaden the climate risk register to capture climate-related risks from across the organisation.
- Refine understanding and enhance materiality assessment for specific climate risks, aiming to articulate financial implications more precisely.
- Expand the sustainability metrics currently reported to explicitly include climate-related risks and opportunities.

Governance

AWE's strong system of governance is essential to making progress against the Environmental Sustainability Strategy including Net Zero Carbon by 2050 and adaptation to climate change. It does this by enabling more informed strategic decision making. To meet its obligations the Board has established seven board sub-committees with advisory, scrutiny or decision-making delegated authority, of which two work closely on the monitoring and management of climate-related risks, as shown in Figure 1.

Environmental Sustainability Report (continued)

Figure 1: AWE's Climate-related Risk Governance Structure



Oversight of climate related risks

Board oversight of climate related risks

The board's responsibilities include: assuring safety, security and environmental responsibilities are carried out in accordance with AWE's nuclear site licence conditions, authorisation conditions and environmental permitting requirements; proposing the AWE plc business strategy to the MOD as shareholder; Setting the culture and providing leadership direction; providing assurance on the significant commitments AWE plc makes to the MOD customer; Providing oversight of management of delivery; and setting and overseeing the control framework within AWE delegations.

The board has ultimate responsibility for governance over climate change within the organisation and for approving the TCFD disclosure as part of the annual report.

As is commonly the case for companies of AWE's size and complexity, the Board has delegated some of its powers to the Chief Executive Officer and Executive Committee of AWE Plc which in turn has delegated some of its authority to other governance meetings.

The SESH&Q Committee (see page 55 for the report on this Committee in the Governance Statement) 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. Climate change is one of the strategic risks overseen by the SESH&Q Committee which met three times in the reporting year. Both AWE Executive and Non-Executive Directors attend the SESH&Q Committee. Climate change risk was a key agenda item at several of the FY24 meetings and will remain so in future.

Environmental Sustainability Report (*continued*)

Management oversight of climate-related risks.

The ESH&Q Executive Director chairs the Environment, Safety, Health & Quality (ESH&Q) Committee and is the owner of the climate change risk. The ESH&Q Committee provides guidance, direction and assessment of environment, safety, health and quality performance, including the development and progress of the ESS and endorsement of the annualised targets and monitoring progress against them. This includes carbon and climate change targets that have been agreed for mitigating and managing the risk. The ESH&Q Committee meets on a quarterly basis. A six-monthly deep dive of the climate risk will also be undertaken by the ESH&Q Executive Director.

The Environmental Sustainability Steering Group is chaired by the Head of Environment and meets monthly. Progress against the annualised sustainability targets including the carbon and climate change targets is monitored including the implementation of TCFD recommendations which is a key target for FY25.

Priorities for FY25

The ESS and Climate Change Risk will continue to be regular topics for board discussion.

Strategy

Approach

Climate change is a strategic risk for AWE, and the risks and opportunities it poses have strategic implications for the business. AWE plays a fundamental role in the Continuous at Sea Deterrent and defence of the United Kingdom. However, AWE must simultaneously decarbonise its operations to comply with increasing regulation supporting the UK's statutory target of a net zero economy by 2050. This includes minimising exposure to transition risks such as changing regulations and adapting to climate change. AWE's Environmental Sustainability Strategy and Carbon Management Strategy provide the framework to enable AWE to become a more environmentally sustainable business, including the intention to achieve Net Zero Carbon by 2050.

The strategic risk has been developed using an approach that is consistent with TCFD and Government guidance including the National Audit Office. The risk identifies that AWE has the potential to be impacted by the physical impacts of climate change due to extreme weather events such as storms and flooding or longer-term changes in weather patterns such as sustained higher temperatures. In addition, climate change transition risks from moving towards a low carbon economy may also have an impact, including increasing regulations, increasing carbon taxation and impacts on supply chain including construction, transport and plant.

To understand the component risks under this broad strategic risk, specific climate-related risks and opportunities are identified using the Defence Infrastructure Organisation (DIO) Climate Impact and Risk Assessment Methodology (CIRAM). This methodology identifies the physical climate risks posed by current and projected impacts of climate change and extreme weather events. It identifies actions required to manage any inherent risk to operational capabilities and informs evaluation of the resilience of AWE's strategies to adapt to climate risks. This is bolstered by horizon scanning and key stakeholder dialogue to identify individual transition risks.

Scenario analysis

AWE has used scenario analysis to understand the potential size of risks identified. Two scenarios were used for analysis, in line with CIRAM methodology and MOD guidance, to enable an easy comparison of lower and more extreme climate change scenarios, using the Met Office's UKCP18 datasets:

- RCP2.6: Compatible with aims to limit global warming compared to pre-industrial levels to well below 2°C, in line with the Paris Agreement.

Environmental Sustainability Report (*continued*)

- RCP8.5: Considered to be a reasonable worst-case scenario with an increase of around 4.3°C by 2100 above pre-industrial temperatures.

The scenarios used present alternative possible futures, based on the increased warming potential of different future emissions outcomes. Scenarios are hypothesised outcomes and are not forecasts, but used in this analysis, they will help AWE to gauge the potential impact of climate change on business under a range of possible futures, which can then be factored into strategic thinking and operational and financial planning.

Qualitative assessment of AWE's climate risks and opportunities

Analysis of climate risks and the impact on operations is underway and will continue to evolve as emerging risks are identified. AWE has identified that both physical and transition climate related risks exist that have the potential to increase capital and operational expenditure.

Physical risk detail:

An increase in the frequency or intensity of floods and storms could affect the health and safety of our people; damage assets and affect the continuity of operations. Potential impacts include damage to infrastructure and access roads; flooding at operational sites; rainwater ingress due to heavy rainfall; disrupted transportation and supply chains; damage to energy infrastructure; discharges of untreated water into surrounding areas.

Elevated temperatures during heat waves present risks to the workforce's health and productivity. These challenges include heat-related illnesses and potential impairment of decision-making capacities. The heightened energy demand during these heatwaves may place pressure on operational machinery and equipment impacting internal energy demand and cooling systems. Drought conditions can lead to a shortage of water, which is important for welfare facilities and operations reliant on water.

Transition risk detail:

The potential for changes in regulation as the UK transitions to a net zero economy poses a risk to operational expenditure. For example, increased operating costs due to the broadening in scope of the UK Emission Trading Scheme, withdrawal of free allowance from UK Government and increasing cost of carbon allowances and early retirement of existing assets where emissions reduction is not economically viable.

There may also be reputation risk to AWE if management is perceived to have taken an insufficient response to climate-related risks. This risk is relevant to AWE's reputation and relationship with the MOD, UK Parliament, and the wider public. To understand how transition risk impacts may differ between more rapid and slower transitions to a net zero economy, a more advanced scenario analysis process is planned for 2024.

Transition opportunities:

In FY25, AWE will formalise a process of identification and assessment of climate-related opportunities. A number of climate-related opportunities have already been outlined in other documentation. For example, AWE's Carbon Management Strategy (CMS) outlines how the ambitious new build programme provides significant opportunity for the construction of sustainable buildings compatible with Net Zero, improving energy efficiency, reducing future running costs and improving building resilience.

Environmental Sustainability Report *(continued)*

Impact on AWE's strategy and financial planning

As discussed in the governance disclosure, as understanding of climate-related risks evolves and further scenario analysis is undertaken it will inform strategic decision-making more directly for current and future operations. The role of scenario analysis in strategic decision-making and financial planning will be further enhanced through financial quantification of climate related risks and opportunities during the coming year.

This includes consideration of how climate change may influence the costs of and approach to construction of new facilities, plant and equipment and the cost of inaction on climate mitigation and adaptation.

Priorities for FY25

The work on scenario analysis will be expanded to include additional transition risks and transition opportunities, engaging stakeholders across AWE to identify, validate and refine them. This work will feed into the climate risk register, to ensure a more comprehensive range of potential risks and opportunities are captured, as well as the projected effects of mitigation actions.

It is intended that the process of expanding the scenario analysis approach will include impact pathway mapping exercises for the most material risks. These will be used as part of the process of quantifying climate risks and opportunities using quantitative scenario analysis methodologies.

Risk management

The approach to climate risk management is embedded within the existing Enterprise Risk Management (ERM) processes.

Risk identification

As described in the Governance section the strategic risk has been developed using an approach that is consistent with TCFD and Government guidance including the National Audit Office. It includes both physical and transitional risks as a result of climate change. The physical risk resulting from climate changes are identified through the CIRAM process also outlined in the Strategy section above. New build projects also undertake CIRAM assessments to help inform the design process.

There is also a defined process for identifying and responding to emerging sustainability-related legislation, in line with International Organisation for Standardisation (ISO)14001:2015. The environmental subject matter experts meet quarterly to discuss any changes to the regulatory landscape and monitor changes through a Compliance Obligation Register. Further work will be undertaken on identifying and defining the transition risks in more detail.

Risk management

Climate change was identified as a Strategic risk in December 2023. Due to the cross-cutting nature of climate change and impact this has on other risks, Executive Leadership sought to formally define climate change as a Strategic Risk. Consequently, climate-related risks face greater scrutiny. All Strategic risks are assessed based on likelihood and impact. Climate Change has been ranked a "medium" level risk after controls and mitigations in the short-medium term (2030).

A Risk Management plan is in place which identifies the key activities for managing the risk and reducing the overall risk score. These form the basis of the FY25 carbon and climate change targets. Owners have been assigned for each of the targets including an Executive Director Sponsor.

Reporting of performance against the carbon and climate change targets and therefore action for mitigating and managing the risk are monitored via key performance indicators (KPIs) which are reported to the Executive monthly. A sustainability dashboard is used to centrally monitor and report the status of each of the targets and key metrics. This covers the three themes of the ESS: reducing carbon, implementing the circular economy, and enhancing biodiversity.

Environmental Sustainability Report *(continued)*

Climate risk integration

AWE has an existing risk management framework in which climate is embedded. Active Risk Manager (ARM) is a corporate risk monitoring tool and holds all reportable risk registers from the Strategic risks and those from the Programme, Functional and Operational areas. As described below a dedicated climate risk register aligned with the impact and likelihood ratings already used will aid the full integration of climate risk with AWE's existing enterprise risk management processes described above.

Priorities for FY25

Over the next year, focus will continue evolving the climate risk register to centralise the risks identified throughout the organisation and ensure that this aligns with the AWE ERM framework. These risks will be assigned owners, with clear mitigation actions.

It is also intended to define a formal climate risk identification process. Currently CIRAM focuses on physical risks, therefore, activities this year will focus on developing the approach to transition risk identification.

Metrics and targets

To assess progress against the implementation of the ESS and CMS which are key to managing the climate change risk a range of metrics and targets are monitored and reported.

Targets

The ESS includes a long term 2050 vision for becoming a more environmentally sustainable organisation. The strategy documents the management framework in place for delivery and sets interim goals for 2025, 2030 and 2040, adopting an EPOCH approach that aligns with the MOD Strategic Approach to Sustainability and Climate Change and the Greening Government Commitments (2021-2025).

Annualised targets are set against the three environmental sustainability themes of: reducing carbon emissions; enhancing biodiversity and implementing the principles of the circular economy. This approach ensures continuous progress towards the interim goals. Owners have been assigned for each of these targets including an Executive Director Sponsor and reporting of progress is via tiered KPIs as described in the risk management section.

AWE has set a target to achieve Net Zero emissions across the value chain by 2050 and Net Zero for Scope 1 and 2 emissions by 2040. This is supported by interim reduction targets following the Science Based Targets Initiative (SBTi) net zero target methodology for Scope 1 and 2 emissions. Progress against the target is reported in the GGC section below. Work to baseline Scope 3 emission is progressing as described below.

Greenhouse gas (GHG) emissions

AWE discloses emissions and a variety of other metrics as part of the Greening Government Commitments (GGC) and mandatory Streamlined Energy and Carbon Reporting (SECR). As part of this, Scope 1, 2 and Scope 3 Category 6 Business Travel have been disclosed in more detail in that section on page 30. As required by HM Treasury Guidance, Department for Business and Trade, Guidance and the Greening Government Commitments, emissions are calculated in line with the SECR environmental reporting guidelines.

In FY23, an assessment of the materiality of Scope 3 carbon emissions was conducted. As part of that exercise, data sources and methodology recommendations were used as a basis for implementing improvements. It is estimated that Scope 3 emissions are several times greater than Scope 1 and 2 emissions and there is a target to establish a Scope 3 emissions baseline by March 2025. This is a key foundational step in working towards the overall target of Net Zero emissions by 2050 across the value chain.

Environmental Sustainability Report (*continued*)

Of the 15 Scope 3 categories, category 1 purchased goods and services and category 2 capital goods are the most significant. Regular engagement with the supply chain on sustainability and climate-related issues is undertaken. Meetings with key service providers are held on a quarterly basis to identify and implement initiatives that reduce environmental impact and support the sustainability goals.

During FY24 an exercise was undertaken to assess the alignment of Strategic Rank (SR) 1 suppliers (~35) to AWE's environmental sustainability values including commitment to Net Zero by 2050. This determined that 70% of SR1 suppliers have made a commitment to Net Zero Carbon by 2050. During FY25 this exercise shall be applied to Strategic Ranks 2 (~75) supply chain and further engagement activities undertaken.

