Kazatomprom 2022 First Half-Year Results Conference Call Transcript

Operator:

Good day ladies and gentlemen, and welcome to Kazatomprom's 2022 first half results Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session through the phone lines and instructions will follow at that time. Participants can also submit questions through the webcast page using the Ask a question button. I will now hand over to the International Advisor of Investor Relations, Cory Kos to open the presentation. Please go ahead.

Cory Kos:

Thank you. Good afternoon and welcome to Kazatomprom's conference call to discuss the Company's 2022 First-half Operating and Financial Results. Thank you for taking the time to join us today.

Our call will begin with a presentation by chief operations officer and acting CEO, Mr. Yerzhan Mukanov, followed by an opportunity for questions.

If you joined through the Kazatomprom website or through our company page on the London Stock Exchange website, note that there will be slides displayed during the remarks. These webcast slides are also available for download in English and in Russian as PDFs called "2022 first-half Conference Call Slides".

Note that our press release, full version of the 2022 First Half Operating and Financial Review, along with our reviewed 2022 financial statements for the first six months, are now available on Kazatomprom's website.

Participating in today's call we have Yerzhan Mukanov, Chief Operations Officer and acting CEO, Kamila Syzdykova, Chief Financial Officer, and Askar Batyrbayev, Chief Commercial Officer.

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. Please note that the Q&A session will be conducted in English. The simultaneous translated Russian conference line is in listen-only mode, and will include a translation of the Q&A.

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 uncertainty, 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 will now turn it over to Mr. Mukanov.

Yerzhan Mukanov:

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

Before we get started, I first wanted to congratulate the citizens of Kazakhstan and our entire team of thousands of employees on the 25th anniversary of Kazatomprom, a milestone we celebrated just last month.

The success of any Company is in the hands of its people, and from our modest beginnings to becoming the world's largest producer and supplier of uranium that will fuel a global transition to carbon-free energy generation, marking 25 years of growth and strategic evolution is a significant achievement for everyone.

Along with a discussion of Kazatomprom's 2022 first-half results, which were released earlier today, this call provides an opportunity to update stakeholders with our view of recent market developments, including the notable risks and uncertainty that the industry has been managing over the past several months.

Escalation of the Russian-Ukrainian conflict that began in February has obviously overshadowed all other news for the past six months. Our hearts remain with the innocent victims living through this dispute and we continue to hope for a peaceful resolution.

The impacts of the conflict have touched every industry and every corner of the globe. The trade restrictions, sanctions and geopolitical risks have introduced uncertainty and global inflationary pressures, which seem to be pushing many economies into recessionary conditions that could take years to recover from.

Although the trade actions and sanctions against Russia that have been put in place by various countries over the past six months have not been directed at the uranium and nuclear industries, Kazatomprom remains prepared for changes to the risk profile.

As noted in March during our annual results call, the four key areas we are carefully monitoring include:

- Kazatomprom's partnerships and joint projects with Rosatom and its subsidiaries;
- Financial risks and exchange rate fluctuations;
- Supply chain challenges and the availability of key operating materials; and
- Risks to our primary transportation route through Russian territory.

At this point, there has been no real change in the risk profile associated with our long-standing projects with Uranium One and the Rosatom group, which jointly owns five uranium mining assets with Kazatomprom in

Kazakhstan. Rosatom and the Russian nuclear fuel cycle have not been sanctioned, so the risk of secondary sanctions impacting Kazatomprom remains well managed.

The financial risks, particularly related to fluctuations in exchange rates, have persisted since February. The Kazakhstani Tenge, which is our operating currency, weakened by about 15% during the first quarter. Although the rate recovered in late May, it has since fallen back again and is down 10% compared to the start of 2022. As anticipated, we expect to see increased inflationary pressure that may offset much of the benefit from higher tenge-based revenue.

With respect to the disruption of supply chains and our access to the materials we need to develop wellfields and produce uranium, the situation continues to evolve. It remains very challenging for our operations, who have done an exceptional job of ensuring access to those materials and sourcing new suppliers, but the risks to both mine development and uranium production remains significant.

And finally, the area that saw the most attention throughout the second quarter of 2022 was transportation of our uranium products through the Russian port of St. Petersburg, for trans-shipment to western customers. We flagged this risk in March, but the route has not been significantly interrupted and we have insured and shipped on that primary route several times year-to-date.

