JSC "NATIONAL COMPANY "KAZAKHSTAN TEMIR ZHOLY"

Independent Auditor's Report

Consolidated Financial Statements
for the year ended December 31, 2010

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated Financial Statements
For the year ended December 31, 2010

Contents

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

Management of JSC "National Company "Kazakhstan Temir Zholy" (the "Company") is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Company and its subsidiaries (collectively, the "Group") as of December 31, 2010, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2010 were approved by management on March 25, 2011.

On behalf of management of the Group:

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 25, 2011	March 25, 2011	March 25, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of JSC "National Company "Kazakhstan Temir Zholy":

We have audited the accompanying consolidated financial statements of JSC "National Company "Kazakhstan Temir Zholy" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP

Tatyana Gutova
Engagement Partner
Qualified auditor
Qualification certificate No.0000314
dated December 23, 1996,
the Republic of Kazakhstan

Deloitte, LLP
State license on auditing in the Republic of Kazakhstan
No.0000015, type MFU-2,
issued by the Ministry of Finance of the Republic of
Kazakhstan dated September 13, 2006

Nurlan Bekenov
General Director
Deloitte, LLP

March 25, 2011

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statement of financial position
as at December 31, 2010
(in thousands of tenge)

	Notes	December 31, 2010	December 31, 2009
ASSETS			
Non-current assets			
Property, plant and equipment	4	978,927,703	833,599,921
Intangible assets	5	5,300,895	4,488,144
Investments in associates	6	2,777,494	2,467,654
Other non-current assets	7	31,351,523	9,941,969
Total non-current assets		1,018,357,615	850,497,688
Current assets			
Inventories	8	22,501,420	20,942,968
Trade accounts receivable	9	4,158,440	6,062,863
Other financial assets	10	122,201,395	17,706,980
Prepaid income tax		2,822,661	8,436,108
Asset held for the benefit of the Shareholder	11	9,170,284	-
Other current assets	12	26,397,658	38,490,712
Cash and cash equivalents	13	94,629,601	52,442,441
Restricted cash	15	227,662	233,714
Total current assets		282,109,121	144,315,786
Total assets		1,300,466,736	994,813,474
LIABILITIES AND EQUITY			
Equity			
Share capital	14	521,100,457	486,220,457
Additional paid-in capital and unissued share capital		41,472,001	20,254,432
Foreign currency translation reserve		(103,797)	(83,546)
Retained earnings		189,734,202	154,611,850
Equity attributable to owner of the Company		752,202,863	661,003,193
Non-controlling interests		(2,089)	-
Total equity		752,200,774	661,003,193

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statement of financial position
as at December 31, 2010 (continued)
(in thousands of tenge)

	Notes	December 31, 2010	December 31, 2009
Non-current liabilities			
Borrowings	15	41,241,101	31,841,262
Debt securities issued	16	153,740,906	117,706,342
Finance lease liabilities	17	4,945,560	5,268,051
Employee benefit obligations	18	13,372,274	12,595,946
Deferred income tax liability	19	83,745,025	45,760,039
Total non-current liabilities		297,044,866	213,171,640
Current liabilities			
Short-term borrowings	15	-	4,860,026
Current portion of long-term borrowings	15	30,135,249	11,339,472
Current portion of debt securities issued	16	68,927,178	1,092,377
Current portion of finance lease liabilities	17	508,648	476,428
Current portion of employee benefit obligations	18	1,647,539	979,120
Trade accounts payable	20	59,729,674	43,642,693
Income tax payable		152,042	80,898
Other taxes payable	21	5,208,657	8,204,631
Other current liabilities	22	84,912,109	49,962,996
Total current liabilities		251,221,096	120,638,641
Total liabilities		548,265,962	333,810,281
Total equity and liabilities		1,300,466,736	994,813,474

The notes below form an integral part of the consolidated financial statements. The independent auditor's report on the consolidated financial statements is on pages 2 and 3.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President, of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 25, 2011	March 25, 2011	March 25, 2011

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statement of comprehensive income
for the year ended December 31, 2010
(in thousands of tenge)

	Notes	2010	2009
Revenue			
Freight transportation		498,596,229	407,411,457
Passenger transportation		50,916,960	46,647,095
Government grants		15,409,258	10,058,412
Other revenue	23	18,977,747	16,876,206
Total revenue		583,900,194	480,993,170
Cost of sales	24	(406,433,679)	(368,960,223)
Gross profit		177,466,515	112,032,947
General and administrative expense	25	(64,707,008)	(49,822,762)
Recovery of loss/(loss) from impairment of property, plant and equipment	4	189,426	(1,409,623)
Other income and expense		928,521	555,331
Finance income	26	3,284,929	2,661,506
Finance costs	27	(12,322,041)	(9,673,490)
Foreign exchange loss		(145,682)	(21,881,928)
Share of profit/(loss) of associates	6	330,211	(90,039)
Profit before taxation		105,024,871	32,371,942
Income tax expense	19	(39,862,451)	(12,883,155)
Profit for the year		65,162,420	19,488,787
Other comprehensive (loss)/gain:			
Foreign currency translation (loss)/gain		(20,251)	306,264
Other comprehensive (loss)/gain for the year		(20,251)	306,264
Comprehensive income for the year		65,142,169	19,795,051
Profit for the year attributable to:			
Owner of the Company		65,175,379	19,488,787
Non-controlling interests		(12,959)	-
		65,162,420	19,488,787
Total comprehensive income attributable to:			
Owner of the Company		65,155,128	19,795,051
Non-controlling interests		(12,959)	-
		65,142,169	19,795,051

The notes below form an integral part of the consolidated financial statements. The independent auditor's report on the consolidated financial statements is on pages 2 and 3.

A.U. Mamin	K.K. Alpysbayev	N. Kh. Abilova
President	**Vice-President of Economics and Finance**	**Chief Accountant**
March 25, 2011	March 25, 2011	March 25, 2011

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statement of cash flows
for the year ended December 31, 2010
(in thousands of tenge)

	Notes	2010	2009
Cash flows from operating activities:			
Profit before taxation		105,024,871	32,371,942
Adjustments for:			
Depreciation and amortization	4, 5	52,049,377	47,850,299
Finance costs	27	12,322,041	9,673,490
Allowance for impairment of value added tax recoverable	7	8,998,670	1,465,167
Accrued penalties (gain)/loss		(121,529)	52,922
Penalties on non-compliance with contract terms	25	3,801,217	22,470
(Recovery of loss)/loss from impairment of property, plant and equipment	4	(189,426)	1,409,623
(Gain)/loss on disposal of property, plant, and equipment and other fixed assets		(520,791)	5,806
Finance income	26	(3,284,929)	(2,661,506)
Defined benefit plan actuarial liability	18, 24, 25	2,760,516	954,856
Share of (profit)/loss of associates	6	(330,211)	90,039
Recovery of allowance for obsolete and slow-moving inventories	8	(643,232)	(316,531)
Allowance for doubtful debts	7, 9, 12, 25	1,295,263	2,067,730
Unused vacation provision expense	24, 25	953,197	439,871
Foreign exchange loss		145,682	25,317,850
Other loss/(gain)		53,396	(1,085,399)
Operating income before changes in working capital changes		182,314,112	117,658,629
Decrease in trade accounts receivable		1,693,120	540,437
Increase in inventories		(1,337,643)	(1,777,654)
Decrease/(increase) in other current and non-current assets (including increase in non-current VAT recoverable)		735,075	(6,794,217)
Increase/(decrease) in trade accounts payable		4,839,151	(6,596,196)
Increase in other taxes payable		5,093,492	1,641,758
Increase in other current liabilities		2,896,324	5,919,895
Decrease in employee benefit obligations	18	(1,315,769)	(915,352)
Decrease in other non-current liabilities		-	(1,010,287)
Cash generated from operations		194,917,862	108,667,013
Interest paid		(10,189,072)	(10,206,556
Income tax paid		(3,746,184)	(1,625,271)
Net cash flows from operating activities		180,982,606	96,835,186

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statement of cash flows
for the year ended December 31, 2010 (continued)
(in thousands of tenge)

	Notes	2010	2009
Cash flows from investing activities:			
Purchase of property, plant and equipment		(206,033,921)	(101,283,773)
Purchase of intangible assets		(1,945,366)	(14,866)
Advances for the construction of residential properties		-	(1,150,031)
Purchase of investments		(4,229,862)	(1,699,136)
Interest received		2,502,378	2,719,810
Purchase of short-term investments		(173,529,797)	(20,902,951)
Proceeds from sale of short-term investments		69,375,889	20,200,103
Net cash flows used in investing activities		(313,860,679)	(102,130,844)
Cash flows from financing activities:			
Receipt of payment for unpaid share capital	14	52,458,867	1,578,000
Increase in borrowing		52,622,821	14,715,303
Bonds issued		103,013,775	-
Repayments of borrowings		(20,564,946)	(4,583,542)
Receipts of non-controlling interests		10,870	-
Dividends paid		(2,923,319)	(2,888,266)
Purchase of asset held for the benefit of the Shareholder		(9,170,284)	-
Repayments of finance lease liabilities		(339,553)	(124,792)
Net cash flows from financing activities		175,108,231	8,696,703
Net increase in cash and cash equivalents		42,230,158	3,401,045
Cash and cash equivalents at the beginning of the year	13	52,442,441	49,164,450
Effect of foreign exchange rates on cash and cash equivalents		(42,998)	(123,054)
Cash and cash equivalents at the end of the year	13	94,629,601	52,442,441

The Group had the following non-cash transactions during the year ended December 31, 2010:

- Purchase of assets under finance leases totaling 3,506 thousand tenge (2009: 1,565,960 thousand tenge (Note 17).

The notes below form an integral part of the consolidated financial statements. The independent auditor's report on the consolidated financial statements is on pages 2 and 3.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President, of** **Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 25, 2011	March 25, 2011	March 25, 2011

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statement of changes in equity
for the year ended December 31, 2010
(in thousands of tenge)

	Share capital	Additional paid-in capital and unissued share capital	Foreign currency translation reserve	Retained earnings	Equity attributable to owner of the Company	Non-controlling interests	Total equity
As at January 1, 2009	484,642,457	21,589,270	(389,810)	138,011,329	643,853,246	-	643,853,246
Profit for the year	-	-	-	19,488,787	19,488,787	-	19,488,787
Other comprehensive income for the year	-	-	306,264	-	306,264	-	306,264
Comprehensive income for the year	-	-	306,264	19,488,787	19,795,051	-	19,795,051
Contribution to share capital (Note 14)	1,578,000	6,462	-	-	1,584,462	-	1,584,462
Dividends declared (Note 14)	-	-	-	(2,888,266)	(2,888,266)	-	(2,888,266)
Distribution, net of deferred tax of 236,700 thousand tenge (Notes 6 and 14)	-	(1,341,300)	-	-	(1,341,300)	-	(1,341,300)
As at December 31, 2009	486,220,457	20,254,432	(83,546)	154,611,850	661,003,193	-	661,003,193
Profit for the year	-	-	-	65,175,379	65,175,379	(12,959)	65,162,420
Other comprehensive loss for the year	-	-	(20,251)	-	(20,251)	-	(20,251)
Comprehensive (loss)/income for the year	-	-	(20,251)	65,175,379	65,155,128	(12,959)	65,142,169
Contribution to share capital (Note 14)	34,880,000	17,578,867	-	-	52,458,867	10,870	52,469,737
Dividends declared (Note 14)	-	-	-	(2,923,319)	(2,923,319)	-	(2,923,319)
Distribution (Notes 6, 11, 14 and 22)	-	(4,116,700)	-	(27,129,708)	(31,246,408)	-	(31,246,408)
Contribution - Adjustment of loan to the fair value, net of deferred tax of 1,938,850 thousand tenge (Note 15)	-	7,755,402	-	-	7,755,402	-	7,755,402
As at December 31, 2010	521,100,457	41,472,001	(103,797)	189,734,202	752,202,863	(2,089)	752,200,774

The notes below form an integral part of the consolidated financial statements. The independent auditor's report on the consolidated financial statements is on pages 2 and 3.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President, of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 25, 2011	March 25, 2011	March 25, 2011

1. GENERAL INFORMATION

JSC "National Company "Kazakhstan Temir Zholy" (the "Company") was organized in Kazakhstan in accordance with Resolutions of the Government of the Republic of Kazakhstan (the "Government") for the purpose of establishing a holding company for the Government's railway industry assets. The Company was registered on May 15, 2002. The consolidated financial statements include the results of the operations of the Company, and its wholly owned subsidiaries (collectively, the "Group"). The address of the Company's registered office is: 6 D.Kunayev st., Astana, 010000, the Republic of Kazakhstan.

The Government represented by JSC "National welfare fund "Samruk-Kazyna" (the Ministry of Transportation and Communication of the Republic of Kazakhstan before June 8, 2006; JSC "Kazakhstan Holding for the Management of State Assets "Samruk" before October 17, 2008) is the sole shareholder of the Company (the "Shareholder").

The Government controls the structure of the Group and establishes the long-term structure of the railway operations in the Republic of Kazakhstan. Since 1997, the Government has been in the process of restructuring the rail system in Kazakhstan which included the establishment of the Group, the disposal of certain repair services businesses out of the Group, the segregation of the passenger and cargo transportation and the associated rail tariffs and the introduction of Government subsidies for passenger travel. The Government of the Republic of Kazakhstan, through the Group, is continuing to restructure the railway transport in Kazakhstan and has developed a long-term development strategy through 2020 that includes a significant investment in the railway assets.

The Group operates a Government regulated nationwide railway system providing freight transportation, railway passenger transportation services and maintenance of railway infrastructure within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs which the Group charges its cargo and passenger customers, and also partially subsidizes certain passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided, and further for cargo transportation depending on the type of directions: domestic (national), international export-import and international transit.

The Group's operations have been impacted over the past two years by the global economic downturn, which has resulted in decreased global spending and a slowdown in global industrial production, which in turn has had a direct impact on the amount of cargo that is shipped via railways. During the second half of 2009, the Group saw a moderate increase in cargo volume and revenues, which continued during 2010. In addition, since January 1, 2010 the Group, with the Government's permission, has increased freight transportation tariffs by an average of 17.6% and passenger transportation tariffs by 10%. Government grants provided to the Group also increased during 2010.

The Group's profits in 2009 were also significantly impacted by the devaluation of the Kazakhstan Tenge compared to the US Dollar. At that time, approximately 85% of the Group's borrowings were denominated in US Dollars resulting in significant foreign exchange losses, which were only partially offset by gains on monetary assets held in US Dollars. The exchange rate of Kazakhstan Tenge to US Dollar remained relatively stable throughout the year ended December 31, 2010.

The Group has historically financed major investment projects through capital from the Government and debt financing, in addition to cash generated by operations. At December 31, 2010 approximately 99,062,427 thousand tenge of the Group's debt is due within one year including 66,274,029 thousand tenge (450,000 thousand USD) that matures in May 2011. The Group has assessed its cash needs in light of these debt repayment obligations and its expansion plans, and has concluded that cash generated by operations coupled with, if necessary, cash and cash equivalents will be sufficient to meet all relevant obligations. As part of this analysis the Group has considered its plans to improve its cash flow generated by operations by increasing freight and passengers transportation tariffs and by cutting operating costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments.

