

ҚАЗАҚСТАН ТЕМІР ЖОЛЫ

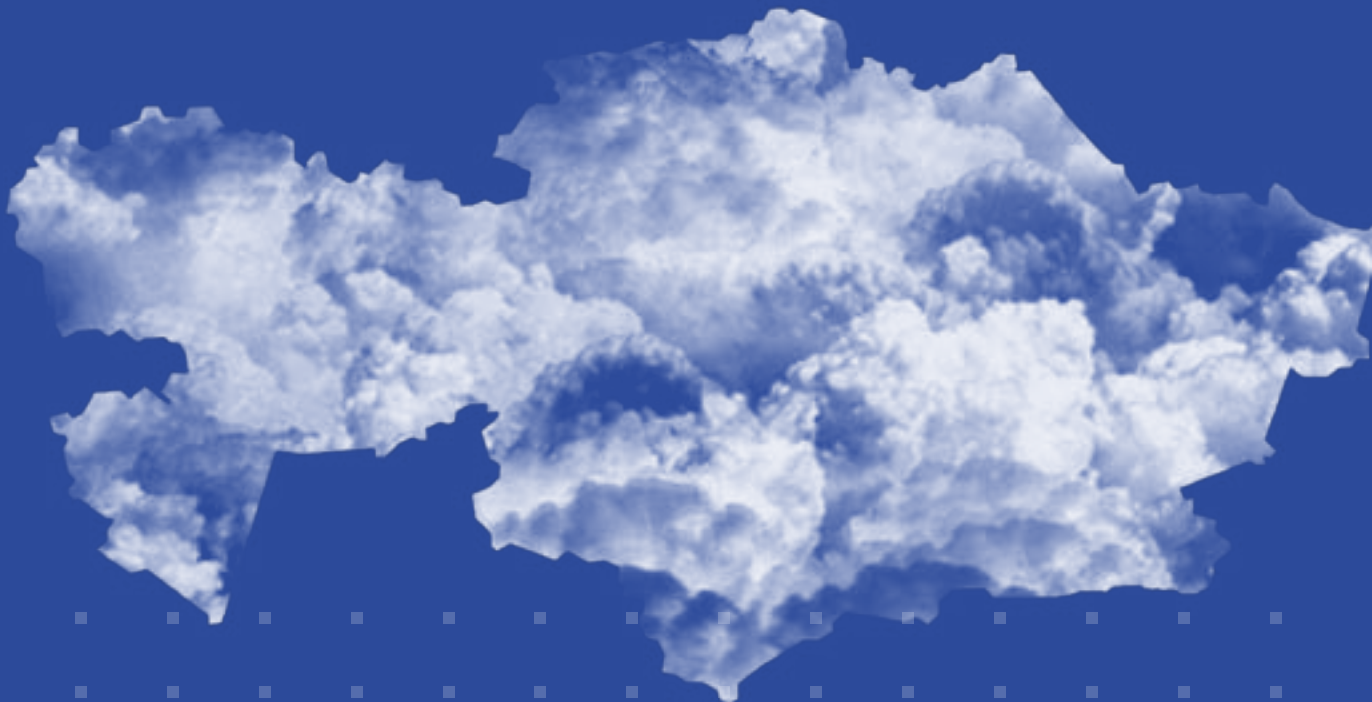


ANNUAL REPORT

2010



Report of Joint Stock Company
“National Company “Kazakhstan Temir Zholy”
for the Year 2010



Address of the Chairman of the Board of Directors of JSC “NC “Kazakhstan Temir Zholy”



Dear Business Partners, Colleagues and Friends!

It's a great honor for me to address to you as the Chairman of the Board of Directors of the largest transport holding in Kazakhstan – JSC “National Company “Kazakhstan Temir Zholy”.

Like many strategic enterprises in the Group of Companies of JSC “National Welfare Fund “Samruk-Kazyna” KTZh is one of the mainstays of stability in Kazakhstan state and society.

For the last year all main production and financial indices of KTZh work have increased as compared with the year 2009, which is appreciated by the sole Company's shareholder – “Samruk-Kazyna” Fund.

For the entire expired period the railway administration has implemented the balanced policy at the transportation, lending and industrial development market.

Kazakhstan Temir Zholy took all necessary measures to resolve seven strategic tasks set to the railway by the President and Government of the Country. As compared with the level of the year 2009 the personnel labor efficiency has increased by more than 20 per cent. The length of high-speed train traffic sections has increased by more than 300 km. The volume of Internet sales of travel documents has increased by three

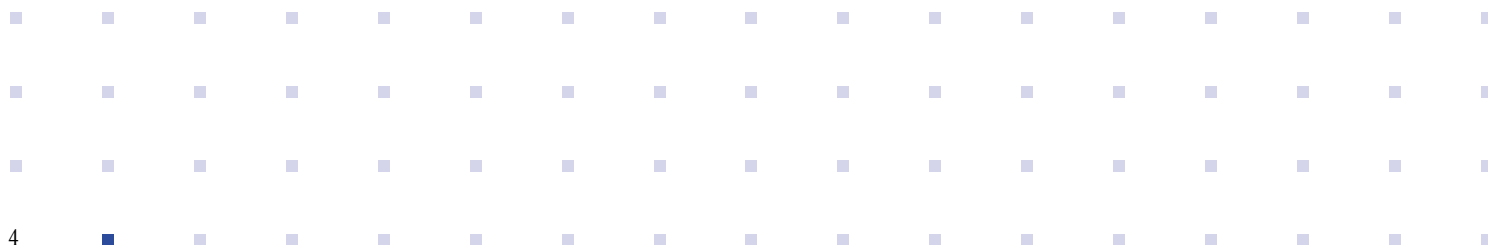
times. In freight transportation service the number of innovative traffic arrangement schemes has been implemented. Besides, the railway machine building has actively developed, new rail roads have been constructed, and the situation in the field of traffic safety has significantly improved. The rating of corporate management of Kazakhstan Temir Zholy is the highest among the subsidiaries of “Samruk-Kazyna” Fund.

The evidence of the Company's financial stability is raising of KTZh credit rating by “S&P” Rating Agency, and confirmation of rating at the sovereign level by “Fitch Ratings” Agency. The Company on time fulfilled its obligations towards its business partners connected with redemption of Euro bonds of 2006 having made the appropriate savings for this purpose. Great demand (12 times exceeding the offer) for the bonds of the year 2010, in the opinion of the international financial institutions, allowed to attribute this issue to the best issues in the corporate sector of the Republic of Kazakhstan according to the year results.

2010 was successful for “Kazakhstan Temir Zholy” Company. I am sure that in future the achieved success of the branch will become even more apparent.

Sincerely,
Chairman of the Board of Directors of JSC “NC “Kazakhstan Temir Zholy”

TIMUR KULIBAYEV



Address of the President of JSC “NC “Kazakhstan Temir Zholy”



Dear Readers of this Annual Report,

2010 was the year of industrialization for JSC “National Company “Kazakhstan Temir Zholy”. The President of the Republic of Kazakhstan, Nursultan Abishevich Nazarbayev, has set the task to bring the country to a new level where industrial sector and new technologies will achieve a strong position. And the railway personnel have proved their willingness and readiness to pursue this course, which is difficult, but, however, the only correct one. It has become possible to take the road of industrial and innovation development due to successful overcoming of adverse effects of the world economic crisis. The Republic of Kazakhstan has overcome the crisis for a short period of time, while the railroad company has the economic revenge by improvement of its operating and financial performances.

For example, the freight traffic turnover for the reporting period increased by 15 872 million ton-kilometers or 8 percent as against 2009, reaching 213 174 million ton-kilometers. In 2010 the total freight traffic volume of KTZh reached 267 735 thousand tons, having increased by 20 058 thousand tons, or 8.1% as against the similar period of 2009.

The revenues of the Group of Companies of KTZh for 2010 amounted to KZT597 849 million, having increased by 19.6% as against 2009. The total profit to the amount of KZT65 175 million appeared to be KZT45 687 million or 3.3 times higher than that in 2009. The traffic safety performance has improved by more than 40 percent.

Due to the industry’s economically efficient and stable activities in the previous year, the projects being strategic for the rail transport industry such as construction of enterprises for manufacturing of passenger cars under the Talgo technology and for production of electric locomotives jointly with Alstom were launched in Astana. In 2010, the diesel locomotive batch assembly plant began to function in Astana, having replenished the Kazakhstan trunk railway rolling stock with 30 new high-powered locomotives urgently needed for the traffic process.

The personnel of the Almaty Railroad Car Repair Plant reconstructed and put into service two medical trains, which performance results exceeded all expectations. The Densaulyk and Zhardem trains rendered medical service to about 25 thousand inhabitants of small stations and crossing points, thereby acquiring a good reputation in the country’s regions. At the same time, the personnel of this national manufacturer modernized tens of passenger cars for international routes.

In 2010, the works on construction of two new railway roads such as Uzen – State Border with Turkmenistan, and Zhetygen – Korgas, which will serve in future as optimal routes for the national and foreign freight traffic flow to the world trade markets, were rapidly performed with application of innovative technologies.

Last year, rail-car heavy casting enterprises, as well as manufacturers of rails, solid-rolled wheels and other railroad products, previously imported, were deployed in different places of the country.

The year of 2010 became also a financially breakthrough one. KTZh for the first time in its history made the Eurobond transaction on the London Stock-Exchange, with considerable excess of demand for such Eurobonds over supply thereof. The Company performed a successful work with international financial institutions on raising borrowed funds that were allocated for the purposes of accelerated industrial and innovation-based development.

I believe that the detailed information on the industry activities as presented in the Annual Report will become a convincing argument to those who have given credit to the capability and potential of Kazakhstan Temir Zholy and have become our business partners in favor of further cooperation with us. Today, the Kazakhstan railroad industry is steering a steady course of technical breakthrough and is undergoing a high-speed breakthrough stage of its development. Results of such a process are evident even now. However, the main results of the new economic upturn are a matter for the future to which we all are looking.

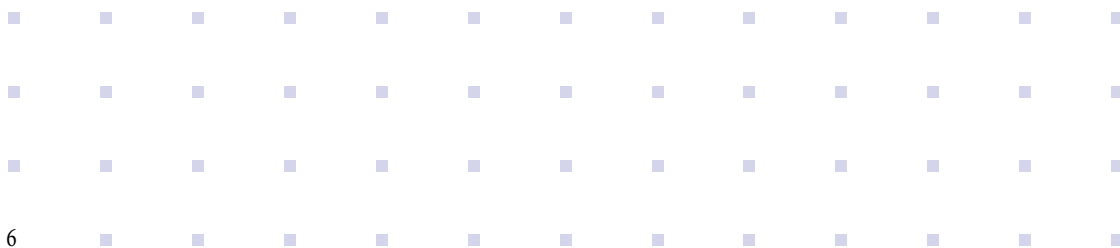
Sincerely Yours,
President of JSC “NC “Kazakhstan Temir Zholy”

ASKAR MAMIN

GENERAL INFORMATION ABOUT THE COMPANY



- General Information about the Company
- The Board of Directors
- The Management Board
- Organizational Structure of the Company's Central Staff
- Annual Review





General Information about the Company

Joint Stock Company “National Company “Kazakhstan Temir Zholy” (JSC “NC “KTZh”), the national railway carrier of Kazakhstan is the up-to-date multi-profile transport holding. The Company annually makes up to 70% of the total country cargo turnover. More than 16 million of passengers use the railway services annually.

Cargo and passenger transportations, logistics, telecommunications, infrastructure and investment projects are in the field of the Company’s interests.

100% stock of JSC “NC “KTZh” is owned by Joint Stock Company “NWF “Samruk-Kazyna”.

The length of the trunk rail roads is more than 14 thousand km. The freight car fleet comprises more than 44 000 items, the locomotive fleet comprises more than 1 500 items.

The number of employees of JSC “NC “KTZh” is more than 146 thousand persons.

JSC “NC “KTZh” is a member of the Organization for Railways Cooperation, International Railways Union, Council on Railway Transport of CIS Countries, Trans-Siberian Transportations Coordinating Council.

The representative offices of JSC “NC “KTZh” operate in the following cities:

- Moscow (Russian Federation),
- Beijing, Urumchi (People’s Republic of China),
- Kiev (Ukraine),
- Tashkent (Uzbekistan).



Mission of JSC “NC “KTZh”

The Company provides the adequate transportation basis for stable economic growth and offers the high-quality and competitive freight transportation, passenger transportation services and the services of trunk railway network.

■ Information:

The Company’s up-to-date history starts from the year 1997 when the Republican State Enterprise “Kazakhstan Temir Zholy” was established.

RSE “KTZh” was established according to the resolution of the Government of the Republic of Kazakhstan as of January 31, 1997 № 129 “On Reorganization of Railway Enterprises of the Republic of

Kazakhstan” through merger of Almaty railways, Tsilinniy Railways and Western-Kazakhstan Railways. The purpose of merger thereof was to optimize the management structure of transportation process and liquidation of its excessive links, financial and economic restoration of the railway branch.

According to the Resolution of the Government of the Republic of Kazakhstan as of March 15, 2002 № 310 on the basis of RSE Closed Joint Stock Company “National Company “Kazakhstan Temir Zholy” was established.

As of April 2, 2004 according to the Law of the Republic of Kazakhstan “On Joint Stock Companies” CJSC “NC “KTZh” was re-registered to JSC “NC “KTZh”.



The Board of Directors

The Board of Directors determines the strategic objectives, priority directions of development and establishes the main reference points for the Company's activities for the long-term prospects, provides availability of the necessary financial and human resources for implementation of the set objectives. The Board of Directors controls the activities of JSC "NC "KTZh" executive body.



Report on Work of the Board of Directors of JSC "NC "KTZh" in the year 2010

For the year 2010 the Board of Directors of JSC "NC "KTZh" held 9 meetings, 2 of which were held by presence, and 7 – in absentia. 82 issues were considered at these meetings (which is 20 issues, or 32% more than in the year 2009). On the basis of the considered issues the Board of Directors of JSC "NC "KTZh" provided 268 instructions (which is 44 instructions or 20% more than in the year 2009).

13 meetings of the Committees were held, from this:

- Audit Committee – 9 meetings (2 – by presence, 7 – in absentia);
- Remuneration Committee – 2 meetings by presence;
- Appointing Committee – 2 – in absentia.

In 2010 the Board of Directors of JSC "NC "KTZh" adopted the following strategic documents: Development Strategy of JSC "NC "KTZh" till 2020 and Development Plan of JSC "NC "KTZh" for the Period of 2011–2015.

Also the Boards of Directors made the decision to increase obligations of JSC "NC "KTZh", as a result of which under the lending program of 2010, as of September 29 JSC "NC "KTZh" issued Euro bonds to the amount of \$700 million for the term of 10 years with 6.375% per annum. The issue was made on London Stock Exchange. Upon closing of the transaction the demand amounted \$8.2 billions versus \$700 millions requested by the Company, and provided existence of 300 investors.

At the current date, the Sole Shareholder, the Board of Directors and the Management Board of JSC "NC "KTZh" efficiently cooperate and have good understanding of the set objectives and tasks.

The work of the Board of Directors and of the Management Board in 2010 aimed at implementation of the corporate risk management system and radical improvement of the Internal Audit Department work.

In the field of corporate risk management the up-to-date methodological base corresponding to the best world practices (model COSO 2004 "Corporate Risk Management – Integrated Model") has been introduced.





Under the project for corporate management diagnosis in JSC “NC “KTZh”, the international consulting company KPMG provided the information on risk management system of JSC “NC “KTZh”. According to the consultant’s assessment the level of “Risk Management” process compliance with the requirements of the best practice constitutes about 75% (in 2009 it was 40%).

In order to improve the activities of the Internal Audit Department of JSC “NC “KTZh” and internal control system, 6 documents have been approved, which radically changed the approach of the Internal Audit Department of JSC “NC “KTZh” to audits.

When making the annual audit plan and planning of each audit task the Internal Audit Department of JSC “NC “KTZh” applied the risk-oriented approach. Each audited business process was treated as a system. Fulfillment of the audit tasks is accompanied by drawing-up of such work documents, as risks and controls matrix, plan for testing of the controls operating efficiency and tests of controls efficiency.

According to the results of the Company’s corporate management diagnostics, the audit process is assessed to – 75%, and the “Internal Audit” process – to 84%. In the year 2009 these indices were 56% and 59%, accordingly.

Also the activities of the Internal Audit Department of JSC “NC “KTZh” were assessed by the Audit and Control Department of JSC “NWF “Samruk-Kazyna” for the subject of compliance thereof with the International Professional Internal Audit Standards and with

the internal documents of JSC “NC “KTZh”. The activities of the Internal Audit Department of JSC “NC “KTZh” are assessed as strong (high) – 2.61 points (the maximum number of points is 3 points).

In order to organize the work for implementation of the Company’s Corporate Management Code provisions and further corporate management improvement the Company’s Board of Directors has developed and approved (minutes № 3 as of May 7, 2010) the Plan of Measures for improvement of the Corporate Management System of JSC “NC “KTZh” for the period of 2010–2011.

While project development the recommendations of the consulting company LLP “KPMG Tax Advisory LLC” developed within the scope of the corporate management analysis made in 2009, have been taken as the basis.

This Plan aims at improvement and systematization of the Company’s corporate management structure.

The Plan provides for 58 undertakings to be realized during 2010–2011.

In December 2010 the Board of Directors approved the Plan for Development of JSC “NC “KTZh” for the period of 2011–2015, forecasting the company’s corporate management level as follows:

- in 2010 – 50%
- in 2011 – 55%
- in 2012 – 60%
- in 2013 – 65%
- in 2014 – 70%
- in 2015 – 75%.

In December 2010 KPMG completed the regular analysis of the top ten largest companies of JSC “NWF “Samruk-Kazyna” for the subject of the corporate development level compliance with the best practices requirements, and obtained the following results:

JSC “NC “KTZH”	59% (in 2009 – 45.3%)
JSC “KAZPOST”	56.8%
JSC “NJSC “KAZATOMPROM”	56.6%
JSC “KAZAKHSTAN HOUSING CONSTRUCTION SAVING BANK”	54.9%
JSC “REAL ESTATE FUND “SAMRUK-KAZYNA”	52.6%
JSC “FOUNDATION FOR ENTREPRENEURSHIP DEVELOPMENT “DAMU”	52.6%
JSC “KAZEXPORTGARANT”	43%
JSC “NSC “TAU-KEN SAMRUK”	41%
JSC “SAMRUK-ENERGO”	39.7%
JSC “INTERNATIONAL AIRPORT “AKTOBE”	36.6%

Members of the Board of Directors of JSC NC “KTZh” in the year 2010:

Since the new Board of Directors was elected in June 2009, no assessment of the Board of Directors work was made in the year 2010.

According to the resolution of the Board of Directors of JSC “NC “KTZh” (minutes № 3 as of May 7, 2010) the Plan of Work of the Board of Directors of JSC “NC “KTZh” for the year 2010 was approved. From 45 issues provided for by the Work Plan of the Board of Directors of JSC “NC “KTZh” 28 have been fulfilled. Due to adoption of the new Charter of JSC “NC “KTZh” 9 issues are attributed to the competence of the of the Management Board of JSC “NC “KTZh”, fulfillment of three issues is delayed due to need in making of corresponding amendments in the regulatory acts of RK, and the remaining 5 issues are submitted for agreement to JSC “NWF “Samruk-Kazyna”.

KULIBAYEV T.A.	Deputy Chairman of the Management Board of JSC “NWF “Samruk-Kazyna”, Chairman of the Board of Directors
MAMIN A.U.	President of JSC “NC “KTZh”
BAIDAULETOV N.T.	Managing Director of JSC “NWF “Samruk-Kazyna”
ISINGARIN N.K.	Independent Director
BEKTUROV A.G.	Vice-Minister of Transport and Communications of the Republic of Kazakhstan
WOLTON K.	Independent Director
SHOMODI K.	Independent Director

Members of the Audit Committee under the Board of Directors of JSC “NC “KTZh”:

SHOMODI K.	Independent Director, Chairman of the Committee
BAIDAULETOV N.T.	Managing Director of JSC “NWF “Samruk-Kazyna”, member of the Board of Directors, member of the Committee
WOLTON K.	Independent Director, member of the Committee
MYNSHARIPOVA S.N	Director of Audit and Control Department of JSC “NWF “Samruk-Kazyna”, expert of the Committee

Members of the Appointment Committee under the Board of Directors of JSC “NC “KTZh”:

BAIDAULETOV N.T.	Managing Director of JSC “NWF “Samruk-Kazyna”, member of the Board of Directors, chairman of the Committee
ISINGARIN N.K.	Independent Director, member of the Committee
SHOMODI K.	Independent Director, member of the Committee
ORDABAYEVA A.T.	Chief Manager of the Human Resources Management Department of JSC “NWF “Samruk-Kazyna”, expert of the Committee

Members of the Remuneration Committee under the Board of Directors of JSC “NC “KTZh”:

ISINGARIN N.K.	Independent Director, chairman of the Committee
SHOMODI K.	Independent Director, member of the Committee
BEKTUROV A.G.	Vice-Minister of Transport and Communications of the Republic of Kazakhstan, member of the Board of Directors, member of the Committee
AKHMETZHANOVA G.T.	Chief Manager of the Budget Planning and Analysis Department of JSC “NWF “Samruk-Kazyna”, expert of the Committee
ORDABAYEVA A.T.	Chief Manager of the Human Resources Management Department of JSC “NWF “Samruk-Kazyna”, expert of the Committee
LEPESBAYEV A.M.	Managing Director for Economh of JSC “NC “KTZh”, expert of the Committee.

