Event: FY1H2024 Results Conference Call
Date/Time: Friday, 23 August 2024, 17:00 AST

Kazatomprom Q2 2024 Results Conference Call Transcript

INTRODUCTION AND WELCOME

Botagoz Muldagaliyeva:

Good time of the day, and welcome to Kazatomprom's Conference Call to discuss 2024 Half-Year Operating and Financial Results. My name is Botagoz. I am leading the Investor Relations team here at Kazatomprom, thank you for taking the time to join us today.

Our CEO, Mr. Yussupov, unfortunately, cannot join today's call as he is currently in Dushanbe, accompanying the Head of the State in his official visit to the Republic of Tajikistan.

Our conversation will begin with a presentation by Mr. Kosherbayev, CS&IDO followed by an opportunity for investors to ask questions.

At this time and through the management presentation, all participants will be in a listen-only mode. This call is open to all stakeholders, with the question-and-answer portion intended to be an opportunity for members of the investment community to engage with the management team and ask their questions through the phone lines in English. English line participants will also have an option to submit questions through the webcast page using the Ask a question button.

The simultaneous translation of English Q&A will be available for Russian-speaking line. For those joined through the Company or the London Stock Exchange's websites there will be slides, presentation, displayed during the remarks. These webcast slides will be available for download in English and in Russian shortly after the call.

Note that our press release, full version of the 2024 Half Year Operating and Financial Review, along with the 2024 financial statements for the six months ended 30 June 2024, are now available on Kazatomprom's website.

Participating in today's call, we have Dastan Kosherbayev, Chief Strategy and International Development Officer; and Vladislav Baiguzhin, Chief Commercial Officer. Financial questions will be covered by our managing directors during this call as Sultan will not be participating due to his departure.

Please note, that this conference call may include forward-looking statements. These statements include all matters that are not historical facts. By their nature, forward-looking statements involve risk and uncertainties, and they are not guarantees of future performance. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved.

I am now passing the floor to Mr. Kosherbayev.

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Dastan Kosherbayev:

Thank you, Botagoz. I am delighted to welcome and thank everyone for joining our conference call today.

First of all, I'd like to extend apologies on behalf of our CEO, Mr. Yussupov, for not being present at today's call, but as you can imagine his participation at the state delegation lead by the President was absolutely required.

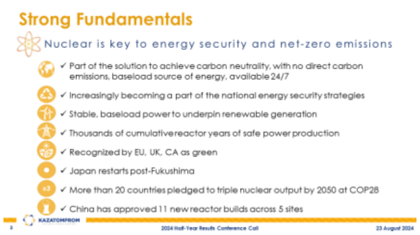
Today, we have announced our CFO Sultan's decision to depart. On behalf of the Management Board and the Company, I would like to thank Sultan for his hard work and constant dedication to the Company's growth and development and wish him the best of luck in all his future endeavors

Fortunately, we were able to hunt a perfect candidate for this role, Mr. Marat Tulebayev, who is currently undergoing through the corporate approval processes.

Marat expects to bring extensive experience to his new role, including 10 years in various positions at Kazatomprom. He served as the Director of the Corporate governance department from 2014 to 2017, prior to becoming the Director of Economics and Budgeting Department in the 2017 - 2019, preparing the Company to the IPO and playing a crucial role in the process. Like no other, he knows Kazatomprom inside and out and his expertise, knowledge and skills shall serve to the best interests of our shareholders.

Today's call is focused on discussing Kazatomprom's 2024 half-year operating and financial results.

Stakeholders' attention was kept on our 2025 production plans, which we've released earlier today, as previously iterated. Kazatomprom once again demonstrates its reliability and responsible approach in everything we do, from transparency and communications to operational sustainability and customer deliveries.



Prior to moving to the Company-level discussion, we would like to reiterate the growing importance of nuclear energy, which has now become an integral part of the global green energy policy. This shift significantly bolsters the uranium market fundamentals, which are now stronger than ever.

News from different jurisdictions about their plans to incorporate nuclear energy into their energy mix as a baseload option, to expand existing capacities by constructing new nuclear power plants, or extending the lifespan of operating ones continue to support the global nuclear agenda. This trend is often described by industry professionals as the "second renaissance" of nuclear energy.

As the world's largest producer and seller of natural uranium, we at Kazatomprom fully recognize the vital role we play in supporting the global transition away from fossil fuels. We remain committed to delivering long-term value to all our stakeholders.

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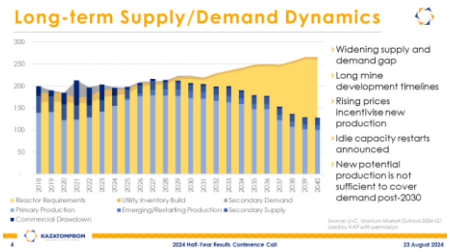
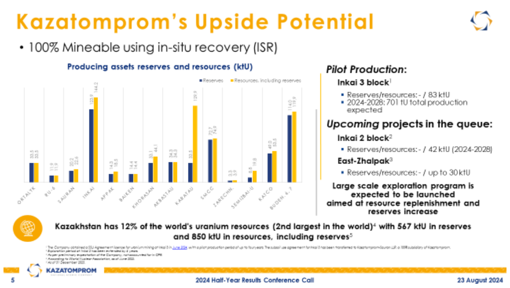


As shown on this slide, third-party forecasts remain to reveal a growing supply gap that current production volumes will not be able to meet in the foreseeable future. By 2030, a supply deficit of 17 million pounds of U3O8 is projected, with this shortfall expected to escalate dramatically to 138 million pounds by 2040.

