

THE LEADING SOURCE FOR TIMELY MARKET INFORMATION

UxC Interview with Mr. Galymzhan Pirmatov, CEO of NAC Kazatomprom

UxC Senior Vice President, Policy, Anna Bryndza, recently had the opportunity to interview Mr. Galymzhan Pirmatov, CEO of NAC Kazatomprom. Mr. Pirmatov kindly shared with UxC the company’s latest updates as the company adapts to a changing world in response to the COVID-19 pandemic, among other challenges.

Anna Bryndza: *We are grateful for the opportunity to speak with you about the company’s latest developments to adjust to an altered supply and demand landscape amid a pandemic. It will come as no surprise that the first several questions are directly related to Kazatomprom’s actions in response to the COVID-19 pandemic. In the wake of the pandemic, Kazatomprom has announced a reduction of the anticipated 2020 Kazakh uranium production levels. Could you please address the company’s challenges of producing uranium in the middle of a pandemic and how you are dealing with them?*

Galymzhan Pirmatov: Thank you for invitation to share our latest developments with you and your industry readers. It is a pleasure to speak with you.

The coronavirus outbreak is first and foremost a global human emergency, affecting millions of people. It is important to underscore that our immediate response to the COVID-19 pandemic has been to implement measures to keep our people safe, ensure the environment is protected and our assets are properly managed during this global pandemic, including increased hygiene measures, distance working and social distancing. This was announced in our March 16 press release.



| Ux Price Indicators | | | | | |
|---|--------------|--------------------------|---|-----------|---------|
| Weekly Ux U₃O₈ Price[®] (4/27/20) | | \$32.75 (+\$0.75) | | | |
| Ux 3-Yr U ₃ O ₈ Price | | \$36.50 | Ux 5-Yr U ₃ O ₈ Price | | \$39.75 |
| Month-end (4/27/20) *Calculated values | | | | | |
| U ₃ O ₈ | Spot | \$32.75 | Conversion | NA Spot | \$22.25 |
| | Spot MAP* | \$30.49 | | NA Term | \$18.00 |
| | 3-Yr Forward | \$36.50 | | EU Spot | \$22.00 |
| | 5-Yr Forward | \$39.75 | | EU Term | \$17.75 |
| | Long-Term | \$33.00 | | | |
| UF ₆ Spot | NA Price | \$106.50 | SWU | Spot | \$46.50 |
| | NA Value* | \$107.82 | | Long-Term | \$49.00 |
| | EU Value* | \$107.57 | | EUP | |
| | | | | NA Spot* | \$1,392 |
| | | | | NA Term* | \$1,370 |

However, as the number of cases of COVID-19 went up in the regions in which we operate, and bearing in mind that our employees come from many different parts of the country, we recognized that the risks of infection at site and in the local communities was increasing to a point where it became necessary to reduce staffing at the mines to the absolute minimum in order to reduce the risk of infection. At the same time, we altered our shift change schedules at our sites to limit the risk of importing the virus from outside the mines. The consequence of the staff reductions is that some activities at the mines have had to stop, including our ongoing wellfield development. We continue to produce from active fields, but as the new wellfields scheduled to begin acidification and production will be delayed, this will lead to a reduction in production for 2020, as we advised. Our disclosures are an essential part of the Kazatomprom’s commitment to transparency and strong governance.

Anna Bryndza: *Kazatomprom has announced COVID-19 safety and protective measures that could result in a reduction of up to 4,000 tU in total 2020 Kazakh uranium production. What operational assumptions would be involved a 4,000 tU reduction? Will the production cuts be proportional across all of Kazakhstan’s ISR mines or will some mines be more heavily impacted than others?*

Galymzhan Pirmatov: The reduction is based on an assumption of reduced activity period of up to 3 months. On this basis, our initial estimates are reduction of up to 4,000 tU in 2020. This tonnage will not

be made up later in the year or in 2021, nor is there a clear picture at this stage of the potential impact on 2021 production levels.

These are not production cuts. As such, they cannot be proportional. Given the different geology at each location and variability in mine plans, the reduction in operations will impact each mine differently. Some mines will lose more production than others; the guidance we provided shows the estimated impact across all mines.

Anna Bryndza: *As the latest COVID-19 production curtailment occurs on top of production cutbacks announced in August 2019, several Kazakh uranium mines are now operating below their subsoil use agreement levels. Therefore, if the pandemic continues to constrain production for an extended period, do you foresee the need to amend existing subsoil use agreements to account for mines operating below their legally binding agreements?*

Galymzhan Pirmatov: This force majeure situation reflects exceptional circumstances we find ourselves in. Typically, a failure to meet the subsoil use contract volumes (outside of the allowable +/-20% band) would result in the potential review by the state authorities. However, given the situation, we continue to work with the appropriate government bodies, and do not believe the subsoil use contracts will be affected.

Anna Bryndza: *A key question among your clients is whether reduced Kazakh production will impact Kazatomprom's ability to meet its contractual commitments. How does Kazatomprom plan to meet contractual commitments amid the projected production decrease? Does Kazatomprom have any plan in place to purchase or borrow uranium from market entities should its uranium operations be heavily impacted by COVID-19?*

Galymzhan Pirmatov: Kazatomprom has notified its customers that it will not be issuing any force majeure notices with respect to its sales obligations.

At the beginning of the year, we indicated that the Company would not be selling material into the spot market, as its pipeline of forward commitments was expected to exceed its attributable production guidance for 2020. This deficit is now bigger, given the expectation of lower annual attributable production. The Company targets an inventory level of 6-7 months of attributable production, and therefore we hold sufficient inventory to cover the lost tonnage in the short term.