As we have reiterated in nearly every discussion with all stakeholder groups, should our access to that primary route become limited for any reason, we have a number of mitigation plans that are ready to deploy. They include:

- The Trans-Caspian International Transport Route, an alternative route we first used in 2018 that does not enter Russian territory,
- the ability to negotiate swaps with partners and customers for material already at Western converters,
- and an existing inventory of uranium at various western conversion facilities that can be book-transferred to customers, should the need arise.

To date, our risk management processes and mitigation plans to address the existing and emerging risks have remained robust, and the Company continues to monitor the overall situation.

It is important to reinforce our message that we will continue to take all necessary measures to minimize potential risks and prevent any potential negative impacts on our business and customers.

Turning to the primary topic of today's call, I'll touch on a few key market developments and briefly review our results for the first half of 2022.

A key factor that has contributed to the improved uranium market conditions and a more bullish outlook for the nuclear industry over the past several years, has been the international debate related to the social and environmental impacts of energy infrastructure.

Those discussions have become even more pronounced amid the growing focus on energy security and diversification in relation to the Russia-Ukraine conflict.

With a number of nations rolling back previous plans to reduce or phase out nuclear, one of the most notable headlines in the first six months has been the European Parliament's formal adoption of the Sustainable Finance Taxonomy, which includes nuclear energy as a transitional green investment.

The European Commission's proposal to classify investments in nuclear as Taxonomy-compliant is expected to take effect in 2023. It represents a significant gain in support by identifying nuclear power as a carbon-free form of electricity generation, not to mention the potential complimentary benefits related to heat production from a reactor.

Lending further support to the nuclear sector, the International Energy Agency examined how nuclear energy could help resolve the world's energy security and climate crisis. The Agency's report concluded that nuclear energy could play a significant role in a secure transition to low-carbon energy production, which would reduce fossil fuel imports and carbon emissions, and allow nations to integrate more renewable energy sources into their power networks.

In the US, the Department of Energy announced the roll out of the Civil Nuclear Credit Program, which includes 6 billion US dollars in funding to rescue nuclear power plants that are at risk of closing before 2026. And earlier this week, the US government enhanced that support when its "Inflation Reduction Act" was signed into law, committing 370 billion dollars to taking action on climate and energy, including provisions that are expected to benefit nuclear.

Coupled with the international push for net-zero emissions by 2050 and the 2021 UN Glasgow Climate Pact that recognize the need to reduce global carbon dioxide emissions, these recent developments have highlighted the benefits and emphasized the need to deploy more nuclear generation as an alternative to carbon-generating sources.

Kazatomprom recognizes the significant role it plays in helping the world transition away from a reliance on fossil fuels.

The renewed focus on nuclear has prompted new categories of stakeholders to closely examine the sector, and with that new attention, the emphasis on Environment, Social and Governance practices across the nuclear fuel cycle has increased.

But, unlike many other industries that are having to alter the course of their strategies and re-assess their value proposition in the ESG context, we as uranium miners find ourselves in a unique position. ESG has always been well integrated into our business, with strong programs and high standards that reinforce ESG alignment and efficiency.

Environmentally, all of Kazatomprom's mines employ the best-in-class In Situ Recovery mining method, which is the most environmentally friendly production method that minimizes impacts on the environment, biodiversity, water resources and public health.

From a social perspective, with all of our operations located in Kazakhstan, the country and the Kazakh people benefit from having a significant resource base that underpins our place as the largest producer, with the lowest cost operations in the world.

And in terms of governance, we strive to implement international best practices.

In line with our long-standing commitment to sustainable development and ESG, the Company is continuing development of medium- and long-term ESG goals, with specific quantitative and qualitative targets.

In March, Kazatomprom officially became a full member of the United Nations Global Compact, the world's largest corporate sustainability initiative. Our membership confirms the Company's commitment to the ten principles of the UN Global Compact and support for the global agenda, goals and initiatives of the United Nations in the field of sustainable development.

The Company continues to work on obtaining an independent ESG rating and we expect to have that rating in place by the end of this year.

Moving into a brief look at the uranium market, contracting activity and the spot and term uranium pricing gained strength in 2022, with market participants shifting their focus to security of supply in light of the Russia-Ukraine conflict.