Environmental metrics

Alongside GHG Emissions, AWE monitors and reports on broader Environmental Sustainability metrics which are disclosed under the Greening Government Commitments below.

Further monitoring includes performance against carbon compliance schemes which relate to the risks and opportunities outlined in the Strategy section above. For example, the Aldermaston site is subject to a Greenhouse Gas Emissions Permit and participates in the UK Emissions Trading Scheme. 81% of Scope 1 emissions are required to be reported under the scheme and purchased carbon allowances surrendered at a value of £877,948 for 2023¹ emissions (based on the 2023 calendar year purchased price of carbon allowances).

External validation

Carbon metrics reported for the GGC and SECR, energy, travel and transport are externally assured by a Carbon Management Consultant. Where data is reported for the UK Emissions Trading Scheme (ETS), there has been additional third-party verification as required by the regulations. In FY24, an internal audit was also conducted on the process of preparing the overall environmental sustainability report and wider ESG requirement included in the company report and accounts.

Focus for FY25

Additional metrics related to the identified risks and opportunities will be developed. The data monitoring and collection processes will also be further improved by developing the Sustainability dashboard to include additional metrics for climate-related risks and opportunities.

Alongside this, as external validation becomes a greater focus for Sustainability reporting, work will be undertaken to further improve the documentation of processes used to demonstrate compliance internally and work towards external assurance readiness.

¹Reportable emissions for UK ETS are based on calendar year.

Environmental Sustainability Report *(continued)*

Performance against the Greening Government Commitments

This is AWE's third year of reporting progress against the Greening Government Commitments (GGC). Improvements have continued 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 for the period 1 April 2023 to 31 March 2024.

Mitigating climate change: working towards net zero by 2050

Headline GGC Target - Reduce overall greenhouse gas emissions from 2017-18 baseline¹

AWE's Carbon Management Strategy includes key areas of focus for mitigating carbon emissions, transitioning to a low carbon economy and adapting to climate change. AWE has the intention to achieve net zero carbon emissions across the value chain by 2050. Carbon reduction targets for Scope 1 and 2 emissions are aligned to the Science Based Target Initiative (SBTi) methodology for setting net zero targets. This required a 25% reduction by FY24 against the baseline year of FY18 (April 2017 – March 2018). To date AWE has achieved a 28% reduction. The target covers operations at Aldermaston, Burghfield and Blacknest.

There has been a slight increase in overall carbon emissions compared to FY23. Whilst total usage (kWh) for natural gas and electricity has reduced (3.5% reduction compared to FY23) there has been an increase in the use of diesel fuels. Furthermore, the UK Electricity CO_{2e} factor increased by 7% due to an increase in natural gas use in electricity generation and a decrease in renewable generation. To help mitigate further increases in emissions an energy auditing programme has been implemented to identify opportunities to reduce energy consumption and carbon emissions. This is supported by a dedicated energy efficiency investment budget and implementation team to accelerate realisation of identified opportunities.

Table 1 provides a summary of Scope 1 and Scope 2 emissions from operations at Aldermaston, Burghfield and Blacknest and other satellite locations and Scope 3 emissions from business travel. To improve transparency in reporting, Scope 1 emissions for FY24 have been further categorised with emissions from natural gas remaining the most significant contributor. GHG emissions are reported as tonnes of Carbon Dioxide equivalent (tCO_{2e}) and are calculated using the UK Government Greenhouse gas (GHG) conversion factors published by the Department for Energy Security and Net Zero (DESNZ).

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

¹The Department for Energy Security and Net Zero (DESNZ) have not specified a specific target for AWE.

Environmental Sustainability Report (continued)

		Financial Year – 1 April to 31 March						
		2023/24	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18 Baseline
Non-Financial Indicators (tonnes CO₂e)	Scope 1 Direct Emissions (Natural Gas, other Fuels and Fugitive Releases)	30,911 Natural Gas ¹	32,727	35,033	37,130	35,959	36,595	40,317
		1,655 Other Fuels ²						
		305 Fugitive Emissions ³						
	Scope 2 Indirect Emissions ⁴ (Purchased Electricity – Location Based)	27,081	26,357	28,645	31,061	33,870	36,518	43,282
	Scope 2 Indirect Emissions (Purchased Electricity – Market Based)	6	5	0	0	0	36,518	43,282
	Total Scope 1 & 2 Emissions Location Based	59,952	59,084	63,678	68,191	69,828	73,112	83,599
Total Scope 1 & 2 Emissions Market Based	32,877	32,732	35,033	37,130	35,959	73,112	83,599	

¹ Data based on supplier invoices.

² Data based on fuel usage including manual meter reads.

³ Based on estimated quantities of gases lost.

⁴ Based on supplier invoices

Environmental Sustainability Report (continued)

		Financial Year – 1 April to 31 March						
		2023/24	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18 Baseline
Related Energy Consumption¹ (kWh) (000s)	Natural Gas	168,978	174,463	183,923	190,983	188,875	189,943	202,860
	Purchased Electricity	130,780	136,297	134,908	133,228	132,513	129,005	123,115
Gross Expenditure² (£000) <small>(Includes purchased electricity, natural gas, and other fuels)</small>	Energy	36,003	27,728	21,185	20,401	19,139	18,535	16,337
	Off-Sets	-	-	-	-	-	-	-
	Domestic Air Travel	217 795,155 km	155 ³	46				
	International Air Travel (Short Haul)	209 1,129,302 km	132 ⁴	Not reported				
	International Air Travel (Long Haul)	8,543 26,674,099 km	5,377 ⁵	Not reported				
	UK Vehicle Hire	284	245	130				
	Private Mileage Claims	199	158	130				
	Rail	50	27	11				
Gross Expenditure (£000) <small>(As charged by travel provider)</small>	Business travel	11,775	8,888	2,077				

Table 1 – Greenhouse Gas Emissions

¹ Based on supplier invoices

² Based on supplier invoices

³ Previously reported as 129 tCO₂e in FY23. Updated to reflect more accurate reporting.

⁴ Previously reported as 105 tCO₂e in FY23. Updated to reflect more accurate reporting.

⁵ Previously reported as 4570 tCO₂e in FY23. Updated to reflect more accurate reporting.

Environmental Sustainability Report *(continued)*

Reducing emissions from AWE fleet vehicles

AWE owned vehicles are fuelled with diesel. In support of the central government GGC target for 100% of the government car fleet to be fully zero emissions at the tailpipe by 31 December 2027, AWE has a plan to progressively transition to Ultra Low Emission Vehicles (ULEV) where viable. This includes the implementation of electric vehicle (EV) charging infrastructure. Ten EV charging points have been installed as part of a successful trial and there is a project to install 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 (65%) and diesel (35%). AWE will continue to engage with suppliers working towards increasing the number of ULEV and reducing carbon emissions from transport.

Reducing emissions from domestic flights and travel policy

Carbon emissions from domestic flights continues to be below the 2017-18 baseline (954 tCO_{2e}) and the GGC target of a 30% reduction has been maintained, however emissions from domestic flights have increased compared to FY23 as have international business flights. Improvements have been made to the analysis of flight in table 1 on page 31 resulting in adjustment to the FY23 figures.

The Company Travel Policy and Procedure has been updated and includes additional information on sustainable business travel and requires 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

Headline GGC Target - reduce the overall amount of waste generated by 15% from the 2017-18 baseline.

AWE is a diverse organisation that produces a wide range of wastes including radioactive, aqueous, gaseous, and explosive waste types, as well as controlled waste.

Radioactive waste is minimised through the application of Best Available Technique (BAT) and discharges are made in compliance with the Environmental Permits, regulated by the Environment Agency.

For this report, 'controlled wastes' have been reported, defined as wastes arising from conventional operations, such as offices, maintenance, laboratories and workshops, that are neither radioactive, explosive, aqueous or gaseous discharges. Construction waste management is covered under the section on Sustainable Construction. Table 2 shows the overall operational controlled wastes categorised by the waste hierarchy. This year data has been included for wastes sent for incineration with and without energy recovery. Hazardous waste quantities and expenditure has also been reported.

AWE's waste management performance continues to improve. There has been a reduction in the quantity of controlled waste generated compared to last year and the target of 15% reduction against the baseline has been achieved. It is acknowledged that the overall quantity of waste generated may continue to fluctuate as operations increase and 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. However, AWE will continue to embed the principles of a circular economy and identify opportunities to re-use and recycle. In FY24, the diversion from landfill rate was 99% and the reuse and recycle rate was 72% against an AWE target of 73%.

Environmental Sustainability Report (continued)

	Financial Year – 1 April to 31 March						
	2023/24	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18
Controlled Waste ¹ (tonnes)	1,689	3,446	1,662	1,425	2,215	1,822	2,287
Reused Waste (tonnes)	161	131	57	99	179	162	319
Recycled Waste (tonnes)	1,043	2,901	1,163	945	1,401	1,086	1,270
Recovered Waste (tonnes)	38	334	352	304	432	429	431
Recovered (Energy from Waste) (tonnes)	343	-	-	-	-	-	-
Disposed (Incineration) (tonnes)	103	-	-	-	-	-	-
Disposed (Landfill/Other) (tonnes)	1.5	80	90	77	203	145	267
Information Communication Technology (ICT) Waste (tonnes) ²	27	27	15	16	37	29	32
Food Waste (tonnes) ³	18	9 ⁴	Not previously recorded				
Hazardous Waste ⁵ (tonnes) ⁶	407	Not previously reported as a separate category					
Gross Expenditure (£000) (Includes Waste Contract Costs & Electronic Media Shredding and Hazardous Waste)	1,164	988	851	780			
Hazardous Waste Costs ⁷ (£000)	274	Not previously reported as a separate category					

Table 2 – Waste Management Performance

¹ Asbestos and asbestos containing materials have been excluded from this data as at present these wastes can only go to landfill in the UK.

² ICT waste is included within overall controlled waste figures.

³ Food waste is included within the overall controlled waste figures.

⁴ Food waste was first recorded in November 2022.

⁵ Hazardous waste is included within the overall controlled waste figure.

⁶ Hazardous waste removed from site by waste contractors and DESA where it is deemed to be an asset.

⁷ Cost of hazardous waste removed by waste contractor. Hazardous waste removed by DESA is a no-additional cost to AWE.

Environmental Sustainability Report (continued)

During FY24, AWE has worked with its catering supplier ESS to segregate and record the quantities of food waste from the Aldermaston site canteen and coffee shops. Approximately 18 tonnes of food waste have been sent for anaerobic digestion. Work is in progress to gain more accurate weights and to look at options to trial food waste collection in high occupancy facilities at both sites.

ICT waste is removed from site via a Defence Equipment Sales Authority (DESA) contractor and is taken away for checking, repairing and reuse.

Reducing paper usage

Printer paper dominates AWE paper office supply, averaging around 82% of all paper products that it purchases. The data in Table 3 represents the volumes of printer paper purchased for A3 and A4 reams and demonstrates a general downward trend in A3 paper and a more consistent consumption of A4. AWE only started recording this data in FY21. However, paper printing records go back to 2017/18 and analysis shows a reduction of 50% in printing. This is due to the introduction of laptops and more agile ways of working and business initiatives to reduce printing.

	Financial Year – 1 April to 31 March			
	2023/24	2022/23	2021/22	2020/21
A3 Paper Total No. Reams (500 sheets per ream)	444	488	1,490	1,790
A3 Paper Total No. Boxes (5 reams per box)	89	98	298	358
A4 Paper Total No. Reams (500 sheets per ream)	8,658	8,560	10,726	9,684
A4 Paper Total No. Boxes (5 reams per box)	1,732	1,712	2,145	1,936

Table 3 – Printer Paper Purchased

Removing single-use plastics

AWE has removed all Single-Use Plastics (SUP), as defined by UK legislation. The focus of this has been 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. Since FY23, AWE has maintained a 50% reduction in the use of disposable cups and continues to work with its service partners to identify opportunities for further reductions. Moving forward there will be continued focus on reducing the consumption of Consumer Single-Use Plastics (CSUP) across the business.

Re-Use Schemes

AWE has created its own SharePoint Reuse site that is available to all employees to maximise the use of MOD assets, reduce the amount of waste produce and reduce the number of products consumed. Since 2022 AWE has rehomed almost 100 separate items with an estimated value of £16k, using this platform alone.

Reducing finite resource consumption and water use

Headline GGC target – reduce water consumption by at least 8% from the 2017-18 baseline

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.

Environmental Sustainability Report (continued)

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. The overall consumption figures show a reduction of 19% compared to the baseline year.

	Financial Year – 1 April to 31 March						
	2023/24	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18
Aldermaston Borehole Abstraction m ³ Scope 1 Water Controlled by the Organisation	491,189	457,296	496,304	483,221	366,810	574,310	603,826
Burghfield Borehole Abstraction m ³ Scope 1 Water Controlled by the Organisation	148,178	181,986	146,567	214,147	86,159	123,734	165,706
Aldermaston Main Water Supply m ³ Scope 2 Water - Purchased Water	115,248	178,840	129,713	116,333	143,323	216,158	177,653
Blacknest Main Water Supply m ³ Scope 2 Water - Purchased Water	7,560	7,310	6,034	4,739	4,577	11,833	1,316
Total m³	762,175	825,432	778,618	818,440	600,869	926,035	948,501
Gross Expenditure (£000) (Purchased Water)	193	244	189	163	174	266	198

Table 4 – Water Consumption

Environmental Sustainability Report (*continued*)

Sustainable procurement

In a drive to achieve industry best practice, AWE has undertaken a gap analysis against (ISO) 20400: Sustainable Procurement, and actions are currently being implemented that will align AWE closer to the standard, by further embedding sustainable procurement practices into Supply Chain Management arrangements and business processes.

