

## 2020 Kazatomprom AIX Investor Day

### Q&A Session Transcript (Translated from Russian language)

**00:00. Mr. Serikbolsyn:** Hello, my name is Serikbolsyn. Question from retail investors. What uranium price do you consider adequate for the market?

**00:10. Mr. Pirmatov:** This is a good question. We consider the current price to be inadequate. What price do we consider adequate? When producers invest, and all the most attractive deposits are working, however, the price is not that high that new producers with very expensive uranium appear on the market. There are a lot of uranium reserves in the world, and they differ in cost. We don't want a situation where the price jumped to 135 (USD / lb) and everyone started trying to invest in uranium deposits. We never give a nominal figure, but it is higher than the current price, so that the price is high enough, but not as high as to attract new players to the market with an expensive uranium source. This is probably the most ideal place for us, if we continue to hold the price, we can earn much more money for our shareholders than we do today.

**01:54. Mr. Bataev:** Hello, my name is Arman Bataev. This is also a question from a private investor. Question to Meirzhan. Last year, we asked you a question about improving the corporate governance policy on co-alignment with shareholders, whether there is an option program for management so that you are interested in increasing the company's capitalization. And a question for Askar. In your slides - where is this group 1 throwing stocks on the market? And one more question to Meirzhan on the share sale of Uranium Enrichment Center JSC (UEC). Are these special dividends?

**02:46. Mr. Yussupov:** As for the option program, this question was asked at the fund level, and it has been discussed and is still being discussed. This is more, as I understand, of a question for the shareholder. We went out with our offer. And as soon as the decision is made by the shareholder, we will let you know. Regarding the sale of UEC interest and special dividends - in general, we need to see when the cash will come - then the analysis will be undertaken, and finally the corporate decision will be made. In general, the decision on additional special dividends is already the responsibility of our shareholders.

**03:37. Mr. Pirmatov:** As for the money for UEC deal - even if there will be no special dividends, it also goes, in accordance with our dividend policy, into the total. In any case, this cash flow will be taken into account in the calculations of 2021 dividends, based on the results of the 2020.

**04:09. Mr. Bataev:** There is a bad experience when our companies listed – KMG EP, KazTransOil – what are they doing now? Meaning that the management should not go off the limits.

**04:29. Mr. Pirmatov:** As a shareholder, you are interested in the management, figuratively speaking, to be in the same boat with us. So we are guided by the company value in our work. Yes, we have a strategy. Investors always ask this question. This is a very good question, but we don't have a ready-to-go solution for today. There are many factors here, and I can talk about each of them. The reasons why it is not so easy to make a decision. Yet the company is national, state-owned. Let us consider the options - we are a little far from it. However, this is a very accurate question on the part of investors, because there are many examples in emerging markets where management, roughly speaking, can make a lot of money by inflating the expenditure part, inflating the investment part, and this is not in

the interests of shareholders. They should aim the same goal - to increase the company's value, and then the management would benefit. The question is - if it "makes it", and management gets big benefits, how will it look in the eyes of the public, and not investors? Therefore, we can discuss this topic, but this question almost on every meeting with investors. They want to make sure that management is working for shareholders and create long-term value for shareholders.

**06:27. Mr. Batyrbayev:** In terms of reserves – as we said, we divide them into two parts - this is a strategic reserve and an investment reserve. Strategic reserves are those stocks that consumer companies have purchased for themselves in order to use for their reactors in the future. It is unlikely that these stocks will ever appear on the market, consumers will use them in any case. There are those stocks that, due to certain market conditions that were the same buyers or intermediaries, or other market players for the future - such stocks have the risk of appearing on the market, due to a large overproduction, created several years ago.

**07:13. Mr. Bataev:** Is it a Yellow Cake?

**07:17. Mr. Batyrbayev:** No. It is probably customer who decided to make a provision. Not necessarily Yellow Cake. There are certain criteria by which these stocks can be placed on the market in the future.