Demand-side interest drove the weekly spot price as high as $63.75 per pound, the highest level the market has seen since March 2011.

However, as risks and uncertainty in the market became more pronounced in the conversion and enrichment segments, utilities' focus shifted away from the uranium itself in order to evaluate future access to non-Russian processing services.

The resulting lack of firm near-term uranium contracting activity in the market, coupled with the generally bearish equity market and global economic slow-down, eased the pressure on the spot price towards the end of the second quarter. Spot remained volatile, though overall, the market is more positive than it has been in over a decade.

Intermediaries were responsible for a large portion of the spot market activity through the first half of 2022, with volumes totaling about 33 million pounds U_3O_8 at an average weekly spot price of $50.30 per pound. That is about 2 million pounds lower than the first half of 2021, when the average weekly spot price was $29.95 a pound.

In the term market, contracting activity increased significantly compared to last year, with third-party data indicating that contracted volumes totaled about 72 million pounds U_3O_8, almost double last year's six-month total of 38 million pounds. The increased term activity drove the average long-term price higher by 17.50, to 49.75 a pound at the end of the second quarter.

The evolving market picture and the unprecedented global economic uncertainty to date in 2022 have presented an extraordinary challenge to the Company's production planning and budgeting processes.

In addition to aligning future production with market demand and our contractual commitments, we need to factor in the growing inflationary pressure and potential supply chain delays that could affect our future production plans.

Therefore, consistent with our market-centric strategy and accounting for evolving mine development and production constraints, we expect our 2024 production volumes to remain below our total Subsoil use contract levels.

As disclosed within the first-half news release today, our Board of Directors has approved a decision that will see Kazatomprom maintain market discipline and target production of about 25,000 to 25,500 tons of uranium in 2024, which is roughly 10% lower than our total Subsoil use contract level.

Although the uranium market has improved, with an increase in long-term contracting interest, a thinning near-term market, and substantially improved pricing, we believe the fundamental shift in the supply-demand balance is still underway, with an illusion of endless secondary supply, which creates ongoing opportunities for Kazatomprom as a primary supplier that maintains a disciplined approach.

Our 2023 production plan remains unchanged and 20% lower than our total subsoil use contract level, but even that 2023 target is currently subject to considerable supply chain and development risks.

Moving into our first half results for 2022, safety and environmental performance at our operations remained strong. We are proud to report that no accidents were registered during the first half with a zero Lost-Time Injury Frequency Rate.

The Company's production volume fell slightly on both a 100% and attributable basis compared to the first half of last year, due to the supply chain issues that delayed wellfield development work in 2021. That work in 2021 was required to support this year's production plan, therefore, as we have previously noted, the elevated risk that 2022 production volumes could fall short of our expectations, remains a concern.

Development progress is still tracking slightly behind schedule compared to our plans, but at this point in the year, the operations team continues to make progress in mitigating the related risks and annual production guidance is unchanged for now.

At June 30, our inventory of finished uranium increased slightly compared to the inventory level we held at the end of 2021, remaining near the bottom of our target for about 6 to 7 months of attributable production.

To manage risk and ensure we had uranium at the right place and time, we did make some small purchases and swaps in the market during the first half.

Our first-half C1 cash costs rose as expected due to higher payroll costs and inflationary pressure, increasing 11%, from just under $9 per pound this time last year, to now just under $10. All-in sustaining costs rose even more, by 22%, from $12.58 per pound to $15.30 due to a near 50% increase in capital costs resulting from the deferral of some capex spending from 2021 into 2022.

As we communicated in our Q2 Trading update, for short-term deliveries to end-user utilities, the spot price can vary significantly between the time contract pricing is established according to Kazakh transfer pricing regulations, and the spot price in the general market when the actual delivery takes place. In addition, some long-term contracts incorporate a proportion of fixed pricing that was negotiated prior to the sharp increase in spot price.

As a result, both the Group's and KAP's average realized prices for the first half of the year were below the average month-end uranium spot price over the period. Many deliveries for the first six months of 2022 were based on contract pricing mechanisms that established a price per pound prior to the increase in September 2021.

As you can see on the slide, which is also now included in the investor handout, given the time allotted by Kazakhstani Transfer price legislation, the delivery date at which the sales revenue is recorded could be up to ten months from the offer date.

