ZHAIKMUNAI

ADVANCING INFRASTRUCTURE

Annual report 2008

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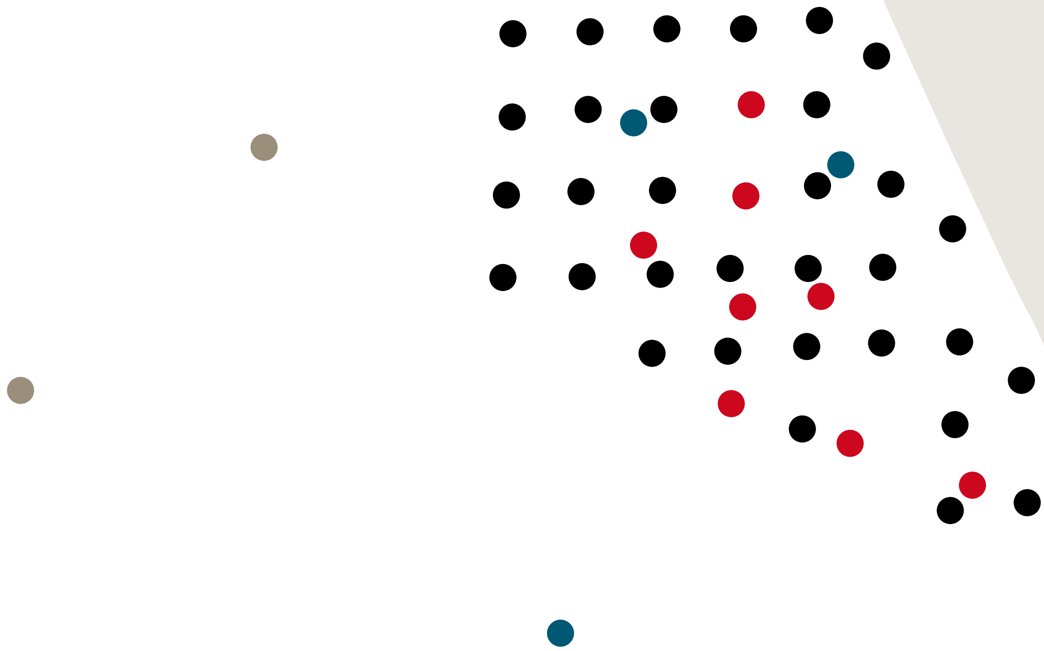
CONTENTS

THE ZHAIKMUNAI GROUP is an independent oil and gas enterprise operating principally in northwestern Kazakhstan engaged in exploration for, and the production and sale of, crude oil and gas condensate.



ADVANCING INFRASTRUCTURE

In 2008 Zhaikmunai made good progress on several large infrastructure projects. The 120km oil pipeline from the field to the city of Uralsk, for transportation of oil and condensate, was finalized. The railway terminal was also finalized. Both the pipeline and the terminal were put into operation in January of 2009.
The Gas Treatment Unit ground works were started at the field site while the unit's modules were being manufactured in Dubai and the United States.

Financial Highlights

- Revenue up 25 per cent to US$135.9 million (2007: US$108.5 million)
- Operating profit down 9 per cent to US$46.8 million (2007: US$51.7 million), due to introduction of Oil Export Duty
- Net income up 78 per cent to US$63.5 million (2007: US$36.3 million)
- Average realised oil price of US$82.53.06/bbl (2007: US$58.71/bbl)

Key Developments

- Completion of the Rail Terminal near the city of Uralsk
- Completion of the 120km oil pipeline from the Chinarevskoye Field to the Rail Terminal
- Award of production license for oil and gas condensate for over 80% of the license area valid through 2032
- Extension of exploration license over remainder of the license area until May 2011

Operational Highlights

- Average daily production for the year up to 5,095 barrels per day (2007: 4,823 barrels per day)
- 2P reserves increased from 397 million boe in 2007 to 534 million boe in 2008
- Successful execution of the 2008 drilling program (drilling 9 wells)

Highlights since end of 2008

- Zhaikmunai raised US$300 million in additional financing on September 15 2009 through the sale of new common units (the “Placing”) in the form of global depositary receipts (“GDRs”). The proceeds of the Placing will supplement the Group’s existing credit facilities and fund in part the capital expenditure programme for the Chinarevskoye field, in particular, the completion of the Gas Treatment Unit. In connection with the Placing, the Partnership issued 75 million new Common Units in the form of GDRs to placees procured by ING Bank, Mirabaud Securities, Renaissance Capital and FirstEnergy Capital Corp. At the same time Zhaikmunai’s senior debt facility with BNP Paribas was amended and restated.

- Production volumes for the first quarter of 2009 increased to 683,883 bbls, up from 459,810 bbls in the equivalent period in the previous year. As at 1 June 2009, average daily production for 2009 is at 7,500 barrels per day.

- In relation to the work programme, In March 2009 the central committee of field development (ZKR) approved the plan of development for oil accumulations in the Chinarevskoye field and the plan for pilot production from the gas condensate accumulations in the Chinarevskoye field.

FRANK MONSTREY, CHAIRMAN

MESSAGE FROM THE CHAIRMAN

"In 2008 Zhaikmunai made significant progress in many of its infrastructure projects, and obtained encouraging results from its drilling programme, notwithstanding the global financial and economic crisis. Completion of our pipeline and rail terminal represents a key milestone in the company's transportation infrastructure. The considerable increase in reserves along with an extended exploration permit has further enhanced the attractiveness of our exploration and development efforts in the Chinarevskoye field. The board continues to support the expanding management team, world-class local and international contractors, and combined global team of over 1,000 people in the advancement the field's development.

The significant drop in oil prices from its peak of 146 USD/bbl in July to a low of 36.6 USD/bbl in December caused Zhaikmunai to breach certain of its loan covenants resulting in financial restructuring negotiations with our lenders starting in December. I am very proud that the efforts of the management team during these at times difficult circumstances have led to a successful 300 million USD capital increase, through a placing of London Stock Exchange-listed GDRs, completed on September 15th 2009. This placing has resulted in the signing of an amendment to the facility agreement with our lenders, thereby resolving and/or waiving all defaults which occurred in 2008.

I want to take this opportunity to express my personal gratitude to all our shareholders who have supported the Partnership during these difficult times."

Frank Monstrey, *Chairman*

"2008 was a very good year at an operational level with the increase in reported reserves, higher daily production volumes, the completion of some significant construction projects and successful execution of the drilling programme. As a result of debt syndication difficulties, turmoil in the credit markets and the decline in oil prices, we anticipate a significant delay in completion of our Gas Treatment Unit. These points together have impacted our funding position. However, I am pleased to report that we have successfully resolved this issue by obtaining US$300 million in additional equity funding in September 2009, along with refinancing our debt facility."

Kai-Uwe Kessel, *Chief Executive*

KAI-UWE KESSEL, CEO

CHIEF EXECUTIVE'S REVIEW

We made significant progress in the second half of 2008 with the completion of three important infrastructure projects: the expanded oil treatment unit, the oil pipeline to Uralsk and the oil loading rail terminal. Market conditions and lower oil prices led us to defer all non- essential capital expenditure, although we still expect to maintain planned expenditure on our Gas Treatment unit ('GTU'). Production and revenues were affected in the latter stages of 2008 after the introduction of export duties on crude sales. However, we are pleased to report that our operations returned to planned production and export levels following the abolition of the duties in January 2009. Although Zhaikmunai's GTU construction had previously been fully funded, in early 2009 we identified a need to obtain additional funding in order to complete this project. This change was attributable to: (1) the fact that the final US$100 million of the Company's US$550 million facility led by BNP Paribas was not underwritten, and given adverse market conditions, was not syndicated, (2) delays by the Company's EPC contractor KazStroyService in completing the Company's GTU, and (3) the significant decrease in the oil prices beginning in the second half of 2008. As a result Zhaikmunai raised US$300 million in additional equity financing in September 2009 in order to fully fund its GTU construction and other required capital expenditure.

In order to obtain additional short and medium term liquidity, the company entered into an agreement with KazStroyService, its contractor for the GTU, for the deferral of approximately US$73 million in payments under the construction contract until September 2009. Construction of the GTU is ongoing.

VYACHESLAV DRUZHININ, GENERAL DIRECTOR

OPERATIONAL REVIEW

Overview

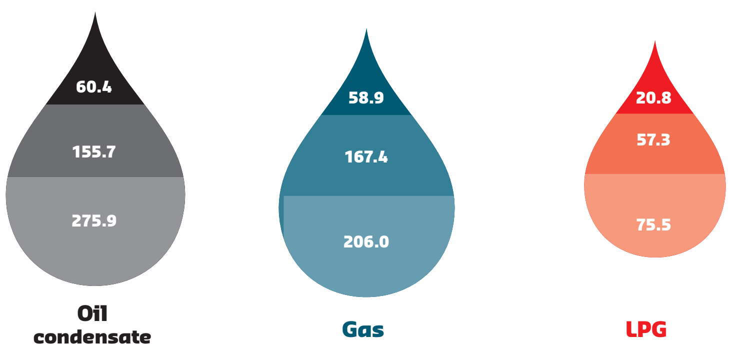
Zhaikmunai's operational facilities are located in Chinarevskoye Field in the province of Batys Kazakhstan in north-western Kazakhstan.

They include an oil processing facility capable of processing 400,000 tons per year of crude oil, multiple oil gathering and transportation lines, a gas powered electricity generation system, major warehouse facilities for the storage of oil, materials, machinery and chemicals used in crude oil production, an employee field camp for 180 people as well as 14 existing wells and 4 exploration wells currently under drilling and test operations throughout the Chinarevskoye Field.

Geology

The Field is a multi-formation structure. It has tested hydrocarbons at significant rates from:

- the Lower Permian horizons (at approximately 2,700m to 2,900m);
- Lower Carboniferous Tournasian horizons (at approximately 4,200m);
- Devonian Givetian horizons (at approximately 5,000m);
- Devonian Biski and Afoninisky formations (at approximately 5,000m).



GROSS RESERVES	UNITS	PROVEN	PROBABLE	2P	POSSIBLE	3P
Oil/Condensate	mmbbl	**60.4**	**155.7**	216.1	**275.9**	290.6
Gas	mmboe	**58.9**	**176.4**	235.3	**206.0**	441.3
LPG	mmbbl	**20.8**	**57.3**	78.1	**74.5**	354.0
Total	**mmboe**	**140.1**	**389.4**	**529.5**	**556.3**	**1,085.8**

RESERVES

Extract from the 2008 Ryder Scott Reserve Audit:

At your request, we have prepared an estimate of the reserves, future production and income attributable to the terms of the production sharing agreement between the Republic of Kazahkstan and Zhaikmunai LLP As of January 1, 2009. The subject properties are located in the Republic of Kazahkstan. The income data were estimated using Zhaikmunai LP Corporate price policy

As a result of both economic and political forces, there is significant uncertainty regarding the forecasting of future hydrocarbon prices. The recoverable reserves and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized below.

