

“КазМунайГаз” ұлттық компаниясы” АҚ
Қазақстан Республикасы, 010000, Астана қ.,
Қабанбай батыр даңғылы, 19
тел.: +7 (7172) 976 101
факс: +7 (7172) 976 000, 976 001
e-mail: Astana@kmg.kz

АО “Национальная компания “КазМунайГаз”
Республика Казахстан, 010000, г. Астана,
пр. Кабанбай батыра, 19
тел.: +7 (7172) 976 101
факс: +7 (7172) 976 000, 976 001
e-mail: Astana@kmg.kz

JSC “National Company “KazMunayGas”
19, Kabanbay batyr Ave., Astana, 010000,
Republic of Kazakhstan
tel.: +7 (7172) 976 101
fax: +7 (7172) 976 000, 976 001
e-mail: Astana@kmg.kz

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**Заместителю председателя Правления
АО «Казахстанская фондовая биржа»
Хорошевой Н.Ю.**

Уважаемая Наталья Юрьевна!

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Приложение: на 11 листах.

**Заместитель председателя Правления
по корпоративному развитию**



Д. Берлибаев

Исполнитель: Куандыкова А.
Телефон: 976358

Announcement: Moody's: KMG's proposed plan of action with regard to its debt/equity structure will not affect its ratings

Global Credit Research - 01 Jul 2015

London, 01 July 2015 – Kazakhstan's state-owned oil and gas holding company KazMunayGas NC JSC (KMG) has made public its intention to pursue a programme of debt/capital restructuring, aimed at reducing leverage, improving its liquidity profile, and restoring its debt covenant leeway that has eroded as a result of a deterioration in the oil price environment. Moody's does not expect that the restructuring as currently envisaged to have an effect on the company's ratings.

As part of the programme, KMG is soliciting consent from its bond and bank debt holders for the following:

- The sale by Coöperatieve KMG U.A., a fully owned subsidiary of KMG, of 50% of its shares in KMG Kashagan B.V., a holder of 16.88% stake in North Caspian project, to JSC Sovereign Wealth Fund "Samruk-Kazyna" (SK, not rated). The transaction will be partly financed by Kazakhstan's National Wealth Fund. Moody's expects that the sale and the subsequent deconsolidation will result in a decrease in KMG's non-current asset value commensurate to the consideration paid by SK and to the balance value of the asset and approximately \$2.2 billion reduction of debt. Cash proceeds will be applied to the repayment of debt at the KMG holding level. KMG will receive a call option for the buyback of the stake, which will be exercisable between 2018-20 in order to benefit from the oilfield's positive EBITDA contribution after it begins producing as expected in early 2017.

- Amendment of the definition of "consolidated net indebtedness", or the "Cash Application Amendment". KMG will request debt holders to approve the application of the consolidated group cash position in accordance with IFRS for net debt calculation, as opposed to the current practice in certain indentures which limits eligible cash balances to KMG holding and KMG Finance only (approximately \$0.9 billion as of end-March 2015). The change will result in the reduction of net debt by additional approximately \$5.0 billion, mostly due to application of cash balances at the oil producing subsidiary KMG EP.

- KMG will seek consent of the debt holders for limiting the incurrence of indebtedness to solely "financial debt" in accordance with the IFRS treatment. This will allow the company to utilise alternative forms of financing, such as medium-term advances from trade counterparties and hybrid quasi-equity instruments with no effect on the to-be-revised "net KMG indebtedness/EBITDA" covenant headroom.

Upon realisation of the programme, Moody's expects KMG's consolidated gross financial debt to decrease by up to \$6.9 billion, and the company to continue to fund its current capital expenditure programme within its financial covenants in 2015-16 thanks to the perspective amendment of the net debt calculation, which will result in its reduction by approximately \$5.0 billion.

