ҚАЗАҚСТАН ТЕМІР ЖОЛЫ ҰЛТТЫҚ КОМПАНИЯСЫ
КАЗАХСТАН ТЕМИР ЖОЛЫ НАЦИОНАЛЬНАЯ КОМПАНИЯ
KAZAKHSTAN RAILWAYS NATIONAL COMPANY

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АО «Казахстанская фондовая биржа»

Настоящим Акционерное общество «Қазақстан темір жолы» (далее – АО «НК «ҚТЖ») согласно пункту 1 статьи 20 Листинговых правил, утвержденных решением Совета директоров акционерного общества «Казахстанская фондовая биржа» (протокол от 27 апреля 2017 года №15), сообщает, что 6 августа 2019 года Международное рейтинговое агентство Moody 's Investors Service подтвердило кредитный рейтинг АО «НК «ҚТЖ» и рейтинг по всем облигациям АО «НК «ҚТЖ» (ISIN Code: XS0799658637 (US48667DAD66), XS1713475132 (US48669DAA00), KZ2C00004109, KZ2C00004380, KZ2C00005866, KZ2C00005874, KZ2C00005882, KZ2C00005890, KZ2C00003564, CH0246199050, CH0448036266) на уровне «Baa3, », прогноз «стабильный».

Приложение: на 9 листах.

- *пресс-релиз Международного рейтингового агентства Moody 's Investors Service от 6 августа 2019 года на английском языке.*

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CREDIT OPINION
6 August 2019

Update

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RATINGS

National Company Kazakhstan Temir Zholy JSC

Domicile	Kazakhstan
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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National Company Kazakhstan Temir Zholy JSC

Update to credit analysis

Summary

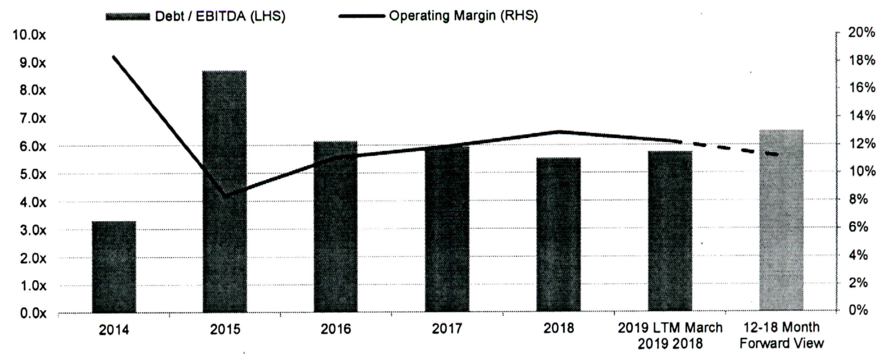
The positioning of National Company Kazakhstan Temir Zholy JSC's (KTZ) Baa3 issuer rating at the level of the Government of Kazakhstan's rating (Baa3 stable) reflects the track record of state support extended to KTZ, and the expected willingness and ability of the state to continue to provide such support. The latter are underpinned by the company's (1) position as the monopoly owner of rail transportation infrastructure and the largest provider of transportation services in Kazakhstan, and (2) strategic and social importance to the state and the country's economic development.

At the same time, KTZ's Baseline Credit Assessment (BCA) of b1 reflects its persistently leveraged financial profile, driven by the company's susceptibility to macroeconomic and foreign-exchange rate volatility and its significant investment requirements. The company's business profile also remains exposed to regulatory developments in Kazakhstan.

As a result, government support, both ordinary (via an approval of tariff indexation, state subsidies for loss-making operations and equity injections/loans from the budget) and extraordinary, remains a critical component of the final rating, and currently provides a four notch uplift from the BCA level.

