/KASE, MARCH 18, 13/ - Zhaikmunai (Oral, Kazakhstan) provided Kazakhstan Stock Exchange (KASE) with the following communication today:

quote

MANAGEMENT REPORT 2012

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1. BUSINESS REVIEW

Overview

Zhaikmunai LP is the indirect holding entity of Zhaikmunai, an independent oil and gas enterprise currently engaging in the exploration, production and sale of oil and gas products in northwestern Kazakhstan. Zhaikmunai's field and Licence area is the Chinarevskoye Field located in the northern part of the oil-rich Pre-Caspian Basin, one of the largest oil-producing regions in central Asia.

The Chinarevskoye Field, approximately 274 square kilometres in size, is located in the West-Kazakhstan oblast, near the border between Kazakhstan and Russia, and close to the main international railway lines as well as to several major oil and gas pipelines. The Chinarevskoye Field has been Zhaikmunai's main source of production. According to management estimates based on data included in the 2012 Ryder Scott Report, as at 1 January 2012, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 521.6 million boe, of which 201.9 million bbl was crude oil and condensate, 79.3 million bbl was LPG and 240.4 million boe was sales gas. Management has also estimated, based on the 2009 Ryder Scott Report, that the Chinarevskoye Field contains approximately 556.3 million boe of possible hydrocarbon reserves.

Zhaikmunai's operational facilities are located in the Chinarevskoye Field and, as at 31 December 2012, consisted of an oil treatment unit capable of processing 400,000 tonnes per year of crude oil, multiple oil gathering and transportation lines including an oil pipeline from the field to its oil loading rail terminal in Rostoshi near Uralsk, a 17 kilometre gas pipeline from the field to the Orenburg-Novopskov pipeline, a gas powered electricity generation system, warehouse facilities, an employee field camp and the gas treatment facility.

The gas treatment facility became fully operational in 2011 and has enabled Zhaikmunai to produce marketable liquid condensate (a product lighter than Brent crude oil) and LPG from the gas condensate stream. The gas treatment facility has enabled Zhaikmunai to increase its daily production of crude oil, stabilised condensate, dry gas and LPG from an average daily production of 13,158 boepd during the year ended 31 December 2011 to an average daily production of 36,940 boepd during the year ended 31 December 2012.

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, probable and possible reserves reported by Ryder Scott. Zhaikmunai has applied for an extension of its exploration permit and expects the extension to be granted for an additional 18 months after a new supplementary agreement to its PSA (described below) has been signed.

A new commercial discovery declaration for the Bashkirian reservoir was made in October 2012.

During October 1997, Zhaikmunai entered into a production sharing agreement (the "**PSA**") with the Government, which has been subsequently amended nine times, see "*Business Review – Subsoil Licences and Contracts – The Licence and the PSA*". 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. To date, Zhaikmunai has met all of its capital investment obligations under the PSA.

Zhaikmunai began its first test crude oil production in October 2000 and began commercial production on 1 January 2007. Pursuant to the PSA, Zhaikmunai has agreed to sell 15% of its crude oil production in the domestic market and sells the remaining crude oil to the export market.

Prior to 2011, all of Zhaikmunai's revenues were generated by its crude oil sales. In 2011, Zhaikmunai began sales of products deriving from the gas treatment facility. As per IFRS standards, revenue recognition of the products of the gas treatment facility began on 1 November 2011 and 2011 was the first period to include output from the gas treatment facility.

Now that the first gas treatment facility has been successfully completed and subject to further successful results in converting probable reserves into proved reserves, Zhaikmunai is considering building a second gas treatment facility. Management estimates that the construction of the second facility will cost approximately U.S.$400-500 million. The basic design of the second gas treatment facility has been approved by the local authorities and a final decision on the second gas treatment facility is expected.

Key Strengths

We believe that the key strengths of the Group are as follows:

- *Strong reserve base*

  According to management estimates based on the 2012 Ryder Scott Report, as at 1 January 2012, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 521.6 million boe. These estimated reserves comprise proved crude oil and gas condensate reserves of 64.3 million bbl and 137.6 million bbl of probable crude oil and gas condensate reserves, together with 79.1 million boe of proved gas reserves and probable gas reserves of 161.2 million boe and 25.7 million boe of proved LPG reserves and probable LPG reserves of 53.7 million boe.

- *Strong balance sheet and cash flow generation*

  The Group has a proven business model and continues to demonstrate sustained revenue and significant cash flow generation. Since commencing operations, the Group has substantially grown its revenue due to increased operations through exploration activities and by expansion of its product base. The Group's cash flow generation potential is underpinned by: (1) production growth and economies of scale, (2) an infrastructure upgrade and corresponding opex reduction; and (3) an attractive fiscal regime.

- *Upside potential from development of existing possible reserves*

  Management estimates, based on the 2009 Ryder Scott Report, that the Chinarevskoye Field has possible hydrocarbon reserves of 556.3 million boe. According to management estimates based on data included in reserves reports prepared by Ryder Scott, since 1 January 2004, Zhaikmunai has increased its proved hydrocarbon reserves from 28 million boe to 169.1 million boe, as at 1 January 2012. Zhaikmunai's key focus is to continue converting probable reserves into proved reserves. Zhaikmunai has applied for an extension of its exploration permit and expects the extension to be granted for an additional 18 months from the date a new supplementary agreement to the PSA has been signed. In addition, in the third quarter of 2012 the Group signed purchase agreements for the acquisition of three new licences in fields near to the Chinarevskoye Field for a total purchase price of U.S.$16 million. Zhaikmunai has estimated that it will cost approximately U.S.$85 million to conduct the necessary appraisal activities.

- *Strong track record of production growth within the Chinarevskoye Field*

  Zhaikmunai has a strong track record of successful exploration and production within the Licence area. Constructive analysis by Zhaikmunai personnel of 3-D seismic surveys covering the entire Chinarevskoye Field allowed Zhaikmunai to position wells effectively. In addition, Management has risen to the challenge of tackling the Biski/Afoninsky reserves which are located in vertically and horizontally fragmented segments which have required advanced drilling techniques including deep wells (between approximately 5,000-5,500 metres), multiple wells and horizontal drilling (up to 1,000 metres). Further, hydrocarbon production increased to an average of 36,940 boepd in the year ended 31 December 2012, an increase of 181% compared to an average of 13,158 boepd for 2011, primarily as a result of the continued ramp-up of the first gas treatment facility. For the year ended 31 December 2012, Zhaikmunai produced 15,764 boepd of crude oil and condensate, 2,940 boepd of LPG and 18,237 boepd of dry gas. Management estimates, based on the production profile of both proven and probable reserves reported in the 2012 Ryder Scott Report, that annual production of crude oil, condensate, LPG and gas is expected to reach 132,000 boepd by 2016.

- *High quality crude oil*

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

- *Advantageous location to access export infrastructure*

  Zhaikmunai's facilities are located in western Kazakhstan approximately 10 kilometres from the Russian border, which reduces overall transportation distances from the Group's production operations to ultimate purchasers of its oil in European markets. In addition, Zhaikmunai's operations are located close to various transportation routes, being 17 kilometres from the Orenburg- Novopskov gas pipeline and less than 100 kilometres from rail links and the Atyrau- Samara oil pipeline. Zhaikmunai's oil pipeline from its field to its rail terminal in Rostoshi near Uralsk gives Zhaikmunai direct access to the rail terminal and an option for a direct connection to the export pipeline to Samara, which is crossed by the Zhaikmunai pipeline. Zhaikmunai's location provides reduced transportation distances and access to flexible transportation links, each of which allows it to benefit from reduced transportation costs.

- *Stable terms under the PSA and strong relationship with regulators and authorities*

  Zhaikmunai currently benefits from a relatively stable tax and royalty payment burden under the PSA as the terms of the PSA have been "grandfathered" from its signing in 1997. As such, the terms of the PSA allow Zhaikmunai to estimate the Government's share of production revenue with reasonable certainty (although the Government could seek to restrict or amend such "grandfathering"). Royalty taxes on production range from 3% to 7% on crude oil and between 4% and 9% on gas depending on the level of annual production. Government share of production ranges from 10% to 40%, depending as well on the level of annual production. However, such share is applied to that proportion of production referred to as "profit oil", being that amount of oil produced in excess of allowable expenditure (limited to 90% of its hydrocarbon production or an equivalent amount in monetary terms) thereby allowing for recovery of capital expenditures incurred by the Group in relation to its petroleum operations. The Group is regularly in discussions with regulators about the terms of the PSA and issues that impact the Group's operations.

- *Strong and highly experienced management team*

  The Group benefits from management with significant experience in the oil and gas sector in general, and Kazakhstan in particular. Our Chief Executive Officer has more than 28 years of experience in the oil and gas industry, including approximately 11 years experience working in emerging markets for the Gaz de France group. In addition, Zhaikmunai has introduced experienced senior managers in key departments, including geology, drilling, production and engineering, each with an average experience of 22 years in the oil and gas industry.

Business Strategy

The Group intends to maintain Zhaikmunai as an exploration and production oil and gas company focused on the Chinarevskoye Field and nearby regions. The Group's goals are to maximise the conversion of its existing probable reserves into proved reserves and its possible reserves into probable reserves and to increase long-term production potential. To achieve these goals, the Group is pursuing the following strategies:

- *Expand and increase quality of the reserve base*

  Increases in drilling and improvements in oil recovery techniques are expected to improve the Group'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 nearby regions 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 the Group plans to explore to increase its reserve base. According to the 2012 Ryder Scott Report, the proved reserves increased by 17.4% in 2011 to 169.1 million boe, whereas the proved plus probable reserves remained at over 500 million boe. The Group's main focus in 2010, 2011 and 2012 has been on production drilling in order to secure the feedstock for the new gas treatment facility and to increase oil production; however the Group intends to resume its appraisal and exploration drilling in 2013, and intends to focus on converting probable reserves to proved reserves.

- *Further increase production of liquid hydrocarbons*

  The Group intends to increase production of Zhaikmunai's annual crude oil, condensate and LPG production, which, according to the 2012 Ryder Scott Report, is expected to peak in 2016 at an average of approximately 75,100 boepd or 57% of total production (with the remaining 43% comprising gas production), as compared to an average of 18,703 boepd of liquids produced in the year ended 31 December 2012, which represented 51% of total production. Liquid hydrocarbons are more profitable for the Group than dry gas. The increase in production of liquid hydrocarbons is expected to be achieved by increasing the number of wells drilled per year, enhancing oil recovery methods and completing the second gas treatment facility. For example, Zhaikmunai plans to drill an average of 13 wells per year between 2013 and 2015. Together with technical design improvements to the first gas treatment facility, the commissioning and completion of the second gas treatment facility will further enable the Group to produce a higher total percentage of liquids as compared to dry gas, which should have a positive effect on the Group's revenue and profitability.

