



Annual report and accounts **2019**



PRINCIPAL RISKS AND UNCERTAINTIES

Risk management and mitigation is a key area of focus for Urenco. Across all areas of Urenco, we work hard to raise risk awareness and we have developed a range of measures to help identify, manage and mitigate potential risks and threats that could impact our business.

Our approach

Robust risk management is at the centre of our business ethos and operations. It is a vital component of our global leadership within the nuclear industry. As part of our Governance, Risk and Control framework, we follow best practice and ensure we comply with the rigorous legal requirements under which we operate.

Operating in a heavily regulated industry, we focus on early identification of risks and implementing appropriate risk evaluation and mitigation or avoidance strategies. Our Risk Management function works with our corporate functions and enrichment sites to ensure that a bottom-up risk management process is performed and captures key risks, their controls and planned actions. This is then consolidated and reviewed by our Group Executive Committee and Board.

Similarly, we operate a top-down risk management process to ensure that any strategic risks or uncertainties not captured by the bottom-up process are captured and assessed by both the Group Executive Committee and the Board on an annual basis. The Group Audit and Risk Management Committee is also responsible for reviewing the risk management process on an annual basis.

Our risk management framework is based on a 'three lines of defence' approach:



During the year, the Board has considered the nature and level of risk that we are prepared to accept in order to deliver our business strategies. The Board considers that the principal risks to achieving its strategic aims are set out here.

| Risk | Mitigation |
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| <p>1. Safety</p> <p>Urenco operates in an environment subject to a wide range of health, safety and environment laws, regulations and standards. If we fail to comply with these requirements there is a risk that we will be subject to regulatory enforcement action, which is likely to adversely impact our employees, result in the imposition of restrictions on how we operate and could prove detrimental to our reputation.</p> | <p>We seek to operate to the highest standards of safety to maintain a safe environment for our employees and stakeholders and have implemented safety management systems, designed to minimise risks and ensure compliance with safety standards through regular monitoring.</p> <p>We ensure we meet regulatory requirements, follow regulatory protocols for the safe handling of uranium and other chemicals and focus on continuous improvement and the detection and remediation of potential hazards before incidents can occur. By adhering to best practice in this area, we continually seek to ensure minimal impact on employees, contractors, the public and the environment.</p> |

| Risk | Mitigation |
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| <p>2. Markets</p> <p>Ongoing challenging market conditions are likely to continue to impact opportunities for growth in both existing and new markets.</p> | <p>In an increasingly volatile and complex market environment we remain committed to ensuring that our business is as resilient as possible to meet these challenges. We continue to ensure that we are able to maximise our global reach, technical capabilities and flexible plant operations to support our ability to respond to changing market conditions, customer demands and opportunities.</p> <p>We also continue to model a broad range of market scenarios and stress test the effectiveness of our commercial strategies, mitigations and responses to new and emerging market threats and opportunities.</p> |
| <p>3. Safeguards</p> <p>There is a potential risk for uranic material to be misappropriated from our enrichment facilities or during its transportation to or from our customers and supply chain partners.</p> | <p>Urenco works closely with governments and regulators to create and comply with safeguard regimes and we continually maintain and review our uranium tracking methods on site. A common set of safeguards is applied across the organisation to ensure non-proliferation and prevent the misappropriation of uranic material.</p> <p>Our safeguard programmes are also supported by a rigorous accounting and audit approach to the uranic materials we keep on site to ensure that we consistently meet the stringent inspection criteria set by the International Atomic Energy Agency (IAEA), Euratom and other national and international regulators.</p> <p>The safety practices of our transportation partners are guided by the standards we set at Urenco. Such standards reduce the risk of an accident or the misappropriation of sensitive materials. We adhere to IAEA guidelines and all other national and international regulations regarding the transportation of fissile material. We place contracts only with approved companies and ensure we perform regular contract and performance monitoring audits.</p> |
| <p>4. Security and cyber crime</p> <p>We need to ensure the security of fissile material and our own technology and assets, particularly with regards to the increasing threat of cyber crime to the energy sector. This exposes Urenco to an ongoing risk of cyber attack which could result in loss or corruption of data or disruption to operations causing reputational damage.</p> | <p>We continue to work closely with the relevant government bodies, across the jurisdictions in which we operate, to ensure that we comply with all applicable national and international security requirements and understand the nature of new and emerging physical and cyber security threats.</p> <p>Each of our sites is also supported by dedicated security resources to control access to sites, actively screen all personnel, and ensure appropriate security policies and procedures are implemented. The effectiveness of security policies and arrangements are monitored and risk assessed on an ongoing basis by the Urenco Group Security function.</p> <p>Our cyber security and resilience capabilities are subject to regular review and risk assessment to ensure we have the ability to prepare for, respond to and recover from cyber events or attacks which have the potential to negatively impact Urenco.</p> <p>In 2019 we also created a clear roadmap to further enhance our threat intelligence and incident response capabilities to meet the challenges of the continually changing cyber environment. This initiative receives Executive-level sponsorship and is subject to regular independent assurance to ensure its effective delivery.</p> |