Exhibit 1

KTZ's leverage will increase in 2019-20 as margins decelerate



All figures are calculated using Moody's estimates and standard adjustments.
Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Credit strengths

» Status as the monopoly provider of the strategic rail infrastructure services in Kazakhstan

» A proven track record of ordinary and extraordinary state support

» A long-term debt maturity profile

Credit challenges

» A persistently weak financial profile

» Foreign-exchange risks related to foreign-currency-denominated debt

» Extensive investment requirements

» Exposure to the macroeconomic environment in Kazakhstan

Rating outlook

The stable outlook on KTZ's rating is in line with the outlook on the sovereign rating of Kazakhstan. Although we expect KTZ's adjusted debt/EBITDA to deteriorate to 6.0x-6.5x in 2019-20, the stable outlook reflects the evidence of strong state support towards KTZ's efforts in stabilising its operating and financial performance.

Factors that could lead to an upgrade

» An upgrade of the sovereign rating by more than one notch, provided KTZ's operating and financial performance and liquidity remain commensurate with our current expectations and there are no adverse changes in the probability of the Kazakh government providing extraordinary support to the company in the event of financial distress, could lead to an upgrade of the company's rating.

» A material improvement in the company's standalone creditworthiness would exert positive pressure on its BCA.

Factors that could lead to a downgrade

» A downgrade of Kazakhstan's sovereign rating

» A downward reassessment of the government's ability and willingness to provide support

» A deterioration in the company's standalone credit quality

» A weakening in its liquidity profile

Key indicators

Exhibit 2
National Company Kazakhstan Temir Zholy JSC

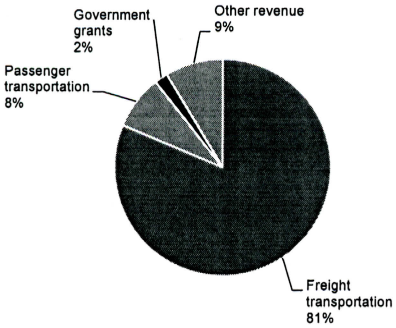
USD bilions	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	LTM (Mar-19)	12-18 Month Forward View
Revenue	4.9	3.5	2.4	2.8	3.0	2.9	3.0-3.2
Operating Margin %	18.4%	8.4%	11.1%	11.9%	12.9%	12.3%	10% - 11%
EBITA / Average Assets	6.5%	1.9%	3.2%	3.6%	4.1%	3.9%	3% - 4%
Debt / EBITDA	3.3x	8.7x	6.2x	6.0x	5.5x	5.8x	6x - 6.5x
FFO / Debt	24.3%	8.6%	11.3%	11.7%	13.5%	14.4%	7% - 10%
EBIT / Interest Expense	3.2x	0.9x	1.2x	1.2x	1.4x	1.3x	1.5x - 1.8x

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Profile

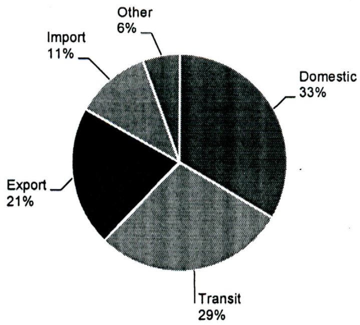
Headquartered in Astana, Kazakhstan, JSC National Company Kazakhstan Temir Zholy (KTZ) is the 100% state-controlled vertically integrated monopoly owner and operator of the national rail network of the Republic of Kazakhstan, as well as the leading provider of freight and passenger rail transportation services in the country. The company is also an operator of several other key infrastructure assets such as sea ports and airports. The sole shareholder of KTZ is the state, represented by JSC National Welfare Fund Samruk Kazyna (Samruk Kazyna). In the 12 months ended 31 March 2018, the group generated revenue of around KZT1,052 billion and Moody's-adjusted EBITDA of KZT259 billion.

Exhibit 3
Revenue structure by service type (2018)



Source: Company data

Exhibit 4
Freight traffic structure by destination (2018)



Source: Company data

Detailed credit considerations

Monopoly owner of the national rail infrastructure and the largest provider of transportation services in Kazakhstan
KTZ's business profile benefits from its position as the monopoly provider of rail infrastructure services in Kazakhstan, a country where railway is the key freight transportation mode (representing 47% of the country's 2018 total freight transportation turnover, including pipelines), given its substantial territory, landlocked position, and abundant and widespread natural resources. Kazakhstan's strategic location among key trading regions such as the European Union, China, Russia and the Commonwealth of Independent States also provides good potential for active development of transit operations in the country.