In the current volatile environment, that means our realized price lags several months behind the rising market price. Similarly, we would expect the opposite, where pricing could potentially be higher than the market for certain periods, if the market price was falling.

Regardless of such lagging effects between spot price and our realized price, our financial results for the first half of 2022 were very strong.

Kazatomprom is continuing to optimize sales based on current market conditions, with a focus on end-user utility contracts linked to spot and term prices, in order to benefit from the strengthening market.

Revenue doubled compared to the first six months of 2021 to nearly 500 billion Tenge in 2022, driving a rise in operating profit of 182%, and a near tripling of adjusted net profit to about 167.4 billion tenge. These impressive results reflect the considerable improvement in the uranium market over the past year, though higher sales due to an increase in first-half customer delivery requests compared to 2021, contributed significantly to the increase as well.

Beyond the operational and financial results, several corporate developments are worth highlighting:

- First, Mr. Mazhit Sharipov, Kazatomprom's CEO up until July 4th, decided to resign from his roles with the Company for personal reasons. The search to fill the Company's top job continues and we have no updates to provide at this time. Today, we have also announced that our Chief Strategy & Development Officer made a personal decision to resign from his position to pursue a Master's degree. The Board has decided to reduce the number of senior management positions and not fill the vacancy, instead, redistributing the position's responsibilities among the other company Officers.

- In July, we completed the payment of dividends. The 52% increase in the dividend payment compared to last year included the proceeds from the sale of Ortalyk to CGN Mining last July, and higher operating cash flow.
- Beyond the Company developments, the Government of the Republic of Kazakhstan also announced the expected changes to the country's tax regime as part of its post-January-event reforms.
- In early July, additions and amendments to the Kazakh tax code were adopted, which will change the calculation of the Mineral extraction tax base and rate, starting from 2023. According to the changes, the MET on uranium will be based on market prices, multiplied by the amount of uranium mined and a rate of 6%.
- MET expense in absolute terms is therefore expected to increase, due to the incorporation of the spot price into the formula. However, the exact impact cannot be estimated at this time as the new formula will only be applied beginning January 2023.
- And finally, as discussed, we are maintaining our production and sales discipline.

Reviewing our outlook for the remainder of 2022, we have kept all annual guidance metrics unchanged at this time. While we remain confident that we can deliver on expectations based on the current trends in production, sales and costs, we do assume supply chain and wellfield development risks will not increase significantly through the second half, which may or may not be the case.

Production and sales remain aligned with our market-focused strategy and we may again be purchasing material on the spot market when we see opportunities or need to manage our inventory. The target inventory level remains unchanged at approximately 6 to 7 months of the Company's attributable production volume.

The challenging situation with the supply of raw materials, including inflationary pressure on production materials and reagents, is expected to continue, which could affect the Company's financial and operating performance.

With the announcement of our 2024 production strategy that will keep volumes below subsoil use levels, we maintain our market-centric strategy and focus on long-term value.

As always, we are committed to the highest standards of health, safety, environmental stewardship, and corporate governance in all aspects of our business.

Open and constant communication is crucial during this time of ongoing uncertainty and elevated regional geopolitical risks, and we remain committed to business continuity.

Over the Company's 25-year history, Kazatomprom has established itself as a reliable supplier and partner in the industry. Along with our now-proven commitment to building long-term value for stakeholders through continued production and sales discipline, we are eager to keep working with new and existing global customers to provide the fuel required to meet the anticipated demand growth and help the world achieve its net-zero objectives.

Thank you for your interest and attention. We will now be happy to answer questions from today's call participants.

Operator:

Welcome to the Q&A session. Please limit yourself to two questions at a time. If you have additional questions, you are welcome to rejoin the queue. As a reminder, you can also submit questions using the Ask a Question button on the webcast page. To ask a question on the phone line, please press star and one on your device. We will now pause for a moment as callers join the queue. Thank you.

Our first question comes from Aaron Armstrong with Ashmore Group. Please go ahead.

Aaron Armstrong:

Hi. Thanks very much for taking my questions. First question would be on the MET charge. So could you talk about how it's changed versus what we were used to up until this year? Is an introduction of a market price based MET charge is that incremental, so that's on top of what we're used to pay this 6% or what we currently pay which is based on OpEx, will that be reduced or is it entirely incremental?

