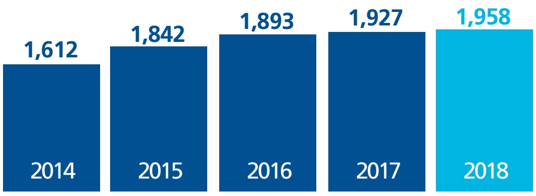
Annual report and accounts 2018

Financial highlights

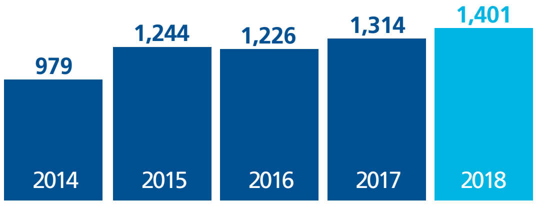
Revenue

€1,958m



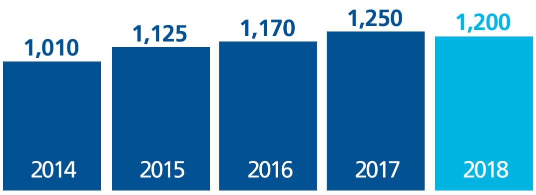
Cash generated from operations

€1,401m



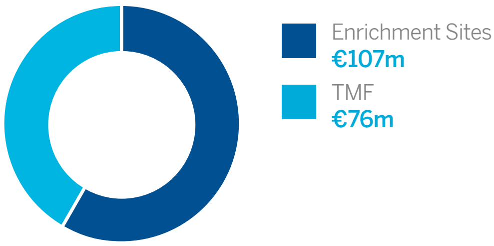
EBITDA[1]

€1,200m



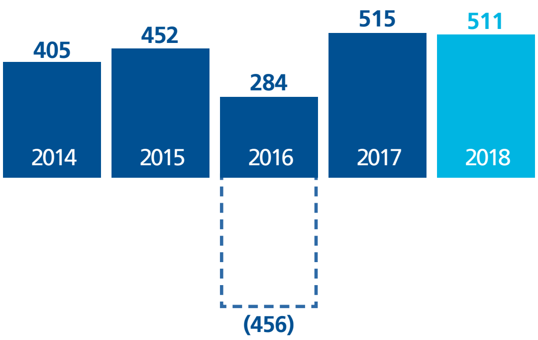
Capital expenditure

€183m



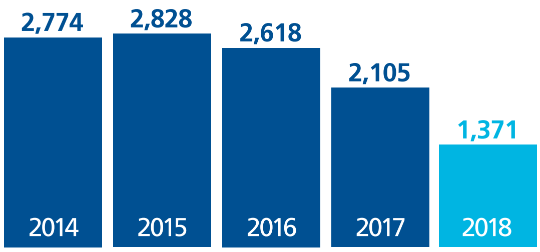
Net income/(loss)[2,3]

€511m



Net debt[4]

€1,371m



[1] EBITDA is defined as earnings before exceptional items, interest (including other finance costs), taxation, depreciation, amortisation and joint venture results. EBITDA for 2014 to 2016 has been restated to be consistent with this definition. EBITDA is reconciled to income from operating activities on pages 76 and 77.
[2] Net result in 2016 was net income of €283.8 million pre-exceptional items and net loss of €456.3 million post exceptional items.
[3] In 2016 exceptional items pre-tax comprise impairment of the USA operations (€760.0 million) and restructuring provisions (€33.0 million).
[4] Net debt comprises loans and borrowings (current and non-current) plus obligations under finance leases less cash and cash equivalents and short term deposits.

Business model

Trusted, long term supplier to the nuclear industry

Urenco is proud of its history as a leading nuclear services technology company for nearly 50 years. We provide safe and reliable uranium enrichment services and fuel cycle products for power generation within a framework of high environmental, social responsibility and corporate governance standards.

Committed and engaged employees

Our people are at the heart of everything we do.

7.4% increase
in level of commitment and engagement in 2018.

Financial strength

€11.9bn
global contract order book extending into the 2030s.

Diversity and security of supply

The only company in the world to operate enrichment facilities in four countries.

Group head office near London, UK.

Customer commitment

We met 100%
of our customer delivery commitments again in 2018.

Broad portfolio of products and services

Core business as a global fuel cycle supplier with more than

50 customers in 19 countries

Global production capacity of

18,600 tSW/a
at the end of 2018.

Expertise
in nuclear stewardship
through our UK subsidiaries: Urenco Nuclear Stewardship, providing responsible management of nuclear materials; and Urenco ChemPlants Limited, which will operate our new Tails Management Facility.

An expanding Stable Isotopes
plant in the Netherlands, providing important products for medical, industrial and research applications.

Technological
innovation through our Enrichment Technology Company.

Vision

We believe the world needs nuclear energy to meet the demands of sustainable global energy. We help the transition to a low carbon economy through the deployment of our enrichment services and technology.

Mission

Our mission is to be the supplier of choice within our sector and a key contributor to sustainable energy.

Values

Our values of safety, integrity, flexibility, development and profitability guide our work and shape our culture.

Our regulation

Our treaty commitments

The Treaty of Almelo was signed in 1970 by the UK, Dutch and German governments. This set out robust safeguards to protect our technology from misuse and proliferation. As Urenco has grown, this international framework has been extended through treaties with the USA and France.

Security

The security of our sites and operations is paramount to protect our physical assets, people, IT systems and infrastructure.

We are committed to preserving the privacy of personal data.

We comply with relevant industry and regulatory standards.

Our global presence

Chairman's foreword

2018 has been another year of strong operational and financial performance set against a background of improved safety. However, we continue to face market and geopolitical challenges.

Global enrichment market outlook

The nuclear power industry has a key role in providing reliable low carbon electricity. The industry needs long term, cost effective and diverse supplies of enrichment services to provide its fuel.

Since 2011, the global enrichment market has been in a state of oversupply and high levels of inventory. Current price levels would not support reinvestment in our enrichment facilities. However, we have seen increases in the prices of uranium this year, and SWU prices have increased by approximately 15% from their lowest level. We believe that enriched uranium inventories will start to decrease and are therefore cautiously optimistic that the uranium enrichment market will improve.

