EMBRACING THE FUTURE

Annual Report 2010

ZHAIKMUNAI

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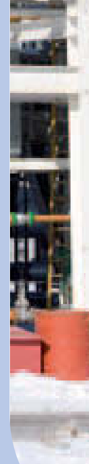
ZHAIKMUNAI'S VISION

"Zhaikmunai is an independent oil and gas exploration and production enterprise. We are focused on creating long-term shareholder value through discovery and development of oil and gas reserves as well as the production and sale of crude oil, stabilised condensate, LPG and dry gas. Zhaikmunai is currently developing the Chinarevskoye field in northwestern Kazakhstan. The field is located in the northern part of the oil-rich Pre-Caspian Basin, one of the largest oil-producing regions in Central Asia. We are committed to a long-term strategy to develop this field in an efficient, environmentally and socially responsible way."

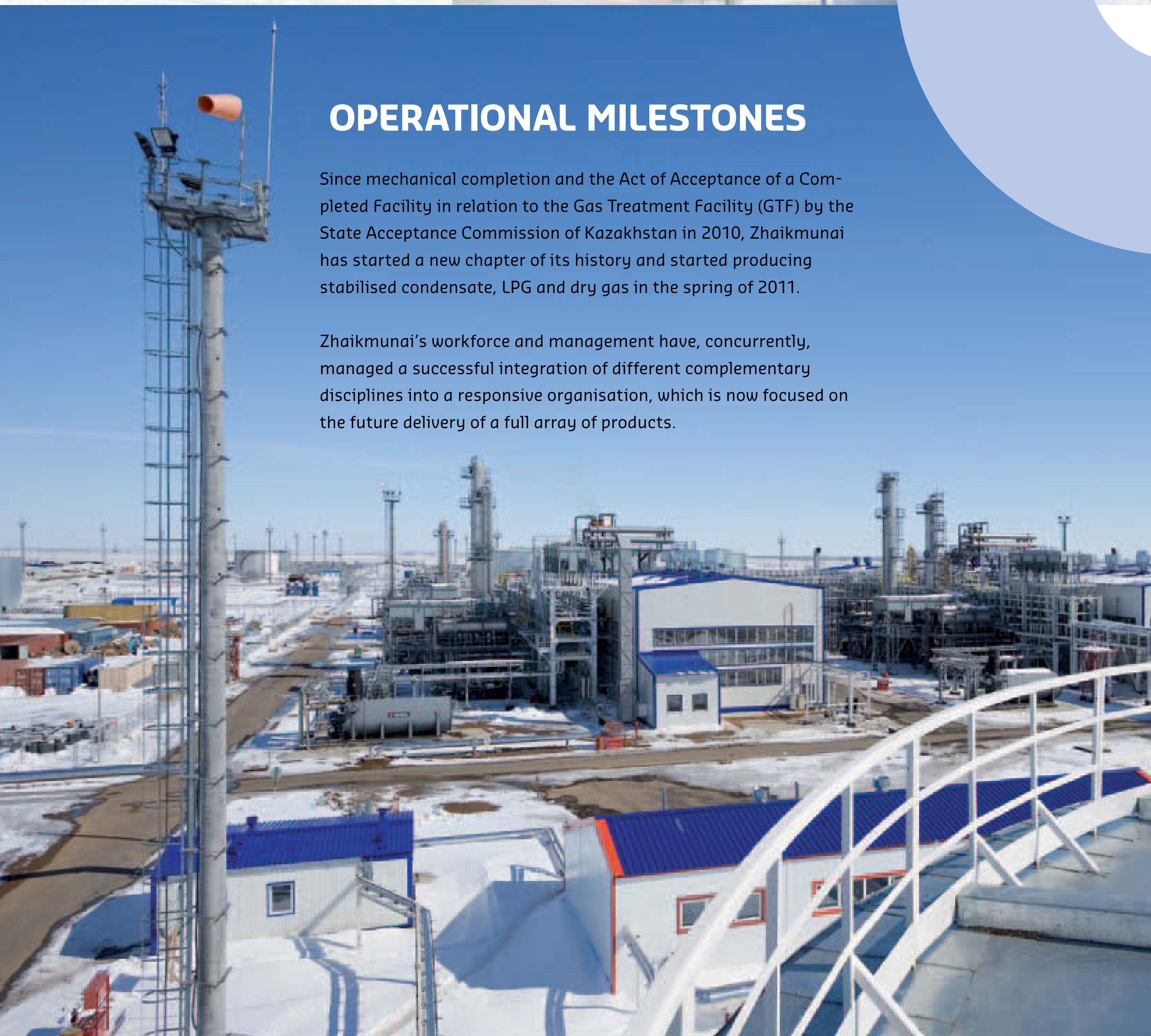


OPERATIONAL MILESTONES

Since mechanical completion and the Act of Acceptance of a Completed Facility in relation to the Gas Treatment Facility (GTF) by the State Acceptance Commission of Kazakhstan in 2010, Zhaikmunai has started a new chapter of its history and started producing stabilised condensate, LPG and dry gas in the spring of 2011.

Zhaikmunai's workforce and management have, concurrently, managed a successful integration of different complementary disciplines into a responsive organisation, which is now focused on the future delivery of a full array of products.





FINANCIAL MILESTONES

On 19 October 2010 Zhaikmunai Finance B.V., currently a subsidiary of Zhaikmunai LLP, successfully issued a US$450 million senior bond with a 19 October 2015 maturity and a fixed coupon of 10.50% per annum (the "Notes"). The Notes were listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market.

On 28 January 2011, the Kazakhstan Stock Exchange (KASE) approved the admission of the Notes to the "rated debt securities" category of the official list of the KASE. The listing of the Notes on the KASE became effective from 24 February 2011. Pursuant to the terms of the indenture governing the Notes, Zhaikmunai LLP was substituted for Zhaikmunai Finance B.V. as issuer of the Notes on 28 February 2011.

EXECUTIVE SUMMARY

ZHAIKMUNAI'S BUSINESS MODEL

THE YEAR IN BRIEF

ZHAIKMUNAI'S STRATEGY

Zhaikmunai's name is derived from "Zhaik" being the Kazakh name for the Ural River and "Munai" which means oil or hydrocarbons in Kazakh. It entered into a Production Sharing Agreement (PSA) with the Government of Kazakhstan in October 1997, after it obtained the exploration and production licence from AO Condensate which had been issued in January 1996.

Zhaikmunai's strategic aim is to :

1) increase the production of oil products through accelerating investment in drilling and field infrastructure, and

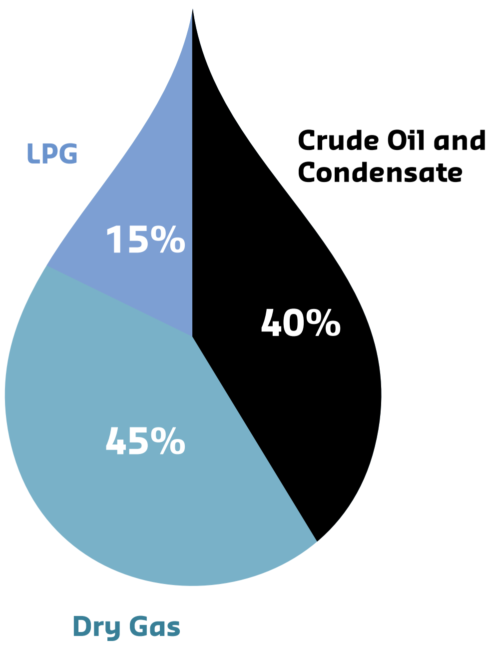
2) prove up reserves into higher reserves categories.

Increasing the production, transportation and marketing of liquid products (crude oil, stabilized condensate and LPG) is linked to an ambitious drilling programme and the building of extensive infrastructure covering associated production, storage and transportation needs. This infrastructure includes an oil and condensate pipeline and associated railway terminal to fully control the transportation and marketing of crude oil and condensate from the field site to the export sales point. It also includes a Gas Treatment Facility (GTF) to enable Zhaikmunai to produce marketable liquid stabilized condensate (a product lighter than Brent crude oil sold at a premium to Brent crude) from the gas condensate stream, as well as dry gas and LPG.

A STRONG AND EXPANDING RESERVE BASE

Existing reserve base

Independent petroleum consultant Ryder Scott audited the Zhaikmunai reserves as at July 1, 2009. The estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye field were 526.7 million boe, of which 212 million bbl (40%) was crude oil and condensate, 79.1 million barrels (15%) was LPG (Liquid Petroleum Gas) and 235.6 million boe (45%) was dry gas. A new Reserves Report is scheduled for release in the course of the second quarter of 2011.[1]



Estimated Gross Reserves: Proved + Probable (2P)
(Ryder Scott, as at July 1, 2009)

[1] *Zhaikmunai has changed its reserve reporting calendar to fall in line with international practice. The next Reserve Report will cover Zhaikmunai's reserves as at December 31, 2010.*

Upside potential

There is considerable upside potential linked to proving-up existing reserves and discovering new reserves.

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

Zhaikmunai has a strong track record of successful exploration and production within the licence area. Using the existing 3-D seismic mapping of the Chinarevskoye field and its understanding of the geological features of the licence area, Zhaikmunai plans to continue positioning wells effectively. In fact, every production well drilled since Zhaikmunai signed the Production Sharing Agreement (PSA) has yielded commercially viable amounts of hydrocarbons, with no dry wells to date. Since 2004, management has introduced Western-standard drilling rigs and competition among drilling contractors to further improve drilling efficiency. In addition, improvements in oil recovery techniques are also contributing to improving the Group's ability to convert probable and possible reserves into proved and probable reserves. Since 1 January 2004, Zhaikmunai has already increased its proved hydrocarbon reserves from 28 million boe to 139 million boe, as at 1 July 2009.

Further exploration of the Chinarevskoye field, currently permitted under the terms of the Production Sharing Agreement (PSA) until May 2011 or subject to the extension of the exploration permit valid until 31 December 2012, may also lead to the discovery of new reserves. In addition to the estimated reserves calculated by Ryder Scott, management believes that there is additional exploration potential in the licence area due to Zhaikmunai's successful drilling record in the Chinarevskoye field. This belief is based on the new oil discovery made in the Bashkirian horizon and the discovery of gas condensate accumulations in the Middle Devonian Famennian horizon and the Middle Devonian Vorobyovski horizon which were not included in the 2009 Ryder Scott Report.

DIVERSIFIED PRODUCT PORTFOLIO, PHASED PRODUCTION AND EFFICIENT TRANSPORTATION

Product description

High quality crude oil

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

Crude oil is transported through the Group's own 120 kilometre oil pipeline from the Chinarevskoye field to the Group's own railway terminal in Rostoshi near Uralsk where it is loaded onto railcars for transportation to its end destination.

Other oil products

Gas condensate wells also offer the opportunity of producing other oil products after processing through the Gas Treatment Facility (GTF). These include:

- Stabilised condensate: It is transported in the same 120 kilometre pipeline as crude oil using a "pig system". It is sold at a premium compared to crude oil.
- LPG (Liquid Petroleum Gas): It is a mix of propane and butane. It is stored in LPG tanks on site and is transported by trucks to rail terminals close to the city of Uralsk and from there by rail to various destinations.
- Dry gas (natural gas, i.e. essentially methane and ethane): It is transported from the Chinarevskoye field to the Orenburg-Novopskov gas pipeline through the Company's own 17 kilometre gas pipeline.

Phased production growth

Increase the production of liquids

Zhaikmunai's annual crude oil and condensate production is, according to Ryder Scott, expected to achieve an average of approximately 62,000 bpd in 2015 as compared to an average of 7,536 bpd produced in the fourth quarter of 2010. This growth is expected to be achieved by increasing the number of wells drilled per year and enhancing oil recovery methods, as well as extending the hydrocarbon production areas of the Chinarevskoye field following completion of exploration activities. At 31 December 2010, there were 12 producing oil wells.

Fully monetize gas reserves

A substantial portion of the Group's reserves comprise gas. To monetize these reserves, the Group has built a Gas Treatment Facility (GTF). The facility processes both associated gas from the crude oil reservoirs and wet gas from gas condensate reservoirs. The processing of associated gas enables the Group to cease flaring while the capability to treat wet gas allows the Group to start the development of the Licence area's gas condensate fields. Zhaikmunai expects to achieve gas production in 2016 at a level of 4.0 bcm/year or 39,000 boe/day. In addition, production of LPG (mix of propane and butane) could reach a level of 450 kt/year or 5,000 - 6,000 bbl/day. The GTF also includes a gas-fired power plant with an output of 15 megawatts to provide the field site with all required electricity.

Efficient transportation

Zhaikmunai's facilities are located near Uralsk in western Kazakhstan, approximately 6 kilometres from the Russian border. Zhaikmunai's location offers extensive flexibility with regards to market destinations and transportation routes, which, in turn, allow for optimizing netback prices on its products.

Liquids transportation

Light crude oil receives a higher price than heavy crude oil on commodity markets because it produces a higher percentage of gasoline and diesel fuel when converted into products by an oil refinery. Zhaikmunai's crude oil qualities (API: 40 – 41,5º; average sulphur content: 0,4%; and oil density: 0.815 g/cm3) warrant a strategy revolving around a privileged delivery to refineries and transportation methods, which respect its intrinsic quality premium.

In 2008, the Group successfully completed the construction of its own 120 kilometre crude oil pipeline that connects the Chinarevskoye field with its rail-loading terminal in Rostoshi near


MAN

Uralsk. This gives Zhaikmunai direct access to the rail transportation system and an option for a direct connection to the export pipeline to Samara, which is crossed by the Zhaikmunai pipeline .

While railway transportation over long distances allows to keep the inherent oil quality premium intact it carries somewhat more risk, is less efficient from a logistics point of view and does not offer the possibility of economies of scale. The Atyrau-Samara pipeline is hence also attractive. The absence of a quality bank remains, nevertheless, a concern for Zhaikmunai, in considering this option to transport its crude oil.

Zhaikmunai's stabilised condensate has a high gasoil fraction which again commands a higher market value. It is transported through Zhaikmunai-owned crude oil pipelines to Zhaikmunai's rail terminal using a "pig" system to separate batches of crude oil from batches of condensate.

The handling of LPG is more challenging than crude oil or stabilised condensate considering the movement by road to the rail loading terminals and afterwards the transportation by rail to the consuming markets. However, the demand for LPG, and especially the product's individual and often complex price setting, creates a considerable value gain.

Gas transportation

In addition, Zhaikmunai's 17 kilometre gas pipeline links the Chinarevskoye field to the Orenburg Novopskov gas pipeline.

As a result of the improved infrastructure, the Company is able to produce new products and continues to explore the most economically efficient transport routes for each of these products.

A CAREFULLY CRAFTED EXPLOITATION PLAN WITH SOLID FINANCIAL COMMITMENTS

Stable business environment

Exploration and production licences

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

Production Sharing Agreement (PSA)

In October 1997, the Company entered into the Production Sharing Agreement (PSA) with the Government. The PSA sets forth parameters for the exploration and development of the Chinarevskoye field and the fees, oil profit sharing and tax liabilities payable to the Government.

The terms of the PSA have been "grandfathered" from its signing in 1997. As such, while it is possible that the PSA will be amended in the future, the current terms of the PSA allow Zhaikmunai to predict the Government's share of production revenue with reasonable certainty.

Long-term view

The Licence and the PSA are currently valid until 2031-2033, depending on the geographical and geological area in question. The Company must comply with the terms of the Exploration Permit and the Production Permit and the Development Plans during this period. To date, the Company has met all of its capital investment obligations under the PSA.

Roadmap from exploration to production

During the last six years, i.e. from September 2004 to June 2010, Zhaikmunai has invested over US$1 billion in the Chinarevskoye field, primarily focusing on drilling, construction of treatment and transportation facilities and improvement of field infrastructure.

During the 2011 – 2018 period, Zhaikmunai projects a total capital expenditure of US$1.5 billion to enhance full development of the 2P reserves.

Message from the Chairman
Frank Monstrey

Zhaikmunai's 2010 overall record is strong and bodes well for the years ahead. It results from a combination of strong financial performance, timely strategy implementation, tightly managed operations and a promising delivery of asset potential.

EBITDA increased 68% to US$98.79 million and net cash flow from operating activities more than doubled to US$98.96 million. A strong oil price environment and continued oil production in 2010 allowed Zhaikmunai to end the year with a strong balance sheet, a net profit of US$22.90 million and US$147.94 million of cash and cash equivalents.

Company financing has further improved with a successful US$450 million bond offering in October 2010, the proceeds of which have been mainly applied towards the repayment of a US$382 million bank loan. The bond offering alleviated maintenance covenant requirements and freed up significant cash to focus on the GTF (Gas Treatment Facility), the company's drilling programme and other general corporate purposes. It extends over a 5-year period and bears an interest rate of 10.5% per annum, payable semi annually.

Raising of this bond in 2010 has been another important milestone and further broadened Zhaikmunai's investor base. It also built on the earlier equity raising initiatives of 2008 with the initial GDR (Global Depository Receipt) public offering and the subsequent secondary public offering of 2009. The GDR and Note listings in London, Luxembourg and Almaty have been contributing greatly to our increased visibility in international financial markets.

