MANAGEMENT REPORT 2010

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1. BUSINESS REVIEW

OVERVIEW

Zhaikmunai L.P. is the indirect holding entity of Zhaikmunai, an independent oil and gas enterprise currently engaging in the exploration, production and sale of crude oil and gas condensate in northwestern Kazakhstan. Zhaikmunai's field and Licence area is the Chinarevskoye Field located in the northern part of the oil-rich Pre-Caspian Basin, one of the largest oil-producing regions in central Asia.

The Chinarevskoye Field, approximately 274 square kilometres in size, is located in the West-Kazakhstan oblast, near the border between Kazakhstan and Russia, and close to the main international railway lines as well as to several major oil and gas pipelines. The Chinarevskoye Field is Zhaikmunai's sole source of production and production growth. According to management estimates based on data included in the 2009 Ryder Scott Report, as at 1 July 2009, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 527 million boe, of which 212 million bbl was crude oil and condensate, 79 million bbl was LPG and 235 million boe was sales gas. Management has also estimated, based on the 2009 Ryder Scott Report, that the Chinarevskoye Field contains approximately 556.3 million boe of possible hydrocarbon reserves.

Zhaikmunai's operational facilities are located in the Chinarevskoye Field and, as at 31 December 2010, consisted of an oil processing facility capable of processing 400,000 tonnes per year of crude oil, multiple oil gathering and transportation lines including an oil pipeline from the field to its oil loading rail terminal in Rostoshi near Uralsk, a 17 kilometre gas pipeline from the field to the Orenburg-Novopskov pipeline, a gas powered electricity generation system, warehouse facilities and an employee field camp.

In May 1997, Zhaikmunai was granted exploration and production licences with respect to the Chinarevskoye Field, which initially covered the entire Chinarevskoye Field. In December 2008, Zhaikmunai received an extension of its production licence. The new production licence is valid until 2033 for all horizons (other than the Northeastern Tournaisian reservoir for which the production licence is valid until 2031) and oil or gas-condensate bearing reservoirs and covers 185 square kilometres of the Licence area. The production licence covers almost all proved, probable and possible reserves reported by Ryder Scott as at 1 July 2009. In addition, its exploration licence was extended for an additional three years until 26 May 2011 and an further extension until 31 December 2012 has been applied for.

During October 1997, Zhaikmunai entered into a production sharing agreement ("**PSA**") with the Government which has been subsequently amended eight times, see "*Business Review—Subsoil Licences and Contracts—The Licence and The PSA*". The PSA sets forth parameters for the exploration and development of the Chinarevskoye Field and the fees, oil profit sharing and tax liabilities payable to the Government. To date, Zhaikmunai has met all of its capital investment obligations under the PSA.

Zhaikmunai began its first test crude oil production in October 2000 and began commercial production on 1 January 2007. See "*Business Review—Operations—Capital Investments—Gas Treatment Facility*". Zhaikmunai currently sells 85% of its crude oil in the export market and 15% of its crude oil in the domestic market. Zhaikmunai's crude oil has typically been sold to one or more oil traders on the basis of FCA (free carrier) Uralsk. However, Zhaikmunai recently started to sell its crude oil on the basis of DAF (delivery at frontier) and FOB (free on board) terms in order to reduce its overall transportation costs. In each case, Zhaikmunai directly transports all its crude oil through its newly completed oil pipeline to its rail loading terminal in Rostoshi near Uralsk, located approximately 120 km from the Chinarevskoye Field. The crude oil is subsequently transported by rail to oil refineries located in Finland and the Ukraine.

To date, all of Zhaikmunai's revenues have been generated by its crude oil sales. In 2010, Zhaikmunai had revenues of US$178.2million and EBITDA of US$98.8 million, compared to revenues of US$116.0 million and EBITDA of US$58.9 million in 2009.

In addition, the Group has built an associated gas treatment unit and a condensate gas treatment unit (the **Gas Treatment Facility**) with two gas treatment units for full utilisation of the associated gas produced by the Group, which is essential for its continued crude oil production, and the treatment of gas condensate to produce dry gas for sale. The Gas Treatment Facility has been built by JSC OGCC KazStroyService ("**KSS**"). Mechanical completion of the first phase of the Gas Treatment Facility occurred on 29 September 2010 when a working commission composed of representatives from Zhaikmunai, KSS, general project designer NipiNeftiGaz and seven governmental authorities of the Republic of Kazakhstan (the "**Working Commission**") issued its formal decision declaring that the construction of Zhaikmunai's Gas Treatment Facility has been completed generally in accordance with Kazakh standards. State Acceptance Commission approval was received at the end of December 2010 and test production has started.. As of 31 December 2010, the outstanding amounts due to KSS for construction of the Gas Treatment Facility were US$24.1 million, which includes US$22.4 million (rising to a payment of US$22.7 million by completion) to be paid to KSS after takeover. Other ongoing projects include the construction of a reservoir pressure maintenance system (which was completed at the end of

2010). Zhaikmunai plans to finance all of its capital expenditures in relation to monetising its existing proved reserves from internal cash flow and the proceeds of the Notes. Once the first phase of the Gas Treatment Facility has been successfully implemented along with further successful results in converting probable reserves into proved reserves, Zhaikmunai may consider building a third gas treatment unit which is the second phase of the project.

STRENGTHS

We believe that the key strengths of the Group are as follows:

- *Strong reserve base*

  According to management estimates based on the 2009 Ryder Scott Report, as at 1 July 2009, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 527 million boe. These estimated reserves comprise proved crude oil and gas condensate reserves of 58.5 million bbl and 153.5 million bbl of probable crude oil and gas condensate reserves, together with 59.5 million boe of proved gas reserves and probable gas reserves of 176 million boe and 21 million bbl of proved LPG reserves and probable LPG reserves of 58.1 million bbl.

- *Upside potential of existing possible reserves*

  Management estimates, based on the 2009 Ryder Scott Report, that the Chinarevskoye Field has possible hydrocarbon reserves of approximately 559 million boe. According to management estimates based on data included in reserves reports prepared by Ryder Scott, since 1 January 2004, Zhaikmunai has increased its proved hydrocarbon reserves from 28 million boe to 139 million boe, as at 1 July 2009. Based on its track record to date and Zhaikmunai's drilling expertise, management believes that Zhaikmunai is well positioned to continue converting possible reserves into probable reserves and probable reserves into proved reserves. In addition, Zhaikmunai is permitted under the terms of the PSA to undertake further exploration of the Chinarevskoye Field until May 2011 (or, subject to extension of the exploration permit, 31 December 2012) which may lead to the discovery of further possible reserves.

- *Strong track record within the Chinarevskoye Field*

  Zhaikmunai has a strong track record of successful exploration and production within the Licence area. Constructive analysis by Zhaikmunai personnel of 3-D seismic surveys covering the entire Chinarevskoye Field has allowed Zhaikmunai to position wells effectively. Every production well drilled since Zhaikmunai entered into the PSA has yielded commercially viable amounts of hydrocarbons. Since 2004, management has introduced Western-standard drilling rigs and competition among drilling contractors to further improve drilling efficiency. Further, crude oil production increased from an average of 2,210 bpd in 2004 to an average of 7,752 bpd in 2010, virtually unchanged compared to 7,442 bpd in 2009.

- *High quality crude oil*

  The crude oil produced by Zhaikmunai is a high quality "sweet" crude oil with an average API gravity of 40-41.5^{o} and a low sulphur content of approximately 0.4%. The high quality of its crude oil allows Zhaikmunai to sell its crude oil at a smaller discount to Brent crude than other oil producers in the region.

- *Advantageous location*

  Zhaikmunai's facilities are located in western Kazakhstan approximately 60 kilometres from the Russian border, which reduces overall transportation distances from the Group's production operations to ultimate purchasers of its oil in European markets. In addition, Zhaikmunai's operations are located close to various transportation routes, being 17 kilometres from the Orenburg- Novopskov gas pipeline (which has been constructed and is awaiting commissioning) and less than 100 kilometres from rail links and the Atyrau- Samara oil pipeline. The completion of the oil pipeline from Zhaikmunai's facilities to its rail terminal in Rostoshi near Uralsk gives Zhaikmunai direct access to the rail terminal and an option for a direct connection to the export pipeline to Samara which is crossed by the Zhaikmunai pipeline. Zhaikmunai's location provides reduced transportation distances and access to flexible transportation links, each of which allows it to benefit from reduced transportation costs.

- *Beneficial terms under the PSA*

  Zhaikmunai currently benefits from a relatively low tax and royalty payment burden under the PSA as the terms of the PSA have been "grandfathered" from its signing in 1997. As such, the terms of the PSA allow

Zhaikmunai to predict the Government's share of production revenue with reasonable certainty (although such "grandfathering" could be challenged by the Government). Royalty taxes on production range from 3% to 7% on crude oil and between 4% and 9% on gas depending on the level of production. Government share of production ranges from 10% to 40%, depending on the level of production. However, such share is applied to that proportion of production referred to as "profit oil", being that amount of oil produced in excess of allowable expenditure (limited to 90% of its hydrocarbon production or an equivalent amount in monetary terms) thereby allowing for recovery of capital expenditures incurred by the Group in relation to its petroleum operations.

- *Strong management team*

  The Group benefits from management with significant experience in the oil and gas sector in general, and Kazakhstan in particular. Our Chief Executive Officer has more than 25 years of experience in the oil and gas industry, including approximately 11 years experience working in emerging markets for the Gaz de France group. In addition, Zhaikmunai has introduced experienced senior managers in key departments, including geology, drilling, production and engineering, with an average experience of 20 years in the oil and gas industry.

STRATEGY

The Group intends to maintain Zhaikmunai as an exploration and production oil and gas company focused on the Chinarevskoye Field. The Group's goals are to maximise the conversion of its existing probable reserves into proved reserves and its possible reserves into probable reserves and to increase long-term production potential. To achieve these goals, the Group is pursuing the following strategies:

- *Expand existing reserve base*

  Increases in drilling and improvements in oil recovery techniques are expected to improve the Group's ability to convert probable and possible reserves into proved and probable reserves. Using the existing 3-D seismic mapping of the Chinarevskoye Field and its understanding of the geological features of the Licence area, Zhaikmunai plans to continue positioning wells effectively to improve the probability of converting possible reserves into probable reserves and probable reserves into proved reserves. In addition, significant exploration potential exists in the reservoirs located in the Chinarevskoye Field, which the Group plans to explore to increase its reserve base. In May 2008, Zhaikmunai declared commercial prospects for six discoveries in the Chinarevskoye Field.

- *Further increase production of liquids*

  The Group intends to increase Zhaikmunai's annual crude oil and condensate production, which, according to Ryder Scott, is expected to peak in 2015 at an average of approximately 62,000 bpd as compared to an average of 7,753 bpd produced in 2010. This increase is expected to be achieved by increasing the number of wells drilled per year and enhancing oil recovery methods, as well as extending the hydrocarbon production areas of the Chinarevskoye Field following completion of exploration activities. For example, Zhaikmunai plans to drill five more production wells and one appraisal well in 2011 and to drill an average of 13 wells per year between 2012 and 2014.

- *Monetise gas reserves*

  A substantial portion of the Group's reserves comprise gas. To monetise these reserves, the Group has built the first phase of the Gas Treatment Facility and associated projects; the first phase of the construction of the Gas Treatment Facility will cost approximately US$227.0 million. The facility is expected to process both associated gas and wet gas from gas condensate reservoirs. The processing of associated gas is expected to enable the Group to cease flaring crude oil gas production, while the capability to treat wet gas is expected to allow the Group to start the development of the Licence area's gas condensate fields. The Gas Treatment Facility will also include a gas-fired power plant with an output of 15 megawatts that is expected to provide the field site with all required electricity. Mechanical completion of the first phase of the Gas Treatment Facility occurred on 29 September 2010 when the Working Commission issued its formal decision declaring that the construction of Zhaikmunai's Gas Treatment Facility has been completed generally in accordance with Kazakh standards. State Acceptance Commission approval was received at the end of December 2010 and test production has started. Management estimates, based on the production profile of both proven and probable reserves reported in the 2009 Ryder Scott Report, that annual raw gas and LPG productions are expected to peak in 2017 at 4.0 billion cubic metres and 0.9 billion cubic metres, respectively.

- *Increase the number of products and customers*

The Group has significantly improved its transportation infrastructure for crude oil, thereby reducing transportation risks and costs. In 2008, the Group successfully completed the construction of its own crude oil pipeline that connects the Chinarevskoye Field with its rail loading terminal in Rostoshi near Uralsk. Management believes the pipeline offers a more secure delivery method which will improve efficiency, reduce the risks of oil spills and result in lower costs through economies of scale. The costs of constructing the crude oil pipeline and rail loading terminal amounted to approximately US$97 million. To date, management estimates savings in transportation costs associated with the pipeline amount to approximately US$25 per tonne. In addition, Zhaikmunai's 17 kilometre gas pipeline linking it to the Orenburg-Novopskov gas pipeline has been successfully constructed and was commissioned in February 2011. The Company will continue to explore the most economically efficient transport routes for each of its products.

HISTORY

Zhaikmunai L.P. was formed in August 2007 as an Isle of Man limited partnership. Zhaikmunai was registered on 20 March 1997 as a Kazakh limited liability partnership and obtained the Licence from AO Condensate which was granted the Licence in January 1996. Zhaikmunai entered into the PSA in October 1997.

In September 2004, Thyler Holdings Limited ("**Thyler**") acquired 100% of Scoulton Holdings Limited ("**Scoulton**"), which in turn indirectly held 100% of the partnership interests in Zhaikmunai. In connection with the admission of the GDRs to the official list of the FSA in 2008, Scoulton undertook an intra-group reorganisation in March 2008, which resulted in Zhaikmunai L.P. indirectly holding all of the partnership interests in Zhaikmunai. In addition, ZGL became the General Partner of Zhaikmunai L.P. A description of ZGL as the General Partner is set out in "*Management and Corporate Governance*".

CORPORATE STRUCTURE

Zhaikmunai L.P. is a limited partnership whose ownership interests consist of (a) the Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai L.P. and (b) the general partner interest held by Zhaikmunai Group Limited ("**ZGL**"). The holders of the Common Units are the limited partners of Zhaikmunai L.P., who hold 185 million Common Units, of which 184,999,990 are held by The Bank of New York Mellon in its capacity as depository for the holders of GDRs but which has no beneficial interest in such Common Units. The management of Zhaikmunai L.P. is exercised by the general partner, ZGL which is wholly owned by Thyler, indirectly controlled by Frank Monstrey, the Chairman of the board of directors of ZGL.

OPERATIONS

Zhaikmunai conducts its operations in the Chinarevskoye Field. The Group does not hold, nor does it currently have plans to acquire, any other rights to extract crude oil or hydrocarbons elsewhere in Kazakhstan or abroad. .

Chinarevskoye Field

History of Operations

Oil and gas operations in the Chinarevskoye Field began during the Soviet era with the drilling of nine wells. Hydrocarbons were discovered in the Biski- Afoninski reservoirs in 1991. The discovery of the Tournaisian reservoir was made in 1992. In 1997, Zhaikmunai was granted a subsoil use licence (the "**Licence**") and entered into the PSA and commenced exploration activities in the Chinarevskoye Field. Three of the wells that were drilled during Soviet times were reactivated between 2000 and 2002. In 2003, Zhaikmunai discovered the Givetian accumulation and in 2004 the Lower Permian reservoir was successfully tested. An oil treatment facility was completed in July 2006. In 2007, crude oil was discovered in the Bashkirian formation. In May 2008, commercial prospects were declared for the Mullinsky oil and gas condensate pool, the Ardatovsky gas condensate pool, the Famenian oil and gas condensate pool and the Biski-Afoninski oil and gas condensate pool. New commercial discoveries were also made in the south and west regions of the Tournaisian reservoir.

In 2004, new senior management was appointed at Zhaikmunai which instituted a strategy of increasing drilling and improving infrastructure, as well as focusing on improving the level of reserves. In the same year, Zhaikmunai commissioned Ryder Scott to conduct an independent engineer's reserves assessment for the Licence area according to PRMS standards. According to management estimates based on data included in the Ryder Scott reserves report of 2004, Zhaikmunai had approximately 28 million boe of proved reserves. Zhaikmunai's primary exploration effort from 2004 to 2006 was dedicated to the Tournaisian horizon. Zhaikmunai commissioned further independent engineer's reserves reports from Ryder Scott in 2006 and 2008. As a result of increased drilling and improved geological data, management estimated that, as at 1 July 2009, based on Ryder Scott Reports, Zhaikmunai had increased its proved reserves by 400% to 139 million boe and its probable reserves by 129% to 388 million boe (each as compared to 2004). Crude oil production increased from an average of 2,210 bpd in 2004 to an average of 7,752 bpd in 2010. According to the 2009 Ryder Scott Report, as at 1 July 2009, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 527 million boe.

Following successful test production from the Tournaisian reservoir during the exploration phase of the Licence, Zhaikmunai commenced commercial crude oil production from the Tournaisian reservoir on 1 January 2007. Zhaikmunai has obtained a production permit for the Mullinsky, Ardatovsky, Famenian and Biski- Afoninski reservoirs, and will begin production once the Gas Treatment Facility becomes operational. Zhaikmunai expects to continue exploration activities in the North Biski-Afoninski, Lower Permian and North Tournaisian reservoirs and the Givetian accumulations until the expiry of the exploration period under the PSA in May 2011 (or, if the exploration permit is extended, 31 December 2012).