Pictured:
Stephen Billingham at this year's Richie Lecture at the Science Museum in London, UK.

The political landscape

The political landscape in which we operate continues to provide us with challenges, including the UK's withdrawal from the European Union, Germany's decision to end domestic nuclear power generation and evolving US trade policies and international relations.

We have made preparations for the UK's withdrawal from the European Union and Euratom treaty. We have identified and mitigated the material risks to our business that this presents. We have done all we can to ensure that our products are in the right locations across the world and international procurement of key supplies has been brought forward. Our ability to continue to provide services from our sites in mainland Europe, the UK and the USA enables us to ensure we can continue to serve our customers.

We acknowledge the ongoing political debate in Germany about nuclear energy and have continued our dialogue with stakeholders. We are confident that we can continue to demonstrate that we are a long term, sustainable operator in the country and are an integral part of Germany's highly impressive technological capabilities.

We have provided input to the US Department of Commerce investigation into the potential impacts of imported uranium, in all its forms, on US national security. Following the investigation, the US President will decide if there is need for any remedial action. We believe that our involvement in the US uranium market is in the best interests of our US customers and we hope that any remedies that may be imposed do not affect our ability to continue to be a reliable and responsible supplier from both our US and European facilities.

Our US facility's production represents approximately one third of the country's annual demand and is the only operating commercial enrichment facility on US soil. It is a key strategic national asset to the USA, operated by a dedicated US workforce and under US nuclear regulation. There is long standing co-operation between the United States of America, United Kingdom, the Netherlands and Germany with respect to civil nuclear fuel and we are confident this will continue.

Our positioning

We are unique in the world enrichment market in having four enrichment facilities in four different countries. This gives us the expertise, diversity of supply and the capacity to manage the highlighted risks and ensure we continue to serve our customers long into the future.

In addition, the expansion of our Stable Isotopes capacity will enable us to serve a growing global market and provide a solid return on our investment. Our expertise in nuclear stewardship will broaden the services we offer to the nuclear industry.

Our people

Developing our employees is fundamental to our sustainability. We are committed to getting the best from our workforce and are enhancing our internal programmes to ensure this happens. Externally, we support the next generation of industry leaders with investment in the recruitment of apprentices and continued outreach with schools to nurture an interest in science, technology, engineering and maths.

I am very pleased we are making progress on our diversity and inclusion targets and in 2018 we appointed our first female Managing Director.

Our continued success is dependent on the skill, enthusiasm and dedication of our employees and on behalf of the Board, I extend my thanks to all of them.

Our Chief Executive Officer since 2016, Thomas Haeberle, will retire from the Board in March. On behalf of the Board, I thank Thomas for his service to Urenco and the leading role he has played to define our strategic direction. I am pleased that Boris Schucht will be joining us in May as our new Chief Executive. Boris joins us from 50Hertz, the North-East German Transmission System Operator, where he held the position of Chief Executive Officer.

In the summer we said goodbye to George Verberg who retired from the Board. I would like to extend my thanks to George for his service to the Board over the last 14 years. Our Dutch shareholder has appointed Mel Kroon as his replacement and we welcome Mel to our Board.

In my last year as Chairman, I look forward to the continued success of Urenco's enrichment business and I am sure that the skill and dedication of our employees will ensure that we continue to deliver for our customers and key stakeholders.

Stephen Billingham
Chairman

Chief Executive Officer's review

Urenco has had another successful year. We are delivering on our customer commitments, positively addressing the challenges in the global enrichment market and realising our strategic goals.

Strategic highlights

This year has seen key achievements in all three pillars of our strategy.

We remain on track to realise €300 million in cumulative cash savings over the three-year period to the end of 2019.

We are signing new contracts to maintain our global customer base and seek to continue to raise our profile in China, opening a marketing office there in 2019.

Stable Isotopes is an area of growth. We are confident that our recent investment in increased capacity will serve the market well and deliver solid returns.

We are continuing to explore several possible new business ventures, including developing our capabilities in nuclear stewardship.

Through our Enrichment Technology Company, we are applying our knowledge of advanced materials to products for the decarbonisation of the transport sector.

We are also working towards providing support to our customers to fuel all nuclear new builds, including the next generation of reactors.

More information is on page 8.

Financial overview

Our 2018 results reflect the robustness of our operations and the success of our strategy. This performance is underpinned by our established contract order book.

Revenue was strong this year at €1,957.7 million (€1,926.9 million in 2017) as a result of increased SWU and uranium related sales. EBITDA of €1,200.4 million (€1,249.5 million in 2017) reflects strong underlying business performance and cost discipline, but with higher net costs of nuclear provisions incurred in 2018. Our net income at €511.3 million (€514.9 million in 2017) reflects the EBITDA decline, offset by lower financing and taxation costs.

Our balance sheet had continued to strengthen with net debt more than halved in the past three years.

The enrichment market and prices

This year's financial performance does not reflect current or mid-term market conditions, as we are continuing to deliver to our customers under our long established contract order book.

Current price levels would not support reinvestment in our enrichment facilities. There has been evidence of higher prices in the last months of 2018.

Operational success

It was a very successful year for our production sites. They met all their performance targets, providing an increased portfolio of products and proving the resilience of our technology.

Safety and security is our core value and key priority. As part of usual business and our commitment to continuous improvement, we reviewed and enhanced our procedures this year. They remain in line with industry best practice and legal requirements and have full buy-in from our employees.

Globally our safety performance improved. We had no employee or contractor work related lost time injuries. This is a significant achievement. There was, however, an increase in injuries requiring medical treatment.

This year we held our first simultaneous safety stand down across all sites and repeated the safety survey we launched last year. The survey showed an improvement in our safety culture, including importantly our employees' belief that injuries are preventable and their sense of empowerment to address safety issues.

Tails Management Facility

Commissioning has commenced at our Tails Management Facility (TMF) in the UK and operations are planned to start in 2019.

This responsible management of the by-product of our enrichment services, tails, is crucial to our commitment to uranium stewardship and sustainability.

