Annual Report 2012

Dedication Across the Board

ZHAIKMUNAI

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Dedication Across the Board

ZHAIKMUNAI

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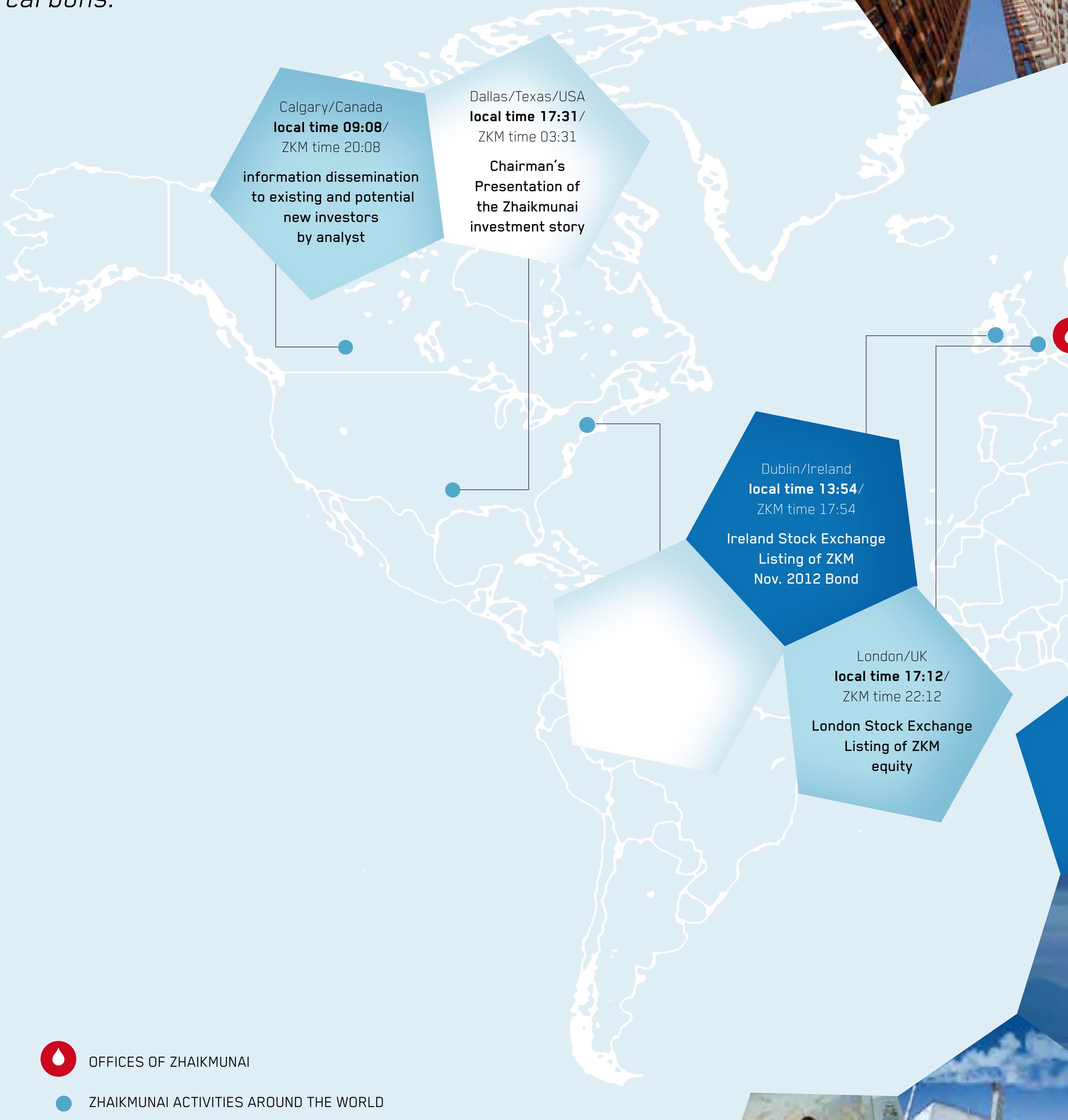
Corporate Social Responsibility

A Global Presence around the Clock

"Zhaikmunai is a leading international independent Oil & Gas company with a listing on the London Stock Exchange (ticker ZKM). Zhaikmunai has a high quality portfolio of assets in the pre-Caspian basin in North-western Kazakhstan, rich in hydrocarbons."



Amsterdam/ Netherlands
local time 15:14/
ZKM time 18:14

ZKM Board Meeting in new offices

Grand- Duché de Luxembourg/ Luxembourg
local time 10:45/
ZKM time 13:45

Listing of ZKM Oct. 2010 Bond

FInland
local time 18:12/
ZKM time 20:12

Refinery processing crude oil from Zhaikmunai

Moscow/Russia
local time 9:30/
ZKM time 10:30

Information dissemination to existing and potential new investors

Almaty/Kazakhstan
local time 14:06/
ZKM time 14:06

KASE
Kazakhstan Stock Exchange
Listing of both ZKM bonds

Hong Kong
local time 10 :02/
ZKM time 07:02

Kazakhstan Conference

Turkey
local time 11:38/
ZKM time 9:38

Tanking on Zhaikmunai LPG in LPG station

Singapore
local time 11:15/
ZKM time 08:15

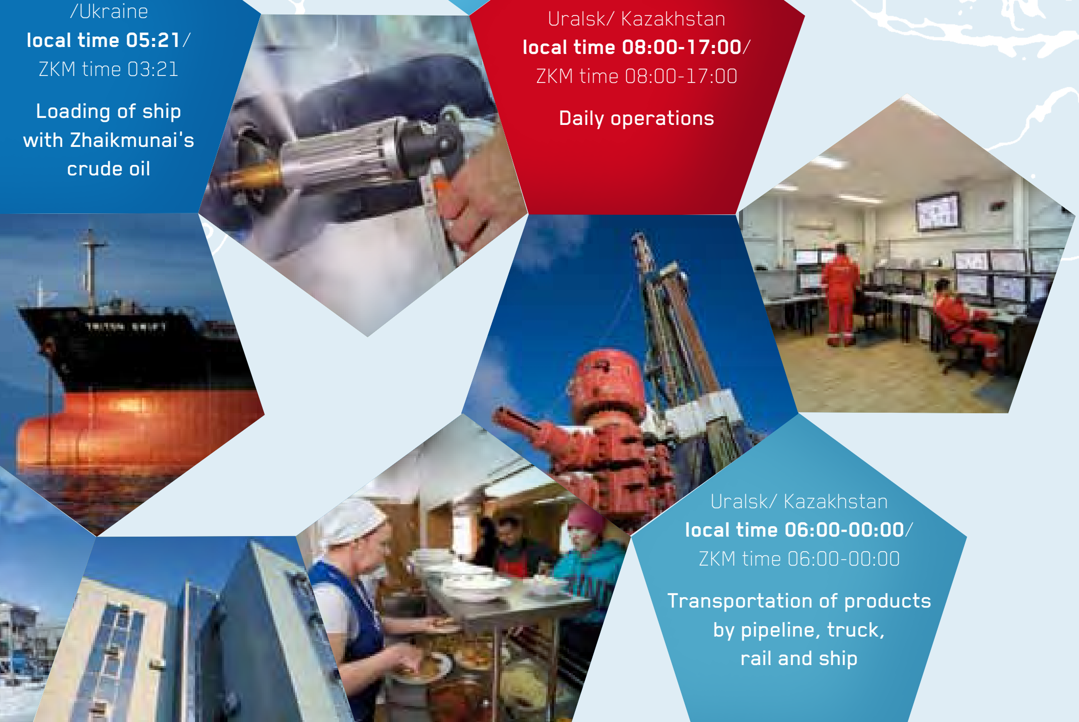
Bond 2012 Roadshow

Theodosia Port, /Ukraine
local time 05:21/
ZKM time 03:21

Loading of ship with Zhaikmunai's crude oil

Uralsk/ Kazakhstan
local time 08:00-17:00/
ZKM time 08:00-17:00

Daily operations



Uralsk/ Kazakhstan
local time 06:00-00:00/
ZKM time 06:00-00:00

Transportation of products by pipeline, truck, rail and ship

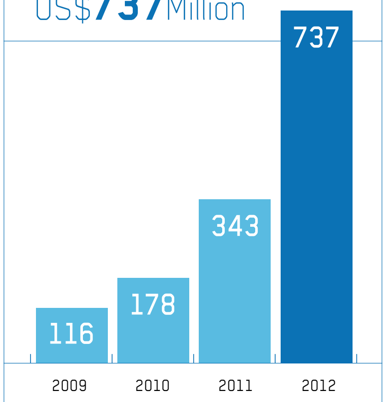
Sydney/Australia
local time 10:17/
ZKM time 05:17

Trading of Zhaikmunai securities

Highlights

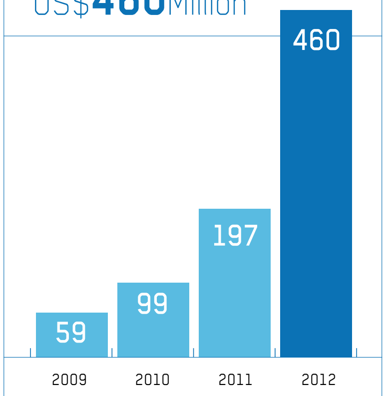
REVENUE US$/m

US$**737**Million



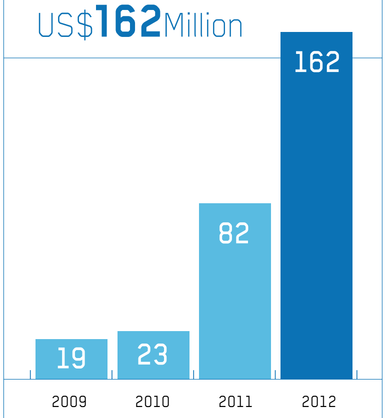
EBITDA US$/m

US$**460**Million



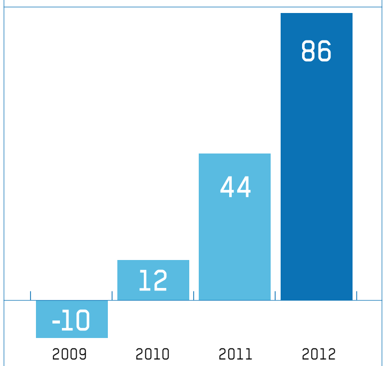
NET INCOME US$/m

US$**162**Million



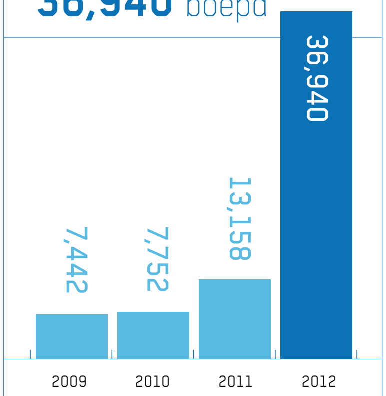
EPS Cents

PROFIT OF **86** cents



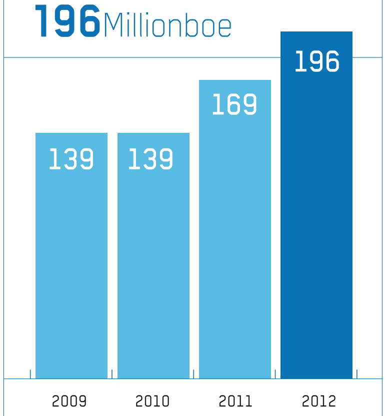
PRODUCTION BOEPD

36,940 boepd



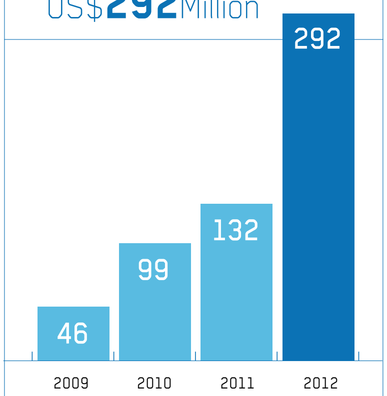
PROVEN RESERVES MBOE

196 Millionboe



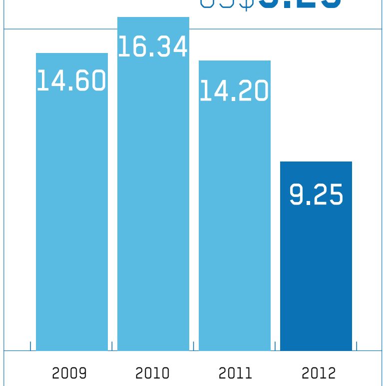
OPERATING CASH FLOW US$/m

US$**292**Million

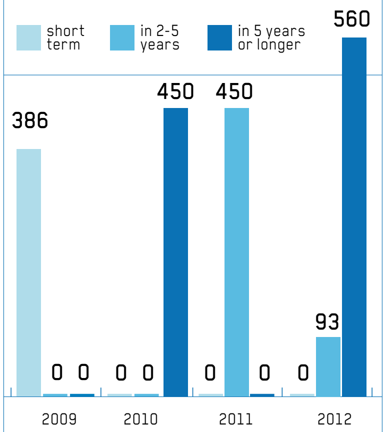


OPEX PER BARREL US$

US$**9.25**



DEBT MATURITY US$/m



"Zhaikmunai delivered record results in 2012, more than doubling revenue & EBITDA. Proven reserve replacement also grew by over 100%."

Operational Highlights

Strong operational platform

In 2012, Zhaikmunai delivered record production as a result of the continued linkup of wells to the Gas Treatment Facility (GTF). Zhaikmunai successfully reached its 45,000 boepd target which remains the guidance production throughout 2013. The reserves base of the Chinarevskoye field is over 1 billion barrels opening up excellent future prospects.

Building a world class portfolio of assets

Zhaikmunai has acquired three new licence areas. These three fields are located within close proximity of the Company's main infrastructure in the hydrocarbon-rich pre-Caspian basin. Appraisal of these three new fields will take place over the coming two years in order to accurately asses their potential reserves and resources. Zhaikmunai's management is optimistic that these assets will supplement the outstanding reserves contained in the Chinarevskoye field and allow the Company to maintain peak production over an extended period of time.

Funding future growth

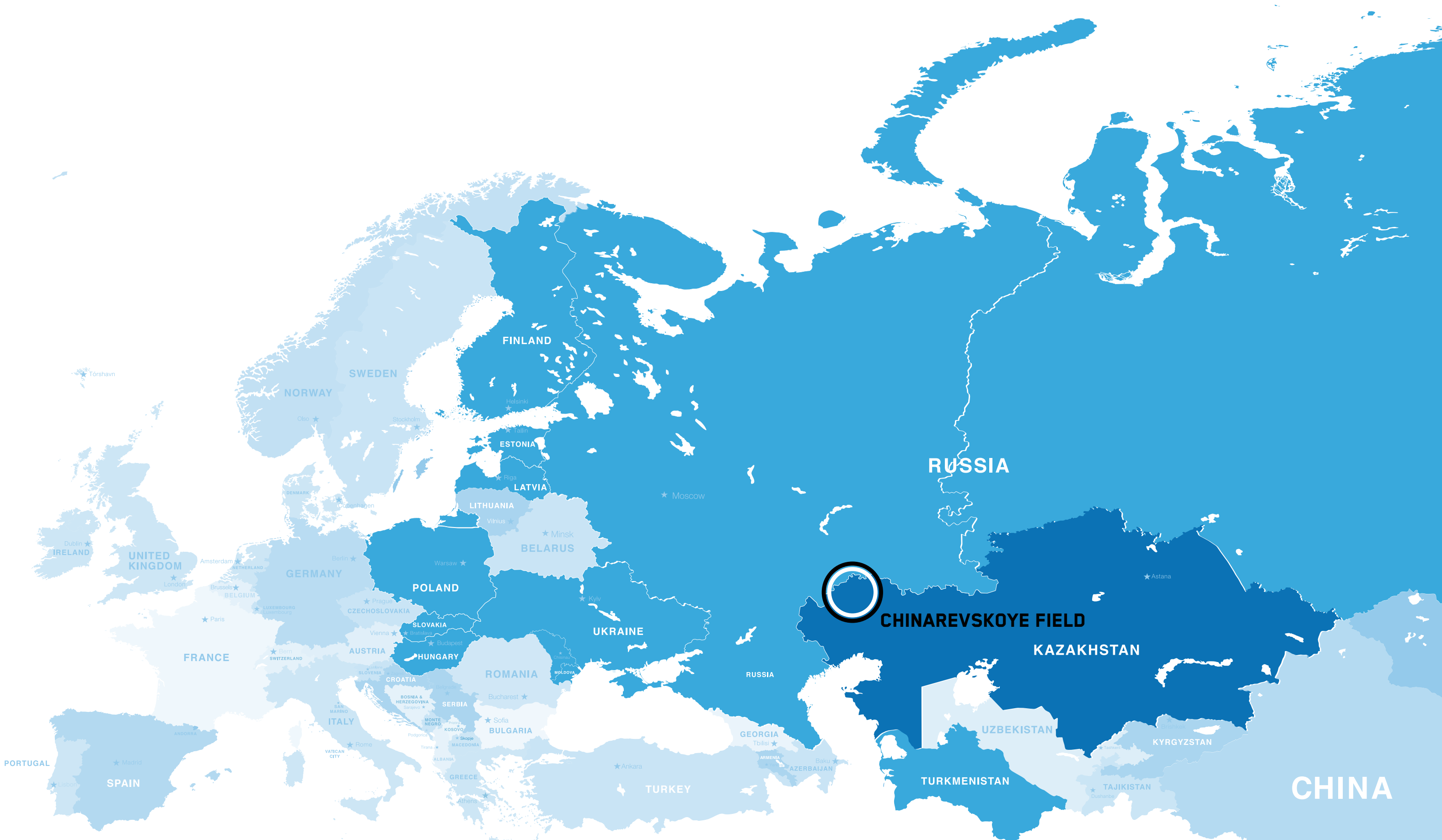
Zhaikmunai has a strong financial platform from which to deliver all its strategic initiatives. Zhaikmunai also has a disciplined approach to its financial management and places a high degree of importance on ensuring that its cash resources are allocated in a prudent fashion in order to deliver the highest returns to shareholders without compromising the robust financial position of the Company. Zhaikmunai intends to pursue its prudent cash management policy, which will allow it to fully fund its future strategy without jeopardizing the financial standing of the Company.

Responsibility Highlights

CSR Policy

Zhaikmunai places a high degree op importance on its corporate and social responsibility culture. Zhaikmunai is committed to conducting business safely in an ethically, socially and environmentally responsible manner. Zhaikmunai's Board and management team is monitoring the implementation of its CSR policy closely.

Operating Locations



US$737M RECORD REVENUE

181% PRODUCTION GROWTH

133% EBITDA GROWTH

Message from the chairman

Frank Monstrey

2012 was the best year in Zhaikmunai's history. It saw record production levels as well as outstanding financial results. 2012 also marked the first steps towards expanding a high-quality portfolio of assets in the hydrocarbon-rich pre-Caspian basin in North-western Kazakhstan. Zhaikmunai, thanks to its impressive infrastructure, which includes a state-of-the-art Gas Treatment Facility (GTF), now holds a unique position in North-western Kazakhstan. Moreover, Zhaikmunai's sizeable production level and reserve base enable it to fund future production growth from existing internally generated cash flow. This is all possible whilst continuing a steady return of cash to shareholders through dividends and a GDR buy-back programme. Thanks to its strong cash flows, low leverage and operational control of all licenses and infrastructure projects, Zhaikmunai is ideally positioned to deliver further growth in 2013 and beyond.

Our Vision

Zhaikmunai's ambition is to further consolidate its position as one of the leading independent oil and gas companies in the Commonwealth of Independent States (CIS). It now has the foundation to create a high-quality and complementary portfolio of assets in Kazakhstan and the larger CIS. Its strategy hinges on extracting as much value as possible from its initial front-loaded infrastructure investments. To achieve this, Zhaikmunai's management team can rely on its in-depth knowledge of the geology and operating environment in Kazakhstan and neighbouring areas.
Zhaikmunai intends on realizing its vision through a clearly defined strategy, balancing organic development with opportunistic expansion through acquisitions. Its main priority remains, as always, to continue to deliver growth and shareholder value in a responsible and efficient way.

Record Production Levels

2012 saw an average total daily production of 36,940 boepd, a 181% increase compared to 2011.

This growth was driven by the production ramp-up of the Gas Treatment Facility (GTF). The 1.7 bcm raw feed gas plant went into 2013 running at full capacity, as a result of the successful tie-in of planned wells and continuous operational improvements carried out throughout 2012. Zhaikmunai now enjoys a period of sustained production at levels above 45,000 boepd, while plans to build an additional train alongside the existing two trains are being developed. This steady production and associated cashflow will allow Zhaikmunai to continue to fund and deliver organic production growth. They will also sustain the renewed Chinarevskoye field appraisal programme. This first targeted appraisal programme since 2009 aims to convert more Probable and Possible Reserves into the Proved Reserves (1P) category over the next 3 years. With over 800 million boe in Probable and Possible Reserves, the prospect of significantly increasing the Proved Reserves base over the coming years is both very real and very exciting.

Strong Financial Position

The dramatic increase in production levels in 2012, combined with a stable and high oil price environment were very beneficial for Zhaikmunai. This led to record revenue (US$ 737.1 million), EBITDA (US$ 460.3 million) and net income (US$ 162.0 million) for a truly outstanding overall result.

A significant portion of Zhaikmunai's 2015 senior bond was refinanced in the course of the year, thereby extending the maturity profile to 2019 and reducing the interest rate by some 3,375% per annum. The cash position on the Balance Sheet was also increased (US$ 251.4 million), in line with the increasing cash flow generated from operations. Zhaikmunai's priority going forward remains a balanced approach to investment in growth and prudent cash management.

Low Cost Reserve Growth

In 2012, the drilling programme focussed primarily on production wells in order to secure the feed to the Gas Treatment Facility (GTF). In spite of the lack of any appraisal programme since 2009 and the relatively low number of wells drilled, the Proved Reserves (1P) replacement ratio remained as high as 174.8%. This means that the 2012 increase in Proved Reserves (1P) (25.7 mmboe) more than replaced the 2012 total actual Chinarevskoye field production, which amounted to 14.7 mmboe.

This positive result bodes well for the planned effort to convert the Probable and Possible Reserves into the Proven Reserves category in the coming years. In addition, Zhaikmunai has entered the first stages of growing its reserves through acquisitions, with the purchase of three licenses within close proximity to the Chinarevskoye field (Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields). The potential finding and development costs of these neighbouring fields can, thanks to the GTF, be dramatically reduced below industry standards. The front-loaded nature and size of the investment in this impressive facility are now opening up additional opportunities for the company. Zhaikmunai plans to add further reserves through acquisitions throughout 2013 and beyond.

Governance and the Board

Zhaikmunai is committed to achieving exemplary standards of corporate governance, the system by which the Group is directed, managed and controlled in the interests of all its stakeholders. To this end, the Board of Directors of Zhaikmunai Group Limited, the General Partner of Zhaikmunai L.P., has over the years set up the following:

- it voluntarily adopted a Corporate Governance 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.;
- it 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 ;
- it 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 opportunities.

Zhaikmunai's dedicated and long-serving Board of Directors has seen the Partnership develop through recent successes, but has equally navigated difficult times during the global financial crisis. Protecting shareholders' interests remains the Board's steadfast focus through good and bad times. This happens through an on-going detailed analysis of the business risks inherent to the sector and a balanced approach to ensuring growth made up of a prudent financial policy and a focus on achieving the highest ethical standards.

As Chairman, it is my role and duty to ensure that we pursue a strong Corporate Governance practice, which has brought us to where we are today into 2013 and beyond.

Corporate Social Responsibility (CSR)

Having operated in Kazakhstan for more than 20 years, many members of Zhaikmunai's Board and Management Team have developed not only a thorough understanding but indeed a strong commitment and connection with the country. Zhaikmunai's North-western Kazakhstan presence has, over the years, also given rise to a tight-knit community. It is thus very naturally that Zhaikmunai has developed its commitment to behave ethically and to contribute to the economic development of the area. Improving the quality of life of the workforce, their families, the local community and society at large in Kazakhstan as well managing the environment in a respectful and careful way art at the core of our ambitious and pragmatic CSR roadmap.

This CSR roadmap comprises employee security and welfare, investment in community building and environmental protection and reporting. Each of these priorities is now taken up in the overall yearly management plan and monitored against specific voluntary as well as compliance objectives. In addition, the QHSE Department has recently undergone major changes including a new and more flexible organisational structure in anticipation of its increasing strategic role.

I am proud to report that Zhaikmunai recently received the first prize in Kazakhstan's "Investment in Ecology Contest" organized by the Ministry of Environmental Protection on World Environment Day in 2013. This prize underscores Zhaikmunai strong environmental protection record, its ambitious social development programme as well as its dedication to community building.

Zhaikmunai will continue to make Corporate and Social Responsibility a priority in 2013 and onwards, through further development and implementation of strategic and ambitious programmes.

Management Team and Employees

Zhaikmunai's exceptional results in 2012 would not have been possible without the steadfast resolve and consistent quality work of its Management Team. The stability of this team led by Chief Executive Officer Kai-Uwe Kessel over the years is, without a doubt, a key factor in the success we are enjoying. I would thus like to take this opportunity to congratulate each and everyone on this team on an excellent performance during 2012.

Finally, I would also like to take this opportunity to thank all Zhaikmunai employees for their steadfast contribution in making Zhaikmunai what it is today.

Closing Remarks

Zhaikmunai is well positioned going into 2013. It boasts an excellent financial platform from which to deliver its growth strategy. Thanks to its significant, front-loaded investments in infrastructure Zhaikmunai can now contemplate building a portfolio of complementary assets in the area. Finally, the Management Team's unabated drive to succeed gives me great confidence that Zhaikmunai can continue to deliver the planned growth in the years ahead. I am very optimistic for the future of Zhaikmunai and believe it has never been in a better position to deliver further value for all shareholders.

Frank Monstrey
Chairman

195
MMBOE
PROVED
RESERVES
(1P)

45,000
BOEPD
DAILY
PRODUCTION

506
MMBOE
PROVED+
PROBABLE
RESERVES
(2P)

Chief Executive's Review

Kai-Uwe Kessel

2012 was an outstanding year from an operational perspective. It saw full production levels and a complete range of hydrocarbon products being delivered to various destinations outside Kazakhstan, including crude oil, stabilised condensate, LPG and dry gas. Zhaikmunai started its third development phase, which will entail the engineering, planning, procurement, construction and the commissioning of new infrastructure as well as a sizeable drilling programme spanning the next 5 to 6 years. Plans for a third train to the Gas Treatment Facility (GTF) were, for example, developed in 2012 and contracts will be awarded in 2013. Reserves growth is expected to happen through the traditional route of proving up reserves from one category to a higher one: in addition to its 195 million Proven Reserves (1P), Zhaikmunai has over 800 million boe in Probable and Possible Reserves. Reserves growth will likely also be boosted by opportunistic acquisitions aimed at leveraging Zhaikmunai's existing infrastructure. Very exciting times thus lie ahead for Zhaikmunai. They all pursue the aim of solid and steady growth as well as return to shareholders.

Operations at Optimal Levels

The Chinarevskoye field is now in full production: both the Oil Treatment Facility (OTF) and the Gas Treatment Facility (GTF) can be operated at their nameplate capacities. Zhaikmunai expects a daily total production average of at least 45,000 boepd for 2013, after factoring in the necessary equipment maintenance, annual shutdown and well tie-in or workover time. All products - crude oil, stabilised condensate, LPG and dry gas - are sold at the best possible prices on the world markets, and our operations are running at optimal levels.

2012 also saw the building of a new employee field camp, which was inaugurated recently. The new camp offers many attractive facilities including a capacity of 460 beds, a large canteen with fully equipped kitchen, in- and outdoor recreational areas, and a clinic, all equipped with central heating, air conditioning, internet, satellite TV, waste water collection and treatment, laundry facilities, etc.

Drilling

In 2013, we have already allocated US$ 200 million for the drilling of 15 - 17 wells; 9 appraisal wells, one exploration well and 5-7 production wells. Further sustained drilling activities are planned for 2014 and 2015, also at an average budgeted cost of US$ 11 - 15 million per well.

Expanding the GTF's Treatment Capacity

Establishing the impressive infrastructure of the GTF in the remote pre-Caspian basin of North-western Kazakhstan has afforded Zhaikmunai a unique learning platform. As a result, we are now particularly well positioned to repeat the process in the third phase of development of the Chinarevskoye field.

In its first two development phases, Zhaikmunai has developed a very good understanding of the nature and behaviour of the different hydrocarbon bearing reservoirs and of the gas condensate streams. It also gained substantial hands-experience in construction, operations and maintenance. This will prove extremely valuable in the next 3 years, as it plans to build a third GTF train next to the existing ones. This will allow faster monetisation of reserves, by increasing treatment capacity by an additional 2.5 bcm of raw gas per year, bringing total capacity to 4.2 bcm of raw gas per annum. Investments have already been made on the initial design of this third train and early stage procurement, and final decisions on the contracts are expected in the coming few months. Construction and commissioning of this state-of-the-art infrastructure is expected to be completed by mid 2016.