Adoption of new and revised standards

Standards and Interpretations adopted during the current year

The Group adopted the following new and revised Standards and Interpretations during the current year:

- IFRS 3 (revised) "Business combinations";
- IFRIC 17 "Distributions of non-cash assets to owners";
- IFRIC 18 "Transfers of assets from customers";
- IAS 27 (revised in 2008) "Consolidated and Separate Financial Statements";
- IAS 28 (revised in 2008) "Investments in associates".

In addition, the Group adopted the amendments to various other standards that were part of the annual initiative aimed at the general improvement of the effective International Financial Reporting Standard. These amendments were related to certain expressions and issues regarding presentation of consolidated financial statements, issues of recognition and appraisal. The improvements have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive, but have had no material effect on amounts reported.

The adoption of the above standards had no impact on the results of operations or financial position.

(in thousands of tenge unless otherwise stated)

Standards and Interpretations in issue to be adopted in future periods

At the date of authorization of these consolidated financial statements the following Interpretations and Standards were in issue but not yet effective:

	Effective for annual periods beginning on or after
IFRS 9 " Financial instruments"	January 1, 2013
IAS 24 "Related party disclosure"	January 1, 2011
IFRIC 14 "The limit on a defined benefit asset, minimum funding requirements and their interaction"	January 1, 2011
IFRIC 19 "Extinguishing financial liabilities with equity instruments"	July 1, 2010
IAS 32 "Financial instruments: presentation – classification of rights issues"	February 1, 2010

Improvements to IFRS (May 2010) – in May 2010, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards, the IFRS Committee issued amendments to 7 existing standards. These improvements are intended to deal with non-urgent, minor amendments to Standards. The new version of the above standards and interpretations is effective for reporting periods starting on or after July 1, 2010 and January 1, 2011.

Management of the Group anticipates that all of the above Standards and Interpretations will be adopted in the Group's consolidated financial statements for the period commencing January 1, 2011 and that the adoption of those Standards and Interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

Critical accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of property, plant and equipment

At the end of each reporting period the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss.

The assessment of whether there is an indication of impairment is based on a number of factors, such as expectations of growth in the railway industry, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate any impairment exists.

If any such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount of the asset. If the carrying amount exceeds the recoverable amount an impairment is recorded. The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that management believes reflects current market assessment of the time value of money and the risks specific to the assets. A change in the estimated recoverable amount could result in an impairment, or reversal of an impairment, in future periods.

Post-employment benefits

The Group operates a defined benefit pension scheme which has been accounted for in accordance with IAS 19 – "Employee Benefits". Application of IAS 19 requires the exercise of judgment in relation to various assumptions including future annual minimum pay rises, employer and pensioner demographics, discount rates and the expected rate of future annual railway ticket price increases. The Group bases IAS 19 estimates on, amongst other things, historical experience and recommendations of its actuaries. A change in assumptions could have a significant impact on the Group's profits in future periods. See further information in Note 18.

Allowances

Inventory valuation

Inventory is valued at the lower of cost or net realizable value. The Group records an allowance to reduce the carrying value of obsolete and slow-moving inventory to net realizable value, when appropriate. The actual value realized on disposition of such inventory may differ from the net realizable value; any such difference could have a significant impact on future operating results.

Recoverability of VAT

At each balance sheet date the Group assesses the recoverability of VAT arising on sales to customers outside of the Republic of Kazakhstan. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through an offset against future VAT liability or collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Group considers information from the internal tax department regarding projected VAT liability, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovery could differ materially from the Group's estimate and this could materially impact operating results.

Depreciation of property, plant and equipment

Depreciation of our property, plant and equipment is computed using the straight-line method over estimated useful lives. The Group establishes useful lives of its assets including components of major property items, such as locomotives. The estimates of useful lives, residual values and methods of depreciation are reviewed at each financial year end, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimate. Estimates of the useful lives and residual value of these assets are based on the expected economic use, repair and maintenance programs, and volume of activity, technological advancements and other business conditions and may require significant future expenditures in order to maintain the property to a high level. If these assumptions were to change, it could result in significantly different depreciation amounts than those previously recorded.

Income taxes

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 22.5% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at December 31, 2010. Any difference between these estimates and the actual amount, if any, ultimately paid could have a significant impact on the Group's profits in future periods.

(in thousands of tenge unless otherwise stated)

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries listed in Note 29. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The purchase method of accounting is used for acquired businesses. All intercompany transactions, balances, and unrealized gains and losses on transactions between Group companies are eliminated on consolidation.

Functional and presentation currency

The Group's consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"). The functional currency of the Company and of its subsidiaries is also the tenge. The functional currency of the Group's branch in Russia is the ruble. The assets and liabilities of this branch are translated into tenge at the rate of exchange effective at the reporting date and the profit and loss items are translated into tenge at the weighted-average exchange rate for the year. Exchange rate differences arising on the translation are recorded directly to other comprehensive income. Upon disposal, the deferred cumulative amount related to a specific foreign operation is recognized in the consolidated statement of comprehensive income.

The tenge is not a fully convertible currency outside the Republic of Kazakhstan. Transactions in foreign currencies are recorded at the market rate ruling at the date of the transaction using market rates, fixed by the Kazakhstan Stock Exchange ("KASE"). For foreign currencies which are not quoted by KASE, the exchange rates are calculated by the National Bank of Kazakhstan using the cross-rates to the US Dollar ("USD" or "US$") in accordance with the quotations received from "REUTERS".

Monetary assets and liabilities, denominated in foreign currencies, are translated to tenge at the exchange rate effective at the reporting date with all differences arising from a change in exchange rates subsequent to the date of a transaction recognized in the consolidated statement of comprehensive income. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The following table summarizes the foreign currency exchange rates for tenge at:

	December 31, 2010	December 31, 2009
US Dollar	147.40	148.36
Swiss Franc	156.76	143.01
Russian Ruble	4.84	4.92

Weighted-average tenge exchange rates for the years ended December 31 were as follows:

	2010	2009
US Dollar	147.35	147.50
Swiss Franc	141.61	136.20
Russian Ruble	4.85	4.66

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received; including or net of any transaction costs incurred and subsequently recorded at either fair value or amortized cost.

Fair value is generally determined by reference to official market quotes. When market quotes are not available, the fair value is determined using generally accepted valuation methods such as discounted future cash flows based on observable market inputs.

Amortized cost is calculated using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" investments, and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in transit, cash on hand and short-term deposits with an original maturity of three months or less.

Held-to-maturity investments

Held-to-maturity investments are debt securities with fixed or determinable payments. Any such investments that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Discount amortization during the maturity period is recorded as interest income recognized on an effective yield basis.

Loans and receivables

Trade receivables are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is recognized when the accounts receivable is not collected within contractual terms, and collection of the full amount is no longer considered probable. The allowance for doubtful debts is reviewed periodically, and as adjustments become necessary, they are reported in the consolidated statement of comprehensive income in the period in which they become known. Bad debts are written-off when identified against an allowance previously recognized.

Other financial assets

Other financial assets are non-derivative financial assets such as bank deposits with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method less any impairment.

Impairment of financial assets

Financial assets, except for assets stated at fair value through profit or loss, are assessed for evidence of impairment at each reporting date. Financial assets are impaired when there is objective evidence that as a result of one or several events occurring after initial recognition of the financial asset there was in value. Such events include a significant change in estimated future cash flows on the investment, significant financial difficulty of the issuer or counterparty, breach of contract terms, creditor providing preferential conditions, borrower's encountering financial difficulties, it becoming probable that the borrower will enter bankruptcy, collapse of active market for the financial asset etc. For financial assets stated at amortized cost the amount of impairment represents the difference between the carrying value of the asset and present value of the estimated future cash flows discounted at the initially effective interest rate.

The carrying value of a financial asset is reduced by the impairment loss directly on all financial assets, except for trade accounts receivable, where the carrying value is decreased by use of the allowance for doubtful debts.

If in the subsequent period the amount of the impairment loss is decreased and the decrease can be objectively related to the event occurring after recognition of impairment, then the previously recognized impairment loss is reversed in profit or losses to the extent to which the carrying value of the investment at the date of reverse does not exceed the amount of amortized value, if impairment had not been recognized.

Financial liabilities

Financial liabilities represent contractual obligations and are recorded when the Group becomes contractually liable.

Trade and other accounts payable

Trade and other accounts payable are initially measured at fair value and subsequently revalued at amortized cost using effective interest rate method.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses, other than borrowing costs eligible for capitalization (for example, commission on guarantees of third parties), are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Offsetting

Financial assets and liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and has transferred substantially all the risks and rewards of the asset; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability (or a part of financial liability) is derecognized when the obligation under the liability is discharged, cancelled or expires.

Inventories

Inventories largely comprises of items that are used in the operation of the railway lines and railway vehicles and are not held for trading purposes.

Inventories are valued at the lower of cost or net realizable value. Costs comprise of charges incurred to bring inventory to its present location and condition for its intended use. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. Inventory is valued on the weighted-average cost basis.

Property, plant and equipment

Property, plant and equipment are stated at their initial cost or deemed cost, less any subsequent accumulated depreciation and impairment losses.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of assets constructed by the Group includes the cost of all materials used in construction, direct labor on the project, finance costs that are directly attributable to the project, and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalized as soon as an asset is ready for its intended use.

At times the Group will enter into a finance lease for equipment to be installed on a project. While that equipment is being prepared for installation it is not in use and therefore is recorded in Capital construction in progress. Once ready for use, the equipment is transferred to the relevant asset category to which it relates and accounted for as described in this policy.

(in thousands of tenge unless otherwise stated)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognized.

Subsequent expenditure

<u>*Track renewals and major capital replacements*</u>

Expenditures relating to track renewals and major capital repairs, which comprises primarily the replacement of railway tracks and locomotive engines, are capitalized to the extent that the flow of the future economic benefits is probable and these expenditures can be reliably measured. The replaced assets are valued at the lower of cost and net realizable value and transferred to inventories or property, plant and equipment, as applicable. The excess of the carrying value of the replaced assets over their net realizable values is recognized as an expense in the consolidated statement of comprehensive income. All property that does not provide future economic benefit is expensed immediately in the consolidated statement of comprehensive income.

<u>*Repairs and maintenance*</u>

Expenditures which enhance the flow of the future economic benefits provided by use of an item of property, plant and equipment, and which are directed towards improvement of an item's condition and extension of its useful life and/or advancement of its production capacity are recognized in the carrying amount of the item and are amortized on a straight-line basis over the estimated useful life of the item. All other subsequent expenditures, such as general repair and maintenance expenditures, are charged in the consolidated statement of comprehensive income when incurred.

Depreciation

Property, plant and equipment, excluding land and construction in process, are depreciated on a straight-line basis over the estimated useful lives of the assets, as the Group believes that the wear and tear on each category of assets is spread evenly over the useful life. The estimated useful lives used by the Group in all reporting periods presented are as follows (in years):

Buildings	20-45
Railway infrastructure:	10-80
Machinery and equipment	5-25
Railway transport	15-32
Other transport	10-20
Other	3-40

Land and construction in progress are not depreciated. Construction in progress is transferred to the appropriate asset category upon completion and then depreciated as described above.

Impairment of property, plant and equipment

At each reporting date the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount is the higher of fair value (selling price less cost to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that management believes reflects current market assessment of the time value of money and the risks specific to the assets.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

VAT receivable

VAT receivable is generated on sales to customers outside of the Republic of Kazakhstan where the Group incurs VAT costs (through fuel and other operating costs) but does not legally have the right to charge VAT to the customer. All VAT expense on such transactions can be used to offset VAT payable to the Kazakhstan tax authorities. At the end of each reporting period an analysis is performed by the Company's tax department, in conjunction with the Kazakhstan tax authorities, to determine the amount that is expected to be used in the upcoming 12 months to offset future VAT liabilities. The amount expected to be recovered within 12 months is recorded in other current assets. The Group estimates the amount of the non-current asset that it believes it will recover and establishes an allowance against the remaining balance.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment loss. Intangible assets primarily include software and software licenses. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets of more than 1 year and up to 10 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period taking into account any changes in assessment in the future.

Investments in associates

The Group's investments in its associates are accounted for using the equity method of accounting. Associates are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. The investment in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value or dividends. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associates.

Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset. Investment income from a temporary investment of certain loans, expecting to be used on qualifying assets, is deducted from borrowing costs on loans fit for capitalization.

Borrowing costs also include the exchange differences arising from loans in foreign currencies to the extent to which they are considered to be an interest expense adjustment. The exchange difference amount capitalized as an interest expense adjustment must not exceed the interest expense amount which would be capitalized by the Group if the loan was received in the local currency. Any excess of exchange difference is recognized in the consolidated statement of comprehensive income.

All other borrowing costs are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

Employee benefits

Defined benefit scheme

In accordance with the Labor Union Agreement the Group provides certain benefits to its employees upon their retirement ("Defined Benefit Scheme"). Pursuant to this agreement, the Group provides the following benefits under an unfunded scheme:

- one-time retirement grant;
- annual financial support to pensioners;
- free train passenger tickets;
- funeral aid; and
- financial assistance on denture treatment.

The obligation and cost of benefits under the Defined Benefit Scheme are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to the consolidated statement of comprehensive income, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation.

The Group recognizes actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified as compensation expense.

Equity

Share capital

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. All non-cash contributions to share capital are assessed at fair as at the date of contribution by an independent appraiser. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Consideration received for common shares yet to be issued is recognized as unissued share capital until such time as the common shares are issued, when such proceeds are transferred to share capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Distributions

Distributions are recognized in equity when the Group has irrevocably committed to transfer cash or non-cash assets to its Shareholder and the amount of the commitment can be reliably measured. Distributions are recognized in equity at their fair value, net of any related deferred tax effects, where appropriate.

Recognition of revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

In respect of services related to transportation, revenue is recognized by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The extent of completion of the cargo transportation process is calculated as the ratio of services volume, provided as at the reporting date to the total services volume according to information on the dates of cargo departure and arrival (intersection of joint station).

Prepayments received from customers relating to transportation services that have not been initiated are recognized as "Advances received from customers". Upon commencement of the services, the amount related to that service is reclassified to deferred income under the "Other current liabilities" caption in the consolidated statement of financial position. Deferred income is credited to revenue as the service is provided.

Income relating to services for use of wagons is recognized in the period of use of the Group's wagons.

Government grants

The Group is eligible to receive a subsidy, in the form of a Government grant, for a portion of the costs of transporting passengers on socially important routes within the Republic of Kazakhstan, as defined by the Government. The Group, along with other rail companies in the Republic of Kazakhstan, submit an application for these grants to the Government on an annual basis. If awarded the contract, the Group is eligible for a subsidy of costs to transport passengers on the socially important routes within the Republic of Kazakhstan up to a pre-budgeted amount, which is determined by the Government.