Oil and Gas Reserves

The following table sets forth Zhaikmunai's gross proved, probable and possible hydrocarbon reserves at the Chinarevskoye Field based on data included in the Ryder Scott Reports:

Gross Reserves	**As at 1 July 2009**	**As at 1 July 2008**	**As at 1 July 2007**
Proved			
Crude oil and condensate (mmbbl)	58.5	54.4	56.3
Developed	*30.2*	*17.0*	*16.1*
Undeveloped	*28.3*	*37.4*	*40.3*
Plant products (mmbbl)	21.1	20.2	20.5
Developed	*10.0*	*5.6*	*3.3*
Undeveloped	*11.1*	*14.6*	*17.2*
Gas (mmboe)[1]	59.5	58.8	59.9
Developed	*28.2*	*16.8*	*8.6*
Undeveloped	*31.3*	*42.0*	*51.3*
Total (mmboe)[1]	**139.1**	**133.4**	**136.7**
Probable			
Crude oil and condensate (mmbbl)	153.5	162.7	104.8
Plant products (mmbbl)	58.1	59.0	36.9
Gas (mmboe)[1]	176.0	179.5	118.8
Total (mmboe)[1]	**387.6**	**401.2**	**260.5**
Possible			
Crude oil and condensate (mmbbl)	275.9	275.9	149.5
Plant products (mmbbl)	74.5	74.5	53.2
Gas (mmboe)[1]	205.9	206.0	156.0
Total (mmboe)[1]	**556.3**	**556.4**	**358.7**

[1] Management has converted the dry gas reserves data from cubic feet to boe of dry gas and excluded the gas flared in 2008 and 2009. .

The table below illustrates Zhaikmunai's hydrocarbon gross reserves by individual reservoir and percentage of total reserves as estimated by management, based on the data presented in the 2009 Ryder Scott Report.

Gross Reserves (mmboe)	**Proved**	**(% of 1P)**	**Probable**	**(% of Probable)**	**Possible**	**(% of Possible)**	**Total**
North Tournaisian	48.2	34.7	54.2	14.0	224.3	40.3	326.7
South Tournaisian	13.1	9.4	31.8	8.2	49.2	8.8	94.1
Biski-Afoninski	54.7	39.3	241.2	62.2	252.9	45.5	548.8
Givetian Ardatovski	9.9	7.1	18.4	4.7	—	—	28.3
Givetian Mulinski	12.8	9.2	42.0	10.8	28.8	5.2	54.8
Famennian	—	—	—	—	1.1	0.2	1.1
Total	**139.1**	**100**	**387.6**	**100**	**556.3**	**100**	**1,053.8**

The amount of possible reserves is calculated as a best estimate for each individual accumulation. In accordance with SPE reserves classifications, Ryder Scott assigned the volumes of crude oil that can be recovered from accumulation through water-flooding in the Tournaisian reservoir to the categories of probable and possible reserves. The added potential resulting from enhanced oil recovery has therefore not been used to estimate the amount of proved reserves. Studies prepared by the research institute KaspiMunaiGaz in 2006 and PM Lucas in 2007 and 2008 confirmed the possibility of significant improvement of oil recovery through water-flooding in the north-eastern part of the Tournaisian reservoir. The Group began water injection testing at the end of 2008 and implemented the use of water-injection for improved oil recovery in 2009.

Management believes that there is potential for the Group to exceed the reserves estimates included in the 2009 Ryder Scott Report. A new oil discovery was made in the Bashkirian horizon and the Vorobyovski reservoir in 2008, which was not included in Ryder Scott's reserve estimation. In addition, management considers the recovery factors used to calculate the Group's hydrocarbon reserves to be conservative, and that the recovery rates stated by Ryder Scott of 32.2% of crude oil for the Tournaisian reservoir and 16% of crude oil for the Mulinski reservoir may potentially be exceeded by higher recovery ratios achieved by water injection techniques that could maintain reservoir pressure.

Geological Information

The Chinarevskoye Field is a multi-formation structure. It has tested hydrocarbons at significant rates from (i) the Lower Permian horizons at depths of 2,700m to 2,900m, represented by limestone and dolomitic limestone; (ii) limestone of the Lower Carboniferous Tournaisian formation at a depth of approximately 4,200m with a gross thickness of about 200m; (iii) the middle Devonian Givetian horizons at a depth of approximately 5,000m, represented by sandstone with carbonate cement; and (iv) the middle Devonian Biski-Afoninski formations at a depth of approximately 5,000m with a gross thickness of 200m and represented by limestone and dolomitic limestone. Oil has been found in the Lower Permian, Tournaisian and Givetian Mulinski reservoirs, while gas condensate has been found in the Tournaisian, Biski-Afoninski, Givetian, Ardatovski, Famenian and Vorobyovski reservoirs.

Appraisal and Exploration

In addition to the estimated reserves calculated by Ryder Scott, management believes that there is additional exploration potential in the Licence area due to Zhaikmunai's successful drilling record in the Chinarevskoye Field. This belief is based on the new oil discovery made in the Bashkirian horizon and the discovery of gas condensate accumulations in the Middle Devonian Famennian horizon and the Middle Devonian Vorobyovski horizon which were not included in the 2009 Ryder Scott Report. To date, all of the production wells drilled by Zhaikmunai have resulted in commercially viable amounts of hydrocarbons being tested. The Group is continuing to explore parts of the Chinarevskoye Field under the terms of the Licence and the PSA. Using information obtained from 3-D seismic surveys and geological analysis, management (and consultants) review all available data and undertake individual drilling programmes.

The Group has mapped several new prospects in the Licence area, including the Biski-Afononski (gas condensate), Tournaisian (oil and gas condensate), Lower Permian (oil) and South Tournaisian (gas condensate) reservoirs. In addition to the reported reserves as of 1 July 2009, Ryder Scott has estimated the remaining resources identified, but not yet drilled in the Chinarevskoye Field. The 2008 Ryder Scott Report estimates that the overall exploration potential of such resources through a summation of best estimates is approximately 122 million boe of prospective resources.

A significant portion of the Group's reserves are classified as possible reserves, and a work programme has been prepared to further appraise these accumulations. Management believes that a portion of these possible reserves, estimated by Ryder Scott to be up to 556 million boe as at 1 July 2009, could be transferred into higher reserves categories as a result of the scheduled appraisal activities, which will be performed simultaneously with the development of the existing proved and probable reserves.

To further increase its probable reserves, Zhaikmunai has started water injection tests in the Tournaisian reservoir to determine the effect on production levels. Water injection is solely required for the recovery of the probable oil reserves presented in the 2009 Ryder Scott Report. Ryder Scott analysed reservoir simulations prepared by independent third parties to understand the effect of the water injection on ultimate recovery of oil from the reservoirs. Zhaikmunai has trialled water injection in two wells (well 53 and 121) for approximately one and a half years. Improved recovery is expected once all water injection wells are in operation, the water treatment facilities were completed at the end of 2010. For the first phase of water injection Zhaikmunai believes it will require four wells to inject water directly into the reservoir, and three of these water injection wells were operational by end of year 2010. Once the first four water injection wells and water injection facilities are operational, Zhaikmunai will look to inject around 1500 cm a day. The second phase of the water injection project envisages to add four additional wells to inject additionally 2000 cm of water a day. At the moment, Zhaikmunai has drilled eight water producers which, combined, are able to produce approximately 1800 cm per day; for the second phase of water injection, Zhaikmunai will need to receive additional Water Use Permits, which Zhaikmunai will apply for in a timely manner.

Production and Facilities

Oil Production

As at 31 December 2010, 11 wells were producing from the Tournaisian reservoir. Over the course of 2010, a total of 2,829,764 bbl was produced, with an average of 7,752 bpd, virtually unchanged compared to 2009 during which a total of 2,697,980 bbl of crude oil was produced, with an average daily output of 7,442 bpd.

The crude oil extracted from the Chinarevskoye Field has an average API gravity of 40-41.5° and sulphur content of approximately 0.4%. Primary benchmark crude oils produced in Kazakhstan include Urals Blend (approximately 33° API with 1.25% sulphur), CPC Blend (approximately 42-43° API with 0.5%-0.6% sulphur) and Brent (approximately 38° API and with 0.4% sulphur). The quality of the crude oil extracted allows Zhaikmunai to sell its crude oil at a smaller discount to Brent crude than other oil producers in the region.

Gas, Propane and Butane Production

The Chinarevskoye Field contains significant gas reserves. The Group will monetise these gas reserves using the Gas Treatment Facility and by implementing a gas utilisation concept prepared by NIPI Neftegaz Institute. For more information regarding the Gas Treatment Facility, see "*—Capital Investments—Gas Treatment Facility*".

Gas processed by the Group's treatment units will be used to produce dry gas, LPG and condensate for sale in addition to providing feed stock for power generation to cover Zhaikmunai's power requirements. Management estimates based on the 2009 Ryder Scott Report that Zhaikmunai's annual raw gas and LPG production will peak in 2017 at 4.0 billion cubic metres and 0.9 billion cubic metres and annual condensate production will peak in 2016 at 16.9 million cubic metres, respectively.

Zhaikmunai currently does not produce gas for commercial purposes, but produces a small amount of gas condensate during production tests. Gas produced in association with Zhaikmunai's oil production is currently flared at the location of the oil processing facility station as permitted by the relevant gas flaring permits. Once the Gas Treatment Facility is in commercial production, Zhaikmunai will produce gas for commercial purposes.

Crude Oil Facilities

Zhaikmunai's oil facilities consist of an oil processing facility capable of processing 400,000 tonnes per year of crude oil, as well as multiple oil gathering and transportation lines within the Licence area. Zhaikmunai's field on-site storage facilities currently allow storage of 5,000 cubic metres and 10,000 cubic metres at rail terminal. Additional storage capacity for approximately 25,000 cubic metres of crude oil (15,000 cubic metres of field on-site storage facilities and 10,000 cubic metres at rail terminal) is under construction and is set for completion at the same time as the Gas Treatment Facility. The Group plans to construct an additional oil treatment unit with a capacity of up to 400,000 tonnes per year, to be completed by 2013. In addition, Zhaikmunai has completed its 120km oil pipeline through which it pumps crude oil from the field site to the rail loading terminal in Rostoshi near Uralsk. See "*—Contracts Material to Our Business—Reservoir Pressure Maintenance System Agreement*".

Drilling Facilities

The Group contracts with third parties who perform drilling operations in the Chinarevskoye Field. As of 31 December 2010, Saipem and UNGG provided drilling services to the Group and three drilling rigs were being operated by these contractors. In addition, a Kazburgaz rig was employed for workover operations. The average time required to drill new vertical wells is approximately three months in the Tournaisian reservoir and four months in the Devonian, Biski-Afoninski reservoirs. Exploration wells cost an average of US$10.8 million each to drill, while the cost of vertical production wells range from an average of US$8.2 million to drill in the Tournaisian reservoir to US$12.5 million to drill in the Biski-Afoninski reservoirs.

Capital Investments

Gas Treatment Facility

On 10 August 2007, Zhaikmunai entered into an agreement with KSS for the construction of the Gas Treatment Facility that is expected to process associated gas and gas condensate. For this purpose, KSS has entered into a consortium with Exterran, which provides engineering and manufacturing of main equipment for the Gas Treatment Facility, while KSS provides project management and construction services.

Construction of the Gas Treatment Facility involves two phases.

The first phase involves the construction of two gas treatment units and is expected to cost US$227.0 million. The gas treatment units will each have the capacity to treat approximately 850 million cubic metres of associated gas and gas condensate. Both units will be equipped with sweetening and sulphur recovery units to improve the quality of the gas. The Gas Treatment Facility also includes an associated gas-fired power plant with an output of 15 megawatts that is expected to provide the field site with all required electricity. The power plant has been constructed as part of the first phase of the Gas Treatment Facility. A condensate stabilisation unit has been constructed at the Gas Treatment Facility, which is capable of stabilising 800,000 tonnes of condensate each year, and which has increased the total cost for the first phase of the Gas Treatment Facility from approximately US$182.0 million to approximately US$227.0 million. As of 31 December 2010, the outstanding amounts due to KSS for construction of the Gas Treatment Facility were US$24.1 million, which includes US$22.4 million (rising to a payment of US$22.7 million by completion) to be paid to KSS after takeover.

Pre-commissioning works for the completion of the Gas Treatment Facility started in December 2010. Mechanical completion of the first phase of the Gas Treatment Facility occurred on 29 September 2010 when the Working Commission issued its formal decision declaring that the construction of Zhaikmunai's Gas Treatment Facility has been completed generally in accordance with Kazakh standards. State Acceptance Commission approval was received at the end of December 2010 and test production has started.

Zhaikmunai is considering entering into contracts to construct one additional gas treatment unit with a capacity to treat 2.5 billion cubic metres of gas per year and an additional power plant. Assuming completion of each of the three gas treatment units, the Group would have capacity to treat up to 4.2 billion cubic metres of gas per year. Management estimates that the second phase of construction will cost approximately US$362 million. Ryder Scott estimates that Zhaikmunai's annual raw gas production will peak at 4.0 billion cubic metres per year in 2017.

Oil Pipeline and Rail Loading Terminal

On 5 June 2006, Zhaikmunai entered into an agreement with KSS for the construction of an oil pipeline and railway loading terminal. The pipeline and loading terminal was successfully completed in 2008 and has been fully operational since January 2009. The pipeline links the Chinarevskoye Field directly to the Group's railway loading terminal at a rail connection located at Rostoshi, near Uralsk. The oil pipeline has a maximum annual throughput capacity of 3.0 million tonnes. The rail loading terminal receives all crude oil and condensate produced by Zhaikmunai and has a capacity of 3.0 to 4.0 million tonnes of crude oil and gas condensate per year.

The combined cost of the oil pipeline and rail loading terminal amounted to approximately US$97.0 million and management estimates that the oil pipeline has reduced the cost of transporting crude oil from the Chinarevskoye Field to the Rostoshi rail terminal by approximately US$25.0 per tonne.

Gas Pipeline

Zhaikmunai's 17-kilometre gas pipeline linking it to the Orenburg-Novopskov gas pipeline has been constructed and was commissioned in February 2011. Maximum annual throughput of this gas pipeline is expected to be 5.0 billion cubic metres.

SUBSOIL LICENCES AND CONTRACTS

Zhaikmunai's authorisation to conduct operations in the Chinarevskoye Field was granted pursuant to the Licence issued by the Government on 26 May 1997 which is part of an associated PSA entered into with the Competent Authority (on behalf of Kazakhstan) on 31 October 1997. The Licence and the PSA were granted under Kazakhstan's pre-1999 "licence and contract" regime described in "*Regulation in Kazakhstan*". Under the PSA, Zhaikmunai is able to undertake both exploration and production activities, subject to obtaining relevant permits. A dual-track system is available to obtain a production permit. See "*—Development Plan*" and "*—Production Permits*" below.

The Licence is separated into two phases consisting of an exploration phase and a production phase. The exploration phase consists of two periods. The first exploration period lasted four years, from October 1997 to October 2001; the second exploration period, which commenced on 26 May 2001 was initially agreed to run for three years, but has since been extended three times, most recently by an exploration permit issued in December 2008 for an additional three years until 26 May 2011. A further extension until 31 December 2012 has been requested.

Further to Zhaikmunai's exploration activities in the northeastern Tournaisian reservoir, approval to commence commercial production in this area was initially granted by the award of a production permit for the northeastern Tournaisian reservoir in March 2007. When Zhaikmunai subsequently made six new commercial discoveries (in the West Tournaisian (oil), South Tournaisian (oil and gas condensate), Biski-Afoninski (gas condensate), Givetian Ardatovski (gas condensate), Givetian Mulinski (oil and gas condensate) and Famennian (gas condensate) reservoirs), it entered into discussions with the Competent Authority to extend the exploration permit to appraise these discoveries. Zhaikmunai received a new exploration permit valid until 26 May 2011 and must continue to appraise all newly made discoveries. Once Zhaikmunai believed that all new discoveries were sufficiently appraised in order to start production, it applied for approval of the reserves for the entire licence area (as required by the terms of the PSA) and once the approval of Zhaikmunai's reserve estimation by the State Committee of Reserves was received in December 2008, Zhaikmunai was issued with an extended production permit which now covers 185 square kilometres (including the area under the previous production permit as well as the six new commercial discoveries made by Zhaikmunai).

In addition, Zhaikmunai was required to submit separate development plans ("**Development Plans**") to the State Committee for Field Development ("**SCFD**") for oil and gas condensate deposits in accordance with the production permit. Both such Development Plans were approved by the SCFD in March 2009.

Zhaikmunai's initial Development Plan for the northeastern Tournaisian reservoir, which was approved on 17 November 2006, has now been incorporated into the new Development Plan for oil deposits as an integral part thereof. In addition to the ongoing commercial production of oil, Zhaikmunai's current production permit allows it to begin the commercial production of its gas reservoirs once the Gas Treatment Facility is in commercial operation. Zhaikmunai has also continued its exploration activities in those parts of the Licence area that are not covered by the production permit, pursuant to its exploration permit which was recently extended and now expires on 26 May 2011. A further extension until 31 December 2012 has been requested.

The production permit and the exploration permit were included as an integral part of the PSA under the eighth amendment thereof dated 27 April 2010.

Zhaikmunai held two gas flaring permits to flare associated gas which have been extended until 30 June 2011.

The Licence and the PSA

The Licence and the PSA are currently valid until 2031-2033, depending on the geographical and geological area in question. To date, Zhaikmunai has met all of its capital investment obligations under the PSA.

The duration of the production phase for all reservoirs is 25 years. Zhaikmunai must comply with the terms of the exploration permit and the production permit and the Development Plans during this period. Zhaikmunai has fulfilled all of those contractual obligations..