In light of this, Kazatomprom's recent news about receiving a production license for pilot production at Inkai 3 and an exploration license for the Vostochny block at the Zhalpak mine, as well as the extension of the exploration period at the Inkai 2 deposit, are strategic moves aimed at addressing potential supply and demand imbalances.

We are also actively building an exploration portfolio for rare metals at our Ulba plant.

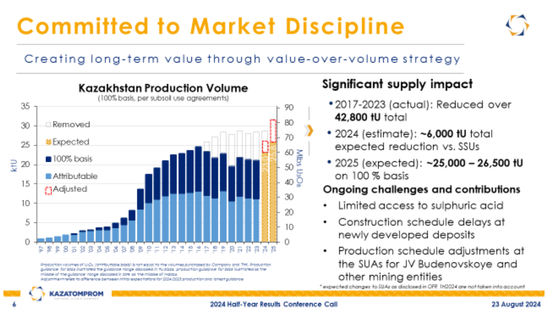


As previously announced, Kazatomprom is currently undertaking a large-scale exploration in Kazakhstan, which is a top priority for replenishing its resource base and maintaining its leading position as a global nuclear fuel supplier.

It is worth noting that this strategic initiative received full-support at the highest governmental level.

Our unique geology enables us to augment substantial volumes of our resource balance at a far lower investment scale in comparison. Such an advantage reaffirms our trust in investment to exploration of new territories, depreciating any efforts to acquire additional non-attributable reserves at our existing mines.

Speaking about the production from other parts of the world, we are eager to hear more positive developments from new and previously idled mines. We firmly believe that the current market conditions offer opportunities for every participant in the fuel cycle to thrive.



As we have reiterated on numerous occasions, a significant factor driving the market's structural shift is the production and sales discipline sustained by key uranium producers. Specifically, our adherence to market discipline aligns with our strategy of generating long-term value for our shareholders, commitment to which we once again are eager to confirm.

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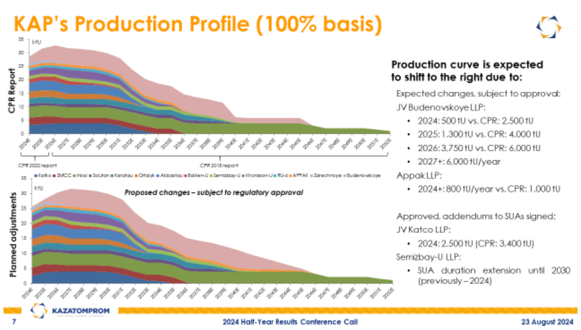
The market has remained quite steady over the past six months, though after a surge in the uranium spot price to $106 per pound in January, a pullback to the mid-$80s followed in March.

Yet this period has served as a transition phase for fuel buyers, who have come to recognize the inevitability of an approaching deficit. Recently, we have observed a shift in the market dynamics with buyers increasingly making compromises to secure deals.

Amid our continued success in long-term contracting activity, Kazatomprom had initially intended to ramp up its 2025 production to a 100% of Subsoil Use Agreement levels.

However, the uncertainty around the sulphuric acid supplies for 2025 needs and delays in the construction works at the newly developed deposits resulted in a need to re-evaluate our 2025 plans.

The Company is now adjusting its initial intentions for 2025 production volumes of 30,5 – 31,5 thousand tonnes on a 100% basis. Kazatomprom's 2025 production is now expected to be between 25 and 26,5 thousand tonnes, an approximately 12% growth compared to its 2024 guidance.



A significant portion of the adjusted 2025 production is attributed to JV Budenovskoye's production delays. The JV is expected to result in a nearly 80% miss from its 2024 production target under Subsoil Use Agreement, and more than 65% miss in 2025.

Since Budenovskoye's 2025 production is expected at 1,300 tU instead of the previously approved 4,000 tU, changes to its Subsoil Use Agreement are to be introduced to prevent breach of subsoil use obligations.

JV Budenovskoye is not the only mining entity that will be applying for changes to its Subsoil Use Agreement. Appak has also initiated subsoil agreement revisions, while Baiken, Katco and Semizbai have already validated their production mismatches.

I would like to once again highlight that in ISR mining both the requirements for sulphuric acid and the consequences from its shortages have a different scale and impact due to different geological features of the deposits.