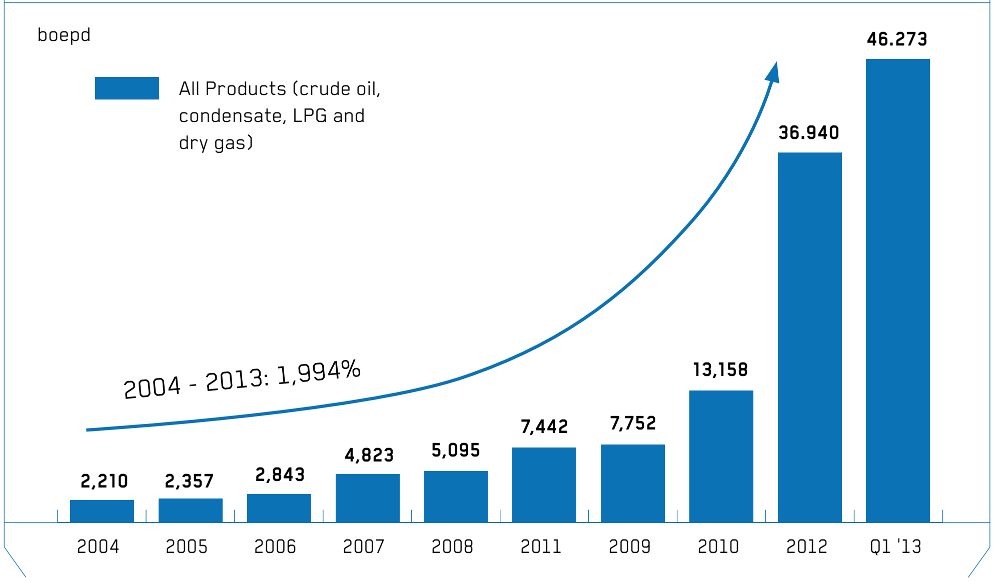
Proving Up Reserves in the Chinarevskoye Field

The multi-layered nature of the Chinarevskoye field allows us to pursue drilling in the current production areas. The recent renewal of our exploration licence will also contribute to the generation of more Possible Reserves, the conversion of Possible Reserves into Probable Reserves and the further conversion of Probable Reserves into Proved Reserves (1P). There is significant exploration potential in reservoirs, which are yet to be accessed, and these also hold promise for the future. This is confirmed by the latest independent Ryder Scott report from December 31, 2012, showing a 15.2% increase in Proved Reserves (1P) during 2012 to 194.8mboe, whereas the Proved plus Probable Reserves (2P) remained over 500mmboe.

Building Up Further Reserves Beyond the Chinarevskoye Field

In addition to proving up reserves, Phase III of the Chinarevskoye development plan also focuses on sustaining its long-term production potential beyond the initial full capacity plateau. These two imperatives are the cornerstone of Zhaikmunai's Mergers & Acquisitions strategy. The recent acquisition of the subsoil use rights related to three

PRODUCTION GROWTH



"Already in 2013 a drilling expenditure of US$ 200 million foresees the drilling of 15 - 17 wells (9 appraisal wells, 1 exploration well and 7 production wells)."

adjacent oil and gas fields, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye, in close vicinity of the Chinarevskoye field, serves these two imperatives perfectly. Zhaikmunai looks forward to appraising these fields in the next 2–3 years, with an initial budget of US$ 85 million. Activities will include the acquisition of new and/or the reprocessing of existing 3D seismic data, as well as exploration/appraisal drilling, to validate and expand the existing reserves. These three fields give Zhaikmunai an attractive upside potential, allowing for further reserve and production growth.

By virtue of its size, development stage and production track record, Zhaikmunai has acquired enviable visibility and is regularly informed of further growth expansion opportunities. Its approach is to remain both pragmatic and prudent as it considers these options in its areas of specific expertise. Zhaikmunai's main focus remains on North-western Kazakhstan, where it knows the landscape and is already operating successfully. In addition, it will look for logistical or managerial synergies in current and future operations. Each new project will be considered on its own merits and could give rise, in due time, to other acquisitions or joint ventures.

Optimizing Shareholder Value

Delivering shareholder value has, so far, been achieved through a clear capital structure and a financial policy hinging on a balanced approach of investment in growth and a capital expenditure programme funded in large part from operating cash flow. In addition, in 2012 the Board of Directors approved the payment of an inaugural dividend being a cash distribution of 32 cents per partnership interest (equal to US$ 60.2 million), and the adoption of a dividend policy of not less than 20% of the Partnership's consolidated net profit per annum. Finally, in early 2013 the Board has also considered a GDR buy-back programme, which was approved by the limited partners of the Partnership in a Special General Meeting.

Closing Remarks

Zhaikmunai's development plans offer exciting opportunities in 2013. We look forward to pursuing our exploration, appraisal, development and production activities to the highest standards, whilst we continue to deliver the planned results to our shareholders. My sincere appreciation goes to our wider Kazakhstan community, including the full Zhaikmunai team, for all their hard work in bringing us at this unique juncture.

Strategic Outlook

115%
REVENUE GROWTH

15
NEW WELLS IN 2013

506
MMBOE PROVED+ PROBABLE RESERVES (2P)

Zhaikmunai's Strategy

Zhaikmunai's long-term objective is to further consolidate its position as one of the leading independent oil and gas companies in Kazakhstan and in the Commonwealth of Independent States (CIS). The first phases of development of the Chinarevskoye field have now been completed. Its large infrastructure, including the Gas Treatment Facility (GTF), is fully operational and average daily production currently runs above 45,000 boepd.

Zhaikmunai's third phase of development has now started. It is served by a healthy Balance Sheet showing more than US$ 250 million in cash. It also rests on over 800 million boe of Probable and Possible Reserves in the Chinarevksoye field as well as additional reserves in the three recently acquired new fields (Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye) close to the Chinarevskoye field.

The constituents of Zhaikmunai's strategy in delivering the future growth potential of the company comprise:

- Delivering organic production growth;
- Actively pursuing reserve growth;
- Developing a multi-field model;
- Making sustainable development a priority;
- Focusing on delivering shareholder value.

All of these contribute towards enhancing value for all of Zhaikmunai's stakeholders.

Delivering Organic Production Growth

Zhaikmunai aims to double production levels by the end of 2016. To do this, it plans to erect an additional third train to the GTF next to the existing two trains, which can currently treat a total of 1.7 bcm of raw gas per year. The capacity of this third train will be 2.5 bcm of raw gas, bringing the total GTF capacity to 4.2 bcm of raw gas annually when all three trains will be in operation. This extension will benefit from the technical expertise and from the important experience gained with the first two trains of the GTF.

The roadmap for the third train to the GTF includes the FEED (Front End Engineering Design), the selection of vendors, construction, commissioning and production ramp-up. The decision to initiate the construction is naturally predicated on meeting Zhaikmunai's internal macroeconomic environment conditions and financial criteria including cash management. Zhaimunai intends, for example, on hedging the planned non-scalable infrastructure expenditure.

The significant investment in infrastructure will be fully funded from operational cash flow, and will also focus on such items as the expansion of the Oil Treatment Facility (OTF). All other existing Zhaikmunai owned and operated infrastructure, such as pipelines and rail terminals, has ample capacity to accommodate for at least a doubling of the current production levels.

Actively Pursuing Reserve Growth

The Chinarevskoye field currently has over 1 billion boe in reserves. Ryder Scott, in its December 2012 report, confirmed Proven Reserves of 195 million boed, an increase of 15.2% compared to 2011. Zhaikmunai's appraisal programme will focus on the Chinarevskoye field's Probable Reserves (311 mmboe) and Possible Reserves (559 mmboe). Over the next few years the target is to build Zhaikmunai's Proven Reserves base towards some 700 million boe. This will ensure that Zhaikmunai can produce over 100,000 boedpd until the end of its current license in 2032. To support future growth of proven reserves, Zhaikmunai also intends to start appraising the three recently acquired adjacent fields (Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye).

Over the last 4 years, drilling has focused mainly on production wells in order to secure feedstock for the GTF and maintain crude oil production at levels above 7,000 bbl per day. Now that the feedstock is in place, the onus will lie on a renewed appraisal drilling programme in order to transfer more of Zhaikmunai's Possible Reserves and Probable Reserves into the Proven Reserves category. Under the existing oil price environment, the current drilling plan foresees some 60 wells over the next 5 years. For 2013 alone, approximately 15 wells are planned, the majority of which will be appraisal wells.

Taken together, these growth programmes will lay the foundations for doubling total production by the end of 2016, and extending the production plateau at this level well beyond 2020.

Developing a Multi-Field Model

Zhaikmunai is also pursuing a strategy of growth through value-accretive acquisitions. This is in line with its desire to leverage existing infrastructure to further add reserves at low-finding costs. The recent acquisition of the Rostoshinskoye, Darinskoye and Yuzhno-Gremyachenskoye fields, all of which are located between 80 and 120 km from the existing GTF marked a first step in this direction. The appraisal work on these 3 fields will commence in 2013 and will be spread over the next 3 years.

Opportunities for acquisitive growth in Kazakhstan are being evaluated on a continuous basis. Zhaikmunai, with its enviable development and operational track record in Kazakhstan will continue to look for compelling acquisitions, which will further improve shareholder value.

Making Sustainable Development a Priority

Zhaikmunai's long presence in Kazakhstan has led to a natural, gradual and ambitious involvement in sustainable development. Over the years, it has built a comprehensive CSR roadmap comprised of employee security and welfare, investment in community building and environmental protection and reporting. Each of these priorities is now taken up in the overall yearly management plan and monitored against specific voluntary as well as compliance objectives. As such, Zhaikmunai continues to strive to improve and implement new policies each year in order to integrate further sustainability in all of its operations.

Zhaikmunai sees Corporate Social Responsibility as an important indicator of non-financial risk and is constantly developing internal best practices to improve its standards. This is an important standalone part of Zhaikmunai's strategy while it is also complementary to all of the other strategic initiatives. Sustainable development will remain a priority in 2013 and onwards.

Focus on Delivering Shareholder Value

Zhaikmunai's strategy is centred on a balanced approach to investment in growth. This entails both a prudent cash management policy and returns to shareholders.

Zhaikmunai is in strong financial position: both revenue and EBITDA more than doubling in 2012 compared to 2011. For the next 5 years, its capital expenditure (CAPEX) programme can be fully funded from its operational cash flow. In addition, it intends on hedging all the non-scalable CAPEX components against oil price fluctuations. Finally, it wishes to keep its Net Debt to EBITDA ratio of 1.5 X objective in addition to a healthy cash position in order to mitigate any volatility in the oil price.

Zhaikmunai's progressive dividend policy was adopted in 2012. This will be pursued over the coming years, assuming it doesn't impact its cash balance or growth strategy in a fluctuating oil price environment. Zhaikmunai has also started implementing a GDR (Global Depositary Receipt) buy-back programme in 2013. Finally, Zhaikmunai will continue to consider options for an alternative listing.

KAZAKHSTAN
2ND
LARGEST OIL PRODUCER

Local Operating Conditions

This section gives an overview of the upstream oil and gas industry in Kazakhstan and the Caspian region where Zhaikmunai is active.[1]

The Larger Caspian Region

The Caspian region includes regions adjacent to the Caspian Sea in several countries (including Russia, Azerbaijan, Turkmenistan and Iran), as well as areas of Uzbekistan, which are also considered part of the region due to their proximity to the Caspian Sea.

To date, the two significant crude oil producing countries in the Caspian region have been Kazakhstan and Azerbaijan. It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Turkmenistan and Uzbekistan are the predominant gas producers in the Caspian region, but do not produce significant crude oil volumes relative to Kazakhstan and Azerbaijan.

In addition, the areas of Russia and Iran near the Caspian Sea are not a source of substantial crude oil production for these countries. Russia, however, plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea.

Kazakhstan's Oil and Gas Industry

Investment in Kazakhstan's Oil and Gas Industry

Since 2000, Kazakhstan has experienced significant economic growth. Two of the main catalysts for this have been economic reform and foreign investment, much of which has been concentrated in the energy sector. Exports of crude oil have grown significantly since 2000, and most of the oil from Kazakhstan is currently delivered to international markets using pipelines, which run through Russia

1 This information has, unless otherwise stated, been extracted from documents, websites and other publications released by the President of Kazakhstan, the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, the Competent Authority and other public sources.

Some of the market and competitive position data has been obtained from US government publications and other third-party sources, including publicly available data from the World Bank, the Economist Intelligence Unit, the annual BP Statistical Review of World Energy for 2012, as well as from Kazakh press reports and publications, and edicts and resolutions of the Government. In the case of statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

Certain sources are only updated periodically. This means that certain data for current periods cannot be obtained and Zhaikmunai cannot assure that such data has not been revised or will not be subsequently amended.

"According to the projections of the Competent Authority, Kazakhstan expects to increase its gas production to 79.4 billion cubic metres per year by 2015."

to shipping points on the Black Sea. The opening of the CPC pipeline in 2001 substantially increased Kazakhstan's crude oil export capacity.

International investment in the oil and gas sector in Kazakhstan has taken the form of joint ventures, including those in association with its national oil company, NC KMG, as well as production-sharing agreements and exploration/field concessions.

Oil Supply and Demand

As at 31 December 2011, Kazakhstan ranked 12th in the world by oil reserves and 14th in the world by oil and gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet Republics and has the Caspian region's largest recoverable crude oil reserves. Kazakhstan's proved oil and gas reserves stood at 3.9 billion tonnes (1.8% of the world's proved oil reserves) and 1.9 trillion cubic metres (representing 0.9% of the world's proved gas reserves), respectively, as at 31 December 2011.

Between 2001 and 2011, Kazakhstan's oil production grew at a compounded annual growth rate of approximately 7.5%. Kazakhstan produced approximately 78.0 million tonnes of oil and gas condensate in 2009, 79.7 million tonnes in 2010 and 80.1 million tonnes in 2011, an increase of 0.5% from 2010. During the first half of 2012, the industrial output of crude oil and natural gas decreased by 3.7%, compared to a 3.1% increase during the same period in 2011. The Kazakh Government has stated that it expects oil and gas production to increase to 150 million tonnes per year and 79.4 billion cubic metres per year in 2015. Most of this growth is expected to come from the Tengiz, Karachaganak, and Kashagan fields.

The Asia Pacific region was the world's largest oil consumer in 2011, accounting for approximately 32.4% of world consumption. The United States was the largest consumer by country, with 20.5%. Europe together with the former Soviet Republics was the world's largest consumer of natural gas in 2011, with 34.1%. The United States was the largest consumer of natural gas by country, with 21.5%.

Kazakhstan has three major oil refineries, supplying the northern region (Pavlodar), the western region (Atyrau) and the southern region (Shymkent), with an estimated total refining capacity of 21.0 million tonnes per year (approximately 427,000 bpd). All three major refineries are either under the control or joint-control of NC KMG. Crude oil is also processed at mini-refineries (private small refineries).

Gas Supply and Demand

Kazakhstan is a net exporter of gas. Increases in its own gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields. Most of Kazakhstan's gas reserves are located in the west of the country, near the Caspian Sea, with roughly 25% of proved reserves located in the Karachaganak field. Another important gas field, Amangeldy, is situated in the south of the country and is being developed by KazTransGas, a subsidiary of NC KMG.

Gas production in Kazakhstan has increased significantly since 1999, when the Government passed a law requiring subsoil users (primarily oil companies) to include "gas utilisation projects" in their development plans. As a result, gas production in 2000 reached 11.5 billion cubic metres, the highest level since independence in 1991. Gas production increased by 5.6%, from 37.4 billion cubic metres in 2010 to 39.5 billion cubic metres in 2011.

According to the projections of the Competent Authority, Kazakhstan expects to increase its gas production to 79.4 billion cubic metres per year by 2015.

Transportation

An important aspect of increasing hydrocarbon production in Kazakhstan has been the development of transportation infrastructure, as this in turn has raised Kazakhstan's export capacity.

Crude Oil

Historically, the lack of pipeline capacity providing access to international markets has limited Kazakhstan's ability to exploit its oil reserves. In 2011, Kazakhstan had 20,230 kilometres of pipe-

line of which 7,912 were used for the transportation of oil.
The three main pipelines are Uzen-Atyrau-Samara (UAS), the Caspian Pipeline Consortium (CPC) system, and the Kazakhstan-China pipeline. Kazakhstan transported approximately 193.9 million tonnes of products in 2010 and 214.1 million tonnes of products in 2011 using pipelines. Since Kazakhstan is essentially landlocked, these products have to transit through neighbouring countries to reach international markets. The exploitation of Kazakhstan's hydrocarbon resources has been assisted by the development of the transportation infrastructure in the region.

Rail transportation was the primary export route for Kazakhstan's crude production before the development of the UAS and CPC pipelines, and it remains a viable alternative option.

Natural Gas
Most of the pipelines have, so far, been used for the transportation of gas in Kazakhstan. In fact, 12,318 kilometres of the 20,230 kilometres of pipeline that Kazakhstan had in 2011 were used for the transportation of gas.

Most of the gas pipelines in western Kazakhstan, with the exception of Makat-Atyrau-Astrakhan, are designed to provide gas to CAC.

Competition

Since the independence of Kazakhstan in 1991, major Western oil companies have dominated the Kazakh oil and gas sector, with BG Group, Chevron, ENI, Exxon, Shell, Total, Mobil, LUKOIL and Texaco acquiring stakes in the world-scale TCO, North Caspian and Karachaganak projects. Investments from Asian oil and gas companies began in the late 1990s, led by Indonesia's Central Asia Petroleum (which acquired a share in Mangistaumunaigas in 1997) and CNPC International (which acquired shares in Aktobemunaigas in 1997 and PetroKazakhstan in 2005). CNPC International has continued to invest heavily in the country and has been joined by, among others, Inpex, Sinopec and KNOC. LUKOIL and Rosneft have led the investment by Russian companies, with a focus on offshore Caspian Sea projects.

The following table lists the foreign investors by production.

Oil and Condensate Production

For the year ended 31 December 2011

	Company production	Foreign investors	Thousands tonnes
1.	TCO (Tengizchevroil)	Chevron Texaco, ExxonMobil, NC KMG, LukArco	27,140
2.	KazMunaiGas EP	Listed on the LSE	12,341
3.	KPO (Karachaganak)	Eni, BG, ChevronTexaco, LUKOIL	11,040
4.	CNPC Aktobemunaigas	CNPC	6,200
5.	Mangistaumunaigas	CNPC, KazMunaiGas	6,042
6.	PKZ Kumkol	CNPCI (acquired PKZ)	3,200
7.	KazGerMunai	CNPCI (through PKZ), KazMunaiGas	3,187
8.	Embamunaygas	KazMunaiGas EP	2,818
9.	Turgai Petroleum	CNPCI (through PKZ), LUKOIL, KazMunaiGas	2,500
10.	Karazhanbasmunai	Citic Group, KazMunaiGas	1,980

Note: The table does not include Kashagan, which is still under development. Barrels of oil converted into tonnes using a conversion factor of 7.75.

Gas Sales

For the year ended 31 December 2011

	Company production	Foreign investors	Million cubic metres
1.	TCO (Tengizchevroil)	Chevron Texaco, ExxonMobil, NC KMG, LukArco	6,900
2.	KazMunaiGas EP	Listed on the LSE	–
3.	KPO (Karachaganak)	Eni, BG, ChevronTexaco, LUKOIL	8,725
4.	CNPC Aktobemunaigas	CNPC	3,400
5.	Mangistaumunaigas	CNPC, KazMuaniGas	–
6.	PKZ Kumkol	CNPCI (acquired PKZ)	–
7.	KazGerMunai	CNPCI (through PKZ), KazMunaiGas	–
8.	Embamunaygas	KazMunaiGas EP	–
9.	Turgai Petroleum	CNPCI (through PKZ), LUKOIL, KazMunaiGas	–
10.	Karazhanbasmunai	Citic Group, KazMunaiGas	–

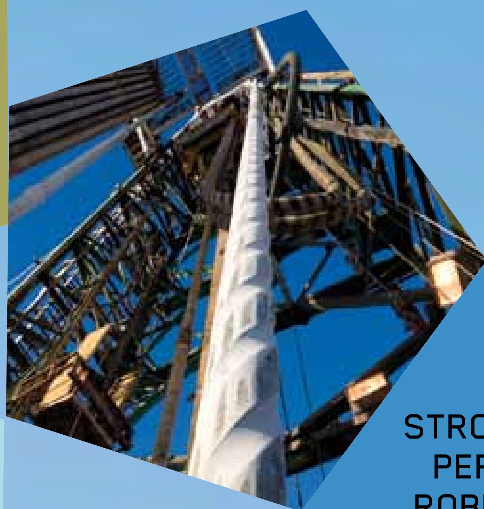
Note: Cubic feet of gas converted into cubic metres using a conversion factor of 35.315.

Key Strengths

Zhaikmunai's main producing asset is currently the Chinarevksoye field, located in the northern part of Kazakhstan's oil rich pre-Caspian basin, close to the Russian border. The other recently acquired assets, the Rostoshinskoye field, the Darinskoye field and the Yuzhno-Gremyachenskoye field, are all closely located to the Chinarevskoye field and its infrastructure. This allows for significant economies of scale, as these assets can use the existing Gas Treatment Facility (GTF) and pipeline infrastructure. Zhaikmunai's oil pipeline form the Chinarevskoye field to its own rail terminal in Rostoshi, near Uralsk, gives it direct access to the rail network across the CIS. Zhaikmunai's location provides access to independent transport links over reduced distances, allowing for the best possible netbacks.

Zhaikmunai owns and operates its entire infrastructure network from the wellhead to the processing plants, including oil and gas pipelines and rail terminals (oil/stabilised condensate and LPG). This ensures that operating and transport costs are both known and properly controlled and allows for consistent product quality. Zhaikmunai can secure the best possible netbacks for its products and also maintain full flexibility on transportation routes as it owns its own oil pipeline and railway terminal. While there are a number of possible alternative pipeline networks which could be accessed from Uralsk, netbacks remain better using the current railcar transportation routes from the Zhaikmunai crude oil / stabilised condensate and LPG railway terminals.

STATE-OF-THE-ART INFRASTRUCTURE



ADVANTAGEOUSLY LOCATED ASSETS

STRONG FINANCIAL PERFORMANCE, ROBUST BALANCE SHEET & EXCELLENT CREDIT METRICS

ACCESS TO BOTH DEBT AND EQUITY CAPITAL MARKETS

Zhaikmunai's successful capital markets activities include both bonds and equity raisings. Its bold ambition yet prudent financial policy have been recognized and have opened access to a number of different markets. This includes access to a broad range of financial products, allowing Zhaikmunai to manage its finances in the most flexible and efficient way throughout various investment programmes.

Zhaikmunai's strong financial position and proven business model is further highlighted through its sustained revenue, high EBITDA margin, strong cash flow generation, and excellent credit metrics. The latter have been underpinned by production growth through investment in infrastructure and an attractive fiscal environment.

MANAGEMENT TEAM WITH A TRACK RECORD OF DELIVERING

Zhaikmunai has an extensive track record of successful exploration, development and production within the Chinarevskoye licence area, as well as of successfully building and financing large infrastructure projects in Kazakhstan. Its success is directly linked to the strength of its management team, which has significant experience both in the oil and gas sector and in operating in Kazakhstan. Over the years, Zhaikmunai has also been developing experienced senior managers in many key departments, thereby building a significant Kazakh critical mass.

STABLE OPERATING ENVIRONMENT

Zhaikmunai has been operating successfully in Kazakhstan since 2004. It invested more than US$ 1.5 billion in building and operating infrastructure and is further growing its reserve base. The company operates under a grandfathered PSA (Production Sharing Agreement) dating from 1997. Zhaikmunai has so far met and exceeded all of its investment requirements under the production licence. It has further put great emphasis on building strong and lasting relationships with local communities as well as regional and national authorities. Local employment is, for example, a key focus as more than 90% of Zhaikmunai's is Kazakh. These elements constitute a key strength and have allowed the company to operate and develop successfully over the years.

TRANSFORMATIONAL NEAR-TERM GROWTH

STRONG AND GROWING RESERVE BASE

As at 31 December 2012, Ryder Scott estimated the Chinarevskoye field Proved and Probable Reserves (2P) to be 506 mmboe, and its Proved Reserves (1P) to be 196 mmboe. With very limited appraisal drilling in the past year, the 15.2% increase in Proved Reserves since 2011 indicates the size and potential of the Chinarevskoye field. The 3 additional licences will also add to the reserve numbers at low finding costs. Zhaikmunai's reserve base is expected to continue growing with further appraisal and the possibility of additional acquisitions in the area. This will ensure that peak production can be maintained well beyond 2020.

Zhaikmunai has designed a clear path to doubling its total production by the end of 2016, with a CAPEX programme funded from its own operating cash flow. The required infrastructure to deliver this substantial increase, including the GTF's extra 2.5 bcm capacity third train and other non-scalable CAPEX is hedged against fluctuations in oil price in order not to expose the Zhaikmunai to any unnecessary financial risks.

REVENUE
US$737
MILLION

EBITDA
US$460
MILLION

Financial Review

by the Chief Financial Officer, Jan-Ru Muller

Key Performance Indicators

NET CASH FROM OPERATING ACTIVITIES (US$ million)
2012: 291.8
2011: 132.2
2010: 99.0

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 (US$ million)
2012: 162.0
2011: 81.6
2010: 22.9

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 (US$ million)
2012: 269.7
2011: 103.7
2010: 132.2

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

PRODUCTION (mmboe)
2012: 13.5
2011: 4.8
2010: 2.8

Production is the sum of all average daily volumes of unrefined oil products (crude oil and stabilised condensate) and gas products (LPG and dry gas) produced for sale. Changes in production have a significant impact on the Group's cash flow.

PROVED OIL AND GAS RESERVES (mmboe)
2012: 194.8
2011: 169.1
2010: 143.5

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, as at December 31, 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.

DIVIDEND (US$ 0.xx per common unit)
2012: 32
2011: -
2010: -

In September 2012, the Board of Directors has approved the implementation of an on-going distribution policy with the intention of making an annual distribution of not less than 20 per cent of the Partnership's consolidated net profit. This policy reflects Zhaikmunai's desire to recognize the growth and cash generation inherent in the business. In the future the policy will be progressively reviewed by the Board of Directors in line with the achievement of Zhaikmunai's strategic milestones.

Revenue, Expenses and Results

Results for the year: The Group realized a net income of US$ 162.0 million in 2012, an increase of US$ 81.4 million from the net income of US$ 81.6 million in 2011.
Revenue increased by US$ 436.2 million, or 145.0%, to US$ 737.1 million in the year ended 31 December 2012 from US $300.8 million in the year ended 31 December 2011 primarily due to the additional revenue generated by the increased production essentially from the Gas Treatment Facility (GTF).

The following table shows the Group's revenue, sales volumes and the commodity price of Brent crude oil for the years ended 31 December 2012 and 2011:

Year ended 31 Decem ber		
Revenue:	**2012**	**2011**
Sales volumes (boe)	13,629,245	3,397,815
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	107.4	106.9
Total Revenue (US$ million)	737.1	300.8

The following table shows the Group's revenue breakdown by product for the years ended 31 December 2012 and 2011:

	Year ended 31 December (US$ thousands)	
Revenue:	**2012**	**2011**
Oil and gas condensate	587.4	289.9
Gas and liquefied petroleum gas	149.7	10.9
Total Revenue (US$ million)	737.1	300.8

The following table shows the Group's revenue breakdown by export/domestic for the years ended 31 December 2012 and 2011:

	Year ended 31 December (US$ thousands)	
Revenue:	**2012**	**2011**
Revenue from export sales	630.4	284.5
Revenue from domestic sales	106.7	16.3
Total Revenue (US$ million)	737.1	300.8

The significant increase in domestic sales in the year ended 31 December 2012 compared to the same period in 2011 was primarily due to the commencement of dry gas production and sales, 100% of which is sold in the domestic Kazakhstan market.

Cost of sales increased by US$ 167.4 million, or 236.5%, to US$ 238.2 million in the year ended 31 December 2012 from US$ 70.8 million in the year ended 31 December 2011 primarily due to an increase in production, depreciation, repair and maintenance, payroll expenses and materials and supplies driven by commencement of operations at the Gas Treatment Facility. On a boe basis, cost of sales decreased by US$ 3.36 or 16.1%, to US$ 17.48 in the year ended 31 December 2012 from US$ 20.83 in the year ended 31 December 2011, and cost of sales net of depreciation per boe decreased by US$ 5.07, or 33.6% to US$ 10.04 in the year ended 31 December 2012 from US$ 15.11 in the year ended 31 December 2011.

