Kazatomprom FY2021 Results | Conference Call, March 16, 2022

Cory Kos:

Good afternoon and welcome to Kazatomprom's conference call to discuss the Company's 2021 Annual 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.

Cory Kos:

Our conversation today will begin with a presentation by our CEO, followed by an opportunity for investors to ask 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 "2021 Annual Conference Call Slides". Note that our press release, full version of the Annual Operating and Financial Review, along with our audited 2021 financial statements, are now available on Kazatomprom's website.

Cory Kos:

Participating in today's call we have Mazhit Sharipov, 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 intended to be an opportunity for members of the investment community to ask management 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.

Cory Kos:

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. Sharipov.

Mazhit Sharipov:

Thank you, Cory, good day, dear ladies and gentlemen. I am delighted to welcome all participants and would like to thank you for joining our conference call to review Kazatomprom's 2021 annual results, which were released today.

Mazhit Sharipov:

I would like to start today's call with a discussion of the significant events that have recently taken place in both Kazakhstan and internationally. At the beginning of 2022, our country, the world's largest producer of natural uranium, experienced a tragic series of events in the first days of the new year, events that still echo in the hearts of every citizen of our country. The peaceful protests, which turned into riots, resulted in a state of emergency being declared throughout Kazakhstan, with restrictions on movement and short-term interruptions to the internet, banking services, and transportation sectors. The Company promptly took all necessary measures to prevent any negative impacts on our operations and ensured the safety of all personnel and operations.

Mazhit Sharipov:

January's tragic events did not have a tangible impact on the Company's activities. All of Kazatomprom's facilities have been operating without interruption thanks to the Company's responsiveness, flexibility and lessons learned during the COVID-19 pandemic. Kazatomprom's risk management and business continuity plans have proven to be reliable and have helped prevent delays or disruptions in the Company's uranium production and sales plans. On behalf of the Company, I would like to express gratitude to our employees for their unity and dedication to our corporate values, and thanks to our partners, our customers, and shareholders for the support provided in such a difficult period for the whole country. These events definitely made Kazakhstan stronger and more united.

Mazhit Sharipov:

Now, at the end of February, the escalation of the Russian-Ukrainian conflict led to the military actions on the territory of Ukraine. Our hearts are with all the victims of this conflict and we are hoping a peaceful resolution comes very soon. While the sanctions imposed by various countries against Russia have not directly affected the uranium and nuclear industry to date, Kazatomprom continues to carefully assesses all potential risks in four key areas: The first area is the Company's long-term partnership with the Rosatom group of companies, which jointly owns five uranium mining enterprises in Kazakhstan. The total uranium production from those JVs on a 100% basis amounted to about 40% of Kazatomprom's consolidated volume in 2021. In addition to the mining operations, the Company also has access to uranium enrichment services at the Russian enrichment plant in Novouralsk.

Mazhit Sharipov:

A second area is associated with the transportation of our products through a Russian port for trans-shipment to western customers. It is important to first note that this route has not been interrupted to date. Regardless, in 2018, we established and have successfully utilized an alternative route that does not enter the Russian Federation – a route we would be ready to use if needed. In addition to physical deliveries, the company has the ability to negotiate swaps with its partners and customers for material already at Western converters, which will also help mitigate the risks to the sales plan – which again, has not been affected to date. The Company continues to monitor current situation and will take all necessary measures to minimize potential risks in order to prevent any potential negative impact on its business.

Mazhit Sharipov:

The third area being assessed pertains to the fluctuations in exchange rates. Since the beginning of 2022, the Kazakhstani tenge has depreciated by more than 15%, following the weakening of the Russian ruble, which could increase inflationary pressure and result in offsetting the benefit from increased tenge-based revenue.

Mazhit Sharipov:

The fourth risk area is a disruption of supply chains and imports from and through Russia and in general. The situation is changing every day and it is therefore difficult to predict the potential impact and consequences on Kazatomprom's activities, but the Company will work diligently to protect the interests of all its stakeholders.

Let me now turn to the main purpose of today's call which is a discussion of our 2021 results. We are seeing growing concern around energy security and diversification, which has brought nuclear power back into focus as an indispensable alternative to carbon-generating sources.

Mazhit Sharipov:

In November 2021, the United Nations Climate Change Conference - COP26, held in Glasgow - culminated in an agreement known as the Glasgow Climate Pact. The agreement recognizes the need to take action to reduce global greenhouse gas emissions, including reducing global carbon dioxide emissions by 45% by 2030, compared to 2010 levels. The agreement then calls for further reductions to deliver net-zero emissions by mid-century through the rapid expansion of cleaner energy and measures to improve energy efficiency.

Mazhit Sharipov:

Another major global policy development in 2021 was the completion of the European Commission's green finance taxonomy, which includes certain activities in the nuclear industry as a transitional energy technology. The classification of investments in nuclear power as “green” could lead to an increase in new nuclear power plant construction projects and life extensions for existing nuclear power plants in Europe. Thus, the world’s increasing priority on environmental protection, industrial safety, social responsibility, and strong governance to guide decision-making, is becoming increasingly important. It is clear that the path to lower carbon and the transition to carbon neutrality lies in both minimizing the impact of industrial activities on the environment, and through an increased emphasis on low-carbon sources of electricity generation. That emphasis must include increasing the use of renewable and alternative energy sources, and maximizing the potential of nuclear power. Kazatomprom, as a responsible leader in the uranium mining industry, is aware of its role in the development of the ESG agenda for the uranium and nuclear sectors.

