The Energy to Succeed

Delivering for a net zero world

Annual report and accounts 2021

Group Finance Report

EBITDA[1] and operating cash flow remain very strong despite falling year on year. Net income adversely impacted by a non cash deferred tax charge due to a future increase in the UK Corporate tax rate enacted during 2021.

Results for 2021

Revenue

Revenue for the year ended 31 December 2021 was €1,669.3 million, a decrease of €30.8 million (1.8%) on the €1,700.1 million in 2020. SWU revenues were higher in 2021 by €16.4 million and uranium related sales were lower by €2.2 million. For SWU revenues, both volumes and average unit revenues were higher than the previous year. Uranium related sales experienced lower volumes, but higher realised unit prices. Other revenues decreased by €45.0 million year on year, primarily driven by one off payments of €44.5 million received in 2020 from the settlement of claims filed by Urenco relating to the Chapter 11 bankruptcy of a US customer.

> "Resilient performance despite ongoing challenges from COVID-19."
>
> **Ralf ter Haar**
> Chief Financial Officer

EBITDA[1]

EBITDA for 2021 was €971.1 million, a decrease of €117.0 million (10.8%) from €1,088.1 million in 2020. The decrease in EBITDA is principally due to lower revenue, an increase in the unit cost of sales expensed due to a change in inventory costs associated with finished goods and SWU, and an increase in other operating and administrative expenses. The EBITDA margin for 2021 was 58.2%, compared to 64.0% in 2020.

The costs associated with changes to inventories of finished goods and SWU assets for 2021 were €89.0 million, an increase of €50.3 million from €38.7 million in 2020. These costs have increased due to underlying increases in both direct costs of production and in inventory purchase costs.In calculating the EBITDA impact of these stock movements and of movements in nuclear provisions, a net increase in depreciation of €6.9 million was applied in 2021 (2020: net reduction in depreciation of €1.1 million), giving an increase in EBITDA of €8.0 million.

Other operating and administrative expenses[2] were higher than the prior year at €471.7 million in 2021, compared to €434.0 million in 2020, an increase of €37.7 million. Other operating costs were higher reflecting higher costs for transport, business rates, consultants, and other third party services. Employee costs were higher than the prior year at €180.3 million in 2021, compared to €167.2 million in 2020, an increase of €13.1 million, which was mainly due to an increase in headcount.

Nuclear provisions

Tails provisions

The net costs for tails provisions in 2021 were €30.6 million higher than those for 2020 (pre-exceptional). Higher costs are due to an increase in the tails volumes produced during the year and the increased unit tails rate. A change in the assumed discount rate in 2020 resulted in an increase in costs, which was not repeated in 2021. The lower release from tails provisions relates to the optimisation of operations and the impact of the reduction in higher assay tails associated with enrichment services contracts.

	2021 €m	2020 €m	**increase/ (decrease)**
Additional tails provisions in the year	195.4	123.7	**71.7**
Change in discount rates	-	101.5	**(101.5)**
Release from tails provisions in the year	(44.6)	(105.0)	**60.4**
Net costs for tails provisions in the year (pre-exceptional)	**150.8**	**120.2**	**30.6**
Change in discount rates (exceptional)	-	25.6	**(25.6)**
Net costs for tails provisions in the year (post-exceptional)	150.8	145.8	**5.0**

Decommissioning provision movement

The net costs for decommissioning provisions decreased by €25.4 million in 2021, with increased cost estimates associated with the triennial review of decommissioning net of releases, being less significant in size than the impact of the 2020 uplift in discount rates.