- *Implement robust capital management and targeted investments*

  The Group is engaged in a long-term effort to improve the efficiency of its operations, in particular its extraction activities, through the implementation of new technologies, processes and procedures, as well as through rehabilitation projects to extend the life of oil and gas producing assets. In addition, the Group is actively seeking to optimise its internal functioning and cost structure, focus on developing the existing drilling and exploration strategy and optimizing its capital expenditure and investment program to reflect its changed goals and infrastructure needs. The Group also aims to secure additional savings in its cash-flow for future growth initiatives and improve its performance in the long-term in order to sustain its financial position.

- *Monetise gas reserves*

  While the Group's strategy is focused on maximizing liquids production, a substantial portion of the Group's reserves comprise gas. To monetise these reserves, the Group has built the first gas treatment facility and associated projects. Handover of the gas treatment facility from JSC OGCC KazStroy Service ("**KSS**") took place in December 2011. 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 peak in 2015 at 4.1 billion cubic metres.

History

Zhaikmunai LP was formed in August 2007 as an Isle of Man limited partnership. Zhaikmunai was registered on 20 March 1997 as a Kazakh limited liability partnership and obtained the Licence from AO Condensate, which was granted the Licence in January 1996. Zhaikmunai entered into the PSA in October 1997.

In September 2004, Thyler Holdings Limited acquired 100% of Scoulton Holdings Limited ("**Scoulton**"), which in turn indirectly held 100% of the partnership interests in Zhaikmunai. In connection with the admission of the GDRs to the official list of the FSA in 2008, Scoulton undertook an intra-group reorganisation in March 2008, which resulted in Zhaikmunai LP indirectly holding all of the partnership interests in Zhaikmunai. In addition, Zhaikmunai Group Limited ("**ZGL**") became the General Partner of Zhaikmunai LP. A description of ZGL as the General Partner is set out in "*Management and Corporate Governance*".

In October 2012, Thyler Holdings B.V., which is under common control with Claremont, acquired 100% of ZGL and assumed all of the obligations of Thyler Holdings Limited pursuant to the Relationship Agreement (see *Key Risk Factors*).

Corporate Structure

Zhaikmunai LP is a limited partnership whose ownership interests consist of (a) the Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and (b) the general partner interest held by ZGL. The holders of the Common Units are the limited partners of Zhaikmunai LP who hold 188,182,958 million Common Units, of which 188,182,948 are held by The Bank of New York Mellon in its capacity as depository for the holders of the GDRs but has no beneficial interest in such Common Units. The management of Zhaikmunai LP is exercised by the general partner, ZGL.

Operations

Zhaikmunai conducts its operations in the Chinarevskoye Field. In August 2012, the Group decided to expand its operations and agreed to acquire subsoil use rights to three new oil and gas fields in Kazakhstan, located approximately 90 kilometres from the Chinarevskoye field. The company is currently in analysing the optimal appraisal and development programme for the fields.

Chinarevskoye Field

History of Operations

Oil and gas operations in the Chinarevskoye Field began during the Soviet era with the drilling of nine wells. Hydrocarbons were discovered in the Biski-Afoninski reservoirs in 1991. The discovery of the Tournaisian reservoir was made in 1992. In 1997, Zhaikmunai was granted a subsoil use agreement (the "**Licence**") and entered into the PSA and commenced exploration activities in the Chinarevskoye Field. Three of the wells that were drilled during Soviet times were reactivated between 2000 and 2002. In 2003, Zhaikmunai discovered the Givetian accumulation and in 2004 the Lower Permian reservoir was successfully tested. An oil treatment unit was completed in July 2006. In 2007, crude oil was discovered in the Bashkirian formation. In May 2008, commercial prospects were declared for the Mullinsky oil and gas condensate pool, the Ardatovsky gas condensate pool, the Famenian oil and gas condensate pool and the Biski-Afoninski oil and gas condensate pool. New commercial discoveries were also made in the south and west regions of the Tournaisian reservoir.

In 2004, new senior management was appointed at Zhaikmunai, which instituted a strategy of increasing drilling and improving infrastructure, as well as focusing on improving the level of reserves. In the same year, Zhaikmunai commissioned Ryder Scott to conduct an independent engineer's reserves assessment for the Licence area according to PRMS standards. According to management estimates based on data included in the Ryder Scott reserves report of 2004, Zhaikmunai had approximately 28 million boe of proved reserves. Zhaikmunai's primary exploration effort from 2004 to 2006 was dedicated to the Tournaisian horizon. As a result of increased drilling and improved geological data, management estimated that, as at 1 January 2012, based on Ryder Scott Reports, Zhaikmunai had increased its proved reserves by 483% to 169.1 million boe and its probable reserves by 107% to 352 million boe (each as compared to 2004). Hydrocarbon production increased from an average of 2,400 boepd in 2004 to an average of 36,940 boepd in 2012. According to the 2012 Ryder Scott Report, as at 1 January 2012, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 521.6 million boe.

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 has obtained a production permit for the Mullinsky, Ardatovsky, Famenian and Biski- Afoninski reservoirs. Zhaikmunai expects to continue exploration activities in the North Biski-Afoninski, Lower Permian and North Tournaisian reservoirs and the Givetian accumulations until the expiry of the exploration period under the PSA. Zhaikmunai has applied for an extension of its exploration permit and expects the extension to be granted for an additional 18 months after the date the new agreement has been signed.

In the past several years the Group has been investing significantly in the construction and development of the gas treatment facility, which was in test production from May 2011 and came online into full production (and therefore resulting in IFRS recognition) in November 2011. Prior to the construction of the gas treatment facility the Group's revenue resulted solely from the sale of crude oil. Commencing in November 2011, the Group began selling condensate, dry gas and LPG in addition to crude oil. The Group is in the process of designing and planning the second gas treatment facility, which entails building a comparable facility in the vicinity of the first gas treatment facility. The design of the second gas treatment facility has been completed and has received approval from the Kazakh authorities. Zhaikmunai is currently analyzing and evaluating the response to proposals submitted last year to contractors for the delivery of equipment and the construction of the new gas plant. As a result of the second gas treatment facility becoming operational the Group expects a significant increase in its operating capacity and production volumes.

Oil and Gas Reserves

The following table sets forth Zhaikmunai's gross proved, probable and possible hydrocarbon reserves at the Chinarevskoye Field based on data included in the Ryder Scott Reports:

	As at 1 January 2012	As at 31 December 2010	As at 1 July 2009
Gross Reserves			
Proved			
Crude oil and condensate (million bbl)	64.3	63.7	58.5
Plant products (million boe)	25.7	20.5	21.1
Gas (million boe)(1)	79.1	59.3	59.5
Total (million boe)(1)	**169.1**	**143.5**	**139.1**
Probable			
Crude oil and condensate (million bbl)	137.6	149.3	153.5
Plant products (million boe)	53.7	60.4	58.1
Gas (million boe)(1)	161.3	185.5	176.0
Total (million boe)(1)	**352.6**	**395.2**	**387.6**
Possible			
Crude oil and condensate (million bbl)(2)	—	—	275.9
Plant products (million boe)(2)	—	—	74.5
Gas (million boe)(1)(2)	—	—	205.9
Total (million boe)(1)	**Not Estimated**	**Not Estimated**	**556.3**

(1) Management has converted the dry gas reserves data from cubic feet to boepd of dry gas and excluded the gas flared in 2009.
(2) Management did not make an estimate of possible reserves since no appraisal activities were carried out in 2010 and 2011.

The table below illustrates Zhaikmunai's hydrocarbon gross reserves by individual reservoir and percentage of total reserves as estimated by management, based on the data presented in the 2012 Ryder Scott Report.

	Proved	(% of proved)	Probable	(% of probable)	Total proved and probable	(% of proved and probable)
				(million boe)		
Gross Reserves						
Tournaisian North	31.4	19%	36.0	20%	67.5	13%
Tournaisian South	7.8	5%	35.5	10%	43.4	8%
Tournaisian West	0.4	0%	0.0	0%	0.4	0%
Total Tournaisian	**39.7**	**24**	**71.6**	**20%**	**111.2**	**21%**
Biski Afoninski North	103.4	61%	101.7	29%	205.1	39%
Biski Afoninski West	0.0	0%	111.7	32%	111.7	21%
Total Biski Afoninski	**103.4**	**61%**	**213.4**	**61%**	**316.8**	**61%**
Ardatovski North	12.2	7%	14.0	4%	26.2	5%
Mulinski North	7.3	4%	37.1	11%	44.4	9%
Ardatovski & Mulinski South	6.5	4%	5.7	2%	12.3	2%
Total Givetian	**26.0**	**15%**	**56.9**	**16%**	**82.9**	**16%**
Bashkirian	0	0%	10.6	3%	10.6	2%
Total	**169.1**	**100%**	**352.6**	**100%**	**521.6**	**100%**

In accordance with SPE reserves classifications, Ryder Scott assigned the volumes of crude oil that can be recovered from accumulation through water-flooding in the Tournaisian reservoir to the categories of probable and possible reserves. The added potential resulting from enhanced oil recovery has therefore not been used to estimate the amount of proved reserves. Studies prepared by the research institute KaspiMunaiGaz in 2006 and PM Lucas in 2007-2012 confirmed the possibility of significant improvement of oil recovery through water-flooding in the north-eastern part of the Tournaisian reservoir. The Group began water injection testing at the end of 2008 and implemented the use of water-injection for improved oil recovery in 2009.

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

Geological Information

The Chinarevskoye Field is a multi-formation structure. It has tested hydrocarbons at significant rates from (i) the Lower Permian horizons at depths of 2,700m to 2,900m, represented by limestone and dolomitic limestone; (ii) limestone of the Lower Carboniferous Tournaisian formation at a depth of approximately 4,200m with a gross thickness of about 200m; (iii) the middle Devonian Givetian horizons at a depth of approximately 5,000m, represented by sandstone with carbonate cement; and (iv) the middle Devonian Biski-Afoninski formations at a depth of approximately 5,000m 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, Famenian and Vorobyovski reservoirs.

Appraisal and Exploration

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. Using information obtained from 3-D seismic surveys and geological analysis, management (and consultants) review all available data and undertake individual drilling programmes.

The Group has mapped several new prospects in the Licence area, including the Biski-Afononski (gas condensate), Tournaisian (oil and gas condensate), Lower Permian (oil) and South Tournaisian (gas condensate) reservoirs. In addition to the reported reserves as at 1 January 2012, Ryder Scott has estimated the remaining resources identified, but not yet drilled in the Chinarevskoye Field. The 2009 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.

A significant portion of the Group's reserves are classified as possible reserves, and a work programme has been prepared to further appraise these accumulations. Management believes that a portion of these possible reserves, estimated by Ryder Scott to be up to 556.3 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.

According to the 2012 Ryder Scott Report, water injection is solely required for the recovery of the probable oil reserves. The 2012 Ryder Scott Report analysed reservoir simulations prepared by independent third parties to understand the effect of the water injection on ultimate recovery of oil from the reservoirs.