**07:35. Mr. Bataev:** However, they won't appear from the 2021?

**07:37. Mr. Batyrbayev:** From the 2021, they will begin to decrease.

**07:41. Mr. Pirmatov:** The topic of reserves in the industry is very interesting and very complex in terms of the accuracy of estimating how many reserves someone has. Here is an example - conversion. A year ago, the price was 4.5 dollars per kilogram of uranium, now 22.5 dollars - an increase of five times in a year. What happened? The Americans have suspended the plant, and the French are a little late in building capacity, and it turned out that hexafluoride is not on the market, and everyone thought that there are enough reserves, the profit will jump, people will come and start selling them hexafluoride - but there's no hexafluoride. The price jumped five times. So, for some optimistic forecasts - how many reserves and how mobile they are - I would be quite cautious about these estimates, because depending on what form and where these stocks are, they may not appear on the market at all. For example, if you have them in fuel assemblies, then only certain reactors can load them. You cannot sell this to someone else - they have different reactors. The same is true for natural uranium. Let's say that China has a lot of reserves, we are sure of this, but China is accumulating reserves for the level of reactors that they will soon have. The Japanese, too, will probably not be buyers for the next 10 years, but they will probably sell. But we don't see it yet. That is, they bought quite expensive uranium in those years. There are many reasons, including financial ones, if they sell, they will need to fix this entire loss, and these reserves often serve as collateral against credit limits. There are many reasons, even if they have a desire to sell some of it, but there are many constraints.

**10:13. Mr. Bataev:** Thank you. Since we're talking about China, we're talking about the coronavirus. Does the virus affect you in any way? For example, because of a virus, OPEC lowered its supply. Kazatomprom alone has a larger market share than OPEC. Can you also respond?

**10:41. Mr. Pirmatov:** First, so far we do not see a large impact of the coronavirus. It is clear that if this continues for a long time or the situation worsens, yes, most likely, this will affect our shipment schedule. But we do not see the need to make any decisions on sales volumes yet. For example, you built a reactor and it works. The share of the cost of a megawatt hour or kilowatt hour of natural

uranium is very small, and therefore we could once afford to buy it for \$130 (USD / lb). Since you can't replace it with anything, and you keep it on 24 hours a day, it works. There is a certain level of demand that existing reactors in the world, figuratively speaking, burn - how much uranium do they burn. We see this demand, we see it growing, we do not build into our models sky-high expectations that small reactors will appear, something else will appear. As we see the next two decades - we see the number of reactors, we know each reactor, how much life it has left, we know each reactor that is being built, when it will approximately connect to the network and when it will start consuming uranium. Therefore, we see the demand very well. However, on the supply side, questions begin to arise. Therefore, we do not have any plans or radical solutions for the coronavirus today.

**12:54. Kazakhstan Association of Minority Shareholders:** I wanted to ask the question. It is clear that it is difficult to assess uranium reserves at the moment, as you have repeatedly said. But still, according to your expectations, when will the uranium market go into deficit? This is the first question. And the second - is the KPI of the company's management linked in any way to the volume of the company's capitalization? Today, KAP is the second largest public company in Kazakhstan after Halyk Bank.

**13:43. Mr. Pirmatov:** From the 2023, the deficit begins. This is the chart. As for the KPI, today there is no market capitalization in our KPIs, but there are indirect ones that affect the capitalization, profitability, and net asset value. We are currently working to divide the total remuneration of management into three parts. There were two parts - the basic salary and annual bonuses. We want to divide it into three parts. The total amount does not change, but it is more difficult for the management to earn this shared pool. These are basic salaries, annual bonuses, and long-term bonuses. It is the long-term ones that will be linked to the company's market capitalization. That is, in fact, what management currently earns per year, they need to earn for 3-5 years - the base salary will remain, annual bonuses will decrease, and most of them will go to those long-term ones that will be tied to the company capitalization. This decision has not been made yet, but we have already discussed it several times on the Board of Directors meetings. We are all trying to choose the optimal way so that it really motivates management to increase the company's capitalization.