	2021 €m	2020 €m	**increase/ (decrease)**
Additional decommissioning provisions in the year	46.1	14.9	**31.2**
Change in discount rates	-	35.5	**(35.5)**
Release from decommissioning provisions in the year	(32.8)	(11.7)	**(21.1)**
Net costs for decommissioning provisions in the year (pre-exceptional)	**13.3**	**38.7**	**(25.4)**

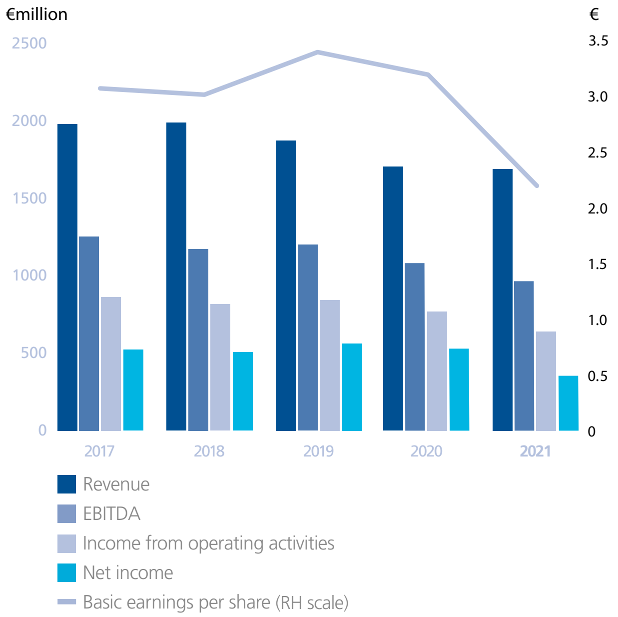
The net costs for other nuclear provisions in 2021 increased by €1.0 million as a result of changes to the forecasts for future re-enrichment of low assay feed, from net gains of €20.7 million in 2020 to net gains of €19.7 million in 2021.

Overall, therefore, the net costs of nuclear provisions (before exceptional items of €25.6 million in 2020)[3] were €144.4 million in 2021, compared to €138.2 million in 2020, an increase of €6.2 million.

EBITDA performance

	2021 €m	2020 €m	**increase/ (decrease)**
Income from operating activities - (pre-exceptional)	**635.8**	**774.4**	**(138.6)**
Adjustment for depreciation in inventories, SWU assets and nuclear provisions	6.9	(1.1)	**8.0**
Add: depreciation and amortisation	331.0	328.6	**2.4**
Adjustment for share of results of joint venture	(2.6)	(13.8)	**11.2**
EBITDA	**971.1**	**1,088.1**	**(117.0)**

Financial performance (pre-exceptional items)



[1] EBITDA is defined as earnings before exceptional items, interest (including other finance costs), taxation, depreciation and amortisation and joint venture results. Depreciation and amortisation are adjusted to remove elements of such charges included in changes to inventories and SWU assets and net costs of nuclear provisions. Further details on the reconciliation of income from operating activities to EBITDA is provided on page 102.
[2] Other operating and administrative expenses are defined as expenses comprising costs of raw materials and consumables used, employee costs, restructuring charges and other expenses.
[3] Excluding the increase in the net costs for nuclear provisions to the extent that it has been treated as an exceptional item.

Exceptional items

No exceptional items were reported in 2021 (2020: charges of €25.6 million).

The exceptional charge in 2020 arose due to the increase in the value of tails provisions held by the US enrichment businesses following a revision to the discount rates applied to the provisions due to continued downward pressure on real interest rates in the US.

Net income

Net income was €364.5 million in 2021 (2020: €505.3 million post-exceptional items, €530.9 million pre-exceptional items). The decrease in net income reflects the impact of lower EBITDA and higher tax expenses recognised in 2021, resulting in a reduced net income margin of 21.8% compared to 31.2% in the prior year (pre-exceptional items).

Depreciation and amortisation for 2021 was broadly flat at €331.0 million, compared to €328.6 million for 2020.

Net finance costs for 2021 were lower at €64.3 million, compared to €82.4 million for 2020, reflecting the lower levels of net debt in 2021, foreign exchange movements on financing activities and lower costs associated with bond repurchases.

Where appropriate, foreign currency loan balances are placed in accounting hedge relationships, primarily by means of cross currency swaps. Where this is not possible, the retranslation of the relevant unhedged loan balances (denominated in US dollars and euros but held by a sterling functional currency entity) generate gains/losses as a result of foreign exchange movements in the year. In 2021 the impact of this was a net gain of €15.0 million (2020: €7.8 million net loss), reflecting relevant unhedged balances and movements in foreign exchange rates.