General & administrative expenses increased by US$ 25.1 million, or 69.1%, to US$ 61.6 million in the year ended 31 December 2012 from US$ 36.4

"The Group realized a net income of US$ 162.0 million in 2012, an increase of US$ 81.4 million from the net income of US$ 81.6 million in 2011."

million in the year ended 31 December 2011 due primarily to an increase in social program expenditures of US$ 20.8 million in the year ended 31 December 2012 from US$ 1.1 million in the year ended 31 December 2011. This increase was related to the start of construction of a 37-kilometre asphalt road accessing the field site, which the Group agreed to construct as part of the ninth amendment to the PSA. The costs associated with the constructions of this road are significantly higher than the Group's usual costs relating to social programs. Other expenses contributing to the increase in general and administrative expenses include an increase in management fees, an increase in payroll and related taxes and an increase in training expenses.

Selling and transportation expenses increased by US$ 68.2 million, or 192.7%, to US$ 103.6 million in the year ended 31 December 2011 from US$ 35.4 million in the year ended 31 December 2011. This was driven primarily by an increase of US$ 44.3 million for transportation costs to US$ 74.0 million in the year ended 31 December 2012 from US$ 29.7 million in the year ended 31 December 2011. Additionally, the company's loading and storage costs increased to US$ 21.6 million in the year ended 31 December 2012 from US$ 1.4 million in the year ended 31 December 2011. These cost increases were driven by the overall increase in production and specifically the rise in output of LPG and condensate volumes. These products require more specialised transportation and have thus led to higher costs.

Finance costs increased by US$ 45.4 million, to US$ 50.1 million in the year ended 31 December 2012 from US$ 4.7 million in the year ended 31 December 2011. The increase in costs was primarily driven by the coming into operation of the Gas Treatment Facility, which resulted in decreased capitalization of interest costs in the period.

Income tax expense increased to US$ 120.4 million in 2012 compared to US$ 67.3 million in 2011, an increase of US$ 53.1 million or 78.9%. Profit before tax increased to US$ 282.4 million compared to US$ 149.0 million in 2011, an increase of US$ 133.4 million or 89.5%. The effective tax rate in 2012 was 42.6% (2011: 45.2%). The difference between the statutory tax rate of 30% and the effective tax rate is mainly caused by the interest on the borrowings being largely non-deductible.

Liquidity and Capital Resources

General

During the period under review, Zhaikmunai's principal sources of funds were cash from operations and amounts raised under the 2019 Notes, the 2015 Notes and the offering of GDRs (Global Depositary Receipts) in September 2009. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2019 Notes and the 2015 Notes) and to funding capital expenditures and working capital requirements.

Net cash flows from operating activities

Net cash flows from operating activities were US$ 291.8 million for the year ended 31 December 2012 as compared to US$ 132.2 million for the year ended 31 December 2011 and were primarily attributable to:

• a profit before income tax for the period of US$ 282.4 million, adjusted by a non-cash charge for depreciation and amortisation of US$ 102.6 million, and finance costs of US$ 50.1 million;

• a US$ 45.8 million increase in working capital primarily attributable to:

(i) an increase in receivables of US$ 41.4 million,

(ii) a decrease in payables of US$ 2.7 million,

(iii) an increase in inventories of US$ 10.4 million,

(iv) an increase in other current liabilities of US$ 22.0 million; and

(v) income tax paid of U.S.$ 94.2 million.

Net cash used in investing activities

Net cash used in investing activities was US$ 269.7 million for the year ended 31 December 2012 due primarily to the drilling of new wells (US$121.4 million), investments in the Gas Treatment Facility (US$ 40.3 million) and US$ 50 million in short term bank deposits.

Net cash (used in)/provided by financing activities

Net cash provided by financing activities was US$ 50.4 million for the year ended 31 December 2012, primarily attributable to the proceeds of the 2019 Notes partially offset by the partial repurchase of the 2015 Notes.

Principal Financial Risks and Uncertainties

Description of risk	Risk management	Result 2012 and Exposure 2013
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. The treasury policy requires the Group to maintain a minimum level of cash of US$ 100 million.
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's hedging policy is that, upon entering into longer term non scalable capital expenditure commitments, it will hedge up to a maximum of 70% of its liquids production. The instrument the Group employed in the past is a zero-cost-capped-collar. Such contract fixes the floor price at a certain predetermined level while limiting the upside risk. The Group intends to keep the same hedging policy going forward.
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 borrowing denominated in KZT (Kazakh 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.	The Group does not hedge its exposure to foreign exchange rate risk. Foreign exchange rate risk is limited as the vast majority of income is denominated in USD and expenditures are largely indirectly linked to USD as well. Even if procurement contracts are legally required to be stated in KZT, most material contracts have clauses that stipulate a certain exchange rate of the KZT to the USD.
Interest rate risk	The Group's interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings.	The Group does not hedge interest rate risk nor does it swap a fixed interest rate for a variable interest rate or vice versa. The Notes bear interest at a fixed coupon. The interest on the remaining portion of the 2010-2015 bond is 10.5%. The interest on the main 2012-2019 bond is 7.125%.
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

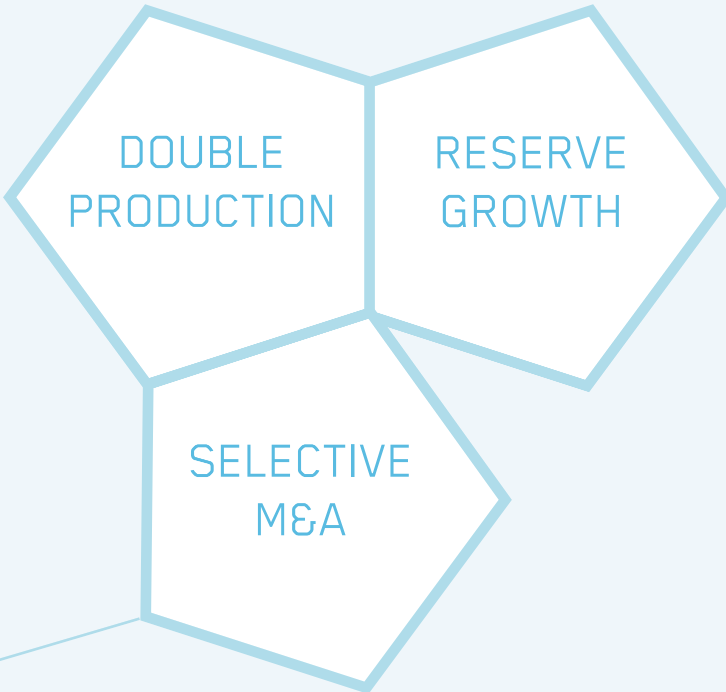
In millions of US Dollars	**2008**	**2009**	**2010**	**2011**	**2012**
Revenue [1]	135.9	116.0	178.2	342.6	737.1
Cost of sales	(44.6)	(44.0)	(53.9)	(70.8)	(238.2)
Gross Profit	91.3	72.0	124.3	230.0	498.8
General and administrative expenses	(20.3)	(29.7)	(27.3)	(36.4)	(61.5)
Selling and oil transportation expenses	(24.2)	(5.7)	(17.0)	(35.4)	(103.6)
Gain/(Loss) on hedging contract	64.8	(16.9)	(0.5)	0	0
Finance costs	(12.6)	(7.8)	(21.3)	(4.7)	(50.1)
Foreign exchange gain (loss)	(1.5)	(2.2)	0.0	(0.4)	(0.8)
Other income/(expense)	1.2	(0.9)	2.5	(4.2)	(2.0)
Profit before income tax	98.7	8.8	60.8	149.0	282.4
Income tax expense	(35.2)	(27.6)	(37.9)	(67.3)	(120.4)
Net Income	**63.5**	**(18.8)**	**22.9**	**81.6**	**162.0**
Non-Current Assets	651.8	819.8	965.1	1,126.9	1,251.6
Current Assets	71.1	183.0	172.4	179.3	351.1
Total Assets	**722.9**	**1,002.8**	**1,137.6**	**1,306.2**	**1,602.7**
Equity	**221.7**	**477.8**	**500.7**	**585.2**	**695.1**
Non-current liabilities	67.2	449.8	556.7	611.4	791.6
Current Liabilities	434.0	75.3	80.2	109.5	115.9
Total Liabilities	**501.2**	**525.0**	**636.9**	**720.9**	**907.6**
Liabilities & Equity	**722.9**	**1,002.8**	**1,137.6**	**1,306.2**	**1,602.7**
Net cash flow from operating activities	44.2	45.9	99.0	132.2	291.8
Net cash flow from investing activities [2]	(195.2)	(200.7)	(132.2)	(103.7)	(269.7)
Net cash flow from financing activities	155.6	279.4	39.7	(47.4)	50.4

	2008	**2009**	**2010**	**2011**	**2012**
Profit margin %	46.7%	(16.2%)	12.9%	27.1%	22.0%
Equity/assets ratio %	30.6%	47.6%	44.0%	44.8%	43.4%
GDR price at end of period (US$)	$2.75	$8.50	$12.30	$9.70	$10.70
GDRs outstanding ('000s)	110.000	185.000	185.000	185.315	188.183
Options outstanding ('000s)	2.500	2.733	2.983	2.868	2.132
Dividend per GDR (US$)	0	0	0	0	0.32

[1] 2011 Revenue includes US$ 41.7 million of capitalized sales related to test production.

[2] IFRS term based on indirect cash flow methodology

2012 Milestones



Strategic Milestones

Further Asset De-risking

- Completing the first development phase of the Chinarevskoye field project and reaching full nameplate capacity of its impressive infrastructure including its Gas Treatment Facility (GTF) has considerably de-risked the asset.
  - Zhaikmunai's liquids strategy, which consists of the extraction of valuable oil products from the gas condensate stream, continues to hold its promise:
    - Zhaikmunai has full control over the production, transport and marketing of crude oil, stabilised condensate, and LPG, which are now distributed globally at high quality levels and attractive prices;
    - Liquids drive the largest part of Zhaikmunai's revenues and profitability.
  - Dry gas sales are commensurate with management expectations and are expected to remain attractive:
    - Monetising gas sales is translating into sustainable benefits for the future, all the more due to the anticipated increase in volumes following the construction and commissioning of the third train of the GTF;
  - Average total production per day has increased thirty-fold between 2004 (1,250 barrels of crude oil) and 2012 (36,940boepd);
  - Average total production per day is expected to be 45,000boepd from 2013 onwards.

- Proving up reserves has also considerably de-risked the Chinarevksoye field asset:
  - Proved Reserves (1P) have increased by 25.7 mmboe (15.2%) to 194.8 mmboe (December 31, 2011: 169.1 mmboe);
  - Proved Reserves (1P) replacement was 174.8%, i.e. the 2012 increase in Proved Reserves (1P) (25.7 mmboe) more than replaced the 2012 total actual Chinarevskoye field production which amounted to 14.7 mmboe compared to a projected production of 19.1 mmboe (2011 Ryder Scott Report);
  - Proved plus Probable Reserves (2P) remained above 500 mmboe. The 2P Reserves have slightly decreased to 506.1 mmboe (December 2011: 521.6 mmboe) as a result of the 2012 production and some small adjustments on all reservoirs.

- The second development phase of the Chinarevskoye field can be funded without returning to capital markets:
  - The 2004–2011 six-year US$ 1.2 billion investment programme can be replicated from 2012 onwards through cash reserves and operating cash;
  - The investment foresees the drilling of some 60 additional wells and the building of a third GTF train with the aim of doubling production from 2016 onwards.

"In 2012, earnings per share grew by 96% and an initial distribution was paid out to shareholders."

Transition to a Multi-Field Model

- In 2012, Zhaikmunai signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three new oil and gas fields (Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye) in the pre-Caspian basin to the north-west of Uralsk, located approximately 60 - 120 km away from the Chinarevskoye field, for a total purchase price of US$ 16 million. The signing of the supplementary agreements by the Ministry of Oil of Gas (MOG) effective as of 1st March 2013 officially transfers ownership of the three fields to Zhaikmunai.
  - Zhaikmunai estimates that it will cost approximately US$ 85 million to conduct the necessary appraisal activities in the three fields over the next 2 - 3 years. These activities will include the acquisition of new 3D seismic data and/or the reprocessing of existing 2D and/or 3D seismic data, as well as appraisal drilling in order to validate and expand on the existing reserves reports.

Sustaining the Investment Story

- Value has been delivered to shareholders via two routes in 2012:
  - A substantial increase in earnings per share: + 46%;
  - Payment of an inaugural dividend and adoption of an on-going dividend policy:
    - In Q3 2012, Zhaikmunai announced the payment of its inaugural dividend, a cash distribution of 32 cents per partnership interest (equal to US$ 60.2 million), and the adoption of a dividend policy by the Board of Directors of its General Partner of not less than 20% of the Partnership's consolidated net profit per annum.
- Sustaining share price and liquidity:
  - Following its Board of Directors' suggestion and the vote by the limited partners in the SGM on 28 March 2013, Zhaikmunai was authorised to proceed with a GDR buy-back programme;
  - The attractive combination of production growth and upside potential has motivated the Partnership to explore the option of migrating towards a main board share listing from its current London Stock Exchange GDR listing. This would allow Zhaikmunai to be included in indices and would likely increase share liquidity as well as contribute to increasing overall visibility in the financial markets.
    - In 2012, Zhaikmunai pursued its Partnership restructuring efforts in order to comply with the legal and financial prerequisites for such a potential new listing;
    - Since Q1 2013, Zhaikmunai LP's headquarters have also been moved to Amsterdam, in the Netherlands.

DELIVERING ON TARGET

REVENUE US$737 MILLION

EBITDA US$460 MILLION

Tactical Milestones

Successful Pricing of US$ 560 Million Notes Due 2019 at a Coupon of 7.125%

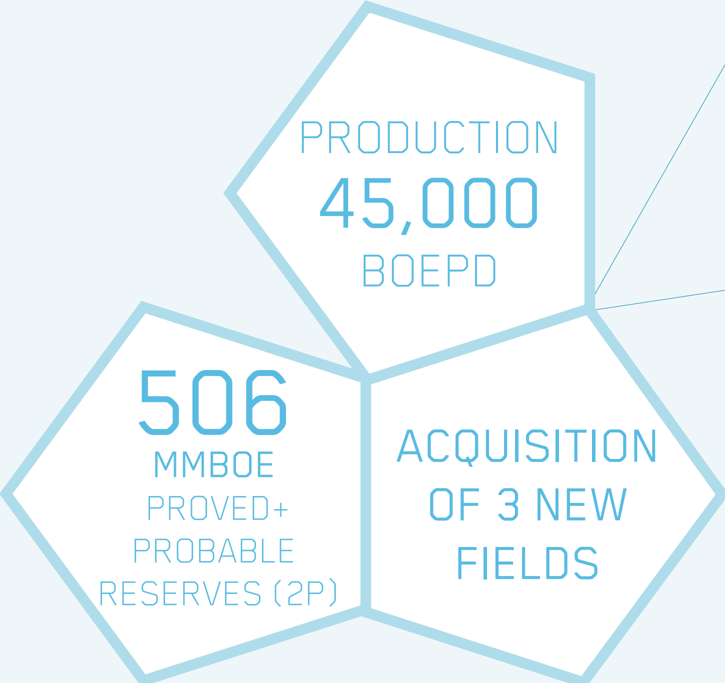
- In November 2012, Zhaikmunai successfully priced a US$ 560 million aggregate principal amount of senior bonds with a seven-year maturity (2019) at a fixed coupon of 7.125% per annum. The new notes were used in part to repay US$ 357 million of its existing notes, which allowed Zhaikmunai to extend 80% of its existing liabilities to 2019 and to reduce the overall borrowing rate.

- The successful refinancing resulted in an extended bond maturity and materially lower financing costs, thereby enhancing Zhaikmunai's capital structure.

Resuming Exploration/ Appraisal Drilling

- The latest edition of the independent Ryder Scott report (January 1, 2013) shows a 15.2% increase in Proved Reserves (1P) over the 2012 horizon to 194.8 mmboe, whereas the Proved and Probable Rreserves (2P) remained over 500 mmboe (506.1 mmboe in 2012 from 521.6 mmboe in 2011) showing a slight decline due to 2012 production and some small adjustments on all reservoirs.

- The main focus in the last couple of years has been on production drilling in order to secure the feedstock for the GTF. From 2013 onwards, Zhaikmunai intends to resume its exploration and appraisal drilling, whilst continuing to pursue production drilling, which remains of key importance. Over the next 3 years, Zhaikmunai plans to drill some 60 wells. In 2012, 8 wells were drilled and completed. In 2013 plans include some 15 – 17 wells (9 appraisal, one exploration, and further production wells) at an average cost of US$ 11 million/well.



Operational Milestones

Positioning and Marketing the New Product Portfolio

- Zhaikmunai has enjoyed a fast growing presence on the oil product off-take markets in 2012 with its expanded range of liquids (crude oil, stabilised condensate and LPG) as well as dry gas:
  - Most of the crude oil (85%) as well as all of the stabilised condensate and LPG are sold internationally to off-takers, in line with a comprehensive marketing and sales strategy and secured payment terms;
  - The gas off-take agreement at the Orenburg connection point to the Intergas Central Asia gas pipeline comprises a long-term contractual agreement and a yearly price-setting negotiation, both of which are in line with Zhaikmunai management expectations.

- Zhaikmunai's full product range is being evaluated by a larger number of off-takers since reaching full production, and enjoys good returns thanks to full control over liquids production, quality levels and transportation routes:
  - Quality, volumes, and supply pipeline guarantees are currently at the centre of Zhaikmunai's oil products negotiations with off-takers, aiming to optimize returns for all products over time.

Pursuing a Comprehensive Corporate Social Responsibility (CSR) Programme

- Zhaikmunai's reputation as a stable and sustainable E&P company in north-west Kazakhstan has been confirmed further by its recent acquisition of the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields in 2012. Being a responsible member of the community is a fundamental part of this. Zhaikmunai's strategy focuses around three key areas - people, planet, and profit – and includes the following initiatives:
  - Zhaikmunai has made it a priority to communicate its approach to its various stakeholders, emphasizing its stringent corporate governance provisions and business ethics;
  - Zhaikmunai monitors and reports on the wellbeing of its employees, health and safety measures, working environment specifics and overall benefits. Zhaikmunai also reports on its direct involvement in the community through programmes providing social infrastructure, sponsoring activities and charitable work or even on relocating an entire village;
  - Zhaikmunai manages its environmental footprint carefully and adheres fully to relevant legislation. The company is also pro-active in defining its environmental objectives to the highest possible standards and ensuring stringent compliance and progress monitoring.

"In 2012,the Ebitda margin grew from 58% to 63%."

- In 2012, Zhaikmunai's actions were deemed to have a positive impact on its wide range of stakeholders, including investors, business partners, regulators, employees, customers, local communities, the environment and society more generally.

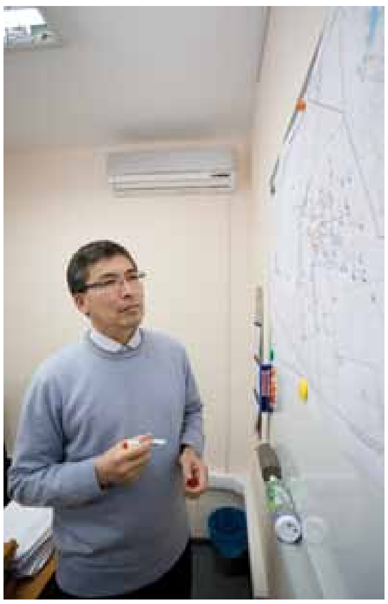
Expanding the Investor Relations Programme

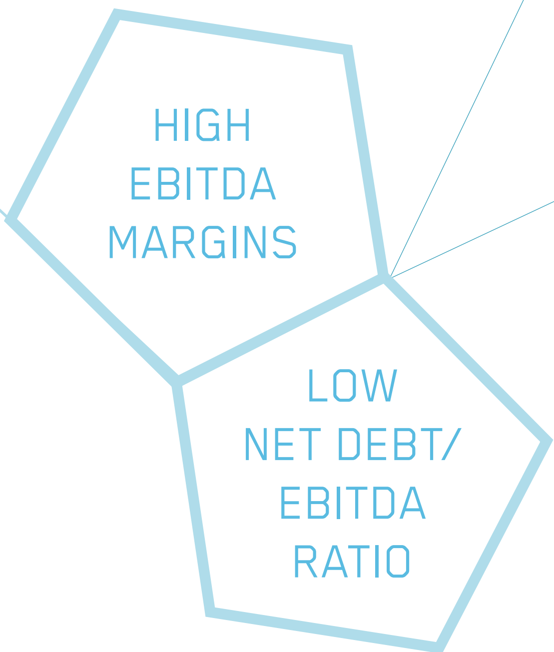
- 2012 saw a further increase in analyst coverage, extended investor relations distribution and an expanding number of mailings with regulatory and non-regulatory news flow;

- Zhaikmunai's website (www.zhaikmunai.com), which is regularly updated, hosts all written information prepared by the Investor Relations Department. This includes press releases distributed via the regulatory channels (London, Ireland, Luxembourg, and Kazakhstan Stock Exchanges), e-mail mailings, investor presentations, financial statements, management reports, some third-party reports (such as Ryder Scott reports), as well as Zhaikmunai's Annual Report in HTML and pdf formats. In 2012, a Russian version of the website came on-line, as well as a Russian version of the Annual Report in HTML format, the first Russian print version having been published in 2011;

- Interactive communication channels include quarterly conference calls with analysts and investors, group or individual investor calls or meetings (such as roadshows), as well as site visits in Kazakhstan.

Operations Overview





Zhaikmunai in Context

Corporate Structure

Zhaikmunai LP ("Zhaikmunai"), is a limited Partnership with its corporate headquarters located in Amsterdam, the Netherlands, which indirectly holds and controls Zhaikmunai LLP, a Kazakhstan registered limited liability Partnership. The latter was set up in March 1997 to explore, produce and sell hydrocarbons from the Chinarevskoye field in North-western Kazakhstan.

Today, Zhaikmunai has evolved into a multi-field, independent, oil and gas exploration and production enterprise. Over and above its principal producing asset, the Chinarevskoye field, Zhaikmunai also holds a 100% interest in and is the operator of the Rostoshinskoye, Darinskoye and Yuzhno-Gremyachinskoye oil and gas fields, which are located in the pre-Caspian basin to the north-west of Uralsk, approximately 60 and 120 kilometres respectively from the Chinarevskoye field.

Zhaikmunai Group Limited (ZGL) 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) (Ticker symbol: ZKM). Zhaikmunai's bond notes are listed on the Luxembourg Stock Exchange, on the Irish Stock Exchange (ISE) and on the Kazakh Stock Exchange (KASE).

Key Historical Developments

The Early Years (1997 – 2004)

Zhaikmunai was formed in March 1997 to explore, produce and sell hydrocarbons in North-western Kazakhstan, in the northern part of the oil-rich pre-Caspian basin. In May 1997, Zhaikmunai was granted an exploration and production licence for the Chinarevskoye field. In October 1997, the Partnership entered into a Production Sharing Agreement (PSA) with the Republic of Kazakhstan.

In October 2000, Zhaikmunai started producing crude oil and reached an average production of 2,210 boepd in 2004.

The First Two Development Phases (2004 – 2011)

Zhaikmunai's US$ 1,2 billion Phase 1 and 2 Development Plan (2004 – 2011) focused on the Chinarevskoye field, and covered the following main infrastructure components:

- Oil Processing Facility (OTF) with a capacity of 400,000 tpa (tonnes per annum) of crude oil;
- 120-kilometer crude oil and stabilised condensate pipeline (between the Chinarevskoye field to the rail terminal in Rostoshi, near Uralsk);
- Oil gathering and transportation lines and tank farm for the storage of crude oil;
- Gas Treatment Facility (GTF) with two "trains" each having a capacity of 850 mmcm per year and each capable of treatingraw gas, associated gas or a mix of both, to produce stabilised condensate, LPG and dry gas;
- LPG loading facility (located on the Chinarevskoye field) and rail terminal;
- 17-kilometre dry gas pipeline (between the Chinarevskoye field and the Orenburg-Novopskov junction point of the InterGas Central Asia pipeline);
- Power generation station;
- Drilling of numerous wells (crude oil, gas condensate, water-injection and appraisal);
- The construction of various office buildings and office camp facilities.

In Q1 2007, the first commercial crude oil production started, and in Q4 2010, test production started at Zhaikmunai's new Gas Treatment Facility (GTF), which added three new hydrocarbon products (stabilised condensate, LPG and dry gas) to its crude oil offering from 2011.

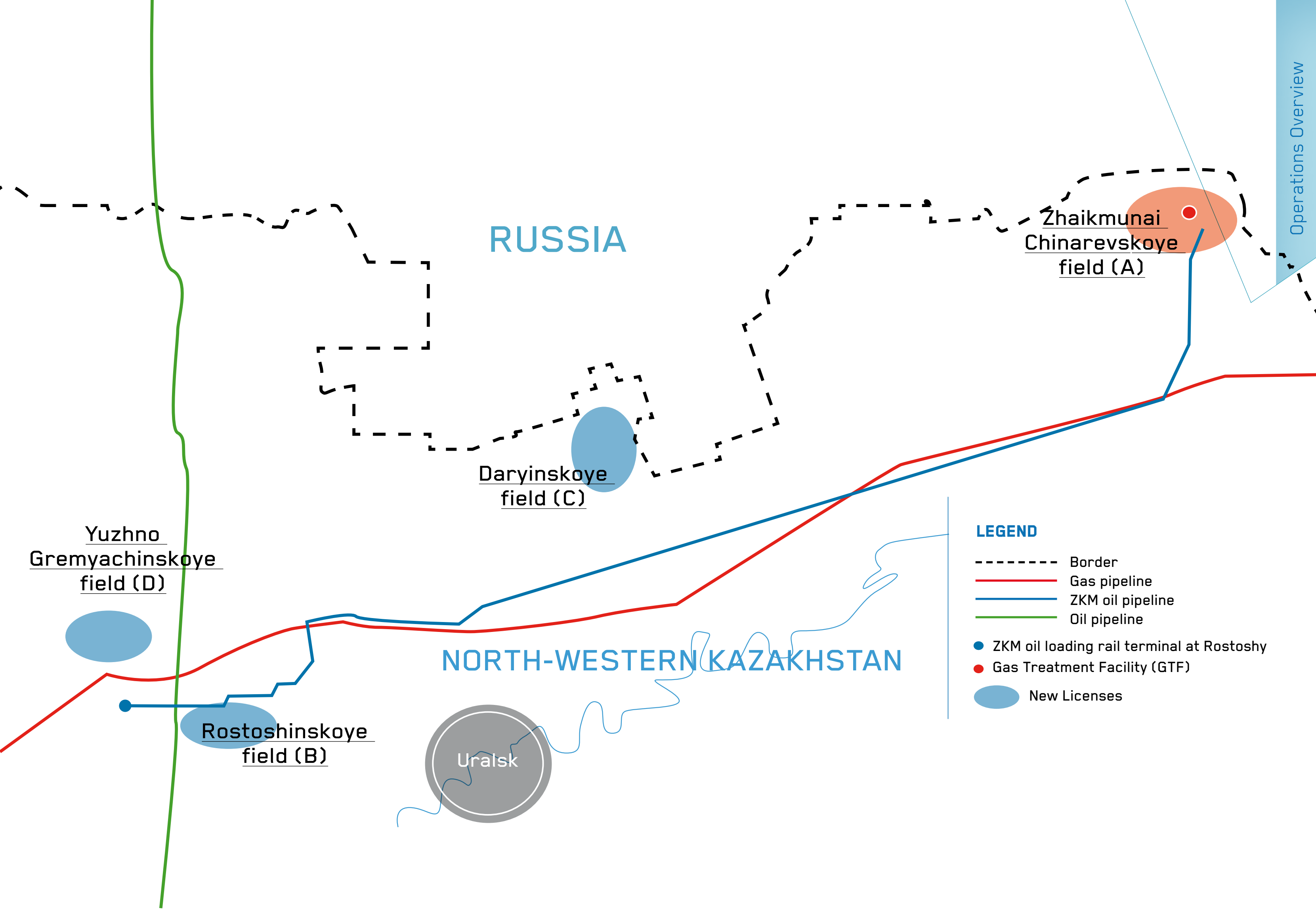
Zhaikmunai's total average daily production of hydrocarbons grew from 2,210 boepd in 2004 (crude oil only) to over 45,000 boepd in early 2013 (crude oil and GTF products, i.e. stabilised condensate, LPG and dry gas), signifying the end of Zhaikmunai's Phase 1 Development Phase.

The Third Phase Development (2012 – 2017)

Zhaikmunai's Phase 3 Development Plan (2012 – 2017) is estimated to require a similar investment to Phases 1 and 2, i.e. US$ 1,2 billion. This will enable Zhaikmunai to achieve a total average daily production of over 100,000 boepd, by means of new infrastructure including a third-train Gas Treatment Facility (GTF).

This third development phase also marks the transition to a multi-field model as Zhaikmunai unfolds its balanced growth business model, which includes mainly organic growth as well as growth through value-accretive mergers and acquisitions (M&A) when deemed opportune. The latter are to be based on operational and managerial synergies in Kazakhstan and in the CIS. Such opportunites may arise through Zhaikmunai's extensive exposure to deal flow in Kazakhstan and surrounding countries.