The Management Board

The Management Board is the Company's collective executive body, the competence of which comprises resolution of all issues connected with the Company's activities and not attributed by the Law or any other legislative acts of the Republic of Kazakhstan and the Charter to the competence of any other Company's bodies and officials.

According to the resolution of the Board of Directors of JSC "NC "KTZh" the number of the Company's Management Board members shall be 10 persons and its members shall be elected.

Members of the Management Board of JSC "NC "KTZh" in 2010:

Askar Uzakpayevich Mamin,

Chairman of the Board and President of National Company Kazakhstan Temir Zholy JSC: Askar Uzakpayevich Mamin was born in 1965. He graduated from the Tselinograd Civil Engineering Institute and from the Plekhanov Russian Academy of Economics with qualifications as a civil engineer and economist respectively. Mr. Mamin started his working career as an erector at the "Tselintyazhstroj" construction organization. Later he held the position of the Deputy General Director of the Kazakhstan Innovation Enterprises Union. Since 1996 to 2008, Mr. Mamin worked as the First Deputy Akim of Astana, Vice-Minister of Transport and Communications, First Vice-Minister of Industry and Trade, Minister of Transport and Communications of the Republic of Kazakhstan, and Akim of Astana. Since April 2008, he is the President of National Company Kazakhstan Temir Zholy Joint-Stock Company. In 1998, Mr. Mamin was awarded with the "Eren Enbegy Ushin" medal, and in 2006 he was awarded with the "Kutmet" Order.



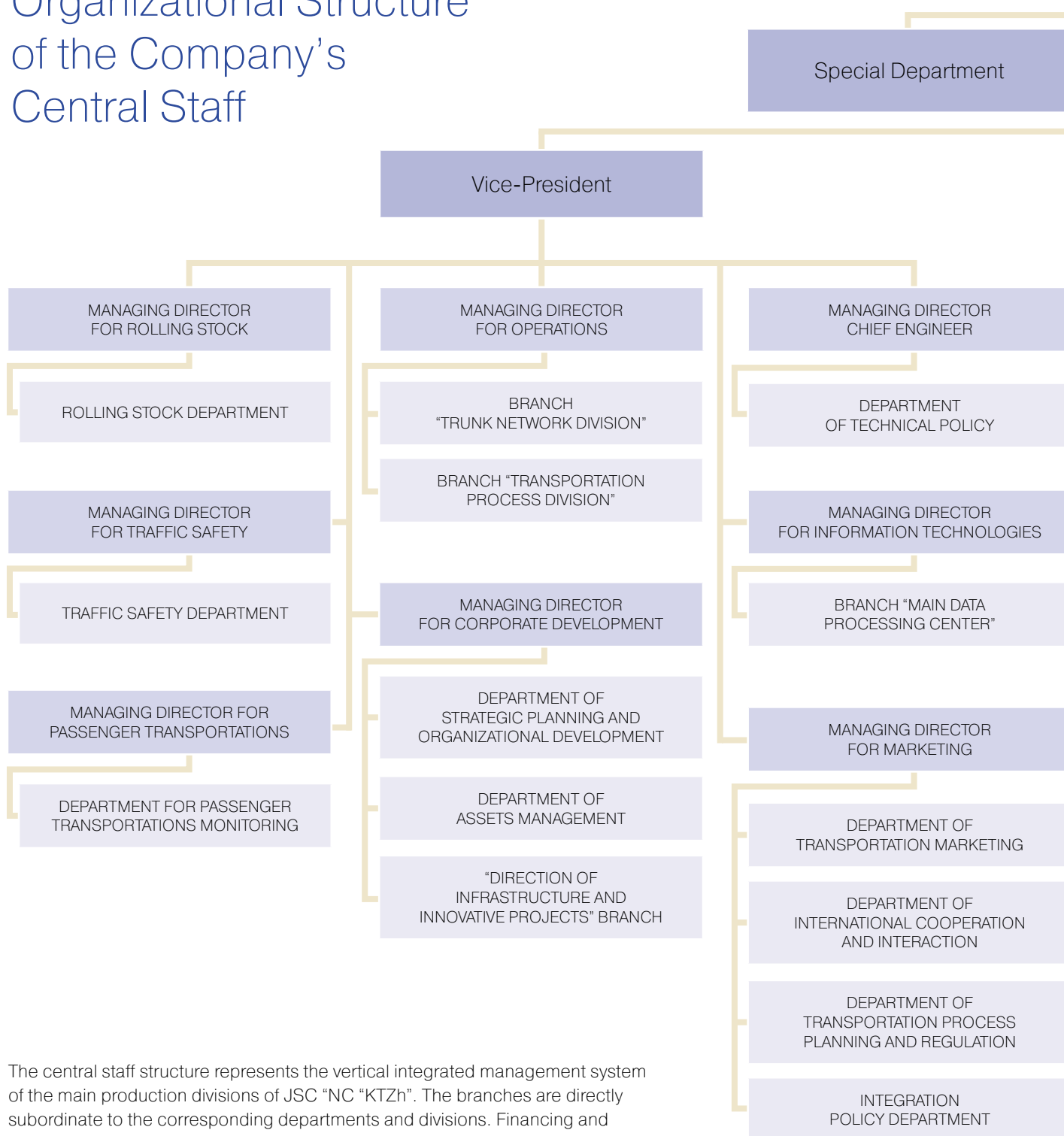
Yermek Anuarbekovich Kizatov

is the Vice-President. He was born on August 6, 1961 in Akmolinsk region. Graduated from Almaty Railway Engineering Institution. He is a Doctor of technical science. He commenced his labor activities as the foreman of the New-Ishim Distance of Tselinnaya Rail Road. He occupied the executive positions in Tselinnaya Railway, RSE "Kazakhstan Temir Zholy", JSC "NC "KTZh".

Yerik Hamzinovich Sultanov

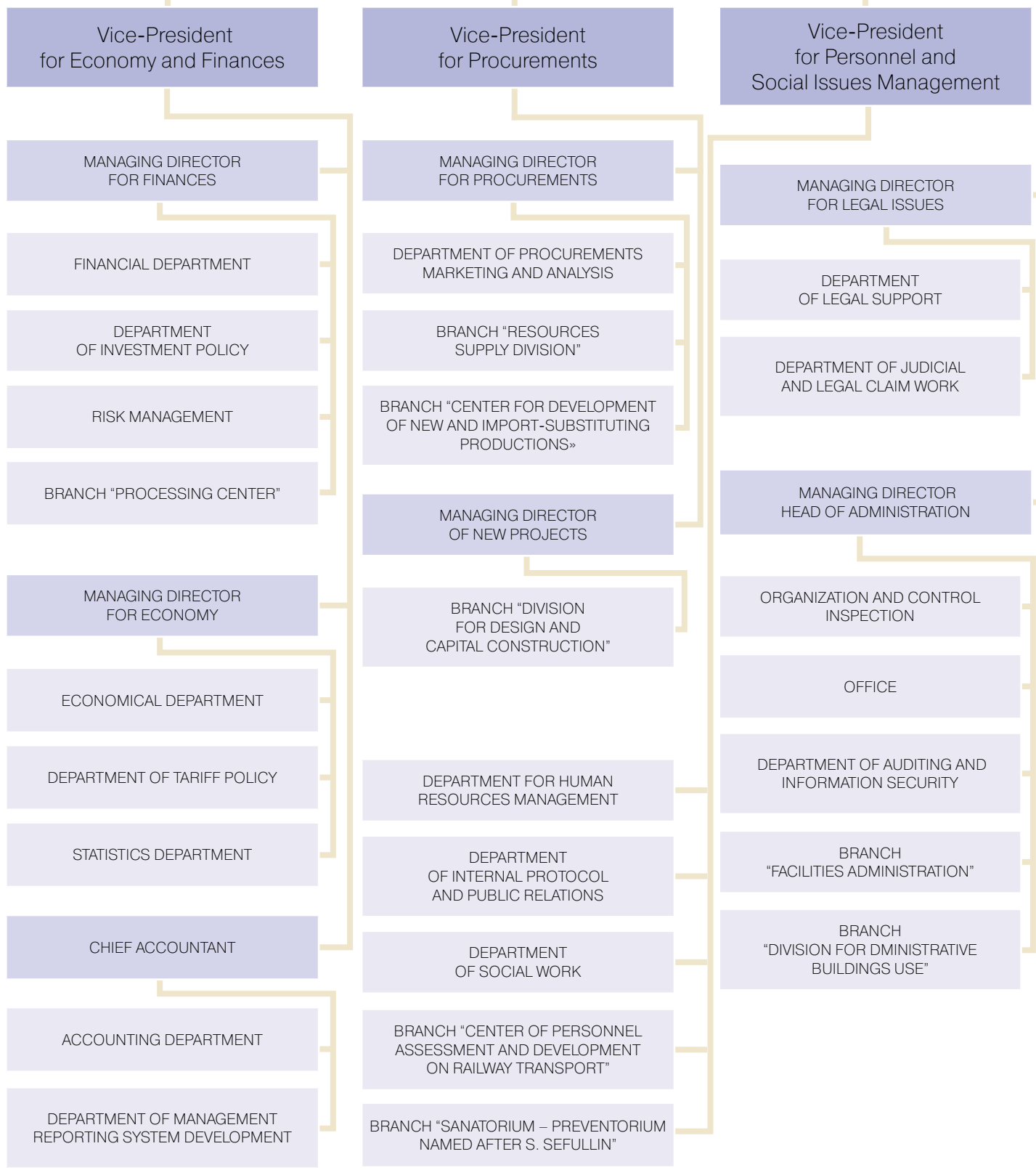
is the Vice-President for Procurement. He was born on March 24, 1956 in North-Kazakhstan region. Graduated from Karaganda Polytechnic Institute. After graduation from the institute he occupied the executive positions in the industrial and state enterprises of Pavlodar and North-Kazakhstan regions, in the Ministry of Transport and Communications, in akimat of Astana. In April 2008 he was appointed to the position of Vice-President of JSC "NC "KTZh".

Organizational Structure of the Company's Central Staff



The central staff structure represents the vertical integrated management system of the main production divisions of JSC "NC "KTZh". The branches are directly subordinate to the corresponding departments and divisions. Financing and consolidation of the branches accounting reports is made through the production departments. The selected management pattern provides the necessary operational and economic independence, finding of material reserves for decrease of transportation cost price and improvement of the transportation process efficiency.

The President of Joint Stock Company
 "National Company "Kazakhstan Temir Zholy"



Annual Review

The important events of the Company for the year 2010:

JANUARY

11 – chaired by the President of JSC “NC “Kazakhstan Temir Zholy” Askar Mamin, the meeting summarizing the results of the national company’s activities for the year 2009 and setting the main tasks for the year 2010 was held.

12 – the enlarged session, where the results of activities of JSC “NC “Kazakhstan Temir Zholy” for the year 2009 were reviewed with participation of the Prime-Minister of the Republic of Kazakhstan Karim Masimov.

20-21 – working visit of the delegation from JSC “NC “Kazakhstan Temir Zholy” headed by the President Askar Mamin to the People’s Republic of China, where the dual meeting of the Company’s Management and the Railways Ministry of the People’s Republic of China took place.

FEBRUARY

7 – in Riga, the Republic of Latvia, the working meeting of the President of JSC “NC “Kazakhstan Temir Zholy” A Mamin with the Chairman of the Management Board of “Latvian Railway” U. Magonis with respect to the issues of bilateral cooperation took place.

8-10 – the working visit of the delegation from JSC “NC “Kazakhstan Temir Zholy” headed by the President Askar Mamin to Baltic states. Within the frameworks of the visit the Kazakhstan delegation took part in the II International Regional Railway Business-Forum “Strategic Partnership 1520: Baltic Region”.

MARCH

2 – in the conference hall of the locomotive construction plant the Council for Economic Policy under NDP Fraction “Nur Otan” of Mazhilis of the Parliament of RK the on-site meeting devoted to “Approaches to Implementation of the Forced Industrial and Innovational Development of the Country” took place.



1-5 – Kazakhstan delegation took part in the International Meeting for Agreement of the Transportation Volumes for the Year 2010 in Irkutsk city with participation of the representatives from the railways and foreign trade organizations of Socialistic Republic of Vietnam, People’s Republic of China, Korean People’s Democratic Republic, Mongolia and Russia.

5 – in Astana the dual meeting of the President of JSC “NC “Kazakhstan Temir Zholy” Askar Mamin with the Chairman of the Management Board of SJSC “Latvian Railways” U. Magonis took place.

15 – the President of the Republic of Kazakhstan Nursultan Nazarbayev received a visit of the President of JSC “NC “KTZh” Askar Mamin. The Head of the State was informed about main directions of improvements in the activities of “Kazakhstan Temir Zholy” Company: development of railway machine-building, high-speed passenger transportation, improvement of the labor efficiency.

15-16 – Kazakhstan delegation in Minsk took part in the second preparatory conference of the 18-th economic and environmental forum of the Organization for Safety and Cooperation in Europe devoted to the subject “Development of the Due Management at the Border Crossings, Improvement of Land Transportation Safety and Assistance to the International Motor and Railway Transports in OSCE Region”.

18 – in Astana the Conference of Rationalizers of the National Company “Kazakhstan Temir Zholy” took place.

19 – new electric train of enhanced comfort № 802/801 commenced to run on the new route Astana–Pavlodar twice a week.

30 – within the frameworks of the official visit of the President of Slovak Republic Ivan Gasparovich to Kazakhstan, the Memorandum of Association was signed for establishment of joint venture between JSC “NC “Kazakhstan Temir Zholy” and Slovakian Company “ŽOS - VÝVOJ, s.r.o.” for production of diesel rail trains.

APRIL

Within the frameworks of the working visit of the President of the Republic of Kazakhstan Nursultan Nazarbayev to the United States of America JSC “NC “Kazakhstan Temir Zholy” and “General Electric Transportation” Company signed the Memorandum of Understanding under the program for production of diesel-locomotive shunters for CIS countries to be implemented jointly by JSC “NC “Kazakhstan Temir Zholy” and “General Electric Transportation” Company.

8 – in honor of 65th anniversary of the Victory Day JSC “NC “Kazakhstan Temir Zholy” commenced the campaign for provision of free travel tickets to the participants and invalids of the Great Patriotic War in the trains on the territory of Kazakhstan till the end of 2010.

19–23 – Kazakhstan delegation took part in XXV Session of the General Directors (Responsible Representatives) of the Organization for Railways Cooperation in Ulaanbaatar (Mongolia).

22 – the public hearing on the results of production, economic and business activities of the national company for the year 2009 with participation of the deputies from the Senate and Mazhilis of the Parliament of RK, representatives from the Agency of RK for Natural Monopolies Regulation, domestic enterprises-consignors, manufacturers of goods and services providers for railway branch, and the heads of transport and industrial associations.

29 – May 1 – the Regional Youth Forum took place in Almaty with participation of the employees from the railway enterprises of the southern region of the Republic.



MAY

13 – delegation of JSC “NC “Kazakhstan Temir Zholy” took part in the 15th Anniversary Exhibition of Transport and Logistics “TransRussia 2010” in Moscow.

13–14 – in Yurmala city (the Republic of Latvia) the 52nd meeting of the Railway Transport Council of the Commonwealth Member-States took place. The Company’s President Mr. Askar Mamin headed the delegation of JSC “NC “Kazakhstan Temir Zholy” at the meeting.

24–28 – the expert meeting of JSC “NC “Kazakhstan Temir Zholy” and the Ministry of Railways of the People’s Republic of China on the issues of settlement of accounts took place in Almaty.

28 – the delegation of JSC “NC “Kazakhstan Temir Zholy” took part in the V International Business Forum “Strategic Partnership 1520” held in Sochi.

JUNE

1 – the high-speed internet service is launched for the passengers of the high-speed train “Tulpar” serving the route “Astana–Almaty–Astana”.

3 – Kazakhstan Investment Summit took place in Almaty with participation of the Head of the State Nursultan Nazarbayev. Within the summit frameworks the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin met the heads of the largest foreign and domestic companies, having discussed the issues of cooperation with them in the field of transport machine-building, as well as having signed the number of important documents.

May **31** – June **4** – the representatives of JSC “NC “Kazakhstan Temir Zholy” took part in the International Transport Week in Odessa (Ukraine) and in the 9th International Transport Exhibition “Inter-Transport”, where they explained to the event participants the transit potentials of Kazakhstan railway.

9 – from the Railway Station of Astana train № 71/72 serving the route Astana–Moscow with the increased comfort and quality of passenger services departed for the first time.



10 – in the process of presentation of the investment projects for Mangistau region the President of Kazakhstan Nursultan Nazarbayev by teleconference bridge was provided with the information on the intermediary results of Uzen – State Border of Turkmenistan railway line construction.

14 – the work of the primary party organization NDP “Nur Otan” with the central staff of JSC “NC “Kazakhstan Temir Zholy” is acknowledged the best in Astana.

14 – the representatives of JSC “NC “Kazakhstan Temir Zholy” took part in the exhibition “Transport Logistic China 2010” in Shanghai (PRC) and presented Kazakhstan transit advantages to the foreign partners.

17–19 – in the process of St. Petersburg Economic Forum the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin, the Head of CJSC “Transmashholding” Mr. Andrei Bokarev and the General Director of “Alstom” Company Mr. Patrick Crone signed the agreement on creation of joint production of freight and passenger electric locomotives in Kazakhstan.

22–23 – the fourth meeting of the work group for strategic cooperation between JSC “NC “Kazakhstan Temir Zholy” and OJSC “Russian Railways” took place in Burabai settlement.

26 – on the territory of the Industrial Park in Astana the ceremony of symbolic capsules laying at the place of construction of the plants for manufacturing of electric locomotives and passenger cars took place with participation of the Prime Minister of the Republic of Kazakhstan Mr. Karim Masimov, the Deputy Prime-Minister – the Minister of Industry and New Technologies Mr. Aset Isekeshev, the Minister of Transport and Communications of RK Mr. Abulgazi Kusainov, akim of Astana Mr. Imangali Tasmagambetov and the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin.

29 – more than 200 railway employees from the stations Dostyk and Yeginsu received the keys from new houses and apartments.



JULY

1 – JSC “NC “Kazakhstan Temir Zholy” jointly with the Ministry of Emergency Situations and the Ministry of Healthcare of the Republic of Kazakhstan arranged and launched the special treatment and diagnostic medical train “Densaulyk”.

9 – the Head of the Government of RK in the process of his working visit to Kostanai region held the on-site meeting on the issues of railway transport development, where the issue on construction of the new railway Arkalyk–Shubarkul was considered.

18 – within the frameworks of the visit of the Chairman of the Management Board of “Siemens AG” Concern Mr. Peter Leshner to Astana the memorandum on mutual cooperation was signed between Siemens Company and JSC “NC “Kazakhstan Temir Zholy”.

29 – JSC “NC “Kazakhstan Temir Zholy” held the meeting of the Consulting Council and awarded 12 employees with the highest branch award – “Honorable Railway Worker” Badge.

30 – the President of JSC “NC “Kazakhstan Temir Zholy” Mr. A. Mamin is awarded with the medal of the Ministry of Emergency Situations of RK “Totenshe Zhagdailardyn Aldyn Aluda Zhane Zhoyuda Uzdik Shykkany Ushin” (for prevention and elimination of emergency situations).

AUGUST

4 – the headquarters field meeting took place in Almaty region. The meeting was devoted to control of Korgas – Zhetygen railway line construction with participation of the chief executive officers of JSC “NC “Kazakhstan Temir Zholy” and contractors’ representatives.

6 – the US Extraordinary and Plenipotentiary Ambassador in RK Mr. Richard Hoagland visited the locomotive assembly plant in Astana.