Mazhit Sharipov:

As the world's leading producer and supplier of natural uranium, Kazatomprom plays a significant role in the world’s energy transition efforts. We are proud to represent the industrial strength of Kazakhstan on the global stage, and we are guided by our desire to serve communities and protect the environment locally, regionally and globally, while delivering sustainable value and long-term growth. In 2021, more than 45% of the world's uranium production came from Kazakhstan, with a quarter of the world's primary supplies directly from Kazatomprom, which sold uranium products to 21 customers in 8 countries last year. 100% of the uranium produced in Kazakhstan is mined using in-situ recovery, which in addition to being a low-cost way to extract uranium, is the most environmentally friendly production method with a minimal impact on the environment, biodiversity, water resources and public health.

Mazhit Sharipov:

Minimizing and mitigating the impacts of our activities through responsible land and water management is a central part of our business strategy. However, above all, employees are our key resource. The Company works to protect the health and safety, as well as the interests and motivation of its staff. Thus, it was decided to increase wages in 2021 and implement an indexation payment to personnel based on annual results. In addition, the Company decided to increase the salaries of employees at the operations by 10% beginning April 1, 2022. Thus, since the beginning of the year, the total increase in labor costs in 2022 is expected to be more than 20%. Despite having a strong ESG record, the Company will not be complacent and has set ambitious goals in 2022. Specifically, the Company plans to obtain an independent

ESG rating and develop medium- and long-term ESG goals with specific quantitative and qualitative targets.

Mazhit Sharipov:

We are aware that our responsibility goes beyond offices and production sites and we therefore actively support the development and growth in the regions where the Company operates, contributing financially to build and maintain socially significant facilities, and to improving the welfare of local citizens. We have also implemented a real-time radiation monitoring in the nearby areas, ensuring an immediate response to any unusual conditions.

Thanks to our significant reserves, flexible mining method and highly profitable economic model, our business can respond sustainably and profitably to changing market conditions in the future.

Mazhit Sharipov:

Moving on to the market environment, 2021 was a transformational year for uranium. While the sector showed some improvement in the first half of 2021, the impact of COVID-19 and the global pandemic was still evident. Demand from financial players and their active purchasing activity on the spot market in the second half of 2021 contributed to a sharp increase in the spot price, as the supply of uranium in the spot market seemed to have decreased faster than many market participants expected. That unprecedented activity from financial institutions made it quite clear that the spot market is not large enough to meet the annual needs of the industry, particularly as the level of uncontracted annual needs grows, and overall demand increases, as is anticipated. Relying on an opaque and volatile spot market for supply chain stability in a sector as vital as electricity infrastructure, is simply too big of a risk for utilities.

Mazhit Sharipov:

According to third-party sources, spot transaction volumes for 2021 were 25% higher than last year. With the increased demand, the average weekly spot price was $35.05 per pound U3O8, compared to $29.60 per pound in 2020. There was also an increase of about 36% in long-term contracting volumes, leading to a rise in the long-term price by $8 per pound, averaging $42.75 per pound in 2021. End-user utility sentiment has also been increasingly positive in recognizing the need for primary producers to invest in supply, and a growing number of utilities have begun to consider new medium- and long-term contracts with pricing mechanisms largely exposed to spot prices. This confirms that the market has begun to transition as it recognizes the growing potential for a primary supply shortfall. Over the current decade and beyond, demand for uranium and support for nuclear power in general continues to grow.

Mazhit Sharipov:

And Kazatomprom's view is in line with third party forecasts, indicating both primary capacity and secondary supply are on a downward trend, with a high probability of being well below the industry's needs by 2030. In order to quickly respond to long-term market demand and maintain some of the lowest uranium mining costs in the world, at the end of 2021 we announced the transition of blocks 6 and 7 of the Budenovskoye deposit into commercial production starting in 2024. We remain committed to our long term value strategy while maintaining our key competitive advantage – low costs. In line with its market-centric strategy, the additional production from JV Budenovskoye is expected to help offset future inflationary pressures and maintain the Company's low-cost advantage. It is also important to note that the entire production volume from JV Budenovskoye during its ramp-up period from 2024 to 2026, has been fully contracted.

Mazhit Sharipov:

The rapid global shift towards clean energy has created a compelling investment case for the uranium industry, but despite growing interest from a number of international and regional investors, access to physical uranium investment has been limited to two western-based uranium funds. So, in 2021, Kazatomprom decided to participate in the launch of the ANU Energy physical uranium fund. Kazatomprom invested alongside the National Investment Corporation of the National Bank of Kazakhstan JSC, each with a 48.5% stake, and the fund manager, Genchi Global Limited, contributing a 3% stake. Under the fund's framework agreement, Kazatomprom will be the supplier of uranium, and in order to maintain a balance of supply and demand in the market, protective mechanisms, including restrictions related to the price, timing and volumes of any uranium sold, as well as the pre-emptive right to buy uranium are part of the agreement.

Mazhit Sharipov:

The fund is now operating and is expected to complete its initial 50 million dollar purchase of uranium from KAP in the first half of 2022, and it is evaluating market opportunities to raise capital for further uranium purchases. Moving to Kazatomprom's activities and the results, occupational health and safety remained a key priority, but in 2021 we saw an increase in the frequency of injuries and accidents, including two tragic fatalities following a highway accident. The Company will continue to improve procedures and programs, with proactive learning in 2022. In terms of employee safety and health protection in the context of the pandemic, each of the Group's uranium mines has reached 90% full immunization coverage to date, with several operations now 100% vaccinated. Since the beginning of this year, a large-scale, high-paced revaccination program has been launched to ensure ongoing protection.