Social Value forms part of the award criteria for competitive procurements. Support is drawn on from experts in environment, ethics and people management to support supply chain management. Environmental sustainability requirements are also included in Pre-Qualification Questionnaires, and supplier evaluations as well as all new procurement contracts.

There is a supplier engagement forum for sharing best practice in relation to Health, Safety and Environment and AWE is a member of the joint MOD/Industry Sustainable Procurement Working Group (SPWG) which continue to provide defence industry engagement with prime contractors. The SPWG Strategic Plan has been updated to include net zero and responsible production and consumption.

Nature recovery

AWE is committed to protecting and enhancing the biodiversity of the estate it manages¹. To this end the organisation developed and published its Nature Recovery Plan (NRP) in 2022. The NRP sets out AWE's Vision, Goal and Objectives relating to enhancing biodiversity. Progress over the last year includes:

- Engaging with external stakeholders. AWE has joined both the Landowners Working Group of the Local Nature Recovery Strategy and the UK Nuclear Ecology Peer Group (which includes biodiversity leads from across the nuclear sector). These interactions help ensure our actions taken to enhance biodiversity both complement wider regional goals and reflect best practice implemented by similar organisations.
- Raising staff awareness of biodiversity issues: several articles have been published in AWE's in-house magazine and on our company intranet page. Alongside this several awareness presentations have been given to groups of staff on all sustainability issues, including the biodiversity of AWE's estate and the targets set out in the NRP. This includes a mandatory introduction to sustainability at AWE course for all employees.
- Integrating biodiversity considerations into all relevant service areas and functions: Progress has been made against this via a number of initiatives. For example, all capital projects are on target to achieve at least 10% Biodiversity Net Gain, the process for applying for the Wildlife Trusts' Biodiversity Benchmark has begun, and approximately 13% of the estate has been prioritised for biodiversity conservation and enhancement.
- Protecting and enhancing tree planting and woodland cover: The 2030 target to increase the area of woodland on the AWE estate to 10% (against the 2021 baseline of 8.1% of the estate under canopy cover) will be achieved through three main activities: compensatory planting when trees are felled at a 3:1 ratio (new:old), influencing landscape and Biodiversity Net Gain schemes for new build developments to ensure they include appropriate planting of native tree species, and planting has begun of a traditional style orchard which will eventually cover 2.5 hectares.
- Protecting and enhancing pollinator friendly habitat: the target of increasing the area of reduced mow grassland by 5000m² to total of 20,000m² was significantly exceeded with approximately 170,000m² not mowed between 1 April and the 30 August across the AWE estate this year. In addition, the planting of the orchard referenced above and influencing the Biodiversity Net Gain (BNG) schemes of our new build projects will both increase the area of pollinator friendly habitat.

¹ AWE does not own or lease any areas of peatland, nor does it directly manage any protected sites.

Environmental Sustainability Report (*continued*)

- Recognising the potential of, and deploying, Nature Based Solutions: there is an aspiration to build on the existing assessment of carbon sequestration benefits of woodland areas on the estate to cover a broader range of habitats.
- Developing a Natural Capital Approach: During FY24 a detailed assessment of the habitats on the AWE estate was completed and habitat maps produced. This will form the basis of a Natural Capital register.
- Reporting against the Nature Recovery Plan and Biodiversity Performance Indicators: progress against the targets of the Nature Recovery Plan is undertaken regularly to a range of internal stakeholders including the AWE Executive board. Additionally, ecological surveys have been reported to provide a baseline against which a suite of Biodiversity Indicators can be developed.

Adapting to climate change

Work has continued on building understanding of the implications of a changing climate on operations. The board has agreed a new strategic risk on Environmental Sustainability and Climate Change demonstrating understanding and agreement at a senior level for the need for action on climate change. Please refer to the TCFD Disclosure.

Sustainable construction

All new build and major refurbishment projects at AWE are required to undertake a sustainability assessment using the MOD Defence Related Environmental Assessment Methodology to identify sustainable design and build opportunities.

Infrastructure Projects Delivery team at AWE is adopting a holistic and systematic approach to carbon management using industry best practice. Energy and Carbon Management Plans are produced to assist progress towards a more sustainable energy system, prioritising energy saving and efficiency opportunities. Operational energy targets are set to assist the drive to net zero.

AWE is focussed on improving current 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 with a low embodied carbon content.

Measures are taken to minimise waste produced from construction projects at AWE. In FY24, 99% of Construction and Demolition waste was diverted from landfill with 98% re-used or recycled.

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 both on and off-site.

As previously described the quantities of ICT waste are recorded and waste is removed from site via a DESA contractor for checking, repairing and resale. The Sourcing Strategy 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 Government's Sustainable Technology Advice and Reporting (STAR) team.

Environmental Sustainability Report (continued)

Streamlined Energy and Carbon Reporting (SECR)

Energy and emissions Summary

The consumption and emissions data required for streamlined energy and carbon reporting data 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 AWE's renewable electricity contracts. This is not mandatory and has been provided as a voluntary disclosure.

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.

	Financial Year – 1 April to 31 March		
	Units	2023/24	2022/23
Emissions from combustion of gas (Scope 1)	tCO ₂ e	30,913	31,848
Emissions from combustion of fuel for transport purposes (Scope 1)	tCO ₂ e	517	534
Emissions from purchased electricity (Scope 2 - location based)	tCO ₂ e	27,081	26,357
Emissions from purchased electricity (Scope 2 - market based)	tCO ₂ e	6	5
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	2,343	2,411
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	1	-
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	tCO ₂ e	483	403
Total Gross emissions. (Location based)	tCO ₂ e	61,337	61,554
Total Gross emissions. (Market based)	tCO ₂ e	31,919	32,791
Energy consumption used to calculate above emissions	kWh	303,949,732	314,642,051
Intensity Measurement	m ² Floor Area	569,602	569,531
Intensity Ratio - location based		0.10768	0.10808
Intensity Ratio - market based		0.05604	0.05758

Table 5 – Energy and Emissions Summary

Environmental Sustainability Report (*continued*)

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 2023 UK Government's Conversion Factors for Company Reporting. The operational approach has been used to define the boundary and scopes.

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. Where upstream leased asset supplies are not directly invoiced, landlord supplied data has been used. Propane usage was based on delivered quantities and Liquefied petroleum gas (LPG) usage was based on the estimated annual usage used in UK Emission Trading Scheme reporting.

On-site (Scope 1) transport data at Aldermaston and Burghfield was calculated from litres used, as 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 vehicle (Scope 1) transport data was calculated from fuel card data which provided the litres used. 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 tCO_{2e} per m² floor area. This is calculated by gross external floor area of the buildings, multiplied by the number of levels.

Energy efficiency

For the year ended 31 March 2024 AWE delivered the following energy efficiency savings:

- 12,070,000 kWh/year natural gas reduction from continued building closures and site optimisation activities and subsequent disconnection from site-wide steam networks.
- 440,000 kWh/year electricity reduction from replacement of fluorescent lighting systems with LED.
- 788,000 kWh/year electricity reduction from replacement of air compressors with more efficient units and reduction in compressed air leaks.

For the year ended 31 March 2024 AWE also:

- Commenced a continuous energy auditing programme to identify going opportunities to reduce energy consumption and carbon emissions across our enduring estate.
- Introduced a dedicated energy efficiency investment budget and implementation team to accelerate realisation of identified improvement opportunities.
- Prepared an optioneering strategy for withdrawal of liquid fuel usage (for back-up generators and most road vehicles) at AWE sites.

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 Business Plan; this Plan sets out among other matters the programme that the Company undertakes in support of the UK's strategic deterrent and is developed through close working with DNO to ensure alignment with the wider defence nuclear programme.

The board also reviewed the implementation of the Company's strategy, set in the previous reporting period and 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. This strategy will be enacted over multiple years; the board has recognised progress made on key aspects of the strategy including implementation of the operating model while it continues to oversee delivery of the remaining aspects of the strategy.

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 engages in ongoing dialogue 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.

Section 172(1) Statement *(continued)*

- 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 within 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 of the requirement to demonstrate the integrity and fairness of its decision-making including impacts on and relationships with others.
- acting fairly as between members: Following transition to public ownership, the sole shareholder of AWE is the Secretary of State (SoS) for Defence so that the issue of competing interests among the Company's members does not arise. 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 22nd August 2024



Nick Elliott CB MBE, Chief Executive Officer

Corporate Governance Report

Directors' Report

The directors present their report together with the financial statements of the Company for the year ended 31 March 2024. 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 2023 and 31 March 2024 are:

- Sir John Manzoni, Chairman
- Alison Atkinson, Chief Executive Officer¹ - resigned 17 April 2023
- Nick Elliott, CB MBE, Chief Executive Officer¹ - appointed 20 March 2024
- Richard Elsy CBE, Non-Executive Director
- Claire Flint, Non-Executive Director
- Barry Hunter, Chief Financial Officer
- Dame Sue Ion, Non-Executive Director
- Richard Keys, Non-Executive Director
- Henry Lloyd, Non-Executive Director (Ministry of Defence appointed)
- Andrew McNaughton, Non-Executive Director (to 6 February 2023), Executive Director (from 7 February 2023) - resigned 13 December 2023
- Bridget Rosewell CBE, Non-Executive Director - appointed 13 December 2023
- Iain Stevenson, Deputy Chief Executive Officer¹ - appointed 7 June 2023
- Dr J Stephen Rottler, Non-Executive Director

Directors who resigned from AWE board at time of approving the annual reports and accounts:

- Iain Stevenson – resigned 27 July 2024

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 directors recusing themselves from all decision-making associated with the conflict.

The following interests were held by members of the board during the year ended 31 March 2024:

- Sir John Manzoni was a member of the Mace Advisory board.
- Henry Lloyd was an employee of UKGI, which works alongside the Secretary of State (SoS) for Defence, who is the sole shareholder of the Company.
- Nick Elliott was the Chair and Director of Helsing Ltd.

No conflicts have arisen with respect to these interests.

External auditor

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

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

¹ Alison Atkinson served as CEO until 17 April 2023; Iain Stevenson served as interim Chief Executive Officer from 18 April 2023 to 19 March 2024; and Nicholas Elliot has served as CEO since 20 March 2024.

Directors' Report (continued)

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 on 31 March 2024 was £209m (31 March 2023: £238m).

Dividends

The directors have declared no dividends during the current year (2023: £nil).

Personal data

There were no disclosures of any personal data during the reporting period that were reportable to the Information Commissioner's Office. However, a single breach relating to the use of an employee's photograph outside the scope of the permissions they had given for its use was reported by the Company to the Information Commissioner's Office after the end of the reporting period. The Information Commissioner has decided to take no further action.

Political donations and expenditure

The Company made no political donations or expenditure during the year ended 31 March 2024 (31 March 2023: 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), of which AWE is part. It is not considered that there is any significant credit risk arising from the trade debtors held by the Company.

The Company policy is to use forward currency contracts to hedge its foreign currency cash flows (see Note 18 for further details). The Company has forward currency contracts entered into in the past and will continue to consider their use in accordance with its needs and HMT guidance.

Research & Development

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

Likely future developments

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

Directors' Report (continued)

Overseas branch

The Company maintains a branch in France.

Events after the reporting period

There have been no events since 31 March 2024 to the date the accounts were authorised for issue which would affect the understanding of these accounts. International Accounting Standards require AWE to disclose the date on which the accounts are authorised for issue. The Accounting Officer has authorised these accounts to be issued on the date they were certified by the Comptroller and Auditor General.

On 1 April 2024 the Radiation Sciences Group (RSG) business was transferred for nil consideration to AWE plc from Defence Science and Technology Laboratory (DSTL), an Executive Agency of the Ministry of Defence of the United Kingdom. There are no impacts that affect the understanding of these accounts. RSG, located at the Institute of Naval Medicine (INM), Alverstoke, provides services to the military, Defence Nuclear Organisation (DNO), DSTL, wider MOD, Other Government Departments and aligned industry in the areas of radiation protection policy and advice, radiological instrumentation calibration and repair, dosimetry, environmental surveying and nuclear emergency response.

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 43 and in the accounting policies on pages 85 to 93.

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 base 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 Continuous at Sea Deterrent (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 31 August 2025.

Directors' Report (continued)

Going concern (continued)

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.

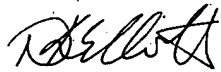
Engagement with suppliers, customers and other in a business relationship with the Company

Please see the commentary in relation to Companies Act s172(1) on page 39 and 40.

Engagement with employees

Please see the commentary in the People Report on page 66.

Approved and signed on behalf of the board on 22nd August 2024



Nick Elliott CB MBE, 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 requirements of the Government Financial Reporting Manual (FRoM) 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 FRoM, have been followed, and disclose and explain any material departures in the financial statements.

