MANAGEMENT REPORT FOR THE FIRST HALF OF 2011

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1. FINANCIAL REVIEW

The following discussion and analysis should be read together with the unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2011 and 30 June 2010 and the audited consolidated financial statements as at and for the years ended 31 December 2010, 2009 and 2008. The consolidated financial statements and the accompanying notes have been prepared in accordance with IFRS.

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

Overview

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

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

As at the date of this report, the Group has borrowings of US$450 million under a secured bond issue made on 19 October 2010 (the "**Notes**") which were used in part to repay in full borrowings of US$382 million under a senior secured reducing facility agreement with BNP Paribas (Suisse) S.A. as mandated lead arranger maturing no later than 31 December 2014 with Zhaikmunai as borrower and Zhaikmunai L.P. and its other subsidiaries (other than FvdS) as guarantors (as amended from time to time, the "**Syndicated Facility**") and in part for general corporate purposes. The funds made available under the Syndicated Facility were used to repay a previous financing, which was primarily used for drilling operations and the Group's capital investment programme, including the construction of its crude oil pipeline, rail loading terminal and the Gas Treatment Facility.

The following table sets forth the Group's sales of crude oil, cost of sales, gross profit, profit before income tax and net income/(loss) for the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008:

	Years ended 31 December			Six months ended 30 June	
	2010	2009	2008	2011	2010
	(US$ millions)			(US$ millions)	
Sales of crude oil	178.159	116.033	135.912	125.907	74.654
Cost of sales	(53.860)	(44.035)	(44.610)	(28.403)	(20.733)
Gross profit	124.299	71.998	91.302	97.504	53.921
Profit before income tax	60.773	8.840	98.666[(1)]	64.038	35.820
Net income/(loss)	22.900	(18.768)	63.478	36.011	19.577

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

Primary Factors Affecting Results of Operations

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

Crude oil prices and Netback

Zhaikmunai's sales of crude oil have accounted for substantially all of its revenues during the periods under review. The revenue Zhaikmunai receives for its crude oil is influenced by: (i) fluctuations in the price of international crude oil (i.e. Brent crude oil); and (ii) the discount (taking into account transportation costs, quality differentials in the oil and the

profit margin retained by the particular trader) to this price which, after such discount, represents the realised price for Zhaikmunai's crude oil, which Zhaikmunai refers to as its Netback.

Most of Zhaikmunai's crude oil was typically delivered on a FCA (free carrier) Uralsk shipment basis and due to the high quality thereof, the discount to the market price of Brent crude oil is smaller. However, in 2010 Zhaikmunai started to sell its crude oil on the basis of DAF (delivery at frontier) and FOB (free on board) terms in order to reduce its overall transportation costs. The table below sets out the average price for Brent crude oil on which Zhaikmunai has based its sales for the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 31 December 2009 and 2008, :

	Years ended 31 December			**Six months ended 30 June**	
	2010	**2009**	**2008**	**2011**	**2010**
		(US$/bbl)		(US$/bbl)	
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	80.15	62.02	98.11	109.77	77.85

During the periods under review, the price of Brent crude oil experienced significant fluctuations. After reaching highs of up to US$147 per barrel in mid-2008, international oil prices fell dramatically in late 2008 with an average closing price in December 2008 of US$43 per barrel. Brent crude oil prices recovered in 2009, 2010 and the first half of 2011, reaching approximately US$78 per barrel in December 2009, ending 2010 at approximately US$93 per barrel and approximately US$113 at the end of June 2011.

These fluctuations have affected the Group's revenues directly, as the price Zhaikmunai receives for its crude oil is based on the price of Brent crude oil. However, the Group entered into a hedging contract on 29 March 2011 covering oil export sales of 2,000 barrels per day running from March 2011 through December 2011 (pursuant to which the floor price is fixed at US$85 per barrel).

In addition, Russian rail tariffs are priced in Swiss francs and Kazakh rail tariffs are priced in Tenge, whereas Zhaikmunai's oil prices are quoted and settled in US Dollars. Consequently, if the US Dollar depreciates or appreciates against the Swiss franc or the Tenge, Zhaikmunai's Netback is reduced or increased, respectively. Zhaikmunai's discount for crude oil sales generated for the six months ended 30 June 2011 (based on FCA Uralsk equivalent) was US$15.65 per barrel compared to US$ 14.26 per barrel for the six months ended 30 June 2010, US$14.01 per barrel for the year 2010, US$15.21 per barrel for the year 2009 and US$15.58 per barrel for the year 2008.

