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INTERVIEW

Kazatomprom's Batyrbayev on Today's Uranium Bull Market

Kazatomprom Chief Commercial Officer Askar Batyrbayev talks with Energy Intelligence's Phil Chaffee about how the world's largest uranium producer views a newly bullish market. The interview took place in Vienna on Sep. 21.

Q: The uranium price just reached its highest level in at least seven years. If the bull market continues, and the price continues to shoot up, would Kazatomprom consider revising its production guidance for 2022 and 2023?

A: Very good question. The first thing to note is that the driver for us to set guidance for our production is not the price. It is actually the contracting portfolio that we have with utilities, and what utilities are buying now, that's uranium that they will be using in their reactors in three to five years. So we know that utilities have most of the uranium that they will be using from now until 2023 already in their portfolio, and it's very unlikely that utilities will be buying a lot for delivery in 2023 unless something extraordinary happens, such as [a decision] to build up inventories. We maintained our guidance for 2023 at minus 20% because if customers needed uranium for 2023, they must have already procured it in order to get it through all the required processing steps.

That does not mean there is no contracting activity today. In fact, we see that utilities are more active now than they have been for a long time, and they are approaching the market for longer-term contracting discussions. But the delivery year for those long-term discussions are '24, '25 and beyond. And the contract terms are different than what we've been seeing. For a while now, it has usually been for three years [in duration], but it's now sometimes for five years, or some of the RFPs on the market are actually even up to 2030, which already shows that the market is transitioning into the long-term discussions.

In order to supply those kinds of contracts, it's very unlikely that it would be a carry-trader or intermediary of some kind trying to buy the material now and hold it for seven or eight years.

That's quite difficult and it's not their kind of market. So probably this is the start of the discussion between producers and utilities, and that interest is much more active now than the previous decade, much more active. The quantities are still not that huge, so maybe it is kind of the first stage of the discussions between utilities and producers, but it is a good start.

As for 2023, theoretically we could do something to revise [the existing production guidance], but that has to follow interest and contracts from the utilities. If our contract portfolio would require us to produce more than a minus 20% in 2023, that's something we're happy to consider, but we have to do some preparation work. We have to do the drilling. We have to buy additional pipes and supplies. We have to adjust the sulfuric acid deliveries. All these things, we have to do at least one year in advance and these costs have to be budgeted during the previous year. And we have been facing Covid-related logistical issues in getting some of these items in 2021, even for the minus 20% production plan. So if we're talking about '23, all these costs have to be in the budget for 2022 and the wellfield development work must be completed. The budgeting campaign is actually now, so sure, for 2023, it could be done. But, we would literally have to see the interest and contracting commitments from utilities right now.

Q: And it's not there right now.

A: For 2023 and earlier, no. But for the future periods, definitely, and that is the interest the entire primary supply side has been waiting for.

Q: In terms of long-term demand, one thing Kazatomprom has talked about for years is diversifying its customer base. As far as I can tell you remain highly dependent on the Chinese market. Looking out long term, are you succeeding in diversifying your customer base at all?

A: We have been diversifying our customer base starting from 2017, when we announced our new strategy in terms of marketing

>> *continued on page 2*

and sales discipline, and when we decided to give up our relationships with traders and we focused on utilities. We went to almost all available utilities for discussions and we have participated in nearly all tenders and RFPs that they have announced since then. Our number of direct customers increased, in fact doubled since 2017. Every year we're adding new customers, and diversifying in terms of geographical locations of those customers.

If you are following the public, open tenders, we were successful in Argentina, which was not our market before. We were successful in Brazil, with UF6 delivery, which is even not the kind of our core product we usually sell: with sales of UF6 we can enhance our sales of U3O8 by finding a good partner on the market, in terms of conversion. So these are the sales which we're also targeting. We will show some new customers again within this year, when we report our financial results for 2021. Even [in] the US market, you will see that we are improving the relationship that unfortunately was very limited in terms of sales in 2015, '16 and '17. It's getting better and better.

With China, it's quite logical for us to continue with a good part of the sales there. It's natural; they are neighbors, strategic partners, we have joint ventures (JVs) in place with them. We have the transfer of technology within that latest deal at Ulba [the site of a fuel fabrication plant co-owned with China General Nuclear], so we now have access into the final step of the front end of the nuclear fuel cycle. We'll have 20 years of guaranteed offtake from China for their reactors of French design, which allows us to build up expertise, good knowledge on the fuel fabrication processes. So being focused on China is not a bad thing as it will be the biggest market in the future. In 2030, they will probably catch up with the US in terms of number of reactors and annual consumption. And if they stick to their plans, by '35, they will definitely be one of the leading nuclear nations in the world.