10 – the meeting of the Chairman of the Management Board of JSC “NWF “Samruk-Kazyna”, where the report on the result of work of JSC “NC “Kazakhstan Temir Zholy” for the first half of the year and the expected results for the year 2010 was provided.

12 – the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin submitted to the Prime-Minister Mr. Karim Masimov the report on the results of the railway branch activities for the first half of the year and the task till the end of the year 2010.

12-13 – the events devoted to celebration of the 20th anniversary of Kazakhstan and Chinese rail roads linking took place at Dostyk station.



23 – the meeting devoted to the mechanism of reduction factors application to the current rates of OJSC “RRW” for transit transportations through the territory of Russia with participation of grain and coal exporters took place.

31 – the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin delivered the report at the First Summit of the Executives of JSC “NWF “Samruk-Kazyna” Group.

SEPTEMBER

1-5 – the Regional Youth Forum of JSC “NC “Kazakhstan Temir Zholy” took place in “Sosnoviy Bor” sanatorium in Kostanai region.

7 – within the frameworks of the Forum of Inter-Regional Cooperation between Russia and Kazakhstan the heads of “Kazakhstan Temir Zholy” and “Russian Railways” Mr. Askar Mamin and Mr. Vladimir Yakunin signed the Memorandum on Mutual Cooperation between the companies with respect to the customs operations on the territory of the Customs Union.

7 – the round table devoted to “Improvement of the Export Potentials of the Republic of Kazakhstan” was held in Almaty.

7-10 – in Shchuchinsk town of Akmolinskiy region the expert meeting of railway administrations – members of the Railways Tariff Agreement of CIS countries took place.

7 – the medical charitable therapeutic treatment train “Densaulyk” completed its first route along small stations and cross points of the republic.

9 – at the station Resort-Borovoye of Akmolinsk rail road section a special tactic training for drill of the railway services, management bodies, emergency and rescue divisions actions upon liquidation of the man-caused emergencies consequences took place.

10 – the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin and the US Extraordinary and Plenipotentiary Ambassador in RK Mr. Richard Hoagland signed the Agreement on Grant for Development of the Feasibility Study on Reconstruction of the Number of Strategic Railway Sections.

20 – the 19th Meeting of the joint commissions on the border railways of the Ministries of Transport and Communications of the Republic of Kazakhstan and the People’s Republic of China took place in Shymkent.

29 – the VI Congress of Kazakhstan Railway Trade Union, where the new Chairman – Orazgali Akhmetbayev was elected, took place.

OCTOBER

11-13 – delegation of JSC “NC “Kazakhstan Temir Zholy” took part in the International Regional Railway Business Forum “Strategic Partnership 1520: Caucasian Region”.

20-21 – delegation of JSC “NC “Kazakhstan Temir Zholy” took part in 53rd meeting of the Railway Transport Council of the Commonwealth Member State held in Vilnius.

22 – the competition devoted to the state language knowledge “Kazakhstannyn Bolashagy – Kazak Tili” was held among the Company’s employees.



26 – within the frameworks of the official visit of the President of the Republic of Kazakhstan Nursultan Nazarbayev to the Kingdom of Belgium, the agreement between JSC “NC “Kazakhstan Temir Zholy” and “Siemens AG” Company for establishment of a joint venture for implementation of the projects connected with modernization and refurbishment of railway electric power supply systems was signed in Brussels.

27 – in Paris within the frameworks of the official visit of the President of the Republic of Kazakhstan N.A. Nazarbayev to French Republic the agreement for supply of 295 electric locomotives was signed by JSC “NC “KTZh”, “Electric Locomotive Assembling Plant” LLP, French Company “ALSTOM Transport SA.” and Russian CJSC “Transmashholding”.

25-29 – in “Muyaldy” sanatorium in Pavlodar region the Regional Youth Forum of JSC “NC “Kazakhstan Temir Zholy” took place.

NOVEMBER

2 – the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin and the First Deputy Chairman of NDP “Nur Otan” Nurlan Nigmatulin visited the locomotive assembling plant in Astana with explanation of the main provisions of the Program for the Forced Industrial and Innovation Development of RK.

22 – JSC “NC “Kazakhstan Temir Zholy” for the first time arranged the sports event “Father, mother and me – sportive family”.

23 – in Ashgabat the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin met the Minister of Railway Transport of Turkmenistan Rozymyrat Seyitkulyyev, and they discussed the issues of cooperation of two countries in the field of railway transport and the current stage of railway line construction on Kazakhstan and Turkmenistan sections.

28 – the ceremony of the new administrative and domestic complex for railway employees took place at Dostyk station.



DECEMBER

1 – the agreement for provision by the European Bank of Reconstruction and Development of the loan for purchase of the new freight cars to the amount of \$200 million to the subsidiary of JSC “NC “Kazakhstan Temir Zholy” – JSC “Kaztemirtrans” was signed.

4-10 – delegation of JSC “NC “Kazakhstan Temir Zholy” in Beijing (PRC) took part in the meeting of the Executive Council, 77th session of the General Assembly of the International Railway Council and 7th Congress on High-Speed Traffic.

7 – three rationalization proposals of the employees of JSC “NC “Kazakhstan Temir Zholy” are acknowledged as the best according to the results of the competition conducted by the Ministry of Industry and New Technologies of RK at the Republican Competition of Rationalization Proposals.

7 – at the meeting of the Board of Directors of JSC “NC “Kazakhstan Temir Zholy” the Plan of the Company’s Development for 2011–2015 was approved.



10-15 – in Astana the 1st Republican Youth Forum of JSC “NC “Kazakhstan Temir Zholy” took place.

13 – the project for launch of the medical train “Densauyk” is recognized the winner in the category of “Socially Responsible Project” of the National Premium “Choice of the Year № 1 in Kazakhstan”.

13 – the corporate competitions “Temir Zhol Aruy” and “Zhigit Sultany” were held in JSC “NC “Kazakhstan Temir Zholy”.

14 – presentation of the second consulting and diagnostic medical train “Zhardem” took place at Astana station.

15 – the rationalization proposal of Astana road section employees to the subject “Mobile Defect-Detection Laboratory LDM-1 on the Basis of Automobile Railway Car ASE-1” was recognized the best at the Republican Rationalization Proposals Competition. The solemn ceremony of the competition winners awarding with the diploma of the established form and the money prize to the amount of 1 million tenge took place in “Beijing Palace Soluxe Hotel Astana”.

15 – the solemn meeting devoted to the Independence Day of the Republic of Kazakhstan. The President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin awarded 36 railway employees with the state and branch rewards.

21 – the official ceremony of the Award of the President of the Republic of Kazakhstan “Altyn Sapa” presenting took place in Astana. The locomotive assembling plant JSC “Locomotive Kurastyru Zauyty” is recognized as the winner in the category “The Best Production Enterprise”.

21 – within the frameworks of telecommunication bridge “WE WILL BUILD STRONG KAZAKHSTAN TOGETHER!”, devoted to opening of the industrial objects under the program of forced industrial and innovative development, the President of JSC “NC “Kazakhstan Temir Zholy” Mr. Askar Mamin presented the corresponding Company’s projects to the Head of the State N.A. Nazarbayev.

23 – legal departments employees of the company, branches and subsidiaries of JSC “NC “Kazakhstan Temir Zholy” held a round table with participation of the state law-enforcement authorities representatives.

24 – Fitch Ratings Agency confirmed the long-term default ratings of the issuer in foreign currency of JSC “NC “Kazakhstan Temir Zholy”.

27 – The Prime-minister of RK Karim Masimov got acquainted with the progress of Uzen – State Border with Turkmenistan rail road construction.

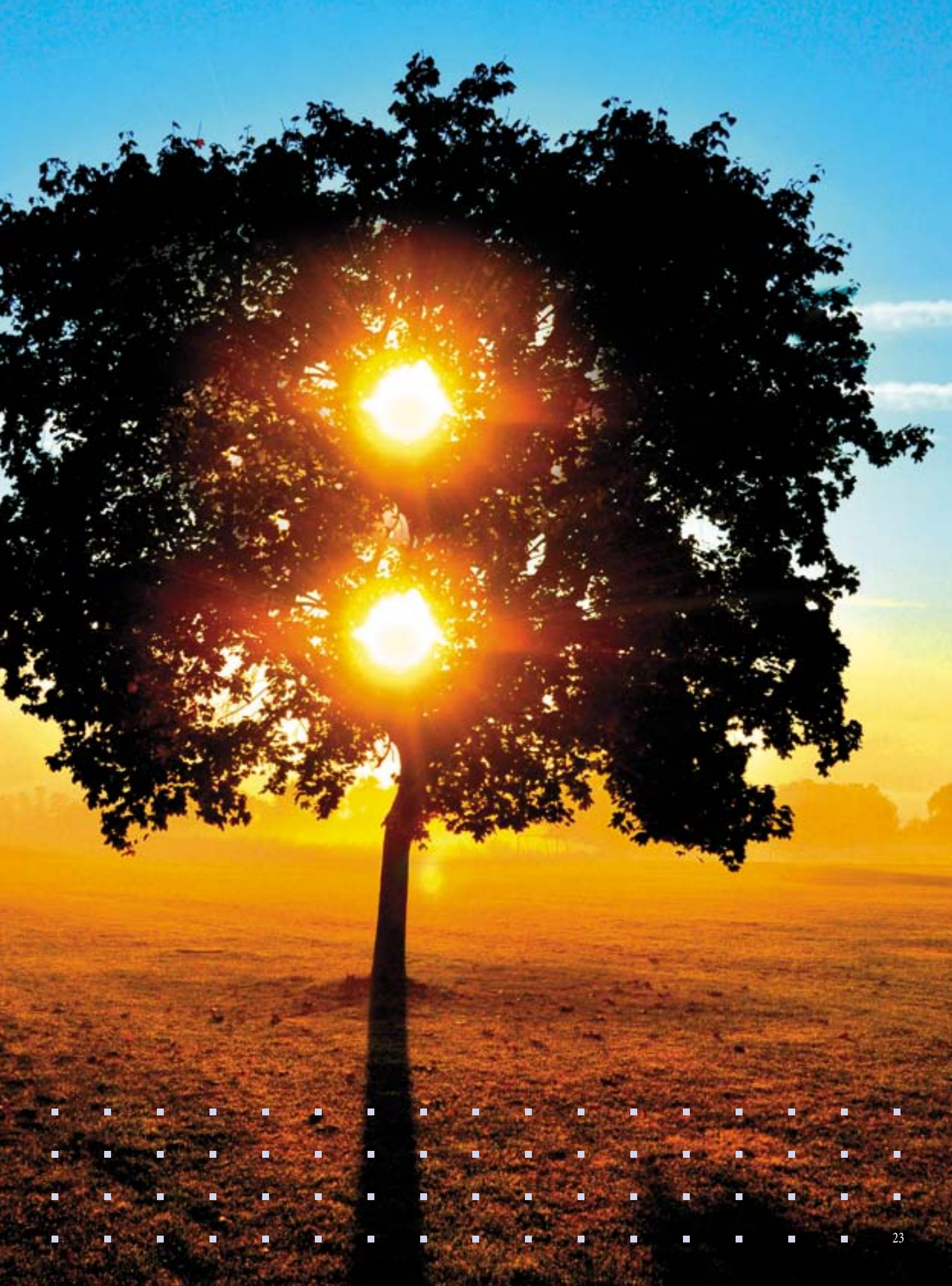
29 – Standard & Poor’s Agency raised the ratings of JSC “NC “KTZh” from “BB+” to “BBB-” due to high probability of receipt by JSC “NC “KTZh” of the urgent state support, in the analysts’ opinion.

MANAGEMENT REPORT OF THE COMPANY'S GROUP



- Business and General Condition
 - The Company's Internal Changes
 - General Indices of the Company's Activities
 - Freight Transportation
 - Passenger Transportation
 - Railway Infrastructure
- Financial and Economic Activities
- Analysis of Market State Regulation
- International Cooperation





Business and General Condition

THE COMPANY'S INTERNAL CHANGES

Amendments in the Company's Internal Acts

In the year 2010 the following internal acts governing the internal operation procedure have been adopted by JSC "NC "KTZh":

- Regulations on Central Staff of JSC "NC "KTZh" (approved by the order as of September 13, 2010 № 357-Ц);
- The Plan of Undertakings for Improvement of the Corporate Management Structure in JSC "NC "KTZh" for 2010–2011 (approved by the resolution of the Board of Directors of JSC "NC "KTZh" as of May 7, 2010, minutes № 3);
- Regulations on Administration and Management Staff Labor Remuneration in the Central Staff of JSC "NC "KTZh" (approved by the Resolution of the Board of Directors of JSC "NC "KTZh" as of March 26, 2010, minutes № 2);
- Amendments in the Orders as of August 21, 2009 № 525-Ц "On Distribution of Responsibilities and Delegation of Authorities" and as of July 3, 2009 № 382-Ц "On Positions Nomenclature" (approved by the order as of December 10, 2010 № 432-Ц);
- as of June 11, 2010 JSC "NC "KTZh" and its subsidiaries concluded Partnership Agreement № 278-AO.

Assets Portfolio of JSC "NC "KTZh"

The current structure of the assets portfolio of JSC "NC "KTZh" represent the vertical integrated company's structure organized as per functional type with 26 subsidiaries and dependent organizations jointly controlled by the organizations carrying out profile and non-profile activities and geographically present on the entire territory of Kazakhstan.

JSC "NC "KTZh" owns:

1. 100% common stocks of the following joint stock companies:

1) JSC "Locomotive"

The total authorized stocks number of JSC "Locomotive" is 50 588 989, from this number 50 588 989 stocks are placed, JSC "NC "KTZh" holds 48 897 878 stocks, and 1 691 112 stocks are on the emission account and are considered redeemed by JSC "Locomotive".

The principal activities of JSC "Locomotive" include: provision of traction electrical equipment services, technical arrangement of locomotives work, maintenance of locomotives in stock and reserves in the technically operating condition.

2) JSC "Kaztransservice"

The total authorized stocks number of JSC "Kaztransservice" is 2 245 191, 1 175 759 stocks from this number are placed.

The principal activities of JSC "Kaztransservice" are provision of container transportation services (from consignors' orders execution to delivery of freight to consignees, organization of work for accounting and operation of freight cars and containers), provision of all accompanying services to legal entities and physical persons (on any route).

3) JSC "Transtelecom"

The total authorized stocks number of JSC "Transtelecom" is 971 089, 971 089 stocks from this number are placed.

The principal activities of JSC "Transtelecom" include: provision of local, long-distant and international communication services to legal entities and physical persons, audio conference communication and/or video conference communications, Internet access services, leasing of communication channels, linking of networks and traffic transit, mobile radio telephone communications, cellular communications, mobile radio communications, creation and operation (subject to the operator's consent) of trunk networks both in railway transport right-of-way and in any other allowed places, using fiber-optic and copper cable communication networks, satellite and radio-relay telecommunication systems.

4) JSC “Passenger Transportation”

The total authorized stocks number of JSC “Passenger Transportation” is 69 133 127, 69 064 335 stocks from this number are placed. In 2010 JSC “NC “KTZh” acquired 1 962 860 stocks of JSC “Passenger Transportation”.

The principal activities of JSC “Passenger Transportation” include: organization and provision of passenger railway transportation, luggage and post on the international, inter-region, inter-district and internal routes, organization of maintenance, repair and operation of the passenger cars fleet, provision of high quality and culture of passenger services, provision of passenger trains traffic safety, passenger life and health safety, as well as carried luggage, freight and posting safety.

5) JSC “Transport Service Center”

The total authorized stocks number of JSC “Transport Service Center” is 1 139 646, 522 254 stocks from this number are placed.

The principal activities of JSC “Transport Service Center” include: provision of railway approach lines services to legal entities and physical persons, namely provision of approach lines for rolling stock transit, shunting operations, handling operations, other technological operations of transportation process, as well as lay-over of the rolling stock, not provided for by technological operations of transportation process, current maintenance and repair of railway approach lines, and manufacturing of small tools and equipment.



6) JSC “Militarized Railway Security”

The total authorized stocks number of JSC “Militarized Railway Security” is 106 444, 106 444 stocks from this number are placed.

The principal activities of JSC “Militarized Railway Security” include: protection of property of legal entities and physical persons, including while transportation thereof, consulting and preparation of recommendations on protection methods and legal protection against unlawful infringements, protection of life and health of physical persons.

The principal activities of JSC “Kaztemirtrans” include: freight transportation, including oversized cargo, special, military and dangerous cargo by railway transport, provision of car placing and removal services, provision of transportation and forwarding services, railway cars fleet management, accounting of railway cars belonging to JSC “Kaztemirtrans” located on the territory of the Republic of Kazakhstan and beyond its borders, property lease (rent) of freight cars, freight cars repair.

7) JSC “Kaztemirtrans”

The total authorized stocks number of JSC “Kaztemirtrans” is 63 000 000, 61 043 178 stocks from this number are placed. In 2010 JSC “NC “KTZh” purchased 150 122 stocks of JSC “Kaztemirtrans”.



8) JSC “Temirzholylyu”

The total authorized stocks number of JSC “Temirzholylyu” is 2 888 416, 2 888 416 stocks from this number are placed. In 2010 JSC “NC “KTZh” purchased 183 028 stocks of JSC “Temirzholylyu”.

The principal activities of JSC “Temirzholylyu” include: timely and high-quality supply of railway transport organizations’, other legal entities and population demands in thermal and electrical power, purchase and realization of solid and liquid fuel, consulting services.

9) JSC “Temirzholsu”

The total authorized stocks number of JSC “Temirzholsu” is 3 848 538, 3 848 538 stocks from this number are placed. In 2010 JSC “NC “KTZh” purchased 282 189 stocks of JSC “Temirzholsu”.

The principal activities of JSC “Temirzholsu” include: timely and high-quality supply of railway transport organizations’ and population demands in potable and technical water supply, acceptance, purification and disposal of waste waters, maintenance of water supply systems and sanitary-technical devices.

10) JSC “Locomotive Service Center”

The total authorized stocks number of JSC “Locomotive Service Center” is 3 000 000, 1 406 437 stocks from this number are placed.



The principal activities of JSC “Locomotive Service Center” include: services for provision of technically operating condition and stable work of locomotives in operation, provision of locomotive traction services, provision of services for organization of locomotive crew rest, filling of locomotives with combustive and lubricating materials, provision of locomotives with oil, water, sand, repair and maintenance of railway rolling stock, provision of services for mounted wheels inspection of the railway rolling stock, repair and maintenance of the mounted wheels.

11) JSC “Almaty Car Repair Plant”

The total authorized stocks number of JSC “Almaty Car Repair Plant” is 4 968 669, 4 968 669 stocks from this number are placed.

The principal activities of JSC “Almaty Car Repair Plant” include: satisfaction of railway transport demands and enterprises of other branches connected with repair of railway rolling stock, its units and aggregates, development and introduction

of new technologies, equipment, mechanical tools and automation in production processes, manufacturing of spare parts and non-standard equipment.

12) JSC “Locomotive Kurastyru Zauyty”

The total authorized stocks number of JSC “Locomotive Kurastyru Zauyty” is 11 317 948, 6 764 754 stocks from this number are placed. In 2010 JSC “NC “KTZh” acquired 5 820 501 stocks of JSC “Locomotive Kurastyru Zauyty”.

The principal activities of JSC “Locomotive Kurastyru Zauyty” include: production of locomotives, spare parts for locomotives, provision of traction rolling stock services, provision of proper technical condition of locomotives fleet and stable operation of locomotives, development and implementation of undertakings for introduction of the new traction types, devices for operation and repair thereof, developed on the basis of science and engineering achievements, leasing activities.

13) JSC “Remlocomotive”

The total authorized stocks number of JSC “Remlocomotive” is 2 177 699, 2 177 699 stocks from this number are placed.

The principal activities of JSC “Remlocomotive” include: organization and performance of works for modernization, major repair, maintenance and other works of traction rolling stock, multiple unit rolling stock, coaches and track equipment, maintenance, repair and modernization of locomotive equipment.

14) OJSC “Zheldorvodoteplosnabzheniye”

According to the Program for Railways Transport Restructuring in the Republic of Kazakhstan for the period of 2004–2006, approved by the Resolution of the Government of the Republic of Kazakhstan as of February 6, 2004 № 145, as a result of reorganization of OJSC “Zheldorvodoteplosnabzheniye” by segregation Joint Stock Companies “Temirzholsu” and “Temirzholzhylyu” were established. These all water and heat supply objects were transferred to these companies under the segregation balance sheet.