The table below sets out Zhaikmunai's average Netback for crude oil sales (based on FCA Uralsk equivalent) for the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008.

	Years ended 31 December			**Six months ended 30 June**	
	2010	**2009**	**2008**	**2011**	**2010**
		(US$/bbl)		**(US$/bbl)**	
Average Netback for crude oil sales	66.14	46.81	82.53	94.12	63.59

Crude oil production

All crude oil produced by Zhaikmunai is sold. As at 30 June 2011, inventory comprised 4.1% of the Group's current assets. This compares to 3.3% as at 31 December 2010, 0.2% as at 31 December 2009 and 5.0% as at 31 December 2008. Consequently, the volume of crude oil produced by the Group directly affects its revenues. The table below illustrates Zhaikmunai's production for the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008.

	Years ended 31 December			**Six months ended 30 June**	
	2010	**2009**	**2008**	**2011**	**2010**
Total crude oil and condensate production (bbl)	2,829,764	2,697,980	1,749,066	1,421,036	1,314,256
Average crude oil and condensate production (bpd)	7,752	7,442	5,095	7,851	7,261
Increase (decrease) in production from previous period (bpd)	310	2,347	32	590	-
Increase (decrease) in production from previous period (%)	4.9	54.3	1.7	8.1	-

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

Cost of sales

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

Depreciation costs, during the periods under review, have represented as a percentage of total cost of sales 29.1% and 38.5% for the six months ended 30 June 2011 and 2010, respectively and 28.2%, 36.8% and 17.7% for the years ended 31 December 2010, 2009 and 2008, respectively. Such costs fluctuate according to the level of Zhaikmunai's proved developed reserves, the volume of crude oil it produces and the net book value of its oil and gas properties. As the Group continues with its capital investment programme, management expects depreciation costs to increase (in particular, following completion of the Gas Treatment Facility) as the Group's proved developed reserves are expected to remain broadly constant while its production and the value of its oil and gas properties increase. Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 7.1% and 5.1% for the six months ended 30 June 2011 and 2010, respectively and 10.9%, 0.3% and 14.2% for the years ended 31 December 2010, 2009 and 2008, respectively. Change in oil stock, during the periods under review, has moved from a decrease in the cost of sales in the six months to 30 June 2010 of US$2.3 million to a decrease of US$479 thousand in the cost of sales in the six months to 30 June 2011 due to an increase in oil stock as a result of the transition from FCA Uralsk marketing to DAF and FOB sales to different locations.

Other cost of sales during the periods under review have included environmental levies, which increased by 15.1% during the six months ended 30 June 2011 compared to the six months ended 30 June 2010 due to changes in applicable tariffs and methodology and decreased by 23.6% during the year ended 31 December 2010 compared to 2.5% during the year ended 31 December 2009 and by 61.0% during 2009 compared to 2008 due to reduction of flared gas volumes, as well as management costs (which have been paid pursuant to management services agreements with related parties, labour costs and rent and operation of oil separation units costs. Management fees decreased as a result of business travel being accounted for separately while the increase in labour costs resulted from an increase in the number of personnel contracted and/or employed by Zhaikmunai as well as through increases in salaries. Costs for repairs and maintenance and material and supplies are expected to fluctuate in line with changes in the market price of oil.

Finance costs

Finance costs in the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008 consisted of interest expenses in relation to the Notes, fees and expenses in relation to the Notes, interest expenses in relation to the Syndicated Facility, commitment fees on the Syndicated Facility, unwinding of discount on amounts due to the Government, loan review fees (only in 2009), unwinding of discount on abandonment and site relocation liability and amortisation of fees incurred on arrangement of the Syndicated Facility (in 2008 and 2009).

Interest expense in the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008 consisted of interest on the Notes and on Zhaikmunai's Syndicated Facility. In December 2007, the Group entered into the Syndicated Facility under which its previous fixed rate borrowings were refinanced. The amounts available under the Syndicated Facility were drawn down starting from March 2008. A portion of the finance costs is capitalised based on the average construction in progress. Capitalised interest (including withholding tax paid by Zhaikmunai) amounted to US$27.7 million and US$20.8 million, respectively in the six months ended 30 June 2011 and 2010, respectively and to US$19.6 million in 2008, US$26.4 million in 2009 and US$47.5 million in 2010. Non-capitalised interest (including withholding tax paid by Zhaikmunai) amounted to zero dollars in both the six months ended 30 June 2011 and 2010 and to US$11.5 million in 2008, US$6.0 million in 2009 and 0 in 2010.