Mazhit Sharipov:

Despite all the difficulties of the last year, Kazatomprom generated very good results in several key areas: Strong corporate governance has remained a priority in balancing the interests of all stakeholders. In 2021, there were changes in the composition of the Board of Directors, 25% of whom are now women. An independent assessment by an independent, Big 4 consultant affirmed a corporate governance rating of 'A' this past year, increasing from the Company's previous 'BB' rating in 2020. In July, we completed a dividend payout that increased 52% year-on-year, demonstrating the Company's commitment to maximizing shareholder returns, even in a very challenging economic environment. Also in July, the Company announced the closing of a deal to sell a 49% stake in our Ortalyk mining operation. The completion of the transaction was part of a broader 2014 cooperation agreement between Kazatomprom and our Chinese partner, which also included the construction of a fuel assembly facility at the Ulba Metallurgical Plant, with a CGN's commitment to purchase the plant's full output for 20 years.

Mazhit Sharipov:

In September 2021, the plant was recognized as a certified supplier of fuel assemblies to nuclear power plants in the People's Republic of China, and the facility began ramping up operations. An important development in 2021, not only for Kazatomprom, but for the industry as a whole, was our announcement to extend the 20% reduction in production volumes compared to the levels of subsoil use contracts, for another year. It is expected that this decision will removed up to 5 thousand tons of uranium from the expected volume of the world's primary production in 2023. Despite our increasingly optimistic view and visible improvements in the market, we want to be confident in the fundamental drivers of demand growth and see stable interest in long term contracting, to be sure we are not succumbing to speculative, near-term market fluctuations.

Mazhit Sharipov:

In September 2021, there was also a change in the CEO when Galymzhan Pirmatov, who made a huge contribution to the development of Kazatomprom and the industry as a whole, decided to pursue other opportunities. Turning to our production and financial results for 2021, I am proud to confirm that we once again delivered on our guidance, achieving and in some cases exceeding our indicators for 2021. Kazatomprom's production volume on both a 100% and attributable basis increased by 12 and 10 percent, respectively, in 2021. We have also maintained our position as the largest seller of natural uranium in 2021, delivering in excess of our production.

Mazhit Sharipov:

In both 2020 and 2021, we established relationships with new customers in new geographies and of note, have been successful in increasing the proportion of sales to the Americas region. As a result of production, sales and small, opportunistic purchases from time to time in 2021, the Company's inventory increased by 14%, remaining in line with the target inventory level of 6-7 months of attributable production.

Mazhit Sharipov:

Inventory was driven up by higher production compared to 2020 and by purchased material, and it serves to de-risk our 2022 sales plan by having material at different locations globally, and having more material to sell into an improving market. Thanks to our successful implementation of the sales plan and the increase in the spot price of uranium, the Company's average realized price in US dollars increased by 9%, which also led to an increase in both consolidated and uranium segment revenue by 18% compared to 2020. However, due to increased uranium spot price volatility during 2021, the Company's average realized price for the year was approximately 8% below the average weekly uranium spot price.

Mazhit Sharipov:

During the fourth quarter, many deliveries were based on contract price mechanisms that established a price per pound for the delivery set earlier in the year, when the market price was lower and prior to the sharp increase in the market price in September 2021 that drove the annual market average higher. We are continuing to optimize sales based on current market conditions, with a focus on contracts with utilities linked to spot prices, in order to benefit from the strengthening market. On the cost side, C1 Cash Cost and All in Sustaining Cash Cost showed marginal increases year-on-year, to $8.80 and $12.63 US dollars, respectively.

Mazhit Sharipov:

Capital expenditures of the mining entities increased by 46% in 2021 compared to 2020 due to the 4-month suspension of mining operations in 2020 related to the COVID-19 pandemic, and higher planned spending in 2021. All three cost indicators remained better than expected and below the guided ranges presented for 2021. At the end of 2021, adjusted net income and adjusted EBITDA increased by 10% and 7%, respectively.

Mazhit Sharipov:

Looking ahead to the current plan for 2022 in a volatile and unprecedented environment, we expect to deliver on our plans and achieve our guidance. First, while remaining committed to our long-term value creation strategy, a 20% reduction in planned production volumes, compared to planned production levels under Subsoil Use Contracts, will continue in 2022 and 2023. Despite a significant improvement in the market situation and the continued increase in spot prices, we do not plan to revise our decision regarding production volumes for 2023.

Mazhit Sharipov:

With regard to production plans for 2024, a decision will be made in the second quarter of this year and announced in the third quarter. Kazatomprom believes the optimal market scenario is where long-term and sustainable growth is based on mutually beneficial agreements directly between utility customers and uranium producers. This direct relationship is particularly important in times of uncertain energy security and geopolitical turbulence, when the predictability and reliability of supply is critical. We see how some market participants, guided by short-term benefits, seek to take advantage of existing volatility and "fill" their sales portfolios, sometimes at the cost of long-term opportunities and benefits.

Mazhit Sharipov:

Kazatomprom is not taking that approach. 2022 production is expected to be between 21,000 and 22,000 tons of uranium on a 100% basis, similar to the result from last year. However, the pandemic is affecting the entire production supply chain, leading to shortages of key materials, reagents and equipment, and negatively impacting field development schedules in 2021. The resulting additional production risk in 2022 is what drove a wider forecast range to the downside, in terms of anticipated production volumes. Attributable production in 2022 is expected to be between 10,900 and 11,500 tons of uranium, slightly below 2021 levels due to the sale of a 49% share in Ortalyk in mid-2021, as well as ongoing risks in the supply chain.

Mazhit Sharipov:

2022 sales expectations are also in line with the market-focused strategy. The Group expects sales in 2022 to be between 16,300 and 16,800 tons of uranium, including expectations for KAP sales in the range of 13,400 to 13,900 tons of uranium, similar to 2021 volumes. The Company's sales are expected to again exceed production levels.