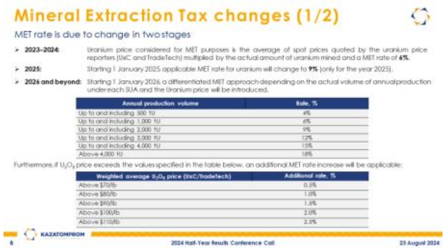
All our uranium-mining entities are supplied with acid volumes equally proportioned to their requirements to minimize the risk of harm to the uranium mining process and geological structure of the deposit. However, depending on the geological and technological conditions of the deposits, the recovery process requires different efforts, i.e. the same amount of undersupply of sulphuric acid to different blocks can have varying effects on production rates.

As a result, it is expected that in 2025 mining entities will have different percentage rate decreases compared to the levels stipulated in the corresponding Subsoil Use Agreements within the acceptable 20% deviation.

For example, if the changes of Budenovskoye's production targets are approved and corresponding Amendments to Subsoil Use Agreement are signed, this JV will potentially result in producing at 100% of its updated Subsoil Use Agreement level (instead of a current more than 65% miss estimate).

Despite 2025 production plan adjustments, Kazatomprom remains fully committed to fulfilling its existing 2025 sales commitments. We have a comfortable level of inventories to meet these commitments.

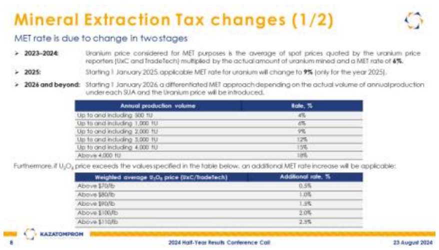
Our sales strategy involves reserving a portion of our annual production as uncommitted. This strategic reserve allows us to seize emerging opportunities and adapt to fluctuations in the market landscape. By maintaining this approach, we effectively mitigate risks and uphold our contractual obligations to our clients, even in the face of production-related challenges.



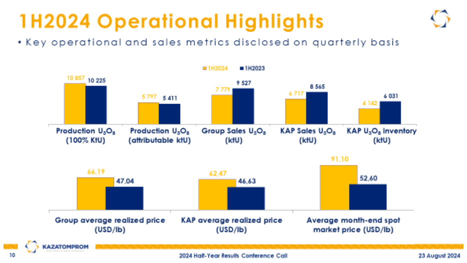
Regarding legislative developments that directly affect the Company's operations, we would like to address the upcoming changes to the Mineral Extraction Tax (MET).

As previously disclosed, starting from 2025, the MET rate for uranium is expected to increase to 9%. And beginning January 1st, 2026, a differentiated production and spot price based approach for determining applicable MET rate will be introduced.

Uranium miners, including ourselves, have been historically enjoying a much more favourable tax framework compared to other extracting industries in Kazakhstan and in other jurisdictions. Such changes are therefore seeming inevitable.



The Company constantly reviews its disclosure framework to respond to evolving market and investor needs. Thus, to aid analysts and investors in estimating potential MET burden, we have prepared a sensitivity analysis of the MET rate to different uranium production and price scenarios.



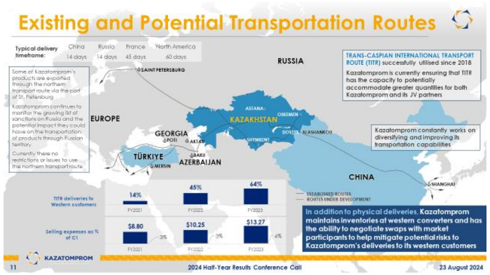
Turning to our half-year results, despite the challenges, the Company has demonstrated strong performance, which reinforces our confidence in achieving our 2024 targets.

Production, both on a 100% basis and on an attributable basis, showed a slight increase in the second quarter and first half of 2024 compared to the same periods in 2023. This positive trend is largely due to a modest increase in both the full-year and Q2 2024 production plans, driven by higher Subsoil Use Agreement requirements for 2024 compared to the previous year.

In the second quarter of 2024, both Group and Kazatomprom sales volumes were higher compared to the same period in 2023, primarily due to the timing of customer-scheduled deliveries. However, when we look at the first six months of 2024, we see a lower sales volume compared to the same period in 2023.

This is in line with our lower 2024 sales guidance and a reduced sales volume in the first quarter. It is important to note that sales volumes can vary substantially each quarter, and such variability is influenced by the timing of customer delivery requests and physical delivery activities throughout the year.

Average realized prices for the second quarter and first half of 2024 were higher compared to the same periods in 2023, reflecting a stronger uranium spot price. While our current overall contract portfolio pricing correlates to the uranium spot prices, deliveries under some long-term contracts in 2024 incorporated a proportion of fixed pricing components, including price ceilings that were negotiated during a comparatively lower price environment.

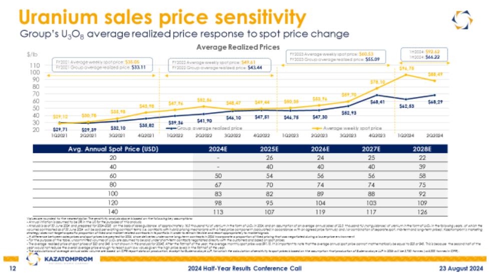


Speaking about physical deliveries, we are pleased to report that both transportation routes are fully functional.

