Annual Report 2011

New Scales, Untapped Horizons

ZHAIKMUNAI

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New Scales, Untapped Horizons

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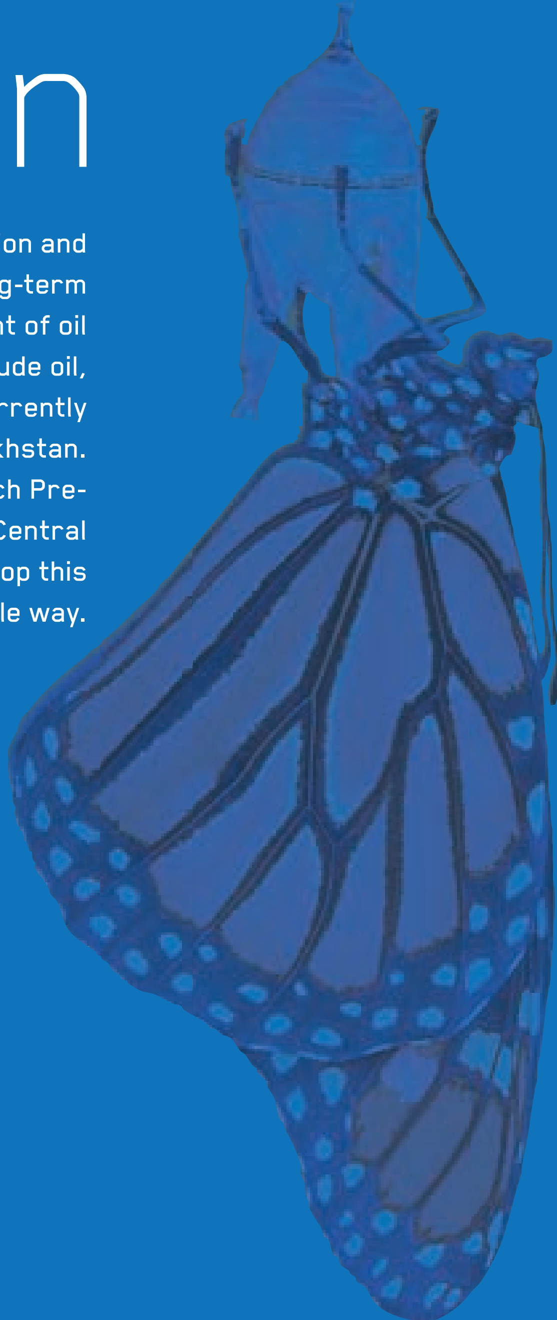
Zhaikmunai's Vision

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



Key Strengths

ADVANTAGEOUS LOCATION

STRONG RESERVE BASE

HIGH QUALITY CRUDE OIL

UPSIDE POTENTIAL OF PROVING UP EXISTING POSSIBLE RESERVES

DIVERSIFIED OIL PRODUCTS PORTFOLIO

STABLE AND BENEFICIAL TERMS UNDER THE PSA

EXTENSIVE INFRASTRUCTURE INCLUDING PHASE 1 GTF

EXPERIENCED MANAGEMENT TEAM

INTEGRATED DIVERSIFIED WORKFORCE

STRONG TRACK RECORD IN KAZAKHSTAN


FIRST DECK

The Year in Review

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Message from the Chairman

Frank Monstrey

2011 was a year of far-reaching transformation for Zhaikmunai. Whereas between 2004 and 2010, we had witnessed a more than six-fold increase in production (from 1,250 barrels of crude oil per year in 2004 to 7,750 barrels of crude oil per year in 2010), the plan for 2011 was to bridge a similar six-fold increase in production growth in just over one year. The catalyst for this transformation was our Gas Treatment Facility (GTF) and the challenge was fulfilled.

Over the year 2011, average production rose to 13,158 boepd and included crude oil and GTF products, i.e. stabilised condensate, LPG and dry gas. EBITDA doubled to US$ 197.4 million (100% increase), based on US$ 340.0 million revenue (including GTF test production) (69% increase). Net income rose by 256% to US$ 81.6 million and the balance sheet closed with US$ 128.5 million in cash.

This fundamental change in scale places Zhaikmunai in an entirely new and different league. In line with our liquids strategy, we control the production, transport and marketing of our different liquid products, now distributed globally. This places Zhaikmunai at a strategic advantage, and will translate into sustainable benefits over the future. In addition, dry gas sales are commensurate with our expectations and bode well for the future. These elements have all contributed to significantly reducing the overall project risk of the Chinarevskoye field.

Zhaikmunai's new positioning allows it to fund its future CAPEX programme though cash reserves and operating cash without the need to return to capital markets. In fact, we are currently planning to replicate the six-year US$ 1.2 billion CAPEX programme we had between 2004 and 2011 from 2012 onwards as part of the second phase development plan. This will include the construction of a second phase GTF and the drilling of some 80 additional wells with the aim of doubling the production from 2015 onwards.

On the way to the maturity of the Chinarevskoye field, Zhaikmunai is likely to undergo further transformations. Its unique characteristic of combining both production growth and upside potential will indeed call for changes ahead. For example, we are now considering a possible transformation of

Zhaikmunai's London Stock Exchange GDR listing into a main board listing or other alternative listing allowing for inclusion in major equity indices, once transformational hurdles are lifted. This should increase share liquidity and contribute to Zhaikmunai's overall visibility in the financial markets. In addition, Zhaikmunai is looking at developing operational and managerial synergies in Kazakhstan and surrounding areas, which may translate in bids for increasing its reserves organically or through potential acquisitions.

All of the above would not be possible without the steadfast resolve of our teams of specialists and professional workforce who have been central to Zhaikmunai's coming of age. I would like to take this opportunity to thank the greater Zhaikmunai community for its unabated efforts in bringing Zhaikmunai to where we are today. I much look forward to 2012, which, after this 2011 transformational year, will be synonymous with a full-production year, with all of its associated scale multipliers.

Frank Monstrey
Chairman

Chief Executive's Review

Kai-Uwe Kessel

The huge transformation Zhaikmunai experienced in 2011 was challenging for many reasons. From the inside, the organisation had to undergo a carefully planned transfiguration and develop a new *modus vivendi*. From the outside, onlookers were guided in understanding the process at hand in order to realign their view and positioning of Zhaikmunai. Both processes required significant attention and management time.

From the inside, the production growth associated with the gradual ramp-up of the Gas Treatment Facility (GTF) was managed tightly according to a preset plan and in accordance with the strictest security and safety rules. As is customary in the ramp-up of such a large new facility, the process encountered some setbacks and a number of adjustments had to be made. Nevertheless, the facility is now running close to its design capacity of 40,000 boepd. The latter will be reached shortly with the coupling of the last few gas condensate wells. Finally, yield optimisation is on-going with the aim of increasing the liquids recovery percentage from the current 50% to approximately 60%.

Zhaikmunai took full ownership of the GTF from its contractors in December 2011. Its dedicated specialists and operators, many of whom had been on location for a long time already, now fully manage GTF operations under the leadership of new Director of Operations, Mr. Heinz Wendel. His retiring predecessor, Mr. Eckart Verseck, has been a major contributor to the success of the GTF and more generally to Zhaikmunai's operations in his own right, and I which to sincerely thank him for his tireless work in Uralsk over the last few years.

Our understanding of the nature and behaviour of the Chinarevskoye field reservoirs and gas condensate wells since the inception of the GTF all the way through its initial production ramp-up is proving particularly relevant as we are currently preparing for Phase II of the GTF. The extra GTF trains, which will be built next to the existing ones, will increase treatment capacity by an additional 2.5 bcm of gas condensate per year, bringing total capacity to 4.2 bcm gas condensate per year. Over and above clear data on gas condensate composition, we can leverage our extensive hands-on experience in determining the right engineering, planning, procurement, construction and commissioning parameters for Phase II.

Zhaikmunai's rapidly growing presence on product offtake markets required specific developments in the course of 2011. On the product offering side, Zhaikmunai can now boast an expanded range of liquids (crude oil, stabilised condensate, 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 offtakers in line with a comprehensive marketing and sales strategy and secured payment terms. In addition, the terms of the gas offtake at the Orenburg connection point to the Intergas Central Asia gas pipeline are in line with management expectations and deemed satisfactory. Zhaikmunai's current production, while

still undergoing some fine-tuning and currently being evaluated by various offtakers, nevertheless enjoys the best returns thanks to the full control we have over our liquids production, quality and transportation. The latter has attracted increased investor interest and sustained communication efforts have been made to ensure a clear understanding of the new positioning of Zhaikmunai at the end of this first development phase, as well as the projected positioning of Zhaikmunai following the commissioning of Phase II of the GTF. The latter is expected to more than double the current production to well over 100.000 boepd from 2015 onwards.

From a drilling schedule perspective, it is clear that the main focus during the last couple of years has been on production drilling in order to secure the feedstock for the GTF. This has now been achieved and Zhaikmunai intends resuming its appraisal and exploration drilling in 2012 and 2013. The multilayered nature of the field allows us to pursue efforts in the current production areas, yet the expected extension 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. The latest edition of the independent Ryder Scott report (January 1, 2012) in fact already confirms the latter with a 15.1% increase in proved reserves (1P) over the 2011 horizon (169.1 mmboe), whereas the proved plus probable reserves (2P) remained over 500 mmboe (521.6 mmboe in 2011 from 538.6 mmboe in 2010) showing a slight decline due to 2011 production and some small adjustments on all reservoirs.

The end of the first phase of development of Zhaikmunai marks the start of a new era. From exploration activities we have moved to crude oil production and subsequently to the production of stabilised condensate, LPG and dry gas following an ambitious, front-loaded investment programme including the building of the GTF. We are now very keen to pursue our journey with the second phase of development and deliver the planned results to our shareholders in the course of 2012.

Financial Review

- *Key Performance Indicators*
- *Revenue, Expenses and Result*
- *Liquidity and Capital Resources*
- *Principal Financial Risks and Uncertainties*


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Financial Review

by the Chief Financial Officer

Jan-Ru Muller

Key Performance Indicators

Net cash from operating activities (US$ million)

2011: 132.2
2010: 99.0
2009: 45.9

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)

2011: 81.6
2010: 22.9
2009: (18.8)

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

Net cash used in investing activities (US$ million)

2011: 103.7
2010: 132.2
2009: 200.7

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)

2011: 4.8
2010: 2.8
2009: 2.7

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

Proved oil and gas reserves (mmboe)

2011: 169.1
2010: 143.5
2009: 139.1

Proved oil and gas reserves are the total estimated quantities of oil and gas that can, with reasonable certainty, be recovered in future years from known reservoirs, for 2009 as at July 1, for 2010 and 2011 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.

Employees

2011: 747
2010: 644
2009: 616

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

Revenue, Expenses and Result

Result for the year: The Group realized a net income of US$ 81.6 million in 2011, an increase of US$ 58.7 million from the net income of US$ 22.9 million in 2010.

Revenue increased by US$ 122.7 million, or 68.9%, to US$ 300.8 million in 2011 from US$ 178.2 million in 2010, due primarily to the increase in average Brent crude oil price of 33.3% (from US$ 80.15 to US$ 106.87) and output from the Gas Treatment Facility (GTF).

Cost of sales increased by US$ 16.9 million, or 31.5%, to US$ 70.8 million in 2011 from US$ 53.9 million in 2011, due primarily to an increase in materials and supplies, repair and maintenance and payroll expenses. Materials and supply expenses increased 121.2% to US$ 5.0 million while repair and maintenance expenses increased 118.4% to US$ 16.6 million, mainly due to the increased operations and production related to the GTF. Depreciation and amortization also increased 28.1% or US$ 4.3 million in 2011 to US$ 19.4 million, due to the increased drilling expenditures in the period. Well workover costs decreased to US$ 4.0 million in 2011 from US$ 5.9 million in 2010. Royalty costs remained relatively stable at US$ 8.7 million in 2011, as compared to US$ 8.9 million in 2010. Costs for government profit share increased by US$ 149 thousand or 8.9%, to US$ 1.8 million in 2011 from US$ 1.7 million in 2010. On a boe basis, cost of sales decreased by US$ 5.70 or 27.8%, to US$ 14.74 in 2011 from US$ 20.44 in 2010, and cost of sales net of depreciation per boe decreased US$ 3.99, or 27% to US$ 10.70 in 2011 from US$ 14.68 in 2010.

General & administrative expenses increased by US$ 9.1 million, or 33.5%, to US$ 36.4 million in 2011 from US$ 27.3 million in 2010 - due primarily to an increase in management fees and business travel expenditures in the period. The increase of business travel by US$ 3.4 million, or 467.4%, to US$ 4.1 million was mainly due to increased travel between Western Europe and Kazakhstan.

Finance costs decreased by US$ 16.6 million to US$ 4.7 million in 2011 from US$ 21.3 million in 2010. The decrease in costs was due to a one time charge in 2010 caused by expensing previously capitalized financing fees paid in 2008 and 2009 under the Syndicated Facility. When the Syndicated Facility was refinanced in October 2010 the prepaid fees in relation to the Syndicated Facility were expensed.

The reason that finance costs (at US$ 4.7 million) are low as compared to the finance costs paid in the period (at US$ 50.6 million) is that the majority of the finance costs have been capitalized as they relate to construction in progress.

Other expenses for 2011 have increased to US$ 7.9 million, up from US$ 1.0 million in 2010. The increase in other expenses is due to losses incurred on the lease of railway wagons. Although the Partnership has been leasing these wagons since June 30, 2010 the wagons were not extensively utilized until October 2011.

Income tax expense increased to US$ 67.3 million in 2011 compared to US$ 37.9 million in 2010, an increase of US$ 29.4 million or 77.6%. Profit before tax increased to US$ 149.0 million compared to US$ 60.8 million in 2010, an increase of US$ 88.2 million or +145%. The effective tax rate in 2011 was 45% (2010: 62%). 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

Zhaikmunai's principal source of funds in 2011 was cash from operations. Zhaikmunai's liquidity requirements primarily relate to meeting ongoing debt service obligations and to funding capital expenditures and working capital requirements.

Net cash flows from operating activities

Net cash flows from operating activities of US$ 132.2 million in 2011 were primarily attributable to:

- a profit before income tax for the period of US$ 149.0 million, adjusted by a non-cash charge for depreciation and amortization of US$ 19.8 million;
- a US$ 2.9 million increase in working capital primarily attributable to (i) an increase in prepayments of US$ 6.5 million, (ii) an increase in receivables of US$ 11.0 million, (iii) an increase in inventories of US$ 8.9 million, (iv) an increase in advances of US$ 8.5 million, and (v) partially offset by a cash inflow of US$ 10.5 million from an increase in accounts payable; and
- income tax paid of US$ 21.5 million.

Net cash flows in investing activities

Net cash used in investing activities was US$ 103.7 million in 2011 due primarily to investments in the Gas Treatment Facility and the drilling of new wells .

Net cash related to financing activities

Net cash used by financing activities was US$ 47.4 million in 2011, primarily due to interest paid on the Notes.

US$ millions	YEARS ENDED 31 DECEMBER	
	2010	2011
NET CASH FLOW FROM OPERATING ACTIVITIES	98.955	132.223
NET CASH FLOW USED IN INVESTING ACTIVITIES	(132.189)	(103.681)
NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES	39.710	(47.350)


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Principal Financial Risks and Uncertainties

   

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

DESCRIPTION OF RISK	RISK MANAGEMENT	RESULT 2011 AND EXPOSURE 2012
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$ 50 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 entered into hedging a contract in March 2011 covering oil export sales of 2,000 barrels per day for a total of 556,000 bbls running through December 2011. The contract consisted of the Group buying a put at US$ 85/bbl, selling a call at US$ 125/bbl and buying a call at US$ 134/bbl. The contract fixed the floor price for Brent crude oil price at US$ 85 /bbl while limiting the upside risk to US$ 9/bbl. The Group intends to keep the same hedging policy going forward which is driven by capital expenditure and debt service requirements.