We are proud of the fact that during the construction of the TMF we achieved 6.7 million hours of safe working. The TMF was one of the safest construction sites in the UK.

Leadership changes

In March 2019 I plan to step down as CEO and retire from Urenco. My successor, Boris Schucht, will take up his appointment in May. He brings a wealth of experience in the energy sector to support the ongoing delivery of our strategic objectives.

Priorities for 2019

We continue to focus on safe and secure operations and drive the implementation of our strategy.

We will be progressing our work to increase the diversity of our organisation and enhance the inclusivity of our culture. This includes empowering our valued employees to make more decisions, demonstrate their leadership and drive positive change across our business. Recognising employee contribution is of huge importance and in 2019 we will be implementing the next stage of our new 'Celebrating U' initiative with global employee awards. We will also be taking further action in relation to our biennial employee survey. This year, our employee 'pulse' survey showed a 7.4% increase in our 'engaged and committed' score, with clear support shown for our strategy. Our employees said they feel listened to, that their opinions matter and that they have the right tools for their job.

I have very much enjoyed my time with Urenco and am pleased that I have been able to create and implement a new strategic direction. I am confident that the business is now in an excellent position to achieve future success.

Thomas Haeberle
Chief Executive Officer

Pictured:
Thomas Haeberle.

Our strategy

Our strategy is designed to strengthen and broaden our business to ensure its long term sustainability.

Key achievements in 2018 include:

Optimise the way we do business

Pillar 1

- The management of costs remained an important focus due to the market environment we currently operate within and our forecast for the future.
- We are on target to achieve €300 million cash savings in the three years ending in 2019.

Ensure we remain a global leader in enrichment services

Pillar 2

- We take every opportunity to meet our current and future customer needs, both in terms of new business and the products and services we offer.
- We have successfully agreed a number of new contracts. Sales included SWU, natural uranium (U_3O_8), conversion, enriched uranium (UF_6) and enrichment of reprocessed uranium.

Expand Urenco's high-tech capabilities to more broadly serve the nuclear industry

Pillar 3

- Good progress has been made on expanding our Stable Isotopes business (see page 13) to further grow our product portfolio and meet increased global demand.
- We have continued our dual track approach in the UK and Canada of developing our micro modular nuclear reactor, U-Battery. U-Battery was selected to participate in Phase 1 of the UK government's Advanced Modular Reactor Programme and awarded funding to conduct a feasibility study, submitted in January 2019.
- As decommissioning is a key area of growth for the nuclear industry, we continue to investigate opportunities to expand our work in this field.
- Decarbonisation of the transport sector is high on the agenda of many governments and we are assessing how we can make a contribution through our knowledge of advanced materials.

Markets

Market trends

Excess fuel cycle inventories

Since 2011, market prices for all fuel cycle components (uranium, conversion, enrichment and fabrication) have fallen due to the accumulation of excess inventories. In 2018, we saw the first signs that prices have started to rise, with an increase in the published market prices for both uranium and enrichment services.[1]

Reactor demand

There are more than 400 operable reactors globally and 50 under construction. It is estimated that at least 80 reactors will close by 2035.[2]

New nuclear reactors are under construction in Europe, North America, Asia and the Middle East.

The UK and Polish governments are particularly vocal supporters of the use of nuclear power to support clean energy strategies and reduce carbon emissions.

China continues its new build programme with 15 reactors under construction and seven reactors brought online in 2018.

In Japan, nine reactors have restarted power generation and the government has re-affirmed nuclear power's role in the country's energy future.

France and South Korea's new political administrations have enacted policies shifting away from nuclear energy. Both countries could see a significant reduction in their number of reactors online by the mid 2030s.

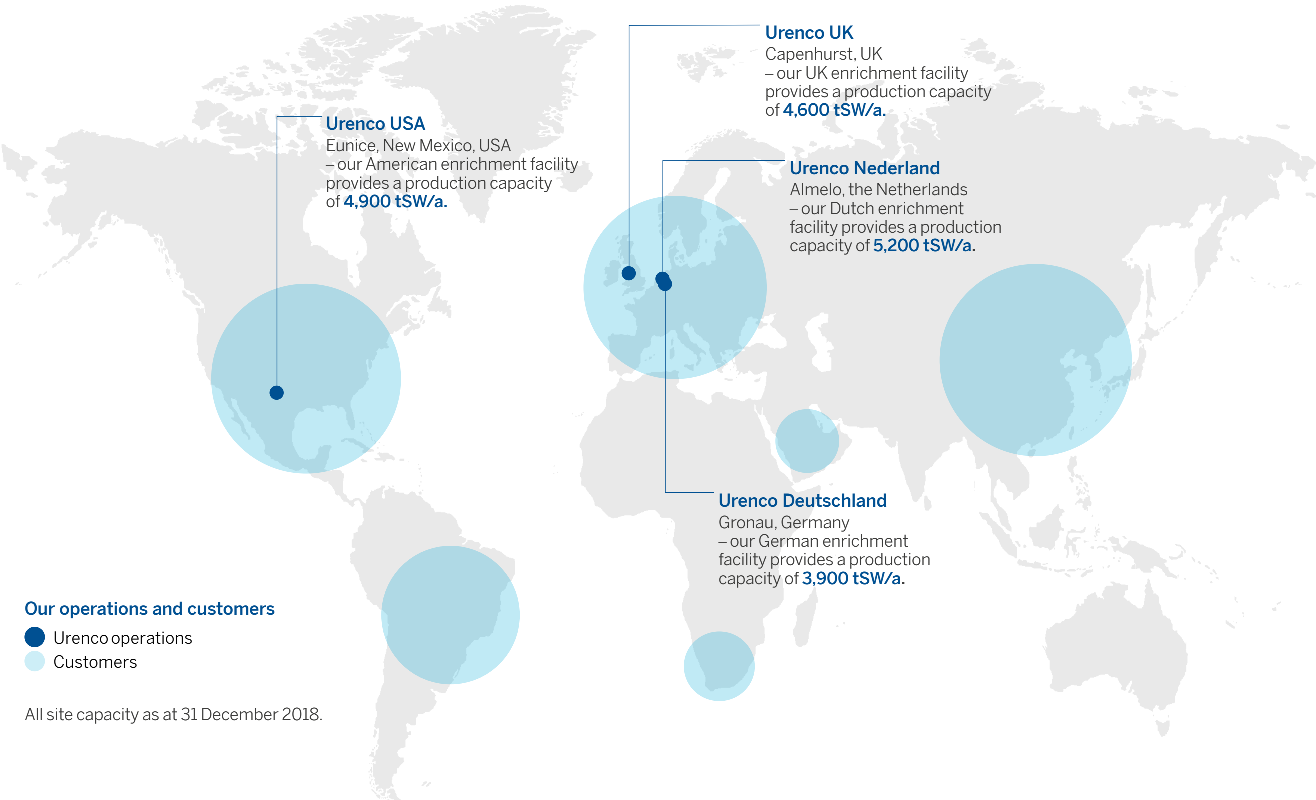
In 2018, there were announcements of reactor closures in the USA, France and South Korea.