KTZ holds the leading position in the domestic freight market, accounting for around 60% of the total cargo turnover (excluding pipelines), and remains a dominant provider of rail passenger services in the country, with more than 80% of the total passenger turnover. The company mostly competes with pipelines, which have taken over almost all crude oil cargo volume from rail. Private participation in the Kazakhstan railway transportation industry is currently limited to ownership, leasing and operation of railcars and

containers, with many private operators being part of industrial groups that largely service their own freight turnover. With a railcar fleet representing around 40% of Kazakhstan's total fleet, the company's competitive position remains fairly comfortable.

To preserve its market leadership and capture growth opportunities, KTZ will focus on its core rail transportation services and, in particular, the strategic and actively developing transit operations. At the same time, the company plans to exit all non-core activities, including management of airport infrastructure assets, to streamline its operating model and enhance business efficiencies.

Persistently weak financial profile

KTZ's financial profile remains volatile and exposed to (1) the economic environment in Kazakhstan, which drives the transportation activity in the country; (2) foreign-exchange volatility, with more than half of the company's debt denominated in foreign currency and only around 23% of its revenue in Swiss franc; (3) substantial investment requirements for industry modernisation and infrastructure development; as well as (4) the government's decisions on various forms of state support.

In particular, after a trough in 2015, KTZ's financial performance improved gradually in 2016-18, supported by (1) the stabilising economy, which drove the recovery in KTZ's cargo turnover to the pre-crisis levels, with robust 9.6% and 6.6% growth in 2017 and 2018, respectively; (2) the indexation of the average infrastructure and locomotive services tariff by more than 5% in 2016 and 2017, and around 7% in 2018; and (3) the slowdown in capital spending after the completion of the largest investment projects (such as the development of Dostyk gateway terminal, the Khorgoz dry port and the first stage of a ferry complex in Kuryk sea port). In addition, we acknowledge KTZ's increasing focus on deleveraging and debt portfolio optimisation (in terms of currency composition and maturity profile) under the financial policy approved by Samruk Kazyna for its subsidiaries, which, in particular, envisages a comfortable leverage level of reported debt/EBITDA below 3.75x. As a result, the company's adjusted debt/EBITDA fell to 5.5x in 2018 from 8.7x in 2015.

Nevertheless, in the beginning of 2019, KTZ's top-line growth and profitability started experiencing some pressure from (1) the slowing cargo turnover growth (flat in the first half of 2019) after the strong recovery in previous years and an economic slowdown; (2) the limitation of the indexation of the average tariff in January 2019 to 1.8%, given that only infrastructure tariff was raised by 4%; and (3) the accelerating cost inflation, largely driven by rising salary and fuel costs. While KTZ has further revised down its capital programme, which is now fully focused on the core rail business development, such as capital repairs and modernisation of freight and passenger railcars and locomotives, the company's investment requirements still remain fairly sizeable, with free cash flow staying persistently negative.

A weaker adjusted EBITDA and significant investments, coupled with another round of tenge depreciation at year-end 2018, drove the company's adjusted leverage to 5.8x as of the 12 months ended 31 March 2019. We expect the company's adjusted debt/EBITDA to further deteriorate to 6.0x-6.5x in 2019-20 and some potential gradual deleveraging thereafter.

State support remains a key rating driver

The proven government support, both ordinary and extraordinary, has become a particularly important rating component amid the prolonged weakness and volatility in KTZ's financial performance and is underpinned by the company's (1) strategic importance to the economy as the monopoly owner of the rail transportation infrastructure and the largest provider of transportation services in Kazakhstan; (2) role as a key tool in implementing the state initiative of developing the transportation industry, including the strategically important transit operations; and (3) social importance as one of the largest employers and taxpayers in the country.