Production and Facilities

Oil, Gas, LPG and Condensate Production

During the year ended 31 December 2012, a total of 13.5 million boe was produced, with an average of 36,940 boepd, compared to (a) the year ended 31 December 2011, during which a total of 4.8 million boe was produced, with an average of 13,158 boepd and (b) the year ended 31 December 2010, during which a total of 2.8 million boe was produced, with an average daily output of 7,752 boepd.

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). The quality of the crude oil extracted allows Zhaikmunai to sell its crude oil at a smaller discount to Brent crude than other oil producers in the region.

The stabilized condensate produced out of the gas-condensate feeds has an average API gravity of 57-58° with a sulphur content of less than 0,1%.

The Chinarevskoye Field contains significant gas reserves. The Group monetises these gas reserves using the gas treatment facility and by implementing a gas utilisation concept prepared by NIPI Neftegaz Institute.

Gas processed by the Group's treatment units is used to produce dry gas, LPG and condensate for sale in addition to providing feed stock for power generation to cover Zhaikmunai's power requirements.

Storage Facilities

Zhaikmunai's facilities consist of an oil treatment unit 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 5,000 cubic metres of oil and 15,000 cubic metres of condensate on-site and 10,000 cubic metres of oil and 10,000 cubic metres of condensate at the rail terminal. The Group plans to construct an additional oil treatment unit with a capacity of up to 400,000 tonnes per year. In addition, Zhaikmunai has completed its 120km oil pipeline through which it pumps crude oil and condensate from the field site to the railway-loading terminal in Rostoshi near Uralsk.

Drilling Facilities

The Group contracts with third parties who perform drilling operations in the Chinarevskoye Field. As at 31 December 2012, Saipem, Sun Drilling, UNGG and Xi-Bu provided drilling services to the Group, supplying a total of six drilling rigs. In addition, Kazburgaz and UNGG rigs 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. Based on historical contracts, the Group has budgeted a cost per well of approximately U.S.$11.0 million for production/appraisal wells to be drilled to the Devonian reservoirs (and an additional U.S.$3.0 million per well for horizontal wells). The cost per well for vertical production wells to the Tournaisian reservoir is budgeted at approximately U.S.$8.0 million.

Gas Treatment Facility

The first gas treatment facility involved the construction of two gas treatment units and at 31 December 2012 had cost approximately U.S.$270.0 million. Each of the gas treatment units has the capacity to treat approximately 850 million cubic metres of raw gas (a combination of associated gas and gas condensate). Both units are equipped with sweetening and sulphur recovery units to improve the quality of the gas. The gas treatment facility also includes a gas-fired power plant with a design capacity of 15 megawatts that provides the field site with all required electricity. The power plant has been constructed as part of the first gas treatment facility. Handover of the gas treatment facility took place in December 2011.

Zhaikmunai is considering entering into contracts to construct one additional gas treatment unit with a capacity to treat 2.5 billion cubic metres of gas per year and an additional power plant. Assuming completion of each of the three gas treatment units, the Group would have capacity to treat up to 4.2 billion cubic metres of raw gas per year. Management estimates that construction of the second gas treatment facility will cost approximately U.S.$400-500 million. Ryder Scott estimates that Zhaikmunai's annual raw gas production will peak at 4.1 billion cubic metres per year in 2015.

The Group's future hydrocarbon production profile is based on the gas treatment facility operating at full or near-full capacity. If the gas treatment facility is not operating at full or near-full capacity, this may result in a reduction or suspension of the Group's production of hydrocarbons.

Oil Pipeline and Railway-Loading Terminal

The pipeline and loading terminal has been fully operational since January 2009. The pipeline links the Chinarevskoye Field directly to the Group's railway loading terminal at a rail connection located at Rostoshi, near Uralsk. The oil pipeline has a maximum annual throughput capacity of 3.0 million tonnes. The railway-loading terminal receives all crude oil and condensate produced by Zhaikmunai and has a capacity of 3.0 to 4.0 million tonnes of crude oil and gas condensate per year. Management estimates that the oil pipeline has reduced the cost of transporting crude oil from the Chinarevskoye Field to the Rostoshi rail terminal by approximately U.S.$25.0 per tonne.

Gas Pipeline

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

Subsoil Licences and Permits

Zhaikmunai's authorisation to conduct operations in the Chinarevskoye Field was granted pursuant to the Licence issued by the Government on 26 May 1997, which is part of an associated PSA entered into with the Competent Authority (on behalf of Kazakhstan) on 31 October 1997. The Licence and the PSA were granted under Kazakhstan's pre-1999 "licence and contract" regime. Under the PSA, Zhaikmunai is able to undertake both exploration and production activities, subject to obtaining relevant permits. A dual-track system is available to obtain a production permit.

The Licence is separated into two phases consisting of an exploration phase and a production phase. The exploration phase consists of two periods. The first exploration period lasted four years, from October 1997 to October 2001; the second exploration period, which commenced on 26 May 2001 was initially agreed to run for three years, but has since been extended four times, most recently the Group has applied for an extension of its exploration permit and expects the extension to be granted for an additional 18 months from the date the new supplementary agreement to the PSA has been signed.

Further to Zhaikmunai's exploration activities in the northeastern Tournaisian reservoir, approval to commence commercial production in this area was initially granted by the award of a production permit for the northeastern Tournaisian reservoir in March 2007. When Zhaikmunai subsequently made six new commercial discoveries (in the West Tournaisian (oil), South Tournaisian (oil and gas condensate), Biski-Afoninski (gas condensate), Givetian Ardatovski (gas condensate), Givetian Mulinski (oil and gas condensate) and Famennian (gas condensate) reservoirs), it entered into discussions with the Competent Authority to extend the Exploration Permit (the "**Exploration Permit**") to appraise these discoveries. Zhaikmunai received a new exploration permit valid until 26 May 2011 to appraise all newly made discoveries. Once Zhaikmunai believed that all new discoveries were sufficiently appraised in order to start production, it applied for approval of the reserves for the entire licence area (as required by the terms of the PSA) and once the approval of Zhaikmunai's reserve estimation by the State Committee of Reserves was received in December 2008, Zhaikmunai was issued with an extended Production Permit which now covers 185 square kilometres (including the area under the previous production permit as well as the six new commercial discoveries made by Zhaikmunai).

In addition, Zhaikmunai was required to submit separate development plans ("**Development Plans**") to the State Committee for Field Development ("**SCFD**") for oil and gas condensate deposits in accordance with the Production Permit. Both such Development Plans were approved by the SCFD in March 2009.

Zhaikmunai's initial Development Plan for the northeastern Tournaisian reservoir, which was approved on 17 November 2006, has now been incorporated into the new Development Plan for oil deposits as an integral part thereof. In addition to the ongoing commercial production of oil, Zhaikmunai's current Production Permit allows it to engage in the commercial production of its gas reservoirs.

Zhaikmunai currently holds one gas flaring permit, which expires at the end of 2013.

In August 2012, Zhaikmunai signed agreements to acquire 100% of the subsoil use rights related to three new oil & gas fields in Kazakhstan. Zhaikmunai has agreed to pay the current owners a total of U.S.$16 million for the three fields. As at 31 December 2012 the conditions precedent to the transfer of ownership of the licences had not been met (although the relevant consents from the Ministry of Oil and Gas and the Antimonopoly Agency had been obtained).

Zhaikmunai has estimated that it will cost approximately U.S.$85 million to conduct the necessary appraisal activities. The fields, Rostoshinskoye, Darjinskoye and Yujno-Gremyachenskoe, are located in the Pre-Caspian basin to the northwest of Uralsk, approximately 90 kilometres from the Chinarevskoye field. The size of the three licence areas combined is 139 square kilometres.

The Licence and the PSA:

The Licence and the PSA are currently valid until 2031-2033, depending on the geographical and geological area in question. To date, Zhaikmunai has met all of its obligations, including capital investment obligations, under the PSA.

The duration of the production phase for all reservoirs is 25 years. Zhaikmunai must comply with the terms of the Production Permit and the Development Plans during this period. Zhaikmunai has fulfilled all those contractual obligations.

Amendments to the PSA

As at the date of this report, the PSA includes nine amendments. The first amendment, implemented in 2000, restated certain environmental commitments and amended the provision in the PSA regarding the share of and royalty payments to Kazakhstan, in addition to specifying the manner in which Zhaikmunai was to reimburse Kazakhstan for any costs it incurred in establishing the field and the manner in which it was to contribute to an abandonment fund when it ceased its operations. The second amendment, dated 21 October 2001, extended the first exploration period for a further two years to four years and set out the requirements during the exploration phase. The third amendment, dated 29 June 2002, amended the provisions relating to tax and royalty payments. This amendment also provided that 15% of the Licence area was to be relinquished following the first phase of the exploration period as it was not considered to be commercially significant (previously the PSA provided that Zhaikmunai was to relinquish 25% of the Licence area). The fourth amendment, dated 12 January 2004, extended the exploration phase to 26 May 2006 with the term of the PSA set to expire on 26 May 2031.

The fifth amendment extended the exploration period by one year until 26 May 2008. Prior to the expiry of the exploration phase on 26 May 2008 (as per the provisions of the fifth amendment of the PSA), Zhaikmunai declared six new commercial discoveries, pursuant to which it applied to the Competent Authority for a further extension of the exploration period to evaluate these commercial discoveries in accordance with its proposed work programme for further appraisal. As a result, the Competent Authority agreed to extend the exploration period until 26 May 2011 to allow Zhaikmunai to fully appraise the newly declared discoveries. This agreement is set out in the seventh amendment to the PSA as referred to below.

On 5 June 2008 a sixth amendment was made to the PSA, this time determining the Licence area and clarifying the payment and certain other obligations of Zhaikmunai to Kazakhstan. In addition, it established the production period on the North-East Tournaisian reservoir as commencing on 1 January 2007.

The seventh amendment to the PSA was made in November 2008. This clarified the Licence area, further extended the exploration period until 26 May 2011 and determined the requirements of Zhaikmunai under the extended exploration period, which, as at the date of this report, includes the drilling of 12 exploration wells. Zhaikmunai has fulfilled all of those contractual obligations. In addition, in the seventh amendment, Zhaikmunai agreed to provide at least 15% of its crude oil production to domestic buyers in Kazakhstan at domestic market prices.

The eighth amendment to the PSA dated 27 April 2010 formally incorporates the terms of the current Production Permit and the Exploration Permit as part of the PSA.

The ninth amendment to the PSA is dated 12 August 2011 and clarified Zhaikmunai's obligations under the PSA related to social funds payments and expenses for training of Kazakhstan specialists. Among other terms and conditions of the ninth amendment to the PSA, Zhaikmunai received an increase in its Cost Oil-recoverable social obligations under the PSA due to increased costs in relation to the relocation of the Rozhkovo village population and the repair and reconstruction of the local state roads infrastructure.

Exploration Permit

Zhaikmunai has applied for an extension of its exploration permit and expects the extension to be granted for an additional 18 months from the date the new supplementary agreement to the PSA has been signed. Thereafter, Zhaikmunai may relinquish the area covered by the Exploration Permit and/or request a production permit in respect of any new commercially viable reserves that are declared.