Amendments to the PSA

The PSA includes eight amendments. The first amendment, implemented in 2000, restated certain environmental commitments and amended the provision in the PSA regarding the share of and royalty payments to Kazakhstan, in addition to specifying the manner in which Zhaikmunai was to reimburse Kazakhstan for any costs it incurred in establishing the field and the manner in which it was to contribute to an abandonment fund when it ceased its operations. The second amendment, dated 21 October 2001, extended the first exploration period for a further two years to four years and set out the requirements during the exploration phase. The third amendment, dated 29 June 2002, amended the provisions relating to tax and royalty payments. This amendment also provided that 15% of the Licence area was to be relinquished following the first phase of the exploration period as it was not considered to be commercially significant (previously the PSA provided that Zhaikmunai was to relinquish 25% of the Licence area). The fourth amendment, dated 12 January 2004, extended the exploration phase to 26 May 2006 with the term of the PSA set to expire on 26 May 2031.

The fifth amendment extended the exploration period by one year until 26 May 2008. Prior to the expiry of the exploration phase on 26 May 2008 (as per the provisions of the fifth amendment of the PSA), Zhaikmunai declared six new commercial discoveries, pursuant to which it applied to the Competent Authority for a further extension of the exploration period to evaluate these commercial discoveries in accordance with its proposed work programme for further appraisal. As a result, the Competent Authority agreed to extend the exploration period until 26 May 2011, its current expiry date, to allow Zhaikmunai to fully appraise the newly declared discoveries. This agreement is set out in the seventh amendment to the PSA as referred to below.

On 5 June 2008 a sixth amendment was made to the PSA, this time determining the Licence area and clarifying the payment and certain other obligations of Zhaikmunai to Kazakhstan. In addition, it established the production period on the North-East Tournaisian reservoir as commencing on 1 January 2007.

The seventh amendment to the PSA was made in November 2008. This clarified the Licence area, further extended the exploration period until 26 May 2011 and determined the requirements of Zhaikmunai under the extended exploration period, which, as at the date of this Annual Report, includes the drilling of 12 exploration wells. Zhaikmunai has fulfilled all of those contractual obligations. In addition, in the seventh amendment, Zhaikmunai agreed to provide at least 15% of its crude oil production to domestic buyers in Kazakhstan at domestic market prices.

The eighth amendment to the PSA dated 27 April 2010 formally incorporates the terms of the current production permit and the exploration permit as part of the PSA.

In January 2009, Zhaikmunai commenced negotiations with the Competent Authority (formerly, MEMR) of the terms and conditions of a ninth amendment to the PSA in order to clarify Zhaikmunai's obligations under the PSA related to social funds payments and expenses for training of Kazakhstan specialists. Among other terms and conditions of the ninth amendment to the PSA, Zhaikmunai requested to increase its Cost Oil-recoverable social obligations under the PSA due to increased costs in relation to the relocation of the Rozhkovo village population and the repair and reconstruction of the local state roads infrastructure. Due to delays in approvals and execution of the eighth amendment to the PSA, the re-organisation of the Competent Authority and recent changes in Kazakhstan subsoil laws (including, *inter alia*, adoption of the New Subsoil Law), the ninth amendment to the PSA is as yet not formally agreed with the Competent Authority.

While the ninth amendment to the PSA is currently under discussions with the Competent Authority and due to remaining uncertainty relating to certain provisions of the PSA related to social and training obligations, the Competent Authority has, from time to time, sent warning notices to Zhaikmunai relating to purported violations of Zhaikmunai's contractual obligations under the PSA and threatening to terminate the PSA due to such violations, including, *inter alia*, violations of social, training and local content (procurement) obligations. Zhaikmunai has responded to all such notices and requests and has provided the requested information, that Zhaikmunai believes demonstrates its compliance with the terms of the PSA, to the relevant authorities. To date such authorities have not taken any further action in relation to such notices following receipt of such information from Zhaikmunai.

Exploration Permit

Zhaikmunai's commitments during the exploration phase must be completed by 26 May 2011 (or, if the exploration permit is extended, 31 December 2012). Thereafter, Zhaikmunai may relinquish the area covered by the exploration permit and/or request a production permit in respect of any new commercially viable reserves that are declared.

Development Plan

Following the appraisal and/or discovery of reserves, the PSA requires Zhaikmunai to submit a development plan for the particular reserves discovered to the SCFD. Following the appraisal and exploration of additional oil and gas condensate reserves at the end of May 2008, Zhaikmunai received approval for the two Development Plans from the SCFD in March 2009, one regarding oil deposits (which relate to the Tournaisian and Mulinski reservoirs) and the other regarding gas condensate deposits (which relate to the Biski-Afoninski and Ardatovski reservoirs).

The Development Plan related to oil deposits requires (i) the drilling of nine additional production and water injection wells and (ii) the start of water injection in 2009 to support reservoir pressure and to achieve final oil recovery of at least 32.2% from the Tournaisian reservoir. The Development Plan related to gas condensate deposits will allow Zhaikmunai to begin commercial production of such deposits upon (i) the construction and commissioning of the Gas Treatment Facility and (ii) the construction and commissioning of a 17km gas pipeline.

Production Permits

Zhaikmunai's first production permit was approved by the Competent Authority in March 2007. A new production permit was issued in December 2008 which includes all horizons and oil or gas-condensate bearing reservoirs, covers

185 square kilometres of the Licence area and is valid until expiration of the PSA (that is between 2031-2033, depending on the geographical and geological area in question). The current production permit was issued to Zhaikmunai in December 2008 and was formally incorporated under the PSA pursuant to the eighth amendment thereto.

Gas flaring permits

Zhaikmunai's programme for burning and utilising associated gas and gas condensate at the Chinarevskoye Field to the Competent Authority was initially approved in December 2007. Zhaikmunai was granted five gas flaring permits. Of these permits, only two remain in place. These gas flaring permits have been extended until 30 June 2011.

The following summarises the other principal terms of the PSA:

Royalty Payments

The rate of monthly royalty payments to be made by Zhaikmunai to the State depends on the volume of hydrocarbons extracted, calculated according to the realised value for each class of hydrocarbon sales at its final destination less the cost of transportation to its final destination and any discounts incurred due to the quality of hydrocarbons produced, as compared to a benchmarked quality.

Crude Oil Production levels (tonnes)	**Royalty Rate applicable to crude oil at a level of**
From 0 to 100,000	3%
From 100,000 to 300,000	4%
From 300,000 to 600,000	5%
From 600,000 to 1,000,000	6%
Over 1,000,000	7%

Gas Production levels (1,000m^3)	**Royalty Rate applicable to gas at a level of**
From 0 to 1,000,000	4%
From 1,000,000 to 2,000,000	4.5%
From 2,000,000 to 3,000,000	5%
From 3,000,000 to 4,000,000	6%
From 4,000,000 to 6,000,000	7%
Over 6,000,000	9%

State Share

Pursuant to the PSA, the State receives a monthly share of Zhaikmunai's hydrocarbon production. The share that the State receives is calculated, first, by notionally separating production into "**Cost Oil**" and "**Profit Oil**". Cost Oil denotes an amount of crude oil produced in respect of which the market value is equal to Zhaikmunai's monthly expenses that may be deducted pursuant to the PSA. Deductible expenses for the purposes of Cost Oil include all operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production. Any unused expenses may be carried forward indefinitely in the calculation of Cost Oil. Profit Oil, being the difference between Cost Oil and the total amount of crude oil produced each month, is shared between the State and Zhaikmunai. Consequently, increases in Zhaikmunai's monthly expenditures result in lower amounts of Profit Oil being transferred to the State (due to the higher notional value of Cost Oil).

The State's share of Profit Oil must be physically delivered to the State or, alternatively, the State can elect to receive an amount equal to the value of the Profit Oil on a monthly basis. To date, the State has always elected to receive a monetary payment. Any such amounts delivered or paid are based on actual monthly production volumes. The share to be allocated to the State is calculated based on the following "tranche" method for crude oil and gas sales. The state share of Profit Oil was 10% in 2007, 2008, 2009 and 2010.

The following table sets out the State Share of Profit Oil and Profit Gas based on annual levels of production.

Annual Crude Oil Production levels (tonnes)	State Share of Profit Oil applicable to crude oil at a level of
From 0 to 2,000,000	10%
From 2,000,000 to 2,500,000	20%
From 2,500,000 to 3,000,000	30%
Over 3,000,000	40%

Annual Gas Production levels (1,000m^3)	State Share of Profit Gas applicable to Gas at a level of
From 0 to 2,000,000	10%
From 2,000,000 to 2,500,000	20%
From 2,500,000 to 3,000,000	30%
Over 3,000,000	40%

Upon expiration of the License and the PSA (which will occur between 2031-2033 depending on the geographical and geological area in question), Zhaikmunai is obliged to transfer to the State all assets acquired, built or installed as per the work programme and the approved budget.

If Zhaikmunai pays cash in lieu of delivery of the required hydrocarbon amount to the State, the price (in US Dollars) is determined to be that which Zhaikmunai would have received for a similar volume of hydrocarbons at connection to a trunk pipeline, on the basis of an arm's length transaction, less transportation costs to the trunk pipeline.

Tax—General

Corporate Income Tax

Zhaikmunai makes monthly payments of corporate income tax at a fixed rate of 30.0% of Zhaikmunai's taxable income from contract activity for each year of commercial production during the term of the PSA. Any taxable income from non-contract activity (such as income from hedging) is taxable at the corporate income tax rate applicable for the year the income is realised.

Discovery Payments

Under the PSA, Zhaikmunai must declare each new discovery of a crude oil horizon that leads to commercial production and pay US$500,000 to the State in respect of each of such discoveries. In 2008, Zhaikmunai paid US$3.0 million to the State in respect of six commercial discoveries which were declared in May 2008. There were no discovery payments due to the State in 2009 or 2010.

Recovery Bonus

Zhaikmunai must pay to the State a US$1 million recovery bonus for each 10 million metric tonnes of cumulative recovery of crude oil and natural gas.

Reimbursement of Historic Expenses

Zhaikmunai is required to reimburse the State for a total of US$25.0 million for historic costs (its costs for exploratory work done prior to the grant of the Licence) in equal quarterly instalments during the production phase of the PSA starting from the production phase. Zhaikmunai began making such payments on 1 January 2007. Zhaikmunai repaid historic expenses in the amount of US$2.1 million in 2008, US$1.0 million in 2009 and US$ 1.0 million in 2010.

Required Expenditures

Zhaikmunai is obliged to spend no less than 1.0% of annual capital expenditure towards training personnel. If this amount exceeds what is actually required for the training of personnel, Zhaikmunai must use the balance towards financing secondary education in Kazakhstan. Zhaikmunai expensed US$2.8 million to train personnel in 2009 and US$2.6 million in 2010. In addition, Zhaikmunai makes accruals for the abandonment of facilities. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term interest rates for emerging market debt adjusted for risks specific to the Kazakhstan market.

Liquidation Fund

The PSA requires Zhaikmunai to establish a liquidation fund in the amount of US$12.0 million by making annual contributions to the fund of US$100,000 per year during the exploration phase and US$452,000 per year during the production phase. The liquidation fund will provide funds for the removal of Zhaikmunai's property and equipment at the end of the PSA's term. Management is making provisions in its accounts for the amounts required for the liquidation fund and believes that such provisions satisfy its obligations to make annual contributions to the fund.

Environmental Permit

On 26 March 2011, the Ministry of Environmental Protection granted to Zhaikmunai an environmental permit ("EP") valid until 31 December 2011. According to the EP, Zhaikmunai is allowed to (i) conduct emissions of pollutants in the amount not exceeding 4,316.988 tonnes in 2011 (ii) to discharge of pollutants in the amount not exceeding 17.722 tonnes in 2011; and (iii) to store industrial and other wastes in the amount not exceeding 3,326.578 tonnes in 2011.

CONTRACTS MATERIAL TO OUR BUSINESS

Gas Treatment Facility Agreement

Zhaikmunai entered into an agreement with KSS on 10 August 2007 for KSS to engineer, design and construct the Gas Treatment Facility. Construction of the Gas Treatment Facility has been delayed as compared to its initial estimated completion date. For information on the status of completion of the Gas Treatment Facility, see "*Business Review—Capital Investments—Gas Treatment Facility*". The total cost of the construction of the first phase of the Gas Treatment Facility will be approximately US$227.0 million. Zhaikmunai agreed to pay KSS an advance payment of 30% of the contract price on receipt of, amongst other things, a bank guarantee for returning such advance payment and a bank guarantee of performance of the agreement. Both parties have standard indemnification obligations and may terminate the agreement in the event of, amongst other things, force majeure or the other party's insolvency or failure to perform. As of 31 December 2010, the outstanding amounts due to KSS for construction of the Gas Treatment Facility were US$24.1 million, which includes US$22.4 million (which will rise to a payment of US$22.7 million by completion) to be paid to KSS after takeover.

Reservoir Pressure Maintenance System Agreement

Zhaikmunai entered into an agreement with PM Lucas Kazakhstan LLP ("**Lucas**") on 14 December 2009 for Lucas to engineer, design and construct the first phase of a reservoir pressure maintenance system in the Chinarevskoye Field (the "**RPMS**"). Such works and payments due by Lucas under this agreement are guaranteed by Lucas' parent, Metropolix Holdings Limited ("**Metropolix**") under a deed of assignment dated the same date. The total cost of the RPMS under the agreement is US$9.8 million (excluding VAT). Under the contract, Zhaikmunai agreed to pay Lucas an advance payment of 30% of the gross contract price, secured by both a warranty bond (of the value of the KZT equivalent of US$465,775) and a guarantee by Metropolix. The remainder of the contract price is to be paid by Zhaikmunai to Lucas in instalments in accordance with a detailed payment schedule. The contract may be terminated in certain circumstances by Zhaikmunai giving 14 working days' notice and, in more limited circumstances, Lucas giving 30 days' notice. Either party may terminate the contract without notice on the other party's insolvency. The completion date for the RPMS is end of 2012.

Saipem Drilling Rig Hire Contract

In September 2006, Zhaikmunai entered into an agreement with Saipem under which Saipem supplies and operate a land drilling rig to drill ten wells in the Chinarevskoye Field. Consideration consists of a one-off mobilisation payment of US$2.5 million plus daily operating rates of approximately US$29,200, food and accommodation for employees plus lump sum transportation payments ranging between US$400,000 and US$520,000 depending on the distance to the camp. Zhaikmunai may also be required to pay a demobilisation payment of US$327,800 if, following certain termination events, Saipem cannot operate the rig with another oil company, or an early termination fee based on the number of wells drilled and operating rate. Zhaikmunai's payment obligations are secured by a US$2.0 million guarantee from BTA. The contract will be in force for the period of time required to mobilise, move, rig drill, complete or plug and abandon ten wells, unless earlier terminated. Each party has the right to terminate the contract in the event of the other party's insolvency or liquidation, while Zhaikmunai has additional termination rights if Saipem is unable to perform its obligations. The parties are subject to indemnification obligations. This contract is still valid and the final well is currently being drilled under it. An extension to this contract is being negotiated with Saipem.

Gas Treatment Facility Operation and Maintenance Agreement

Zhaikmunai LLP has entered into an operation and maintenance agreement for the Gas Treatment Facility with Exterran, an international oil and gas services company. Pursuant to the final contract terms, Exterran will be responsible for the operations and maintenance of all plant and associated equipment at the Gas Treatment Facility for a term of 36 months following the operations commencement date.

TRANSPORTATION

Overview

Since the completion of the Group's 120km oil pipeline from the Chinarevskoye Field to Rostoshi near Uralsk in January 2009, the crude oil produced by Zhaikmunai is transported through this pipeline to its export rail terminal in Rostoshi near Uralsk. Prior to 2009, the delivery of crude oil to Uralsk was made exclusively through infrastructure owned and operated by third parties. As a result of the oil pipeline, transportation of the Group's crude oil has become safer, less costly and more efficient.

Transportation routes for the export of hydrocarbons by Zhaikmunai and other oil and gas producers in Kazakhstan are important because of the country's land-locked position. In particular, Kazakhstan depends heavily on Russia's transportation infrastructure for export routes. Crude oil is exported from Kazakhstan through pipelines and railways across the Caspian Sea and through Russia to the Black Sea ports or by pipeline to China. Any restrictions or termination of access to the existing pipelines or railways caused by any serious malfunctions, political events or other circumstances could require the suspension of Zhaikmunai's crude oil deliveries and cause severe disruption to the production process.

Transportation of Crude Oil and Condensate

The principal transportation options for the export of the Group's crude oil and condensate are rail car and pipeline. Since the beginning of 2009, crude oil is pumped through the Group's oil pipeline from the Chinarevskoye Field to Rostoshi near Uralsk and from there, delivered onwards by Zhaikmunai's appointed trader. The following summarises the available options for such onward delivery:

Rail

Zhaikmunai currently transports crude oil via its pipeline from the Chinarevskoye Field to the nearby city of Rostoshi near Uralsk, where it is loaded at its oil loading terminal onto rail cars provided by third parties. The Group's crude oil is currently transported by rail to refineries in Finland and the Ukraine. By transporting its production by rail, Zhaikmunai does not encounter any dilution of the quality of its crude oil as it would if it was transported by pipeline, and is therefore able to obtain a higher price for its production in the export market. Once condensate production begins following commissioning of the Gas Treatment Facility, the same transportation arrangements will be used for condensate.

Pipeline

As mentioned above, the Group currently transports its crude oil through its own oil pipeline. There is currently no quality bank adjustment mechanism for exports carried by the trunk pipelines that are accessible to Zhaikmunai and operated by third parties. In the absence of appropriate agreement as to the quality of the Group's crude oil, Zhaikmunai could therefore receive a lower price for its production than the quality of its oil would otherwise demand.

Transportation of Dry Gas, Butane and Propane

The Group currently flares all associated gas produced during oil production in accordance with the gas flaring permits, and does not currently sell any gas products. The Group's future gas production is expected to be transported by its 17-kilometre gas pipeline linking the Chinarevskoye Field to the Orenburg- Novopskov gas pipeline. The connection of the gas pipeline has been made and the pipeline was commissioned in February 2011. The gas pipeline is expected to have a maximum annual throughput of 5.0 billion cubic metres. As the gas will be sold at the point of entry to the pipeline, the Group will not be liable for any additional transportation tariffs.