In the next ten years, there are plans for other reactors to be closed, mainly in the USA and Europe.

Overall, installed nuclear power capacity is forecast to grow by 1% a year from 413 gigawatts in 2017 to 518 gigawatts in 2040,[3] with China being a key growth market. Urenco is well placed to support this growth with our services and products.

Reprocessed uranium

In 2018, EDF signed a contract with Urenco for the enrichment of reprocessed uranium (repU) for use in reactors in their French fleet.



All site capacity as at 31 December 2018.

[1] https://www.uranium.info/nuclear_market_review_client.php; https://www.uxc.com/p/prices/UxCPrices.aspx

[2] http://www.world-nuclear.org/information-library/current-and-future-generation/plans-for-new-reactors-worldwide.aspx

[3] According to the IEA World Energy Outlook 2018 Edition, New Policies Scenario. Growth is the Compounded Average Growth Rate over the period (CAGR). 2017 gigawatts of installed nuclear power capacity is estimated.

Sustainability

Sustainability is integral to everything we do

Our sustainability programme is driven by our people, and our champions have made great progress in embedding best practice into day-to-day operations. We have a Board-level Sustainability Committee that oversees progress.

We are aligned to the United Nations Sustainable Development Goals, which are designed to end poverty, protect the environment and ensure prosperity for all.

We engage regularly and transparently with stakeholders - those who may be impacted by our operations and those who can significantly influence our business.

The areas of interest raised by our stakeholders have helped us to determine our core sustainability focus areas, which include:

- Health and safety, safeguards and security
- Environmental impact
- Supplier of choice
- Employee engagement
- Community engagement
- Asset integrity

Health and safety, safeguards and security

Safety is a priority and a core value for Urenco. Our Zero Harm programme drives our strong safety culture. We encourage employees to take responsibility for their personal safety at work and home. We are pleased to report zero lost time injuries in 2018.

Environmental impact

We are committed to minimising our impact on the environment and have initiatives which cover energy efficiency, emissions, water usage and waste.

Our total CO_2 equivalent emissions for 2018 were 233,458 tonnes (12.8 tonnes CO_2e/tsw). This is a 14% reduction in emissions across the organisation compared to our best performing year, 2017.

Urenco takes its uranium stewardship responsibility very seriously, which is why we have subsidiaries dedicated to overseeing our work in this area.

Urenco ChemPlants will operate our Tails Management Facility (TMF) in the UK, which will deconvert the by-product of enrichment, depleted uranium hexafluoride, into a more stable form, uranium oxide, for long term storage until final disposal. The TMF is planned to be operational in 2019.

Our Urenco Nuclear Stewardship business, also based in the UK, is responsible for the management of uranic materials, decommissioning and recycling.

Supplier of choice and asset integrity

We closely monitor and maintain our plant systems to ensure they continue to function reliably and effectively. Our global reach and diversity of supply means we are well placed to meet the needs of our customers around the world and we pride ourselves on the quality, flexibility and reliability of our enrichment services.

We are proud to have maintained our 100% customer delivery record in 2018.

Employee engagement

Through our employee engagement activities, our aim is to maintain high levels of employee commitment and satisfaction. We encourage an active and healthy lifestyle and also offer flexible working to help to ensure our employees maintain a positive work-life balance.

Urenco's most recent employee 'pulse' survey showed a 7.4% increase in employees who are committed and engaged. This result is significantly above the global benchmark for the countries in which we operate.

Diversity and inclusion (D&I) is a high priority for us as we want to create a workforce that reflects the society in which we operate. We believe that promoting and supporting inclusiveness, and making the most of diversity, is good business, creates a safer workplace, enhances decision making, improves performance and most importantly is the right thing to do. We have set enhanced goals for recruitment, succession planning and training. For example, we will complete D&I training with at least 80% of employees across the organisation by the end of 2020.

Community engagement

Urenco regularly engages with the local community. Our volunteering programme helps to strengthen these relationships. We assist local residents, disability groups, schools and charities. In 2018, a third of employees volunteered in their local communities.

Our Richie education programme inspires school children to engage with science, technology, engineering and maths subjects to nurture the next generation of talent in the nuclear industry. It includes practical workshops and digital resources and has reached more than a quarter of a million students since 2007.

Pictured:
Students visiting the Wonderlab in the Science Museum in London, UK, sponsored by Urenco.

Case studies

Fuelling nuclear new build

We have contracts to supply uranium enrichment services and nuclear fuel cycle products to 19 countries which use nuclear power to generate electricity.

Our clear strategic direction, strong leadership and the skills and expertise of our workforce make us well positioned to support nuclear new build projects globally, both current and advanced technologies.

We offer a supply which is:

Competitive

- Products and services
- Predictable costs de-risking new build investment

Reliable

- 100% delivery record
- Four enrichment facilities worldwide, enabling security of supply

Responsive

- Tailored to the needs of new reactors
- Long term relationships with flexible contract duration

Sustainable

- High quality and long term supply
- Compliance with relevant industry and regulatory standards

Pictured:
Transport of Urenco products.

Expanding Urenco Stable Isotopes

Our Stable Isotopes business, based at our site in the Netherlands, utilises our expertise and capabilities in centrifuge technology to produce enriched Stable Isotope products with social, environmental and commercial value.