Moody's most recent rating action on KMG taken on 3 April 2015 involved the affirmation of the company's rating at Baa3 (one notch below the sovereign rating of Kazakhstan) with a stable outlook, while KMG's standalone profile assessment (BCA) was lowered by one notch to ba3 reflecting its weakening operating and financial profile. Concurrently Moody's notes the growing role of the Kazakhstan government as support provider for the company, and the government's demonstrated willingness and ability to provide such support. Because Moody's treatment of debt may differ from the IFRS definition, the rating agency will conduct its own analysis of the company's evolving debt/capital structure. Moody's does not expect KMG's actions as currently envisaged to have an effect on the company's ratings.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Julia Pribytkova
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Limited, Russian Branch
7th floor, Four Winds Plaza

21 1st Tverskaya-Yamskaya St.
Moscow 125047
Russia

Victoria Maisuradze
Associate Managing Director
Corporate Finance Group

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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Research Update:

Kazakhstan-Based Oil Company KazMunayGas 'BB+' And 'kzAA-' Ratings Affirmed; Outlook Negative

Primary Credit Analyst:

Alexander Griaznov, Moscow (7) 495-783-4109; alexander.griaznov@standardandpoors.com

Secondary Contact:

Ekaterina Kulikova, Moscow +7 (495) 783-4090; ekaterina.kulikova@standardandpoors.com

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Research Update:

Kazakhstan-Based Oil Company KazMunayGas 'BB+' And 'kzAA-' Ratings Affirmed; Outlook Negative

Overview

- KazMunayGas (KMG) has announced its intention to sell 50% of Kashagan, Kazakhstan's largest offshore oil field, to its majority shareholder Samruk-Kazyna for \$4.7 billion.
- This is in line with our expectation that KMG will continue to receive extraordinary government support, if needed, and should enable the company to reduce its leverage and remain compliant with covenants.
- We are therefore affirming our 'BB+' global scale and 'kzAA-' national scale ratings on KMG and our 'BB+' rating on its majority-owned subsidiary KazMunaiGas Exploration Production.
- The negative outlook on KMG mirrors that on Kazakhstan and reflects that we could lower our ratings on the company if we lowered the sovereign credit ratings.

Rating Action

On July 1, 2015, Standard & Poor's Ratings Services affirmed its 'BB+' long-term corporate credit rating on Kazakhstan-government-controlled vertically integrated oil company KazMunayGas NC JSC (KMG) and its core subsidiary KazMunaiGas Exploration Production JSC (KMG EP). The outlook is negative.

We also affirmed our 'kzAA-' Kazakhstan national scale rating on KMG.

Rationale

The affirmation reflects our view that KMG's various efforts to reduce debt should be sufficient to avoid weakening in its credit metrics and liquidity.

KMG's majority shareholder, state-owned Samruk-Kazyna, has reportedly agreed to buy KMG's 50% stake in Kazakhstan's largest offshore oilfield, Kashagan, for \$4.7 billion. We understand that KMG plans to use the proceeds from the asset sale to repay debt, which should enable the company to preserve its credit metrics, improve liquidity, and avoid covenant breaches on its bonds. We understand that the company is working on a few other transactions that should also support credit metrics and liquidity in the current low oil price environment. These efforts could further strengthen liquidity, which we currently assess as "less than adequate."

In our current base-case scenario, we expect KMG's adjusted ratios of debt to EBITDA at 3-3.5x and funds from operations (FFO) to debt in the 15%-20% range in 2015-2016, which should remain commensurate with the rating and our 'b' assessment of the group's stand-alone credit profile.

KMG is a 100% government-owned national oil company, with stakes in essentially all of Kazakhstan's oil-related assets and priority access to new assets that also benefit from vertical integration into pipelines. It is one of the country's largest exporters and taxpayers and has some social mandates, such as supplying the local market with fuel at fairly low prices and investing in socially important projects. Still, KMG is responsible for only about 28% of the country's oil production (12% when including only majority-owned operations).

In the current environment of lower oil prices, during which most oil companies strongly cut their capital expenditures (capex), KMG is increasing its capex compared with 2014's because many of its assets require investments. Most of KMG's majority-owned oil production assets are mature and lack growth prospects, its refineries are relatively old, and the company only has minority stakes in the country's most profitable and young oil projects (such as 20% in Tengiz Chevroil and 10% in Karachaganak).