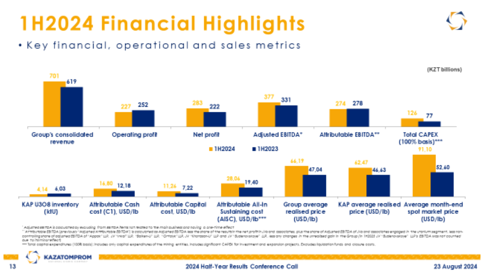
Kazatomprom continues to monitor the list of sanctions on Russia and their potential impact on transportation through Russian territory. To date, there are no restrictions affecting the Company's activities related to the supply of its products to customers worldwide.

Moreover, Kazatomprom is enhancing the quality of its physical deliveries via the Trans-Caspian route by building strong relationships with the governments of transit countries and providing educational insights on handling Class 7 materials to transit permitting authorities.

In addition to physical deliveries, the Company has alternative options such as location swaps and loans. This ensures that Kazatomprom is fully hedged, guaranteeing the availability of material in the required volumes and at preferred locations to meet customer needs.



Allow me to draw your attention to our updated sensitivity analysis. Our estimated Group's average realized price is on the level of the previous sensitivity table, with slight deviations. Our average realized price continues to chase the spot price, and our sales portfolio demonstrates the strongest correlation with spot prices in the market.



This positive trend is reflected in our financial results for the first half of 2024, which have been exceptionally strong.

While the average month-end uranium price was lagging slightly in the second quarter compared to the first quarter of 2024, our revenue in the first half of 2024 amounted to 700 billion tenge, in line with our 2024 annual guidance.

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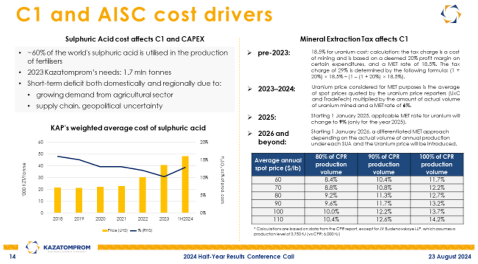
Operating profit was down slightly, while net profit was 27% higher year-on-year, amounting to about 283 billion tenge.

These impressive results reflect the considerable improvement in the uranium market over the past year as well as the Company's strong position as the lowest cost producer and largest seller globally.

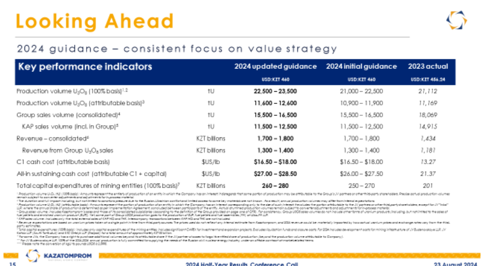
Kazatomprom is also present in other stages of the nuclear fuel cycle, including uranium dioxide (UO2) ceramic powder production, fuel pellets and fuel assemblies.



C1 Cash cost and All-in-sustaining cash costs (AISC) for the reporting period increased by 38% and 45%, respectively.

The increase in C1 Cash cost was driven by an increase in MET tax expenses and the cost of sulphuric acid increase. All-in-sustaining cash costs (AISC) increase is resulting from an overall increase in capital cost on an attributable basis. As you can see from the MET sensitivity table, from 2026 and onward, overall MET burden is expected to increase continuing to substantial affect our cash cost metrics.

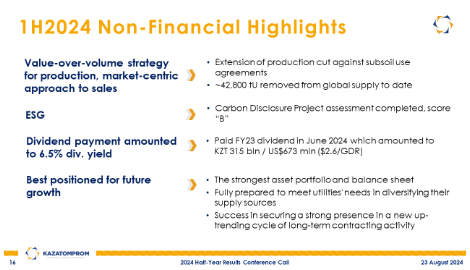
Capital expenditures of the mining entities increased by 64%, primarily due to an expansion of wellfield development activities, increase in costs of constructing wells and infrastructure for new facilities commissioned, as well as a rise in purchase prices for materials, supplies, equipment and cost of drilling.



Consequently, we are now adjusting our 2024 CAPEX estimates upwards.

Earlier this month, the Company has also increased its 2024 full year production guidance on both a 100% and attributable basis as the half year operational results showed that the production rates with which the mining entities are now progressing will result in a higher than initially expected volumes.

The Company's sales guidance remains unchanged. Uranium expected to be produced as a result of production guidance increase will be used for replenishing the Company's inventories.



Beyond our operational and financial results, we would like to highlight some major corporate developments.

The Company continues to prioritize ESG principles in its operations. Notably, we achieved a B score in the 2023 CDP

Climate change assessment, which is above the average for both the region and the industry.

Kazatomprom remains dedicated to maintaining a strong ESG record and will continue to focus on further improvements.

In June, we completed the payment of dividends for the year 2023, totaling KZT 315 billion, or $2.6 per share. This represents more than 50% increase compared to the previous year, and our dividend yield for 2023 remains to be the highest in the industry.