New medical, industrial and research applications continue to be developed. We are expanding our product portfolio to meet this increased demand.

In 2018, we successfully implemented the first phase of our expansion programme, which involved the major refurbishment of a cascade hall in preparation for the installation of new centrifuges. The design of the new cascade (multiple centrifuges) is also progressing well.

The current applications of our Stable Isotopes products are:

Medical
- Diagnostics
- Therapy
- Pain relief

Industrial
- Nuclear industry
- Non-destructive testing
- Semiconductor production

Research
- Materials used in peaceful nuclear environments
- Nuclear physics
- Food absorption studies

Pictured:
Urenco Stable Isotopes, Almelo, the Netherlands.

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:

1st Line

Operational management

The operational management team is tasked with identifying and assessing risks on an ongoing basis and is responsible for implementing and maintaining appropriate controls aligned to the organisation's policies and procedures.

2nd Line

Risk management and compliance

The Audit Committee oversees the effective operation of the organisation's risk management framework. Our Compliance, Risk Management and Internal Audit functions support the business in ensuring effective implementation of and compliance with the risk management policies and procedures across the business.

3rd Line

Governance

Our Internal Audit function provides independent assurance to ensure that controls are implemented and are operating efficiently and effectively across the organisation.

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
1. Safety	
Urenco operates in an environment where we are understandably 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 also attract negative media interest.	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. We focus on continuous improvement and the detection and remediation of potential hazards before incidents can occur. We also meet regulatory requirements and follow regulatory protocols for the safe handling of uranium and other chemicals. By adhering to best practice in this area, we continually seek to ensure minimal impact on employees, contractors, the public and the environment.

Risk	Mitigation
2. Markets	
Ongoing challenging market conditions are likely to continue to impact opportunities for growth in both existing and new markets.	In an increasingly volatile and complex trading 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. 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.
3. Safeguards	
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.	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. 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 IAEA, Euratom and other national and international regulators. 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.
4. Security and cybercrime	
We need to ensure the security of fissile material and our own technology and assets, particularly with regards to the increasing threat of cybercrime to the energy sector. This exposes Urenco to an ongoing risk of cyber-attack, loss of data, or the introduction of malware or other forms of viruses which have the potential to disrupt operations and cause reputational damage.	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. 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.

Risk	Mitigation
5. Transport	
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.	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.
6. Political and regulatory landscape	
Policy 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.	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.
Regulation 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.	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. Our focus on innovation and performance enables us to act as an effective partner across the nuclear supply chain and guide and share best practice across the industry as a whole.
7. Pricing	
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.	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.

Risk	Mitigation
8. Geo-political risk	
New and emerging geo-political risk creates significant uncertainty and volatility across Western 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 all risk impacting Urenco's ability to access or operate within certain international markets.	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. 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.
9. Counterparty risk	
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.	Urenco has robust on-boarding, reporting and monitoring procedures. We routinely assess the creditworthiness of Urenco's commercial counterparties and partners and incorporate appropriate credit or payment protection where appropriate.
10. Project management	
There is a risk that Urenco lacks the capability, experience and capacity to successfully design, execute and integrate major change programmes, acquisitions or infrastructure projects across the business.	Major change programmes and infrastructure projects are subject to appropriate governance structures and oversight frameworks to ensure the effective delivery of projects within expected cost and schedule parameters. Change programmes and projects are also subject to both independent internal and external audit and assurance reviews to monitor project performance and to ensure appropriate controls and arrangements are in place to support early identification and resolution of risks and issues.
11. Long term liabilities	
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 U_3O_8.	Urenco regularly reviews the assumptions and estimates that support its nuclear provisions, taking into account past experience, current research and potential future developments. 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.

Risk	Mitigation
12. Colleague retention and continuity	
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.	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 pipeline of talent.
13. UK's withdrawal from the European Union	
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. 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.	Urenco has established a Working Group to ensure that we have a suitable level of preparedness to mitigate risks that emerge from the withdrawal process. The focus has been on maximising Urenco's geographical diversity of supply to ensure that, prior to the UK's departure from the European Union, appropriate pre-planning arrangements are in place to support continuous operations and delivery from all of our sites. Specifically, the Working Group has • Assessed the potential impacts of the UK's exit from the European Union, across a broad range of scenarios. • Evaluated Urenco's likely exposures across each of those scenarios. • Identified the mitigation and contingency plans required to mitigate the impact of risks arising from the withdrawal process. • Ensured that the status and robustness of risk mitigation measures and contingency plans implemented are regularly reviewed. • Reported regularly to the Board on the Working Group's deliberations.

Pictured:
A cylinder being moved at our USA facility.

Group Finance Report

Revenue broadly in line with prior year reflecting our established order book. Lower EBITDA due to higher net costs of nuclear provisions, with the impact on net income offset by lower net finance costs.

Results for 2018

Revenue

Revenue for the year ended 31 December 2018 was €1,957.7 million, an increase of 1.6% on the €1,926.9 million in 2017. SWU revenues were up by €17.8 million and uranium related sales were up by €62.3 million. For both SWU revenues and uranium related sales the favourable movements were primarily driven by higher volumes with average unit revenues broadly in line with 2017. Other net movements in revenue decreased by €49.3 million compared to 2017, primarily as a result of lower net fair value gains associated with uranium related commodity contracts and marginally lower sales at Urenco Nuclear Stewardship.

EBITDA

EBITDA for 2018 was €1,200.4 million, a decrease of €49.1 million (3.9%) from €1,249.5 million in 2017. This resulted principally from higher net costs of nuclear provisions (€53.6 million) together with higher reported other operating and administrative expenses (€26.3 million), which more than offset the margin impact from increased revenue.

The net costs of nuclear provisions were €174.1 million in 2018 compared to €120.5 million in 2017, an increase of €53.6 million as a result of an increase in the net costs for each of tails, decommissioning and other nuclear provisions.