DESCRIPTION OF RISK	RISK MANAGEMENT	RESULT 2010 AND EXPOSURE 2011
Foreign currency exchange rate risk	The Group is exposed to foreign currency risk associated with transactions entered into, and assets and liabilities denominated, in currencies other than the functional currency of its operating entities, being the US Dollar since 1 January 2009. This exposure is primarily associated with transactions, contracts and borrowings denominated in Tenge. Most of the Group's cash inflows as well as its accounts receivable are denominated in US Dollars, and most of the Group's expenses are primarily denominated in US Dollars.	With respect to foreign exchange, the Group incurred a loss of US$ 389 thousand in 2011, a gain of US$ 46 thousand in 2010, a loss of US$ 2.2 million in 2009, a loss of US$ 1.5 million in 2008 and a gain of US$ 6.2 million in 2007. The Group does not hedge against this risk. As at the date of this Annual Report, all of the Group's financing is in US Dollars and in the future the Group's capital expenditures are expected to be primarily denominated in US Dollars.
Interest rate risk	The Group's interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings.	Under the Syndicated Facility, the Group's borrowings bore interest at (i) a fixed margin as stated in the Syndicated Facility and (ii) a variable rate credit facility linked to the London Interbank Offered Rate. Following the refinancing of the Syndicated Facility, the Notes bear interest at a fixed coupon.
Credit risk	Zhaikmunai sells all of its crude oil pursuant to contracts with one or more oil trader(s) who purchase(s) its production.	Zhaikmunai's policy is to mitigate the payment risk by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

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

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

5 Year Summary

In thousands of US Dollars	2007	2008	2009	2010	2011
CONSOLIDATED INCOME STATEMENT					
Sales of crude oil	108.490	135.912	116.033	178.159	300.837
Cost of sales	-37.401	-44.610	-44.035	-53.860	-70.805
Gross Profit	71.089	91.302	71.998	124.299	230.032
General and administrative expenses	-12.542	-20.299	-29.726	-27.265	-36.405
Selling and oil transportation expenses	-6.793	-24.212	-5.692	-17.014	-35.395
Gain/(Loss) on hedging contract	0	64.780	-16.909	-470	0
Finance costs	-6.841	-12.567	-7.801	-21.296	-4.717
Foreign exchange gain (loss)	6.247	-1.527	-2.184	46	-389
Other income/(expense)	820	1.189	-846	2.473	-4.154
Profit before income tax	53.423	98.666	8.840	60.773	148.972
Income tax expense	-15.650	-35.188	-27.608	-37.873	-67.348
Net Income	**37.773**	**63.478**	**-18.768**	**22.900**	**81.624**
CONSOLIDATED BALANCE SHEET					
Non-Current Assets	360.008	651.799	819.808	965.133	1.126.897
Current Assets	34.343	71.105	182.992	172.434	179.283
Total Assets	**394.351**	**722.904**	**1.002.800**	**1.137.567**	**1.306.180**
Equity	**68.240**	**221.667**	**477.769**	**500.669**	**585.231**
Non-current liabilities	237.789	66.681	449.768	556.691	611.414
Current Liabilities	88.322	434.556	75.263	80.207	109.535
Total Liabilities	**326.111**	**501.237**	**525.031**	**636.898**	**720.949**
Liabilities & Equity	**394.351**	**722.904**	**1.002.800**	**1.137.567**	**1.306.180**
Consolidated Cash Flows					
Net cash flow from operating activities	48.239	45.819	45.923	98.955	132.223
Net cash flow from investing activities	-173.105	-195.196	-200.673	-132.189	-103.681
Net cash flow from financing activities	129.166	175.109	279.418	39.710	-47.350

	2007	2008	2009	2010	2011
Financial ratios					
Profit margin %	34,80%	46,70%	-16,20%	12,90%	27,13%
Equity/assets ratio %	17,30%	30,70%	47,60%	44,00%	44,80%
Debt/equity ratio %	365,60%	164,90%	74,60%	88,80%	74,32%
GDR related key figures					
GDR price at end of period USD		$2,75	$8,50	$12,30	$9,70
GDRs outstanding ('000s)		110.000	185.000	185.000	185.315
Options outstanding ('000s)		2.500	2.733	2.983	2.868
Diluted GDRs outstanding ('000) *		110.000	186.447	187.013	187.000
Proposed dividend per GDR		0	0	0	0

*) Used: treasury stock calculation method


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2011 Milestones

Strategic Milestones

Asset De-risking

- Completing the first development phase of the Chinarevskoye field project in 2011 has considerably de-risked the asset:
  - Zhaikmunai's liquids strategy, which consists in the extraction of valuable oil products out of the gas condensate stream, holds 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's expectations and are expected to remain attractive:
    - Sustainable strategic advantage is translating into sustainable benefits for the future.
  - Average overall production per day has increased more than six-fold between 2004 (1,250 barrels of crude oil) and 2011 (13,158 boepd).

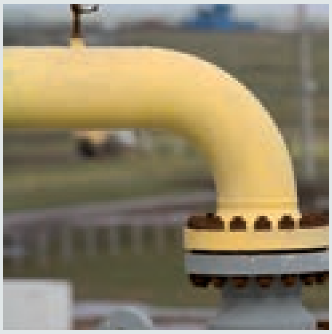
- The second development phase of the Chinarevskoye field can be funded without the need to return to capital markets:
  - Replicating a six-year US$1.2 billion investment programme (2004 – 2011) from 2012 onwards can be done through cash reserves and operating cash;
  - The investment foresees the drilling of some 80 additional wells and the building of a second phase GTF with the aim of doubling production from 2015 onwards;
  - Average overall production per day is expected to increase over three-fold in 2012.

Preparing for Future Growth

- Zhaikmunai has, in 2011, actively been looking at developing operational and managerial synergies in Kazakhstan and surrounding areas. These efforts may translate in bids for increasing its reserves organically or through potential acquisitions.

Transforming the Partnership for a Potential New Listing

- Investor interest in Zhaikmunai, fuelled by an attractive combination of production growth and upside potential, has motivated the Partnership to explore the possibility of migrating towards a main board share listing from its current London Stock Exchange GDR listing. This would allow Zhaikmunai to be included in equity indices and would likely increase share liquidity as well as contribute to increased overall visibility in the financial markets :
  - In 2011, Zhaikmunai solicited and was granted consent by bondholders to undertake any necessary Partnership re-structuring required in order to comply with the legal and financial prerequisites for such a potential new listing.

Tactical Milestones

Positioning and Marketing the New Product Portfolio

- Zhaikmunai has enjoyed a growing presence on oil product offtake markets in 2011 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 offtakers in line with a comprehensive marketing and sales strategy and secured payment terms;
  - Terms of the gas offtake agreement at the Orenburg connection point to the Intergas Central Asia gas pipeline are in line with management expectations and deemed satisfactory.

- Zhaikmunai's current production, while still undergoing some fine-tuning, is currently being evaluated by various offtakers and enjoys good returns thanks to full control over the liquids production, quality and transportation:
  - Quality, volumes, and supply pipeline guarantees are currently at the centre of Zhaikmunai's oil products negotiations with offtakers with the aim to optimize returns for all products over time.

Canvassing the Second Phase Gas Treatment Facility (GTF)

- In-depth preparation of the second phase GTF in 2011 included: 1) front-end engineering and design (FEED) study; 2) procurement and long lead items analysis, and 3) advanced contacts with potential suppliers for the construction, assembly and commissioning of the GTF:
  - Zhaikmunai's understanding of the nature and behaviour of the Chinarevskoye field reservoirs and gas condensate wells since the inception of the GTF all the way through its initial production ramp-up is proving particularly helpful in canvassing the requirements for the second phase;
  - Zhaikmunai's detailed experience with the first phase GTF procurement is setting new standards for ensuring the most efficient and cost-effective supplies to be delivered in Kazakhstan's unique context (extreme weather conditions, logistical constraints and specific operating conditions);
  - The second half of 2012 should witness the signing of supplier contracts and the start of construction of the second phase GTF, which is likely to extend into 2014.

- The new GTF trains, which are expected to be built next to the existing ones, will increase treatment capacity by an additional 2.5 bcm of gas condensate per year, bringing total capacity to 4.2 bcm gas condensate per year.

Resuming Exploration / Appraisal Drilling

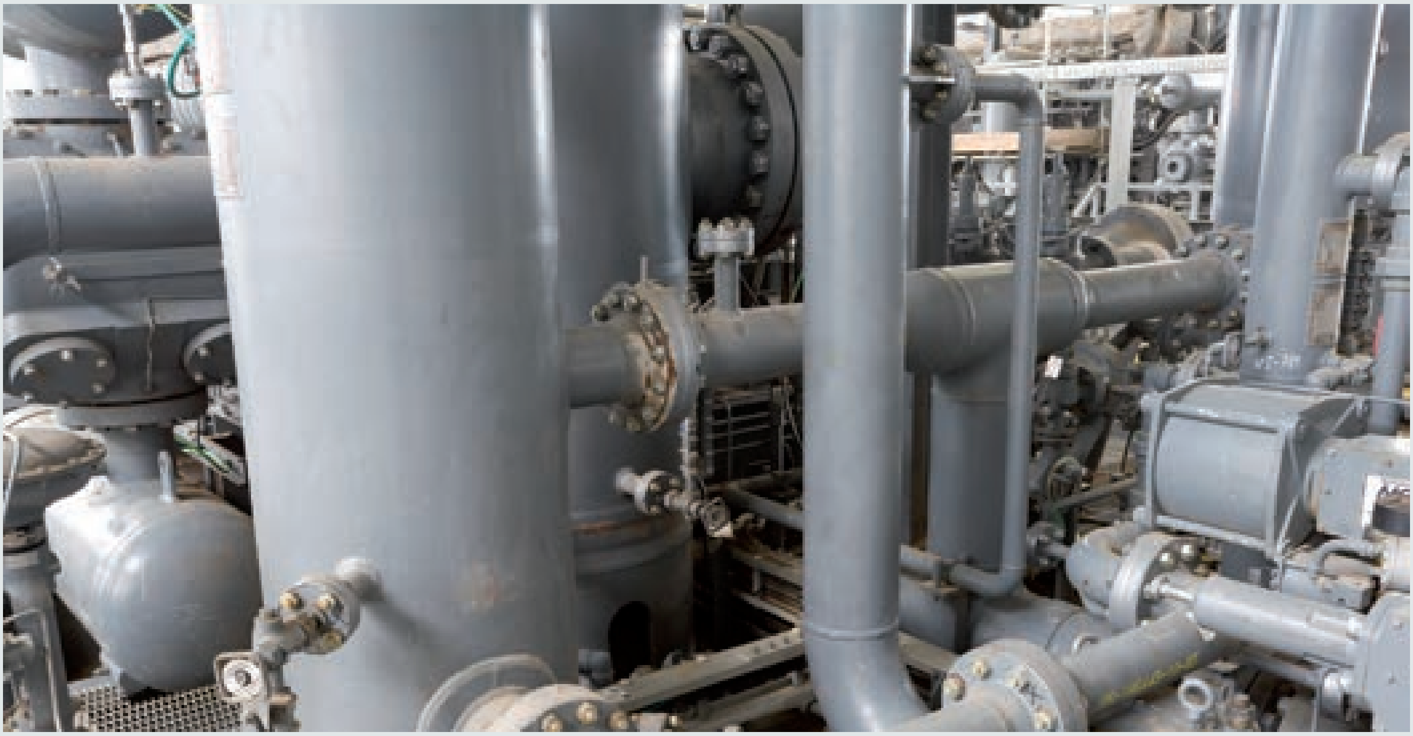
- The latest edition of the independent Ryder Scott report (January 1, 2012) shows a 15.1% increase in proved reserves (1P) over the 2011 horizon (169.1 mmboe), whereas the proved plus probable reserves (2P) remained over 500 mmboe (521.6 mmboe in 2011 from 538.6 mmboe in 2010) showing a slight decline due to 2011 production and some small adjustments on all reservoirs.

- While it is clear that the main focus has been on production drilling in order to secure the feedstock for the GTF in 2010 and 2011, Zhaikmunai intends to resume its appraisal and exploration drilling in 2012 and 2013.

Operational Milestones

Instilling a GTF *Modus Operandi*

- In 2011, Zhaikmunai had to undergo a carefully planned transfiguration and develop a new GTF modus operandi.
  - From a facilities perspective:
    - The gradual ramp-up of the Gas Treatment Facility (GTF) was managed tightly according to a preset plan and in accordance with the strictest security and safety rules;
    - The process encountered some setbacks, as is customary in the ramp-up of such a large new facility, and a number of adjustments had to be made. Nevertheless, the facility is now running close to its design treatment capacity of 1.7 bcm of raw gas. The latter will be reached shortly with the coupling of the last few gas condensate wells;
    - Yield optimisation is on-going with the aim of increasing the liquids recovery percentage from the current 50% to approximately 60%.
  - From a management perspective:
    - In December 2011, Zhaikmunai took full ownership of the GTF from its contractors. Its dedicated specialists and operators, many of whom had been on location for a long time already, now fully manage GTF operation;
    - Leadership is now assured by new Director of Operations, Mr. Heinz Wendel, who joined Zhaikmunai in January 2012, replaced his retiring predecessor, Mr. Eckart Verseck, who had been a major contributor to the success of the GTF and more generally to Zhaikmunai's operations since 2006.



- Zhaikmunai's overall daily production currently stands at 33,552 boepd (Q1, 2012) and is expected to draw close to the designed plateau of 48.000 boepd with the coupling of further wells and yield optimization (liquids recovery).

Pursuing a Comprehensive Corporate Social Responsibility Programme

- Zhaikmunai's recognition as a stable and sustainable E & P figure in Uralsk, Kazakhstan brings new expectations, i.e. those of being a responsible player in society as a whole. In short, honouring a triple bottom line - people, planet, and profit - has led to the following initiatives:
  - Zhaikmunai has made it a priority to communicate its approach to business to its various stakeholders, emphasizing business ethics and its specific corporate governance provisions;
  - Zhaikmunai reports on its employees, safety and health measures, working environment specifics and overall benefits. Zhaikmunai also reports on its direct involvement in the community through such actions as providing social infrastructure, sponsoring activities and charitable work or even relocating an entire village;
  - Zhaikmunai manages its environmental footprint carefully in strictly adhering to the legislations in place, but also in pro-actively defining environmental objectives and monitoring compliance and progress with regards to the standards defined.

- In 2011, Zhaikmunai's actions were deemed to have a positive impact on its numerous stakeholders, i.e. investors, business partners, regulators, employees, customers, local communities, the environment and society at large.

Expanding the Investor Relations Programme

- Zhaikmunai's new positioning at the end of its first development phase (2004 – 2011) and its projected growth path in Phase II (2012 – 2018) called for an increased communication effort to its various stakeholders:
  - 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 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.

- 2011 saw the development of a first interactive digital version of Zhaikmunai's Annual Report, increased analyst coverage, an extended investor distribution list and an expanding number of e-mail mailings.

Financial Milestones

- Zhaikmunai Delivered Excellent Results in 2011:
  - EBITDA doubled to US$ 197.4 million (100% increase), based on US$ 340.0 million revenue (including GTF test production) (69% increase);
  - Net Income rose by 256% to US$ 81.6 million;
  - Balance Sheet closed with US$ 128.5 million in cash.

- Zhaikmunai is Expecting More Upside in 2012:
  - 2012 EBITDA is expected to more than double again with design capacity production coming from the Gas Treatment Facility (GTF).


899.50
899.00
898.00
897.50
897.00
896.00
895.00

Investor information

- *Corporate Structure*
- *GDR Information*
- *Bondholder Information*
- *2012 Financial Calendar*

Corporate Structure

Zhaikmunai L.P. 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 L.P. and (b) the general partner interest held by Zhaikmunai Group Limited (" ZGL"). The holders of the Common Units are the limited partners of Zhaikmunai L.P., who hold 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 L.P. is managed by its general partner ZGL. GDRs are listed on the main market of the London Stock Exchange.

Zhaikmunai is contemplating migrating towards a London Stock Exchange main board share listing as a means to increase share liquidity, ensure inclusion in indices and more generally to contribute to Zhaikmunai's overall visibility in the financial markets. Approval of the proposed amendments and waivers in relation to Zhaikmunai LLP's US$ 450 million 10.50% Senior Notes due 2015 on March 2, 2012 by bond holders marked the first step in this direction. It is expected that the transformational work currently underway to allow for a main board share listing will be completed in the course of 2012.

