urenco
The Energy to Succeed

Supporting a net zero world

Annual report and accounts 2020

Group Finance Report

Lower EBITDA[1] than last year due to reduced revenue, partly offset by lower costs, with the impact on net income tempered by lower depreciation and lower net finance costs.

Results for 2020

Revenue

Revenue for the year ended 31 December 2020 was €1,700.1 million, a decrease of 5.8% on the €1,804.5 million in 2019. SWU revenues were lower in 2020 by €226.6 million and uranium related sales were higher by €65.7 million. For SWU revenues, both volumes and average unit revenues were lower than the previous year. Uranium related sales experienced higher volumes and higher realised unit prices. Other revenues increased by €56.5 million compared to 2019, primarily as a result of receipts associated with the settlement of claims filed by Urenco relating to the Chapter 11 bankruptcy of a US customer and uranium conversion services.

"We have achieved another year of robust financial performance."

Ralf ter Haar
Chief Financial Officer

EBITDA[1]

EBITDA for 2020 was €1,088.1 million, a decrease of €131.5 million (10.8%) from €1,219.6 million in 2019. This is due to the lower revenue net of changes to inventories and adverse exchange rate movements, partly offset by lower pre-exceptional net costs of nuclear provisions.

The net costs of nuclear provisions (before exceptional items of €25.6 million (2019: €143.0 million))[2] were €138.2 million in 2020, compared to €154.7 million in 2019, a decrease of €16.5 million..

The pre-exceptional net costs for tails provisions in 2020 were €3.5 million lower than those for 2019. Lower costs of tails provisions created arose due to fewer tails being generated during 2020 and large uplifts in the unit cost estimates of tails in 2019, being offset by a change in discount rates in 2020 not treated as exceptional. The increased release from the tails provisions relates to the optimisation of operations and the impact of the reduction in higher assay tails associated with enrichment services contracts.

Tails provision movement

	2020 €m	2019 €m	increase/ (decrease)
Additional tails provisions in the year	123.7	212.5	**(88.8)**
Change in discount rates	101.5	-	**101.5**
Release from tails provisions in the year	(105.0)	(88.8)	**(16.2)**
Net costs for tails provisions in the year (pre-exceptional)	**120.2**	**123.7**	**(3.5)**
Change in discount rates (exceptional)	25.6	111.3	**(85.7)**
Net costs for tails provisions in the year (post-exceptional)	145.8	235.0	**(89.2)**

The pre-exceptional net costs for decommissioning provisions increased by €48.4 million in 2020 due to a change in discount rates and an update to some cost estimates, partly offset by a slightly higher release of provisions resulting from revised timing assumptions and cylinder disposals.

Decommissioning provision movement

	2020 €m	2019 €m	increase/ (decrease)
Additional decommissioning provisions in the year	14.9	-	**14.9**
Change in discount rates	35.5	-	**35.5**
Release from decommissioning provisions in the year	(11.7)	(9.7)	**(2.0)**
Net costs for decommissioning provisions in the year (pre-exceptional)	**38.7**	**(9.7)**	**48.4**
Change in discount rates (exceptional)	-	31.7	**(31.7)**
Net costs for decommissioning provisions in the year (post-exceptional)	38.7	22.0	**16.7**

The net costs for other nuclear provisions in 2020 decreased by €61.4 million as a result of changes to the forecasts for future re-enrichment of low assay feed, from net costs of €40.7 million to net gains of €20.7 million.

Other operating and administrative expenses[3] were lower than the prior year at €434.0 million in 2020, compared to €443.3 million in 2019, a decrease of €9.3 million.