The net costs for tails provisions in 2018 were €2.8 million higher than those for 2017. This increase was due to the lower costs of new tails provisions created (€54.5 million) being more than offset by lower releases from the tails provision (€57.3 million). The costs of new tails provisions created in 2018 of €144.7 million were lower than the costs of €199.2 million in 2017, largely driven by the volume of new tails generated during the year and the 2017 uplift in deconversion cost estimates not being repeated in 2018. There was a €29.2 million release from the tails provision (2017: €86.5 million), as a result of optimisation of operations and the impact of the reduction in higher assay tails associated with enrichment services contracts.

The net costs for decommissioning provisions in 2018 increased by €42.3 million primarily due to a charge for additional provisions of €65.9 million (2017: €18.4 million) following the triennial review of nuclear liabilities undertaken in 2018, offset by releases of provisions in the year of €8.8 million (2017: €3.6 million) associated with cylinder inventories.

The net costs for other nuclear provisions in 2018 increased by €8.5 million as a result of optimisation of the operations and changes to the forecasts for future re-enrichment of low assay feed.

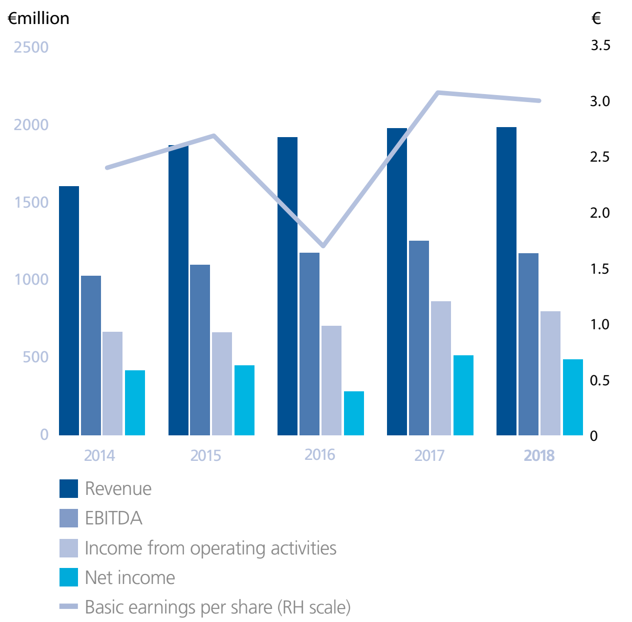
Other operating and administrative expenses were €583.2 million in 2018 compared to €556.9 million in 2017, an increase of €26.3 million. 2017 benefited from a one-time gain of €15.6 million associated with the closure of the UK defined benefit pension scheme to further accrual and in 2018 a provision for a potential bad debt associated with a specific customer has been made of €17.3 million (2017: nil). Adjusting for these two factors, our other operating and administrative expenses are broadly in line with our Strategy 2020 ambition and our cost discipline has continued to mitigate the impact of inflationary pressures as well as additional costs associated with the development of our business.

The EBITDA margin for 2018 was 61.3% compared to 64.8% in 2017. The EBITDA margin in 2018 was adversely impacted by the triennial review of nuclear liabilities referred to above.

EBITDA performance

	2018 €m	2017 €m	% increase/ (decrease)
Income from operating activities (pre-exceptional items)	826.5	871.8	**(5%)**
Adjustment for depreciation	47.5	42.0	
Add: depreciation and amortisation	329.2	343.3	
Adjustment for share of results of joint venture	(2.8)	(7.6)	
EBITDA	1,200.4	1,249.5	**(4%)**

Financial performance



Exceptional items

In 2018 there were no exceptional items (2017: nil) and, therefore, there is no associated income tax impact for 2018 (2017: nil).

In 2016 the Group recorded a restructuring provision of €33.0 million associated with the implementation of our strategy. In 2018, €2.3 million (2017: €4.7 million) of this restructuring provision was released to the Income Statement following a re-forecast of the costs to complete the restructuring programme. The release of restructuring provision in each of 2018 and 2017 has not been classified as an exceptional item as each was below the materiality threshold set out in the Group's policy on exceptional items.

Net income

In 2018 net income was €511.3 million, a decrease of €3.6 million (0.7%) compared to the 2017 net income of €514.9 million. The net income margin for 2018 was 26.1% compared to 26.7% for 2017. The decrease in net income reflects the impact of lower EBITDA, offset by lower depreciation and net finance costs and a lower income tax expense.

Depreciation and amortisation for 2018 was €329.2 million, compared to €343.3 million for 2017.

Net finance costs for 2018 were €106.0 million, compared to €140.1 million for 2017 with the reduction largely due to lower net cost on borrowings (€52.4 million) which were partially offset by higher losses due to foreign exchange movements (€19.8 million).

The net finance costs on borrowings (including the impact of interest rate/cross currency interest rate swaps) were lower at €75.3 million (2017: €127.7 million) reflecting lower levels of net debt in 2018. The other key elements of net finance costs were broadly in line with the costs incurred in the prior year, notably capitalised interest of €56.5 million (2017: €54.8 million) and the unwinding of discounting on provisions of €58.9 million (2017: €55.5 million).

Where practicable, relevant loan balances are swapped using cross currency swaps and these swaps are placed in accounting hedge relationships. 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 2018 the impact of this was a loss of €30.1 million (2017: €10.3 million loss) reflecting relevant unhedged balances and movements in foreign exchange rates and also includes a €27.2 million one-off non-cash charge for unhedged cumulative foreign exchange losses that should have been recognised in the Income Statement in prior periods from 2014. In addition, a gain associated with ineffective cash flow hedges was incurred of €6.4 million (2017: €5.5 million gain).

In 2018 the tax expense was €209.2 million (an effective tax rate (ETR) of 29.0%), a decrease of €7.6 million over the tax expense of €216.8 million for 2017 (ETR: 29.6%). The tax expense for 2017 included a credit of €74.0 million related to previously unrecognised US deferred tax assets resulting from the impact that the increased centrifuge and associated equipment lifetimes will have on future depreciation.

There was also a deferred tax charge of €85.1 million from the write down of previously recognised US deferred tax assets which has been revalued to reflect a reduction in average US Federal and New Mexico state corporate tax rates from 38.84% to 25.66%, effective from 1 January 2018. Excluding the impact of these two deferred tax items the 2017 tax expense would have been €205.7 million (ETR: 28.1%) compared to the tax expense of €209.2 million for 2018 (ETR: 29.0%).