Capitalisation of interest was €22.8 million lower at €42.3 million, mainly as a result of lower interest rates on loans and borrowings.

In 2021 the Group's tax expense was €207.0 million (an effective tax rate (ETR) of 36.2%), an increase of €45.9 million from the tax expense of €161.1 million (pre-exceptionals) for 2020 (ETR: 23.3%). Following the May 2021 enacted increase in the UK corporate tax rate to 25.0% from 19.0%, effective 1 April 2023, the Group's net UK deferred tax liability was revalued and a non cash tax charge of €55.7 million was recognised. This charge was partially offset by the impact of a reduction in profit before tax.

The increase in the ETR from 23.3% to 36.2% is driven by the following factors : i) the revaluation of opening UK and Dutch net deferred tax liabilities for increases in the respective mainstream tax rates (increase of 5.9%); ii) the impact of 2021 UK deferred tax expenses being recorded at a rate higher than the mainstream tax rate (increase of 1.6%); iii) derecognition of US deferred tax assets due to changes in the forecast timing of realisation of future profits (increase of 1.8%); and iv) 2020 included a benefit following the agreement of an Advanced Pricing Agreement for the period 2013-2020 which was not repeated in 2021 (increase 3.2%).

Tails deconversion, storage and eventual disposal

Urenco provides for the costs of deconverting the by-product of the enrichment process (chemically converting tails from UF_6 to U_3O_8), interim and long term storage, and eventual disposal. During the year the Group reviewed the costs associated with tails deconversion, storage and disposal.

The tails provision increased by €195.4 million (2020: €250.8 million), due to tails generated in the year and increases in the applied tails unit rates.

Plant and machinery decommissioning

Urenco has an obligation under its operating licences to decommission enrichment facilities safely once they reach the end of their operational life. The costs associated with plant and machinery decommissioning are monitored on an ongoing basis and are also subject to a detailed periodic review, with the most recent review carried out in 2021.

During the year ended 31 December 2021 the decommissioning provision increased by €149.3 million (2020 increase: €141.0 million) due to revised assumptions relating to the decommissioning of plant and machinery of €98.7 million (2020: €107.4 million), the installation of additional plant and machinery of €36.1 million (2020: €19.6 million) and additional cylinder purchases of €14.5 million (2020: €14.0 million). Of the €98.7 million (2020: €107.4 million) resulting from revised assumptions, €46.1 million (2020: €50.3 million) has been expensed to the Income Statement and €52.6 million (2020: €57.1 million) has been recognised in decommissioning assets. The impact of the revised assumptions mainly relates to the triennial review of the core decommissioning strategy with no further change to the discount rates applied.

Further information on nuclear provisions can be found on pages 136 to 138.

Group pension funds

Urenco operates pension schemes for our employees in the Netherlands, UK and Germany. These are a mixture of defined contribution and defined benefit schemes.

The net surplus on the Group's defined benefit pension schemes at 31 December 2021 was €20.3 million (2020: €56.8 million net liability). This movement was due to a €14.6 million decrease in the present value of the defined benefit obligations, together with an increase in the fair value of the plan assets of €62.5 million.

In 2018, following the triennial valuation of the UK scheme, a revised deficit repair plan was agreed with the UK trustees. The plan includes deficit repair payments of £6.6 million annually until 2022. The trustees intend to manage the pension scheme so that the economic and investment risks will be reduced through the adoption of a more cautious investment policy and the use of interest and inflation derivative contracts.

Cash flow

Cash generated from operating activities was €1,027.6 million (2020: €1,171.4 million). The lower cash flows from operating activities primarily reflect the impact of lower revenues and an unfavourable movement of working capital balances compared to 2020. In the current year, sales deliveries have been closer to the year end when compared to the prior year, resulting in higher trade receivables balances. These trade receivables will be settled in 2022, in accordance with agreed payment terms.

Tax paid in the period was €146.4 million (2020: €36.1 million) due to the timing and phasing of cash payments which can often span multiple years, plus 2020 benefited from significant Dutch and UK tax repayments following agreement of the APA.