Development Plan

Following the appraisal and/or discovery of reserves, the PSA requires Zhaikmunai to submit a development plan for the particular reserves discovered to the SCFD. Following the appraisal and exploration of additional oil and gas condensate reserves at the end of May 2008, Zhaikmunai received approval for the two Development Plans from the SCFD in March 2009, one regarding oil deposits (which relate to the Tournaisian and Mulinski reservoirs) and the other regarding gas condensate deposits (which relate to the Biski-Afoninski and Ardatovski reservoirs).

The Development Plan related to oil deposits required (i) the drilling of nine additional production and water injection wells and (ii) the start of water injection in 2009 to support reservoir pressure and to achieve final oil recovery of at least 32.2% from the Tournaisian reservoir. The Development Plan related to gas condensate deposits allowed Zhaikmunai to begin commercial production of such deposits upon (i) the construction and commissioning of the gas treatment facility and (ii) the construction and commissioning of a 17km gas pipeline. All of these conditions have now been satisfied.

The following summarises the other principal terms of the PSA:

Royalty Payments

The rate of monthly royalty payments to be made by Zhaikmunai to the State depends on the volume of hydrocarbons extracted, calculated according to the realised value for each class of hydrocarbon sales at its final destination less the cost of transportation to its final destination and any discounts incurred due to the quality of hydrocarbons produced, as compared to a benchmarked quality. For the purpose of royalty calculations, condensate, dry gas and LPG are treated as deriving from natural gas extraction.

	Royalty rate applicable to crude oil at a level of
Crude Oil Production levels (tonnes)	
From 0 to 100,000	3%
From 100,000 to 300,000	4%
From 300,000 to 600,000	5%
From 600,000 to 1,000,000	6%
Over 1,000,000	7%

	Royalty rate applicable to Gas as at a level of
Gas Production levels (1,000m^3)	
From 0 to 1,000,000	4%
From 1,000,000 to 2,000,000	4.5%
From 2,000,000 to 3,000,000	5%
From 3,000,000 to 4,000,000	6%
From 4,000,000 to 6,000,000	7%
Over 6,000,000	9%

State Share

Pursuant to the PSA, the State receives a monthly share of Zhaikmunai's hydrocarbon production. The share that the State receives is calculated, first, by notionally separating production into "**Cost Oil**" and "**Profit Oil**". Cost Oil denotes an amount of crude oil produced in respect of which the market value is equal to Zhaikmunai's monthly expenses that may be deducted pursuant to the PSA. Deductible expenses for the purposes of Cost Oil include all operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production. Any unused expenses may be carried forward indefinitely in the calculation of Cost Oil. Profit Oil, being the difference between Cost Oil and the total amount of crude oil produced each month, is shared between the State and Zhaikmunai. Consequently, increases in

Zhaikmunai's monthly expenditures result in lower amounts of Profit Oil being transferred to the State (due to the higher notional value of Cost Oil).

The State's share of Profit Oil must be physically delivered to the State or, alternatively, the State can elect to receive an amount equal to the value of the Profit Oil on a monthly basis. To date, the State has always elected to receive a monetary payment. Any such amounts delivered or paid are based on actual monthly production volumes. The share to be allocated to the State is calculated based on the following "tranche" method for crude oil and gas sales. Historically, the state share of Profit Oil was 10% in 2009, 2010, 2011 and 2012.

The following table sets out the State Share of Profit Oil and Profit Gas based on annual levels of production.

Annual Crude Oil Production levels (tonnes)	**Royalty rate applicable to crude oil at a level of**
From 0 to 2,000,000	10%
From 2,000,000 to 2,500,000	20%
From 2,500,000 to 3,000,000	30%
Over 3,000,000	40%

Annual Gas Production levels (1,000m^3)	**Royalty rate applicable to gas as at a level of**
From 0 to 2,000,000	10%
From 2,000,000 to 2,500,000	20%
From 2,500,000 to 3,000,000	30%
Over 3,000,000	40%

Upon expiration of the Licence and the PSA (which will occur between 2031-2033 depending on the geographical and geological area in question), Zhaikmunai is obliged to transfer to the State all assets acquired, built or installed as per the work programme and the approved budget.

If Zhaikmunai pays cash in lieu of delivery of the required hydrocarbon amount to the State, the price (in U.S. Dollars) is determined to be that which Zhaikmunai would have received for a similar volume of hydrocarbons at connection to a trunk pipeline, on the basis of an arm's length transaction, less transportation costs to the trunk pipeline.

Tax—General

Corporate Income Tax

Zhaikmunai makes monthly payments of corporate income tax at a fixed rate of 30.0% of Zhaikmunai's taxable income from contract activity for each year of commercial production during the term of the PSA. Any taxable income from non-contract activity (such as income from hedging) is taxable at the corporate income tax rate applicable for the year the income is realised.

Discovery Payments

Under the PSA, Zhaikmunai must declare each new discovery of a crude oil horizon that leads to commercial production and pay U.S.$500,000 to the State in respect of each of such discoveries. In 2008, Zhaikmunai paid U.S.$3.0 million to the State in respect of six commercial discoveries which were declared in May 2008. There were no discovery payments due to the State in 2009, 2010, 2011. For the commercial discovery declared for the Bashkirian horizon in October 2012 a commercial discovery bonus of U.S.$500.000 will become payable in 2013 after the appraisal program of this discovery has been approved by the Kazakh authorities..

Recovery Bonus

Zhaikmunai must pay to the State a U.S.$1 million recovery bonus for each 10 million metric tonnes of cumulative recovery of crude oil and natural gas.

Reimbursement of Historic Expenses

Zhaikmunai is required to reimburse the State for a total of U.S.$25.0 million for historic costs (its costs for appraisal activities done prior to the grant of the Licence) in equal quarterly instalments during the production phase of the PSA starting from the

production phase. Zhaikmunai began making such payments on 1 January 2007. Zhaikmunai repaid historic expenses in the amount of U.S.$1.0 million in 2010, U.S.$1.0 million in 2011 and U.S.$1.0 million in 2012.

Social Expenditures

Further, pursuant to the ninth amendment to the PSA, the Group is obliged to perform repair and reconstruction of state roads (including the construction of a 37 kilometre asphalt road accessing the field site), make an accrual of one percent of capital expenditures per annum for the purpose of educating Kazakhstan citizens and adhere to a spending schedule on education (which lasts to and including 2020).

Liquidation Fund

The PSA requires Zhaikmunai to establish a liquidation fund in the amount of U.S.$12.0 million by making annual contributions to the fund of U.S.$100,000 per year during the exploration phase and U.S.$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. Management is setting aside the amounts required for the liquidation fund and believes that such provisions satisfy its obligations to make annual contributions to the fund.

In addition, Zhaikmunai makes accruals for the abandonment of facilities. 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.

Procurement Contracts material to our Business

Drilling Contracts

As at 31 December 2012, Zhaikmunai had five major contracts for drilling services: two with Saipem, one with Sun Drilling, one with UNGG and one (supplying two drilling rigs) with Xi-Bu. There are also two minor contracts with Kazburgaz and UNGG for well workover operations.

Transportation

Overview

Since the completion of the Group's 120km oil pipeline from the Chinarevskoye Field to Rostoshi near Uralsk in January 2009, the crude oil produced by Zhaikmunai is transported through this pipeline to its export rail terminal in Rostoshi near Uralsk. Prior to 2009, the delivery of crude oil to Uralsk was made exclusively through infrastructure owned and operated by third parties. As a result of the oil pipeline, transportation of the Group's crude oil has become safer, less costly and more efficient.

Transportation routes for the export of hydrocarbons by Zhaikmunai and other oil and gas producers in Kazakhstan are important because of the country's land-locked position. In particular, Kazakhstan depends heavily on Russia's transportation infrastructure for export routes. Crude oil is exported from Kazakhstan through pipelines and railways across the Caspian Sea and through Russia to the Black Sea ports or by pipeline to China. Any restrictions or termination of access to the existing pipelines or railways caused by any serious malfunctions, political events or other circumstances could require the suspension of Zhaikmunai's crude oil and condensate deliveries and cause severe disruption to the production process.

Transportation of Crude Oil and Condensate

The principal transportation options for the export of the Group's crude oil and condensate are rail car and pipeline. Crude oil and condensate are pumped through the Group's oil pipeline from the Chinarevskoye Field to Rostoshi near Uralsk. The following summarises the available options for such onward delivery:

Rail

Zhaikmunai currently transports crude oil and condensate via its pipeline from the Chinarevskoye Field to the nearby city of Rostoshi near Uralsk, where it is loaded at its oil loading terminal onto rail cars. By transporting its production by rail, Zhaikmunai does not encounter any dilution of the quality of its crude oil or condensate as it would if it was transported by pipeline, and is therefore able to obtain a higher price for its production in the export market.

Transportation of Dry Gas and LPG

The Group's gas production is transported by its 17-kilometre gas pipeline (commissioned in February 2011) linking the Chinarevskoye Field to the Orenburg-Novopskov gas pipeline. The gas pipeline has a maximum annual throughput of 5.0 billion cubic metres. As the gas is sold at the point of entry to the pipeline, the Group is not liable for any additional transportation tariffs.

In addition, the Group has engaged third-party contractors to transport its LPG products by truck to railway-loading terminals operated by third parties near to Uralsk. LPG is then delivered by rail car to its ultimate purchaser.

Sales and Marketing

Pursuant to the PSA, Zhaikmunai has agreed to sell 15% of its crude oil production in the domestic market and sells the remaining crude oil to the export market.

Until 2010, the Group delivered most of its exported crude oil on the basis of FCA (free carrier) Uralsk, the price being based on the market price for Brent crude oil less a discount for rail fees, transportation costs, quality differentials and trader's fees incurred in order to deliver the crude oil from Uralsk to its ultimate destination at refineries in Finland and the Ukraine. In 2011 and 2012, the Group has sold its crude oil and condensates based on DAF (delivery at frontier) and FOB (free on board) terms. The benefit of selling on DAF and FOB terms is that the sales discount is significantly reduced, although this benefit is partially offset by an increase in transportation costs for the Group as it must pay for transportation costs from the terminal to the point of sale. The Group plans to continue selling on a DAF and FOB basis as management believes the Group will benefit from a net decrease in overall transportation costs.

The Group's deliveries of dry gas are made to the Group's two significant gas purchasers at the Group's connection to the Orenberg-Novopskov gas pipeline. Prices for the Group's gas products are negotiated annually with the buyers pursuant to long-term contracts.

Until 2010, the Group entered into crude oil contracts with one or more traders. The traders then contracted with the ultimate purchasers for the provision of the Group's crude oil products. The Group did not enter into contracts for crude oil products with its ultimate customers.