The increase in the adjusted ETR from 28.1% to 29.0% is driven by four factors: i) changes in the relative proportions of profits and losses generated across the four jurisdictions in which Urenco operates (decrease of 1.7%); ii) the impact of lower overseas tax rates (decrease of 3.5%); iii) the impact of non-taxable and non-deductible amounts, including foreign exchange financing gains and losses that are excluded from tax under the UK Disregard Regulations (increase of 4.3%); and iv) the impact of adjustments in respect of previous years (increase of 1.8%).

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.

Additional tails provisions created in the year were €144.7 million (2017: €199.2 million), due to tails generated in the period and an increase in the applied tails deconversion rate due to interim storage assumptions.

Provisions utilised during 2018 were €34.5 million (2017: €110.6 million) and a provision release of €29.2 million (2017: €86.5 million) was recorded as a credit in net costs of nuclear provisions as a result of optimisation of operations and the impact of the reduction in higher assay tails associated with enrichment services contracts.

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. During 2018 the Group carried out a periodic review of the costs associated with plant and machinery decommissioning.

During the year ended 31 December 2018 the decommissioning provision increased by €125.8 million (2017 increase: €50.2 million) due to revised assumptions relating to the decommissioning of plant and machinery of €123.0 million (2017: €40.5 million), additional cylinder purchases of €2.5 million (2017: €8.8 million) and the installation of additional plant and machinery of €0.3 million (2017: €0.9 million).

Of the €123.0 million resulting from revised assumptions, €65.9 million has been expensed to the Income Statement and €57.1 million has been recognised in decommissioning assets.

Urenco continues to prepare for the potential establishment of segregated funds to finance its future decommissioning activities.

Further information on nuclear provisions can be found on pages 105 to 107.

Pictured:
Cylinders being moved at our German enrichment facility.

Group pension funds

Urenco operates a number of 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 2018 was €46.0 million (2017: €97.3 million). This decrease was due to a €68.1 million decrease in the present value of the defined benefit obligations due primarily to a reduction in discount rates together with a decrease in the fair value of the plan assets of €16.8 million.

On 5 April 2017, Urenco closed the UK defined benefit section to further accrual following the conclusion of a comprehensive consultation with employees and their representatives and the pension scheme trustees. Following the triennial valuation of the UK scheme in 2018, 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.

The Urenco Nederland scheme has consulted on a transfer of assets and liabilities to a Dutch consolidated pension arrangement, Pensioenfonds Grafische Bedrijven (PGB). The transfer to PGB is expected to take place in 2019, subject to regulatory approval from the Dutch central bank (de Nederlandsche Bank).

Cash flow

Operating cash flow before movements in working capital was €1,293.8 million (2017: €1,188.3 million) and cash generated from operating activities was €1,401.0 million (2017: €1,314.1 million). Higher cash flows from operating activities result from higher revenues and lower spend on the storage and disposal of tails, partially offset by a less favourable movement in working capital compared to 2017.

Tax paid in the period was €119.3 million (2017: €122.9 million).

Net cash flows from operating activities were €1,281.7 million (2016: €1,191.2 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

In 2018 the Group invested a total of €183.1 million (2017: €299.5 million), reflecting a lower level of expenditure on core enrichment assets in line with our strategy and the decline in the level of investment in TMF (2018: €76.0 million, 2017: €184.4 million). Construction of the TMF was completed in late 2018 and operations planned to commence in 2019.

Management's current forecast of the costs to complete TMF remain in line with those set out in the comprehensive project review undertaken during 2017. These cost estimates are included in the tails deconversion rate referred to above in the commentary on EBITDA and tails deconversion, storage and eventual disposal.

Capital expenditure is expected to fall further in future years following the completion of the TMF and lower levels of investment required in new enrichment capacity.

2018 Capital expenditure

(€183.1 million)

2017 Capital expenditure

(€299.5 million)

Capital structure

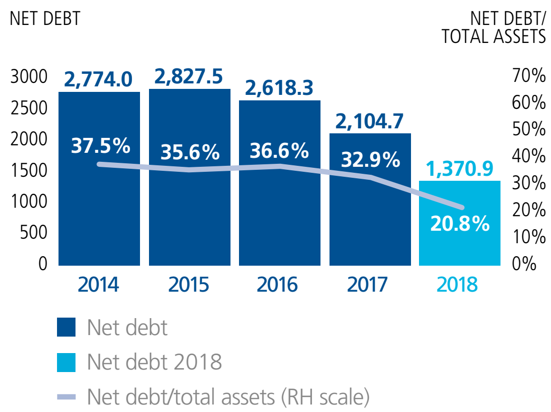
The Group's equity increased to €2,119.8 million during the year (2017: €1,824.3 million) due to an increase in retained earnings of €263.2 million (reflecting €511.3 million of net income, €51.3 million of other comprehensive income for the year and an adjustment of €0.6m associated with the transition to IFRS 9 offset by €300.0 million of dividends paid), an increase in foreign currency translation reserve of €126.3 million, primarily due to foreign exchange gains on property, plant and equipment held in US dollars as a result of the strengthening of the US dollar against the euro, and a decrease in hedging reserve (including cost of hedging reserve) of €94.0 million. The movement in the hedging reserve is primarily associated with mark to market losses on cash flow and net investment hedges, which protect the Group's future revenues and overseas net assets held in foreign currencies respectively.

Net debt decreased to €1,370.9 million (2017: €2,104.7 million). Urenco repaid its remaining loan (€100.0 million) from the European Investment Bank (EIB) on maturity in March 2018, having prepaid other EIB loans (€319.6 million) in December 2017. During 2018, Urenco utilised its one year bilateral loans, each of €90 million, with four of Urenco's relationship banks. These loans were fully repaid and the facilities expired by the year end. In January 2019 the Group also completed the repurchase and cancellation of €215.6 million of its 2021 Eurobonds.

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), as discussed further in note 25 of the Group's Consolidated Financial Statements.

Net debt to total asset ratio remained strong at 20.8% (2017: 32.9%), well within the Group's target ratio of less than 60%.