The Permanent Secretary of the MOD, as the MOD Principal AO, has designated the CEO of AWE plc as the 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 including the AO confirm that to the best of their knowledge 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 met eleven times this year, in a combination of meeting remotely and in person. 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 and 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.
- Determining AWE's Strategy, and Corporate Plan and Business Plans and seeking approvals by the SoS for Defence.
- Establishing and taking forward the strategic aims and objectives of AWE 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. In 2023 the board arranged for an externally facilitated review which was undertaken by Duncan Reed of Condign Board Consulting. Neither Mr Reed nor Condign Consulting has had any other relationship with the Company or its board.

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. One of the non-executive directors is also appointed as the Senior Independent Director. 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 Board 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.

Governance Statement (Continued)

Board members (continued)

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.

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 42.

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	ESTAC	Infra. Cttee	Nom. Cttee	P&P. Cttee	Rem. Cttee	SESH Q Cttee
Sir John Manzoni	11/11				2/2			
Alison Atkinson ¹	2/2							
Richard Elsy	11/11			6/6	2/2	5/5		
Claire Flint	10/11				2/2		9/9	3/3
Barry Hunter	11/11							
Dame Sue Ion	11/11		4/4			5/5		3/3
Richard Keys	10/11	4/4		5/6			8/9	
Henry Lloyd	11/11	4/4	4/4	6/6	2/2	5/5	9/9	3/3
Andrew McNaughton ²	7/8			6/6		3/4		
Bridget Rosewell ³	4/4	1/1		2/2		2/2		
Dr J Stephen Rottler	11/11	3/4	3/4			4/5		3/3
Iain Stevenson ⁴	9/9							
Nick Elliott ⁵	1/1							

¹ Mrs Atkinson resigned on 17 April 2023.

² Mr McNaughton resigned on 13 December 2023.

³ Ms Rosewell was appointed on 13 December 2023.

⁴ Mr Stevenson was appointed on 7 June 2023.

⁵ Mr Elliott was appointed on 20 March 2024.

Governance Statement (continued)

Board experience and roles

Sir John Manzoni KCB	Nicholas Elliott CB MBE
Chair	Chief Executive Officer
Appointed:	
30 June 2021	20 March 2024
Committees¹:	
N (chair)	None
External appointments:	
SSE PLC (chair) Diageo PLC (Chair designate) KBR, Inc (NED) Mace Advisory board (Member)	Helsing AI (NED) Turner & Townsend (NED)
Prior roles:	
Chief Executive of the Civil Service; Permanent Secretary of the Cabinet Office; Talisman Energy (President and CEO) BP Plc (board and executive member)	UK Vaccine Taskforce (DG); Defence Equipment & Support (Deputy CEO); Submarine Delivery Agency (NED); Nuclear Decommissioning Authority (NED)

Henry Lloyd	Iain Stevenson	Barry Hunter	Richard Elsy CBE	Claire Flint
MOD-appointed Non-executive director	Deputy Chief Executive Officer	Chief Financial Officer	Independent Non-executive director	Senior Independent Non-executive director
Appointed:				
30 June 2021	7 June 2023	11 October 2021	1 July 2021	1 July 2021
Committees²:				
A, E, N, P, R, S	None	None	I, N, P (chair)	N, R (chair), S
External appointments:				
UKGI (director); Sizewell C (Holding) Limited (NED)	None	None	AB Dynamics PLC (Chair)	Oxford University Hospitals NHS Foundation Trust (Senior Independent NED)
Prior roles:				
Department of Business, Energy and Industrial Strategy; The Insolvency Service; Defence Equipment & Support (Non Executive member)	BAE Systems; Head of Programme Managing Director of Naval Ships; Group Project Management Director of BAE Systems	Luton Airport (CFO)	High Value Manufacturing (HVM) Catapult (CEO); Land Rover and Jaguar (Engineering Director); Torotrak plc (CEO)	Scope, the Disability Charity (Vice-Chair); National Nuclear Laboratory (NNL) (SID); Oxford Instruments plc (HR and Brand Director)

¹ N – Nominations

² A – ARAC; E – ESTAC; I – Infrastructure; N – Nominations;

P – Production & Programme; R – Remuneration; S – SESH&Q

Governance Statement (Continued)

Board experience and roles (continued)

Dame Sue Ion GBE	Richard Keys	Bridget Rosewell CBE	Dr J Stephen Rottler
Independent Non-executive director	Independent Non-executive director	Independent Non-executive director	Independent Non-executive director
Appointed:			
1 July 2021	1 July 2021	13 December 2023	27 January 2021
Committees:			
E (Chair), P, S	A (Chair), I, R	A, I (Chair), P	A, E, P, S (Chair)
External appointments			
Office for Nuclear Regulation - Independent Advisory Panel member; Royal Society - Chair of Science and Industry Translation Committee	Merrill Lynch International; Department for Transport	Flood Re (Chair); M6 Toll (Chair); UK Infrastructure Bank (Chair, Audit and Risk); Northumbrian Water Ltd (NED)	Triad National Security LLC (Director); Battelle Memorial Institute (Senior Vice-President, National Laboratory Management and Operations); U.S. Strategic Command Strategic Advisory Group Stockpile Assessment Team (member)
Prior roles:			
British Nuclear Fuels Limited's (BNFL) (CTO); Nuclear Innovation Research Advisory board (Chair); University of Central Lancaster (Board Chair)	Sainsbury's Bank (NED); Wessex Water plc (NED); NATS (NED); Department for International Development; Pricewaterhouse Coopers LLP (PwC) Partner and latterly Global Chief Accountant	Atom Bank (Chair); Network Rail (NED); Ulster Bank (NED); Department for Work and Pensions; Department for Transport; Chief Economic Adviser to the Mayor of London	Deputy Laboratories, Director and Executive Vice President for National Security Programs at Sandia National Laboratories

Governance Statement (Continued)

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 oversight of 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, the adequacy of internal audit resources and review of 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, Dr J Stephen Rottler, and Bridget Rosewell (appointed during the year). The National Audit Office (NAO) and Heads of Assurance and Internal Audit are also invited and have attended all the Committee's meetings through the reporting period.

Performance during the year

In the period the Committee met four times. The Committee received regular reports on the ICAF (MOD Internal Control Assurance framework) second line of defence, key strategic risks, internal controls, risk management, and internal audit. 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 are set out on page 57 of this report.

The Committee was also responsible for reviewing and recommending the approval of the Annual Report & Accounts of AWE plc to the board. NAO as external auditors reported their findings from their audit of the Annual Report and Accounts to the Committee.

During the period the Committee reviewed several specific strategic risks, relating to supply chain, including risk management of critical suppliers and related contingency plans, enterprise funding, and external environmental shocks.

The Committee also considered the development and progress of the Future Material Campus (FMC) approach to governance, risk management and assurance, and the evolution of the integrated approach to corporate assurance, including progress on the future transfer to GIAA of the management and delivery of AWE's internal audit service.

The Committee is also increasing its focus and attention on the Company's approach to environmental, social, and governance (ESG) matters in conjunction with the work of the Security, Environment, Safety, Health, and Quality (SESH&Q) committee and compliance with Task Force on Climate-related Financial Disclosures (TCFD) requirements.

Engineering, Science and Technical Capability Assurance Committee (ESTAC)

The role of the ESTAC 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 members who are not members of the board.

Governance Statement (*continued*)

Engineering, Science and Technical Capability Assurance Committee (ESTAC) (*continued*)

Performance during the year

The Committee has considered the following matters during the year:

- The Science programme.
- Capability and strategy plan for trials including at the Epure facility.
- Material Analytical Science capability plan.
- The strategy for academic collaborative outreach.
- The plan for transition of key capabilities to the future Hub facility.
- AWE's high performance computing capability and future demand.
- Radiation physics and laser research capability.
- The approach to engineering trials and engineering strategic workforce planning.
- Processes for requirements management and technical decision making:
- Manufacturing process development.
- Update on explosives strategy.

The Committee has undertaken tours of the following facilities:

- Laser facility.
- Training facilities for hydrodynamic trials and product moves.

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. Within period, Bridget Rosewell joined the board as a non-executive director. She was appointed as the chair for the committee, replacing Dick Elsy. The other committee members in the reporting period were Richard Keys and Henry Lloyd.

Performance during the year

The Committee has met 3 times within the period and considered the following matters:

- The approach to commercial management, including the commercial strategy and the implementation of the Programme Initiation Partnership (PIP), to augment the capacity and capability of AWE as a major infrastructure client for the delivery of the Future Materials Campus (FMC)¹ programme. The committee oversees the plans to progress the evolution of FMC as a major programme through the implementation of the recommendations from the review process by government bodies, including the Infrastructure and Projects Authority (IPA) within HM Treasury.

²³ The Future Materials Campus is a programme comprising multiple facilities relating to the manufacture of nuclear components.

²⁴ The Future Infrastructure Programme relates to a series of individual projects in support of non-nuclear components, test and trials for the replacement warhead.

Governance Statement *(continued)*

Infrastructure Committee *(continued)*

- Plans for the future delivery of the Future Infrastructure Programme (FIP)²⁴ including commercial and delivery models.
- Progress of individual projects within both FMC and FIP programmes.
- The implementation of the risk, assurance, and governance processes within the FMC programme.

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 Equity, 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 year

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.

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

- Board succession. Following Andrew McNaughton's resignation from the board to take up an executive position with the company, Bridget Rosewell and Mark Wild were appointed following a search supported by Russell Reynolds; Bridget joined the board in December 2023 and Mark will join the board later in 2024. In addition, approval was obtained from the Secretary of State for the extension of the terms of office of Dame Sue Ion, Richard Keys, Richard Elsy and Claire Flint. All four were initially appointed on the same day. The extensions are for differing lengths, ensuring that future changes in the board membership are staggered and provide continuity of service of a majority of the board at any one time. In March 2024 Sir John Manzoni notified the board that he would not be seeking a renewal of his appointment on its expiry in the autumn of 2024; while the process to appoint a new Chair is a matter for the Secretary of State, the Committee has reviewed how best to support that process on behalf of the Company.
- Executive succession. The Committee oversaw the appointment of Iain Stevenson as interim Chief Executive Officer and then a process to appoint a permanent successor, supported by Russell Reynolds. This extensive and thorough process led to the appointment of Nick Elliott as Chief Executive Officer from March 2024. In addition, the Committee reviewed succession plans across the remaining executive team, including the recruitment activity to replace executives expected to leave in the near term. The limited levels of diversity in the executive cadre (18% female and 100% white) were noted as was the need to bring focus to bear on this issue, in particular through the company's talent programmes.
- 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. More focus on manager development was required to enable a culture of challenging poor behaviour noting that anti-bullying & harassment training are provided to all employees.
- Equality, Diversity & Inclusion. The committee noted AWE was recruiting circa 30% females into the organisation each month, which represented a good platform for further improvement. The committee acknowledged that the introduction of family policies, including an improved maternity policy, was a positive step to creating inclusive work environments.

Governance Statement *(continued)*

Nominations Committee *(continued)*

- **Board Effectiveness Review.** As noted elsewhere in the report an external review was carried out in the year. The evaluator interviewed each director, together with some members of the executive and officials in the Defence Nuclear Organisation. The review noted that the board was seen by the Company and its other key stakeholders as highly competent and diligent, provided a valuable level of oversight and assurance, and that both it and its committees were working well. The review observed the opportunity for the board to enhance its role in the interface between the Company and government, particularly DNO. Progress on addressing the findings will be tracked and reported to the board.

Production and Programme Committee

The Production and Programme 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. It is also a forum to apprise the board of non-Warhead production programmes.

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 – Henry Lloyd, Dr Steve Rottler, and Dame Sue Ion. 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.

There were 5 Committee meetings in the reporting period.

Performance during the year

The Committee has considered the following matters during the period:

- **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.
- **Operations Transformation.** Updates were provided in the first two Committee meetings of FY24, in relation to the programme to improve overall operational performance and deploy manufacturing industry "best practice" – now in the implementation phase. With maturity self-assessments conducted by the Technology Centres, associated actions have been identified, demonstrating improving performance.
- **P3M Transformation.** The Committee conducted a review of the programme which will transform the Company's Project, Programme and Portfolio Management (P3M) capability – a function which spans all delivery axes of AWE. The success was noted of the inaugural P3M conference which was held in December 2023.
- **Test and Trials.** An overview of the programme to develop the priority test and trials capability, was provided. Noting the complexity of this, a joint programme has been launched with DNO and will continue to develop into FY25.
- **Technology Centre Deep Dives.** Product Technology Centres were reviewed by the Committee throughout the period, with focus on performance against FY24 Business Plan milestones and longer-term development programme progress. The Committee were also apprised of changes to Technology Centre leadership positions.

Governance Statement *(continued)*

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

The SESH&Q Committee provides assurance and oversight to the board that effective arrangements are in place for the management of security, environment, safety, health and quality matters at AWE. The 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 Estates and Liabilities activities and performance in addition to the Company complying with statutory and regulatory requirements in relation to SESH&Q matters affecting the Company's business.

The Committee has met three times in the reporting period 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 month, the chair meets one-on-one and in small groups with the Company's executive management and staff to review and discuss the Company's SESH&Q performance, estates and liabilities, risk management, and related improvement programmes. The Committee chair also meets with the Office for Nuclear Regulation (ONR) Deputy Chief Inspector for Operating Facilities to discuss the Company's performance as a nuclear site licensee and any ONR concerns about the Company.