KTZ's business model incorporates ordinary support from the state in the form of (1) approval of tariff indexation; (2) annual state subsidies for loss-making passenger operations; (3) equity injections and long-term state funding to finance the investment programme; and (4) active involvement in KTZ's strategy and operations, management and board of directors' appointments, investments, financing policies, and risk management. The state also historically provided crucial extraordinary support to the company's liquidity when needed.

In particular, to support KTZ's weakening financial profile, in July 2019, the government approved (1) the annual indexation of the average freight tariffs by 7.7% for 2019-23, which include a 12% increase of the locomotive services tariff for 2019; (2) a KZT20 billion compensation for passenger operations, in addition to the initially approved 2019 state subsidies of KZT22 billion; and (3) a 10% increase in passenger tariff. The above state measures, together with some expected acceleration in the turnover growth traditional for the second half of the year and the ongoing robust development of the high-margin transit business, will allow the company to preserve its adjusted EBITDA margin comfortably above 20% in 2019-20.

Strong evidence of consistent state support towards KTZ's efforts in stabilising its operating and financial performance, as well as our expectation that the government will provide support, if needed, underpins the company's current rating positioning.

Although KTZ is on the list of companies targeted for privatisation, the exact terms and timing have not been clearly articulated yet. We also understand that the government intends to retain control over the company.

Liquidity analysis

KTZ's liquidity benefits from a fairly comfortable debt-maturity profile, with no major refinancing peaks until 2022. With the planned slowdown in investment activities over the next 12-18 months (with more than half of the total capital spending being discretionary in nature), the company should be able to cover most of its capital spending over the next 12 months by internal sources and the available committed long-term credit lines.

KTZ's liquidity profile is further supported by its proven access to (1) bank and capital market financing; and (2) state support via equity injections and long-term state funding, including the specifically established KZT200 billion domestic bond programme (KZT50 billion unutilised as of the end of June 2019), which the company has already successfully used to address its refinancing needs in 2016-18.

While KTZ will remain in breach of a number of financial covenants under its bank loans, we expect the company to continue to receive the respective waivers in a timely manner, as has been the case historically.

Rating methodology and scorecard factors

We apply our Government-Related Issuers rating methodology to determine the rating of KTZ. According to this methodology, the rating is driven by a combination of (1) KTZ's BCA of b1, (2) the Kazakh government's Baa3 rating with a stable outlook, (3) the high default dependence between the group and the government, and (4) the high probability of state support in the event of financial distress.

Because KTZ derives around 84% of its revenue from freight transportation services, we apply our Surface Transportation and Logistics Companies rating methodology in assessing its standalone credit quality. At the same time, KTZ's national railroad integrated business incorporates rail infrastructure management and locomotive traction services, which go beyond the framework of this rating methodology. KTZ's monopoly position and regulated cash flow stream from these services are positively recognised in the group's rating.

Exhibit 5

Rating factors

National Company Kazakhstan Temir Zholy JSC

Surface Transportation and Logistics Industry Grid [1][2]	Current LTM 3/31/2019		Moody's 12-18 Month Forward View As of 8/2/2019 [3]	
Factor 1 : Scale (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.9	Ba	$3 - $3.2	Ba
Factor 2 : Business Profile (20%)				
a) Business Profile	A	A	A	A
Factor 3 : Profitability & Efficiency (10%)				
a) Operating Margin %	12.3%	Baa	10% - 11%	Baa
b) EBITA / Average Assets	3.9%	B	3% - 4%	B
Factor 4 : Leverage & Coverage (40%)				
a) Debt / EBITDA	5.8x	B	6x - 6.5x	Caa
b) FFO / Debt	14.4%	Ba	7% - 10%	B
c) EBIT / Interest Expense	1.3x	B	1.5x - 1.8x	B
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Indicated Outcome from Scorecard		Ba2		Ba2
b) Actual Rating Assigned				Baa3
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	b1			
b) Government Local Currency Rating	Baa3			
c) Default Dependence	High			
d) Support	High			
e) Final Rating Outcome	Baa3			