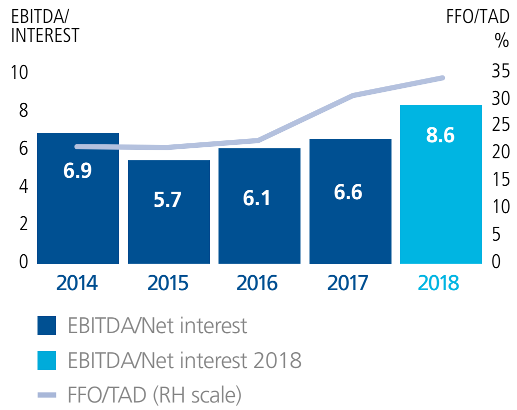
Net debt and Net debt/total assets



The Group targets an FFO/TAD ratio that results in a strong investment grade credit rating. The FFO/TAD ratio was 34.3% (2017: 30.5%) as EBITDA, the main component of FFO, has decreased by €49.1 million while net debt has decreased by €733.8 million.

The Group's interest cover also remains strong at 8.6x (2017: 6.6x).

Five-year summary funding ratios



Funding position

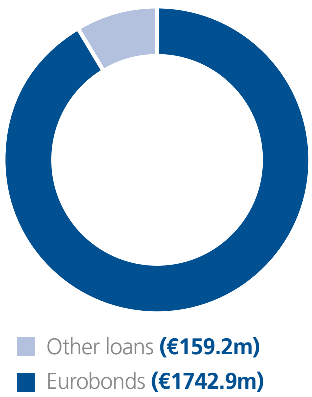
Liquidity continues to remain strong as a result of cash flow generation. As at 31 December 2018 the Group has €750 million of committed undrawn revolving credit facilities which expire in June 2023, as well as cash and cash equivalents of €531.2 million (2017: €59.1 million).

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.

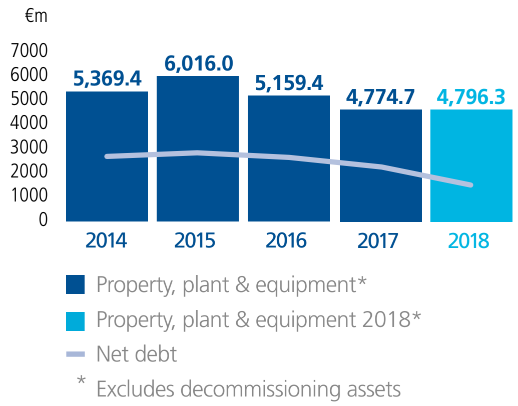
The Group's debt is rated by Moody's (Baa1/Stable) and Standard & Poor's (BBB+/Stable); these external ratings were unchanged during 2018.

Interest bearing loans and borrowings

(€1,902.1 million)



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 2018 was 3.6 years (at 31 December 2017: 4.0 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 re-measurements 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 USA 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 six years ahead. 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 €1,034 million (2017: €1,212 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 2018, €300.0 million in dividends for the year ended 31 December 2017 were paid to shareholders (2017: €300.0 million). The Board has approved that dividends of €300.0 million be paid on 20 March 2019.

As at 31 December 2018, the Company had distributable reserves available of €956.3 million (31 December 2017: €820.3 million).

Order book

Urenco has a strong contract order book which extends into the 2030s with an approximate value at 31 December 2018 of €11.9 billion based on €/$ of 1 : 1.15 (2017: €12.7 billion based on €/$ of 1 : 1.20).

Outlook

Urenco's strategy ensures our organisation has a broad and sustainable offering for the nuclear industry. Enrichment remains our core activity and we continue to explore new markets. The expansion of our Stable Isotopes capacity will enable us to serve a growing global market and provide a solid return on our investment. Our expertise in nuclear stewardship will broaden the services we offer to the nuclear industry.

Our contract order book remains strong, with further business secured during 2018. Excess inventories of enriched uranium, which have been contributing to pricing pressures, are decreasing. Market conditions remain challenging and current price levels would not support reinvestment in our enrichment facilities. There is an increasing global demand for sustainable, low carbon energy. As a leader in the nuclear industry, we are well positioned to meet this need.

The principal risks and uncertainties to which Urenco is exposed remain broadly in line with those disclosed in 2017.

We have made robust preparations for the various geopolitical challenges facing Urenco. The actions we have taken in relation to the UK's withdrawal from the European Union and Euratom mean we will meet our customer commitments. We acknowledge the ongoing political debate in Germany about nuclear energy and are confident that we can continue to demonstrate that we are a long term, sustainable operator in the country and are an integral part of Germany's highly impressive technological capabilities. We are actively tracking developments in US trade policy and will continue to provide a secure supply to the country's utilities from our facility in New Mexico.

The Strategic Report was approved by the Board of Directors on 14 March 2019 and signed on behalf of the Board by:

Stephen Billingham

Stephen Billingham
Chairman

Board of Directors

Matters reserved for the Board's decision include the approval of the strategic business plan; budget and financial statements; major capital projects, acquisitions and disposals; significant regulatory issues and important policies around environmental, health and safety issues. During 2018, the Board met five times. Biographies can be found on the Urenco website.

Front row, left to right:

Ralf ter Haar
Chief Financial Officer

Miriam Maes
Non-Executive Director and Chair of the Sustainability Committee

Stephen Billingham[1]
Chairman of the Board

Thomas Haeberle
Chief Executive Officer (until March 2019)

Sarah Newby
Company Secretary

Back row, left to right:

Richard Nourse
Non-Executive Director

Frank Weigand
Non-Executive Director and Chair of the Audit Committee

Justin Manson
Non-Executive Director

Alan Bevan
Non-Executive Director

Mel Kroon
Non-Executive Director and Chair of the Remuneration and Appointments Committee (appointed to the Board in September 2018)

Retirement in 2018

George Verberg
Non-Executive Director and Chair of the Remuneration and Appointments Committee (until August 2018)

[1] Stephen Billingham will become Executive Chairman from 1 April 2019 with CEO responsibilities until our new Chief Executive takes office.

Pictured:
Tails Management Facility,
Capenhurst, UK.