Kamila Syzdykova:

Hello, Aaron, thank you very much for your question. Regarding MET tax, basically the new application will become effective since the 1st of January 2023 and it will completely replace the old formula. The tax authority changed the approach from the cost based to the spot related base. Overall, as we have indicated several times during our calls, we expect that the overall tax burden for the Holding might increase as high as 30%. Taking into account current strengthening of the spot, the ultimate impact cannot be estimated, but we think it will become higher. As soon long as it applied in 2023, we will probably be able to make annual-to-annual comparison, but it will not be an incremental tax. It will be the wholly new framework where the new tax base will be introduced.

Aaron Armstrong:

That's great. That's clear. Thank you. And then perhaps just on cash costs, please. Can you talk about some of the key factors around that? Sulfuric acid, other kinds of consumables or the different components that go into cash costs and the current inflation that you're seeing there, what kind of trend you would expect, say, this year and looking into next year? And then similarly, as we go from minus 20% versus subsoil to minus 10% versus subsoil, and production increases, can you talk about which assets will be contributing to the higher level of production? And would you expect those assets to come with a cash cost similar to the current average, or do you think there'll be higher cost or lower cost of the assets that you bring on stream?

Kamila Syzdykova:

Yes. Thank you, Aaron. Basically, that current C1 cost increase has several drivers behind it. As we have also indicated during our calls this week, our company took very serious measures to increase overall payroll for our personnel, so that contributed some significant part to the overall increase. Also there have been higher prices for our key reagents, such as sulfuric acid, I mean for some of our joint ventures, which blended altogether gave us some input to the overall increase. And also we see growing prices for metal base components and pipes, so I would say that at least one third of the increase came from the revision of our payrolls, keen to make sure our employees are better protected against current inflationary trends, and the rest would come up from the overall higher prices for the sulfuric acid and the pipes and other metal-based components. The impact of MET, because of the higher cost base, has also contributed to the overall increase.

Regarding your question on the production levels, we expect that additional supply is to come from the existing mines within that flexibility given to us under the subsoil use agreements. It would require joint ventures to do more intense CapEx programs in terms of the wellfield maintenance cost, drilling, and acidify more reserves to make sure we are ready by 2024 to do minus 10 from the subsoil use contracts level.

As for the cost level, basically it should have not been very much different in those two scenarios, because on one hand, the minus ten percent gives us higher volumes, which gives lower cost per unit. On the other hand, it also requires more intense CapEx and some ramp-up in CapEx, because we have been doing minus twenty for quite some time. So I think it would be comparable for the two scenarios in terms of the cost. Again, provided that we don't see any outrageous trends in the inflation.

Aaron Armstrong:

Great, thank you. One final question, if I may please. Can you talk a little bit about the management team and some of the changes that we've had in personnel in a couple of years – there has obviously been a number of changes and another one fairly recently. Can you talk about any overarching themes that are driving that? Are they idiosyncratic issues? Is there any kind of directive that's coming from the government or parent entity around management structure and any kind of comments that you can share, and particularly, looking forward, would you expect things to stabilize from here?

Yerzhan Mukanov:

Thank you for your question. Regarding the latest changes in management team I would comment that Mazhit Sharipov left for personal reasons, as well as Yerlan Tuleugozhin, our Chief Strategy Officer who decided to leave for personal reasons. He is going to obtain his Master's degree. So as his study will last quite long, he decided to leave.

Aaron Armstrong:

Thanks. Is there maybe any kind of theme among some of the departures? Could it potentially be the attractiveness of the country as a place to work? Is that an unfair assessment?

Yerzhan Mukanov:

No. In the nearest future we do not expect the changes in the management team. For the moment, we assume that the current management team are able enough to manage the company. So we do not expect changes.

Aaron Armstrong:

Thank you.

Yerzhan Mukanov:

Except that we are waiting for the nomination of a new CEO.

Aaron Armstrong:

Is that imminent?

Yerzhan Mukanov:

Well, we do not know, as the choice is subject to the Board of directors' decision, so we have no updates on this at the moment.

Aaron Armstrong:

Understood. Thank you.

Operator:

Thank you. The next question comes from Chintan Khamar with Credit Suisse, please go ahead.

Chintan Khamar:

Thank you very much for the presentation. I just have two questions. Firstly, we've seen some shipments to North America already delayed, that were expected earlier in the year, because of the risk of the Russian transport route. But why has the Trans-Caspian route not been utilized here already? And do you have any idea on the additional cost of this route?