In this connection currently OJSC “Zheldorvodoteplosnabzheniye” does not carry out any production activities.

15) JSC “Remvagon”

According to the JSC “Remvagon” – car repair sheds, the limited liability partnerships have been established, the shares in the authorized capitals of which have been realized through auction according to the established procedure.

In this connection currently JSC “Remvagon” does not carry out the production activities and according to the order of the President of JSC “National Company “Kazakhstan Temir Zholy” as of December 14, 2006 № 837-Ц is under liquidation.

16) OJSC “Zheldorremmash”

According to the Program for Railways Transport Restructuring in the Republic of Kazakhstan for the period of 2004–2006, approved by the Resolution of the Government of the Republic of Kazakhstan as of February 6, 2004 № 145, on the basis of the property accounted on the balance sheets of the branches of OJSC “Zheldorremmash”, joint stock companies and limited liability partnerships have been established, the shareholdings and authorized capital shares in which have been realized through auction according to the established procedure.

In this connection currently OJSC “Zheldorremmash” does not carry out production activities and according to the resolution of the Board of Directors of JSC “National Company “Kazakhstan Temir Zholy” as of June 5, 2009 (minutes № 4) is under liquidation.

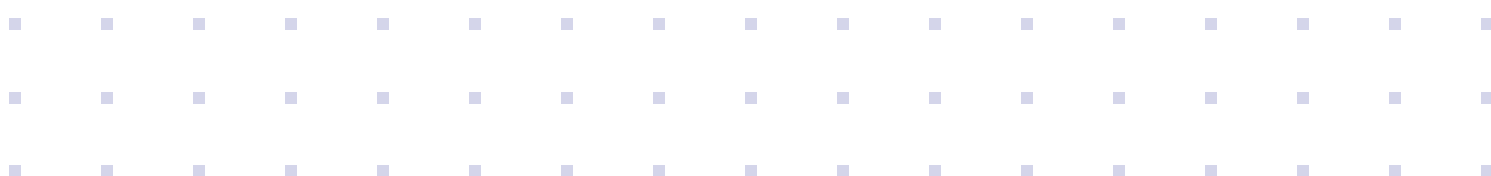


2. Shareholdings in the following joint stock companies:

1) 46,016% common shares holding in JSC “Doszhan Temir Zholy”.

In 2010 JSC “NC “KTZh” purchased 3 880 stocks of JSC “Doszhan Temir Zholy”.

The principal activities of JSC “Doszhan Temir Zholy” include: provision of project-estimate documentation development and design and exploration works, attraction of contractor companies for performance of construction, repair and commissioning operations, organization of project documentation expertise and fulfillment of contract works, as well as acceptance of the new infrastructure objects, attraction of funds required for construction and operation of railway line “Shar Station – Ust-Kamenogorsk” through arrangement of the Company’s securities issue and placement, operation of railway line “Shar Station – Ust-Kamenogorsk” and other railway infrastructure objects.





2) 33% common shares holding in JSC “Kedentransservice”.

The principal activities of JSC “Kedentransservice” include: handling operations, customs clearance of freight, locomotive traction services, cars (containers) operator services provision, the activities carried out under individual customs treatments in accordance with the customs legislation of the Republic of Kazakhstan, and provision of customs services.

3) 23,43% common shares holding in JSC “Temirzhol Zhondeu”.

The principal activities of JSC Temirzhol Zhondeu include: organization and performance of works for reconstruction, major and interim track repair and other works in track facilities, construction of new railway lines, operation, maintenance and repair of heavy track machinery fleet, mechanisms and equipment, covering of rails and cross-ties, assembling and laying of track switches, freight transportation, transportation of track structure materials and bulky goods using own rolling stock, major, interim and current repair of track machines, repair of automotive engineering equipment, diesel engines and small tools and equipment, production of ballast aggregate for rail roads, motor roads and construction.

4) 13,403% common shares holding in JSC “Kaskor Transservice”.

The principal activities of JSC “Kaskor Transservice” include: transportation and forwarding services, provision of approach lines services at Mangyshlak station – Aktau port section.

5) 3,521% common shares holding in JSC “Accumulating Pension Fund of Kazakhstan Halyk Bank” (APF of KHB).

In 2010 JSC “NC “KTZh” acquired 349 720 stocks of JSC “Accumulating Pension Fund of Kazakhstan Halyk Bank”. The principal activities of APF of KHB are acceptance of pension contributions and provision of the investment income for contributors.

6) 0,36% common shares holding in Limited Liability Company “Kazakhstan Temir Zholy Finance B.V.”.

The activities of Limited Liability Company “Kazakhstan Temir Zholy Finance B.V.” include financing of the companies groups through monetary funds borrowing, issue of bonds, bank financing or by any other method.

3. 100% shareholdings in the following limited liability partnerships:

1) LLP “Lesozashchita”

The principal activities of “Lesozashchita” LLP include: care of man-made and natural forest plantings, creation of new snow-, wind-, sand-break and greenery planting at the trunk railway networks right-of-ways, protection of forestry planting against unauthorized cutting, destruction, damage, fires and other forest offences, organization of works for greenery planting on the territories of station, railway stations, railway settlements and other objects, detection and extermination of pests and forest diseases, struggle with quarantine weeds and performance of other operations for maintenance of protective forest planting in due condition, scrub and tree species seeds harvesting, planting materials growing in nurseries, glass-houses and green-houses, further realization thereof, maintenance of protective forest planting line in due condition.

2) LLP “Yertys Service”, LLP “Kazykurt-Yug”

The principal activities of “Yertys Service” LLP and “Kazykurt-Yug” LLP include: steaming, washing and preparation of cars for loading with bulk oil cargoes, current uncoupled railway rolling stock repair, provision of services accompanying to check and preparation of cars for loading, repair of rolling stock, including special containers used for hazardous cargoes transportation.

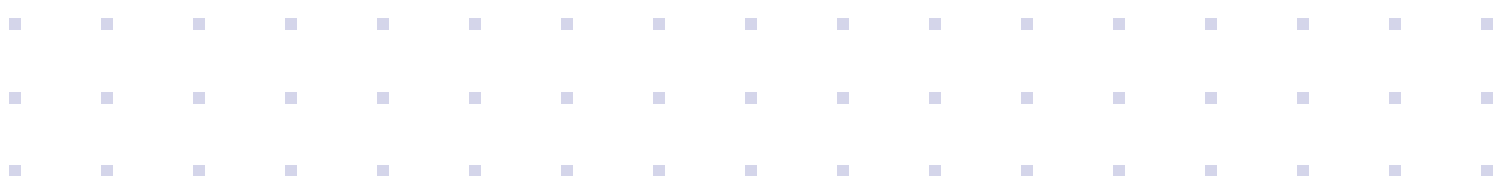
3) LLP “Akzhaiyk-Zapad 2006”

Currently “Akzhaiyk-Zapad 2006” LLP does not carry out production activities and according to the resolution of the Board of Directors of JSC “NC “KTZh” as of November 24, 2009 (minutes № 7) is under liquidation.

GENERAL INDICES OF THE COMPANY'S ACTIVITIES

INDICES	UNIT OF MEASURE	YEAR 2009 (ACTUAL)	YEAR 2010 (ACTUAL)	2010/2009	
				IN %	ABSOLUTE
FREIGHTS TRANSPORTED	thousand tons	247 677	267 735	108.1	20 058
INCLUDING AS PER COMMUNICATION TYPES:					
Internal republican	thousand tons	131 321	140 876	107.3	9 555
export	thousand tons	85 707	96 026	112.0	10 319
import	thousand tons	15 890	16 866	106.1	976
transit	thousand tons	14 759	13 967	94.6	-792
TARIFF FREIGHT TURNOVER	million ton-km	197 302	213 174	108.0	15 872
INCLUDING AS PER COMMUNICATION TYPES:					
Internal republican	million ton-km	75 427	82 877	109.9	7 450
export	million ton-km	79 763	87 898	110.2	8 135
import	million ton-km	17 656	18 229	103.2	573
transit	million ton-km	24 456	24 170	98.8	-286
AVERAGE HAULING DISTANCE OF 1 TON OF FREIGHT	km	797	796	99.9	-1
INCLUDING AS PER COMMUNICATION TYPES:					
Internal republican	km	574	588	102.4	14
export	km	931	915	98.3	-16
import	km	1 111	1 081	97.3	-30
transit	km	1 657	1 731	104.5	74
PASSENGER TURNOVER *	million p-km	12 912	13 991	108.4	1 079

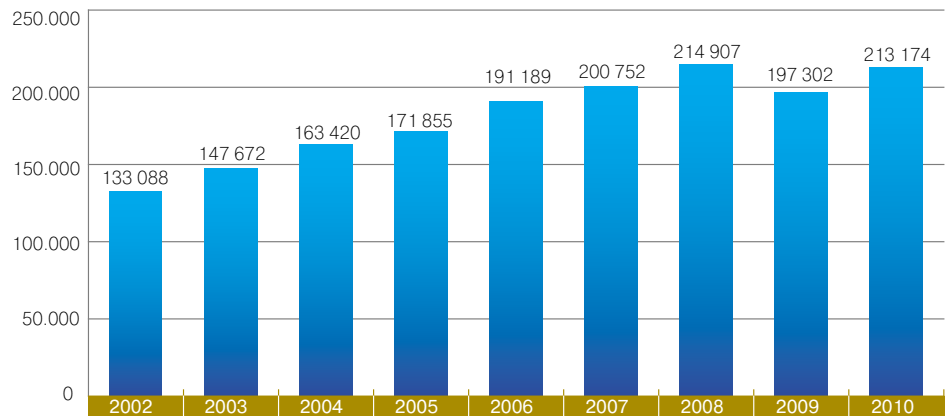
* the index is indicated as per carriers included in consolidation JSC "Passenger Transportation"



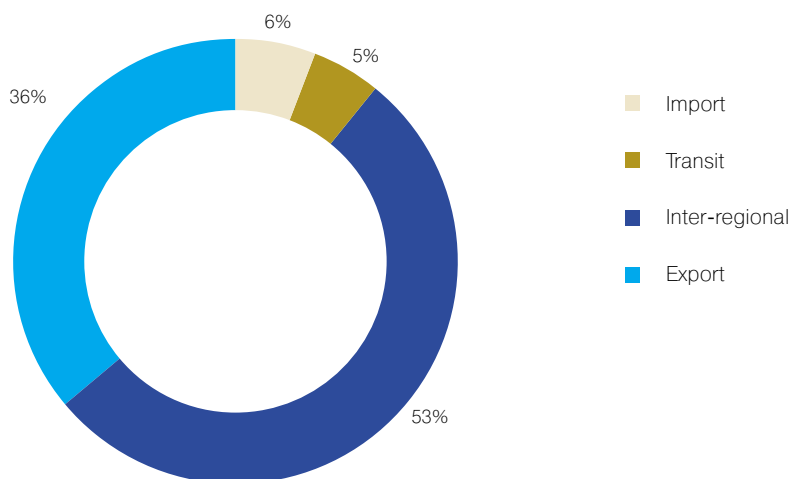
Freight Transportation

The total volume of freight transportations conducted by JSC "NC "KTZh" in 2010 was **267 735 thousand tons**, 35.9% of this volume is in the export directions, 52.6% – in inter- regional direction, 6.3% – in importing direction and 5.2% – in transit. Freight transportation by railway transport has increased by 20 058 thousand tons, or 8.1% if compared with the similar period of the year 2009. Decrease of transportation volumes is noted with respect to transit.

FREIGHT TURNOVER DYNAMICS FROM 2002 TO 2010, MILLION T-KM

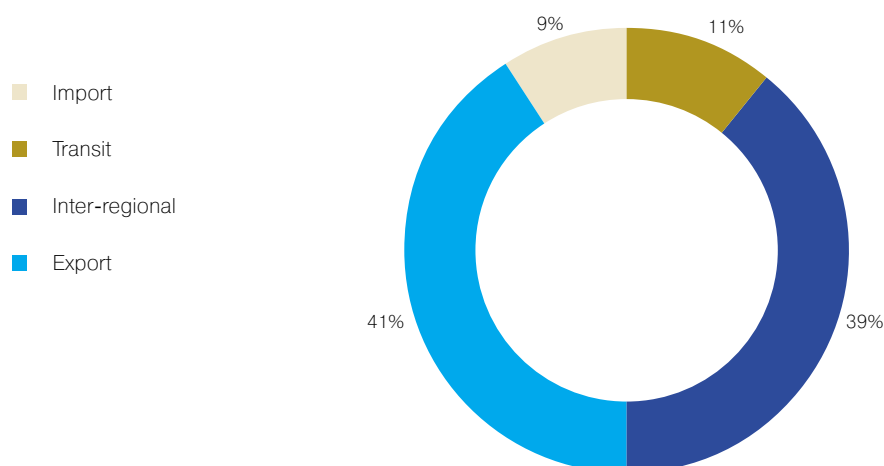


STRUCTURE OF FREIGHT TRANSPORTATION VOLUME AS PER COMMUNICATIONS FOR THE YEAR 2010

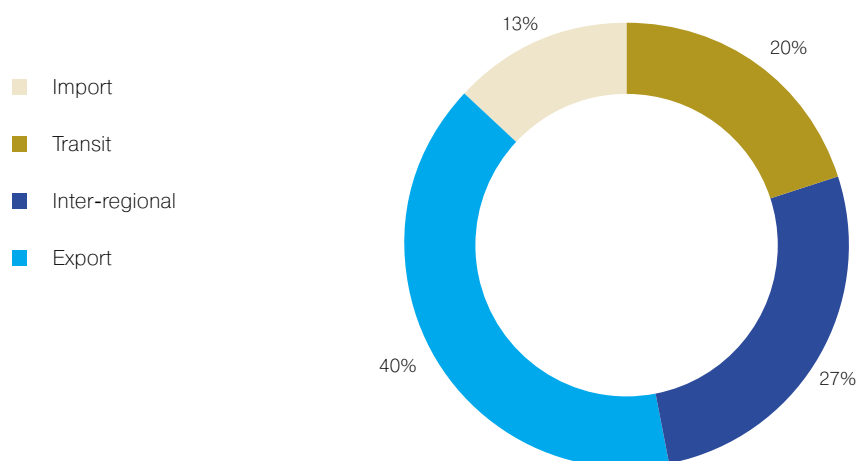


Freight turnover for the reporting period in comparison with the indices of the year 2009 has increased by 15 872 million ton-km, or by 8,0% and constituted **213 174 million ton-km**. The average haul distance of transportations decreased by 1 km and constituted 796 km.

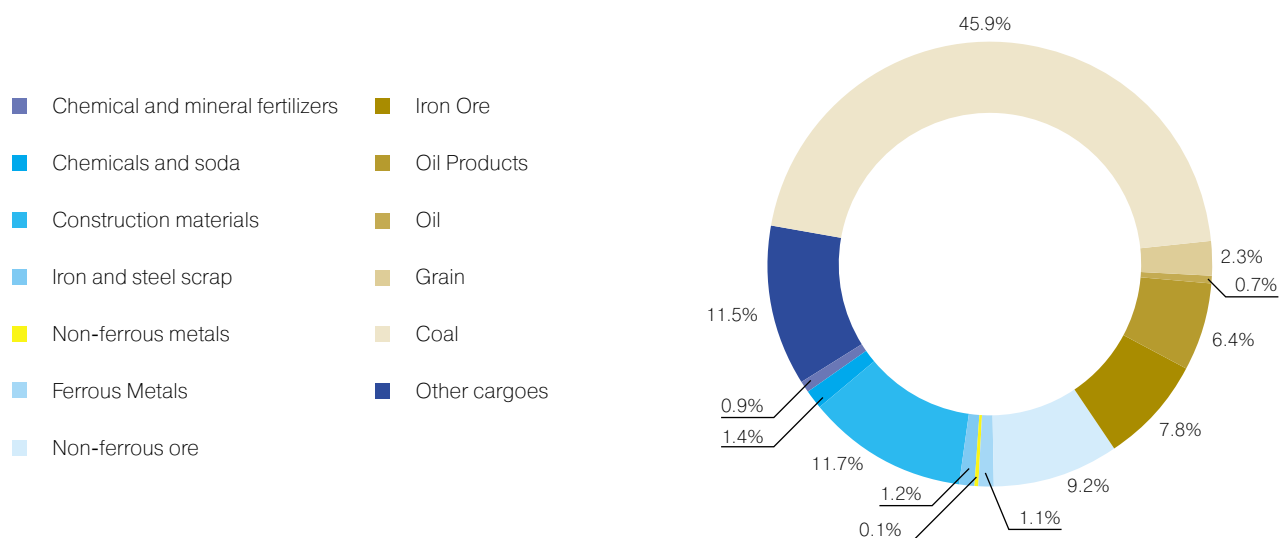
FREIGHT TURNOVER STRUCTURE AS PER COMMUNICATIONS FOR THE YEAR 2010



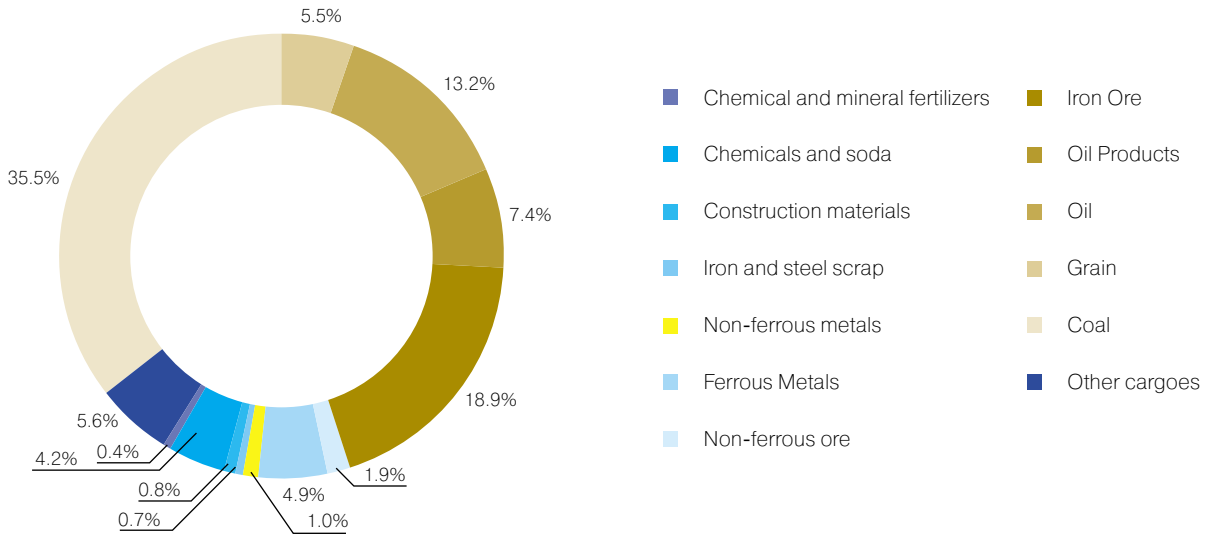
STRUCTURE OF INCOMES FROM FREIGHT TRANSPORTATION AS PER COMMUNICATIONS FOR THE YEAR 2010



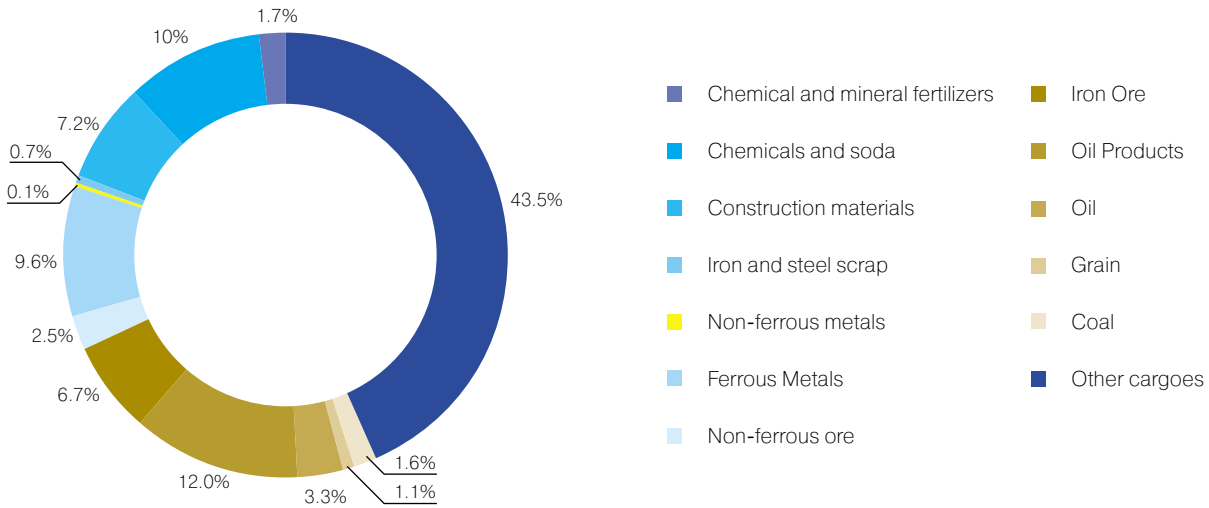
FREIGHT TRANSPORTATION IN INTER-REGIONAL COMMUNICATION AS PER MAIN NOMENCLATURE BY SHARES