The successful completion of key infrastructure components has so far proven fundamental for our continued success. Mechanical completion of the GTF in 2010 and commencement of production of stabilised condensate, LPG and dry gas in early 2011 represent, in this sense, major steps in the unfolding of our strategic plan. We look forward to ramping up production into the first half of 2011 and to reaching planned production profiles thereafter. This follows a comprehensive six-year investment programme of over one billion US dollars into the development of the Chinarevskoye oil and gas field.

Our dedicated workforce and management have been central to Zhaikmunai's coming of age. Over the years, many efforts have been made to build a responsive organisation with integrated disciplines and teams. Further initiatives are planned to ensure the seamless integration of new disciplines such as marketing and sales into the company's modus operandi. I would like to take this opportunity to congratulate all members of the Zhaikmunai community for their continued efforts in bringing Zhaikmunai to where it is today, and especially in making the GTF the success that it is.

Zhaikmunai looks forward to increasing its presence on the global stage as an established and growing oil and gas exploration and production company, all the more as the company has entered an exciting phase where capital, infrastructure and people requirements are in place and aligned for delivery of its ambitious strategic plan.

Frank Monstrey,
Chairman

Chief Executive's Review
Kai-Uwe Kessel

"Embracing the Future" – this year's Annual Report title – captures Zhaikmunai's coming into being as a comprehensive and integrated oil company in the course of 2010. It follows earlier editions, each marking a clear step along Zhaikmunai's evolutionary track. "From Exploration to Production" (2007), signalled first crude oil production, "Advancing Infrastructure" (2008) witnessed major construction investments, and "Positioned for Growth" (2009) underlined major infrastructure integration.

Three main ingredients lay at the basis of the 2010 overall success: the mechanical completion of the Gas Treatment Facility (GTF), the associated integration of a diversified workforce, and the refinancing of the debt facility through the placing of a US$450 million bond. Zhaikmunai's products now include stabilised condensate, LPG (Liquid Petroleum Gas) and dry gas, which today call for a wide spectrum of new and specialized activities spanning into sales, marketing and transport.

The major operational milestone for Zhaikmunai in 2010 undoubtedly remains the completion of its GTF. Phase 1 of the GTF is composed of two gas treatment trains ("Train 1" and "Train 2"), each with a capacity of 850 mmcm per year. It allows the Company to treat gas condensate from its wells as well as associated gas from its current Oil Treatment Unit (OTU) into a mix of new products, i.e. stabilised condensate, LPG and dry gas.

Since mechanical completion on September 30, 2010, Zhaikmunai and its contractors, KSS and Exterran, have been carrying out commissioning work on the GTF. In addition, the State Acceptance Commission, composed of the governmental authorities of the Republic of Kazakhstan and the West Kazakhstan Region, has also issued its Act of Acceptance of a Completed Facility in relation to the GTF. The issuance of such an Act of Acceptance, which is required prior to the commencement of commercial operation of the GTF, constitutes formal confirmation by the competent authorities that the GTF complies with the relevant standards and requirements of the Republic of Kazakhstan for operation.

Initial production of stabilised condensate, LPG and dry gas in Train 1 followed in the spring of 2011. Zhaikmunai's overall production is now expected to increase initially to around 28,000

boe with Train 1 and to roughly 48.000 boe with Train 2 by mid-2011. This represents a very significant increase in production and places the Company in a very favourable position to pursue the development of the rest of the Chinarevskoye field, which holds considerable reserve potential.

To fully develop the Company's 2P reserves, Zhaikmunai is currently in the planning stage for a Phase II gas treatment facility, which will increase treatment capacity by an additional 2.5 bcm of gas per year or the equivalent of 66,000 boe/day. Upon completion of the Phase II gas treatment facility, the Company will have capacity to treat up to 4.2 bcm of gas condensate per year or the equivalent of some 110,000 boe/day. It is currently envisaged that construction of the Phase II gas treatment facility could commence in 2012. Zhaikmunai has already awarded a contract for the preparation of the basic and detailed design for the Phase II gas treatment facility.

Over and above the completion of the GTF and associated infrastructure, the drilling of four additional production wells was completed in 2010. Exciting and promising results came from well 20, our second horizontal well, and first well with two sidetracks. Our other horizontal wells drilled in 2010 also continued to exceed our expectations. Finally, well 115, our first in the Ardatovski horizon, provided successful test results. Overall, this excellent drilling record opens the door for a sizeable production ramp-up and subsequent stable production profiles moving according to plan. In addition, operational performance has also further improved from previous years, which enhances our competitive positioning.

The gradual implementation of our infrastructure building strategy has also allowed us to reach many more off-takers, to improve our marketing reach and to optimize netback. Zhaikmunai's crude oil has historically been sold to one or more oil traders on the basis of FCA (Free Carrier) Uralsk. In 2010, however, Zhaikmunai started selling its crude oil on the basis of DAF (Delivery at Frontier) and FOB (Free on Board) terms in order to improve its netback position. For example, in August, a first shipment of crude oil was transported to the Black Sea port of Feodosia (Ukraine) by rail (FOB-sale) where it was loaded on a tanker. In each case, Zhaikmunai directly transports its crude oil through its newly completed 120-kilometre oil pipeline from the Chinarevskoye field to its rail loading terminal in Rostoshi, near Uralsk. The crude oil is subsequently transported by rail to foreign and domestic oil refineries. The high quality of Zhaikmunai's crude oil is maintained through this system and hence warrants a quality price premium. A netback improvement of US$1.4/bbl was realized in this way in 2010.

The expansion of our operations from exploration activities to crude oil production and subsequently to the production of stabilised condensate, LPG and dry gas was made possible through the acquisition and the development of a broad skills base over the years. Today, Zhaikmunai can boast an integrated team of dedicated individuals from different professional horizons working towards an emerging, sizeable and reliable oil and gas operation in Kazakhstan. We look forward to pursuing our journey with this expanding team and deliver the planned results to all of our stakeholders in the course of 2011.

The Gas Treatment Facility (GTF) marks a turning point in Zhaikmunai's story. It represents a central component in the planned infrastructure and opens the door for the production of new oil products (stabilised condensate, LPG and dry gas). It also marks Zhaikmunai's coming of age as a diversified and integrated organisation embracing new horizons.

(See Operational Review for details)

General Director
Vyacheslav Druzhinin


V-0236

Financial Review

Jan-Ru Muller

KEY PERFORMANCE INDICATORS

Net cash from operating activities ($ MILLION)

2010: 98.9
2009: 45.9
2008: 44.2

Net cash from operating activities is the total of all cash receipts and payments associated with Zhaikmunai's sales. This indicator reflects the Group's ability to generate cash for investment and distribution to shareholders.

Net income ($ MILLION)

2010: 22.9
2009: (18.8)
2008: 62.8

Income for the period is the total of all the earnings. It is of fundamental importance for a sustainable commercial enterprise.

Net cash used in investing activities ($ MILLION)

2010: 132.2
2009: 200.7
2008: 195.2

Net cash used in investing activities is capital investment (capital expenditure, exploration expense, new equity and loans inequity-accounted investments and leases and other adjustments), less divestment proceeds.

Production (MMBOE)

2010: 2,8
2009: 2,7
2008: 1,7

Production is the sum of all average daily volumes of unrefined oil and natural gas produced for sale. The unrefined oil comprises crude oil and condensate. Changes in production have a significant impact on the Group's cash flow.

Proved oil and gas reserves (MBOE)

2010: 134
2009: 139
2008: 133

Proved oil and gas reserves are the total estimated quantities of oil and gas that can, with reasonable certainty, be recovered in future years from known reservoirs, for 2008, 2009, 2010 as at July 1, under existing economic and operating conditions. Gas volumes are converted into barrels of oil equivalent (boe). Reserves are crucial to an oil and gas company, since they constitute the source of future production.

Discount

2010: 14.01
2009: 15.21
2008: 15.58

Discount is the difference between the average Brent crude oil price on which the Group based its sales and the average realized price. The discount is a proxy for the transportation costs and trader fees incurred for the crude to reach its ultimate destination.

Employees

2010: 644
2009: 616
2008: 538

Employees is calculated as the annual average full-time equivalent number of employees who are employed by the Group in Kazakhstan, through full-time and part-time employment contracts.

Number of man-hours without loss of working hours (MILLION WORKING HOURS)

2010: 1.23
2009: 1.15
2008: 0.95

Number of man-hours without loss of working hours is total number of hours worked without staff or contractor injuries requiring medical treatment or time off.

REVENUE, EXPENSES AND RESULT

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

Cost of sales increased by US$9.8 million, or 22.3%, to US$53.9 million in 2010 from US$44.0 million in 2009. This was due primarily to an increase in well workover expenses, royalties and government profit share as well as increases in material and supply costs and repair and maintenance expenses. On a per barrel basis, cost of sales increased by US$3.99 or 24.2%, to US$20.44 in 2010 from US$16.46 in 2009 and cost of sales net of depreciation per barrel increased US$4.27, or 41% to US$14.68 in 2010 from US$10.41 in 2009.

General & administrative expenses decreased by US$2.5 million, or 8.3%, to US$27.3 million in 2010 from US$29.7 million in 2009. This was due primarily to a decrease in the employee share option plan expenses and management fees. These declines were partially offset by increases in professional service expenses and tax provisions.

Selling and oil transportation expenses increased US$11.3 million, or 198.9%, to US$17.0 million from US$5.7 million in 2009. This was driven primarily by an increase of US$10.6 million for oil transportation costs from US$1.3 million in 2009 to US$11.8 million in 2010 as the Group moved from FCA (Free Carrier) Uralsk terms to DAF (Delivery at Frontier) and FOB (Free On Board) contract terms during the year. Management has undertaken these contracts, which require the Group to garner greater ownership of the transportation expenses for its oil shipments with the understanding that these terms offer higher profitability in the long term.

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

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

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

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

Income tax expense increased to US$37.9 million in 2010 compared to US$27.6 million in 2009 (+37.2%).

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

LIQUIDITY AND CAPITAL RESOURCES

Zhaikmunai's principal sources of funds in are cash from operations and amounts raised from the bond issuance in October 2010. Zhaikmunai's liquidity requirements primarily relate to meeting ongoing debt service obligations and to funding capital expenditures and working capital requirements.

Net cash flows from operating activities

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

- a profit before income tax for the period of US$60.9 million, adjusted by a non-cash charge for depreciation and amortisation of US$15.2 million and a reversal of share option expenses of US$3.1 million;
- a US$1.9 million increase in working capital primarily attributable to (i) a decrease in trade receivables of US$12.2 million and (ii) a decrease in trade payables of US$17.2 million; and
- income tax paid of US$13.7 million.

Net cash flows in investing activities

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

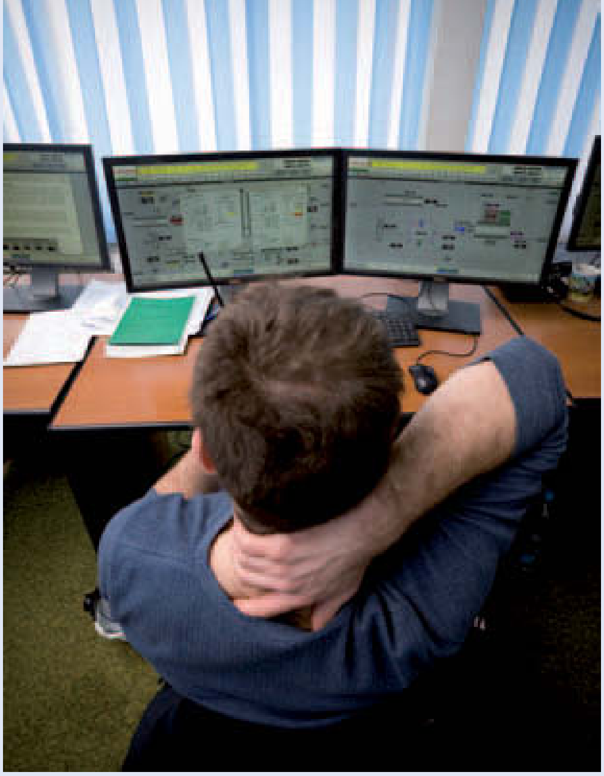
Net cash provided by financing activities

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

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

US$ MILLIONS

	Years ended 31 December	
	2009	2010
Net cash flow from operating activities	45.934	**98.955**
Net cash flow used in investing activities	(220.673)	**(134.121)**
Net cash flow provided by financing activities	279.418	**41.642**



PRINCIPAL FINANCIAL RISKS AND UNCERTAINTIES

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.

DESCRIPTION OF RISK	RISK MANAGEMENT	RESULT 2010 AND EXPOSURE 2011
Liquidity risk	Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities.	Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise.
Commodity price risk	Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of crude oil. Commodity price risk is extremely significant to the Group's results of operations given that all sales of crude oil are based on the commodity price. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals.	The Group entered into hedging contracts in March 2010 covering oil export sales of 4,000 barrels per day running from March 2010 through December 2010 (pursuant to which the floor price for Brent crude oil price is fixed at US$60 per barrel). These hedging contracts were novated upon prepayment of the Syndicated Facility on 19 October 2010 and terminated on 31 December 2010. The Group intends to keep the same hedging policy going forward which is driven by capital expenditure and debt service requirements.

DESCRIPTION OF RISK	RISK MANAGEMENT	RESULT 2010 AND EXPOSURE 2011
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 respect to foreign exchange, the Group incurred a loss of US$46 thousand in the year ended 31 December 2010, a loss of US$2.2 million in the year ended 31 December 2009, a loss of US$1.5 million for the year ended 31 December 2008 and a gain of US$6.2 million for the year ended 31 December 2007. The Group does not hedge against this risk. As at the date of this Annual Report, all of the Group's financing is in US Dollars and in the future the Group's capital expenditures are expected to be primarily denominated in US Dollars.
Interest rate risk	The Group's interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings.	Under the Syndicated Facility, the Group's borrowings bore interest at (i) a fixed margin as stated in the Syndicated Facility and (ii) a variable rate credit facility linked to the London Interbank Offered Rate. Following the refinancing of the Syndicated Facility, the Notes bear interest at a fixed coupon.
Credit risk	Zhaikmunai sells all of its crude oil pursuant to contracts with one or more oil trader(s) who purchase(s) its production.	Zhaikmunai's policy is to mitigate the payment risk by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

Zhaikmunai's exposure to the following risks is judged to be low at present and consequently these have been omitted from the description above:

- Supply of personnel and equipment;
- Competition;
- Interpretation of agreements and related disputes;
- Revocation of licenses;
- Different tax systems.

5 YEAR SUMMARY

In thousands of US Dollars	2006	2007	2008	2009	2010
CONSOLIDATED INCOME STATEMENT					
Sales of crude oil	58.565	108.490	135.912	116.033	178.159
Cost of sales	-26.080	-37.401	-44.610	-44.035	-53.860
Gross Profit	32.485	71.089	91.302	71.998	124.299
General and administrative expenses	-6.891	-12.542	-20.299	-29.726	-27.265
Selling and oil transportation expenses	-4.042	-6.793	-24.212	-5.692	-17.014
Gain/(Loss) on hedging contract	0,000	0,000	64.780	-16.909	-470
Finance costs	-2.194	-6.841	-12.567	-7.801	-21.296
Foreign exchange gain (loss)	586	6.247	-1.527	-2.184	46
Other income/(expense)	0,000	820	1.189	-846	2.473
Profit before income tax	19.944	53.423	98.666	8.840	60.773
Income tax expense	-6.973	-15.650	-35.188	-27.608	-37.873
Net Income	**12.971**	**37.773**	**63.478**	**-18.768**	**22.900**
CONSOLIDATED BALANCE SHEET					
Non-current assets	150.081	360.008	651.799	819.808	965.133
Current assets	17.213	34.343	71.105	182.992	172.434
Total Assets	**167.294**	**394.351**	**722.904**	**1.002.800**	**1.137.567**
Equity	**28.192**	**68.240**	**221.667**	**477.769**	**500.669**
Non-current liabilities	118.974	237.789	66.681	449.768	556.691
Current liabilities	20.128	88.322	434.556	75.263	80.207
Total Litabilities	**139.102**	**326.111**	**501.237**	**525.031**	**636.898**
Liabilities & Equity	**167.294**	**394.351**	**722.904**	**1.002.800**	**1.137.567**
Consolidated Cash Flows					
Net cash flow from operating activities	37.425	48.239	45.819	45.923	98.955
Net cash flow from investing activities	-92.851	-173.105	-195.196	-200.673	-132.189
Net cash flow from financing activities	54.840	129.166	175.109	279.418	39.710

	2006	2007	2008	2009	2010
Financial ratios					
Profit margin %	22,1%	34,8%	46,7%	-16,2%	12,9%
Equity/assets ratio %	16,9%	17,3%	30,7%	47,6%	44,0%
Debt/equity ratio %	350,8%	365,6%	164,9%	74,6%	88,8%
GDR related key figures					
GDR price at end of period USD			$2,75	$8,50	$12,30
GDRs outstanding ('000s)			110.000	185.000	185.000
Options outstanding ('000s)			2.500	2.733	2.983
Diluted GDRs outstanding ('000s) *			110.000	186.447	187.013
Proposed dividend per GDR			0	0	0