In our base case, we assume:

- A Brent crude oil price of \$55 per barrel (/bbl) in 2015, \$65/bbl in 2016, and \$75/bbl from 2017.
- High capex, including refinery modernization, pipeline construction, and KMG's portion of additional spending to put Kashagan on stream in first-half 2015.
- Stable dividends from the company's affiliate Tengiz Chevroil, which we expect to be about \$500 million-\$700 million per year in 2015-2016.

Based on these assumptions, we arrive at the following credit measures for KazMunayGas:

- Funds from operations to debt of 15%-20% in 2015-2016.
- Negative free operating cash flow generation.

The rating on KMG reflects our expectation of a "very high" likelihood of government support, based on the company's "very important" role and "very strong" link with the government.

Liquidity

We currently assess KMG's liquidity as "less than adequate," but will likely revise it to "adequate" if and when the company completes the Kashagan asset sale and renegotiates with bondholders the covenant calculation formula, which currently does not fully include cash at subsidiary level.

Our current liquidity assessment primarily reflects that we exclude cash held at KMG EP because it might not be fully available for debt repayment at the

parent company, in our view. We think the company's debt maturing in 2015 is covered by available liquidity. At the same time, we think that currently available liquidity sources might not fully cover the full amount of capex that the company might undertake in 2015. However, we realize that this capex is largely uncommitted and subject to availability of funding.

As of March 31, 2015, liquidity sources at the parent company for the next 12 months included:

- About \$0.7 billion of cash;
- About \$1.1 billion of dividend income from subsidiaries and joint ventures, minus about \$0.8 billion in interest and about \$100 million of administrative costs; and
- The back-up line from the National Fund of Kazakhstan of about \$1.5 billion and availability of financing under uncommitted lines from the government.

Key liquidity uses over the next 12 months as of the same date included:

- About \$0.6 billion in short-term debt maturities;
- Capex for Kashagan in first-half 2015, which we understand the parent company must finance; and
- Dividends to Samruk-Kazyna, in line with the 15% payout ratio.

Outlook

The negative outlook on KMG mirrors the outlook on Kazakhstan.

Downside scenario

If we lower our ratings on Kazakhstan, we would likely lower the ratings on KMG. This is because of the uplift we include in the long-term rating on KMG to reflect our expectation of the "very high" likelihood of government support for the company, if needed.

We could also lower the rating if KMG's SACP weakens to 'b-' from 'b'. However, this would likely follow deteriorating liquidity, which we do not expect in our base-case scenario.

Upside scenario

We would likely revise our outlook on KMG to stable following a similar outlook revision the sovereign rating.

We could consider upgrading KMG if we revised up the SACP to 'bb-'. However, we regard this scenario as remote, because it would follow improvement of FFO to debt to at least 30%, which we view as tough to achieve given the current oil price.

Ratings Score Snapshot

Corporate Credit Rating: BB+/Negative/--

Business risk: Fair

- Country risk: High
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Highly leveraged

- Cash flow/Leverage: Highly leveraged

Anchor: b

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Less than adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Neutral (no impact)

Stand-alone credit profile: b

- Related government rating: BBB
- Likelihood of government support: Very high (+4 notches from SACP)

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Oil And Gas Exploration And Production Industry , Dec. 12, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology For Crude Oil And Natural Gas Price Assumptions For Corporates And Sovereigns, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013

Ratings List

Ratings Affirmed

KazMunayGas NC JSC

Corporate Credit Rating
Kazakhstan National Scale
Senior Unsecured

BB+/Negative/--
kzAA-/---/--
BB+

KazMunaiGas Exploration Production JSC
Corporate Credit Rating BB+/Negative/--

KazMunaiGas Finance Sub B.V.
Senior Unsecured* BB+

*Guaranteed by KazMunayGas NC JSC

Additional Contact:

Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

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