Government grants are recognised in the consolidated statement of comprehensive income in the period in which the transportation is provided to the passengers at the reduced tariffs set by the Government when there is reasonable assurance that the Group will comply with the conditions attaching to the grants and the collection of the grant funds can be reasonably assured.

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Current and deferred income tax are recognised as an expense or benefit in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Leases

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Finance leases

The Group recognizes finance leases as assets and liabilities in the consolidated statement of financial position at amounts equal at the commencement of the lease term to the fair value of the leased property or, if lower, the present value of the minimum lease payments. In calculating the present value of minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned if the lease period is greater than that period. If the period of lease is less than the amortization period of similar fixed assets, the leased asset is amortized based on the lease period.

(in thousands of tenge unless otherwise stated)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SEGMENT INFORMATION

The Group, based on information contained in reports that are regularly reviewed by the Shareholder and which are used to make decisions about the allocation of financial resources and to assess segment performance, has two reportable segments namely cargo transportation and passenger transportation. The Group allocates all administrative and finance costs and income taxes to these segments. Unallocated revenues and costs relate primarily to the Group's repair services, sales of scrap inventory, and sales of electricity. Such revenues and costs are not regularly reviewed by the chief operating decision maker.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the Note 2.

The Group monitors multiple measures of profitability such as profit before tax, profit after tax and gross profit. However, profit after tax is the measure used for the purpose of resource allocation and assessment of segment performance.

	For the year ended December 31, 2010			
	Cargo transportation	Passenger transportation	Unallocated results	Total
Key operating measures				
Revenue – external and intersegment revenue	720,790,423	88,322,618	63,410,765	872,523,806
Intersegment revenue	(219,603,758)	(21,702,061)	(47,317,793)	(288,623,612)
Revenue	501,186,665	66,620,557	16,092,972	583,900,194
Cost of sales	(314,081,478)	(82,890,120)	(9,462,081)	(406,433,679)
General and administrative expense	(54,083,342)	(8,840,265)	(1,783,401)	(64,707,008)
Finance income	3,137,151	147,778	-	3,284,929
Finance costs	(12,251,335)	(70,706)	-	(12,322,041)
Foreign exchange (loss)/gain	(322,987)	177,305	-	(145,682)
(Loss from)/ reversal of impairment of property, plant and equipment	234,428	(45,002)	-	189,426
Share of profit of associates	330,211	-	-	330,211
Other income and expense	967,483	(38,962)	-	928,521
Income tax expense	(37,156,409)	(1,736,544)	(969,498)	(39,862,451)
Profit/(loss) for the year	87,960,387	(26,675,959)	3,877,992	65,162,420
Other key segment information				
Capital expenditures for property, plant and equipment	166,124,597	25,332,820	13,963,113	205,420,530
Depreciation of property, plant and equipment	40,074,109	9,567,275	1,276,083	50,917,467

(in thousands of tenge unless otherwise stated)

	For the year ended December 31, 2009			
	Cargo transportation	**Passenger transportation**	**Unallocated results**	**Total**
Key operating measures				
Revenue – external and intersegment revenue	587,596,469	76,417,527	42,426,067	706,440,063
Intersegment revenue	(178,328,987)	(19,365,983)	(27,751,923)	(225,446,893)
Revenue	409,267,482	57,051,544	14,674,144	480,993,170
Cost of sales	(293,869,200)	(65,317,708)	(9,773,315)	(368,960,223)
General and administrative expenses	(39,596,033)	(8,597,312)	(1,629,417)	(49,822,762)
Finance income	2,650,959	10,547	-	2,661,506
Finance costs	(9,673,490)	-	-	(9,673,490)
Foreign exchange (loss)/gain	(22,483,736)	601,808	-	(21,881,928)
Loss from impairment of property, plant and equipment	(1,315,243)	(94,380)	-	(1,409,623)
Share of loss of associates	(90,039)	-	-	(90,039)
Other income and expenses	(283,160)	838,491	-	555,331
Income tax benefit	(10,067,647)	(2,161,226)	(654,282)	(12,883,155)
Profit/(loss) for the year	34,539,893	(17,668,236)	2,617,130	19,488,787
Other key segment information				
Capital expenditures for property, plant and equipment	97,949,463	11,205,408	1,945,592	111,100,463
Depreciation of property, plant and equipment	37,963,381	9,081,198	6,200	47,050,779

Geographical information for the Group

The Group derives its revenues from customers in multiple geographical regions. The table below provides revenue based on customer country of domicile for each of the years ended December 31.

Customer country of domicile	**2010**	2009
Kazakhstan	572,259,909	471,891,024
Russia	4,481,172	3,356,091
Uzbekistan	2,588,390	3,031,053
China	1,987,857	1,543,910
Turkmenistan	714,937	1,171,092
Other	1,867,929	-
	583,900,194	480,993,170

Substantially all of the Group's non-current assets are in Kazakhstan.

(in thousands of tenge unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2010 was as follows:

	Land	Buildings	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at December 31, 2009	765,983	65,489,618	427,592,681	116,197,236	341,770,508	9,524,534	7,569,093	70,647,232	1,039,556,885
Additions	99,045	233,749	17,268	4,659,643	10,973,784	642,637	296,873	188,497,531	205,420,530
Transfers	23,439	36,729,190	36,828,341	15,737,361	35,727,464	114,931	502,021	(125,662,747)	-
Disposals	(4,471)	(192,445)	(607,104)	(1,483,266)	(5,369,182)	(55,260)	(94,563)	(25,609)	(7,831,900)
Transfer to inventory	-	(843)	(10,399,213)	(25,981)	(8,561)	(17)	(11,562)	(39,526)	(10,485,703)
Transfer to intangible assets	-	-	-	-	-	-	-	(1,578,415)	(1,578,415)
As at December 31, 2010	883,996	102,259,269	453,431,973	135,084,993	383,094,013	10,226,825	8,261,862	131,838,466	1,225,081,397
Accumulated depreciation and impairment:									
As at December 31, 2009	-	(7,342,877)	(54,338,513)	(28,774,187)	(107,744,404)	(2,153,849)	(2,237,578)	(3,365,556)	(205,956,964)
Charge for the year	-	(1,926,710)	(13,551,564)	(9,862,705)	(23,565,796)	(1,056,866)	(953,826)	-	(50,917,467)
Recovered impairment for the year	-	127,041	1,511	54,225	129,078	(5,393)	2,742	(119,778)	189,426
Transfers	-	92,327	(61,373)	(31,683)	(28,157)	6,615	22,271	-	-
Disposals	-	123,120	378,040	1,181,844	5,205,666	40,416	79,560	-	7,008,646
Transfer to inventory	-	806	3,505,627	7,479	8,357	17	379	-	3,522,665
As at December 31, 2010	-	(8,926,293)	(64,066,272)	(37,425,027)	(125,995,256)	(3,169,060)	(3,086,452)	(3,485,334)	(246,153,694)
Net book value:									
As at December 31, 2010	883,996	93,332,976	389,365,701	97,659,966	257,098,757	7,057,765	5,175,410	128,353,132	978,927,703

(in thousands of tenge unless otherwise stated)

The movement of property, plant and equipment for the year ended December 31, 2009 was as follows:

	Land	Buildings	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at December 31, 2008	745,646	35,122,178	416,055,194	101,764,066	316,399,507	9,444,788	6,841,153	53,369,155	939,741,687
Additions	6,462	104,874	219,263	3,736,483	2,375,177	229,452	364,301	104,064,451	111,100,463
Transfers	13,875	30,460,406	17,710,512	11,866,018	24,065,593	(109,146)	445,190	(84,452,448)	-
Disposals	-	(197,840)	(57,458)	(1,160,594)	(1,066,088)	(40,046)	(79,626)	(132,131)	(2,733,783)
Transfer to inventory	-	-	(6,334,830)	(8,737)	(3,681)	(514)	(1,925)	-	(6,349,687)
Transfer to intangible assets	-	-	-	-	-	-	-	(2,201,795)	(2,201,795)
As at December 31, 2009	765,983	65,489,618	427,592,681	116,197,236	341,770,508	9,524,534	7,569,093	70,647,232	1,039,556,885
Accumulated depreciation and impairment:									
As at December 31, 2008	-	(6,132,891)	(42,858,999)	(21,237,308)	(86,582,820)	(1,176,193)	(1,525,881)	(1,062,547)	(160,576,639)
Charge for the year	-	(1,470,845)	(13,643,999)	(8,453,998)	(21,654,610)	(1,046,624)	(780,703)	-	(47,050,779)
Impairment charge for the year	-	(30,388)	-	(55,783)	935	122	1,851	(1,326,360)	(1,409,623)
Other	-	17,281	-	-	-	-	-	(976,649)	(959,368)
Transfers	-	76,337	(132,195)	98,812	(85,812)	44,106	(1,248)	-	-
Disposals	-	197,629	4,576	870,810	574,222	24,226	68,199	-	1,739,662
Transfer to inventory	-	-	2,292,104	3,280	3,681	514	204	-	2,299,783
As at December 31, 2009	-	(7,342,877)	(54,338,513)	(28,774,187)	(107,744,404)	(2,153,849)	(2,237,578)	(3,365,556)	(205,956,964)
Net book value:									
As at December 31, 2009	765,983	58,146,741	373,254,168	87,423,049	234,026,104	7,370,685	5,331,515	67,281,676	833,599,921

The Group's assets include assets related to the "Khromtau-Altynsarin" railway, which connects the western and northern parts of the Republic of Kazakhstan and thus locks the railway infrastructure of the Republic of Kazakhstan into one network. The Group participated in a project to develop this railway, which consisted of two sections: "Khromtau-Aiteke Bi" ("first part") and "Aiteke Bi-Altynsarin" ("second part"). The construction of this railway was initiated by the Ministry of Transportation and Communication of the Republic of Kazakhstan and was financed 64% by the Government from the state budget with the remainder financed by the Group.

The first part of the Project was completed in 2006 and the second part in 2007. The Group has recognized the full construction cost, including 21,013,822 thousand tenge financed by the Government, as railway assets. The assets financed by the Group and those financed by the Government cannot be physically separated. The Group does not have legal title to the assets financed by the Government, however it has recognized these assets as (a) the Ministry of Finance has communicated to the Group that it intends to contribute the assets to the Group, (b) the Group has full right of access and use of these assets at no cost, (c) these assets, along with those financed by the Group were part of a single project to expand the railway, and (d) the Group is responsible for maintenance of these assets (Note 28).

As at December 31, 2010 and 2009, property, plant and equipment of the Group with the carrying value of 36,247,595 thousand tenge and 39,777,528 thousand tenge, respectively, was pledged as collateral for a portion of the Group's borrowings (Note 15).

As at December 31, 2010 and 2009, the cost of fully depreciated property, plant and equipment amounted to 143,654,379 thousand tenge and 172,489,980 thousand tenge, respectively.

(in thousands of tenge unless otherwise stated)

As at December 31, 2010 the carrying value of property, plant and equipment under finance lease included in equipment and capital construction in progress amounted to 6,857,295 thousand tenge (December 31, 2009: 7,369,941 thousand tenge).

As at December 31, 2010 the carrying value of property, plant and equipment of JSC "Transtelecom", a subsidiary, restricted in use due to a court decision amounted to 3,220,815 thousand tenge (December 31, 2009: nil tenge).

5. INTANGIBLE ASSETS

The movement of intangible assets for the year ended December 31, 2010 is as follows:

	Licenses	Software	Other[(1)]	Total
Cost:				
As at December 31, 2009	700,515	5,361,330	763,409	6,825,254
Additions	2,044	1,943,712	52	1,945,808
Disposals	(13,266)	(82,517)	-	(95,783)
As at December 31, 2010	689,293	7,222,525	763,461	8,675,279
Accumulated amortization:				
As at December 31, 2009	(374,234)	(1,874,117)	(88,759)	(2,337,110)
Charge for the year	(181,428)	(937,620)	(12,862)	(1,131,910)
Disposals	13,266	81,370	-	94,636
As at December 31, 2010	(542,396)	(2,730,367)	(101,621)	(3,374,384)
Net book value as at December 31, 2010	146,897	4,492,158	661,840	5,300,895

The movement of intangible assets for the year ended December 31, 2009 is as follows:

	Licenses	Software	Other[(1)]	Total
Cost:				
As at December 31, 2008	539,021	3,458,132	670,267	4,667,420
Additions	161,494	1,993,779	93,142	2,248,415
Disposals	-	(90,581)	-	(90,581)
As at December 31, 2009	700,515	5,361,330	763,409	6,825,254
Accumulated amortization:				
As at December 31, 2008	(235,548)	(1,285,529)	(80,264)	(1,601,341)
Charge for the year	(138,686)	(652,339)	(8,495)	(799,520)
Disposals	-	63,751	-	63,751
As at December 31, 2009	(374,234)	(1,874,117)	(88,759)	(2,337,110)
Net book value as at December 31, 2009	326,281	3,487,213	674,650	4,488,144

(1) "Other" represents technical documentation, design of technological process for assembling diesel locomotives and maintenance manuals, none of which are individually material. The amortisation period for intangible assets included within "Other" ranges from more than 1 year up to 10 years.

As at December 31, 2010 the cost of fully amortized intangible assets, represented by software used by the Group in the operations, which were still in use amounted to 545,109 thousand tenge (December 31, 2009: 409,691 thousand tenge).

(in thousands of tenge unless otherwise stated)

6. INVESTMENTS IN ASSOCIATES

Investments in associates comprised the following as at December 31 2010 and 2009:

Associate company	Nature of activities	December 31, 2010 Carrying value	December 31, 2010 % of share capital held	December 31, 2009 Carrying value	December 31, 2009 % of share capital held
JSC "Kedentransservice"	Transportation and customs clearance service	2,075,034	33.00	1,832,224	33.00
JSC "Temirzhol zhondeu"	Repair of railway lines	702,389	23.43	529,035	23.43
Other		71	-	106,395	-
		2,777,494		2,467,654	

During 2010 and 2009, pursuant to a decree from the Shareholder, the Group purchased 8.99% and 37.03% of the issued shares in JSC "Doszhan Temir Zholy", a party under common control of the Shareholder, for 3,880,000 thousand tenge and 1,578,000 thousand tenge, respectively. The estimated fair value of such shares at the date of transfer was nil and therefore the investment has been recognised in the consolidated statement of financial position at nil value. The difference between the amount paid and the fair value of the shares acquired has been reflected as a distribution to the Shareholder in the consolidated statement of changes in equity.