Q: On the Chinese front, you've said you're in advanced talks with China National Uranium Co. (CNUC, a subsidiary of China National Nuclear Corp., or CNNC) over a proposed storage facility and trading hub at Alashankou in western China, near the Kazakh border. What exact role do you envision for Kazatomprom there?

A: China made an announcement of their five-year plan earlier this year, and part of the follow-up is this warehouse — in the future it may be a trading hub — that they plan to build. That's in line with the general strategy that China has. They are very cautious of having enough supplies for their ambitious nuclear program and this is one of the steps to continue building a strategic

inventory. At the time of Fukushima, they were buying a lot more than they had in their demand. They knew that they will be increasing their nuclear fleet, and they needed material to support it. I think that's similar to what they're doing now: they are worried about future security of supply, considering the [newbuild] program that they have. In addition to long-term contracting, the warehouse is one of the strategies that they have to ensure that they have enough uranium within the country to supply their nuclear program. The decision to set the warehouse at the border of Kazakhstan and China is very natural. We are in discussions with them on becoming a strategic partner for this warehouse.

Q: Would you potentially be open to Kazatomprom holding some of its own commercial inventories at Alashankou?

A: Well that's something we would have to check with China — to determine how they will be setting up the legislation for foreign companies to hold inventory in China. For now, I think the model will be that they will be buying their own [uranium] to put it there. If it develops as CNUC plans — and I have no worries that they will not deliver on what they have said — if they plan for a trading hub, I'm sure that they have a plan to make sure that everyone who comes to that trading hub would be able to safely store their material, but I'm just assuming, and you would have to ask them. If it becomes a storage location as is done at conversion facilities, it would make sense for all participants who will be at that Chinese hub to hold some inventories. It's natural that we would consider that as well.

Q: To date most of Kazatomprom's relationships — beyond pure sales — have been with CGN, at Irkol, Semizbai, Ortalyk and Ulba. The Alashankou project is obviously CNNC's. Do you envision an expanded relationship with CNNC, and potentially any CNNC presence at production sites in Kazakhstan?

A: That's a good question. In general, Kazakhstan and China set cooperation at the government-to-government level, and [the relationship] is guided by that cooperation. But we have a good relationship with CNNC (with CNUC), with CGN, and SNURDC [the nuclear fuel subsidiary of State Nuclear Power Technology Co.], the third company. We have a partnership with all three companies. Let's see how the relationship will develop. We are in close contact with CNUC; maybe the warehouse will be the start of further cooperation and we'll see how we can extend it, but that discussion is still in the early stages.

Q: Moving to Kazatomprom itself, in your recent guidance and statements you've talked about supply chain issues in Kazakhstan that could impact 2021 production. What exactly are these supply chain issues?

A: I'm pretty sure that you know that generally in the world there is a huge issue with logistics right now. The cost of container delivery from China to the US jumped seven times. And that affects the global chain. It's not just the US and China — all the vessel or container shipment [costs] have increased and logistical delays are more common.

Our local Kazakh producers of piping we use, they require certain raw materials to produce the plastic pipes. The import of those materials is being affected by the global supply chain issues, so the local manufacturers cannot import it in the necessary amounts to provide the volume of pipes that we require from them. They're trying to improve the situation, but we know that they are struggling. We're trying to help them procure and to sort out their issues, but we will have to see if they will succeed in bringing that material in and producing the pipes that we need. I mean, the winter is approaching, as in the Game of Thrones.

Q: Winter is coming!

A: Indeed, winter is coming! And the weather conditions become quite severe in the places where we have our mines. Once it's the end of November and we cannot easily carry out excavation works, it's very difficult to advance the wellfield drilling since the ground is frozen over. So we have to make sure that the pipes arrive at the right time. If that's the case, then I think we could be still within our production guidance, which obviously impacts other guidance, but even now we can see that we are slowly going towards the bottom of our guidance. Based on how the situation looks in the coming month or two, we should be in a better position to reconfirm or update guidance in the fourth quarter, within our Q3 trading update [on Nov. 3].

But it's not only pipes. We have some parts for the pumps that are also imported to Kazakhstan and being delayed. We have some issues with local sulfuric acid supply — it was all affected. Those are our major concerns. If we see that we are still impacted by these general logistics problems, then that might affect our production for this year, so we could be even lower than minus 20% [of licensed production capacity], and slightly lower than the bottom end of the guidance range we have published [22,500–22,800 tU on a 100% basis].