*) Used: treasury stock calculation method

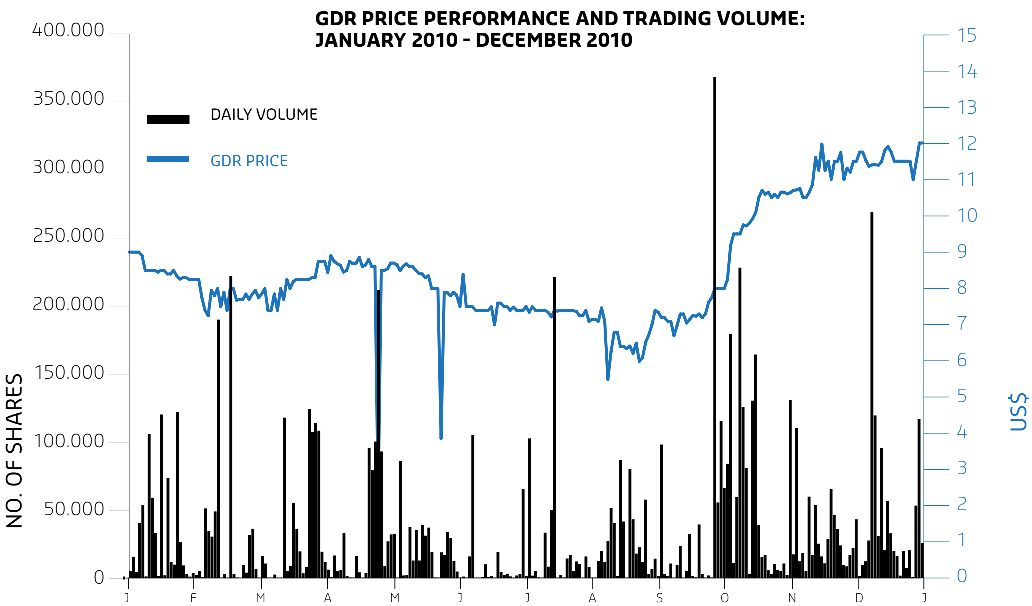
INVESTOR INFORMATION

GDR HOLDER INFORMATION

LISTING DETAILS

Exchange	London Stock Exchange (Main Market)
Ticker	ZKM.L
Reuters Instrument code	ZKMq.L
ISIN code	US98952U2042
SEDOL	B28ZQ91

GDR PRICE INFORMATION



BONDHOLDER INFORMATION

On 19 October 2010 Zhaikmunai Finance B.V., currently a subsidiary of Zhaikmunai LLP, successfully issued a US$450 million senior bond with a 19 October 2015 maturity and a fixed coupon of 10.50% per annum (the "Notes"). The Notes were listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. On 28 January 2011, the Kazakhstan Stock Exchange (KASE) approved the admission of the Notes to the "rated debt securities" category of the official list of the KASE. The listing of the Notes on the KASE became effective from 24 February 2011. Pursuant to the terms of the indenture governing the Notes, Zhaikmunai LLP was substituted for Zhaikmunai Finance B.V. as issuer of the Notes on 28 February 2011.

LISTING DETAILS

Exchange	Luxembourg Stock Exchange	Exchange	Kazakhstan Stock Exchange
ISIN Code	USN97708AA49	ISIN Codes	USN97708AA49 and US98951QAA31

FINANCIAL CALENDAR 2011

28 April 2011	**Full year 2010 Financial Results & Management Report**
27 May 2011	**Q1 2011 Financial Results**
26 August 2011	**H1 2011 Financial Results & Management Report**
29 November 2011	**Q3 2011 Financial Results**
27 April 2012	**Full year 2011 Financial Results & Management Report**

The above dates are correct at the time of printing but may later be subject to change.


ТЕПЛОНОСИТЕЛЬ
ТЕПЛОНОСИТЕЛЬ

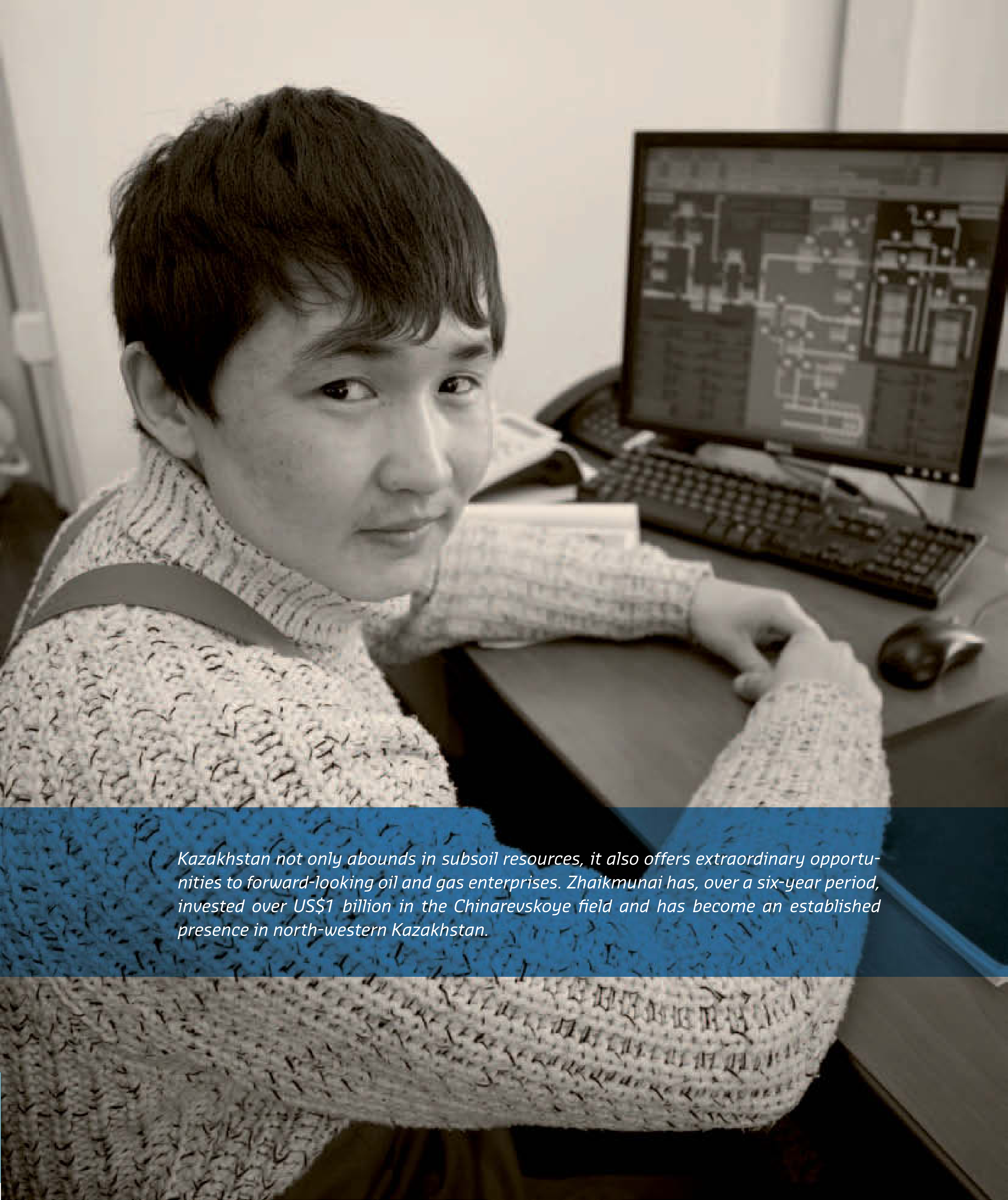

EMERGENCY FLARE
INCINERATOR
SULPHURE RECOVERY UNIT (SRU)
LPG TANKFARM
MAIN PIPE RACK
AMINE REGENERATION UNIT
TRAIN 2
TRAIN 1
STABILIZATION
COMPRESSOR C101 & C103
COMPRESSOR C104 & C105
COMPRESSOR C2131 & C1131
SLUG CATCHER

History and current positioning

LOCATION

The 274 square kilometre Chinarevskoye Field is located in the province of Batys Kazakhstan in north-western Kazakhstan, some 80 kilometres north-east of Uralsk. Zhaikmunai's facilities are located close to the Russian border (approximately 6 kilometres) and to the main transportation facilities to Western Europe.

Zhaikmunai's location provides reduced transportation distances and access to flexible transportation links, each of which allows it to benefit from reduced transportation costs. The Group's operations are located close to various transportation routes, being 17 kilometres from the Orenburg Novopskov gas pipeline and less than 100 kilometres from rail links and the Atyrau Samara oil pipeline. The oil pipeline from Zhaikmunai's facilities to its rail terminal in Rostoshi near Uralsk gives Zhaikmunai direct access to the rail network and an option for a direct connection to the export pipeline to Samara, which is crossed by the Zhaikmunai pipeline.



Kazakhstan not only abounds in subsoil resources, it also offers extraordinary opportunities to forward-looking oil and gas enterprises. Zhaikmunai has, over a six-year period, invested over US$1 billion in the Chinarevskoye field and has become an established presence in north-western Kazakhstan.

GEOLOGICAL POINTERS

Geological stratification and oil and gas condensate reservoirs

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

I the Lower Permian horizons at depths of 2,700m to 2,900m, represented by limestone and dolomitic limestone;

II limestone of the Lower Carboniferous Tournaisian formation at a depth of approximately 4,200m with a gross thickness of about 200m;

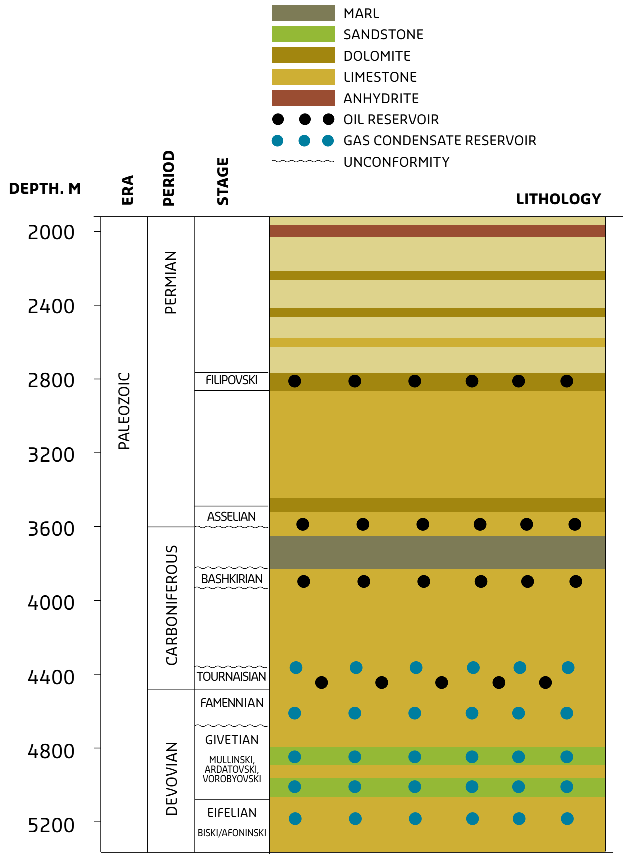
IIII the middle Devonian Givetian horizons at a depth of approximately 5,000m, represented by sandstone with carbonate cement; and

IV the middle Devonian Biski Afoninski formations at a depth of approximately 5,200m with a gross thickness of 200m and represented by limestone and dolomitic limestone.

Oil has been found in the Lower Permian, Tournaisian and Givetian Mulinski reservoirs, while gas condensate has been found in the Tournaisian, Biski Afoninski, Givetian, Ardatovski, Famennian and Vorobyovski reservoirs.

Early exploration history

Exploration for oil and gas exploration started with the drilling of nine wells in the area during the Soviet era. Hydrocarbons were subsequently discovered in the Biski and Afoninski Reservoirs in 1991. A year later, the Tournaisian Reservoir was discovered, but drilling came to a halt in 1993 due to a lack of government funding.



Zhaikmunai's drilling programme

In 1997, Zhaikmunai was granted an exploration and production licence under a Production Sharing Agreement (PSA) with the Government of the Republic of Kazahkstan and it started its drilling activities in 2000.

Exploration and Production Highlights

2000 – 2002	Drilling and reactivation of three of the nine wells dating from the Soviet era
2003	Discovery of the Givetian (Mullinski) accumulation
2004	Successful testing of the Lower Permian Reservoir

2006	Completion of the Oil Treatment Unit (OTU)
2007	Discovery of gas condensate in the Givetian (Adatovski) and Southern Tournaisian Reservoirs
2007	Crude oil discovery in the Bashkirian formation
2008	Commercial prospects declared for the Mullinsky oil and gas condensate pool, the Ardatovsky gas condensate pool, the Famennian oil and gas condensate pool and the Biski-Afoninski oil and gas pool. New commercial discoveries also made in the south and west regions of the Tournasian reservoir.

Exploration and Production Wells (2004 – 2010)

Following successful test production from the Tournaisian reservoir during the exploration phase of the licence, Zhaikmunai commenced commercial crude oil production from the Tournaisian reservoir on 1 January 2007. Zhaikmunai obtained a production permit in December 2008 for the Mullinsky, Ardatovsky, Famennian and Biski Afoninski reservoirs, and began production as the Gas Treatment Facility became operational.

Zhaikmunai expects to continue exploration activities in the North Biski Afoninski, Lower Permian and North Tournaisian reservoirs and the Givetian accumulations until the expiry of the exploration period under the PSA in May 2011 or through December 2012 if the permit is extended.

As of 31 December 2010, Zhaikmunai had 30 active wells of which 12 were oil production wells, 8 were being prepared for gas condensate production, 2 were under workover, 2 were used for water injection and 6 were shot in.

The following table sets out the actual number of wells drilled since September 2004 (when new management was appointed at Zhaikmunai and prior to which there were five wells), together with the number of wells management anticipates will be drilled in 2011. Zhaikmunai plans to drill an average of 13 wells per year between 2011 and 2014.

Drilling Activities

The Group contracts with third parties who perform drilling operations in the Chinarevskoye field. As of 31 December 2010, Saipem and UNGG provided drilling services to the Group using three drilling rigs. In addition, one UNGG and one Kasburgaz rig were employed for workover operations.

The average time required to drill new vertical wells is approximately three months in the Tournaisian reservoir and four months in the Devonian, Biski Afoninski reservoirs.

Horizontal drilling

Horizontal drilling is one of the most valuable technologies introduced in the oil and gas sector. Its cost is approximately 30-50% higher than that of a standard vertical well, yet the production factor can be enhanced by as much as three to five times, making it an attractive investment where applicable.

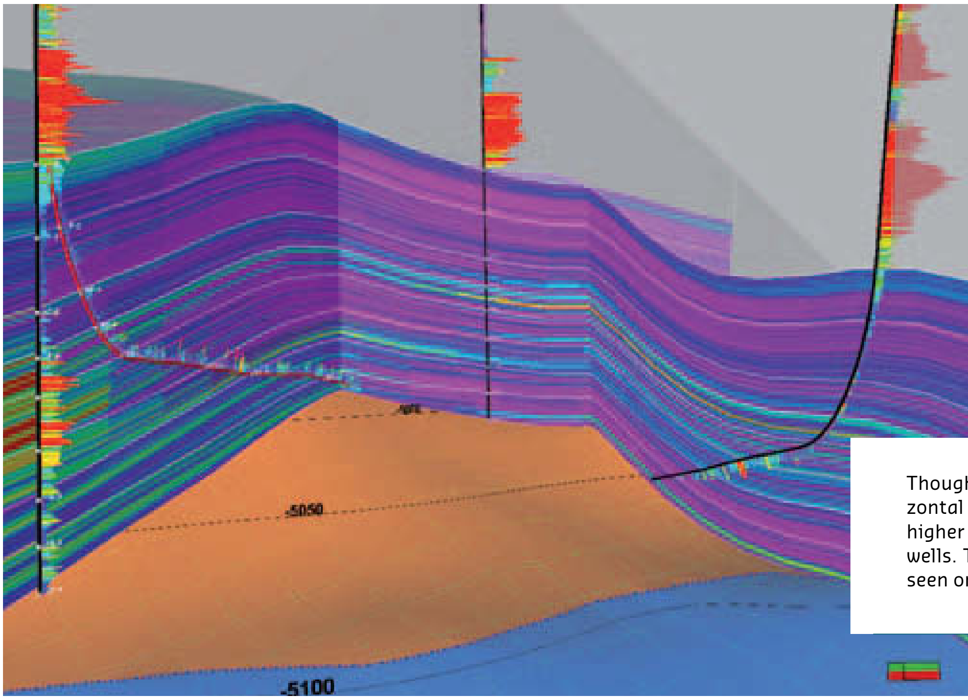
In 2009, Zhaikmunai's first horizontal well – well 119 in the Biski-Afoninski Reservoir - exceeded expectations and confirmed the technical assumptions made by management. With a total measured depth of 5,889 meters, this longest well ever drilled in the Chinarevskoye field was an important milestone in the development of Zhaikmunai's operations.