Should the Company need to purchase material in the market to ensure that all supply agreements are fulfilled, it is very well positioned to do so, both technically through the use of its trading subsidiary THK, and financially, being well capitalized with low debt levels and untapped lines of credit.

Anna Bryndza: *What are your chief concerns regarding transporting Kazakh uranium abroad amid the pandemic? Do you view logistics and transportation disruptions as a major risk at this time?*

Galymzhan Pirmatov: The benefit of uranium is that global annual consumption would fit into one medium-sized coal vessel. With such small volumes being shipped around the world, logistical constraints are much less of a concern than other energy sources such as fossil fuels.

Anna Bryndza: *At this time, Kazatomprom is focused on keeping Kazakh production online while utilizing minimal personnel at its projects. Once Kazatomprom ends operational restrictions due to COVID-19, how soon will it be before the company is able to return to previously targeted production levels? Do you expect that limited wellfield development in 2020 could also impact 2021 Kazakh uranium production?*

Galymzhan Pirmatov: Our primary focus is on keeping people safe. We have never gone through a change to our operations of this nature and scale in our 22-year history. Though we are doing our utmost to ensure the proper care and maintenance of our wellfields, the impacts both short and long term will depend on many variables, not least of which is how long these restrictive conditions will last. What we do know is that ramping up the mines will be a well-planned process over several months, given that the nature of our production is 100% ISR. Once we are able to relax the current health and safety measures and staff returns to site and resumes drilling, acidifying, and outfitting new wellfields, it will take time for that work to bear fruit and return the sites to planned weekly and monthly production levels.

Anna Bryndza: *The final question related to the COVID-19 production disruption is forward-looking. Will the current COVID-19 pandemic impact Kazatomprom's exploration activities at developing deposits, such as Budenovskoye 6 & 7, Togusken, East Zhalpak, and Akkum?*

Galymzhan Pirmatov: All exploration and drilling activities have been stopped. As a result, there is likely to be deviations from the exploration plans. When we are able to resume mining activities, our drilling rigs will be prioritized for recommencing production and exploration work based on the latest information and plans at the time.

Anna Bryndza: *Kazatomprom's relationship with traders has certainly evolved over the years. How does Kazatomprom view the role of traders in the nuclear fuel market and could you please describe the company's current relationship with traders?*

Galymzhan Pirmatov: Traders will need to reinvent themselves if they are going to remain relevant. They played a vital role bridging the gap between an oversupplied spot market and the rolling near- to mid-term procurement needs of utilities in the 1-3 year time frame. What they don't currently offer is security of supply in the market, given their limited ability to carry uncommitted inventory, and it is difficult to see the value they currently bring beyond the carry trade. But the market has changed, and the carry trade is itself looking increasingly obsolete, as the uranium spot market shifts from a decade of surplus to a deficit. However, traders are resilient

and adaptable; when Darwin talked about the survival of the fittest, he did not mean the strongest, but rather those most able to adapt to changes in their environment. The same is true in markets.

Anna Bryndza: *Related to the question above is the increased role over the last few years of spot market and carry trade activity compared with traditional long-term contracting by utilities. What are Kazatomprom's views on utility procurement trends and where does the company see the future balance between long-term contracting and spot market/carry trade opportunities?*

Galymzhan Pirmatov: As I mentioned, the operation of a nuclear reactor is a long-term endeavor, and when security of supply becomes a concern, the priority for end-users of uranium will be to secure a more extensive pipeline of reactor fuel. There are a limited number of players in the market who can truly be relied upon to be there decades from now and with whom utilities feel confident about signing under long-term contracts.

Anna Bryndza: *Kazatomprom recently announced a sale of its stake in a joint enrichment partnership with Russia's TVEL, Uranium Enrichment Center. This followed the company's prominent EUP sale to IAEA to form a fuel bank. What does this sale mean for Kazatomprom's ability to continue offering enrichment services? Does Kazatomprom still aspire to be an integrated nuclear fuel company or has the company's vision been changed?*

Galymzhan Pirmatov: Kazatomprom retains one share in the UEC joint venture and with that share, the Company also retains all previous off-take rights. As such, its ability to supply products across the front end of the nuclear fuel cycle remains unchanged. As was laid out in KAP's 2018-2028 Development Strategy, the Company's focus is primarily on what it believes to be the most attractive segment of the nuclear fuel cycle and that is mining.

And within uranium mining, ISR in Kazakhstan has clear competitive advantages of being large scale, lowest cost, highly flexible and provides the most environmentally friendly uranium extraction method. With a resource base of almost 500,000 tU, mining is clearly going to be the Company's core focus and capital allocation decisions will generally reflect that priority.

That said, when you are the largest seller of uranium in the world, you need to be flexible and responsive to each individual customer's needs, which includes the ability to offer uranium in all forms from U_3O_8 to full fuel assemblies and we clearly want to retain the ability to do so.

Anna Bryndza: *Galymzhan Pirmatov, is there anything you would like to address that we haven't touched upon yet or any final words to our industry readers?*

Galymzhan Pirmatov: Kazatomprom has delivered on every contract in its 22-year history. We believe this dependability is the cornerstone of our relationships with nuclear

power plant operators around the world. Our commitment to our nuclear power plant customers is part of the nuclear promise of resilient, clean and cost effective baseload power so critical to keeping our societies safe and well at times such as these.

Anna Bryndza: *On behalf of both UxC and our Ux Weekly readers, I want to thank you for taking the time to answer the questions that are on the minds of many in the industry and for your valuable and enlightening insights.*