In addition, the Group is engaging third-party contractors to transport its LPG products by truck to the rail loading terminals operated by third parties near to Uralsk. LPG will then be delivered by rail car to its ultimate purchaser.

SALES AND MARKETING

Pursuant to the PSA, Zhaikmunai exports 85% of its crude oil production and sells 15% on the domestic market. Until Zhaikmunai commences commercial production from its Gas Treatment Facility, it will only sell crude oil and condensate. The Group intends to sell crude oil, gas condensate, dry gas, propane and butane once commercial production commences at the Gas Treatment Facility and intends to continue to sell its hydrocarbon products primarily in the export market.

Due to the Chinarevskoye Field's close proximity to the Russian border (approximately 60 kilometres from Uralsk) and other export sale destinations in Europe, combined with a reduction in Zhaikmunai's costs due to its transportation of oil via its pipeline from the Chinarevskoye Field to the Rostoshi export terminal near Uralsk, management believes that the Group is able to achieve a relatively higher Netback for its export production as compared to other producers in Kazakhstan. During 2007, 2008 and 2009, the Group delivered most of its exported crude oil on the basis of FCA (free carrier) Uralsk, the price being based on the market price for Brent crude oil less an average discount of US$15.21 per barrel of crude oil in 2009, US$15.58 per barrel of crude oil in 2008 and US$13.72 per barrel of crude oil in 2007 for rail fees, transportation costs, quality differentials and trader's fees incurred in order to deliver the crude oil from Uralsk to its ultimate destination at refineries in Finland and the Ukraine. During the first half of 2010, the Group started selling its crude oil based on DAF (delivery at frontier) and FOB (free on board) terms. The benefit of selling on DAF and FOB terms is that the transportation discount is significantly reduced, although this benefit is partially offset by an increase in transportation costs for the Group as it must pay for transportation costs from the terminal to the point of sale. The Group plans to continue this transition to sale on DAF and FOB basis as management believes the Group will benefit from a net decrease in overall transportation costs.

The Group enters into contracts with one or more traders. The trader(s) then contract(s) with the ultimate purchasers for the provision of the Group's crude oil products. The Group does not enter into contracts for crude oil products with its ultimate customers.

Once Zhaikmunai commences commercial production for its Gas Treatment Facility, deliveries of the gas would be made to the offtaker(s) at the Group's connection to the Orenberg- Novopskov. Prices for the Group's gas products are expected to be negotiated annually with the offtaker(s). Propane and butane are expected to be sold through a trader in a similar manner to crude oil sales.

ENVIRONMENTAL MATTERS

One of the Group's key strategic priorities is for Zhaikmunai to comply with applicable local and international standards for environmental protection. Zhaikmunai prepares and submits to authorities a yearly action plan in accordance with Kazakh environmental regulations. In addition, Zhaikmunai has started to implement World Bank environmental standards for its operations and expects to achieve compliance with these standards in the next five to ten years.

According to AMEC environmental, health and safety due diligence report "Exploration & Production Facility Expansion—Chinarevskoye Field, Kazakhstan" dated 15 June 2009, Zhaikmunai is for the most part in compliance with Kazakhstan and international environmental standards and regulations, which comprise of World Bank international requirements and standards and European IPPC Bureau reference documents on best practice.

Zhaikmunai's environmental protection policies include the following key objectives: (i) cease gas flaring; (ii) remediate or recultivate areas impacted by petroleum hydrocarbons, particularly abandoned wells and mud pits; (iii) provide training to employees and contractors to understand its environmental policies and minimise environmental damage; (iv) monitor the impact of Zhaikmunai's operations on the environment; (v) put in place emergency procedures to deal with the environmental impact of any spillage; and (vi) utilise associated production gas to produce low cost power as part of its Gas Treatment Facility.

The village of Rozhkovo, with a population of approximately 300 residents, was formerly situated within the exploration zone of the Chinarevskoye Field. In order for the Group to successfully pursue its drilling and exploration activities in the Licence area and to carry out activities in compliance with environmental law, the Group needed to relocate the residents of the village of Rozhkovo to new housing. After a series of consultations with the residents of Rozhkovo in 2006, the residents of the village unanimously approved the terms of the relocation programme (the "**Resettlement Action Plan**"). Zhaikmunai also obtained permission from the administrative body of western Kazakhstan in December 2006 regarding the relocation and demolition programme. In addition to complying with all applicable legislation, the Group obtained additional expert advice so as to conduct the resettlement according to standards for such activities established by the European Bank for Reconstruction and Development ("**EBRD**"). As of the date of this Annual Report, village residents have now all relocated, and most now reside in apartments built by Zhaikmunai in Uralsk. Demolition of the village is ongoing. Zhaikmunai's relocation committee continues to assist residents with post-relocation needs on an individual basis.

The cost of the resettlement programme, including post resettlement monitoring, is expected to amount to US$6.2 million. As at 31 December 2010, total costs of US$6.1 million had been incurred with respect to the programme.

In 2009, Zhaikmunai was approached by the EBRD to potentially sell Emission Reduction Units (“**ERUs**”) to the EBRD/EIB Multilateral Carbon Credit Fund (the “**MCCF**”), which is a carbon fund dedicated specifically to countries from Central Europe to Central Asia. As at the date hereof, Zhaikmunai does not have any carbon credits assigned to it. However, since the Gas Treatment Facility can significantly reduce the flaring of natural gas once it has been completed. Zhaikmunai is going through the process required for it to be eligible to receive carbon credits under the ‘Joint Implementation’ mechanism in respect of the Gas Treatment Facility once Annex B status under the Kyoto Protocol is obtained by Kazakhstan.

EMPLOYEES, HEALTH AND SAFETY

Employees

The table below sets out the average number of people (full-time equivalents) employed by the Group over the periods indicated below:

Location	2010	2009	2008	2007	2006
Chinarevskoye Field	500	439	396	329	310
Uralsk	144	177	142	130	120
Total	**644**	**616**	**538**	**459**	**430**

The average number of people (full-time equivalents) employed by the Group did not substantially change during 2010.

Zhaikmunai has not experienced any work stoppages, strikes or similar actions in the past and considers its relations with its employees to be good.

Zhaikmunai is required to allocate at least 1.0% of its annual capital expenditure towards personnel training. If this amount exceeds what is actually required for the training of personnel, Zhaikmunai uses the balance towards the financing of secondary education.

INSURANCE

The types of coverage structure, limits and quality of our insurance programme are comparable with other Kazakh oil companies of a similar size to us.

The Group insures some of its risks under the following insurance contracts:

- general third-party liability insurance;
- employer’s liability insurance; and
- environmental insurance.

In addition, as required by Kazakhstan laws, Zhaikmunai insures its civil liability as the owner of vehicles on a yearly basis.

As at the date of this Annual Report, the Group maintains and is in compliance with all mandatory insurances required by Kazakh law. In addition, the Group maintains the following voluntary insurance contracts:

- cargo insurance;
- oil operations voluntary insurance contract; and
- property voluntary insurance contract.

The Group is currently in discussions with insurance providers to insure the Gas Treatment Facility. The insurance contract is expected to be in place in time for commercial operation of the Gas Treatment Facility. We believe that the structure, limits and quality of the insurance coverage for the Gas Treatment Facility will be comparable with other facilities of a similar nature located in Kazakhstan.

The General Partner has also arranged directors’ and officers’ liability insurance through a third-party insurer.

The Group does not maintain business interruption, key-man, terrorism or sabotage insurance because the Group believes that the chance of any such event occurring is small.

2. SELECTED HISTORICAL FINANCIAL INFORMATION

The financial statements of the Group included in this Annual Report were prepared in accordance with IFRS. The 2007 Combined Financial Statements included in this Annual Report were prepared in accordance with IFRS except that they were prepared on a combined basis and therefore do not comply with IAS 27, "*Consolidated and Separate Financial Statements*".

Following the formation of Zhaikmunai L.P. in August 2007 and subsequent reorganisation in March 2008, Zhaikmunai, a limited liability partnership formed under the laws of Kazakhstan and the Group's sole operating subsidiary, became Zhaikmunai L.P.'s indirect wholly owned subsidiary. This Annual Report contains audited consolidated financial statements of Zhaikmunai L.P. and its subsidiaries as at and for the year ended 31 December 2010, the audited consolidated financial statements of Zhaikmunai L.P. and its subsidiaries as at and for the years ended 31 December 2009 and 2008 and the 2007 Combined Financial Statements. Following the reorganisation on 28 March 2008, Claydon and Jubilata became subsidiaries of Zhaikmunai L.P.

Income Statement Data

	Year ended 31 December			
	2010	**2009**	**2008**	**2007**
		(US$ millions)		
Sales of crude oil	178.159	116.033	135.912	108.490
Cost of sales	(53.860)	(44.035)	(44.610)	(37.401)
Gross profit	**124.299**	**71.998**	**91.302**	**71.089**
General and administrative expenses	(27.265)	(29.726)	(20.299)	(12.542)
Selling and oil transportation expenses	(17.014)	(5.692)	(24.212)	(6.793)
Gain/(loss) on hedging contract	(470)	(16.909)	64.780	0
Interest income	239	0.060	0.604	0
Finance costs	(21.296)	(7.801)	(13.171)	(6.841)
Foreign exchange gain/(loss)	46	(2.184)	(1.527)	6.247
Other income/(expense)	2.234	(0.906)	1.189	0.820
Profit before income tax	**60.773**	**8.840**	**98.666**[1]	**51.980**
Income tax benefit/(expense) [2]	(37.873)	(27.608)	(35.188)	(15.650)
Net income/(loss)	**22.900**	**(18.768)**	**63.478**	**36.330**
Other comprehensive income:				
Exchange difference on translation to presentation currency	—	—	(0.702)	—
Total comprehensive income/(loss) for the year	**22.900**	**(18.768)**	**62.776**	**36.330**

[1] Profit before income tax for 2008 includes a significant hedging gain of US$64.8 million.

[2] Certain expenses (mainly interest) are non-deductible for Kazakh tax purposes.

Cash Flow Data

	Year ended 31 December			
	2010	**2009**	**2008**	**2007**
		(US$ millions)		
Net cash flow from operating activities	98.955	45.934	44.223[1]	48.233
Net cash used in investing activities	(134.121)	(200.673)	(195.196)	(173.105)
Net cash provided by/(used in) financing activities	41.642	279.418	155.627[2]	129.166

[1] The total amount of net cash flow from operating activities as at 31 December 2008 in the audited consolidated financial statements for the year ended 31 December 2008 was US$45.819 million (as compared to US$44.223 million for that year as set forth in the audited consolidated financial statements for the year ended 31 December 2009). The difference (US$1.596 million) is due to the reclassification of hedging income of US$1.596 million from net cash flow generated from operating activities to net cash flow from financing activities.

[2] The total amount of net cash flow by/(used in) financing activities as at 31 December 2008 in the audited consolidated financial statements for the year ended 31 December 2008 was US$175.109 million (as compared to US$155.627 million for that year as set forth in the audited consolidated financial statements for the year ended 31 December 2009). The difference (US$19.482 million) is due to the transfer of the restricted cash of US$21.078 million less a hedging income of US$1.596 million from current assets to non-current assets.

Balance Sheet Data

	As at 31 December			
	2010	2009	2008	2007
	(US$ millions)			
ASSETS				
Non-current assets				
Property, plant and equipment	955.911	770.953	513.491	289.533
Hedging contract at fair value	—	0.098	62.923	—
Restricted cash	2.743	21.358	—	—
Advances for equipment and construction works	6.479	27.399	75.385	70.475
	965.133	**819.808**	**651.799**	**360.008**
Current assets				
Restricted cash	1.000	—	21.078	—
Inventories	5.639	3.477	3.589	2.496
Trade receivables	1.635	13.878	1.084	9.530
Prepayments and other current assets	16.759	22.663	28.081	14.351
Income tax prepayment	3.200	5.599	5.386	—
Cash and cash equivalents	144.201	137.375	11.887	7.360
	172.434	182.992	71.105	33.737
Total assets	**1.137.567**	**1,002.800**	**722.904**	**393.745**
EQUITY AND LIABILITIES				
Partnership capital and reserves				
Partnership capital	366.942	366.942	92.072	—
Retained earnings and translation reserve	133.727	110.827	129.595	66.819
	500.669	**477.769**	**221.667**	**66.819**
Non-current liabilities				
Long-term borrowings	434.931	356.348	—	203.982
Share option plan at fair value	10.104	7.025	0.516	—
Abandonment and site restoration liabilities	4.543	3.373	3.411	1.299
Due to Government of Kazakhstan	6.290	6.363	6.330	6.317
Deferred tax liability	100.823	76.659	56.940	26.191
	556.691	**449.768**	**67.197**[1]	**237.789**
Current liabilities				
Trade payables	49.213	66.381	60.953	36.066
Current portion of long term borrowings	9.450	—	365.439	45.521
Current portion of Due to Government of Kazakhstan	1.031	1.028	1.031	2.062
Derivative financial instrument	372	—	—	—
Advances received	11.693	—	—	—
Other current liabilities	8.448	7.854	6.617	5.488
	80.207	**75.263**	**434.040**[2]	**89.137**
Total equity and liabilities	**1.137.567**	**1,002.800**	**722.904**	**393.745**

[1] The total amount for non-current liabilities as at 31 December 2008 in the audited consolidated financial statements for the year ended 31 December 2008 was US$66.681 million (as compared to US$67.197 million for that year as set forth in the audited consolidated financial statements for the year ended 31 December 2009). The difference (US$0.516 million) is due to the reclassification in the audited consolidated financial statements for the year ended 31 December 2009 of the share option plan at fair value as a non-current liability from a current liability.

[2] The total amount for current liabilities as at 31 December 2008 in the audited consolidated financial statements for the year ended 31 December 2008 was US$434.556 million (as compared to US$434.040 million for that year as set forth in the audited consolidated financial statements for the year ended 31 December 2009). The difference (US$0.516 million) is due to the reclassification in the audited consolidated financial statements for the year ended 31 December 2009 of the share option plan at fair value as a non-current liability from a current liability.

3. FINANCIAL REVIEW

The following discussion and analysis should be read together with the audited consolidated financial statements as at and for the years ended 31 December 2010, 2009 and 2008 and the 2007 Combined Financial Statements. The consolidated financial statements and the accompanying notes have been prepared in accordance with IFRS.

Some of the information in the discussion and analysis set forth below and elsewhere in this Annual Report includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from the results described in the forward-looking statements contained in this Annual Report.

Overview

Zhaikmunai L.P. is the indirect holding entity of Zhaikmunai, an independent oil and gas enterprise currently engaging in the exploration, production and sale of crude oil in northwestern Kazakhstan. Zhaikmunai's field and Licence area is the Chinarevskoye Field located in the oil-rich Pre-Caspian Basin.

Since 2004, after new management was appointed at Zhaikmunai, the Group's sales, expenses and profit before income tax has increased over the period as a result of increased crude oil production due to the Group's investments in infrastructure and an accelerated drilling programme. The primary factors affecting the Group's results of operations are (i) crude oil prices and the average realised price received by Zhaikmunai for its crude oil, (ii) the amount of crude oil produced by the Group for a given period, (iii) the costs the Group incurs to produce and transport its crude oil, (iv) finance costs incurred by the Group under its borrowings and (v) amounts payable pursuant to the PSA (see "—*Primary Factors Affecting Results of Operations*").

As at the date of this Annual Report, the Group has borrowings of US$450 million which were used in part to repay in full borrowings of US$382 million under a senior secured reducing facility agreement with BNP Paribas (Suisse) S.A. as mandated lead arranger maturing no later than 31 December 2014 with Zhaikmunai as borrower and Zhaikmunai L.P. and its other subsidiaries (other than FvdS) as guarantors (as amended from time to time, the "**Syndicated Facility**") and in part for general corporate purposes. The funds made available under the Syndicated Facility were used to repay a previous financing, which was primarily used for drilling operations and the Group's capital investment programme, including the construction of its crude oil pipeline, rail loading terminal and the Gas Treatment Facility (see "*—Liquidity and Capital Resources*" and "*Business—Capital Investments*"). .

The following table sets forth the Group's sales of crude oil, cost of sales, gross profit, profit before income tax and net income/(loss) for the years ended 31 December 2010, 2009, 2008 and 2007:

	2010	2009	2008	2007
	(US$ millions)			
Sales of crude oil	178.159	116.033	135.912	108.490
Cost of sales	(53.860)	(44.035)	(44.610)	(37.401)
Gross profit	124.299	71.998	91.302	71.089
Profit before income tax	60.773	8.840	98.666[1]	51.980
Net income/(loss)	22.900	(18.768)	63.478	36.330

[1] Profit before income tax in 2008 includes a significant hedging gain of US$64.8 million.

Primary Factors Affecting Results of Operations

The primary factors affecting the Group's results of operations during the periods under review are the following:

Crude oil prices and Netback

Zhaikmunai's sales of crude oil have accounted for substantially all of its revenues during the periods under review. The revenue Zhaikmunai receives for its crude oil is influenced by: (i) fluctuations in the price of international crude oil (i.e. Brent crude oil); and (ii) the discount to this price which, after such discount, represents the realised price for Zhaikmunai's crude oil, which Zhaikmunai refers to as its Netback.