Performance during the year

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

- SESH&Q performance across Safety, Quality, Environment, Security and Wellbeing Health at AWE through the new Culture of Care reporting scorecard used by the executive.
- A brief on the early learnings from the incident on 6 July 2023 that occurred in which a Balfour Beatty employee tragically lost his life on one of our construction enclaves.
- Asset Management Strategy and Improvement Plan using one of the Company's Technology Centres as an example including mitigation against asset fragility and single points of failure.
- Overview of decommissioning progress and the programme of work to be undertaken across Decommissioning, Demolition and Waste programmes.
- Review and approval of the Environmental Sustainability report for the company Annual Report and Accounts.
- Review and approval of a new corporate strategic risk on environmental sustainability and climate change
- Deep dives into security and cyber-security including a committee visit to the AWE Cyber Security Operations Centre (SOC).
- Regular reports from Internal Regulation to give independent assessment of the health of the Company's controls and performance in relation to its security, environmental, safety, health and quality activities.

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:

Governance Statement *(continued)*

Remuneration Committee *(continued)*

Performance during the year

The Committee has met nine times during the reporting period. This reflected additional meetings held to consider the redesign of incentive plans. It has considered the 2023 pay awards for all employees and conducted a detailed review and overseen a re-design of the leadership 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 wider government, to develop a governance framework that will enable AWE to attract and retain the skills and capabilities needed. Willis Towers Watson (WTW) have been appointed to provide executive remuneration benchmarking to the Committee. 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 International Organisation for Standardisation (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 licensed site, AWE has a 'Cautious Risk Culture' in our day-to-day operations. This is defined as:

- A preference for delivery options that have a low degree of residual risk.
- Applying innovation prudently where the risks are low and are fully understood.
- Consideration of some near-term investment to deliver benefits where there is high benefits realisation certainty.

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

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

Modern Slavery Act

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

Governance Statement *(continued)*

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 the US Sarbanes Oxley Act (SOX), following Lockheed Martin's acquisition of a controlling interest in AWE Management Limited, 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 MOD's controls annually, which identified two low-risk gaps (Import Duty and Fixed Assets/Inventory) for this year. These gaps are being addressed by process owners. Existing processes continue to be reviewed and improved as risks are routinely reviewed, these include Supply Chain Management, Payroll and Estimate at Complete processes.

The Company Management System captures the policies and procedures that the organisation operates to. It describes what AWE does and how it does it operates across functions and delivery units 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.

Effectiveness of control environment *(continued)*

Assurance

The Company adopts the three lines model as recommended within the HM Treasury guidance and is continuing to mature the associated Assurance Map against strategic and functional risks.

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 other regulatory requirements, and a programme of facility surveillance, providing independent technical assessment to the AWE 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.

Head of Internal Audit opinion

The Head of Internal Audit's annual report for the year ended 31 March 2024 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

Governance Statement *(continued)*

opinion on the overall effectiveness of Governance, Risk Management and Internal Control as required by Public Sector Internal Audit Standards.

The Head of Internal Audit has noted improvements in respect of the adequacy and effectiveness of governance, risk management and control for the period April 2023 to March 2024. However, the overall opinion remains Limited Assurance. This opinion corresponds to a finding that the system of internal controls is operating effectively except for some areas, supporting the strategic risks of the organisation, where significant weaknesses have been identified. Whilst this opinion is similar to that provided in the previous two years, (since AWE became an ALB of the MOD) it should be recognised that from a direction of travel perspective, were Internal Audit able to rate overall opinions within a wider description, then AWE is moving positively and positioned towards the top end of Limited.

Where appropriate, reliance is placed on other assurance providers to avoid duplication and achieve greater coverage across the organisation. Annual assessments are undertaken on these teams to determine the level of reliance that can be placed on the output of the activities they have undertaken during the year. The Internal Financial Control Framework 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 also 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.

Effectiveness of control environment *(continued)*

Head of Internal Audit opinion (continued)

Key themes from audit work undertaken were highlighted through the year, which largely point to the need for Governance, Risk Management and Internal Control processes to develop, mature and embed (in keeping with Public Sector expectations) following the move to ALB status. This includes change initiatives which in some cases are not yet effectively supported by clear organisational wide guidance, and where further clarity of roles and responsibilities is required. In addition, certain activities operate in isolation, and do not follow common organisation wide defined processes and controls. In this situation, control processes tend to be reliant on business knowledge held by key personnel, rather than evidenced in documented processes.

Management actions are in place to address weaknesses specifically identified through the work of Internal Audit which will continue to be monitored, and evidence reviewed to close by Internal Audit with appropriate overview from the Audit and Risk Assurance Committee.

As last year, the report recognised that AWE continues to undertake significant organisational change in order to meet the future programme demand. It also acknowledges that during the period AWE was continuing, and had made progress in, the process of maturing its approach to governance, risk management and the 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, and the pre-existing plan and timeline to achieve moderate assurance by 2025.

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.

Governance Statement *(continued)*

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, an Ethics office and sixteen Ethics Ambassadors throughout the business. 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. Nonetheless, all contacts are followed up regardless of whether they meet the criteria for whistleblowing.

The continuing increase in contacts, 236 in the year ended 31 March 2024 compared to 210 in the prior year ended 31 March 2023, indicates that more issues are being raised 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. Training is by way of an online presentation followed by a test which must be passed before the training is complete.

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 a Non-department public body (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 (FRoM), 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 FRoM, AWE has addressed disclosure in light of the FRoM 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).

Governance Statement (*continued*)

- **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 have 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.

Accounting Officer's Annual Assurance Report

The report was prepared in line with previous years and the AO gave a Limited Assurance opinion. This opinion remains the same as reported in 2023-24. This reflects the changes that have resulted from transition to an NDPB and the ongoing transformation programme. Some improvement initiatives reached full operating capability during the year, which has clarified accountability and provides the foundation upon which enterprise risk management, internal controls and assurance can be matured.

Conclusion

This report is for the year ended 31 March 2024 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 ensuring 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 2024 are shown in the Directors' Report and Governance Statement on pages 42 and 48 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 Civil Service 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 2023-24, 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 a 3-year period.

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:
 - Nick Elliott (Chief Executive Officer – appointed Director from 4 March 2024)
 - Alison Atkinson (Chief Executive Officer – stepped down as Director on 17 April 2023)
 - Iain Stevenson (Interim Chief Executive Officer – appointed Director from 7 June 2023)
 - Barry Hunter (Chief Financial Officer)
 - Andrew McNaughton – Non-Executive Director (to 6 February 2023), Executive Director (from 7 February 2023) – resigned as director on 13 December 2023
- **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 appointed by the MOD. He is not separately remunerated for his role as a director of the Company:
 - Henry Lloyd (MOD appointed non-executive director)
- **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
 - Bridget Rosewell (appointed Director from 13 December 2023)

Remuneration Report (continued)

Directors' remuneration

The fees, salaries and other amounts that were paid to the directors for the year ended 31 March 2024, and also the prior year, are shown below (where these were not paid for a full year, full year equivalent amounts are shown in brackets).

Full name	Year	Fees & salary (£) ¹	Annual bonus (£)	Benefits in kind (£)	Pension Benefits (£)	Total (£)
Sir John Manzoni	2023-24	150,000	-	-	-	150,000
	2022-23	150,000	-	-	-	150,000
Nick Elliot ²	2023-24	34,022 (452,000)	-	-	-	34,022 (452,000)
	2022-23	-	-	-	-	-
Alison Atkinson ³	2023-24	33,947 (407,365)	-	-	-	33,947 (407,365)
	2022-23	407,365	173,250	-	-	580,615
Iain Stevenson ⁴	2023-24	339,400 (408,667)	-	-	25,300 (31,625)	364,700 (440,292)
	2022-23	-	-	-	-	-
Barry Hunter	2023-24	292,409	86,520	2,520	11,158	392,607
	2022-23	257,500	-	2,520	33,475	293,495
Andrew McNaughton (ED) ⁵	2023-24	296,625 (395,500)	-	-	-	296,625 (395,500)
	2022-23	60,478 (395,500)	-	-	-	60,478 (395,500)
Andrew McNaughton (NED) ⁵	2023-24	-	-	-	-	-
	2022-23	24,996	-	-	-	24,996
Richard Elsy	2023-24	29,995	-	-	-	29,995
	2022-23	29,995	-	-	-	29,995
Claire Flint	2023-24	29,995	-	-	-	29,995
	2022-23	29,995	-	-	-	29,995
Dame Sue Ion	2023-24	29,995	-	-	-	29,995
	2022-23	29,995	-	-	-	29,995
Richard Keys	2023-24	29,995	-	-	-	29,995
	2022-23	29,995	-	-	-	29,995
Henry Lloyd ⁶	2023-24	-	-	-	-	-
	2022-23	-	-	-	-	-
Dr J Stephen Rottler	2023-24	29,995	-	-	-	29,995
	2022-23	29,995	-	-	-	29,995
Bridget Rosewell ⁷	2023-24	10,248 (29,995)	-	-	-	10,248 (29,995)
	2022-23	-	-	-	-	-

¹ Fees and Salaries also includes payments in lieu of pension. More detail is provided below.

² Nick Elliott was appointed CEO and Company Director from 4 March 2024. The annual salary figure for Nick includes £52,000 of payment in lieu of pension.

³ Alison Atkinson stepped down as CEO and Company Director from 17 April 2023.

⁴ Iain Stevenson was appointed Interim CEO and Company Director from 7 June 2023, and received an annualised basic salary of £280,000, plus annualised role-based allowances of £120,000.

⁵ Andrew McNaughton stepped down as Company Director from 13 December 2023 following him commencing the role as Executive Director on 6 February 2023.

⁶ Henry Lloyd was a UK Government Investments employee who received no additional remuneration for duties as a director of AWE.

⁷ Bridget Rosewell was appointed Non-Executive Director from 13 December 2023.

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 Executive directors Iain Stevenson and Barry Hunter participated in this plan and received employer contributions at 13% of their respective salaries for part of the year, which is detailed in the remuneration table. The other Executive directors received a taxable payment in lieu of pension equivalent to 13% of their base salary (Barry Hunter opted out of the Group Personal Pension scheme and elected to receive a payment in lieu of pension from August 2023, and Iain Stevenson opted out to receive a payment in lieu of pension from February 2024). 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, on an annualised basis.

Remuneration element	Category	2023-24 (annualised)	2022-23 (annualised)	% Change
Salary and allowances	Highest paid director	£452,000	£407,365	11%
	Average for employees	£54,341	£52,546	3%
Performance pay and bonuses	Highest paid director	£nil	£173,250	(100%)
	Average for employees	£1,694	£2,757	(39%)

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
2023-24	11:1	9:1	7:1
2022-23	14:1	11:1	9:1

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 2024 are below:

Percentile	Staff figure: pay including performance pay and benefits	Salary element only
25 th percentile	£40,030	£36,030
Median	£51,524	£46,342
75 th percentile	£67,123	£62,592

The pay ratios for all reported statistics have reduced compared to the ratios for the prior period (year ended 31 March 2023). This has been mainly driven by a lower performance pay and bonus figure for the highest paid director. The ratios are consistent with the pay, reward and progression policies of AWE.

Remuneration Report *(continued)*

Fair Pay disclosures *(continued)*

Actual staff remuneration on an annualised basis for full-time work on 31 March 2024 (including the highest paid director and performance pay; excluding pension benefits) ranges from £14,800 to £452,000 per annum (2023: £11,000 - £580,615).

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. Some 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 14 June to 5 July 2023. Under the survey methodology, AWE scored 666.3 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 very slight increase on the previous year's score of 662.7 in May 2022. The employee response rate to this survey was 75%, which compares to a 64% 'Big Company' 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 – 2023'.

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 delivered using a number of channels including a company intranet, briefings, Team Talk cascades, an in-house magazine, channels focused on the leadership community and more targeted events 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, line manager briefings, monthly ezine and Leadership Hub provide messages and the supporting narrative needed to cascade company information. AWE also 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 works continuously to stay connected with their teams through formal channels like annual employee events, personal blogs, and All Hands meetings to more informal walkabouts.

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

AWE plc has an Executive Director, Environment, Safety, Health & Quality whose responsibilities include all safety and environmental matters. It also has an environmental management system which is central in delivering on AWE's commitment to protecting the environment. AWE holds ISO 14001 certification which is a worldwide recognised environmental management standard. A focus on safety is maintained through regular safety briefings, 'safety moments' and a 'stop for safety' initiative whereby the whole of AWE pauses for a short time to listen, review, and learn about a topical safety issue.

People Report (continued)

Employee Voice (continued)

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 2024.