PARTNERSHIP'S STRUCTURE AND FINANCING

Organisational Structure

"Zhaikmunai" is used to designate Zhaikmunai LP, an Isle of Man registered limited partnership, which indirectly holds and controls Zhaikmunai LLP, a Kazakhstan registered limited liability partnership which was set up in March 1997 to explore, produce and sell crude oil and gas con-

	2004	2005	2006	2007	2008	2009	2010	2011
Number of new exploration appraisal wells drilled	1	1	2	4	3	2	0	1
Number of new production wells drilled	0	0	1	5	6	5	4	5
Total wells	**1**	**1**	**3**	**9**	**9**	**7**	**4**	**6**



Though more expensive to drill, horizontal wells can generate significantly higher production levels than standard wells. Two such horizontal wells can be seen on this picture.

densate in the Chinarevskoye field in north-western Kazakhstan. Zhaikmunai Group Limited is the general partner of Zhaikmunai LP and in this capacity manages the business of the Partnership.

Zhaikmunai's Global Depository Receipts (GDRs) are listed on the London Stock Exchange (LSE). Zhaikmunai's bond notes are listed on the Luxembourg Stock Exchange as well as on the Kazakh Stock Exchange (KASE)

Financing Instruments

In order to implement its strategy Zhaikmunai has used different financing instruments over time. They include a mix of debt and equity instruments, which have evolved over time. These allowed the Company to invest more that US$1billion invested in drilling and field infrastructure during the last six years.

On October 19, 2010, Zhaikmunai issued a US$450 million bond offering with notes listed on the Luxembourg Stock Exchange by the Partnership's 100% subsidiary Zhaikmunai Finance B.V.. This allowed the Partnership's 100% operating subsidiary Zhaikmunai LLP to repay its bank debt in full.

As planned and described in the offering memorandum, the substitution of Zhaikmunai LLP as the issuer of the notes issued on 19 October 2010, in place of Zhaikmunai Finance B.V., was subsequently done in February 2011.

Secondary listing of the bond notes on the Kazakhstan Stock Exchange (KASE) also took place in February 2011. The notes continue to be listed on the Official List of the Luxembourg Stock Exchange.

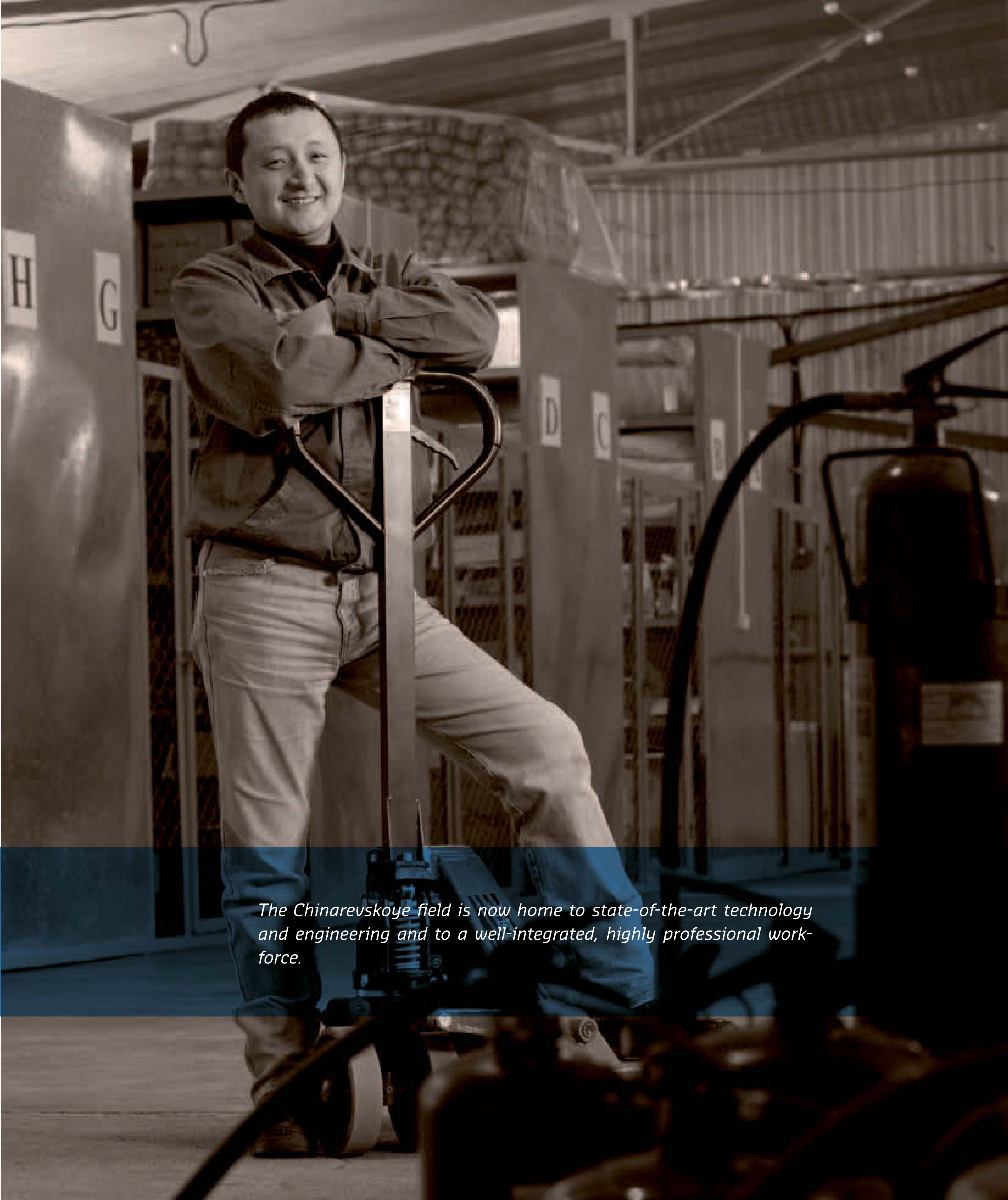
OPERATIONAL REVIEW

ON-SITE FACILITIES

Facilities on the Chinarevskoye field site have grown substantially since the first exploration activities of the nineties. Extensive geological preparation led to the exploration of oil and gas condensate wells and allowed for commercial crude oil production starting in 2007. Extensive infrastructure was then developed including oil treatment and gathering facilities, a 120 kilometre oil pipeline, an oil storage tank farm, an oil loading facility at the rail terminal and for the associated oil railway cars.

The advent of the Gas Treatment Facility (GTF) in 2010 has allowed for the ensuing production of stabilised condensate, LPG and dry gas. The GTF associated infrastructure includes a power generation station, an LPG storage tank farm and an LPG loading facility at the rail terminal, LPG railcars and a 17 kilometre dry gas pipeline,. In addition, various office buildings and employee field camp facilities have been set up in the course of the years.

Excellent oil transportation facilities are of strategic importance to Zhaikmunai, all the more as production is primarily export oriented (about 85%). Currently, oil is transported to refineries in Finland, Ukraine, and Kazakhstan. Management is looking for further diversification across geographic regions to sell its products, including oil, but also stabilised condensate, LPG and dry gas stemming from the GTF operation.



The Chinarevskoye field is now home to state-of-the-art technology and engineering and to a well-integrated, highly professional work-force.

OIL TREATMENT FACILITY (OTF)

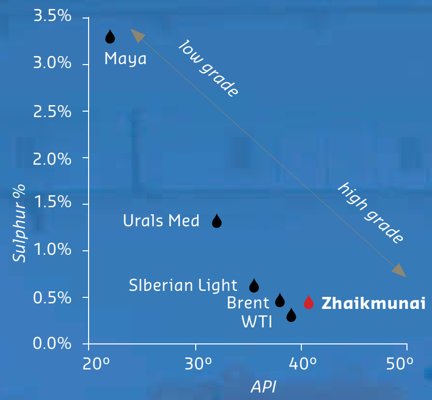
High Quality Oil

Crude oil from the Chinarevskoye Field is a high quality "sweet" crude oil with an average American Petroleum Institute (API) gravity of 40º - 41.5º and a low sulphur content of approximately 0.4%.

Petroleum is considered "sweet" if it contains less than 0.5% sulphur, compared to a higher level of sulphur in sour crude oil. Low sulphur crude oil is commonly used for processing into gasoline and is in high demand, particularly in the industrialized nations. The term "sweet" originated because the low level of sulphur provides the oil with a mildly sweet taste and pleasant smell. Nineteenth century prospectors would taste and smell small quantities of the oil to determine its quality.

API gravity is an inverse measure of the relative density of a petroleum liquid and the density of water and is used to compare the relative densities of petroleum liquids. Although mathematically, API gravity has no units, it is nevertheless referred to as being in "degrees". API gravity is graduated in degrees on a hydrometer instrument. The API scale was designed so that most values would fall between 10 and 70 API gravity degree.

Slide on Oil Quality



The Oil Treatment Facility (OTF) was built between 2006 and 2008. It has a refining capacity of 400.000 tonnes per annum (tpa) of crude oil.

ZHAIKMUNAI
Chinarevskoye Field

- **Zhaikmunai's field and licence area is the Chinarevskoye Field located in the northern part of the oil-rich Pre-Caspian Basin-one of the largest oilproducing regions in central Asia**
  - Chinarevskoye Field is 274 km2 and is located close to the Russian border and several major oil pipelines
- **Gross proven plus probable reserves total 527 million boe[1]**
  - 40% crude oil and condensate, 15% LPG reserves, 45% gas reserves,
- **Estimated possible reserves of 556 million boe[1]**

Chinarevskoye field	
Approximate surface area (sq. K)	274
Exploration licence duration	May-11
PSA and licence expiration	2031–2033
First year of commercial production	2007
Oil quality	
API (º)	40–41.5
Average sulphur content (%)	0.4
Oil density (g/cm³)	0.815
Condensate density (g/cm³)	0.750–0.790

1 Source: Ryder Scott as of July 1, 2009. SPE standards

OIL AND STABILISED CONDENSATE PIPELINE AND RAILWAY-LOADING TERMINAL

Oil and stabilised condensate transport using the Company's own pipeline and by rail offers the advantage of not impacting on the product quality (compared to the main multi-user pipeline), which in turn warrants a higher price in the export markets.

Since 2009, Zhaikmunai's crude oil is transported via a 120 km oil pipeline from the Chinarevskoye field site to the railway-loading terminal at a rail connection at Rostoshi, near the city of Uralsk, where it is stored and subsequently transported onward by railcar. Stabilised condensate, following commissioning of the GTF, is equally transported in the same pipeline using a "pig" system which separates crude oil from stabilised condensate in the same pipeline. The oil pipeline has a maximum annual throughput capacity of 3 million tonnes. The railway loading terminal has a capacity of approximately 3 to 4 million tonnes of crude oil and stabilised condensate per year.

The infrastructure also includes crude oil storage tanks on site (1 x 3000 cm + 1 x 2000 cm) and at the rail terminal (2 X 5000 cm), condensate tanks on site (3 X 5000 cm) and at the rail terminal (2 X 5000 cm) and a loading facility at the railway terminal. The loading terminal allows for 32 railcars to be loaded simultaneously. The facility is equipped with a vapour recovery unit, a first in Kazakhstan's history.

The combined cost of the oil pipeline and the railway-loading terminal amounted to approximately US$97 million. Zhaikmunai's management estimates that the oil pipeline has reduced the cost of transporting crude oil form the Chinarevskoye field to the Rostoshi railway-loading terminal by approximately US$25 per tonne.

THE GAS TREATMENT FACILITY (GTF)

The Gas Treatment Facility (GTF) is designed to: 1) treat gas-condensate from gas condensate reservoirs and 2) treat associated gas from the Oil Treatment Facility (OTF) into a mix of new products, i.e. stabilised condensate, LPG and dry gas.

These products complete the current crude oil offering. Only some oil wells and no gas condensate wells were exploited until the GTF came on line.

This strategic infrastructure component allows Zhaikmunai to implement its plan to monetize the significant gas reserves contained in the Chinarevskoye field. As such, the coming on line of the GTF moves Zhaikmunai towards another level of development and growth to increase shareholder value. The Company will continue to explore the most economically efficient transport routes for each of these products.

Phase I Gas Treatment Facility

Phase 1 of the GTF is composed of two (2) gas treatment trains ("Train 1" and "Train 2"), each having the capacity to treat approximately 850 million cubic metres (mmcm) of gas (condensate and associated gas) per year. These ''trains" are each equipped with a sweetening and dehydration unit and a sulphur recovery unit completes the infrastructure.

The commencement of production through the GTF is enabling Zhaikmunai to increase its overall production capacity rate from approximately 8,000 boe per day to approximately 48,000 boe per day, as planned, with a maximum annual volume of 1.3 bcm (8,2 mboe) of dry gas when both GTF Trains 1 and 2 are in operation.

Power Generation Plant

The GTF also includes a gas-fired power generation plant with an output of 15 megawatts which is expected to provide the field site with all the required electricity.

Gas Flaring Significantly Reduced

Gas flaring is being considerably reduced with train 1 of GTF coming on-line, thereby improving the environmental record of the Group significantly. Gas flaring will be halted entirely with train 2 of the GTF coming on-line including its associated sulphur recovery unit. Flaring will henceforth remain solely as an emergency option in case of abnormal pressure built-up in the GTF whereby the existing gas can be released and burned. All required permits for gas flaring are in place.

State Acceptance Commission

Mechanical completion of the first phase of the GTF occurred on 29 September 2010 when the Working Commission issued its formal decision declaring that the construction of Zhaikmunai's GTF has been completed generally in accordance with Kazakh standards.

The State Acceptance Commission, composed of the governmental authorities of the Republic of Kazakhstan and the West Kazakhstan Region, has also issued its Act of Acceptance of a Completed Facility in relation to the GTF. The issuance of such an Act of Acceptance, which was required prior to the commencement of tests and commercial operation of the GTF, constitutes formal confirmation by the competent authorities that the GTF complies with the relevant standards and requirements of the Republic of Kazakhstan for operation.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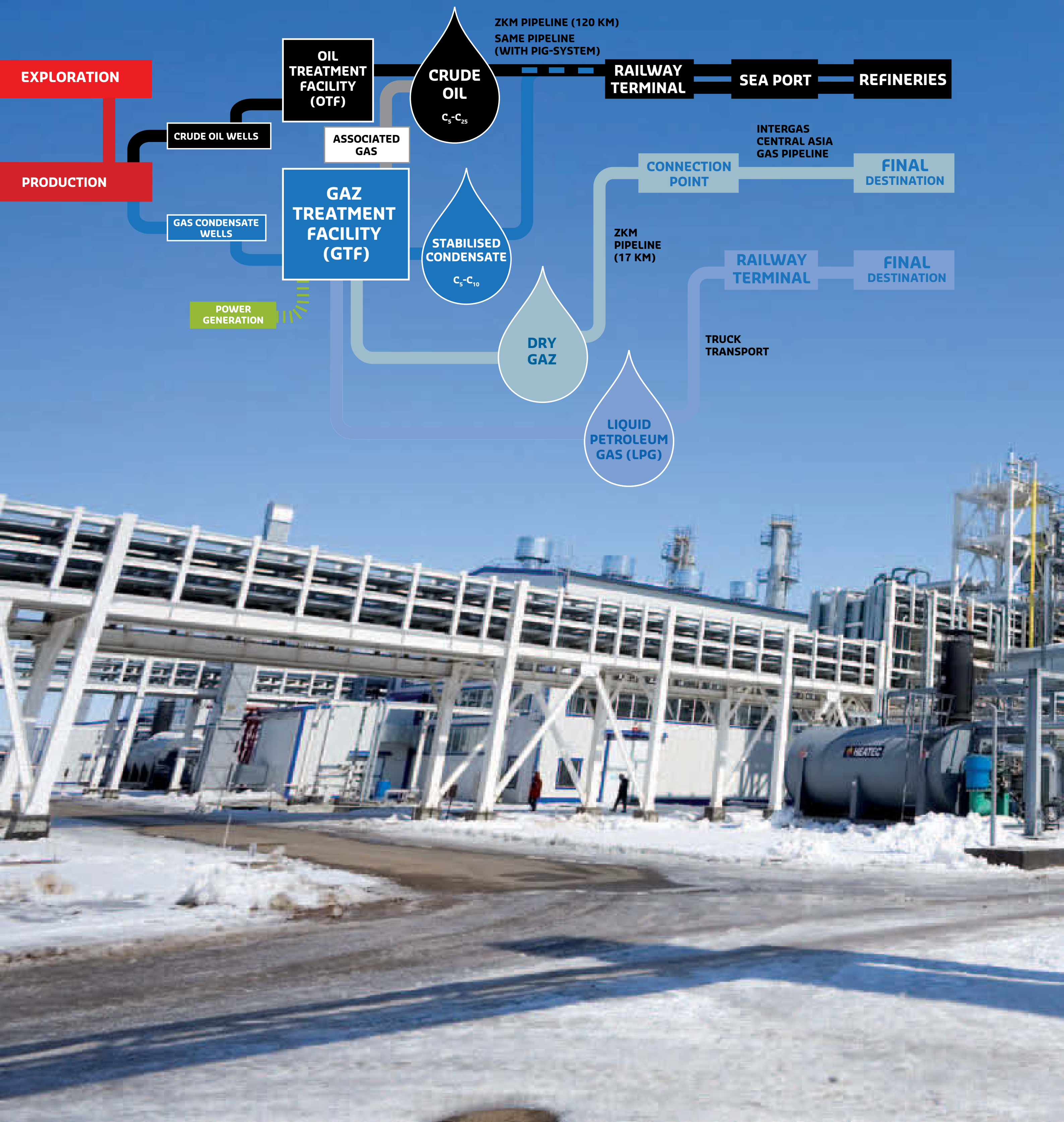
PROCESSES & PRODUCTS



Building history

On 10 August 2007, Zhaikmunai entered into an agreement with KazStroyService (KSS) for the construction of the GTF. For this purpose, KSS entered into a consortium with Exterran, whereby KSS supplied project management and construction services whereas Exterran supplied engineering and manufacturing services of the main equipment of the GTF.