In 2011 and 2012, virtually all of Zhaikmunai's oil and LPG products were sold directly to its ultimate customers. In 2011, all of Zhaikmunai's condensate was sold directly to its ultimate customers but in 2012, most was sold via a trader and the remainder to its ultimate customers.

The Group's deliveries of dry gas are made to the Group's two significant gas purchasers at the Group's connection to the Orenberg-Novopskov gas pipeline. Prices for the Group's gas products are negotiated annually with the buyers pursuant to long-term contracts.

Environmental Matters

One of the Group's key strategic priorities is for Zhaikmunai to comply with applicable local and international standards for environmental protection. Zhaikmunai prepares and submits to authorities a yearly action plan in accordance with Kazakh environmental regulations. In addition, Zhaikmunai has started to implement International Finance Corporation and World Bank Group (IFC/WBG) environmental standards for its operations and expects to achieve compliance with these standards in the next five to ten years.

According to AMEC Overseas (Cyprus) Limited ("**AMEC**") environmental, health and safety due diligence report "Health, Safety and Environmental Compliance and Assurance Audit of Zhaikmunai's Facilities" dated 31 July 2012 ("**AMEC Report**"), Zhaikmunai is for the most part in compliance with Kazakhstan and international environmental standards and regulations, which comprise of International Finance Corporation and World Bank Group (IFC/WBG) international requirements and standards.

Zhaikmunai's environmental protection policies include the following key objectives: (i) cease gas flaring; (ii) remediate or recultivate areas impacted by petroleum hydrocarbons, particularly abandoned wells and mud pits; (iii) provide training to employees and contractors to understand its environmental policies and minimise environmental damage; (iv) monitor the impact of Zhaikmunai's operations on the environment; (v) put in place emergency procedures to deal with the environmental impact of any spillage; and (vi) utilise associated production gas to produce low cost power as part of its gas treatment facility.

Employees, Health and Safety

Employees

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

	For the year ended		
	2012	**2011**	**2010**
Location			
Chinarevskoye Field	656	577	500
Uralsk	218	170	144
Total	**874**	**747**	**644**

The average number of people (full-time equivalents) employed by the Group increased during 2012 due to the general ramp-up in production at the gas treatment facility. Zhaikmunai has not experienced any work stoppages, strikes or similar actions in the past and considers its relations with its employees to be good.

Insurance

The types of coverage structure, limits and quality of the Group's insurance programme are comparable with other Kazakh oil companies of a similar size.

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

(a) general third-party liability insurance;

(b) employer's liability insurance;

(c) environmental insurance; and

(d) civil liability as the owner of vehicles.

As at the date of this report, the Group maintains and is in compliance with all mandatory insurances required by Kazakh law. In addition, the Group maintains the following voluntary insurance contracts:

(a) voluntary cargo insurance;

(b) oil operations voluntary insurance contract;

(c) voluntary third party liability insurance;

(d) property voluntary insurance contract;

(e) voluntary property insurance for the gas treatment facility; and

(f) voluntary vehicle property insurance.

The General Partner has also arranged directors' and officers' liability insurance through a third-party insurer.

The Group does not maintain business interruption, key-man, terrorism or sabotage insurance because the Group believes that the chance of any such event occurring is small.

2. SELECTED HISTORICAL FINANCIAL INFORMATION

The financial statements of the Group included in this report were prepared in accordance with IFRS.

Statement of Comprehensive Income

	Year ended 31 December (Audited)			
	2012	2011	2010	2009
	(US$ thousands)			
Revenue	737,065	300,837	178,159	116,033
Cost of sales	(238,224)	(70,805)	(53,860)	(44,035)
Gross profit	**498,841**	**230,032**	**124,299**	**71,998**
General and administrative expenses	(61,549)	(36,405)	(27,265)	(29,726)
Selling and transportation expenses	(103,604)	(35,395)	(17,014)	(5,692)
Loss on derivative financial instrument	—	—	(470)	(16,909)
Finance costs	(50,118)	(4,717)	(21,296)	(7,801)
Foreign exchange (loss)/gain, net	776	(389)	46	(2,184)
Interest income	698	336	239	60
Other (expenses)/income	(2,672)	(4,490)	2,234	(906)
Profit before income tax	**282,372**	**148,972**	**60,773**	**8,840**
Income tax expense	(120,363)	(67,348)	(37,873)	(27,608)
Profit/(loss) for the period	**162,009**	**81,624**	**22,900**	**(18,768)**
Total comprehensive income/(loss) for the period	**162,009**	**81,624**	**22,900**	**(18,768)**

Cash Flow Data

	Year ended 31 December			
	2012	2011	2010	2009
	(U.S.$ thousands)			
Net cash flow from operating activities	291,825	132,223	98,955	45,934
Net cash used in investing activities	(269,674)	(103,681)	(132,189)	(200,673)
Net cash (used in)/ provided by financing activities	50,390	(47,350)	39,710	279,418

Statement of Financial Position

	As at 31 December			
	2012	2011	2010	2009
	(U.S.$ thousands)			
ASSETS				
Non-current assets:				
Property, plant and equipment	1,222,665	1,120,453	955,911	770,953
Derivative financial instrument	—	—	—	98
Restricted cash	3,652	3,076	2,743	21,358
Advances for equipment and construction works	25,278	3,368	6,479	27,399
	1,251,595	**1,126,897**	**965,133**	**965,133**
Current assets:				
Restricted cash	—	—	1,000	—
Inventories	24,964	14,518	5,639	3,477
Trade receivables	54,004	12,640	1,635	13,878
Prepayments and other current assets	24,369	23,279	16,759	22,663
Income tax prepayment	—	3,453	3,200	5,599
Short term investments	50,000	—	—	—

	As at 31 December			
	2012	2011	2010	2009
	(U.S.$ thousands)			
Cash and cash equivalents	197,730	125,393	144,201	137,375
	351,067	**179,283**	**172,434**	**182,992**
Total assets	**1,602,662**	**1,306,180**	**1,137,567**	**1,002,800**
EQUITY AND LIABILITIES				
Partnership capital and reserves:				
Partnership capital	371,147	368,203	366,942	366,942
Additional paid-in capital	6,095	1,677	—	—
Retained earnings and translation reserve	317,862	215,351	133,727	110,827
	695,104	**585,231**	**500,669**	**477,769**
Non-current liabilities:				
Long-term borrowings	615,742	438,082	434,931	356,348
Employee share option plan	9,788	11,734	10,104	7,025
Abandonment and site restoration liabilities	11,064	8,713	4,543	3,373
Due to Government of Kazakhstan	6,122	6,211	6,290	6,363
Deferred tax liability	148,932	146,674	100,823	76,659
	791,648	**611,414**	**556,691**	**449,768**
Current liabilities:				
Current portion of long term borrowings	7,152	9,450	9,450	—
Trade payables	58,390	81,914	49,213	66,381
Advances received	60	3,154	11,693	—
Income tax payable	11,762	—	—	—
Derivate financial instrument	—	—	372	—
Current portion of due to Government of Kazakhstan	1,031	1,031	1,031	1,028
Other current liabilities	37,515	13,986	8,448	7,854
	115,910	**109,535**	**80,207**	**75,263**
Total equity and liabilities	**1,602,662**	**1,306,180**	**1,137,567**	**1,002,800**

3. FINANCIAL REVIEW

The following discussion and analysis should be read together with the audited consolidated financial statements as at and for the years ended 31 December 2012, 2011, 2010 and 2009. The consolidated financial statements and the accompanying notes have been prepared in accordance with IFRS.

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

Overview

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

Prior to 2011, all of Zhaikmunai's revenues were generated by its crude oil sales. However, starting in late 2011 when the gas treatment facility came into full production, the Group began producing and selling stabilized condensate, dry gas and LPG in addition to crude oil. The gas treatment facility has enabled Zhaikmunai to increase its daily production of oil and gas products from an average daily production of approximately 13,158 boepd (primarily crude oil) during the year ended 31 December 2011 to an average daily production of approximately 36,940 boepd (comprised of crude oil, stabilized condensate, dry gas and LPG) during the year ended 31 December 2012.

The primary factors affecting the Group's results of operations are: (i) the prices received by Zhaikmunai for its products, (ii) the quantities of Zhaikmunai's production for a given period, (iii) the costs Zhaikmunai incurs to produce and transport its products, (iv) finance costs incurred by the Group under its borrowings and (v) amounts payable pursuant to the PSA (see "*Primary Factors Affecting Results of Operations*").

The following table sets forth the Group's revenues from the sale of its oil and gas products, cost of sales, gross profit, profit before income tax and net income/(loss) for the years ended 31 December 2012, 2011, 2010 and 2009:

	Years ended 31 December			
	2012	**2011**	**2010**	**2009**
	(U.S.$ thousands)			
Revenue	737,065	300,837	178,159	116,033
Cost of sales	(238,224)	(70,805)	(53,860)	(44,035)
Gross profit	498,841	230,032	124,299	71,998
Profit before income tax	282,372	148,972	60,773	8,840
Net income/(loss)	162,009	81,624	22,900	(18,768)

Primary Factors Affecting Results of Operations

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

Pricing

The pricing for all of the Group's oil and gas products is, directly or indirectly, related to the price of Brent crude oil. During the periods under review, the price of Brent crude oil experienced significant fluctuations. According to the Intercontinental Exchange, international oil prices reached approximately U.S.$78 per barrel in December 2009, U.S.$95 per barrel in December 2010, U.S.$107 per barrel in December 2011 and U.S. $111 per barrel in December 2012.

	Years ended 31 December			
	2012	**2011**	**2010**	**2009**
Average Brent crude oil price on which Zhaikmunai based its sales (U.S.$/bbl)	107.43	106.87	80.15	62.02

The Group has a hedging policy in place that it will hedge the price of oil when the Group has significant committed capital expenditure obligations to meet. Therefore the Group had hedging arrangements in place while it was completing the construction of the first gas treatment facility. As of the date of this report, Zhaikmunai does not have any hedging arrangements in place.

Until 2010, the Group's products were sold and delivered from Uralsk to Zhaikmunai's customers on a FCA (free carrier) shipment basis. However, in order to avoid incurring higher transportation costs and to introduce higher profitability into the Group's pricing, Zhaikmunai started selling its products on the basis of DAF (delivery at frontier) and FOB (free on board) terms. This means that Zhaikmunai incurs most of the transportation costs relating to shipment. However, it also provides the Group with access to a larger number of purchasers, resulting in greater competition for its products and therefore higher profitability.

The Group generates revenue from the sale of four principal products: crude oil, condensate, dry gas and LPG.

- *Crude oil*

  Pursuant to the PSA, the Group has agreed to sell 15% of its crude oil production sourced from wells in production in the domestic Kazakhstan market at Government-regulated prices. The remainder of the Group's crude oil is free to be exported; currently the Group exports all of this remaining crude oil to Ukraine due to the existing tax treaty between Kazakhstan and Ukraine which means that this export is exempt from export duties.

- *Condensate*

  The Group exports 100% of its condensate.