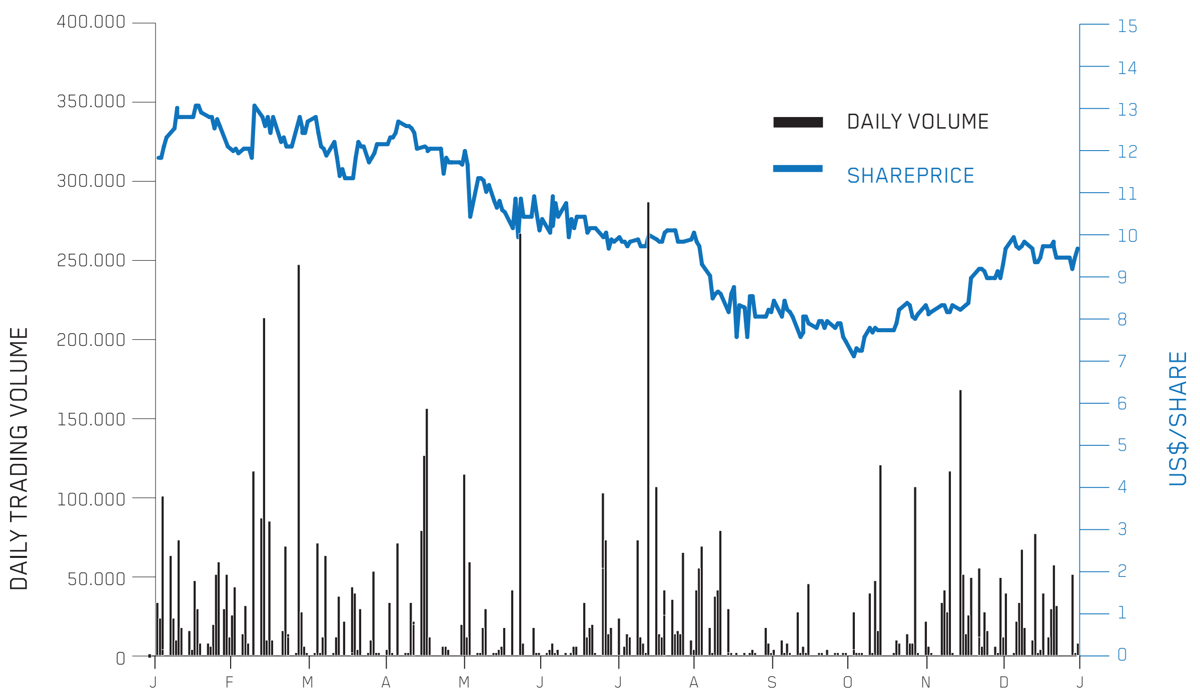
GDR Information

Listing Details

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

GDR PRICE INFORMATION

GDR PRICE PERFORMANCE AND TRADING VOLUME: JANUARY 2011 - DECEMBER 2011



Bondholder Information

The following items recap the main bond-related events since it was issued in 2010:

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.

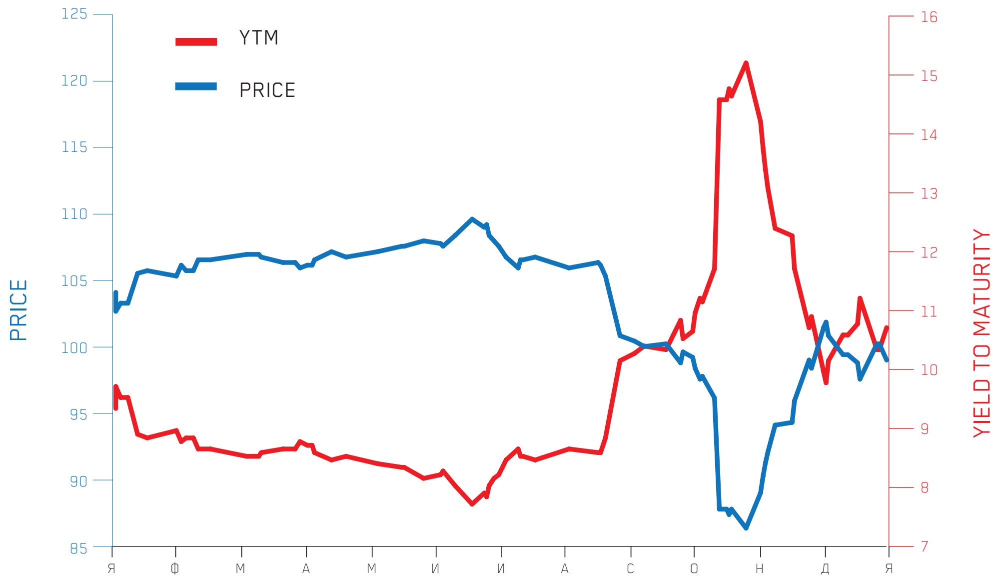
On 21 February 2012, Zhaikmunai LLP commenced consent solicitation in respect of its US$ 450 million 10.50 % Senior Notes due 2015 as its Parent (Zhaikmunai LP) was considering seeking a listing or all or a portion of its capital stock on either the London Stock Exchange plc or another recognized stock 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 such a 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 corporate 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 in 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.

Listing Details

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

BOND YIELD INFORMATION



Financial Calendar 2012

27 April 2012	Full year 2011 Financial Results & Management Report (Released on 15 March 2012, on the basis of earlier than anticipated Auditors' Report)
30 May 2012	Q1 2012 Financial Results
29 August 2012	H1 2012 Financial Results & Management Report
29 November 2012	Q3 2012 Financial Results
30 April 2013	Full year 2012 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.

Business Overview

- *Chinarevskoye Field*
- *Zhaikmunai (2004 – 2011)*
- *On the Horizon (2012 – 2015)*

Chinarevskoye Field

Location

Zhaikmunai's field and licence area is the Chinarevskoye field situated in the northern part of the oil-rich Pre-Caspian Basin, one of the largest oil-producing regions in Central Asia. The 274 square kilometre Chinarveskoye field is located in the province of Batys Kazakhstan in north-western Kazakhstan near the Russian border and some 80 kilometres north-east of Uralsk.

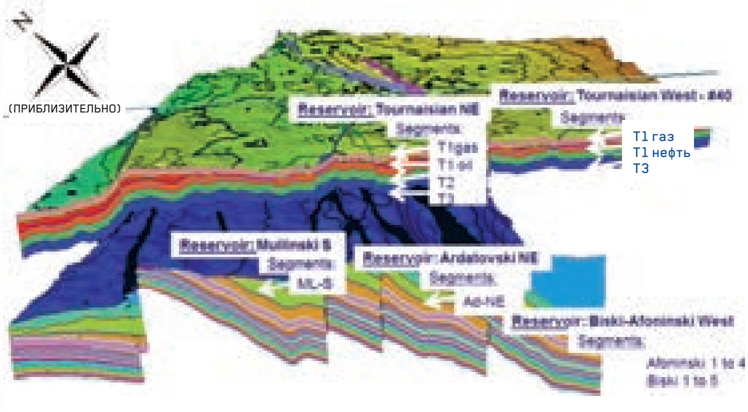
Zhaikmunai's facilities are close to the main international railway lines as well as to several major oil and gas pipelines. This unique location provides reduced transportation distances and access to flexible transportation links for Zhaikmunai's ultimate purchasers of oil products in European markets, which in turn contributes 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 Rotoshi, 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.

TRANSPORTATION ROUTES

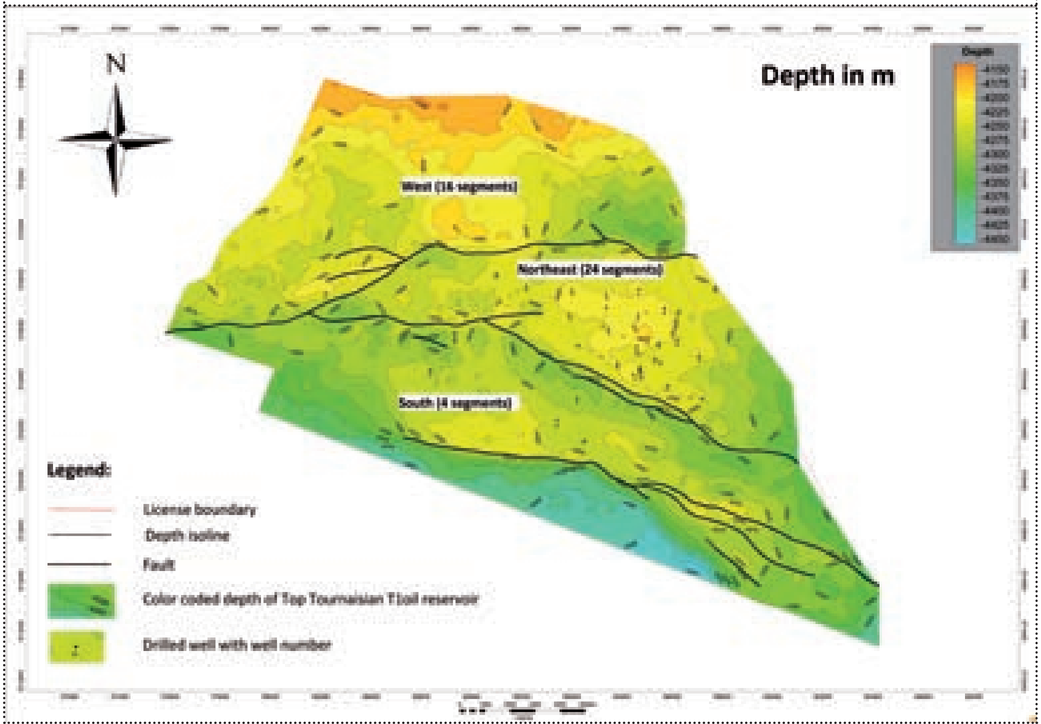
Geology

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).

RESERVOIRS



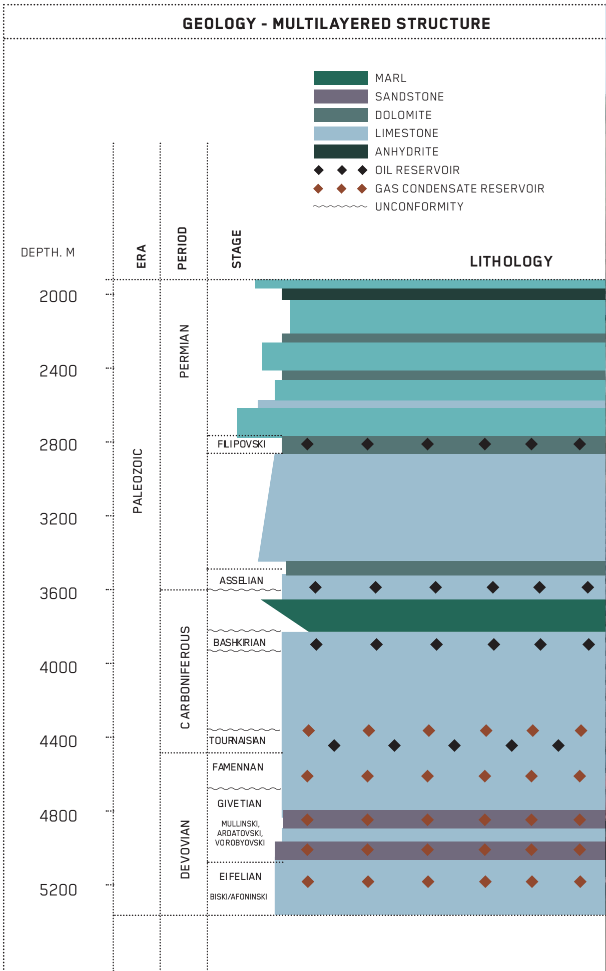
TOURNASIAN T1 OIL STRUCTURE MAP



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.



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 2010 and almost all possible reserves reported by Ryder Scott as at 1 July 2009. Zhaikmunai has applied for an extension of its exploration permit until 31 December 2012.

Production Sharing Agreement (PSA)

During 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.

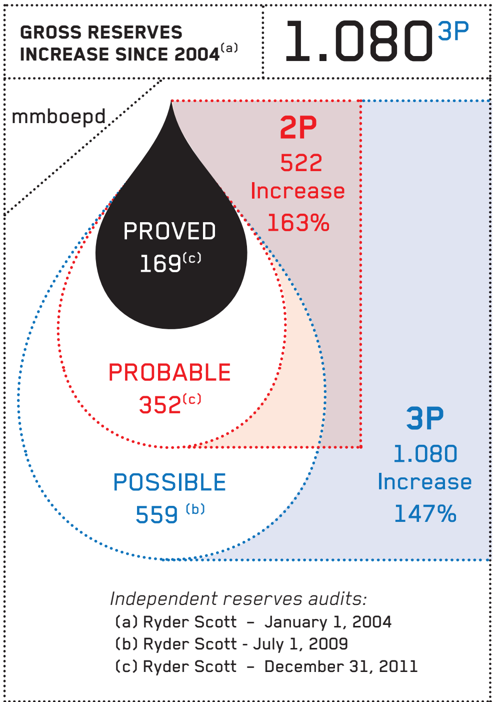
Long-term View

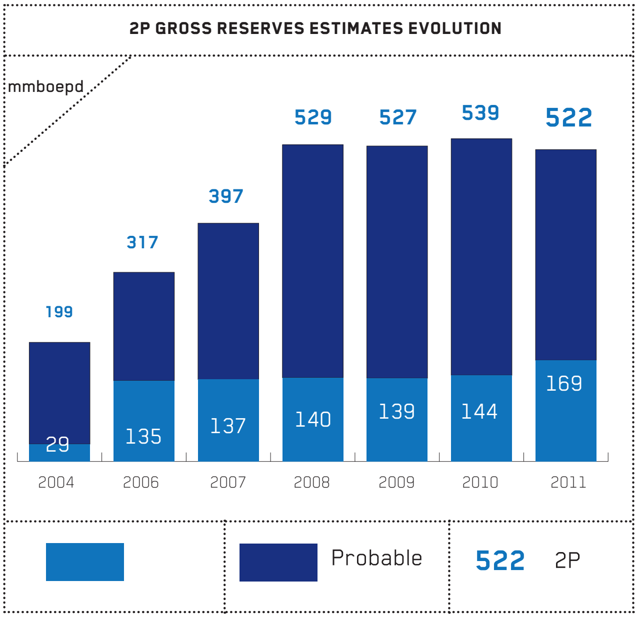
The licence and the PSA are currently valid until 2031-2033, depending on the geographical and geological area in question. Zhaikmunai must comply with the terms of the Exploration Permit and the Production Permit and the Development Plans during this period. To date, Zhaikmunai has met all of its capital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

Reserves

Zhaikmunai has an outstanding track record of proving up reserves. Since 2005, reserves estimations by external auditor Ryder Scott have shown a significant increase in 2P and 3P reserves:

- 2P reserves increased 163% to 522 million boe [1]
- 3P reserves increased 147% to 1,080 million boe [2]

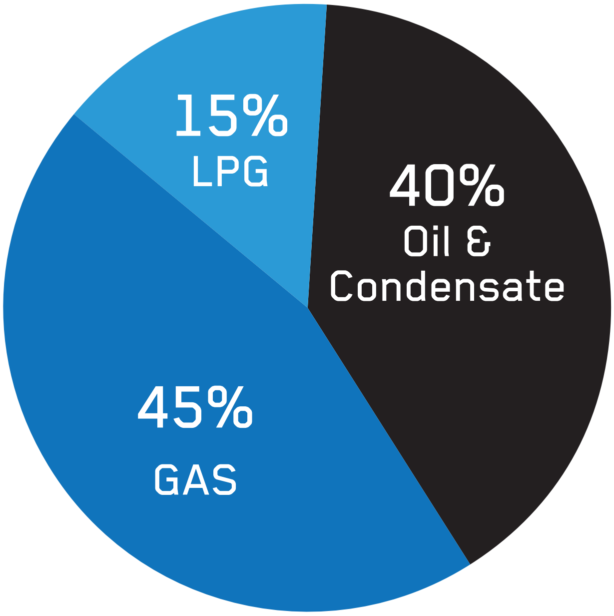




Zhaikmunai has a strong track record of successful exploration and production within the licence area. Using the existing 3-D seismic mapping of the Chinarevskoye field and its understanding of the geological features of the licence area, Zhaikmunai plans to continue positioning wells effectively. In fact, every production well drilled since Zhaikmunai signed the Production Sharing Agreement (PSA) has reached its geological target and yielded commercially viable amounts of hydrocarbons. Since 2004, management has introduced Western-standard drilling rigs and competition among drilling contractors to further improve drilling efficiency. 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.