Phase II Gas Treatment Facility

To fully develop the Company's 2P reserves, Zhaikmunai is currently in the planning stage for a Phase II gas treatment facility, which will increase treatment capacity by an additional 2.5 bcm of gas per year. Upon completion of the Phase II gas treatment facility, the Company will have capacity to treat up to 4.2 bcm of gas per year. It is envisaged that construction of the Phase II gas treatment facility could commence in 2012. Zhaikmunai has awarded a contract for the preparation of the basic and detailed design for the Phase II gas treatment facility.

LPG AND RELATED TRANSPORTATION

Liquefied petroleum gas (also called LPG, GPL, LP Gas, or autogas) is a mix of primarily propane (C_3H_8) and butane (C_4H_{10}) as well as a variety of added odorants so that leaks can be detected easily.

The LPG produced in the GTF is stored in a storage facility at the field site. This facility consists of 18 LPG tanks each having a capacity of 250 cubic metres (cm), which can store the equivalent of roughly 5 days of production. From there, the LPG is transported by third-party contractors by road tanker to the two separate third-party owned LPG loading terminals near Uralsk where it is then transported by railcar to its final destination.

Management estimates, based on the production profile of both proven and probable reserves reported in the 2009 Ryder Scott Report, that annual LPG production is expected to achieve in 2017 at 0.5 billion cubic metres.

DRY GAS AND RELATED TRANSPORTATION

Dry gas is a natural gas from wells which does not have a significant content of liquid hydrocarbons or of water vapour. Natural gas is a gas consisting primarily of methane.

Zhaikmunai's 17 km gas pipeline extends from the Chinarevskoye field to the connection point with the Orenburg-Novopskov pipeline, the Intergas Central Asia Gas pipeline, the gas export pipeline from Orenburg to Western Europe. The maximum annual throughput of the Zhaikmunai gas pipeline is 5.0 billion cubic metres (cm).

The gas pipeline was completed in 2009, including a metering station at the pipeline connection site.

Management estimates, based on the production profile of both proven and probable reserves reported in the 2009 Ryder Scott Report, that annual raw gas production is expected to achieve in 2017 at 4.0 billion cubic metres.

Gas Sales Contract

As GTF operations started, Zhaikmunai announced that it had entered into a gas sales agreement pursuant to which KazTransGas would purchase Zhaikmunai's entire dry gas production for the 2011 calendar year (other than gas to be sold for local consumption pursuant to existing agreements). As originally planned, Zhaikmunai delivers the gas to be sold to the tie-in point of Zhaikmunai's gas pipeline to the Orenburg-Novopskov trunk gas pipeline.

PRODUCTION RAMP UP

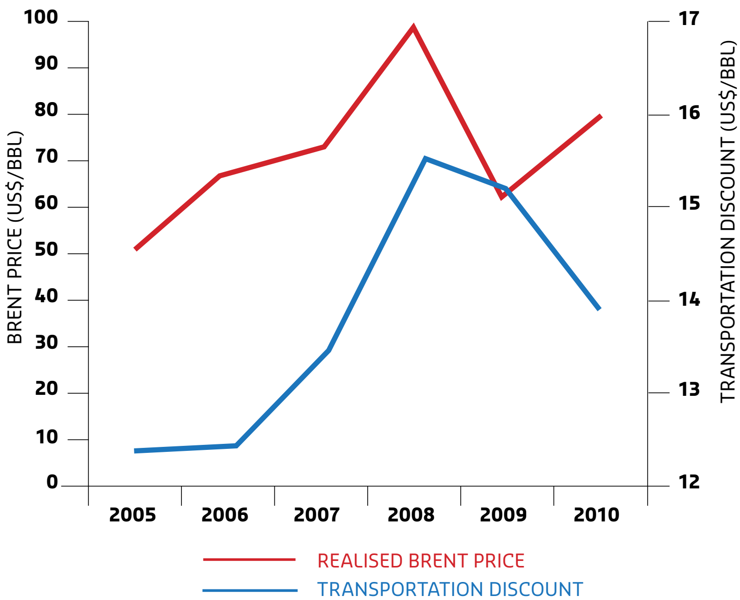
Zhaikmunai started commercial crude oil production in 2007. Its other oil products came online as the GTF became operational and include stabilised condensate, LPG and dry gas.

OIL PRODUCTION REVIEW

Crude oil production increased from an average of 2,210 bpd in 2004 to an average of 7,752 bpd in the 2010. This production growth has been primarily driven by the Company's growing drilling programme.

OIL PRICE AND PROFITABILITY

Zhaikmunai aims at further curbing costs and at improving profitability on all of its oil products.



	FY2008	FY2009	FY2010
Average daily oil production	5,095	7,442	**7,752**
Oil production	1,749,066	2,697,980	**2,829,764**
Oil sales – total	1,673,220	2,675,505	**2,634,553**

	2006	2007	2008	2009	2010
Weighted average Brent crude price (US$/bbl)	61.83	72.43	98.11	62.02	**80.15**
Weighted average discount to Brent (US$/bbl)	12.43	13.72	15.58	15.21	**14.01**
Average netback for crude oil sales (US$/bbl)	55.40	58.71	82.53	46.81	**66.14**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MARKETING AND TRANSPORT

Pursuant to the Production Sharing Agreement (PSA), Zhaikmunai is to export 85% of its crude oil production and to sell 15% on the domestic market. Until completion of its Gas Treatment Facility, the Company has sold only crude oi. Since then, the Group starts incrementally to sell crude oil, gas condensate, dry gas, and a mix of propane and butane. Zhaikmunai intends to continue to sell its hydrocarbon products primarily in the export market.

Management believes that the Group is able to achieve a relatively higher netback for its export production as compared to other producers in Kazakhstan as a result of Zhaikmunai's costs reduction due to its transportation of oil via its pipeline from the Chinarevskoye field to the Rostoshi export terminal near Uralsk and the close proximity of the Chinarevskoye field to the Russian border (approximately 60 kilometres from Uralsk) and other export sale destinations in Europe.

CRUDE OIL

During 2007, 2008 and 2009, the Group has delivered most of its exported crude oil on the basis of FCA (Free CArrier) Uralsk, the price being based on the market price for Brent crude oil less an average discount of US$15.21 per barrel of crude oil in 2009. The discount covers rail fees, transportation costs, quality differentials and trader's fees incurred in order to deliver the crude oil from Uralsk to its ultimate destination at refineries in Finland and the Ukraine.

At the end of the first half of 2010, the Group started selling its crude oil based on DAF (Delivery at Frontier) and FOB (Free On Board) / Black Sea terms. The benefit of selling on DAF and FOB terms is that the transportation discount is significantly reduced, although this benefit is partially offset by an increase in transportation costs for the Group as it must pay for transportation costs from the Zhaikmunai terminal to the point of sale. The full year 2010 FCA discount equivalent was US$14.01. The Group plans to continue this transition to sale on DAF and FOB basis as management believes the Group will benefit from a net decrease in overall transportation costs.

STABILISED CONDENSATE, LPG AND DRY GAS

Zhaikmunai has expanded its sales and marketing department by hiring experienced traders for condensate, LPG and gas. The team is working towards negotiating new off-take contracts and identifying transportation options for these new products.

The Group expects to sell processed gas in 2011. Deliveries of the gas would be made to the offtaker(s) at the Group's connection to the Orenberg Novopskov pipeline. Prices for the Group's gas products are expected to be negotiated annually with the off-taker(s).

Propane and butane (LPG), because of the complexity of handling and transportation, is expected to be sold to established end consumers and/or traders, who have a proven track record as well as extensive investment in the business.

MANAGEMENT FOCUS

CORPORATE GOVERNANCE

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

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

In adopting its Code, the General Partner has given consideration to the best practice provisions on corporate governance set out in the UK Corporate Governance Code. The General Partner has also put in place procedures to comply with the internal control aspects of its Code and to ensure that the partnership is able comply with its ongoing obligations under the UK Listing Rules and the UK Disclosure and Transparency Rules. A copy of Zhaikmunai's corporate governance Code is publicly available at the offices of Zhaikmunai Group Limited, 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man IM1 4LN.

Dealing Code

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

At every level of management, we are conveying Zhaikmunai's guiding vision, strategic approach and operational know-how. Working in phase at all levels of the organisation unleashes not only personal engagement but also a desire to be part of the story for a long time.

Group Code of Conduct

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

BOARD OF DIRECTORS OF THE GENERAL PARTNER

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

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

The Board held six meetings in 2010, four of which were scheduled and two of which were convened at short notice to address urgent business. Four board meetings are currently scheduled for 2011 and more meetings are likely to be called as and when company operations warrant particular attention.

Board Committees

The Board has established two principal Board

THE BOARD OF DIRECTORS

BOARD MEMBER — REMUNERATION OF THE BOARD OF DIRECTORS

	Elected	Born	Executive Director	Independent Director	Board of Directors fee (USD)	Audit Committee fee (USD)	Remuneration Committee fee (USD)	Total (USD)
Frank Monstrey	2007	1965	Yes	No	0*	-	0	0*
Kai-Uwe Kessel	2007	1963	Yes	No	0*	-	-	0*
Eike von der Linden	2007	1942	No	Yes	100,000	0	0	100,000
Steve McGowan	2007	1966	No	Yes	100,000	0	0	100,000
Piet Everaert	2007	1962	No	No	100,000	-	-	100,000
Atul Gupta	2009	1959	No	Yes	100,000	0	-	100,000
Mikhail Ivanov	2009	1969	No	No	100,000	-	0	100,000

* *Mr. Monstrey and Mr. Kessel are remunerated for their services as Group executives through management fees payable under a technical assistance agreement with Probel Capital Management nv.*

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

Audit Committee

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

The Audit Committee currently consists of Mr McGowan, Mr von der Linden and Mr Gupta, each of whom is considered to be an independent director, and Mr von der Linden serves as chairman. The Board considers each member of the audit committee to have appropriate financial experience.

The audit committee meets no fewer than four times each year and is responsible, inter alia, for assisting and advising the Board with matters relating to:

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

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

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

Remuneration Committee

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

The remuneration committee comprises Mr Monstrey, Mr McGowan, Mr von der Linden and Mr Ivanov and meets no less than two times per year. At least one member of the remuneration committee must be an independent director.

MANAGEMENT COMMITTEE

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

KAI-UWE KESSEL [1]

Chief Executive Officer
Managing Director and Board Member of Zhaikmunai since 2004.
Worked in senior management positions in Gaz de France
Co-Founder and Chairman of KazGermunai (1993 to 2002).

JAN-RU MULLER [2]

Group Chief Financial Officer
Joint MBA & Engineering Degrees.
Oversaw SAP and IFRS implementation at Zhaikmunai since 2004.
Responsible for quarterly IFRS reporting post-IPO.

VYACHESLAV DRUZHININ [3]

General Director
Appointed General Director of Zhaikmunai in 1997.
35 years experience in E&P.
Previously, General Director of JSC Gazkon, Lead Engineer KazakhGaz State Holding Company.

JAN LAGA [4]

Deputy Chief Executive Officer
Masters Degrees in Electro-Mechanical Engineering and Business Administration.
25 years experience in manufacturing industry.
Previously, Director of Koramic Industries and Vice President of Systems for Picanol Group, Belgium.

THOMAS HARTNETT [5]

Group General Counsel
Former partner in White & Case LLP, where his practice focused on corporate and finance law.
Member of the New York Bar with 18 years of post-qualified experience.
Experienced in the oil and gas sector and has worked on behalf of or with Zhaikmunai since 2004.

ALEXEI ERBER [6]

Geology Director
21 years experience in E&P.
Geological & Petroleum Engineer.
Previously, Head of Exploration Team, Gaz de France, Paris.

GUDRUN WYKROTA [7]

Finance Director
Over 25 years experience in finance with the majority spent working in Oil&Gas sector. Previously worked in senior management positions for Gazprom and Gaz de France Suez. Graduated as a Mining Engineer Economist at the Moscow Geological Exploration Institute.

ECKHARD VERSECK [8]

Operations Director
35 years experience in E&P.
Oil and Gas Engineer.
Previously, Chief Engineer of JV KazGermunai.

BERIK BREKESHEV [9]

Commercial Director
7 years senior management experience in sales and commercial activities for Kazakh/Russian Oil & Gas companies.
MBA in International Marketing.
Previously, Vice President of Commercial Issues, Talahassee Holding Limited, Russian projects.

JÖRG PAHL [10]

Drilling Director
10 years experience in E&P.
Drilling Engineer.
Previously, Drilling & Completion Advisor in Operational Department at Head Office, Gaz de France.


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MANAGEMENT COMMITTEE


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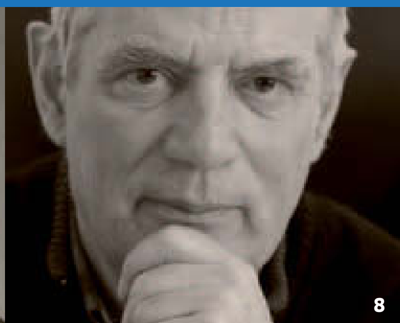
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SHAREHOLDINGS OF DIRECTORS AND SENIOR MANAGERS

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

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

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

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

INVESTOR RELATIONS

Relations with Limited Partners

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

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

Investor Relations Programme

During 2010, a wide range of business issues, including governance and strategy, were discussed with a number of major limited partners as part of the partnership's regular investor relations programme.

Investor conference calls and analyst presentations, including those following the announcement of half-year and annual results, are available by webcast and other presentations made to investors are available on the corporate website maintained by the partnership at www.zhaikmunai.com. Information regarding the Group is regularly updated on this website and all public announcements are posted there as well.

The Group appointed a new Investor Relations Officer, Bruno Meere, in January 2011.

CORPORATE SOCIAL RESPONSIBILITY

The World Business Council on Sustainable Development (WBCSD) offers the following definition of Corporate Social Responsibility (CSR):

> *"CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".*

At Zhaikmunai, the goal of CSR is to embrace responsibility for the Group's actions and encourage a positive impact through its activities on its numerous stakeholders, i.e. investors, business partners, regulators, employees, customers, local communities, the environment and society at large. CSR is also the deliberate inclusion of public interest into Zhaikmunai's core business decision-making and the honouring of a triple bottom line: people, planet, and profit.

Over the years, Zhaikmunai has been working on the following CSR key components: corporate governance and business ethics (see Management Focus section), the workplace and its people, the environment and society at large.

Zhaikmunai has grown into a true community over the years. Enviable and safe working conditions, a genuine environmental management programme and investment in the community all contribute to making this possible.

WORKPLACE AND PEOPLE: AN INTEGRATED INFRASTRUCTURE AND TEAM

An integrated team

Between 2004 and 2010, Zhaikmunai has moved from exploration to initial production of crude oil. More recently, it has also started to produce stabilised condensate, LPG and dry gas, following the launch of the Gas Treatment Facility (GTF). While exploration continues, production has now become an important activity. This rapid transition was made possible through the integration of a rich and diversified set of competences and skills.

From a corporate perspective, the onus has been on investment management, financial accounting and reporting, risk management, treasury management, operations control systems and corporate communication. Numerous milestones have been achieved over the years such as, for example, the implementation of SAP management system, a US$-based English language reporting, the implementation of International Financial Reporting Standards (IFRS), the development of hedging policies, an investor relations programme, etc.

From an operational perspective, the rapid shift in activities over time has generated a highly specialised team of dedicated employees. They oversee such activities as geological planning, drilling, infrastructure construction and maintenance, operations management, sales and marketing as well as transport and logistics.

A safe and good working environment

Year	Number of man-hours with loss of working hours (in million)
2008	0.95
2009	1.15
2010	1.23

Zhaikmunai's operations are subject to legislation, regulations and other requirements relating to health and safety requirements applicable to oil and gas companies operating in Kazakhstan, which are regulated by state authorities, including the Ministry of Labour and Social Protection of the Populations. In addition, the Production Sharing Agreement (PSA) requires that Zhaikmunai's operations be carried out in conformity with applicable health and safety requirements. As required by Kazakhstan regulations, Zhaikmunai receives health and safety certification once every 2 years.