- *Dry gas*

  The Group sells 100% of its dry gas domestically in Kazakhstan pursuant to three long-term contracts. Pursuant to these contracts, the price of dry gas is set annually in accordance with a formula as set forth in the contracts. Prices for gas are broadly in line with domestic gas prices in the Russian Federation.

- *LPG*

  Currently the Group sells approximately 10-15% of its LPG production domestically in Kazakhstan and the remainder is exported to various destinations.

Production

The Group's results of operations are also directly affected by production because, except for a portion of the dry gas that is utilised in the operations of the gas treatment facility, all production by Zhaikmunai is sold. The table below illustrates Zhaikmunai's production for the years ended 31 December 2012, 2011, 2010 and 2009.

	Years ended 31 December			
	2012	**2011**	**2010**	**2009**
Total production (boe)	**13,520,040**	**4,802,561**	**2,829,764**	**2,697,980**
Average production (boepd)	36,940	13,158	7,752	7,442
Increase in production from previous period (boepd)	23,782	5,406	310	2,347
Increase in production from previous period (%)	180.7%	69.7%	4.2%	54.3%

Zhaikmunai's production growth in 2009 and 2010 was primarily driven by a growing drilling programme. However, in 2011 and 2012, Zhaikmunai's production growth was primarily driven by the output from its newly installed gas treatment facility.

Cost of sales

The Group's oil and gas prices are based on a mix of fixed and quotation pricing, and therefore Zhaikmunai's ability to control costs is critical to its profitability. Zhaikmunai's cost of sales comprise various costs including depreciation of oil and gas properties, repair, maintenance and other services, royalties, payroll and related taxes, materials and supplies, management fees, other transportation services, government profit share, environmental levies, and well workover costs.

Depreciation and amortization costs, during the periods under review, have represented as a percentage of total cost of sales 42.6%, 27.5%, 28.2% and 36.7% for the years ended 31 December 2012, 2011, 2010 and 2009, respectively. Such costs fluctuate according to the level of Zhaikmunai's proved developed reserves, the volume of oil and gas it produces and the net book value of its oil and gas properties (see "—Summary of Critical Accounting Policies" below for an explanation of this accounting policy).

Repair, maintenance and other services are related to the repair and maintenance of the Group's infrastructure, including the gas treatment facility, but do not include ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 23.3%, 23.5%, 14.1% and 16.6% for the years ended 31 December 2012, 2011, 2010 and 2009, respectively. The increases in 2012 and 2011 were primarily driven by the ramp up of operations of the gas treatment facility, which came online in the second half of 2011.

Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 3.2%, 5.6%, 10.9% and 0.3% for the years ended 31 December 2012, 2011, 2010 and 2009, respectively. The increase in well workover costs in 2010 compared to 2009 was due to Zhaikmunai's restarting previously postponed workover activities on its wells.

The increase in management fees and payroll costs resulted from an increase in the number of personnel contracted and/or employed by Zhaikmunai as well as through increases in salaries. Costs for repairs and maintenance and material and supplies increased due to the gas treatment facility's operations.

Finance costs

Finance costs in the years ended 31 December 2012, 2011, 2010 and 2009 consisted of interest expenses and fees and expenses in relation to the USD 560,000,000 7.125% notes issued by Zhaikmunai International B.V. in November 2012 (the "**2019 Notes**"); the USD 450,000,000 10.5% notes initially issued by Zhaikmunai Finance B.V. in October 2010 (the "**2015 Notes**"); interest expenses and commitment fees in relation to the senior secured reducing facility agreement entered into in December 2007 (the "**Syndicated Facility**"); unwinding of discount on amounts due to the Government; loan review fees (only in 2009); unwinding of discount on abandonment and site restoration liability, and amortisation of fees incurred on arrangement of the Syndicated Facility (only in 2009).

Interest expense in 2012 consisted of interest on the 2015 Notes and the 2019 Notes. Interest expense in 2011 consisted solely of interest on the 2015 Notes following the prepayment of the Syndicated Facility on 19 October 2010. Interest expense in 2010 consisted of interest on the 2015 Notes and on the Syndicated Facility. Interest expense in 2009 consisted of interest on the Syndicated Facility.

Capitalised borrowing costs (including a portion of the interest expense, withholding tax paid by Zhaikmunai and amortization of the arrangement fees) amounted to U.S.$26.1 million in 2012, U.S.$51.6 million in 2011, U.S.$51.7 million in 2010 and U.S.$26.4 million in 2009. Non-capitalised interest (including withholding tax paid by Zhaikmunai) amounted to U.S.$48.3 million in 2012, U.S.$3.1 million in 2011, U.S.$19.9 million in 2010 and U.S.$6.0 million in 2009.

Royalties, Government Share and Taxes payable pursuant to the PSA

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

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January 2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Article 308 of the Tax Code. Despite the stabilisation clauses (providing for general and tax stability) provided for by the PSA, in 2008 and again in 2010 Zhaikmunai was required to pay new crude oil export duties introduced by the Government. Despite Zhaikmunai's efforts to show that the new export duties were not applicable to it under the PSA, the State authorities did not accept this position and Zhaikmunai was required to pay the export duties. During January 2009, the Government revised and established the rate of the export duties at U.S.$ nil per tonne of crude oil, but reimposed a U.S.$20 per tonne duty in August 2010, which was increased to U.S.$40 per tonne in January 2011. Zhaikmunai currently exports its crude oil to destinations which are currently exempt from such export duties.

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

Under the PSA, Zhaikmunai is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Zhaikmunai is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase (see – "*Business Review – Subsoil Licences and Contracts*"). Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production from the sharing arrangement (known as Cost Oil) that it would otherwise have to share with the Government. Cost Oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. During the periods under review, royalties and government profit share represented, as a percentage of total cost of sales, 14.4% and 3.3% respectively for the year ended 31 December 2012, 12.3% and

2.6% respectively, for the year ended 31 December 2011, 16.5% and 3.1% respectively for the year ended 31 December 2010 and 13.0% and 2.5% respectively for the year ended 31 December 2009.

Factors Affecting Comparability

Gas Treatment Facility

In the past several years the Group has been investing significantly in the construction and development of the gas treatment facility, which was in test production from May 2011 and came online into full production (and therefore resulting in IFRS recognition) in November 2011. Prior to the construction of the gas treatment facility the Group's revenue resulted solely from the sale of crude oil. Commencing in November 2011, the Group began selling condensate, dry gas and LPG in addition to crude oil. This has materially impacted the Group's results in 2012, making it difficult to compare this period to earlier periods.

Summary of Critical Accounting Policies

The Group's significant accounting policies are more fully described in note 4 to the audited consolidated financial statements for 2012 and note 3 to the audited consolidated financial statements for 2011, 2010 and 2009.

However, certain of the Group's accounting policies are particularly important to the presentation of the Group's results of operations and require the application of significant judgment by its management.

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

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

Estimations and Assumptions

Oil and gas reserves

Oil and gas reserves are a material factor in Zhaikmunai LP's computation of depreciation, depletion and amortisation (the "**DD&A**"). Zhaikmunai LP estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (the "**SPE**"). In estimating its reserves under SPE methodology, Zhaikmunai LP 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 our business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

Property, Plant and Equipment

Abandonment and site restoration (decommissioning)

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

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

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

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

Borrowing Costs

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

Derivative Financial Instruments and Hedging

The Group has an ongoing hedging policy in place that it will hedge the price of oil when the Group has significant committed capital expenditure obligations to meet. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

Comparison of the years ended 31 December 2012 and 2011

The table below sets forth the line items of the Group's consolidated statement of comprehensive income for the years ended 31 December 2012 and 2011 in U.S. Dollars and as a percentage of revenue.

	Year ended 31 December 2012	% of revenue	Year ended 31 December 2011	% of revenue
		(U.S.$ thousands)		
Revenue	737,065	100.0	300,837	100.0
Cost of sales	(238,224)	32.3	(70,805)	23.5
Gross Profit	**498,841**	**67.7**	**230,032**	**76.5**
General and administrative expenses	(61,549)	8.4	(36,405)	12.1
Selling and transportation expenses	(103,604)	14.1	(35,395)	11.8
Loss on derivative financial instrument	—	—	—	—
Finance costs	(50,118)	6.8	(4,717)	1.6
Foreign exchange gain/(loss), net	776	0.1	(389)	0.1
Interest income	698	0.1	336	0.1
Other income/(expenses)	(2,672)	0.4	(4,490)	1.5
Profit before income tax	**282,372**	**38.3**	**148,972**	**49.5**
Income tax expense	(120,363)	16.3	(67,348)	22.4
Profit for the period	**162,009**	**22.0**	**81,624**	**27.1**

Revenue increased by U.S.$436.2 million, or 145.0%, to U.S.$737.1 million in the year ended 31 December 2012 from U.S.$300.8 million in the year ended 31 December 2011 primarily due to the additional revenue generated by the increased production primarily from the gas treatment facility.

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

	Years ended 31 December	
	2012	2011
Revenue (U.S.$ thousands)	737,065	300,837
Sales volumes (boe)	13,629,245	3,397,815
Average Brent crude oil price on which Zhaikmunai based its sales (U.S.$/bbl)	107.43	106.87

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

	Year ended 31 December 2012	Year ended 31 December 2011
	(U.S.$ thousands)	
Revenue:		
Oil and gas condensate	587,371	289,947
Gas and liquefied petroleum gas	149,694	10,890
Total Revenue	**737,065**	**300,837**

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

	Year ended 31 December 2012	Year ended 31 December 2011
	(U.S.$ thousands)	
Revenue:		
Revenue from export sales	630,412	284,548
Revenue from domestic sales	106,653	16,289
Total Revenue	**737,065**	**300,837**

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

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

Depreciation and amortisation increased by 421.3% or U.S.$81.9 million in the year ended 31 December 2012 to U.S.$101.4 million, primarily resulting from the gas treatment facility and associated wells coming into production.

Materials and supply expenses increased by 7.7% to U.S.$5.3 million while repair and maintenance expenses increased by 233.4% to U.S.$55.5 million, mainly due to the increased operations and production related to the gas treatment facility.

Payroll and related taxes increased by 99.4% to U.S.$18.4 million in the year ended 31 December 2012 compared to U.S.$9.2 million in the year ended 31 December 2011 primarily due to an increase in the number of employees required to operate the gas treatment facility and increase in salary rates.

Royalty costs increased by 293.8% to U.S.$34.2 million in the year ended 31 December 2012, as compared to U.S.$8.7 million in the year ended 31 December 2011, primarily due to increased revenue resulting from increased production.

General & administrative expenses increased by U.S.$25.1 million, or 69.1%, to U.S.$61.6 million in the year ended 31 December 2012 from U.S.$36.4 million in the year ended 31 December 2011 due primarily to an increase in social program expenditures of U.S.$20.8 million in the year ended 31 December 2012 from U.S.$1.1 million in the year ended 31 December 2011. This increase was related to the start of construction of a 37 kilometre asphalt road accessing the field site, which the Group agreed to construct as part of the ninth amendment to the PSA. The costs associated with the constructions of this road are significantly higher than the Group's usual costs relating to social programs.