Independent petroleum consultant Ryder Scott has audited the Zhaikmunai reserves as at January 1, 2009. The table below provides for a summary of the audited gross reserves:

Zhaikmunai LP

Estimated Future Reserves and Income Attributable to the Terms of the Production Sharing Agreement Between the Republic of Kazahkstan and Zhaikmunia LLP

Zhaikmunai LP Corporate Price Policy, As of January 1, 2009

US DOLLARS	PROVED			
	DEVELOPED			
	Producing	Non-Producing	Undeveloped	Total Proved
Net Remaining Reserves				
Oil/Condensate – Barrels	14,049,671	11,467,660	28,983,646	54,500,977
Plant Products – Barrels	2,193,506	5,812,495	10,588,888	18,594,889
Gas – MMCF	23,529	99,757	157,018	280,304
Income Data $M				
Future Gross Revenue	$894,522	$1,048,545	$2,335,050	$4,278,117
Deductions	450,731	463,985	1,092,799	2,007,515
Future Net Income (FNI)	$443,791	$584,560	$1,242,251	$2,270,602
Discounted FNI @ 10%	$240,850	$326,395	$578,793	$1,146,038
PROBABLE				
		Non-Producing	Undeveloped	Total Proved
Net Remaining Reserves				
Oil/Condensate – Barrels		33,146,933	104,381,089	137,528,022
Plant Products – Barrels		1,607,570	49,124,61	50,732,183
Gas – MMCF		17,245	813,769	831,014
Income Data $M				
Future Gross Revenue		$1,970,828	$9,307,761	$11,278,589
Deductions		821,308	4,210,594	5,031,902
Future Net Income (FNI)		$1,149,520	$5,097,167	$6,246,687
Discounted FNI @ 10%		$415,419	$1,907,982	$2,323,400

US DOLLARS	PROVED + PROBABLE			
	DEVELOPED			
	Producing	Non-Producing	Undeveloped	Total PV+PB
Net Remaining Reserves				
Oil/Condensate – Barrels	14,049,671	44,614,593	133,364,735	192,028,999
Plant Products – Barrels	2,193,506	7,420,065	59,713,501	69,327,072
Gas – MMCF	23,529	117,002	970,787	1,111,318
Income Data $M				
Future Gross Revenue	$894,552	$3,019,373	$11,642,810	$15,556,706
Deductions	450,731	1,285,294	5,303,393	7,039,416
Future Net Income (FNI)	$443,791	$1,734,079	$6,339,417	$8,517,290
Discounted FNI @ 10%	$240,850	$741,814	$2,486,774	$3,469,438

Liquid hydrocarbons are expressed in standard 42 gallon barrels. All gas volumes are sales gas expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of the areas in which the gas reserves are located.

The following tables present the total gross reserves before the terms of the PSA expected from the Chinarevskoye Field from January 1, 2009 through the end of the License term.

Chinarevskoye Field Estimated Gross Reserves As of January 1, 2009

US DOLLARS	PROVED			
	Producing	Non-Producing	Undeveloped	Total PV+PB
Oil/Condensate – Barrels	15,402,291	12,640,985	32,383,029	60,426,305
Plant Products – Barrels	2,430,910	6,442,985	11,876,256	20,750,151
Gas – MMCF (after shrink)	26,076	110,647	175,927	312,650
	PROBABLE			
	Producing	Non-Producing	Undeveloped	Total PV+PB
Oil/Condensate – Barrels	0	37,462,628	118,206,765	155,669,393
Plant Products – Barrels	0	1,816,539	55,555,825	57,372,364
Gas – MMCF (after shrink)	0	19,486	919,788	939,274
	PROVED + PROBABLE			
	Producing	Non-Producing	Undeveloped	Total PV+PB
Oil/Condensate – Barrels	15,402,291	50,103,613	150,589,794	216,095,698
Plant Products – Barrels	2,430,910	8,259,524	67,432,081	78,122,515
Gas – MMCF (after shrink)	26,076	130,133	1,095,715	1,251,924

Drilling

During 2008 Zhaikmunai employed four heavy drilling rigs and two work-over rigs. Two heavy drilling rigs were operated by Saipem and two heavy drilling rigs were operated by UNGG. The work-over rigs were operated by TPIC.

A total of nine wells were completed in 2008, comprised of three exploration wells (27, 33, 115) and six production wells (51, 52, 57, 61, 62, 121).

In 2009 Zhaikmunai continues to employ four rigs (two for drilling and two for work-over). It is planned to finish four vertical production wells as well as various horizontal sidetracks in the Devonian Gas Condensate reservoir. Two wells have already been completed to date (63 and 65.)

Construction

Major construction projects have been completed, including: the oil pipeline, the oil storage and loading facility, and the rail terminal near the city of Uralsk. The starting point of the pipeline is the Oil Treatment Unit at field site and the ending point is the new rail terminal near Uralsk. At the terminal there are two (5000m3 each) storage tanks for oil.

Two additional storage tanks, of 5000m3 each, for Condensate are planned to be constructed in 2010. The loading terminal allows for 30 railcars to be loaded simultaneously. The facility is equipped with a vapor recovery unit, which is a first in Kazakhstan. Zhaikmunai's largest on-going project is the Gas Treament Unit (GTU). The GTU will treat the associated gas presently produced from the oil reservoirs as well as the production from the gas-condensate reservoirs. These two input streams are processed in two process trains resulting in 4 output streams: (1) sales gas, (2) condensate, (3) LPG and (4) sulfur. The plant has a capacity to process 1.4 billion cubic meters of gas per annum.

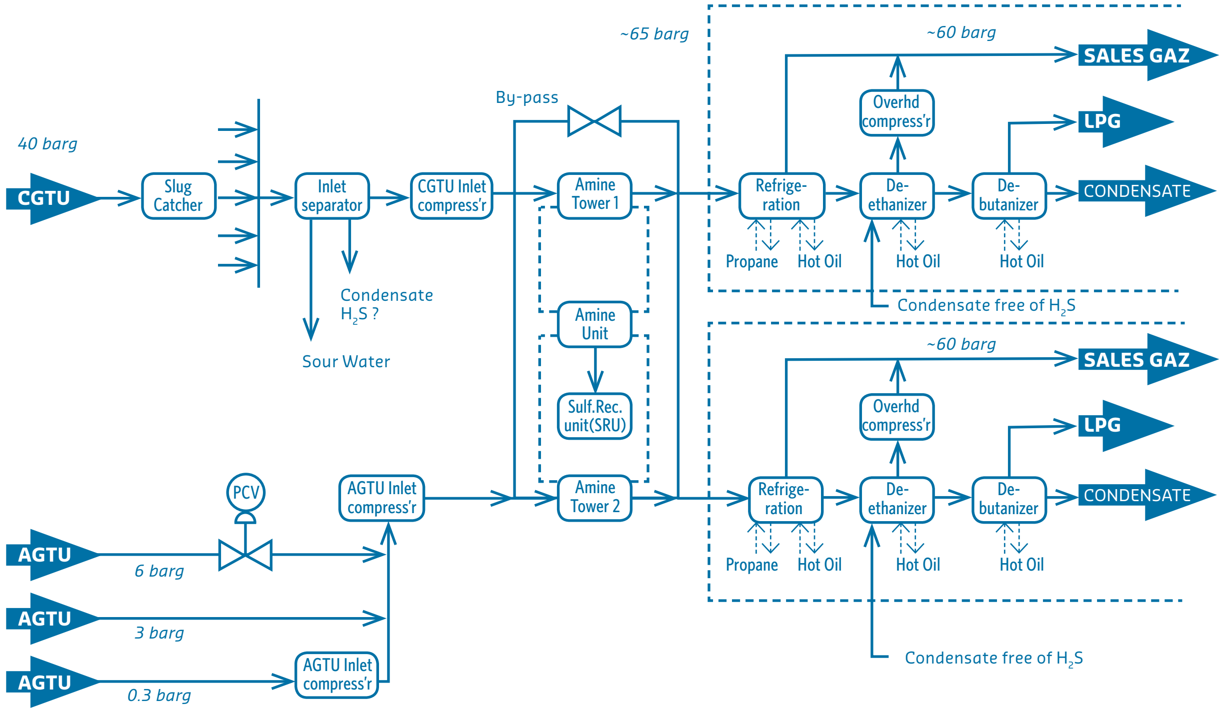
The single largest contractor working for Zhaikmunai is KazStroyService.

Ongoing construction projects are:

- Gas pipeline (from the field to the Intergas Central Asia Gas pipeline);
- Gas Treatment Unit (phase: train 1 and train 2);
- Reservoir pressure maintenance system;
- 90-apartment residential building in the city of Uralsk.

DRILLING	2008	2007	2006	2005	2004
Number of exploration wells drilled	3	4	2	1	1
Number of production wells drilled	6	5	1	0	0
Total wells	**9**	**9**	**3**	**1**	**1**



Current Design Block Diagram, SGS, S. Nusser

Transportation

The company expects to start selling the additional products from the GTU starting in 2010. Gas will be transported by pipeline from the field to the connection point with the Orenburg-Novopskov gas pipeline (17km). LPG will be transported by truck from the storage facility at field site to a LPG loading terminal near Uralsk where it will be transported onward by railcar. Condensate, like oil, will be transported by the Company's 120km oil pipeline from the field site to the rail terminal where it is stored and subsequently transported onward by railcar.

Production

Due to the expansion of the oil treatment unit, production capacity by year-end 2008 increased to approximately 8,500 barrels per day.

In January, 2009 the oil pipeline from the Chinaravskoye field to the City of Uralsk came into operation, ending the need to truck oil from the field to the rail terminal. This has improved safety and efficiency and has reduced trucking costs and road maintenance expenditure.

PRODUCTION	2008	2007	2006	2005	2004
Total crude oil production ('000 bbl)	1,749.1	1,719.2	1,065.2	826.8	288.0
Average crude oil production (bpd)	5,095	4,823	2,900	2,300	2,400

Sales and Marketing

Oil sales

Zhaikmunai's sales are made pursuant to annual tenders. An annual off-take contract is awarded to the trading company offering the most favourable terms and conditions to the Company. Under the terms of its PSA, Zhaikmunai is permitted to export 85% of its production. The Company delivers all of its crude oil FCA Uralsk, the price being based on the market price for Brent crude oil less a discount for rail fees, transportation costs, quality differentials and trader fees incurred in order to deliver the crude oil from Uralsk to its current ultimate destination at a refinery in Finland. The table below shows the netback figures over the past five years.

Other products

Towards the end of 2008 the Company expanded its sales and marketing department by hiring experienced traders for condensate, gas and LPG. The team is working towards negotiating new off-take contracts and identifying transportation options for the new products to be ready by the time the GTU nears completion.

The marketing team

Due to the continuous increase in production of crude oil, and the projected start of production of stabilized condensate and LPG, the Company has expanded its logistics team. The logistics

team will optimize the logistics of all the Zhaikmunai products, looking at options ranging from in-house and outsourcing solutions.

The team has been evaluating road transportation alternatives for LPG (from field to Uralsk), and rail transportation alternatives for crude oil, stabilized condensate and LPG (from Uralsk to the different export destinations). Preparations are also being made for continuous and safe transshipment of the LPG from road tanker to rail from the moment production begins until the Company's LPG terminal is in operation, and beyond. Different producers of road tank cars as well as all the major Rail Tank Car producers have been contacted, and the team is evaluating the feasibility of acquiring a fleet of trucks and rail cars for LPG transportation as an alternative to outsourcing this activity.