| Risk | Mitigation |
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| 5. Transport | |
| <p>The availability and willingness of third-party logistics providers, regulators or port authorities to transport or accept uranic materials may impact our ability to optimise the benefits of global infrastructure.</p> | <p>Where possible, we ensure the availability of alternative routes and maintain a portfolio of logistics partners to ensure continuity of deliveries. We work closely with our supply chain partners to engage with, and provide assurance to, port authorities and regulators regarding our compliance with international regulations regarding the transportation of fissile material.</p> |
| 6. Political and regulatory landscape | |
| <p>Policy</p> <p>The nuclear industry remains a topic for debate with public and government opinion differing on its role in the future energy mix. In any jurisdiction, a change in government can bring about a change in policy, while unanticipated events can also change policy direction.</p> <p>Regulation</p> <p>Our operations and development are controlled by our ability to meet the stringent regulatory requirements of each country we operate in and supply. We are answerable to multiple national governments and subject to penalties if required standards are not met.</p> | <p>Urenco continually monitors nuclear policy around the world. We engage with policymakers and stakeholders to ensure that the benefits of nuclear as a sustainable, long-term and low-carbon source of energy are understood and considered as part of both the energy debate and future government policy.</p> <p>Urenco maintains compliance activities across the business. Our strong relationships with government regulators are managed locally by our Heads of Compliance at our enrichment sites, while our organisation-wide functions also maintain an open dialogue with both national and trans-national regulators (e.g. the IAEA) and other government agencies. All learning elicited from our engagement with regulators is then shared across the organisation through internal workshops and communications.</p> |
| 7. Pricing | |
| <p>The market fails to recover to the level expected, resulting in future prices not being sufficient to support and sustain ongoing investment in enrichment capability and future centrifuge innovation and development.</p> | <p>We seek to ensure that our contracts with customers incorporate agreed forward pricing to mitigate price risk. While recognising that our responses to new market opportunities are competitive and offer a clear value proposition to our customers, we ensure that our future contracts do not compromise our ability to support and finance re-investment as well as the ongoing manufacturing and development of our enrichment technology.</p> |
| 8. Geo-political risk | |
| <p>New and emerging geo-political risk creates significant uncertainty and volatility across global economies and global institutions. Movements away from political centrism, increased nationalist and populist sentiments and growing economic protectionism, allied to worsening diplomatic relations, all contribute to an increasingly volatile world, which has the potential to impact Urenco's ability to access or operate within certain international markets.</p> | <p>Urenco's ability to deploy the advantages of its geographical diversity across its operations and value chain provides a degree of resilience and redundancy against the potential impacts arising from global uncertainty and geo-political risks. We regularly assess and evaluate potential responses to a range of business and geo-political scenarios that may arise and ensure that appropriate continuity and mitigation plans are in place.</p> <p>We also seek to mitigate any financial impacts of potential risks, arising from increased political or geo-political uncertainty, through a combination of hedging against foreign exchange rate risk, adjusting fixed and floating rate borrowings through interest rate swaps, and ensuring that adequate medium-term committed funding is always available.</p> |
| 9. Counterparty risk | |
| <p>Urenco is exposed to payment and default risk arising from worsening macro-economic conditions while transacting with both customers and other participants in the nuclear supply chain.</p> | <p>Urenco has robust customer on-boarding, monitoring and reporting procedures. We routinely assess the creditworthiness of Urenco's commercial counterparties and partners and seek to incorporate appropriate credit or payment protection into commercial agreements where appropriate.</p> |