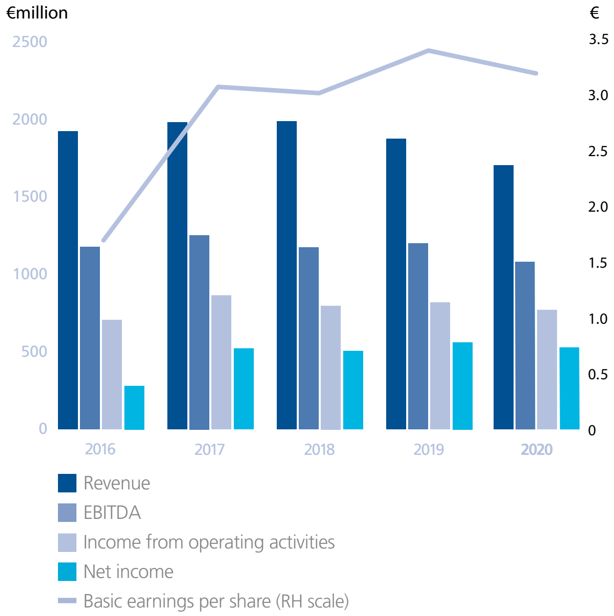
The costs associated with Changes to inventories of finished goods and SWU assets for 2020 were €38.7 million, an increase of €33.2 million from €5.5 million in 2019. In calculating the EBITDA impact of these stock movements and of movements in nuclear provisions, a net reduction in depreciation of €1.1 million was applied in 2020 (2019: net increase in depreciation of €18.6 million), giving a reduction in EBITDA of €19.7 million.

The EBITDA margin for 2020 was 64.0%, compared to 67.6% in 2019.

EBITDA performance

	2020 €m	2019 €m	% increase/ (decrease)
Income from operating activities - (pre-exceptional)	**774.4**	850.2	**(75.8)**
Adjustment for depreciation in inventories, SWU assets and nuclear provisions	(1.1)	18.6	**(19.7)**
Add: depreciation and amortisation	328.6	356.2	**(27.6)**
Adjustment for share of results of joint venture	(13.8)	(5.4)	**(8.4)**
EBITDA	**1,088.1**	**1,219.6**	**(131.5)**

Financial performance (pre-exceptional items)



Exceptional items

Exceptional items totalling €25.6 million on a pre-tax basis (€25.6 million post-tax) were reported in 2020 (2019: €643.0 million pre-tax and €557.2 million post-tax). The total net income tax credit associated with the exceptional items was €nil million (2019: €85.8 million).

The exceptional items recognised in 2020 are presented within net costs of nuclear provisions. In 2019 €143.0 million was presented within net costs of nuclear provisions and €500.0 million was recognised as Impairment of USA Operations.

1 EBITDA is defined as earnings before exceptional items, interest (including other finance costs), taxation, depreciation and amortisation and joint venture results and a reconciliation to income from operating activities (pre-exceptional items) is set out on page 108.
2 Excluding the increase in the net costs for nuclear provisions to the extent that it has been treated as an exceptional item.
3 Other operating and administrative expenses are defined as expenses comprising raw costs of materials and consumables used, employee costs, restructuring charges and other expenses. In 2020 this definition has changed to exclude the adjustments for depreciation. The comparative amount for 2019 has been restated from €424.7 million to €443.3 million.

The exceptional charge in 2020 arose due to the increase in the value of nuclear 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. Last year the exceptional charge presented within net costs of nuclear provisions arose due to the increase in the value of nuclear provisions held by the European enrichment business. This year saw a further adjustment to the nuclear provisions held by the European enrichment business in the ordinary course of business. Of the €25.6 million (2019: €143.0 million), €25.6 million (2019: €111.3 million) relates to tails provisions and €0.0 million (2019: €31.7 million) relates to decommissioning provisions.

Following an assessment of the key assumptions, management has concluded that there are no indicators for a reversal of previous impairment charges or a further impairment charge in 2020. Therefore this year, contrary to 2019, there is no exceptional item regarding impairment charges.

Net income

Net income, post-exceptional items, was €505.3 million in 2020 (2019: €7.6 million).

Net income, pre-exceptional items, was €530.9 million in 2020, a reduction of €33.9 million (6.0%) compared to the 2019 net income, pre-exceptional items, of €564.8 million.

The net income margin, pre-exceptional items, for 2020 was 31.2% compared to 31.3% for 2019.

Depreciation and amortisation for 2020 was €328.6 million, compared to €356.2 million for 2019, which mainly reflects the impairment of the carrying value of the US Operations in 2019.

Net finance costs for 2020 were €82.4 million, compared to €107.1 million for 2019.

Net finance costs were lower, reflecting the lower levels of net debt in 2020, 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 2020 the impact of this was a loss of €7.8 million (2019: €15.5 million loss), reflecting relevant unhedged balances and movements in foreign exchange rates.