Royalties, Government Share and Taxes payable pursuant to the PSA

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

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January 2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable

to PSAs entered into before 1 January 2009, which continue to be effective under Article 308 of the Tax Code. Despite the stabilisation clauses (providing for general and tax stability) provided for by the PSA, in 2008 and again in 2010 Zhaikmunai was required to pay new crude oil export duties introduced by the Government. Despite Zhaikmunai's efforts to show that the new export duties were not applicable to it under the PSA, the State authorities did not accept this position in 2008 and Zhaikmunai was required to pay the export duties. During January 2009, the Government revised and established the rate of the export duties at US$ nil per tonne of crude oil, but reimposed a US$20 per tonne duty in August 2010, which was increased to US$40 per tonne in January 2011. However, Zhaikmunai has chosen to export to destinations which are exempted.

For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from crude oil sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25.0%. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, expected to be approximately 14.0%. Under the PSA, the exploration phase for the remainder of the Chinarevskoye Field expired on 26 May 2011 and a further extension has been applied for. Assets related to the other horizons will depreciate in the same manner as those described above for the Tournaisian reservoir.

Under the PSA, Zhaikmunai is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Zhaikmunai is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production from the sharing arrangement (known as Cost Oil) that it would otherwise have to share with the Government. Cost oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. Royalties and government profit share have represented, as a percentage of total cost of sales, 18.5% and 4.2%, respectively for the six months ended 30 June 2011, 15.7% and 3.7%, respectively for the six months ended 30 June 2010, 16.5% and 3.1%, respectively for the year ended 31 December 2010, 13.0% and 2.5%, respectively for the year ended 31 December 2009 and 12.8% and 2.5%, respectively for the year ended 31 December 2008.

Summary of Critical Accounting Policies

The Group's significant accounting policies are more fully described in note 3 to the audited consolidated financial statements for 2008 and 2009, note 2 to the audited consolidated financial statements for the year ended 31 December 2010 and note 2 to the unaudited condensed consolidated financial statements for the six months ended 30 June 2011. However, certain of the Group's accounting policies are particularly important to the presentation of the Group's results of operations and require the application of significant judgment by its management.

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

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

Estimations and Assumptions

Oil and gas reserves

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

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-

classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

Property, Plant and Equipment

Abandonment and site restoration (decommissioning)

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

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

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

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

Borrowing Costs

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

Derivative Financial Instruments and Hedging

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

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

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

Description of key financial terms

Sales of crude oil during the period under review is affected by the Group's volume of crude oil production, the market price for crude oil and the discount to the market price incurred by the Group for its crude oil. The Group expects to generate further revenue from sales of condensate, gas and LPG following the completion of the Gas Treatment Facility. The unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2011 and the audited consolidated financial statements as at and for the year ended 31 December 2010, 2009 and 2008 included in this report present sales of crude oil gross of any portion required to be delivered to the State under the terms of the PSA since, during the periods under review, it has elected to settle its obligations to the State in cash. Consequently, the incurrence of any such obligation is reported as an expense in cost of sales. If it elects, in the future, to settle such

obligation by the delivery of crude oil to the State, its sales of crude oil, and therefore revenue, will be affected. *Cost of sales* comprises various costs including: (i) depreciation of oil and gas properties; (ii) well workover costs for the repair, maintenance and change of well completions; (iii) royalties payable to the Government; (iv) repair, maintenance and other services, (v) payroll and related taxes for field operational staff; (vi) materials and supplies and other related expenses; (vii) the rental and operation of oil separation units (used to separate crude oil and gas condensate); (viii) environmental levies; (ix) management fees related to the provision of geological, geophysical, drilling, scientific, technical and other consultancy services and (x) Government profit share.

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

Selling and oil transportation expenses principally comprise the costs incurred in transporting crude oil and other hydrocarbon products from the Chinarevskoye Field to the point at which the risk in the goods transfers under the applicable offtake agreement.

Comparison of the six months ended 30 June 2011 and 2010

The table below sets forth the line items of the Group's income statement for the six months ended 30 June 2011 and 2010 in US Dollars and as a percentage of sales of crude oil.