Concluding my presentation, I want to reaffirm the Company's ongoing dedication to a market-focused strategy, which represents a key milestone in our development.

Kazatomprom, with its top-tier assets, sustainable reserve base, diverse sales portfolio, and robust contract agreements, is optimally positioned to seize future market growth opportunities.

We value our role in the energy security landscape. Given the ongoing geopolitical uncertainties, market bifurcation discussions, and our adherence to ESG standards within a low-risk jurisdiction, Kazatomprom is well-equipped to maintain its leadership as a dependable supplier of natural uranium.

We are prepared to meet utilities' needs in diversifying their supply sources, and we are proud to be succeeding in securing a strong presence in a new up-trending cycle of long-term contracting activity.
Thank you for your attention. I will now ask Operator to open the line to allow questions from this call's participants.

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QUESTIONS AND ANSWERS SESSION

Alexander Pearce:

Great. Thank you, and good evening, all. My first question is just around Budenovskoye. And obviously, you've lowered the subsoil agreement level there.

Maybe you can just give us a bit more detail on the current situation in terms of construction of infrastructure and where you're at the minute. When do you think the processing plant is going to be fully built? And also, are you still shipping uranium through this period to some of the other assets for processing?

Dastan Kosherbayev:

Yes. Hi, this is Dastan. Thank you for your question. Well, currently one of the issues we're experiencing with Budenovskoye is the bureaucratic process with obtaining all the necessary licenses, especially with the design documentation and all these things.

There are a lot of iterations going on between the relevant authorities and the government itself and the mining entity. That's why it's taking a lot of time. And with regards to its shipping -- its product to the nearby entities, yeah, you're absolutely correct. They're utilizing Karatau's infrastructure for the moment being.

Alexander Pearce:

Okay, thanks. And then just maybe a follow-up on that. I think you suggested this in the presentation. But can you just confirm that you're still expecting to deliver the full CPR production volumes from Budenovskoye, even though your actual production rate is going to be lower? Is that correct?

Dastan Kosherbayev:

No, no, we're going to implement amendments to the subsoil use agreement. So we're going to adjust it accordingly to the schedule.

Alexander Pearce:

So your offtake partner will get whatever is in the new subsoil? You won't have to deliver those additional volumes from inventory or from other assets to the JV partner?

Dastan Kosherbayev:

Yeah, for the upcoming years, yeah, you're absolutely correct. They'll get whatever the mining entity will be able to produce.

Alexander Pearce:

Great. Okay. Thank you.

Jason Fairclough:

Good evening. Thanks for taking my question, Dastan. In terms of the new guide, so plus 12% roughly year on year, could you just give us a feel, is this 80% of the current subsoil use agreement? Or how are you thinking about this number?

And then I guess, the follow-up to that is, over the last couple of years, production has consistently missed versus the targets at the beginning of the year. The acid problem isn't solved. So I guess my question is, what is your level of confidence of actually hitting this new guidance?

Dastan Kosherbayev:

That is an excellent question. But I'd like to, first of all, state that due to the aforementioned situation with the Budenovskoye and the difference between the geological deposits, it's not as it used to be previously when we had like the 80%, I mean, the production volume of 80% relative to the nominal Subsoil Use Agreement level.

And it differs, for example, Budenovskoye is going to fall behind like we've said to the current levels, 80% miss in this year [500 tU vs 2,500 tU], and a 67% miss in the next year [1,300 tU vs 4,000 tU]. Whereas several other entities would be able to reach 100% basis because their geology is more favorable. And for example, the ground-level infrastructure and these things are better equipped to be able to deliver.

Also, with regards to the sulphuric acid issue, it is a dynamic process that is occurring basically daily. We're trying to secure all the required volumes. But so far, we're pretty confident that we'll be able to achieve all the desired results. Nevertheless, if we stumble upon any problems, we'll do like we did last time, when we signalled the market, basically, in advance saying the -- updating the market of the current situation, like we did in January.

Jason Fairclough:

Look, could I just ask a follow-up question on the acid? How does management think about the trade-off between using acid to produce today versus using acid to invest in future production? Because it feels like maybe you're trading off production today against future production growth. Is that the right way to think about it?

Dastan Kosherbayev:

But with the acid, you see, it's the process like a thumb and go basically. Once the acid arrives, we use it to acidify. We cannot store it like in large quantities or bulk it up.

Jason Fairclough:

Okay. I guess, my question though, Dastan, was that, sorry, just to be clear - do you have sometimes a choice, which is we can either allocate this acid to growth projects, or we can allocate this acid to existing producing? Like, is that an active discussion, where the acid is going, which assets get the acid?

Dastan Kosherbayev:

It is a valid question. It is a valid point basically. Yes, it depends on the geology and depends on the life cycle of each particular block. Because I don't know whether you've been to one of our IR calls. We always demonstrate, we have a separate slide that demonstrates the life cycle of each particular block.

So depending on the stage at which the mining is happening at the moment, basically, it defines the amount of acid consumed. And this is different from each deposit to each deposit, and each mine has different conditions that need to be taken into account once this goes.