Opportunities to treat raw gas from neighbouring fields led to the first acquisitions, in August 2012, of the Rostoshinskoye, Darinskoye and Yuzhno-Gremyachinskoye fields located in the pre-Caspian basin to the north-west of Uralsk, approximately 60 - 120 kilometres respectively from the Chinarevskoye field. Official ownership transfers of the three fields was effective in early 2013, following the signing of the supplementary agreements by the Ministry of Oil and Gas of Kazakhstan (MOG).



Chinarevskoye Field

Background

Location

The 274 square kilometre Chinarveskoye field is located in the province of Batys Kazakhstan in the North-western part of Kazakhstan near the border with Russia and some 100 kilometres north-east of Uralsk.

Zhaikmunai's facilities are close to main international railway lines as well as to several major oil and gas pipelines. This unique location provides reduced transportation distances and access to flexible transportation links for the ultimate purchasers of oil products in European markets, which in turn contribute to reduced transportation costs. The Orenburg- Novopskov gas pipeline is only 17 kilometres away while rail links and the Atyrau Samara oil pipeline are within a 100-kilometre radius from operations. Zhaikmunai's own oil pipeline from its facilities to its own railway terminal in Rostoshi, near Uralsk, gives it 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.

Stable Business Environment

Exploration and Production Licences

In May 1997, Zhaikmunai was granted exploration and production licences with respect to the Chinarevskoye field, which initially covered the entire Chinarevskoye field. In December 2008, Zhaikmunai received an extension of its production licence.

The new production licence is valid until 2033 for all horizons (other than the Northeastern Tournaisian reservoir for which the production licence is valid until 2031) and oil or gas condensate bearing reservoirs and covers 185 square kilometres of the licence area. The production licence covers all proved and probable reserves reported by Ryder Scott as at 31 December 2012 and a significant part of the possible reserves reported by Ryder Scott as at 1 July 2009. Zhaikmunai has applied for an extension of its exploration permit.

Production Sharing Agreement (PSA)

In October 1997, Zhaikmunai entered into a Production Sharing Agreement ("PSA") with the Government of Kazakhstan, after it obtained the exploration and production licence from AO Condensate, which had been issued in January 1996. 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. It was initially and remains based on a balance of interest approach whereby development opportunities on the one hand, and returns to the state on the other, are kept in balance according to the original agreement's equilibrium percentages. For example, whilst the oil price has since risen extensively, so has the scope and amount of the investments made by Zhaikmunai in the Chinarevskoye field, maintaining de facto this balance. As the terms of the PSA have been "grandfathered" from its signing in 1997, Zhaikmunai currently benefits from a relatively stable tax and royalty payment system. As such, the 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. Zhaikmunai must comply with the terms of the Exploration Permit and the Production Permit and the Development Plans during this period. Zhaikmunai has met all of its capital investment obligations under the PSA to date.

Geology, Reserves and Drilling

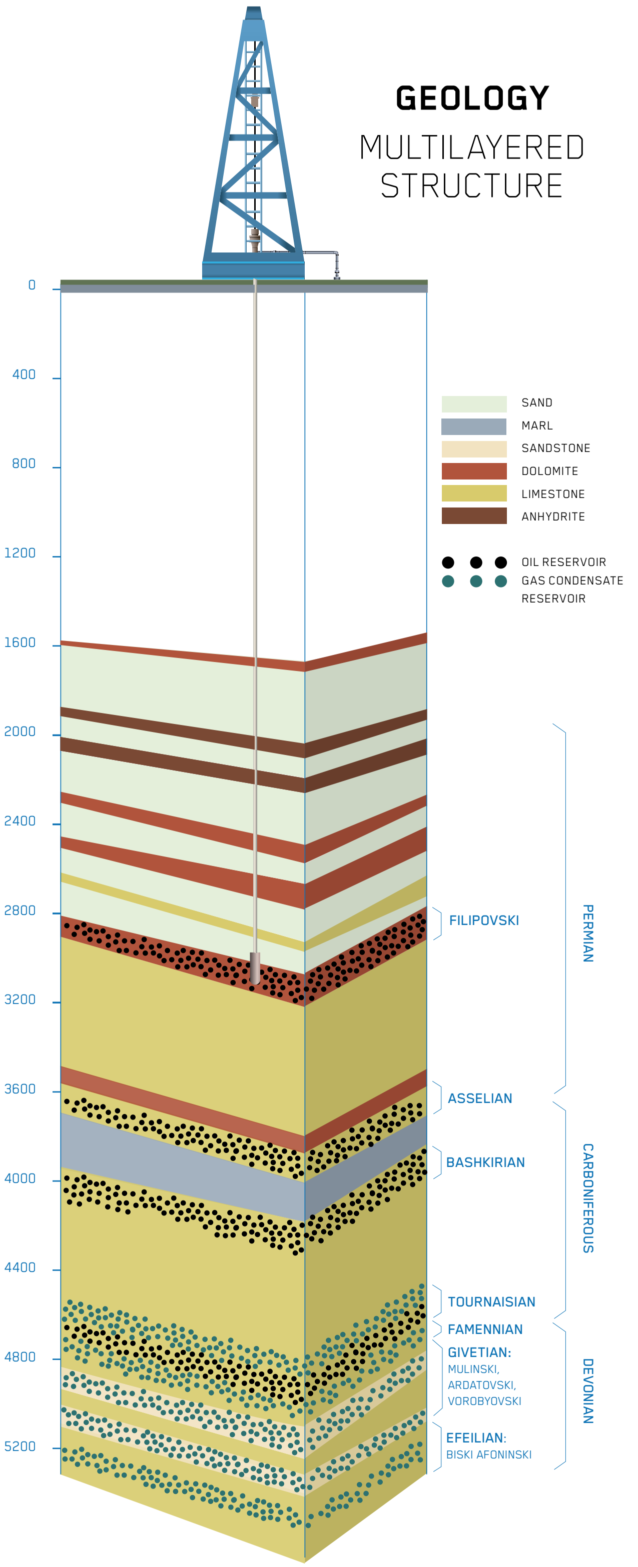
Geology

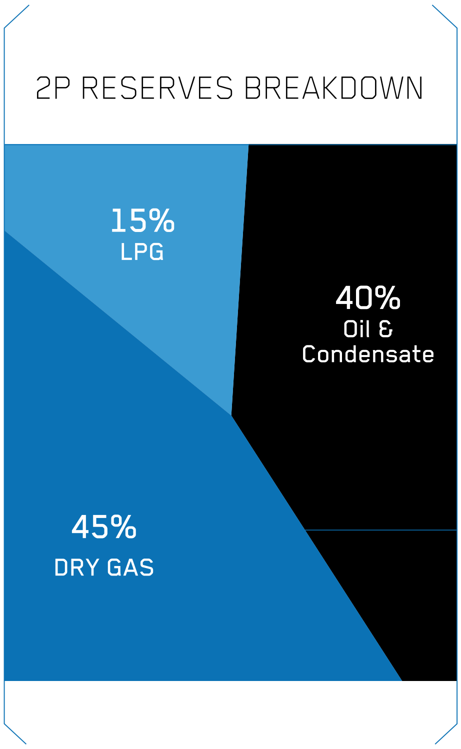
The Chinarevskoye field is a multi-formation structure made up of 10 reservoirs with a total of 44 segments spread over three areas: Western Area (16 segments), North(east)ern Area (24 segments) and the Southern Area (4 segments).

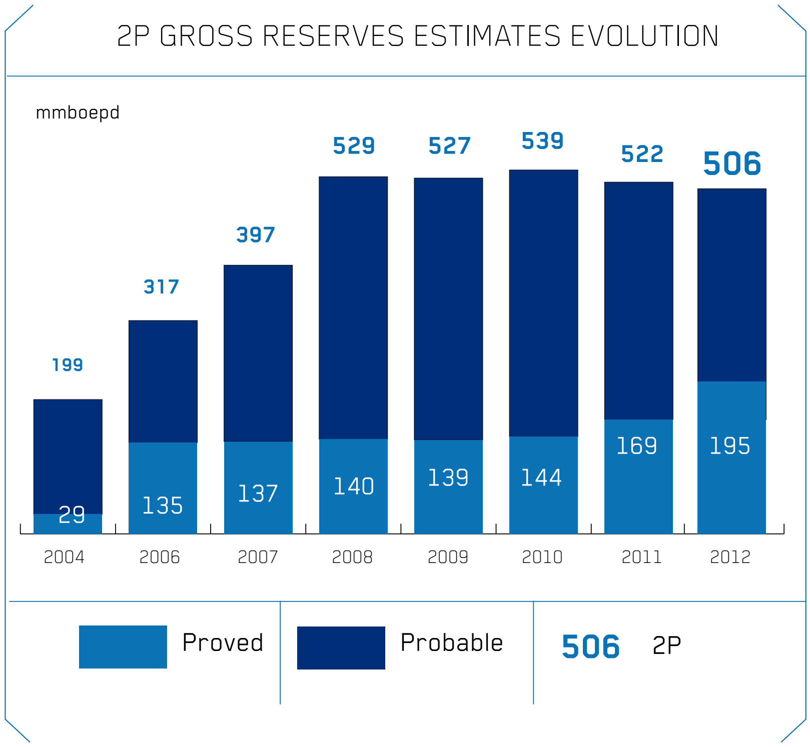
It has tested hydrocarbons at significant rates from:

- the Lower Permian horizons at depths of 2,700m to 2,900m, represented by limestone and dolomitic limestone;
- limestone of the Lower Carboniferous Tournaisian formation at a depth of approximately 4,200m with a gross thickness of about 200m;
- the middle Devonian Givetian horizons at a depth of approximately 5,000m, represented by sandstone with carbonate cement; and
- 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.







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 carefully selecting well positioning. Every production well drilled since Zhaikmunai signed the Production Sharing Agreement (PSA) has reached its geological target. Since 2004, management has introduced Western-standard drilling rigs, resulting in competition among drilling contractors to further improve drilling efficiency. In addition, improvements in oil recovery techniques are also contributing to improving Zhaikmunai's ability to convert Probable and Possible Reserves into Proved and Probable reserves.

A significant portion of Zhaikmunai's reserves is 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 559 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. While production drilling was granted priority in the last year in order to secure feedstock to the GTF, management intend to resume appraisal and exploration activities in 2013.

In its December 31, 2012 report, Ryder Scott reported that:

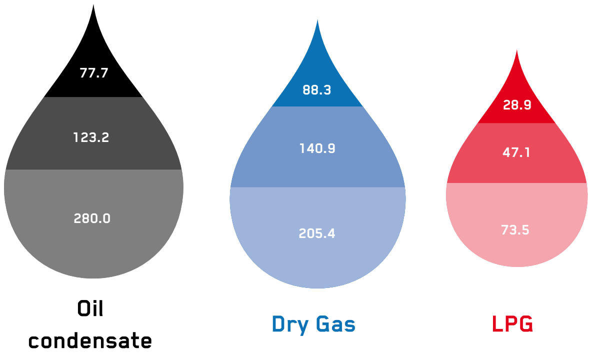
- Proved reserves (1P) have increased by 25.7 mmboe (15.2%) to 194.8 mmboe (December 31, 2011: 169.1 mmboe);
- Proved reserves (1P) replacement was 174.8%, i.e. the 2012 increase in proved reserves (1P) (25.7 mmboe) more than replaced the 2012 total actual Chinarevskoye field production which amounted to 14.7 mmboe compared to a projected production of 19.1 mmboe (2011 Ryder Scott Report);
- Proved plus probable reserves (2P) remained above 500 mmboe. The 2P reserves have slightly decreased to 506.1 mmboe (December 2011: 521.6 mmboe) as a result of the 2012 production and some small adjustments on all reservoirs.

Zhaikmunai has an outstanding track record of proving up reserves. Since 2004, reserves estimations by external auditor Ryder Scott have shown a significant increase in 2P and 3P reserves:

- 2P reserves increased 158% to 506 million boe [1]
- 3P reserves increased 145% to 1,065 million boe [2]

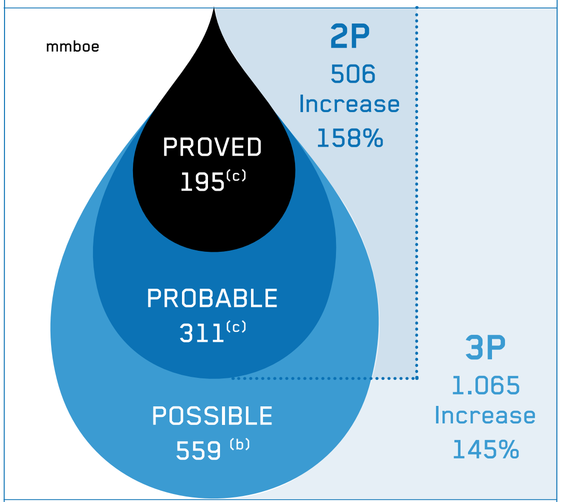
(1) Source: Ryder Scott as of December 31, 2012. SPE Standards
(2) Source: Ryder Scott as of July 1, 2009. SPE Standards

GROSS RESERVES 2012



GROSS RESERVES	UNITS	PROVED	PROBABLE	2P	POSSIBLE	3P
Oil/Condensate	mmbbl	77.7	123.2	200.9	280.0	480.9
Dry Gas	mmboe	88.3	140.9	229.2	205.4	434.6
LPG	mmbbl	28.9	47.1	76.0	73.5	149.5
Total	mmboe	194.8	311.3	506.1	558.9	1065

GROSS RESERVES INCREASE SINCE 2004[a]



1.065 3P

Drilling

Early Exploration

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.

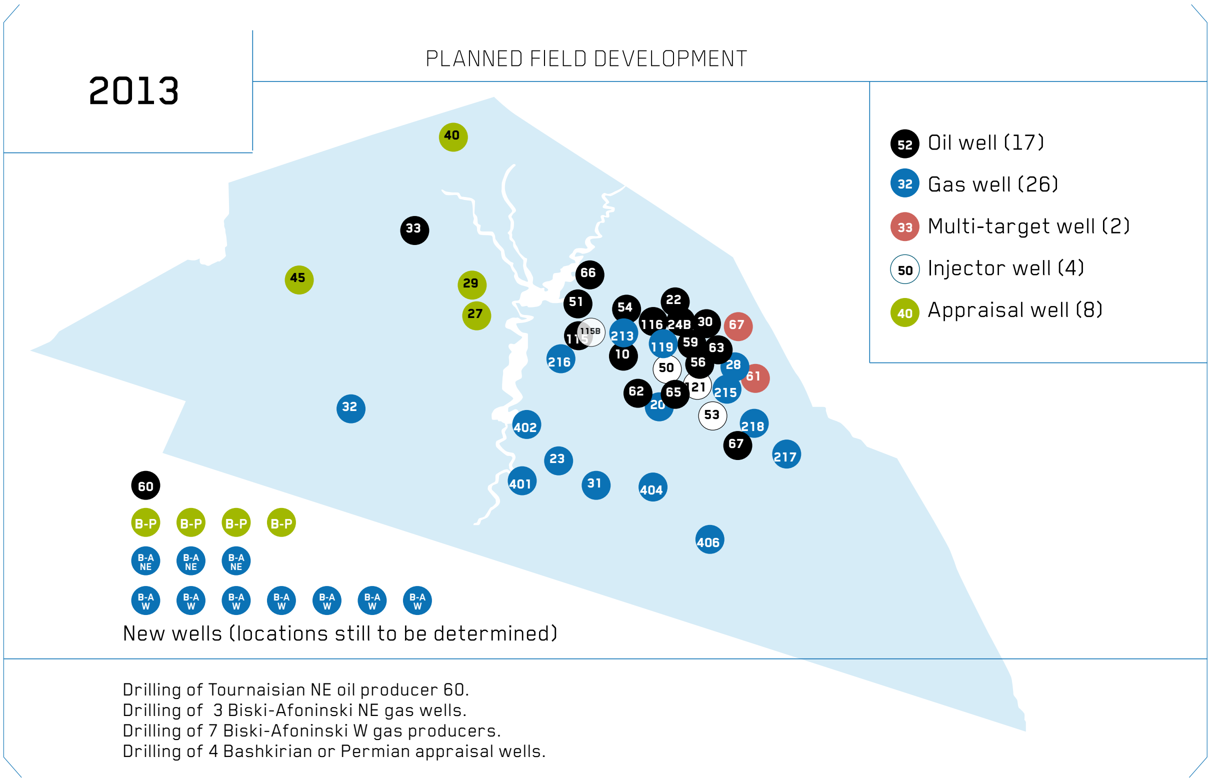
Zhaikmunai's Initial Drilling Programme

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

Exploration and Production Wells (2004 – 2011)

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 (GTF) became operational. Zhaikmunai expects to increase appraisal activities in the entire license area in the years 2013-2015 in order to transfer as much as possible probable and possible reserves into proven category of reserves.

Independent reserves audits:
(a) Ryder Scott – January 1, 2004
(b) Ryder Scott - July 1, 2009
(c) Ryder Scott – December 31, 2012
(Chinarevskoye field only)



New Drilling Plans (2012 – 2017)

Zhaikmunai started its third development phase in 2012. This third phase will be replicate the US$ 1.2 billion investment programme over a period of 5 to 6 years. It will include the addition of a third train to the current two-train GTF and a second Oil treatment Unit (OTU). It also foresees the drilling of some 60 additional wells with the aim of doubling total production.

In 2012, drilling further focused on production wells in order to provide the necessary feedstock to the Gas Treatment Facility (GTF). As of 31 December 2012, 14 wells were producing crude oil from the Tournaisian and 12 wells gas-condenssate from the Ardatovsky, Biski Afoninski and Southern Tournaisian reservoirs.

Starting in 2013, Zhaikmunai aims to resume its appraisal drilling. It is currently on target to achieve its planned drilling programme for 2013, i.e. approximately 15 wells, the majority of which are appraisal wells. An average of some 13 wells per year is planned for 2014 and 2015.

Phase III will thus further focus on the full realisation of the Chinarevskoye field's 2P reserves, and the additional realisation of its potential upside coming from its possible reserves. It will also include the appraisal programme of its three recently acquired new fields, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye, all located in the vicinity of the Chinarevskoye field.

On-site Facilities

Facilities on the Chinarevskoye field site have grown substantially since the first exploration activities of the nineties. The geological exploration of oil and gas condensate wells, in addition to preparation for the commercial production of crude oil in 2007, marked the start of an extensive infrastructure-building programme.

Crude Oil Facilities

Developments included an Oil Treatment and gathering Facility (OTF), a 120-kilometre oil pipeline, an oil storage tank farm, an oil-loading facility at the rail terminal and railway cars for the associated crude oil and stabilised condensate.

Zhaikmunai's oil facilities consist of an Oil Treatment and gathering Facility (OTF) capable of processing 400,000 tonnes per year of crude oil, as well as multiple oil gathering and transportation lines within the licence area. Zhaikmunai's storage facilities currently allow storage of 20,000 cubic metres on-site and 10,000 cubic metres at its own rail terminal.

Oil and Stabilised Condensate Pipeline and Railway-Loading Terminal

Zhaikmunai's 120-kilometre oil pipeline and railway-loading terminal were successfully completed in 2008. Since 2009, Zhaikmunai's crude oil has been transported via the pipeline from the Chinarevskoye field site to the railway-loading terminal at a rail connection located at Rostoshi, near the city of Uralsk, where it is stored and subsequently transported onward by railcar to final offtakers. Stabilised condensate, following commissioning of the GTF, is also transported in the same pipeline using a "pig" system, which effectively separates crude oil from stabilised condensate in the same pipeline.

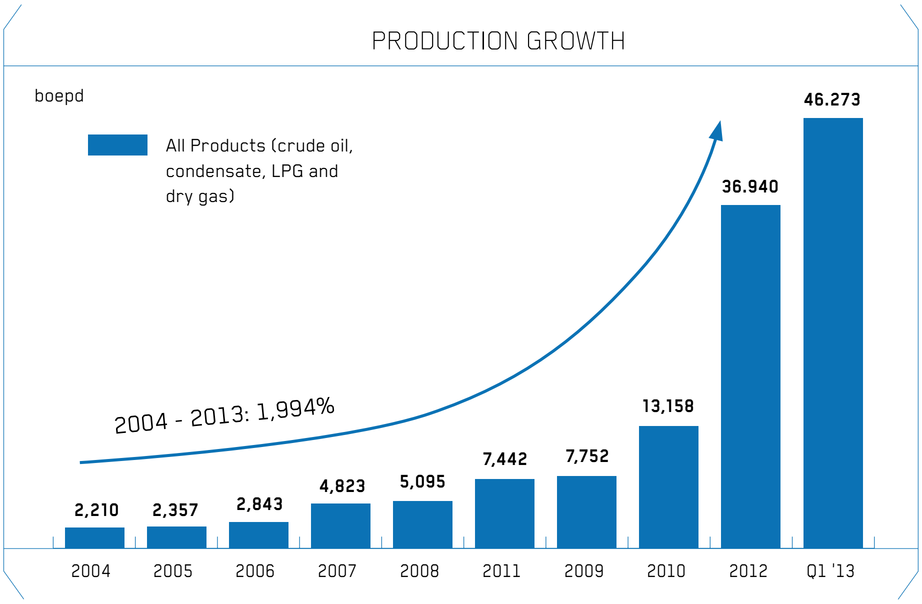
Transporting oil and stabilised condensate via Zhaikmunai's own pipeline and by rail offers the advantage of protecting product quality (compared to the main multi-user pipeline), which in turn warrants a higher price in the export markets.

The oil pipeline has a maximum annual throughput capacity of 3.0 million tonnes. The rail loading terminal receives all crude oil and stabilised condensate produced by Zhaikmunai and has a capacity of 3.0 to 4.0 million tonnes of crude oil and stabilised condensate per year.

The infrastructure also includes crude oil storage tanks on site (1 x 3 000 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, the first in Kazakhstan's history.

Gas Treatment Facility (GTF) Facility and Related Infrastructure

The Gas Treatment Facility (GTF) was designed to treat raw gas from gas condensate reservoirs as well as the associated gas coming from the Oil Treatment Facility (OTF) into a mix of new products,



i.e. stabilised condensate, LPG and dry gas using a gas utilization concept prepared by NIPI Neftegaz Institute. These products completed the crude oil offering starting in May 2011. The GTF associated infrastructure included 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.

Phase I GTF: Two trains with a combined capacity of 1,7 billion cubic metres (mmcm)

The first phase of the Gas Treatment Facility (GTF) involved the construction of two gas treatment units. Each of these gas treatment units has the capacity to treat approximately 850 million cubic metres (mmcm) of raw gas. Both units are equipped with sweetening and dehydration units and a sulphur recovery unit completes the infrastructure.

Phase II GTF: A third train with a supplementary capacity of 2,5 billion cubic metres (mmcm)

The initial two trains of the GTF (stabilized condensate, LPG and dry gas) and the OTF (crude oil) have a total nameplate capacity of 48.000 boepd. A third train of the GTF with a treatment capacity of additional 2,5 billion cubic metres (mmcm), bringing the total GTF capcity to 4,2 billion cubic metres (mmcm), will more than double this capacity. Zhaikmunai's total daily average production is expected to remain at 45,000 boepd until the commissioning and test production of the third train of the GTF have been completed, after which total daily average production is expected to exceed 100,000 boepd.

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 Pipeline

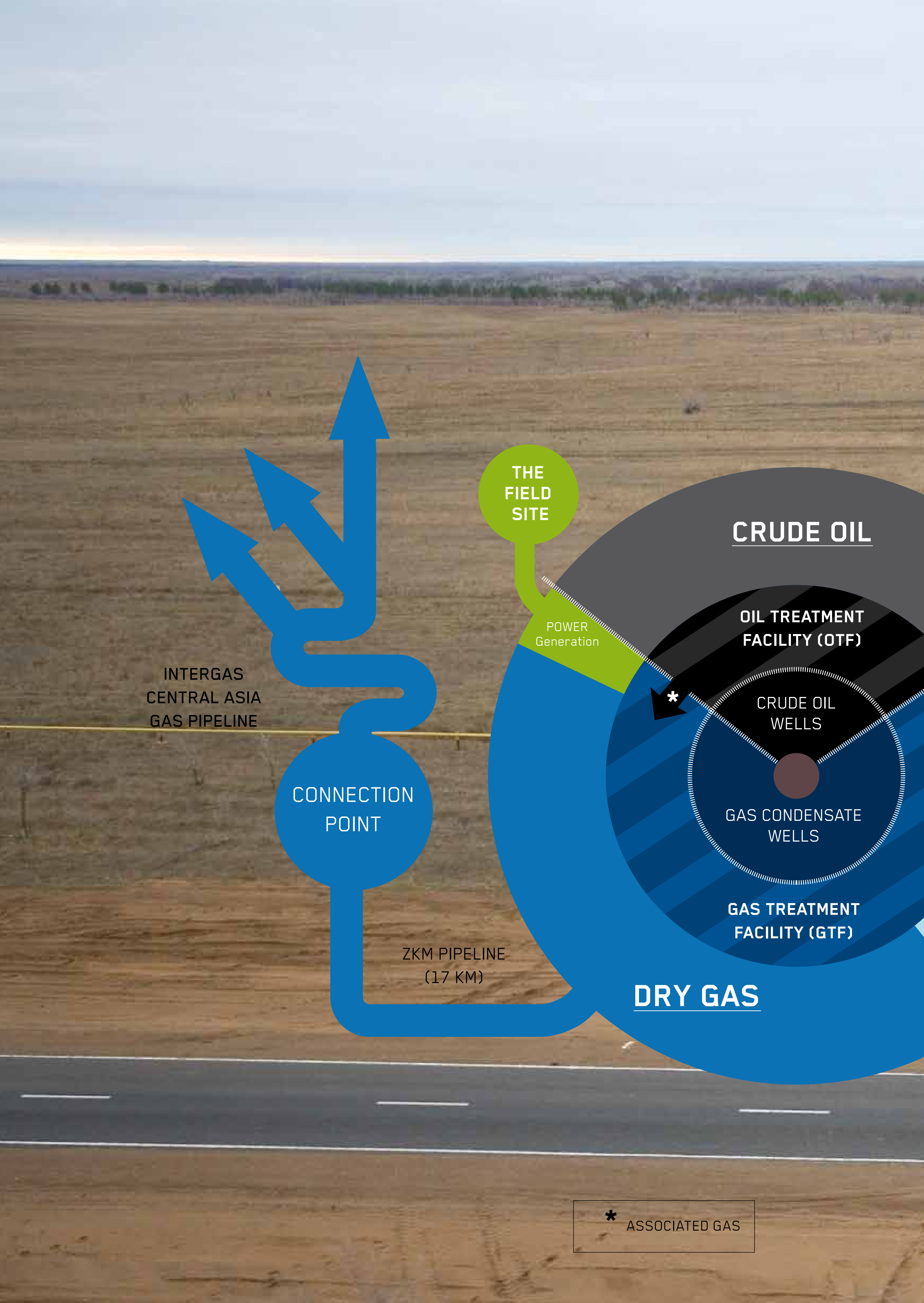
Zhaikmunai's 17-kilometre gas pipeline linking it to the Orenburg-Novopskov gas pipeline was commissioned in February 2011. Maximum annual throughput of this gas pipeline is expected to be 5.0 billion cubic metres.