| Risk | Mitigation |
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| <p>10. Change management</p> <p>There is a risk that Urenco lacks the capability, experience and capacity culture to successfully design, execute and integrate major change programmes, acquisitions or infrastructure projects across the business.</p> | <p>Major change programmes and infrastructure projects are subject to appropriate governance structures and oversight frameworks seek to ensure the effective delivery of projects within expected cost and schedule parameters.</p> <p>Change programmes and projects are also subject to both independent internal and external audit and assurance reviews to monitor project performance and seeks to ensure appropriate controls and arrangements are in place to support early identification and resolution of risks and issues.</p> <p>An Organisational Health programme has been initiated and seeks to ensure we have a shared understanding of how Urenco's organisational health, culture and ways of working can best support Urenco in achieving its goals and delivering its strategic projects and change programmes.</p> |
| <p>11. Long term liabilities</p> <p>The cost and timing of Urenco's long-term nuclear activities are based on a number of management estimates relating to operational parameters and long-term cost assumptions, as well as being subject to external factors that Urenco can influence but not control, for example, government policy for long-term disposal costs of depleted uranium oxide (U₃O₈).</p> | <p>Urenco regularly reviews the assumptions and estimates that support its nuclear provisions, taking into account past experience, current research and potential future developments.</p> <p>In addition, Urenco continues to work with its regulators and government agencies, in partnership with other nuclear operators and stakeholders, to ensure that a sustainable and economically viable solution for the long-term storage of fissile material is developed.</p> |
| <p>12. Colleague retention and continuity</p> <p>We need to ensure we make the necessary investment in our people and succession planning processes to guarantee that we have the appropriate skills and experience to support Urenco's long-term sustainability.</p> | <p>Focused development and succession planning programmes are in place across the organisation to ensure that our colleagues' development plans are aligned with the organisation's needs and support the development of a sustainable pipeline of talent.</p> |
| <p>13. Brexit</p> <p>Urenco, as with other major corporate bodies, is likely to be affected by the complexity and interdependencies of potential risk outcomes presented by the UK's decision to leave the European Union and Euratom.</p> <p>Of particular significance for Urenco is the potential for the UK's withdrawal from the European Union to delay or interrupt both the movement and delivery of materials and to impact our ability to share uranic technical data and information between our UK and European operations.</p> <p>Also of significance are the potential impacts and associated risks that may arise from the new trading relationships that will be defined following the completion of the European Union (Withdrawal) Act. These are likely to include arrangements regarding new trading agreements, customs arrangements and other mutual recognition agreements between the UK, the EU and other third party countries</p> | <p>Urenco established a Working Group to ensure that we have a suitable level of preparedness to mitigate risks that emerge from both the withdrawal process and the subsequent redefining of the UK's relationship with the EU. Its focus will remain on ensuring that appropriate pre-planning arrangements are maintained in place to support continuous operations and delivery from all of our sites.</p> <p>Specifically, the Working Group will continue to:</p> <ul style="list-style-type: none"> • Assess the potential impacts of the UK's exit from the European Union, across a range of scenarios. • Evaluate Urenco's likely exposures across each of those scenarios. • Identify the mitigation and contingency plans required to mitigate the impact of risks arising from the withdrawal process and future trading relationship negotiations. • Ensure that the status and robustness of risk mitigation measures and contingency plans implemented are regularly reviewed. • Report regularly to the Board on the Working Group's deliberations. |
| <p>14. Critical suppliers</p> <p>Across our supply chain we are reliant on products and services, provided through a number of critical third parties. There is a risk that critical or single source suppliers are either unable or unwilling to continue to supply goods or services resulting in disruption or delay to operations.</p> | <p>A key element of the Group Procurement strategy is to ensure that the provision of critical services or products is supported by robust supplier risk assessment, ongoing supplier monitoring, the identification of alternative vendors and contingency planning processes seek to ensure appropriate responses are implemented to suppliers identified as being in distress.</p> |