Mazhit Sharipov:

In 2022 we may also purchase material on the spot market when we see opportunities. The target inventory level remains unchanged at approximately six to seven months of the Company's attributable production volume. 2022 revenue is expected to exceed 2021. However, in line with established practices, given that Kazatomprom controls more than 40% of uranium supply, we do not present our own uranium price forecasts. As such, our revenue expectations are based solely on third party assumptions taken from external sources. Therefore, revenue may change depending on how actual prices differ from the forecast prices used in our budget last September.

Mazhit Sharipov:

Both C1 costs and All-in Sustaining Cash Costs, as well as capital expenditures, are expected to be higher in 2022 than in 2021. Difficulties with the supply of necessary raw materials, including inflationary pressure on production materials and reagents, is expected to continue throughout 2022, which could affect the Company's financial performance. The Company's performance can be materially affected by fluctuations in the exchange rate of Tenge against the US dollar. To date in 2022, the actual exchange rate has already deviated by more than 15% from the rate used to determine these financial expectations. Potential changes in the tax code of the Republic of Kazakhstan could result in a modest increase in terms of the mineral extraction tax, and possible requests for social contributions may also affect the Company's expenses. However, none of these risks can be quantified or fully assessed at this time.

Mazhit Sharipov:

I would like to emphasize that, despite global turmoil and significant uranium price volatility, our strategy in 2022 remains unchanged and we remain focused on market discipline in production and sales, in order to maximize the value and benefits for all our stakeholders. The Management and Board of Directors of Kazatomprom are committed to delivering long-term value and will make decisions based on market needs and benefits to our business and shareholders. In line with that strategy, we continue to be guided by our commitment to the highest standards of health, safety and environmental protection, industrial safety, and strong corporate governance.

Mazhit Sharipov:

I'd like to conclude by emphasizing the strong support we have for our business and industry here at home in Kazakhstan . Kazakhstan is a country that has made significant contributions towards non-proliferation, voluntarily renouncing nuclear weapons, the first in the world to close its nuclear test site in 1991, and chosen by the IAEA as a safe and neutral location for their low-enriched uranium fuel bank. And we, as a Company, believe that the peaceful use of uranium is built into the country's cultural DNA, providing a solid foundation for our place in the further development of nuclear energy in the world. Thank you for your interest and attention. We will be happy to answer questions from today's call participants..

Cory Kos:

Thanks Mazhit and thanks to our English translator, Mr. Aben. So we will now hand back to the operator to begin with live questions from the English line.

BT Operator:

We will now begin the question and answer 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, then 1 on your device. We will now pause for a moment as callers join the queue.

BT Operator:

And the first question is coming from Yuri from SOVA Capital. Please go ahead.

Yuri:

Many thanks for the opportunity to ask a few questions. The first question would be probably the most itching one is about your exposure to the Russian market and your Russian counterparts. I've seen that when we look at the breakdown of your revenue, you managed to lower the share of Russian domicile clients to below 2% and a significant decrease. Could you please elaborate a little bit on that? Second question is on the security of logistics. Could you give us a bit more color who provides logistics for you? Who hold the titles for the products when you ship it to the port of St. Petersburg? And, if you can give us a little bit more information on your alternative route. And the third question would be the bookkeeping, in COGS, the cost of materials and supplies increased rather significantly, also guiding for 20% increase in labor for 2022. Could you please explain what was the reason behind the increase in the cost of materials and supplies in '21, and where do you see them going forward in '22? Thank you.

Mazhit Sharipov:

Thank you for your question. Askar will take this question. Please, Askar.

Askar Batyrbayev:

Yeah, thank you for the question, a very interesting one and a complex one. So in terms of the first question, we have only one counterparty in Russia. ROSATOM has only one company which we're dealing with and they're centralizing. And year to year it could be different structure of the portfolio of sales. Last year it was different - in 2020, we had more exposure, but it all depends on the negotiations throughout the year, which we're handling. So if we have a kind of pre- agreed contract for deliveries to Russia, and it basically depends on that. So last year in 2021, we had more exposure to different markets, but actually it doesn't mean that we will not be selling to Russia later on. However, I mean, it will all depend on how the sanctions will end and what will be the final outcome of those sanctions, but kind of as you may have seen, we have a good exposure to US market in 2021 and increasing that share.

Askar Batyrbayev:

In terms of second question about logistics, I'd like to state that as of now, everything works well, and we're using the normal transportation route through the port of St Petersburg. As you mentioned the title issue, we never lose the title unless it comes to the converters, and it is being book-transferred to our customer. Before that the title is still kept by Kazatomprom and the shipment is in the transit, and we are always the title owners before that. We're using international freight forwarding companies. None of them are actually registered in Russia except for one subsidiary of ROSATOM who is the only company that could do railway transportation within the Russian territory. So except for that customer all others are international freight forwarding companies, so we have no exposure there. And for the third question, I'll pass it to Kamila for about the suppliers.

Kamila Syzdykova:

Thank you, Askar. So yeah, you're right. We have an increase in the COGS, and I would like here maybe start from differentiation from what is accounted for as a cost of sale and the production cost. So the reason for the increase in the cost of sales for this particular year was the different mix of the volumes that were actually sold. And by mix, I mean the volumes that we're purchasing from JVs and from our subsidiaries. So whenever we're purchasing uranium from JVs and associates, the cost comes from the purchase price. And when it is our own uranium, then it is the production cost that is used for costing purposes.

Kamila Syzdykova:

So the blend of this represents our cost of sales. So particularly in 2021, it was a higher ratio of uranium from JVs and associate that was sold. As for the production cost, you mentioned this 20%, that's right, that during our discussion during the year, we indicated that because of the high inflationary pressures, we think that our final cost might be actually 20% higher. However, this year we managed to keep both Tenge base and US dollar cost below our guidance. However, we're not excluding the inflation or impact for our cost guidance for the next year, which we have indicated in the OFR. Thank you.

Yuri:

Thank you, Kamila and Askar.

