

Uranium reserves are not just resources, but a country's asset

Mr. Pirmatov, thank you for the opportunity to discuss the uranium market and the activities of Kazatomprom. Everyone is now worried about the COVID-19 pandemic. How did coronavirus affect the uranium market? What impact did the pandemic have on Company operations?

The coronavirus outbreak is first and foremost a global human emergency, affecting millions of people. Some countries - the largest uranium producers - have announced a temporary suspension or reduction in production at their mines to prevent the spread of coronavirus.

Our first response to the COVID-19 pandemic was the adoption of measures to ensure the safety of our employees, their families, the local population and the proper management of the company's assets. This was announced in our March 16th press release.

Given that our employees come from different parts of the country, we assessed the risks of emergence of infection foci at production facilities and decided to minimize the number of workers in mines. The company decided to suspend all auxiliary work not directly related to current production, including the development drilling of new wellfields. Extraction at existing blocks continues, but given the suspension of the new block development, a reduction in production is expected in 2020, as we announced earlier.

For the Company, the health and well-being of our employees and the population within its footprint is a top priority. The measures taken are aimed at ensuring industrial safety and minimizing the risks of the spread of coronavirus in the workplace and among the local population.

It is important to note that a decrease in the level of production will not affect the Company's obligations in terms of sales volumes in 2020 through the sales of existing inventory.

Please tell us more about what Kazatomprom is doing to prevent the spread of coronavirus and prevent infection of workers?

Most subsidiaries employ rotational shifts. The Company has developed new shift change rules with mandatory testing of newly arrived workers who are initially placed in a separate quarantine zone. This has allowed us to avoid negative scenarios at the moment. An action plan has also been developed for detecting coronavirus. The bulk of the administrative and management personnel have been transferred to the remote form of work.

When being transported to mines, the workers keep the distance; the transport is treated with detergents and disinfectants after each trip. The

necessary amount of protective masks, antiseptic protective agents and medicines was purchased. All rooms are disinfected and health of all employees is monitored on a regular basis.

We closely monitor the development of the situation in the country and in the regions of our presence, and we will consider the resumption of all auxiliary work only when it is possible to carefully observe all safety measures.

For uninitiated readers, please tell us what the global uranium market is and what is the role of Kazakhstan and, in particular, Kazatomprom on it?

Kazakhstan has been the largest global producer of natural uranium since 2009. It should be kept in mind that our country was not even included in the top 10 uranium miners in 1997, when Kazatomprom was founded. It should be noted that the bulk of the Company's mining enterprises are joint ventures with the world's leading players in the uranium market.

Uranium is used to produce fuel for nuclear power plants (NPPs), which currently produces about 10% of global electricity. Unlike other fuels, such as coal, oil and natural gas, nuclear energy does not emit greenhouse gases or other harmful emissions into the atmosphere, while being an extremely efficient and stable source of energy.

The volume of demand in the global uranium market is determined by the consumption of existing utilities and the need to create reserves to ensure the smooth operation of the stations.

Between 2001 and 2011, there was an increase in uranium production in the world due to the so-called “nuclear renaissance”, which was driven by positive sentiment about the revival of nuclear energy caused by rising fossil fuel prices and global public concern about greenhouse gas emissions. However, the 2011 accident at the Fukushima nuclear power plant, when the strongest earthquake in Japanese history and the ensuing tsunami led to the destruction of reactors, became the starting point for a radical review of the medium-term prospects for the development of the uranium market. As a result, all 54 reactors were stopped in Japan, which accounted for 12% of the global market needs. Germany announced the decommissioning of the entire fleet of its nuclear reactors by 2022, some nuclear plants in the United States are gradually closing down, and in countries with the most developed nuclear energy, including France, Belgium and Korea, anti-nuclear rhetoric began to sound even at the government level. These events led to a significant drop in consumption and an increase in global uranium inventories.