	Six months ended 30 June 2011	% of sales of crude oil	Six months ended 30 June 2010	% of sales of crude oil
	(US$ millions)		(US$ millions)	
Sales of crude oil	125.907	100.0	74.654	100.0
Cost of sales	(28.403)	(22.6)	(20.733)	(27.8)
Gross Profit	**97.504**	**77.4**	**53.921**	**72.2**
General and administrative expenses	(15.643)	(12.4)	(13.671)	(18.3)
Selling and oil transportation expenses	(15.437)	(12.3)	(3.505)	(4.7)
Gain/(loss) on derivative financial instruments	(0.189)	(0.2)	(0.060)	(0.1)
Interest income	0.121	0.1	0.058	0.1
Finance costs	(0.789)	(0.6)	(0.654)	(0.9)
Foreign exchange (loss)/gain	(0.026)	(0.0)	0.126	0.2
Other (expenses)/income	(1.503)	(1.2)	(0.395)	(0.5)
Profit/(loss) before income tax	**64.038**	**50.9**	**35.820**	**48.0**
Income tax expense	(28.027)	(22.3)	(16.243)	(21.8)
Net Loss/Income	**36.011**	**28.6**	**19.577**	**26.2**

Sales of crude oil increased by US$51.3 million, or 68.7%, to US$125.9 million in the six months ended 30 June 2011 from US$74.7 million in the six months ended 30 June 2010 due primarily to a 48.0% increase in average crude oil Netback prices in the six months ended 30 June 2011 because of an increase in the average Brent crude oil price of 41.0% partially offset by an increase in the weighted average transportation discount of 9.8% compared to the six months ended 30 June 2010.

The following table shows the Group's sales of crude oil and sales volumes for the six months ended 30 June 2011 and 2010:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Sales of crude oil (US$ millions)	125.907	74.654
Sales volumes (gross of Cost Oil) (bbl)	1,285,923	1,314,256

The table below shows changes in the commodity price of Brent crude oil and changes in the discount and the Netback received by the Group for its crude oil for the periods ended 30 June 2011 and 2010.

	Six months ended 30 June 2011	Six months ended 30 June 2010
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	109.77	77.85
Average discount to Brent (US$/bbl)	15.65	14.26
Average Netback (US$/bbl)	94.12	63.59

Cost of sales increased by US$7.7 million, or 37.0%, to US$28.4 million in the six months ended 30 June 2011 from US$20.7 million in the six months ended 30 June 2010 due primarily to an increase in well workover expenses, royalties and government profit share as well as decrease in oil in stock adjustment. Well workover costs increased to US$2.0 million in the six months ended 30 June 2011 from US$1.1 million in the six months ended 30 June 2010 due to an increased number of wells. Royalty costs increased by US$2.0 million, or 61.7%, to US$5.3 million in the six months ended 30 June 2011 from US$3.3 million in the six months ended 30 June 2010 due to an increase in Brent crude prices. Costs for government profit share increased by US$433 thousand or 56.6%, to US$1.2 million in the six months ended 30 June 2011 from US$765 thousand in the six months ended 30 June 2010. This was due to the increase in profitability during the year as the increasing net-back prices drove top-line growth while the Group's expenses are composed of a significant fixed cost base. Additionally, depreciation expenses increased by US$295 thousand, or 3.7%, to US$8.3 million in the six months ended 30 June 2011 from US$8.0 million in the six months ended 2010. The increase in depreciation relates to an increase in working oil & gas assets. On a per barrel basis, cost of sales increased by US$6.31 or 40.0%, to US$22.08 in the six months ended 30 June 2011 from US$15.78 in the six months ended 30 June 2010 and cost of sales excluding depreciation per barrel increased US$5.95, or 61.3% to US$15.65 in the six months ended 30 June 2011 from US$9.71 in the six months ended 30 June 2010.

General & administrative expenses increased by US$2.0 million, or 14.4%, to US$15.6 million in the six months ended 30 June 2011 from US$13.7 million in the six months ended 30 June 2010 due primarily to an increase in the employee share option plan expense and business travel expenses. The employee share option plan expenses increased US$2.4 million to US$1.3 million in the six months ended 30 June 2011 from a negative US$1.0 million in the six months ended 30 June 2010. Additionally, business travel expenses were US$2.2 million in the six months ended 30 June 2011, an increase of US$1.7 million, or 305.1%, from US$542 thousand in the six months ended 30 June 2010 as a result of business travel expenses no longer being included in management fees. These increases were partially offset by decreases in management fees and professional service expenses of US$765 thousand and US$645 thousand, respectively.