Most of Zhaikmunai's crude oil was typically delivered on a FCA (free carrier) Uralsk shipment basis and due to the high quality thereof (see "*Business Review—Strengths*"), the discount to the market price of Brent crude oil is smaller. However, Zhaikmunai recently started to sell its crude oil on the basis of DAF (delivery at frontier) and FOB (free on board) terms in order to reduce its overall transportation costs. The table below sets out the average price for Brent crude oil on which Zhaikmunai has based its sales for the year ended 31 December 2010 and 2009 and the years ended 31 December 2009, 2008 and 2007:

	2010	2009	2008	2007	2006
			(US$/bbl)		
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	80.15	62.02	98.11	72.43	67.83

During the periods under review, the price of Brent crude oil experienced significant fluctuations. After reaching highs of up to US$147.0 per barrel in mid-2008, international oil prices fell dramatically in late 2008 with an average closing price in December 2008 of US$43.10 per barrel. Brent crude oil prices recovered in 2009 and 2010, reaching approximately US$78 per barrel in December 2009 and ending 2010 at a high of approximately US$93 per barrel.

These fluctuations have affected the Group's revenues directly, as the price Zhaikmunai receives for its crude oil is based on the price of Brent crude oil. However, the Group entered into hedging contracts in March 2010 covering oil export sales of 4,000 barrels per day running from March 2010 through December 2010 (pursuant to which the floor price is fixed at US$60 per barrel). See "*—Summary of Critical Accounting Policies—Derivative Financial Instruments and Hedging*" and "*Description of Significant Indebtedness and Certain Financial Arrangements—Hedging Contracts*".

Until recently, crude oil was sold and delivered from Uralsk to Zhaikmunai's customer(s), one or more oil traders, on a FCA (free carrier) Uralsk shipment basis (see "*Business Review—Sales and Marketing*" for a description of these sales and shipment basis) who then on-sell(s) the crude oil to their ultimate customers. During 2007, 2008 and 2009, the oil trader(s) contracted to purchase the Group's production has/have sold and delivered Zhaikmunai's crude oil to customers located in Finland and the Ukraine. The price Zhaikmunai receives for its crude oil is based on the market price for Brent crude oil, less a discount for the trader's transportation costs of the crude oil from Uralsk to its ultimate destination, including certain quality differentials and the trader's fee. The discount, which is negotiated on an annual basis, is a fixed amount per barrel, comprising rail transportation tariffs in Kazakhstan and Russia and the cost of leasing railcars to transport the crude oil and, to a lesser extent, the discount takes into account quality differentials in the oil and the profit margin retained by the particular trader. The Group's sales contract stipulates that any increase in rail tariffs is borne by the Group. In 2010 Zhaikmunai started to sell its crude oil on the basis of DAF (delivery at frontier) and FOB (free on board) terms in order to reduce its overall transportation costs.

In addition, Russian rail tariffs are priced in Swiss francs and Kazakh rail tariffs are priced in Tenge, whereas Zhaikmunai's oil prices are quoted and settled in US Dollars. Consequently, if the US Dollar depreciates or appreciates against the Swiss franc or the Tenge, Zhaikmunai's Netback is reduced or increased, respectively. Zhaikmunai's discount for crude oil sales generated for the year 2010 was US$14.01 per barrel, compared to US$15.21 per barrel for the year 2009, US$15.58 per barrel for the year 2008 and US$13.72 per barrel for the year 2007. The decrease in discount for 2010 compared to 2009 was a result of a decrease in the amount of discount retained by the trader(s) for oil sold at FCA (free carrier) Uralsk (due to decreased rail tariffs) and the fact that the Group started to sell on DAF (delivery at frontier) and FOB (free on board) terms (which carries lower traders' transportation costs). The decrease in discount from 2008 to 2009 was a result of lower transportation costs due to decreased rail tariffs and a decrease in rail car lease rates. The increase in discount from 2007 to 2008 was the result of higher transportation costs due to increased rail tariffs and increased rail car lease rates.

The table below sets out Zhaikmunai's average Netback for crude oil sales for 2010, 2009, 2008,2007 and 2006.

	2010	2009	2008	2007	2006
			(US$/bbl)		
Average Netback for crude oil sales	66.14	46.81	82.53	58.71	55.40

Crude oil production

All crude oil produced by Zhaikmunai is sold. As at 31 December 2010, inventory comprised 3.3% of the Group's current assets compared to 0.2% as at 31 December 2009. This compares to 5.0% as at 31 December 2008 and 7.4% as at 31 December 2007. Consequently, the volume of crude oil produced by the Group directly affects its revenues. The table below illustrates Zhaikmunai's production for 2010, 2009, 2008 and 2007.

	2010	2009	2008	2007
Total crude oil production (bbl)	2,829,764	2,697,980	1,749,066	1,719,153
Average crude oil production (bpd)	7,752	7,442	5,095	5,063
Increase (decrease) in production from previous period (bpd)	310	2,347	32	2,163
Increase (decrease) in production from previous period (%)	4.9	54.3	1.7	74

Zhaikmunai's production growth in 2007, 2008, 2009 and 2010 has been primarily driven by its growing drilling programme.

Cost of sales

As crude oil prices are based on quotation pricing, Zhaikmunai's ability to control costs is critical to its profitability. Zhaikmunai's cost of sales comprise various costs including depreciation for oil and gas properties, repair, maintenance and other services, royalties, payroll and related taxes, materials and supplies, management fees, other transportation services, government profit share, environmental levies, well workover costs, rent and operation of oil separation units.

Depreciation costs, during the periods under review, have represented as a percentage of total cost of sales 28.2% and 36.8% for the years ended 31 December 2010 and 2009, respectively, and 17.7% and 16.4% for the years ended 31 December 2008 and 2007, respectively. Such costs fluctuate according to the level of Zhaikmunai's proved developed reserves, the volume of crude oil it produces and the net book value of its oil and gas properties (see "*—Summary of Critical Accounting Policies*" below for an explanation of this accounting policy). As the Group continues with its capital investment programme, management expects depreciation costs to increase (in particular, following completion and commissioning of the Gas Treatment Facility) as the Group's proved developed reserves are expected to remain broadly constant while its production and the value of its oil and gas properties increase. Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 10.9% and 0.3% for the years ended 31 December 2010 and 2009, respectively, and 14.2% and 19.0% for the years ended 31 December 2008 and 2007, respectively. The increase in well workover costs as a percentage of cost of sales in 2010 compared to 2009 was a result of starting previously postponed workover activities.Change in oil stock, during the periods under review, has moved from an increase in the cost of sales in 2009 to a decrease in the cost of sales in 2010 due to an increase in oil stock as a result of the transition from FCA Uralsk marketing to DAF and FOB sales to different locations.

Other cost of sales during the periods under review have included environmental levies, which decreased by 23.6% during the year ended 31 December 2010 compared to 2.5% during the year ended 31 December 2009, and by 61.0% during 2009 compared to 2008 due to reduction of flared gas volumes, and increased by 201.4% during 2008 compared to 2007, due to higher levies charged by the Government relating to an increase of flared gas volumes, as well as management costs (which have been paid pursuant to management services agreements with related parties (see "*Related Parties and Related Party Transactions*")), labour costs and rent and operation of oil separation units costs. Management fees increased as a result of increases in remuneration while the increase in labour costs resulted from an increase in the number of personnel contracted and/or employed by Zhaikmunai as well as through increases in salaries. Management expects that labour costs will increase faster than overall growth in Kazakhstan, although any consequent increases in these costs are expected to be partially offset by productivity growth. Costs for repairs and maintenance and material and supplies are expected to fluctuate in line with changes in the market price of oil. Rent and operation of oil separation units costs have significantly dropped in 2009 due to the release of the oil separation units following completion of the oil treatment unit and management does not expect those costs to increase in the near future.

Finance costs

Finance costs in the years ended 31 December 2010, 2009 and 2008 consisted of interest expenses in relation to the Notes, fees and expenses in relation to the Notes, interest expenses in relation to the Syndicated Facility, commitment fees on the Syndicated Facility, unwinding at discount on the trade payables to KSS, finance charges on trade payables to KSS, unwinding of discount on amounts due to the Government, loan review fees (only in 2009), unwinding of discount on abandonment and site relocation liability and amortisation of fees incurred on arrangement of the Syndicated Facility (in 2008 and 2009).

Interest expense in 2010 consisted of interest on the Notes and on Zhaikmunai's Syndicated Facility. In December 2007, the Group entered into the Syndicated Facility under which its previous fixed rate borrowings were refinanced. The amounts available under the Syndicated Facility were drawn down starting from March 2008. A portion of the finance costs are capitalised based on the average construction in progress. Capitalised interest (including withholding tax paid by Zhaikmunai) amounted to US$19.6 million in 2008 and US$26.4 million in 2009 and US$47.5 million in 2010. Non-capitalised interest (including withholding tax paid by Zhaikmunai) amounted to US$11.5 million in 2008, US$6.0 million in 2009 and US$19.9 in 2010.

Royalties, Government Share and Taxes payable pursuant to the PSA

Zhaikmunai operates its production and sales of crude oil pursuant to the PSA. The PSA has, during the periods under review, and will continue to have, an effect, both positive and negative, on Zhaikmunai's results of operations as a result of (i) the beneficial tax rates available to Zhaikmunai, (ii) increasing royalty expenses payable to the State, (iii) the share of profit oil and the share of gas that Zhaikmunai pays to the State and (iv) recovery bonus payable to the State.

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January 2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Article 308 of the Tax Code. Despite the stabilisation clauses (providing for general and tax stability) provided for by the PSA, in 2008 and again in 2010 Zhaikmunai was required to pay new crude oil export duties introduced by the Government. Despite Zhaikmunai's efforts to show that the new export duties were not applicable to it under the PSA, the State authorities did not accept this position in 2008 and Zhaikmunai was required to pay the export duties. During January 2009, the Government revised and established the rate of the export duties at US$ nil per tonne of crude oil, but reimposed a US$20 per tonne duty in August 2010, which was increased to US$40 per tonne in January 2011. However, Zhaikmunai has chosen to export to destinations which are exempt.

For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from crude oil sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25.0%. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, expected to be approximately 14.0%. Under the PSA, the exploration phase for the remainder of the Chinarevskoye Field will expire in May 2011. Assets related to the other horizons will depreciate in the same manner as those described above for the Tournaisian reservoir.

Under the PSA, Zhaikmunai is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Zhaikmunai is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. See "*Business Review—Subsoil Licences and Contracts*" for a description of these amounts. Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production from the sharing arrangement (known as Cost Oil) that it would otherwise have to share with the Government. Cost oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. During the periods under review, royalties and government profit share have represented, as a percentage of total cost of sales, for the year ended 31 December 2010, 16.5% and 3.1%, respectively compared to 13.0% and 2.5%, for the year ended 31 December 2009, for the year ended 31 December 2008, 12.8% and 2.5%, respectively and for the year ended 31 December 2007, 14.1% and 2.7%, respectively.

Summary of Critical Accounting Policies

The Group's significant accounting policies are more fully described in note 3 to the audited consolidated financial statements for 2009, 2008 and the 2007 Combined Financial Statements, and note 2 to the audited consolidated financial statements for the year ended 31 December 2010. However, certain of the Group's accounting policies are particularly important to the presentation of the Group's results of operations and require the application of significant judgment by its management.

In applying these policies, the Group's management uses its judgment to determine the appropriate assumption to be used in the determination of certain estimates used in the preparation of the Group's results of operations. These estimates are based on the Group's previous experience, the terms of existing contracts, information available from external sources and other factors, as appropriate.

The Group's management believes that, among others, the following accounting policies that involve management judgments and estimates are the most critical to understanding and evaluating its reported financial results.

Estimations and Assumptions

Oil and gas reserves

Oil and gas reserves are a material factor in Zhaikmunai L.P.'s computation of depreciation, depletion and amortisation (the "**DD&A**"). Zhaikmunai L.P. estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (the "**SPE**"). In estimating its reserves under SPE methodology, Zhaikmunai L.P. uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature our business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

Property, Plant and Equipment

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognised in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long term interest rates for emerging market debt adjusted for risks specific to the Kazakhstan market. The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit of production basis.

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

(a) are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement; and

(b) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Borrowing Costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, *provided that* work is in progress at that time. Qualifying assets mostly include wells and other oilfield infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period.

Derivative Financial Instruments and Hedging

The Group uses a hedging contract for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of financial instruments contracts is determined by reference to market values for similar instruments.

Description of key financial terms

Sales of crude oil during the period under review is affected by the Group's volume of crude oil production, the market price for crude oil and the discount to the market price incurred by the Group for its crude oil. The Group expects to generate further revenue from sales of condensate, gas and LPG following the completion of the Gas Treatment Facility. The audited consolidated financial statements as at and for the year ended 31 December 2010, 2009 and 2008 and the 2007 Combined Financial Statements included in this Annual Report present sales of crude oil gross of any portion required to be delivered to the State under the terms of the PSA since, during the periods under review, it has elected to settle its obligations to the State in cash. Consequently, the incurrence of any such obligation is reported as an expense in cost of sales. If it elects, in the future, to settle such obligation by the delivery of crude oil to the State, its sales of crude oil, and therefore revenue, will be affected. See "*Business Review—Subsoil Licences and Contracts—State Share*".

Cost of sales comprises various costs including: (i) depreciation of oil and gas properties; (ii) well workover costs for the repair, maintenance and change of well completions; (iii) royalties payable to the Government (see "*Primary Factors Affecting Results of Operations—Royalties, Government Share and Taxes payable pursuant to the PSA*"); (iv) repair, maintenance and other services, (v) payroll and related taxes for field operational staff; (vi) materials and supplies and other related expenses; (vii) the rental and operation of oil separation units (used to separate crude oil and gas condensate); (viii) environmental levies; (ix) management fees related to the provision of geological, geophysical, drilling, scientific, technical and other consultancy services (see "*Related Parties and Related Party Transactions—Services Agreements*") and (x) Government profit share, (see "*—Primary Factors Affecting Results of Operations—Royalties, Government Share and Taxes payable pursuant to the PSA*").

General and administrative expenses consist of professional services relating to geological analyses, legal fees and accounting fees, bank charges and employee training, management fees for consultants and service providers and payroll and related taxes for employees in managerial or administrative roles.

Selling and oil transportation expenses principally comprise the costs incurred in transporting crude oil from the Chinarevskoye Field to the terminal at Uralsk, which is the point of sale at which one or more traders who purchase(s) Zhaikmunai's crude oil become(s) responsible for transportation. In January 2009, the Group completed the construction of an oil pipeline linking the Chinarevskoye Field with the rail terminal in Rostoshi near Uralsk. The Group currently transports all its crude oil to Uralsk along this pipeline rather than the trucks it used prior to completion of the pipeline. Consequently, this has reduced the Group's transportation expenses relating to trucking and road maintenance costs.

Comparison of the years ended 31 December 2010 and 2009

The table below sets forth the line items of the Group's income statement for the years ended 31 December 2010 and 2009 in US Dollars and as a percentage of sales of crude oil.

	2010	% of sales of crude oil	2009	% of sales of crude oil
	(US$ millions)		(US$ millions)	
Sales of crude oil	178.159	100.0	116.033	100.0
Cost of sales	(53.860)	30.2	(44.035)	38.0
Gross Profit	**124.299**	**69.8**	**71.998**	**62.0**
General and administrative expenses	(27.265)	15.3	(29.726)	25.6
Selling and oil transportation expenses	(17.014)	9.5	(5.692)	4.9
Gain/(loss) on derivative financial instruments	(470)	0.3	(16.909)	14.6
Interest income	239	0.1	60	0.1
Finance costs	(21.296)	12.0	(7.801)	6.7
Foreign exchange (loss)/gain	46	0.0	(2.184)	1.9
Other (expenses)/income	2.234	1.3	(906)	0.8
Profit/(loss) before income tax	**60.773**	**34.1**	**8.840**	**7.6**
Income tax expense	(37.873)	21.3	(27.608)	23.8
Net Loss/Income	**22.900**	**12.9**	**(18.768)**	**16.2**

Sales of crude oil increased by US$62.1 million, or 53.5%, to US$178.2 million in 2010 from US$116.0 million in 2009 due primarily to a 41.3% increase in average crude oil Netback prices in 2010 because of an increase in the average Brent crude oil price of 29.2% and a decrease in the weighted average transportation discount of 7.9% compared to 2009.

The following table shows the Group's sales of crude oil and sales volumes for 2010 and 2009:

	2010	2009
Sales of crude oil (US$ millions)	178.159	116.033
Sales volumes (gross of Cost Oil) (bbl)	2.634.553	2.675.505

The table below shows changes in the commodity price of Brent crude oil and changes in the discount and the Netback received by the Group for its crude oil for 2010 and 2009.

	2010	2009
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	80.15	62.02

Average discount to Brent (US$/bbl)	14.01	15.21
Average Netback (US$/bbl)...	66.14	46.81

Cost of sales increased by US$9.8 million, or 22.3%, to US$53.9 million in 2010 from US$44.0 million in 2009 due primarily to an increase in well workover expenses, royalties and government profit share as well as increases in material and supply costs and repair and maintenance expenses. Well workover costs increased to US$5.9 million in 2010 from US$117 thousand in 2009 due to increased drilling activities in 2010. Royalty costs increased by US$3.2 million, or 55.2% due to an increase in Brent crude prices during the year. Costs for government profit share increased by US$564 thousand or 50.7%, to US$1.7 million in 2010 from US$1.1 million in 2009. This was due to the increase in profitability during the year as the increasing net-back prices drove top-line growth while the Group's expenses are composed of a significant fixed cost base. Partially offsetting these increases was a decline in depreciation expenses which decreased US$984 thousand, or 6.1%, to US$15.2 million in 2010 from US$16.2 million in 2009. The decrease in depreciation relates to the Group's focus on GTU construction vs. other construction activities (including drilling) resulting in lower amounts of construction in progress as a percentage of the overall PP&E amount. On a per barrel basis, cost of sales increased by US$3.99 or 24.2%, to US$20.44 in 2010 from US$16.46 in 2009 and cost of sales net of depreciation per barrel increased US$4.27, or 41% to US$14.68 in 2010 from US$10.41 in 2009.