Other expenses contributing to the increase in general and administrative expenses include an increase in management fees, an increase in payroll and related taxes and an increase in training expenses.

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

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

Profit before income tax increased by U.S.$133.4 million, or 89.5%, to U.S.$ 282.4 million in the year ended 31 December 2012 compared to a profit of U.S.$149.0 million in the year ended 31 December 2011. The higher level of profit was driven primarily by increased revenue due to the inclusion of gas treatment facility output.

Income tax expense increased to U.S.$120.4 million in the year ended 31 December 2012 compared to U.S.$67.3 million in the year ended 31 December 2011, a 78.7% increase. The increase in income tax expense is due to the increase in revenue in the year ended 31 December 2012.

Net income increased by U.S.$80.4 million, or 98.5%, to U.S.$162.0 million in the year ended 31 December 2012 from U.S.$81.6 million in the year ended 31 December 2011. This higher profitability was driven by increased revenue from increased production.

Comparison of the years ended 31 December 2011 and 2010

Below sets forth the line items of the Group's audited statement of comprehensive income for the years ended 31 December 2011 and 2010 in U.S. Dollars and as a percentage of revenue.

	Year ended 31 December 2011	**% of revenue**	**Year ended 31 December 2010**	**% of revenue**
	(U.S.$ thousands)		*(U.S.$ thousands)*	
Revenue	300,837	100.0	178,159	100.0
Cost of sales	(70,805)	23.5	(53,860)	30.2
Gross Profit	**230,032**	**76.5**	**124,299**	**69.8**
General and administrative expenses	(36,405)	12.1	(27,265)	15.3
Selling and transportation expenses	(35,395)	11.8	(17,014)	9.5
Loss on derivative financial instruments	—	—	(470)	0.3
Finance costs	(4,717)	1.6	(21,296)	12.0
Foreign exchange (loss)/gain, net	(389)	0.1	46	0.0
Interest income	336	0.1	239	0.1
Other (expenses)/income	(4,490)	1.5	2,234	1.3
Profit before income tax	**148,972**	**49.5**	**60,773**	**34.1**
Income tax expense	(67,348)	22.4	(37,873)	21.3
Profit for the period	**81,624**	**27.1**	**22,900**	**12.9**

Revenue increased by U.S.$122.7 million, or 68.9%, to U.S.$300.8 million in 2011 from U.S.$178.2 million in 2010 primarily due to an increase in the average Brent crude oil price of 33.3% and an increase in the output from the gas treatment facility.

The following table shows the Group's revenue and sales volumes for the years ended 31 December 2011 and 2010:

	Years ended 31 December	
	2011	**2010**
	(U.S.$ thousands)	
Sales volumes (boe)	3,397,815	2,634,553
Average Brent crude oil price on which Zhaikmunai based its sales (U.S.$/bbl)	106.87	80.15
Total Revenue	**300,837**	**178,159**

The following table shows the Group's revenue breakdown by product for the years ended 31 December 2011 and 2010:

	Years ended 31 December	
	2011	**2010**
	(U.S.$ thousands)	
Revenue:		
Oil and gas condensate	289,947	178,159
Gas and liquefied petroleum gas	10,890	—
Total Revenue	**300,837**	**178,159**

The following table shows the Group's revenue breakdown by export/import for the years ended 31 December 2011 and 2010:

	Years ended 31 December	
	2011	**2010**
	(U.S.$ thousands)	
Revenue:		
Revenue from export sales	284,548	172,102
Revenue from domestic sales	16,289	6,057
Total Revenue	**300,837**	**178,159**

Cost of sales increased by U.S.$16.9 million, or 31.5%, to U.S.$70.8 million in 2011 from U.S.$53.9 million in 2010 primarily due to an increase in depreciation and amortisation, repair, maintenance and other services and payroll and related taxes, primarily due to bringing the gas treatment facility online and the commencement of operation of new wells. On a boe basis, cost of sales increased by U.S.$0.39, or 1.91%, to U.S.$20.83 in 2011 from U.S.$20.44 in 2010, and cost of sales net of depreciation per boe increased by U.S.$0.44, or 3.00%, to U.S.$15.12 in 2011 from U.S.$14.68 in 2010.

Depreciation and amortization also increased by U.S.$4.3 million, or 28.1%, to U.S.$19.4 million for the year ended 31 December 2011 from U.S.$15.2 million for the year ended 31 December 2010, primarily due to bringing the gas treatment facility online and the commencement of operation of new wells.

Repair, maintenance and other services expenses increased by U.S.$9.0 million, or 118.4%, to U.S.$16.6 million for the year ended 31 December 2011 from U.S.$7.6 million for the year ended 31 December 2010, mainly due to the increased operations and production related to the gas treatment facility.

Payroll and related taxes increased by U.S.$2.6 million, or 39.3%, to U.S.$9.2 million for the year ended 31 December 2011 from U.S.$6.6 million for the year ended 31 December 2010, primarily due to the increased staff required to operate the gas treatment facility and increase in salary rates.

Slightly offsetting the increases in cost of sales were decreases in costs associated with well workover and environmental levies. Well workover costs decreased by U.S.$1.9 million, or 31.9%, to U.S.$4.0 million for the year ended 31 December 2011 from U.S.$5.9 million for the year ended December 2010, primarily due to a decrease in ongoing repair and maintenance of production and exploration wells as work on the current wells was completed in 2010. Environmental levies costs decreased by U.S.$0.8 million, or 49.9%, to U.S.$0.8 million in 2011 from U.S.$1.6 million in 2010 due to less gas flaring in 2011 than in 2010, as the first gas treatment facility came onboard.

General and administrative expenses increased by U.S.$9.1 million, or 33.5%, to U.S.$36.4 million for the year ended 31 December 2011 from U.S.$27.3 million for the year ended 31 December 2010 due primarily to an increase in business travel expenses and an increase in management fees (consisting of payment of remuneration of certain senior management employees). Expenses relating to business travel increased by U.S.$3.4 million, or 467.4% to U.S.$4.1 million in 2011 from U.S.$0.7 million in 2010, primarily due to increased travel between Western Europe and Kazakhstan. Management fees increased by U.S.$3.5 million, or 54.9%, to U.S.$9.9 million in 2011, from U.S.$6.4 million in 2010 due to an increase in personnel costs relating to bringing the gas treatment facility online.

Selling and transportation expenses increased by U.S.$18.4 million, or 108.0%, to U.S.$35.4 million for the year ended 31 December 2011 from U.S.$17.0 million for the year ended 31 December 2010 driven primarily by an increase of U.S$17.8 million for transportation costs from U.S.$11.8 million in 2010 to U.S.$29.7 million in 2011 as the Group continued to move away from FCA (Free Carrier) terms towards DAP (Delivered at Place) and FOB (Free On Board) terms as a result of management's decision to build in greater flexibility with respect to the pricing of its products in an effort to maximise profitability. The output of LPG from the gas treatment facility also increased Zhaikmunai's transportation costs due to both the increased volume of LPG produced and the higher costs associated with the specialised transport needs of LPG.

Finance costs decreased by U.S.$16.6 million, or 77.9%, to U.S.$4.7 million for the year ended 31 December 2011 from U.S.$21.3 million for the year ended 31 December 2010 primarily due to a decrease in interest expense on borrowing. The interest expense on borrowing decreased by U.S.$16.9 million, or 84.7%, to U.S.$3.1 million in 2011, from U.S.$19.9 million in 2010 due to the capitalisation of interest costs in the period and higher expenses in 2010 related to the expensing of previously capitalised financing fees paid in 2008 and 2009 under the Syndicated Facility.

Profit before income tax increased by U.S.$88.2 million, or 145.0%, to U.S.$149.0 million for the year ended 31 December 2011 from U.S.$60.8 million for the year ended 31 December 2010 primarily due to increased Brent crude oil prices realised during the year and increased revenue due to bringing the gas treatment facility online and the commencement of operation of new wells.

Income tax expense increased by U.S.$29.5 million, or 77.8%, to U.S.$67.3 million for the year ended 31 December 2011 from U.S.$37.9 million for the year ended 31 December 2010, primarily due to higher revenue generated by the Group in 2011.

Net income increased by U.S.$58.7 million, or 256.4%, to U.S.$81.6 million for the year ended 31 December 2011 from U.S.$22.9 million for the year ended 31 December 2010, for the reasons described above.

Liquidity and Capital Resources

General

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

Cash Flows

The following table sets forth the Group's consolidated cash flow statement data for the years ended 31 December 2012, 2011 and 2010.

	Year ended 31 December		
	2012	**2011**	**2010**
		(US$ thousands)	
Net cash flow from operating activities	291,825	132,223	98,955
Net cash used in investing activities	(269,674)[(1)]	(103,681)	(132,189)
Net cash (used in)/ provided by financing activities	50,390	(47,350)	39,710
Cash and cash equivalents at the end of period	197,730	125,393	144,201

(1) Net cash used in investing activities includes U.S.$50 million of short term bank deposits that are not included in cash and cash equivalents at the end of 2012.

Net cash flows from operating activities

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

- profit before income tax for the period of U.S.$ 282.4 million, adjusted by a non-cash charge for depreciation and amortisation of U.S.$102.6 million, and finance costs of U.S.$50.1 million;
- a U.S.$45.8 million increase in working capital primarily attributable to (i) an increase in receivables of U.S.$41.4 million, (ii) a decrease in payables of U.S.$2.7 million, (iii) an increase in inventories of U.S.$10.4 million and (iv) an increase in other current liabilities of U.S.$22.0 million; and
- income tax paid of U.S.$94.2 million.

Net cash flows from operating activities were U.S.$132.2 million for the year ended 31 December 2011 and were primarily attributable to:

- a profit before income tax for the period of U.S.$149.0 million, adjusted by a non-cash charge for depreciation and amortisation of U.S.$19.8 million;
- a U.S.$28.9 million increase in working capital primarily attributable to (i) an increase in pre-payments of U.S.$6.5 million, (ii) an increase in trade receivables of U.S.$11.0 million, (iii) an increase in inventories of U.S.$8.9 million, (iv) a decrease in advances received of U.S.$8.5 million and (v) partially offset by an increase in accounts payable of U.S.$10.5 million; and
- income tax paid of U.S.$13.2 million.

Net cash flows from operating activities were U.S.$99.0 million for the year ended 31 December 2010 and were primarily attributable to:

- a profit before income tax of U.S.$60.8 million adjusted by (i) a non-cash charge for depreciation and amortisation of U.S.$15.7 million and (ii) accrual of share option expenses of U.S.$3.1 million;
- a U.S.$1.9 million increase in working capital primarily attributable to (i) a decrease in trade receivables of U.S.$12.2 million, (ii) a decrease in trade payables of U.S.$18.6 million and (iii) decreases in advances received of U.S.$11.7 million; and
- income tax paid of U.S.$1.8 million.