As at December 31 and for the year then ended, summary financial information for the Group's investments in associates is as follows:

	December 31, 2010	December 31, 2009
Total assets	16,711,643	14,125,275
Total liabilities	(7,425,699)	(6,136,398)
Net assets	9,285,944	7,988,877
Group's share of net assets of associates	2,777,494	2,467,654
	2010	2009
Total revenue	22,597,737	11,662,873
Total net profit/(loss)	1,475,668	(274,620)
Group's share of net profit/(loss) of associates	330,211	(90,039)

(in thousands of tenge unless otherwise stated)

7. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following as at December 31:

	December 31, 2010	December 31, 2009
Advances to suppliers for property, plant and equipment	30,560,197	8,732,217
VAT receivable	24,512,391	15,513,721
Advance payment on residential properties less impairment	1,329,596	1,506,126
Other	647,773	297,982
	57,049,957	26,050,046
Less: allowance for advances to suppliers for property, plant and equipment	(2,295,348)	(1,703,661)
Less: allowance for unrecoverable VAT receivable	(23,403,086)	(14,404,416)
	31,351,523	9,941,969

As at December 31, 2010 advances to suppliers for property, plant and equipment primarily represent prepayments for construction of the "Uzen – state border with Turkmenistan" and "Khorgoz – Zhetigen" railway lines in the amount of 2,840,058 thousand tenge and 6,814,258 thousand tenge, respectively (December 31, 2009: nil), and 12,788,649 thousands tenge (December 31, 2009: nil) for the purchase of spare parts for assembly of locomotives.

The movement in the allowance for advances to suppliers for property, plant and equipment for the years ended December 31, is as follows:

	2010	2009
Allowance for advances to suppliers for property, plant and equipment at the beginning of the year	(1,703,661)	(1,300,287)
Accrued during the year	(592,987)	(525,539)
Written off during the year against the allowance previously recorded	1,300	122,165
Allowance for advances to suppliers for property, plant and equipment at the end of the year	(2,295,348)	(1,703,661)

The movement in the allowance for unrecoverable VAT receivable for the years ended December 31, were as follows:

	2010	2009
Allowance for unrecoverable VAT receivable at the beginning of the year	(14,404,416)	(12,939,249)
Accrued for the year	(8,998,670)	(1,465,167)
Allowance for unrecoverable VAT receivable at the end of the year	(23,403,086)	(14,404,416)

(in thousands of tenge unless otherwise stated)

8. INVENTORIES

Inventories comprised the following as at December 31:

	December 31, 2010	December 31, 2009
Materials and supplies	12,600,769	11,203,901
Spare parts	7,734,440	8,307,800
Fuel	1,228,468	1,178,485
Upper railway components	781,186	744,969
Construction components	633,281	640,806
Other	900,559	996,028
Less: Allowance for obsolete and slow-moving inventories	(1,377,283)	(2,129,021)
	22,501,420	20,942,968

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended December 31:

	2010	2009
Allowance for obsolete and slow-moving inventories at the beginning of the year	(2,129,021)	(3,114,350)
Recovered during the year	643,232	316,531
Written off during the year	108,506	668,798
Allowance for obsolete and slow-moving inventories at the end of the year	(1,377,283)	(2,129,021)

9. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following as at December 31:

	December 31, 2010	December 31, 2009
Trade accounts receivable	8,896,778	10,841,881
Less: Allowance for doubtful debts	(4,738,338)	(4,779,018)
	4,158,440	6,062,863

As at December 31, 2010 eight debtors represented 48% of the Group's trade accounts receivable (December 31, 2009: 55%).

The movements in the allowance for doubtful debts were as follows for the years ended December 31:

	2010	2009
Allowance for doubtful debts at the beginning of the year	(4,779,018)	(7,550,524)
Accrued during the year	(468,213)	(1,300,392)
Written off during the year against the allowance previously recorded	508,893	4,071,898
Allowance for doubtful debts at the end of the year	(4,738,338)	(4,779,018)

(in thousands of tenge unless otherwise stated)

The Group held claims outstanding on certain customer receivables who filed for bankruptcy prior to 2007, which had been fully provided against in prior periods. During 2009, the three year statute of limitations expired on these claims and consequently, they were written off.

As at December 31 the Group's trade accounts receivable, net of allowance for doubtful debts, were denominated in various currencies as follows:

	December 31, 2010	December 31, 2009
Tenge	2,481,067	2,190,235
Swiss Francs	1,576,367	3,771,321
US Dollars	97,776	100,842
Russian Rubles	3,230	465
	4,158,440	6,062,863

10. OTHER FINANCIAL ASSETS

As at December 31 other financial assets represent bank deposits with original maturities of greater than three but less than twelve months:

	December 31, 2010		December 31, 2009	
	Interest rate	**Amount**	Interest rate	Amount
JSC "Kazkommertsbank"	4.00-6.50%	40,466,935	-	-
JSC "Halyk Bank of Kazakhstan" (Note 30)	2.00-4.00%	32,914,415	5.00-7.00%	10,173,176
JSC "ATF Bank "	3.15-4.00%	20,720,016	-	-
JSC SB "Sberbank of Russia"	2.00-3.00%	14,026,388	4.00%	4,410,729
JSC SB "HSBC Bank Kazakhstan"	2.42-2.55%	7,836,438	-	-
JSC "Bank CenterCredit"	4.20-5.00%	3,621,640	3.40-5.00%	2,953,440
JSC "Kazinvest Bank"	6.50%	2,000,000	-	-
JSC "Alliance Bank" (Note 30)	7.00%	22,000	-	-
		121,607,832		17,537,345
Accrued interest receivable		593,563		169,635
		122,201,395		17,706,980

As at December 31 other financial assets were denominated in the following currencies:

	December 31, 2010	December 31, 2009
Tenge	29,995,556	3,396,240
US Dollars	92,205,839	14,310,740
	122,201,395	17,706,980

(in thousands of tenge unless otherwise stated)

11. ASSET HELD FOR THE BENEFIT OF THE SHAREHOLDER

In May 2010 the Government directed the Group to construct a building for a teleradio complex in Astana at the Group's expense. The Group will take title to the land and assets during the construction period and, upon completion, the land and building will be transferred to the Shareholder for no consideration. The Group's management formally approved the construction project in November 2010, which confirmed the Group's entrance into an irrevocable commitment to the Government and resulted in immediate recognition of a distribution to the Shareholder and an obligation. (See Notes 14 and 22) As at December 31, 2010 the Group entered into an agreement with a construction company and had begun construction on the building.

During 2010 the Group recognized costs of construction of this complex of 1,467,483 thousand tenge and prepaid advances for further construction of 7,702,801 thousand tenge. These costs are recognized as current assets held for the benefit of the Shareholder in the consolidated statement of financial position since it is expected that these assets will be transferred to the shareholder by December 31, 2011.

12. OTHER CURRENT ASSETS

Other current assets comprised the following as at December 31:

	December 31, 2010	December 31, 2009
VAT recoverable	12,233,119	23,943,495
Other taxes prepaid	10,589,773	10,769,143
Short-term advances paid	2,543,424	2,788,346
Claims	1,205,797	1,115,164
Prepaid expense	498,087	465,729
Transfers to institutions	292,022	292,069
Other	2,533,563	2,979,677
	29,895,785	42,353,623
Less: Allowance for doubtful debts	(3,498,127)	(3,862,911)
	26,397,658	38,490,712

The current VAT recoverable represents the amount the Group expects to recover against VAT liabilities in the upcoming year.

The movements in the allowance for doubtful debts related to other current assets were as follows for the years ended December 31:

	2010	2009
Allowance for doubtful debts at the beginning of the year	(3,862,911)	(4,723,449)
Accrued during the year	(234,063)	(241,799)
Written off during the year against the allowance previously recorded	598,847	1,102,337
Allowance for doubtful debts at the end of the year	(3,498,127)	(3,862,911)

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following as at December 31:

	December 31, 2010	December 31, 2009
Cash in current accounts in tenge	55,755,954	16,044,725
Cash in current accounts in US Dollars	18,662,514	6,196,743
Cash in current accounts in Russian rubles	1,980,120	110,716
Cash in current accounts in Swiss francs	1,194,157	133,740
Cash in current accounts in Euro	35,018	1,389,909
Short-term bank deposits in tenge	9,991,339	12,739,418
Short-term bank deposits in US Dollars	6,337,322	15,081,169
Short-term bank deposits in Euro	649,140	723,656
Petty cash	24,037	22,365
	94,629,601	52,442,441

Cash in current accounts earns interest at floating rates based on daily bank deposit rates ranging from 0.20% to 9.50% per annum (2009: from 0.50% to 9.00% per annum).

Short-term bank deposits in tenge and foreign currency are placed for varying periods of up to three months depending on the Group's immediate cash requirements and earn interest at the respective short-term deposit rates ranging from 0.1% to 9.1% per annum (2009: from 0.50% to 11.25% per annum).

As at December 31, 2010 the Group's deposits with an original maturity of less than three months and cash in current accounts, which are in banks that are related parties of the Group, amounted to 301,000 thousand tenge and 30,734,763 thousand tenge, respectively (December 31, 2009: deposits with an original maturity of less than three months - 20,237,436 thousand tenge and cash on current accounts – 8,402,860 thousand tenge) (Note 30).

As at December 31, 2010 and 2009 future cash inflows of 12,803,421 US Dollars were pledged (Note 15).

14. EQUITY

Share capital consists of the following at December 31:

	Number of shares authorized	**Number of shares issued and paid**	**Par value, in tenge**	**Share capital, in thousands of tenge**
As at December 31, 2009	502,040,458	486,220,457	1,000	486,220,457
Shares paid on February 10, 2010		4,880,000	1,000	4,880,000
Shares paid on June 25, 2010		9,200	1,000,000	9,200,000
Shares paid on July 9, 2010		20,800	1,000,000	20,800,000
As at December 31, 2010	502,040,458	491,130,457		521,100,457

The Company's initial share capital was established through a series of share issuances in exchange for either cash or property, plant and equipment. The Shareholder is entitled to dividends, a part of the Company's property in case of its liquidation, and preference in purchasing the Company's shares or other securities convertible to the Company's shares.

Upon each issuance of share capital the par value is determined and any change in par value from that previously determined does not apply retrospectively.

Contributions

During 2010 and 2009, the Shareholder contributed cash of 34,880,000 thousand tenge and 1,578,000 thousand tenge, respectively, in exchange for shares. The Shareholder also contributed property valued at 6,462 thousand tenge in 2009. The purpose of these contributions was to finance the construction of the "Uzen – state border with Turkmenistan" and "Khorgoz – Zhetigen" railway lines and to provide the Group cash to finance its acquisition of shares in JSC "Doszhan Temir Zholy".

During 2010, the Group received additional contributions of 17,578,867 thousand tenge from its Shareholder, for which shares have not yet been issued as at December 31. The purpose of these contributions was to finance the construction of the "Uzen – state border with Turkmenistan" and "Khorgoz – Zhetigen" railway lines. These contributions have been recorded as additional paid-in capital.

In addition, before 2008 the Government contributed certain assets to the Group. As there were no shares legally issued in connection with the contribution, these contributions were reflected as additional paid in capital. The asset contributions include certain assets for which legal title has not yet transferred to the Group (Notes 4 and 28).

Dividends and distributions

Dividends

As at December 31, 2010 the Group declared dividends of 2,923,319 thousands tenge relating to 2009 (2009: 2,888,266 thousands tenge relating to 2008).

Distributions

Construction of a building for a teleradio complex for the benefit of the Shareholder

As described in Note 11 above, the Group entered into an irrevocable commitment with the Government to construct a building for a teleradio complex that, upon completion, will be transferred to the Shareholder for no consideration. As there is an irrevocable commitment to transfer an asset to the Shareholder for no consideration prior to 2010 year end, the transfer has been recognised as a distribution in the consolidated statement of changes in equity. The value of that distribution was estimated by the Group to be the value of the construction contract, namely 27,129,708 thousand tenge.

Purchase of additional shares in JSC "Doszhan Temir Zholy"

As discussed in Note 6, pursuant to a decree of the Shareholder, the Group used cash of 3,880,000 thousand tenge in the year ended December 31, 2010 to purchase a 8.99% of investment in an entity under common control of the Shareholder, JSC "Doszhan Temir Zholy" (2009: 37.03% for 1,578,000 thousand tenge). At the date of purchase, the shares had a fair value of nil. Consequently, the Group has recognised the full purchase price as a distribution to the Shareholder.

(in thousands of tenge unless otherwise stated)

15. BORROWINGS

Borrowings, including accrued interest, comprised the following as at December 31:

	Currency	Installments	Interest rate	December 31, 2010	December 31, 2009
Short-term borrowings:					
Citibank Kazakhstan	US Dollars	June 29, 2010	1-month LIBOR for USD denominated deposits + 4.5%	-	4,458,526
Alfa Bank Kazakhstan	Tenge	June 1, 2010	15%	-	401,500
				-	4,860,026
Long-term borrowings:					
ABN Amro Bank N.V. loans:					
Loan 1	US Dollars	16 semi-annual installments commencing October 15, 2004 (last installment, April 15, 2012)	6-month LIBOR for USD denominated deposits + 0.13%	842,676	1,407,309
Loan 2	US Dollars	32 quarterly installments commencing May 15, 2005 (last installment, May 15, 2014)	3-month LIBOR for USD denominated deposits + 0.07%	6,009,273	8,152,320
Loan 4	US Dollars	3 semi-annual installments commencing August 4, 2010 (last installment, August 4, 2011)	6-month LIBOR for USD denominated deposits + 1.2%	13,962,262	21,064,094
Japan Bank for International Cooperation ("JBIC")	Japanese Yen	37 semi-annual installments commencing December 20, 2002 (last installment, December 20, 2020)	3.00%	7,016,468	6,865,284
Instituto de Credito Oficial ("ICO")	US Dollars	25 semi-annual installments commencing July 9, 2009 (last installment, July 9, 2021)	2.50%	3,597,548	3,950,158
Development Bank of Kazakhstan (Note 30)	US Dollars	15 semi-annual installments commencing June 4, 2006 (last installment, June 4, 2013)	9.80%	931,766	1,314,034
European Bank of Reconstruction and Development (EBRD) loans:					
Loan 1	US Dollars	Immediately due upon breach of covenant at year end (please see discussion below and Note 32 for details of waiver of breach post year end)	6-month LIBOR for USD denominated deposits + 3.25%	11,692,842	-
Loan 2	US Dollars	15 semi-annual installments commencing April 13, 2013 (last installment, April 13, 2020)	6-month LIBOR for USD denominated deposits + 5.00%	6,521,034	-
JSC "National Welfare Fund "Samruk-Kazyna" (Note 30)	Tenge	January 25, 2024	5.4%	20,504,278	-
JSC ATF Bank	US Dollars	19 quarterly installments, commencing November 20, 2007 (last installment, April 10, 2012)	4.26 – 9.29%	254,784	427,535
JSC SB "HSBC Bank Kazakhstan"	Tenge	12 quarterly installments, commencing April 1, 2010 (last installment, December 31, 2012)	14.30%	43,419	-
				71,376,350	43,180,734
Less: Current portion of long-term borrowings				(30,135,249)	(11,339,472)
				41,241,101	31,841,262

(in thousands of tenge unless otherwise stated)

The bank loans disclosed above are repayable as follows:

	December 31, 2010	December 31, 2009
1 to 2 years	2,806,463	18,095,230
2 to 3 years	3,056,255	3,796,442
3 to 4 years	1,538,546	2,713,864
4 to 5 years	1,237,297	1,217,973
Over 5 years	32,602,540	6,017,753
	41,241,101	31,841,262

Citibank Kazakhstan

On November 30, 2009 the Group entered into a 30,000 thousand US Dollar short-term loan agreement with Citibank Kazakhstan for general corporate objectives of JSC "Locomotive", which was guaranteed by the Company. As at December 31, 2010 the full loan amount has been repaid.

