

**Rating Action: Moody's takes selected ratings actions on Kazakh Government Related Corporate Issuers following review**

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**Global Credit Research - 07 Jul 2009**

Moscow, July 07, 2009 -- Moody's Investors Service today concluded its ratings review for ten of the eleven government-owned corporate issuers (GRIs). Ratings had been placed on review for downgrade on June 15th, 2009, prompted by concerns that ongoing stress in the nation's economy, particularly within its financial sector, might overtime result in the government having to become more selective in its allocation of support to its corporate state-owned enterprises where the need for future substantial capital investments is anticipated.

**Ratings Confirmed:**

KazMunayGas NC (KMG NC) at Baa2; Outlook Negative

KazMunayGas E&P at Baa2; Outlook Negative

Kaztransgas at Baa2; Outlook Negative

Intergas Central Asia at Baa2; Outlook Negative

Kaztransoil at Baa2; Outlook Negative

Kazpost at Baa3/Aa3.kz; Outlook Negative

Kazatomprom at Baa3; Outlook Negative

Kaztemirtrans at Ba1; Outlook Negative

**Ratings Lowered:**

Kazakhstan Electricity Grid Operating Company (KEGOC) to Baa3; Outlook Negative

Kazakhstan Temir Zholy (KTZ) to Baa3; Outlook Stable

**Ratings Remaining on Review**

Food Contract Corporation (FCC) at Baa3

All ratings have an assigned negative outlook in line with Kazakhstan's sovereign rating, except for KTZ, which has a stable outlook to reflect that the ratings could accommodate some deterioration of the company's standalone credit assessment and a one-notch downgrade of the sovereign rating assuming that other GRI inputs remain unchanged.

While Moody's continues to believe that high support levels for the state-owned corporate GRIs remain appropriate given that they all pursue distinct policy mandates of strategic importance to the government and broader economy, Moody's has further distinguished the risk profiles of some of those state-owned enterprises from that of the Sovereign. In particular, while the electricity grid, KEGOC, and the railroad, KTZ, continue to be seen to be very strategic warranting high support assumptions, Moody's regards their strategic ranking as being modestly below that of the national oil company resulting in a one notch differential from the sovereign ratings. In the case of KazMunayGas NC and its various subsidiaries, Moody's regards the national oil company as being an integrated operator considered to be of particular strategic importance to the nation given the importance of the oil and gas sector to the national economy and its future development.

Moody's also believes that the Kazakh authorities, in deciding whether to provide support, are unlikely to make a distinction in practice between supporting the parent company, KMG NC, and supporting its various subsidiaries resulting in the alignment of the final ratings. Moreover, the stand-alone risk profiles of the individual rated companies within the KMG NC group are also fairly similarly aligned as well.

In the case of KEGOC, a further contributing factor to the downgrade to Baa3 is the decision to downgrade its BCA to 14 (B1 equivalent) from 13 (Ba3 equivalent). The BCA downgrade reflects Moody's expectation that KEGOC's financial profile will deteriorate materially beyond the levels seen as commensurate for the 13/Ba3 rating category (namely, Debt/EBITDA at below 5x and FFO/Net Debt in the low to mid-teens). A weaker credit profile is expected given the reduced electricity consumption and revenue expectations for 2009 which comes on top of KEGOC's increased debt burden following the February 2009 devaluation of the Kazakh tenge. The deterioration of the financial profile has also challenged the financial covenants agreed by KEGOC under its bank agreements. All medium term debt finance is provided by multi-lateral lending agencies and Development Bank of Kazakhstan.

However, the agency expects that, supported by the government, KEGOC would be able to continue co-operation with its bank creditors, mainly inter-government international financial institutions (EBRD and IBRD), and retain access to their funding. Given the strategic importance of KEGOC's large investment programme for the domestic economy, Moody's expects that the government would continue supporting KEGOC through favorable tariff regulation, additional equity injections, and provision of guarantees for new debt funding. Nevertheless, the company's BCA is regarded as under pressure until the company gets sizable state funding and its continuous access to debt finance is confirmed.

As noted above, the rating of FCC remains on review as Moody's continues an assessment of its standalone creditworthiness as indicated in the press release dated June 12, 2009. The review 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 review is therefore focusing 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.

The last rating action on the issuers above was on June 15th, 2009 when the ratings were placed on review for downgrade.

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.

London  
David G. Staples  
Managing Director  
Corporate Finance Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Moscow  
Victoria Maisuradze  
Vice President - Senior Analyst  
Corporate Finance Group  
Moody's Eastern Europe LLC  
Telephone: +7 495 228 6060  
Facsimile: +7 495 228 6091



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