

**"ҚАЗАҚТЕЛЕКОМ"
АКЦИОНЕРЛІК
ҚОҒАМЫ**



**АКЦИОНЕРНОЕ
ОБЩЕСТВО
"КАЗАХТЕЛЕКОМ"**

ҚАЗАҚТЕЛЕКОМ
"KAZAKHTELECOM JOINT STOCK COMPANY"

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15.10.2015

№ _____

АО «Казахстанская фондовая биржа»

Настоящим АО «Казакхтелеком» просит разместить пресс-релиз касательно подтверждения кредитного рейтинга Компании в разделе «Корпоративные события» сайта АО «Казахстанская фондовая биржа» согласно нижеследующему:

«Fitch Ratings» подтвердило кредитный рейтинг и «Позитивный» прогноз АО «Казакхтелеком»

14 октября 2015 года Международное рейтинговое агентство Fitch Ratings подтвердило долгосрочный рейтинг эмитента АО "Казакхтелеком" на уровне «BB», прогноз "Позитивный".

Аналитики международного рейтингового агентства Fitch Ratings (далее Агентство) отметили сильные позиции АО «Казакхтелеком» на рынке фиксированной телефонной связи в Казахстане, доминирующее положение в сегментах традиционной телефонии и фиксированной широкополосной связи, а также благоприятную операционную среду для деятельности Компании. Казакхтелеком вновь вышел на массовый рынок мобильной связи, запустив услуги LTE/GSM в 2014 г. с возможностью предоставления четырехкомпонентного набора услуг.

«Позитивный» прогноз обусловлен ожиданиями успешного развития сегмента мобильной связи, что приведет к улучшению денежного потока и повышению финансовой гибкости. Также аналитики отметили стабильную «подушку» ликвидности, которую Компания может использовать для финансирования капитальных затрат и прочих нужд.

Полная версия пресс-релиза рейтингового агентства на английском языке приложена. Также, с ней можно ознакомиться по следующей ссылке: https://fitchratings.ru/rws/press-release.html?report_id=992249

И.о. Главного финансового директора

Смагулова Т.А.

013744

Fitch Affirms Kazakhtelecom at 'BB'; Outlook Positive

14 Oct 2015 9:56 AM

Fitch Ratings-Moscow/London-14 October 2015: Fitch Ratings has affirmed Kazakhtelecom JSC's (Kaztel) Long-term Issuer Default Rating (IDR) at 'BB' with a Positive Outlook. A full list of rating actions is available at the end of this commentary.

Kaztel is a strong fixed-line incumbent, with dominant market shares in traditional telephony and fixed-line broadband services, operating in a benign regulatory environment. The company re-entered the mobile mass market with its LTE/GSM service in 2014, providing it with a quad-play capability.

The Positive Outlook reflects our expectation of the successful development of Kaztel's mobile operations, which would likely lead to stronger cash flow generation enhancing financial flexibility. The mobile network roll-out and the tenge's depreciation against key currencies have lifted funds from operations (FFO) adjusted gross leverage higher but we do not expect this to significantly exceed 2x unless the tenge weakens further.

KEY RATING DRIVERS

Incumbent Fixed-Line Operations

Fitch expects Kaztel to maintain its dominant position in the fixed-line segment, helped by benign regulation and shortage of alternative networks. Kaztel estimated its subscriber fixed-line telephony market share at a near-monopoly level of 92% at end-2014, and at a dominant 85% in the fixed-line broadband segment.

Crucially, control over the last-mile infrastructure and the lack of line sharing protects the company from excessive competition in the broadband segment. Alternative operators have to rely on their own infrastructure for provision of broadband services, which is only commercially viable in certain large cities. While the traditional voice segment will remain under moderate pressure, we expect growing broadband revenues to largely offset this weakness.

Positive Broadband Prospects

The Kazakh broadband market has strong growth potential, driven by fairly low fixed-line broadband penetration in the country, estimated at 11.8% of population in 2014, compared with 59.3% of population internet usage. Kaztel has completed its fibre infrastructure roll-out in key cities, strengthening its technological advantage over peers in areas with most intense competition. The company continues to invest in infrastructure upgrades on other territories to protect its dominance.

Kaztel is the only Kazakh provider of LTE mobile services, capable of managing high data volumes. The company is well-positioned to benefit from a wider take-up of mobile data services, even though there is an element of technological substitution with mobile (e.g. dongles) sometimes competing with wired broadband solutions. Any self-cannibalisation is likely to be limited, as mobile internet tends to be more popular in areas where high-speed fixed-line broadband service is not available.

Improving Mobile Position

Kaztel is likely to continue adding new customers, capitalising on its status as an exclusive 4G provider in the country. At end-June 2015, the company had a 7% subscriber and 13% revenue market share since launching its 4G mobile service in December 2013 and 3G services later in 2014.

The Kazakh mobile industry may see intensified competition as operators embark on significant strategic changes. TeliaSonera (A-/Stable), the owner of the controlling stake in KCell, the largest Kazakh mobile operator, announced strategic plans to divest of its interest in the Kazakh subsidiary which has been losing customers - a change of ownership may result in a new strategy. While Kaztel is rapidly growing the number of its data-hungry 4G

customers, other operators are exploring non-4G options including voice price reductions and wider 3G data packages.

Consumer Demand and Leverage Challenges

Weaker consumer confidence and higher inflation expectations following the tenge devaluation in August 2015 could sap demand for premium services (including mobile data) and make subscribers more cost-conscious, at least in the short-to-medium term. The weaker tenge will also increase leverage as a significant share of Kaztel's debt is nominated in USD and other hard currencies (38% at end-1H15) while nearly all of its revenues and cash flows are domestic-based.