General & administrative expenses decreased by US$2.5 million, or 8.3%, to US$27.3 million in 2010 from US$29.7 million in 2009 due primarily to a decrease in the employee share option plan expenses and management fees. The employee share option plan expenses declined US$3.4 million, or 52.7%, to US$3.1 million in 2010 from US$6.5 million in 2009. Additionally, management fees were US$6.4 million in 2010, a decline of US$2.1 million, or 25.0%, from US$8.6 million in 2009. These declines were partially offset by increases in professional service expenses and tax provisions of US$769 thousand and US$728 thousand, respectively.

Selling and oil transportation expenses increased US$11.3 million, or 198.9%, to US$17.0 million from US$5.7 million in 2009. This was driven primarily by an increase of US$10.6 million for oil transportation costs from US$1.3 million in 2009 to US$11.8 million in 2010 as the Group moved from FCA (Free Carrier) Uralsk terms to DAF (Delivery at Frontier) and FOB (Free On Board) contract terms during the year. Management has undertaken these contracts which require the Group to garner greater ownership of the transportation expenses for its oil shipments with the understanding that these terms offer higher profitability in the long term through lowered net back prices. This has resulted in a significantly lowered discount during the year of US$14.01 per barrel a decline of 7.9% from US$15.21 per barrel in 2009. The Group plans to continue this transition from sales on FCA terms to DAF/FOB terms as management believes the Group will benefit from a net decrease in overall transportation costs.

Finance costs increased by US$13.5 million, of 173.0%, to US$21.3 million in 2010 from US$7.8 million in 2009. The increase in costs was primarily driven by the expensing of previously capitalized financing fees paid in 2008 and 2009 under the Syndicated Facility. On 19 October 2010, the Group issued the Notes. The proceeds of the Notes were used in part to fully prepay the Syndicated Facility, and in part for general corporate purposes. The first coupon payment is due April 19, 2011, however, the Group accrues the interest expense accordingly.

Loss on derivative financial instruments amounted to US$470 thousand in 2010 compared to a loss of US$16.9 million in 2009. The loss of US$470 thousand consisted of the fair value of the hedging contracts as at 31 December 2010 (in a negative amount of US$372 thousand) less the fair value of the hedging contracts as at 31 December 2009 (in a positive amount of US$98 thousand).

Foreign exchange gain amounted to US$46 thousand compared to a loss of US$2.2 million in 2009.

Profit before income tax amounted to a profit of US$60.8 million in 2010 compared to a profit of US$ 8.8million in 2009. The higher profitability was driven primarily by the increased Brent prices realized during the year.

Income tax expense increased to US$37.9 million in 2010 compared to US$27.6 million in 2009 a 37.2% increase.

Net income amounted to US$22.9 million in 2010, an increase of US$41.7 million from a loss of US$18.8 million in 2009. The higher profitability was driven by the higher Brent prices noted above and the lack of other non-deductible expenses in 2010 such as the hedging losses in 2009.

Liquidity and Capital Resources

General

Historically, during the periods under review, Zhaikmunai's principal sources of funds are cash from operations and amounts raised under the offering of Notes, the Syndicated Facility, the initial public offering of GDRs in April 2008 and the additional offering of GDRs in September 2009. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the Syndicated Facility prior to the offering of Notes and under the Notes following that offering) and to funding capital expenditures and working capital requirements.

Cash Flows

The following table sets forth the Group's cash flow statement data for 2010, 2009, 2008 and 2007.

	2010	2009	2008	2007
		(US$ millions)		
Net cash flow from operating activities	98.955	45.934	44.223	48.233
Net cash flows in investing activities	(132.428)	(200.673)	(195.196)	(173.105)
Net cash provided by/(used in) financing activities	39.710	279.418	155.627	129.166
Cash and cash equivalents at the end of period	144.201	137.375	11.887	7.360

Net cash flows from operating activities

Net cash flows from operating activities were US$99.0 million in 2010 and were primarily attributable to:

- a profit before income tax for the period of US$60.9 million, adjusted by a non-cash charge for depreciation and amortisation of US$15.2 million and a reversal of share option expenses of US$3.1 million;

- a US$1.9 million increase in working capital primarily attributable to (i) a decrease in trade receivables of US$12.2 million and (ii) a decrease in trade payables of US$17.2 million; and

- income tax paid of US$13.7 million.

Net cash flows from operating activities were US$45.9 million in 2009 and were primarily attributable to:

- a profit before income tax of US$8.8 million adjusted by (i) a non-cash charge for depreciation and amortisation of US$16.6 million, (ii) finance costs of US$7.8 million, (iii) accrual of share option expenses of US$6.5 million relating to changes in the employee stock option plan, and (iv) a loss in hedging contract of US$16.9 million;

- a US$3.3 million increase in working capital primarily attributable to (i) increases in trade receivables of US$12.8 million, in trade payables of US$3.7 million and in other current liabilities of US$1.2 million, (ii) a decrease in prepayments made to service providers of US$5.4 million, and (iii) payments made to the Government of Kazakhstan under the PSA of US$1.0 million; and

- income tax paid of US$8.9 million.

Net cash flows in investing activities

Net cash used in investing activities was US$132.4 million in 2010 due primarily to investments in the Gas Treatment Facility (US$52.4 million), in the drilling of new wells (US$69.1 million) and in the water injection programme (US$5.5 million).

Net cash provided by financing activities

Net cash provided by financing activities was US$39.7 million in 2010, primarily due to the Syndicated Facility being refinanced by a larger principal amount of Notes.

Net cash provided by financing activities was US$279.4 million in 2009 and was primarily due to (i) the settlement of the Group's commodity hedging positions in March 2009, (ii) the proceeds from the issue of 75,000,000 GDRs, and (iii) the fees paid on the arrangement of the Syndicated Facility.

Indebtedness

See "*Description of Significant Indebtedness and Certain Financial Arrangements*".

The foregoing table does not include capital expenditure with respect to construction of the second phase of the Gas Treatment Facility.

Following the successful implementation of the first phase of the Gas Treatment Facility, Zhaikmunai is expected to build a third unit which is the second phase of the Gas Treatment Facility. This will depend on a number of factors such as the ability of Zhaikmunai to convert probable reserves into proved reserves, the oil price environment and the cash flow being generated from phase one. Management estimates that the construction of the second phase will cost approximately US$362 million. Currently, Zhaikmunai is purely focused on implementing the first phase of the Gas Treatment Facility.

Zhaikmunai plans to fund future capital expenses with the revenues generated from sales of its oil and gas products.

Drilling Expenditures

Based on historical contracts, Zhaikmunai has budgeted a cost per well of approximately US$11.0 million for production/appraisal wells to be drilled to the Devonian reservoirs (and an additional US$3.0 million per well for horizontal wells). The cost per well for vertical production wells to the Tournaisian reservoir is budgeted at approximately US$8.0 million.

Gas Treatment Facility

On 10 August 2007, Zhaikmunai entered into an agreement with KSS for the construction of the Gas Treatment Facility that is expected to process associated gas and gas condensate. Construction of the first phase of the Gas Treatment involved the construction of two gas treatment units. Payments made to KSS in relation to the construction of the Gas Treatment Facility amounted to US$17.6 million in 2008, US$100.1 million in 2009 and US$47.6 million in 2010. Mechanical completion of the first phase of the Gas Treatment Facility occurred on 29 September 2010 when the Working Commission issued its formal decision declaring that the construction of Zhaikmunai's Gas Treatment Facility has been completed generally in accordance with Kazakh standards. State Acceptance Commission approval was received at the end of December 2010 and test production has started. As of 31 December 2010, the outstanding amounts due to KSS for construction of the Gas Treatment Facility were US$24.1 million, which includes US$22.4 million rising to a payment of US$22.7 million by completion) to be paid to KSS after takeover of the Gas Treatment Facility.

Oil treatment units

Currently Zhaikmunai operates a first crude oil treatment unit, which was built and commissioned at the beginning of 2006. The Group expects to complete a second oil treatment unit in 2013 in order to double its oil treatment capacity. Total capital expenditure for the oil treatment unit is expected to be approximately US$20 million.

Oil Pipeline and rail loading terminal

In 2009, the construction of a 120km oil pipeline from the Chinarevskoye Field to a rail terminal in Rostoshi near the city of Uralsk was successfully completed. Zhaikmunai's oil pipeline construction contains three parts: the main pump station at the field site; a 120 km long, 324mm diameter crude oil pipeline; rail loading terminal, including a receiving station, an automation system and a vapour recovery unit, as well as increased storage capacity. The cost for the entire project amounted to US$97.0 million. As a result, Zhaikmunai no longer transports crude oil via road from the field to the oil loading rail terminal in Rostoshi near Uralsk. This is expected to lead to a decrease in transportation costs of approximately US$25.0 per tonne.

Disclosure about Market Risk

The Group is exposed to a variety of market risks with respect to the market price of crude oil and condensate, foreign currency exchange rates, interest rates and the creditworthiness of the counterparties with whom Zhaikmunai expects payments under normal commercial conditions.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of crude oil. Commodity price risk is extremely significant to the Group's results of operations given that all sales of crude oil are based on the commodity price. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group entered into hedging contracts in March 2010 covering oil export sales of 4,000 barrels per day running from March 2010 through December 2010 (pursuant to which the floor price for Brent crude oil price is fixed at US$60 per barrel). These hedging contracts were novated upon prepayment of the Syndicated Facility on 19 October 2010 and terminated on 31 December 2010. See "*Description of Significant Indebtedness and Certain Financial Arrangements—Hedging Contracts*". The Group intends to keep the same hedging policy going forward which is driven by capital expenditure and debt service requirements.

Foreign currency exchange rate risk

The Group is exposed to foreign currency risk associated with transactions entered into, and assets and liabilities denominated, in currencies other than the functional currency of its operating entities, being the US dollar since 1 January 2009. This exposure is primarily associated with transactions, contracts and borrowings denominated in Tenge. Most of the Group's cash inflows as well as its accounts receivable are denominated in US Dollars, and most of the Group's expenses are primarily denominated in US Dollars, with approximately 20% denominated in Tenge. There is no significant forward market for the Tenge and the Group does not use other foreign exchange or forward contracts to manage this exposure. With respect to foreign exchange, the Group incurred a loss of US$46 thousand in the year ended 31 December 2010, a loss of US$2.2 million in the year ended 31 December 2009, a loss of US$1.5 million for the year ended 31 December 2008 and a gain of US$6.2 million for the year ended 31 December 2007. The Group does not hedge against this risk. As at the date of this Annual Report, all of the Group's financing is in US Dollars and in the future the Group's capital expenditures are expected to be primarily denominated in US Dollars.

Interest rate risk

The Group's interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings. Under the Syndicated Facility, the Group's borrowings bore interest at (i) a fixed margin as stated in the Syndicated Facility and (ii) a variable rate credit facility linked to the London Interbank Offered Rate. Following the refinancing of the Syndicated Facility, the Notes bear interest at a fixed coupon.

Credit risk

Zhaikmunai sells all of its crude oil pursuant to contracts with one or more oil trader(s) who purchase(s) its production. Zhaikmunai's policy is to mitigate the payment risk by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

Off-Balance Sheet Arrangements

The Group does not currently utilise any off-balance sheet financing arrangements.

Recent Developments

KASE listing and substitution

On February 24, 2011 the Partnership listed the Notes on the Kazakh Stock Exchange ("**KASE**") and on February 28, 2011 the Partnership transferred the Notes from Zhaikmunai Finance B.V. to Zhaikmunai LLP.

2011 hedging

On March 29, 2011, in accordance with its hedging policy, the Partnership entered, at nil upfront cost, into a new hedging contract covering oil sales of 2,000 bbls/day, or a total of 556,000 bbls running through December 2011. The counterparty to the hedging agreement is Citibank, N.A. Based on the new hedging contract the Partnership buys a put at US$85/bbl, sells a call at US$125/bbl and buys a call at US$134/bbl.

Gas flaring permits

Zhaikmunai holds two gas flaring permits to flare associated gas which the Competent Authority has agreed to extend until 30 June 2011.

Gas Sales Agreement

Terms have been agreed for the offtake of Zhaikmunai's gas production for the remainder of 2011.

4. DESCRIPTION OF SIGNIFICANT INDEBTEDNESS AND CERTAIN FINANCIAL ARRANGEMENTS

The following is a summary of certain provisions of the Group's indebtedness and certain financial arrangements to which the Group is or will be a party. It does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

Notes

On 19 October 2010 Zhaikmunai Finance B.V. (the "**Issuer**") issued US$ 450,000,000 notes (the "**Notes**").

The Notes bear interest at the rate of 10.50% per year. Interest on the Notes is payable on 19 April and 19 October of each year, beginning on 19 April 2011. The Notes will mature on 19 October 2015. The Issuer may redeem some or all of the Notes at any time on or after 19 October 2013 at the prices and as described in the offering memorandum relating to the Notes. Prior to 19 October 2013, the Issuer may redeem all or part of the Notes by paying a "make whole" premium. In addition, prior to 19 October 2013, the Issuer may redeem up to 35% of the outstanding principal amount of Notes from the proceeds of certain equity offerings.

The Notes are jointly and severally guaranteed (the "**Guarantees**") on a senior basis by Zhaikmunai L.P. and all of its subsidiaries other than the Issuer (the "**Guarantors**"). The Notes are the Issuer's and the Guarantors' senior obligations and will rank equally with all of the Issuer's and the Guarantors' other senior indebtedness.

Under the terms of the indenture relating to the Notes, Zhaikmunai LLP was permitted to elect to undertake, upon satisfaction of certain conditions, to be substituted for the Issuer as issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes (the "**Substitution**").

The Notes were secured by a first-priority pledge over the loan by the Issuer to Zhaikmunai LLP of the proceeds of the Notes (the "**Proceeds Loan**"). In addition, the Notes and the Guarantees had the benefit of first-priority pledges over the shares of the Issuer and its direct holding company Frans van der Schoot B.V. ("**FvdS**"). Pursuant to the terms of the Indenture, Zhaikmunai LLP was substituted for the Issuer as issuer of the Notes pursuant to the Substitution on 28 February 2011, the Proceeds Loan was novated to Zhaikmunai LLP and the pledge over the Proceeds Loan was terminated.

Following the Substitution, and the termination of the pledge over the Proceeds Loan, the only security for the Notes and the Guarantees is the first priority pledges over the shares of Zhaikmunai Finance B.V. and the shares of FvdS.

In preparation for the Substitution, on 29 December 2009 the shares in Zhaikmunai B.V. were transferred to Zhaikmunai LLP for a consideration of US$74,583.20.

Syndicated Facility

On 12 December 2007, Zhaikmunai L.P. entered into the Syndicated Facility. Zhaikmunai L.P. used part of the net proceeds of the Notes to repay in full all amounts outstanding under the Syndicated Facility on 19 October 2010. All security for the Syndicated Facility has been released.

Hedging Contracts

In March 2010, Zhaikmunai entered into hedging contracts covering oil export sales of 4,000 barrels per day running from March 2010 through December 2010. The hedging counterparties were BNP Paribas, Natixis and Raiffeisen Zentralbank (now known as Raiffeisen Bank International). Based on these hedging contracts, the floor price for Brent crude oil was fixed at a price of US$60 per barrel.

These hedging contracts were novated to Citibank, N.A. upon repayment of the Syndicated Facility. In December 2010 US$ 372,000 became owing to Citibank, N.A. under the novated hedging contracts. This was paid in January 2011. The hedging contracts terminated on 31 December 2010.

5. KEY RISK FACTORS

Key Risk Factors Relating to the Group's Business

The Group only has rights to explore and extract oil and gas within the Chinarevskoye Field and its sole source of revenue comes from this right.

Zhaikmunai conducts its operations in the Chinarevskoye oil and gas condensate field (the "**Chinarevskoye Field**") pursuant to the Licence which is part of the PSAwhich expires in 2031 (with respect to the Tournaisian Field) and 2033 (for the rest of the Chinarevskoye Field). Zhaikmunai's activities in the Licence area are the Group's sole source of revenue and Zhaikmunai began commercial production only in January 2007. The Group does not hold any other rights to extract crude oil or hydrocarbons elsewhere in Kazakhstan or abroad. As a result, the Group's success depends solely on the success of its activities in the Licence area. Any event that adversely interferes with the Group's ability to conduct its operations in the Chinarevskoye Field could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group depends on key members of management, external consultants and service providers and on its ability to retain and hire new qualified personnel and consultants.

The Group depends on the contribution of a number of its key senior management and personnel. For example, the Group depends on the services of Mr Kai-Uwe Kessel, Zhaikmunai L.P.'s Chief Executive for overall management of the Group's business. Mr Kessel has over 26 years of experience in the oil and gas industry.

The Group depends on the extensive contacts and relationships of its executives and Frank Monstrey, the Chairman of the board of directors of the General Partner. Management personnel are provided pursuant to agreements between Zhaikmunai, Probel Capital Management N.V. ("**Probel**"), FvdS and Amersham Oil Limited, each of which are indirectly controlled by Frank Monstrey. The services provided under these agreements are integral to the management of the Group. Key personnel, such as Mr Kessel, may not remain with the Group and these companies may not continue to supply the services of these senior managers to the Group on similar terms, or at all. The Group is not insured against damage that may be incurred in case of loss or dismissal of the Group's key specialists or managers. The loss of or diminution in the services of one or more of the Group's senior executives or the Group's inability to attract, retain and maintain additional senior management personnel could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group is subject to risks related to fluctuations in the US Dollar/Tenge exchange rate.

The crude oil that the Group exports is sold at prices quoted in US Dollars and cash payment to the Group is made in US Dollars. Approximately 20% of the Group's expenses for the year ended 31 December 2009 and the year ended 31 December 2010 were denominated in Tenge and not indexed to the US Dollar and hence were subject to fluctuations of the US Dollar/Tenge exchange rate. The Group does not maintain any currency hedging arrangements. If the value of the US Dollar falls against the Tenge, then the Group will have less Tenge available to pay its Tenge expenses and its results will be affected.