Alfa Bank Kazakhstan

On December 11, 2009 the Group entered into 650,000 thousand tenge credit line agreement with JSC SB Alfa Bank Kazakhstan to provide additional working capital funds to the Company's subsidiary, JSC "Transtelecom". As at December 31, 2009 the Group had 250,000 thousand tenge available for lending under this facility. Interest was paid monthly. As at December 31, 2010 all amounts outstanding under this credit line have been repaid in full.

ABN Amro Bank N.V.

Loan 1: In December 2003 the Group entered into a loan agreement with ABN Amro Bank N.V. to finance the purchase of locomotive modernization kits from a supplier. The loan is repayable in 16 semi-annual installments starting from October 15, 2004. The effective interest rate was 6.18% for the year ended December 31, 2010 (December 31, 2009: 6.98%). As at December 31, 2010 locomotives owned by JSC "Locomotive", a subsidiary of the Company, with a carrying value of 5,650,561 thousand tenge (December 31, 2009: 6,329,304 thousand tenge) were pledged as collateral for this loan agreement. Under the provisions of the loan agreement the Company is obliged to comply with certain non-financial covenants stated in the agreement. The Company may, if it provides ABN Amro Bank N.V. and Export-Import Bank of the United States with at least thirty business days prior notice, prepay all or any part of the loan (which should reduce the loan amount by a minimum of 2 million US Dollars). Interest is accrued on any prepayment made, but without a premium or penalty. The loan is guaranteed by the Export-Import Bank of the United States, the Company, JSC "Locomotive" and JSC "Kaztemirtrans".

Loan 2: On November 1, 2004, the Group entered into a loan agreement with ABN Amro Bank N.V. to finance the purchase of locomotive modernization kits from a supplier.

The funds under the loan agreement are provided in tranches as follows:

- 1st tranche of 18,506 thousand US Dollars (2,402,611 thousand tenge at the exchange rate as at the date of withdrawal) was withdrawn by the Group on February 8, 2005.
- 2nd tranche of 20,795 thousand US Dollars (2,808,921 thousand tenge at the exchange rate as at the date of withdrawal) was withdrawn by the Group on June 28, 2005.
- 3rd tranche of 16,602 thousand US Dollars (2,226,285 thousand tenge at the exchange rate as at the date of withdrawal) was withdrawn by the Group on September 21, 2005.
- 4th tranche of 15,664 thousand US Dollars (2,101,754 thousand tenge at the exchange rate as at the date of withdrawal) was withdrawn by the Group on December 7, 2005.
- 5th tranche consisted of two parts of 16,892 thousand US Dollars and 7,883 thousand US Dollars (2,260,302 thousand tenge and 1,012,555 thousand tenge at the exchange rates as at the dates of withdrawal) and was withdrawn by the Group on January 6, 2006 and March 31, 2006, respectively.
- 6th tranche consisted of two parts of 7,883 thousand US Dollars and 7,883 thousand US Dollars (954,695 thousand tenge and 935,303 thousand tenge at the exchange rates as at the dates of withdrawal) and was withdrawn by the Group on June 5, 2006 and June 22, 2006, respectively.

The loan is repayable in 32 quarterly installments starting from May 15, 2005. The effective interest rate was 3.16% for the year ended December 31, 2010 (December 31, 2009: 3.12%). As at December 31, 2010 locomotives owned by JSC "Locomotive", a subsidiary of the Company, with a carrying value of 25,984,427 thousand tenge (December 31, 2009: 28,367,114 thousand tenge) were pledged as collateral for this loan. Under the provision of the loan agreement the Company is obliged to comply with certain non-financial covenants stated in the agreement. The Company may, if it provides ABN Amro Bank N.V. and the Export-Import Bank of the United States with at least thirty business days prior notice, prepay all or any part of the loan (being an amount that reduces the amount of the loan by a minimum amount of 2 million US Dollars). Any prepayment shall be made with accrued interest on the amount prepaid without premium or penalty. The loan maturity date is May 15, 2014. The loan is guaranteed by the Export-Import Bank of the United States, JSC "Locomotive" and JSC "Kaztemirtrans".

Loan 4. In August 2008 the Group entered into a loan agreement with ABN Amro Bank N.V. to finance the project of "Construction of locomotive assembly plant in Astana". The loan is repayable in three equal semi-annual installments starting from August 2010. The effective interest rate was 2.39% for the year ended December 31, 2010 (December 31, 2009: 2.68%). The Group may, if it provides ABN Amro Bank N.V. with at least fifteen business days prior notice, repay all or some part of the loan (in case of partial repayments, the amount should be not less than 10 million US Dollars and multiple of 5 million US Dollars). Any repayment shall include the amount of accrued interest on the repayment amount without premium or penalty. The loan is secured by the guarantees of the Company, JSC "Locomotive" and JSC "Kaztemirtrans".

JBIC

In accordance with the agreement signed between the Governments of the Republic of Kazakhstan and Japan, the Group received a loan from JBIC to develop its railways network. The JBIC loan is repayable through Eximbank Kazakhstan. The loan is repayable in 37 equal semi-annual instalments starting from December 2002 and will be fully repaid by December 2020. The interest on this loan of 3.00% per annum is payable on the outstanding balance of the principal. During the year ended December 31, 2010 the JBIC loan effective interest rate approximated 3.49% (2009: 3.67%).

ICO

The Group entered into a loan agreement with the ICO, the Financial Agent of the Government of the Kingdom of Spain, based on a memorandum on mutual financial co-operation between the Governments of the Republic of Kazakhstan and Spain. The Government of the Republic of Kazakhstan, acting through the Ministry of Finance, issued a guarantee in favour of ICO. This guarantee was provided in accordance with the Resolution of the Government of the Republic of Kazakhstan "On the raising of a non-state external loan by Republican State Enterprise "Kazakhstan Temir Zholy", which is guaranteed by the Government of the Republic of Kazakhstan". The loan is repayable in 25 equal semi-annual installments starting from July 2009. The Group may, if it provides ICO with at least twenty five business days prior notice, prepay the all or any part of the loan (being an amount that reduces the amount of the loan by a minimum amount of 100 thousand US Dollars).

The loan is secured with two passenger trains consisting of 22 wagons each produced by "Patentes Talgo S.A." with the carrying value of 3,074,775 thousand tenge as at December 31, 2010 (December 31, 2009: 3,239,259 thousand tenge). These assets are owned by JSC "Passenger Transportation", a subsidiary of the Company. As at December 31, 2010 and 2009 cash of 227,662 thousand tenge and 233,714 thousand tenge, respectively, was held in a reserve account for repayment of this loan.

Development Bank of Kazakhstan

The Development Bank of Kazakhstan provided the Group with a loan facility to finance the construction of a fiber-optic telecommunication line between Almaty and Astana. The loan has an interest rate of 9.80% per annum which is payable in 15 equal semi-annual installments starting from June 2006. As at December 31, 2010 the fiber-optic line with the carrying value of 1,113,768 thousand tenge (December 31, 2009: 1,380,767 thousand tenge) and future cash inflows of 12,803,421 US Dollars (1,899,516 thousand tenge) (December 31, 2009: 12,803,421 US Dollars (1,887,224 thousand tenge)) were pledged as collateral for this loan. The maturity date of the loan is June 4, 2013.

European Bank of Reconstruction and Development

Loan 1: On September 15, 2008 JSC "Transtelecom, a subsidiary, entered into a loan agreement with the European Bank of Reconstruction and Development to finance the construction of a primary backbone transportation fiber-optic communication line. As at December 31, 2010, the balance outstanding under the loan agreement, including interest, was 79,327 thousand US Dollars (11,692,842 thousand tenge). The loan is repayable in semi-annual instalments and bears an interest rate of 6-month LIBOR for USD denominated deposits + 3.25%. The principal repayments start from September 2011 with 15 semi-annual payments until full settlement in September 2018. During 2010, the effective interest rate on the loan was 2.24%. The loan is guaranteed by the Company.

As at December 31, 2010 JSC "Transtelecom" reclassified this loan to current due to non-compliance with certain of the financial ratios as defined by loan covenants which resulted in the full amount of the loan becoming due immediately. Subsequent to year end a notice of waiver of these ratios was received from the bank. See the subsequent event Note 32 for further information.

Loan 2: On March 29, 2010 the Group entered into a loan agreement with the European Bank of Reconstruction and Development to finance the purchase up to 1000 units of cargo wagons within a 10 year period. The loan is repayable in semi-annual instalments at an interest rate of 6-month LIBOR for USD denominated deposits + 5.00%. As at December 31, 2010, the balance outstanding under the loan agreement, including interest, was 44,242 thousand US Dollars (6,521,034 thousand tenge). The principal repayments start from April 2013, with 15 semi-annual payments until full settlement in March 2020. During 2010, the effective interest rate on the loan was 2.61%. The loan is guaranteed by the Company.

JSC "National Welfare Fund "Samruk-Kazyna"

On October 21, 2010, the Group entered into a loan agreement with the Shareholder in the amount of 30,000,000 thousand tenge with maturity in 2024. This loan is provided for the construction of railway lines: "Uzen – state border with Turkmenistan" and "Khorgos – Zhetigen". The loan is unsecured. Interest is paid semi-annually at 2% per annum beginning from January 2011. The principal is paid at maturity. The Company is eligible for early repayment of whole or part of the loan upon an agreement of the creditor without premium or penalty.

As the loan was issued by the Shareholder, a related party, at a rate below the market rate of interest for similar loans in arms length transactions, the Group calculated the fair value of this loan and recognized an adjustment to the loan value of 9,694,252 thousand tenge less a deferred income tax effect of 1,938,850 thousand tenge within additional paid-in capital. To calculate the fair value of the loan, the Group used an effective interest rate of 5.4% using rates on governmental long-term treasury bonds. Amortization of the adjustment to fair value of 81,863 thousand tenge has been capitalized into cost of railways construction.

JSC ATF Bank

In April 2007 JSC ATF Bank provided a loan to the Group for the purpose of financing the purchase of locomotive modernization kits of 5,450 thousand US Dollars (655,575 thousand tenge) for a term of 5 years. The loan is payable in 19 equal quarterly installments, starting November 20, 2007. The effective interest rate was 5.72% during the year ended December 31, 2010 (December 31, 2009: 4.26%). As at December 31, 2010 13 locomotives with the carrying value of 424,064 thousand tenge (December 31, 2009: 461,084 thousand tenge) owned by the JSC "Locomotive Service Center", the Group's subsidiary, were pledged as a collateral under the loan agreement.

JSC SB "HSBC Bank of Kazakhstan"

On December 30, 2009 the Group entered into a loan agreement with JSC SB "HSBC Bank of Kazakhstan" in an amount of 218 million tenge with maturity of 3 years and an interest rate of 14.3% per annum. As at December 31, 2010 the balance outstanding under this loan agreement was 43,419 thousand tenge and related to the purchase of 8 units of fitting platforms. JSC "Locomotive", a subsidiary of the Group, provided a guarantee under the loan agreement. The loan and interest is repaid quarterly until its full settlement on December 31, 2012.

(in thousands of tenge unless otherwise stated)

16. DEBT SECURITIES ISSUED

The Group's debt securities issued as at December 31, were as follows:

	Maturity date	Interest rate, per annum	December 31, 2010	December 31, 2009
Eurobonds issued at price				
99.300% - tranche 1	May 11, 2011	6.50%	66,330,000	66,762,001
98.292% - tranche 2	May 11, 2016	7.00%	51,590,000	51,925,999
100%	October 6, 2020	6.375%	103,180,000	-
			221,100,000	118,688,000
Including/(excluding):				
Discount on debt securities issued			(725,341)	(981,658)
Transaction costs			(359,724)	-
Accrued interest on debt securities issued			2,653,149	1,092,377
Total Eurobonds issued			222,668,084	118,798,719
Less: current portion of debt securities issued			(68,927,178)	(1,092,377)
Long-term portion of debt securities issued			153,740,906	117,706,342

On May 11, 2006 "Kazakhstan Temir Zholy Finance B.V." (the "Issuer"), a subsidiary of JSC "Kaztemirtrans", issued two tranches of Eurobonds totalling 800,000 thousand US Dollars. The Eurobonds are guaranteed by the Company and its subsidiaries: JSC "Kaztemirtrans" and JSC "Locomotive" (the "Guarantors"). Interest is payable on such Eurobonds semi annually on May 11 and November 11.

On October 6, 2010 the Issuer issued Eurobonds totalling 700,000 thousand US Dollars under Rule 144A/Regulation S Such Eurobonds are guaranteed by the Guarantors. Interest is payable semi annually on April 6 and October 6.

The Eurobonds contain covenants that place certain limitations on the Group including, but not limited to, limitations on changes in the business and the disposal of property, and limitations on mergers and consolidations with other legal entities. In the case of any payment default, or any of default as defined by the Eurobond indenture, investors are entitled to require repayment of Eurobonds.

17. FINANCE LEASE LIABILITIES

The Group's finance lease liabilities as at December 31, were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
Within one year	1,328,838	1,337,899	508,648	476,428
From two to five years inclusive	4,571,746	4,739,611	1,963,121	1,725,767
After five years	4,126,852	5,039,461	2,982,439	3,542,284
Net minimum lease liabilities	10,027,436	11,116,971	5,454,208	5,744,479
Less future finance charges	(4,573,228)	(5,372,492)	-	-
Present value of lease payments	5,454,208	5,744,479	5,454,208	5,744,479
Less liability payable within 12 months			(508,648)	(476,428)
Amount payable after 12 months			4,945,560	5,268,051

(in thousands of tenge unless otherwise stated)

In 2004 the Group entered into a non-cancelable finance lease arrangement for telecommunication equipment (the "finance lease") with LLP "TeleKRONA". The term of the finance lease is 14.5 years with an optional renewal term of one year. In accordance with the terms of the lease agreement, the Group received telecommunication equipment in installments through the end of 2010. In 2010 and 2009 the Group received telecommunication equipment for 3,506 thousand tenge and 853,108 thousand tenge and in the years ended December 31, 2010 and 2009, made lease payments of 858,666 thousand tenge and 3,776,252 thousand tenge, respectively.

On December 11, 2008 the Group entered into a finance lease state purchase agreement with JSC "BRK Leasing", a related party, to provide 340 units of rolling stock to its subsidiary JSC "Center of Transport Service". In 2008 the Group received 190 cistern wagons with a carrying value of 1,028,838 thousand tenge. In 2009 the Group received the residual 150 cistern wagons with a carrying value of 712,852 thousand tenge. The interest rate on implicit in the lease is 10.50% per annum. This contract is secured by a guarantee from the Company effective during the whole maturity period.