Accordingly, net cash flows from operating activities were lower at €881.2 million (2020: €1,135.3 million).

Capital expenditure[4]

In 2021 the Group invested a total of €129.8 million (2020: €141.1 million), reflecting a lower level of expenditure on both core enrichment assets and the TMF. Expenditure on core enrichment assets is now broadly at a level forecast as part of our strategy to maintain the existing fleet of enrichment assets for the near to medium term.

Investment in TMF in 2021 was €25.9 million (2020: €35.5 million, 2019: €43.0 million), reflecting completion of construction in late 2018. The final stage of active commissioning is well underway, with uranium oxide production having commenced in 2021.

2021 Capital expenditure

Capital structure

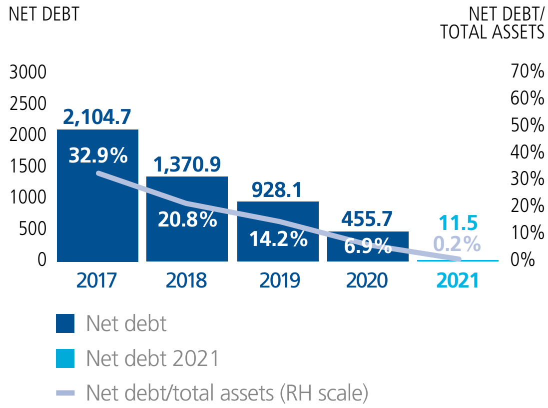
The Group's equity increased to €2,097.8 million during the year (2020: €1,880.9 million) due to an increase in retained earnings of €120.3 million (reflecting the net income of €364.5 million and gains of €55.8 million in other comprehensive income for the year, together with €300.0 million of dividends paid during the year), an increase in the foreign currency translation reserve of €135.9 million, primarily due to foreign exchange gains on property, plant and equipment held in US dollars and sterling as a result of the strengthening of both the US dollar and sterling against the euro, and a decrease in hedging reserve (including cost of hedging reserve) of €39.3 million. The movement in the hedging reserve is primarily associated with mark to market losses on cash flow hedges, which protect the Group's future revenues in foreign currencies.

Net debt[5], including lease liabilities of €31.3 million (2020: €19.8 million), decreased to €11.5 million (2020: €455.7 million).

In February 2021 the Group repaid €534.4 million of the February 2021 Eurobond at maturity. In October 2021 the Group signed a new sustainability linked bank facility of €500 million with ten banks which matures in 2026, with two optional extensions of one year each.

Net debt to total asset ratio improved even further to 0.2% (2020: 6.9%), well within the Group's target ratio of less than 60%.

Net debt and Net debt/total assets



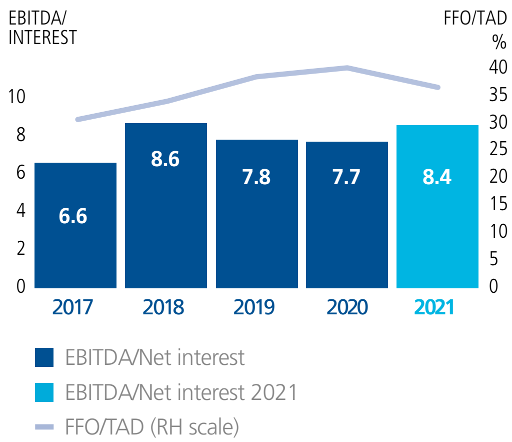
The Group monitors its capital structure through the use of financial ratios, principally those of net debt to total assets and funds from operations to total adjusted debt (FFO/TAD). The Group targets an FFO/TAD ratio that results in a strong investment grade credit rating.

The FFO/TAD ratio at the end of 2021 decreased to 36.2%, compared to 39.3% at the end of 2020.