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2019(L). Source: Moody's Financial Metrics™.
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 6

Peer comparison

	National Company Kazakhstan Baa3 Stable			Russian Railways Joint Stock Baa2 Stable			Deutsche Bahn AG (P)Aa1 Stable			SNCF Mobilites Aa3 Stable		
(in USD millions)	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-17	FYE Dec-18	LTM Dec-18	FYE Dec-17	FYE Dec-18	LTM Dec-18	FYE Dec-17	FYE Dec-18	LTM Dec-18
Revenue	$2,801	$3,035	$2,943	$38,614	$38,588	$38,588	$48,985	$52,784	$52,784	$35,965	$37,412	$37,412
EBITDA	$688	$780	$726	$9,256	$8,417	$8,417	$6,318	$6,517	$6,517	$4,127	$3,986	$3,986
Total Debt	$4,014	$3,898	$3,939	$21,709	$20,620	$20,620	$38,066	$39,049	$39,049	$23,810	$21,519	$21,519
Cash & Cash Equiv.	$292	$176	$139	$2,824	$2,035	$2,035	$4,079	$4,051	$4,051	$7,678	$5,663	$5,663
Operating Margin	11.9%	12.9%	12.3%	13.1%	13.0%	13.0%	2.5%	2.6%	2.6%	4.6%	2.9%	2.9%
EBIT / Int. Exp.	1.2x	1.4x	1.3x	3.4x	3.1x	3.1x	1.2x	1.3x	1.3x	3.7x	2.8x	2.8x
FFO / Debt	11.7%	13.5%	14.4%	36.4%	33.0%	33.0%	20.5%	17.7%	17.7%	14.0%	12.1%	12.1%
EBITA / Avg. Assets	3.6%	4.1%	3.9%	7.1%	6.1%	6.1%	2.1%	2.2%	2.2%	4.2%	2.6%	2.6%
Debt / EBITDA	6.0x	5.5x	5.8x	2.3x	2.7x	2.7x	5.7x	6.2x	6.2x	5.4x	5.6x	5.6x

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last 12 Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

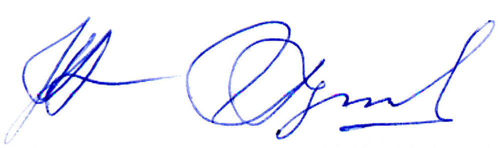


Exhibit 7

Moody's-adjusted debt breakdown

National Company Kazakhstan Temir Zholy JSC

in KTZ millions	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Mar-19
As Reported Debt	**857,926**	**1,377,321**	**1,239,680**	**1,279,605**	**1,400,349**	**1,413,103**
Pensions	30,157	31,684	29,131	31,241	34,745	34,745
Operating Leases	6,895	5,304	7,216	17,898	50,976	0
Non-Standard Adjustments	17,275	0	17,022	6,728	-790	47,296
Moody's-Adjusted Debt	**912,253**	**1,414,308**	**1,293,049**	**1,335,472**	**1,485,280**	**1,495,144**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 8

Moody's-adjusted EBITDA breakdown

National Company Kazakhstan Temir Zholy JSC

in KTZ millions	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Mar-19
As Reported EBITDA	**210,024**	**-296,092**	**235,598**	**218,250**	**146,031**	**116,738**
Pensions	-4,285	3,262	3,331	3,066	4,443	4,443
Operating Leases	2,298	1,768	2,405	5,966	16,992	12,744
Unusual	66,945	453,837	-30,566	-913	104,349	132,321
Non-Standard Adjustments	-45	0	-670	-2,138	-3,481	-6,800
Moody's-Adjusted EBITDA	**274,937**	**162,775**	**210,097**	**224,231**	**268,334**	**259,446**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY JSC	
Outlook	Stable
Issuer Rating	Baa3
Bkd Senior Unsecured	Baa3
KTZ FINANCE LLC	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa3

Source: Moody's Investors Service

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