
START OF RECORDING

Title of Meeting: KazAtomProm 2020 Operating and Financial Review Conference Call

Coordinator: Good day, ladies and gentlemen. Welcome to KazAtomProm's 2020 Operating and Financial Review Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session through the phone lines, and instructions will follow at that time.

I will now hand over to Director of Investor Relations, Cory Kos, to open the presentation. Go ahead, sir.

C. Kos: Good afternoon, and welcome to KazAtomProm's conference call to discuss the company's annual 2020 operating and financial results. My name is Cory Kos, Director of Investor Relations, and we thank you for taking the time to join us today.

Our conversation will begin with a presentation by our CEO followed by an opportunity for investors to ask questions. If you joined the webcast 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 2020 Conference Call slides.

Note that our press release full version of the operating and financial review, along with our audited 2020 financial statements are now available on KazAtomProm's website.

Particpating in today's call, we have Galymzhan Pirmatov, Chairman and Chief Executive Officer; Kamila Syzdykova, Chief Financial Officer; and Askar Batyrbayev, Chief Commercial Officer. This call is open to all stakeholders with the question and answer portion being intended as an opportunity for members of the investment community to ask their questions. Please note that the question and answer 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 Galymzhan.

G. Pirmatov

Thank you, Cory, and hello, everyone. Thank you for joining us today to discuss the current uranium market environment along with the key areas of interest from KazAtomProm's 2020 full-year operating and financial results which we released earlier today. We will get to some highlights from those results in a moment, but first, it's important to update you on COVID-19 and the global pandemic.

I think the word unprecedented has now joined the list of overused corporate words, but it's difficult not to use it just one more time to say that 2020 was an unprecedented year. The COVID-19 pandemic caused significant concern for people and businesses all over the world with each of us experiencing the effect of this terrible and deadly disease in some way. For many, managing through the related emotional and mental distress has been among the biggest challenges.

As a company, we have put the safety, health, and wellbeing of our employees and communities above all else including production and profit, and we will continue to do so.

As we discussed on our half-year conference call in August, we took early and decisive measures when the first cases of COVID were discovered in Kazakhstan in March 2020. We reduced staff levels to a minimum, suspended oil field development and other site activity, and introduced rigorous safety protocols at all our operations and offices.

In terms of the lessons learned during the second half of 2020, the recent localised COVID cases at KATCO, [indiscernible - 99:50] emphasised the need for continued vigilance. We adjusted the safety testing and quarantine protocols that we had in place across all our operations to ensure they remain effective.

Importantly, before employees are allowed to return home for a shift change, we ensure everyone tests negative adding a layer of protection for local communities. While the availability and distribution of vaccine has generated hope, it's clear that the world has not yet overcome this crisis.

Our risk mitigation and business continuity plans were put to the test as was the entire nuclear fuel cycle. I believe our character is determined by how we act in a crisis, and our company and industry rose to the challenge and responded based on our core values and determination. The industry response is starting to gain international attention.

In 2019 and early 2020, we had started to see nuclear being recognised more and more as an important part of the green economy working alongside renewals to combat climate change, improve air quality, and provide safe and reliable base load power.

When the pandemic took hold almost exactly a year ago, some started to question how nuclear might be impacted. If energy demand was down, uranium consumption could drop. If global economic uncertainty became a concern, carbon emission, clean air, and climate change initiatives might be put on hold.

I think it is safe to say that those concerns have largely been put to rest, and though 2020 was a challenge for all market participants, if anything, the health of people and our planet has become even more of a focus for companies, investors, and government.

The need for carbon-free base load electricity has been reinforced by the need for uninterrupted energy during times of crisis providing reliable power to homes, hospitals, and digital infrastructure. With the recent climate event in Texas, it’s obvious that operating [indiscernible - 102:14] is also a concern.

There is a growing focus on ensuring investment dollars are deployed ethically and responsibly in the capital markets. For example, we’re hearing about large funds declaring that they will move away from fossil fuel investments and push harder on green investments.

The chief of investment capital has required an ongoing review of what constitutes green, and those that are taking the time to effectively weigh the risk/reward are recognising the benefits of nuclear power generation. This has created an opportunity for increased promotion by the industry itself, and we are already seeing that happen through the WNA, NEI, and IEA and others.

In the context of green economies and reducing society’s impact on the environment, I believe we will be able to transform 2021 in subsequent years into a period of significant opportunity, particularly for the nuclear industry.

Nuclear provides about 10% of world electricity generation with new-build programs remaining on track in key jurisdictions. The expectation of continuous overall growth of about 1% to 1.5% per year net of closures means uranium demand is continuing to rise, but that’s not to say nuclear is finding widespread acceptance.