The unwinding of discounting on provisions was €0.2 million lower than 2019 at €69.0 million. Capitalisation of interest was €2.7 million higher at €65.1 million.

In 2020 the pre-exceptional tax expense was €161.1 million (an effective tax rate (ETR) of 23.3%), a decrease of €17.2 million from the pre-exceptional tax expense of €178.3 million for 2019 (ETR: 24.0%).

The decrease in the ETR from 24.0% to 23.3% is driven by the following factors : i) the agreement of an Advanced Pricing Agreement for the period 2013-2020 with the UK, Dutch and German tax authorities covering the allocation of certain revenue and costs between the three jurisdictions (decrease of 3.2%); partially offset by ii) the revaluation of UK and Dutch net deferred tax liabilities for increases in the respective mainstream tax rates (increase of 2.1%).

There is no difference in the post-exceptional and pre-exceptional tax expense of €161.1 million, as there is no net tax impact associated with exceptional items in 2020.

Impact of exceptional items

	2020 €m	2019 €m	increase/ (decrease)
Income from operating activities – (pre-exceptional)	774.4	850.2	**(75.8)**
Exceptional item (before tax) – US impairment	-	(500.0)	**500.0**
Exceptional item (before tax) – change in discount rates	(25.6)	(143.0)	**117.4**
Income from operating activities – (post-exceptional)	**748.8**	**207.2**	**541.6**

	2020 €m	2019 €m	increase/ (decrease)
Net income – (pre-exceptional)	530.9	564.8	**(33.9)**
Exceptional item (after tax) – US impairment	-	(446.0)	**446.0**
Exceptional item (after tax) – change in discount rates	(25.6)	(111.2)	**85.6**
Net income – (post-exceptional)	**505.3**	**7.6**	**497.7**

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 €250.8 million (2019: €323.8 million), due to tails generated in the period, increases in the applied tails deconversion rates for both the US and European enrichment operations, and a change in discount rates. The impact of the additional total tails provisions created in the year includes the impact of the reduction in the real discount rate for the US and European jurisdictions. This increased tails provisions by €127.1 million, which has been charged to the consolidated income statement within net costs of nuclear provisions, of which €25.6 million has been presented as an exceptional item.

Tails provisions utilised during 2020 were €42.0 million (2019: €42.5 million) and a provision release of €105.0 million (2019: €88.8 million) was recorded as a credit in net costs of nuclear provisions as a result of the impact of the reduction in higher assay tails associated with enrichment services contracts, changes in other cost assumptions and the optimisation of operations.

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 last such review, carried out in 2018.

During the year ended 31 December 2020 the decommissioning provision increased by €141.0 million (2019 increase: €83.6 million) due to revised assumptions relating to the decommissioning of plant and machinery of €107.4 million (2019: €66.3 million), the installation of additional plant and machinery of €19.6 million (2019: €13.6 million) and additional cylinder purchases of €14.0 million (2019: €3.7 million). The €107.4 million resulting from revised assumptions mainly relates to the impact of changes to discount rates of €88.4 million, of which €35.5 million has been expensed to the income statement and €52.9 million has been recognised in decommissioning assets.

Decommissioning provisions utilised during 2020 were €8.9 million (2019: €8.9 million) and a provision release of €11.7 million (2019: €9.7 million) was recorded as a credit in net costs of nuclear provisions.

Further information on nuclear provisions can be found on pages 144 to 146.

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 liability for the Group's defined benefit pension schemes at 31 December 2020 was €56.8 million (2019: €65.2 million). This decrease was due to a €7.7 million increase in the present value of the defined benefit obligations, together with an increase in the fair value of the plan assets of €16.1 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

Operating cash flow before movements in working capital was €1,161.1 million (2019: €1,288.3 million) and cash generated from operating activities was €1,171.4 million (2019: €1,094.3 million). The higher cash flows from operating activities primarily result from favourable movements in working capital compared to 2019.

Tax paid in the period was €36.1 million (2019: €141.5 million) due to the timing and phasing of cash payments which can often span multiple years.