New Field Camp Facilities

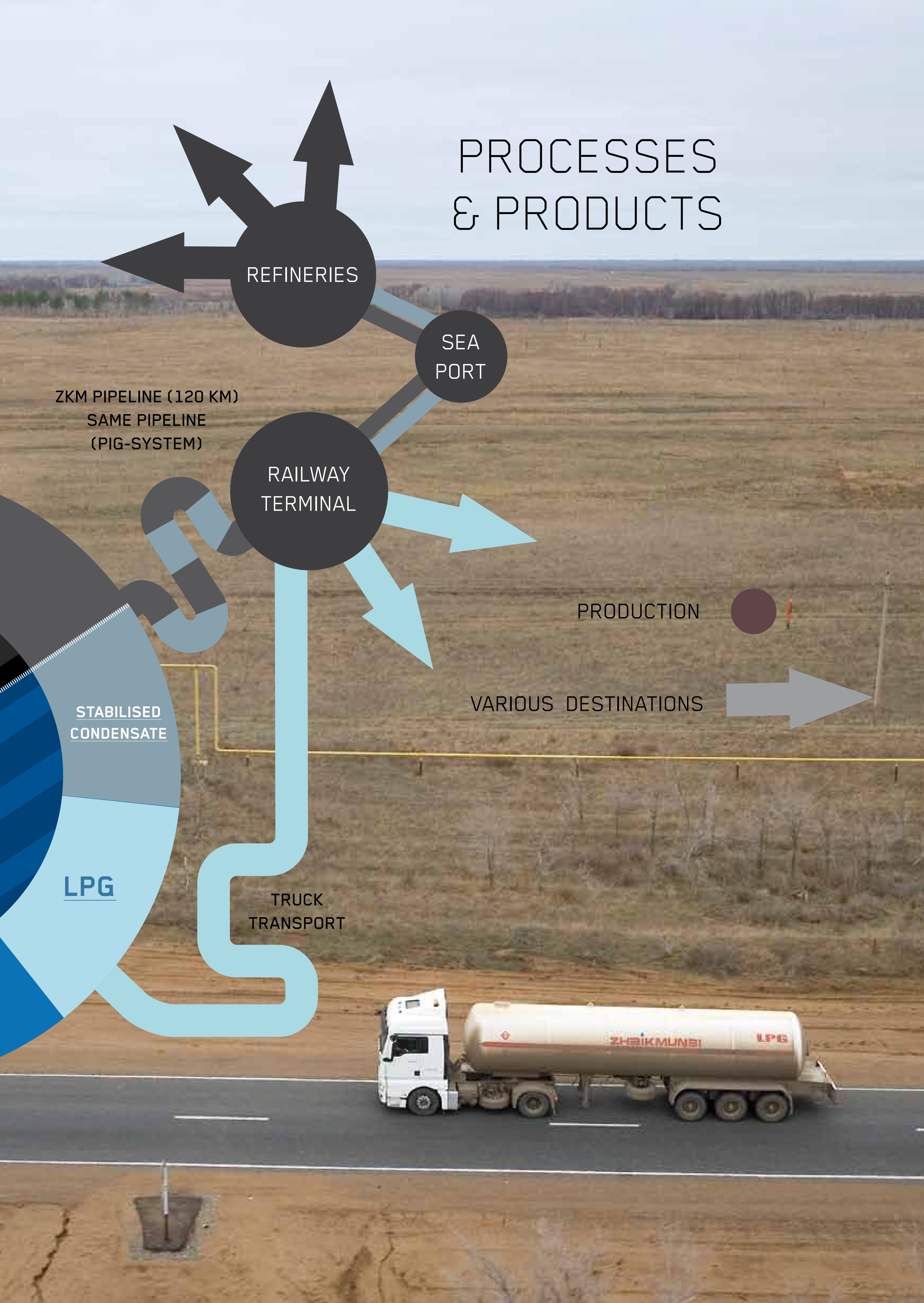
Over and above the infrastructure elements described above, various ancillary facilities have been built over the years. In 2012, a new employee field camp was completed.

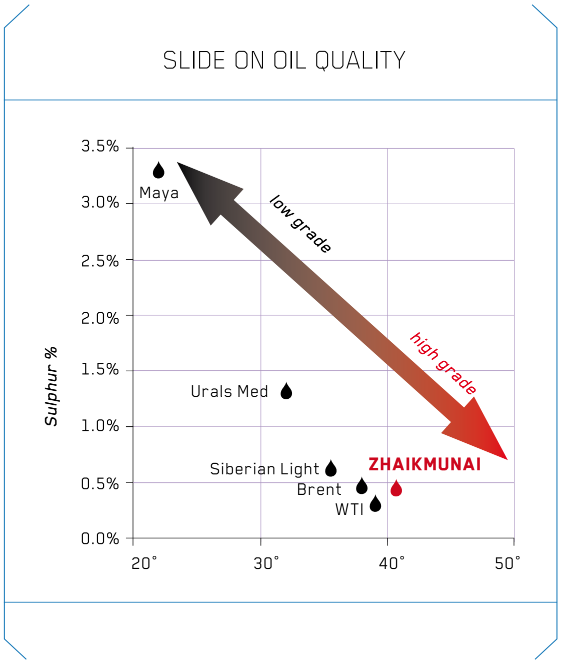
The new camp boasts the following facilities:
- a capacity of 460 beds all equipped with air-conditioning;
- connecting galleries between the various buildings (dormitories, canteen, recreational areas, etc.) providing comfortable indoor living conditions throughout the year;
- a large canteen with fully equipped kitchen;
- in- and outdoor recreational areas;
- a health clinic;
- modern facilities: central heating, internet, satellite TV, waste water collection and treatment, laundry facilities, etc.


ТОО


THE FIELD SITE
CRUDE OIL
POWER Generation
OIL TREATMENT FACILITY (OTF)
*
CRUDE OIL WELLS
GAS CONDENSATE WELLS
GAS TREATMENT FACILITY (GTF)
DRY GAS
INTERGAS CENTRAL ASIA GAS PIPELINE
CONNECTION POINT
ZKM PIPELINE (17 KM)
* ASSOCIATED GAS

PROCESSES & PRODUCTS





High Quality Crude oil and Condensate

High Quality Oil

The crude oil extracted from the Chinarevskoye field has an average API gravity of 42-43˚ and sulphur content of approximately 0.4%. Primary benchmark crude oils produced in Kazakhstan include Urals Blend (approximately 33˚ API with 1.25% sulphur), CPC Blend (approximately 42-43˚ API with 0.5% - 0.6% sulphur) and Brent (approximately 38˚API and with 0.4% sulphur).

High Quality Condensate

The condensate extracted from the Chinarevskoye field has an average API gravity of 56˚ and sulphur content below 0.2%.

Processes and Products

High Quality Liquids and Significant Dry Gas Volumes

Commercial crude oil production started in 2007 in the Chinarevskoye field. Its high quality grade warrants its unique, fully controlled transportation system to offtakers and guarantees the best pricing.

Commercial production of GTF products (stabilised condensate, LPG and dry gas) in 2011 completed Zhaikmunai's product offering, in line with its liquids strategy. The production, marketing and transportation of crude oil, stabilised condensate and LPG are closely monitored and controlled by Zhaikmunai and also make up the largest portion of its revenues. The commercial production of dry gas, on the other hand, adds significant benefits for Zhaikmunai such as the easy offtake of significant dry gas volumes though straightforward pipeline logistics, the generation of its own power supply and the partially sponsored supply of dry gas to neighbouring communities.

Distribution Channels

Zhaikmunai's oil products are subject to the following marketing and distribution channels:

Crude oil:

Crude oil is shipped through Zhaikmunai's own 120-km pipeline from the Chinarevskoye field to the company's own rail terminal in Uralsk, from which it is shipped in railcars to offtakers in various destinations. The benchmark price for Zhaikmunai's crude oil is Brent.

Stabilised condensate:

Stabilised condensate is shipped through the same 120 km pipeline (using a "pig" system to keep it separate from the crude oil) from the Chinarevskoye field to the company's own rail terminal in Uralsk, from which it is shipped in railcars to offtakers in various destinations. The benchmark price for Zhaikmunai's liquid condensate is also Brent.

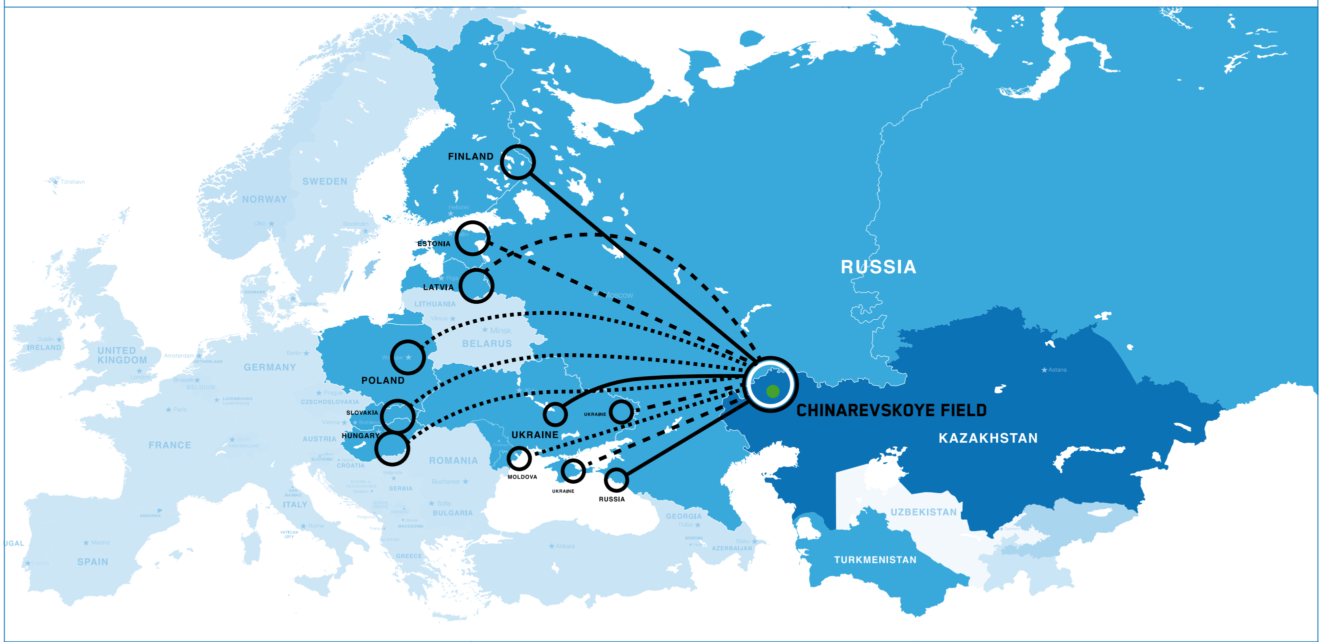
LPG:

LPG is shipped in special LPG trucks from the Chinarevskoye field to rail terminals in Uralsk, from which it is shipped in special railcars to offtakers in various destinations to established end consumers and/or traders who have a proven track record as well as extensive investment in the business because of the complexity of handling and transportation. The benchmark price for Zhaikmunai's LPG is International Mediteranean LPG price Sonatrach for Black Sea deliveries or Brest quotation for Eastern European deliveries.

Dry gas:

Dry gas is shipped through Zhaikmunai's own 17-km pipeline from the Chinarevskoye field to the connection point with the Intergas Central Asia Gas Pipeline (Orenberg-Novopskov) from which it is distributed by the offtaker. In the context of an overall framework agreement, prices for gas pro-

TRANSPORTATION ROUTES



CURRENT DESTINATIONS
Oil/Condensate
Condensate
LPG

POSSIBLE DESTINATIONS
Crude Oil/Gas condensate

dry gas

ducts are negotiated annually with the off-taker(s) under terms and conditions generally applicable in the market.

2012 Liquids and Dry Gas Deliveries

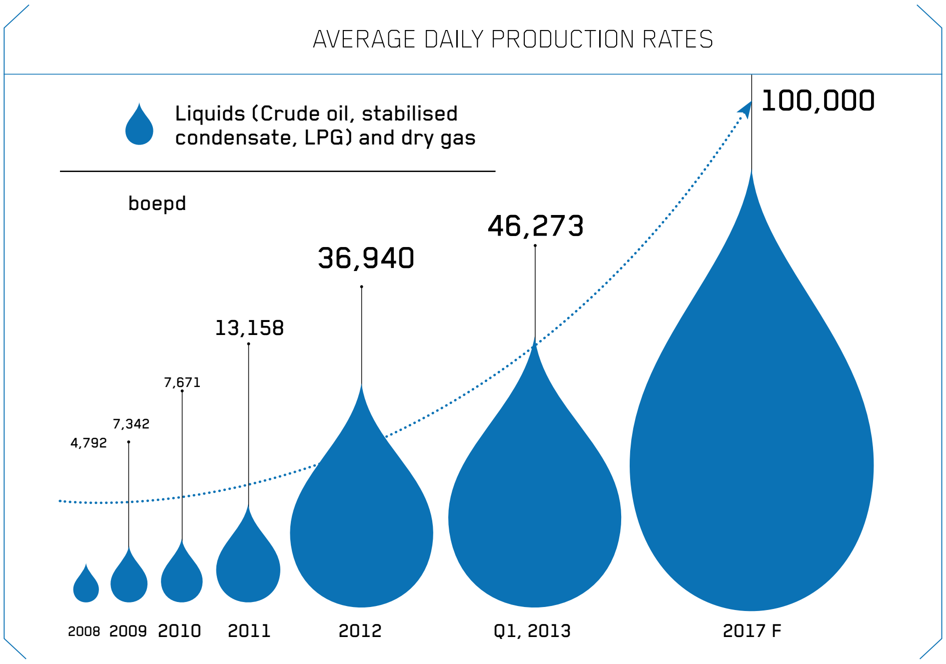
Having excellent transportation facilities for its oil products is of key strategic importance to Zhaikmunai, especially given production is primarily export orientated. Pursuant to the PSA, Zhaikmunai exports 85% of its crude oil production and sells 15% on the domestic market. It exports 100% of its stabilised condensate and 10-15% of its LPG production is sold on the domestic market. Liquids are transported and sold to countries such as Finland, the Ukraine and Turkey or sold on an FOB Black Sea basis.

In 2012, virtually all of Zhaikmunai's crude oil and condensate and most of Zhaikmunai's LPG was sold direct to its ultimate customers. Zhaikmunai's deliveries of dry gas are made to the offtaker(s) at Zhaikmunai's gas pipeline connection point to the Orenberg-Novopskov gas pipeline.

Management believes that Zhaikmunai 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 products 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. Management is also 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.

Marketing

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



"Already in drilling of 15 - 17 wells (9 appraisal wells, 1 exploration well and 7 production wells)."

Production

2012 Production of Crude Oil and GTF Products

Historically, Zhaikmunai's production growth has primarily been driven by its growing drilling programme (2008, 2009, and 2010) and linked to the production of crude oil. In 2011, Zhaikmunai's production growth was primarily driven by the new output from its Gas Treatment Facility (GTF).

As at 31 December 2012, 14 wells were producing crude oil from the Tournaisian and 12 wells gas-condensate from the Ardatovski, Biski/Afoninski and Southern Tournaisian reservoirs.

Over the course of 2012, Zhaikmunai produced 13,520,040 boe (crude oil and GTF products, i.e. stabilised condensate, LPG and dry gas) with an average of 36,940 boepd, a 181% increase in production compared to 2011, during which a total of 4,802,561 boe was produced at an average of 13,158 boepd.

Phase II GTF Production Outlook

In its first two development phases, Zhaikmunai has developed a very good understanding of the nature and behaviour of the reservoirs and of the gas condensate streams. It also gained substantial hands-experience in construction, operations and maintenance. This will prove extremely valuable in the next 3 years, as it plans to build a third GTF train next to the existing ones. This will allow faster monetisation of reserves, by increasing treatment capacity by an additional 2.5 bcm of raw gas per year, bringing total capacity to 4.2 bcm of raw gas per annum. Investments have already been made on the initial design of this third train and early stage procurement, and final decisions on the contracts are expected in the coming few months. Construction and commissioning of this state-of-the-art infrastructure is expected to be completed by 2016. Zhaikmunai will then more than double its current production of 45,000 boepd.

Rostoshinskoye, Darinskoye and Gremyachinskoye Fields

Background

Zhaikmunai's strategy hinges on the organic growth of its existing assets as well as on growth via mergers and acquisitions (M&A) and exploration in reservoirs, which have not yet been accessed. As detailed above, organic growth in the Chinarevskoye field includes expansion and monetisation of its reserve base and further development of its infrastructure in order to double production by 2016.

Value-accretive mergers and acquisitions (M&A) will, when opportune, complement the organic growth of the Chinarevskoye field. This is exemplified by the three recently acquired fields (Rostoshinksoye, Darinskoye, and Yuzhno-Gremyachinskoye), which are all located in the vicinity of the Chinarevskoye field. These fields will be appraised and developed in conjunction with the Chinarevskoye field phase III development. Zhaikmunai's extensive exposure to deal flow in Kazakhstan and the CSI will likely open the door to such further opportunities for growth..

Subsoil Rights Acquisition

In 2012 Zhaikmunai signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three new oil and gas fields (Rostoshinskoye, Darinskoye and Yuzhno-Gremyachinskoye) in the pre-Caspian basin to the northwest of Uralsk, located approximately 60 - 120 km away from the Chinarevskoye field. The signing of the supplementary agreements by the Ministry of Oil of Gas (MOG) effective in the spring of 2013 officially transfers ownership of the three fields to Zhaikmunai.

Reserves and Appraisal Programme

Reserve estimates for Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye are currently being undertaken by Ryder Scott, Independent Petroleum Consultants, and will be released at a later date.

The necessary appraisal activities in the three fields over the next 2 - 3 years will cost approximately US$ 85 million. These activities will include the acquisition of new 3D seismic data and/or the reprocessing of existing 2D and/or 3D seismic data, as well as appraisal drilling in order to validate and expand on the existing reserves reports.

Geology

Exploration activities during the last decades have successfully proven that the three recently acquired new fields (Rostochiskoye, Darinskoye and Yuzhno-Gremachinskoye) contain producible hydrocarbons in several reservoirs of Permo-Carboniferous age. More specifically, the bulk of the hydrocarbons are located in the Visean and Baskirian stages of the Carboniferous. Significant appraisal potential of the existing accumulations and exploration of deeper intervals is nevertheless required prior to development.

The Mid-Permian (Kungurian) salt represents the ultimate top seal, preventing the hydrocarbons from further migration and thus creates the oil and gas accumulations. The salt, originally a thick blanket over the full extent of the basin, is relatively mobile and started to form the ubiquitous salt domes typical of the North Caspian Basin. Well data has thus far proved that the complex growth of these salt domes through time also created effective hydrocarbon traps in a younger, post-salt Permian level, the Kalinov carbonates. The deeper main accumulations, below the salt, are vertically separated by several tight and/or shaley intervals that act as intra-formational seals. In this way, a number of hydrocarbon-bearing reservoirs are stacked on top of each other.

The effect of faults and potentially discontinuous reservoirs on this vertical stacking rapidly multiplies the number of individual reservoir segments. Zhaikmunai plans to spend the next two years on the detailed analysis of all well data, existing and newly acquired 3D seismic data to provide the development for these intervals with the highest possible accuracy. Dedicated appraisal drilling during this period is planned to iron out uncertainties on reservoir extent and fluid composition that cannot be resolved in a satisfactory fashion with the existing data.

The objective reservoirs are the Permo-Carboniferous carbonate reservoirs, which are familiar from the Chinarevskoye field. These were deposited under (sub)-tropical conditions in a vast marine embayment; a shallow sea at the southern side of the Eurasian continent. Sedimentation and reef growth kept pace with the continued subsidence of this area (later known as the North Caspian Basin). The shallow marine environment remained a stable feature in this way over long periods of time, resulting in a thick, continuous and porous reservoir section below a very effective top seal.

On the seaward side of this carbonate platform with local reefs, water depth increased rapidly in the central part of the embayment. Organic-rich deposits accumulated, forming source rock for the oil and gas found later. Hydrocarbons were generated due to the impact of increasing temperature with ongoing sediment burial over geological periods of time. As hydrocarbons are lighter than water, these migrated updip from the source rocks to the adjacent and shallower reservoirs to become trapped in the structures mapped along the perimeter of the basin.


Белес
ауыл округі

Corporate Governance

Corporate Headquarters

In Q1 2013, the corporate headquarters and seat of effective management of Zhaikmunai Group Limited (ZGL) and Zhaikmunai LP was moved to Amsterdam, The Netherlands.

Zhaikmunai LP
Gustav Mahlerplein 23 B
1082 MS Amsterdam
The Netherlands

Tel.: + 31 20 737 2288
Fax: + 31 20 737 2292

Zhaikmunai's other offices include the Registered Office in Douglas, Isle of Man; the Corporate Office in Uralsk, Kazakhstan; and the Representative Office in Astana, Kazakhstan.

Corporate Governance

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

As a limited partnership registered in the Isle of Man, Zhaikmunai LP 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 and there are no statutory corporate governance recommendations applicable to limited partnerships formed in the Isle of Man, we recognise the importance of corporate governance and as such 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 Zhaikmunai's corporate headquarters (see Corporate Headquarters).

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 in accordance the UK Disclosure and Transparency Rules that such persons do not deal in the partnership's securities when in possession of inside information or during close periods. 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.

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 opportunities. 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 Directors 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 eight-member Board, which has overseen the successful running of the Zhaikmunai for a number of years, currently consists of two executive directors and six non-executive Directors, three of whom are considered by the Board to be independent non-executive directors. 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 comprising Belgian, English, German, Russian and Indian nationals.

Board Roles and Responsibilities

The roles of the Chairman and Chief Executive are separate, with each having distinct and clearly-defined responsibilities. The Chairman, Frank Monstrey, is responsible for leadership of the Board and for ensuring its effectiveness in all aspects of its role. He sets the agenda for Board meetings in consultation with the Chief Executive and the Group General Counsel and Company Secretary. He is also responsible for ensuring that the directors receive accurate, timely and clear information and that there is effective communication with the limited partners of the partnership. The Chief Executive, Kai-Uwe Kessel, provides leadership to the Group to enable the successful planning and execution of the objectives and strategies agreed by the Board. He is also responsible for care of the Group's assets and, jointly with the Chairman, representation of the Group to third parties.

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

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

The Board held six meetings in 2012, four of which were regular scheduled meetings. Messrs. McGowan, Kessel and Everaert attended six Board meetings, Messrs. Monstrey, von der Linden and Gupta attended five Board meetings and Mr. Ivanov attended three Board meetings in 2012. Mr. Jain attended the one Board meeting held in 2012 following his appointment as a director. Four board meetings are currently scheduled for 2013.

Board Members Bios

Biographical and related information regarding the directors is given below.

Frank Monstrey
- Re-appointed as an Executive Director of ZGL on 22 July 2010
- Since September 2007: Served as Chairman of the Board of ZGL, Zhaikmunai L.P.'s General Partner
- Since 1991: Chief Executive Officer of Probel, a private equity and asset management firm based in Belgium specialising in long-term capital management in emerging markets
- Holds a degree in Business Economics from the University of Leuven (KUL), Belgium

Kai-Uwe Kessel
- Re-appointed as Chief Executive Director of ZGL on 22 July 2010
- Since November 2007: Served as Chief Executive of ZGL, Zhaikmunai's L.P.'s General Partner
- Since 2005: Managing Director of Probel
- 2002 – 2005: Director of Gaz de France's North African E&P Division
- 1992 – 2001: Managing Director of Erdgas Erdöl GmbH, and oil and gas company owned by Gaz de France, and Member and Chairman of the Board of KazGermunai
- Graduate of the Gubkin Russian State University of Oil and Gas

BOARD MEMBERS - 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	1961	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
PANKAJ JAIN	2012	1967	No	No	100,000	-	-	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.*

Eike von der Linden

- Re-appointed as an Independent Non-Executive Director of ZGL on 1 July 2011
- Since 1988: Managing Director of Linden Advisory and Consulting Services
- Since 1985: Independent advisor to financial institutions for equity investments, mezzanine and debt funding (project finance) in the field of natural resources.
- Holds a PhD in mining economics from the Technical University of Clausthal

Piet Everaert

- Re-appointed as a Non-Executive Director of ZGL on 22 July 2010
- Since 1993: Partner in the VWEW Advocaten law firm
- Since 1986: Lawyer at the Brussels Bar (active in the field of Belgian business law)
- Graduate from the University of Leuven (KUL) (1984) and from the College of Europe (Bruges) (1985), Belgium

Atul Gupta

- Re-appointed as an Independent Non-Executive Director of ZGL on 9 July 2012
- From 1999 – 2008: Burren Energy (Chief Executive Officer (2006 – 2008) and Chief Operating Officer (1999- 2006))
- Wide experience (25 years) in the international upstream of oil and gas business: Charterhouse Petroleum, Petrofina, Monument and Burren Energy
- Graduate in chemical engineering (Cambridge University) and studied petroleum engineering (Heriot Watt University, Edinburgh)

Mikhail Ivanov

- Re-appointed as a Non-Executive Director of ZGL on 9 July 2012
- Currently: Partner and Director of Oil and Gas Projects at Baring Vostok Capital Partners and Chief Executive Officer at Volga Gas
- Wide experience (15 years) in the oil and gas industry: 10 years with the Schlumberger Group in various management and technical positions in Russia, the USA and the United Kingdom, including operations responsibility in Iran, Georgia and Azerbaijan
- Graduate in Geophysics (M.Sc.) from Novosibirsk State University and Management (M.B.A.) from the Kellogg School of Management of Northwestern University
- Elected Member of the Society of Petroleum Engineers

Pankaj Jain

- Appointed as a Non-Executive Director of ZGL on 26 November 2012
- Since 2009: Chief Executive Officer of KazStroy-Service (KSS) Group
- Sizeable experience (over 20 years) in EPC (Engineering, Procurement and Construction) projects in India, Kazakhstan, the Middle East and the Far East regions
- Graduate from the Regional Engineering College, Trichy, India (B.E. Hons in Civil Engineering (Major: oil and gas infrastructure))

Steve McGowan

- Re-appointed as an independent Non-executive Director of ZGL on 1 July 2011
- Since 2007: Executive Chairman of SMP Partners Fiduciary and Trust Company in the Isle of Man
- 2001 – 2007: Served as a Member of the Board of Edasco (a fiduciary company owned by UBS), and as Managing Director of Intertrust (Isle of Man)
- 1982: Start of banking career at National Westminster Bank in London

Board Committees

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

Audit Committee

The Board 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. Gupta, Mr. McGowan and Mr. von der Linden, each of whom is considered to be an independent director, and Mr. von der Linden serves as chairman. The Board considers each member of the Audit Committee to have appropriate financial experience. The Audit Committee meets 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 Zhaikmunai's corporate headquarters offices (see Corporate Headquarters).

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. Ivanov, Mr. McGowan and Mr. von der Linden and meets not less than twice per year. At least one member of the Remuneration Committee must be an independent Director.

Management Committee

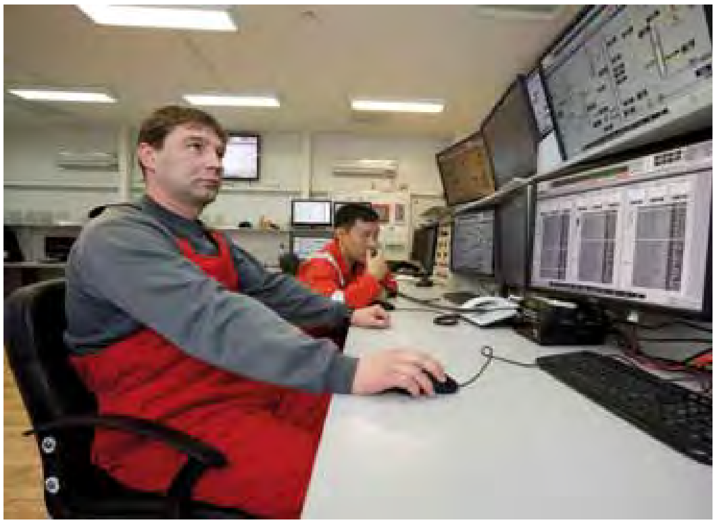
The Board delegates to the Management Committee the responsibility for overseeing the implementation by the Group's operating subsidiaries of the policies and strategy that it sets, and for facilitating the prerequisites for successful day-to-day operation. The Management Committee is chaired by the Chief Executive, Kai-Uwe Kessel, who has extensive 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 Deputy CEO, the Group General Counsel, and the Zhaikmunai LLP General Director, Chief Financial Officer, Chief Operating Officer, Director of Geology, Commercial Director and Drilling Director.

Management Committee Bios

Set out below are details of the members of senior management of Zhaikmunai.