Askar Batyrbayev:

Thank you for the question. Well, first of all, no deliveries have been delayed on our primary route which we're using through St. Petersburg. It is still open, we're still using it. And secondly, Trans-Caspian route is being utilized from 2018. Once we first faced difficulties to access the St. Petersburg when there was a World Cup 2018 in Russia, we started to develop an alternative route, and actually, by the end of 2018 we made a first delivery by Trans-Caspian route. Up to date we made several more deliveries, up to eight. In general, each year, we're having at least one delivery by an alternative route, which is now, looking back, was a timely measure in terms of risk mitigation. In terms of cost, it's hard to say. It's a commercial information. What we can say is that it might be slightly more costly than the normal route through St. Peterburg.

Chintan Khamar:

Thank you. And if possible to give a little bit more color, if a customer wanted to arrange delivery through Trans-Caspian route today, do you have an idea of what kind of volumes would be possible to transport today?

Askar Batyrbayev:

Well, we held many discussions with the transiting countries and, you know, uranium is not that big portion or that big part in the deliveries of the route overall. If you take the full volume of Kazatomprom, it will be not more than 1000 containers per year as a total delivery volume. And we deliver material to different locations, like China, where we don't need to use the marine transportation. So in that sense, 1000 containers is a very small drop in terms of delivery through all the ports in the Caspian Sea or at the Black Sea. It does not really impact the route's capacity if we were to turn all our shipments through the Trans-Caspian route. But in terms of the nature of the cargo, we definitely expect that our cargo will have a priority when we'll be passing the route in comparison with a general cargo.

Chintan Khamar:

Thank you very much and one final question, if I may. Do you foresee any infrastructural investment on top of the additional wellfield development works to increase the production by 2024?

Kamila Syzdykova:

In 2024, there are some expansion projects that we are carrying on. They're not specifically related to the decision to ramp up by 10%. We've been planning them along the way, like for example for Ortalyk, because they're launching a new mine. There are also other couple of expansion projects at our old mines where we need to replace the capacities and somehow enlarge them. So specifically to go up to 10%, we don't need any incremental CapEx that we have not been planning.

Chintan Khamar:

Thank you.

Operator:

There are no further questions on this line. I will now pass on to Cory to read out the written questions received via the webcast.

Cory Kos:

Thank you, Joanna. We do have a few questions coming in from the webcast line. First one here is coming from David. He's asking, have we shipped any U3O8 on the Caspian route to date this year? And do we envisage that to change in 2022 and 2023?

Askar Batyrbayev:

Thank you, Cory. Well, as of today, we haven't shipped the material through the Trans-Caspian route this year. But it’s been in our plans. As of today and in the first half of this year, we were shipping through the Russian route, but Caspian route was always available and we were keeping it always ready to make the shipment. So the shipments would take place in the second half of this year, but again, we are not closing the Russian route completely. So we will be utilizing both directions and in terms of the distribution for '23 or '24 in terms of which route we will be using more, it's hard to plan now, but I guess we'll be using the Caspian route a little bit more frequently than we did it before. And again, that will all depend on geopolitics and how the situation will resolve.

Cory Kos:

Perfect. Thank you. So the next question coming from Borja, the question is centered around security of supply, noting that the company has a number of projects sitting in the wings. There's a number of other companies looking at increasing production or bringing new supply on. But the question is whether we believe the market is perhaps overestimating the future availability and the confidence in future security of supply and what our view on that is.

Askar Batyrbayev:

Thank you Cory. Very good question. In terms of the security of supply, we're constantly holding discussion with the market participants and delivering material to the market on a timely manner, we had seen a previous decade to have an oversupply, and that was the reason why we had to undertake the production discipline along with other producer to change the supply and demand picture. The people who were working during that decade got used to the availability of the material on the market. With the time changing, with the market already entering to the balance and slight deficit because of the shortfalls in production, we're seeing more and more interest in future periods, such as in the period between ‘25 and ‘35.

But I guess it will take a bit more time for the utilities to understand that the supply at the current price levels is not actually available at the amount that will be needed by the industry. And again, after 2030, we will have a bunch of new NPP projects that will come online in different geographical locations like Eastern Europe, maybe Middle East, couple of more in Egypt and Turkey is coming online very soon.