BT Operator:

And the next question is coming from Ildar at Wood and Company. Please go ahead. Your line is open now.

Ildar:

All right. Thank you very much for the call and for the opportunity to ask the question. I wanted to ask about the mineral extraction tax, which you already mentioned as a potential risk of rising. I want to understand at what stage the discussions are and maybe your expectations. Could the formula be linked to the realized price, or could it be just one of increase? Maybe you have an idea of a rough level of the magnitude of that increase. And just to clarify the guidance on costs that you have provided so far, please confirm that it does not include a higher MET and based on the existing current formula. And maybe second question, if I may, just on logistics, I'd like to follow up how much of the volumes are actually going through St Petersburg of your total sales? And you mentioned that you've tested a non-Russia route previously. Could you elaborate on that? Would you be able maybe to use Georgian ports? Do you have a facility? Do you have any particular requirements for the facilities that handle the uranium? That's all. Thank you.

Kamila Syzdykova:

Thank you, Ildar, let me take this question. For the mineral extraction tax, we have been explaining before that we expect the change in the tax frame for this particular tax. Previously, the official information from the government that was released said that they see the potential coefficient of 1.3, which coincided with our expectations that we shared with the investors that we think that potential increase in the MET tax burden might not be less than 30% of additional taxes.

Kamila Syzdykova:

As for the conceptual framework, there is no clarity yet. I mean, where there is going to be shift to the taxation based on the price. Plus, current taxation is cost-based. However, we are not excluding this, and as for the stage, it is coming to some final stage, but the discussions in the government are still in the process. As soon as they would, there will be some definite information on the tax framework. We will inform everyone accordingly. And I can confirm that in 2022 guidance, there is no impact of increase in the MET because according to the information that we received from the government, the implementation is expected not earlier than the beginning of 2023. I think Askar will take the next one.

Askar Batyrbayev:

Yes. Thank you, Kamila. Hello, Ildar. So in terms of logistics, about 50% of our sales are going to China. So the rest is sent to overseas, mainly to Western converters or some countries that directly accept the material like India, Argentina. So in that sense, almost 50% we can say is going to Western converters, so you can kind of figure out with the figures. In terms of new route, which does not involve Russian territory, you're right. We have managed to establish that route back in 2018 as a part of our diversification strategy. This is a trans-Caspian route, which is going through

Askar Batyrbayev:

...through the Caspian Sea, then involving Azerbaijan and Georgia, it has all facilities and companies in place. We have tested this route and made the first delivery in 2018. Since that time we have done several more deliveries to different countries and this route is working well, just in case we might need to use it more regularly.

Ildar:

Thank you very much. That's very helpful.

Askar Batyrbayev:

Thank you.

BT Operator:

And the next question is coming from Aarin from Ashmore Group. Please go ahead.

Aarin:

Hi, thanks for the call, and thank you for taking my question. In terms of the average realized price recorded by the company versus the spot price, one of the reasons given was that spot prices are very high in Q4, and sales to customers in Q4 were based on prices in the spot market from earlier in the year. So my first question would be, do you think we will see a catch up where we'll see some sales to customers in say the first half of this year, that will be based off those higher spot prices that we saw in Q4 2021?

Askar Batyrbayev:

Thank you, and I'll take this question. Well, in terms of average realized price for last year, as we communicated several times last year, it was maybe a little bit less than it was expected as the price increased in third or fourth quarter last year. But generally, we said in August and at WNA conference in September, that we have closed our sales book by the end of August. Which means that using our transfer price law, we applied the market related prices for some short term deliveries, but the price was applied back in August or in July, which actually had used the price before the Sprott entered the market. But similarly, you can see the financial results of Cameco, their average price is not much higher than Kazatomprom's one.

Askar Batyrbayev:

In terms of catch up for 2022, with the high prices of fourth quarter of last year. Well, we might be expecting, but you are seeing the volatility of price this year. It's already higher than the price last year, so it depends on at what particular time we'll be closing the sales and the deals that will actually result in the final average realized price. But the main point we would like to make is we are not trying to go and capture the price at any cost, for us more important is to do the deal with end users and utilities, to make sure of what we are selling is having a safe home and is not returning back to the market. So this is the priority for us rather than trying to capture a one time advantage.

Erin:

That's great. Thank you. And then second question is around CapEx, please. Firstly, CapEx last year was at 91 billion KZT and guidance for this year is 160 to 170. So could you talk about that 70 billion increase of 2022 please? And how much of that is related to inflation in equipment costs? How much is related to tenge depreciation? And how much is a real organic increase in CapEx?

Kamila Syzdykova:

Yes. Sure. Thank you for the question. Well, first of all, as we have indicated previously in our reports there have been some bottlenecks related to supply shocks, and we had some difficulties during the last year in the third quarter related to supplies that actually resulted in some delays in the works related to the drilling. And that's why some of the works were shifted to 2022. So that increase... This is one first reason for the increase. Second, as you said, the inflation takes maybe around 20% of the overall... 20 to 30% of the overall increase, but this impact is preliminary because the most recent inflation... The most recent impact of depreciation is not accounted yet. So another reason would be that we also expect some of the mines to start preparing new reserves. And this is also the reason we are trying to build in some on the coefficients of reserve and increase them, because in 2020 when we were taking care of our employees and suspending some of the wellfield development costs, we actually dig into some of the coefficients of reserve preparation. Now, we would like to have a better, more secure, higher coefficient. So those are the main reasons for the increase.

Erin:

And just on that CapEx number, can you talk about how that prepares you over the medium term please? If 2024 production could say, go back to some sort of subsoil agreement level which is around 20% higher than what we're looking at for this year, would you have to provide upwards these CapEx plans or does this leave you in a good position heading towards that kind of scenario?