All lease liabilities are denominated in tenge.

18. EMPLOYEE BENEFIT OBLIGATIONS

State contribution scheme (the "Scheme")

The Group pays social tax based on the current statutory requirements of the Republic of Kazakhstan. Social tax and payroll are expensed as incurred. The social tax charges in 2010 and 2009 were 17,586,601 thousand tenge and 15,781,086 thousand tenge, respectively.(Notes 24 and 25).

The Group also withholds and contributes 10% from the salaries of its employees as the employee's contribution to their cumulative pension funds. According to legislation of the Republic of Kazakhstan, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated by the Labor Union Agreement.

Defined benefits scheme

Employee benefit obligations under the Scheme are payable in accordance with the Labor Union Agreement concluded between the Group and its employees for 2009-2011.

The total liability for the Group's Defined Benefit Scheme comprised the following as at December 31:

	December 31, 2010	December 31, 2009
Present value of defined benefit obligation	15,019,813	13,575,066
Liability falling due within one year	(1,647,539)	(979,120)
Liability falling due after one year	13,372,274	12,595,946

A reconciliation of the present value of the defined benefit obligation with specified payments is as follows for the years ended December 31:

	2010	2009
Total liability taken over at the beginning of the year	13,575,066	13,535,562
Current service cost	612,051	857,000
Past service cost	1,899,700	450,346
Interest cost	1,221,602	1,247,000
Benefit paid during the year	(1,315,769)	(915,352)
Actuarial gain recognized during the year	(972,837)	(1,599,490)
Total liability at the end of the year	15,019,813	13,575,066

(in thousands of tenge unless otherwise stated)

The past service cost recognized for the years ended December 31, 2010 and 2009 primarily resulted from changes in the Labor Union Agreement, differences between the actual annual salary increase and the estimated annual increase, and demographic changes.

The total service cost, including current service, past service cost, interest cost, and the actuarial gain for the year of 2,760,516 thousand tenge and 954,856 thousand tenge recognized during 2010 and 2009, respectively, was recorded in the consolidated statement of comprehensive income within cost of sales (Note 24) and general and administrative expenses (Note 25).

The estimates of the Group's obligations were made on the basis of the published statistical data regarding mortality and the actual Group's data concerning the number, age, sex and years of service of the employees and pensioners and the Group's turnover statistics. Other principal assumptions at the reporting date were as follows:

	2010	2009
Discount rate	6.50%	6.50%
The expected rate of future annual material assistance increases	5.77%	5.50%
The expected rate of future annual minimum salary increases	3.77%	5.50%
The expected rate of future annual railway ticket price increases	4.77%	4.50%

The Defined Benefit Scheme is unfunded.

19. INCOME TAX

The entities based in Kazakhstan are subject to income tax on taxable profit as determined under the laws of the Republic of Kazakhstan. The income tax rate was 20% in both 2010 and 2009. In the tax legislation of the Republic of Kazakhstan approved in late 2009, the tax rate was expected to decrease from 20% to 17.5% in 2013 and 17.5% to 15% in 2014. However, during 2010 changes occurred and the rate was settled at 20% from January 1, 2011 and subsequent years. The settlement of the rate at a level higher than anticipated in the prior year has negatively impacted the current period valuation of the Group's deferred tax assets and resulted in additional tax expense during the year.

Income tax expense comprised the following for the years ended December 31:

	2010	2009
Current income tax expense	4,053,015	2,482,225
Deferred income tax expense	35,809,436	10,400,930
	39,862,451	12,883,155

(in thousands of tenge unless otherwise stated)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense reported in the consolidated financial statements was as follows for the years ended December 31:

	2010	2009
Profit before taxation	105,024,871	32,371,942
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	21,004,974	6,474,388
Tax effect of expenses/(gains) that are not deductible/(not taxable) for tax purposes:		
Change of income tax related to previous years	(52,882)	409,294
Non-deductible expenses	3,844,641	2,223,268
Effect of unused tax losses not recognised as deferred tax assets	(1,501,245)	4,367,237
Effect of change in tax rates	16,073,931	(196,834)
Other	493,032	(394,198)
Income tax expense reported in the consolidated financial statements	39,862,451	12,883,155

Deferred tax balances calculated by applying the statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are as at follows at December 31:

	December 31, 2010	December 31, 2009
Deferred tax assets:		
Tax losses carried forward	1,810,237	5,443,867
Unused vacation provision	1,541,046	1,350,406
Provision for impairment of investments	-	236,700
Differences in accounts receivable	947,668	716,853
Allowance for obsolete and slow-moving inventories	275,457	425,804
Accrued liabilities	941,483	219,504
	5,515,891	8,393,134
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(87,338,438)	(54,153,173)
Adjustment of loan to fair value	(1,922,478)	-
	(89,260,916)	(54,153,173)
Total net deferred tax liabilities	(83,745,025)	(45,760,039)
Net deferred income tax liability as at the beginning of the year	(45,760,039)	(35,595,809)
Recorded in the consolidated statement of comprehensive income	(35,809,436)	(10,400,930)
Recorded in the consolidated statement of changes in equity	(2,175,550)	236,700
Net deferred income tax liability as at the end of the year	(83,745,025)	(45,760,039)

(in thousands of tenge unless otherwise stated)

Certain deferred tax assets that mainly arise as a result of tax losses carried forward, relate to those of the Company's subsidiaries and associates that consistently incur losses. In management's opinion, it is not probable that there will be sufficient taxable income available in the future against which the deductible temporary differences giving rise to the deferred tax asset above can be utilized. On this basis as at December 31, 2010 the Group has not recognized net operating losses of 3,913,307 thousand tenge (December 31, 2009: 7,444,531 thousand tenge). In addition and as at December 31, 2010 the Group has revised its estimates and has not recognized the deferred tax asset on impairment losses on investments in JSC "Doszhan Temir Zholy" of 1,091,600 thousand tenge (December 31, 2009: deferred tax asset of 236,700 thousand tenge), as taxable profit on this associate is unlikely based on the opinion of the Group's management (Note 6).

Due to changes in tax legislation of the Republic of Kazakhstan, effective from January 1, 2010, tax losses carried forward, incurred after January 1, 2009, in the Republic of Kazakhstan expire for tax purposes ten years after the date they are incurred. Tax losses carried forward, incurred before January 1, 2009, in the Republic of Kazakhstan expire for tax purposes three years from the date they are incurred. Therefore, the majority of the tax losses carried forward by the Group as at December 31, 2010, expire for tax purposes in 2011.

20. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following as at December 31:

	December 31, 2010	December 31, 2009
Accounts payable for services	21,596,497	19,543,281
Accounts payable for inventory	21,478,073	16,157,588
Accounts payable for property, plant and equipment	15,721,932	6,436,853
Other accounts payable	933,172	1,504,971
	59,729,674	43,642,693

As at December 31 trade accounts payable were denominated in various currencies as follows:

	December 31, 2010	**December 31, 2009**
Tenge	51,999,076	39,323,365
US Dollars	6,537,609	1,014,695
Swiss Francs	830,858	2,942,017
Other currencies	362,131	362,616
	59,729,674	43,642,693

(in thousands of tenge unless otherwise stated)

21. OTHER TAXES PAYABLE

Other taxes payable comprised the following as at December 31:

	December 31, 2010	December 31, 2009
Personal income tax	1,731,752	1,500,085
VAT	1,460,113	1,857,325
Social tax	780,385	762,421
Social contribution	589,667	387,974
Property tax	125,463	228,745
Withholding tax from non-residents	-	1,174,000
Fines and penalties on income tax from non-residents	-	1,126,123
Fines and penalties on corporate income tax	-	776,308
Other	521,277	391,650
	5,208,657	8,204,631

In 2008 various tax audits of the Group were conducted by the Kazakhstan governmental tax authorities. During 2008 the Group recorded a tax liability of 1,174,000 thousand tenge related to withholding tax and a liability of 1,902,431 thousand tenge related to the estimate amount of fines and penalties. During 2010 based on the results of the tax audit, these matters were resolved resulting in a reversal of previously created provisions in total by the Group of 2,967,221 thousand tenge (Note 28).

22. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following as at December 31:

	December 31, 2010	December 31, 2009
Construction commitment for benefit of the Shareholder	27,129,708	-
Advances received from customers	26,650,471	27,996,456
Salaries payable	8,537,034	7,422,998
Unused vacation provision	7,705,232	6,752,032
Deferred income	6,278,617	3,440,142
Obligatory pension contributions	2,350,308	2,048,989
Other current liabilities	6,260,739	2,302,379
	84,912,109	49,962,996

As described in Notes 11 and 14 above, the Group entered into an irrevocable commitment to construct a buiding for a teleradio complex in Astana. The value of that commitment was estimated by management to be the value of the related construction contract, namely 27,129,708 thousand tenge. The commitment amount has been recognised as a current "Construction commitment" above, and is considered current due to the expectation that the commitment will be fulfilled within twelve months from the balance sheet date.

As at December 31, 2010 other current liabilities include provision on legal claims accrued based on court decision in favour of TeleKRONA LLP of 3,823,687 thousand tenge (December 31, 2009: 22,470 thousand tenge) (Note 28).

As at December 31, 2010 and 2009 current salaries payable and other current liabilities were primarily payable in tenge.

(in thousands of tenge unless otherwise stated)

23. OTHER REVENUE

Other revenue for the years ended December 31 comprised the following:

	2010	2009
Revenue from the sale of goods and provision of services to third parties	16,092,972	14,674,144
Penalties received	2,884,775	2,202,062
	18,977,747	16,876,206

Revenue from the sale of goods and provision of services to third parties consists primarily of profit on the sale of inventory and property, plant and equipment as scrap to other third party railways, repair services provided to third parties and sales of electricity and other services to third parties

Penalties received represents revenue earned on the assessment of penalties on late pickup of cargo cars.

24. COST OF SALES

Cost of sales for the years ended December 31 comprised the following:

	2010	2009
Personnel costs, including short-term provisions	141,462,886	128,038,953
Fuels and lubricants	63,107,627	52,864,686
Services	59,339,235	60,230,911
Depreciation and amortization	49,506,873	46,343,637
Materials and supplies	44,814,176	40,706,919
Electricity	19,909,825	15,429,343
Wagon usage fee	18,412,949	17,488,694
Operating lease expenses	3,118,245	2,746,587
Employee benefit expenses (Note 18)	2,389,503	806,248
Professional services	1,885,385	1,876,339
Business trip expenses	1,864,829	1,456,444
Personnel training	608,157	453,204
Other	13,989	518,258
	406,433,679	368,960,223

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2010	2009
Personnel costs	125,271,590	113,979,977
Social tax (Note 18)	15,399,839	13,687,718
Unsused vacation provision expense	791,457	371,258
	141,462,886	128,038,953

(in thousands of tenge unless otherwise stated)

25. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31 comprised the following:

	2010	2009
Personnel costs, including short-term provisions	23,685,702	21,401,017
Allowance for value added tax recoverable (Note 7)	8,998,670	1,465,167
Property tax and other taxes	8,814,324	9,656,700
Charities and sponsorship	6,225,450	5,369,444
Provision on legal claims (Notes 22 and 28)	3,801,217	22,470
Depreciation and amortization	2,094,542	1,506,662
Professional services	1,304,791	1,577,467
Allowances for doubtful debts (Note 7, 9, 12)	1,295,263	2,067,730
Consulting, audit and legal services	1,109,193	546,698
Business trip expenses and representative expenses	1,105,213	857,171
Services	706,408	371,197
Advertising expenses	690,108	544,943
Materials	643,626	522,880
Bank services	615,670	655,471
Social activities	426,604	570,295
Operating lease expenses	386,565	997,132
Employee benefit expenses (Note 18)	371,013	148,608
Other expenses	2,432,649	1,541,710
	64,707,008	49,822,762

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2010	2009
Personnel costs	21,337,200	19,239,036
Social tax (Note 18)	2,186,762	2,093,368
Unused vacation provision expense	161,740	68,613
	23,685,702	21,401,017

26. FINANCE INCOME

Finance income for the years ended December 31 comprised the following:

	2010	2009
Interest income on short-term investments and bank deposits	3,235,810	2,625,882
Other finance income	49,119	35,624
	3,284,929	2,661,506

For the years ended December 31, 2010 and 2009 the Group's finance income included interest income on short-term investments and bank deposits of 737,290 thousand tenge and 1,825,625 thousand tenge, respectively, placed with related parties (Note 30).

(in thousands of tenge unless otherwise stated)

27. FINANCE COSTS

Finance costs for the years ended December 31 comprised the following:

	2010	2009
Interest expense on debt securities issued	9,411,475	7,928,125
Interest expense on loans	1,578,888	1,182,441
Finance lease charge	1,081,798	329,338
Amortization of discount on debt securities issued	249,880	233,586
	12,322,041	9,673,490

28. FINANCIAL AND CONTINGENT LIABILITIES

Capital and operating lease commitments

Capital commitments

As at December 31, 2010, the Group had committed to contracts for the construction of "Uzen – state border with Turkmenistan" and "Khorgos – Zhetigen", medical center in Astana, primary backbone transport communication net, plant for production of passenger wagons in Astana, activities related to expansion of "Dostyk" station, and the purchase of shunting locomotives and cargo wagons totalling 182,808,195 thousand tenge (December 31, 2009: 99,912,134 thousand tenge).

Operating lease commitments

As at December 31, 2010 the Group had operating lease commitments of 649,358 thousand tenge, which are all due within one year (December 31, 2009: 1,274,870 thousand tenge).

Contingent liabilities

Legal claims

The Group is subject to various legal proceedings related to business operations, such as property damage claims. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's consolidated financial position, results of operations, or cash flows.

Kazakhstan taxation contingencies

Kazakhstan legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are quite usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes additionally accrued. Interest is assessed at 22.5%. As a result, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

During 2007 and 2008, the tax authorities conducted tax audits of the Group for the years ended between 2003 and 2006. As a result of these audits the tax authorities have assessed additional taxes, including fines and penalties of 14,270,347 thousand tenge. The Group challenged the assessment as it believed the claim was groundless, and intended to appeal the results in a court. As at December 31, 2009 the Group established a tax liability of 3,928,705 thousand tenge, which represented the amount the Group believed was probable to settle this liability. This liability is recorded within taxes payable, as detailed in Note 21. On October 27, 2010 the Supreme Court delivered a final decision on this case in the benefit of the Group of 13,200,570 thousand tenge including charges for fines and penalties of 2,491,482 thousand tenge. As a result as at December 31, 2010 the Group reversed the previously created tax provisions of 2,967,221 thousand tenge (Note 21).

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at December 31, 2010. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Insurance

The insurance market is still in the early stage of development in Kazakhstan and, in common with other state-owned enterprises, the Group does not, with the exception of obligatory passenger insurance with regard to personal injury, death and loss or damage to passenger property, maintain any insurance against the risk of damage to any of its properties, assets or equipment (including infrastructure, rolling stock and stations) nor against business interruption or third party liability in respect of property or environmental damage arising from accidents to the Group's property or relating to the Group's operations. The Group maintains the required insurance coverage under policies purchased from commercial insurance operators in Kazakhstan.