Zhaikmunai's Code of Conduct regarding Health, Safety and the Environment (HSE) specifies the following:

> *"Each of us must comply with all applicable laws and regulations as well as good practice with regard to health, safety and environment issues. Zhaikmunai is responsible for preventing harm to the health and safety of people, including our employees and members of the community as well as the environment. Zhaikmunai also seeks to minimize and mitigate the environmental impact from its operations".*

In practice, Zhaikmunai has taken several steps in order to ensure the well-being of its employees and their families. Over and above creating a safe environment by executing frequent fire drills, giving safety training and implementing a proactive culture, the Group has also developed its own written plans and policies with regards to the health, safety and the environment (HSE). For example, in 2008 Zhaikmunai developed its "Procedure of Supervision of Hazardous Industrial Facilities", which included details of interrelated HSE, socioeconomic and organizational measures aimed at establishing safe and healthy working conditions and established procedures and standard requirements for work management in the sphere of HSE. Similarly, in 2009 the HSE Department has developed a series of 7 major priority action areas.

Employees

Zhaikmunai's strongest contribution to Kazakhstan's society is the wealth generated by hundreds of employees working in the Chinarevskoye field, in Uralsk and by extension in West Kazakhstan. In fact, since 2005, Zhaikmunai has more than doubled the number of its employees, making it one of the largest employers in the province of Batys. In addition, Zhaikmunai has not experienced any work stoppages, strikes or similar actions in the past and considers its relations with its employees to be good.

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

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

Average number of employees (full-time equivalents)	644	100%
including: women men	 118 526	 18% 82%
Employee age groups		
under 25 y.o.	79	16%
25 to 29	130	32%
30 to 49	310	21%
over 50	125	22%

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

Employee benefits

Zhaikmunai's employees enjoy an enviable treatment structured around the following components:

Salary package

The company offers competitive salary conditions to its employees. In 2010 the increase of the average salary is estimated at 12% (salary increases comply with the indexation percentage for 2010, established by the Republic of Kazakhstan Legislation). Regulation on salary, developed and used in the Company, is fully in compliance with the labour legislation in the Republic of Kazakhstan, the industry specific memorandum concluded between Ministry of Oil and Gas and oil companies, and with the other regulatory acts of the Republic of Kazakhstan.

Social security

Zhaikmunai contributes 21% of gross income (2009 figure to be checked) of its employees as a social tax to the government of the Republic of

Kazakhstan. Social tax and related staff costs are expensed as incurred.

Pension fund

Zhaikmunai 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 Zhaikmunai has no present or future obligation to pay its employees upon their retirement.

Health and accident insurance

The company pays special attention to accident and health insurance for its employees.

Prevention and medical assistance

Zhaikmunai has its own first-aid post and a contract has been concluded with a regional hospital for medical services. A compensation system for treatment expenses has also been set up. As a matter of course, all employees at Zhaikmunai are supplied with Personal Protective Equipment (PPE) including protective clothes, adapted footwear, and special tools.

Training

In line with the Production Sharing Agreement (PSA) with the government of Kazakhstan, Zhaikmunai is required to spend at least 1.0% of its annual capital expenditure towards personnel training. If this amount exceeds what is actually required for the training of personnel, Zhaikmunai uses the balance towards the financing of secondary education. By the end of 2010, a total 309 employees benefitted from education and training programmes at Zhaikmunai.

Other benefits

Other benefits include health and recreation support, subsidies for certain activities, cost compensation schemes, etc.

Building community life

Since the Company started its operations in Chinarevskoye, it has been active in improving the lives of its residents and assisting community life. Zhaikmunai contributed, for example, to Rozhkovo 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.

When news came in 2006 that the 300-resident village was under threat pursuant to a decision of the Republic of Kazakstan's Ministry of Health regarding Sanitation & Epidemiology to create a sanitary protection zone (SPZ) around the Chinarevskoye field, Zhaikmunai actively started looking for solutions with local residents. The Company's Relocation Committee held several public meetings where different relocation options were proposed, including relocation to the closest village, establishment of a new village and relocation to the administrative centre. In the end, the local residents expressed their preference for a move to Uralsk.

A resettlement action plan was finalized in 2009 with the help of CaspiEcology, a Kazakhstan environment and resettlement advisory firm. It adhered to Kazakh law, was based on the resettlement guidelines of the European Bank for Reconstruction and Development (EBRD) and ensured that the company met its goal of maintaining high international standards and social responsibility. Village residents have now all been relocated, and most now reside in apartments built by Zhaikmunai in Uralsk. Demolition of the former Rozhkovo village has since been completed. Zhaikmunai's relocation committee continues to assist residents with post-relocation needs on an individual basis.

ENVIRONMENT: MANAGING BEYOND REQUIREMENTS

Defining an environmental strategy and objectives

One of the Group's key strategic priorities is for Zhaikmunai to comply with applicable local and international standards for environmental protection. Zhaikmunai prepares and submits to authorities a yearly action plan in accordance with Kazakh environmental regulations. In addition, Zhaikmunai has started to implement World Bank environmental standards for its operations and expects to achieve compliance with these standards in the foreseeable future. In this context, the company has developed an "Ecological Passport" methodology to structure and follow up on its environmental efforts.

Zhaikmunai's environmental protection policies include the following key objectives:

I cease gas flaring following completion of the Gas Treatment Facility (GTF);

II remediate or recultivate areas impacted by petroleum hydrocarbons, particularly abandoned wells and mud pits;

III provide training to employees and contractors to understand its environmental policies and minimise environmental damage;

IV monitor the impact of Zhaikmunai's operations on the environment;

V put in place emergency procedures to deal with the environmental impact of any spillage; and

VI utilise associated production gas to produce low cost power as part of its Gas Treatment Facility.

Ascertaining and measuring progress over time

On the basis of its overall environmental strategy and specific objectives, the company has taken various steps to qualify and quantify its environmental protection efforts. These include voluntary as well as compulsory auditing and reporting activities.

In 2007, AMEC Earth & Environment UK Ltd. carried out a first environmental study for Zhaikmunai. It concluded that the status of the field and the level of environmental compliance of Zhaikmunai's operations were of high standard. In 2008, Zhaikmunai developed an Environmental Action Plan - valid until 2010 - which was approved by the Department of Regulation and Permits of Western Kazakhstan. Most of the environmental actions and improvements included in this two-year plan have been completed.

In March 2009, the Ministry of Environmental Protection (MEP) of Kazakhstan carried out an environmental audit of Zhaikmunai's facilities by to inspect environmental compliance. This audit included an inspection of all work activities. The audit report stated that only 2 violations were found: 1) Mixing hazardous waste with domestic waste, 2) burning domestic waste.

Later in 2009, AMEC carried out a further environmental study and issued an environmental, health and safety due diligence report entitled "Exploration & Production Facility Expansion - Chinarevskoye Field, Kazakhstan" dated 15 June

2009. It concluded that Zhaikmunai was, for the most part, in compliance with Kazakhstan and international environmental standards and regulations, which comprise of World Bank international requirements and standards and European IPPC Bureau reference documents on best practice. The health and safety assessment of the operations of Zhaikmunai found no significant issues associated with current activities, except for undertaking a survey of radiation exposure of personnel already scheduled for 2009. Zhaikmunai was found to be compliant with the UK-applicable Oil and Gas Inspections Regulations 1996 – these regulations are considered to be the most stringent in the world.

The next environmental report by AMEC is scheduled for 2011.

Ensuring full compliance

Zhaikmunai ensures that all regulatory environmental monitoring and disclosure is strictly adhered to and that the associated reports are submitted to the relevant authorities in a timely and complete manner.

For example, Zhaikmunai's environmental permit (EP), granted by the Ministry of Environment of Kazakhstan on 13 June 2008 and valid until 31 December 2011, requires such regular monitoring and reporting. This permit is renewable on an annual basis, subject to Zhaikmunai's compliance with its terms and conditions and applicable environmental laws.

Drilling waste disposal is another example. The company's regulation - Decontamination and Burial of Drilling Wastes (Sludge) Generated in Drilling Chinarevskoye Oil and Gas Wells – stipulates that two pits be built of reduced size. One pit is designated for collection and further disposal of dehydrated drilling mud following decontamination; the second one is for temporary storage of drilling mud and is eliminated on completion of the drilling operations. The total amount of decontaminated and buried drilling sludge in 2010 was 1183.68 tonnes.

Making climate change a priority

Zhaikmunai's programme for burning and utilising associated gas and gas condensate at the Chinarevskoye field to the Competent Authority was initially approved in December 2007. Zhaikmunai was granted five gas-flaring permits. Of these permits, two remain in place. The Gas Flaring permits were due to expire on 30 September 2010, however the Competent Authority has agreed to extended these until 30 June 2011. Gas-flaring will remain until completion of the second train of the GTF including its sulphur recovery programme.

In 2009, Zhaikmunai was approached by the EBRD (European Bank for Reconstruction and Development) to potentially sell Emission Reduction Units (ERUs) to the EBRD/EIB (European Investment Bank) Multilateral Carbon Credit Fund (MCCF), which is a carbon fund dedicated specifically to countries from Central Europe to Central Asia.

The company has not yet been assigned carbon credits, but significantly reducing its flaring activities following the full commissioning of train 1 of the Gas Treatment Facility should give rise to significant ERU proceeds (and thus qualify the Company for carbon credits).

Zhaikmunai is currently going through the process required to be eligible to receive carbon credits under the 'Joint Implementation' mechanism in respect of the Gas Treatment Facility once Annex B status under the Kyoto Protocol is obtained by Kazakhstan.

SOCIETY: DEVELOPING NEW HORIZONS

Beyond taking care of employee welfare in the workplace and ensuring proper environmental protection and mitigation, Zhaikmunai also endeavours to make a relevant contribution to Kazakh society. As such, the Company focuses on sponsorship and charity activities centred around the improvement of the lives of its various communities and extended networks in Western Kazakhstan.

As required by the Production Sharing Agreement (PSA) with the government of Kazakhstan, Zhaikmunai has agreed to spend US$300.000 per annum to finance social infrastructure. This completes the education obligation under the same agreement, under which the equivalent of 1% of capital expenditures incurred during the year is to be generated for education purposes of the citizens of Kazakhstan on an annual basis until the end of the PSA.

Sponsoring activities

Zhaikmunai has sports teams for football, cross country skiing, chess, badminton, volleyball and bowling who take part in competition with other companies.

The Group also has a long-standing commitment to support local communities by sponsoring local sport events and cultural events. For more than 7 years, Zhaikmunai has, for example, been one of the main sponsors of a regional volleyball team, which takes part in the super league of the Republic of Kazakhstan. It also supports a chess school.

Charitable work

Zhaikmunai also contributes to the welfare of society by means of financing charitable causes and projects. For example, financing secondary education projects and supporting various associations (ex. children public associations, veterans, etc.) feature as relevant choices for social involvement.

Liquidation Fund

The Production Sharing Agreement (PSA) also requires Zhaikmunai to establish a liquidation fund in the amount of US$12 million by making annual contributions to the fund of US$100,000 per year during the exploration phase and US$452,000 per year during the production phase. The liquidation fund will provide funds for the removal of Zhaikmunai's property and equipment at the end of the PSA's term. This way, the Chinarevskoye field can be used to other societal uses after its oil and gas extraction use. Management is making provisions in its accounts for the amounts required for the liquidation fund and believes that such provisions satisfy its obligations to make annual contributions to the fund.

Zhaikmunai LP

Consolidated Financial Statements
Year ended December 31, 2010
With Independent Auditors' Report

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Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the attached 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, April 28, 2011,
Zhaikmunai LP

Zhaikmunai Group Limited acting as the General Partner of Zhaikmunai LP

Kai- Uwe Kessel
CEO and Director

Jan-Ru Muller
Group CFO

Independent Auditors' Report

To the participants of Zhaikmunai LP:

We have audited the accompanying consolidated financial statements of Zhaikmunai LP (the "Partnership") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 about whether the consolidated financial statements are free from material misstatement.

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

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

Conclusion

In our opinion, the consolidated financial statements of Zhaikmunai LP for the year ended 31 December 2010 are prepared, in all material respects, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

31 March 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2010

In thousands of US Dollars

	Note	2010	2009
ASSETS			
Non-Current Assets			
Property, plant and equipment	**5**	**955,911**	770,953
Derivative financial instrument	**20**	**–**	98
Restricted cash	**8**	**2,743**	21,358
Advances for equipment and construction works		**6,479**	27,399
		965,133	819,808
Current Assets			
Restricted cash	**8**	**1,000**	–
Inventories		**5,639**	3,477
Trade receivables	**6**	**1,635**	13,878
Prepayments and other current assets	**7**	**16,759**	22,663
Income tax prepayment		**3,200**	5,599
Cash and cash equivalents	**8**	**144,201**	137,375
		172,434	182,992
TOTAL ASSETS		**1,137,567**	1,002,800
EQUITY AND LIABILITIES			
Partnership capital and Reserves			
Partnership capital	**9**	**366,942**	366,942
Retained earnings and translation reserve		**133,727**	110,827
		500,669	477,769
Non-Current Liabilities			
Long term borrowings	**10**	**434,931**	356,348
Abandonment and site restoration liabilities	**11**	**4,543**	3,373
Due to Government of Kazakhstan	**12**	**6,290**	6,363
Employee share option plan	**21**	**10,104**	7,025
Deferred tax liability	**19**	**100,823**	76,659
		556,691	449,768
Current Liabilities			
Current portion of long term borrowings	**10**	**9,450**	–
Trade payables	**13**	**49,213**	66,381
Advances received		**11,693**	–
Derivative financial instrument	**20**	**372**	–
Current portion of Due to Government of Kazakhstan	**12**	**1,031**	1,028
Other current liabilities	**14**	**8,448**	7,854
		80,207	75,263
TOTAL EQUITY AND LIABILITIES		**1,137,567**	1,002,800

The accounting policies and explanatory notes on pages 9 through 33 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2010

In thousands of US Dollars

	Note	2010	2009
Sales of crude oil:			
Export sales		**172,102**	109,368
Domestic sales		**6,057**	6,665
		178,159	116,033
Cost of sales	**15**	**(53,860)**	(44,035)
Gross profit		**124,299**	71,998
General and administrative expenses	**16**	**(27,265)**	(29,726)
Selling and oil transportation expenses	**17**	**(17,014)**	(5,692)
Loss on hedging contract	**20**	**(470)**	(16,909)
Finance costs	**18**	**(21,296)**	(7,801)
Foreign exchange gain / (loss), net		**46**	(2,184)
Interest income		**239**	60
Other expenses		**(1,054)**	(1,611)
Other income		**3,288**	705
Profit before income tax		**60,773**	8,840
Income tax expense	**19**	**(37,873)**	(27,608)
Profit / (loss) for the year		**22,900**	(18,768)
Other comprehensive income:		**-**	-
Total comprehensive profit / (loss) for the year, net of tax		**22,900**	(18,768)

The accounting policies and explanatory notes on pages 9 through 33 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	Note	2010	2009
Cash flow from operating activities:			
Profit before income tax		**60,773**	8,840
Adjustments for:			
Depreciation and amortization	**15, 16**	**15,695**	16,593
Finance costs	**18**	**21,296**	7,801
Interest income		**(239)**	(60)
Loss on hedging contract	**20**	**470**	16,909
Provision for tax claims		**728**	–
Accrual of share option expenses		**3,079**	6,509
Loss on disposal of property, plant and equipment		**920**	1,567
Operating profit before working capital changes		**102,722**	58,159
Changes in working capital:			
(Increase) / decrease in inventories		**(2,162)**	112
Decrease / (increase) in trade receivables		**12,243**	(12,794)
(Increase) / decrease in prepayments and other current assets		**(3,916)**	5,414
(Decrease) / increase in trade payables		**(18,622)**	3,745
Increase in advances received		**11,693**	–
Payment of obligation to Government of Kazakhstan	**12**	**(1,029)**	(1,032)
Increase in other current liabilities		**(134)**	1,241
Cash generated from operations		**100,795**	54,845
Income tax paid		**(1,840)**	(8,911)
Net cash flows from operating activities		**98,955**	45,934
Cash flow from investing activities:			
Interest income		**239**	60
Purchases of property, plant and equipment		**(132,428)**	(200,733)
Net cash used in investing activities		**(132,189)**	(200,673)
Cash flow from financing activities:			
Repayment of borrowings		**(381,677)**	–
Finance costs paid		**(30,478)**	(26,608)
Proceeds from issue of Global Depositary Receipts	**9**	**-**	300,000
Transaction costs paid		**-**	(25,130)
Issue of notes	**10**	**450,000**	–
Transfer from / (to) restricted cash		**17,615**	(280)
Proceeds from sale of hedging contract		**-**	48,200
Realised hedging income		**-**	5,416
Purchase of hedging contract		**-**	(7,700)
Fees paid on arrangement of notes and borrowings		**(15,750)**	(14,480)
Net cash provided by financing activities		**39,710**	279,418
Effects of exchange rate changes on cash and cash equivalents		**350**	809
Net increase in cash and cash equivalents		**6,826**	125,488
Cash and cash equivalents at the beginning of the year	**8**	**137,375**	11,887
Cash and cash equivalents at the end of the year	**8**	**144,201**	137,375

NON-CASH TRANSACTIONS

Non-cash transaction, including the following, has been excluded from the consolidated statement of cash flows:

Offset of Corporate Income Tax with Value Added Tax

During the year ended December 31, 2010, the Partnership offset Corporate Income Tax for the amount of US$9,820 thousand with Value Added Tax.