Kazakhstan, in turn, continued to ramp up production and in 2016 the volume of output reached its peak at 24.6 thousand tons of uranium.

While consumption fell significantly, supply continued to grow, and in 2015-2017, about 25% of Kazatomprom's uranium products were unsold in the oversaturated market. Major uranium producers in the world have also responded slowly to falling demand. This exerted intense downward pressure on prices. Thus, in 2016, when uranium production in Kazakhstan reached a maximum, the spot price of uranium fell to \$18 US per pound, compared with the peak price of \$138 in 2007. At the same time, Kazatomprom's inventory of finished products in warehouses increased three times, from 3 thousand tons at the end of 2015 to 9 thousand tons at the end of 2017. Thus, the Company performance was influenced by both a decrease in prices, and a reduction in sales.

Indeed, the Company faced serious challenges. What actions did Kazatomprom take to improve the situation?

At the end of 2017, a new Company's development strategy for 10 years was developed, the main message of which was to focus on the sustainable development of the core business and creating long-term value for all stakeholders of the Company. Significant work has been done to increase the Company's profitability.

Kazatomprom decided to focus on its core business. In 2018, Kazatomprom increased its participation share in the Kazakhstan-Canadian joint venture Inkai from 40% to 60%, completed multi-year work on resolving the issues regarding ownership interests in the companies of Baiken-U LLP, Kyzylkum LLP and JV Khorasan-U LLP and regained control over the enterprises. Thus, Kazatomprom increased its share of contracted reserves in Kazakhstan from 50% to 65%, which as of January 1, 2020 amounted to a total of 732 thousand tons of uranium (100% basis).

Due to restructuring of assets, the Company significantly reduced the number of subsidiaries - from 82 to 40 – through the reduction of non-core assets.

All of these asset consolidation measures were necessary for successful privatization through an initial public offering (IPO).

We decided to radically change the approach to conducting our core business and switch to a market-oriented approach instead of focusing on increasing production volumes. We strengthened our marketing and sales team and began to make decisions based on in-depth market analysis. The company stopped selling uranium to traders and intermediaries and concentrated on the end users: utilities - NPP operators.

In early 2017, Kazatomprom announced a decision to reduce uranium production for the first time in its history. This was necessary to balance the supply and demand in the market. As a market leader, we took on great responsibility and at the end of 2017, decided to reduce future production plans by 20% from the level indicated in the 2018-2021 subsoil use contracts.

We have changed our philosophy and stopped thinking about uranium reserves as resources and treat them as assets of the country for the present and future generations. Therefore, we are not in a hurry to ramp up production until the time comes and the market requires additional supplies.

At the same time, after strengthening the marketing and sales and optimizing production based on the market needs, in 2018, Kazatomprom became not only the largest producer of uranium, but also the largest seller of uranium in the world. In 2018, a record volume of natural uranium was sold by the Company. The sales volume was increased by 60% compared to 2014-2017. While in 2015-2017, the Company's share of sales in the world market did not exceed 14%, in 2018 and 2019 Kazatomprom's share amounted to 23% of the total market demand, and in 2020 the sales volume of the Company is expected to be similar to the level of 2019. And even at that level, uranium was not sold to traders, as before.

Then, a reasonable question arises, how did Kazatomprom increase its sales while reducing production?

It's quite simple. Firstly, although we have reduced production by 20% against the subsoil use contracts, the level of production has remained roughly similar to the level of 2017 – it was not a year-over-year decrease. The reduction in planned volumes allowed us not to increase production in the future, which is a good thing considering the continued market oversaturation. And even after the reduction, we are still the largest producer of natural uranium in the world, and our market share has grown.

Secondly, the company reduced the inventory of finished products that accumulated during the period of overproduction, thereby improving its capital structure.

Our Strategy and related marketing activities are yielding dividends in terms of diversifying our customer base and expanding our sales geography. In 2019 alone, we added six new companies and two countries to our sales portfolio. If we summarize the total number of reactors operated globally by our customers, we supply fuel for about 300 of the world's 441 nuclear reactors.