	2008	**2007**	**2006**	**2005**	**2004**
Weighted average Brent crude price (US$/bbl)	98.11	72.43	67.83	51.26	37.60
Weighted average discount to Brent (US$/bbl)	15.58	13.72	12.43	12.40	11.10
Average Netback for crude oil sales (US$/bbl)	82.53	58.71	55.40	38.86	26.50


УРАЛЬСК
ТОО "ЖАИКМУНАЙ"

HEALTH, SAFETY AND ENVIRONMENT

Village Relocation

Rozhkovo Village History

Many people settled in the village as a result of the all-country recruitment to develop the "Virgin Land" (Tselina). At that time, in the 1950's, Rozhkovo was a prosperous village with rich cultural base made from the combination of the cultural values of the natives and the immigrant volunteers that arrived from Russia, Ukraine and Belorussia. The demise of the USSR resulted in the abolition of collective farming, and stocks were distributed among former farm members. This resulted in emigration to Russia where the economic situation at that time was better than in Kazakhstan and a partial disintegration of the community. Despite those events, approximately 300 inhabitants continued to live in the village, with limited infrastructure. Since the Company started operations in Chinarevskoye, it has been active in improving the village's infrastructure through providing an uninterrupted power supply, purified community well water, access to a wireless telecommunications network, and supplies for the village school.

Rozhkovo Resettlement Summary

Pursuant to a decision of the Republic of Kazakhstan's Ministry of Health regarding Sanitation & Epidemiology in 2006, a sanitary protection zone (SPZ) was established, providing boundaries for the Chinarovskoye Field extending from 1,000m to 3,700m beyond the field borders, depending upon the wind direction.

As Rozhkovo Village was located in the area of industrial sites within the SPZ boundaries, in accordance with RoK legislation, Zhaikmunai and Zelenovsky District Management, with the participation of the villagers, took the decision to relocate the Rozhkovo villagers at the cost of the Company.

The Company's Relocation Committee held several public meetings with local residents where different relocation options were proposed, including relocation to the closest village, establishment of a new village, and relocation to the administrative center. In the end, the local residents expressed their preference to move to Uralsk.

Resettlement Action Plan

The Company engaged CaspiEcology, a Kazakhstan-based environmental and resettlement advisory firm, as an external advisor to develop a resettlement action plan which was finalized in July 2009. This plan, developed in consultation with the village residents, adhering to Kazakh law and based on the resettlement guidelines of the European Bank for Reconstruction and Development (EBRD), will ensure that the Company meets its goal of maintaining high international standards and social responsibility. Most families will relocate to an apartment building in Uralsk that the Company recently constructed, while other families will relocate to other housing arrangements.

Environmental and Social Action Plan

The Company has a number of written Environmental, Health and Safety (EHS) policies including a Health and Safety (H&S) plan, an Environmental Plan and Action Plans for both H&S and Environment.

In 2008 Zhaikmunai developed 'The Procedure of Supervision at Hazardous Industrial Facilities of Zhaikmunai LLP'. This procedure includes details of interrelated HSE, socioeconomic and organizational measures aimed at establishing safe and healthy working conditions and establishes standard requirements for work management in the sphere of HSE. This procedure was developed based on existing legislative acts and interdisciplinary and industry standards in the sphere of HSE.

Zhaikmunai has developed an Environmental Action Plan which is valid until 2010 and has been aproved by the Department of Regulation and Permits of Western Kazakhstan. This Action Plan identifies all environmental actions and improvements to be undertaken in the next two years, many of which have already been completed or are underway. These are listed in the table below.

In establishing and practicing its HSE procedures the company bases itself on national and international general and industry specific regulations, standards and guidance:
- Environmental Code of the Republic of Kazakhstan;
- General Environmental, Health and Safety Guidelines as published by the IFC;
- Environmental Health and Safety Guidelines for Onshore Oil and Gas Development as published by the IFC;

Item		Status
1.	Vapour Recovery Unit at Oil Terminal	Completed
2.	Soil re-cultivation of land after construction of pipelines	Completed
3.	Liquidation of drilling pits	Completed
4.	Re-cultivation of land after drilling	Continuous
5.	Flora/fauna – planting of trees around camp	Completed
6.	Environ mental training – upgrade environmental specialist	Continuous
7.	Environmental seminars for personnel	Continuous

An Environmental Audit of Zhaikmunai Facilities to inspect environmental compliance was undertaken by MEP in March 2009. This included an inspection of all work activities and stated that only two violations were found: Mixing hazardous waste with domestic waste; and burning domestic waste.

There were no penalties/fines associated with these violations.

Environmental and Social Action Plan (ESAP) 2009

1. Publication of Annual Environmental, Health & Safety Report / Sustainability Report.
2. Move all monitoring of CCTV cameras and security systems at the OTU to a central location.
3. Construction of a secure perimeter fence at al Zhaikmunai operational facilities at the Chinarevskoye Field.
4. Construction of a robust method of secondary containment at the cold storage warehouse such as a 6-12” concrete lip/bund around the warehouse perimeter.
5. Provision of lockable containers for oxygen canisters.
6. Storage of demulsifying agent in adequate storage facility.
7. Purchase of secure and covered storage skips for domestic waste.
8. Completion of a radioactive waste Survey and employee radiation exposure monitoring.
9. Purchase of dedicated storage containers for hazardous waste.
10. Maintenance of a spill register.
11. Maintain H&S register of near misses.
12. Establishment of a grievance procedure for employees.
13. Undertake a survey of all transformer fluids in order to develop a PCB inventory.
14. Undertake a survey of all A/C units in order to develop an ODS inventory.

Emission Reduction

Through EBRD the Company is exploring the potential sale of Emission Reduction Units (ERU's) to the EBRD/EIB Multilateral Carbon Credit Fund. While the Company has not yet been assigned carbon credits, it will be reducing its natural gas flaring activities. This should give rise to significant ERU proceeds, therefore likely qualifying the Company for carbon credits. A project to determine the Company's next steps in receiving Emission Reduction Units has begun.

Employees

The table below sets out the number of people (full-time equivalents) employed by the Group as of 31 December for the years indicated:

LOCATION	2008	2007	2006	2005
Chinarevskoye Field, Kazakhstan	396	329	310	160
Uralsk, Kazakhstan	142	120	120	90
Total	**538**	**429**	**430**	**250**

JAN-RU MULLER , GROUP CFO

FINANCIAL REVIEW

Financially there have been several milestone events during 2008. The Company was listed on the London Stock Exchange and by raising US$100 million of equity, it fulfilled the last condition precedent for it to be able to draw on the debt facility underwritten by BNP Paribas, Natixis, HSH Nordbank and Bank Turan Alem.

Income statement

The year was characterised by large fluctuations in oil prices. Revenues from oil sales for the full year 2008 were US$135.9 million, up 25% compared to the full year 2007 (2007: US$108.5 million). Sales volumes for the full year 2008 were 1,749,066 bbls, up 2% from 1,719,153 bbls for the full year 2007.

The cost of sales rose 19% to US$44.6 million (2007: US$37.4 million), lagging the increase in revenue.

General and administrative expenses were up 62% at US$20.3 million (2007: US$12.5 million). The company incurred increased costs for professional services and management amongst others to fulfill it's obligations as a listed entity on the London Stock Exchange. The company also incurred increased training costs which are directly related to the higher capital expenditures in 2008 vis-a-vis 2007.

Selling and oil transportation expenses rose to US$24.2 million (2007: US$6.8 million), due to US$15.1 million export duty charges. The export duty was abolished in January 2009 and the Company is no longer subject to any such duty or extraction tax. Excluding export duty, selling and oil transportation expenses rose 34% as shown in the table below.

The gain on the hedging contract stems from the fair market value of the Company's hedging position as per 31 December 2008. The Company hedges a portion of its oil production with a floor of US$70.00/bbl. The gain on the hedge position is directly related to the average closing price of Brent for the month of December being a low US$43.15/bbl.
EBITDA was up 99 per cent to US$77.6 million (2007: US$39.0 million) due to the effective hedging policy.

Net income was up 78% to US$63.5 million (2007: US$36.3 million).

US$, MILLION	2008	2007	INCREASE
Selling and oil transportation expenses	**24.2**	**6.8**	**256%**
Export duty	**15.1**	**0**	**-**
Selling and oil transportation expenses excl. export duty	**9.1**	**6.8**	**34%**

Balance sheet

Non-Current Assets

Non-current Assets are at US$651 million (2007: US$360 million). Out of Non-current Assets, Property, Plant and Equipment amount to US$513 million (2007: US$289 million). A breakdown of Property, plant and equipment (net of accumulated depreciation) is shown in the table below.

Advances for equipment and construction works at US$75.4 million (2007: US$70.4 million) largely consist of the payments to KazStroyService in relation to the GTU construction.

The hedge contract that was signed in March 2008 provided the Company with partial protection for oil prices lower than US$70/bbl. The average closing price for Brent in December 2008 was US$43.147/bbl. At the balance sheet date the hedge position had thus accumulated a considerable value of US$69.2 million (2007:US$0).

Current assets and liabilities

At the balance sheet date Zhaikmunai was in breach of certain provisions, including financial covenants, of its existing facility agreement. As a consequence, the bank debt at year-end was presented as short- term debt in the year-end financial statements. However, as of the date of this report such breaches have been waived or cured so that the bank debt can be classified again as long-term debt.

A process to secure additional funding for the Company from a number of potential finance providers was concluded in September 2009 with a successful US$300 million equity placing. Any then-outstanding breaches under the Facility Agreement were cured or waived at that time.

Exclusive of the bank debt, the level of current liabilities at end-2008 was at US$71.6 million, 16% below previous year position (2007: US$89.1 million).

US$1,000	2008	2007
OIL AND GAS PROPERTIES		
Working assets	167,725	98,691
Construction in Progress	338,361	184,124
Total oil and gas properties	**506,086**	**282,815**
NON OIL AND GAS PROPERTIES		
Buildings	2,707	2,387
Machinery & Equipment	1,645	2,209
Vehicles	1,539	1,015
Others	1,514	1,107
Total non oil and gas properties	**7,405**	**6,718**
Total	**513,491**	**289,533**

Cash flow statement

Cash flow from operating activities marginally increased to US$48.5 million up from US$48.2 million in 2007.

Cash flow from investing activities at US$195.8 million was another historic high for the Company, up 13% from US$173.1 million in 2007.

Cash flow from financing activities was up 34% at US$173.0 million from US$129.2 million in 2007. Net proceeds from the equity offering in April at US$92.0 million and net proceeds from borrowings at US$116.6 million have financed the investment program (2007: US$147.5 million).

Changes in equity

In April of 2008 Zhaikmunai L.P.'s GDRs were successfully listed on the London Stock Exchange Main Board.
10 million Common Units, 9.09% of the total number of Common Units, became publicly traded at year-end 2008. The net proceeds of the listing were utilised for financing Zhaikmunai's capex programme.

Subsequent events

- Raised US$300 million in additional financing needed through a placing of 75 million GDRs.

5 YEAR SUMMARY

CONSOLIDATED INCOME STATEMENT (1)

US$1,000	2008	2007	2006	2005	2004
Sales of crude oil	135.912	108.490	58.565	32.393	23.198
Cost of sales	-44.610	-37.401	-26.080	-15.974	-8.937
Gross Profit	91.302	71.089	32.485	16.419	14.261
Profit before income tax	98.666	51.980	19.944	9.374	11.669
Income tax expense	-35.188	-15.650	-6.973	-3.465	-4.038
Net Income	**63.478**	**37.773**	**12.971**	**5.909**	**7.631**

CONSOLIDATED BALANCE SHEET (1)

US$1,000					
ASSETS	2008	2007	2006	2005	2004
Non-Current Assets	651.799	360.008	150.081	64.375	47.821
Current Assets	71.105	34.343	17.213	7.753	4.844
TOTAL ASSETS	**722.904**	**394.351**	**167.294**	**72.128**	**52.665**
EQUITY AND LIABILITIES					
Equity and Liabilities	221.667	68.240	28.192	14.522	9.728
Non-Current Liabilities	66.681	237.789	118.974	47.330	31.683
Current Liabilities	434.556	88.322	20.128	10.276	11.254
TOTAL EQUITY AND LIABILITIES	**722.904**	**394.351**	**167.294**	**72.128**	**52.665**

CONSOLIDATED CASH FLOWS (1)

US$1,000	2008	2007	2006	2005	2004
Net cash flow from operating activities	45.819	48.239	37.425	20.701	18.169
Net cash flow used in investing activities	-195.196	-173.105	-92.851	-24.477	-12.158
Net cash flow from/(used in) financing activities	175.109	129.166	54.840	6.065	-6.616

(1) 2008 is the first year whereby the group presents it's accounts on a consolidated basis.