The accounting policies and explanatory notes on pages 9 through 33 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2010

	Partnership capital	Retained Earnings	Translation reserve	Total
As of December 31, 2008	**92,072**	**126,296**	**3,299**	**221,667**
Net loss for the period	–	(18,768)	–	(18,768)
Total comprehensive loss for the period	**-**	**(18,768)**	**-**	**(18,768)**
Issue of Global Depositary Receipts (Note 9)	300,000	–	–	300,000
Transaction costs (Note 9)	(25,130)	–	–	(25,130)
As of December 31, 2009	**366,942**	**107,528**	**3,299**	**477,769**
Net income for the period	–	22,900	–	22,900
Total comprehensive income for the year	**-**	**22,900**	**-**	**22,900**
As of December 31, 2010	**366,942**	**130,428**	**3,299**	**500,669**

The accounting policies and explanatory notes on pages 9 through 33 are an integral part of these consolidated financial statements.

1. GENERAL

Zhaikmunai LP is a Limited Partnership formed on 29 August 2007 pursuant to the Partnership Act 1909 of the Isle of Man. Zhaikmunai LP 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 ("Claydon"), Jubilata Investments Limited ("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 comprise of a single operating segment and 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 ("Thyler"), by Frank Monstrey. The General Partner of Zhaikmunai LP is Zhaikmunai Group Limited, which is responsible for the management of the Group (Note 9).

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, as amended, 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.

The Group was formed through a reorganization of entities under common control on March 28, 2008 to facilitate the listing of GDRs on the LSE. On March 28, 2008 Zhaikmunai LP listed 40,000,000 Global Depositary Receipts ('GDRs') on the London Stock Exchange ('LSE'), 30,000,000 of which were issued to Claremont Holdings Limited, a subsidiary of Thyler, after the reorganisation and 10,000,000 which were sold to other investors at US$10 per GDR, representing 9.09% of the equity interests in the Group,

These consolidated financial statements have been prepared using the pooling of interest method and, as such, the consolidated financial statements have been presented as if the transfers of the ownership interests in Frans Van Der Schoot B.V., Claydon, Jubilata, Zhaikmunai LLP and Condensate to Zhaikmunai LP had occurred from the beginning of the earliest period presented.

The Group operates in a single operating segment of exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On September 15, 2009, Zhaikmunai LP raised an additional US$300 million through the sale of 75,000,000 new common units in the form of GDRs at US$4 per GDR. 25,000,000 of these GDRs were placed with Claremont Holdings Limited. Claremont Holdings Limited is indirectly controlled by Frank Monstrey.

The registered address of the Zhaikmunai L.P. is: 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man, 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 March 31, 2011.

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 an additional 4 years and then for a 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 7% of produced petroleum and from 4% to 9% of produced natural gas.

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 and paid in cash.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention except for financial instruments which are carried at fair value.

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.

New and amended standards and interpretations

- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective January 1, 2010.
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective July 1, 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39.
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged It*ems effective July 1, 2009.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective July 1, 2009.
- Improvements to IFRSs (May 2008).
- Improvements to IFRSs (April 2009).

IFRS 2 *Share-based Payment (Revised)*

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of January 1, 2010. It did not have significant impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)*

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. 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. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

The change in accounting policy was applied prospectively and had no material impact on consolidated financial statements.

2. BASIS OF PREPARATION (continued)

New and amended standards and interpretations (continued)

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 *Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued 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 adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Issued in May 2008

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

Issued in April 2009

IFRS 5 *Non-current Assets Held for Sale* and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment had no significant impact on the financial position nor financial performance of the Group.

IFRS 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The amendment had no significant impact on the financial position nor financial performance of the Group.

IAS 7 *Statement of Cash Flows*: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The amendment had no impact on the financial position nor financial performance of the Group.

IAS 36 *Impairment of Assets:* The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the financial position nor financial performance of the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 12 *Income taxes (Amendment)*

On December 20, 2010, the IASB issued Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12). These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The amendments also incorporate SIC-21 Income Taxes - Recovery of

Revalued Non-Depreciable Assets into IAS 12. The Group does not expect any impact on its financial position or performance as it does not have any investment property.

IAS 24 *Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The amendment to IAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 *Financial Instruments: Classification and Measurement*

In November 2009, the IASB issued the first part of Phase 1 of IFRS 9 dealing with the classification and measurement of financial assets. On October 28, 2010, the IASB issued amendments to IFRS 9 to address financial liabilities. Furthermore, these amendments also incorporate the current derecognition principles of IAS 39 into IFRS 9. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial instruments. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the consolidated financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 27 *Consolidated and Separate Financial Statements*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimation and Assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material change to the carrying amounts of assets and liabilities 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 of 21% and 21% for 2010 and 2009, respectively. There were no impairment losses recognized by the Group during the years ended December 31, 2010 and 2009.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option and volatility and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 21.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation and Assumptions (continued)

Abandonment and site restoration liabilities

The Partnership estimates future dismantlement and site restoration cost for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. 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 risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Partnership reviews site restoration provisions at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the licenses.

Management of the Partnership believes that the interest rates on its debt financing shall provide best estimates of applicable discount rate. The discount rate shall be applied to the nominal amounts the managements expect to spend on site restoration in the future. The Partnership estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long term inflation and discount rates used to determine the balance sheet obligation at December 31, 2010 were 5% and 10.35% respectively. Movements in the provision for decommissioning liability are disclosed in Note 11.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The functional currency of both Zhaikmunai Finance B.V. and the Partnership is the United States Dollar (the "US Dollar" or "US$").

Transactions and balances denominated in foreign currencies

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the 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 is determined

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

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 the subsidiary had been acquired by the Group on the date it was originally acquired by the controlling entity.

Property, Plant and Equipment

Exploration expenditure

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 and asset retirement obligation fees. 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. There was no exploration expenditure incurred during 2010 (2009: Nil).

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, is capitalized within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

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 the Partnership depreciates its oil pipeline and oil loading terminal on a straight line basis over the life of the License. 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 also 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss.

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 and impairment. Historical cost includes expenditures that are directly attributable to the acquisition or construction 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 profit or loss 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 follows:

	Years
Buildings and Improvements	7-15
Vehicles	8
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 takes a substantial period of time to get ready for its intended use, 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.

Accounts Receivable

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. 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 profit or loss; 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.

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.

Financial assets

Initial recognition and measurement

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, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Financial liabilities (continued)

Fair value of financial instruments (continued)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 24.

Taxation

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability 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 reporting 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.

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 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.

4. RECLASSIFICATION OF COMPARATIVE INFORMATION

Starting June 30, 2010 the Partnership presents Cost of goods sold in the notes to its consolidated financial statements as cost of production less/add effect of the change in the closing and opening inventory.

The effects of the above reclassification is presented below

	As previously reported	***Reclassifications***	***As restated***
Statement of comprehensive income for the year ended December 31, 2009:			
Cost of sales			
Depreciation and amortization	16,198	(22)	16,176
Repair, maintenance and other services	7,338	(24)	7,314
Royalties	5,740	(29)	5,711
Payroll and related taxes	5,516	(18)	5,498
Materials and supplies	2,262	(12)	2,250
Management fees	2,064	(12)	2,052
Other transportation services	1,367	(6)	1,361
Government profit share	1,112	–	1,112
Environmental levies	1,083	(4)	1,079
Well workover costs	148	(31)	117
Change in oil stock	–	159	159
Other	1,207	(1)	1,206
	44,035	**–**	**44,035**

5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2009 and 2010 was as follows:

	Oil and gas properties			Non oil and gas properties					
In thousand of US Dollar	**Working assets**	**CIP**	**Total oil and gas properties**	**Buildings**	**Machinery & Equipment**	**Vehicles**	**Others**	**Total non oil gas properties**	**Total**
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
Additions	1,286	272,320	273,606	210	834	345	627	2,016	275,622
Transfers	212,529	(214,159)	(1,630)	90	1,566		(26)	1,630	–
Disposal	(485)	(212)	(697)	–	(402)	(70)	(398)	(870)	(1,567)
Depreciation charge	(15,376)	–	(15,376)	(393)	(209)	(295)	(320)	(1,217)	(16,593)
Balance at December 31, 2009, net of accumulated depreciation	**365,679**	**396,310**	**761,989**	**2,614**	**3,434**	**1,519**	**1,397**	**8,964**	**770,953**
Additions	990	198,047	199,037	139	948	32	1,417	2,536	201,573
Transfers	103,156	(103,532)	(376)	259	501	273	(657)	376	–
Disposal	–	–	–	–	(705)	–	(215)	(920)	(920)
Depreciation charge	(13,820)	–	(13,820)	(398)	(853)	(320)	(304)	(1,875)	(15,695)
Balance at December 31, 2010, net of accumulated depreciation	**456,005**	**490,825**	**946,830**	**2,614**	**3,325**	**1,504**	**1,638**	**9,081**	**955,911**
At cost at December 31, 2009	435,605	396,310	831,915	3,839	4,753	2,501	2,343	13,436	845,351
Accumulated depreciation	(69,926)	–	(69,926)	(1,225)	(1,319)	(982)	(946)	(4,472)	(74,398)
Balance at December 31, 2009, net of accumulated depreciation	**365,679**	**396,310**	**761,989**	**2,614**	**3,434**	**1,519**	**1,397**	**8,964**	**770,953**
At cost at December 31, 2010	539,607	490,825	1,030,432	4,237	5,122	2,819	2,839	15,017	1,045,449
Accumulated depreciation	(83,602)	–	(83,602)	(1,623)	(1,797)	(1,315)	(1,201)	(5,936)	(89,538)
Balance at December 31, 2010, net of accumulated depreciation	**456,005**	**490,825**	**946,830**	**2,614**	**3,325**	**1,504**	**1,638**	**9,081**	**955,911**

Category “Oil and Gas properties” represents mainly wells, oil treatment facilities, oil transportation and other related assets.

The depletion rate for oil and gas working assets was 3.36% and 5.41% in 2010 and 2009, 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, 2010. Depreciation has been calculated using the unit of production method based on these reserves estimates.

The Partnership incurred borrowing costs including amortization of arrangement and other borrowing related fees of US$ 47,452 thousand, and US$ 32,865 thousand for the years ended December 31, 2010 and 2009. The total amount of borrowing costs was capitalized as December 31, 2010. Borrowing costs totaling US$ 26,440 thousand, were capitalized as of December 31, 2009 at capitalization rates of 7.7%.

6. TRADE RECEIVABLES

As at December 31, 2010 and 2009 trade receivables were denominated in US$, were less than 30 days and were not impaired.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US Dollars	**2010**	2009
VAT receivable	**11,090**	20,429
Advances paid	**5,146**	1,199
Other	**523**	1,035
	16,759	22,663

Advances paid consist primarily of prepayments made to service providers.

8. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**2010**	2009
Current accounts in US Dollars	**143,452**	134,988
Current accounts in Tenge	**543**	1,069
Cash accounts in other currencies	**206**	1,318
	144,201	137,375

No interest was accrued on current accounts during the years ended December 31, 2010 and 2009.

In addition the Partnership has restricted cash accounts. As of December 31, 2009, restricted cash was represented by the Partnership's pledges under the Facility agreement with BNP Paribas (Note 10) of US$ 19,078 thousand and an additional liquidation fund deposit of US$ 2,280 thousand with Sberbank in Kazakhstan. The restricted cash as of December 31, 2010 represents money held by Citibank under the hedging contract with Citibank (Note 20) for the amount of US$1,000 thousand and a liquidation fund deposit of US$2,743 thousand with Kazcommertsbank JSC in Kazakhstan.

9. PARTNERSHIP CAPITAL

The ownership interests in Zhaikmunai LP consist of (a) Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and (b) the interest of 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 Zhaikmunai LP's limited partners will be made on a pro rata basis according to their respective partnership interests in 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, 2010 and 2009.

As discussed in Note 1 on September 15, 2009 Zhaikmunai LP successfully raised an additional US$300 milliion through the sale of 75,000,000 new common units in the form of GDRs at US$4 per GDR. The proceeds of the placing were used to supplement the Partnership's then-existing credit facilities and fund in part the capital expenditure programme for the Chinarevskoye field, in particular the completion of the Gas Treatment Unit. The issuance costs amounted to US$25.130 thousand.

The movements in GDR's during the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Balance at January 1,	**185,000,000**	110,000,000
Issued during the year	**–**	75,000,000
Balance at December 31,	**185,000,000**	185,000,000

10. BORROWINGS

Borrowings comprise the following as at December 31:

In thousands of US Dollar	**2010**	2009
Notes payable	**444,381**	–
Facility agreement with BNP Paribas	**–**	356,348
Less amounts due within 12 months	**9,450**	–
Amounts due after 12 months	**434,931**	356,348

Notes payable

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

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

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

Zhaikmunai LLP may elect to undertake, upon satisfaction of certain conditions, to be substituted for the Issuer as issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes (the "Substitution").

The Notes are secured by a first-priority pledge over the loan by the Issuer to Zhaikmunai LLP of the proceeds of the Notes (the "Proceeds Loan"). In addition, the Notes and the Guarantees have the benefit of first-priority pledges over the shares of the Issuer and its direct holding company Frans van der Schoot B.V. ("FvdS"). In the event that, pursuant to the terms of the Indenture, Zhaikmunai LLP is substituted for the Issuer as issuer of the Notes pursuant to the Substitution, the Proceeds Loan will be assigned or novated to Zhaikmunai LLP and the pledge over the Proceeds Loan shall thereupon be terminated.

If the Substitution occurs and the pledge over the Proceeds Loan is terminated, the only security for the Notes and the Guarantees will be the first priority pledges over the shares of Zhaikmunai Finance B.V. and the shares of FVDS.

In preparation for the Substitution, on December 29, 2009 the shares in Zhaikmunai Finance B.V. were transferred to Zhaikmunai LLP for a consideration of US$74,583.

Facility agreement with BNP Paribas

On December 12, 2007 the Partnership entered into a US$ 550 million senior secured facility agreement between BNP Paribas (Suisse) S.A. ("BNP Paribas Facility"), as a facility agent, and the Partnership, as a borrower, and Zhaikmunai LP as a guarantor. Initially, the BNP Paribas Facility comprised three tranches of US$ 200 million, US$ 200 million and US$ 150 million.

The Partnership used part of the net proceeds of the Notes to repay in full all amounts outstanding under the BNP Paribas Facility on October 19, 2010. All security for the BNP Paribas Facility has been released.

In accordance with the BNP Paribas Facility, the Partnership maintained a hedging programme under which it hedged a fixed volume of 4,000 barrels per day of production at Brent crude oil price at a put price of US$ 60 per bbl until December 31, 2010 (Note 20). All the security pledged under the BNP Paribas Facility was also provided to the counterparties under the hedging agreements. After the deed of release was concluded all hedge agreements concluded between the Partnership and BNP Paribas, Natixis and Raiffeisen Zentralbank Österreich AG became unsecured. Therefore, on October 19, 2010, by novation, all the rights, liabilities, duties and obligations of the Partnership under and in respect of each of the hedging agreements were transferred to Citibank, N.A. ("Citibank") (Note 20).

11. 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 Dollar	**2010**	2009
Abandonment and site restoration liability as at January 1,	**3,373**	3,411
Unwinding of discount (Note 18)	**397**	314
Additional provision	**308**	152
Change in estimates	**465**	(504)
	4,543	3,373

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at December 31, 2010were 5.0% and 10.35% respectively (2009: 5.0% and 10.88%). The decrease in the discount rate used for estimation of the liability was treated as a change in estimates.

12. DUE TO GOVERNMENT OF KAZAKHSTAN

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the 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. The total amount of liability due to Government as stipulated by the Contract is US$ 25,000 thousand.

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 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 Dollar	**2010**	2009
Due to Government of Kazakhstan as at January 1,	**7,391**	7,361
Unwinding of discount (Note 18)	**959**	1,062
Paid during the year	**(1,029)**	(1,032)
	7,321	7,391
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,028)
Due to Government of Kazakhstan	**6,290**	6,363

13. TRADE PAYABLES

In thousands of US Dollars	**2010**	2009
Tenge denominated trade payables	**12,786**	52,930
US dollar denominated trade payables	**35,548**	8,556
Trade payables denominated in other currencies	**879**	4,895
	49,213	66,381

Accounts payable to KazStroyService JSC for construction of the gas treatment unit amounted to US$ 24,118 thousand as of December 31, 2010 (2009: US$ 46,636 thousand).