Selling and oil transportation expenses increased US$11.9 million, or 340.4%, to US$15.4 million in the six months ended 30 June 2011 from US$3.5 million in the six months ended 30 June 2010. This was driven primarily by the movement of the Group from FCA (Free Carrier) Uralsk terms to DAF (Delivery at Frontier) and FOB (Free On Board) contract terms during the year. The cost increase is offset by a higher selling price and thus higher revenues.

Finance costs increased by US$135 thousand, or 20.6%, to US$789 thousand in the six months ended 30 June 2011 from US$654 thousand in the six months ended 30 June 2010. The increase in costs was primarily driven by the expensing of previously capitalized financing fees related to the unwinding of the historical costs due to the government of Kazakhstan. On 19 October 2010, the Group issued the Notes. The proceeds of the Notes were used in part to fully prepay the Syndicated Facility, and in part for general corporate purposes. The first coupon payment was paid on April 19, 2011 and the next coupon payment is due on October 19, 2011. The Group accrues the interest expense accordingly.

Loss on derivative financial instruments amounted to US$189 thousand in the six months ended 30 June 2011 compared to a loss of US$60 thousand in the six months ended 30 June 2010. The loss of US$189 thousand consisted of the fair value of the hedging contracts as at 30 June 2011 (in a negative amount of US$189 thousand) less the fair value of the hedging contracts as at 30 June 2010 (in a negative amount of US$372 thousand) and then adding back the realized hedging loss (in a positive amount of US$372 thousand).

Foreign exchange loss amounted to US$26 thousand in the six months ended 30 June 2011 compared to a gain of US$126 thousand in the six months ended 30 June 2010.

Profit before income tax amounted to a profit of US$64.0 million in the six months ended 30 June 2011 compared to a profit of US$ 35.8 million in the six months ended 30 June 2010. The higher profitability was driven primarily by the increased Brent prices realized during the six months ended 30 June 2011 compared with those realized during the six months ended 30 June 2010.

Income tax expense increased to US$28.0 million in the six months ended 30 June 2011 compared to US$16.2 million in the six months ended 30 June 2010, a 72.5% increase due to a larger proportion of non-deductible interest and higher profit before tax.

Net income amounted to US$36.0 million in the six months ended 30 June 2011, an increase of US$16.4 million from US$19.6 million in the six months ended 30 June 2010. The higher profitability was driven primarily by the higher Brent prices noted above.

Liquidity and Capital Resources

General

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

Cash Flows

The following table sets forth the Group's cash flow statement data for the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008.

	Year ended 31 December			Six months ended 30 June	
	2010	2009	2008	2011	2010
			(US$ millions)		
Net cash flow from operating activities	98.955	45.934	44.223	56.071	24.672
Net cash flows in investing activities	(132.428)	(200.673)	(195.196)	(39.085)	(71.316)
Net cash provided by/(used in) financing activities	39.710	279.418	155.627	(25.016)	(16.586)
Cash and cash equivalents at the end of period	144.201	137.375	11.887	136.171	74.192

Net cash flows from operating activities

Net cash flows from operating activities were US$56.1 million in the six months ended 30 June 2011 and were primarily attributable to:

- a profit before income tax for the period of US$64.0 million, adjusted by a non-cash charge for depreciation and amortisation of US$8.5 million and a reversal of share option expenses of US$1.3 million; and

- a US$18.6 outflow from working capital primarily attributable to (i) a decrease in advances received of US$9.7 million and (ii) an increase in trade receivables of US$4.8 million.

Net cash flows in investing activities

Net cash used in investing activities was US$39.1 million in the six months ended 30 June 2011 due primarily to investments in the drilling of new wells (US$27.6 million) and in the Gas Treatment Facility (US$6.6 million).

Net cash provided by financing activities

Net cash used in financing activities was US$25.0 million in the six months ended 30 June 2011, primarily due to finance costs paid of US$25.4 million.

Indebtedness

KASE listing and substitution

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

2011 hedging

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

Capital Expenditures

Following the commissioning of the first phase of the Gas Treatment Facility, Zhaikmunai is expected to build a third unit which is the second phase of the Gas Treatment Facility. This will depend on a number of factors such as the ability

of Zhaikmunai to convert probable reserves into proved reserves, the oil price environment and the cash flow being generated from phase one.