Legal ownership of railway assets

As discussed in Note 4, the Group participated in construction of "Khromtau-Altynsarin" railway, which connects the western and northern parts of the Republic of Kazakhstan and thus locks the railway infrastructure of the Republic of Kazakhstan into one network. The construction of this railway was initiated by the Ministry of Transportation and Communication of the Republic of Kazakhstan with 64% of the construction financed from the governmental budget and the remainder by the Group. The total amount of assets financed by the Government under this project was 21,013,822 thousand tenge. Upon completion of the construction, the Group recorded the full amount of the construction as railway assets in its consolidated statement of financial position. The recognition of the assets was based on representations from the Ministry of Transportation and Communication who committed to the transfer of these assets to the Group.

In April 2010, the Group received a notice from the Government of the Republic of Kazakhstan that the recognition of these assets represented a breach of the Republic of Kazakhstan accounting and financial reporting guidelines as these are not legally assets of the Group. Subsequently, the Group reconfirmed with the state property Committee under the Ministry of Finance, who provided written confirmation, that these assets are to be transferred to the Group as a contribution to share capital. In July 2010, the Ministry of Transport and Communications of the Republic Kazakhstan applied to the Government of the Republic of Kazakhstan with the initiative to transfer these assets to the share capital of the Shareholder for the purpose of subsequent transfer to the Company's share capital. As at the date of approval of the accompanying consolidated financial statements, approval of this transaction was granted by the Ministry of Finance of the Republic Kazakhstan, by the Shareholder and the Ministry of Justice of the Republic Kazakhstan.

Guarantees

On February 19, 2010 the Group provided guarantees within Loan agreement between Kazakhstan Carriage Construction Company LLP ("Borrower") and JSC Development Bank of Kazakhstan ("Lender") of 679,542 thousand tenge for 5 years.

On December 3, 2010 the Group provided guarantees within Loan agreement between Kazakhstan Carriage Construction Company LLP ("Borrower") and JSC ATF Bank ("Lender") of 1,495,000 thousand tenge with maturity till December 31, 2011.

Other contingencies

In April 2009 the Group entered into an agreement (the "Agreement") with a lessor under which the Group decreased the amount of equipment leased resulting in a reduction in the total rent from 19.3 billion tenge to 14.5 billion tenge.

In December 2009, the lessor brought an action against the Group to annul the Agreement due to the Group's non-compliance with the original payment schedule from December 2007 onwards. The lessor asserted that the Group's non-compliance with the payment schedule lead to a tight financial position for the lessor and the lessor's inability to fulfill its obligations before the banks. On December 30, 2009 the court of the first instance made a decision to nullify the said additional agreement. Due to uncertainties in timing and amount, a provision was not recognised as of December 31, 2009 related to this case.

In 2010 the lessor calculated a claim amount of 5,071,667 thousand tenge related to short payments and penalties. On March 9, 2011 the Group received a letter from the lessor confirming the liability to be for an amount of between 3.5 - 4 billion tenge, and accordingly as at December 31, 2010 the Group estimated potential liabilities and set up a provision in these consolidated financial statements of 3.8 billion tenge (Notes 22 and 25).

(in thousands of tenge unless otherwise stated)

29. SUBSIDIARIES

Subsidiary	Nature of activities	Country of Residence	Percentage holding, % 2010	2009
1. JSC "Kaztemirtrans"	Operation of cargo wagons	Kazakhstan	100	100
2. JSC "Passenger Transportation"	Passenger transportation	Kazakhstan	100	100
3. JSC "Locomotive"	Locomotive haul services	Kazakhstan	100	100
4. JSC "Remwagon"	Repair of wagons	Kazakhstan	100	100
5. JSC "Temirzholsu"	Utilities	Kazakhstan	100	100
6. JSC "Temirzholzhilu"	Utilities	Kazakhstan	100	100
7. JSC "Remlocomotive"	Repair of locomotives	Kazakhstan	100	100
8. JSC "Almaty Wagon Repair Plant"	Repair of wagons	Kazakhstan	100	100
9. OJSC "Zheldorremmash"	Repair of locomotives	Kazakhstan	100	100
10. JSC "Locomotive Service Center"	Repair of locomotives	Kazakhstan	100	100
11. JSC "Kaztransservice"	Transit cargo transportation	Kazakhstan	100	100
12. JSC "Transtelecom"	Communication services	Kazakhstan	100	100
13. OJSC "Zheldorvodoteplosnabzhenie"	Utilities	Kazakhstan	100	100
14. LLP "Lesozashita"	Protection of railway transportation property from unfavorable weather conditions	Kazakhstan	100	100
15. JSC "Center of Transport Service"	Operating of local railway lines	Kazakhstan	100	100
16. JSC "Militarized Railway Guard"	Security services	Kazakhstan	100	100
17. "Kazakhstan Temir Zholy Finance B.V."	Financial services	Kingdom of Netherlands	100	100
18. LLP "Kazykurt Yug"	Flushing and steaming of wagons	Kazakhstan	100	100
19. LLP "Ertys service"	Flushing and steaming of wagons	Kazakhstan	100	100
20. LLP "Akzhaiyk Zapad 2006"	Flushing and steaming of wagons	Kazakhstan	100	100
21. JSC "Locomotive kurastyru zauyty"	Assembly of locomotives	Kazakhstan	100	100

As at December 31, 2010 the following subsidiaries of the Company were in the process of liquidation: OJSC "Zheldorvodoteplosnabzhenie", OJSC "Zheldorremmash", JSC "Remwagon" and LLP "Akzhaiyk Zapad 2006".

In 2010 JSC "Remlocomotive" jointly with Ansaldo STS S.p.A established "Kazakhstan-TJ-Ansaldo STS Italia" LLP, whereby JSC "Remlocomotive" owns a 51% of share. The primary activity of this partnership is providing research, development, construction and assembling services, as well as production of goods for railway transport.

Also during 2010, JSC "Almaty Wagon Repair Plant" jointly with Slovakian company ZOS–VYVOJ, s.r.o. established "NurZholBarys" LLP for design and production of wagons for diesel trains, where JSC "Almaty Wagon Repair Plant" owns a 51% of share.

(in thousands of tenge unless otherwise stated)

30. RELATED PARTIES TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Also parties under common control with the Group are considered to be related. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group's policy with respect to the approval of transactions with related parties is that the transaction should be approved by management by a majority of votes but not less than three quarters of the elected members. If the Management Board is not available to approve the transaction, then a majority of the members of the Board of Directors who are not interested in the transaction may vote to approve the transaction. If all members of the Board of Directors are interested, then a majority of the independent directors may vote to approve the transaction. If the independent directors are not available to approve the transaction, then the Shareholder may approve it.

Related parties may enter into transactions that unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of related party relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding as at December 31, 2010 and 2009, not outlined elsewhere in these notes, are detailed below.

Amounts due to and from related parties (profit oriented state-owned entities), recorded within trade accounts payable, other current liabilities, trade accounts receivable, other current and non-current assets as well as the transactions with related parties (commercial organizations, fully controlled by the government) as at December 31, 2010 and 2009 were as follows:

	Due from related party		**Due to related party**	
Company name	**December 31, 2010**	December 31, 2009	**December 31, 2010**	December 31, 2009
JSC "National company "KazMunaiGas"	129,341	27,242	283,244	339,702
JSC "Kazpost"	135,586	83,317	8,137	-
JSC "Kazakhtelecom"	30,148	-	28,425	61,494
JSC "National nuclear company "Kazatomprom"	6,782	-	56,729	45,725
JSC "National company "Kazakhstan engineering"	145,610	-	375,806	47,353
JSC "Samruk-Energo"	13,032	22,542	8,590	-
JSC "Air Astana"	645	-	7,931	4,371
JSC "KOREM"	-	-	937	1,666
JSC "Repair Corporation "Kamkor"	925,999	-	6,566,287	4,962,446
LLP JV "Betpak Dala"	-	-	2,479	2,218
LLP JV "Katco"	-	-	3,001	11,130
JSC "International airport Atyrau"	-	-	766	1,331
JSC "GSM Kazakhstan JSC "Kazakhtelecom"	11,270	19,811	199	-
JSC "Development Bank of Kazakhstan"	24	-		-
Other	1,852	364	9,499	2,301
	1,400,289	153,276	7,352,030	5,479,737

(in thousands of tenge unless otherwise stated)

Transactions with related parties (profit oriented state-owned entities) were as follows for the years ended December 31:

	Sales of services		Purchases of services	
Company name	**2010**	2009	**2010**	2009
JSC "National company "KazMunaiGas"	7,061,091	4,632,207	1,173,007	355,554
JSC "Kazpost"	692,916	603,155	76,736	135,658
JSC "Kazakhtelecom"	266,552	384,299	566,396	518,454
JSC "National nuclear company "Kazatomprom"	429,726	413,374	7,054	59,305
JSC "National company "Kazakhstan engineering"	76,807	44,005	696,554	2,250,034
JSC "Samruk-Energo"	128,804	104,672	219,531	190,596
JSC "Air Astana"	44,113	60,728	-	-
JSC "Repair Corporation "Kamkor"	1,956,291	1,807,111	54,834,600	44,247,565
JSC "GSM Kazakhstan JSC "Kazakhtelecom"	191,526	384,299	532	518,454
JSC "Development Bank of Kazakhstan"	-	-	620	1,302
JSC "Astana Finance"	442,983	-	-	-
Other	41,723	47,561	134,938	20,455
	11,332,532	8,481,411	57,709,968	48,297,377

The services provided by related parties include repair works and other costs of providing services. The services provided to related parties include cargo transportation services. Sales to and purchases from related parties are at prices intended to be consistent with market rates. Outstanding balances at year-end are unsecured and interest free with settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables.

At December 31, 2010 and 2009 there is no provision against any of the receivables from related parties.

In addition to services related to operating activities, the Group has various related party transactions related to its investments and financing including the following:

(a) At December 31, 2010 and 2009, 3,597,548 thousand tenge and 3,950,158 thousand tenge, respectively, of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan (Note 15);

(b) At December 31, 2010 and 2009, the Group has loans of 931,766 thousand tenge and 1,314,034 thousand tenge, respectively, from related party, the Development Bank of Kazakhstan (Note 15);

(c) At December 31, 2010 and 2009 the Group's finance lease liabilities to related party JSC "Development Bank of Kazakhstan" amounted to 1,566,059 thousand tenge and 1,754,901 thousand tenge, respectively;

(d) At December 31, 2010 the Group has loans of 30,000,000 thousand tenge (2009: nil) from related party, JSC "National Welfare Fund "Samruk-Kazyna", which was recognized at amortized cost of 20,504,278 thousand tenge and reflects a discount of 9,694,252 thousand tenge, less a deferred income tax effect of 1,938,850 thousand tenge, due to the loan being issued to the Company at less than fair value (See Note 15);

(e) The Group has deposited cash on current and deposit accounts with JSC "Halyk Bank of Kazakhstan", JSC "Kazkommertsbank", JSC "BTA Bank", JSC "Alliance Bank", JSC "Temir Bank" and JSC "Development Bank of Kazakhstan" as at December 31. In 2010 JSC "Kazkommertsbank" was disposed from list of related parties. The Group recognized finance income from these bank current accounts and deposits in the amount of 737,290 thousand tenge and 1,825,625 thousand tenge during the years ended December 31, 2010 and 2009, respectively. The deposits with these banks at December 31 consists of the following:

(in thousands of tenge unless otherwise stated)

	2010	2009
JSC "Halyk Bank of Kazakhstan"		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 13)	30,857,759	7,546,779
Deposits with maturity period of 3 to 12 months (Note 10)	32,914,415	10,173,176
JSC "Kazkommertsbank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 13)	-	20,787,238
JSC "BTA Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 13)	139,643	300,824
JSC "Alliance Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 13)	17,002	5,455
Deposits with maturity period of 3 to 12 months (Note 10)	22,000	-
JSC "Temir Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 13)	21,356	-
JSC "Development Bank of Kazakhstan"		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 13)	3	-
Restricted cash	227,662	233,714

Amounts due to and from associates, recorded within trade accounts payable, other current liabilities, trade accounts receivable, other current and non-current assets, as at December 31, and transactions with associates for the years then ended are as follows:

	2010	2009
Due		
From associates	1,748,120	-
To associates	1,860,292	921,397
Transactions with associates		
Sales	2,595,629	1,596,461
Purchases	8,038,450	5,374,853

The transactions entered into with associates primarily related to repair services and are entered into at terms consistent with that of third parties.

In addition, transactions with associate JSC "Temirzholzhondeu" included costs on construction of railway way facilities of 9,274,820 thousand tenge (2009: nil).

(in thousands of tenge unless otherwise stated)

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors, totaling 30 persons as at December 31, 2010 (December 31, 2009: 26 persons). Compensation to key management personnel for the years ended December 31 was as follows:

	2010	2009
Salaries	228,763	211,162
Social tax	25,500	25,594
Income tax	25,052	22,990
Pension deductions	21,950	21,567
Bonuses	18,128	-
Social deductions	1,990	1,401
Termination benefit	-	1,163
Total	321,383	283,877

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of loans, cash and cash equivalents, and short-term investments as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Capital risk management

The Group manages capital insufficiency risk to ensure that the Group can continue as a going concern with maximum increase in profits for the founders by optimizing the balance of debt and equity.

The Group's capital structure includes share capital, additional paid-in capital, foreign currency translation reserve and retained earnings.

Significant accounting policies

The significant accounting policies and adopted methods, including criteria of recognition, evaluation basis and the basis on which income and expenses are recognized with respect to each class of financial assets, financial liabilities and equity instruments are disclosed in the Note 2 to the consolidated financial statements.

Financial risk management objectives

Management of risk is an essential element of the Group's operations. The Company monitors and manages financial risks relating to the Group's operations through internal reports on risks which analyze the exposure to risk by the degree and size of risks. These risks include the market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. A description of the Group's risk management policies in relation to those risks follows.

Interest rate risk

The interest rate risk to the Group is the risk of changes in market interest rates reducing the overall return on its investments and increasing cash outflow on its borrowings. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which its cash and cash equivalents, short-term investments and borrowings are denominated, and by maintaining a balance between its loans with fixed and floating interest rates.

(in thousands of tenge unless otherwise stated)

The Group's exposure to interest risk relates primarily to the Group's long-term and short-term debt. The weighted average effective interest rates were as follows as at December 31:

	December 31, 2010 (% per annum)	December 31, 2009 (% per annum)
Short-term borrowings:		
Tenge	-	15.00
US Dollars	-	4.73
Long-term borrowings:		
Tenge	5.40	-
US Dollars	6.11	5.85
Japanese Yen	3.49	3.67

Interest rate sensitivity analysis

The following table shows the allocation of changes in the interest income, interest rates and net interest income between changes in the volume and changes in the rate. The fluctuations between the volume and the rate were calculated on movement in the average balances and changes in interest rates on average, interest bearing assets and average interest bearing liabilities.