Kai-Uwe Kessel

- Appointed as Chief Executive Director of ZGL on 16 November 2007
- Since November 2004: Served as Chief Executive of ZGL, Zhaikmunai's L.P.'s General Partner



- Since 2005: Managing Director of Probel
- 2002 – 2005: Director of Gaz de France's North African E&P Division
- 1992 – 2001: Managing Director of Erdgas Erdol GmbH, and oil and gas company owned by Gaz de France, and Member and Chairman of the Board of KazGermunai
- Graduate of the Gubkin Russian State University of Oil and Gas

Jan-Ru Muller

- Appointed as Chief Financial Officer of Zhaikmunai L.P. on 16 November 2007
- Since 2000: Served in various capacities at Probel (ex. oversaw Zhaikmunai's adoption of IFRS, implementation of SAP, etc.)
- 1990 – 2000: Founder and Managing Director of Axio Systems (information technology)
- 1988 – 1990: Andersen Consulting
- Holds a B.Eng. (Utrecht Municipal Institute of Technology) and an M.B.A. (University of Leuven (KUL)

Jan Laga

- Appointed as Deputy CEO of Zhaikmunai L.P. on 1 January 2010
- Wide experience (over 20 years) in industrial group management: Picanol, Berry Group, Ackermans & van Haaren and Koramic
- Holds a Master's Degree in Electro-Mechanical Engineering (University of Leuven (KUL)), and an M.B.A. (INSEAD)

Thomas Hartnett

- Appointed as Group General Counsel of Zhaikmunai L.P. on 5 September 2008
- Worked on behalf of or with Zhaikmunai since 2004
- Previously a partner in White & Case LLP with more than 16 years' experience in cross-border corporate and M&A transactions based in the firm's New York, Istanbul, London, Brussels and Bangkok offices
- 1996 – 1998: Senior Corporate Counsel for Intercontinental Hotels Group
- Holds a BA in Comparative and Developmental Politics (University of Pennsylvania) and Juris Doctor degree (New York University School of Law)
- Member of the New York Bar

Vyacheslav Druzhinin

- Appointed as General Director of Zhaikmunai LLP in 1997
- Extensive experience (35 years) in E&P: Various positions in the Field Development Department of KazakhGaz State Holding Company, State Holding Company "Zharyl" and VolkovGeologia KGGP
- Qualifications: Mining engineer, Exploration (Polytechnical Institute) in Tomsk, Russia and USSR Ministry of Geology; Drilling Engineer Training (Hughes Christensen Company), Houston

Gudrun Wykrota

- Appointed as Chief Financial Officer of Zhaikmunai LLP in April 2010
- Prior experience in the energy field: Head of Asset Management Upstream (Gazprom Germania GmbH), Finance and Administration Manager (Gaz de France Produktion Exploration Deutschland GmbH)
- Holds a Master's Degree in Science (Mining Engineering and Economy) from Moscow Geological Exploration University and a Certificate in International Accounting from the German Chamber of Industry and Commerce in Berlin, Germany

Heinz Wendel

- Appointed as Chief Operating Officer of Zhaikmunai LLP in January 2012
- Wide experience (30 years) in exploration and production, primarily as an oil and gas engineer

- Served in various managerial and technical capacities in Germany, Poland, Russia and Kazakhstan: GDF Suez E&P, East German Erdöl-Erdgas Gommern (EEG), and others
- Graduate from the Oil & Gas Institute in Baku, Azerbaijan

Alexei Erber

- Appointed as Director of Geology of Zhaikmunai LLP in October 2007
- Extensive E&P experience (over 20 years): Geological and exploration departments of Erdöl-Erdgas Gommern GmbH and Gaz de France
- Graduate from the Gubkin Russian State University of Oil and Gas (Geology and Geology Engineering) and the Ernst Moritz Arndt University of Greiswald (Mathematical Methods in Geology)

Berik Brekeshev

- Appointed as Commercial Director of Zhaikmunai LLP in January 2010
- Extensive experience (over 10 years) in the oil and gas industry in Kazakhstan
- Previously: Senior positions with Starleigh Ltd, Talahasse Holdings Limited and JSC NNGRE, and commercial roles at Nelson Resources, Kazakhoil Aktobe, Buzachi Operating, Atlas Global Investment and Western-Siberian Drilling Company
- Holds an M.B.A. (International Marketing) from the Maastricht School of Management

Jörg Pahl

- Appointed as Drilling Director in 2005
- Extensive drilling experience (over 10 years) in various positions in the Drilling/Workover Technology Department at Erdgas Erdöl GmbH and the Operation and Production Department at the E&P Division of Gaz de France
- Holds qualifications from the Technical School for Deep Drilling Techniques, Stralsund and from the Technical University, TU Bergakademie, Freiberg, Germany (Drilling Technology and Fluid Mining)

Shareholding 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 31 December 2012 Zhaikmunai LP had granted a total of 3,182,958 options, of which 1,051,235 had been exercised.

As at 31 December 2012 the following directors and senior managers of Group companies (or their associates) held the following options over GDRs representing partnership interests, generally vesting over a five-year period, exercisable either at US $4.00 or US $10.00 per GDR and expiring 10 years from the date of grant, pursuant to the Plan:

Kai-Uwe Kessel	900,974 GDRs
Jan-Ru Muller	120,130 GDRs
Vyacheslav Druzhinin	149,870 GDRs
Thomas Hartnett	300,325 GDRs
Alexei Erber	120,325 GDRs
Jörg Pahl	80,050 GDRs
Heinz Wendel	* 200,000 GDRs
Berik Brekeshev	150,000 GDRs
Gudrun Wykrota	100,000 GDRs

In addition, as at 31 December 2012 Mr. Kessel owned 10,000 GDRs and Mr. Everaert owned 12,000 GDRs.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Corporate Social Responsibility

CSR

A Multi-Facetted Corporate Social Responsibility Action Programme

Zhaikmunai's continued development over the years and its substantial production of crude oil and specialised products (stabilised condensate, LPG and dry gas) from the Gas Treatment Facility (GTF) has, over the last couple of years, created economic growth, an increasing presence and influence on the local and regional community as well as an increasing environmental footprint. In becoming a stable and sustainable E & P figure in the area, Zhaikmunai is also playing an increasing role in society as a whole.

Corporate Social Responsibility (CSR) is, according to the World Business Council on Sustainable Development (WBCSD), 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.

In short, the goal of CSR is not just to take responsibility for Zhaikmunai's actions, but also to 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: ethics and governance, employees, communities and environment.

Our Approach to Business

Having operated in Kazakhstan for more than 20 years, many members of Zhaikmunai's Board and Management Team have developed not only a thorough understanding but indeed a strong commitment and connection with the country. In addition, our local North-western Kazakhstan community around Uralsk has developed into a world-class provider of hydrocarbon products.

Zhaikmunai's approach with regard to business ethics can best be understood by looking at the specific measures it has adopted on corporate governance and code of conduct which are described in the section "Corporate Governance".

QHSE (Quality, Health, Safety and Environment)

On the ground, responsible management of personnel (health and safety), of assets and of resources at hand (environment) according to the strictest quality standards is made possible through the coordinated efforts of the QHSE Department (Quality, Health, Safety and Environment).

An Enhanced and Centralised Function

In anticipation of its increasing strategic role, the QHSE Department underwent major changes in 2013, including a new and and more flexible organisational structure as well as an ambitious development programme. The latter covers the following objectives:

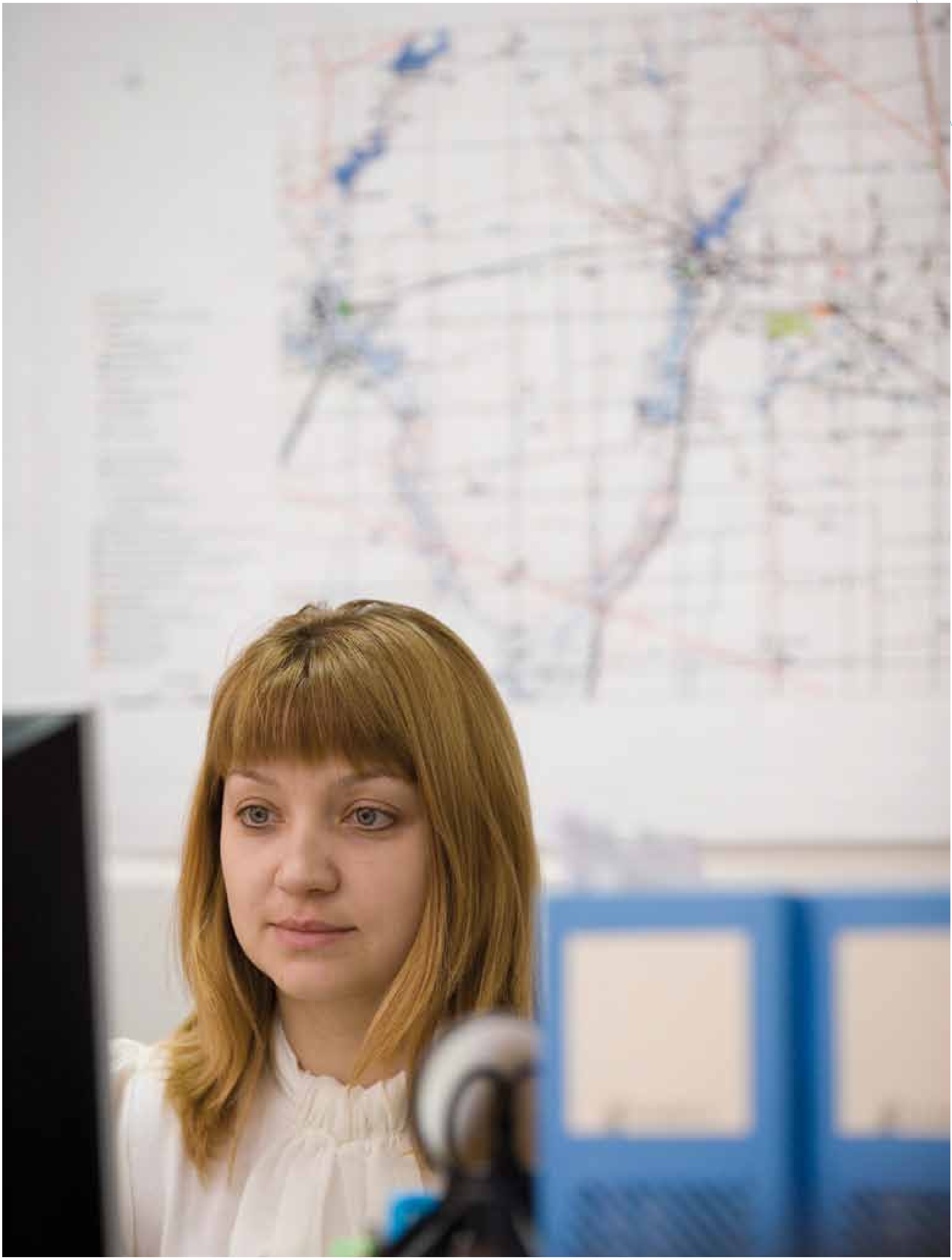
1. Set targets for improvements, and continue to measure and report performance against these targets;
2. Identify and promote best practices;
3. Promote a culture in which every Zhaikmunai employee shares these commitments;
4. Further position QHSE within any other critical business activity within Zhaikmunai;
5. Ensure subcontractor buy-in and compliance with regard to the QHSE policies;
6. Assist in the development and diffusion of the relevant appropriate local QHSE programmes;
7. Further promote the actions from Zhaikmunai management in line with the QHSE vision and policy work.

Strategic Transversal Action

Strategic transversal activities have been centralised under the QHSE function with the aim of increasing management control and enhancing results. It is not only the health and safety of personnel but also the integrity and sustainability of the operating environment which are fundamental to the success of Zhaikmunai over the lifetime of its licences.

In this context, Zhaikmunai is developing an extended quality policy, which will also integrate these fundamental variables in a simpler and more effective way. As such, this quality policy will strive to meet the following objectives:

- Establish and implement ISO 9000 – 14000 standards;
- Communicate and monitor quality objectives and policies throughout the enlarged Zhaikmunai community;
- Ensure the development of good relationships with Zhaikmunai suppliers based on continuous improvement in product quality, service and support;
- Continue the development of quality standards and the monitoring of actual performance against these standards as a means to meaningful action planning.



Our People

A Safe Environment to Work In

Zhaikmunai's operations are subject to legislation, regulation and other requirements relating to the health and safety requirements applicable to oil and gas companies operating in Kazakhstan. These 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 undergoes health and safety certification once every 2 years.

Zhaikmunai's own 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".

A Large Contingent of Dedicated Employees

Zhaikmunai's strongest contribution to Kazakhstan's society is the wealth generated by hundreds of employees working on the fields and in Uralsk. 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 of key importance.

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

The average number of people (full-time equivalents) employed by Zhaikmunai increased sub-

NUMBER OF MAN-HOURS WITHOUT LOSS OF WORKING HOURS

	2008	2009	2010	2011	**2012**
in million	0.95	1.15	1.23	1.47	**1.66**

AVERAGE NUMBER OF EMPLOYEES EMPLOYED BY THE GROUP IN KAZAKHSTAN

Location	2007	2008	2009	2010	2011	**2012**
Chinarevskoye Field	329	396	439	500	552	**631**
Uralsk	130	142	177	144	170	**207** (11 in Health Centre)
Total	459	538	616	644	722	**838**

Average number of employees (full-time equivalents)	838	100%
Women	132	16 %
Men	706	84 %
Employee age groups		
Under 25 y.o.	82	10 %
25 to 29	183	22 %
30 to 49	399	47 %
Over 50	174	21 %

stantially during 2012 following the full production ramp-up of the GTF and the associated activities from production to transportation and marketing, including such services as the Health Centre (Uralsk).

Valued Employee Benefits

Zhaikmunai's employees enjoy high standards of treatment structured around the following components:

Salary package

The company offers competitive remuneration packages to its employees. Regulation on salary, developed and used at Zhaikmunai, is in full compliance with the labour legislation in the Republic of Kazakhstan, the industry specific memorandum concluded between the Ministry of Oil and Gas and oil companies, and with the other regulatory acts of the Republic of Kazakhstan.

Social security

Zhaikmunai contributes 22% of its employees' gross income as social taxes (21 %) and social security (1%) to the government of the Republic of Kazakhstan. In addition, Zhaikmunai covers sick pay and medical leave (after 5 years of services). Social tax and related staff costs are expensed as incurred.

Pension fund

Zhaikmunai also transfers up to 10% from employees' salaries as 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.

Prevention and Medical Assistance

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 prevention culture, Zhaikmunai has also developed its own written plans and policies with regard to health, safety and the environment (HSE). In addition Zhaikmunai also pays special attention to accident and health insurance for its employees.

Zhaikmunai has its own first-aid post and a contract has been signed 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.

Insurance Plans

The types of coverage structure, limits and quality of Zhaikmunai's insurance plans are comparable with other Kazakh oil companies of a similar size:

Zhaikmunai insures some of its risks under the following mandatory insurance contracts:

- general third-party liability insurance;
- employer's liability insurance;
- environmental insurance; and
- civil liability as the owner of vehicles.

As at the date of this report, Zhaikmunai is in compliance with all mandatory insurances required by Kazakh law.

In addition, Zhaikmunai maintains the following voluntary insurance contracts:

- voluntary cargo insurance;
- oil operations voluntary insurance contract;
- voluntary third party liability insurance;
- property voluntary insurance contract;
- voluntary property insurance for the Gas Treatment Facility; and
- voluntary vehicle property insurance.

Zhaikmunai has also arranged directors' and officers' liability insurance through a third-party insurer. It does not however maintain business interruption, key-man, terrorism or sabotage insurance because it believes that the chance of any such event occurring is small.

Training

In line with the Production Sharing Agreement (PSA) with the government of Kazakhstan, Zhaikmunai is required to make a significant contribution towards personnel training and general education of local people in Kazakhstan.

In 2012, training costs amounted to US$ 4,118,456 and 787 employees and other Kazak citizens 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.

Our Community

An Integrated Space

Zhaikmunai's rapidly expanding activities around its four assets (Chinarevskoye, Rostoshinskoye, Darinskoye and Yuzhno-Gremyachenskoye fields) in North-western Kazakhstan have attracted a wide variety of competencies and skills in our workforce. Offering both ambitious production profiles, on the one hand, and further growth potential through the exploration for new reserves, conversion of possible reserves or other possible acquisitions indeed call for a flexible and well-integrated team of professionals.

Looking after the larger community becomes all the more important as the scope and duration of operations reflect the timescale of the Zhaikmunai licences (over 30 years in duration). Hence the unabated efforts to ensure that Zhaikmunai personnel and subcontractors feel that are part of a larger integrated, caring and secure community.

Zhaikmunai has been active in improving the lives of its residents and assisting community life since the start of its operations in Chinarevskoye. The sense of community has grown substantially over its 15-year existence.

This results from Zhaikmunai's direct involvement through such actions as the relocation of a village, which came to fall under the Kazakhstan's Ministry of Health's newly created sanitary protection zone, investments in social infrastructure, sponsoring activities and charitable work. It also stems from the understanding that the community will continue to prosper once Zhaikmunai's activities come to an end at the end of the licence, thanks to the liquidation fund.

Village Relocation

The 300-resident Rozhkovo village relocation became a necessity following the 2006 decision of the Republic of Kazakhstan's Ministry of Health to create a sanitary protection zone (SPZ) around the Chinarevskoye field.

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 all been relocated, and most now reside in apartments built by Zhaikmunai in Uralsk.

Social Infrastructure

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. In addition, 2012 saw significant investments in building and maintaining roads inside and outside the license areas (US$ 17,899,505).

Sponsoring Activities and Charitable Work

Over and above its involvement in infrastructure, Zhaikmunai also endeavours to make a meaningful contribution to Kazakh society. As such, it focuses on sponsorship and charity activities centred around the improvement of the lives of its various communities and extended networks in Western Kazakhstan.

Zhaikmunai has, for example, sports teams for football, cross country skiing, chess, badminton, volleyball and bowling, which take part in competitions with other companies. It also has a long-standing commitment to support local communities by sponsoring local sporting and cultural events. In 2012, over US$ 276,000 was allocated to general sporting and cultural events.

For over a decade, 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. In 2012, it further dedicated over US$ 120,000 to this end. It also supports a chess school.

Zhaikmunai also contributes to the welfare of society by financing various charitable causes and projects. For example, financing secondary education projects (2012: Over US$ 294,000) and supporting various associations (such as children's public associations, veterans, etc.) (2012: Over US$ 56,000) feature as relevant choices for social involvement.

Liquidation Fund

The Production Sharing Agreement (PSA) stipulates that Zhaikmunai is required to establish a liquidation fund 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. This way, the Chinarevskoye field can be used for 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. In 2012, the required US$ 452,000 contribution was set aside for this purpose.

"A real sense of community has grown over Zhaikmunai's 15-year existence in north-west Kazakhstan."

Our Environment

Defining an environmental strategy and objectives

Zhaikmunai's environmental strategy has matured over the years and now stretches above and beyond compliance obligations with local, regional and national rules and regulations for environmental protection. Today, it also includes proactive steps towards setting clear indigenous environmental protection objectives.

To this end, various tools have been developed:

- An Environmental Action Plan is prepared each year in accordance with Kazakh environmental regulations and is submitted to the relevant authorities. It highlights Zhaikmunai's main environmental priorities for the coming year;
- A Site Environmental Monitoring Programme has been in place since late 2001 and has been developed in accordance with Environmental Code of Republic of Kazakhstan. It ensures that the main environmental criteria are kept in check in order to flag any possible problem in time for effective action planning;
- Regular environmental audits are carried out by independent third parties with the aim to further tighten Zhaikmunai's hold on the environmental question in the broader sense. These audits allow for pro-active monitoring and action planning.

The extension of the QFSE function at Zhaikmunai, as described earlier in this section, aims to take the current initiatives a step further. These include World Bank environmental standards for operations as well as their translation into the "Ecological Passport" methodology to monitor future environmental efforts effectively.

Ascertaining and measuring progress over time

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

Environmental Action Plan

Zhaikmunai's yearly Environmental Action Plan is a structured commitment to a series of yearly environmental objectives. These have, in turn, been selected as key priorities by Zhaikmunai in line with strategic, regulatory and communication imperatives.

The Environmental Action Plan follows a traditional action planning format aimed at clearly defining the areas under scrutiny and the specific actions to be performed, by whom and by when, including the implementation budgets set aside for these actions against which implementation costs are booked.

Action No.	Action Description	Execution Period		Implementation		Completion Check-Off
		Start	End	Budget	Cost	

The following are the areas of focus in the "2012 Environmental Action Plan Implementation Report":

- Air Pollution Control:
  - Infield roads dust suppression activities

- Water resources protection and rational use:
  - Domestic wastewater disposal to Uralsk sewage station
  - Installation and operation of additional equipment for deeper mud treatment

- Land protection:
  - Site reclamation upon completion of construction works at pipeline routes
  - Well site reclamation upon completion of drilling
  - Integrated assessment of drilling operations impact on Chinarevskoye land resources

- Flora and Fauna Protection:
  - Camp area vegetation care

- Radiological, biological and chemical safety:
  - Radiological examination of Chinarevskoye field

- Ecological Education and Propaganda:
  - Ecologists' qualification upgrade
  - Ecological education, environment protection seminars for the company employees

Environmental Action Plan Report (2012)

Zhaikmunai's Environmental Action Plan Report (2012) conclusions for the year 2012 are as follows:

"In 2012 environmental activities were performed as scheduled.

Domestic wastewaters were exported regularly to OralSuArnasy discharge station. The installation of equipment for mud treatment facility at mud utilization treatment shop has been completed. Reclamation of well sites 66, 115B, 24, 67,116,401, 218 was performed. The recultivated lands are being returned to land owners.

Integrated assessment of drilling operations impact on Chinarevskoye land resources was made under the Agreement with Oral-Zher LLP.

In order to ensure permanent and operative analysis of radiological background at Chinarevskoye field radioactivity tracers were procured.

During this year, our ecologists visited seminar-trainings held in Astana and Almaty. The seminars highlighted the issues related to amendments to RoK environmental laws, in particular control of greenhouse gas emissions and wastes treatment. The ecologists also took part in the international environmental seminar-upgrade in Norway.

The seminars for field and oil terminal personnel were held on separate waste disposal and energy saving (method of greenhouse gas emissions reduction) and other issues."

Site Environmental Monitoring Programme

Zhaikmunai's Site Environmental Monitoring Programme is used for organizing and monitoring environmental activities at Zhaikmunai, identifying any potential production impact on the environment, enabling us to take prompt corrective measures should there be any of violation of environmental legislation.

The Site Environmental Monitoring Programme is:

- to obtain relevant information for decision-making with regard to Zhaikmunai's environmental policy, including target values for environment quality as well as information on regulatory instruments applicable to production processes which may have an environmental impact;
- to ensure full compliance with the environmental legislation of the Republic of Kazakhstan;
- to reduce the impact of production processes on the environment and on human health;
- to increase the efficiency of natural and energy resources;
- to provide a pre-emptive operative response to emergencies;
- to instil a higher level of environmental awareness and responsibility in managers and employees;
- to report on Zhaikmunai's environmental activities and community health risks;
- to increase the level of effective compliance with regard to environmental requirements;
- to increase the efficiency of the environment protection management system;
- to account for ecological risks in investment and finance decisions.

Zhaikmunai's QHSE (Quality, Health, Safety and Environment) Department manages the Site Environmental Monitoring Programme. The Programme specifies the following:

- compulsory list of criteria to be followed in the site monitoring;
- time, duration and frequency of carrying out site monitoring activities and measurements;
- detailed site monitoring methodologies;
- sampling points and places of measurement;
- methods and frequency of data accounting, analysis and reporting;
- schedule of internal checks and procedure for remedying violations of national environmental laws, including the internal response actions to these violations;
- metering quality assurance procedures;
- emergency action plans;
- organizational and functional structure of internal responsibilities of employees with regards to carrying out site environmental monitoring;
- other data on organizing and carrying out site environmental monitoring.

Site Environmental Monitoring Annual Report (2012)

Zhaikmunai's Site Environmental Monitoring Annual Report (2012) concluded as follows (section 19. Conclusions, p. 26):

"From the report it follows that in 2012, as well as previously, the Company has not exceeded the established environmental pollution standards for production facilities located in the area.

Environmental monitoring program activities approved by the Ministry of Environmental Protection were carried out in the established scope.

Environmental monitoring measurements were made by SanEpidExpertisa Centre Laboratory involved for these purposes.

Atmospheric air sanitary and chemical surveys were performed in accordance with RD 52.04186-89. During 12 months the surveys were made for mercaptans, hydrogen sulphide, sulphur dioxide, nitrogen dioxide and carbon dioxide.

Maximum allowed concentrations (MAC) of pollutants at Chinarevo and Beles villages, at the Field buffer zone over the period were not exceeded. Moreover, the content of hydrogen sulphide, sulphur, nitrogen dioxide in the air at Chinarovsky Field was observed to go extremely decreasing. This owes to the fact that associated gas is treated at GTU and, as a consequence – decrease of quantity of gas unavoidably to be flared technologically at flare units and pollutant emissions in the air.

Surface waters samples were taken from Yembulatovka River dam for sanitary and chemical tests. No maximum allowed concentrations of pollutants were exceeded.

The analysis of samples of nominally clean storm water flowing to evaporation ponds at GTF has shown that no maximum allowed concentrations of pollutants were exceeded.

Soil pollution measurements have also revealed no excesses over the established MAC standards.

Production emission monitoring measurements were made by ORAL-ZHER laboratory contracted for these purposes.

No MAC excesses at production emission sources were recorded over the last year.

In-operation monitoring is conducted to a required scope and ensures reliable control of process requirements."

Environmental Audits

Independent third parties carry out environmental audits on a regular basis on behalf of Zhaikmunai.

AMEC Earth & Environment UK Ltd. carried out its first environmental study in 2007 and repeated the exercise in 2009. The next environmental report by AMEC, while originally scheduled for 2011 was postponed until 2012 in order to include an extensive Health & Safety Assessment over and above the Ecological Assessment, which could best be done once the GTF was fully operational.

AMEC Report (2012)

The AMEC Report 2012 comes to the following conclusions (HSE Audit, p. 40 – 41):

"Based on the audit results the following conclusions were made:

Health and safety

- *The Company generally meets health and safety requirements set by the Republic of Kazakhstan regulations and international standards related to onshore oil and gas development;*
- *In the course of the audit at the visited production facilities significant non-compliances with national regulations and international standards have not been revealed. During the site visit it was confirmed that applicable requirements were communicated to performers and executed. AMEC notes that the Company production activities meet the high safety standards;*
- *The most hazardous sites (objects) identified during the audit were as follows: drilling sites, amine regeneration and debutanizing blocks at GTF, LPG storage, oil and gas condensate tank farms, trunk oil pipeline and watercourse crossings. It is recommended to implement risk-minimizing measures primarily at the above-mentioned areas;*
- *Accidents have not been registered at the Zhaikmunai production facilities. However, AMEC recommends that all incidents should be registered in order to further improve health and safety status and prevent future occupational and production accidents (as shown by the "pyramid of accidents" timely response to micro trauma and eliminating the possibility of dangerous actions can significantly reduce the risk of major accidents);*
- *The approach of IFC on priority activities for risk management should be followed (the measures are listed in order of decision-making on effective application): complete elimination of risk source, technical, organizational preventive measures (including notification, response and evacuation), use of personal protection;*
- *The Company maintains safe working conditions. These conditions are optimal. They are beneficial not only for worker health but also for creating preconditions to maintain a high level of efficiency. These conditions are also allowable, i.e. they are characterized by such levels of working environment factors and labor process that do not exceed workplace hygienic standards, all possible changes in functional state of organism are restored during the regulated rest and do not cause any short or long term adverse effects on employee health status.*

Environmental safety

- *The Company generally meets the requirements set by the national regulations and international standards related to onshore oil and gas development;*
- *During site visits to the Chinarevskoye Field and the oil terminal no significant problems related to environmental pollution has been identified. HSE Audit 41 2012;*
- *The currently used environmental management system is so-called programmatic. Such system works according to the installed programme that does not depend on results of its activities that qualify it as an obsolete management system. AMEC recommends Zhaikmunai to implement and certify an environmental management system that comply with ST RK ISO 14001-2006 (ISO 14001:2004) standard. Implementation of such system will require increased staffing of the Department within the current staffing schedule as well as recruiting additional professionals with experience in construction and operation of modern environmental management systems. The system can be integrated with management system in the field of occupational health and safety on the basis of ST RK OHSAS 18001-2008 standard. This will enable a comprehensive consideration of key factors in the field of safety, health and environment in the course of strategic decision-making and sustainable development of the Company;*
- *As it was not required by the regulatory authorities, the ODS inventory passports for 2010-2011 have not developed. AMEC recommends to update inventory results of ozone-depleting substances in accordance with regulatory requirements and submit a report to the ODS authorized governmental body in accordance with the new Rules;*
- *In 2011 and 2012 samples of drinking and domestic water were not analyzed at Chinarevskoye Field. AMEC recommends to undertake an annual independent sampling and analysis of drinking and household water and to request water quality certificates from suppliers;*
- *During the site visits at the Company production facilities and its contractors (in particular OTF, GTF, Rotational complex No. 1, drilling sites of Xi Bu, Saipem, and UNGG) it was noted that the waste oil is stored without secondary containment. This practice does not meet the regulatory requirements of the RoK as well as the requirements set in the guidelines of International Finance Corporation (IFC) / World Bank Group. AMEC recommends using suitable containers with lids for all types of hazardous waste to ensure their separate storage and disposal. The storage areas with waste oils, chemicals, sludge, fuels and lubricants should be equipped with secondary containment means for protection against spills, such as berms, drip trays, concrete bund/ lips and lining.*

Investor Information

Corporate Structure

Zhaikmunai LP is a limited partnership registered in the Isle of Man whose ownership interests consist of (a) the Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and (b) the general partner interest held by Zhaikmunai Group Limited ("ZGL"). The holders of the Common Units are the limited partners of Zhaikmunai LP, who hold 186,761,882 million Common Units, of which 186,761,872 are held by The Bank of New York Mellon in its capacity as depository for the holders of Global Depositary Receipts (GDRs) but which has no beneficial interest in such Common Units. Zhaikmunai LP is managed by its general partner ZGL. GDRs are listed on the Main Market of the London Stock Exchange.

Corporate Headquarters

In Q1 2013, the seat of effective management of Zhaikmunai Group Limited (ZGL) and Zhaikmunai LP was moved to Amsterdam, The Netherlands.