Kamila Syzdykova:

So as for the increase in the production volumes, we think that once this decision is made we will have to accelerate the drilling program in 2023, which might result in one up step increase in the cost. However, if you think in terms of the capital cost per pound, which we're providing historically, we had the level from average level from $3 to $4 per pound. So this figure, once we make a decision to increase, might see an increase, an one time increase of maybe up to 10% or 15%, and then it's flat again, once the production level is stabilized. So 2023, so we make a decision 2024, we will see the increase in absolute terms, but in terms of the volumes per pound, the increase will not be very material from the historical levels we had.

Erin:

That's great. Thank you. And perhaps last question from me, if I may please, could you talk about the increase in C1 cash costs from 8.8 last year up to $11 per pound, which will be quite a significant jump YOY. Could you talk about which areas of cash cost that could relate to? So would that be in the materials and supplies line item? Wages and salaries, I believe you include that in C1 cash cost, just where within the categories of C1 is being the most inflation? And are there any other impacts there, for example, mixed in terms of different mines using higher cost reserves this year than last year or any other factors to be aware of?

Kamila Syzdykova:

Yeah. So basically when we talk about total C1 cash costs, those numbers remain flat from 2020 to 2021. I assume you're talking about the more detailed breakdown and the share of materials in the C1, right? And so basically that is mainly driven by the combination of inflational factors. Again, as we mentioned during the last year, there's been some bottlenecks related to supply of pipes, and eventually we have resolved it but the price was higher. So this is one of the reason why the component in terms of the materials was higher.

Kamila Syzdykova:

We also seen some increase in the cost of the last year, but that was just in the line with inflation. There is also some changes related to the payroll scheme. And actually we think, and we have announced it and discussed it during the last year, that we expect the share of payroll cost to grow as a result of our willingness to mitigate and minimize any social risks. So the share of the labor cost is also expected to increase. So those are main factors, but again, if you look at the total cost there's been no significant change in the number.

Erin:

Thanks. Sorry, my question was in relation to the 2022 guidance, but it sounds as though all those factors are likely to be applicable there as well as the 2021 number?

Kamila Syzdykova:

Oh. Yes. Sorry. Sorry. I thought you're speaking about actual number. So for 2022, you're absolutely right. It's actually the combination of two upsetting factors. The first one is that high inflationary expectations, and the other upsetting impact is the current tenge depreciation of currency that is happening. So we think that combination of both of these factors will help us to keep the range of 9.5 to $11. We understand it's higher than we have actually, because actually we have less than a $9. But actually $9 with the current price of $54 is really a very low ratio of C1 cost.

Kamila Syzdykova:

However, you see the current situation, it's really hard to estimate all the implications in terms of the potential additional supply chain shocks, so we just wanted to be sure we account for all of them. And because of the high uncertainty we're just giving wider range However, internally we think that we'll be as usually sticking to the lower part of the range.

Erin:

Appreciate it. Thank you. It's very helpful.

BT Operator:

And the next question is coming from Anna from JP Morgan. Please go ahead. Your line is open now.

Anna:

Yes. Hi. Thank you for the presentation and for the comments. Just a couple of questions from our side. I will ask them one by one, just for convenience. So first, the apologies, I may have joined the call a bit later, if that question has been already answered, but could you please remind what the exchange rate that underlies your 2022 guidance for a unit costs in dollar terms?

Kamila Syzdykova:

Yes absolutely, Anna, the range we are giving for the C1 cost for the next year is $9.50 – $11.00. So, the official exchange rate that we have started... Yeah. The initial budget that we started a long time ago was at the rate of 425. However, we understand and now we have prepared already several scenarios with the different values with the current and potential changes in the effects. That is why that just to elaborate... That is why we are keeping our OpEx and C1 cost range 9.50 to 11, just to make sure it incorporates the upsetting impacts of both inflation and depreciation.

Anna:

All right, understood. The second question is regarding the declaration of full year dividends. When can we expect the board to make a decision on the dividend distribution for the year 2021?

Kamila Syzdykova:

So the resolution will be taken at our general shareholders meeting in May. However, the recommendation by the board will be made in April, so we'll make an announcement in April.

Anna:

All clear. Thank you. And the final question from our side, could you please comment on the delivery times for this year. So just roughly what quarters can we expect to be peak and trough quarters in terms of your sales volumes? I understand that your sales volumes fluctuate significantly within the year, depending on the schedules of deliveries. I think last year, the peak sales quarters were Q2 and Q4. In 2020, I think it was Q3 and Q4. This year, roughly in terms of distribution of sales volumes by quarter within the year, would it be closer to last year or 2020? Could you please provide some color on that? That would be much appreciated.

Askar Batyrbayev:

Thank you, Anna. Unfortunately, that's very commercially sensitive information. So we will not be able to give any color on when and how much we're delivering. We have a clear sales guidance, which we are not dividing by quarters. So unfortunately, you'll be able to track that based on our trading updates each quarter, which we'll be giving.

Anna:

Okay. Understood. No worries. Thank you very much for your comments. That's all from our side. Thank you.

BT Operator:

And the next question is coming from Anton from Bank of America Securities. Please go ahead.

Anton:

Hello. And thank you very much for your presentation. I have a couple of questions. Can you please also highlight the price of uranium that you're using for your guidance, especially for your revenue guidance for this year? And my second question relate to the working capital and as I understand it was under pressure, it increased actually in the full year this year, which impacted your pre-cash flow generation. What's your expectations for the working capital and for the pre-cash flow for 2022? Do you expect some release of the working capital or it's likely to keep growing because of higher purchase prices and high uranium price?