Share related key figures	
Weighted average number of common units	110.000.000
Proposed dividend per common unit, USD	0


105
SAP № 108-105
Description: Кран шаровый
SENA
SAP № 107-105
Кран шаровый

CORPORATE GOVERNANCE

The Board of Directors ("the Board") of Zhaikmunai Group Limited, the General Partner of Zhaikmunai LP, has established a corporate governance code. In determining its corporate governance code, the General Partner has given consideration to the best practice provisions on corporate governance set out in the Combined Code[1].

The General Partner has also put in place procedures to comply with the internal control aspects of its corporate governance code. The Board has put in place sufficient controls to allow it to ensure that the partnership is able to comply with its ongoing obligations under the Listing Rules and the Disclosure and Transparency Rules.

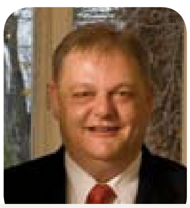
In addition, the General Partner adopted, with effect from Admission, a dealing code for the members of the Board, any persons discharging managerial responsibilities and any relevant employees which is based upon the Model Code set out in the Listing Rules to ensure that such persons do not deal in the GDRs when in possession of inside information or during close periods in accordance with the Disclosure and Transparency Rules.

1 The Combined Code on Corporate Governance sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audit and relations with shareholders.

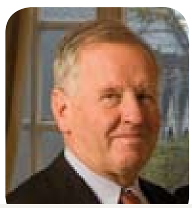
THE BOARD OF DIRECTORS

FRANK MONSTREY
EXECUTIVE DIRECTOR & CHAIRMAN

KAI-UWE KESSEL
EXECUTIVE DIRECTOR

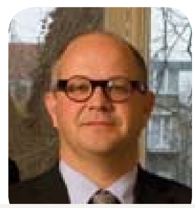


EIKE VON DER LINDEN
NON EXECUTIVE DIRECTOR



STEVE MCGOWAN
NON EXECUTIVE DIRECTOR

PIET EVERAERT
NON EXECUTIVE DIRECTOR



Board member

Remuneration of the Board of Directors

	Elected	Position	Born	Nationality	Shareholding	Independent of the Company and its Management	Independent of the company's major shareholders	Board of Directors fee (USD)	Audit Committee fee (USD)	Remuneration Committee fee (USD)	Total (USD)
Frank Monstrey	2007		1965	Belgian	90,9%	No	No	0		0	0
Kai-Uwe Kessel	2007		1963	German	0	No	Yes	0			0
Eike von der Linden	2007		1942	German	0	Yes	Yes	100.000	0	0	100.000
Steve McGowan	2007		1966	English	0	Yes	Yes	100.000	0	0	100.000
Piet Everaert	2007		1962	Belgian	0	Yes	Yes	100.000			100.000
											300.000

Mr Monstrey and Mr Kessel receive no separate compensation, in addition to the fees under their services agreements, for being on the Board.
The members of the Audit Committee receive no separate compensation, in addition to their Director fee, for being on the committee.
The members of the Remuneration Committee receive no separate compensation, in addition to their Director fee, for being on the committee.
Ref. www.zhaikmunai.com/auditcommittee

The Management Team

The management team consists of 9 individuals. As compared to 2007 the team was strengthened with the hiring of Thomas Hartnett in the position of General Counsel for the group.

- **KAI-UWE KESSEL**
  Chief Executive Officer

- **JAN-RU MULLER**
  Group Chief Financial Officer

- **THOMAS HARTNETT**
  Group General Counsel

- **VYACHESLAV DRUZHININ**
  General Director

- **ALEXEI ERBER**
  Geology Director

- **DARMEN JAKISHEV**
  Finance Director

- **ECKARD VERSECK**
  Operations Director

- **BERIK BIMURATOV**
  Commercial Director

- **JÖRG PAHL**
  Drilling Director

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 (as Chairman), Mr McGowan and Mr von der Linden and meets not less than two times per year. At least one member of the remuneration committee must be an Independent Director.

Audit Committee

The Board has established an audit committee that operates pursuant to written terms of reference. The audit committee must 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 and Mr von der Linden, 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 Issuer's accounting and financial reporting processes;
- the integrity and audits of the Issuer's financial statements;
- the Issuer's compliance with legal and regulatory requirements; and
- the qualifications, performance and independence of the Issuer's independent accountants.

The audit committee is also responsible for engaging Company's independent accountants, reviewing the plans and results of each audit engagement with Company's independent accountants, approving professional services provided by Company's independent accountants, considering the range of audit and non-audit fees charged by the Company's independent accountants and reviewing the adequacy of the Issuer's internal accounting controls. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

Share-related incentive Programmes

The Board approved a grant of options at the IPO offer price upon Admission in respect of 2.5% of the Common Units outstanding immediately prior to Admission. On 27 March 2008, the following persons were awarded the following options over Common Units exercisable at the offer price and expiring ten years from the date of Admission:

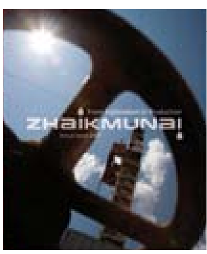
I	Kai Uwe Kessel	750,000
II	Jan Ru Muller	250,000
III	Viacheslav Druzhinin	250,000
IV	Alexei Erber	250,000
V	Darmen Jakishev	187,500
VI	Eckart Verseck	187,500
VII	Berik Bimuratov	187,500
VIII	Joerg Pahl	187,500
Since such date the Board has further granted:		
IX	Thomas Hartnett	250,000

REPORTS & PUBLICATIONS

INDEPENDENT RESERVE AUDIT REPORT • JULY 1, 2008
www.zhaikmunai.com/reserves

CONSOLIDATED FINANCIAL STATEMENTS • DECEMBER 31, 2008
www.zhaikmunai.com/financialstatements

ENVIRONMENTAL, HEALTH & SAFETY DUE DILIGENCE ASSESSMENT • SEPTEMBER 2007
www.zhaikmunai.com/sustainability



ANNUAL REPORT 2007: FROM EXPLORATION TO PRODUCTION
Read details of our financial and operating performance in Zhaikmunai Annual Report and Accounts 2007.
www.zhaikmunai.com/annualreport


ZHAIKMUNAI

Zhaikmunai LP

Consolidated Financial Statements
Year ended December 31, 2008
With Independent Auditors' Report

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Douglas, June 30, 2009

Zhaikmunai LP

The Management of Zhaikmunai Group Limited acting as the General Partner of Zhaikmunai LP

Kai-Uwe Kessel	**Jan-Ru Muller**
CEO and Director	Group CFO

INDEPENDENT AUDITORS' REPORT

To the Partners of Zhaikmunai LP:
We have audited the accompanying consolidated financial statements of Zhaikmunai LP and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw your attention to Note 2 in the consolidated financial statements which describes that the Group breached a loan covenants as of 31 December 2009 and management's plans to restructure the Group's debt. Because of the breach in covenants the loan is classified in current liabilities which exceed current assets by US$ 363,451 thousand as of 31 December 2008. The Company's dependence on refinancing its debt indicates the existence of a material uncertainty which may cast a significant doubt about the Group's ability to continue as a going concern.

Ernst & Young LLP

30 April 2009

COMBINED BALANCE SHEET
As at December 31, 2008

In thousands of US Dollars

	NOTE	2008	2007
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	513,491	289,533
Hedging contract at fair value	19	62,923	–
Advances for equipment and construction works		75,385	70,475
		651,799	**360,008**
Current Assets			
Restricted cash	7	21,078	–
Inventories		3,589	2,496
Trade receivables	5	1,084	9,530
Prepayments and other current assets	6	28,081	14,351
Income tax prepayment		5,386	–
Cash and cash equivalents	7	11,887	7,360
		71,105	**33,737**
TOTAL ASSETS		**722,904**	**393,745**
EQUITY AND LIABILITIES			
Partnership capital and Reserves			
Partnership capital	8	92,072	–
Retained earnings and translation reserve		129,595	66,819
		221,667	**66,819**
Non-Current Liabilities			
Long term borrowings	9	–	203,982
Abandonment and site restoration liabilities	10	3,411	1,299
Due to Government of Kazakhstan	11	6,330	6,317
Deferred tax liability	18	56,940	26,191
		66,681	**237,789**
Current Liabilities			
Trade payables	12	60,953	36,066
Current portion of long term borrowings	9	365,439	45,521
Current portion of Due to Government of Kazakhstan	11	1,031	2,062
Other current liabilities	13	7,133	5,488
		434,556	**89,137**
TOTAL EQUITY AND LIABILITIES		**722,904**	**393,745**

The accounting policies and explanatory notes on pages 5 through 29 are an integral part of these consolidated financial statements.

COMBINED INCOME STATEMENT
For the year ended December 31, 2008

	NOTE	2008	2007
Sales of crude oil		135,912	108,490
Cost of sales	14	(44,610)	(37,401)
Gross Profit		**91,302**	**71,089**
General and administrative expenses	16	(20,299)	(12,542)
Selling and oil transportation expenses	15	(24,212)	(6,793)
Gain on hedging contract	19	64,780	–
Interest income		604	–
Finance costs	17	(13,171)	(6,841)
Foreign exchange (loss) / gain		(1,527)	6,247
Other income		1,189	820
Profit before income tax		**98,666**	**51,980**
Income tax expense	18	(35,188)	(15,650)
NET INCOME		**63,478**	**36,330**

The accounting policies and explanatory notes on pages 5 through 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2008

	NOTE	2008	2007
Cash flow from operating activities:			
Profit before income tax		98,666	51,980
Adjustments for:			
Depreciation and amortization		8,045	6,126
Borrowing expenses		11,918	6,454
Interest income		(604)	–
Unrealized gain on hedging contract	19	(63,184)	–
Unwinding of discount on due to Government of Kazakhstan	17	992	964
Revision of contractual obligation to Government of Kazakhstan	11	–	(679)
Unrealized foreign exchange loss / (gain), net		3,649	(6,560)
Unwinding of discount on abandonment and site restoration liability	17	261	102
Write-off of property, plant and equipment	4	443	685
Operating profit before working capital changes		**60,515**	**36,324**
Changes in working capital:			
(Increase) / decrease in inventories		(789)	739
Decrease / (increase) in trade receivables		8,444	(3,641)
Increase in prepayments and other current assets		(13,843)	(8,036)
Increase in trade payables		1,827	3,347
Payment of obligation to Government of Kazakhstan	11	(2,062)	–
Increase in other current liabilities		1,673	3,151
Cash generated from operations		**54,638**	**37,434**
Income tax paid		(9,617)	(6,399)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**45,819**	**48,233**
Cash flow from investing activities:			
Purchases of property, plant and equipment		(195,800)	(173,105)
Interest income received		604	–
NET CASH USED IN INVESTING ACTIVITIES		**(195,196)**	**(173,105)**
Cash flow from financing activities:			
Repayment of borrowings		(246,353)	(3,966)
Interest paid		(32,344)	(18,312)
Proceeds from issue of Global Depositary Receipts	8	100,000	–
Transaction costs paid	8	(7,928)	–
Proceeds from borrowings	9	381,677	151,444
Fees paid on arrangement of BNPP facility	9	(19,943)	–
NET CASH PROVIDED BY FINANCING ACTIVITIES		**175,109**	**129,166**
Effects of exchange rate changes on cash and cash equivalents		(127)	234
NET INCREASE IN CASH AND CASH EQUIVALENTS		**25,732**	**4,294**
Cash and cash equivalents at the beginning of the year		7,360	2,832
Cash and cash equivalents at the end of the year	**8**	**32,965**	**7,360**

The accounting policies and explanatory notes on pages 5 through 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2008

	PARTNERSHIP CAPITAL	RETAINED EARNINGS	TRANSLATION RESERVE	TOTAL
As at December 31, 2006	**–**	**26,488**	**1,704**	**28,192**
Translation difference	–	–	2,297	2,297
Net income	–	36,330	–	36,330
As at December 31, 2007	**–**	**62,818**	**4,001**	**66,819**
Translation difference	–	–	(702)	(702)
Issue of Global Depositary Receipts (Note 8)	100,000	–	–	100,000
Transaction costs (Note 8)	(7,928)	–	–	(7,928)
Net income	–	63,478	–	63,478
As at December 31, 2008	**92,072**	**126,296**	**3,299**	**221,667**

The accounting policies and explanatory notes on pages 5 through 29 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2008

1. GENERAL

Zhaikmunai LP is a Limited Partnership formed on 29 August 2007 pursuant to the Partnership Act 1909 of the Isle of Man. The Partnership is registered in the Isle of Man with registered number 295P.

