

Global Credit Research - 27 Apr 2009

**USD800 million of debt securities affected**

New York, April 27, 2009 -- Moody's Investors Service has today downgraded to Baa2 from A3 the issuer rating of JSC National Company Kazakhstan Temir Zholy's ("KTZ") and the 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. The outlook on the ratings is stable. Today's rating action concludes the review for possible downgrade that was initiated on 21 January 2009 due to the challenging market environment facing the company and Moody's decision to reassess the support and default dependence assumptions embodied in the company's ratings under the agency's rating methodology for Government Related Issuers (GRIs) to incorporate increasing reliance of key domestic businesses in the Republic of Kazakhstan on the government financial support.

Today's rating action reflects Moody's following decisions: (i) lowering of KTZ's standalone credit assessment, (ii) increase the default dependence assessment for the company to the high end of the medium category and, at the same time, (iii) take into account for the company's ratings the Baa2 foreign currency sovereign rating of the supporter, the government of the Republic of Kazakhstan.

Moody's has lowered its assessment of KTZ's standalone creditworthiness by one notch to the level equivalent to Ba2 due to the anticipated deteriorating credit metrics brought about by lower cash generation and sizeable capital expenditure program, reducing cushion under some financial covenants and potentially increasing mid-term debt maturity pressures on the company's cash flows in the weakening market for rail-based freight transportation services in the Republic of Kazakhstan and globally. The continuous capex plans of KTZ, even if reduced, will require the company to continue to have access to external funding. The risk of a growing leverage is aggravated by KTZ's exposure to foreign currency risk as most of its debt is denominated in foreign currency. Moody's positively notes large cash reserves accumulated by the company in foreign currency by now and its cash accumulation plan to timely address mid-term large debt maturities; however, these are expected to be challenged going forward by the worsening economic conditions, with the company's standalone creditworthiness expected to be more in line with the Ba2 category.

The increase of the default dependence between the company and the government of the Republic of Kazakhstan reflects Moody's view that there is an increasing correlation of the financial profiles of the government and its related GRIs in the crisis environment, as it is likely that their credit profiles are largely impacted by the same factors.

At the same time, Moody's has decided that it should factor into the ratings of KTZ the Baa2 foreign currency sovereign rating of the government of the Republic of Kazakhstan. Given the risk of further devaluation of the local currency, the sovereign's expanded role in the capital and foreign currency markets, and the foreign currency sovereign rating below that of the local currency, Moody's believes that the foreign currency rating of KTZ cannot exceed the foreign currency rating of the sovereign as, under a stress scenario, the company would be largely dependant upon the sovereign to get access to foreign currency reserves to repay its debt. Indeed KTZ has largely foreign currency debt, while the company generates substantially all its revenues in the local currency with no autonomous source of foreign currency.

Moody's continues to incorporate a high support assessment into KTZ's rating, which recognizes the company's strategic importance as the national rail business absolutely dominating the rail-based transportation market and the monopoly provider of rail infrastructure services.

The stable outlook on KTZ's ratings reflects the current stable outlook on the foreign currency sovereign rating and Moody's expectation that KTZ will remain highly supported by the state going forward.

A downgrade of the foreign currency sovereign rating and/or a material deterioration in the state support would likely negatively affect KTZ's ratings. The ratings could be downgraded if the reduction of the rail transportation market were deeper compared to the company's core forecast of 10% for 2009, with the company's cash flow generation ability materially deteriorated, its leverage trending towards 2.5x and EBITA/Interest expense falling below 3x. Any evidence that the company is further constrained in its access to funding or any material deterioration of the company's liquidity position could also exercise downward pressure on the rating.

The last rating action on KTZ was implemented on 21 January 2009, when Moody's placed the company's rating on review for possible downgrade due the challenging market conditions and the agency's decision to reassess default dependence and support assumptions for the company.

The principal methodologies used in rating KTZ are The Application of Joint Default Analysis to Government Related Issuers, April 2005, and the Rating Methodology for Global Freight Railroad Industry, March 2009, which can be found at moody's.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

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. The company has more than 135 thousand employees. KTZ's 2008 consolidated revenues amounted to KZT483.8 billion, or USD3.9 billion, compared to KZT423.6 billion, or about USD3.5 billion, in 2007. Cargo transportation services, including the infrastructure component, account for about 86% of KTZ's total revenues.

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