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24.04.2015 № 04-16/01299

АО «Казахстанская фондовая биржа»

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С уважением,

И.о. Председателя Правления



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Rating Action: Moody's confirms Kazatomprom's Baa3 rating; stable outlook

Global Credit Research - 22 Apr 2015

London, 22 April 2015 -- Moody's Investors Service, (Moody's) has today confirmed the Baa3 issuer rating of Joint-Stock National Atomic Company Kazatomprom (KAP) and Baa3 senior unsecured notes issued by KAP. The outlook on the ratings is stable.

The action concludes the review for downgrade of KAP and its notes' rating, initiated by Moody's on 3 September 2014. The review was prompted by the increasing refinancing risks and weakening of the company's standalone credit profile.

RATINGS RATIONALE

As the Kazakh state-controlled National Welfare Fund Samruk-Kazyna JSC (not rated) fully owns KAP, Moody's determines KAP's Baa3 rating in accordance with its government-related issuer (GRI) methodology, which consists of the following inputs: (1) a baseline credit assessment (BCA) of ba2, which measures the company's underlying fundamental credit strength, excluding extraordinary government support; (2) the Baa2 local-currency rating of the Kazakh government with a stable outlook; (3) strong support from the government in the event of financial distress; and (4) low default dependence. The BCA was confirmed as a result of the rating review. The other rating inputs of support and dependence were not affected.

The confirmation of KAP's BCA reflects Moody's view that the company's financial metrics will remain at a level commensurate with Moody's guidance for ba2 BCA over the next two years. This is underpinned by (1) some recovery of uranium oxide (U3O8) spot prices (as of mid-April 2015 the U3O8 price increased to around \$39/pound, from below \$30/pound a year ago) owing to a reduction in global uranium production in this period; (2) the rating agency's expectation of U3O8 prices stabilisation around the observed levels in the next 24 months. The financial metrics will be also supported by (1) KAP's low cost position, which has recently strengthened by KAP's cost cutting initiatives; and (2) the stable debt levels expected in the next 24 months owing to the gradual reduction in KAP's capex in that period, reducing the need for new debt. However, Moody's notes that the financial metrics cushion that KAP has in excess of the agency's guidance for the current rating will remain limited, as weak pricing conditions remain. These weak conditions reflect a sustainable excess supply in the U3O8 market resulting from ongoing delays both in Japanese reactor restarts post-Fukushima and a launch of new nuclear power stations globally, in addition to high global stocks of U3O8 at utility companies.

The confirmation of KAP's BCA also reflects the improvement of company's liquidity position following the arrangement of a \$450 million syndicated loan facility in January 2015, reducing the risk of refinancing the company's \$500 million Eurobonds due in May 2015. As of January 2015, KAP's cash balances and deposits of around \$160 million (mainly with Kazakh banks), together with expected cash flow from operations in the next 12 months (including dividend stream from JVs) of around \$300 million and available undrawn committed facilities (accounting for the recently signed syndicated loan) are sufficient to fully cover cash outflows, including capex, dividend payments and debt maturities.

KAP's BCA remains constrained by the company's (1) limited business diversification, with more than 65% of sales in 2014 derived from uranium products; (2) exposure to challenges in the uranium process; and (3) risks associated with operating under the developing economic and legal framework in Kazakhstan.

More positively, KAP's BCA continues to reflect the company's (1) leading market position in uranium production worldwide, with a market share of around 20% as of end-2014 and more than 100 years of estimated reserves life; (2) long-term contract relationship with customers, which provides high sales visibility and partly reduces exposure to uranium price challenges; and (3) increasing co-operation with top global uranium/nuclear producers in the form of joint ventures (JVs), which help KAP ramp up production and improve product diversification.

RATIONALE FOR STABLE OUTLOOK

The stable outlook incorporates Moody's expectation that despite the weak conditions in the uranium market, the company will maintain leverage, measured as adjusted debt/EBITDA (including dividends received from jointly controlled and minority-owned entities) at, or moderately above, 2.0x, and that its CFO/debt ratio will be

sustainably above 20%. The outlook assumes that KAP's ownership structure will not change, and that the government will be supportive of the company's strategy and investment needs.

WHAT COULD CHANGE THE RATING UP/DOWN

Given the weak pricing conditions in the uranium market Moody's does not envisage positive pressure on KAP's rating in the next 12-18 months. Positive pressure would develop if, in conjunction with a strengthening of KAP's BCA following the sustainable cash flow generation (particularly as a result of the dividend stream from associates and jointly controlled companies) (1) the Kazakh government's credit strength were to significantly improve; or (2) Moody's were to increase its assessment of support it would likely provide to KAP (currently assessed as strong).

Moody's would downgrade the rating or revise the outlook downwards if (1) the rating agency were to take similar rating actions on the government of Kazakhstan; (2) Moody's were to reduce the level of support factored into the current rating; and/or (3) KAP's financial or business risk profile were to materially deteriorate, particularly if adjusted leverage, measured as debt/EBITDA (including dividends received from jointly controlled and minority-owned entities), were to exceed 2.5x, and CFO/debt were to remain below 20% on a sustained basis.

PRINCIPAL METHODOLOGIES

The principal methodology used in these ratings was Global Mining Industry published in August 2014. Other methodologies used include the Government-Related Issuers methodology published in October 2014. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

The Joint-Stock National Atomic Company Kazatomprom is responsible for the development of Kazakh nuclear resources. KAP's main activities include the mining, production and sale of uranium, beryllium, tantalum, niobium; and the production of hydrofluoric acid. KAP also provides energy and heat generation, and supplies water. In the last 12 months through September 2014, KAP reported revenue of KZT276.2 billion (\$1.6 billion).

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