These consolidated financial statements include the results of the operations of Zhaikmunai L.P. ("Zhaikmunai LP") and its wholly owned subsidiaries Frans Van Der Schoot B.V. ("FVDS"), Claydon Industrial Limited (BVI) ("Claydon"), Jubilata Investments Limited (BVI) ("Jubilata"), Zhaikmunai LLP ("the Partnership") and Condensate Holdings LLP ("Condensate"). Zhaikmunai LP and its subsidiaries are hereinafter referred to as "the Group". The Group's operations are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan. The Group is ultimately indirectly controlled through Thyler Holdings Limited, by Frank Monstrey. The General Partner of the Zhaikmunai LP is Zhaikmunai Group Limited, which is responsible for the management of the Group.

The Partnership was established in 1997 for the purpose of exploration and development of the Chinarevskoye oil and gas condensate field in the Western Kazakhstan Region. The Partnership carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the "Contract") dated October 31, 1997 in accordance with the license MG No. 253D (the "License") for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field between the State Committee of Investments of the Republic of Kazakhstan and the Partnership.

On March 28, 2008 Zhaikmunai LP listed 10,000,000 Global Depository Receipts ('GDRs') at US$10 per GDR, representing 9.09% of the participating rights of the Group, on the London Stock Exchange ('LSE'). The Group was formed through a reorganization of entities under common control on March 28, 2008 to enable the listing of GDRs on the LSE. These consolidated financial statements have been prepared using the pooling of interest method and, as such, the financial statements have been presented as if the transfers of the Group interests in Frans Van Der Schoot B.V., Claydon, Jubilata, Zhaikmunai LLP and Condensate had occurred from the beginning of the earliest period presented.

The registered address of the Zhaikmunai L.P. is: Anglo International House, Lord Street, Douglas, IM1 4LN.

These consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Zhaikmunai LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Zhaikmunai LP on April 30, 2009.

Licence terms

The term of the license of the Partnership originally included a 5 year exploration period and a 25 year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated January 12, 2004 and June 23, 2005, respectively. In accordance with the supplement dated June 5, 2008, Tournaisian North reservoir entered into production period as at January 1, 2007. Following additional commercial discoveries during 2008, the exploration period under the license, other than for the Tournasian horizons, was extended for an additional 3 year period with a new expiry on May 26, 2011.

The extensions to the exploration periods have not changed the license term, which will expire in 2031.

Royalty Payments

The Partnership is required to make monthly royalty payments throughout the entire Production Period, at the rates specified in the Contract.

Royalty rates depend on crude oil recovery levels and the phase of production and can vary from 2% to 6% and 2% to 7% of produced petroleum and natural gas, respectively.

Government 'profit share'

The Partnership makes payments to the Government of its "profit share'' as determined in the Contract. The "profit share" depends on crude oil production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government profit share is expensed as incurred.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention except for financial instruments.
The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Going Concern

These consolidated financial statements have been prepared on the basis that the Group is a going concern, which assumes continuity of normal business activities and realization of assets and settlement of liabilities in the ordinary course of business.
As at December 31, 2008, with respect to the senior secured facility ('Facility Agreement') (Note 9), the Partnership was in breach of the covenants related to its EBITDA to interest expense and EBITDA to total indebtedness ratios. As at the date of approval of these consolidated financial statements, BNP Paribas has not waived their right to demand immediate repayment of the loans under the Facility Agreement, which as at December 31, 2008 amounted to US$ 382 million. The Company would not have sufficient funds to repay the loan in the event the lenders exercise this right, which raises uncertainty as to whether the company can continue as a going concern
Management believes the going concern basis of preparation to be appropriate as the Group is currently in advanced discussions with possible finance providers to secure US$ 300 million of financing and in connection therewith is also negotiating with BNP Paribas for a restructuring of the existing Facility Agreement such that the Group would no longer be in breach of covenants in the Facility Agreement. Under these scenarios, cashflow forecasts prepared by the Group indicate the Group will be able to pay its debts as and when they fall due.

Adopted accounting standards and interpretations

The Group has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group.

- IAS 23 — Borrowing costs - amendment
- IFRIC 11 / IFRS 2 — Partnership and Treasury Share Transactions
- IFRIC 12 — Service Concession Arrangements
- IFRIC 14 / IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IAS 23 Amended – Borrowing costs
This standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This standard was early adopted by the Group and has no effect on the financial position or performance of the Group.

IFRIC 11 / IFRS 2 – Partnership and Treasury Share Transactions
This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The amendment of its accounting policy had no impact on the financial position or performance of the Partnership.

IFRIC 12 Service Concession Arrangements
The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations taken and rights received in service concession arrangements. The Group has no such concessions, therefore this interpretation has no impact on the Group.

IFRIC 14 / IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Group does not have defined benefit schemes, therefore the adoption of this interpretation had no impact on the financial position or performance of the Group.

New accounting developments

The following IFRS and IFRIC interpretations are not yet in effect as at December 31, 2008:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - amendment
- IFRS 2 Share-based Payment – Vesting Conditions and Cancellations – amendment
- IFRS 7 Financial Instruments: Disclosures – amendment "Improving Disclosures about Financial Instruments"
- IFRS 3R Business Combinations
- IFRS 8 Operating Segments
- IAS 1 Presentation of Financial Statements - amendment
- IAS 27R Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation – amendments
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items - amendment
- IFRIC 13 Customer Loyalty Programs
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-Cash Assets to Owners
- IFRIC 18 Transfer of Assets from

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements.

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations
Amendments to IFRS 2 – Vesting Conditions and Cancellations was issued in January 2008 and become effective for annual period on or after 1 January 2009. The amendment clarifies that vesting conditions are service conditions and performance conditions only. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. These amendments will have no impact on the financial position or performance of the Group as the Group has not made any share based payments during 2008.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the Group does not intend to take advantage of this possibility.

IFRS 8 Operating Segments
IFRS 8 was issued in November 2006 and becomes effective for financial years beginning on or after 1 January 2009. This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. This standard will have no impact on the financial position or performance of the Group, as the Group has a single reportable segment.

IAS 1 Revised Presentation of Financial Statements
The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures– amendment "Improving Disclosures about Financial Instruments"
Amendments to IFRS 7 "Improving Disclosures about Financial Instruments" were issued in March 2009 and become effective for periods beginning on or after 1 January 2009 with early application permitted. These amendments improve disclosures of financial instruments and will have no impact on the financial position or performance of the Group but will result in more detailed disclosures regarding measurement of the fair value of financial instruments.

IFRIC 15 Agreement for the Construction of Real Estate
IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. IFRIC 16 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after

1 July 2009 with early application permitted. This interpretation should be applied prospectively. IFRIC 17 provides guidance on accounting for distributions of non-cash assets to owners. As such it provides guidance on when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so. IFRIC 17 will have no impact on the financial position or performance of the Group, as the Group does not distribute non-cash assets to its owners.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Group, as the Group does not receive assets from customers.

The management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group adopted those amendments and improvements to IFRSs which are applicable to its operating activities in 2008.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimation and Assumptions

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

Oil and gas reserves

Oil and gas reserves are a material factor in the Partnership's computation of depreciation, depletion and amortization (the "DD&A"). The Partnership 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, the Partnership 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 of the upstream 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.

Impairment
The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. The time value of money is determined based on weighted average cost of capital of the Group. There were no impairment losses recognized by the Group during the years ended December 31, 2008 and 2007.

Foreign Currency Translation
The functional currency of the entities of the Group is the Kazakhstani Tenge ("Tenge" or "KZT"). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
The consolidated financial statements are presented in US Dollars (US$), which is the presentation currency of the Group. As at the reporting date, the assets and liabilities are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to equity.

Consolidation
The consolidated financial statements comprise the financial statements of the Parent entity and its controlled subsidiaries (Note 1).
Inter-company transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases.
Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholder's equity.
The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Purchases of controlling interests in subsidiaries from entities under common control
Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.
The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the historical cost of the controlling entity. Any difference between the total book value of net assets and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.
These consolidated financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the controlling entity.

Property, Plant and Equipment

Oil and Gas Properties
Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within property, plant and equipment (construction work-in-progress) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration and materials and fuel used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.
All capitalized costs of oil and gas properties are amortized using the unit-of-production method based on estimated proved developed reserves of the field, except in the case of assets that have a useful life shorter than the lifetime of the field, in which case the straight line method is applied.

Oil and Gas Reserves
Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.
The Partnership uses the reserve estimates provided by an independent appraiser to assess the oil

and gas reserves of its oil and gas fields. These reserve quantities are used for calculating the unit of production depreciation rate as it reflects the expected pattern of consumption of future economic benefits by the entity.

Impairment of non-financial assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.
An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.
After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Other Properties

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.
Depreciation is calculated on a straight–line basis over the estimated useful lives of the assets as fol

lows:	YEARS
Buildings and Improvements	7-15
Vehicles	5
Machinery and Equipment	3-13
Other	3-10

Borrowing Costs

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

Inventories

Inventories are stated at the lower of cost or net realizable value ("NRV"). Cost of oil is determined on the weighted-average method and other inventories are also valued using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Trade Receivables

Accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as expense (credit) in the period in which they become known. Bad debts are written off when identified.

Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand and bank deposits that mature within ninety days from the date of origination and are free from contractual encumbrances.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated financial information over the period of the borrowings using the effective interest method.
Gains and losses are recognized in the income statement when the liabilities are derecognized or impaired, as well as through amortization of the borrowings using the effective interest method.

Provisions

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

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognized 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 recognized 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.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Partnership determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Partnership commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit or loss.

The Partnership assesses whether embedded derivatives are required to be separated from host contracts when the Partnership first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs,

and have not been designated as “at fair value through profit or loss”.
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.
Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.
Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivative financial instruments and hedging

The Partnership 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 recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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.