Year	Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
2023-24	35	33.91
2022-23	46	43.42

Table 1 – Relevant Union Officials

Percentage of time	31 March 2024	31 March 2023
	Number of employees	
0%	-	-
1-50%	27	45
51%-99%	7	1
100%	-	-

Table 2 – Percentage of time spent on Facility Time

Activity	31 March 2024	31 March 2023
	Spend	
Total cost of Facility Time	£648,323	£504,048
Total Pay Bill	£411,497,000	£391,046,755
Percentage of pay bill spent on facility time	0.16%	0.11%

Table 3 – Percentage of pay bill spent on Facility Time

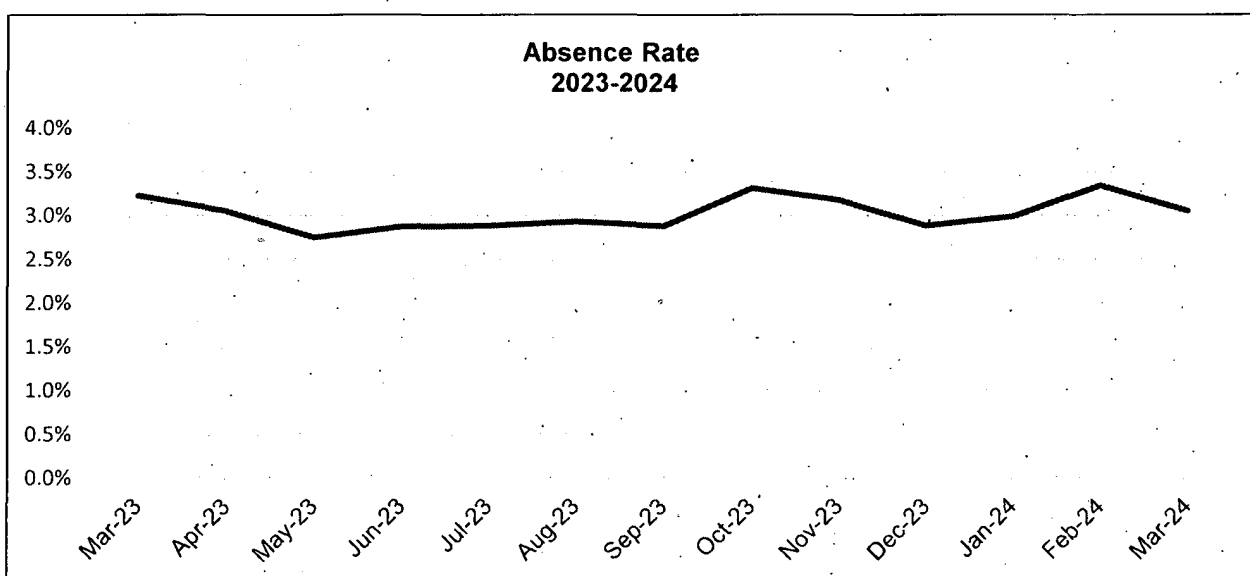
	31 March 2024	31 March 2023
Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100	100%	100%

Table 4 – Paid Trade Union activities

People Report (continued)

Employee health and wellbeing

Sickness absence has been between 2.75% (May 2023) and 3.35% (February 2024) during the year ended 31 March 2024 (sickness absence rates are calculated based on hours sick as a percentage of available hours).



AWE has a dedicated HR Health and Wellbeing Team who create and implement the Employee Health and Wellbeing Strategy. The vision of this strategy is to have a thriving workforce with long-lasting good health and happiness. It strengthens our position to drive workforce sustainability, protect operational resilience, and lead to long-term improvements in the health and wellbeing of our employees. The focus of the strategy is prevention and early-intervention, and the Team is responsible for maximising the current health and wellbeing provision and measuring the progress and effectiveness of data-led initiatives. There is a continued focus on improving the use of dedicated support tools and delivering educational events on topics such as mental health, musculoskeletal health, menopause, healthy lifestyle behaviours and social wellbeing. To support our employee's winter health and acknowledge the previous year's respiratory absence, we successfully delivered our first onsite Flu Vaccination programme in Aldermaston and Burghfield during late 2023. The in-house network of volunteer Wellbeing Champions continues to grow, alongside each department having dedicated Wellbeing Working Groups to support the delivery of the strategic initiatives.

Equity, Diversity, and Inclusion

At AWE Equity, Diversity, and Inclusion (ED&I) is a strategic priority. Promoting a diverse workforce helps us access the best possible talent pool to deliver our Business Plan. Our aim is to have a workforce that is diverse, represents the communities in which we operate, and creates a place where everyone feels included and valued. We are passionate about creating sustainable change through our ED&I efforts and are pleased with our progress so far. We do however recognise that our legacy and the shortage of skills in our industry impacts the pace of change we want to see.

In year, we have made good progress and pleasingly our efforts to improve and show leadership were recognised when we were awarded the prestigious Gold Award by the Employers Network for Equality & Inclusion (ENEI).

People Report (continued)

Equity, Diversity, and Inclusion (continued)

Gender based hiring and retention continue to be a priority; our goal is to have 30% female representation by 2025. At the end of the 2024 financial year, we have increased our female headcount to 26.7%, for external hires more than 30% were female. Contributing to this was a focus on making our policies and processes more inclusive for all our employees. Notably we launched a STEM returners campaign encouraging females back into the world of work, we introduced a new menopause policy, enhanced our paternity offering, and provided more support to those people returning from maternity or adoption leave.

We are particularly proud of the growing membership of our Employee Resource Groups (ERGs) and the great work the ERGs carry out, both internally and externally to the organisation. From running events in support of Black History month and International Women's Day, to supporting Reading Pride, to playing a key role in the launch of our in-house Neurodiversity training, regularly producing awareness communications on key issues, and providing a space for people in AWE to connect and find support - our ERGs continue to make a positive impact. Each ERG has a governance framework which includes an executive sponsor and senior leadership champions to help them continue with their ambitions.

Understanding who makes up our workforce is one of our key priorities and over the coming year we will be working at pace to gather richer diversity data. We will use this reporting to shape better experiences for our employees.

At AWE we are absolutely committed to achieving our ED&I goals, we are moving in the right direction and there is still much to do. All our senior leaders have a specific ED&I objective demonstrating the importance we are placing on this agenda. We know our success depends on the diverse thinking and experiences each one of our employees bring.

Employment of disabled persons

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 continues to work towards supporting employees in this space. We have established a process for employees who need to bring assistance dogs onto site and utilise the services of a British Sign Language interpreter to support staff with hearing impairments through key employee life cycle experiences.

AWE recently launched the My Diversity Data portal in April 2024 on our HR system, giving employees the option to declare their disability status. As returns increase this will give us an idea of where our employees with disabilities work in the organisation and will inform future initiatives.

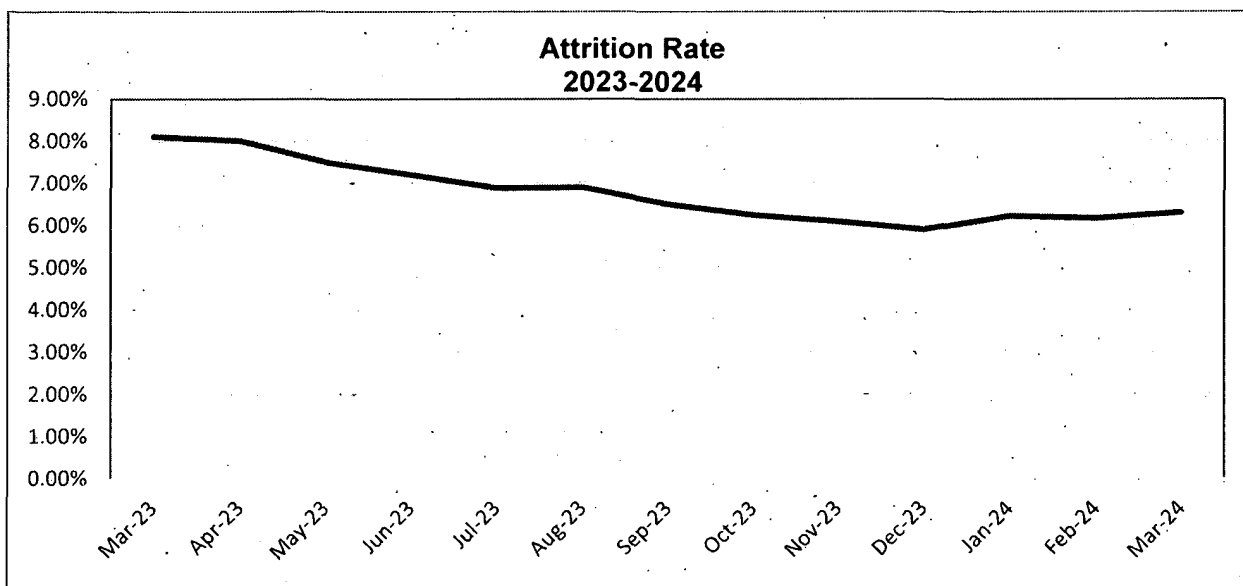
Our Employee Resource Group, N-Able-D continues to support to ensure that the needs of the disabled and neurodiverse communities in AWE are heard and addressed, and recently hosted a "Hidden Disabilities" awareness event in May.

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 2024 was 6.30%. We experienced a decrease in attrition through the first half of FY24. Attrition has remained consistent through the last half of the Financial Year.

People Report (continued)



Staff composition

The overall proportion of female staff based on full-time equivalent (FTE) as of March 2024 is 26.7% compared to 24.3% reported in March 2023 (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, due to the figures below reflecting the position at period end.

Staff category	31 March 2024		31 March 2023	
	Number (FTE)	%	Number (FTE)	%
Executive directors	Total Executive Team – 12		Total Executive Team – 11	
Male	10	83.3%	9	81.8%
Female	2	16.7%	2	18.2%

Staff category	31 March 2024		31 March 2023	
	Number (FTE)	%	Number (FTE)	%
Senior managers	Total senior managers – 281		Total senior managers – 263*	
Male	213	75.8%	202*	76.8%*
Female	68	24.2%	61	23.2%*
Employees	Total other employees – 7,140		Total other employees – 6,232*	
Male	5,241	73.4%	4,693*	75.3%*
Female	1,899	26.6%	1,539*	24.7%*

Excluding zero-hours, secondees in and Contingent Workers (*2023 figures restated to exclude Contingent Workers)

People Report (continued)

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, AWE has been asked to report on its 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.

Spend for the year ended 31 March 2024 on off payroll engagements delivered via individuals contracted to provide services for AWE was £29.7m (year ended 31 March 2023 - £24.4m).

The table below sets out the highly paid off-payroll worker engagements as at 31 March 2024, earning £245 per day or greater.

	31 March 2024	31 March 2023
Number of existing arrangements as of 31 March 2024	246	173
Of which, no. that existed:		
Less than 1 year	146	70
For between 1 and 2 years	43	41
For between 2 and 3 years	22	14
For between 3 and 4 years	7	14
For 4 or more years	28	34

Table 5 – Highly paid off-payroll worker engagements as at 31 March 2024, earning £245 per day or greater

Off payroll appointments at AWE predominantly reflect those areas with critical or scarce skills. Having specialist contractor continuity is essential to ongoing projects. The use of this workforce enables AWE to supplement its capacity more quickly and offers more flexibility to cover additional work. The number of long-term engagements has decreased 31 March 2024- 100 (31 March 2023 - 103) with majority of off-payroll engagements being short-term in nature.

The table below sets out all highly paid off-payroll worker engagements at any point during the year ended 31 March 2024, earning £245 per day or greater.

	31 March 2024	31 March 2023
Number of temporary off-payroll workers engaged during the year	336	193
Of which:		
Not subject to off-payroll legislation	19	18
Subject to off-payroll legislation and determined as in-scope of Employment legislation (IR35)	174	66
Subject to off-payroll legislation and determined as out-of-scope of IR35	143	109
No. of engagements reassessed for compliance or assurance purposes during the year	136	104
Of which: No. of engagements that saw a change to IR35 status following review	4	11

Table 6 – Highly paid off-payroll worker engagements at any point during the year ended 31 March 2024, earning £245 per day or greater

People Report (continued)

Employment Legislation (IR35) changed in April 2021 to require 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 numbers

Staff costs comprise	Year ended 31 March 2024			Year ended 31 March 2023		
	Permanent staff (£'000)	Agency staff (£'000)	Total (£'000)	Permanent staff (£'000)	Agency staff (£'000)	Total (£'000)
Salaries and wage costs	405,483	29,662	435,145	353,290	24,756	378,046
Social security costs	40,994	-	40,994	38,370	-	38,370
Pension costs	44,876	-	44,876	39,147	-	39,147
Redundancy and severance payments	1,394	-	1,394	116	-	116
Total	492,747	29,662	522,409	430,923	24,756	455,679

Table 7 – Staff costs and staff numbers

Employee numbers (FTE) by Job Family

Category	Year ended 31 March 2024				Year ended 31 March 2023			
	Perman-ent staff	Agency staff	Secon-dees	Total	Perman-ent staff	Agency staff	Secon-dees	Total
Science	1,278	1	19	1,298	1,169	2	5	1,176
Engineering and manufacturing	3,207	62	45	3,314	2,948	67	17	3,032
Business services	2,954	173	12	3,139	2,391	90	1	2,482
Total	7,439	236	76	7,751	6,508	159	23	6,690

Table 8 – Employee numbers (FTE) by Job Family (excluding zero hours)

People Report (continued)

Exit packages

Exit package cost band	Year ended 31 March 2024			Year ended 31 March 2023		
	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	-	7	7
£10,000 - £25,000	-	8	8	-	3	3
£25,000 - £50,000	-	-	-	-	1	1
£50,000 - £100,000	-	6	6	-	-	-
£100,00 - £150,000	-	1	1	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	-	-	-	-	-
£250,000-£300,000	-	1	1	-	-	-
£300,000-£350,000	-	-	-	-	-	-
£350,000-£400,000	-	1	1*	-	-	-
Total number of exit packages	-	24	24	-	11	11
Total cost of exit packages	-	£1,393,874	£1,393,874	-	£115,856	£115,856

*Approved by HM Treasury

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 2024.