Kamila Syzdykova:

Thank you Anton, thank you very much. So first of all, we are not disclosing the budget price and we have discussed this within before. So sorry, but there is some math that can be done at your side, but we find it difficult to comment on the price for budget, because then it might be perceived as KAPs expectation on price, which we definitely avoid stating. So this information is not disclosed by the company.

Kamila Syzdykova:

As for the impact on inflation on working capital, well, there might be some impact and we might need more working capital, but again, this is... On the other hand, there is some upsetting impact on the working capital in terms of the higher receivables proceed. So we have not done a detailed analysis of the ending working capital for the 2022. However, as of now, we see that all of our GVs are well funded and well sourced in terms of the operating needs. And we don't see very significant changes in the working capital next year. Sorry, this year.

Anton:

Thank you.

BT Operator:

And the next question is coming from Chintan from Credit Suisse. Please go ahead.

Chintan:

Hi, there. Thank you for the presentation. Two questions from my side, please. Your balance sheet is continuing to improve and building the net cash position. Could you provide some thoughts with regards to what capital allocation policy could look like going forward? Could we expect a significant special distribution to investors? And then secondly, with regards to the situation around Russia and Ukraine, given the possibility of sanctions with the Russian counterparts, is it feasible to assume that you could flex up production from your other mines as soon as, say 2023? And would this be an option that you would be considering? Thank you very much.

Kamila Syzdykova:

Thank you for the question. Yeah, you're right. Our negative net debt position even increased for 2021. And our both cash and balance positions are strong because of the high marginality of our business. So in the capital allocation decisions we are governed by our dividend policy, which is distributing free cash flows in the company. So in May, we will have a general shareholders meeting where the amount of the dividends for this year will be approved. And we actually will make an announcement in April. As of now, we're not expecting an extra dividends or special dividends to be announced this year. And so we think that the resolution that will be made in May will represent the amount of the dividends from 2021 that will be paid in 2022.

Askar Batyrbayev:

Yeah. In terms of your second question, about possibility to flex up the production in 2023. We are not expecting that we will be increasing. We are still targeting to be within the minus 20 to the subsoil use contract. We are not expecting that there will be a huge increase from the utilities in terms of buying additional quantities to what they have already committed for 2023. So just theoretical, if we will see a lot of buying from the utilities for 2023, that's when we might consider. But again, we're not expecting it, as utilities are well covered for 2023 and they actually already have the material that they'll be using in their reactors. So we're not expecting that there might be something that will make us to reconsider our plans for 2023. So that might be a good question for 2024, I guess.

Chintan:

Okay. Thank you very much.

Askar Batyrbayev:

Thank you.

BT Operator:

And the last question is coming from Alexander from BMO. Please go ahead.

Alexander:

Thank you and good afternoon. You've spoken a little about logistical issues this year, and I just wondered, maybe you can give us a sense of what portion of your consumable costs are actually via Russia. And does this increase in cost guidance for this year, both on CapEx and OPEX basis, incorporate any potential re-routing of supplies?

Kamila Syzdykova:

Hello, Alex, thank you for the question. Well, there is no direct link in our cost to Russia because generally what we are saying that more than two thirds of our cost are tenge based and one third is exposed to exchange rate. So all of key components like labor is internally, so for us it is internal. There are some components related to the capital cost in terms of the spare parts for the drilling equipment that may be linked to supplies from Russia. However, overall impact, like direct impact from Russia is not very significant. There again might be some issue and we are still studying them, if our suppliers have some of their raw materials coming from Russia, but this impact, we're still evaluating. However, in terms of operational cost, the impact is not significant. In terms of capital cost, we think it is not very significant. So as of now, we can only say it's some of the spare parts, as I told, for the drilling equipment and this part where we are exposed to the import from Russia. The rest is still under our review and analysis, not just by us, but by our suppliers.

Alexander:

Okay. Thanks Kamila.

BT Operator:

And 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:

Perfect. Thank you operator. We had several questions come in from our webcast participants today. I'll just act as a moderator for this final part of today's call. To the team in the room, from Mark Wolbert at Contrarian Codex. His question, we've partly covered it, but maybe I'll pass to Askar for a bit more color. What solutions are there for Kazatomprom to get their material to Western utilities if trade sanctions are put on Russia regarding uranium and goods coming out, are going into, or through Russia?

Askar Batyrbayev:

Yeah. Thanks Cory. Well, as I think that question is being a hard question during this call. Well, yeah, again, we have this trans-Caspian route, which we could be using in case any real sanctions are put on Russia and we will not be able to use Russian territory and Russian sea ports to deliver our cargo to Western converters. At the same time, we still have this location swapped possibility, which we used before with China. So we have several options to implement and based on when these sanctions might be introduced, we would be evaluating which option would be better for us.

Cory Kos:

Perfect. Thank you. Second question from Mr. Wolbert was, are the Chinese utilities back in the market like they were in the early part of the last decade for a new contracting cycle, or... did the Chinese ever really leave the market?

Askar Batyrbayev:

Yeah, well, I guess the last part is more related to China. I don't recall that they ever were out of the market. They were always on the market keeping their hand on the pulse. More, we've seen the pickup from Western part of the utilities starting from December last year and Chinese end users were always on the market. And I don't recall that they were out of the market. Maybe with their new five year plan and new big ambitions, they might be even increasing the volumes to buy towards the 2025 and end of the decade.

Cory Kos:

Excellent. Thank you. Second question that was typed in through the webcast is from Richard at Radio Free Mobile. He indicated a new executive order from the White House yesterday has blocked new business related to uranium between U.S. Persons and Russian sourced uranium. Do you think that this will have any impact on the company?

Mazhit Sharipov:

Thank you, Cory. [foreign language].

Translator:

I will answer. We've received this information recently and we'll need some more time to look at it in more detail.

Mazhit Sharipov:

[foreign language].