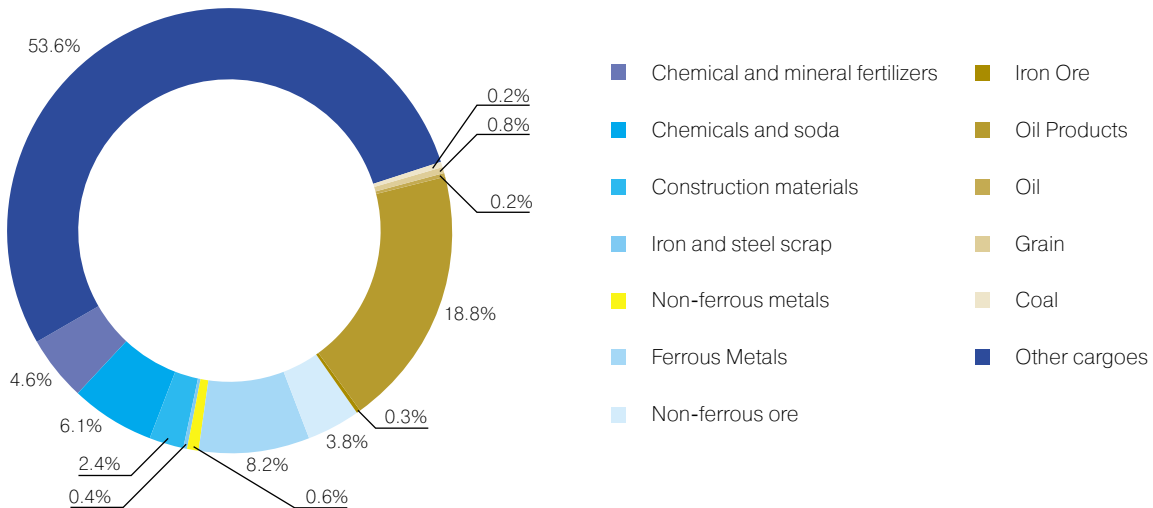
EXPORT FREIGHT TRANSPORTATION SERVICE AS PER MAIN NOMENCLATURE BY SHARES



IMPORT FREIGHT TRANSPORTATION SERVICE AS PER MAIN NOMENCLATURE BY SHARES



TRANSIT FREIGHT TRANSPORTATION SERVICE AS PER MAIN NOMENCLATURE BY SHARES



Passenger Transportation

Main Production Indices

According to the results of the year 2010 main production indices on the passenger facilities are as follows:

- Passenger turnover is at the level of 13 billion 991 million passengers km;
- The number of transported passengers is 15 billion 016 million passengers.

Passenger Rolling Stock Renewal and Routes Development

In the conditions of changing of the current approaches to passenger transportation process organization, as well as the objectives set with respect to improvement of the passenger service quality, currently on the permanent basis the work for improvement of the departure and arrival times, decrease of the time on passage, and increase of the average speed of passenger trains, is conducted.

During the period from 2011 to 2014 it is planned to acquire the following passenger cars and the cars equated to passenger within the frameworks of the passenger rolling stock inventory fleet renewal:

- under contract № ПЛБК-276 as of 22.12.10 concluded between JSC "Passenger Car Leasing Company" and OJSC "Tverskoy Coach Building Plant" 22 passenger cars are planned for acquisition in the year 2011.
- under the contract as of 05.11.10 concluded between JSC "Passenger Transportation" and LLP "Tulpar-Talgo", 420 passenger and equated to them Talgo cars are planned to be acquired during the period of 2011–2014, as follows:
 - in 2011 – 17 items
 - in 2012 – 123 items
 - in 2013 – 140 items
 - in 2014 – 140 items.



Within the scope of the work for optimization of the passenger trains routes from July 1, 2011 the new high-speed passenger train № 47/48 Atyrau – Astana with regularity of every other day is planned to be launched. Besides, during the period of 2011–2014 it is planned to launch the passenger trains built of Talgo cars on six routes.

FULFILLMENT OF MAIN PRODUCTION INDICES

AS PER ENTERPRISES INCLUDED IN THE GROUP OF COMPANIES OF JSC "PASSENGER TRANSPORTATION" FOR 2004–2010

№	INDICES	2004	2005	2006	2007	2008	2009	2010
1.	PASSENGER TURNOVER, Total million p-km	11 817.7	12 129.4	13 613.4	13 528.2	10 607.7	12 912.0	13 990.8
2.	PASSENGERS TRANSPORTED, thousand passengers	13 859.8	14 261.5	17 282.2	13 734.7	11 267.6	14 116.7	15 016.0
3.	AVERAGE OCCUPANCY, passengers./coach	26.8	27.9	29.3	32.3	31.1	32.6	32.6

Railway Infrastructure

Main Operating Indices

CONDITION OF TRACKS, TECHNICAL FACILITIES AND OVERHEAD SYSTEM IS ASSESSED TO THE MEDIUM SCORE.

№	INDICES	UNIT OF MEASURE	2009	2010	+/- TO 2009
TRACK FACILITIES					
1.	Score of track condition	point	46 (good)	51 (good)	+5
2.	Quantity of km with unsatisfactory assessment	km	327	424	+97
3.	Number of defects of 4 th degree	unit	11 133	11 206	+73
4.	Number of defects of 5 th degree	unit	139	181	+42
5.	Average travel speed of freight trains:				
	- average-weighted	km/h	68.27	69.0	+0.73
SIGNALING AND COMMUNICATION FACILITIES					
1.	Score of technical facilities condition	point	4.9 (excellent)	7.7 (good)	+2.8
ELECTRIC POWER SUPPLY FACILITIES					
1.	Score of overhead system assessment	point	15.9 (excellent)	15.7 (excellent)	-0.2

As compared with the similar period of the last year the medium score of tracks condition, technical facilities and overhead system is improved by 0.2 points with respect to electric power supply facilities. With respect to the track facilities, alarm and communication system the number of scores increased, but according to the standard documentation the condition of tracks, signal and communication facilities,

is assessed to "good". The number of track kilometers in unsatisfactory condition increased by 42 km (from 327 to 424 km). For 73 deviations the number of 4th degree faults increased from 11 133 to 11 206.

Indices increase with respect to the facilities in general is connected with introduction from August 1, 2010 of the new Instruction on Interpretation of Slips and Assessment of the Rail Track Condition, currently the instructions on measurements by the track-measuring car are tightened.

Fulfillment of the Major Repair Plan

In 2010 for major repair of the trunk network objects 12 186.990 million tenge are laid out from the principal activities budget, from this amount 11 437.136 million tenge or 93.8% were used.

The following works have been made:

- laying of 73.97 km continuous welded rails strings instead of the planned 73 km (101.3%);
- replacement of rails with the new ones at the length of 74.025 km instead of the planned 74 km (100%);
- interim and intensified interim repair of 81.65 km line instead of the planned 84.97 km (96.1%);
- 155.450 km of rails were replaced with the used rails, instead of the planned 136.340 km (114%);
- 696 track switch sets are replaced instead of the planned 637 track switches (109.3%);
- 370 crossing sleepers sets were replaced, instead of 423 planned for replacement (87.5%);
- major repair of electrical centralized control of 1 116 points was made, and major repair of 1 116 points was planned (100%);
- 798.77 km of automatic block signal system were repaired from the planned for repair 798.76 km (100%);
- 346.20 km overhead lines of 6.10 kV, 35kV were repaired from the planned for repair 346.18 km (100%);
- major repair of 380.7 km of overhead system were repaired with the planned 380.7 km (100%).

Implementation of Trunk Network Development Programs

Development of Dostyk Station and Railway Section Aktogai–Dostyk

According to the Plan of Undertakings for Development of Dostyk Station and Railway Section Aktogai–Dostyk for the Period of 2008–2011 in the 2010 year the Trunk Network Directorate budget provided for 1 766,5 million tenge for this purpose, 2 152,6 million tenge were used (121%).

In 2010 the work for construction of the roofed-in point for cars interchange at Dostyk station continued, and as of December 8, 2010 the working inspection was conducted.

The sub-station of 10 kV was reconstructed at Aktogai station. The works for REW and living houses construction at Aktogai station commenced. According to the concluded contracts the works under these objects are to be completed in 2011.

The projects for construction of 71 heating points at Aktogai–Dostyk section, for illumination of station lines № 60, 61, 62, 63, “D” park, for construction of living houses at Dostyk, Aktogai, Zhaipak stations and crossing points № 8, 16, 19 were developed.

Besides, software-hardware complex for MTFS devices check, maintenance and repair stand for SRS-46MC, air conditioners and furniture were purchased.

Development of Railway Infrastructure in Western Region

According to the Program for Railway Infrastructure in West Region “Batys-Damu” Development for 2009–2011, 7 052 million tenge was disbursed to the Trunk Network Department in the year 2010 for implementation of the Program, 7 154,2 million tenge or 101% was actually used.

At the expense of the funds provided the works for major repair of lines (120.959 km), for intensified interim repair of lines (10 km), replacement of track switches (177 sets) and crossing sleepers (115 sets) have been performed in full, as well as major repair of 6 engineering structures. The office building of Shielinskiy line section was reconstructed, and RJeB was constructed at Don station.

The works for modernization of electrical centralization at Birshogyr station were completed. Major repair of automatic block signal system (71.3 km), electrical centralized control (246 points), overhead communication lines (138.5 km), buildings (10 objects) and etc. was made.

Single-circuit overhead line of 35kV construction is completed at Birshogyr – Mugalzhar section, construction of fire-fighting and emergency train at Aiteke-Bi station was completed.

Financial and Economic Activities

Financial Indices of the Companies Group

As of December 31, 2010 the authorized stocks number of JSC "NC "KTZh" was 502 040 458 common stocks, from this number 491 130 457 common stocks to the amount of 521 100 457 000 tenge were placed.

Incomes

The incomes of the group of Companies of JSC "NC "KTZh" for the year 2010 totaled **597 849 million tenge**, which is 19.6% higher than the level of incomes earned in 2009.

Incomes from realization of goods and provision of services for the year 2010 amount 586 850 million tenge, which is higher than the incomes of 2009 (482 463 million tenge) by 21.6%. The incomes from freight transportation increased by 22.4%, incomes from passenger transportation increased by 9.2%, subsidies intended for partial covering of costs for passenger transportation increased by 53.2% due to increase of the served routes number in the year 2010. The freight turnover volume growth by 8% and growth of rates from January 1, 2010 on TRN (trunk railway network) services according to ANPR order as of 26.11.2009 № 373-ОД, rates on locomotive traction services, use of freight cars, as well as freight and commercial works under the ANPR letter as of December 29, 2009 № 07-10-38/1656-UR had material impact on growth of incomes.



Expenses

The expenses of the group of Companies of JSC "NC "KTZh" for the year 2010 totaled **532 674 million tenge**, which is higher than the expenses for the year 2009 by 10.9%. The cost price of the realized goods and provided services increased by 10.5%. The main cause of the expenses increase was growth of transportation volume, prices for materials purchased, fuel and power resources, works and services, growth of MCR, as well as increase of salary from December 2009 in accordance with the order of the President of JSC "NC "KTZh" as of 20.12.2009 № 798-Л (except for central staff employees).

The cumulative profit amounted **65 175 million tenge**, which is 3.3 times or 45 687 million tenge more than in the year 2009, such increase is conditioned by growth of incomes from goods realization and services provision.



ANALYSIS OF FINANCIAL INDICES OF THE GROUP OF JSC “NC “KTZH” FOR 2008–2010

INDICES	UNIT OF MEASURE	ACTUAL 2008	ACTUAL 2009	ACTUAL * 2010
RATIOS DETERMINED BY JSC “NWF “SAMRUK -KAZYNA”				
Current liquidity ratio	Not less than 1	1.273	1.196	1.120
Ratio of operating financial liquidity	Not less than 1	12.515	2.536	1.373
Cover ratio	Not less than 2	6.325	4.181	9.523
Net debt / Net capitalization	Not more than 0,4	0.114	0.154	0.214
Debt / EBITDA	Not more than 2.9	1.267	1.959	1.773
Maximum borrowing capacity	Thousand tenge	302 620 556	255 472 977	489 950 148
Free borrowing capacity	Thousand tenge	170 452 791	82 889 019	190 451 506
RATIOS, ESTABLISHED BY ABN AMRO BANK N.V. WITHIN THE FRAMEWORKS OF THE LOAN AGREEMENT TO THE AMOUNT OF \$141 MILLION				
Debt total / Equity capital	Not more than 0.6	0.205	0.261	0.397
Debt / EBITDA	Not more than 3.5	1.267	1.959	1.773
RATIO ON LOANS BETWEEN EBRD AND KTT TO THE AMOUNT OF \$50 MILLION FOR ACQUISITION OF UP TO 1 000 FREIGHT CARS				
Debt / EBITDA	Not more than 3.75	0.205	0.261	0.397
Cover ratio (EBITDA/ Interest expenses)	Not less than 3.5	1.267	1.959	1.773

* *threshold values for financial ratios of JSC “NWF “Samruk-Kazyna” for 2010 are not determined.*



Analysis of Market State Regulation

Interaction of the customers and railway transport subjects include many technological and commercial aspects and is carried out in accordance with the legislation, and the state bodies perform regulatory functions.



JSC “NC “KTZh” as TRN services supplier, and some subsidiaries thereof are included in the Register of Natural Monopolies Subject due to several types of profile and auxiliary profile activities and are regulated by the Agency of the Republic of Kazakhstan for Natural Monopolies Regulation.

With respect to the type of activities JSC “NC “KTZh” (freight transportation services), JSC “Kaztemirtrans” (services for railway cars provision for use), JSC “Locomotive” (locomotive traction services) and the number of enterprises of the group of companies of JSC “Passenger Transportation” are included in the State Register of the market subjects having the dominating (monopoly) position on the corresponding services markets.

The main state regulating bodies are

- Agency of the Republic of Kazakhstan for Natural Monopolies Regulation (hereinafter referred to as ANPR);
- Agency of the Republic of Kazakhstan for Competition Protection;
- Ministry of Transport and Communications of the Republic of Kazakhstan (hereinafter referred to as MTC);
- Joint Stock Company “National Welfare Fund “Samruk-Kazyna”;
- Central Railway Transport Council of CIS Member States (hereinafter referred to as CRTTC);
- Organization for Railways Cooperation (hereinafter referred to as ORWC).

Non-price regulation of railway transport includes licensing of activities, approval of the regulatory acts, governing interaction of the transportation process participants and customers, the issues of safety provision, technical and economical norms and standards, organization of tenders and conclusion of contracts for passenger transportations performance subsidizing.

The payment made by the transporter for TRN services are subject to tariff regulation, other elements of railway rates are attributed to the competitive sector, but currently are subject to price regulation by ANPR as the prices for the services of the subjects having the dominating position in accordance with anti-monopoly legislation.



International Cooperation

In 2010 JSC “NC “KTZh” signed the number of international bilateral and multilateral contracts, agreements and memorandums with the railway administrations of foreign countries and transportation enterprises, in particular on the issues of production, modernization and supply of rolling stock, renewal and maintenance of infrastructure objects, creation of advantageous rate conditions and other issues.

Including:

- Agreement with OJSC “TransContainer” (RF) on conditions of interaction in the field of terminal processing of container cargoes on the territory of the Republic of Kazakhstan.
- Memorandum on mutual cooperation with “Alstom Transport” company and CJSC “Transmashholding” (RF) in the field of joint issue of up-to-date main-line electric locomotives on the territory of the Republic of Kazakhstan (on the production base of JSC “Baiterek A” in Atbasar).
- Agreement on creation of joint production of freight and passenger electric locomotives in RK. The established joint venture will manufacture electric locomotives on the basis of technologies of “Transmashholding” and “Alstom Transport” (France) using Russian and French component parts. Later the production facilities will be located on the territory of Kazakhstan. Under the agreement, the JV goods will satisfy Kazakhstan market demands, later it is planned to export electric locomotives to the railways of other countries. The project is supported by the financial guarantees of French government.
- Agreement with “Alstom Transport” company and CJSC “Transmashholding” (RF) for supply of 295 electric locomotives for the needs of JSC “NC “KTZh”.
- Memorandum with OJSC “RZhD” and CJSC “Rusagrotans” (RF) on establishment of a joint venture for grain cargo transportation.
- Memorandum on mutual cooperation between JSC “NC “KTZh” and OJSC “RZhD” upon performance of customs operations at the customs territory of the Customs Union. One of the main tasks for establishment of joint Russian-Kazakh enterprise is development of the customs services aiming at speeding-up of cargoes passing through the customs border of the Customs Union.
- Agreement with the State Railway Transport Administration of Ukraine “Ukrzaliznytsya” on creation of advantageous rate conditions for freight transportation by railway transport.
- Memorandum on mutual cooperation with “Siemens” company, in the field of joint implementation of the projects for modernization, updating, construction, production and maintenance of infrastructure objects of JSC “NC “KTZh”.
- Memorandum of Understanding with “Patentes Talgo S.L.” and on approval of the principal conditions on establishment of JV for production and maintenance of passenger railway cars in Astana city.
- Memorandum of Association with “ŽOS - VÝVOJ, s.r.o.” (Slovakia) for establishment of joint venture for production of diesel rail trains.
- Contract with LLP “Kazakhstan TZh – Ansaldo STS Iyaly” on purchase of construction and assembly works within the frameworks of “Korgas – Zhetygen Rail Road Construction” project implementation.
- Credit agreement between JSC “Kaztemirtrans” and European Bank of Reconstruction and Development to the amount of \$50 million for implementation of the investment projects for acquisition of 1 000 freight cars. The Contract of Guarantee and Reimbursement is signed between JSC “NC “KTZh” and European Bank of Reconstruction and Development as the collateral for this loan.
- Memorandum of understanding on joint implementation of the strategic initiatives in the field of railway transport of the Republic of Kazakhstan between European Bank of Reconstruction and Development and JSC “NC “KTZh”.
- Agreements with all border railways on registration of international passenger trains delays at inter-state division points and application of economic liability for transfer of passenger trains with delays.

CRTC

(Railway Transport Council of the Member States of the Commonwealth of Independent States, Georgia, Latvian Republic, Lithuanian Republic, Estonian Republic)

For the year 2010 two meetings of the Railway Transport Council of the Member States of the Commonwealth with participation of railway administrations heads, 107 meetings on fulfillment of resolutions passed at meetings №№ 52 and 53, from this, the meetings of railway administration authorized representatives – 36, 22 expert meetings, 32 meetings of work groups, 17 meetings of the Council committees (according to directions) were held.

52nd meeting of the Railway Transport Council (May 13–14, 2010, Yurmala, Latvian Republic).

In the process of the meeting the following issues have been reviewed: the results of realization of the resolution passed at 51 Council meeting, the results of railway network operation for the year 2009 and the I quarter of 2010, the reports on the norms of train traffic for the year 2009, the results of containers inventory-taking in 2009, on fulfillment of decisions of the Council of CIS Government Executives as of October 18, 1996 on the Concept on the Coordinated Tariff Policy Establishment in Railway Transport of CIS Member States for the year 2009, on the draft Regulations of the Train Driver's Actions in Cases of Emergency and Non-Standard Situations upon Train operation without driver's assistant, on draft Instruction on Registration of International Passenger Trains transfer at the inter-state division points, on amendments and supplements in the regulatory documents governing organization of activities of the Council and its working bodies.

The reports on compliance with the Expenses Estimate for provision of activities of the Council Directorate for the year 2009 and the Report of the Council Audit Committee on Check of compliance with this Estimate, the Estimates of Expenses for provision of activities of Data Processing Center of railway administrations, including reimbursement of expenses of SCC OJSC "RZhD" for the year 2009, and the results of audit of this Estimate fulfillment have been heard at the meeting.

53rd meeting of the Railway Transport Council (October 20–21, 2010 in Vilnius, Lithuanian Republic).