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

2P RESERVES BREAKDOWN



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 556 million boe as at 1 July 2009, could be transferred into higher reserves categories as a result of the scheduled appraisal activities, which will be performed simultaneously with the development of the existing proved and probable reserves. While production drilling was granted priority in the last year in order to secure feedstock to the GTF, management intend resuming its appraisal and exploration activities in 2012 and 2013.

Further exploration of the Chinarevskoye field, subject to the extension of the exploration permit, may also lead to the discovery of new reserves. In addition to the estimated reserves calculated by Ryder Scott, management believes that there is additional exploration potential in the licence area due to Zhaikmunai's successful drilling record in the Chinarevskoye field. This belief is based on the new oil discovery made in the Bashkirian horizon and the discovery of gas condensate accumulations in the Middle Devonian Famennian horizon and the Middle Devonian Vorobyovski horizon which were not included in the 2011 Ryder Scott Report.

In addition to the reported reserves as of 1 January 2012, Ryder Scott has estimated the remaining resources identified, but not yet drilled in the Chinarevskoye field. The 2008 Ryder Scott Report estimates that the overall exploration potential of such resources through a summation of best estimates is approximately 122 million boe of prospective resources. There is thus considerable upside potential linked to proving-up existing reserves and discovering new reserves.

Zhaikmunai (2004 – 2011)

Strategy

Zhaikmunai's goals have not changed since 2004 and are twofold :

1)maximise the conversion of existing reserves into higher reserves categories, and
2)increase long-term production potential.

To achieve these goals, the Zhaikmunai has been pursuing the following strategies:

a. Expand Existing Reserve Base

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

In May 2008, Zhaikmunai declared commercial prospects for six discoveries in the Chinarevskoye Field.

b. Further Increase the Production of Liquids

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

Zhaikmunai intends to increase its annual production of oil products (crude oil, stabilised condensate, LPG and dry gas), which, according to Ryder Scott, is expected to peak in 2015 at an average of approximately 147,000 boepd as compared to an average of 13,158 boepd produced in 2011. This increase is expected to be achieved by increasing the number of wells drilled per year and enhancing oil recovery methods, as well as extending the hydrocarbon production areas of the Chinarevskoye field following completion of exploration activities and the construction and commissioning of the Phase II GTF. For example, Zhaikmunai plans to drill nine more production wells and two appraisal wells in 2012 and to drill an average of 13 wells per year between 2013 and 2015.

c. Monetise Gas Reserves

A substantial portion of the Zhaikmunai's reserves comprise gas. To monetise these reserves, Zhaikmunai has built the Phase I of the GTF and associated projects. Management estimates, based on the production profile of both proven and probable reserves reported in the 2012 Ryder Scott Report, that annual raw gas production is expected to reach a plateau of 4.05 billion cubic metres in 2015 – 2017.

d. Open the Gas Treatment Facility to Third Party Access

Zhaikmunai has entered negotiations with various companies who own gas condensate reserves in western Kazakhstan and who would like to treat these reserves using Zhaikmunai's Gas Treatment Facility (GTF). The aim of such negotiations is to establish a long-term utilization of the facility in addition to the treatment Zhaikmunai's own reserves, thereby opening new business opportunities.

e. Increase the Number of Products and Customers

Zhaikmunai's portfolio of products, following the commissioning of the GTF, has expanded to include crude oil, stabilised condensate, LPG and dry gas. 85% of crude oil is exported (15% is sold domestically as per the PSA) whereas 100% of the other liquids, i.e. stabilised condensate and LPG are exported. New offtakers in different destinations are getting acquainted with Zhaikmunai and its high quality products, secured and punctual deliveries and attractive marketing terms. Product revenue optimisation programmes are currently underway as the GTF is reaching its design capacity. Further by-products may also be developed over time according to demand and will likely also be part of the

Phase II development phase of the GTF.

Structure and Financing

Organisational Structure

"Zhaikmunai" is used to designate Zhaikmunai LP, an Isle of Man registered limited partnership, which indirectly holds and controls Zhaikmunai LLP, a Kazakhstan registered limited liability partnership which was set up in March 1997 to explore, produce and sell crude oil and gas condensate in the Chinarevskoye field in north-western Kazakhstan. Zhaikmunai Group Limited is the general partner of Zhaikmunai LP and in this capacity manages the business of the Partnership. Zhaikmunai's Global Depository Receipts (GDRs) are listed on the London Stock Exchange (LSE). Zhaikmunai's bond notes are listed on the Luxembourg Stock Exchange as well as on the Kazakh Stock Exchange (KASE).

Financing Instruments

In order to implement its strategy, Zhaikmunai has used different financing instruments over time. They include a mix of debt and equity instruments.

Chinarevskoye Field Development: Phase I and Phase II

The above instruments, coupled with operations cashflow and cash reserves have allowed Zhaikmunai to conduct the first phase of the development of the Chinarevskoye field and invest around US$ 1.2 billion in drilling and field infrastructure between 2004 and 2011.This first phase saw the completion of important infrastructure, transportation facilities, the GTF as well as a commensurate drilling programme.

The second phase of the development of the Chinarevskoye field, scheduled to take place for another six to seven years will also deploy a similar investment of US$ 1,2 billion. No further capital raise is currently envisaged to finance this investment, which can be covered by cash reserves and operations cashflow. The second phase aims at enhancing the full development of the 2P reserves and includes the construction of the second phase GTF.

Drilling

History

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 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 Highlights

2000 – 2002	Drilling and reactivation of three of the nine wells dating from the Soviet era
2003	Discovery of the Givetian (Mullinski) accumulation
2004	Successful testing of the Lower Permian Reservoir
2006	Completion of the Oil Treatment Facility (OTF)
2007	Discovery of gas condensate in the Givetian (Adatovski) and Southern Tournaisian Reservoirs
2007	Crude oil discovery in the Bashkirian formation
2008	Commercial prospects declared for the Mullinsky oil and gas condensate pool, the Ardatovsky gas condensate pool, the Famennian oil and gas condensate pool and the Biski-Afoninsk i oil and gas pool. New commercial discoveries also made in the south and west regions of the Tournaisian reservoir.

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

As of 31 December 2011, 11 wells were producing from the Tournaisian and 8 wells from the Ardatovsky and Biski Afoninski reservoirs.

The following table sets out the actual number of wells drilled since September 2004 (when new management was appointed at Zhaikmunai and prior to which there were five wells) together with the number of wells management anticipates will be drilled in 2012.

WELLS

	2004	2005	2006	2007	2008	2009	2010	2011	2012
NUMBER OF NEW EXPLORATION APPRAISAL WELLS DRILLED	1	1	2	4	3	2	0	1	[2]
NUMBER OF NEW PRODUCTION WELLS DRILLED	0	0	1	5	6	5	7	6	[9]
TOTAL NEW WELLS	1	1	3	9	9	7	7	7	[11]

Zhaikmunai also plans to drill an average of 13 wells per year between 2013 and 2015.




Drilling Activities
The Group contracts with third parties who perform drilling operations in the Chinarevskoye field. As of 31 December 2010, Saipem and UNGG provided drilling services to the Group using three drilling rigs. In addition, one UNGG and one Kasburgaz rig were employed for workover operations. The average time required to drill new vertical wells is approximately three months in the Tournaisian reservoir and four months in the Devonian, Biski Afoninski reservoirs.

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

Zhaikmunai's first horizontal well, Well #119 in the Biski-Afoninski Reservoir, exceeded expectations in 2009. With a total measured depth of 5,889 meters, this longest well ever drilled in the Chinarevskoye field was an important milestone in the development of Zhaikmunai's operations.

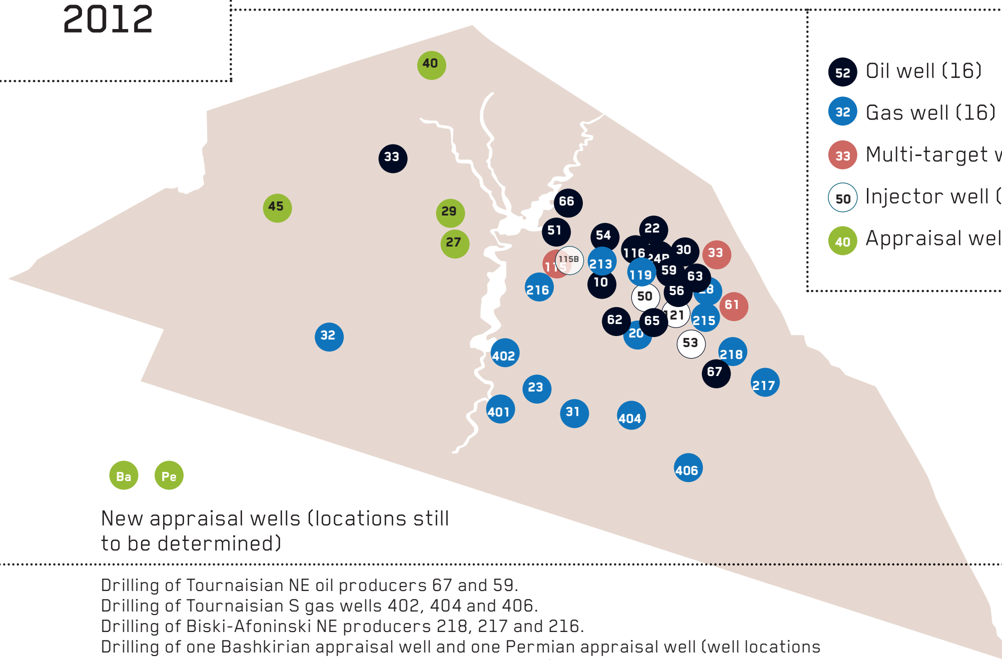
Further horizontal wells are being drilled with the hope of replicating similar attractive results. Management remains cautious, nevertheless, as such conditions may not always be reunited for a successful well, despite the necessary preparation. Zhaikmunai intends on developing the technology further as and where applicable, without taking undue risk or overextending the relative opportunity window.

Phase II

Zhaikmunai plans to drill nine production wells and two appraisal wells in 2012 and to drill an average of 13 wells per year between 2013 and 2015. The drilling plans below, as of 31 December 2011, give an indication of scheduled drilling. These plans are, by nature, likely to be adjusted over time.

2012

PLANNED FIELD DEVELOPMENT



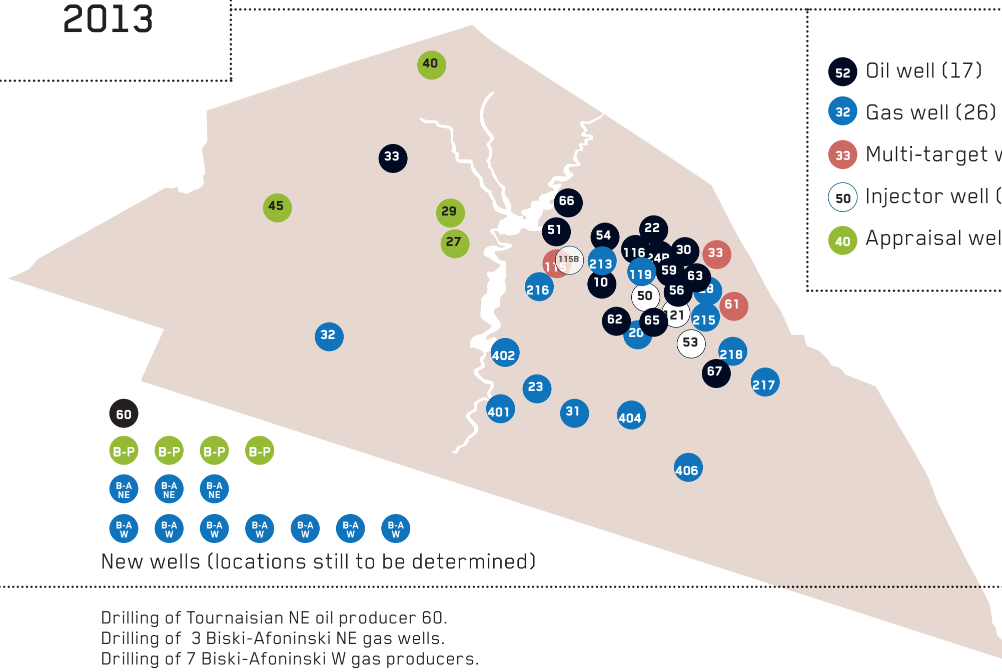
- Oil well (16)
- Gas well (16)
- Multi-target well (2)
- Injector well (4)
- Appraisal well (6)

New appraisal wells (locations still to be determined)

Drilling of Tournaisian NE oil producers 67 and 59.
Drilling of Tournaisian S gas wells 402, 404 and 406.
Drilling of Biski-Afoninski NE producers 218, 217 and 216.
Drilling of one Bashkirian appraisal well and one Permian appraisal well (well locations not yet approved and therefore not shown in the map).
Drilling of multi-target appraisal well 40 in the Northernmost part of the field.

2013

PLANNED FIELD DEVELOPMENT



- Oil well (17)
- Gas well (26)
- Multi-target well (2)
- Injector well (4)
- Appraisal well (8)

New wells (locations still to be determined)

Drilling of Tournaisian NE oil producer 60.
Drilling of 3 Biski-Afoninski NE gas wells.
Drilling of 7 Biski-Afoninski W gas producers.
Drilling of 4 Bashkirian or Permian appraisal wells.

On the Horizon (2012 – 2015)

The transformation Zhaikmunai underwent in 2011 with the coming-on-line of its GTF, which in itself, was the final milestone of its Phase I development programme has unlocked an unprecedented production profile hovering around 48,000 boepd when the GTF is running at full design capacity. This profile is characterised by a broad array of top quality oil products which are marketed internationally.

Zhaikmunai's new positioning strengthens its overall financial position. It also marks the launching pad for Phase II of the development of the Chinarevskoye field. Phase II will focus on the full realisation of the field's 2P reserves, as well as the additional realisation of its potential upside coming from its possible reserves.

Phase II Development

As part of the second phase development plan, Zhaikmunai is planning to replicate the six-year US$ 1,2 billion investment programme it implemented between 2004 and 2011 from 2012 onwards. This plan will include the construction of a second phase GTF and the drilling of some 80 additional wells with the aim of doubling the production from 2015 onwards to well above 100.000 boepd.

This plan can be implemented using cash reserves as well as operating cashflow without recourse to the capital markets.

Acquisitions

In addition, Zhaikmunai is looking at developing operational and managerial synergies in Kazakhstan and surrounding areas, which may translate in bids for increasing its reserves organically or through potential acquisitions.

Opportunities to treat gas condensate from neighbouring fields in the vicinity of the Chinarevskoye field may, for example, prove an interesting vector to extend Zhaikmunai's production profile current plateau and/or for increasing its throughput capacity in Phase II of the GTF.

Listing and Index Inclusion

Zhaikmunai's unique characteristic of combining both production growth and upside potential has raised its awareness and indeed attractiveness for global investors. This will in turn likely call for further changes in its equity listing in order to increase share liquidity and contribute to Zhaikmunai's overall visibility in the financial markets. For example, its London Stock Exchange GDR listing may be replaced by a main board share listing allowing inclusion in indices, once transformational hurdles are lifted.

Operations

- *Production*
- *Processes and Products*
- *On-site Facilities*

Production

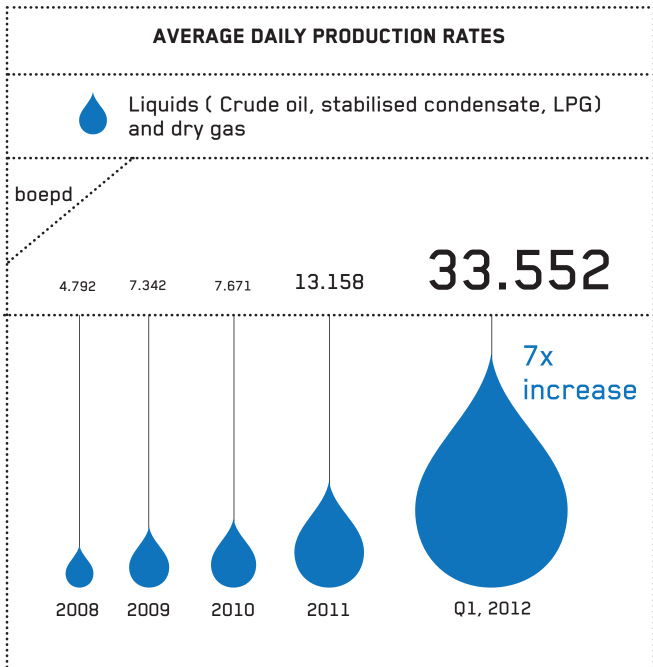
Scale Change: Phase I GTF Production Ramp-Up

Completion of the Gas Treatment Facility (GTF) has enabled Zhaikmunai to more than double its production of liquids over the last 12 months. In addition the GTF provides additional revenue from the sale of dry gas. As of January 2012, the result is a more than five-fold increase in production from a boepd perspective since January 2011.