The financial statements comprise:

- Balance Sheet as at 31 March 2024;
- Income Statement, Statement of Other Comprehensive Income, Cash Flow Statement and Statement of Changes in Shareholder's Equity for the year 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 2024 and its loss for the year then ended; and
- have been properly prepared in accordance with the 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 (UK) (ISAs (UK)), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)*. 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 director's 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.

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

Conclusions relating to going concern *(continued)*

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 the 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.

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 statements; 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's 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.

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

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;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006;
- preparing the Annual Report in accordance with the Companies Act 2006; 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 intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- 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 the 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.

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

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 required to perform specific procedures to respond to the risk of management override of controls.

I obtained an understanding of AWE plc's framework of authority and 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 and pensions law, tax legislation, health and safety legislation, Office for Nuclear Regulation regulations, Environment Agency regulations and anti-money laundering regulations.

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 the 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;
- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements on estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

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

Audit response to identified risk (continued)

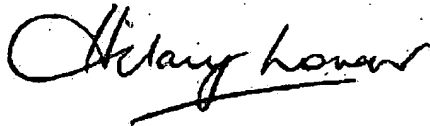
- attended Audit and Risk Assurance Committee meetings and had regular communication with management and internal audit to identify any instances of fraud or non-compliance with laws and regulations.

I communicated relevant identified laws and regulations and potential risks of fraud 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 I identify during my audit.



Hilary Lower (Senior Statutory Auditor)

23 August 2024

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 2024

	Note	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Revenue	3	1,818,236	1,476,666
Cost of sales	5	(1,851,260)	(1,498,112)
Gross loss		(33,024)	(21,446)
Other operating income	4	20,596	18,405
Administrative expenses		(1,157)	1,316
Operating loss		(13,585)	(1,725)
Financial expenses	8	(33)	91
Net financing expenses		(33)	91
Loss before tax		(13,618)	(1,634)
Taxation	9	2,571	5,543
(Loss)/Profit for the year		(11,047)	3,909

Notes 1 to 24 form part of these accounts

Statement of Other Comprehensive Income

Year ended 31 March 2024

	<i>Note</i>	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
(Loss)/Profit for the year		(11,047)	3,909
Other comprehensive income/(loss)			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial movement in relation to pension fund	15	14,000	(181,000)
Other comprehensive income/(loss) for the year		14,000	(181,000)
Total comprehensive income/(loss) for the year		2,953	(177,091)

Notes 1 to 24 form part of these accounts

Balance Sheet

at 31 March 2024

	Note	31 March 2024 £'000	31 March 2023 £'000
Non-current assets			
Investments in group companies	10	1	1
Other financial assets	18	-	4
Deferred tax assets	11	8,475	5,161
Right-of-use assets	19	1,504	1,635
		9,980	6,801
Current assets			
Contract assets	3	130,334	107,093
Other financial assets	18	3	19
Trade and other receivables	12	95,273	76,353
Cash and cash equivalents	13	107,782	123,371
		333,392	306,836
Total assets		343,372	313,637
Current liabilities			
Lease liabilities	19	660	542
Trade and other payables	14	317,393	289,013
Contract liabilities	3	14,735	16,404
Provisions	16	279	800
Other financial liabilities	18	-	7
		333,067	306,766
Non-current liabilities			
Lease liabilities	19	832	1,051
Trade and other payables	14	1,508	1,515
Employee benefits	15	209,000	238,000
Provisions	16	83	376
		211,423	240,942
Total liabilities		544,490	547,708
Net liabilities		(201,118)	(234,071)

Balance Sheet (continued)
at 31 March 2024

	Note	31 March 2024 £'000	31 March 2023 £'000
Equity			
Share capital	17	50	50
Retained earnings		(294,168)	(297,121)
Capital reserves	17	93,000	63,000
Total equity		(201,118)	(234,071)

Notes 1 to 24 form part of these accounts.

These financial statements were approved and signed on behalf of the board on 22nd August 2024



Nick Elliott CB MBE, Chief Executive Officer

Company registered number: 02763902

Statement of Changes in Shareholder's Equity

Year ended 31 March 2024

	Note	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	15	-	(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)
	Note	Share capital £'000	Retained earnings £'000	Capital reserve £'000	Total equity £'000
Balance at 1 April 2023		50	(297,121)	63,000	(234,071)
Total comprehensive income for the year					
Profit for the year		-	(11,047)	-	(11,047)
Other comprehensive income		-	14,000	-	14,000
Total comprehensive income for the year		-	2,953	-	2,953
Transactions with controlling party, recorded directly in equity					
Capital contributions	17	-	-	30,000	30,000
Balance at 31 March 2024		50	(294,168)	93,000	(201,118)

Notes 1 to 24 form part of these accounts.

Cash Flow Statement

Year ended 31 March 2024

	Note	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Cash flows from operating activities			
(Loss)/profit for the year		(11,047)	3,909
<i>Adjustments for:</i>			
Fair value losses/(gains) on derivatives	8	13	(112)
Interest paid	8	20	21
Depreciation of right-of-use assets	19	642	1,056
Taxation	9	(2,571)	(5,543)
		(12,943)	(668)
(Increase)/decrease in trade and other receivables	12	(18,920)	40,453
Increase in contract assets/contract liabilities	3	(24,910)	(54,407)
Increase in trade and other payables	14	36,200	67,066
(Decrease)/increase in costs of employee benefits	15	(15,000)	4,000
Decrease in provisions	16	(814)	(1,694)
		(36,387)	55,418
Tax paid		(8,570)	(5,184)
Net cash (used in)/from operating activities		(44,957)	49,566
Cash flows from financing activities			
Capital contribution	17	30,000	-
Principal repayments on leases	19	(612)	(1,043)
Interest repayments on leases	19	(20)	(20)
Net cash from financing activities		29,368	(1,063)
Net (decrease)/increase in cash and cash equivalents		(15,589)	48,503
Cash and cash equivalents at 1 April	13	123,371	74,868
Cash and cash equivalents at 31 March	13	107,782	123,371

Notes 1 to 24 form part of these accounts.

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 Ministry of Defence (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 International Financial Reporting Standards (IFRS)"). The financial statements have been prepared for the year ended 31 March 2024.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. As a Non-Department Public Body (NDPB), the Company also, where considered appropriate, adopts the interpretations but not adaptations of IFRS in the Government Financial Reporting Manual (FRM). The Company applies additional disclosure requirements in the FRM, 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 92.

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.

The financial statements are presented in sterling which is the companies functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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 43 and in the accounting policies on pages 85 to 93.

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 Continuous at Sea Deterrent (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.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

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.

Going concern *(continued)*

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 31 August 2025. 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. 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

The presentational and functional currency is GBP. 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.

Notes to the Financial statements (continued)

1 Accounting policies (continued)

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

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

Financial liabilities and equity

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

(iii) Impairment

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

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

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

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

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

Write-offs

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

(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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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

Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

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

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Revenue

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

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

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

The bulk of what the Company provides to external customers is the provision of services on a rolling basis, i.e., the Management and Operations (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.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Revenue (*continued*)

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

The payments received by the Company in respect of the defined benefit pension scheme deficit funding are distinguished from the payments received for regular cost of service pension provision primarily in respect of the defined contribution scheme. The 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 are recognised in profit or loss as they accrue, 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).

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Leases (continued)

As a lessee

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

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

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

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.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

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:

- Amendments to References to the Conceptual Framework in IFRS 3.
- Amendments to IAS 16: Property, Plant and Equipment—Proceeds before Intended Use.
- 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.
- 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 have 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. 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.

Other operating income - Research and Development Tax Credit (RDEC)

Refer to note 4 for consideration of the accounting estimates and judgements relating to the Research and Development Tax Credit (RDEC).

Provisions

Refer to note 16 for consideration of the accounting estimates and judgements relating to provisions.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Accounting estimates and judgements (continued)

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% (year ended 31 March 2023: 3.51%) for any new contracts entered.

2 Segmental Analysis

AWE has assessed its operating segments based on the structure on 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, with the MOD, 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 under contract with the MOD; Other Government Departments (OGDs) which comprises work undertaken for His Majesty's Government (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. Research and Development Expenditure Credit (RDEC) is the income received from HMRC in respect of our expenditure on research and development.

	Year ended 31 March 2024	Year ended 31 March 2023
	£'000	£'000
Mission Delivery	250,093	227,740
Operations	115,322	227,100
Infrastructure Programme Delivery	921,430	713,868
Enabling and Corporate Functions	468,282	251,390
Total M&O	1,755,126	1,420,098
Pension	43,189	39,505
Other Government Departments (OGDs)	22,383	18,695
Coulport	15,733	14,297
Other	2,400	2,476
Total Non M&O	83,706	74,973
RDEC	(20,596)	(18,405)
Total Revenue	1,818,236	1,476,666

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 is not necessary to aid users' understanding of these financial statements.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Type of customer		
MOD	1,795,853	1,446,883
Non-MOD	22,383	29,783
	1,818,236	1,476,666
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Timing of transfer of goods or services		
Products and services transferred at a point in time	129	49
Products and services transferred over time	1,818,107	1,476,617
Total	1,818,236	1,476,666

(ii) Contract balances

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

	Note	31 March 2024 £'000	31 March 2023 £'000
Receivables	12	540	5,122
Contract assets		130,334	107,093
Contract liabilities		(14,735)	(16,404)

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 (year ended 31 March 2023: £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 £16,404k (year ended 31 March 2023: £23,118k). The amount of deferred revenue at 31 March 2024 is £1,980k (year ended 31 March 2023: £4,000k).

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 2024 £'000	Year ended 31 March 2023 £'000
Research and Development Tax Credit	<u>20,596</u>	<u>18,405</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 the income statement

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
<i>Included in cost of sales:</i>		
Foreign exchange loss/(gain) (except those arising on financial instruments at FVTPL)	29	(51)
Depreciation on right-of-use assets	<u>642</u>	<u>1,056</u>

Notes to the Financial Statements (continued)

5 Expenses and auditor's remuneration (continued)

	Year ended 31 March 2024	Year ended 31 March 2023
<i>Auditor's remuneration:</i>		
Audit of these financial statements	215	210
Amounts receivable by the Company's auditor and its associates in respect of audit related assurance services		

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 2024	Year ended 31 March 2023
Science	1,506	1,178
Engineering and manufacturing	2,700	2,962
Business services	2,991	2,324
	7,196	6,464

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Wages and salaries	406,877	353,406
Social security costs	40,994	38,370
Expenses related to defined benefit plans	4,000	4,000
Net interest on net defined benefit pension plan liability	11,000	2,000
Contributions to defined contribution plans	44,876	39,147
	507,747	436,923

Notes to the Financial Statements (continued)

7 Directors' remuneration

	Year ended 31 March 2024	Year ended 31 March 2023
	£'000	£'000
Directors' remuneration	1,361	1,188
Post-retirement benefit costs	35	38
	1,396	1,226

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director in the year ended 31 March 2024 was £370k (year ended 31 March 2023: £581k). The amount paid into the AWE defined contribution scheme for the highest paid director in the year ended 31 March 2024 was £11k (year ended 31 March 2023: £nil).

None of the directors were accruing retirement benefits in the company defined benefit scheme in the year ended 31 March 2024 (year ended 31 March 2023: none).

8 Financial expenses

Recognised in the income statement

	Year ended 31 March 2024	Year ended 31 March 2023
	£'000	£'000
Net loss/(gain) on forward foreign currency contracts measured at FVTPL	13	(112)
Interest expense on lease liabilities	20	21
Total finance expenses/(income)	33	(91)

9 Taxation

Recognised in the income statement

	Year ended 31 March 2024	Year ended 31 March 2023
	£'000	£'000
Current tax		
Current year	4,500	3,756
Adjustments for prior years	(3,756)	(4,490)
Current tax expense/(credit)	743	(734)
Deferred tax		
Current year	1,949	4,960
Adjustment for prior years	(5,264)	(9,770)
Deferred tax credit	(3,315)	(4,810)
Total tax credit	(2,571)	(5,543)

Notes to the Financial Statements (continued)

9 Taxation (continued)

Reconciliation of effective tax rate

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Loss for the period	(13,618)	(1,634)
Tax using the UK corporation tax rate of 25% (2023: 19%)	(3,405)	(310)
Pension scheme contributions	(7,500)	(380)
Pension scheme tax deduction	3,750	1,140
Tax arising on imputed fee	13,514	8,087
Other short term timing differences	90	180
Adjustment in respect of prior years	(9,021)	(14,260)
Total tax credit	(2,571)	(5,543)

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 adjustment in respect of prior years reflects the recognition in the current year of the tax impact on both current and deferred tax of the prior year RDEC restriction and final tax loss utilisation, not recognised in the prior year accounts.

The current corporation tax rate is 25%, which came into effect from 1 April 2023. Prior to this the rate was 19%, effective since 1 April 2017. The Company has remeasured its deferred tax asset at the end of the reporting period using the higher rate of 25%.