Taxation

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.
Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Trade and Other Payables

Trade and other payables are carried the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Revenue Recognition

The Partnership sells crude oil under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials.
Revenue from the sale of crude oil is recognized when delivery has taken place and risks and rewards of ownership of the goods have passed to the customer.
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Partnership and the amount of revenue can be reliably measured.

Expense Recognition

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

Social Tax and Deductions to Pension Fund

The Partnership contributes 21% of the gross income of employees as a Social tax to the Government of the Republic of Kazakhstan. Social tax and related staff costs are expensed as incurred.
The Partnership also withholds and contributes up to 10% from the salary of its employees as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Partnership has no present or future obligation to pay its employees upon their retirement.

4. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2007 and 2008 was as follows:

IN THOUSANDS OF US DOLLARS	OIL AND GAS PROPERTIES			NON OIL AND GAS PROPERTIES					
	WORKING ASSETS	CIP	TOTAL OIL AND GAS PROPERTIES	BUILDINGS	MACHINERY & EQUIPEMENT	VEHICLES	OTHERS	TOTAL NON OIL GAS PROPERTIES	TOTAL
Balance at December 31, 2006, net of accumulated depreciation	**55,409**	**76,243**	**131,652**	**1,960**	**530**	**904**	**804**	**4,198**	**135,850**
Additions	185	148,589	148,774	285	555	230	478	1,548	
150,322Write off	–	–	–	–	(17)	–	(60)	(77)	(77)
Transfers	44,553	(46,250)	(1,697)	278	1,401	–	18	1,697	
Disposal	–	(679)	(679)	–	–	(2)	(5)	(7)	(686)
Depreciation charge	(5,197)	–	(5,197)	(247)	(351)	(161)	(235)	(994)	(6,191)
Translation difference	3,741	6,221	9,962	111	74	44	47	276	10,238
Balance at December 31, 2007, net of accumulated depreciation	**98,691**	**184,124**	**282,815**	**2,387**	**2,209**	**1,015**	**1,107**	**6,718**	**289,533**
Additions	3,290	228,734	232,024	376	849	734	797	2,756	234,780
Transfers	73,546	(72,645)	901	264	(1,044)	–	(121)	(901)	–
Transferred to inventory	–	(37)	(37)	–	–	–	–	–	(37)
Write off	–	(442)	(442)	–	(14)	–	(3)	(17)	(459)
Depreciation charge	(7,132)	–	(7,132)	(311)	(362)	(203)	(261)	(1,137)	(8,269)
Depreciation on write off	–	–	–	–	14	–	2	16	16
Translation difference	(670)	(1,373)	(2,043)	(9)	(7)	(7)	(7)	(30)	(2,073)
Balance at December 31, 2008, net of accumulated depreciation	**167,725**	**338,361**	**506,086**	**2,707**	**1,645**	**1,539**	**1,514**	**7,405**	**513,491**
At cost at December 31, 2007	146,324	184,124	330,448	2,912	2,974	1,507	1,514	8,907	339,355
Accumulated depreciation	(47,633)	–	(47,633)	(525)	(765)	(492)	(407)	(2,189)	(49,822)
Balance at December 31, 2007, net of accumulated depreciation	**98,691**	**184,124**	**282,815**	**2,387**	**2,209**	**1,015**	**1,107**	**6,718**	**289,533**
At cost at December 31, 2008	222,275	338,361	560,636	3,538	2,754	2,232	2,178	10,702	571,338
Accumulated depreciation	(54,550)	–	(54,550)	(831)	(1,109)	(693)	(664)	(3,297)	(57,847)
Balance at December 31, 2008, net of accumulated depreciation	**167,725**	**338,361**	**506,086**	**2,707**	**1,645**	**1,539**	**1,514**	**7,405**	**513,491**

Category "Oil and Gas properties" represents mainly wells, oil treatment facilities and other related assets. Category "Non Oil and Gas properties" represents mainly buildings, vehicles, machinery, equipment and other assets.
The Partnership calculates depreciation, depletion and amortization of oil and gas properties using the unit-of-production method. A depletion rate is computed by dividing the unamortized costs of proved oil and gas properties by the total estimated proved developed reserves. This depletion rate is applied to the physical units of oil and gas produced during the relevant period. The unamortized costs of proved oil and gas properties include all capitalized costs net of accumulated amortization.
The depletion rate for oil and gas working assets was 6.18% and 6.76% in 2008 and 2007 respectively. The unamortized costs of proved oil and gas properties include all capitalized costs net of accumulated amortization.
The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at July 1, 2008. Depreciation has been calculated using the unit of production method based on these reserves estimates.

4. PROPERTY, PLANT AND EQUIPMENT (continued)

A depreciation charge of US$ 8,269 thousand has been charged to depreciation and amortization expense for 2008 less US$ 224 thousand which represent the effect of capitalization of depreciation as part of crude oil inventory (2007: US$ 6,191 thousand and US$ 65 thousand, respectively).
Additions to property, plant and equipment during the year ended December 31, 2008, included assets, works and services not yet paid for in the amount of US$ 21,606 thousand (2007: US$ 19,077 thousand).
The Partnership incurred borrowing costs including amortization of arrangement fee, of US$ 31,558 thousand, and US$ 19,414 thousand for the years ended December 31, 2008 and 2007, at the average interest rates of 8.6% and 13% per annum, respectively. For the same periods, the Partnership capitalized borrowing costs totaling US$ 19,640 thousand and US$ 12,960 thousand, respectively.

5. TRADE RECEIVABLES

As at December 31, trade receivables were denominated in US$, are less than 30 days, and are not impaired.

6. PREPAYMENTS AND OTHER CURRENT ASSETS

As at December 31, prepayments and other current assets comprised the following:

IN THOUSANDS OF US DOLLARS	2008	2007
VAT receivable	**20,606**	11,561
Advances paid	**2,104**	1,644
Receivable under hedging contract	**2,613**	–
Advance to Probel Capital Management B.V.	**1,620**	–
Other	**1,138**	1,146
	28,081	**14,351**

Advances paid consist primarily of prepayments made to service providers.

7. CASH AND CASH EQUIVALENTS

IN THOUSANDS OF US DOLLARS	2008	2007
Current accounts in US Dollars	**7,345**	6,019
Current accounts in Tenge	**4,222**	1,341
Cash accounts in other currencies	**320**	–
	11,887	**7,360**

No interest is earned on current accounts.

8. PARTNERSHIP CAPITAL

The ownership interests in Zhaikmunai LP consist of Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in the Zhaikmunai LP and the General Partner. At any general meeting every holder of Common Units shall have one vote for each Common Unit of which he or she is the holder. Under the Partnership Agreement, distributions to limited partners will be made either as determined by the General Partner in its sole discretion or following the approval of a majority of limited partners provided such amount does not exceed the amount recommended by the General Partner. Any distributions to the Zhaikmunai LP's limited partners will be made on a pro rata basis according to their respective partnership interests in the Zhaikmunai LP and will be paid only to the recorded holders of Common Units. There were no distributions declared for the years ended December 31, 2008 and 2007.

The issuance cost of listing the GDR's amounted to US$ 7,928 thousand.

9. BORROWINGS

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

IN THOUSANDS OF US DOLLARS	2008		2007	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
Credit line due to Bank Turan Alem	–	–	**38,793**	**203,982**
Loan due to Blavin Holdings Limited	–	–	**6,728**	–
Credit line due to BNP Paribas	**365,439**	–	–	–
	365,439	–	**45,521**	**203,982**

Facility agreement with BNP Paribas

On December 12, 2007 the Partnership entered into a US$ 550 million senior secured facility agreement between BNP Paribas (" Facility agreement"), as a facility agent, and the Partnership, as a borrower, and Zhaikmunai LP as guarantor. The Partnership drew down on March 7, 2008 approximately US$ 291 million for (inter alia) the purpose of fully refinancing the BTA Facility and fully refinancing the loan from Blavin. The Partnership used the further proceeds of the BNP Paribas Facility to finance the construction of a gas treatment facility and otherwise towards developing the field. Initially, the BNP Paribas Facility comprised three tranches of US$ 200 million, US$ 200 million and US$ 150 million. Drawdowns above US$ 450 million are subject to certain conditions relating to syndication by BNP Paribas which have not been satisfied as of the date of this publication. As of December 31, 2008 the Partnership had drawn down US$ 381 million.
The rate of interest payable on outstanding amounts under each tranche will be LIBOR plus mandatory cost plus, under tranche 1, a margin of 3%, under tranche 2, a margin of 4% and under tranche 3, a margin of 5%. The total amount outstanding is repayable in accordance with the schedule, reducing the total commitments to zero by December 31, 2014. In addition, the BNP Paribas Facility is mandatorily prepayable to the extent of the proceeds of any material disposals, debt offerings and a cash sweep of 50% of the Partnership collected revenue (in excess of US$ 25 million). The Partnership is also entitled to voluntarily prepay the amounts outstanding. The Partnership is required to give customary representations and warranties, repeated periodically and certain covenants relating to profitability.
The Partnership maintains a hedging programme pursuant to which it hedges a minimum Brent crude oil price of US$ 70 per bbl for at least 25% of the initial production profile, as assessed by BNP Paribas, for the NE and W Tournasian horizons for the period 2008 to 2013. The Partnership is additionally required to maintain and fund a debt service reserve account with a balance equal to at least 5% of the amount outstanding under the BNP Paribas Facility. Lastly, the Partnership is required to maintain annual oil and gas off-take contracts (gas sales to be commenced in 2010) with off-takers required to purchase 80% of total production and 100% of production available for export. The Partnership's obligations under the BNP Paribas Facility are secured by various forms of security, including, (i) a pledge over 100% of the participatory interests in the Partnership; (ii) pledges over its bank accounts; (iii) the assignment of rights under the off-take contracts; (iv) assignment of all guarantees or performance bonds issued in connection with the contract with KSS for the gas treatment facility; and (v) assignment of the benefit of the Partnership's relevant existing and future insurance policies. The Partnership's restricted cash under the terms of the BNP Paribas Facility amounted to US$ 19,078 thousand as at December 31, 2008 (Note 7).
As a result of lower than anticipated EBITDA at December 31, 2008 the Partnership was in breach of the covenant related to its EBITDA to interest expense and total indebtness ratios. Consequently, BNP Paribas, pursuant to the loan agreement, has confirmed to the Partnership that they will not distribute the balance of US$ 69 million at this time. However, the Partnership believes BNP Paribas will not call the loan as a result of the breach. The Partnership is also currently working with BNP Paribas EBRD, and other financial institutions to secure alternative funding of an amount of US$ 300 million to finance the Partnership's ongoing capital expenditure program (Note 2).

IN THOUSANDS OF US DOLLARS	2008	2007
Principal amount as at December 31	**381,677**	–
Fees incurred on arrangement of BNPP facility	**(19,943)**	–
Amortization of arrangement fees	**3,705**	–
	365,439	–

10. ABANDONMENT AND SITE RESTORATION LIABILITIES

The summary of changes in abandonment and site restoration liabilities during the years ended December 31 are as follows:

IN THOUSANDS OF US DOLLARS	2008	2007
Abandonment and site restoration liability as at January 1,	**1,299**	1,214
Unwinding of discount	**271**	102
Additional provision	**271**	410
Change in estimates	**1,570**	(427)
	3,411	1,299

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at December 31, 2008 were 5.0% and 9.4%, respectively (2007: 5.0% and 13%).

