

Rating Action: Moody's places KTZ's and Kaztemirtrans' ratings on review for possible downgrade

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New York, February 08, 2010 -- Moody's Investors Service has today placed on review for possible downgrade JSC National Company Kazakhstan Temir Zholy's ("KTZ") Baa3 issuer rating and the Baa3 rating of the senior unsecured eurobonds, amounting to USD800 million, issued by Kazakhstan Temir Zholy Finance B.V., a special purpose financial company, and guaranteed by KTZ and its operating subsidiaries. Simultaneously, Moody's placed on review for possible downgrade JSC Kaztemirtrans' ("KTT") Ba1 corporate family rating (CFR) as KTT is a key wholly-owned operating subsidiary of KTZ and managed as integral part of the KTZ Group, with the credit quality of KTT challenged by similar risks.

The review reflects Moody's concerns that the KTZ group's credit metrics may potentially deviate from rating guidance over the intermediate term. Moody's also notes that the group has material debt maturing over the next 18 months, in particular a US\$450 million bond due May 2011, on a background of a significant investment programme and an ambitious plan to fund it with a balanced mix of state-sourced and commercial funding.

In Moody's view, given the group's investment needs, it could deviate, even if temporarily, from Moody's leverage guidelines for its ratings or its cushion under these guidelines may be essentially reduced going forward. In particular, the group's Debt to EBITDA, with Moody's standard adjustments incorporated, may exceed 2.5x. At the same time, Moody's positively notes the group's progress in preserving cash resources to address its significant debt maturities. However, Moody's notes risks associated with the weak local bank system in Kazakhstan, where the group has to place its temporary free funds, as well as pressures on its currently significant cash and cash deposits (KZT 62 billion, or approximately US\$400 million) from its investment activities. VP and Senior Analyst Ekaterina Botvinova noted: "KTZ has yet to finalize definite refunding arrangements for the next 12-18 months which could make KTZ more dependent on ultimate government support".

Though Moody's believes that the group has a number of options to comfort its financial profile, it views KTZ's and its subsidiary ratings as potentially pressured. The agency positively notes that the group has reasonably performed in the crisis and, being strategically important for the economy of Kazakhstan, should remain broadly supported by the government. Moody's understands that KTZ plans to attract state-related funding for its investment programme, negotiates with banks on new facilities to support its refinancing profile, intends to adjust its investment plans depending on the availability of funding and is committed to the cash accumulation plan to address 2011 bond maturity. However, the implementation of the plans may be challenging.

Moody's review will focus on i) the group's ability to adjust its investment programme and finalize its refinancing plans both externally and with state-related funds, and ii) the certainty and timeliness of the government support available to the KTZ group in case of liquidity needs.

The last rating action on KTZ and KTT was implemented on 7 July 2009 when Moody's lowered KTZ to Baa3, outlook stable, and confirmed KTT at Ba1 with a negative outlook.

The principal methodology used in rating KTZ and KTT is The Application of Joint Default Analysis to Government Related Issuers, April 2005 (#92432), which can be found at moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Astana, Kazakhstan, KTZ is the 100% state-controlled vertically integrated rail group operating the national rail network of the Republic of Kazakhstan. The sole shareholder of KTZ is the state represented by JSC National Welfare Fund SamrukKazyna. KTZ is the monopoly provider of rail infrastructure services and has the leading position in the railway market in Kazakhstan. In 2008, KTZ's average number of employees was 143,665. KTZ's reported 2008 consolidated revenues are KZT 483.8 billion, or US\$3.9 billion, compared to KZT423.6 billion, or about US\$3.5 billion, in 2007. Cargo transportation services, including the infrastructure component, account for about 86% of KTZ's total revenues.

KTT is a 100%-owned subsidiary of KTZ. KTT owns and operates the largest railcar fleet in Kazakhstan, generating its revenues largely from leasing railcars out to the KTZ group. The latter provided about 90% of KTT's 2008 revenues of KZT41.6 billion (approximately US\$346.2 million).

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