FFO was lower by €115.7 million due to lower EBITDA which was partially offset by lower net interest on bank borrowings. TAD was lower by €126.2 million, primarily reflecting a decrease in net debt of €444.2 million but partially offset by an increase in tails and decommissioning provisions of €379.3 million. The increase in nuclear provisions reflects the increase in provisions arising during the year as well as the impact of the reduction of discount rates for both tails and decommissioning which was applied in 2020 but not in 2021. Details of the FFO/TAD calculation are set out in note 28 of the Group's Consolidated Financial Statements.

The Group's interest cover also remains strong at 8.4x (2020: 7.7x).

Five-year summary funding ratios



[4] Capital expenditure includes net cash flows from investing activities (excluding interest received, payments on maturing swaps, and short term deposits) of €131.0 million and capital accruals (included in working capital payables) of €(1.2) million.

[5] Net debt is defined in the Glossary on page 162 and the calculation is set out on page 133.

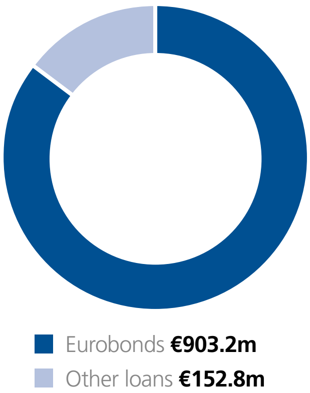
Funding position

Liquidity continues to remain strong as a result of cash flow generation. As at 31 December 2021, the Group had €500 million (2020: €750 million) of undrawn committed bank facilities, as well as cash, cash equivalents and short term deposits of €1,075.8 million (2020: €1,158.8 million).

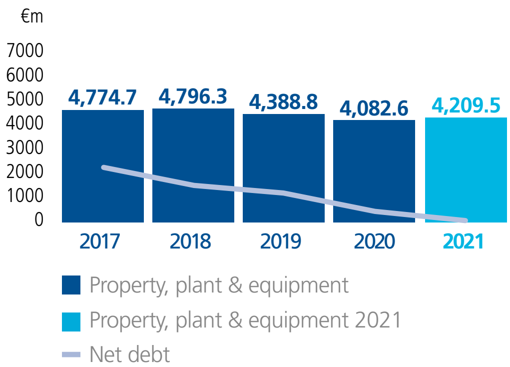
Our funding position remains robust and continues to be underpinned by our established contract order book, which gives high levels of revenue visibility and robust EBITDA margins, resulting in strong cash flow generation. Furthermore, the company has sufficient cash available to meet the payment of a €150.0 million dividend in early 2022 and the maturity of €405 million of Eurobonds later in the year.

The Group's debt is rated by Moody's (Baa1/Stable) and Standard & Poor's (BBB+/Stable); these external ratings were unchanged during 2021.

Interest bearing loans and borrowings



Property, plant & equipment vs net debt



Funding programme

The Group's funding strategy is to:

- Maintain a core of longer dated debt and committed borrowing facilities, consistent with the long term nature of the Group's investments and the need to maintain an optimised long term capital structure;
- Use a range of financial instruments and financial markets in order to execute attractive funding opportunities as they emerge; and
- Manage debt maturities by raising funds in advance of ultimate repayment dates of debt instruments.

The average time to maturity of the Group's debt at 31 December 2021 was 4.0 years (at 31 December 2020: 3.4 years).

Managing foreign currency risk

Our foreign currency hedging policy has the objectives of reducing volatilities in net cash flow and income, and protecting the income statement from balance sheet remeasurements of debt. However, a long term reduction in income exposure is much more difficult to achieve due to the strict requirements with respect to hedge accounting under International Financial Reporting Standards (IFRS). The functional currency of Urenco Limited is sterling, although the company reports its results in euros.

The Group receives most of its customer revenues in US dollars and euros. The net cash flows of Urenco's European business have been hedged by selling US dollar customer revenue and buying forward the sterling required to meet the costs of the UK operations, and selling the remaining US dollars to buy euros. The net cash flows of the US business of Urenco have been used to pay US dollar denominated costs.