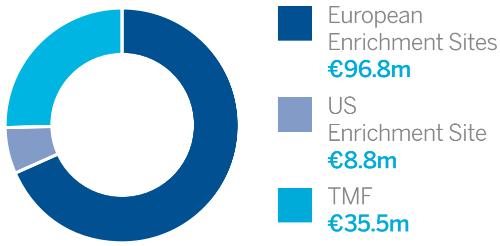
Net cash flows from operating activities were €1,135.3 million (2019: €952.8 million). Net cash flows from operating activities are used to finance investing activities, service the Group's debt, fund dividends to shareholders and, in the future, to fund the long term decommissioning and tails liabilities currently reported in provisions in the Group's Consolidated Statement of Financial Position.

Capital expenditure[1]

In 2020 the Group invested a total of €141.1 million (2019: €151.4 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 and appropriate to maintain the existing fleet of enrichment assets for the near to mid-term.

Investment in TMF in 2020 was €35.5 million (2019: €43.0 million, 2018: €76.0 million), reflecting completion of construction in late 2018. The final stage of active commissioning is well underway and uranium oxide production is expected to start in the first half of 2021.

2020 Capital expenditure



Capital structure

The Group's equity decreased to €1,880.9 million during the year (2019: €1,885.8 million) due to an increase in retained earnings of €57.5 million (reflecting the net income of €505.3 million and gains of €2.2 million in other comprehensive income for the year, together with €450.0 million of dividends paid during the year), a decrease in the foreign currency translation reserve of €123.4 million, primarily due to foreign exchange losses on property, plant and equipment held in US dollars as a result of the weakening of the US dollar against the euro, and an increase in hedging reserve (including cost of hedging reserve) of €61.0 million. The movement in the hedging reserve is primarily associated with mark to market gains on cash flow hedges, which protect the Group's future revenues in foreign currencies.

Net debt[1] decreased to €455.7 million (2019: €928.1 million), including lease liabilities of €19.8 million (2019: €22.0 million).

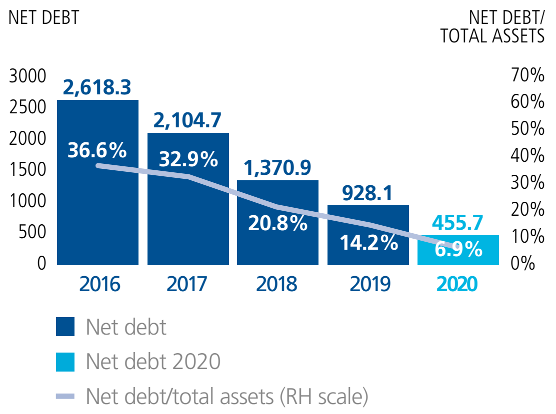
In 2020 the Group repurchased and cancelled €95.0 million of the August 2022 Eurobonds for a price of €98.2 million (103.4%). The transaction was completed in July 2020 for a total amount of €100.1 million, which included €1.9 million of accrued interest on these Eurobonds. As at 31 December 2020, a nominal amount of €405.0 million remained outstanding on the August 2022 Eurobonds.

Net debt to total asset ratio remained strong at 6.9% (2019: 14.2%), well within the Group's target ratio of less than 60%.

[1] Capital expenditure includes net cash flows from investing activities (excluding interest received) of €146.8 million and capital accruals (included in working capital payables) of €(5.7) million.

[2] Net debt is defined in the Glossary on page 170 and the calculation is set out on page 139.

Net debt and Net debt/total assets



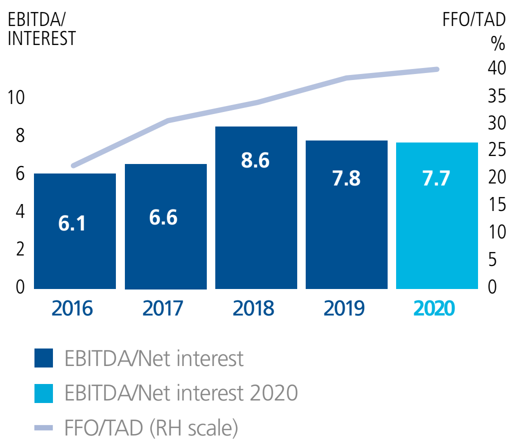
The Group monitors its capital structure through the use of financial ratios, principally those of net debt to total assets and funds from operations to total adjusted debt (FFO/TAD). The Group targets an FFO/TAD ratio that results in a strong investment grade credit rating.