Q: And would that send you back to the spot market to purchase the promised material?

A: It could, but that's not the only driver for us to go to the spot market. At times, it's also when we have a very tight delivery schedule. Sometimes we can see that we have many deliveries at one time, and the schedule for one certain month could be very

tight. At that point, if we see any potential risk to the physical shipments arriving in time, that's the signal for us to come to the market and secure some pounds. To make sure that we will not fail with a delivery, which has never been the case with Kazatomprom in its whole history. That's the main signal for us.

Inventory levels are another part. If we're seeing that we are below certain comfortable levels, and there's a chance on the spot market to buy mispriced volumes that we've seen, then that's also an opportunity to buy. And we have different contracts in our portfolio — some higher prices, and if we see that there's an arbitrage opportunity, especially with [Switzerland-based Kazatomprom subsidiary] THK — they're completely a trading company — that's another signal to go and get the material. So all these considerations are what drives us to come to the spot market and seek the material.

Q: And in terms of your inventories, your policy is to keep half of your annual attributable production in inventories?

A: Yes, six to seven months of attributable production, and we were close to the bottom of that range when we started the second half of the year.

Q: On your new mines — I notice in your H1 report that you've spent a lot of money on Budenovskoye 6 and 7. When do you envision going into actual commercial production at those projects or at other new mines?

A: When we were coming to IPO, we completed a detailed study. We asked [geological consultancy] SRK to come and verify our mining data. At that point in time, we outlined the perspective advanced projects, including Budenovskoye 6, 7, Inkai 2, 3, and some other assets that we had at the exploration stage. These are the projects that have certain timelines ... the government is giving you the license for exploration, which you have to fulfil within a certain timeline. And then actually the government required us to switch to a pilot-production stage or test-production stage, which again requires completion on a timeline, and then you switch to the production stage.

So all of these projects have certain timelines, which unfortunately at the moment I can't specifically disclose. This year you saw that Budenovskoye had to advance from the exploration stage to the test-production or pilot-production stage. That was the timeline set by the contract that they had with the government, and the project is developing as expected. We are looking at the market conditions and what others are doing to move their future development projects forward elsewhere in the world, and we will be making decisions based on the market conditions that we see. We will of course make announcements

in terms of Budenovskoye advancing further, the same for any other assets that we will be developing.

Q: Who is your partner at Budenovskoye 6 and 7?

A: In 2016, Kazatomprom and SMCC (the Stepnogorsk Mining-Chemical Combine, who complete the final processing steps for some of Kazatomprom's mines at their mill) established JV Budenovskoye LLP with 51% and 49% share, respectively. The JV has the right to subsoil use for the Budenovskoye 6/7 deposits.

Q: One final question, for your broad market outlook. Right now we're seeing these uranium funds purchasing tons of material, particularly with the entrance of Sprott. To what extent do you believe that the material they purchase is truly removed from the market, and to what extent are they creating an ever larger Sword of Damocles, with material that could flood the market if the price ever moves south in a sustained way?

A: That's a good question — and I think it's really more a question to Yellowcake and Sprott. But you know, the way we discussed with Yellowcake when we had the deal back in 2018, it seemed that their holding strategy was aligned with our long-term market strategy. We have a firm belief that they will not be floating those pounds back into the market whenever they see any risk.

Following discussions with Sprott, we believe that they indeed have a long-term view on the market as well. We can see their similar asset management funds in different commodities, like silver or gold, and whatever the market conditions were, they didn't panic and sell the commodity back to the market. There's no reason for us to believe that they won't do the same thing with uranium, and just stack and store.

What they are doing now is they are buying the spot material or the near-term material, which was previously the business of carry-traders, who bought only to sell back in the mid-term. So as the material is now not available in the near-term, carry-traders cannot offer a lot of services to utilities, not to the degree they have in the past. This is the natural transformation of the market and it's happening now, with the help of Sprott and Yellowcake. As I mentioned in the beginning of the interview, we're seeing utilities starting discussions, and the periods they're looking at are not just near- to midterm, as it was before, but for the whole decade. Previously, utilities were able to get whatever they wanted on the spot market and it was so easy for them. But this non-trader intermediary activity creates new concerns, and the lack of material available on the carry-trader side brings more uncertainty for utility security of supply.

Phil Chaffee, London