The following issues have been considered at the meeting: the results of realization of the resolution passed at the 52 Council meeting, the results of rail roads network operation for 9 months of 2010, the reports on the norms of trains traffic schedule for 2011–2012, freight cars inventory-taking conducted in May 2010, the draft Concept of strategic railway transport development of the Commonwealth member states till 2020, on the progress of development of the Agreement on General Freight Cars Fleet Use and the Contract between railway administration and freight cars owner, Regulations on the procedure of the instructing train driver provision with the right to make run tests of locomotive teams on the territory of the Commonwealth member states, plan of railway administration R&D for the year 2011, harmonization of policy of the Commonwealth member states railway administrations in the field of occupational health and safety of railway transport employees and the results of accounts settlement between railway administrations, and other issues.

As a result of two meetings more than 40 documents have been adopted and approved:

- the Concept on the Coordinated Policy for Assessment of Railway Goods Compliance;
- the Concept on Uniform Management System and Use of Freight Cars Fleet of Different Ownership Forms;
- Plan of Scientific-Research, Research and Development and Technological Works of Railway Administrations of the Council Member-States for 2011;
- the Regulations on the Expert Group under the Railway Transport Council of the Commonwealth Member States, Georgia, Latvian Republic, Lithuanian Republic and Estonian Republic in the field of certification;
- the Regulations on the Permanent Work Group for Operation and Development of Inter-State ACS "Express" on the railways of the states participating in work of the Railway Transport Council of the Commonwealth Member-States;
- Standard Procedure on assigning to ACP or JSC of identification numbers for marking of the rolling stock breaking equipment parts, operated on the international routes of the Commonwealth Member-States, Georgia, Latvian Republic, Lithuanian Republic and Estonian Republic;
- Instruction on drawing-up of container damage certificates of BY 25K form and the number of other documents;

- Regulations on certification of automatic brake and automatic sections control points;
- Concept on the uniform management system and use of freight cars fleet of different ownership forms, aiming at provision of economic needs of the Commonwealth Member-States, Georgia, Latvian Republic, Lithuanian Republic and Estonian Republic in loading resources.

The current process of the private freight cars number increase and simultaneous decrease of the inventory fleet set the primary task for development of the effective conditions for efficient management of the freight cars fleet of various ownership forms participating in international freight transportation to the railway administrations participating in the Council work.

Within the activities frameworks of the Commission for Railway Administrations Interaction of the Commonwealth Member-States in the field of healthcare, the Council commissions the railway administrations to continue development of uniform approaches to the requirements on health condition of the employees involved in railway operation.

Within the frameworks of CRTC work, the regular updating and review of the previously approved and agreed regulations, agreements, contracts, methodical instructions, acts, rules, instructions and etc. is made.



The following current documents have been amended as follows:

- the Agreement among railway administrations of CIS member-states, Latvian Republic, Lithuanian Republic and Estonian Republic on peculiarities of application of some provisions under the Agreement on International Railway Freight Traffic (AIFT) is effective from July 1, 2010;
- Regulations on hazardous freight railway transportation, Emergency Cards, Regulations on bulk liquid cargo transportation in tank-cars and surge cars for petroleum-bitumen transportation, are effective from September 1, 2010.

For material contribution in coordination of railway transport work at the international level and development of the coordinated principles of operation thereof, consolidation of cooperation and provision of efficient railways operation on international routes 4 representatives of JSC "NC "KTZh" are awarded by the Railway Transport Council of CIS Member-States with the Certificates of Honor.

The plan of undertakings devoted to the twentieth anniversary of the Commonwealth of Independent States, approved by the Resolution of CIS State Heads Council as of May 21, 2010 is taken into consideration. The Council resolved within the frameworks of 56th CRTC meeting to organize in the year 2012 the undertakings on celebration of the twentieth anniversary of the Council establishment.

ORWC
(Organization for Railways Cooperation)

In 2010 within the frameworks of ORWC the following meetings were held: **the Conference of the Railways General Directors (Responsible Representatives)** with participation of the railway chief executive offices of ORWC Member States, **the session of ORWC Ministers Meeting** with participation of the Ministers, 102 meetings, from this 20 are the Commission meetings, 20 are expert meetings, 30 TWG meetings, 29 PWG meetings, 1 meeting of authorized representatives, 2 meetings of joint work groups.



From April 19 to April 23, 2011 in Ulaanbaatar, Mongolia XXV meeting of the Railways General Directors (Responsible Representatives) was held.

The following reports have been approved at the Conference session: report on the work results of ORWC Freight Transportation Commission for the year 2009, report on the work results of ORWC Passenger Transportation Commission for the year 2009, report on the work results of ORWC Infrastructure and Rolling Stock Commission for the year 2009, report on the work results of ORWC Permanent Work Group on Informatics and Encrypting for the year 2009, report on the work results of ORWC Permanent Work Group on Financial and Settlement Issues for the year 2009.

The patricians of the Conference meeting took the following information into consideration:

- information on progress of the Temporary Work Group for improvement of ORWC fundamental documents;
- information on private licenses carriers at the international railway freight traffic with respect to the issues on cars use and payments for use thereof;

- information on settlement procedure and mechanism of indebtedness repayment between railways, on the results of work of the Commission for Settlement of Accounts between Railways – Parties to ORWC Agreement on “Regulations on Settlement of Accounts for International Railway Freight and Passenger Traffic”.

The following documents have been preliminarily approved: report on ORWC activities for the year 2009, Program of ORWC Work for the year 2011 and further years, location of ORWC Committee, the Budget of ORWC Committee (final – for 2010 and preliminary – for 2011), the status of incorporated enterprises, management positions in ORWC Committee, chairmen and specialists in working bodies of ORWC (from July 1, 2010), the preliminary agenda, date and place of the XXVI Conference meeting.

June 15–18, 2010 in Prague (Czech Republic) XXXVIII Meeting session of the Ministers of the Railways Cooperation Organization.

The Ministers Meeting approved the work of ORWC Transport Policy and Development Strategy Committee and decided to conduct monitoring of operation, condition and development of ORWC railway transport corridors infrastructure starting from 2011, and regularly report the results to the session of ORWC Ministers Meeting, and continue the targeted work for implementation of the strategic tasks connected with improvement of efficiency and competitiveness of ORWC member-states railways at the transportation services market in Eurasian Transport Space.

According to the resolution of the session of the Ministers meeting, TWG for Review, AIFT will continue the work for preparation of the draft “General Provisions of the Contract for International Freight Transportation” as the appendix to the draft Convention on direct international railway communication, having accepted AIFT draft as the basis, development of the draft “Freight Transportation Regulations” provided for by the articles of the developed draft “General Provisions of the Contract for International Freight Transportation”.



TWG for development of Appendix 14 to AIFT will continue the work over the draft “Regulations on Freight Placement and Fastening in Freight Cars and Containers” and commence development of the draft “Regulations on Freight Placement and Fastening in Freight Cars and Containers” provided for by some articles of the developed draft “General Provisions of the Contract for International Freight Transportation”.

TWG in the field of regulations on hazardous cargo transportation due to the amendments made in the international and national regulations with respect to hazardous cargoes transportation will continue the work for updating of Appendix 2 to AIFT and commence development of the draft “General Requirements to Hazardous Cargoes International Transportation” as the appendix to the draft Convention on Direct International Railway Communication.

ORWC Commission on Transport Law jointly with IRTC will continue the work aiming at improvement of the “Guidelines on CIM/AIFT Waybill” promoting further wide application of CIM/AIFT Waybill for transportations on the network of railways parties to IRTC, AIFT and other interested parties.

ORWC Ministers Meeting acknowledged that the provisions of the draft Charter ORWC will be reflected in the Convention on Direct International Railway Communication, and in this connection it is unreasonable to hold the International Conference on adoption of ORWC Charter Text separately from adoption of the text of the same Convention. At the same time it was decided that the procedure of the Convention text adoption will be performed in the form of the International Conference

after completion of development of the draft Convention on International Railway Communication, in accordance with Vienna Convention on International Treaties Law under supervision of ORWC Committee's Chairman.

Active TWG work for improvement of ORWC fundamental documents, on the draft Convention on Direct International Railway Communication shall be conducted jointly with ORWC working bodies, including TWG for IPCA, AIFT Revision and PWG.

All resolutions passed at the session of ORWC Ministers Meeting aim at further development and improvement of international railway transportations, improvement of railway transport efficiency and competitiveness in Eurasian space.

IRC (International Railway Council)

The representative of JSC “NC “KTZh” took part in the following main events of the year 2010:

- **July 6–7, 2010** in St. Petersburg – International Conference on Freight Transportations;
- **June 7–10, 2010** in Tokyo, Japan – General Assembly of ICRW, Asian Regional Assembly of ICRW, Conference on Signaling and Trains Traffic Control Systems;
- **September 30, 2010** in Bratislava, Slovakia – the 2nd meeting of the international expert group (GTE), representing the work group of specialists, dealing with development of railway communication between Asia and Europe;
- **October 26–29, 2010** in Tokyo, Japan – Eastern-Japan Railways organized the 11th International

Symposium “Safety at Railway Crossings”. The issues of safety provision have been discussed and the technologies for development of safety on railway crossings have been presented at the symposium. The specialists from the Great Britain, Australia, USA, Japan, Belgium and etc. took part in the discussion;

- **December 5–6, 2010** in Beijing, PRC – General Assembly of ICRW, Asian Regional Assembly of ICRW.

At the meeting it was decided to prolong the term of office of the President of JSC “NC “KTZh” as the till December 31, 2012 vice-chairman of ICRW Asia. Also, JSC “NC “Kazakhstan Temir Zholy” will represent Asian region in ICRW Executive Council for the next two years.

Besides, the budget and the plan of ICRW undertakings for 2011 were approved. The principal management staff of ICRW and the representatives to technical forums and platforms were approved by voting. The candidate R.Ye. Sundetbayev – the Director of Technical Policy Department of JSC “NC “KTZh” was approved to the Forum on Railway Systems.



Ratings

In 2010 three large international rating agencies assigned and confirmed ratings to JSC “NC “KTZh”:

- Standard & Poor’s – at BBB-/Stable level, the rating of issue of 5-year, 10-year bonds and the bonds of 2010 – BB+;
- Fitch Ratings – at BBB-/Stable, the rating of issue of 5-year, 10-year bonds and the bonds of 2010 – at BBB- level;
- Moody’s Investors Service – at Baa3/Stable level; the rating of issue of 5-year, 10-year bonds and the bonds of 2010 – at Baa3;

In this connection it is necessary to mention that the rating of JSC “NC “KTZh” assigned by the international rating agency Fitch Ratings is at the level of Kazakhstan sovereign rating.

The Company’s ratings assigned by the international rating agencies Moody’s Investors Service and Standard & Poor’s are by one grade lower than Kazakhstan sovereign rating.



Financial Management

The financial management may be represented in form of structure of the rational and effective use of the monetary funds or as the well-organized mechanism of financial flows management.

The main functions of the Company's financial management include:

- Arrangement of activities financing;
- Arrangement of cash flows management;
- Arrangement of turnover capital management;
- Management of temporarily surplus funds;
- Debt management and organization of work for borrowings attraction.

Arrangement of Financing

For arrangement of activities financing the document "Register of Payments and Money Receipt" shall be drawn-up on the daily basis and shall be approved by the Company's Management and reflecting in-payments and spending of the Company's money for a day. Based on the document "Register of Payments and Money Receipt" the data base on the Company's money flows is made.



Upon financing of expenses the compliance of the concluded contracts and provided documents with the requirements of the legislation of RK, regulatory acts of JSC "NWF "Samruk-Kazyna" and the Company is checked. Fulfillment of the concluded contracts shall be monitored. According to the results of the month the comparative analysis of the financial discipline fulfillment by the structural divisions shall be made. If necessary the issue of financial discipline improvement is submitted to the administrative meeting chaired by the president of the Company.

The level of return of applications for financing in 2010 if compared with 2009 decreased down to 4%. The total volume of received applications for financing in 2010 constituted 7 847 applications and increased by 15% in comparison with the year 2009.

In order to control financial discipline on the weekly basis the Company's structural divisions generate the reports on target use of the money received under the applications for financing, as well as in form of advance payments and the money from supporting and auxiliary activities. The work on provision of timely centralized payments, payment of salary and taxes is conducted with the Company's structural divisions and subsidiaries. Monitoring of expenses plans fulfillment by the Company's structural divisions is performed on the weekly basis with the progressive total.

In 2010 eight meeting of the work groups were held. The turnover capital problems of the structural divisions and subsidiaries of JSC “NC “KTZh”, such as: settlement of accounts with the private carriers; existence of indebtedness without source documents; growth of accounts receivable under taxes, leasing; existence of surplus, slowly circulating and low-liquid inventories in the structure of commodities and materials were considered at the meetings. The above-mentioned issues were submitted for consideration to the Commission.

During the year 2010 five meetings of the Commission have been held, where the most urgent problems of the structural divisions and subsidiaries of JSC “NC “KTZh” have been considered.

For the year 2010 the uncollectible accounts receivable in the amount of 848 million tenge have been written-off.

As a result of the Commission work in the year 2010:

- the plans for optimization of turnover capital level in the structural divisions and subsidiaries for the year 2010 were developed and approved;
- the optimal target structure of the Group turnover capital was developed;
- the amendments are made in the leasing agreements with respect to advance payments;
- the maximum permissible level of CIT over-payment is established and brought to attention of all structural divisions and subsidiaries;
- “Regulations on Interaction of the Structural Divisions of JSC “NC “KTZh” for Recovery of Accounts Receivable” providing for personal liability of officials for generation and growth of accounts receivable, were developed and approved by order № 339-Ц as of 13.08.2010;
- the work for detection of the criminal elements in generation of accounts receivable without source documents, as well as with respect to the entire indebtedness generated during the period of 2000–2009 is conducted with DBEiKP (financial police);
- the procedure of losses reimbursement and establishment of liability for freight loss or damage was determined;

- the work for detection and decrease of slowly circulating inventories level was conducted;
- for optimization of non-liquid commodities and materials level the structural divisions and subsidiaries developed the plans for decrease of such inventories level for the year 2010;
- as of 31.12.10 the value of non-liquid inventories of the Group was 1.2 billion tenge and in comparison with the previous period it decreased by 415 million tenge;
- the subsidiaries developed and approved the Regulations on Property Realization;
- the “Policy of Debt and Accounts Receivable Management in JSC “NC “KTZh” and its Subsidiaries for 2011–2013” was developed.

In order to control turnover capital level the structural divisions and subsidiaries shall on the monthly basis submit to the Financial Department the analysis of turnover capital condition, the annual plans for optimization of its level are developed and fulfillment of the above-mentioned plans is monitored.

Temporarily Surplus Funds Management

JSC “NC “KTZh” conducts management of the temporarily surplus funds (hereinafter referred to as TSF) in accordance with the Uniform Policy on Legal Entities’ Funds Management, all voting stocks (shareholding) owned by JSC “NWF Samruk-Kazyna” (BD resolution record JSC “NWF “Samruk-Kazyna” as of April 21, 2009 № 17) and Main Parameters of the treasury investment portfolio of JSC “NC “KTZh” (BD resolution record of JSC “NC “KTZh” as of November 24, 2009 № 7).

This policy determines the strategic objectives, tasks and restrictions connected with TSF management by JSC “NC “KTZh” upon placement thereof in the financial instruments at the external and local financial markets, providing TSF safety at the set yield and risk level, to maintain the required liquidity level by JSC “NC “KTZh”.

Main parameters of the treasury investment portfolio of JSC “NC “KTZh” determine the portfolio structure and the list of financial instruments and admissible shares thereof upon TSF placement.

Besides within the frameworks of the Regulations on Establishment of Limits under Balance Liabilities, Off-Balance Liabilities Monitoring of Counter-Agent Banks and TSF Management in JSC "NC "KTZh", approved by the resolution of the Board of Directors of JSC "NC "KTZh" as of November 24, 2009 (record № 7), the Management Board of JSC "NC "KTZh" establishes the maximum permissible limits on direct liabilities of JSC "NC "KTZh" as per counter-agent banks (on the consolidate basis) not less than once a year as may be required.

These limits are established based on the actual needs in performance of the corresponding operations with counteragent banks and taking into account the results of analysis of the information on counter-agent bank and external macroeconomic factors.

JSC "NC "KTZh" within the permissible limits as per counter-agent banks, as well as taking into account the best interest rate and policy on financial risks diversification shall select the counter-agent bank for placement of TSF.



The Company's Debt Management

In order to make the decision on attraction of new loans JSC "NC "KTZh" shall calculate the financial coefficients determined by the loan agreements:

1) Loan Agreement between ABN AMRO Bank N.V. and "Lokomotiv-Leasing" LLP as of August 4, 2008, JSC "NC "KTZh" acts as the guarantor under this agreement:

- debt/equity capital – not more than 0,6;
- debt/EBITDA – not more than 3,5.

2) Loan Agreement between EBRD and JSC "Kaztemirtrans" as of March 29, 2010, JSC "NC "KTZh" acts as the guarantor under this agreement:

- Cover Ratio (EBITDA/ Interest expenses) – not more than 3,5;
- debt/EBITDA – not more than 3,75.

Also within the scopes of the current loan agreements there are non-financial liabilities, fulfillment of which towards the Creditors is permanently monitored.

High credit ratings and image of a reliable borrower, timely fulfilling the obligations under the loan agreements and committing no payment default for the entire credit history, allowed to JSC "NC "KTZh" to make borrowings on beneficial conditions at the external and local financial markets.

Taking into consideration the beneficial conditions of borrowings, the main part of the borrowed funds, including under Eurobonds, for financing of the Investment program is attracted by the Group mainly from the external markets for long-term periods.

For today JSC “NC “KTZh” cooperates with such international financial institutions and foreign banks, as Overseas Economic Cooperation Fund (OECF, Japan) for financing of the project “Development of Kazakhstan Railway Transport Capacities”, Instituto de Credito Oficial of the Kingdom of Spain under the project “Decrease of the Time Taken by the Passenger Trains at the Line Almaty–Astana to 12-14 Hours”, the US Export-Import Bank, RBS for financing of the project for modernization of locomotives with diesel-generators plants of General Electric, European Bank of Reconstruction and Development (EBRD) for financing of such projects as “Construction of the Primary Trunk Transportation Communication Network” and “Rolling Stock Purchase” and other.

Investment Activities

The investment activities of JSC “NC “KTZh” aim at realization of the set of measures to provide stable operation of railway transport, improvement of transportation services quality and safety.

The Company’s capital investments in 2010 amount 205 867 million tenge, which is 2 times higher than the level of 2009.

In 2010 the capital investments were used for:

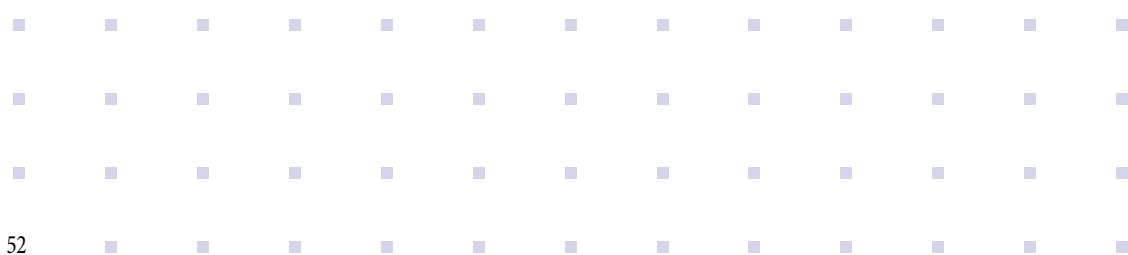
- construction of railway line Korgas – Zhetygen to the amount of 34 265 million tenge;
- construction of railway line Uzen – State Border with Turkmenistan to the amount of 22 567 million tenge;
- construction of plant for assembly of locomotives in Astana to the amount of 1 711 million tenge;
- renewal of locomotive fleet; 52 items to the amount of 22 414 million tenge;
- major repair of locomotives, 83 items to the amount of 4 798 million tenge;
- acquisition of freight cars, 1 231 items to the amount of 11 617 million tenge;
- major repair of freight cars, 1 192 items to the amount of 5 380 million tenge;
- acquisition of passenger cars (38 items) and electric trains (20 items) to the amount of 3 753 million tenge;

- major repair of passenger cars and electric trains, 147 items to the amount of 5 222 million tenge;
- major repair of track structure, 600 km to the amount of 29 498 million tenge;
- informatization, automation and development of telecommunications to the amount of 19 086 million tenge;
- measures aiming at development of border station Dostyk to the amount of 2 813 million tenge.