Fitch expects that foreign currency debt as a share of total debt is likely to stabilise at around 40% by end-2015, down from 46% at end-2014. The company repaid a substantial amount of USD debt during 1H15, but the reduction in the proportion of foreign currency debt was partly offset by the tenge devaluation.

The weaker domestic currency can also inflate capex as nearly all telecoms equipment is imported. While most of Kaztel's outstanding equipment contracts are in tenge, which would mitigate the immediate negative impact, new contracts will likely be signed on terms that would reflect the new FX rates.

The company's credit profile is likely to be resilient to potential foreign currency exchange rate volatility. By our estimates, stressing the metrics for a further 20% tenge devaluation would increase leverage by 0.5x total debt/EBITDA, which can be accommodated within the current 'BB' rating.

The tenge lost approximately a third of its value against the US dollar as of mid-October 2015 since the start of the year.

Cash Flow Generation to Improve

We project that Kaztel's free cash flow generation will turn positive in 2016 after the bulk of the mobile network roll-out is completed. We expect the company's 2016 capex to moderate to below 20% of revenue from 33% on average in 2012-2014.

The company's mobile project is still in the development phase and entails substantial one-off operating expenses that could pressure reported EBITDA. The absolute scale of Kaztel's mobile operations remains small compared with the fixed line business. It would take substantial further growth and margin expansion before the mobile segment becomes a stronger contributor to EBITDA generation.

Leverage to Peak in 2015

We expect Kaztel's leverage to peak at around 2x funds from operations (FFO) adjusted gross leverage at end-2015, before gradually declining as capex falls and free cash flow generation improves.

We project that revenue in the highly profitable fixed-line business will remain under modest pressure from line disconnections and lower telephone traffic and decline by low single-digit percentages. The sub-scale mobile segment will be margin-dilutive, at least over the medium term. As a result, Kaztel's EBITDA margin is likely to remain below 30% in both 2015 and 2016 before gradually improving. Subdued EBITDA growth will be a main factor in holding back leverage improvement.

In the longer run, we expect that leverage will be managed in conjunction with shareholder remuneration needs. Although the company does not have public targets, leverage is likely to remain sustainably below 2x FFO adjusted gross leverage but above 1.5x, in our view.

Sufficient Liquidity

Kaztel has a few credit lines from foreign banks and the domestic Development Bank of Kazakhstan which are sufficient to cover its short-term refinancing needs and fund its expansionary capex programme. Facilities from foreign banks are in foreign currency, which match its forthcoming foreign currency maturities.

The company also has a 10-year KZT18bn credit line from Development Bank of Kazakhstan (BBB/Stable), denominated in tenge. It is available for financing mobile development but it would also allow Kaztel to divert operating cash flow from internal capex funding to other needs, including refinancing. Kaztel's debt profile is well spread with no medium-term debt redemption peaks.

Weak Domestic Banking System

The Kazakh domestic banking system is weak, implying the scarcity of local funding, few committed credit facilities and potentially limited access to deposits. The company holds a significant amount of its cash liquidity with low-rated domestic banks. Consequently, our analysis primarily focuses on the company's gross debt metrics. If the company manages to utilise some of its significant cash holdings with such low-rated banks, we would treat it as positive event risk.

Weak Parent-Subsidiary Linkage

Kaztel's ratings reflect the company's standalone credit profile. Kaztel is of only limited strategic importance for Kazakhstan, while operating and legal ties with its controlling shareholder, government-controlled Samruk-Kazyna, are weak. Although indirect government control is a positive credit factor, it does not justify a rating uplift, in our view.

KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for Kaztel include the following:

- Low single-digit consumer revenue declines in the fixed-line segment;
- Continuing rapid mobile revenue growth, at above 20% CAGR in 2016-2017, reducing to high single-digit percentage growth afterwards;
- EBITDA margin below 30% in 2015-2017, gradually improving to just above 30% in 2018;
- Decline in capex to below 20% of revenue in 2016 and after;
- No material acquisitions and divestments;
- Marginally positive free cash flow (FCF) generation in 2016 and FCF margin in the mid-single digit territory afterwards.

RATING SENSITIVITIES

Positive: Future developments that may, individually or collectively, lead to a positive rating action include:

- A sustained decrease in FFO adjusted gross leverage to below 2x;
- Maintaining sufficient liquidity that is diversified between external and internal sources;
- Stronger FCF generation with pre-dividend FCF margin in the mid-single digit range, likely driven by the end of heavy investments into mass mobile roll-out;
- Successful execution of the company's mobile strategy.

Negative: Future developments that may, individually or collectively, lead to a negative rating action include:

- A protracted rise in FFO-adjusted gross leverage to above 3x (end-2014: 1.9x) and/or a material increase in refinancing risks, which would lead to a downgrade
- Operating underperformance including in the mobile segment with sub-scale issues persisting may cause the Outlook to be revised to Stable.

FULL LIST OF RATING ACTIONS

Kazakhtelecom JSC

Long-term foreign and local IDRs: affirmed at 'BB', Outlook Positive

Short-term foreign currency IDR: affirmed at 'B'

National Long-term rating: affirmed at 'A+(kaz)', Outlook Positive

Senior unsecured debt in foreign and local currency: affirmed at 'BB'

Senior unsecured debt in local currency: affirmed at 'A+(kaz)'

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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