So all these new additions to demand side will definitely rise concerns about the security of supply, which we are talking about for a certain period now, and Kazatomprom is ready to be a partner of choice for everyone who will look forward to have a contract with us.

Cory Kos:

Thank you. A second question from Borja is noting the fact that we did comment on additional sulfuric acid plant, which is currently under consideration. So maybe Kamila, if you could indicate the level of study, how advanced that is right now, Mr. Yerzhan could also comment on what's the cost like and how advanced is that consideration?

Kamila Syzdykova:

We've basically considered the project internally. It has gone through several stages aimed at defining the feasibility of an investment case. We have conceptually agreed with the Board and discussed that this project should go along. Now we're at the stage of entering into contract to develop the project design. So we are not able to specifically indicate volumes and the expected CapEx at this stage. As soon as we will receive some preliminary project design results, we will be sharing this information.

Cory Kos:

Thank you Kamila, another additional question from the webcast is from Ildar and Wood & Company asking how do we plan to achieve our 25,000 to 25,500 tons production level in 2024, if it is that we are launching new assets or ramping up CapEx at existing assets. We kind of answered that, though we could follow up again.

Kamila Syzdykova:

Yes, sure. Hello and thank you for the question. As I answered before, we are not expecting to launch new mines in order to reach this plus 10%. I mean minus 10% from the contractual levels stated in the CPR report. That will come within our flexibility provided in our subsoil use rights.

Cory Kos:

Ok. An additional question here from Ildar is what is the CapEx trajectory for the next two to three years? And how much higher can it go relative to 2022's production?

Kamila Syzdykova:

In terms of the CapEx trajectory, I also commented briefly that there are offsetting trends in terms of costs per unit with higher volumes like the ones that we have announced for 2024. It will be slightly lower, but because of the higher CapEx that will be required next year in order to maintain sufficient levels of reserve preparation, it'll just basically be cancelled out.

Overall, we think that in two to three years’ time, we might see another 20% to 25% increase in costs from today's base, based on cumulative factors and mainly higher prices for the input materials.

Cory Kos:

Thank you. Our final question coming from the webcast is from Thomas. He is asking did Kazatomprom buy any uranium in the spot market in the first half of the year in order to fulfill our contractual obligations?

Askar Batyrbayev:

Well, we did buy some material in the first half. We don't disclose what was the amount. But generally, we did it when we saw an arbitrage opportunity or mispriced material. On top of that, we would be doing this only in cases where we wanted to mitigate the risks of late delivery, but we've never experienced that. So yes, we did buy some of the material from spot, but it was mostly for trading purposes.

Cory Kos:

Excellent. The second question from Thomas. He is asking related to the latest update from Katco JV announcing getting the permit to extend one of the mines there, one of the ore bodies. What is the estimated increase of Kazatomprom production related to this new permit? And is it rather to keep existing supply or is it new production?

Kamila Syzdykova:

Regarding JV Katco, we have released our latest CPR report verified by independent consultant where the volume stated as a contract volume for JV Katco was 3400 tons. All this volume is accounted for in our production plans and given the work required to bring this deposit on stream, the KATCO JV's total production is expected to be limited to approximately 60% of its nominal capacity for the next two years. So basically it's needed to maintain the licensed production volumes. Not new.

Cory Kos:

Excellent. Thank you. Another question, Daniyar asking when the construction of a sulfuric acid plant at Katco JV will begin and what the projected cost would be. So I think we've answered that one.

Kamila Syzdykova:

Just maybe add that we have no specific plans yet whether it will be sulfuric acid plant with JV Katco.

Cory Kos:

Yes.

Kamila Syzdykova:

Just to clarify.

Cory Kos:

Ok. And another from David asking are there any contracts yet with Chinese to fill the Alashankou bonded warehouse? And how much extra production is required to fill this facility over the next few years?

Askar Batyrbayev:

Well, it's a good question, but I guess it should be directed to the Chinese counterparties who are constructing this warehouse. Generally, what we know is they completed the first stage. It's about 3,500 tons of the storage area, which is already filled. So that's their product which they bought and imported into China. So the second stage will expand that facility up to 10,000 tons and there might be already some ideas to set up some trading hub, but there is no clear structure how it will work and who will be filling that hub. So we should wait a little bit more and see what China will communicate in that sense and what could be the final outcome of that warehouse.