Contraction in the US has led to 11 reactors closing since 2013 with 8 now set to close within five years. This coming year alone, 5 are expected to begin decommissioning setting a green record for an annual drop in clean energy output in the US.

Since 2011, several others nations including Germany, Belgium, Spain, and Taiwan initiated plans to completely phase out their reactors. Others like Italy rolled back plans to introduce nuclear to their power grid, but despite those negative developments, the markets that are key to our industry growth story remain committed to their nuclear plans.

China recently released their 14th five-year plan which targets net-zero carbon emissions by 2060. The plan calls for 70 gigawatts from nuclear by 2025 up from 61 gigawatts at the end of 2020. By 2035, the country plans to have 180 [indiscernible - 104:55] nuclear generation in place. That represents only 5% of China's forecasted electricity generation, but it would still make them the largest global consumer of uranium by a significant margin.

So, today, long-term security of supplies undoubtedly are focused for the Chinese new-build program, and the large inventory they have built over the past decade is an absolute necessity. After all, reactors being built today can be expected to run safely until the year 2100.

India has also remained committed to an increased reliance on nuclear power along with countries like Argentina, Belarus, Japan, Romania, Russia, and UAE just to name a few.

On balance, we believe the long-term demand picture has gained some strength over the past year, but it was quite the opposite story for supply which was weakening prior to the pandemic and is now even more concerning. This is no surprise, based on mine suspensions and reduced operational activity, that the market found itself in a supply deficit in 2020.

COVID has sped up consumption of global inventory and moved us closer to a transition, but despite everything that has happened, we have not yet seen a widespread sentiment shift.

Price increased to $34 per pound in the second quarter of 2020, but it slid back to $30 per pound by year-end and has continued to decline. Although we ended 2020 with a slight deficit, the market has been relatively quiet so far in 2021. There simply continues to be spot material in the hands of intermediaries and some producers whose interest are not long term. With very little end user demand in the market in Q1, it doesn't take much in the way of mobile, near-term supply to push the market lower.

Geopolitical and trade concerns have decreased with the Section 232 US Nuclear Fuel Working Group recommendation and Russian suspension agreement issues being resolved, but end users of uranium fuel remain comfortable and covered for 2021 and 2022. This gives them time to sit back and assess the new uncertainty which is the future impact of this pandemic on the global supply picture.

The continued deferral of long-term activity for several years now leads to a common investor question. Is this market setting itself up to follow some other commodities and move away from long-term contracting? A complete shift to heavier spot market contracting seems unlikely as all aspects of both supply and demand in our business are long term.

The unexpected conversion market bottleneck that has developed over the years which was due to under-capacity in that part of the fuel cycle serves as a reminder that medium and long-term supply chain risk cannot be ignored.

If we take the third-party view that spot price is for uranium delivered in three months or less and that the spot market in general represents uranium for delivery in the next twelve months, it's hard to envision that complete shift to just-in-time uranium mining delivery.

On the supply side, uranium mines take time to bring into operation, so the market must provide producers with longer-term economic certainty in order to deploy the necessary capital and undertake the risks involved in mining. We're not going to invest time and money to restart or develop assets to meet demand five, ten years out in time if there is high potential for the price to drop right back to $18 again.

Moreover, the spot market volumes are far from big enough to supply the industry's annual needs, and that spot market is thinning. Relying on that thinning spot market and assuming the supply chain at each step will be perfect for something as critical as electricity infrastructure seems like too great of a risk with too much at stake. So, as the future balance of supply and demand becomes clear, it is widely believed that the next cycle of long-term contracting will drive market recovery. It's not a matter of if, but when.

Turning to our business and 2020 results, I can say that despite the year's difficulties, KazAtomProm performed exceptionally well. To name a few highlights, our strong environmental record remained intact, and we have continued to emphasise safety and near-miss reporting.

Safety statistics remain largely unchanged year-over-year, but we are continuing to implement international practices such as stop work cards for unsafe activities and focusing on a continued shift of the internal safety culture to improve safety performance.

Robust corporate governance also remains top of the mind to balance interests of all stakeholders. We added Marc Kasher to our board of directors, an independent director who brings strong capital market experience and additional financial expertise to the board.

In March, we sold all but one share in our Enrichment Centre joint venture to our Russian partner, TVEL, for €19 million. With the one share that we retained, we maintain access to Enrichment services according to the original agreement which is expected to benefit KazAtomProm and our customers in the future.