	2010/2009 Change due to increase/(decrease)		**Total change**	**Change in interest rate, %**	**2009/2008 Change due to increase/(decrease)**		**Total change**	**Change in interest rate, %**
	Volume	**Rate**			**Volume**	**Rate**		
Interest income:								
Short-term deposits	(351,555)	-	(351,555)	-	(701,491)	-	(701,491)	-
Other financial assets	974,978	-	974,978	-	(3,818,581)	-	(3,818,581)	-
Finance costs:								
Bank loans	602,664	(206,217)	396,447	(0.98%)	496,929	(522,170)	(25,241)	(1.69%)
Finance lease	752,460		752,460	-	(704,879)	-	(704,879)	-
Debt securities	1,499,644	-	1,499,644	-	1,517,677	-	1,517,677	-

The following table reflects the Group's sensitivity to 1% increase and decrease in the interest rates. The sensitivity analysis is based on an assumption that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year:

	2010	2009
Bank loans	389,852	308,976

(in thousands of tenge unless otherwise stated)

Foreign currency risk

The Group's short-term and long-term foreign currency debts are denominated in US Dollars and Japanese Yen and are presented in the consolidated financial statements in tenge. A change in the tenge value against foreign currencies will result in a foreign exchange gain or loss.

The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its cash, investments and borrowings are denominated. The Group's primary exposure is related to the Group's long-term borrowings, which are primarily denominated in US dollars. The Group maintains a portion of its cash in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

Foreign currency sensitivity analysis

The Group is mainly exposed to risk of change in USD, Russian ruble, Swiss franc and Japanese yen.

The following table reflects the Group's sensitivity to 10% increase and decrease in the value of tenge with respect to relevant foreign currencies. The sensitivity analysis is based on the amounts outstanding at the end of the period. The sensitivity analysis includes (a) external loans and accounts payable and (b) accounts receivable of the Group, when the loan or accounts payable/receivable are denominated in the currency differing from the currency of the creditor or debtor. The following table indicates changes in financial assets and liabilities, in case of strengthening of tenge by 10% with respect to the relevant currency. The positive figure indicates the increase in profits for the reporting period and negative indicates the decrease in profits. In case of weakening of tenge by 10% with respect to the relevant currency, there will be an equal and opposite effect on profits.

	Effect of change in the exchange rate as at December 31, 2010					
	US Dollars	**Euro**	**Swiss Francs**	**Russian Rubles**	**Japanese Yen**	**Total effect**
Financial assets;						
Cash and cash equivalents	(2,499,983)	(68,416)	(119,416)	(198,012)	-	(2,885,827)
Other financial assets	(9,220,584)	-	-	-	-	(9,220,584)
Trade accounts receivable	(9,778)	-	(157,637)	(323)	-	(167,738)
						(12,274,149)
Financial liabilities:						
Trade accounts payable	653,761	1,957	83,086	34,256	-	773,060
Loans and accrued interest	4,381,219	-	-	-	701,647	5,082,866
Debt securities	22,266,808	-	-	-	-	22,266,808
						28,122,734
Net effect						15,848,585

(in thousands of tenge unless otherwise stated)

	Effect of change in the exchange rate as at December 31, 2009					
	US Dollars	**Euro**	**Swiss Francs**	**Russian Rubles**	**Japanese Yen**	**Total effect**
Financial assets;						
Cash and cash equivalents	(2,127,791)	(211,357)	(13,374)	(11,072)	-	(2,363,594)
Other financial assets	(1,431,074)	-	-	-	-	(1,431,074)
Trade accounts receivable	(10,084)	-	(377,132)	(47)	-	(387,263)
						(4,181,931)
Financial liabilities:						
Trade accounts payable	101,470	1,251	294,202	35,011	-	431,934
Loans and accrued interest	4,077,398	-	-	-	686,528	4,763,926
Debt securities	11,879,872	-	-	-	-	11,879,872
						17,075,732
Net effect						12,893,801

The carrying value of financial assets and financial liabilities, denominated in foreign currencies as at December 31 is as follows:

	December 31, 2010	December 31, 2009
Financial assets:		
Cash and cash equivalents	28,858,271	23,635,933
Other financial assets	92,205,839	14,310,740
Trade accounts receivable	1,677,373	3,872,628
	122,741,483	41,819,301
Financial liabilities:		
Trade accounts payable	7,730,598	4,319,328
Loans and accrued interest	50,828,653	47,639,260
Debt securities	222,668,084	118,798,719
	281,227,335	170,757,307

Credit risk

Credit risk arising from the inability of a party to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset. The Group considers that its maximum exposure is reflected by the amount of trade accounts receivable (Note 9) and other current assets (Note 12), net of allowances for doubtful debts recognized at the reporting date.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

(in thousands of tenge unless otherwise stated)

The maximum exposure to credit risk with regard to trade accounts receivable and by geographic regions were as following as at the reporting date:

	December 31, 2010	December 31, 2009
Within the country	2,481,067	2,190,764
Outside the country	1,677,373	3,872,099

Procedures are in force to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimized by the fact that the Group operates on a prepayment basis with the majority of its customers. Prepayments are secured by bank guarantees.

The Group does not guarantee the obligations of other parties.

As at December 31 the allocation of trade accounts receivable by the aging was as following:

	December 31, 2010	December 31, 2009
Not overdue	3,645,823	2,050,418
3-6 months overdue	457,165	473,098
6-12 months overdue	55,452	3,539,347
	4,158,440	6,062,863

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through the periodic estimation of potential losses that could arise from adverse changes in market conditions.

Liquidity risk

The Group manages short-term, mid-term and long-term financing liquidity risk in accordance with requirements of the Shareholder . The Group manages the liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring of the projected and actual cash flows and comparison of maturities of financial assets and liabilities.

The following tables reflect contractual terms of the Group's financial liabilities. The table was prepared based on the undiscounted cash flows on financial liabilities on the basis of the earliest date at which the Company can be required to pay. The table includes cash flows both on interest and principal.

(in thousands of tenge unless otherwise stated)

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Total
2010							
Non-interest bearing:							
Trade accounts payable	-	45,482,998	3,448,979	10,797,697	-	-	59,729,674
Accrued salary	-	8 537 034	-	-	-	-	8 537 034
Other current liabilities	-	2,350,308	-	6,260,739	-	-	8,611,047
Interest bearing:							
ABN Amro Bank N.V (Loan 1)	6-month LIBOR for USD denominated deposits + 0.13%	-	-	602,225	299,685	-	901,910
ABN Amro Bank N.V (Loan 2)	3-month LIBOR for USD denominated deposits + 0.07%	-	566,868	1,697,206	4,215,780	-	6,479,854
ABN Amro Bank N.V (Loan 4)	6-month LIBOR for USD denominated deposits + 1.20%	-	7,062,141	6,985,479	-	-	14,047,620
Japan Bank for International Cooperation ("JBIC")	3.00%	-	-	940,217	3,516,118	3,842,747	8,299,082
Instituto de Credito Oficial ("ICO")	2.50%	-	-	407,028	1,546,430	1,912,241	3,865,699
Development Bank of Kazakhstan	9.80%	-	-	412,623	609,863	-	1,022,486
ATF Bank	4.27%	-	44,954	132,246	85,697	-	262,897
JSC SB "HSBC Bank of Kazakhstan"	14.30%	6,228	-	17,614	25,954	-	49,796
JSC "NWF "Samruk-Kazyna"		156,667	-	300,000	2,400,000	35,100,000	37,956,667
EBRD (Loan 1)	6-month LIBOR for USD denominated deposits + 3.25%	-	106,041	11,586,801	-	-	11,692,842
EBRD (Loan 2)	6-month LIBOR for USD denominated deposits + 5.00%	-	-	351,478	4,342,119	5,011,235	9,704,832
Debt securities	6.38-7.00%	-	-	78,083,664	40,756,100	187,430,839	306,270,603
Finance lease	10.50-18.25%	-	272,333	1,056,505	4,571,746	4,126,852	10,027,436

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Total
2009							
Non-interest bearing:							
Trade accounts payable	-	34,657,241	2,483,762	6,501,690	-	-	43,642,693
Accrued salary	-	7,422,998	-	-	-	-	7,422,998
Other current liabilities	-	2,048,989	-	2,302,379	-	-	4,351,368
Interest bearing:							
ABN Amro Bank N.V (Loan 1)	6-month LIBOR for USD denominated deposits + 0.13%	-	-	611,702	908,927	-	1,520,629
ABN Amro Bank N.V (Loan 2)	3-month LIBOR for USD denominated deposits + 0.07%	-	572,759	1,714,813	6,522,056	-	8,809,628
ABN Amro Bank N.V (Loan 3)	6-month LIBOR for USD denominated deposits + 1.20%	-	-	9,029,947	12,462,719	-	21,492,666
ABN Amro Bank N.V (Loan 4)	3.00%	-	-	858,150	3,214,894	4,167,162	8,240,206
Japan Bank for International Cooperation ("JBIC")	2.50%	-	-	417,922	1,589,474	2,301,402	4,308,798
Instituto de Credito Oficial ("ICO")	9.80%	-	-	493,027	1,070,692	-	1,563,719
Development Bank of Kazakhstan	4.26%	-	47,084	138,603	263,812	-	449,499
ATF Bank	-	17,158	46,091	4,957,257	-	-	5,020,506
Debt securities	6.50-7.00%	-	-	7,974,350	82,876,109	56,879,908	147,730,367
Finance lease	10.50-18.26%	80,767	276,787	980,345	4,739,611	5,039,461	11,116,971

(in thousands of tenge unless otherwise stated)

The following table reflects expected maturities of Group's financial assets. The table was prepared based on undiscounted contractual terms of financial assets, including interest received on these assets, except when the Company expects the cash flow in a different period.

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Indefinite settlement term	Total
2010								
Interest bearing:								
Short-term deposits	3.32%	1,615,200	15,344,455	-	-	-	-	16,959,655
Interest on short-term deposits	3.32%	1,642	97,470	-	-	-	-	99,112
Other financial assets	3.99%	-	-	121,607,832	-	-	-	121,607,832
Interest on short-term investments	3.99%	-	-	2,410,910	-	-	-	2,410,910
Cash and cash equivalents	0.20-9.50%	60,389,925	-	-	-	-	-	60,389,925
Non-interest bearing:								
Cash and cash equivalents	-	17,261,876	-	-	-	-	-	17,261,876
Trade accounts receivable	-	555,795	18,448	3,584,197	-	-	4,738,338	8,896,778
2009								
Interest bearing:								
Short-term deposits	5.03%	9,546,739	18,936,536	-	-	-	-	28,483,275
Interest on short-term deposits	5.03%	44,644	101,190	-	-	-	-	145,834
Other financial assets	4.98%	2,853,440	-	14,683,905	-	-	-	17,537,345
Interest on other financial assets	4.98%	37,848	-	392,528	-	-	-	430,376
Cash on bank accounts	0.50-6.00%	10,359,292	-	-	-	-	-	10,359,292
Non-interest bearing:								
Cash and cash equivalents	-	13,772,620	-	-	-	-	-	13,772,620
Trade accounts receivable	-	260,971	894	5,800,998	-	-	4,779,018	10,841,881

Fair values of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

Trade and other receivables and payables

For assets and liabilities maturing within twelve months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

(in thousands of tenge unless otherwise stated)

For financial assets and liabilities maturing in over twelve months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates. Average year-end market borrowing rates were as follows as at December 31:

	December 31, 2010 (% per annum)	December 31, 2009 (% per annum)
Tenge		
with maturity from 1 to 5 years	12.40	14.30
with maturity over 5 years	10.40	11.80
Foreign currencies		
with maturity from 1 to 5 years	4.00	11.60
with maturity over 5 years	12.00	8.60

Borrowings

The estimate for loans from banks was made by discounting the scheduled future cash flows of individual loans through estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are is mostly provided by international development institutions and foreign banks. As a result, the interest rates attributable to these loans although lower than those obtainable from private commercial institutions in the Republic of Kazakhstan are considered to be the market interest rates for this category of lenders. The fair value of the Eurobonds has been determined based on average prices at which deals have been executed prior as at the reporting date.

As at December 31, 2010 and 2009 the fair value of financial assets and financial liabilities, except for borrowings, was not significantly different from its cost. Cost and fair value of long-term loans, excluding loans from international development institutions and those backed by governments, and Eurobonds as at December 31 is presented as follows:

	December 31, 2010		December 31, 2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial liabilities				
Borrowings	60,762,334	60,157,333	32,365,292	33,394,00
Eurobonds	222,668,084	233,977,417	118,798,719	115,520,81

The fair value of the loans from development institutions and those backed by the government have not been disclosed as it is not possible to estimate at what rate the Group could make similar borrowings from these parties and the rates from commercial banks would be significantly different. The fair value of these loans would vary significantly if calculated based on rates from commercial banks.

32. EVENTS AFTER THE REPORTING DATE

Loans

On January 27, 2011 the Group entered into framework loan agreement with JSC "ATF Bank" on opening a credit line of 95,000,000 US Dollars, for refinancing the debt to ABN Amro Bank N.V. (Loan 4) of 94,893,598 US Dollars with a maturity period through January 27, 2016, and floating interest rate of 6 months LIBOR for USD denominated deposits. The Company is a guarantor for this loan.

Increase of transportation tariffs

In January 2011 the Group agreed to increase freight transportation tariffs by an average of 15% and passenger transportation tariffs by an average of 10%.

Construction of a building for a teleradio complex for the benefit of the Shareholder

As described in Notes 11, 14 and 22 above, the Group has entered into an irrevocable commitment with the Government to construct a building for a teleradio complex that, upon completion, will be transferred to the Shareholder for no consideration. Subsequent to year end, the Group held discussions with the Government regarding the possibility of undertaking costs for the purchase of the land on which the building for the teleradio complex will be built, along with the media and technical equipment ultimately expected to be installed within the teleradio complex. Through the date of approval of these financial statements, the Group has neither been directed by the Government to incur such costs nor has it formally approved the incurrence of such costs related to the teleradio complex. If the Group does incur such costs, it is expected to be fully reimbursed by the Shareholder. Management of the Group assesses these costs to be approximately 29.6 billion tenge.

EBRD Loans

In accordance with terms of the loan agreement "EBRD Loan 1", as identified in Note 15 above, JSC "Transtelecom" is required to maintain certain financial ratios. Should the subsidiary fail to comply with these ratios, the bank will have a right to claim immediate repayment of the entire debt amount. As at December 31, 2010, JSC "Transtelecom" was not in compliance with certain of these ratios, which resulted in the full amount of the loan becoming immediately due. JSC "Transtelecom" requested a waiver on compliance with the aforementioned financial ratios for 2010 from EBRD. On March 16, 2011 JSC "Transtelecom" received a letter from EBRD approving the waiver. As a result, the full amount of the loan is no longer immediately payable and the payment terms are in line with the original agreement, which consist of 15 semi-annual installments commencing September 1, 2011 with the last installment occurring on September 15, 2018.