**15:37. Mr. Timur:** Hello. My name is Timur. I have another question. It is a little bit opposed to the current situation with the coronavirus. What measures is the company taking today to create a good demand potential in the future? Because we have clearly seen on the main chart how various events, often negative, have affected the fall in prices for uranium fuel. In this regard, are there any long-term, strategic initiatives, perhaps in partnership to create a market for you in the future? Because today we see that uranium is a long-term history, it will actually be a certain fuel "shift" from traditional energy sources, for example, to the uranium. What is the company doing today in terms of forming the market itself? Thank you.

**16:37. Mr. Pirmatov:** First, as I said, we are looking at the next two decades in a very pragmatic way. We see and are working on the existing fleet of nuclear reactors that are under construction and will be connected within two decades. However, there is a great potential - if small modular reactors are successfully built, it can lead to many new countries in the nuclear power industry. Currently, not all countries can afford 1,000 MW reactors or more, because their networks are small and the cost is high. If the reactor is built for 7 years many billions of dollars will not generate any revenue while it is being built. And if you have modular reactors, you can install the first module, and it will already generate profitability. And the risks for the project cost and for the duration of operation are also quite different. Why are we in this situation? It's just that the West has forgotten how to build reactors on time and budget. This is one of the main reasons. After the Chernobyl accident happened, the West

stopped building in such quantities as before, and when you do not build anything for 15 years, this whole chain loses its relevance. And now we can't build a reactor in the West on time and on budget. That is, it is already very expensive, and you do not know when it is built in 7 years, whether it will cost as much as expected, and will not take twice as long and twice as expensive. This economy is starting to vary a lot. Therefore, there are upside - modular reactors. Nevertheless, as a global community, we will take more resolute action on climate change. Nuclear power, I am sure, should be part of the solution. I'm not saying it's a solution, it's part of the solution, along with the sun and the wind. Because the base load, which is clean, which is competitive in price, and which is reliable, must be part of the solution. According to various estimates, up to two billion people do not have access to electricity. If all these countries seriously want to provide their people with basic goods and electricity, they should come openly. Why is China building so many nuclear power plants? One of the reasons is the quality of life and ecology. In China, it is estimated that three million people a year die just because of air quality. These are actually very large numbers. And the economy is growing. China will soon become the largest market with the largest fleet of nuclear reactors, but they will still have a share of nuclear power in the total energy sector of less than 10%. Therefore, we see that there is growth potential, but if we create new demand, it is better to work on explaining the possibility and role of nuclear energy. Unfortunately, the industry is not doing this very well at the moment. There are several reasons for this. Global companies that have nuclear power plants, they still have a lot of coal, gas, solar and wind. And if they come and say: "nuclear energy is clean, it must be maintained", that is, they must admit that coal is not very clean, dirty. Gas is the same. And this can affect how they can actively lobby or advertise that nuclear power is clean. In developing countries, unfortunately, it is not growing, but there are several reasons for this. Let's say there are more political reasons in Europe. After Fukushima, Germany decided that it would close all the reactors by the 2022. It was a purely political decision, with no economic implications. The country is rich and can afford it, of course. The same is true in France - they decided to reduce the level of nuclear power. But there are more economic reasons in the States. Where markets are not regulated, there are stations that have one reactor, and it is very difficult for them to compete with cheap gas. When you are in a competitive market, when the price of gas is falling more and more, it is very difficult. And we had cases when reactors were closed prematurely, which still had license periods. But now we see that they did not wait for federal support for nuclear power as clean, but at the state level it has already begun. All states maintain on the same level and support fiscally, because they understand that nuclear power is clean. Therefore, we no longer expect to be closed in America for these reasons. What else do we see? This is also a very good example, when a reactor has been running for 40 years and its life is extended by 20 years, this is also a demand that we did not take into account in our models earlier. So, I can't tell you that we will do something, that there will be new demand, but there is potential. And this depends on many things, including how much we, as a global community, want to seriously address the problem of climate change. I believe that nuclear power should be part of the solution.

**23:38. Moderator:** Are there any more questions?

**23:48. Mr. Pirmatov:** I hope you will have more questions next time. We came here, I wanted it to be less formal, because the whole point is that you can ask what's bothering you. You are the shareholders and future shareholders. It is not easy to understand what we are trying to do, what is happening in the market, even in our financial statements. Here I look, this morning all the headlines: "Kazatomprom's profit decreased by half". Well, people who just read the headlines, they don't understand that we actually increased our net profit by 84%. And what we did in 2018, in 2017, preparing for the IPO, consolidated, this entire accounting profit was large, but everyone understood that this is a "debit-credit". We had 82 companies in the group, now 39. We will continue to reduce it.