Jason Fairclough:

Okay, thank you. I'll go back in the queue.

Andrew Wong:

Hi. Thank you for my questions. Did you provide some details on your outlook for sulphuric acid availability over the next several years? And can you kind of just talk about where your sulphuric acid that you're getting extra for 2025 is coming from?

Dastan Kosherbayev:

Basically, yeah, we're currently, as I've said, this is a dynamic process, everyday process. We're negotiating with all the local suppliers, trying to secure all available volumes.

And with regards to our plant, we expected to go online in 2027. It's been like, it initially was planned to go online in 2026, but now we expect in the beginning of 2027. And by then, I think we'll be able to sort all our outstanding issues with this critical material or reagent.

Andrew Wong:

And has construction on that started yet?

Dastan Kosherbayev:

It's at the early stages, and the documentation is still being approved by the relevant authorities as well, the design documentation for the construction.

Andrew Wong:

Okay, thank you. And then just on your inventories, they've come down for the past couple of years. And I think in the past, you've mentioned about six months as a normal target. But it looks like we're below that now - six months of sales, I mean.

So are you concerned that the current level maybe doesn't give enough of a cushion. What are your plans around inventories potentially coming back? Thank you.

Dastan Kosherbayev:

Yeah, it is a valid observation. Thank you. But with regards to that, I'd say you need to look at us at the end of the year. Because given the schedule of deliveries and the way we deliver our product and the customer demands and whether they want the product now and then, it's best like - the data is best represented at the end of the year. Because the half-year results are not really representative in terms of their accuracy.

I mean, it may look that they've dropped right now. Towards the end of the year, we'll replenish our inventories basically.

Andrew Wong:

Ok, thank you.

Ephrem Ravi:

Thank you. So my two questions, firstly, are there any costs or penalties that you incur when you renegotiate amendments to subsoil agreements? I just want to know how automatic the process is because you are negotiating with the government as a predominantly kind of government-owned entity.

And secondly, on the sensitivity table on uranium prices that you helpfully give, does 2027 and 2028 imply kind of Budenovskoye at 6,000 tonnes? Or are you taking some haircut to that in that implied sensitivity table? Thank you.

Dastan Kosherbayev:

With regards to the first one, no, we have not incurred any penalties, to the best of my knowledge. And if there were some penalties, they're very minor and not substantial to mention.

With regards to Budenovskoye, the sensitivity table, basically, reflects the adjusted data with the Budenovskoye volumes decreased.

Ephrem Ravi:

Okay, thanks.

Grace Symes:

Hi. Thanks for taking my question. I think my first question is, will the mineral extraction tax change have any impact on production plans, given that it is a link to the amount produced under the subsoil use agreement?

Dastan Kosherbayev:

Hi, Grace, glad to hear you. Basically, no adjustments to the production plans with regards to MET - I mean, it doesn't have any impact. We remain committed to our strategy, value over volume.

Grace Symes:

Okay, thank you. And then one more, I saw there's a recommendation from the Kazakh antitrust authority to privatize Kazatomprom sulphuric acid plants. I was wondering if you have any comment on that at all.

Dastan Kosherbayev:

The comment was - this is only a recommendation. It's not an actual instruction. So I mean, you can just view it the way it is. It's not an order or not a decree by the government. Thank you.

Grace Symes:

Okay. Thanks.

Anna Antonova:

Good afternoon. Thanks for taking my question. Many questions have been answered already, but I have maybe a remaining one for about 2026 production plans. How should we think about them?

I remember, in the press release, you said that you will update the market with half-year results next August. But maybe at this stage, could you provide some additional color on that? For example, what factors will you take into account when looking at 2026 mine plans?

And for example, will you need to renegotiate subsoil use agreements and adjust volumes upward again for selected mines even when you see the situation improving? And if you would need to do that when thinking about 2026 production, how long would that normally take?

Dastan Kosherbayev:

Well, it's pretty apparent with the Budenovskoye, as already mentioned, we know what it's going to be for 2026. With the remaining entities, basically, the sulphuric acid issue still remains a big uncertainty.

And when I say, like, we're pretty confident that we'll be able - all various factors need to be taken into account because history taught us that this is a rather dynamic process with a lot of implications that may come into play unforeseeable.

So with regards to that, we decided to be a bit more careful and perhaps, give a shorter vision going on forward. Because, well, too many factors are to be taken into account and geopolitical risks as well, these sort of things.

Anna Antonova:

Understood, thanks. And you commented that even when the new subsoil use agreements are approved for the mining entities, those will be reflected in the updated CPR. Any timelines on when can we potentially see the updated CPR release? Is that, potentially, could be in the end of this year or next year or kind of what could be the potential timeline for the market to get additional information?

Dastan Kosherbayev:

We expect this to be completed by February of the next year.

Anna Antonova:

Understood. Thank you so much.

Jason Fairclough:

Thanks for the follow-up question. Just wanted to come back on the acid plant. Is there any change in the urgency here in terms of getting this thing approved, getting it designed, getting it built?

My understanding is that this is something you should be able to buy off the shelf. So I don't quite understand what's taking so long.