Since the beginning of 2012, stable operations have allowed very substantial total production gains running close to its design capacity of 40.000 boepd, thereby marking the end stage of the production ramp-up. The latter will be reached with the coupling of the last couple of gas condensate wells and with the expected yield optimisation with the aim of increasing the liquids recovery percentage from the current 50% to approximately 60%.

2011 Production of Crude Oil and GTF Products

Historically, Zhaikmunai's production growth has been primarily 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 output from its Gas Treatment Facility (GTF).



As at 31 December 2011, 11 wells were producing from the Tournaisian and 8 wells from the Ardatovski and Biski/Afoninski reservoirs. Over the course of 2011, Zhaikmunai produced 4,802,561 boes (crude oil and GTF products, i.e. stabilised condensate, LPG and dry gas) with an average of 13,158 boepd, a 69.7% increase in production compared to 2010 during which a total of 2,829,764 boe was produced, with an average of 7,752 boepd.

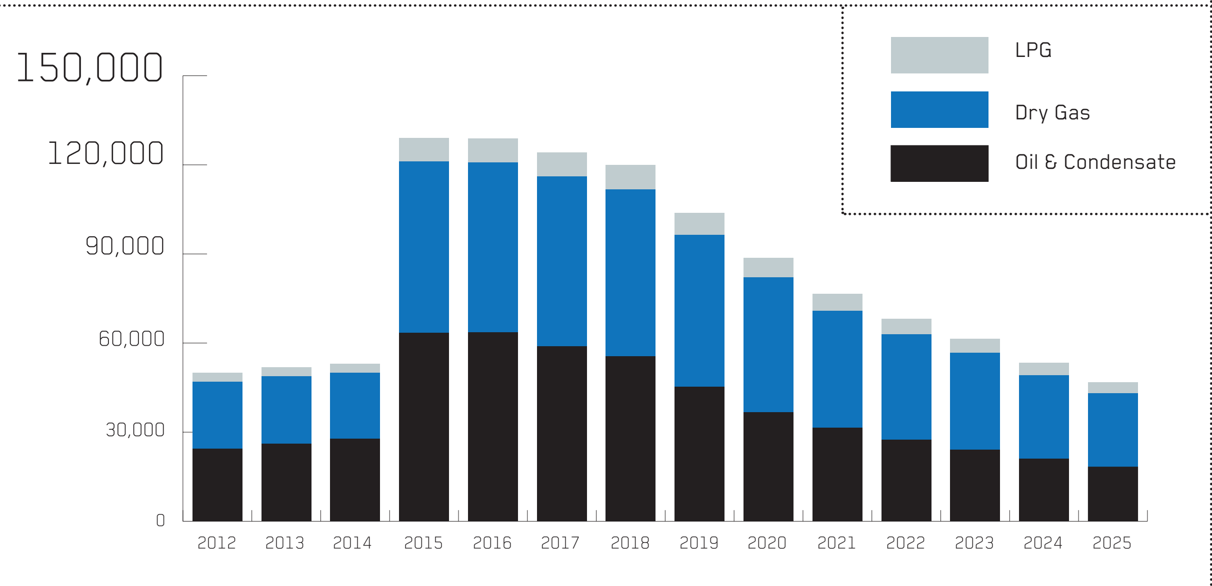
Zhaikmunai continued to sell its hydrocarbon products primarily on the export market. In 2011, virtually all of Zhaikmunai's crude oil, stabilised condensate and LPG was sold directly to its ultimate customers. All GTF test production, including dry gas, has been sold to offtakers since the commencement of test production through Train 1 of the GTF in May 2011 and throughout the ramping-up process. Deliveries of dry gas are made to the offtaker(s) at Zhaikmunai's connection point to the Orenburg-Novopskov gas pipeline.

Phase II GTF Production Outlook

The Phase II of the GTF entails the building of a comparable facility in the vicinity of the current GTF. Detailed engineering and procurement are on-going, as are contacts with potential suppliers for equipment, construction and assembly. Contracts are expected to be awarded in the second part of 2012 and construction of the Phase II GTF could commence in 2012. Phase II of the GTF will likely take 2 years to complete.

Ryder Scott foresees the production ramp-up linked to the Phase II of the GTF will start to peak in 2015 as can be seen on the following graph.

RAMPING-UP PRODUCTION



Processes and Products

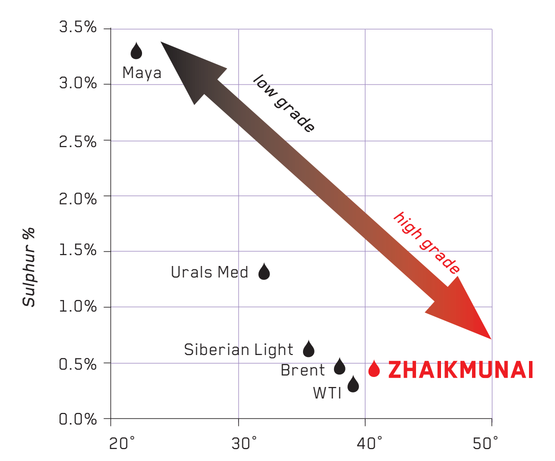
High Quality Liquids and Significant Dry Gas Volumes

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.

High Quality Crude Oil

The crude oil extracted from the Chinarevskoye field has an average API gravity of 40-41.5˚ and sulphur content of approximately 0.4%. Primary benchmark crude oils produced in Kazakhstan include Urals Blend (approximately 33˚ API with 1.25% sulphur), CPC Blend (approximately 42-43˚ API with 0.5% - 0.6% sulphur) and Brent (approximately 38˚API and with 0.4% sulphur).

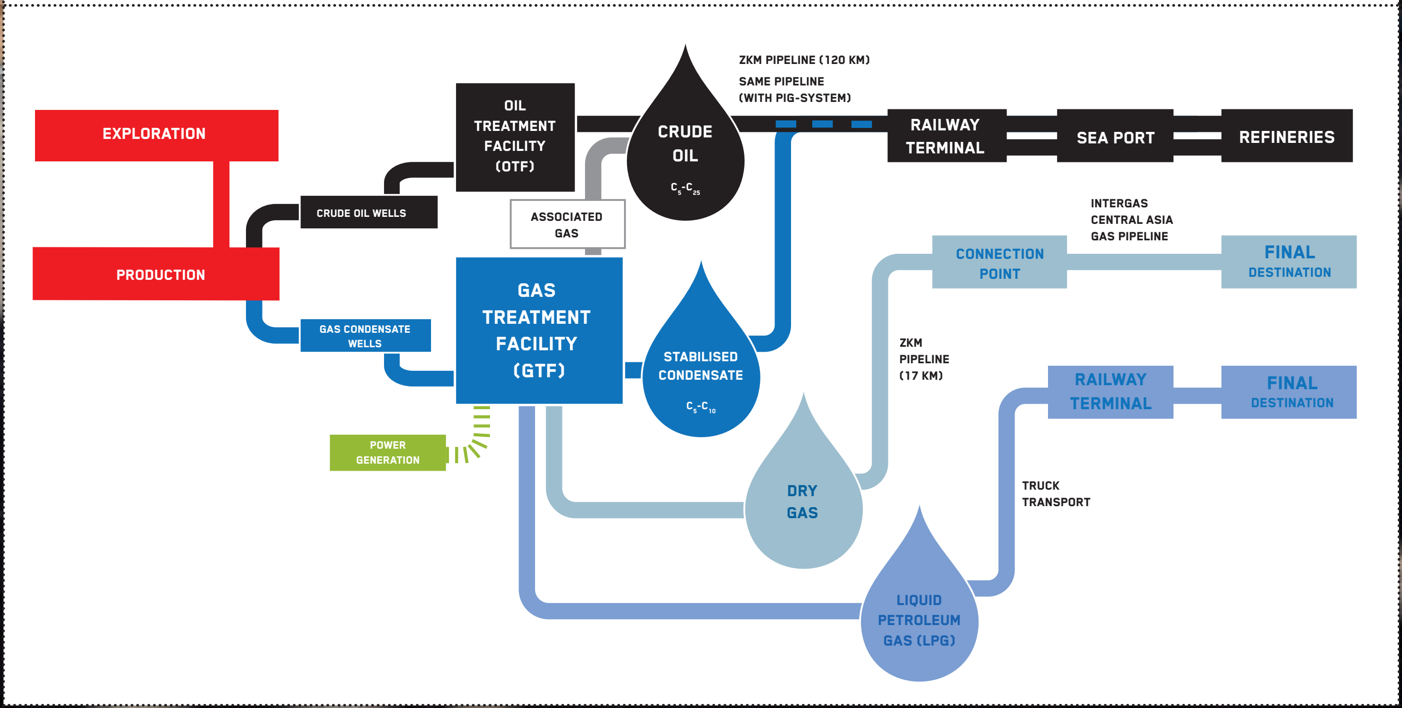
SLIDE ON OIL QUALITY



Commercial production of GTF products (stabilised condensate, LPG and dry gas) in 2011 completes 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 in 2011, on the other hand, adds significant benefits for Zhaikmunai such as the easy offtake of significant dry gas volumes though easy pipeline logistics, the generation of its own power supply and the partially sponsored supply of dry gas to neighbouring communities.


HSE

PROCESSES & PRODUCTS



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 the company's own rail terminal 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 handling and transporation. The benchmark price for Zhaikmunai's LPG is International Mediteranean LPG price Sonatrach.

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. Prices for gas products are negotiated annually with the off-taker(s). While the details of the offtake terms are confidential, Zhaikmunai can confirm that they reflect terms and conditions generally applicable in the market and are in line with management's expectations.

2011 Liquids and Dry Gas Deliveries

Excellent oil products transportation facilities are of strategic importance to Zhaikmunai, all the more as production is primarily export oriented. 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 LPG production. Liquids are transported and sold to such countries as Finland, the Ukraine and Turkey.

In 2011, virtually all of Zhaikmunai's crude oil and condensate and most of Zhaikmunai's LPG was sold directly 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. Prices for the gas products are negotiated annually with the offtaker(s).

Management believes that Zhaikmunai is able to achieve a relatively higher netback for its export production 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 gas. The team is working towards negotiating new off-take contracts and identifying transportation options for these new products.

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 as well as 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 for the associated oil railway cars.

Zhaikmunai's oil facilities consist 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 is 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 equally transported in the same pipeline using a "pig" system, which effectively separates crude oil from stabilised condensate in the same pipeline.

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

The oil pipeline has a maximum annual throughput capacity of 3.0 million tones. The rail loading terminal receives all crude oil and gas condensate produced by Zhaikmunai and has a capacity of 3.0 to 4.0 million tones of crude oil and gas 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, a first in Kazakhstan's history.

Gas Treatment Facility (GTF) Facility and Related Infrastructure

The Gas Treatment Facility (GTF) is designed to treat gas condensate from gas condensate reservoirs and the associated gas 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 includes a power generation station, an LPG storage tank farm and an LPG loading facility at the rail terminal, LPG railcars and a 17- kilometre dry gas pipeline.

This strategic infrastructure component allows Zhaikmunai to implement its plan to monetize the significant gas reserves contained in the Chinarevskoye field. As such, the coming on line of the GTF moves Zhaikmunai towards another level of development and growth to increase shareholder value.

Phase I Gas Treatment Facility

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

Production through the GTF has enabled Zhaikmunai to increase its overall production capacity rate from approximately 8,000 boepd to close to 48,000 boepd to be reached when the GTF reaches full design capacity of 40,000 boepd. A maximum annual volume of 1.3 bcm (8.2 mboe) of dry gas can then be treated per year when both GTF Trains 1 and 2 are in operation.

Power Generation Plant

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

Gas 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.

Gas Flaring Only as an Emergency Option

As a result of the coming-on-line of both trains of the GTF, gas flaring will henceforth remain solely as an emergency option in case of abnormal pressure built-up in the GTF whereby the existing gas can be released and burned. All required permits for gas flaring are in place.

GTF Operational Responsibility

Zhaikmunai assumes full operational responsibility for its GTF following the handover from its EPC contractor on December 1, 2011. A full complement of 210 people is since in place to ensure smooth operations. Zhaikmunai's team includes various specialised contractors as well as many of the on-site personnel who took part in the construction and erection of the equipment of the GTF.

Phase II Gas Treatment Facility (GTF)

To fully develop the Company's 2P reserves, Zhaikmunai is considering entering into contracts to construct a Phase II Gas Treatment Facility, which will increase treatment capacity by an additional 2.5 bcm of gas per year. Upon completion of the Phase II GTF, Zhaikmunai will have capacity to treat up to 4.2 bcm of gas per year. Ryder Scott estimates that Zhaikmunai's annual raw gas production will peak at 4.0 billion cubic metres per year in 2017.

It is envisaged that construction of the Phase II GTF could commence in 2012 and will likely take 2 years to complete. Zhaikmunai has already been involved in the preparation of the basic and detailed design (FEED study, detailed engineering, etc.) and procurement (long-lead items, etc.) in connection with the Phase II GTF. Contractual agreements are expected in the second half of 2012.

Ancillary Facilities

Over and above the infrastructure elements described above, various ancillary facilities such as office buildings and employee field camp facilities have been set up in the course of the years.






Management focus

- *Corporate Governance*
- *Board of Directors of the General Partner*
- *Management Committee*
- *Shareholding of Directors and Senior Managers*
- *Investor Relations Programme*

Corporate Governance

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

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

In adopting its Code, the General Partner has given consideration to the best practice provisions on corporate governance set out in the UK Corporate Governance Code. The General Partner has also put in place procedures to comply with the internal control aspects of its Code and to ensure that the partnership is able comply with its ongoing obligations under the UK Listing Rules and the UK Disclosure and Transparency Rules. A copy of Zhaikmunai's corporate governance Code is publicly available at the offices of Zhaikmunai Group Limited, 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man IM 1 4LN.

Dealing Code

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

Group Code of Conduct

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


MPR-C-01A 16E

Board of Directors of the General Partner

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

The seven-member Board currently consists of two Executive Directors and five Non-executive Directors, three of whom are considered by the Board to be independent Non-executive Directors. As a result, the Directors consider that there is a satisfactory balance of decision making power on the Board in line with the Code and that the Directors have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively. There is a wide mix of nationalities represented on the Board comprising Belgian, German, English and Russian 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 four non-executive members of the Board are Piet Everaert, Atul Gupta (independent Director) Mikhail Ivanov and Steve McGowan (independent Director).

The Board held four meetings in 2011, all of which were scheduled. Mr. Gupta attended three Board meetings, Mr. Ivanov attended two Board meetings and each of the other Directors attended four Board meetings during 2011. Four board meetings are currently scheduled for 2012.

BOARD OF DIRECTORS

Frank Monstrey
Chairman and Executive Director of ZGL

Steve McGowan
Non- Executive Director of ZGL

Kai-Uwe Kessel
Executive Director of ZGL

Atul Gupta
Non- Executive Director of ZGL

Eike von de Linden
Non- Executive Director of ZGL

Mikhail Ivanov
Non- Executive Director of ZGL

Piet Everaert
Non- Executive Director of ZGL

Board Members Bios

Biographical and related information regarding the Directors is given below.

Frank Monstrey

- Appointed as an Executive Director of ZGL on 16 November 2007
- Since September 2004: 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

- Appointed as an 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 Gas de France's North African E&P Division
- 1992 – 2001: Managing Director of Erdgas Erdöl GmbH, and oil and gas company owned by Gas de France, and Member and Chairman of the Board of KazGermunai
- Graduate of the Gubkin Russian State University of Oil and Gas

Eike von der Linden

- Appointed as an independent Non-executive Director of ZGL on 16 November 2007
- 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

- Appointed as a Non-executive Director of ZGL on 16 November 2007
- 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

- Appointed as an independent Non-executive Director of ZGL on 26 November 2009
- 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

- Appointed as a Non-executive Director of ZGL on 26 November 2009
- 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 Kellog School of Management of Northwestern University
- Elected Member of the Society of Petroleum Engineers.