So, a lot has been done, and I want you to really take advantage of this opportunity. We are always open please ask your questions.

**25:08. Moderator:** Yes. Two questions.

**25:09. Mr. Alibaev:** I would like to have a little technological advice about the methodology of production, that it is cheap, that the cost is low. The question is next. Does this methodology apply to all proven reserves, or is it assumed that in the future it will be necessary to carry out some kind of reorganization of production, which may require additional CAPEXs or increase the cost of production?

**25:37. Mr. Pirmatov:** Thank you. You have seen all our current reserves - we have almost 293,000 tons and this is our share, these are only confirmed. If we say that our share of production is 13,500 tons, this is very much enough for us. That is, in Kazakhstan, the main part of the uranium reserves can be extracted using this method. We have reserves that require a different method, but they will take several generations before we reach them. Therefore, there's nothing to worry about yet.

**26:12. Mr. Alibaev:** Thank you.

**26:21. Kazakhstan Association of Minority Shareholders:** During your presentation, you said that in the current year Kazatomprom plans to abandon the spot contracts completely. How will this affect your future financial performance? This is the first question. The second is about what is bothering you. I would like to ask if the company's management is concerned that the company's SPO was not quite successful, if compared with the SPO of Halyk Bank. Halyk Bank during the SPO had \$11.5 for GDR. Now the price, even taking into account the volatility, is still above 14 dollars. Kazatomprom had a different situation - during the SPO \$15 per GDR. Since then, around \$13 on London and is going up and down. But for some reason it doesn't cost 15. Doesn't that bother you? I mean, maybe SPO didn't go very correct for Kazatomprom in comparison with Halyk Bank.

**27:42. Mr. Pirmatov:** The topic is very interesting. I can say a lot here. First, it was a full-fledged transaction for Halyk, because they had an IPO in December. So, a lot of time has passed. They made a full transaction and monitored everything. Kazatomprom made it literally overnight. Shareholder made the decision. But I would like to tell you the following. It is clear that the short-term behavior of the share price worries many, but we have long-term goals, and the privatization program itself is quite focused on long-term goals. I would still focus on the fact that, remember, we broke through the solution where free float should be up to 25%? We sold 15%. And I am convinced that the more free float, the better it will be for both investors and the company. The more liquid the shares are, the more adequate the company's valuation is. So, for now, I would concentrate on selling more shares on the market, so that the liquidity rises, because unfortunately, our liquidity is not the same as in other large international companies, and it prevents many investors from buying our shares. Because they want to be able to sell quickly and without affecting the price when they want to. Unfortunately, this is not possible with such liquidity. I say again, we, as a management, are confident that SPO should be done and increase free float. We are confident that this will lead to increased liquidity over time, which in turn will have a good impact on our estimation of our value. There will be more investors who will be able to buy and sell our shares. Not all at once. I think that in time we will come to this on our own.

**30:13. Question from the audience:** Once we touched on the topic of SPO. It is clear that this is more a question for the majority shareholder about increasing free float. In my opinion, the KAP has free float of 18%, if I'm not mistaken. Would you, as a management, consider a free float of at least 25% desirable?

**30:32. Mr. Pirmatov:** Yes. Once again, when we were preparing for privatization, there was a very big discussion about how many percent of Kazatomprom to sell. And this discussion initially started from 0 to 10. And we have done a lot of work to ensure that at least 25% of free float is available. The decision of when and how much to sell is the decision of the shareholder. But we, the managers, believe that up to 25% of free float should be carried out.

**31:17. Mr. Pirmatov:** Rakhmet to all. Good day. Nice holidays. Have a nice weekend. Thank you.

**31:24. Moderator:** If anyone has any questions, please contact us via contact information show on this slide. This is the email address and phone number of the Investor Relations Department, we are always open for your questions.