11. DUE TO GOVERNMENT OF KAZAKHSTAN

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Partnership to the Government during the production period.
Repayment of this liability commenced in 2008 with the first payment of US$ 1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US$ 258 thousand until May 26, 2031. The liability was discounted at 13%.
The total amount of liability due to Government as stipulated by the Contract is US$ 25,000 thousand. The balances as at December 31, and changes in the amount due to Government of Kazakhstan for the year were as follows:

IN THOUSANDS OF US DOLLARS	2008	2007
Due to Government of Kazakhstan as at January 1,	**8,379**	8,094
Unwinding of discount	**1,044**	964
Revision of contractual obligation	**–**	(679)
Paid during the year	**(2,062)**	–
	7,361	8,379
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(2,062)
Due to Government of Kazakhstan	**6,330**	6,317

12. TRADE PAYABLES

IN THOUSANDS OF US DOLLARS	2008	2007
Tenge denominated trade payables	**41,679**	19,065
US dollar denominated trade payables	**18,617**	16,489
Trade payables denominated in other currencies	**657**	512
	60,953	36,066

13. OTHER CURRENT LIABILITIES

IN THOUSANDS OF US DOLLARS	2008	2007
Taxes payable, other than corporate income tax	**1,950**	2,892
Training accrual	**3,049**	1,687
Equity option plan (Note 20)	**516**	–
Due to employees	**491**	270
Other	**1,127**	639
	7,133	5,488

14. COST OF SALES

IN THOUSANDS OF US DOLLARS	2008	2007
Depreciation and amortization	**7,883**	6,126
Well workover costs	**6,355**	7,103
Royalties	**5,705**	5,265
Repair, maintenance and other services	**5,149**	4,453
Payroll and related taxes	**4,661**	3,048
Materials and supplies	**3,855**	2,800
Rent and operation of oil separation units	**2,926**	2,678
Environmental levies	**2,752**	913
Management fees	**1,771**	1,957
Other transportation services	**1,681**	1,243
Government profit share	**1,125**	994
Other	**747**	821
	44,610	37,401

15. SELLING AND OIL TRANSPORTATION EXPENSES

Sales and transportation expenses consist primarily of costs in transporting oil to the railway loading terminal and costs of using the railway loading terminal. Staff costs related to sales are not significant.

IN THOUSANDS OF US DOLLARS	2008	2007
Oil export duty	**15,086**	–
Transporting oil to the railway loading terminal costs	**4,985**	4,236
Oil loading and storage costs	**2,835**	1,621
Other	**1,306**	936
	24,212	6,793

16. GENERAL AND ADMINISTRATIVE EXPENSES

IN THOUSANDS OF US DOLLARS	2008	2007
Management fees	**5,385**	3,082
Professional services	**4,612**	1,978
Payroll and related taxes	**2,956**	2,187
Training	**2,501**	1,698
Bank charges	**588**	1,298
Equity option plan (Note 20)	**516**	–
Sponsorship	**346**	314
Communication	**395**	298
Social program	**300**	255
Insurance fees	**724**	211
Materials and supplies	**163**	197
Lease payments	**268**	187
Business trip	**352**	155
Other taxes	**418**	4
Other	**775**	678
	20,299	12,542

17. FINANCE COSTS, NET

IN THOUSANDS OF US DOLLARS	2008	2007
Interest expense	**10,151**	6,454
Amortization of fees incurred on arrangement of syndicated loan agreement	**1,330**	–
Revision of contractual obligation to Government (Note 11)	**–**	(679)
Commitment fees on syndicated loan agreement	**437**	–
Unwinding of discount on Abandonment and Site Restoration Liability	**261**	102
Unwinding of discount on amounts Due to Government	**992**	964
	13,171	6,841

18. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

IN THOUSANDS OF US DOLLARS	2008	2007
Income tax expenses comprise:		
- current income tax expense	**4,193**	6,382
- deferred income tax expense	**30,995**	9,268
Total income tax expense	**35,188**	**15,650**

The Group's profits are assessed for income taxes only in the Republic of Kazakhstan. A reconciliation of income tax expense applicable to profit before income tax using the Kazakhstani tax rate, applicable to the license, of 30% to income tax expense as reported in the Group's consolidated financial statements for the years ended December 31 is as follows:

IN THOUSANDS OF TENGE	2008	2007
Profit before income tax	**98,666**	51,980
Statutory tax rate	**30%**	30%
Expected tax provision	**29,600**	15,594
Non-deductible interest expense on borrowings	**4,686**	2,565
Adjustments in respect of current income tax of previous year	**(1,116)**	(2,128)
Foreign exchange loss / (gain)	**460**	(1,875)
Difference arising on on Abandonment and Site Restoration Liability and payables Due to Government	**263**	83
Other non-deductible expenses	**1,295**	1,411
Income tax expense reported in the accompanying financial statements	**35,188**	15,650

Deferred tax balances are calculated by applying the Kazakhstani statutory tax rates in effect at the respective balance sheet dates to the temporary differences between the tax and the amounts reported in the financial statements and are comprised of the following at December 31:

IN THOUSANDS OF US DOLLARS	2008	2007
Deferred tax asset:		
Accounts payable and provisions	**1,413**	610
	1,413	610
Deferred tax liability:		
Crude oil inventory	**(551)**	(216)
Hedging contract at fair value	**(18,877)**	–
Property, plant and equipment	**(38,925)**	(26,585)
Net deferred tax liability	**(56,940)**	(26,191)

As at December 31, the movements in the deferred tax liability were as follows:

IN THOUSANDS OF US DOLLARS	2008	2007
Deferred tax asset:		
Balance at January 1,	**(26,191)**	(15,867)
Current year charge / (benefit) to translation reserve	**246**	(1,056)
Current year charge to statement of income	**(30,995)**	(9,268)
Balance at December 31,	**(56,940)**	(26,191)

19. HEDGING OF OIL EXPORT SALES

Pursuant to the terms of the BNP Paribas facility the Partnership has entered, at nil cost, into a hedging contract covering oil export sales commencing March 2008 through till December 2013.

YEAR	QUANTITY BARRELS ('BBLS') PER MONTH
2008	96,769
2009	107,639
2010	99,461
2011	96,956
2012	60,493
2013	48,384

transactions with related parties mainly comprise transactions between the Combined Entity and the
The hedging contract specifies that on payment date, either

a) if the Floating Amount determined in respect of the preceding Calculation Period is positive, then the Partnership shall receive such Floating Amount from BNP Paribas; or

b) if the Floating Amount determined in respect of the preceding Calculation Period is negative, then BNP Paribas shall receive the absolute value of such Floating Amount from the Partnership.

The Floating Amount shall be determined as follows: Floating Amount = % [A-B}*Quantity where,
A and B mean the following:

a) in the Calculation Periods from, and including, March 2008, to, and including, December 2009:
A= Max (0; 70 - Floating Price) ; and
B = Max (0; Floating Price - 123)

b) in the Calculation Periods from, and including, January 2010, to, and including, December 2013:
A = (70 - Floating Price),
B = Min (0; 79 - Floating Price)

The Floating Price is the arithmetic average of the settlement prices per barrel of Brent crude oil for each commodity business day in the calculation period, on the 1PE for the first nearby ICE Brent crude futures contract.
Gains and losses on the hedge contract, which do not qualify for hedge accounting, are taken directly to income statement.

IN THOUSANDS OF US DOLLARS	2008	2007
Realized hedging gain	**1,596**	–
Unrealized hedging gain	**63,184**	–
Gain on hedging contract	**64,780**	–
Unrealized hedging gain	**63,184**	–
Translation difference	**(261)**	–
Hedging contract at fair value	**62,923**	–

During the year ended 31 December 2007 the Combined Entity had the following transactions with related parties:

20. EQUITY-BASED TRANSACTIONS

Employees (including senior executives and executive directors) of members of the Group receive remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash ('cash-settled transactions'). The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

The expense recognised for employee services received during the year is shown in the following table:

IN THOUSANDS OF US DOLLARS	2008	2007
Expense arising from cash-settled share-based payment transactions	**516**	–

The equity-based payment plan is described below. There have been no cancellations or modifications to any of the plans during 2008.

On March 27, 2008, 2,500,000 equity appreciation rights (SARs) were granted to senior employees and executive directors of members of the Group, which can only be settled in cash. These will vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant date. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting till the end of the contractual life and give its holder a right to a difference between the market value of the Group's GDRs at the date of exercise and the IPO value of GDR's, which is 10 US Dollars. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The carrying amount of the liability relating to the SARs at December 31, 2008 is US$ 516 thousand (2007: nil). No SARs had vested at December 31, 2008 (2007: Nil).

The following table illustrates the number (No.) and exercise prices (EP) of, and movements in, equity options during the year:

	DECEMBER 31, 2008		DECEMBER 31, 2007	
	NO.	EP, US DOLLAR	NO.	EP, US DOLLAR
Outstanding at the beginning of period	**-**	**-**	–	–
Granted	**2,500,000**	**10**	–	–
Exercised	**-**	**-**	–	–
Outstanding at the end of period	**2,500,000**	**10**	–	–
Exercisable at the end of period	**-**	**-**	–	–

The following table lists the inputs to the models used for the plan for the year ended December 31, 2008:

Dividend yield (%)	0
Expected volatility (%)	87%
Risk -free interest rate (%)	3.2
Expected life (years)	7.2
Option turnover (%)	10
Price trigger	2

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

21. RELATED PARTY TRANSACTIONS

For the purpose of these financial statements transactions with related parties mainly comprise transactions between the Group and the participants and/or their subsidiaries or associated companies. Balances with related parties at the balance sheet dates and transactions with related parties for the respective years follow.
Accounts receivable from related parties at December 31 consisted of the following:

IN THOUSANDS OF US DOLLARS	2008	2007
Trade receivables and advances		
Probel Capital Management B.V.	**1,620**	–
Total	**1,620**	–

Accounts payable to related parties as at December 31 consisted of the following:
In thousands of US Dollars

IN THOUSANDS OF US DOLLARS	2008	2007
Trade payables		
Amersham Oil LLP	**108**	81
Probel Capital Management B.V.	**163**	190
Total	**271**	271

During the year ended 31 December 2008 the Group had the following transactions with related parties:
In thousands of US Dollars

IN THOUSANDS OF US DOLLARS	2008	2007
Management fees and consulting services		
Amersham Oil LLP	**1,245**	965
Probel Capital Management B.V.	**5,987**	4,121
Total	**7,232**	5,086

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership, Amersham Oil LLP and Probel Capital Management BV relate to the rendering of geological, geophysical, drilling, scientific, technical and other consultancy services.
Annual remuneration of four key managers amounted to US$ 238 thousand for 2008 (2007: four, US$ 199 thousand). Other key management personnel were employed and paid by Amersham Oil LLP, Frans Van Der Schoot B.V. and Probel Capital Management and whose remuneration forms part of management fees and consulting services above.
All related parties are companies indirectly controlled by Frank Monstrey.

22. CONTINGENT, COMMITMENTS AND OPERATING RISKS

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.
The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets and commodity price instability, significant deterioration of liquidity in the banking sector and tighter credit conditions within Kazakhstan. Consequently, the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting finance for Kazakhstan banks and companies.
While management believes it is taking appropriate measures to support the sustainability of the Partnership's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Partnership's results and financial position in a manner not currently determinable.

Legal actions

In the ordinary course of business, the Partnership is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Partnership.
The Partnership assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its consolidated financial information only where it is probable that actual events giving rise to a liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these consolidated financial information for any of the contingent liabilities mentioned above.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2008. As at December 31, 2008 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax positions will be sustained.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and cleanup evolve, the Partnership may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

Environmental obligations

The Partnership may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Partnership may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation. However, depending on any unfavorable claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Partnership's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at December 31, 2008 the Partnership had contractual capital commitments in amount of US$ 247,237 thousand (2007: US$ 186,148 thousand).