Steve McGowan

- Appointed as an independent Non-executive Director of ZGL on 16 November 2007
- 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 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	1963	Yes	No	0*	-	-	0*
EIKE VON DER LINDEN	2007	1942	No	Yes	100,000	0	0	100,000
STEVE MCGOWAN	2007	1966	No	Yes	100,000	0	0	100,000
PIET EVERAERT	2007	1962	No	No	100,000	-	-	100,000
ATUL GUPTA	2009	1959	No	Yes	100,000	0	-	100,000
MIKHAIL IVANOV	2009	1969	No	No	100,000	-	0	100,000

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

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 the offices of Zhaikmunai Group Limited, 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man IM 1 4LN.

Remuneration Committee

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

The Remuneration Committee comprises Mr. Monstrey, Mr. 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 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 an 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, Finance Director, Operations Director, Geology Director, 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 an 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 Gas de France's North African E&P Division
- 1992 – 2001: Managing Director of Erdgas Erdol GmbH, and oil and gas company owned by Gas 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 a focus on cross-border corporate and mergers and acquisitions 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 L.L.P. 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 Finance Director of Zhaikmunai L.L.P. 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 Operations Director of Zhaikmunai L.L.P. 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 L.L.P. on October 2007
- Since 2005: Active with Probel
- 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)

MANAGEMENT COMMITTEE

Jan-Ru Muller
Chief Financial Officer of Zhaikmunai L.P.

Heinz Wendel
Operations Director of Zhaikmunai L.L.P.

Gudrun Wykrota
Finance Director of Zhaikmunai L.L.P.

Jörg Pahl
Drilling Director of Zhaikmunai L.L.P.

Berik Brekeshev
Commercial Director of Zhaikmunai L.L.P.

Alexei Erber
Director of Geology of Zhaik-munai L.L.P.

Jan Laga
Deputy CEO of Zhaikmunai L.P.

Ludmila Druzhinina
Finance Department

Frank Monstrey
Chairman of the Board of ZGL

Kai-Uwe Kessel
Chief Executive of ZGL

Vyacheslav Druzhinin
General Director of Zhaikmunai L.L.P.

Vadim Kenzhebaev
Design & Construction Department

Thomas Hartnett
Group General Counsel of Zhaikmunai L.P.

Gani Iskaliev
Design & Construction Department

Zhomart Darkeev
Administration Department

Berik Brekeshev
- Appointed as Commercial Director of Zhaikmunai L.L.P. in January 2010
- Large 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
- Large 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 30 April 2012, the following Directors and senior managers of Group companies (or their associates) have been granted the following options over GDRs representing partnership interests, generally vesting over a five-year period, exercisable at US $4.00 per GDR and expiring 10 years from the date of grant, pursuant to the Plan:

Kai-Uwe Kessel	900,974 GDRs
Jan-Ru Muller	300,325 GDRs
Vyacheslav Druzhinin	300,325 GDRs
Thomas Hartnett	300,325 GDRs
Alexei Erber	300,325 GDRs
Eckhard Verseck	225,244 GDRs
Jörg Pahl	225,244 GDRs
Heinz Wendel	200,000 GDRs
Berik Brekeshev	150,000 GDRs
Gudrun Wykrota	100,000 GDRs

* Exercisable at US$ 10.00 per GDR

In addition, as at 30 April 2012, Mr. Kessel owned 10,000 GDRs and Mr. Everaert owned 10,000 GDRs.

Options

At 31 December 2011, Zhaikmunai LP had granted a total of 3,182,958 options (2010: 2,982,958), of which 315,341 options (2010: 0) had been exercised. No options have been forfeited or cancelled unexercised, and no options have expired unexercised.

Investor Relations Programme

The investor relations programme aims at developing and maintaining quality communication flows 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 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.

Investor relations milestones in 2011 include a first interactive digital version of Zhaikmunai's Annual Report, increased analyst coverage, an extended investor distribution list and an expanding number of e-mail mailings. Further website developments are expected in 2012, including new functionalities and a full Russian version.

Corporate

- *An Extended Profile following a New Positioning*
- *Our Approach to Business*
- *Our People*
- *Our Community*
- *Our Environment*

Social Responsibility

An Extended Profile following a New Positioning

Zhaikmunai's stepwise development over the years from exploration, to construction, to the increasing production of crude oil and, in 2011, to an exponential production of GTF products (stabilised condensate, LPG and dry gas) has created economic growth, an increasing presence and influence on the local and regional community as well as an increasing environmental footprint. Associated with Zhaikmunai's recognition as a stable and sustainable E & P figure in the area come new expectations, i.e. those of being a responsible player 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 to embrace responsibility for Zhaikmunai's actions and encourage a positive impact through its activities on its numerous stakeholders, i.e. investors, business partners, regulators, employees, customers, local communities, the environment and society at large. CSR is also the deliberate inclusion of public interest into Zhaikmunai's core business decision-making and the honouring of a triple bottom line: people, planet, and profit.

Over the years, Zhaikmunai has been working on the following CSR key components: our approach to business, our people, our community and our environment.

Our Approach to Business

Operating 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 emotional bond with the country. In addition, our local north-western Kazakhstan community has blossomed into a proud, world-class provider of oil products, thereby lifting Zhaikmunai's profile.

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 "Management Focus".

Our People

An Integrated Team

Zhaikmunai's unique profile of offering both ambitious production profiles, on the one hand, and further growth potential through the exploration for new reserves, conversion of possible reserves or possible acquisitions in Kazakhstan or neighbouring areas call for a flexible, well-integrated team of professionals.

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

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

A Safe Environment to Work In

Zhaikmunai's operations are subject to legislation, regulations 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 receives 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".

	2008	2009	2010	2011
NUMBER OF MAN-HOURS WITHOUT LOSS OF WORKING HOURS (IN MILLION)	0.95	1.15	1.23	1.47

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 Chinarevskoye field 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 good.

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

Location	2007	2008	2009	2010	2011
CHINAREVSKOYE FIELD	329	396	439	500	552
URALSK	130	142	177	144	170
TOTAL	459	538	616	644	722

The average number of people (full-time equivalents) employed by Zhaikmunai increased substantially during 2011 mainly due to the handover of the GTF from its EPC contractor in the fourth quarter of 2011. Zhaikmunai's GTF team includes various specialised contractors as well as many of the on-site personnel who took part in the construction and erection of the GTF equipment.

Average number of employees (full-time equivalents)	722	100%
INCLUDING		
WOMEN	144	19,9%
MEN	587	80,1%
EMPLOYEE AGE GROUPS		
UNDER 25 Y.O.	90	12,5%
25 TO 29	173	24%
30 TO 49	379	52,5%
OVER 50	80	11,0%

Valued Employee Benefits

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

Salary Package

The company offers competitive remuneration packages to its employees. In 2011, the increase of the average salary exceeded the indexation percentage for 2011 established by the Republic of Kazakhstan legislation. 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 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 gross income of its employees as a social taxes to the government of the Republic of Kazakhstan. Social tax and related staff costs are expensed as incurred.

Pension Fund

Zhaikmunai also withholds and transfers up to 10% from the salary of its employees 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 culture, Zhaikmunai has also developed its own written plans and policies with regards to the health, safety and the environment (HSE). 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 concluded with a regional hospital for medical services. A compensation system for treatment expenses has also been set up. As a matter of course, all employees at Zhaikmunai are supplied with Personal Protective Equipment (PPE) including protective clothes, adapted footwear, and special tools.

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 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 however not 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 spendmake an accrual of 1% of its annual capital expenditure towards personnel training and general education purposes of the citizens of Kazakhstan. If this amount exceeds what is actually required for the training of personnel, Zhaikmunai uses the balance towards the financing of secondary education. By the end of 2011, a total 398 employees benefitted from education and training programmes at Zhaikmunai. Total cost of these programmes totalled US$ 1,644,354.

Other Benefits

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

Our 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, in fact, 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 its 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.

Zhaikmunai Anniversary Celebrations (1997-2012)

Village Relocation

Zhaikmunai had been contributing to Rozhkovo village's infrastructure through providing an uninterrupted power supply, purified community well water, access to a wireless telecommunications network and supplies for the village school when news came in 2006 that the 300-resident village was under relocation threat. This followed a decision of the Republic of Kazakstan's Ministry of Health regarding Sanitation & Epidemiology to create a sanitary protection zone (SPZ) around the Chinarevskoye field. Zhaikmunai then actively started looking for solutions with local residents. The Relocation Committee held several public meetings where different relocation options were proposed, including relocation to the closest village, establishment of a new village and relocation to the administrative centre. In the end, the local residents expressed their preference for a move to Uralsk.

A resettlement action plan was finalized in 2009 with the help of CaspiEcology, a Kazakhstan environment and resettlement advisory firm. It adhered to Kazakh law, was based on the resettlement guidelines of the European Bank for Reconstruction and Development (EBRD) and ensured that the company met its goal of maintaining high international standards and social responsibility. Village residents have now all been relocated, and most now reside in apartments built by Zhaikmunai in Uralsk. Demolition of the former Rozhkovo village has since been completed. Zhaikmunai's relocation committee continues to assist residents with post-relocation needs on an individual basis. As at 31 December 2011, total costs of US$7.3 million had been incurred with respect to the programme and had been capitalized on the Partnership's balance sheet.

Social Infrastructure

As required by the Production Sharing Agreement (PSA) with the government of Kazakhstan, Zhaikmunai has agreed to spend US $300.000 per annum to finance social infrastructure. In 2011, US$ 11.415 million were allocated to social infrastructure development (including relocation of the Rozhkovo village and road construction).

Sponsoring Activities and Charitable Work

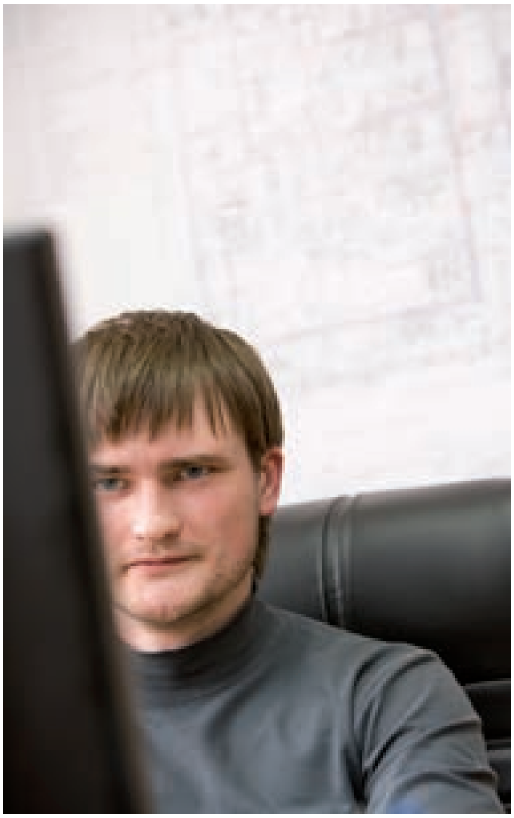
Over and above its involvement in infrastructure, Zhaikmunai also endeavours to make a relevant contribution to Kazakh society. As such, it focuses on sponsorship and charity activities centred around the improvement of the lives of its various communities and extended networks in Western Kazakhstan.

Zhaikmunai has, for example, sports teams for football, cross country skiing, chess, badminton, volleyball and bowling who take part in competition with other companies. It also has a long-standing commitment to support local communities by sponsoring local sport events and cultural events. For more than 9 years, Zhaikmunai has, for example, been one of the main sponsors of a regional volleyball team, which takes part in the super league of the Republic of Kazakhstan. It also supports a chess school.

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

Liquidation Fund

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



Our Environment

Defining an environmental strategy and objectives

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

Zhaikmunai's Site Environmental Monitoring, in place since the Fall of 2001 and required by the West Kazakhstan Territorial Environmental Department (cfr. Article 30 of the Republic of Kazakhstan Environmental Code, and Environmental Monitoring Regulations PR RoK 52.506-03 approved by RoK Ministry of Environment) is managed by Zhaikmunai's HSE Department.

The objectives of the Site Environmental Monitoring are:

- to obtain relevant information for decision-making with regard to Zhaikmunai's environmental policy, including target values for environmental quality as well as information on regulatory processes applicable to production processes which may have a potential impact on the environment;
- to ensure full compliance with the environmental legislation of the Republic of Kazakhstan;
- to reduce the impact of production on the environment and on human health;
- to increase the efficiency of natural and energy resources;
- to provide 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 environmental requirements;
- to increase the efficiency of the environmental protection system;
- to account for ecological risks in investment and finance decisions.

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 voluntary as well as compulsory auditing and reporting activities, as well voluntary ones.

Site Environmental Monitoring Porogramme

From a regulatory perspective, Zhaikmunai's Site Environmental Monitoring Annual Report show the following conclusions for 2011:

"In 2011, Zhaikmunai has not exceeded the established environmental pollution standards for the areas around the field. The works related to the Environmental Monitoring Programme agreed by the Ministry of Environmental Protection were carried out, as planned.

Environmental Monitoring measurements were made by the SanEpidExpertisa Centre Laboratory, which was contracted for these purposes:

- Atmospheric air sanitary and chemical surveys were performed in accordance with RD 52.04186-89. Over 12 months, surveys were made for mercaptans, hydrogen sulphide, sulphur dioxide, nitrogen dioxide and carbon dioxide.
- No excesses of Maximum Contaminant Levels (MCL) were detected at Chinarevo and Beles villages or at the field buffer zone boundary over the year.
- No air monitoring was conducted at Rozhkovo village since 2009 as the village was in relocation;
- Surface waters from the area of the Embulatovka river dam were sampled for sanitary and chemical tests. No MCL excesses were found in the Embulatovka river water.
- Soil pollution measurements have not revealed any excesses over the established MCL standards.

Production emission monitoring measurements were made by Oral-Zher Laboratory, which was contracted for these purposes:

- Over the last year, no MCL excesses were recorded.
- In-operation monitoring is being conducted to a required scope and provides a reliable control of process requirements."

Environmental Audits

In 2007, AMEC Earth & Environment UK Ltd. carried out a first environmental study for Zhaikmunai. In March 2009, the Ministry of Environmental Protection (MEP) of Kazakhstan carried out an environmental audit of Zhaikmunai's facilities by to inspect environmental compliance. This audit included an inspection of all work activities. Later in 2009, AMEC carried out a further environmental study and issued an environmental, health and safety due diligence report entitled "Exploration & Production Facility Expansion - Chinarevskoye Field, Kazakhstan" dated 15 June 2009. It concluded that Zhaikmunai was, for the most part, in compliance with Kazakhstan and international environmental standards and regulations, which comprise of World Bank international requirements and standards and European IPPC Bureau reference documents on best practice.

The next environmental report by AMEC, originally scheduled for 2011, has been postponed until 2012 and will include an extensive Health & Safety Assessment over and above the Ecological Assessment. This could indeed best be done with the GTF fully operational.

Ensuring full compliance

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

For example, Zhaikmunai's environmental permit (EP), granted by the Ministry of Environment of Kazakhstan on 13 June 2008 and valid until 31 December 2011, requires such regular monitoring and reporting. This permit is renewable on an annual basis, subject to Zhaikmunai's compliance with its terms and conditions and applicable environmental laws. A new permit has been issued for 2012 and is valid until 31 December 2012.

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

Making climate change a priority

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

Zhaikmunai has not yet been assigned carbon credits, but has ceased flaring activities following the full commissioning of the GTF.

GLOSSARY

TERMINOLOGY & ABBREVIATIONS

2009 Ryder Scott Report	Ryder Scott Report The report prepared by Ryder Scott dated 1 July 2009 relating to the Group's reserves and resources.
2010 / 2011 Ryder Scott Report	The report prepared by Ryder Scott dated 31 December 2010 or 31 December 2011.
API	American Petroleum Institute
API gravity	The industry standard method of expressing specific gravity of crude oils. Higher API gravities mean lower specific gravity and lighter oils. When API gravity is greater than 10, it is lighter and floats on water; if it is less than 10, it is heavier and sinks. Generally speaking, oil with an API gravity between 40 and 45 commands the highest prices.
Associated gas	Gas, which occurs in crude oil reservoirs in a gaseous state.
EBRD	European Bank for Reconstruction and Development
Exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.
Field	Chinarevskoye oil and gas condensate field
FCA	Sales made under free carrier terms.
FCA Uralsk	Sales made under free carrier terms according to which Zhaikmunai delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
FSA	Financial Services Authority of the United Kingdom
Gas Treatment Facility (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. Consists of two trains with a combined treatment capacity of 1,7 billion cm of raw gas per year.
GDR	Global Depository Receipts
Group	The Partnership and its subsidiaries
Hydrocarbons	Solid, liquid or gas compounds of the elements hydrogen and carbon.
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LPG	Liquefied petroleum gas, the name given to propane and butane in their liquid state.
LSE	London Stock Exchange
Partnership	Zhaikmunai LP
Placing	The issue of 45,000,000 Common Units on a non-preemptive basis to placees procured by the Managers pursuant to the Placing Agreement.
Placing Agreement	The underwriting and placing agreement dated 29 July 2009 amongst Zhaikmunai LP, ZGL, ING, Mirabaud, Renaissance Securities (Cyprus) Limited and FirstEnergy Capital.
Production well	Well primarily drilled for producing oil or gas, once the producing structure and characteristics are determined.
Proven reserves (1P)	Proven reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.