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Zhaikmunai's Equity and Debt Financing Instruments

Equity Financing

Equity Raisings

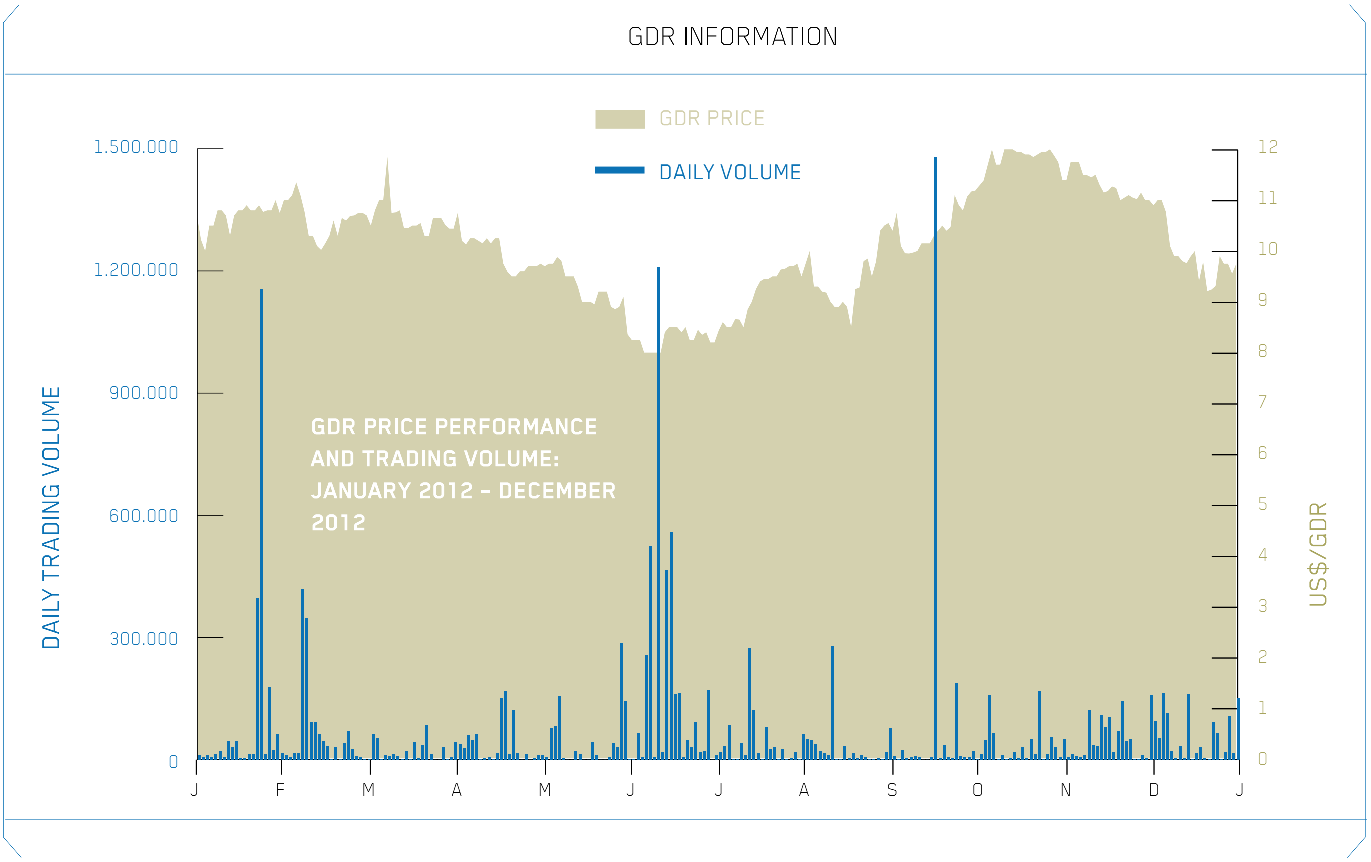
Equity raisings	Timing	Amount	Lead Manager
Initial Public Offering (IPO) Secondary Equity Issue	March 2008 Sept. 2009	US$ 100 million US$ 300 million	ING Bank NV ING Bank NV, Mirabaud Securities, Renaissance Securities

GDR 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



Alternative Listing

Zhaikmunai has intensified its preparatory work in contemplation of a possible alternative listing on the Main Board in London or elsewhere, with a view to increasing share liquidity and possibly allowing for index inclusion. More generally such an alternative listing would likely also contribute to Zhaikmunai's overall visibility in the financial markets.

Approval by bondholders in March 2012 of certain amendments and waivers in relation to Zhaikmunai LLP's US$ 450 million 10.50% Senior Notes due 2015 marked a first step in this direction. Preparatory work is currently underway that would allow Zhaikmunai to proceed with such an alternative listing if its management and limited partners decide to do so.

Dividends

October 2012 - Payment of Inaugural Dividend

At its meeting held on 10 September 2012, the Board of Directors of Zhaikmunai Group Limited, the general partner of Zhaikmunai L.P., approved the payment of a first distribution of US$ 0.32 per common unit/GDR to the holders of Zhaikmunai L.P. common units and GDRs, representing a cash distribution of US$ 60.2 million (equal to 20% of retained earnings at 30 June 2012). The distribution was made payable on 2 October 2012 to common unit holders on the register of partners and interests at the close of business on 1 October 2012.

October 2012 – Approval of Dividend Policy Going Forward

In addition, the Board of Directors approved the implementation of an ongoing distribution policy with the intention of making an annual distribution of not less than 20 per cent of the partnership's consolidated net profit. This policy reflected Zhaikmunai's desire to recognize the growth and cash generation inherent in the business. In the future, the policy is to be progressively reviewed by the Board of Directors in line with the achievement of Zhaikmunai's strategic milestones.

28 June 2013 – Approval of Distribution to Zhaikmunai's Limited Partners

Zhaikmunai L.P. (LSE: ZKM) ("Zhaikmunai" or the "partnership") announced that on Friday, 28 June 2013 the limited partners of Zhaikmunai duly passed all proposed resolutions at the Annual General Meeting ("AGM") of limited partners. Such resolutions included approval by the limited partners at the AGM of a distribution to Zhaikmunai's limited partners of US$ 0.34 per common unit (the "Distribution"). The Distribution was made payable by Zhaikmunai on 26 July 2013 to common unit holders on the register of partners and interests at the close of business on 19 July 2013.

Debt Financing

Senior Bond Issues

Debt financing	Timing	Amount	Lead Manager
Senior Bond Issue Maturity 2015 / 10.5% coupon	October 2010	US$ 450 million	Citigroup, ING, J.-P. Morgan
Senior Bond Issue Maturity 2019 / 7.125% coupon	Nov. 2012	US$ 560 million	BoAML, Citigroup, VTB Capital Halyk Finance GMP Securities
	Successful tender offer on October 2010 bond resulted in US$ 358 million refinance and provision of new cash for general corporate purposes (› US$ 200 million)		

Bond Information

Listing Details

October 2010
US$ 450 million
Maturity: 5 years
Fixed coupon: 10.50%/annum

ISIN Code	USN97708AA49
ISIN Code	US98951QAA31
Stock Exchanges	Luxembourg Stock Exchange Kazakhstan Stock Exchange

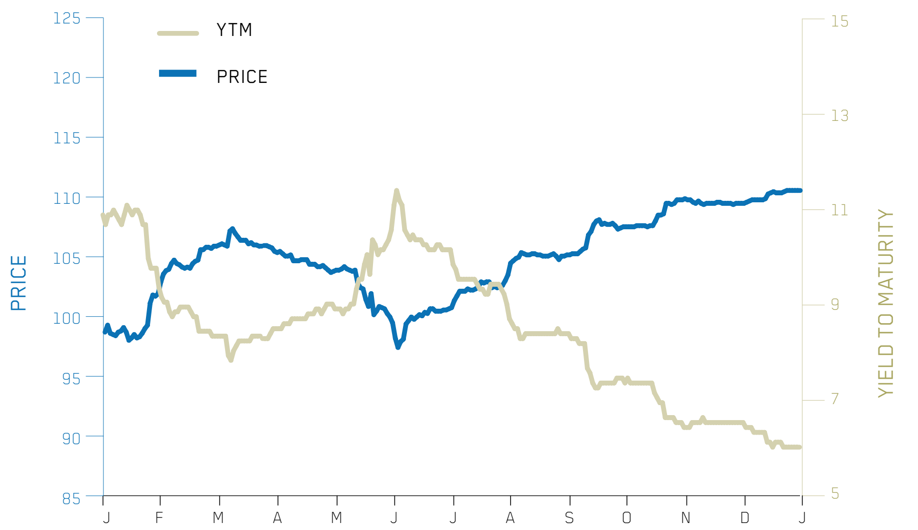
November 2012
US$ 560 million
Maturity: 7 years
Fixed coupon: 7.125%/annum

ISIN Code	USN97716AA72
ISIN Code	US98953VAA08
Stock Exchange	Ireland Stock Exchange Kazakhstan Stock Exchange

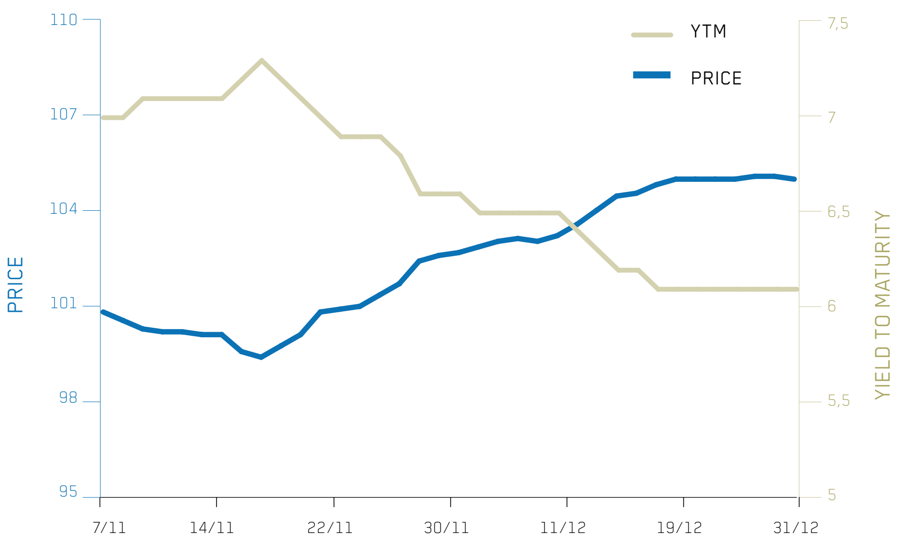
Bond Yield Information

BONDHOLDER INFORMATION

US$ 92 MILLION/10.5%/2015 BOND PRICE
YTM PERFORMANCE FROM 01.01.2012 TO 31.12.2012



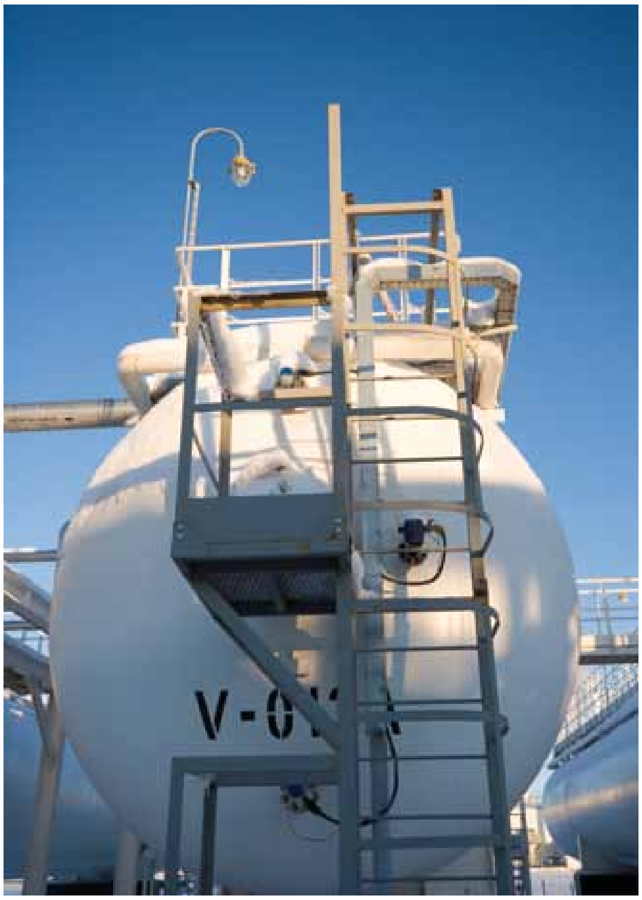
US$ 560 MILLION/7.125%/2019 BOND PRICE
YTM PERFORMANCE FROM 07.11.2012 TO 31.12.2012



2010 Initial Bond and 2012 Bond Refinancing History Recaps

<u>19 October 2010 – 2015, US$ 450 Million Senior Bond, Fixed Coupon of 10.5%</u>

- On 19 October 2010 Zhaikmunai Finance B.V., 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.

- On 28 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 21 February 2012, Zhaikmunai LLP commenced consent solicitation in respect of its US$ 450 million 10.50 % Senior Notes due 2015 as the Parent (Zhaikmunai LP) was considering seeking a listing or all or a portion of its Capital Stock on either the London Stock Exchange plc or another recognized stock exchange or alternatively, to list its GDRs on another recognized stock exchange which may, in each case, require the termination of its GDR listing on the London Stock Exchange. In addition, in connection with the Listing and/or in connection with a reorganisation of the corporate structure of the Parent and its Restricted Subsidiaries, the Parent and its Restricted Subsidiaries could undertake certain reorganization transactions, which could require the implementation of one or more transactions.

- On 2 March 2012, Zhaikmunai LP announced approval of the Proposed Amendments and Waivers in relation to Zhaikmunai LLP's US$ 450 million 10.50% Senior Notes due 2015 following the consents from Holders of a majority in aggregate principal amount of the US$ 450 million 10.50% Senior Notes due 2015 to the Proposed Amendments and Waivers to the indenture governing the Notes. Accordingly, the Issuer, the Guarantors, the Trustee and the Collateral Agent executed the Supplemental Indenture giving effect to such Proposed Amendments and Wavers.

13 November 2012 – 2019, US$ 560 Million Senior Bond, Fixed Coupon of 7,125%

- On October 19, 2012, Zhaikmunai International B.V. (the "Offeror"), a subsidiary of Zhaikmunai L.P. (LSE:ZKM), announced the commencement of a tender offer (the "Tender Offer") to purchase for cash any and all of Zhaikmunai LLP's (the "Issuer") outstanding 10.50% Senior Notes due 2015 (the "Notes"). The Tender Offer was being made pursuant to an offer to purchase (the "Offer to Purchase"), which set forth a more comprehensive description of the terms of the Tender Offer.

- On November 5, 2012, Zhaikmunai L.P. (LSE: ZKM), announced that its subsidiary Zhaikmunai International B.V. has successfully priced US$ 560 million aggregate principal amount of senior bonds with a seven-year maturity at a fixed coupon of 7.125% per annum. The transaction was expected to close on or about 13 November 2012.

Based on the amount of existing bonds that has been tendered into the pending tender offer to date, approximately US$ 358 million of the proceeds from the bond issue was expected to be used to re-finance existing debt, lengthening the company's debt maturity profile and significantly reducing the interest rate on the group's long term debt. The remaining net proceeds, after expenses in connection with the offering and the tender offer for existing debt, were destined to be used for general corporate purposes.

- On November 20, 2012, Zhaikmunai International B.V. (the "Offeror"), a subsidiary of Zhaikmunai L.P. (LSE:ZKM), announced the final results of its tender offer (the "Tender Offer") to purchase for cash any and all of Zhaikmunai LLP's (the "Issuer") outstanding 10.50% Senior Notes due 2015 (the "Notes").

  As of 5:00 p.m., New York City time, on November 19, 2012 (the "Expiration Date"), an aggregate principal amount of US$ 347,604,000 had been validly tendered pursuant to the Tender Offer. The Offeror was thereby pleased to announce that (i) all conditions to the Tender Offer, including the New Financing Condition, had been satisfied; and (ii) it had accepted for purchase all Notes validly tendered pursuant to the Tender Offer.

Financial Calendar 2013

30 April 2013:
Full year 2012 Financial Results & Management Report (Released on 18 March 2013)

30 May 2013:
Q1 2013 Financial Results

29 August 2012:
H1 2013 Financial Results & Management Report

29 November 2012:
Q3 2013 Financial Results

30 April 2014:
Full year 2013 Financial Results & Management Report

Note:
The above dates are regulatory deadlines for the submission of Zhaikmunai's results. Zhaikmunai endeavors to publish results as and when these become available following the consolidation, review and auditing process.

Investor Relations

Zhaikmunai's 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.

In addition, the Investor Relations programme aims at developing and maintaining open and transparent communication between Zhaikmunai and its various stakeholders. To this effect, various communication channels are used and regular information sharing opportunities, both regulatory and other, are scheduled throughout the year.

Zhaikmunai's website (www.zhaikmunai.com), which is regularly updated, hosts all of the written information prepared by the Investor Relations Department about Zhaikmunai. This includes press releases distributed via the regulatory channels (London Stock Exchange, Luxembourg Stock Exchange, Irish Stock Exchange and Kazakhstan Stock Exchange), e-mail mailings, investor presentations, financial statements, management reports, some third-party reports (ex. Ryder Scott reports), as well as Zhaikmunai's Annual Report.

Interactive communication channels include quarterly conference calls with analysts and investors, group or individual investor calls or meetings (ex. roadshows) as well as site visits in Kazakhstan.

2012 Investor Relations milestones include the following:

- increased analyst coverage;
- an extended Investor Relations distribution list;
- an expanding number of e-mail mailing campaigns;
- a very well attented first Capital Markets Day (London, UK);
- a first bilingual interactive digital version of Zhaikmunai's Annual Report (English and Russian);
- a new bilingual (English and Russian) website hosting many new functionalities.





Glossary

3-D seismic survey	Seismic survey that is acquired, processed and interpreted to yield a three-dimensional picture of the subsurface.
2009 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves and resources, dated 1 July 2009.
2010 / 2011 / 2012 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves, dated 31 December.

A

AMEC	AMEC Overseas (Cyprus) Limited
AMEC Report	AMEC environmental, health and safety due diligence report "Health, Safety and Environmental Compliance and Assurance of Audit of Zhaikmunai's Facilities" dated 31 July 2012.
Anti-Monopoly Agency	The Kazakh anti-monopoly authority.
API	American Petroleum Institute.
API gravity	The industry standard method of expressing specific density of crude oil or other liquid hydrocarbons as recommended by the American Petroleum Institute. Higher API gravities mean lower specific gravity and lighter oils. When the API gravity is greater than 10, the product is lighter and floats on water; if it is less than 10, it is heavier than water 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.
Authorised Oil and Gas Agency	The State's authorised agency in the area of oil and gas, acting on the instructions of the President and the Government, currently, the MOG.

B

barrel / bbl	The standard unit of volume: 1 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 (crude) oil equivalent, i.e. the factor used by Zhaikmunai to convert volumes of different hydrocarbon production to barrels of oil equivalent.
bopd	Barrels of crude oil per day.
boepd	Barrels of (crude) oil equivalent per day.

C

Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
Common Units	Limited partner interests each representing a fractional part of the rights and obligations of all limited partners of Zhaikmunai LP.
Competent Authority	The Kazakhstan State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. This was, until recently, the Ministry of Energy and Mineral Resources of Kazakhstan, which on 12 March 2010 was reorganised into the Ministry of Oil and Gas (MOG) with respect to the oil and gas industry.
Competition Law	The Kazakhstan Law "On Competition" (No 112-IV, dated 25 December 2008, which came into effect on 1 January 2009).
contingent resources	Deposits that are estimated, on a given date, to be potentially recoverable from known accumulations but that are not currently considered commercially recoverable.

cost oil	Cost oil denotes an amount of crude oil produced in respect of which the market value is equal to Zhaikmunai's monthly expenses that may be deducted pursuant to the PSA (include all operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production).

D

DAF	Sales made on delivery at frontier terms.
Development Plans	The development plans approved by the SCFD in March 2009.
Directors or Board	The directors of the General Partner.

E

EBRD	European Bank for Reconstruction and Development.
"EBIT"	Earnings before interest and tax.
"EBITDA"	Earnings before interest, taxes, depreciation and amortisation.
EEA	European Economic Area.
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai.
exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.

F

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.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FOB	Sales made under free on board terms.
FSA	Financial Services Authority of the United Kingdom.
FSMA	The Financial Services and Markets Act 2000 (as amended).

G

gas	Petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
gas condensate	The mixture of liquid hydrocarbons that results from condensation of petroleum hydrocarbons existing initially in a gaseous phase in an underground reservoir.
Gas Treatment Facility (GTF)	Facility for the treatment of all gas (associated gas and gas condensate) produced by Zhaikmunai resulting in different products (stabilised condensate, LPG and dry gas) for commercial sales. Phase I GTF consists of two trains with a combined treatment capacity of 1.7 billion cm of raw gas per year.
GDRs	The global depository receipts of Zhaikmunai LP.
General Partner	ZGL in its capacity as general partner of Zhaikmunai LP.
government	The government of Kazakhstan.
gross (oil and gas) wells / acres	Gross oil and gas wells or gross acres are the total number of wells or acres in which the Group has an interest, without regard to the size of that interest.
Group	Zhaikmunai LP and, as the context requires, its direct and indirect consolidated subsidiaries.

H

hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C), which may be in solid, liquid or gaseous form.

I

IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
independent director	The independent directors of the General Partner as defined in the Articles of Association of the General Partner.

K

Kazakhstan	The Republic of Kazakhstan.
KASE	Kazakhstan Stock Exchange
KazMunaiGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production KMG EP	Onshore oil and gas exploration production subsidiary of KazMunayGas
km	Kilometre(s)
Kyoto Protocol	The Kyoto Protocol to the United Nations Framework Convention on Climate Change.

L

licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai by the Government on 26 May 1997.
Licencing Law	The Kazakhstan Law "On Licensing" (No. 214, dated 11 January 2007, as amended, which came into effect on 9 August 2007).
listing rules	The listing rules made by the Financial Services Authority (FSA) under section 73A of the FSMA.
London Stock Exchange or LSE	London Stock Exchange.
LPG	Liquefied petroleum gas, the name given to the mix of propane and butane in their liquid state.

M

m	Metre(s)
mbbls	Thousands of barrels of crude oil.
mmbbls	Millions of barrels of oil.
mboe	Thousands of barrels of oil equivalent.
mmboe	Millions of barrels of oil equivalent.
mmcm	Millions of cubic metres.
MEP	The Kazakhstan Ministry of Environmental Protection.
MINT	The Kazakhstan Ministry of Industry and New Technologies.
MOG	The Ministry of Oil and Gas of Kazakhstan, the State's central executive agency, acting based upon its Regulations approved by the Resolution of the Government (No. 254, dated 20 May 2010), which is currently the Competent Authority in oil and gas and the Authorised Oil and Gas Agency.

N

NBK	National Bank of Kazakhstan.

O

operator	The individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.

P

Partnership	Zhaikmunai LP
Partnership Act	The Partnership Act 1909 of the Isle of Man.

petroleum Hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.

PRMS 2007 Petroleum Resources Management System, which are a set of definitions and guidelines designed to provide a common reference for the international petroleum industry, sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.

Production Permit The mining allotment (Annex to the Licence), issued by the Competent Authority to Zhaikmunai.

production well A well that has been drilled for producing oil or gas, or one that is capable of production once the producing structure and characteristics are determined.

profit oil Profit oil is the difference between cost oil and the total amount of crude oil produced each month, which is shared between the State and Zhaikmunai.

prospective resources Quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

Proven Reserves (1P) Proven or proved 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.

PSA Law Kazakhstan Law No. 68-III "On Production Sharing Agreements for Constructing Offshore Petroleum Operations", dated 8 July 2005.

Q

QIB A qualified institutional buyer as defined in Rule 144A.

R

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.

Ryder Scott Independent petroleum consultants Ryder Scott Company LP, headquartered in 621 Seventeenth Street, Suite 1550, Denver, Colorado, 80293, USA.

S

SEC The United States Securities and Exchange Commission.

Securities Act	The United States Securities Act of 1933, as amended.
seismic	The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.
sidetrack well	A well or borehole that runs partly to one side of the original line of drilling.
SPE	Society of Petroleum Engineers.
State	Republic of Kazakhstan.
State Acceptance Commission	The State Acceptance Commission of the Republic of Kazakhstan which is the competent body authorised to, among other things, confirm that permanent operations can commence for certain facilities, including the gas treatment facility.
State Share	The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.
Subsoil Law:	
- Old Subsoil Law	The Kazakhstan Law "On Subsoil and Subsoil Use" (No. 2828, dated 27 January 1996, as amended), recently replaced with the New Subsoil Law.
- New Subsoil Law	The most recent Kazakhstan Law "On Subsoil and Subsoil Use" (No. 291-IV, dated 24 June 2010).
Substitution	The ability for Zhaikmunai LLP to elect to undertake, upon satisfaction of certain conditions, to be substituted for the Issuer as Issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes.

T

Takeover Code	The UK City Code on Takeovers and Mergers.
Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
tonne	Metric tonne.

U

UK Corporate Governance Code	Set of principles of good Boardwhich provides a code of best practice aimed at companies listed on the London Stock Exchange.
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 '60s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".
U.S. Dollars or US$	The lawful currency of the United States of America.

W

workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
Water Code	The Water Code of Kazakhstan (No. 481, dated 9 July 2003, as amended).
WUP or Water Use Permit	The permit granted by the relevant Government authority with respect to water use pursuant to the Water Code.