The Group hedges the impact of changes in foreign exchange rates by using a progressive rolling programme of buying and selling currency over a period of up to three years ahead of the current year. This medium term hedging period strikes a balance between the objective of maximising cash flow certainty (which suggests a long hedging period) and the objective of maintaining a hedge portfolio that largely qualifies for hedge accounting under IFRS. Urenco has a stable future revenue stream that is managed using a portfolio of hedges. There is always an element of uncertainty due to changes in quantities and the timing of deliveries based on market movements and customers' requirements, which makes it difficult to achieve effective hedge accounting over the longer term.

The Group has a total of €402.8 million (2020: €833.4 million) cross currency swaps, mainly to convert the economic exposure of part of the Group's debt from euros to US dollars that are then net investment hedged for Group accounting purposes. This better aligns the currency of the debt with the asset base and cash flows of the Group.

Urenco Group Financial Policy Statement

The Financial Policy Statement defines the broad parameters for financing the Urenco Group and has the agreement and support of all of our shareholders.

The Group will finance itself through a combination of equity, including retained reserves and debt. Due consideration is given to the Group's long term unfunded nuclear liabilities when considering financing options. Urenco Limited cannot issue new equity without the agreement of all of its shareholders.

In order to achieve an efficient financial profile, the gearing level and financial ratios will be maintained to retain a solid investment grade credit rating for the Group.

At all times, the Group will maintain sufficient liquidity to ensure that it is a going concern and will manage the composition of its debt to minimise risks from market deterioration in liquidity, interest rates or currencies. Detailed treasury management policies set parameters for the management of these risks.

Dividend policy

The Group will aim to pay a dividend out of its cumulative earnings. The dividend shall be set to take account of net income, cash flows, reserves and the level of credit ratios. Until financial ratios comfortably exceed the minimum threshold for BBB+ at S&P and Baa1 at Moody's, the annual dividend will not exceed 100% of the net income for the year. A lower dividend may be set when credit ratios, cash flow or funding conditions dictate that this is necessary and, equally, a higher dividend may be declared when the minimum thresholds of the key financial ratios are comfortably exceeded.

In 2021, an interim dividend of €150.0 million for the year ended 31 December 2021 was paid to shareholders on 20 October 2021 and a final dividend of €150.0 million was paid in respect of 2020 on 24 March 2021. In 2020, a dividend of €300.0 million in respect of 2019 was paid on 18 March 2020 and an interim dividend of €150.0 million was paid on 9 December 2020, in respect of the financial year 2020.

The Board has approved that a final dividend of €150.0 million be paid on 23 March 2022. The level of the total dividend for 2021 is less than the net income. Consideration has been given to both the Group's favourable net debt position and credit ratios, and the availability of sufficient distributable reserves.

As at 31 December 2021, the Company had distributable reserves available of €1,069.9 million (31 December 2020: €943.3 million).

Order book

Urenco has a strong contract order book which extends into the 2030s with an approximate value at 31 December 2021 of €8.7 billion based on €/$ of 1 : 1.14 (2020: €9.0 billion based on €/$ of 1 : 1.22).

Outlook

Through our pivotal role in the nuclear fuel cycle and commitment to reducing our own emissions, Urenco is focused on making a positive contribution to net zero goals. Our core business will remain the provision of enrichment services and fuel cycle products from our four global sites. We will also continue to expand our work in related areas for the civil nuclear industry where we can add real value through our leading skills, experience and technology, such as the development of advanced fuels, responsible nuclear stewardship and increasing our range of stable and medical isotopes.

The principal risks and uncertainties to which Urenco is exposed are broadly in line with those of last year.

We anticipate that COVID-19 will continue to cause some disruption in 2022 and we are well placed to maintain the health and wellbeing of our employees and the integrity of our operations.

The enrichment market is recovering and now approaching a level which allows us to plan for reinvestment in plant capacity and future decommissioning requirements. The value of our contract order book remains strong at €8.7 billion and extends into the 2030s.

In 2022, we will progress our plans to produce next generation fuels for current and advanced technologies, increasing both reactor efficiency and safety. Our roadmap for achieving net zero emissions from our operations will be finalised, covering our operations, bought services and our supply chain. We will also explore proposals to further expand our stable and medical isotopes facility to meet continued growth in this market.