Translator:

And we, in fact, not have any major concerns about it.

Mazhit Sharipov:

[foreign language]

Translator:

The company monitors the way the situation will evolve.

Mazhit Sharipov:

[foreign language].

Translator:

And we'll take all possible measures to mitigate or minimize the possible risks and impact on the operations of the company.

Cory Kos:

Excellent. Thank you, Mr. Sharipov. A second question. Your subsoil agreements limit the amount of uranium KAP can produce or mine. Over the next 10 years, how can you grow production if you're limited by what you can produce? Can you explain how you intend to grow with such limitations?

Kamila Syzdykova:

Well, thank you very much. As we have also explained during our calls, we have two main streams of increase in the production. The first one is the flexibility given by the subsoil use legislation, meaning that we can produce up to 20% more than the agreements, which means 20% up to 100% and another 20% up to 120%. And we also last year have the introduction of new mine project. This is so the second source of production streams comes from new projects and one of them, Budenovskoye, was announced. So this is in line with our strategy and our expectations that by the end of this decade, we will see the bigger deficit in the supply of the uranium. So this is how we are strategically aiming to address this issue. Thank you.

Cory Kos:

Thanks Kamila. Couple more... What dividend are you going to recommend for 2021? I think we touched on this, but I guess we could touch on what the policy is exactly.

Kamila Syzdykova:

Yeah, sure, Cory. So we, right, according to the dividend policy, the minimum payout ratio is 75% of the company's free cash flow. And the Board of Director will be recommending in April the amount for distribution to the general shareholders meeting. Actually in April, following the Board's proposal to AGM, we'll be making a release.

Cory Kos:

Excellent. Okay. We have a couple from Arthur Hyde at Segra Capital Management. The first is regarding confirming the uranium price assumed for 2022 guidance during the presentation. And I guess indicating we understand it is from last September, but the exact price used would be helpful. Past, I know, Kamila, you mentioned we do make folks do some math. You can figure it out just using the sales and the revenue, but issue for us being that I think on one of our very first calls as a public company, we mentioned the number and that became published everywhere as KAP's expectation. And I think as Kamila said, it's set at budget time. It's happening back when this would've been well pre-September even, last year. And so if we start putting out that value, people are going to tag that as some kind of cap on our expectations, which is not the case, but... Maybe, sorry, I'm answering the question, Kamila Syzdykova, if you would like to add to that.

Kamila Syzdykova:

No, Cory, I think you covered all that. That is just factual that we are not disclosing the budget price just for the purposes you said. We don't want to be perceived as KAP's expectation on price. We need to budget the price to do our forecast. So I think that that is full answer.

Cory Kos:

And maybe I'll just note too, because I know we had discussed it, that during the quarters this year, just because FX is still very volatile, I would say right now, and the uranium price obviously changed significantly. If deemed necessary during the year and there's significant swings that are essentially known and locked in as we go through the year and release trading updates quarterly, you may see us narrowing the ranges or adjusting to some of those factors just because those assumptions are swinging to such extremes amid highly volatile.

Cory Kos:

So second question from Mr. Hyde. Is the company having any issues with transportation insurance due to the Russian-Ukrainian conflict?

Askar Batyrbayev:

Yeah. Thanks Cory. Thanks, Arthur, for the good question. Well, as of now, we are not seeing... Our transportations are on a normal track. We have not heard from the... freight forwarders or insurers that there is any restriction on Russian territory. So everything works. We are transporting it normally and insuring the cargo as well.

Cory Kos:

Perfect, Askar. And then one more question, actually, I believe it's also waiting on the live line where we already finished, but we can just have the question here from Alexander at Renaissance Capital. He had a similar question regarding the forecast exchange rate and he said, asking the question, "Do I understand correctly that you considered the most common scenario forward currency rate to be 425 per U.S. dollar in the future periods? I don't believe that's the most common scenario, but I'll give that to Miss Syzdykova to cover.

Kamila Syzdykova:

No, this is not our scenario for the future period. I just was saying that by the time when we were presenting the budget for approval to the Board last November, that was the base case scenario. So what we are saying now that [inaudible], and we have already presented different scenarios, like for 500 tenge, 550 and some other alternatives, but because now there are a lot of uncertainties to the final rate and also the potential inflationary spins, we're just stating that our guidance for C1 stays just at the higher range of $9.5 to $11 a pound to reflect the upsetting impacts of first inflation and second the upsetting impact of the depreciation. But for the future, the updated and adjusted business plan is not approved yet. We are now in the process of drafting the version that will be the adjustment that will be approved by the Board. 425 was the rate that was included into our business plan that was approved... by the Board of Directors last November.

Cory Kos:

Perfect. Good to know. Thank you. Okay, so we have one more that came through the webcast from a private investor. Could you please clarify whether your cost guidance includes the 20% rise in staff costs?

Kamila Syzdykova:

Yes, that is correct.

Cory Kos:

Okay. Straightforward. And last. Are you seeing the risks that ships are deciding not to sail through the Black Sea for fear of running into the conflict zones as a potential risk to even your alternative supply route?

Askar Batyrbayev:

Well, I think this is more related to the Northern part of Black Sea, which is connected to Azov Sea. So Azov is definitely not covered by any insurances and... no ships are entering that part. But as for the south part, where we have Turkey, Georgia, that part is still working normally and as far as we have the information from the kind of sea port authorities and freight forwarders, it's still working, but ships are sailing close to the shore of Turkey and Georgia.

Cory Kos:

Excellent. Thank you for the context in geography. That's all we have from the typed-in written questions on the webcast as well as from the live line. So just for a very brief conclusion of this session, I will turn it back briefly to Mr. Sharipov to close.

Mazhit Sharipov:

So thank you for your joining us today. I wish all a great end of the day. Thank you.