For renewal of the rolling stock and traction rolling stock, development of domestic transport machine-building and creation of the new market segment of import-substitution industry in Kazakhstan in 2010 implementation of the following large-scale projects commenced:

- Construction of the plant for production of passenger cars “Talgo” in Astana;
- Construction of the plant for production of up-to-date electric locomotives in Astana.

DEVELOPMENT STRATEGY OF JSC "NC "KTZH" TILL 2020







The resolution of the Board of Directors of JSC “NC “KTZh” as of May 7, 2010 approved the Development Strategy of JSC “NC “KTZh” till 2020.

This document reflects the target view of JSC “NC “KTZh” as the highly-efficient national transport corporation complying with the world best business practices.

JSC “NC “KTZh” considers its main objective to maximize the aggregate shareholder capital as the index satisfying the Shareholder’s requirements and assessing the activity efficiency of JSC “NC “KTZh” management.

All acts of JSC “NC “KTZh” in strategic and medium-term periods will be targeted to maximization of the aggregate shareholder equity at the expense of profitability (net income) growth.

For efficient achievement of its main objective JSC “NC “KTZh” intends to act systematically in the following four strategic directions:

1. Improvement of efficiency of production and economic activities of JSC “NC “KTZh”

To provide growth of the aggregate shareholder’s equity the Company will transfer from expense-oriented corporate culture to the culture aiming at maximization of efficiency of the involved resources and processes.

Also for provision of current operating stability and improvement of competitiveness of the provided services JSC “NC “KTZh” will implement the measures for decrease of production and administrative costs.

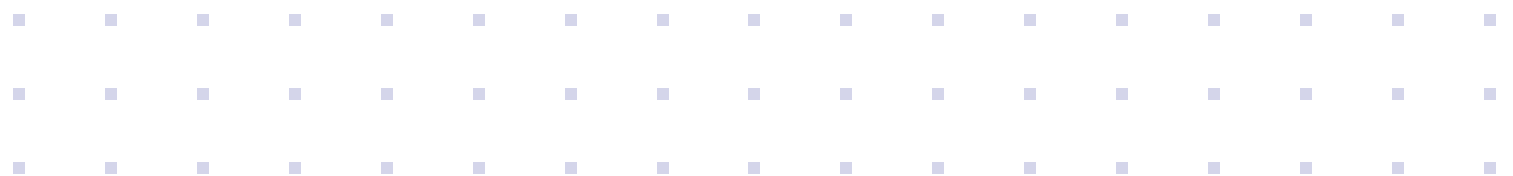
2. Maintaining leading positions at the freight transportation market

In order to provide the planned yield growth at the freight transportation market JSC “NC “KTZh” hold not less than 80% of the market share after opening of access to the railway infrastructure. For this the Company must introduce the customer-oriented approaches to transportation services provision.

3. Generation of the Effective Structure of Portfolio and Production Assets

The state intentions for liberalization of the railway branch and the constitutional changes connected therewith will impact the structure of JSC “NC “KTZh” as the branch-forming subject of the economy. In this connection JSC “NC “KTZh” planned the large-scale restructuring of the portfolio assets, which allows to generate the optimal structure taking into account the corporate and branch interests (concentration of resources in the key activities and promotion of the branch machine-building industry and repair facilities development).

So, based on the functions and property complex of “Trunk Network Directorate” branch a subsidiary JSC “KTZh-Infrastructure” will be established with 100% shareholding of JSC “NC “KTZh”. This Company will have the appropriate production and non-production assets, on its own be liable for production and financial results, and on its own provide access to railway infrastructure to the carriers.



Functions connected with provision of services for freight transportation will be transferred to the newly established subsidiary JSC “KTZh-Freight Transportation” with 100% shareholding in the authorized capital of JSC “NC “KTZh”. For efficient and comprehensive services provision for freight transportation JSC “KTZh-Freight Transportation” will be transferred with the trunk freight locomotives, freight cars fleet, containers fleet and all necessary technological and organizational range of procedures and assets.

Within the frameworks of restructuring JS “Passenger Transportation” will be renamed into JSC “KTZh-Passenger Transportation”, which will maintain the status of the National Passengers Carrier with 100% shareholding of JSC “NC “KTZh”. JSC “KTZh-Passenger Transportation” will own and manage the entire set of strategic assets (trunk passenger locomotives, passenger cars).

Along with transformation of the financial assets structure the optimization changes will also cover the production assets. Radical renovation and modernization of the fixed assets of JSC “NC “KTZh” will take place as the part of general-branch investment program.

During the period till 2020 the Company intends to invest about 3,06 trillion tenge.

4. Improvement of Activities Manageability

The measures for manageability improvement of JSC “NC “KTZh” activities will impact the management aspects of activities. In order to improve better transparency of management, improvement of responsibility, qualification, subordination and effectiveness JSC “NC “KTZh” will perform the work for introduction of the process approach to management.

Successful implementation of the Strategy will allow to make JSC “NC “KTZh” the highly-efficient commercial organization, providing high-quality transportation services at low costs level. In particular, within the frameworks of transformation the following changes are expected:

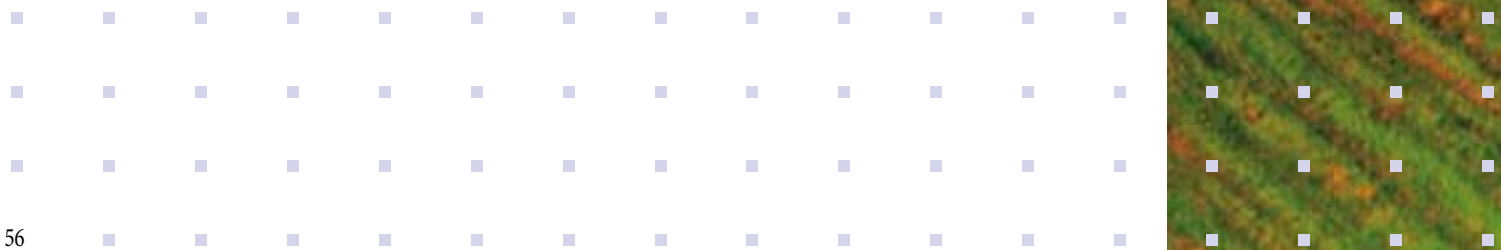
- Organizational structure will change. Instead of the structure targeted to production with the complicated interaction schemes, excessive elements and inefficient organizational structure, the flexible and simple structure, oriented to the market, which will help to JSC “NC “KTZh” to improve competitiveness will appear.

- The assets portfolio will be restructured. Instead of the large number of auxiliary subsidiaries the few profile assets having the strategic importance for JSC “NC “KTZh” will remain.
- Instead of low financial transparency the clear distribution of financial statements, providing unambiguous subordination and high transparency will appear.
- The infrastructure will change. Instead of the budget costs center with cross subsidizing at the expense of freight transportation there will appear the effective and independent supplier of railway infrastructure services with the transparent pricing.

STABILITY



- Corporate Risk Management
- Personnel and Social Policy
- Environmental Protection
- Occupational Health and Safety
- Traffic Safety





Corporate Risk Management

JSC "NC "KTZh" is aware of importance of the risk management as the key element of the Company's and its subsidiaries' corporate management aiming at timely identification and taking measures for mitigation of the risks, which may negatively impact its value and reputation.

Introduction of the corporate risk management system in JSC "NC "KTZh" is performed within the frameworks of fulfillment of JSC "NWF "Samruk-Kazyna" Recommendations, according to which introduction of the corporate risk management system must be performed in accordance with COSO model "Corporate Risk Management – "Integrated Model" (2004).

Within the frameworks of the projects for diagnostic of the corporate management of JSC "NC "KTZh", the international consulting company KPMG in 2010 conducted independent assessment of the risk management system of JSC "NC "KTZh" for the subject of its compliance with the world best practices requirements. According to assessment of the consulting company the level of "Risk Management" procedure compliance with the best practice requirements in 2010 constituted 75% (in 2009 – 40%).

In 2010 the work of the Board of Directors and the Management Board aimed at bringing of the corporate risk management system in compliance with the world best practices.



In 2010, the Risk Committee held 6 its meetings (as against 8 meetings in 2009) where decisions were made on:

- Development of the methodology of internal control and risk management,
- Operational risks,
- Financial risks (currency risk management, control and monitoring of direct liability limits on counterparty banks, etc.),
- Approval of the Policy of Interest and Currency Risks Hedging,
- Approval of the Risk Management System Performance Indicators,
- Approval of the Corporate Risks and Controls Matrix, etc.

Also the reports on the conducted work for introduction of the risk management systems in subsidiaries have been considered at the Committee meetings.

The Company discloses the note "Financial Instruments, objectives and policy on financial risks management" in the form of audited annual consolidated and separate financial statements of JSC "NC "KTZh".

In 2010 the Company accepted automated control system "Corporate Risk Management" on the basis of SAP GRC platform for pilot operation.

Within the frameworks of efficiency improvement of the corporate risk management system in 2010 the number of the following key undertakings was performed:

1. Within the scope of the corporate risk management system introduction the Company performed the procedures of risks identification, assessment, development of the plan of measures for risk management. According to the resolution of the Management Board of JSC "NC "KTZh" as of September 17, 2010 (minutes № 02/20) the Risks Register and Map of JSC "NC "KTZh" (on the consolidated basis), and the Plan of Risk Management Undertakings of JSC "NC "KTZh" for 2010–2011 were approved.

The procedure, order, risks identification and assessment methods, current risks control and monitoring of risks management methods efficiency in the Company are performed in accordance with the Regulations on Risks Identification and Assessment of JSC "NC "KTZh", approved by the resolution of the Company's Board of Directors as of October 19, 2009 (minutes № 6).

2. According to the Resolution of the Management Board as of December 30, 2010 (minutes № 02/30) the Corporate Risks and Controls Matrix of JSC "NC "KTZh" was approved. the Corporate Risks and Controls Matrix

was developed within the scope of the corporate management system improvement in accordance with the Plan of Undertakings for introduction of the Management Reports System in JSC "NC "KTZh" (minutes № 3 as of April 28, 2008). The corporate controls determine the Company's approach to structuring of the internal control system, detection of defects and determination of possibilities for improvement of the corporate management system. The corporate matrix reflects the current status of 104 corporate internal controls.

3. According to the Resolution of the Board of Directors as of December 23, 2010 (minutes № 9) the efficiency assessment indices of the risk management system of JSC "NC "KTZh". The efficiency indices for assessment of the risk management determine the Company's approach to assessment of efficiency of the corporate risk management system for assessment of its current condition and determination of possibilities for its further improvement. The efficiency indices for assessment of the Company's risk management system include

4 integral indices:

- 1) compliance of the risk management system with the best practices requirements,
- 2) the extent of the corporate controls introduction,
- 3) efficiency of business processes of the internal control system,
- 4) operating efficiency of the risk management system.

4. By Resolution of the Board of Directors as of 23 December 2010 (Minutes №9) the Policy of Interest and Currency Risks Hedging was duly approved. The above Policy of Interest and Currency Risks Hedging to be pursued by National Company "Kazakhstan Temir Zholy" Joint-Stock Company was elaborated with the purpose of minimization (reduction) of interest and currency risks, which can occur in connection with any adverse changes in the interest rates on floating rate loans and in the exchange rate of KZT to foreign currencies.

5. Within the frameworks of the internal control system improvement the Company has developed and approved the risks and controls matrix for the key business processes connected with preparation of financial statements, including the process of preparation and consolidation of financial statements. Assessment of the internal control efficiency is made in accordance with the Methods of Assessment of the Internal Control Efficiency (approved by the resolution of the Audit Committee of JSC "NC "KTZh" as of December 8, 2010, minutes № 09/10).



Personnel Policy

One of the most important resources for realization of strategic tasks set to Kazakhstan Railway Branch is the Company's personnel potentials. As of January 1, 2011 the total number of the Company's employees was 146 449 persons.

At the established key index of personnel fluctuations not exceeding 14%, the total level of personnel fluctuations in the group of companies according to the year results constituted 9,6%, in comparison with the year 2009 this index decreased by 5%.

The Company performs the purposeful work for improvement of personnel quality:

- selection to the vacant positions is made on the basis of competition procedures;
- personnel assessment is regularly performed: attestation, personnel audit.

The performed undertakings resulted in increase of the employees number with higher and secondary professional education: 79 241 persons in comparison with 77 699 persons at the beginning of the year.

In order to improve the quality of personnel the organizational work for development of the professional standards on the Company's positions was performed.

The average value of personnel satisfaction in the group of companies in 2010 constituted 62.5%, in 2009 this index was 61.5%, in 2008 – 45.6%.

Despite improvement of the personnel general satisfaction with working conditions in the Company further improvement of labor remuneration system, labor motivation and provision of employees with housing is required.

In 2010 about 29 thousand employees from the group of companies passed different types of professional training, including 42 employees at the enterprises of OJSC "RZhD", in 2009 more than 24 thousand employees attended training.

Within the frameworks of implementation of the state language policy undertakings, more than 5 500 employees from the group companies underwent training.

Education of 134 students under different programs is paid by the Company. The practical training in the structural divisions of the Company is arranged for more than 3 000 students, more than 1 200 young specialists are employed, 513 from this number are the graduates of KazATK.

The organizational work for creation of the up-to-date Training Center in Astana is conducted.

The Company has generated the personnel reserve consisting of 92 promising employees. The total number of personnel reserve in subsidiaries for the year 2010 is 1 469 persons.

In 2009 the percentage of rotations and appointments from the personnel reserve in the group companies constituted 53.1%, in 2010 this index was 28.3%.

In order to form positive motivation of employees the Company introduces the new system of labor remuneration, taking into consideration assessment of personnel activities for determination of labor remuneration level (grades).

The measures of moral stimulation are also actively used: 35 employees are awarded with state rewards, 2 661 employees are awarded with the branch and corporate rewards. For dedicated acts upon liquidation of the dike washing consequences at water reservoir in Kyzyl-Agash more than 1 000 persons are awarded with the Company's rewards.

Social Policy

The Main Directions of the Company's social programs are:

1. Housing Program

The Company pays a lot of attention to solution of the housing problems. The priority directions for the Company in this connection are:

1) provision of the employees of small stations and crossing points with housing.

The local acts, governing the procedure of housing provision to the Company's employees on the favorable conditions, and service housing, have been developed and subject to approval. Also in this connection, for the first time a separate program has been developed for housing provision to the employees working at the stations of 3, 4, 5 classes. The total number of stations attributable to the Company is 756, from this number 654 stations are of the 3, 4, 5 classes. Construction is planned to be conducted at 406 stations.

The Program is intended for 5 years, the approximate costs will amount 12 468 million tenge.

2) provision of transparency and fairness in the issues of housing distribution among the employees. For this purpose in June 2010 for the first time the electronic software for lists generation and analysis of data bases of the Company's employees, needing housing or improvement of housing conditions, was installed.



It is necessary to mention that prior to application of the electronic program and development of the strict criteria for selection of applicants the number of employees needing housing or improvement of housing conditions was 2 713 persons. For today the number of the employees needing housing or improvement of housing conditions is 1 165 persons.

In 2010 23 apartments were distributed in Astana, from this number 20 apartments were provided by Akimat of Astana, 2 apartments were provided under the Program of Leased Housing by Real Estate Fund "Samruk-Kazyna" and one apartment in the housing estate "Crown Plaza" was re-distributed.

Also at Dostyk station the keys from 216 new service apartments were distributed.

2. Support of Young Specialists

The total young employees (up to 30 years old) number in the Company is 39 047 persons.

In order to keep, help to professional formation, initiatives support and solution of social problems of the young employees, from the beginning of 2010 two programs have been launched in the Company: young employees camp with the motto "Sen Bolmasan Kim?", as well as regional republican forums of young employees "Zhastar – Temirzhol Bolashagy" within the frameworks of the programs "Project Management" and "Future Managers".

According to the results of the regional forums in September 2010 the Company's young employees took part in the IV Federal Youth Meeting of OJSC "RZhD" in Moscow and in the II International Youth Forum of Railway Trade Unions in Odessa, Ukraine.



By resolution of the 51st meeting of the Railway Transport Council of the Commonwealth Member-States for development of cooperation in the field of work with young employees of railway administrations and the branch higher educational institutions of the Commonwealth states, in April 2010 the Work Group under the Railway Transport Council was established for work with the youth. The representatives of JSC “NC “KTZh” have been also included in this Work Group.

One of the results of KTZh and RZhD cooperation within the frameworks of this Work Group was creation of students’ construction team and sending thereof for July–August for construction of Olympic objects in Sochi.

On October 3–11, 2010 the delegation of the Company’s young specialists took part in the Youth Forum of the World Public Fund “Dialogue o Civilizations” on Rhodes island, Greece.

During the period December 10–15, 2010 the I Republican Youth Forum of JSC “NC “KTZh” took place in Astana. The young specialists of JSC “NC “KTZh” selected at the regional youth forums took part in this forum. According to the results of the I Republican Youth Forum of JSC “NC “KTZh” 2 winning projects under the program “Project Management” are accepted for fulfillment and will be implemented in JSC “NC “KTZh” activities as the pilot projects with the corresponding financial support.

Also the young specialists – the winners under the programs “Project Management” and “Future Managers” were awarded with the grants under the program “Magistracy” (2 persons), advance training courses in the educational institutions of the Republic of Kazakhstan, neighboring countries and far-abroad countries (9 persons), and 10 persons were enrolled in personnel reserves. Besides, the young specialists – participants of the Republican Forum showing their professional skills in the forum work were appointed to corresponding positions (4 persons).

About 700 young employees passed training under the above-mentioned programs during the year 2010.

On a voluntary basis the selected KVN team “SV” was established in the Company from the number of employees of the Company’s structural divisions and subsidiaries. For today the team won good reputation both at Kazakhstan and international level, when it became a vice-champion of inter-regional KVN League “Astana” in 2009, holder of International KVN Festival rating “KIVIN-2010” of the International KVN Union “AMIK” in 2010, and a prizewinner in the series of other nominations of the Club.

The team successfully performed at the Festival of the International KVN Union in Sochi and in the Inter-Regional League of KVN “Astana”, participated in the final games of RZhD KVN League. In 2010 the team won Grand Prix of the Central-Kazakhstan KVN League at the Festival, which took place in Karaganda.

3. Medical Care and Sanatorium-Resort Sanitation

The main task of the Company as the employer in connection with provision of medical service is organization of timely and high-quality prior-to-shift medical examination of the employees at each station and cross point, as well as regular medical examinations of the employees involved in the work connected with train traffic and working in hazardous and dangerous working conditions.

Project “Specialized Medical Train “Zhardem”

As of December 14, 2010 presentation of the specialized medical train “Zhardem”. As of February 7, 2011 “Zhardem” train started from Astana station to the western region of the Republic of Kazakhstan.

Provision of sanatorium and resort treatment on the preferential bases is the integral part of the employees sanitation system and pensioners of the branch. In 2010 more than 7 000 employees and pensioners received treatment. In order to make sanatorium and resort sanitation more affordable for the Company’s employees in 2010 vouchers to 15 sanatoriums located in different regions of the Republic of Kazakhstan were purchased.

4. Care about Children of the Company's Employees

Social support of employees and children of railway employees is one of the priority directions of the Company's social policy.

According to the Collective Agreement annually more than 9 000 children of employees from the Group of Companies of JSC "NC "KTZh" during the period of school vacations receive sanitation in 16 children health camps of the Republic of Kazakhstan. So, in 2009 during the summer period 6 334 children had rest in the health camps, and in 2010 – 6 693 children. For the first time, 104 children improved their health in Bulgaria in the international children health camp "Summer Dream".

The children of employees of JSC "NC "KTZh" in the age of up to 10 years old, inclusive, are provided with the New Year presents, and take part in the New Year performances. The number of children, who received New Year presents and took part in the New Year performances was: in 2009 – 71 390 children, and in 2010 – 70 000 children.

In order to contribute to the corporate spirit, attract employees and their family members to the cultural life of JSC "NC "KTZh", propaganda of family values and increase of interests to the profession of railroader

among children of the railway transport employees, also for celebration of "Children Protection Day" holiday the following undertakings were implemented:

1) Competition of child and juvenile picture "Balausa Bolashak".

About 260 works of railway employees' children were submitted for competition. All participants were awarded with prizes, certificates and souvenirs.

The best works were issued in form of photo-album magazine.

2) Photo-Exhibition "I am Future Railroader!".

The participants of photo-exhibition are children and grand-children of employees of the companies group JSC "NC "KTZh" in the age of up to 16 years old. The employees of the companies group JSC "NC "KTZh" provided photographs of their children and grand-children for publication in the branch newspaper "Kazakhstan Temirzholschysy". All participants were awarded with souvenirs.

