

**Rating Action: Moody's reviews eleven Kazakh corporate GRIs for downgrade**

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Global Credit Research - 15 Jun 2009

London, 15 June 2009 -- Moody's Investors Service today placed the ratings of eleven corporate government-owned issuers on review for possible downgrade. The review was prompted by concerns, following recent defaults in the banking sector, that over time the government may become more selective in its allocation of support to its government-owned corporate holdings where the need for future substantial capital investments is anticipated.

In its review, Moody's will therefore focus on the very high government support assumptions that are incorporated in the ratings, as well as the assumed levels of interdependence for each name with the State (Government sovereign ratings FC/LC Baa2/Negative). Out of the 11 corporate ratings, Moody's remains comfortable with the underlying credit quality of the individual businesses as designated by the respective baseline credit assessments (BCA), with the exception of KEGOC and Food Contract Corporation (FCC) where Moody's has decided to review simultaneously their standalone creditworthiness as well as the support and dependence assumptions.

Moody's notes that a similar review is already underway with respect to the issuer and deposit ratings of five government-owned Kazakh financial institutions. (Refer to press release "Moody's reviews five Kazakh financial institutions for downgrade" dated May 22nd, 2009 on Moodys.com.) The factors being considered as part of the financial institution GRI support review include: (i) the size of the financial system in relation to the government's resources; (ii) the level of stress in the financial system; (iii) the foreign currency obligations of the financial system relative to the government's own foreign exchange resources; and (iv) whether any changes to the government's political patterns and priorities ultimately impact our assessment. Any conclusions reached as part of the assessments of those factors will also help to inform Moody's views on whether support assumptions for the corporate GRIs may need to also be modified.

In the case of KEGOC, Moody's review of the company's standalone creditworthiness will also focus on an increasing risk that KEGOC may see its financial metrics deteriorate materially beyond the levels seen as commensurate for the current BCA (namely, Debt/EBITDA at below 5x and FFO/Net Debt in the low to mid-teens) given the reduced electricity consumption and revenue expectations for 2009 and beyond on top of KEGOC's increased debt burden following the February 2009 devaluation of the Kazakh tenge. This would further erode headroom under the financial covenants agreed by KEGOC under its bank agreements. Moody's reassessment of KEGOC's BCA, which may potentially be lowered by more than one notch, will include (i) the degree of the likely deterioration of KEGOC's financial profile in 2009; (ii) the company's ability to remain in compliance with its covenants or negotiate with its bank creditors a relaxation of covenant levels; and (iii) KEGOC's access to cash injections from the government that could mitigate the deterioration in its financial profile caused by the weaker operating performance.

In the case of FCC, Moody's review of the company's standalone creditworthiness was primarily prompted by the increase in the level of total debt reported in the first quarter of 2009, mainly as a result of the devaluation of the Kazakh tenge compared to the dollar and by the subsequent reduction in the headroom within the financial covenants existing on its foreign debt. Moody's expects this headroom to decrease further in the second quarter. Therefore, Moody's review will focus on: (i) the expected headroom within the company's financial covenants over the next few quarters; (ii) the degree of government's support in rebuilding sufficient headroom under the covenants which could be factored in the company's rating; and (iii) the company's overall projected financial performance in light of the planned investments and available capital resources.

Moody's expects to conclude the review over the next few weeks. Moody's generally anticipates only a moderate adjustment of support assumptions, that the level of support should generally remain relatively high and therefore does not expect multi-notch downgrades -- other than possibly in the case of KEGOC as noted above - unless there is a material change in our current support assumptions as part of the review.

A list of the institutions affected by Moody's rating actions follows:

KazMunaiGas NC

- The Baa2 ratings placed on review for possible downgrade

Kaztransgas

- The Baa2 ratings placed on review for possible downgrade

Intergas Central Asia

- The Baa2 ratings placed on review for possible downgrade

Kaztransoil

- The Baa2 ratings placed on review for possible downgrade

KazMunayGas E&P

- The Baa2 ratings placed on review for possible downgrade

Food Contract Corporation (FCC)

- The Baa3 ratings placed on review for possible downgrade

Kazakhstan Temir Zholy (KTZ)

- The Baa2 ratings placed on review for possible downgrade

Kazakhstan Electricity Grid Operating Company (KEGOC)

- The Baa2 ratings placed on review for possible downgrade

Kazpost

- The Baa3 issuer rating and the Aa3.kz National Scale Rating placed on review for possible downgrade

Kaztemirtrans

- The Ba1 ratings placed on review for possible downgrade

Kazatomprom

- The Baa3 ratings placed on review for possible downgrade

The last rating action on most of these issuers was on 13 May 2009 following the downgrade of Local Currency rating of the Government of Kazakhstan to Baa2 from Baa1 on 12 May 2009 and the change of its outlook to negative from stable as follows:

- The ratings of KazMunaiGas NC, Kaztransgas, Intergas Central Asia and Kaztransoil were downgraded to Baa2 from Baa1 with their outlooks changed to negative from stable;
- The rating of KazMunaiGas E&P was left unchanged at Baa2 but the outlook was changed to negative from stable;
- The rating of Food Contract Corporation (FCC) was downgraded to Baa3 from Baa2 with the outlook changed to negative;
- The ratings of Kazakhstan Temir Zholy (KTZ) at Baa2, Kazakhstan Electricity Grid Operating Company (KEGOC) at Baa2 and Kazpost at Baa3 were not affected but the outlooks were changed to negative from stable;
- The ratings of Kaztemirtrans at Ba1 and Kazatomprom at Baa3 were assessed but considered not to have been affected by the action following the sovereign rating decision.

The last rating action on Kaztemirtrans was a downgrade to Ba1 on 27 April 2009, while the rating of Kazatomprom was affirmed on 24 December 2007 after an upgrade of the BCA.

The principal methodology used in these rating actions is the Application of Joint Default Analysis to Government Related Issuers, April 2005, which can be found at moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors related to the various industries that may have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory.

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