In June, we paid to shareholders our second dividend as a public company. Buying our dividend policy calculations to the 2019 results the payment was for over 99 billion tenge which well exceeded our IPO commitment to pay out a minimum of $200 million equivalent in 2020. Going forward, the dividend proposed by the board of directors to shareholders will continue to be calculated based on the dividend policy.

Also, note in June, our majority shareholder, Sovereign Welth Fund Samruk-Kazyna, funded a secondary offering of shares increasing KazAtomProm's free flow to the full 25% intended under the private division program. The transaction was well received and supported by the investment community and has added to the trading liquidity of KazAtomProm's shares at a time when we are seeing increased ownership interest.

In August, KazAtomProm was certified for compliance with the International Standard, ISO 45001 for our occupational health and safety management system, and ISO 14001 for our environmental management system. The certifications keep KazAtomProm on track to reducing and preventing occupational injuries, minimising risk to the environment and personnel, and delivering a more effective and continuously improving health, safety, and environmental program.

In November, several management changes took place with the new executive members now fully engaged in their respective roles.

Near year end in December, we also announced progress towards the sale of 49% share of Ortalyk operation to CGN PC, our Chinese partner in the fuel fabrication plant joint venture. If the Ortalyk sale is approved, the proceeds would be put to use in several areas including work to enhance our already strong environmental standards and some replacement capacity capital projects we need to complete in order to be ready for the potential future growth and production we see coming. We also plan to look at value creation opportunities in our [indiscernible - 113:23] business to support future profitability of the segment.

Turning to a short look at our 2020 financial results, the growth highlight is that we have once again delivered on our commitment and met or exceeded our guidance metrics. Production expectations were reduced in the first half of 2020 due to our actions to protect our people. So, the original plan to produce 20% below the Subsoil agreement was further reduced to be more than 30% lower than Subsoil contract levels.

We stuck to that modified plan, and compared to 2019, production ended the year about 15% lower on 100% basis and 19% lower for the volume attributable to KazAtomProm. We remained the largest seller of natural uranium in the market in 2020 delivering on every commitment without interruption and importantly, delivering far more than we produced.

This impacted inventory bringing the year-end level down to the bottom of our comfort zone of about six months of attributable production and requiring some small opportunistic purchases in the market.

With the success of our sales plan and rising uranium spot price, the company's average realised price increased by 10% fuelling an increase in our consolidated and uranium segment revenue which was 17% and 21% higher than 2019 respectively.

In terms of cost, C1 cash and all-in sustaining costs fell to $8.67 and $11.72 respectively while capex spending at the operations was down 9% year-over-year. All three areas were below the guided ranges and lower than last year largely due to the impact of reduced activity in quarter 2 and a weaker Kazakhstani tenge in 2020.

Delivering on our guidance meant that we continued to create value for our stakeholders. Adjusted annual net profit increased by 40% while adjusted EBITDA and adjusted EBITDA attributable to KazAtomProm both increased by over 30%.

Moving to 2021, despite ongoing risk related to COVID-19, we remain confident that we can deliver on our guidance. Firstly, central to our value strategy, we're continuing to produce at a level 20% lower than our Subsoil agreement for 2021 and 2022. We often get asked if we could reduce production further, but plus or minus 20% is the flexibility built into our contract with the Kazakh government, and while it would be possible to negotiate further reductions, we feel that with the current mining plan we're doing our part to build a healthy supply/demand bar.

Since our initial flex down of production in 2017, we have now removed more than 22,000 tons of uranium, over 57 million pounds from the industry's expected supply stack. As has been the case in previous years, we will make a decision for our 2023 production during the third quarter of 2021.

Our pipeline of contract discussions is expected to deliver sales at a similar level to 2020 which would, again, outpace production by over 1,000 tons of uranium. Regarding the recent Yellow Cake Option, they exercised their $100 million uranium purchase for 2021. This is a great development as we do not include that possible sale in our annual sales plan. When we make the purchase, it takes some pressure off the sales team, and it's potentially additive to our plan, but with ongoing contracting discussions elsewhere in the portfolio, we will not change guidance until we have more clarity in the year-end picture.

We expect to use production and inventory to fulfil the Yellow Cake obligation although we may also purchase some spot material since the spot price has fallen below the locked-in sale price creating an arbitrage opportunity and the chance to commit more pounds from spot.

Revenue is expected to be up next year compared to 2020, but it is the case every year to estimate revenue we apply an external third-party uranium price estimate. To the extent actual uranium prices are higher or lower than that, revenue could also be higher or lower. The third-party price used is not our expectation for 2021, but as a company controlling more than 40% of global supply we do not disclose our own internal estimate.