Z

Zhaikmunai	Zhaikmunai LP, the operating company of the Group.	
Zhaikmunai Group Limited (ZGL)	Registered Office and Corporate Headquarters are:	
Zhaikmunai LP	Registered Office: 7th Fl. Harbour Court Lord Street Douglas, IM1 4LN Isle of Man	Corporate Headquarters: Gustav Mahlerplein 23 B 1082 MS Amsterdam The Netherlands
Zhaikmunai LLP	Corporate Office: 59/2, Eurasia Prospect Uralsk, 090002 Republic of Kazakhstan	Representative Office: Office 319 2/2 Kurman Batyr Prospect Astana, 010000 Republic of Kazakhstan

Consolidated Financial Statements

Year ended December 31, 2012

With Independent Auditors' Report

Zhaikmunai LP

Consolidated Financial Statements

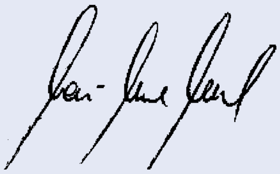
For the year ended December 31, 2012
with Independent auditors' report

Page

RESPONSIBILITY STATEMENT

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

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



Kai-Uwe Kessel

Chief Executive Officer

Jan-Ru Muller

Chief Financial Officer

Independent Auditors' Report

To the participants of Zhaikmunai LP:

We have audited the accompanying consolidated financial statements of Zhaikmunai LP (the "Partnership") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, 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 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate
No. 0000553 dated 24 December 2003

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

In thousands of US dollars	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,222,665**	1,120,453
Restricted cash	11	**3,652**	3,076
Advances for non-current assets	6	**25,278**	3,368
		1,251,595	1,126,897
Current assets			
Inventories	7	**24,964**	14,518
Trade receivables	8	**54,004**	12,640
Prepayments and other current assets	9	**24,369**	23,279
Income tax prepayment		**–**	3,453
Short-term investments	10	**50,000**	–
Cash and cash equivalents	11	**197,730**	125,393
		351,067	179,283
TOTAL ASSETS		**1,602,662**	1,306,180
EQUITY AND LIABILITIES			
Partnership capital and reserves			
Partnership capital	12	**371,147**	368,203
Additional paid-in capital		**6,095**	1,677
Retained earnings and translation reserve		**317,862**	215,351
		695,104	585,231
Non-current liabilities			
Long-term borrowings	13	**615,742**	438,082
Abandonment and site restoration liabilities	14	**11,064**	8,713
Due to Government of Kazakhstan	15	**6,122**	6,211
Employee share option plan	24	**9,788**	11,734
Deferred tax liability	23	**148,932**	146,674
		791,648	611,414
Current liabilities			
Current portion of long term borrowings	13	**7,152**	9,450
Trade payables	16	**58,390**	81,914
Advances received		**60**	3,154
Income tax payable		**11,762**	–
Current portion of Due to Government of Kazakhstan	15	**1,031**	1,031
Other current liabilities	17	**37,515**	13,986
		115,910	109,535
TOTAL EQUITY AND LIABILITIES		**1,602,662**	1,306,180

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

In thousands of US dollars	**Note**	**2012**	2011
Revenue:			
Revenue from export sales		**630,412**	284,548
Revenue from domestic sales		**106,653**	16,289
	18	**737,065**	300,837
Cost of sales	19	**(238,224)**	(70,805)
Gross profit		**498,841**	230,032
General and administrative expenses	20	**(61,549)**	(36,405)
Selling and transportation expenses	21	**(103,604)**	(35,395)
Finance costs	22	**(50,118)**	(4,717)
Foreign exchange (loss)/gain, net		**776**	(389)
Interest income		**698**	336
Other expenses		**(6,612)**	(7,855)
Other income		**3,940**	3,365
Profit before income tax		**282,372**	148,972
Income tax expense	23	**(120,363)**	(67,348)
Profit for the year		**162,009**	81,624
Total comprehensive income for the year		**162,009**	81,624

The accounting policies and explanatory notes on pages 5 through 28 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

In thousands of US dollars	Note	2012	2011
Cash flow from operating activities:			
Profit before income tax		**282,372**	148,972
Adjustments for:			
Depreciation, depletion and amortization	19, 20	**102,632**	19,843
Accrual of share option expenses		**2,470**	3,545
Finance costs	22	**50,118**	4,717
Interest income		**(698)**	(336)
Loss on disposal of property, plant and equipment		**79**	
Reversal of tax provision		**–**	(728)
Foreign exchange (gain)/loss on investing and financing activities		**(745)**	202
Operating profit before working capital changes		**436,228**	176,215
Changes in working capital:			
Change in inventories		**(10,446)**	(8,879)
Change in trade receivables		**(41,364)**	(11,004)
Change in prepayments and other current assets		**(9,190)**	(6,519)
Change in trade payables		**(2,673)**	10,497
Change in advances received		**(3,094)**	(8,539)
Payment of obligation to Government of Kazakhstan	15	**(1,030)**	(1,033)
Change in other current liabilities		**21,983**	(3,390)
Cash generated from operations		**390,414**	147,348
Income tax paid		**(94,173)**	(13,210)
Payments under Employee Share Option Plan		**(4,416)**	(1,915)
Net cash flows from operating activities		**291,825**	132,223
Cash flow from investing activities:			
Interest income		**698**	336
Purchases of property, plant and equipment		**(210,283)**	(104,017)
Prepayments for licenses		**(10,089)**	–
Placement of short-term bank deposits		**(50,000)**	–
Net cash used in investing activities		**(269,674)**	(103,681)
Cash flow from financing activities:			
Finance costs paid		**(53,735)**	(50,583)
Issue of notes	13	**560,000**	–
Fees paid on arrangement of notes and borrowings		**(7,259)**	–
Repayment of notes	13	**(357,495)**	–
Premium paid for early repayment of notes		**(38,409)**	–
Transfer to/(from) restricted cash		**(576)**	667
Treasury capital sold		**7,362**	2,938
Dividend paid		**(59,498)**	–
Realized gain on derivative financial instrument		**–**	(372)
Net cash (used in)/provided by financing activities		**50,390**	(47,350)
Effects of exchange rate changes on cash and cash equivalents		**(204)**	–
Net increase/(decrease) in cash and cash equivalents		**72,337**	(18,808)
Cash and cash equivalents at the beginning of the year	11	**125,393**	144,201
Cash and cash equivalents at the end of the year	11	**197,730**	125,393

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, 2012, the Group offset tax liabilities in the amount of US$ 15,499 thousand, including corporate income tax liability of US$ 8,100 thousand with value added tax receivables

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012

In thousands of US dollars	Partnership capital	Treasury capital	Additional paid-in capital	Retained earnings and reserves	Total
As at December 31, 2010	**366,942**	–	–	**133,727**	**500,669**
Profit for the year	–	–	–	81,624	81,624
Total comprehensive income for the year	**–**	**–**	**–**	**81,624**	**81,624**
Issuance of treasury capital (GDRs)	7,048	(7,048)	–	–	–
Transaction costs	–	–	(238)	–	(238)
Sale of treasury capital	–	1,261	1,915	–	3,176
As at December 31, 2011	**373,990**	**(5,787)**	**1,677**	**215,351**	**585,231**
Profit for the year	–	–	–	162,009	162,009
Total comprehensive income for the year	**–**	**–**	**–**	**162,009**	**162,009**
Issuance of treasury capital (GDRs)	6,884	(6,884)	–	–	–
Sale of treasury capital	–	2,944	4,418	–	7,362
Dividends	–	–	–	(59,498)	(59,498)
As at December 31, 2012	**380,874**	**(9,727)**	**6,095**	**317,862**	**695,104**

The accounting policies and explanatory notes on pages 5 through 28 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

1. GENERAL

Zhaikmunai LP is a Limited Partnership formed on August 29, 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.

The registered address of Zhaikmunai LP 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 12, 2013.

These consolidated financial statements include the results of the operations of Zhaikmunai LP (“Partnership”) and its wholly owned subsidiaries Zhaikmunai Netherlands B.V. (formerly Frans Van Der Schoot B.V.), Zhaikmunai Finance B.V., Zhaikmunai International B.V., Claydon Industrial Limited (“Claydon”), Jubilata Investments Limited (“Jubilata”), Zhaikmunai LLP 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 General Partner of Zhaikmunai LP is Zhaikmunai Group Limited, which is responsible for the management of the Group (Note 4).

Zhaikmunai LLP 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 between the State Committee of Investments of the Republic of Kazakhstan and Zhaikmunai LLP in accordance with the license MG No. 253D (the “License”) for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On August 17, 2012 Zhaikmunai LLP signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region.

Licence terms

The term of the license of Zhaikmunai LLP 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 Tournaisian horizons, was extended for an additional 3 year period, which expired on May 26, 2011. An application for further extension has been made.

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

Royalty payments

Zhaikmunai LLP is required to make monthly royalty payments throughout the entire production period, at the rates specified in the Contract. Royalty rates depend on recovery levels and the phase of production and can vary from 3% to 7% of produced crude oil and from 4% to 9% of produced natural gas.

Government “profit share”

Zhaikmunai LLP makes payments to the Government of its “profit share” as determined in the Contract. The “profit share” depends on hydrocarbon 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 AND CONSOLIDATION

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 based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (Note 4). The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from 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 4.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Partnership and its subsidiaries as at December 31, 2012.

A subsidiary and a special purpose entity are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies for all Group entities. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries

Subsidiaries are all entities over which the Partnership 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 the effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Partnership controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Partnership and continue to be consolidated until the date that such control ceases.

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 at the carrying values reported in the consolidated financial statements of the parent. 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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at January 1, 2012:

- IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters IFRS 7 Financial Instruments: Disclosures (Amendments)*
- IFRS 7 *Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements*

The adoption of the standards is described below:

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after January 1, 2012 and had no effect on the Group's financial position, performance or its disclosures.

IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after July 1, 2011. The amendment had no impact on the Group.

IFRS 7 *Financial Instruments: Disclosure*s *– Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after July 1, 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 *Employee Benefits (Revised)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after January 1, 2013.

IAS 28 *Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 *Joint Arrangements,* and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates,* has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after January 1, 2013 and has no impact on Group's financial position or performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2012

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

IAS 32 *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after January 1, 2014.

IFRS 1 *Government Loans – Amendments to IFRS 1*

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance,* prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after January 1, 2013. The amendments have no impact on the Group.

IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after January 1, 2013.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will not have an impact on classification and measurements of Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 *Consolidated Financial Statements, IAS 27 Separate Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application. The application of this new standard will have no impact on the financial position of the Group.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Annual improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 *Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 *Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 *Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 *Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after January 1, 2013.

4. 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 Group's computation of depreciation, depletion and amortization (the "DD&A"). The Group 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 Group 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.

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.

Abandonment and site restoration liabilities

The Group 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 Group 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 Group 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 Group 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, 2012 and 2011 were 7% and 10% respectively. Movements in the provision for decommissioning liability are disclosed in Note 14.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation and assumptions (continued)

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 the Partnership and its subsidiaries 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.

Property, plant and equipment

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with exploration wells 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 expensed during 2012 (2011: Nil).

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, 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 Group 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 the straight line method is applied.

Oil and gas reserves

Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

The Group 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 Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2012

4. 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 accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the 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 are not being depreciated, depleted, or amortized, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field 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, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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.

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.

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.

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.

Accounts receivable

Accounts receivables 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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 recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes 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 reorganization 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 amortized cost

For financial assets carried at amortized 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, recognized are not included in a collective assessment of impairment.

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 recognized 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 realized 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 recognized, the previously recognized 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized initially at fair value and in the case of loans and borrowings, net of 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 amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized 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 amortization is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognized 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 recognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

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 27.

Derivative financial instruments and hedging

The Group uses a hedging contract for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently premeasured 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group sells crude oil, gas condensate and LPG under short-term agreements priced by reference to Platt’s and/or Argus’ index quotations and adjusted for freight, insurance and quality differentials where applicable.

Revenue from the sale of crude oil, gas condensate and LPG 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 Group and the amount of revenue can be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2012

5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended December 31, 2011 and 2012 was as follows:

	Oil and gas properties			Non oil and gas properties					
In thousand of US dollar	**Working assets**	**CIP**	**Total oil and gas proper-ties**	**Buildings**	**Machi-nery & equip-ment**	**Vehicles**	**Others**	**Total non oil gas proper-ties**	**Total**
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**
Additions	6,318	180,042	186,360	2,714	789	40	1,360	4,903	191,263
Transfers	464,860	(465,625)	(765)	765	–	–	–	765	–
Disposal	(38)	–	(38)	(123)	(98)	(234)	(181)	(636)	(674)
Depreciation charge	(23,967)	–	(23,967)	(482)	(1,097)	(204)	(297)	(2,080)	(26,047)
Balance at December 31, 2011, net of accumulated depreciation	**903,178**	**205,242**	**1,108,420**	**5,488**	**2,919**	**1,106**	**2,520**	**12,033**	**1,120,453**
Additions	5,816	192,032	197,848	609	4,062	378	2,026	7,075	204,923
Transfers	192,872	(194,486)	(1,614)	358	1,245	–	11	1,614	–
Disposals	(61)	–	(61)	–	(143)	–	(201)	(344)	(405)
Disposals depreciation	6	–	6	–	140	–	180	320	326
Depreciation charge	(99,209)	–	(99,209)	(848)	(1,727)	(314)	(534)	(3,423)	(102,632)
Balance at December 31, 2012, net of accumulated depreciation	**1,002,602**	**202,788**	**1,205,390**	**5,607**	**6,496**	**1,170**	**4,002**	**17,275**	**1,222,665**
Cost at December 31, 2011	1,010,746	205,242	1,215,988	7,594	5,813	2,625	4,017	20,049	1,236,037
Accumulated depreciation	(107,568)	–	(107,568)	(2,106)	(2,894)	(1,519)	(1,497)	(8,016)	(115,584)
Balance at December 31, 2011, net of accumulated depreciation	**903,178**	**205,242**	**1,108,420**	**5,488**	**2,919**	**1,106**	**2,520**	**12,033**	**1,120,453**
Cost at December 31, 2012	1,209,373	202,788	1,412,161	8,561	10,977	3,003	5,853	28,394	1,440,555
Accumulated depreciation	(206,771)	–	(206,771)	(2,954)	(4,481)	(1,833)	(1,851)	(11,119)	(217,890)
Balance at December 31, 2012, net of accumulated depreciation	**1,002,602**	**202,788**	**1,205,390**	**5,607**	**6,496**	**1,170**	**4,002**	**17,275**	**1,222,665**

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets.

The depletion rate for oil and gas working assets was 11.96% and 4.8% in 2012 and 2011, respectively. The unamortized costs of oil and gas properties include all capitalized costs net of accumulated amortization.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at December 31, 2011. Depletion has been calculated using the unit of production method based on these reserves estimates.

The Group incurred borrowing costs including amortization of arrangement fee of US$ 74,401 thousand, and US$ 54,647 thousand for the years ended December 31, 2012 and 2011. For the same periods, the Group capitalized borrowing costs totaling US$ 26,080 thousand and US$ 51,590 thousand, at capitalization rates of 15.65% and 11.73%, respectively.

6. ADVANCES FOR NON-CURRENT ASSETS

As at December 31, advances for non-current assets comprised the following:

In thousands of US dollars	**2012**	2011
Advances for purchase of licenses	**10,089**	–
Advances for pipes and construction materials	**9,126**	485
Advances for construction services	**6,063**	2,883
	25,278	3,368

7. INVENTORIES

As at December 31, inventories comprised the following:

In thousands of US dollars	**2012**	2011
Materials and supplies	**17,127**	9,979
Gas condensate	**4,633**	2,161
Crude oil	**2,750**	2,081
LPG	**454**	297
	24,964	14,518

As at December 31, 2012 and 2011 inventories are carried at cost.

8. TRADE RECEIVABLES

As at December 31, 2012 and 2011 trade receivables were denominated in US dollars, their collection period was less than 30 days and they were not impaired.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US dollars	**2012**	2011
Advances paid	**12,613**	9,356
VAT receivable	**10,782**	12,500
Other	**974**	1,423
	24,369	23,279

Advances paid consist primarily of prepayments made to service providers.

10. SHORT-TERM INVESTMENTS

As at December 31, 2012 short-term investments were represented by an interest bearing short-term deposit placed by Zhaikmunai International B.V. on November 16, 2012 at for a six-month period.

11. CASH AND CASH EQUIVALENTS

In thousands of US dollars	**2012**	2011
Bank deposits with maturity less than three month	**100,000**	–
Current accounts in US dollars	**84,615**	123,112
Current accounts in tenge	**10,595**	692
Cash accounts in other currencies	**2,520**	1,589
	197,730	125,393

The Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 3,652 thousand with Kazkommertsbank JSC in Kazakhstan (December 31, 2011: US$ 3,066 thousand), which is kept as required by the license for abandonment and site restoration liabilities of the Group.

12. 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.

In September 2012, the Board of Directors of the General Partner approved the payment of Zhaikmunai LP's inaugural distribution of U.S.$ 0.32 per Common Unit to the holders of Zhaikmunai LP Common Units, representing a cash distribution of U.S.$ 60,219 thousand (equal to approximately 20% of retained earnings at June 30, 2012). The distribution (in the amount of US$ 59,498 thousand, since the ESOP Trustee referenced in the following paragraph declined the distribution) was paid on October 2, 2012 to Common Unit holders on the register of partners and interests at the close of business on October 1, 2012.

As at December 31, 2011 Zhaikmunai LP had issued 186,761,882 common units, all but 10 of which are represented by GDRs. During the year ended December 31, 2012 Zhaikmunai LP issued 1,421,076 new common units (represented by GDRs) to support its obligations to employees under the Employee Share Option Plan (ESOP). The issued GDRs are held by Ogier Employee Benefit Trustee Limited ("the Trustee"), which upon request from employees to exercise options, sells GDRs on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these newly issued GDRs are recorded as treasury capital of Zhaikmunai LP. During the year ended December 31, 2012 735,894 share options were exercised by employees (year ended December 31, 2011: 315,341 GDRs).

The movements in GDR's during the years ended December 31, 2012 and 2011 were as follows:

In thousands of US dollar	**2012**	2011
Balance at January 1,	**186,761,882**	185,000,000
Issued during the year	**1,421,076**	1,761,882
Balance at December 31,	**188,182,958**	186,761,882

13. BORROWINGS

Borrowings comprise the following as at December 31:

In thousands of US dollar	**2012**	2011
Notes payable with maturity in 2019	**530,425**	–
Notes payable with maturity in 2015	**92,469**	447,532
	622,894	447,532
Less: amounts due within 12 months	**(7,152)**	(9,450)
Amounts due after 12 months	**615,742**	**438,082**

2015 Notes

On October 19, 2010 Zhaikmunai Finance B.V. (the "2015 Initial Issuer") issued US$ 450,000 thousand notes (the "2015 Notes").

On February 28, 2011 Zhaikmunai LLP (the "2015 Issuer") replaced the 2015 Initial Issuer of the 2015 Notes, whereupon it assumed all of the obligations of the 2015 Initial Issuer under the 2015 Notes.

The 2015 Notes bear interest at the rate of 10.50% per year. Interest on the 2015 Notes is payable on April 19 and October 19 of each year, beginning on April 19, 2011. Prior to October 19, 2013, the 2015 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2015 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 110.50% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2015 Notes (including Additional Notes as defined in the indenture relating to the 2015 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2012

13. BORROWINGS (continued)

2015 Notes (continued)

In addition, the 2015 Notes may be redeemed, in whole or in part, at any time prior to October 19, 2013 at the option of the 2015 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2015 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2015 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2015 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2015 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2015 Note at October 19, 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2015 Note through October 19, 2013 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2015 Note.

The 2015 Notes are jointly and severally guaranteed (the "2015 Guarantees") on a senior basis by Zhaikmunai LP and all of its subsidiaries other than the 2015 Issuer (the "2015 Guarantors"). The 2015 Notes are the 2015 Issuer's and the 2015 Guarantors' senior obligations and rank equally with all of the 2015 Issuer's and the 2015 Guarantors' other senior indebtedness. The 2015 Notes and the 2015 Guarantees have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On October 19, 2012, Zhaikmunai International B.V. commenced a cash tender offer (the "Tender Offer") to purchase any and all of the 2015 Notes. US$ 357,495 thousand aggregate principal amount of the 2015 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2015 Notes, by the time the Tender Offer for 2015 Notes expired on November 19, 2012. The holders of US$ 200,732 thousand 2015 Notes that accepted the Tender Offer have subscribed to the 2019 Notes of the same amount.

2019 Notes

On November 13, 2012, Zhaikmunai International B.V. (the "2019 Initial Issuer") issued US$ 560,000 thousand notes (the "2019 Notes").

Under the terms of the indenture relating to the 2019 Notes, Zhaikmunai LLP is permitted, subject to certain conditions, to be substituted for the 2019 Initial Issuer as issuer of the 2019 Notes.

The 2019 Notes bear interest at the rate of 7.125% per year. Interest on the 2019 Notes is payable on May 14 and November 13 of each year, beginning on May 14, 2013. Prior to November 13, 2016, the 2019 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2019 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2019 Notes (including Additional Notes as defined in the indenture relating to the 2019 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2019 Notes may be redeemed, in whole or in part, at any time prior to November 13, 2016 at the option of the 2019 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2019 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2019 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2019 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2019 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2019 Note at November 13, 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2019 Note through November 13, 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2019 Note.

The 2019 Notes are jointly and severally guaranteed (the "2019 Guarantees") on a senior basis by Zhaikmunai LP and all of its subsidiaries other than the 2019 Issuer (the "2019 Guarantors"). The 2019 Notes are the 2019 Issuer's and the 2019 Guarantors' senior obligations and rank equally with all of the 2019 Issuer's and the 2019 Guarantors' other senior indebtedness. The 2019 Notes and the 2019 Guarantees do not have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2012

14. 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	**2012**	2011
Abandonment and site restoration liability as at January 1	**8,713**	4,543
Unwinding of discount (Note 22)	**847**	706
Additional provision	**1,743**	952
Change in estimates	**(239)**	2,512
Abandonment and site restoration liability as at December 31	**11,064**	8,713

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at December 31, 2012 were 7% and 10%, respectively (2011: 7% and 10%).

15. 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 Group 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	**2012**	2011
Due to Government of Kazakhstan as at January 1	**7,242**	7,321
Unwinding of discount	**942**	954
Paid during the year	**(1,031)**	(1,033)
	7,153	7,242
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan at December 31	**6,122**	6,211

16. TRADE PAYABLES

In thousands of US dollars	**2012**	2011
Tenge denominated trade payables	**48,622**	79,424
US dollar denominated trade payables	**6,659**	1,367
Trade payables denominated in other currencies	**3,109**	1,123
	58,390	81,914

17. OTHER CURRENT LIABILITIES

In thousands of US dollars	**2012**	2011
Taxes payable, other than corporate income tax	**24,650**	3,459
Training liability accrual	**9,256**	7,398
Due to employees	**1,180**	973
Pension obligation	**162**	138
Other	**2,267**	2,018
	37,515	13,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2012

18. REVENUE

In thousands of US dollars	**2012**	2011
Oil and gas condensate	**587,371**	289,947
Gas products	**149,694**	10,890
	737,065	300,837

In November 2011 the Group started recording revenue from sales of products from the gas treatment unit, which allows the Group to produce gas condensate, LPG and gas. During 2012 the revenue from sales to two major customers amounted to US$ 268,643 thousand and US$ 222,150 thousand, respectively (2011: US$ 227,043 thousand and nil, respectively).

19. COST OF SALES

In thousands of US dollars	**2012**	2011
Depreciation, depletion and amortization	**101,374**	19,448
Repair, maintenance and other services	**55,470**	16,637
Royalties	**34,195**	8,684
Payroll and related taxes	**18,409**	9,233
Government profit share	**7,899**	1,825
Well workover costs	**7,639**	4,000
Other transportation services	**5,350**	2,737
Materials and supplies	**5,332**	4,952
Management fees	**1,880**	1,789
Environmental levies	**1,614**	817
Change in stock	**(3,298)**	(1,592)
Other	**2,360**	2,275
	238,224	70,805

During 2011 depreciation capitalized within the cost of goods sold as a result of test production of the gas treatment unit amounted to US$ 6,484 thousand.

20. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	**2012**	2011
Social program	**21,818**	1,064
Management fees	**13,497**	9,949
Payroll and related taxes	**4,966**	4,295
Training	**4,118**	3,215
Professional services	**4,012**	5,973
Business travel	**2,739**	4,114
Employee share option plan (Note 24)	**2,470**	3,545
Insurance fees	**1,403**	743
Depreciation and amortization	**1,258**	395
Bank charges	**1,069**	625
Other taxes	**987**	261
Communication	**824**	718
Sponsorship	**721**	525
Materials and supplies	**602**	624
Lease payments	**406**	352
Provision for tax claims	**–**	(728)
Other	**659**	735
	61,549	36,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2012

21. SELLING AND TRANSPORTATION EXPENSES

In thousands of US dollar	**2012**	2011
Transportation costs	**73,973**	29,655
Loading and storage costs	**21,622**	1,441
Payroll and related taxes	**2,330**	1,413
Management fees	**1,882**	1,071
Other	**3,797**	1,815
	103,604	35,395

22. FINANCE COSTS

In thousands of US dollar	**2012**	2011
Interest expense on borrowing	**48,329**	3,057
Unwinding of discount on amounts Due to Government	**941**	954
Unwinding of discount on Abandonment and Site Restoration Liability	**848**	706
	50,118	4,717

23. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

In thousands of US dollar	**2012**	2011
Current income tax expense	**118,105**	21,497
Deferred income tax expense	**2,258**	45,851
Total income tax expense	**120,363**	67,348

As at December 31, 2012, the Group's profits were assessed for income taxes only in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate applicable to the license for the year ended December 31 is as follows:

In thousands of US dollar	**2012**	2011
Profit before income tax	**282,372**	148,972
Statutory tax rate	**30%**	30%
Expected tax provision	**84,712**	44,692
Non-deductible interest expense on borrowings	**26,579**	22,385
Non-assessable income	**(4,223)**	(4,755)
Non-deductible other tax expenses	**5,243**	–
Change of the tax base	**2,312**	704
Non-deductible social expenditures	**1,589**	–
Non-deductible cost of gas	**1,226**	–
Non-deductible training expenditures	**552**	697
Foreign exchange loss	**491**	30
Adjustment in respect of current income tax of prior periods	–	1,663
Other non-deductible expenses	1,882	**1,932**
Income tax expense reported in the financial statements	120,363	67,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2012

23. INCOME TAX EXPENSES (continued)

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 amounts and the amounts reported in the financial statements and are comprised of the following at December 31:

In thousands of US dollar	**2012**	2011
Deferred tax asset:		
Accounts payable and provisions	**2,690**	2,289
Deferred tax liability:		
Property, plant and equipment	**(151,622)**	(148,963)
	(151,622)	(148,963)
Net deferred tax liability	**(148,932)**	(146,674)

The movements in the deferred tax liability were as follows:

In thousands of US dollar	**2012**	2011
Balance at January 1	**(146,674)**	(100,823)
Current period charge to profit or loss	**(2,258)**	(45,851)
Balance at December 31	**(148,932)**	(146,674)

24. 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.

During 2008-2012, 3,182,958 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 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 value of the liability relating to 2,131,723 of SARs at December 31, 2012 is US$ 9,788 thousand (2011: 2,867,617 SARs with carrying value of US$ 11,734 thousand). During the year ended December 31, 2012, 426,345 SARs were fully vested (2011: 474,455).

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

	December 31, 2012		December 31, 2011	
	No.	**EP, US$**	No.	EP, US$
Outstanding at the beginning of the year (with EP of US$ 4)	**2,667,617**	**4**	2,982,958	4
Outstanding at the beginning of the year (with EP of US$ 10)	**200,000**	**10**	–	–
Total outstanding at the beginning of the year	**2,867,617**		2,982,958	
Granted	**–**	**–**	200,000	10
Exercised	**(735,894)**	**4**	(315,341)	4
Outstanding at the end of year	**2,131,723**		2,867,617	
Exercisable at the end of year	**1,311,170**		1,394,434	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2012

24. EMPLOYEE SHARE OPTION PLAN (continued)

The following table lists the inputs to the models used for the plan for the year ended December 31, 2012:

In thousands of US dollars	**2012**	2011
Dividend yield (%)	**1.5**	–
Expected volatility (%)	**86**	86
Risk-free interest rate (%)	**2.0**	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.

25. RELATED PARTY TRANSACTIONS

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

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

In thousands of US dollars	**2012**	2011
Trade payables		
Prolag BVBA	**298**	18
Probel Capital Management B.V.	**288**	242
Amersham Oil LLP	**48**	39

During the year ended December 31, 2012 and 2011 the Group had the following transactions with related parties:

In thousands of US dollars	**2012**	2011
Management fees and consulting services		
Probel Capital Management N.V.	**13,648**	10,293
Prolag BVBA	**2,195**	1,892
Amersham Oil LLP	**1,415**	1,360

Management fees are payable in accordance with the Technical Assistance Agreements signed between the members of the Group and Amersham Oil LLP, Prolag BVBA and Probel Capital Management N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services.

Annual remuneration of key managers amounted to US$ 624 thousand for 2012 (2011: US$ 484 thousand). Other 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.

26. CONTINGENT, COMMITMENTS AND OPERATING RISKS

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, 2012. As at December 31, 2012 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2012

26. CONTINGENT, COMMITMENTS AND OPERATING RISKS (continued)

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.

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.

Capital commitments

As at December 31, 2012 the Group had contractual capital commitments in the amount of US$ 23,088 thousand (2011: US$ 17,880 thousand) mainly in respect to the Group's oil field development activities.

Operating lease

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

In March 2010 the Zhaikmunai LLP entered into an agreement on lease of 200 railway tank wagons for transportation of LPG and other hydrocarbon products for a period of 7 years for KZT 6,989 (equivalent of US$ 47) per day per one wagon.

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement #9), Zhaikmunai LLP is obliged to:

(i) spend US$ 300 thousand per annum to finance social infrastructure;

(ii) perform repair and reconstruction of state automobile roads for the amount of US$ 12,000 thousand in 2012;

(iii) make an accrual of one percent of the capital expenditure per annum for the purposes of educating Kazakh citizens; and

(iv) adhere to a spending schedule on education which lasts until (and including) 2020.

Domestic oil sales

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

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group’s principal financial liabilities comprise the 2015 Notes, the 2019 Notes, 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, short-term investments and cash and cash equivalents.

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

Interest rate risk

The Group is not exposed to interest rate risk in 2012 and 2011 as the Group had no floating-rate borrowings as at December 31, 2012 and 2011.

27. 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 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 dollars 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
2012		
US dollar thousand	**+1.57%**	**(235)**
US dollar thousand	**-1.57%**	**235**
2011		
US dollar thousand	+10.72%	(2,341)
US dollar thousand	-10.72%	2.341

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, 2012 and 2011 based on contractual undiscounted payments:

Year ended December 31, 2012	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	740	51,873	277,531	639,800	**969,944**
Trade payables	59,855	–	–	–	–	**59,855**
Other current liabilities	10,437	–	–	–	–	**10,437**
Due to Government of Kazakhstan		258	773	4,124	13,402	**18,557**
	70,292	**998**	**52,646**	**281,655**	**653,202**	**1,058,793**
Year ended December 31, 2011						
Borrowings	–	746	49,504	600,750	–	**651,000**
Trade payables	81,914	–	–	–	–	**81,914**
Other current liabilities	8,361	–	–	–	–	**8,361**
Due to Government of Kazakhstan	–	258	773	4,124	14,433	**19,588**
	90,275	**1,004**	**50,277**	**604,874**	**14,433**	**760,863**

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 paid.

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 A2 (stable) and ING with a credit rating of A2 (negative) from Moody's rating agency at December 31, 2012. The Group does not guarantee obligations of other parties.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group sells its products 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.

Management believes that the Group's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable, trade and other payables are not significantly different from their fair values at December 31, 2012 and 2011.

28. EVENTS AFTER THE REPORTING PERIOD

Zhaikmunai LLP has acquired legal ownership of the subsoil rights related to three oil and gas fields (Rostoshinskoye, Darinskoye and Yuzhno-Gremyachenskoye) in Kazakhstan following the signing of the respective supplementary agreements related thereto by the Ministry of Oil and Gas (MOG) of the Republic of Kazakhstan effective March 1, 2013.

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.

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COMPRESSOR C2131 & C1131
SLUG CATCHER
← ← EMERGENCY FLARE
COMPRESSOR C104 & C105
SULPHUR RECOVERY UNIT (SRU)
AMINE REGENERATION UNIT
COMPRESSOR C101 & C103

"Zhaikmunai is a high growth business with world class management, a strong financial platform and a focus on delivering shareholder value."