This year we have already opened a new market - Argentina, having concluded a commercial agreement on the supply of natural uranium with Dioxitek. Over the past few years, one can note new markets for Kazatomprom such as Brazil, Spain, and Sweden.

In addition to increasing our presence in the international markets of natural uranium, the Company switched to the sale of products of a higher level of processing - uranium hexafluoride and low enriched uranium.

The long-term vision of our strategy is to become the partner of choice for the global nuclear industry.

And how did it affect the Company's profits?

Since the large-scale reforms in the Company, net profit has been growing steadily. While in 2017 the adjusted net profit (excluding the effects of one-time non-operational transactions) was KZT 31 billion, in 2019 it amounted to KZT 142 billion. In addition, the size of tax deductions of Kazatomprom is growing annually. Thus, while in 2017 they amounted to KZT 72 billion, in 2018 it was already KZT 99 billion, and in 2019 – KZT 127 billion.

You've mentioned an IPO. Can you tell us a little more about the IPO of Kazatomprom?

The Company's strategy and the results of operations allowed us to fulfill the task of holding an Initial public offering, or an IPO. In November 2018, Kazatomprom placed 15% of its shares and global depositary receipts on the London Stock Exchange (LSE) and the Astana International Exchange (AIX).

The IPO of Kazatomprom was highly rated as the first IPO among Samruk-Kazyna JSC portfolio companies on international capital markets and the largest IPO of the companies from the CIS countries in 2018 on the London Stock Exchange.

Overall, Samruk-Kazyna JSC received about US\$ 790 million from the sale of 25% of Kazatomprom shares, which were sent to the National Fund of the country.

Moreover, over the past three years, Kazatomprom paid dividends to all shareholders totaling KZT 340 billion. It should be noted that at the same time, the Company continues reducing the level of debt. Thus, in 2018 the debt of the Company amounted to US\$ 580 million, in 2019 it fell to US\$ 421 million, and it is still planned to further reduce the debt of the Company.

In 2018-2019, the possibility of US sanctions on uranium entering the American market from countries such as Russia, Kazakhstan and Uzbekistan was discussed. How actively was Kazatomprom involved in these discussions and how did it end?

The global nuclear industry is subject to serious geopolitical interests, and natural uranium, being a strategic material, is at risk of possible restrictions on access to markets and “trade wars”. Kazakhstan, being the largest producer of uranium, must proactively take measures to minimize these risks and provide access to global markets.

On July 18, 2018, the U.S. Department of Commerce decided to launch an investigation under section 232 of the Trade Expansion Act of 1962 on the basis of a petition filed on January 16, 2018 by two US companies with uranium interests, which was the first public discussion at the state level on trade restrictions on uranium supplies from Kazakhstan after lifting trade restrictions in July 1999.

As a result of the major efforts by Kazatomprom and government bodies of the Republic of Kazakhstan, it was possible to protect the interests of Kazakhstan and prevent the introduction of restrictions on the import of uranium from the Republic of Kazakhstan to the United States.

What steps does Kazatomprom take on the environmental impact of its activities?

Kazatomprom completely changed its approach to its activities, applying the best international practices of ESG and transparency as a public company, which is especially important in nuclear energy, where consumers pay special attention to ESG issues when choosing suppliers and partners. Moreover, all decisions of the Company are aimed primarily at the effective management of strategic assets in order to achieve long-term benefits for our country.

Kazatomprom actually demonstrates a commitment to continuously reduce the environmental impact of its activities. Thus, financing will be provided for the environmental projects on the analysis and removal of buildings and structures that have become unusable during the work of UMP JSC since the times of the Soviet Union and requiring special treatment.

In December 2019, the final delivery of low enriched uranium to the IAEA LEU Bank, built on the basis of Ulba Metallurgical Plant in the city of Ust-Kamenogorsk, was carried out. What is the role of Kazatomprom

in this project? What benefits does the IAEA Bank have for the Republic of Kazakhstan and the Company?