C1 and all-in costs are expected to be marginally higher than 2020 as we have returned to plan production levels that are 20% below subsoil agreements for 2021. Capex spending is expected to be higher for the same reason pending our ability to operate and complete projects at normal activity levels throughout the year.

As of late, we have see our share price rise to new highs in tandem with other uranium players in the equity markets although it has happened with little correlation to the uranium price. Since it is the commodity price that drives our financial results, we continue to believe that based on our anchor position in the uranium market and the increasingly positive market dynamics, the company continues to be undervalued.

Despite the general bullishness and excitement, our strategy has not changed. The management team and board of directors remain committed to value over volume in its decision making with the marketing and sales teams continuing to exercise discipline in their market activities.

So, we have maintained our lower-than-planned production levels and will continue to do so. Our marketing function has developed relationships and signed contracts with new markets and with new customers. We remain committed to our core business of uranium mining in the front end of the nuclear fuel cycle value chain.

The implementation of the strategy and the decisions we make will continue to be guided by a firm commitment to the highest standards of health, safety, environmental stewardship, and corporate governance.

The challenges faced during the pandemic did not prevent us from delivering under our contractual commitments to our customers, and as a result, we have reinforced KazAtomProm's reputation as a reliable partner and fuel supplier to the nuclear industry.

We are confident in the long-term fundamentals, and as the market transitions to a more rational price for the fuel the industry needs, KazAtomProm as a low-cost producer with substantial long-term reserves, remains best positioned to benefit from recovery.

Thanks for your interest and attention. We'll now take questions from stakeholders on the call.

C. Kos — Thank you, Galymzhan. I will pass back to the operator now for the Q&A session prior to answering the questions written on the webcast. So, go ahead, operator.

Coordinator — [Operator instructions]. Okay, our first question comes from Alexander Pierce from BMO. Please go ahead. You're live in the call.

A. Pierce — Great. Thank you. Just given the balance sheet is so strong right now, and you don't have any huge capex burden going forward, is there a chance that we could see dividends over and above the policy that you outlined earlier potentially in a special or something similar?

G. Pirmatov — Hi, Alex. Thank you. I hope you had a chance to get a coffee before we started our call a bit later than planned. Thank you for the question.

For the time being, Alex, we're going to certainly follow the dividend policy. Board will make its recommendation soon for the AGM. We'll go from there. You're absolutely right that we have a very strong balance sheet and in a position to significantly increase dividends if board recommends and shareholders approve.

A. Pierce — Okay, great. Thank you.

Coordinator — Our next question is from Ilda Davlechin [ph] from Ilda Davlechin. Please go ahead. You're live in the call.

I. Davlechin — Good afternoon. Thank you. This is Ilda Davlechin from Wood & Company. I want to ask a question on the contract. Last year because of COVID, I think the opportunity to negotiate was reduced. Now, where do you see yourself now in negotiations with key customers? I think you mentioned that you signed contracts with new customers. It would be great to know what sort of pricing formula you have, like how much is linked to spot. Is there any change relative to recent contracts in the new contracts, and generally, do you see improving higher demand, or is it still similar to last year? Thank you.

G. Pirmatov — Thank you. Great question. As we continue to say, we are very positive on the mid to long-term perspective, so at the moment, we're not prepared to fix prices at this level, so we continue to prefer pretty much spot at the time of delivery. Yes, our marketing team is continuing to work with the new customers, especially in North America. Yes, we haven't been able to travel, but we hope we can renew those activities face-to-face soon, but we've been participating in all of the RFPs and online contacts. So, pretty much excited to continue as we've been doing so far.

I. Davlechin — Alright, thank you.

Coordinator — Our next question is from Boris Sinitsyn from VTB Capital. Please go ahead. You're live in the call.

B. Sinitsyn — Galymzhan, thanks for the presentation and congratulations for the results. Two questions from me, please. Firstly, on your capex guidance, if I remember correctly, during the first half of 2020 financial results, you were expecting to kind of trim 2021 capex a bit, so the figure announced was slightly above expectations.

The question is what is the driver and how it might affect your production in 2021, 2022, and 2023 if anything. That's the first one. Thank you.

G. Pirmatov — Thank you, Boris. In terms of capex, it is in line with our normal going rate. It's just more than 2020 because 2020 for four months we hadn't really done drilling and new oil field development and some other work, and some of the capex was delayed into 2021. Going forward, this is kind of a normal number.

If you remember, if you look at our all-included and cash costs, the difference is literally what it is per pound to get pounds ready for mining, so that gives you a really good indictor if you want to forecast how much we're going to be spending on sustaining capital. You can pretty much use our guidance for production and difference between all-including sustainable capital and cash costs. The difference per pound gives you a rough number pretty much very accurate.