3) as of June 1 on the Day of Children Protection 800 children attended the performance of the puppet theater "Sezam" from Almaty.

5. Care about Veterans and Pensioners

49 906 thousand of non-working pensioners are registered in the Company's books.

The Company's costs for material support of pensioners in 2009 amounted 515 million tenge, in 2010 the expenses

planned for these purposes were increased by 15% and amounted about 593 million tenge.

Close to the 65th anniversary of the Victory in the Great Patriotic War 1941–1945 the Company provided material assistance to the veterans of GPW and NKPS, labor front participants awarded with the orders and medals of former USSR, as well as to people survived in blockade and prisoners of the concentration camps.

Besides in 2010 the Company provided free travel tickets to the participants and invalids of the Great Patriotic War on the territory of the Republic of Kazakhstan for the period from May till December 2010, and did not restrict the number of trips. From May 3 till 12, 2010 all participants and invalids of the war were provided with free meals in dining-cars.

For congratulation with the Victory Day the young employees of the National Company Youth Division "Zhas Otan" with flowers and presents went to the houses of participants and invalids of war.

As of May 6, 2010 in Mangistau region the Company welcomed the veterans of GPW, who participated in the ceremonial parade dedicated to the 65th anniversary of Victory in the Great Patriotic War.



7. Charity and Sponsor Assistance

The Company attaches a great importance to charitable activities aiming at implementation of the Company's uniform policy for support of the social sphere objects, realization of charitable programs, development of education, healthcare, science, arts, physical culture, sports and personal spiritual improvement.

The most important direction in the Company's charitable activities is social support of the most vulnerable population groups and provision of material assistance to them.

The Company jointly with Handicapped Children Society of Astana, Public Fund "Kazakhstan Professional HR Association" took part in organization of charitable concert for children with limited abilities and concerts with participation of Kazakhstan pop stars for collection of funds for children treatment.

For provision of help to railway employees and their family members suffered from the flood in Almaty region the Company assigned the monetary funds for major repair and construction of houses, as well as provision of material help.

Within the frameworks of sponsor assistance the number of the following social projects is developed: implementation of the so-called "children" projects ("For Children Going to School", "Railway Director's Grant", "Balapanym KTZh – for Children"), aiming at provision of onerous and comprehensive assistance to the regional schools in creation of comfortable conditions for successful study of every pupil, as well as for life quality improvement of children living at the remote stations and cross points.

In 2010 the project "Establishment of Central Railway Transport Museum" was launched, the museum was opened as of December 7, 2010 with participation of the Company's President.

The purpose of such museum creation is the excursion, educative and cultural acquaintance of the Company's employees. The museum provides the information on the events connect with the establishment and development of the railway in the Republic of Kazakhstan.

The most significant realized social project of 2010 at the Republican level is "Organization of the Specialized Medical Train "Densaulyk" created jointly with the Ministry of Emergency Situations of the Republic of Kazakhstan.



The train passed through the territories of Akmolinskaya, Pavlodarskaya, Karagandinskaya, Kostanaiskaya, Semipalatinskaya and North-Kazakhstan regions of the Republic of Kazakhstan with the total length of 7 553,5 km. For the period from July 2 till October 29, 2010, 23 980 persons applied for medical help to the medical specialists. The number of visits to the specialist in the train constituted 72 818 persons, it means that on average each visitor attended three medical specialists.

JSC "NC "KTZh" having submitted the project "Specialized Medical Train "Densaulyk", took part in the tender and won in the Republican tender on social responsibility of business "Paryz" in nomination "The Best Social Project of the Year" and took the 2 place. The project was also recognized as the Socially Responsible Project № 1 of the Year 2010 in Kazakhstan at the international festival "Choice of the year in Kazakhstan".

Environmental Protection

JSC "NC "KTZh" carrying out its activities assumes responsibility for environmental safety and prosperity.

The Company's environmental activities is carried out with the Environmental Code of the Republic of Kazakhstan, the Law of the Republic of Kazakhstan "On Railway Transport", other regulatory acts, international treaties and agreements, ratified by the Republic of Kazakhstan, as well as by the Regulations on Environmental Protection of JSC "NC "KTZh", which is the main local acts developed and approved in 2009.

In order to mitigate the negative impact of railway transport on the environment the Company annually develops and implements the Plan of Environmental Measures, providing for decrease of contaminating substances emissions to atmospheric air due to installation of dust-arresting equipment, transfer of boiler houses to alternative fuel types, installation and modernization of boiler units, replacement of traction rolling stock with environmentally friendly locomotives, electrification of trunk railway lines, liquidation of wastes sources.



In 2010 for realization of nature-conservation measures in the Company generally 307,6 million tenge was allotted. In 2010, 292,2 million tenge or 93.4% was used. From 158 undertakings planned in 2010 by the structural divisions and subsidiaries 154 (97%) were fulfilled. Non-drawing of the funds is the consequence of the planned undertakings non-fulfillment and decrease of the purchased services value in the process of tenders.

As a result of implementation of the nature-conservation measures in 2010 emission of the contaminating substances to atmospheric air decreased by 23.6% in comparison with the year 2009, and the quantity of generated wastes decreased by 9%, which allowed to decrease environmental fees by 12.2%.

Occupational Safety



Occupational safety management system in JSC “NC “KTZh” is governed by the Regulations on Occupational Safety Organization in JSC “NC “KTZh” and its subsidiaries approved by the resolution of the Management Board of JSC “NC “KTZh” as of July 7, 2010, minutes № 02/12.

These Regulations provide for responsibilities of all-level managers for provision of occupational safety, and special attention in these Regulations is concentrated on increase of personal responsibility of the Company’s managers for creation of healthy and safe working conditions for the employees.

The structural divisions of JSC “NC “KTZh” performed certain work for decrease of occupational safety violations, creation of appropriate working conditions, introduction of new equipment and advanced technologies, mechanization of production processes, reconstruction of buildings and constructions, development of production bases and reduction of manual labor. So, the consistent program of measures for decrease of the manual labor share and removal of the workers from hazardous areas is implemented.

As a result of work performed in 2010 the occupational traumatism decreased by 15% (35 accidents in 2010 against 41 accidents in 2009).

The indices of injures decreased:

- job-related injury frequency ratio per 1 000 workers in 2010 constituted 0.29 against 0.34 in 2009;
- accident severity ratio per 1 000 workers also decreased in 2010 – 16.38 against 21.48 in 2009.

Traffic Safety

In 2010 the implemented measures allowed to decrease the total number of traffic safety violations by 7 cases (from 524 to 517), the cases of work defects by 44% (from 98 to 54), special defects cases by 36% (from 22 to 14).

The defects frequency with respect to the transportations volume decreased from 0.28 to 0.14, or by 50% upon freight turnover increase by 9%.

Some indices under the classification of traffic safety violations significantly improved, the violations decreased as follows:

- derailling from 2 to 0;
- traffic accidents from 2 to 0;
- collision of passenger and freight trains from 1 to 0;
- uncoupling of cars from passenger trains from 1 to 0;
- damage of locomotive in passenger train from 8 to 4;
- derailling while shunting operations from 18 to 11;
- trains delay for more than 1 hour because of failures of technical facilities, rolling stock nearly by two times (from 45 to 18).

The following indices decreased:

- traffic safety violations in the following divisions: signaling and communications – by 58%, traffic – by 36%, locomotive department – by 14%, electrical supply – by 11%;
- the defects in the following divisions: passenger division from 3 to 0, cars division from 13 to 9, lines and constructions from 15 to 8, locomotive division from 51 to 24, traffic division from 11 to 8.

The share of the departments in the total number of defects (54) is as follows: locomotive department – 44%, cars department – 17%, lines and traffic department – by 15%, signaling and communications, electric power supply – by 4%, freight department – 2%.

These work results were achieved due to implementation of the systematic measures in accordance with the order “On Management System and Measures for Organization of Traffic Safety Provision” as of January 5, 2009 № 01-ЛЛ for the period of 2009–2011.







For the year 2011 the Company expects the following production indices:

- Tariff freight turnover will constitute 213 814 million t-km, increasing by 0.3% in comparison with the year 2010;
- Passenger turnover will constitute 14 018 million passenger-km, increasing by 0.2% in comparison with the year 2010.

The total incomes from transportation activities of the group of companies of JSC "NC "KTZh" in the year 2011 are expected to amount 669.9 billion tenge.

State subsidies for the year 2011 are expected to amount 18.6 billion tenge, which is 21% higher than the level of 2010 due to increase of subsidies volume provided from the Republican budget.

The cost price of the principal activities for the year 2011 is planned to amount 465.7 billion tenge with 14% growth in comparison with the level of the year 2010.

Financial costs (expenditure for financing) are forecasted to amount about 21.9 billion tenge, which is higher than the level of financing in the year 2010 by 78%, such financing is planned to be provided through attraction of borrowed funds for implementation of infrastructure projects.

The net income is planned to amount 85.4 billion tenge, which is 31% higher than in the year 2010.

In 2011 it is necessary to provide fulfillment of the investment plan to the amount of 317 813 million tenge.





The main investment priorities for the year 2011:

- Construction of new railway line Korgas-Zhetygen to the amount of 49 568 million tenge;
 - Construction of Uzen – State border with Turkmenistan section to the amount of 21 552 million tenge;
 - Construction of primary trunk transport communication network to the amount of 5 338 million tenge;
 - Major repair of railway line overhead structure of 623 km length to the amount of 28 997 million tenge;
 - Renewal of freight cars fleet – 65 982 million tenge (6 070 units);
 - Renewal of locomotives fleet – 41 174 million tenge (76 units);
 - Major repair of locomotives in the volume of 85 units to the amount of 5 290 million tenge;
 - Major repair of freight cars in the volume of 1 524 units to the amount of 8 183 million tenge;
 - Major repair of passenger cars and electric trains in the volume of 77 units to the amount of 2 679 million tenge.
- Within the frameworks of Strategic Undertakings for the Year 2011 the Company is expected to fulfill the task of the State Head and towards the 20th Anniversary of Independence of the Republic of Kazakhstan launch trains operation at the railway lines Zhetygen – Korgas and Uzen – State border with Turkmenistan, and commission the plant for passenger cars construction.



CONSOLIDATED FINANCIAL STATEMENTS



- Consolidated Statement of Financial Condition
- Consolidated Statement of Aggregate Income
- Consolidated Cash Flow Statement
- Consolidated Report on Changes in Equity



CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

as of December 31, 2010 (in thousand tenge)

ASSETS	DECEMBER 31, 2010	DECEMBER 31, 2009
LONG-TERM ASSETS		
Fixed assets	978,927,703	833,599,921
Intangible assets	5,300,895	4,488,144
Investments in associated companies	2,777,494	2,467,654
Other long-term assets	31,351,523	9,941,969
TOTAL LONG-TERM ASSETS	1,018,357,615	850,497,688
CURRENT ASSETS		
Commodities and materials	22,501,420	20,942,968
Trade accounts receivable	4,158,440	6,062,863
Other financial assets	122,201,395	17,706,980
Income tax pre-paid	2,822,661	8,436,108
Assets intended for the Shareholder's benefit	9,170,284	-
Other current assets	26,397,658	38,490,712
Cash and cash equivalents	94,629,601	52,442,441
Monetary funds restricted for use	227,662	233,714
TOTAL CURRENT ASSETS	282,109,121	144,315,786
TOTAL ASSETS	1,300,466,736	994,813,474
CAPITAL AND LIABILITIES		
CAPITAL		
Authorized capital	521,100,457	486,220,457
Additional paid-in capital and unissued authorized capital	41,472,001	20,254,432
Provisions from foreign currencies revaluation	(103,797)	(83,546)
Undistributed income	189,734,202	154,611,850
EQUITY CAPITAL OF THE PARENT COMPANY'S SHAREHOLDER	752,202,863	661,003,193
Minority interests	(2,089)	-
TOTAL CAPITAL	752,200,774	661,003,193
LONG-TERM LIABILITIES		
Loans	41,241,101	31,841,262
Issued debt securities	153,740,906	117,706,342
Liabilities under financial leasing	4,945,560	5,268,051
Obligations under remuneration to employees	13,372,274	12,595,946
Liabilities under deferred income tax	83,745,025	45,760,039
TOTAL LONG-TERM LIABILITIES	297,044,866	213,171,640
CURRENT LIABILITIES		
Short-term loans	-	4,860,026
Current part of long-term loans	30,135,249	11,339,472
Current part of issued debt securities	68,927,178	1,092,377
Current part of liabilities under financial leasing	508,648	476,428
Current part of obligations for remuneration of employees	1,647,539	979,120
Trade accounts payable	59,729,674	43,642,693
Income tax liabilities	152,042	80,898
Taxes and other compulsory payments to the budget	5,208,657	8,204,631
Other current liabilities	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

CONSOLIDATED CASH FLOW STATEMENT

for the Year, Ended as of December 31, 2010 (in thousand tenge)

CASH FLOWS FROM OPERATING ACTIVITIES:	YEAR 2010	YEAR 2009
INCOME BEFORE TAXATION	105,024,871	32,371,942
ADJUSTMENTS TO:		
Wear and depreciation	52,049,377	47,850,299
Financial costs	12,322,041	9,673,490
Provisions for devaluation under value added tax subject to reimbursement	8,998,670	1,465,167
(Income)/loss under the penalties accrued	(121,529)	52,922
Penalties for non-fulfillment of contract conditions	3,801,217	22,470
(Recovery of loss)/loss from fixed assets devaluation	(189,426)	1,409,623
(Incomes)/expenses from retirement of fixed assets and other capital funds	(520,791)	5,806
Financial income	(3,284,929)	(2,661,506)
Actuarial obligations under the plans with the fixed payments	2,760,516	954,856
Share in (income)/loss of associated organizations	(330,211)	90,039
Restoration of provisions for non-liquid and obsolete commodities and materials	(643,232)	(316,531)
Accrual of provisions under doubtful debts	1,295,263	2,067,730
Accrual of provisions under unused vacations	953,197	439,871
Negative exchange rate difference	145,682	25,317,850
Other loss/(income)	53,396	(1,085,399)
OPERATING INCOME BEFORE CHANGE IN CIRCULATING CAPITAL	182,314,112	117,658,629
Decrease of trade accounts receivable	1,693,120	540,437
Increase of commodities and materials	(1,337,643)	(1,777,654)
Decrease/(increase) of other current and long-term assets (including increase of long-term VAT subject to reimbursement)	735,075	(6,794,217)
Increase/(decrease) of trade accounts payable	4,839,151	(6,596,196)
Increase of other taxes payable	5,093,492	1,641,758
Increase of other current liabilities	2,896,324	5,919,895
Decrease of liabilities under remuneration to employees	(1,315,769)	(915,352)
Decrease of other long-term liabilities	-	(1,010,287)
Monetary funds received from operating activities	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
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Acquisition of fixed assets	(206,033,921)	(101,283,773)
Acquisition of intangible assets	(1,945,366)	(14,866)
Advances issued for construction of housing estate objects	-	(1,150,031)
Acquisition of investments	(4,229,862)	(1,699,136)
Interests received	2,502,378	2,719,810
Acquisition of short-term investments	(173,529,797)	(20,902,951)
Revenues from short-term investments sale	69,375,889	20,200,103
NET CASH FLOWS USED IN INVESTMENT ACTIVITIES	(313,860,679)	(102,130,844)

CASH FLOWS FROM FINANCIAL ACTIVITIES:		
Contribution to authorized capital	52,458,867	1,578,000
Loans received	52,622,821	14,715,303
Revenues from issue of bonds	103,013,775	-
Repayment of loans	(20,564,946)	(4,583,542)
Contribution to minority interests	10,870	-
Dividends paid	(2,923,319)	(2,888,266)
Acquisition of assets intended for the benefit of the Shareholder	(9,170,284)	-
Repayment of obligations for financial leasing	(339,553)	(124,792)
NET CASH FLOWS FROM FINANCIAL ACTIVITIES	175,108,231	8,696,703
NET INCREASE OF CASH AND CASH EQUIVALENTS	42,230,158	3,401,045
Cash and cash equivalents as of the beginning of the year	52,442,441	49,164,450
Currency exchange rates change effect on the balance of cash and cash equivalents nominated in foreign currency	(42,998)	(123,054)
CASH AND CASH EQUIVALENTS AS OF THE END OF THE YEAR	94,629,601	52,442,441

During the year the Group has the following non-monetary operations:

Purchase of assets under the financial leasing contracts to the total value of 3,506 thousand tenge (2009: 1,565,960 thousand tenge)

CONSOLIDATED REPORT ON CHANGES IN EQUITY

for the Year, Ended as of December 31, 2010 (in thousand tenge)

	AUTHORIZED CAPITAL	ADDITIONAL PAID-IN CAPITAL AND UNISSUED AUTHORIZED CAPITAL	PROVISIONS FROM FOREIGN CURRENCY TRANSLATION	UNDISTRIBUTED INCOME	SHARE OF THE PARENT COMPANY'S SHAREHOLDER	MINORITY INTERESTS	TOTAL CAPITAL
AS OF JANUARY 1, 2009	484,642,457	21,589,270	(389,810)	138,011,329	643,853,246	-	643,853,246
Income for the year	-	-	-	19,488,787	19,488,787	-	19,488,787
Other aggregate income for the year	-	-	306,264	-	306,264	-	306,264
Aggregate income for the year	-	-	306,264	19,488,787	19,795,051	-	19,795,051
Contributions to authorized capital	1,578,000	6,462	-	-	1,584,462	-	1,584,462
Payment of dividends	-	-	-	(2,888,266)	(2,888,266)	-	(2,888,266)
Distribution minus deferred taxes in the amount of 236,700 thousand tenge	-	(1,341,300)	-	-	(1,341,300)	-	(1,341,300)
AS OF DECEMBER 31, 2009	486,220,457	20,254,432	(83,546)	154,611,850	661,003,193	-	661,003,193
Income for the year	-	-	-	65,175,379	65,175,379	(12,959)	65,162,420
Other aggregate income for the year	-	-	(20,251)	-	(20,251)	-	(20,251)
Aggregate (loss)/Income for the year	-	-	(20,251)	65,175,379	65,155,128	(12,959)	65,142,169
Contributions to authorized capital	34,880,000	17,578,867	-	-	52,458,867	10,870	52,469,737
Payment of dividends	-	-	-	(2,923,319)	(2,923,319)	-	(2,923,319)
Distribution	-	(4,116,700)	-	(27,129,708)	(31,246,408)	-	(31,246,408)
Distribution – adjustment of loan by fair value minus deferred tax in the amount of 1,938,850 thousand tenge	-	7,755,402	-	-	7,755,402	-	7,755,402
AS OF DECEMBER 31, 2010	521,100,457	41,472,001	(103,797)	189,734,202	752,202,863	(2,089)	752,200,774



MAIN PRODUCTION AND FINANCIAL INDICES OF THE GROUP OF COMPANIES OF JSC “NC “KTZH”

DESCRIPTION	UNIT OF MEASURE	2008	2009	2010
1	2	3	4	5
FREIGHT LOADED	thousand tons	234 990	219 382	239 314
TARIFF FREIGHT TURNOVER	million t-km	214 907	197 302	213 174
Including as per types of communications:				
Internal republican	million t-km	81 924	75 427	82 877
export	million t-km	83 955	79 763	87 898
import	million t-km	22 508	17 656	18 229
transit	million t-km	26 520	24 456	24 170
FREIGHT TRANSPORTED	thousand tons	268 890	247 677	267 735
Including as per types of communications:				
Internal republican	thousand tons	139 960	131 321	140 876
export	thousand tons	93 356	85 707	96 026
import	thousand tons	20 115	15 890	16 866
transit	thousand tons	15 459	14 759	13 967
AVERAGE TRANSPORTATION DISTANCE OF 1 TON OF FREIGHT	km	799	797	796
Including as per types of communications:				
Internal republican	km	585	574	588
export	km	899	931	915
import	km	1 119	1 111	1 081
transit	km	1 715	1 657	1 731
Passenger turnover (JSC "PT" excluding private companies)	million p-km	10 608	12 912	13 991
Passengers transported (JSC "PT" excluding private companies)	thousand passengers	11 268	14 117	15 016
Average occupancy (JSC "PT" excluding private companies)	passenger/car	31	33	33
Passenger turnover, total (with private companies)	million p-km	14 450	14 860	15 448
INCOMES FROM PRODUCTS REALIZATION	thousand passengers	13 633	16 208	16 706
COST PRICE OF REALIZED PRODUCTS	passenger/car	39	30	30
GROSS INCOME	thousand tenge	483 763 360	482 463 447	586 850 120
INCOMES FROM FINANCING	thousand tenge	377 182 960	370 430 500	409 383 605