The FFO/TAD ratio at the end of 2020 increased to 39.3%, compared to 38.2% at the end of 2019. This was due to a decrease in TAD, partially offset by a decrease in FFO. Further information on FFO/TAD can be found on page 134.

FFO was lower by €59.3 million due to lower EBITDA which was partially offset by lower net interest on bank borrowings and lower current tax expenses. TAD was lower by €224.3 million, primarily reflecting a decrease in net debt of €472.4 million but partially offset by an increase in tails and decommissioning provisions of €221.5 million, the increase in nuclear provisions reflecting the increase in provisions arising during the year as well as the impact of the reduction of discount rates for both tails and decommissioning. 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 7.7x (2019: 7.8x).

Five-year summary funding ratios



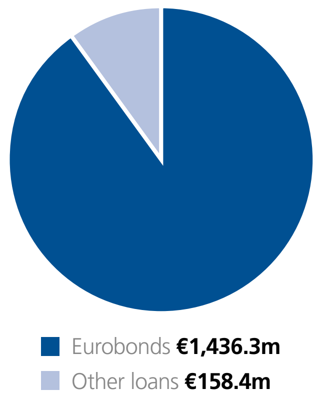
Funding position

Liquidity continues to remain strong as a result of cash flow generation. As at 31 December 2020, the Group had €750 million of committed undrawn revolving credit facilities which expire in June 2023, as well as cash, cash equivalents and short term deposits of €1,158.8 million (2019: €787.3 million).

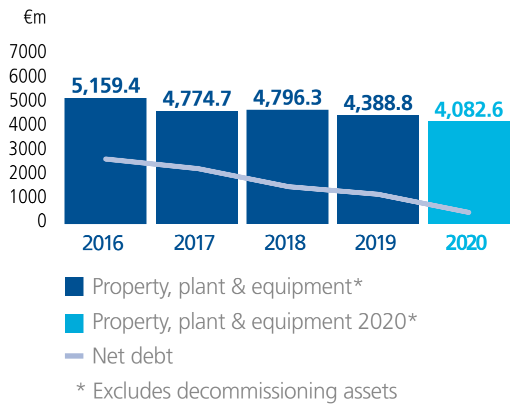
Our funding position remains robust and continues to be underpinned by our established contract order book, which gives high levels of revenue visibility and robust EBITDA margins, resulting in strong cash flow generation. Furthermore, the company has sufficient cash available to meet the maturity of €547.8 million of Eurobonds and the payment of a €150.0 million dividend in early 2021.

The Group's debt is rated by Moody's (Baa1/Stable) and Standard & Poor's (BBB+/Stable); these external ratings were unchanged during 2020.

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 2020 was 3.4 years (at 31 December 2019: 4.3 years).

Managing foreign currency risk

Our foreign currency hedging policy has the objectives of reducing volatilities in net cash flow and income, and to protect 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 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 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 €833.4 million (2019: €939.0 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 annual 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 2020, €300.0 million in dividends for the year ended 31 December 2019 were paid to shareholders (2019: €300.0 million). 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 24 March 2021. The level of the total dividend for 2020 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 2020, the Company had distributable reserves available of €943.3 million (31 December 2019: €1,059.3 million).

Order book

Urenco has a strong contract order book which extends into the 2030s with an approximate value at 31 December 2020 of €9.0 billion based on €/$ of 1 : 1.22 (2019: €10.6 billion based on €/$ of 1 : 1.12).

Outlook

Our core business continues to be the provision of uranium enrichment services. Through operating in this pivotal area of the nuclear fuel supply chain, we are facilitating low carbon electricity generation for consumers and businesses around the world and the achievement of crucial climate change goals.

This is complemented by using our competencies and leading technology to increase our offering in related areas where we can create real value, such as the fuelling of new reactors, waste treatment and decommissioning, and stable and medical isotopes, which will continue to grow.

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

The pandemic will remain a challenge for a large part of 2021. We will ensure our operations and the health and safety of our employees are maintained to the highest possible level.

While market prices need to increase in the long run, in 2020, we increasingly saw long dated business being contracted at price levels which will enable us to plan for reinvestment in our plants. Our contract order book has been extended beyond the 2030s and will extend further.

Our new stable and medical isotopes cascades will start operations in 2021 and active commissioning of our Tails Management Facility will progress, with commercial production expected to start in first half of this year.