B. Sinitsyn — Okay, thanks, and follow up on this. Do you think that some portion of this capex might relate to your optionality in terms of production growth in case global uranium market improves in the next few years?

G. Pirmatov — Not really. You know, we're already in the work preparing for 2022 and 2023 capex plan that will have some of the capex giving us much better readiness for increased production probably 2024 or beyond, but 2021 capex now this is purely sustaining current levels of production.

B. Sinitsyn — Got it. Thank you. The second question from me is on working capital. It looks like you had 2020 a bit higher inventory also probably

	receivables. So, what's your outlook for structural change and turnover in 2021 with the rest of the working capital?
G. Pirmatov	Boris, it's pretty much going to be at the same level. Kamila, do you want to add details?
K. Syzdykova	Yes, Boris, thank you. So, for the inventory levels, we stick to our guidance of six to seven months of attributable production in inventory, so during the year, we dive a little bit into the inventory levels, so we beat it by the end of the year. As for the receivables, you know, it's just really normal course of the business. Some of the deliveries are done during the last question, so they would come in this year. We don't really expect any structural changes in our working capital going forward.
B. Sinitsyn	Okay, thank you so much.
Coordinator	There are no further questions on this line. I will now pass on the question and answer session to my colleague.
Coordinator 2	[Operator instructions].
Coordinator	Okay, we have a question on the audio line. Our next question again is from Boris Sinitsyn from VTB Capital. Please go ahead, Boris. You're live in the call.
B. Sinitsyn	Thanks. Actually, I had a third question, so since nobody's asking it, I'll ask. Thanks for the opportunity. I have a question on the market. China announced its next five-year plan. It was about economic development which included the new plans for nuclear capacity. What's your view on this? How does it affect your market outlook for the next five year?
G. Pirmatov	Thank you, Boris. You know, this last 14th five-year plan, and hear announcements around that, the confirmed Chinese commitment to nuclear, they really want to go to 180 gigawatts capacity going from 51 end of last year to 70 before end of this five-year plan which really shows the commitment. Frankly, from some of the comments coming from China around discussions to build strategic stockpiles of uranium, it's something I think some of the market participants are missing. We actually really see a serious interest from Sovereign to build strategic stockpiles, and I do believe that they are looking at mid to long-term supply/demand picture. I'm not going to be surprised that they're actually going to act first before some of the utilities may come to market and stop covering their long-term need.

B. Sinitsyn — Thank you. Very interesting.

Coordinator — We have no further questions on this line. I will now pass to the management team for written questions.

C. Kos — Thank you, operator. Okay, on the submitted questions, we have two. The first is from Jason at CFM Capital, a question for Galymzhan. "With the recent news of the Yellow Cake and Denison Mines both announcing their purchasing uranium on the spot market, what is KazAtomProm's thoughts on being able to also buy from the spot market in order to meet the requirements and fulfil our committed contracts?"

G. Pirmatov — Thank you. Yes, I mean, we all along communicate that we will opportunistically use buying in the market when and if there is a commercial sense. With Yellow Cake, yes a sizable part of that will be bought in the market. As you've seen the price the price that we fixed with Yellow Cake for that $100 million contract is about what today's price, so the contract price with Yellow cake was $28.95, and today we're above $27 in the market.

So, that also makes sense for us to get into market to cover sizable part of the delivery bearing in mind our inventory levels are at the lower end of our comfort zone. We'll continue to be so, so it makes perfect sense for us to continue to look at the market then for opportunities to buy to cover those deliveries.

C. Kos — Thank you. Our second question on the typed in questions is from Daniel Selacov [ph] at [indiscernible - 134:56]. "Do you expect the taxation burden will increase for uranium companies any time soon in Kazakhstan?"

G. Pirmatov — Thank you. No, we don't expect taxation to change any time soon in Kazakhstan, no.

C. Kos — Okay, those are the only submitted question we had. I'll just remind anybody listening that if any questions do come to mind, by all means, please reach out to KazAtomProm, our IR team, our PR team. We're more than happy to engage in conversation at any time. So, I'll just briefly hand over back to Galymzhan for a quick closing.

G. Pirmatov — Thank you, Cory. Thank you, everybody, for taking the time to join us for the call. As always, if there are any questions, just please reach out. In the meantime, please be safe, and take good care of yourself. Thank you.

Coordinator	Thank you. Ladies and gentlemen, that concludes your conference call for today. You may now disconnect. Thank you for joining, and have a very good day.

[END OF CALL]