Proven plus Probable Reserves (2P)	Proven plus Probable reserves (2P) are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Proven plus Probable Reserves.
Proven, Probable plus Possible reserves (3P)	Proven, Probable plus Possible reserves (3P) are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves.

PSA	Production Sharing Agreement. Contract for additional exploration, production and production sharing of crude oil hydrocarbons in the Chinarevskoye oil and gas condensate field in the West-Kazakhstan oblast No. 81, dated October 31, 1997, as amended, between Zhaikmunai and the Competent Authority (currently MOG), representing Kazakhstan.
Recovery	The second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.
Reservoir	A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.
Royalty	An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.
Sidetrack well	A well or borehole that runs partly to one side of the original line of drilling.
UNGG	Uralsk Oil and Gas Explorations Expedition. The Government of the Kazakh Soviet Socialist Republic decided in March 1960 to create a consortium "Uralskneftegazrazvedka" for conducting oil and gas exploration in the Uralsk region. In the 60-s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".
Workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
Zhaikmunai	Zhaikmunai LP

UNITS

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

Disclaimer

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

Credits

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www.codedor.be

Translation (English to Russian)
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www.russianlondon.com

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Consolidated Financial Statements

Year ended December 31, 2011

With Independent Auditors' Report

ZHAIKMUNAI LP

Consolidated Financial Statements
Year ended December 31, 2011
With Independent Auditors' Report

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Notes

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 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

In our opinion, the consolidated financial statements of Zhaikmunai LP for the year ended 31 December 2011 are prepared, in all material respects, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

12 March 2012

In thousands of US Dollars

	Note	2011	2010
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	**1,120,453**	955,911
Restricted cash	8	**3,076**	2,743
Advances for equipment and construction works		**3,368**	6,479
		1,126,897	965,133
Current Assets			
Inventories	5	**14,518**	5,639
Trade receivables	6	**12,640**	1,635
Prepayments and other current assets	7	**23,279**	16,759
Income tax prepayment		**3,453**	3,200
Restricted cash	8	**-**	1,000
Cash and cash equivalents	8	**125,393**	144,201
		179,283	172,434
TOTAL ASSETS		**1,306,180**	1,137,567
EQUITY AND LIABILITIES			
Partnership capital and Reserves			
Partnership capital	9	**368,203**	366,942
Additional paid-in capital		**1,677**	–
Retained earnings and translation reserve		**215,351**	133,727
		585,231	500,669
Non-Current Liabilities			
Long term borrowings	10	**438,082**	434,931
Abandonment and site restoration liabilities	11	**8,713**	4,543
Due to Government of Kazakhstan	12	**6,211**	6,290
Employee share option plan	23	**11,734**	10,104
Deferred tax liability	20	**146,674**	100,823
		611,414	556,691
Current Liabilities			
Current portion of long term borrowings	10	**9,450**	9,450
Trade payables	13	**81,914**	49,213
Advances received		**3,154**	11,693
Derivative financial instrument	21	**-**	372
Current portion of Due to Government of Kazakhstan	12	**1,031**	1,031
Other current liabilities	14	**13,986**	8,448
		109,535	80,207
TOTAL EQUITY AND LIABILITIES		**1,306,180**	1,137,567

The accounting policies and explanatory notes on pages 10 through 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OFCOMPREHENSIVE INCOME
For the year ended December 31, 2011

In thousands of US Dollars

	Note	2011	2010
Revenue :			
Revenue from export sales		**284,548**	172,102
Revenue from domestic sales		**16,289**	6,057
	15	**300,837**	178,159
Cost of sales	**16**	**(70,805)**	(53,860)
Gross profit		**230,032**	124,299
General and administrative expenses	**17**	**(36,405)**	(27,265)
Selling and transportation expenses	**18**	**(35,395)**	(17,014)
Loss on derivative financial instruments	**21**	**-**	(470)
Finance costs	**19**	**(4,717)**	(21,296)
Foreign exchange (loss) / gain, net		**(389)**	46
Interest income		**336**	239
Other expenses	**22**	**(7,855)**	(1,054)
Other income		**3,365**	3,288
Profit before income tax		**148,972**	60,773
Income tax expense	**20**	**(67,348)**	(37,873)
Profit for the year		**81,624**	22,900
Total comprehensive profit for the year		**81,624**	22,900

The accounting policies and explanatory notes on pages 10 through 35 are an integral part of these consolidated financial statements.

	Note	2011	2010
Cash flow from operating activities:			
Profit before income tax		**148,972**	60,773
Adjustments for:			
Depreciation and amortization	**16, 17**	**19,843**	15,695
Finance costs	**19**	**4,717**	21,296
Interest income		**(336)**	(239)
Loss on derivative financial instruments	**21**	**–**	470
Foreign exchange gain on investing and financing activities		**202**	–
Provision for tax claims		**(728)**	728
Accrual of share option expenses		**3,545**	3,079
Loss on disposal of property, plant and equipment		**–**	920
Operating profit before working capital changes		**176,215**	102,722
Changes in working capital:			
(Increase)/decrease in inventories		**(8,879)**	(2,162)
(Increase)/decrease in trade receivables		**(11,004)**	12,243
Increase in prepayments and other current assets		**(6,519)**	(3,916)
Increase/(decrease) in trade payables		**10,497**	(18,622)
(Decrease)/increase in advances received		**(8,539)**	11,693
Payment of obligation to Government of Kazakhstan	**12**	**(1,033)**	(1,029)
Decrease in other current liabilities		**(3,390)**	(134)
Cash generated from operations		**147,348**	100,795
Income tax paid		**(13,210)**	(1,840)
Payments under Employee share option plan		**(1,915)**	–
Net cash flows from operating activities		**132,223**	98,955
Cash flow from investing activities:			
Interest income		**336**	239
Purchases of property, plant and equipment		**(104,017)**	(132,428)
Net cash used in investing activities		**(103,681)**	(132,189)
Cash flow from financing activities:			
Repayment of borrowings		**–**	(381,677)
Finance costs paid		**(50,583)**	(30,478)
Issue of notes	**10**	**–**	450,000
Transfer from restricted cash		**667**	17,615
Treasury capital sold		**2,938**	–
Realized gain on derivative financial instrument		**(372)**	–
Fees paid on arrangement of notes and borrowings		**–**	(15,750)
Net cash (used in)/provided by financing activities		**(47,350)**	39,710
Effects of exchange rate changes on cash and cash equivalents		**–**	350
Net increase/(decrease) in cash and cash equivalents		**(18,808)**	6,826
Cash and cash equivalents at the beginning of the year	**8**	**144,201**	137,375
Cash and cash equivalents at the end of the year	**8**	**125,393**	144,201

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, 2011, the Partnership offset Tax liabilities in the amount of US$ 16,744 thousand, including Corporate Income Tax Liability of US$ 8,541 thousand with Value Added Tax Receivables

The accounting policies and explanatory notes on pages 10 through 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2011

	Partner-ship capital	Treasury Capital	Additional paid-in capital	Retained earnings and reserves	Total
As of December 31, 2009	**366,942**	**–**	**–**	**110,827**	**477,769**
Profit for the year	–	–	–	22,900	22,900
Total comprehensive income for the year	**–**	**–**	**–**	**22,900**	**22,900**
As of December 31, 2010	**366,942**	–	–	**133,727**	**500,669**
Profit for the year	–	–	–	81,624	81,624
Total comprehensive income for the period	**–**	**–**	**–**	**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 of December 31, 2011	**373,990**	**(5,787)**	**1,677**	**215,351**	**585,231**

The accounting policies and explanatory notes on pages 10 through 35 are an integral part of these consolidated financial statements.

1. GENERAL

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

These consolidated financial statements include the results of the operations of Zhaikmunai L.P. ("Zhaikmunai LP") and its wholly owned subsidiaries Zhaikmunai Netherlands B.V. ("ZKMNL", formerly Frans Van Der Schoot B.V.), Claydon Industrial Limited ("Claydon"), Jubilata Investments Limited ("Jubilata"), Zhaikmunai LLP ("the Partnership") and Condensate Holdings LLP ("Condensate"). Zhaikmunai LP and its subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan. The Group is ultimately indirectly controlled through Thyler Holdings Limited ("Thyler"), by Frank Monstrey. The General Partner of Zhaikmunai LP is Zhaikmunai Group Limited, which is responsible for the management of the Group (Note 9).

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

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

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

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

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

The registered address of the Zhaikmunai L.P. is: 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man, IM1 4LN.

These consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Zhaikmunai LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Zhaikmunai LP on March 12, 2012.

Licence terms

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

1. GENERAL (continued)

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

Royalty Payments

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

Royalty rates depend on recovery levels and the phase of production and can vary from 2% to 7% of produced petroleum and from 4% to 9% of produced natural gas.

Government "profit share"

The Partnership makes payments to the Government of its "profit share'' as determined in the Contract. The "profit share" depends on 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

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 financial instruments which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its judgment in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2010, except for the adoption of new standards and interpretations as of January 1, 2011, noted below:

IAS 24 *Related Party Transactions* (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 *Financial Instruments: Presentation* (Amendment)

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be

2. BASIS OF PREPARATION (continued)

recognized as pension asset. The amendment to the interpretation had no effect on the financial position or performance of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* - IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The Group adopted the standard and has concluded that the amendment had no impact on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations*: the measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments. proportionate share of the acquire 's identifiable net assets. All other components are to be measured at their acquisition date fair value.

IFRS *7 Financial Instruments* Disclosures: the amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. As a result of this amendment, the Group financial position and performance were not affected.

IAS 1 *Presentation of Financial Statements*: the amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The amendment had no material impact on the financial position and the Group's performance results IAS 34 *Interim Financial Statements*: the amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. As a result of this amendment, the Group financial position and performance were not affected.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations* – Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005);
- IFRS 3 *Business Combinations* – Un-replaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination;
- IAS 27 *Consolidated and Separate Financial Statements* – applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards;
- IFRIC 13 *Customer Loyalty Programs* – in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty program).

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

2. BASIS OF PREPARATION (continued)

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment 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. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)
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. The group had made a voluntary change in accounting policy to recognise actuarial gains and losses in OCI in the current period (see note 2.4). The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 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 amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — 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 continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs 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 is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2. BASIS OF PREPARATION (continued)

IFRS 10 Consolidated 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 includes 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. This standard becomes effective for annual periods beginning on or after 1 January 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. The application of this new standard will have no impact the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with 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. This standard becomes effective for annual periods beginning on or after 1 January 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. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimation and Assumptions

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

Oil and gas reserves

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

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

Impairment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. The time value of money is determined based on weighted average cost of capital of the Group of 18.4% and 21.02% for 2011 and 2010, respectively. There were no impairment losses recognized by the Group during the years ended December 31, 2011 and 2010.

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 Partnership reviews site restoration provisions at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the licenses.

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

The long term inflation and discount rates used to determine the balance sheet obligation at December 31, 2011were 7% and 10% respectively. Movements in the provision for decommissioning liability are disclosed in Note 10.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 both, Zhaikmunai Finance B.V. and the Partnership is the United States Dollar (the "US Dollar" or "US$").

Transactions and balances denominated in foreign currencies

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Consolidation

The consolidated financial statements comprise the financial statements of the parent entity and its controlled subsidiaries (Note 1).

Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Partnership.

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 in these consolidated financial statements at the historical cost of the controlling entity. Any difference between the total book value of net assets and the consideration paid is accounted for 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2011 (2010: 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 Partnership depreciates its oil pipeline and oil loading terminal on a straight line basis over the life of the License. In the case of assets that have a useful life shorter than the lifetime of the field, in which case the straight line method is also applied.

Oil and Gas Reserves

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

The Partnership uses the reserve estimates provided by an independent appraiser to assess the oil and gas reserves of its oil and gas fields. These reserve quantities are used for calculating the unit of production depreciation rate as it reflects the expected pattern of consumption of future economic benefits by the entity.

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 Partnership 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Other Properties

All other property, plant and equipment are stated at historical cost less depreciation. 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 Partnership 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Partnership 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 Partnership 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 Partnership 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 Partnership 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, plus directly attributable transaction costs.

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

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 26.

Derivative financial instruments and hedging

The Partnership from time to time uses hedging contracts 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.

Taxation

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Revenue Recognition

The Partnership sells crude oil, 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 Partnership and the amount of revenue can be reliably measured.

4. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2010 and 2011 was as follows:

	Oil and gas properties			Non oil and gas properties					
In thousand of US Dollar	**Working assets**	**CIP**	**Total oil and gas properties**	**Buildings**	**Machinery & Equipment**	**Vehicles**	**Others**	**Total non oil gas properties**	**Total**
Balance at December 31, 2009, net of accumulated depreciation	**365,679**	**396,310**	**761,989**	**2,614**	**3,434**	**1,519**	**1,397**	**8,964**	**770,953**
Additions	990	198,047	199,037	139	948	32	1,417	2,536	201,573
Transfers	103,156	(103,532)	(376)	259	501	273	(657)	376	–
Disposal	–	–	–	–	(705)	–	(215)	(920)	(920)
Depreciation charge	(13,820)	–	(13,820)	(398)	(853)	(320)	(304)	(1,875)	(15,695)
Balance at December 31, 2010, net of accumulated depreciation	**456,005**	**490,825**	**946,830**	**2,614**	**3,325**	**1,504**	**1,638**	**9,081**	**955,911**
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**
At cost at December 31, 2010	539,607	490,825	1,030,432	4,237	5,122	2,819	2,839	15,017	1,045,449
Accumulated depreciation	(83,602)	–	(83,602)	(1,623)	(1,797)	(1,315)	(1,201)	(5,936)	(89,538)
Balance at December 31, 2010, net of accumulated depreciation	**456,005**	**490,825**	**946,830**	**2,614**	**3,325**	**1,504**	**1,638**	**9,081**	**955,911**
At 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**

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 4.8% and 3.36% in 2011 and 2010, respectively. The unamortized costs of proved oil and gas properties include all capitalized costs net of accumulated amortization.

The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at December 31, 2010. Depreciation has been calculated using the unit of production method based on these reserves estimates.

In 2011 the Partnership capitalized net proceeds from sale of gas treatment unit test production of US$ 9,314 thousand.

4. PROPERTY, PLANT AND EQUIPMENT (continued)

The Partnership incurred borrowing costs including amortization of arrangement fee of US$ 54,647 thousand, and US$ 88,587 thousand for the years ended December 31, 2011 and 2010. For the same periods, the Partnership capitalized borrowing costs totaling US$ 51,590 thousand and US$ 51,687 thousand, at capitalization rates of 11.73% and 12.26%, respectively.

As of December 31,2011 the Partnership's property, plant and equipment of US$ 1,086,250 thousand are pledged as security for the loans due to ZKMNL.

5. INVENTORIES

As at December 31, inventories comprised the following:

In thousands of US Dollars	**2011**	2010
Crude oil	**2,081**	2,946
Gas condensate	**2,161**	–
Liquefied petroleum gas	**297**	–
Materials and supplies	**9,979**	2,693
	14,518	5,639

As of 31 December 2011 and 2010 inventories are carried at cost.

6. TRADE RECEIVABLES

As at December 31, 2011 and 2010 trade receivables were denominated in US$, were less than 30 days and were not impaired.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US Dollars	**2011**	2010
VAT receivable	**12,500**	11,090
Advances paid	**9,356**	5,146
Other	**1,423**	523
	23,279	16,759

Advances paid consist primarily of prepayments made to service providers.

8. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**2011**	2010
Current accounts in US Dollars	**123,112**	143,452
Current accounts in Tenge	**692**	543
Cash accounts in other currencies	**1,589**	206
	125,393	144,201

No interest was accrued on current accounts during the years ended December 31, 2011 and 2010.

In addition the Partnership has restricted cash accounts. As of December 31, 2011 the restricted cash consisted of a liquidation fund deposit of US$ 3,066 thousand with Kazkommertsbank JSC in Kazakhstan (December 31, 2010: US$ 2,743 thousand), which is kept as required by the license for abandonment and site restoration liabilities of the Partnership. As of December 31, 2010, restricted cash included money held by Citibank in the amount of US$ 1,000 thousand under the hedging contract with Citibank.

9. PARTNERSHIP CAPITAL

The ownership interests in Zhaikmunai LP consist of (a) Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and (b) the interest of the General Partner. At any general meeting every holder of Common Units shall have one vote for each Common Unit of which he or she is the holder. Under the Partnership Agreement, distributions to limited partners will be made either as determined by the General Partner in its sole discretion or following the approval of a majority of limited partners provided such amount does

9. PARTNERSHIP CAPITAL (continued)

not exceed the amount recommended by the General Partner. Any distributions to Zhaikmunai LP's limited partners will be made on a pro rata basis according to their respective partnership interests in Zhaikmunai LP and will be paid only to the recorded holders of Common Units. There were no distributions declared for the years ended December 31, 2011 and 2010.

As at December 31, 2010 Zhaikmunai LP had issued 185,000,000 common units, all but 10 of which are represented by GDRs. During the year ended December 31, 2011 Zhaikmunai LP issued 1,761,882 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") and 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, 2011 630,487 share options were exercised by employees.

The movements in GDR's during the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Balance at January 1,	**185,000,000**	185,000,000
Issued during the year	**1,761,882**	–
Balance at December 31,	**186,761,882**	185,000,000

10. BORROWINGS

Borrowings comprise the following as at December 31:

In thousands of US Dollar	**2011**	2010
Notes payable	**447,532**	444,381
Less amounts due within 12 months	**9,450**	9,450
Amounts due after 12 months	**438,082**	434,931

Notes payable

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

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

The Notes bear interest at the rate of 10.50% per year. Interest on the Notes is payable on April 19 and October 19 of each year, beginning on April 19, 2011. Prior to 19 October 2013, the Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more equity offerings at a redemption price of 10.50% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; provided that(1) at least 65% of the original principal amount of the Notes (including Additional 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 Notes may be redeemed, in whole or in part, at any time prior to 19 October 2013 at the option of the Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of Notes at its registered address, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium 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 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such Note at19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption

10. BORROWINGS (continued)

date) due on such Note through 19 October 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 Note.

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

The total outstanding principal balance of the liability under the Notes payable as at December 31, 2011 is US$ 450,000 thousand, which is presented net of the unamortized transaction costs of US$ 12,860 thousand and increased by the amount of interest payable of US$ 9,450 thousand (December 31, 2010: US$ 450,000 thousand, US$ 15,069 thousand, and US$ 9,450 thousand, respectively).

11. ABANDONMENT AND SITE RESTORATION LIABILITIES

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

In thousands of US Dollar	**2011**	2010
Abandonment and site restoration liability as at January 1,	**4,543**	3,373
Unwinding of discount (Note 19)	**706**	397
Additional provision	**952**	308
Change in estimates	**2,512**	465
Abandonment and site restoration liability as at December 31	**8,713**	4,543

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at December 31, 2011 were 7% and 10% respectively (2010: 5.0% and 10.35%). The decrease in the discount rate and increase in inflation rate used for estimation of the liability was treated as a change in estimate.

12. DUE TO GOVERNMENT OF KAZAKHSTAN

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Partnership to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US$25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US$ 1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US$258 thousand until May 26, 2031. The liability was discounted at 13%.

The balances as at December 31, and changes in the amount due to Government of Kazakhstan for the year were as follows:

In thousands of US Dollar	**2011**	2010
Due to Government of Kazakhstan as at January 1,	**7,321**	7,391
Unwinding of discount	**954**	959
Paid during the year	**(1,033)**	(1,029)
	7,242	7,321
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan at December 31	**6,211**	6,290

13. TRADE PAYABLES

In thousands of US Dollars	**2011**	2010
Tenge denominated trade payables	**79,424**	12,786
US dollar denominated trade payables	**1,367**	35,548
Trade payables denominated in other currencies	**1,123**	879
	81,914	49,213

Accounts payable to KazStroyService JSC for construction of the gas treatment unit amounted to US$ 37,016 thousand as of December 31, 2011 (2010: US$ 24,118 thousand). Other payables for PPE and purchase of other non-current assets amounted to US$ 17,411 thousand as of December 31, 2011 (2010: US$ 8,952 thousand).

14. OTHER CURRENT LIABILITIES

In thousands of US Dollars	**2011**	2010
Training liability accrual	**7,398**	5,552
Taxes payable, other than corporate income tax	**3,459**	1,266
Due to employees	**973**	255
Provision for tax claims	**–**	728
Pension Obligation	**138**	–
Production Bonus	**232**	–
Other	**1,786**	647
	13,986	8,448

15. REVENUE

In thousands of US Dollars	**2011**	2010
Oil and gas condensate	**289,947**	178,159
Gas products	**10,890**	–
	300,837	178,159

16. COST OF SALES

In thousands of US dollars	**2011**	2010
Depreciation and amortization	**19,448**	15,183
Repair, maintenance and other services	**16,637**	7,617
Payroll and related taxes	**9,233**	6,629
Royalties	**8,684**	8,863
Materials and supplies	**4,952**	2,239
Well workover costs	**4,000**	5,871
Other transportation services	**2,737**	1,985
Government profit share	**1,825**	1,676
Management fees	**1,789**	1,947
Environmental levies	**817**	1,631
Change in stock	**(1,592)**	(1,529)
Other	**2,275**	1,748
	70,805	53,860

Depreciation capitalized as a result of test production of the gas treatment unit amounted to US$ 6,484 thousand.

17. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2011**	2010
Management fees	**9,949**	6,423
Business travel	**4,114**	725
Employee share option plan (Note 23)	**3,545**	3,079
Professional services	**5,973**	5,080
Payroll and related taxes	**4,295**	3,469
Training	**3,215**	2,642
Social program	**1,064**	300
Insurance fees	**743**	898
Communication	**718**	651
Bank charges	**625**	517
Depreciation and amortization	**395**	512
Other taxes	**261**	426
Sponsorship	**525**	419
Lease payments	**352**	316
Materials and supplies	**624**	316
Provision for tax claims (Note 25)	**(728)**	728
Other	**735**	764
	36,405	27,265

18. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollar	**2011**	2010
Transportation costs	**29,655**	11,844
Loading and storage costs	**1,441**	357
Payroll and related taxes	**1,413**	1,173
Management fees	**1,071**	1,500
Other	**1,815**	2,140
	35,395	17,014

During 2011 a significant portion of oil sales was made at the Ukrainian and Russian border as opposed to the Kazakhstan and Russian border in 2010. This resulted in higher transportation costs as the Partnership paid the transportation costs through to the point of sale.

19. FINANCE COSTS

In thousands of US Dollar	**2011**	2010
Interest expense on borrowing	**3,057**	19,940
Unwinding of discount on amounts Due to Government	**954**	959
Unwinding of discount on Abandonment and Site Restoration Liability	**706**	397
	4,717	21,296

20. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

In thousands of US Dollar	**2011**	2010
Income tax expenses comprise:		
- current income tax expense	**21,497**	13,709
- deferred income tax expense	**45,851**	24,164
Total income tax expense	**67,348**	37,873

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

20. INCOME TAX EXPENSES (continued)

In thousands of US Dollar	**2011**	2010
Profit before income tax	**148,972**	60,773
Statutory tax rate	**30%**	30%
Expected tax provision	**44,692**	18,232
Non-deductible interest expense on borrowings	**22,385**	19,281
Non-assessable income	**(4,755)**	(2,299)
Change of the tax base	**704**	964
Difference arising on Abandonment and Site Restoration Liability and payables Due to Government	**1,309**	277
Adjustment of current income tax of prior periods	**1,663**	–
Foreign exchange loss	**30**	206
Effect of income taxed at different rate	**6**	6
Other non-deductible expenses	**1,314**	1,206
Income tax expense reported in the financial statements	**67,348**	37,873

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

In thousands of US Dollar	**2011**	2010
Deferred tax asset:		
Derivative financial instrument	**–**	112
Accounts payable and provisions	**2,289**	1,943
	2,289	2,055
Deferred tax liability:		
Property, plant and equipment	**(148,963)**	(102,878)
	(148,963)	(102,878)
Net deferred tax liability	**(146,674)**	(100,823)

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

In thousands of US Dollar	**2011**	2010
Balance at January 1, 2010 and 2009	**(100,823)**	(76,659)
Current year charge to profit or loss	**(45,851)**	(24,164)
Balance at December 31, 2011 and 2010	**(146,674)**	(100,823)

21. DERIVATIVE FINANCIAL INSTRUMENT

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

On October 19, 2010, after prepayment in full of the BNP Paribas Facility all the rights, liabilities, duties and obligations of the Partnership under and in respect of each of the hedging agreements were transferred by novation to Citibank, N.A. ("Citibank"). The contract was settled in January 2011.

On March 29, 2011, in accordance with its hedging policy, the Partnership entered, at nil upfront cost, into a new hedging contract covering oil sales of 2,000 bbls/day, or a total of 556,000 bbls running through December 31, 2011. The counterparty to the hedging agreement was Citibank. Based on the hedging contract the Partnership bought a put at $85/bbl, which protected it against any fall in the price of oil below $85/bbl. As part of this contract it also sold a call at $125/bbl and bought a call at $134/bbl which further allowed the Partnership to benefit from oil prices up to $125/bbl and above $134/bbl.

21. DERIVATIVE FINANCIAL INSTRUMENT (continued)

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

In thousands of US Dollar	**2011**	2010
Hedging contract fair value at January 1	**(372)**	98
Realized hedging gain	**372**	–
Hedging loss	**–**	(470)
Hedging contract at fair value at December 31	**–**	(372)

22. OTHER EXPENSES

During the year ended December 31, 2011, the Partnership incurred losses in the amount of US$ 6,279 thousand on the lease of railway wagons. Although the Partnership has been leasing these wagons since June 30, 2010 for the purposes of transportation of GTU production, the wagons were not extensively utilised until October 2011.

23. EMPLOYEE SHARE OPTION PLAN

Employees (including senior executives and executive directors) of members of the Group receive remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash ('cash-settled transactions').

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The equity-based payment plan is described below. There have been no cancellations or modifications to the plan during 2011.

During 2008 – 2011, 3,002,762 equity appreciation rights (SARs) were granted to senior employees and executive directors of members of the Group, which can only be settled in cash. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting (but not before July 1, 2011) till the end of the contractual life and give its holder a right to a difference between the market value of the Group's GDRs at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The carrying amount of the liability relating to 2,867,617 of SARs at December 31, 2011 is US$ 11,734 thousand (2010: US$ 10,104 thousand). During the year ended December 31, 2011, 474 455 were fully vested (2010: 654,695).

23. EMPLOYEE SHARE OPTION PLAN (continued)

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

	December 31, 2011		December 31, 2010	
	No.	**EP, US Dollar**	No.	EP, US Dollar
Outstanding at the beginning of period	**2,982,958**	**4**	2,732,958	4
Granted	**200,000**	**10**	250,000	4
Exercised	**(315,341)**	**4**	–	–
Outstanding at the end of period	**2,867,617**		2,982,958	4
Exercisable at the end of period	**1,476,711**	**4**	–	–

The following table lists the inputs to the models used for the plan for the year ended December 31, 2010:

In thousands of US Dollars	**2011**	2010
Dividend yield (%)	**0**	0
Expected volatility (%)	**86**	86
Risk -free interest rate (%)	**3.2**	3.2
Expected life (years)	**3.5**	3.5
Option turnover (%)	**10**	10
Price trigger	**2**	2

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

24. RELATED PARTY TRANSACTIONS

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

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

In thousands of US Dollars	**2011**	2010
Trade receivables and advances	**-**	
Probel Capital Management N.V.	**-**	223
Total		223

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

In thousands of US Dollars	**2011**	2010
Trade payables		
Amersham Oil LLP	**39**	–
Prolag BVBA	**18**	106
Probel Capital Management N.V.	**242**	–
Total	**299**	106

During the year ended December 31, 2011 and 2010 the Group had the following transactions with related parties:

In thousands of US Dollars	**2011**	2010
Management fees and consulting services		
Probel Capital Management N.V.	**10,293**	8,508
Amersham Oil LLP	**1,360**	1,186
Prolag BVBA	**1,892**	1,378
Total	**13,545**	11,072

24. RELATED PARTY TRANSACTIONS (continued)

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

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

All related parties are companies indirectly controlled by Frank Monstrey.

25. 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, 2011. As at December 31, 2011 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.

In 2010, a comprehensive tax audit was performed on the Partnership's tax accounts for 2006, 2007 and 2008 which resulted in tax claims being made. Management believed that those claims contradicted the terms of the Contract and the relevant tax codes. The Partnership appealed to the court to resolve these claims. A provision of US$ 728 thousand was made in Group's consolidated financial statements for the year ended December 31, 2010 in respect to the claims where the likelihood of the Partnership being required to pay additional tax, fines and penalties was probable.

By the Court decision as of April 7, 2011 the tax claims were cancelled in full. The Tax authorities appealed the Court's decision. The Partnership therefore continued to provide for the US$ 728 thousand as the risk of loss remained substantially unchanged. On July 28, 2011 by unanimous resolution of the court of cassation of West Kazakhstan oblast the Court decision dated April 7, 2011 was affirmed. The Partnership therefore reversed the US$ 728 thousand provision.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

25. CONTINGENT, COMMITMENTS AND OPERATING RISKS (continued)

Capital commitments

As at December 31, 2011 the Group had contractual capital commitments in amount of US$ 17,880 thousand (2010: US$ 23,638 thousand) mainly in respect to the Partnership's oil field development activities and construction of a gas utilisation plant.

Operating lease

The Partnership 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 Partnership entered into an agreement on lease of 200 railway tank wagons for transportation of liquefied hydrocarbon gases 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, amendment number 9), the Partnership 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 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 Addendum # 7 of the Contract, the Partnership 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.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's principal financial liabilities comprise 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, cash and cash equivalents.

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

Interest Rate Risk

The Group is not exposed to the interest rate risk in 2011 and 2010 as the Group had no floating-rate borrowings as of December 31, 2011 and 2010.

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 Partnership mitigates the effect of its structural currency exposure by borrowing in US Dollars and denominating sales in US Dollars.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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
2011		
US thousand dollar		
US thousand dollar	**+10,72%**	**(29)**
	-10,72%	**29**
2010		
US thousand dollar	+11.56%	(78)
US thousand dollar	-11.56%	78

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, 2011 and 2010 based on contractual undiscounted payments:

Year ended December 31, 2011	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	**–**	**13,271**	**53,375**	**663,063**	**–**	**729,709**
Trade payables	**81,902**	**–**	**–**	**–**	**–**	**81,902**
Other current liabilities	**1,630**	**–**	**–**	**–**	**–**	**1,630**
Due to Government of Kazakhstan	**–**	**258**	**773**	**4,124**	**14,689**	**19,844**
	83,532	**13,529**	**54,148**	**667,187**	**14,689**	**833,085**

Year ended December 31, 2010	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	13,125	53,229	716,292	–	782,646
Trade payables	47,911	–	–	–	–	47,911
Other current liabilities	2,897	–	–	–	–	2,897
Due to Government of Kazakhstan	–	258	773	4,124	15,721	20,876
	50,808	13,383	54,002	720,416	15,721	854,330

Commodity Price Risk

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

Other than the hedge arrangements described in Note 21 the Group does not hedge its exposure to the risk of fluctuations in the price of crude oil.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

The Group places its Tenge denominated cash with Sberbank, which has a credit rating of Baa1 (stable) from Moody's rating agency and its US Dollar denominated cash with ING Belgium with a credit rating of Aa3 (negative) from Moody's rating agency at December 31, 2011. The Group does not guarantee obligations of other parties.

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.

Fair value hierarchy

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

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

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

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

Management believes that the Group's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable, trade and other payables are not significantly different from their fair values at December 31, 2011 and 2010.

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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