10 Investment in subsidiaries

The Company has the following investments in subsidiaries:

		Ownership		
		Class of shares held	31 March 2024	31 March 2023
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 and is a dormant company.

Notes to the Financial Statements (continued)

11 Deferred tax assets

Recognised deferred tax assets

A deferred tax asset arises with regards to the items set out below. The deferred tax asset arising on the pension scheme contributions arise as the result of the application of the HMRC requirement to spread the tax relief on employer pension scheme contributions. The deferred tax arising on the RDEC restriction 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 2024. It has been assessed that future taxable profits in excess of profits arising from the reversal of existing taxable timing differences are sufficient for the utilisation of the deferred tax assets included in the balance sheet. The movement in the deferred tax balance is as follows:

	Provisions £'000	Tax loss £'000	Pension scheme contribute -ons £'000	RDEC restriction £'000	Total £'000
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
Balance at 1 April 2023	224	4,937	-	-	5,161
Additions	-	-	5,250	3,134	8,384
Adjustment in respect of prior years	-	812	-	4,452	5,264
Recognised in income statement	(133)	(5,749)	-	(4,452)	(10,334)
Balance at 31 March 2024	91	-	5,250	3,134	8,475

12 Trade and other receivables

	31 March 2024 £'000	31 March 2023 £'000
Current		
Trade receivables due from related parties	540	5,120
Other trade receivables	-	2
VAT receivable	276	-
Other receivables	60,398	45,766
Prepayments	34,059	25,465
	95,273	76,353

Notes to the Financial Statements (continued)

13 Cash and cash equivalents

	31 March 2024 £'000	31 March 2023 £'000
Opening balance	123,371	74,868
Net change in cash and cash equivalent balances	(15,589)	48,503
Closing balance	<u>107,782</u>	<u>123,371</u>
Analysis of cash and cash equivalents:		
Cash held with Government Banking	<u>107,782</u>	<u>123,371</u>
	<u>107,782</u>	<u>123,371</u>

14 Trade and other payables

	31 March 2024 £'000	31 March 2023 £'000
Current		
Trade payables due to related parties	5,890	2,880
Other trade payables	88,197	107,100
VAT payable	-	3,391
Social security cost payable	18,875	9,694
Non-trade payables and accrued expenses	<u>204,431</u>	<u>165,948</u>
	<u>317,393</u>	<u>289,013</u>
Non-current		
Accrued expenses	<u>1,508</u>	<u>1,515</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.

Notes the Financial Statements (continued)

15 Employee benefits (continued)

There have been no plan amendments, curtailments or settlements in the year ended 31 March 2024 (year ended 31 March 2023 – none).

The information disclosed below is in respect of the one defined benefit scheme for which the Company is the sponsoring employer. The plan has been assessed in accordance with the requirements of International Accounting Standard No 19 (IAS19).

	31 March 2024	31 March 2023
	£'000	£'000
Defined benefit asset	(1,295,000)	(1,292,000)
Defined benefit liability	1,504,000	1,530,000
Net liability for defined benefit obligations (see following table)	<u>209,000</u>	<u>238,000</u>

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/(asset)	
	31 March 2024 £'000	31 March 2023 £'000	31 March 2024 £'000	31 March 2023 £'000	31 March 2024 £'000	31 March 2023 £'000
Opening balance	1,530,000	2,048,000	(1,292,000)	(1,995,000)	238,000	53,000
Included in profit or loss						
Current service cost	4,000	4,000	-	-	4,000	4,000
Interest cost/(income)	70,000	55,000	(59,000)	(53,000)	11,000	2,000
Included in OCI						
Remeasurements loss/(gain):						
Actuarial (gain)/loss	(32,000)	(512,000)	18,000	693,000	(14,000)	181,000
Other						
Contributions paid by the employer	-	-	(30,000)	(2,000)	(30,000)	(2,000)
Benefits paid	(67,000)	(65,000)	67,000	65,000		
Closing balance	<u>1,504,000</u>	<u>1,530,000</u>	<u>(1,295,000)</u>	<u>(1,292,000)</u>	<u>209,000</u>	<u>238,000</u>

The above table rounds figures to the nearest £m.

Contributions paid by the employer in the year ended 31 March 2024 relate to payments in relation to the members working at Coulport (£0.3m) and past service deficit payments to the pension scheme (£30.0m). In the prior year the payments were in relation to both to members working at Coulport (£0.3m) and expenses reimbursed to the pension scheme (£2.0m). Expenses are now incurred directly by the pension scheme and there were no expenses reimbursed to the pension scheme in the year ended 31 March 2024. 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 2024	31 March 2023
	£'000	£'000
Cash and cash equivalents	35,000	50,000
Equity instruments	337,000	323,000
Debt instruments e.g., Government bonds	360,000	402,000
Real estate	118,000	96,000
Infrastructure	48,000	-
Derivatives	104,000	102,000
Investment funds	293,000	319,000
Total	1,295,000	1,292,000

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 2024	31 March 2023
Discount rate at period end	4.8%	4.7%
Rate of increase in pensionable pay	2.8%	2.8%
Rate of increase in pensions in payments		
Uncapped	2.8%	2.8%
Subject to 5%pa cap	2.7%	2.7%
Rate of increase in pensions in deferment		
Uncapped	2.8%	2.8%
Subject to 5%pa cap	2.7%	2.7%
Inflation assumption (CPI)	2.8%	2.8%

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 - 22.4 years (2023: 22.8 years), female - 24.5 years (2023: 24.7 years).
- Future retiree upon reaching 65 (current age 45): male - 24.1 years (2023: 24.4 years), female - 26.1 years (2023: 26.1 years).

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 2024 £'000	31 March 2023 £'000
Discount rate	116,000	122,000
Future pension increases	(101,000)	(106,000)

In valuing the liabilities of the pension fund at 31 March 2024, 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 2024 would have increased by £46.0m (year ended 31 March 2023 – £45.0m).

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 made contributions for additional employer deficit reduction to the defined benefit plan in the year ended 31 March 2024 for £30.0m (2023 - *£nil*).

Based on the existing agreements the following payments are expected from the company in the year to 31 March 2025:

- The employer contribution rate payable for the remaining active Coulport members is 34.2% of pensionable pay.

No deficit contributions are due.

The weighted average duration of the defined benefit obligation at the 31 March 2024 is 15 years (31 March 2023: 16 years).

Pension plans - defined contribution

The Company operates a defined contribution pension plan.

Notes to the Financial Statements (*continued*)

UK High Court - benefit amendments

The High Court Ruling in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes in June 2023 confirmed that certain rule amendments would be invalid in the absence of the actuarial confirmation (also known as section 37 certificate) being provided by the scheme actuary. This applies to benefits amendments made between 6 April 1997 and the date contracting out ended on 6 April 2016. An appeal has been lodged. If the ruling is upheld, it may impact on the Scheme benefits provisions. No initial investigation has been carried out about the provision of the relevant confirmations for the scheme amendments that were introduced between 6 April 1997 and 6 April 2016. As such no past service costs have arisen as it remains uncertain whether a different level of benefits than previously promised will need to be provided.

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
Balance at 1 April 2023	894	282	1,176
Provisions raised	-	-	-
Provisions utilised	(532)	-	(532)
Provisions released	-	(282)	(282)
Balance at 31 March 2024	362	-	362
Non-current	83	-	83
Current	279	-	279
	362	-	362

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 13 ex-employees (31 March 2023: 25). In addition, there is one further arrangement due to complete in January 2024 having started in April 2016.

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

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

Notes to the Financial Statements (*continued*)

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 2024 there are no contract provisions (31 March 2023: one with loss provision £0.3m).

17 Capital and reserves

Share capital

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

	31 March 2024 £	31 March 2023 £
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

No dividends were paid for the period ending 31 March 2024 (2023: *£nil*)

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
£nil (2023: <i>£nil</i>) per qualifying ordinary share	<u>-</u>	<u>-</u>

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

Capital reserves

	31 March 2024 £'000	31 March 2023 £'000
Balance at 1 April	63,000	63,000
Capital contribution	30,000	-
Balance at 31 March	<u>93,000</u>	<u>63,000</u>

Notes to the Financial Statements (*continued*)

Since the change in ownership on 1 July 2021, AWE received £93m 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 2024 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 2024	Euro £'000	US Dollar £'000	Total £'000
Cash and cash equivalents	267	33	300
Trade payables	(683)	(17)	(700)
	(416)	16	(400)
31 March 2023			
Cash and cash equivalents	1,008	425	1,433
Trade payables	(677)	(458)	(1,135)
	331	(33)	298

Notes to the Financial Statements (continued)

18 Financial instruments (continued)

Outstanding contracts	Average contractual exchange rate		Notional value		Fair Value	
	31 March 2024	31 March 2023	31 March 2024	31 March 2023	31 March 2024	31 March 2023
	£'000	£'000	£'000	£'000	£'000	£'000
Less than 12 months	1,3997	1,3419	33	212	36	231
1-2 years	-	1,3997	-	33	-	38
2-3 years	-	-	-	-	-	-
Purchase USD			33	245	36	269
Less than 12 months	-	-	-	-	-	-
1-2 years	-	-	-	-	-	-
2-3 years	-	-	-	-	-	-
Purchase EUR			-	-	-	-
Less than 12 months	-	1,3089	-	(90)	-	(97)
1-2 years	-	-	-	-	-	-
2-3 years	-	-	-	-	-	-
Purchase GBP sell USD			-	(90)	-	(97)
			33	155	36	172
Fair value adjustment					3	17

Outstanding forward contracts

	Current		Non-current		Total	
	31 March 2024	31 March 2023	31 March 2024	31 March 2023	31 March 2024	31 March 2023
	£'000	£'000	£'000	£'000	£'000	£'000
Asset	3	19	-	4	3	24
Liability	-	(7)	-	-	-	(7)

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, and utilise motor vehicles, 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 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	1,142	349	135	10	1,635
	Buildings £'000	Motor vehicles £'000	Plant & machinery £'000	IT equipment £'000	Total £'000
Balance at 1 April 2023	1,142	349	135	10	1,635
Additions to right-of-use assets	154	356	-	-	511
Depreciation charge for the year	(403)	(205)	(23)	(10)	(642)
Balance at 31 March 2024	893	500	112	-	1,504

Notes to the Financial Statements (continued)

19 Leases (continued)

Lease liabilities

	31 March 2024 £'000	31 March 2023 £'000
<i>Maturity analysis - contractual undiscounted cash flows</i>		
Less than one year	666	545
One to five years	836	968
More than five years	33	110
Total undiscounted cash flows	<u>1,535</u>	<u>1,623</u>

Lease liabilities included in the statement of financial position

Non-current	832	1,051
Current	660	542
	<u>1,492</u>	<u>1,593</u>

Amounts recognised in profit or loss:

Interest on lease liabilities	<u>20</u>	<u>21</u>
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Amounts recognised in statement of cash flows

Total cash outflow for leases	<u>632</u>	<u>1,063</u>
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Payments were made during the year £13k (year ended 31 March 2023: 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.

Notes to the Financial Statements *(continued)*

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 year ended 31 March 2024, 9 losses and special payments under the category of special severance payments, were incurred/made for £873k (*year ended 31 March 2023: £nil*).

Highest payment £	Mean Payment £	Lowest Payment £
316,000	54,000	23,000

22 Related parties

During the year ended 31 March 2024, AWE had a significant number of material transactions with the MOD, the Company's controlling party, predominantly sales totalling £2,138.0m (31 March 2023: £1,632.5m) and receivables outstanding at 31 March 2024 of £0.4m (31 March 2023: £3.7m). The amount billed to the MOD each month represents an individually significant transaction.

During the year ended 31 March 2024 there were transactions with other central government bodies totalling £26.1m (31 March 2023: £18.1m) and receivables and payables outstanding at year ended 31 March 2024 £140k (31 March 2023: 1,323k) and £nil (31 March 2023: £416k) respectively.

Transactions between the Company, its 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 2024 have been disclosed below.

	Gross supplies and services purchased		Payables outstanding	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
AWE Pensions Trustees Limited	24	2,200	-	-
Sheffield Forgemasters Engineering Limited (SFEL)	6,604	25,652	5,890	1,594
Mace Limited	30,687	-	-	-
Office for Nuclear Regulation	6,299	6,647	-	576
Other related parties	3,856	2,622	-	295
	47,470	37,121	5,890	2,465

At 31 March 2024, there were no provisions held in relation to bad or doubtful debts in respect of amounts owed by MOD (*31 March 2023: £nil*).

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 2024 (*year ended 31 March 2023: none*), and none have a financial interest in the activities of the Company such as to influence their work with the Company (*year ended March 2023: none*).

Notes to the Financial Statements *(continued)*

AWE Pension Trustees Limited transactions relate to transactions entered with the pension benefit scheme and not the dormant company, AWE Pension Trustees Limited.

Transactions with key management personnel

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

23 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.

These financial statements present information about the Company as an individual undertaking and not about its group. The Company has used the exemption to prepare consolidated accounts on the basis the subsidiary is dormant.

24 Events after the reporting period

Except as noted below there have been no events since the 31 March 2024 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.

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
DNO	Defence Nuclear Organisation
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
IBP	Integrated Business Plan
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

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

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