Dastan Kosherbayev:

Well, in terms of right now, in general, the legal framework in Kazakhstan has been a bit like liberalized in a lot of sense. Many factors have been taken into account. And in terms of health and safety and the environmental issues, there were a lot of regulations that were updated.

And right now, the government itself in the process of integrating this. Maybe you've seen like, I don't know, like, those who are familiar, they've seen that we have a separate ministry for water resources, we have a separate ministry for ecology, we have a separate ministry for health and safety and labor and - align their framework, adjust and take a unified stance. So that's why it's taking a lot of time. It's basically a lot of man-hours.

Jason Fairclough:

Okay, thank you.

Operator:

That concludes the question-and-answer session from the audio line. I will now pass the call back to Botagoz to take questions from the webcast participants. Please go ahead.

Botagoz Muldagaliyeva:

Thank you, operator. The first question from the webcast page is coming from Boria Gonzalez, the retail investor.

The question: good afternoon. First of all, congratulations for these results. Once again, it has shown the great margins with which Kazatomprom operates. During this year, there have been several tenders from some JVs, as well as from KAP Logistics, regarding the supply of sulphuric acid.

I assume that the assets required by each JV is all directed to the operations of that JV. My question is, when it is KAP Logistics that requires sulphuric acid, how is this acid supply distributed among the different JVs? Thank you.

Dastan Kosherbayev:

Yeah, I'll take that question. Thank you, Boria. Basically, KAP Logistics does not consume acid on its own. It proportionally distributes acid among the JVs and mining entities based on their needs. It always takes into account their needs. It's a process that -- a negotiation between the JV and the KAP Logistics. So it's a dynamic process as well.

Botagoz Muldagaliyeva:

The next question is coming from Roland Vetter, the Praxis Alpha Partners. Your accounts show that your inventories have declined. Do you intend to increase inventories again to the level you indicated previously, six months of production? And this question will be answered by Vladislav, our CCO.

Vladislav Baiguzhin:

Yes, thanks for the question. The inventory levels throughout the year may be based on delivery schedules requested by our clients and therefore, may not reflect the overall situation.

In 2024 production forecast, while sales projections remain unchanged, we anticipate maintaining a sufficient inventory level at the end of the year in order to fulfill our future obligation under the sales contracts.

Botagoz Muldagaliyeva:

Thank you, Vladislav. The next question is coming from Ben Finegold, Ocean Wall. The question is, what is the estimated asset requirements to ramp up to 100% subsoil use levels? And what is the estimate for asset usage in 2024 to achieve your guidance?

The question will be answered by Ulan Khassanov, the Managing Director of Economics and Planning.

Ulan Khassanov:

Actually, related with the question, we would say that we don't disclose the volume of sulphuric acid that we are -- being consumed. That is why we would like to say that all the contracts related with the 2024 supply of sulphuric acid has been already conducted.

And now do -- we did have some challenges related with the sulphuric acid supply in the beginning of the year.

Dastan Kosherbayev:

Well, with regards to transportation route through China, as I've said, this is a sensitive topic. The negotiations are slowly progressing, let's put it this way. And should we come to an agreement, an appropriate announcement will be made in due course. But so far, there are no updates.

With regards to our need to go onto the market, onto the spot market, as I've said, we've heard these rumors and insinuations through the past couple of years. But so far, we never had no need, no urgency to go into the spot market and to buy any pounds externally.

Botagoz Muldagaliyeva:

Thank you, Dastan. The next question is coming from Cody Hayden, retail investor. The question is, can you please provide further detail on your strategy to secure sufficient levels of sulphuric acid to support production levels in 2025 and thereafter? The question is directed to Ulan Khassanov.

Ulan Khassanov:

Thank you for the question. As Dastan has already mentioned, we -- actually, we have our own in-house production, about 700,000 tonnes. And also, we do have copper miners who also produce sulphuric acid as a byproduct. So we are now having the negotiation with them related with the supply of the sulphuric acid.

Also, Kazakhstan has some imports from Russia. So we do have sufficient sulphuric acid for this year. And now negotiations are going on to 2025. But related to the further plans and strategy of securing the sulphuric acid, now we have started the construction of the sulphuric acid plant, which is about 800,000 tonnes. So we will be enough to secure most of the consumption needs of 2027 and furthermore, sulphuric acid needs.

Now I would like just also add to the comments of Dastan that, nowadays, contracting related with drilling wells are being now prepared. And the design works to the sulphuric acid plan is now -- has been started and is going on. We are trying our best to maximize the construction and go through the construction as soon as it is possible.

Botagoz Muldagaliyeva:

Thank you, Ulan. The next question is coming from Danyar Serikov, inbusiness.kz. It relates to the recommendation from the anti-monopoly body here in Kazakhstan, with regards to the recommendation on sale or decrease of the company's share in existing sulphuric acid plants.

Since the similar question has been already asked, I'll just probably take the question myself and say, this is just a recommendation. So the report issued by the anti-monopoly agency just has a recommendation there.