Operating leases

The Partnership entered into a cancellable lease agreement for the main administrative office in Uralsk in October 2007 for a period of 20 years for US$ 15 thousand per month.

Social and education commitments

As required by the Contract with the Government, the Partnership is obliged to spend: (i) US$ 300 thousand per annum to finance social infrastructure and (ii) one percent from the capital expenditures incurred during the year for education purposes of the citizens of Kazakhstan on an annual basis until the end of the Contract.

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23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Partnership's principal financial liabilities comprise bank loans, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations. The Partnership's financial assets consist of trade and other receivables, cash and cash equivalents.
The main risks arising from the Partnership's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, commodity price risk and credit risk. The Partnership's management reviews and agrees policies for managing each of these risks which are summarized below.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Partnership's long-term debt obligations with floating interest rates.
The Partnership was not exposed to interest rate risk in 2007 as rates of interest on its borrowings were fixed for the whole term of such borrowings.
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Partnership's loss before tax through the impact on floating rate borrowings.

INCREASE / DECREASE INTEREST RATE IN THOUSANDS OF US DOLLARS	EFFECT ON PROFIT BEFORE TAX FOR THE YEAR ENDED DECEMBER31, 2008	EFFECT ON PROFIT BEFORE TAX FOR THE YEAR ENDED DECEMBER 31, 2007
+1.5%	**(4,921)**	–
-1.5%	**4,921**	–

Foreign Currency Risk

As significant portion of the Group's operation is the Kazakhstani Tenge denominated, the Group's balance sheet can be affected significantly by movements in the US Dollar / Tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US Dollars and denominating sales in US Dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	CHANGE IN TENGE TO US$ EXCHANGE RATE	EFFECT ON PROFIT BEFORE TAX
2008		
US thousand dollar	**+25%**	**(65,715)**
US thousand dollar	**+40%**	**(105,144)**
2007		
US thousand dollar	+ 5%	(6,934)
US thousand dollar	- 5%	6,934
Liquidity Risk		

Liquidity Risk

Liquidity risk is the risk that the Partnership will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the maturity profile of the Partnership's financial liabilities at December 31, 2008 based on contractual undiscounted payments:

YEAR ENDED DECEMBER 31, 2008	ON DEMAND	LESS THAN 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings	**381,677**	**–**	**–**	**–**	**–**	**381,677**
Trade payables	**60,028**	**–**	**–**	**–**	**–**	**60,028**
Other current liabilities	**5,906**	**–**	**–**	**–**	**–**	**5,906**
Due to Government of Kazakhstan	**–**	**258**	**773**	**4,124**	**17,784**	**22,939**
	447,611	**258**	**773**	**4,124**	**17,784**	**470,550**

Year ended December 31, 2007	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	3,061	42,460	203,982	–	249,503
Trade payables	30,431	–	5,309	–	–	35,740
Other current liabilities	5,036	–	–	–	–	5,036
Due to Government of Kazakhstan	–	1,288	774	4,124	18,814	25,000
	35,467	4,349	48,543	208,106	18,814	315,279

As discussed in Note 9, the Partnership believes BNP Paribas will not call the outstanding balance of the loan of US$ 381,677 thousand during 2009 and is in the process of obtaining a waiver from BNP Paribas in this respect.

Commodity Price Risk

The Partnership is exposed to the effect of fluctuations in price of crude oil, which is quoted in US Dollar on the international markets. The Partnership prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Other than the hedge arrangement described in Note 19 the Partnership does not hedge its exposure to the risk of fluctuations in the price of crude oil. As at December 31, 2008 a US$ 1 per barrel movement in the price of oil had a US$ 2 million impact on the fair value of the hedge contract.

Credit Risk

Financial instruments, which potentially subject the Partnership to credit risk, consist primarily of accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Partnership considers that its maximum exposure is reflected by the amount of trade accounts receivable and advances.

The Partnership places its cash with Bank Turan Alem, which has a credit rating of BB (negative) and BNP Paribas with a relative credit rating of AA (negative) on long-term US Dollar deposits from Standard and Poor's rating agency for the year ended December 31, 2008. The Partnership does not guarantee obligations of other parties.

The Partnership sells oil and makes advance payments only to recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Partnership's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low.

Fair values of financial instruments

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

Management believes that the Partnership's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable and advances, trade and other payables and obligations under debt instruments are not significantly different from their fair values at December 31, 2008 and 2007.

24. SUBSEQUENT EVENTS

On February 4, 2009 the Kazakhstan Tenge ("KZT") devalued against US$ and other major currencies. The exchange rate before and after devaluation were 120 KZT/US$ and 150 KZT/US$, respectively.

On March 20, 2009 the Partnership has concluded an amendment to its export oil sales hedging contract with BNP Paribas, under which the minimum Brent crude oil price was set at US$50 per bbl for at least 25% of the initial production profile for the NE and W Tournasian horizons for the period from March 2009 through to June 2010. The amendment to the contract has resulted in a cash payment of US$ 40,500 thousand being made to the Partnership.

FINANCIAL CALENDAR 2009

April 30, 2009	2008 Annual Report
August 27, 2009	Annual General Meeting*
August 31, 2009	H1 Results
November 30, 2009	Q3 Results
January 31, 2010	Q4 Results

Please note that all future dates are subject to change

* Notice of Meeting and Form of Proxy will be available to all partners the first week of August 2009

CORPORATE INFORMATION

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Share Listing

Exchange	London Stock Exchange
Ticker	ZKM
ISIN code	US98952U2042
SEDOL	B28ZQ91
Industry	Oil and Gas Companies
Sector	Exploration and Production

http://www.londonstockexchange.com

Glossary of Terms

The following are the main terms and abbreviations used in this announcement:

$	United States dollars
2D/3D	two dimensional/three dimensional
1P	proven
2P	proven plus probable
3P	proven plus probable plus possible
Board	the board of directors of Zhaikmunai Limited, the general partner of the Partnership
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
bscf	billion standard cubic feet of gas
EOR	enhanced oil recovery
EPC	engineering procurement contract
FCA	free carrier (incoterm)
FDP	field development plan
FIELD	Chinarevskoye oil and gas condensate field
Group	the Partnership and its subsidiaries
GTU	Gas Treatment Unit
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
IPO	initial public offering
KSS	KazStroyService
KZT	Kazakhstan Tenge
Licence	licence issued by the Government of the Republic of Kazahstan on 26 May 1997
MEMR	ministry of energy and mines
mbbls	million barrels of oil
mboe	million barrels of oil equivalent
mscfd	million standard cubic feet of gas per day
OTU	Oil Treatment Unit
Partnership	Zhaikmunai L.P.
Prospectus	Zhaikmunai L.P. Prospectus of 28 March 2008
PSA	production sharing agreement
UNGG	AO Uralskneftegazgeologia

Disclaimer

This Annual Report contains forward-looking statements regarding Zhaikmunai, its corporate plans, future financial condition, future results of operations, future business plans and strategies. All such forward-looking statements are based on its management's assumptions and beliefs in the light of information available to them at this time. These forward-looking statements are, by their nature, subject to significant risks and uncertainties and actual results, performance and achievements may be materially different from those expressed in such statements. Factors that may cause actual results, performance or achievements to differ from expectations include, but are not limited to, regulatory changes, future levels of industry product supply, demand and pricing, weather and weather related impacts, wars and acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions. Zhaikmunai undertakes no obligation to revise any such forward-looking statements to reflect any changes in Zhaikmunai's expectations with regard thereto or any change in circumstances or events after the date hereof.

Credits

coordination
Sarah Reyn

design
Beeld.Inzicht, www.beeldinzicht.be

photography
Jan Caudron, www.anaklasis.com

Printed in Belgium by Cassochrome.

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. CU-COC-809718-DV
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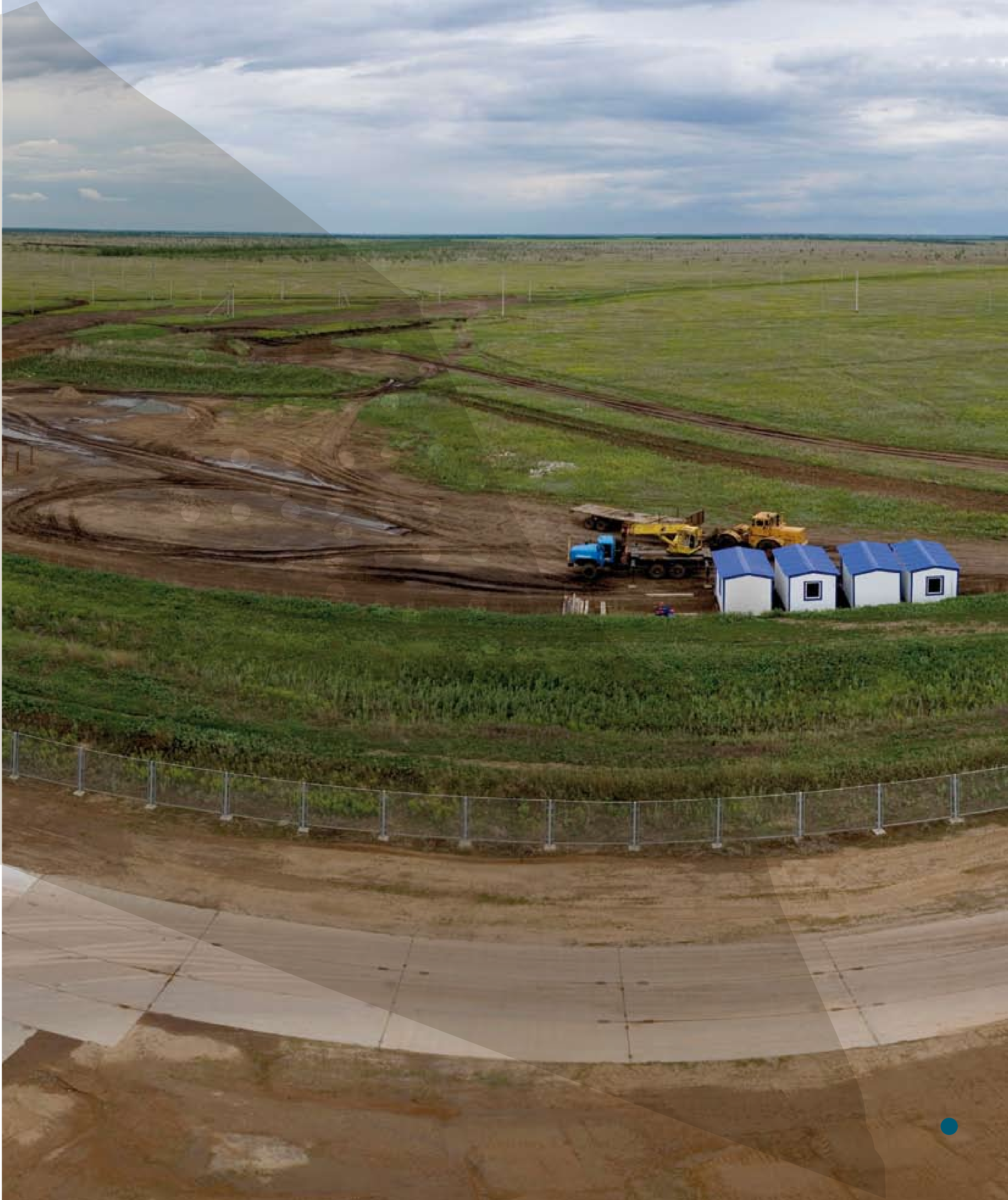

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