Cory Kos:

Excellent. We have one more here, that actually I think I can answer, from Daniyar. He's asking if any foreign companies from Turkey, UK, UAE, Korea, who may consume uranium from Kazatomprom, expressed their interest in purchasing stakes in KAP's JVs. But we just have to follow our typical corporate disclosure line that we don't comment on M&A activity.

Cory Kos:

We have no more questions coming from the webcast line. But I'm told there is another couple coming from the conference call and so I'll hand back to the operator at this point.

Operator:

Thank you. So this additional audio question comes from Anna Antonova with JP Morgan. Please go ahead.

Anna Antonova:

Yes. Thank you. Thank you for the presentation and good afternoon team. Just two questions from our side. First, could you please comment on the CapEx guidance for this year? I remember that you haven't changed any of the 2022 guidance while your mining CapEx in each one is tracking at less than 40% of the full year target. And previously, if I remember correctly, you highlighted that there are downside risks to the full year spend. So what are currently your thoughts on this CapEx number for the full year? And this is the first question and I'll ask the second question after this. Thank you.

Kamila Syzdykova:

Hello, Anna. Nice hearing you. For the capital expenditures, we're not revising our guidance yet, because there are very intense CapEx programs being implemented now, and as we had a delay in the wellfield development that follows us from the last year, now our programs are intensified and we have added additional drilling rigs into our overall fleet.

So with all of that we still expect to meet the guidance and we also should note that current CapEx includes that expansion at one of our mines. So basically once all the costs are accepted closer to Q4, we think we will meet the guidance. However, we still think that subject to how works go in Q3, we might review the guidance a bit downwards in Q3. As of now, based on the current intensified trend for the capital expenditures and adding drilling rigs to our fleet, we are not changing our guidance.

Anna Antonova:

Thank you for the color. Much appreciated. And the second question is on the ANU Energy physical uranium fund. I see on the presentation that Kazatomprom has priority right to repurchase uranium from the fund. So going forward, how should we think about the potential relationship between Kazatomprom and this uranium fund? Do you plan to sell the material to the fund in the next couple of years? Or do you have a more opportunistic approach with selling and repurchasing the material to and from the fund if and when needed, so how should we think about this going forward? Thank you.

Askar Batyrbayev:

Yes, thank you. Regarding ANU, as we announced, we've completed the first stage. We've sold the material based on the first seed investment from our side and from National investment corporation of the National Bank. So that stage is completed. So they're moving to the second stage, which is attracting additional investments up to $500 million in total, which does not involve any other investments from Kazatomprom. So in that second stage Kazatomprom would be just seller of the material or priority seller of the material.

There are some mechanisms in place to make sure that the material will have to stay at the fund for a certain period of time. And there's a limitation on how much they could be selling annually. And in case they will, then the priority right is with Kazatomprom to make sure that we will look at the general picture of supply and demand and then make a decision on whether we should be buying it back and putting it onto our existing contracts. That will also help us with some production volumes that we will be having. So that actually leaves us with a choice. With a priority choice, whether the market can already absorb that material if fund decides to sell, or we still need to work as a responsible player on the market and make sure that these volumes would not impact the market and return us to the situation of 2015 and 2016.

So that are the arrangements that we have now. If you have more detailed questions, ANU Energy is a completely self-sustained company and fund. They have a corporate website and contacts of the people who can answer any additional questions on how the fund will operate, who will be the investors. We are not aware of those details at the moment.

Cory Kos:

Then maybe I'll just chip in as well, because there was a very subtle change in the communication within the OFR when we were mentioning ANU, that we opted not to have a board seat there. So we are not involved in the decision making of ANU either.

Anna Antonova:

That's clear. Thank you very much for the comments. No other questions from our side. Thank you.

Operator:

Thank you. There are no further questions on this line. Ladies and gentlemen, that concludes the question and answer session for today. I will now hand over the presentation to the management team for closing remarks.

Cory Kos:

Thank you. That concludes our side as well. There are no further written questions so I can turn the conference back to Mr. Mukanov for a very brief close.

Yerzhan Mukanov:

Thank you. Thank you for your attention. Thank you for your questions. Thank you for your interest in our Company. I wish you a good end of the day.