The low enriched uranium bank was built in accordance with the agreement between the Government of the Republic of Kazakhstan and the IAEA of 2015. The First President of Kazakhstan N. Nazarbayev and the IAEA Director General Yu. Amano attended the opening of the LEU Bank in 2017. The creation of the LEU Bank demonstrates the recognition by the international community of the initiatives of First President of Kazakhstan on nuclear non-proliferation and confidence in our country.

It should be noted that low-enriched uranium stored in the Bank is a product of a higher level processing than uranium oxide, which is mined in the southern regions of our country. UMP has more than 45 years of history and experience in storing radioactive materials of various processes, including low enriched uranium. The best standards for ensuring physical security are implemented at the LEU Bank, which was confirmed by the IAEA inspection. When accepting the material, UMP specialists carried out all the necessary measurements in accordance with international and Kazakhstan standards. The radiation background was also monitored, which did not change at the border of the LEU Bank and remained at the level of the natural background after loading the material. IAEA experts monitored the entire course of the material placement process.

The process of selecting suppliers for the LEU Bank was held exclusively on a commercial basis, an open tender was held among all international suppliers. Kazatomprom presented one of the most advantageous offers and won the right to make about half of the deliveries to the LEU Bank. Kazatomprom's delivery was successfully completed in December 2019.

At the end of our interview, could you please share the Company's plans on development of activities along the entire chain of the nuclear fuel cycle?

As you know, the extracted natural uranium cannot be directly used as fuel for electricity production. It must first go through several stages of processing to turn it from ore to nuclear fuel bundles. The combination of these steps is called the nuclear fuel cycle.

As part of the work to further develop its technical capabilities in the nuclear fuel cycle, in early 2020, Kazatomprom received access to unique uranium refining and uranium conversion technologies from the Canadian company Cameco, which will allow our Company to begin the implementation of a project to first build a 6,000 tons/year refining plant on the territory of UMP

JSC. This refining technology is advanced in the world, and it differs from those existing in Kazakhstan in its compliance with higher environmental standards through the elimination of the discharge of liquid radioactive waste, and reduction of consumption of hazardous chemicals in the processing of natural uranium.

Using the conversion technology that was also acquired, Kazatomprom will also be able to build its own uranium conversion capacity in the event of a favorable market situation in the future.

The construction of the plant for production of fuel assemblies for Chinese nuclear power plants with a capacity of 200 tons per year (in terms of enriched uranium) is ongoing. The global pandemic has resulted in a need for us to make adjustments to the timing of putting the plant into operation, as equipment manufacturers from France, Germany and China are involved in the project.

At the beginning of 2020, the Company sold a 50% stake (minus 1 share) in Uranium Enrichment Center JSC to Rosatom State Corporation, its partner in this joint venture. This transaction allowed Kazatomprom to receive income in the amount of US\$ 100 million and to avoid significant additional capital outflow to UEC JSC. At the same time, Kazatomprom retained the right of access to uranium enrichment services on the same conditions, the reason for which UEC was originally created.

It should also be noted that Kazatomprom started paying more attention to the activities related to the development of marketing of rare metals - tantalum and beryllium. Rare metals and their compounds have a unique set of physicochemical properties and are widely used in instrumentation, mechanical engineering, metallurgy, nuclear energy and medicine.

To increase the effectiveness of our activities, we are actively implementing digitalization projects that allow us, due to data analytics, to plan mining and development work more accurately and of a higher quality. We also pay special attention to the automation of production processes and financial and economic activities.

In conclusion, I would like to note that uranium reserves are a long-term asset of the country, the management of which was entrusted to Kazatomprom. We manage this asset for the benefit of the present and future generations of Kazakhstan people.

Thank you very much, Mr. Pirmatov, for an interesting interview and your time.