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

Drilling Expenditures

Drilling expenditures amounted to US$27.6 million in the six months ended 30 June 2011.

Gas Treatment Facility

On 10 August 2007, Zhaikmunai entered into an agreement with KSS for the construction of the Gas Treatment Facility to process associated gas and gas condensate. Construction of the Gas Treatment involved the construction of two gas treatment units. Payments made to KSS in relation to the construction of the Gas Treatment Facility amounted to US$17.6 million in 2008, US$100.1 million in 2009, US$47.6 million in 2010 and US$6.6 million for the six months ended 30 June 2011. Mechanical completion of the Gas Treatment Facility occurred on 29 September 2010 when the Working Commission issued its formal decision declaring that the construction of Zhaikmunai's Gas Treatment Facility has been completed generally in accordance with Kazakh standards. State Acceptance Commission approval was received at the end of December 2010 and test production started early in 2011.

Oil treatment units

Currently Zhaikmunai operates a first crude oil treatment unit, which was built and commissioned at the beginning of 2006.

Oil Pipeline and rail loading terminal

In 2009, the construction of a 120km oil pipeline from the Chinarevskoye Field to a rail terminal in Rostoshi near the city of Uralsk was successfully completed. Zhaikmunai's oil pipeline construction contains three parts: the main pump station at the field site; a 120 km long, 324mm diameter crude oil pipeline; rail loading terminal, including a receiving station, an automation system and a vapour recovery unit, as well as increased storage capacity. As a result, Zhaikmunai no longer transports crude oil via road from the field to the oil loading rail terminal in Rostoshi near Uralsk.

Reservoir pressure maintenance system

Zhaikmunai operates a reservoir pressure maintenance system consisting, inter alia, of 7 water production wells, 2 water injection wells, central pumping facilities, central water treatment facilities and infield waterlines to the water well sites.

Disclosure about Market Risk

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

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of crude oil. Commodity price risk is extremely significant to the Group's results of operations given that all sales of crude oil are based on the commodity price. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. On March 29, 2011, in accordance with its hedging policy, the Partnership entered, at nil upfront cost, into a new hedging contract covering oil sales of 2,000 bbls/day, or a total of 556,000 bbls running through December 31, 2011. The counterparty to the hedging agreement is Citibank. The Group intends to keep the same hedging policy going forward which is driven by capital expenditure and debt service requirements.

Foreign currency exchange rate risk

The Group is exposed to foreign currency risk associated with transactions entered into, and assets and liabilities denominated, in currencies other than the functional currency of its operating entities, being the US dollar since 1 January 2009. This exposure is primarily associated with transactions, contracts and borrowings denominated in Tenge. Most of the Group's cash inflows as well as its accounts receivable are denominated in US Dollars, and most of the Group's expenses are primarily denominated in US Dollars, with approximately 20% denominated in Tenge. There is no significant forward market for the Tenge and the Group does not use other foreign exchange or forward contracts to

manage this exposure. With respect to foreign exchange, the Group incurred a loss of US$26 thousand in the six months ended 30 June 2011, a gain of US$126 thousand in the six months ended 30 June 2010, a loss of US$46 thousand in the year ended 31 December 2010, a loss of US$2.2 million in the year ended 31 December 2009 and a loss of US$1.5 million for the year ended 31 December 2008. The Group does not hedge against this risk. As at the date of this report, all of the Group's financing is in US Dollars and in the future the Group's capital expenditures are expected to be primarily denominated in US Dollars.

Interest rate risk

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

Credit risk

Zhaikmunai's policy is to mitigate the payment risk on its offtakers by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

Recent Developments

Gas flaring permits

Zhaikmunai holds two gas flaring permits to flare associated gas which the Competent Authority has agreed to extend until 31 December 2011.

2. RESPONSIBILITY STATEMENT

To the best of our knowledge (a) the accompanying condensed set of financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Zhaikmunai L.P. and the undertakings included in the consolidation taken as a whole, and (b) the interim management report includes an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements.

Signed on behalf of the Board of Directors of Zhaikmunai Group Limited, acting as general partner of Zhaikmunai L.P., by:

Kai-Uwe Kessel

Jan-Ru Muller

Chief Executive Officer

Chief Financial Officer