In addition, Russian rail tariffs are priced in Swiss francs and Kazakh rail tariffs are priced in Tenge, whereas Zhaikmunai's oil prices are quoted and settled in US Dollars. Consequently, if the US Dollar depreciates or appreciates against the Swiss franc or the Tenge, Zhaikmunai's Netback is reduced or increased, respectively.

Risk Factors Relating to the Crude Oil and Gas Industry

Any volatility and future decreases in commodity prices could materially adversely affect the Group's business, prospects, financial condition and results of operations.

Prices for crude oil and other commodities are subject to large fluctuations in response to a variety of factors beyond the Group's control, including:

- condition of the world economy and geopolitical events;
- relatively minor changes in the global and regional supply of and demand for crude oil and expectations regarding future supply and demand;
- market uncertainty and speculative activities by those who buy and sell crude oil on the world markets;
- weather, natural disasters and general economic conditions;

- actions of the Organisation of Petroleum Exporting Countries, and other crude oil producing nations, to set and maintain specified levels of production and prices;

- governmental regulation in Kazakhstan and elsewhere;

- political stability in Kazakhstan, neighbouring countries and other oil-producing regions; and

- prices and availability of alternative and competing fuel sources.

Accordingly, the Group may not continue to receive the same prices per tonne for crude oil as it currently receives or historically has received. If prices for the Group's crude oil or other commodities fall below current levels and/or if the Group's overall production volumes are curtailed, this could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group may be unable to comply with its obligations under the PSA and the Licence.

The Group's exploration, mining and processing activities depend on the grant, renewal or continuance in force of the PSA, the Licence, other licences, permits, and regulatory approvals and consents, each of which are valid for a limited time period. The PSA, the Licence, such other licences, permits and regulatory approvals and consents may not in the future be granted on terms acceptable to the Group or at all, and may not continue in force. Various provisions of Kazakh law provide that fines may be imposed and licences and hydrocarbon contracts may be suspended, amended or terminated if a licence holder fails to comply with its obligations under such documents, including if a licence holder fails to make timely payments of levies and taxes for subsoil use, fails to provide the required geological information or fails to meet other reporting requirements. Failure to comply may also lead to suspension, revocation or termination of such licences and hydrocarbon contracts.

The Group's operations must be carried out in accordance with the terms of applicable law, the Licence and the PSA (including the production permit, the exploration permit, the Development Plans, the gas flaring permits, the technological scheme of development of the Licence area and work programmes) and other licences, permits, regulatory approvals and consents. Under the Kazakhstan law "On Subsoil and Subsoil Use" dated 24 June 2010 (the "**New Subsoil Law**"), which came into force on 7 July 2010, the failure by a subsoil user to remedy more than two breaches of its obligations under a subsoil use contract or project documents within a period of time established in the notice of such breach from the Competent Authority may result in a termination of the relevant subsoil use contract. Recently, the Competent Authority announced it has terminated subsoil use contracts of certain companies due to breaches of Kazakh regulations relating to goods, supplies and services from Kazakh sources. In addition, any antecedent breach under the Licence, the PSA, and other licences, permits, regulatory approvals and consents could result in the Group being ineligible for the permits it needs in the future.

The State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, which was until recently the Ministry of Energy and Mineral Resources of Kazakhstan, which on 12 March 2010 was reorganized into the Ministry of Oil and Gas with respect to the oil and gas industry (the "Competent Authority") and the mining authorities have on various occasions in the past, notified Zhaikmunai of purported violations of certain provisions of the PSA and requested information from Zhaikmunai demonstrating its compliance with its obligations under the PSA. Zhaikmunai has responded to all such notices and requests and has provided the requested information, that Zhaikmunai believes demonstrates its compliance with the terms of the PSA, to the relevant authorities. To date such authorities have not taken any further action in relation to such notices following receipt of such information from Zhaikmunai.

However, the views of the Government agencies regarding the development of the Chinarevskoye Field or compliance with the terms of its licences or permits may not coincide with the Group's views, which might lead to disagreements that cannot be resolved. The Group could also encounter challenges from third parties to the validity of its existing Licence and contracts or any future permits that may be required, which could trigger suspension and subsequent termination of these contracts.

The Group is obliged to comply with environmental regulations and cannot guarantee that it will be able to comply with these regulations.

The Group's operations are subject to environmental risks inherent in crude oil and gas exploration and production industries. Compliance with environmental regulations may make it necessary for the Group, at costs that may be substantial, to undertake measures in connection with the storage, handling, transportation, treatment or disposal of hazardous materials and waste and the remediation of contamination.

The legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan. Stricter environmental requirements, such as those governing discharges to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of contamination, may be adopted in the near future, and the environmental authorities may move towards a stricter interpretation of existing legislation. The costs associated with compliance with such regulations could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group is subject to an uncertain tax environment that may lead to disputes with regulatory authorities.

The PSA provides, in summary, that for the lifetime of the PSA and the Licence Zhaikmunai shall be subject to the tax regime that was in place in Kazakhstan at the time the PSA was signed. In addition, under the PSA, Zhaikmunai is required to share a proportion of its production (in cash or kind), and make royalty payments in addition to certain other payments.

As of 1 January 2009, a new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code does not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Article 308 of the Tax Code.

The Competent Authority has recently entered into discussions with all subsoil users who are parties to PSAs with the Government, including Zhaikmunai, with regard to potential changes to the tax regime applicable to such PSAs. Government officials have publicly expressed a desire to remove tax stability provisions from PSAs in cases where such a change is necessary to restore the balance of interests between the parties. While Zhaikmunai believes that such a change would not be justified or appropriate in relation to its PSA, there is no certainty that the Government will share this view. There is currently no indication as to whether the current discussions will result in any change in the tax regime applicable to Zhaikmunai's PSA or what such change, if any, would be.

Despite the stabilisation clauses (providing for general and tax stability) in the PSA, in 2008 Zhaikmunai was required to pay new crude oil export duties introduced by the Government. Despite Zhaikmunai's efforts to prove that the new export duties were not applicable to it under the PSA, the State authorities did not accept this and Zhaikmunai was required to pay export duties. However, during January 2009, the Government revised and established the rate of the export duties at US$nil per tonne of crude oil. In August 2010, the Government reimposed an export duty at US$20 per tonne of crude oil and export duty was increased to US$40 per tonne of crude oil in January 2011. Zhaikmunai has written to the Ministry of Finance and the Ministry of Oil and Gas to state that pursuant to the terms of its PSA it is not subject to such export duty and to protest against application of such duty to it. However, Zhaikmunai did not receive any response to such letter from the Ministry of Oil and Gas and the Ministry of Finance continues to seek to compel Zhaikmunai to pay such export duty. There can be no certainty that the authorities will not compel Zhaikmunai to pay such export duty notwithstanding the tax stability and general contractual stability provisions of its PSA and therefore, Zhaikmunai has sought to export to countries which are exempt. Future tax investigations or inquiries could create tax liabilities for the Group or could result in assessments to which the Group believes it is not subject or with which the Group believes it has complied. Tax authorities could conceivably impose material fines, penalties and interest charges that could be challenged unsuccessfully by the Group either with the tax authorities or through the courts. The uncertainty of application, including retroactive application, a reintroduction of export duties taxes and the evolution of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. See footnote 22 of the audited consolidated financial statements of Zhaikmunai L.P. and its subsidiaries for 2009 for more detail and footnote 23 of the audited consolidated financial statements of Zhaikmunai L.P. for 2010.

All the Group's assets are located in Kazakhstan and the Group is therefore susceptible to country-specific risk factors, such as political, social and economic instability.

The Group is subject to Kazakhstan-specific risks, including, but not limited to, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes with respect to taxes, withholding taxes on distributions to foreign investors, changes in anti-monopoly legislation, nationalisation or expropriation of property, and interruption or blockage of hydrocarbons or other strategic materials exports. The occurrence of any of these factors could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group is exposed to the risk of adverse sovereign action by the Government.

The oil and gas industry is central to Kazakhstan's economy and its future prospects for development, and thus can be expected to be the focus of continuing attention and debate. In similar circumstances in other developing countries, petroleum companies have faced the risks of expropriation or renationalisation, breach or abrogation of project agreements, application to such companies of laws and regulations from which they were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls, and other risks.

The Tax Code which disregards the stability of the tax regime under subsoil use contracts came into force on 1 January 2009. Even if Zhaikmunai's PSA is not affected by this new tax regime, Kazakhstan may revise the stability of the tax regime of Zhaikmunai's PSA which could result in negative tax consequences. In January 2010, President Nazarbayev of Kazakhstan spoke out against tax stabilisation clauses stating that parties operating in Kazakhstan should work under the same legislation. Furthermore the former Minister of Energy and Natural Resources Sauat Mynbayev has publicly warned foreign companies that they should prepare themselves for losing their exemption from domestic taxation.. Moreover, the New Subsoil Law came into force on 7 July 2010 and the application of this law is as yet untested. Any complaints by the Government or the invocation or application by the Government of the New Subsoil Law in relation to the Chinarevskoye Field may have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The laws and regulations of Kazakhstan are developing and uncertain. Any changes in laws, regulations and permit requirements to which the Group is subject could require it to make substantial expenditures or subject the Group to material liabilities or other sanctions.

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use, licensing, companies, customs, currency, capital markets, pensions, insurance, banking, taxation and competition are still developing and are uncertain. Many such laws provide regulators and officials with substantial discretion in their application, interpretation and enforcement. Furthermore, the judicial system may not be fully independent of social, economic and political forces. Court decisions can be difficult to predict and enforce, and the Group's best efforts to comply with applicable law may not always result in compliance as determined by regulators and/or the courts. Furthermore, because New Subsoil Law does not define the course of action available to the Government by reference to the gravity of a breach, a minor breach could conceivably lead to severe consequences, such as suspensions or termination of the subsoil user rights. Because the New Subsoil Law is new, there are no precedents that would make the consequences of a breach more predictable. The Group is required to obtain, on an ongoing basis, all permits as are required by the laws of Kazakhstan. Failure to obtain all such permits could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Given Kazakhstan's legislative, judicial and administrative history, it is not possible to predict the effect of current and future legislation on the Group's business. Moreover, the New Subsoil Law came into force on 7 July 2010 and the application of this law is untested. The ongoing rights of the Group under the PSA, the Licence and other licences, approvals and permits (if applicable) and other agreements may be susceptible to revision or cancellation, and legal redress in relation to such revocation or cancellation may be uncertain. Any changes to the rights of the Group under the PSA, the Licence and other licences (and any other relevant legislative changes) could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

6. MANAGEMENT AND CORPORATE GOVERNANCE

Zhaikmunai is committed to implementing good corporate governance practices, in the interests of all of its stakeholders.

As a limited partnership registered in the Isle of Man, Zhaikmunai L.P. is managed by its general partner Zhaikmunai Group Limited (the "General Partner"). While the partnership is not legally subject to the UK Corporate Governance Code adopted in June 2010 and there are no statutory corporate governance recommendations applicable to limited partnerships formed in the Isle of Man, in the interest of good corporate governance the Board of Directors of the General Partner has voluntarily adopted a corporate governance code for the Group (the "Code").

In adopting its Code, the General Partner has given consideration to the best practice provisions on corporate governance set out in the UK Corporate Governance Code. The General Partner has also put in place procedures to comply with the internal control aspects of its Code and to ensure that the partnership is able to comply with its ongoing obligations under the UK Listing Rules and the UK Disclosure and Transparency Rules.

A copy of Zhaikmunai's corporate governance Code is publicly available at the offices of Zhaikmunai Group Limited, 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man IM1 4LN.

Under the terms of the partnership agreement, the limited partners may not take any part in the management of the partnership.

Compliance Statement

As required by DTR 7.2 of the UK Disclosure and Transparency Rules, this statement reports on how the principles of the Code are applied by the General Partner and provides our formal report on compliance with the Code's provisions.

The Board considers that this statement provides the information necessary to enable limited partners of the partnership, including GDR holders, to evaluate how the principles of the Code have been applied, that the partnership has complied with the Code throughout the year, and that it has therefore satisfied its obligations under the Code.

The Board

The Board of the General Partner considers all important management and policy matters in relation to the partnership, which includes setting the partnership's strategic aims, ensuring that the necessary financial and human resources are in place for the partnership to meet its objectives and reviewing Group management performance. The Board also sets the Group's values and standards and ensures that its obligations to all stakeholders are understood and met.

The Board currently has seven members, consisting of two executive directors and five non-executive directors, three of whom are considered by the Board to be independent non-executive directors. As a result, the Directors consider that there is a satisfactory balance of decision-making power on the Board in line with the Code and that the directors have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively.

There is a mix of nationalities represented on the Board, comprising Belgian, German, English and Russian nationals.

The roles of the Chairman and Chief Executive are separate, with each having distinct and clearly-defined responsibilities.

The Chairman, Frank Monstrey, is responsible for leadership of the Board and for ensuring its effectiveness in all aspects of its role. He sets the agenda for Board meetings in consultation with the Chief Executive and the Group General Counsel and Company Secretary. He is also responsible for ensuring that the directors receive accurate, timely and clear information and that there is effective communication with the limited partners of the partnership.

The Chief Executive, Kai-Uwe Kessel, provides leadership to the Group to enable the successful planning and execution of the objectives and strategies agreed by the Board. He is also responsible for care of the Group's assets and, jointly with the Chairman, representation of the Group to third parties.

Eike von der Linden is the senior independent director on the Board. He provides a sounding board for the Chairman and serves as an intermediary for the other directors when necessary. He is available should the need arise to convey concerns to the Board other than through the Chairman or Chief Executive.

The other four non-executive members of the Board are Piet Everaert, Steve McGowan (independent director), Atul Gupta (independent director) and Mikhail Ivanov.

A director may, by written notice to the General Partner, appoint any person, including another director, who has been approved by the Board and who meets any minimum standards that are required by applicable law, to serve as an alternate director who may attend and vote in such director's place at any meeting of the Board at which the director is not personally present and to otherwise perform any duties and functions and exercise any rights that the director could perform or exercise personally. Mikhail Ivanov has appointed Michael Calvey as his alternate when he is not present for Board meetings and such appointment has been approved by the Board.

The Board held six meetings in 2010, four of which were scheduled and two of which were convened at short notice to address urgent business. Mr. Gupta and Mr Ivanov each attended five Board meetings and each of the other directors attended six Board meetings during 2010. Four board meetings are currently scheduled for 2011.

Management Committee

The Board delegates to the Management Committee responsibility for overseeing the implementation by the Group's operating subsidiaries of the policies and strategy that it sets, and for facilitating the prerequisites for successful day-to-day operation. The Management Committee is chaired by the Chief Executive, Kai-Uwe Kessel, who has more than 26 years' experience in the oil and gas industry, including approximately 11 years experience working in emerging markets for the Gaz de France group. All of the other members of the Management Committee have significant experience in the oil and gas sector in general, and in Kazakhstan in particular, and include the Group CFO, the Group General Counsel, the Group Deputy CEO, and the Zhaikmunai LLP General Director, Finance Director, Operations Director, Geology Director, Drilling Director and Commercial Director.

The Management Committee typically meets monthly and members of the Management Committee, in particular the Group CFO and the Group General Counsel, are regularly invited to meet with Board members.

Representation of the partnership's Kazakhstan-based operating subsidiary Zhaikmunai LLP to third parties is exercised by its General Director on the basis of its charter and decisions taken by the general meeting of participants in Zhaikmunai LLP in accordance with the Code and the list of Matters Reserved for the Board of the General Partner.

Board Committees

The Board has established two principal Board committees, to which it has delegated certain of its responsibilities. They are the Audit Committee and the Remuneration Committee, as described below, and the Board will utilise other committees as necessary to ensure effective governance.

Audit Committee

The Board has established an audit committee that operates pursuant to written terms of reference. The audit committee is required to consist of at least two independent directors and at least one member who has recent and relevant financial experience. The audit committee currently consists of Mr McGowan, Mr von der Linden and Mr Gupta, each of whom is considered to be an independent director, and Mr von der Linden serves as chairman. The Board considers each member of the audit committee to have appropriate financial experience.

The audit committee meets not fewer than four times each year and is responsible for assisting and advising the Board with matters relating to:

- the Group's accounting and financial reporting processes;
- the integrity and audits of the Group's financial statements;
- the Group's compliance with legal and regulatory requirements; and
- the qualifications, performance and independence of the Group's independent accountants.

The audit committee is also responsible for engaging the Group's independent accountants, reviewing the plans and results of each audit engagement with the Group's independent accountants, approving professional services provided by the Group's independent accountants, considering the range of audit and non-audit fees charged by the Group's independent accountants and reviewing the adequacy of the Group's internal accounting controls.

Ernst & Young LLP have been the Group's auditors since it listed its GDRs on the London Stock Exchange in April 2008. The audit committee considers that the relationship with the auditors is working in a satisfactory manner and does not consider it necessary to require the partnership to tender for audit services. There are no contractual obligations restricting the partnership's choice of external auditor.

The ultimate responsibility for reviewing and approving the annual report and accounts and the interim accounts remains with the Board.

The Board is responsible for the overall system of internal control for the partnership and the Group, and for reviewing the system's effectiveness. With the support of the audit committee it reviews all material controls including financial, operational and compliance controls and risk management systems.

The audit committee oversees the Group's whistleblowing policy, which enables Group personnel to raise concerns in confidence in a language with which they are comfortable regarding possible improprieties in financial and other matters and to do so without fear of reprisal provided that such concerns are not raised in bad faith.

The audit committee's full terms of reference are publicly available at the offices of Zhaikmunai Group Limited, 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man IM1 4LN.