So it's not -- we are not required to follow these recommendations. We, as a company, are not really planning to decrease our shares in the sulphuric acid plants that we have within our acid perimeter.

The next question is coming from Craig Hutchison from TD Cowen. The question, is what are your sales commitment volumes for 2025?

Vladislav Baiguzhin:

Yeah. Thanks for the question. But unfortunately, we cannot disclose the information right now. At the end of the year result, we expect to provide the guidance for the sales in 2025.

Botagoz Muldagaliyeva:

Thank you, Vladislav. The next question is coming from Julius Böttcher from Fiera Capital. The question, can you clarify, is the inventory loan from ANU Energy is reflected in the inventory number? Is the material from ANU available for future loans?

Ulan Khassanov:

Actually, the loan between ANU Energy and the Kazatomprom has already closed. It was disclosed in the financial statement of the first quarter. So we don't have any loans between ANU Energy and Kazatomprom.

Botagoz Muldagaliyeva:

Thank you, Ulan. The next question is also coming from Daniyar Serikov with regards to Dioxitek's payment expectation of KZT 15 billion. So what's the current status? The question will be also answered by Ulan.

Ulan Khassanov:

Actually, the good job was done by us, and so that's why Dioxitek -- was by 95% paid by them. So that's why we can say that the question has been almost closed.

Botagoz Muldagaliyeva:

Thank you, Ulan. The next question is coming from John Farah from Praxis. So the question, Mr. Kosherbayev and management back at the full-year results suggested they believed uranium prices were structurally on the way up. Do you still believe this is the case?

Dastan Kosherbayev:

Yeah, thank you for this question. This is Dastan. Yeah, we believe that this is still the case. But I'd like to note that over relatively long period of time, we always iterated that even though the structural deficit is approaching, which is supporting the prices going up, there is still a bit of -- the market itself is a bit inflated. And the spot price and the term price need to come into -- need to align and adjust.

So what we're witnessing right now is the process, basically, corresponding with this notion. But nevertheless, going on forward, we believe that, structurally, the prices will keep on going up.

Botagoz Muldagaliyeva:

Thank you, Dastan. The next question is coming from John Ciampaglia from Sprott. The question is, based on UxC, utilities so far, this year, have signed long-term contracts at half of annual replacement rate. How do you think your production guidance will change their mindset and procurement strategy? Thank you.

Vladislav Baiguzhin:

Yes, thanks for the question. We are already seeing the change in procurement behavior of utilities, where they become much more flexible in contracting terms and more and more accept condition provided by suppliers.

Botagoz Muldagaliyeva:

Thank you, Vladislav. The next question is coming from Jason Fairclough at Bank of America. The question is, to what extent was the company surprised by the MET change? It was a complete surprise to the market.

Ulan Khassanov:

Yeah. Thank you for your question. We understand that it was very surprising. It was very surprising also to us.

But in the extent, we would say that in Kazakhstan, there are several taxations for the subsoil use contractors. So for example, if you see in the oil sector, there are several taxes like royalty tax, exporting custom tax, also MET. Also there is a CIT, and also excess profit tax. All of them -- summation of them is about 50% or 60% of their expenses. There are several taxes.

Also, we did have heard that the government wanted -- had an intention to implement excess profit tax for uranium sector and the other mining sectors. But it goes through the mineral extraction tax. We did have some calculations, and we can now see that if it was implemented, excess profit tax to uranium sector, so it would cost us much more, more than it is having now through the mineral extraction tax.

We are also, surprised by it. But we can say that now we are being more favorable, more fair taxation in Kazakhstan. Because there are several sectors which are being taxed a lot, and there are several sectors that are being taxed smaller. So now uranium sector is more fairly taxed, we can say.

Botagoz Muldagaliyeva:

Thank you, Ulan. The next question is coming from Danyar Serikov, inbusiness.kz. Does Kazatomprom expect to sell uranium to uranium funds this year? If yes, what would be the volumes?

Vladislav Baiguzhin:

Yeah, we have fulfilled our obligation under Yellow Cake PLC's option in year 2023, as they have disclosed in their press release. And on further sales with uranium funds, we cannot say more now. But as we have stated many times, we mostly focus on sales to end users and utilities.

Botagoz Muldagaliyeva:

Thank you, Vladislav. These are all the questions that came through the webcast line. I would like the operator to once again check if there is any questions from the live line. If not, we will pass the floor to the management for closing remarks.

Operator:

We have no questions at this time.

Botagoz Muldagaliyeva:

Thank you. Since there are no questions, I would like to pass the floor to Dastan again for closing remarks.

Dastan Kosherbayev:

Yes, I'd like to thank, on behalf of the team and our CEO, who's unfortunately absent today -- but as previously mentioned, he left with the government delegation on the state visit to Tajikistan. And on behalf of entire Kazatomprom team, the company itself, I thank you for your interest.

Thank you for participation and would like to reiterate that despite all the rumors and insinuations going on in the market, facts always speak louder than words. And the company is doing pretty well. We believe that we have all the strong fundamentals and all the factors that will support our goals going on to the future.

So thank you very much. Have a nice day.