14. OTHER CURRENT LIABILITIES

In thousands of US Dollars	**2010**	2009
Training liability accrual	**5,552**	4,602
Taxes payable, other than corporate income tax	**1,266**	1,420
Due to employees	**255**	1,005
Provision for tax claims	**728**	–
Other	**647**	827
	8,448	7,854

15. COST OF SALES

In thousands of US dollars	**2010**	2009
Depreciation and amortization	**15,183**	16,176
Royalties	**8,863**	5,711
Payroll and related taxes	**6,629**	5,498
Repair, maintenance and other services	**7,617**	7,314
Well workover costs	**5,871**	117
Materials and supplies	**2,239**	2,250
Other transportation services	**1,985**	1,361
Management fees	**1,947**	2,052
Environmental levies	**1,631**	1,079
Government profit share	**1,676**	1,112
Change in oil stock	**(1,529)**	159
Other	**1,748**	1,206
	53,860	44,035

16. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2010**	2009
Management fees	**6,423**	8,561
Employee share option plan (Note 21)	**3,079**	6,509
Professional services	**5,080**	4,311
Payroll and related taxes	**3,469**	3,210
Training	**2,642**	2,774
Insurance fees	**898**	543
Provision for tax claims (Note 23)	**728**	
Business travel	**725**	818
Communication	**651**	403
Bank charges	**517**	503
Depreciation and amortization	**512**	417
Other taxes	**426**	90
Sponsorship	**419**	238
Lease payments	**316**	291
Materials and supplies	**316**	112
Social program	**300**	300
Other	**764**	646
	27,265	29,726

17. SELLING AND OIL TRANSPORTATION EXPENSES

In thousands of US Dollar	**2010**	2009
Oil transport costs	**11,844**	1,265
Management fees	**1,500**	1,857
Payroll	**1,173**	1,029
Oil loading and storage costs	**357**	87
Other	**2,140**	1,454
	17,014	5,692

During 2010 the Partnership commenced selling oil at Odessa in the Ukraine instead of the rail loading terminal outside Uralsk. The Partnership believes over time this will provide better pricing for their oil.

18. FINANCE COSTS

In thousands of US Dollar	**2010**	2009
Interest expense	**19,940**	6,035
Unwinding of discount on amounts Due to Government	**959**	1,062
Loan review fees	**-**	335
Unwinding of discount on Abandonment and Site Restoration Liability	**397**	314
Commitment fees on syndicated loan agreement	**-**	55
	21,296	7,801

19. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

In thousands of US Dollar	**2010**	2009
Income tax expenses comprise:		
- current income tax expense	**13,709**	7,889
- deferred income tax expense	**24,164**	19,719
Total income tax expense	**37,873**	27,608

19. INCOME TAX EXPENSES (continued)

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 US Dollar	**2010**	2009
Profit before income tax	**60,773**	8,840
Statutory tax rate	**30%**	30%
Expected tax provision	**18,232**	2,652
Non-deductible interest expense on borrowings	**16,452**	5,893
Employee share option plan	**924**	1,953
Foreign exchange loss	**206**	610
Difference arising on Abandonment and Site Restoration Liability and payables Due to Government	**277**	282
Change of the tax base	**964**	20,266
Effect of income taxed at different rate	**6**	(4,443)
Other non-deductible expenses	**812**	395
Income tax expense reported in the accompanying consolidated financial statements	**37,873**	27,608

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

In thousands of US Dollar	**2010**	2009
Deferred tax asset:		
Hedging contract at fair value	**112**	–
Accounts payable and provisions	**1,943**	1,567
	2,055	1,567
Deferred tax liability:		
Crude oil inventory	**-**	(448)
Property, plant and equipment	**(102,878)**	(77,778)
	(102,878)	(78,226)
Net deferred tax liability	**(100,823)**	(76,659)

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

In thousands of US Dollar	**2010**	2009
Balance at January 1, 2010 and 2009	**(76,659)**	(56,940)
Current year charge to profit or loss	**(24,164)**	(19,719)
Balance at December 31, 2010 and 2009	**(100,823)**	(76,659)

20. DERIVATIVE FINANCIAL INSTRUMENT

Pursuant to the terms of the BNP Paribas facility (Note 10) in 2008 the Partnership entered, at nil cost, into a hedging contract covering oil export sales commencing March 2008 through till December 2013 which was sold on March 30, 2009. On the same day the Partnership entered into a new hedging contract at a cost of US$ 7,700 thousand covering oil export sales of 967,058 bbl and 596,766 bbl in 2009 and 2010, respectively. The floor price for Brent crude oil under this hedging contract was fixed at a price of US$ 50 per bbl. The contract expired on June 30, 2010.

On March 4, 2010, the Partnership entered, at nil cost, into an additional hedging contract covering oil export sales of 4,000 bbls/day from March 2010 through December 2010. The counterparties to the hedging agreement were BNP Paribas, Natixis and Raiffeisen Zentralbank Österreich AG. Based on the new hedging contract the floor price for Brent crude oil was fixed at a price of US$ 60 per bbl. The ceiling price was set at a range from US$ 89.25 per bbl to US$ 100 per bbl such that the Partnership received all sales proceeds in excess of $ 100 per bbl.

On October 19, 2010, after prepayment in full of the BNP Paribas Facility all the rights, liabilities, duties and obligations of the Partnership under and in respect of each of the hedging agreements were transferred by novation to Citibank, N.A. ("Citibank") (Note 10).

20. DERIVATIVE FINANCIAL INSTRUMENT (continued)

Cash of US$3,000 thousand was initially restricted under the hedging agreement with Citibank as the estimation of the potential payments under the hedging agreement during the period from October 19, 2010 till December 31, 2010. The restricted cash was to be released in three equal tranches on November 10, 2010, December 10, 2010 and January 10, 2011 after approval by Citibank.

The balance of cash held by Citibank, representing the final tranche, under the hedging agreement with Citibank as of December 31, 2010 is US$1,000 thousand (Note 8).

Gains and losses on the hedge contract, which do not qualify for hedge accounting, are taken directly to profit or loss.

In thousands of US Dollar	**2010**	2009
Hedging contract fair value at January 1	**98**	62,923
Proceeds from sale of hedging contract	**-**	(48,200)
Realized hedging gain	**-**	(5,416)
Hedging loss	**(470)**	7,602
(Loss) / gain on hedging contract	**(470)**	16,909
Hedging contract fair value at January 1	**98**	–
Purchase of hedging contract	**-**	7,700
Unrealized hedging loss	**(470)**	(7,602)
Hedging contract at fair value	**(372)**	98

21. EMPLOYEE SHARE OPTION PLAN

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 reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The equity-based payment plan is described below. There have been no cancellations or modifications to the plan during 2010. On December 30, 2009 the Board of Directors of the general partner of Zhaikmunai LP approved an adjustment in the number of SAR's and in their base value to US$4 as a result of the September 2009 GDR placement.

During 2008 – 2010, 2,982,958 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 generally 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. 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 (but not before July 1, 2011) 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 a stated base value. 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 2,982,958 of SARs at December 31, 2010 is US$ 10,104 thousand (2009: US$ 7,025 thousand). During the year ended December 31, 2010, 654,695 were fully vested (2009: 690,748).

21. EMPLOYEE SHARE OPTION PLAN (continued)

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

	December 31, 2010		December 31, 2009	
	No.	EP, US Dollar	No.	EP, US Dollar
Outstanding at the beginning of period	**2,732,958**	**4**	2,500,000	10
Granted	**250,000**	**4**	232,958	4
Exercised	**–**	**–**	–	–
Outstanding at the end of period	**2,982,958**	**4**	2,732,958	4
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, 2010:

In thousands of US Dollars	2010	2009
Dividend yield (%)	**0**	0
Expected volatility (%)	**86**	86
Risk -free interest rate (%)	**3.2**	3.2
Expected life (years)	**3.5**	3.5
Option turnover (%)	**10**	10
Price trigger	**2**	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.

22. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements transactions with related parties mainly comprise transactions between the Group and the participants and/or their subsidiaries companies.

Accounts receivable from related parties at December 31 consisted of the following:

In thousands of US Dollars	2010	2009
Trade receivables and advances		
Probel Capital Management N.V.	**223**	–
Total	**223**	–

Accounts payable to related parties as at December 31 consisted of the following:

In thousands of US Dollars	2010	2009
Trade payables		
Amersham Oil LLP	**–**	498
Prolag BVBA	**106**	129
Probel Capital Management N.V.	**–**	394
Total	**106**	1,021

During the year ended December 31, 2010 and 2009 the Group had the following transactions with related parties:

In thousands of US Dollars	2010	2009
Management fees and consulting services		
Probel Capital Management N.V.	**8,508**	9,215
Amersham Oil LLP	**1,186**	1,746
Prolag BVBA	**1,378**	2,184
Total	**11,072**	13,145

22. RELATED PARTY TRANSACTIONS (continued)

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership, Amersham Oil LLP and Probel Capital Management NV relate to the rendering of geological, geophysical, drilling, scientific, technical and other consultancy services.

Key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management and whose remuneration forms part of management fees and consulting services above.

All related parties are companies and key management personnel, indirectly controlled by Frank Monstrey.

23. 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 Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's consolidated results and consolidated financial position in a manner not currently determinable.

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, 2010. As at December 31, 2010 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

In 2010, a comprehensive tax audit was performed on the Partnership's tax accounts for 2006, 2007 and 2008 which resulted in tax claims being made. Management believes that these claims contradict the terms of the Contract and the relevant tax codes. The Partnership appealed to the court to resolve these claims. A provision of US$ 728 thousand (Note 16) has been made in these consolidated financial statements in respect to the claims where the likelihood of the Partnership being required to pay additional tax, fines and penalties is probable. In addition, the Partnership assesses that the likelihood of the remaining US$ 9,363 thousand of claims, while unlikely or less likely than not, is possible and therefore, no provision has been made for this amount.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and cleanup evolve, the Group 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.

23. CONTINGENT, COMMITMENTS AND OPERATING RISKS (continued)

Environmental obligations

The Group 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 Group 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 Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at December 31, 2010 the Group had contractual capital commitments in amount of US$ 23,638 thousand (2009: US$ 50,949 thousand) mainly in respect to the Partnership's oil field development activities and construction of a gas utilisation plant.

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.

The Group'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 Group's financial assets consist of trade and other receivables, cash and cash equivalents.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, commodity price risk and credit risk. The Group's management reviews and agrees policies for managing each of these risks which are summarized below.

Domestic oil sales

In accordance with Addendum # 7 of the Contract, the Partnership is required to sell at least 15% of produced oil on domestic market on a monthly basis for which prices are materially lower than export prices.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group is exposed to interest rate risk in 2010 and 2009 as rates of interest on its borrowings were floating for the whole term of such borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in LIBOR interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings.

Increase / decrease in LIBOR interest rate	**Effect on profit before tax for the year ended December31, 2010**	Effect on profit before tax for the year ended December 31, 2009
In thousands of US Dollar		
+1.5%	-	(5,725)
-1.5%	-	5,725

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign Currency Risk

As a significant portion of the Group's operation is the Kazakhstani Tenge denominated, the Group's consolidated statement of financial position 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
2010		
US thousand dollar	**+11.56%**	**(78)**
US thousand dollar	**-11.56%**	**78**
2009		
US thousand dollar	+19.5%	(574)
US thousand dollar	-19.5%	574

Liquidity Risk

Liquidity risk is the risk that the Group 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 Group's financial liabilities at December 31, 2010 and 2009 based on contractual undiscounted payments:

Liquidity Risk (continued)

Year ended December 31, 2010	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	–	**24,938**	**101,135**	**955,954**	–	**1,082,027**
Trade payables	**49,213**	–	–	–	–	**49,213**
Employee share option plan	–	–	–	**10,104**	–	**10,104**
Other current liabilities	**8,448**	–	–	–	–	**8,448**
Due to Government of Kazakhstan	–	**258**	**773**	**4,124**	**15,721**	**20,876**
	57,661	**25,196**	**101,908**	**970,182**	**15,721**	**1,170,668**

Year ended December 31, 2009	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings		7,666	23,000	415,750	–	446,416
Trade payables	50,242	–	17,593	–	–	67,835
Employee share option plan	–	–	–	7,025	–	7,025
Other current liabilities	7,854	–	–	–	–	7,854
Due to Government of Kazakhstan	–	258	773	4,124	16,753	21,908
	58,096	7,924	41,366	426,899	16,753	551,038

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

Capital of Zhaikmunai LP consists of Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and the interest of the General Partner. During the years ended December 31, 2010 and 2009, the Group did not have a formal capital management strategy.

Commodity Price Risk

The Group is exposed to the effect of fluctuations in price of crude oil, which is quoted in US Dollar on the international markets. The Group 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 arrangements described in Note 20 the Group does not hedge its exposure to the risk of fluctuations in the price of crude oil.

Credit Risk

Financial instruments, which potentially subject the Group 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 Group considers that its maximum exposure is reflected by the amount of trade accounts receivable and advances.

The Group places its Tenge denominated cash with Sberbank, which has a credit rating of Baa1 (stable) from Moody's rating agency and its US Dollar denominated cash with BNP Paribas with a credit rating of AA (positive) from Moody's rating agency for the year ended December 31, 2010. The Group does not guarantee obligations of other parties.

The Group 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 Group'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 Group's financial instruments, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The Group's borrowings are at market rates of interest specific to those instruments and as such are stated at fair value. The Group's derivative is valued with a reference to a quoted market price in an active market. The fair value of other financial assets has been calculated using market interest rates.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The Group's financial instruments valued with a reference to quoted (unadjusted) prices include derivative financial instruments.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. The Group does not have any financial instruments valued using Level 2 hierarchy.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The Group does not have any financial instruments valued using Level 3 hierarchy.

Management believes that the Group's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable and advances, derivative financial instruments, trade and other payables and obligations under debt instruments (excluding the effect of unamortized transaction costs) are not significantly different from their fair values at December 31, 2010 and 2009.

25. SUBSEQUENT EVENTS

On February 24, 2011 the Partnership listed the notes for the amount of US$ 450,000 thousand on the Kazakhstan Stock Exchange ("KASE") and on February 28, 2011 the Partnership transferred the notes from Zhaikmunai Finance B.V. to Zhaikmunai LLP.

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 $85/bbl, sells a call at $125/bbl and buys a call at $134/bbl.

GLOSSARY

TERMINOLOGY & ABBREVIATIONS

2009 Ryder Scott	ReportThe report prepared by Ryder Scott dated 1 July 2009 relating to the Group's reserves and resources
API	American Petroleum Institute
API gravity	The industry standard method of expressing specific gravity of crude oils. Higher API gravities mean lower specific gravity and lighter oils. When API gravity is greater than 10, it is lighter and floats on water; if it is less than 10, it is heavier and sinks. Generally speaking, oil with an API gravity between 40 and 45 commands the highest prices.
associated gas	gas, which occurs in crude oil reservoirs in a gaseous state.
Company	Zhaikmunai LP
EBRD	European Bank for Reconstruction and Development
Exploration well	drilled purely for exploratory (information gathering) purposes in a particular area
Field	Chinarevskoye oil and gas condensate field
FCA	Sales made under free carrier terms.
FCA Uralsk	Sales made under free carrier terms according to which Zhaikmunai delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
FSA	Financial Services Authority of the United Kingdom
Gas Treatment Facility	The facility currently under construction by KSS and Exterran for the treatment of all gas produced by Zhaikmunai in association with its crude oil production, as well as gas to be produced for commercial sales.
GDR	Global Depository Receipts
Group	the Partnership and its subsidiaries
GTU	Gas Treatment Unit. Zhaikmunai's Gas Treatment Facility - as it is currently being constructed - will consist of two GTU's each having a capacity of 850 mmcm.
Hydrocarbons	Solid, liquid or gas compounds of the elements hydrogen and carbon.
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LPG	Liquified petroleum gas, the name given to propane and butane in their liquid state.
LSE	London Stock Exchange
Placing	The issue of 45,000,000 Common Units on a non-preemptive basis to placees procured by the Managers pursuant to the Placing Agreement.
Placing Agreement	The underwriting and placing agreement dated 29 July 2009 amongst Zhaikmunai LP, ZGL, ING, Mirabaud, Renaissance Securities (Cyprus) Limited and FirstEnergy Capital.
Production well	primarily drilled for producing oil or gas, once the producing structure and characteristics are determined
Proven reserves (1P)	Proven reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.
Proven plus Probable reserves (2P)	Proven plus Probable reserves (2P) are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Proven plus Probable reserves.
Proven, Probable plus Possible reserves (3P)	Proven, Probable plus Possible reserves (3P) are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves.
PSA	Production sharing agreement. Contract for additional exploration, production and production sharing of crude oil hydrocarbons in the Chinarevskoye oil and gas condensate field in the West-Kazakhstan oblast No. 81, dated October 31, 1997, as amended, between Zhaikmunai and the Competent Authority (currently MOG), representing Kazakhstan.
recovery	The second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.
reservoir	A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.
royalty	An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.
sidetrack well	A well or borehole that runs partly to one side of the original line of drilling.

UNGG	Uralsk Oil and Gas Explorations Expedition. The Government of the Kazakh Soviet Socialist Republic decided in March, 1960 to create a consortium “Uralskneftegazrazvedka” for conducting oil and gas exploration in the Uralsk region. In the 60-s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed “Uralsk Enlarged Oil-Gas Exploration Expedition”.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
Zhaikmunai	Zhaikmunai LP

UNITS

Barrel/bbl	The standard unit of volume. One barrel = 159 litres or 42 US gallons
bcf	billion cubic feet, a billion defined as 1,000,000,000. On average 1 bcf of sales gas = 1.055 petajoules.
boe	Barrels of oil equivalent. The factor used by Zhaikmunai to convert volumes of different hydrocarbon production to barrels of oil equivalent.
bopd	Barrels of oil per day.
Km / m	Kilometres / metres
mmbbls	million barrels of oil
mmboe	million barrels of oil equivalent
mmcm	million cubic metres

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
Bruno G. Meere

design
Beeld.Inzicht, www.beeldinzicht.be

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