Main features of the Partnership's internal control and risk management systems in relation to the financial reporting process

The Group has put in place policies, practices and controls in relation to the financial reporting process which are intended to address financial reporting risks. In that regard, the Group CFO clearly communicates applicable Group accounting policies, the appropriate accounting treatment of transactions and internal reporting requirements to the Group's subsidiaries. In each case where a Finance Director has been appointed for a Group subsidiary, such person approves the internal reporting of financial information relating to the subsidiary's business for the purpose of preparing the Group's financial statements. In addition, each Finance Director of a Group subsidiary is required to confirm that all information relating to such subsidiary relevant to the Group's audit has been provided and that reasonable steps have been taken to ensure proper disclosure in response to requests for information from the Group's auditors.

The Group's internal controls are supplemented by additional procedures in connection with the financial reporting process, including (a) review of the financial statements by the Chairman, CEO, CFO and certain members of the Management Committee, (b) review of the financial statements and recommendation regarding approval by the audit committee of the Board, and (c) review and final approval of the financial statements by the Board as a whole. Finally, the Group's financial statements are reviewed (for interim statements) and audited (for annual statements) by an external independent accounting firm.

Remuneration Committee

The remuneration committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on its policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors and recommending and monitoring the remuneration of senior management below the level of the Board. The remuneration of the non-executive Directors is a matter for the Board as a whole.

The remuneration committee comprises Mr Monstrey, Mr McGowan, Mr von der Linden and Mr Ivanov and meets not less than two times per year. At least one member of the remuneration committee must be an independent director.

Evaluation of Board Performance

The Board periodically evaluates its own performance and that of its committees and individual directors. At every annual general meeting of limited partners of the partnership, one-third of the directors of the General Partner who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third must retire from office by rotation *provided that* if there is only one director who is subject to retirement by rotation, he must retire. Vacancies on the Board may be filled and additional directors may be added by a resolution of shareholders of the General Partner or a vote of the directors then in office, *provided that* any new directors satisfy certain eligibility requirements. Those eligibility requirements generally provide, among other things, that:

- a person may not be appointed to the office of independent director unless he or she has been approved by a majority of the limited partners independent of Thyler (the parent company of the General Partner) and its affiliates; and

- a person may not be appointed to the office of director unless he or she has been approved by a majority of the limited partners of the partnership.

The Chairman discusses with the other directors the effectiveness and performance of directors immediately before they make themselves available for re-appointment and if appropriate confirms in the notice to the annual general meeting of limited partners of the partnership that the performance of the directors being proposed for re-appointment continues to be effective and that they continue to show commitment to their role.

Relations with Limited Partners

The Board attaches great importance to maintaining good relationships with the partnership's limited partners (including GDR holders) and maintains a regular dialogue with them to ensure the mutual understanding of objectives. Whilst recognising that most limited partner contact with Group management is with the Chairman, the CEO or the Group CFO, the Board as a whole has responsibility for ensuring that a satisfactory dialogue with limited partners takes place and the Chairman ensures that that all directors are made aware of major limited partners' issues and concerns and that extensive information regarding the Group's activities is shared with the limited partners.

During 2010 a wide range of business issues, including governance and strategy, were discussed with a number of major limited partners as part of the partnership's regular investor relations programme. Information regarding the Group is regularly updated on this website and all public announcements are posted there as well.

The Group appointed a new Investor Relations Officer, Bruno Meere, in January 2011 and he regularly reports to the Board on the various issues raised by investors in the partnership.

The annual general meeting of limited partners of the partnership also provides an opportunity for limited partners (including GDR holders) to communicate with and to question members of the Board on any aspect of the Group's activities.

Information and Professional Development

All directors receive induction on joining the Board, covering their duties and responsibilities as directors. All directors receive regular briefings from the executive directors and Management Committee members designed to update their knowledge of the Group's business and legal and regulatory requirements.

Pursuant to the Board's formal procedure members of the Board and its committees receive appropriate information for review in advance of each meeting to enable them to discharge their duties, and the Group General Counsel and Company Secretary, under the direction of the Chairman, ensure good information flows within the Board and its committees and between Board members and senior Group management. The Group General Counsel and the Company Secretary are also responsible for advising the Board, through the Chairman, on all governance matters.

Shareholdings of Directors and Senior Managers

On 27 March 2008 the Board approved a grant of options pursuant to the Group's stock option plan (the "Plan") in respect of GDRs representing 2.5% of the partnership interests outstanding immediately prior to the admission to listing of the GDRs (being 100,000,000 partnership interests). The Board has subsequently issued certain additional options pursuant to the Plan.

As at 30 April 2011 the following directors and senior managers of Group companies (or their associates) have been granted the following options over GDRs representing partnership interests, generally vesting over a five year period, exercisable at US $4.00 per GDR and expiring 10 years from the date of grant, pursuant to the Plan:

Kai-Uwe Kessel	900,974 GDRs
Jan-Ru Muller	300,325 GDRs
Viacheslav Druzhinin	300,325 GDRs
Thomas Hartnett	300,325 GDRs
Alexei Erber	300,325 GDRs
Eckhard Verseck	225,244 GDRs
Joerg Pahl	225,244 GDRs
Berik Brekeshev	150,000 GDRs
Gudrun Wykrota	100,000 GDRs

In addition, as at 30 April 2011 Mr Kessel owned 10,000 GDRs and Mr Everaert owned 8,000 GDRs.

Action by the Board

The Board may take action in a duly convened meeting in which a quorum is present or by a written resolution signed by all directors then holding office. When action is to be taken at a meeting of the Board, subject to any requirements relating to the approval by independent directors, the affirmative vote of a majority of the directors then holding office is required for any action to be taken other than with respect to the enforcement of any contractual or other rights under the partnership agreement and the relationship agreement (the "Relationship Agreement") among the partnership, Thyler and Claremont Holdings Limited (a limited partner controlled by Mr Frank Monstrey) ("Claremont"). Matters relating to the enforcement of any such rights, if considered at a meeting of the Board, may be decided by the vote of a majority of directors then holding office that are independent of Thyler and its affiliates.

Actions Requiring Approval by Independent Directors

In addition to requiring approval by the Board, the following matters require the additional approval of a majority of the independent directors in order for any action to be taken with respect thereto:

- dissolution of the partnership;
- any amendment of the partnership agreement that is not ministerial in nature or that has not been consented to by the limited partners;
- the enforcement of any contractual or other rights that the General Partner or the partnership may have against Thyler or any of its affiliates pursuant to any contract, arrangement or transaction entered into with Thyler or any of its affiliates;
- any amendment of the Relationship Agreement; and
- any transaction with any related party not controlled by the General Partner or the partnership.

Transactions in which a Director has an Interest

A director who directly or indirectly has an interest in a contract, transaction or arrangement with the General Partner, the partnership or any member of the Group is required to disclose the nature of his or her interest to the full Board. Such disclosure may generally take the form of a general notice given to the Board to the effect that the director has an interest in a specified company or firm and is to be regarded as interested in any contract, transaction or arrangement which may after the date of the notice be made with that company or firm or its affiliates.

Subject to certain limited exceptions, a director may not vote on or be counted in the quorum in relation to any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any proposal whatsoever to which the General Partner (in its own capacity or acting as a general partner to the partnership), or any of its subsidiaries is or is to be a party and in which he has (directly or indirectly) an interest which is material (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the General Partner or the partnership).

A director may not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his or her own appointment (including fixing or varying the terms of his or her appointment or its termination) as the holder of any office or place of profit with the General Partner, the partnership or any company in which the partnership is interested.

Indemnification and Limitations on Liability

Under the Partnership Agreement, the partnership has agreed to indemnify to the fullest extent permitted by law the General Partner and any of its affiliates (and their respective officers, directors, agents, shareholders, partners, members and employees), in each case, against all losses arising from any and all claims incurred by an indemnified person in connection with the Group's business or by reason of their holding such positions, except to the extent that the claims or losses are determined to have resulted from the indemnified person's bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful.

Under the General Partner's articles of association, the General Partner is required to indemnify, to the fullest extent permitted by law, its affiliates, directors, officers, shareholders and employees against all losses arising from any and all claims incurred by an indemnified person in connection with the Group's business or in respect of or arising from their holding such positions, except to the extent that the claims or losses are determined to have resulted from the indemnified person's bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful.

Dealing Code

The General Partner has adopted a dealing code for the members of the Board, any persons discharging managerial responsibilities and any relevant employees which is based upon the Model Code set out in the UK Listing Rules to ensure that such persons do not deal in the partnership's securities when in possession of inside information or during close periods in accordance the UK Disclosure and Transparency Rules. The General Partner will take all reasonable steps to ensure compliance with such code by members of the Board, any persons discharging managerial responsibilities and any relevant employees.

Takeover Code

The UK Takeover Code does not apply to the partnership. As a result, a takeover offer for the partnership would not be regulated by the UK takeover authorities. However the partnership agreement constituting the partnership does contain takeover provisions providing certain of the protections afforded by the UK Takeover Code.

Group Code of Conduct

The Board has adopted a Code of Conduct for the Group that requires Group personnel to act ethically and with integrity, to comply with all applicable laws and regulations and to act appropriately in the areas of personal conduct and equal opportunity. The Code of Conduct addresses conduct in the areas of health, safety and the environment, antitrust and competition, insider trading, maintaining records, controls and audits, conflicts of interest, prohibited payments, gifts and favors, interests in other businesses, activities in other businesses, use of Group assets, confidentiality, communication with outside parties, electronic security, personal data, personal conduct, equal opportunity and controlled substances.

7. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Significant Limited Partners

As at the date of this Report the partnership has received notice that companies controlled by Frank Monstrey, the chairman of the General Partner, including Claremont Holdings Limited ("**Claremont**") own approximately 40.54% of the common units of the partnership (including those held through GDRs). In addition, Thyler, which is also indirectly controlled by Mr. Monstrey, owns 100% of the issued shares of the General Partner. Accordingly, Thyler and its affiliates exercise substantial influence over the partnership's business and affairs.

The partnership has also been notified that KazStroyService Global B.V., an affiliate of the entity which constructed Zhaikmunai's Gas Treatment Facility, holds a 27.03% interest in the voting rights of the partnership's common units (including those held through GDRs).

Relationship Agreement with Thyler, the General Partner and Claremont

The partnership entered into a Relationship Agreement with Thyler, the General Partner and Claremont on 28 March 2008, that regulates (in part) the degree of control that Thyler and Claremont and their affiliates (other than the General Partner, the partnership and any subsidiary of the partnership) may exercise over the management of the partnership. The principal purposes of the Relationship Agreement are to ensure that the partnership is capable at all times of carrying on its business independently of Thyler and Claremont and their affiliates (other than the General Partner, the partnership and any of its subsidiaries) and that all of the partnership's transactions and relationships with Thyler and its affiliates (other than the General Partner, the partnership and any of its subsidiaries) are at arm's length and on normal commercial terms.

Pursuant to the Relationship Agreement, each of Thyler and Claremont undertake to allow the partnership to be operated in the best interests of the limited partners and holders of the GDRs as a whole; to allow the partnership and its affiliates at all times to carry on business independently of Claremont and Thyler and its affiliates; and to allow for the partnership's transactions and relationships with Thyler, Claremont and their affiliates to be at arm's length and on normal commercial terms. In addition, (a) Thyler undertakes to comply with the terms of the Partnership Agreement (as though it were a party thereto), not to amend the Articles of Association of the General Partner in respect of certain specified action (including amendments to the definition of an independent director), and not to pass a shareholder resolution in respect of Claremont that would violate the terms of the Relationship Agreement; (b) the partnership undertakes to treat all holders of GDRs that are in the same position equally in respect of the rights attaching to such GDRs; (c) Claremont undertakes that any voting rights it holds in respect of Common Units shall not be exercised in respect of any resolution relating to a transaction, arrangement, agreement or dispute between the partnership, on the one hand, and Claremont and its affiliates, on the other hand, or to make any variations to the Partnership Agreement that would be contrary to the maintenance of the partnership's ability to carry on its business independently of Claremont and its affiliates; and (d) each of Thyler and Claremont undertake not to vote on any resolution of the limited partners or the board of directors to appoint or remove any independent director unless the term of appointment of such independent director has expired and such independent director is seeking re-election or the board of directors has determined that the independent director is no longer independent.

Each of Thyler and Claremont has also undertaken that if Claremont (and/or its affiliates) agrees to sell, transfer or dispose of Common Units or GDRs representing not less than 50% of the total number of common units in issue to a third party (the "**Acquiror**") in circumstances where the takeover provisions in the Partnership Agreement apply, they shall use their reasonable endeavours to procure that the Acquiror (or its affiliates) shall also agree to purchase the entire issued share capital of the General Partner (and Thyler has undertaken that, if required, it shall sell such shares in the General Partner in such circumstances or otherwise permit the withdrawal of the General Partner as the general partner of the partnership).

The Relationship Agreement will continue in full force and effect until the occurrence of the earliest of (i) the partnership's securities ceasing to be admitted to the official list of the FSA and to trading on the London Stock Exchange; or (ii) Thyler (and its affiliates) ceasing to own 25% or more of the outstanding common units of the partnership. Claremont has also undertaken to procure that any of their affiliates to which they transfer any interest in the partnership will accede to the Relationship Agreement prior to such transfer.

The Directors believe that the terms of the Relationship Agreement enable the partnership to ensure that Thyler (and its affiliates) is not able to abuse its position as a controlling holder of common units of the partnership.

Services Agreements

Certain senior managers provide their services to the partnership's principal operating subsidiary Zhaikmunai LLP ("**Zhaikmunai**") pursuant to a service agreement dated 27 March 2007 between Probel Capital Management n.v. ("**Probel**") and Zhaikmunai (the "**Probel Services Agreement**"). Probel is controlled by Mr Monstrey, the chairman of the General Partner. Under the Probel Services Agreement, Zhaikmunai pays a fee to Probel calculated by multiplying the relevant executive's or manager's number of working days per month by the executive's or manager's daily rate as stipulated in the Probel Services Agreement. The aggregate compensation paid by Zhaikmunai to Probel under the Probel Services Agreement was US$ 8.5 million for the year ended 31 December 2010 (US$9.2 million in 2009).

Certain personnel provide their services to Zhaikmunai pursuant to a service agreement dated 1 January 2009 between Amersham Oil Limited ("**Amersham**") and Zhaikmunai (the "**Personnel Agreement**"). Amersham is indirectly controlled by Mr Monstrey. Under the Personnel Agreement, Zhaikmunai pays a monthly fee to Amersham in return for Amersham's provision of personnel and consultancy services for management and related activities. The fee is determined each month the Personnel Agreement remains in force. The aggregate compensation paid by Zhaikmunai to Amersham under the Personnel Agreement was US$1.25 million for the year ended 31 December 2008, US$1.7 million for the year ended 31 December 2009 and US$1.2 million for the year ended 31 December 2010.

Frank Monstrey, Kai-Uwe Kessel, Jan-Ru Muller and Thomas Hartnett provide their services to the partnership pursuant to a consultancy agreement between the General Partner and Frans van der Schoot B.V. ("**FvdS**") dated 1 September 2008 and as amended and restated on 17 September 2009, with effect from 20 December 2007 (the "**Executive Services Agreement**"). FvdS, formerly an affiliate of Probel, was, at the admission to listing of the GDRs, indirectly controlled by Mr Monstrey. FvdS was subsequently transferred to the partnership on 30 June 2008 (but the transfer was not effective until 1 January 2009). Under the terms of the Executive Services Agreement, FvdS agrees to provide the consultancy services of these individuals to the General Partner and its subsidiaries as consultants, rather than as employees of the General Partner or any of its subsidiaries. FvdS entered into a back-to-back services agreement with Probel dated 1 September 2008 and as amended and restated on 17 September 2009 (the "**Probel Executive Services Agreement**"), sub-contracting FvdS's responsibilities and obligations under the Executive Services Agreement to Probel, with effect from 20 December 2007, on materially the same terms as set out in the Executive Services Agreement.

On 28 February 2009, Zhaikmunai entered into a service agreement with Prolag BVBA ("**Prolag**"), an affiliate of Probel, pursuant to which Prolag has agreed to provide certain commercial, marketing and other services to Zhaikmunai, including, but not limited to, consultations on Zhaikmunai's sales strategy and effective marketing policy, structuring its pricing policy and providing regular consultations and assistance on financial matters such as budgeting, credit policy and finance control. Fees are agreed per project on an ad hoc basis, or otherwise an agreed fee is paid, calculated for the specified period of the services with reference to an agreed schedule set out in the agreement. The aggregate compensation paid by Zhaikmunai to Prolag under the agreement was US$1.4 million for the year ended 31 December 2010.

Other

For the related party transactions with KazStroyService Group members, please see "*Business Review—Contracts Material to Our Business—Gas Treatment Facility Agreement*".

Piet Everaert, a Non-Executive Director, is a partner in the law firm VWEW Advocaten in Brussels, which rendered legal services to each of Probel and Tensor during 2006-2009. This business relationship is ongoing to date.

The Group has undertaken certain other transactions with related parties as disclosed in Note 23 to the audited consolidated financial statements for the year ended 31 December 2010.

Any transaction with any related party not controlled by the General Partner or the partnership must be approved by a majority of the independent directors of the General Partner.

8. RESPONSIBILITY STATEMENT

To the best of our knowledge the accompanying financial statements, prepared in accordance with the applicable reporting principles, give a true and fair view of the assets, liabilities, financial position and profit or loss of Zhaikmunai L.P. and the undertakings included in the consolidation taken as a whole and the management report includes a fair review of the development and performance of the business and the position of Zhaikmunai L.P. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of Zhaikmunai L.P. (acting by its general partner Zhaikmunai Group Limited) by:

Kai-Uwe Kessel	Jan-Ru Muller
Chief Executive Officer	Chief Financial Officer