Net cash used in investing activities

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

Net cash used in investing activities was U.S.$103.7 million for the year ended 31 December 2011 primarily due to investments in the gas treatment facility (U.S.$28.4 million) and the drilling of new wells (U.S.$77.2 million).

Net cash used in investing activities was U.S.$132.2 million for the year ended 31 December 2010 primarily attributable to the drilling of new wells (U.S.$69.1 million) and investments in the gas treatment facility (U.S.$52.4 million) and in the water injection programme (U.S.$5.5 million).

Net cash (used in)/ provided by financing activities

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

Net cash used in financing activities was U.S.$47.4 million for the year ended 31 December 2011, primarily attributable to the interest paid on the Group's 2015 Notes.

Net cash provided by financing activities was U.S.$39.7 million for the year ended 31 December 2010, primarily due to the Syndicated Facility being refinanced by a larger principal amount of notes.

Commitments

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 regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted payments:

	Year ended 31 December 2012					
	On demand	**Less than 3 months**	**3–12 months**	**1–5 years**	**More than 5 years**	**Total**
			(U.S.$ thousands)			
Borrowings	-	19,385	37,380	264,451	639,800	961,016
Trade payables	59,855	-	-	-	-	59,855
Other current liabilities	1,181	-	-	-	-	1,181
Due to Government of Kazakhstan	-	258	773	4,124	13,402	18,557
Total	61,036	19,643	38,153	268,574	653,202	1,040,608

The Group had contractual capital commitments of U.S.$23.1 million as of 31 December 2012, mainly with respect of the Group's oil field development activities.

Capital Expenditures

In the years ended 31 December 2012, 2011 and 2010, Zhaikmunai's cash capital expenditures (excluding VAT) were approximately U.S.$255.4 million, US$133.7 million, and U.S.$157.3 million, respectively, reflecting primarily drilling costs and infrastructure and development costs for items such as the crude oil pipeline, the gas pipeline, the oil treatment unit and the gas treatment facility. This represented 36.3%, 44.4% and 88.3% of revenue, respectively. The Group has implemented a capital expenditure programme in which Zhaikmunai has budgeted a cost per well of approximately U.S.$10 million for oil wells and approximately U.S.$14.0 million for gas condensate wells.

Drilling Expenditures

Drilling expenditures amounted to U.S.$121.4 million for the year ended 31 December 2012, compared to U.S.$77.3 million for the year ended 31 December 2011 and US$52.2 million for the year ended 31 December 2010.

New Licences

In the third quarter of 2012 the Group signed purchase agreements for the acquisition of three new licences in fields near the Chinarevskoye Field for a total purchase price of U.S.$16 million. Zhaikmunai has estimated that it will cost approximately U.S.$85 million to conduct the necessary appraisal activities.

Gas Treatment Facilities

Following the successful implementation of the first gas treatment facility, Zhaikmunai is expected to build a second gas treatment facility. Management estimates that the construction of the second gas treatment facility will cost approximately U.S.$400-500 million.

Oil Treatment Units

Currently Zhaikmunai operates a first crude oil treatment unit, which was built and commissioned at the beginning of 2006. The Group expects to complete a second oil treatment unit in order to double its oil treatment capacity. Total capital expenditure for the oil treatment unit is expected to be approximately U.S.$40-50 million.

Disclosure about Market Risk

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

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of crude oil. Commodity price risk is extremely significant to the Group's results of operations given that all sales of crude oil are based on the commodity price. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. Although the Group enters into hedging contracts, these only partially protect the Group against decreases in oil prices from their current levels. The Group intends to keep the same hedging policy going forward which is driven by capital expenditure and debt service requirements.

Foreign currency exchange rate risk

The Group is exposed to foreign currency risk associated with transactions entered into, and assets and liabilities denominated, in currencies other than the functional currency of its operating entities, being the U.S. 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 U.S. Dollars, and most of the Group's expenses are primarily denominated in U.S. Dollars, with approximately 20% denominated in Tenge. There is no significant forward market for the Tenge and the Group does not use other foreign exchange or forward contracts to manage this exposure.

With respect to foreign exchange, the Group incurred a gain of U.S.$776 thousand in the year ended 31 December 2012 (compared to a loss of U.S.$389 thousand in the year ended 31 December 2011 and a gain of U.S.$46 thousand for the year ended 31 December 2010. The Group does not hedge against this risk. As at the date of this report, all of the Group's financing is in U.S. Dollars and in the future the Group's capital expenditures are expected to be primarily denominated in U.S. Dollars.

Interest rate risk

The Group's interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings. During the periods under review, the Group's existing borrowings have borne interest at (i) a fixed rate under the 2019 Notes and the 2015 Notes, (ii) a fixed margin as stated in the Syndicated Facility and (iii) a variable rate credit facility linked to the London Interbank Offered Rate as stated in the Syndicated Facility.

Credit risk

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

Recent Developments

On 11 February 2013, Zhaikmunai announced that the Board of Directors of its general partner, Zhaikmunai Group Limited, has considered a GDR buy-back programme and submitted the following suggestions to the limited partners of the Partnership for their approval by special resolution:

(1) a proposal that the Partnership be granted a general authorization to purchase Zhaikmunai Global Depositary Receipts (GDRs) listed on the London Stock Exchange and Zhaikmunai partnership interests; and

(2) certain amendments to Zhaikmunai's limited partnership agreement be made to allow for the initiation of such a GDR buy-back programme.

In Q1 2013, Zhaikmunai moved the "seat of effective management" of ZGL, Claydon, Jubilata and Zhaikmunai LP to the Netherlands.

Under a deed dated March 01, 2013 Zhaikmunai LLP has (subject to registration with the National Bank of Kazakhstan) acquired in a transaction under common control 2,559,200 ordinary shares of Zhaikmunai International B.V., representing 100% of its charter capital, from Zhaikmunai Netherlands B.V., an entity under control of a common parent. Under the same deed, Zhaikmunai LLP also became (again subject to registration with the National Bank of Kazakhstan) the borrower under a USD 2,539,200 intercompany loan agreement dated 13 November 2012 with Zhaikmunai International BV as lender.

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

4. DESCRIPTION OF SIGNIFICANT INDEBTEDNESS AND CERTAIN FINANCIAL ARRANGEMENTS

The following is a summary of certain provisions of the Group's indebtedness. It does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

2015 Notes

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

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

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

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

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

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

2019 Notes

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

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

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

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

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

5. KEY RISK FACTORS

Risk Factors Relating to the Group's Business

The Group's activities in the Chinarevskoye Field are currently its sole source of revenue.

Zhaikmunai conducts its operations in the Chinarevskoye oil and gas condensate field (the "**Chinarevskoye Field**") pursuant to a subsoil use licence (the "**Licence**") which is part of an associated production sharing agreement ("**PSA**") which expires in 2031 (for the Northeastern Tournaisian reservoir) and 2033 (for the rest of the Chinarevskoye Field). In addition, Zhaikmunai holds a 100% interest and is operator of the Rostoshinskoye, Darinskoye and Yuzhno-Gremyachenskoye oil & gas fields. Zhaikmunai's activities in the Chinarevskoye Field are currently the Group's sole source of revenue. Any event that adversely interferes with the Group's ability to conduct its operations in the Chinarevskoye Field could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group's future hydrocarbon production profile is based on its gas treatment facility operating at full or near-full capacity. If the gas treatment facility is not operating at full or near-full capacity, or if the Group is unable to bring the second gas treatment facility online, the Group may not be able to meet its strategic production objectives.

The Group's gas treatment facility is essential for the treatment of gas condensate to produce dry gas, condensate and LPG for sale by the Group. Should the gas treatment facility cease to be operational due to operational risks or hazards, the Group would have to apply for additional gas flaring permits from the Ministry of Oil and Gas of the Republic of Kazakhstan (the "**Competent Authority**") in order to flare associated gas and there can be no guarantee that these would be issued. If no such permits are issued, the Group might have to reduce or suspend its production activities as production levels will be based on the assumption of a fully operational gas treatment facility which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Additionally, to date, the gas treatment facility has operated at less than its design capacity. In October 2012, the Group conducted a controlled shutdown of the gas treatment facility in order to bring the facility's production to design capacity by the end of 2012. However, there can be no assurance that the gas treatment facility will reach design capacity or if it does, that the Group will be able to maintain it without significant expense.

The first gas treatment facility was completed and brought online in November 2011 and the Group is in the process of designing and planning the second gas treatment facility, which entails building a comparable facility in the vicinity of the first gas treatment facility. The second gas treatment facility is important for the Group's strategy to increase the production of liquid hydrocarbons. Detailed engineering and procurement plans are on-going and the Group is in the process of obtaining the applicable permits and contracting with potential suppliers for the equipment, construction and assembly of the second gas treatment facility. As a result of the second gas treatment facility becoming operational the Group expects a significant increase in its operating capacity and production volumes. The additional operating capacity and higher production volumes (including, specifically, production of liquid hydrocarbons) have been incorporated in the Group's long-term strategy and any material failure relating to the gas treatment facilities, including if the expenses to bring the second gas treatment facility online are significantly higher than expected, it could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The proportion of oil and gas production that must be shared with the State, as well as the Group's royalty payments to the Government, may increase.

Under the terms of the PSA and the Licence, the Group is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State increases as annual production levels increase, In addition, as the level of oil and gas produced by the Group increases, the royalty rate payable to the State will also increase. Increases in production will therefore result in a proportionately higher monthly royalty payment being made to the State. Significant increases in the proportion of oil and gas production that the Group must share with the State and in royalty payments to the State could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group sells its dry gas predominantly to two customers pursuant to contracts due to expire on 31 December 2013.

The Group sells its dry gas predominantly to two domestic customers pursuant to three contracts due to expire on 31 December 2013. Under one of the contracts, the Group is allowed to set the quantity of the gas supplied, but is not required to sell a minimum volume of gas. Under the second and third contracts, any change to the annual quantities has to be agreed with the buyer. Prices for gas are broadly in line with domestic gas prices in the Russian Federation, but may not reflect the prevailing market prices on a monthly basis. Payment default by, reduced demand from or termination of the contract with one of the customers or failure to renew such contracts upon expiration may have an adverse effect on the Group's business, results of operations and financial condition and its ability to realise its expected profit margin as it may not be able to immediately enter into contractual arrangements with other purchasers on similarly attractive terms or at all.

The Group may be unable to raise additional financing when necessary from time to time; this would adversely affect its ability to pursue its business strategy.

The Group may from time to time require additional equity or debt financing to satisfy its capital investment commitment and liquidity needs. For example, in the years ended 2012, 2011 and 2010, Zhaikmunai's capital expenditures were approximately U.S.$255.4, U.S.$133.7 million and U.S.$157.3 million, respectively, reflecting primarily drilling costs and infrastructure and

development costs. Management believes that its future capital expenditures will be in line with the current trends, which may require significant internal and external financing. In addition, in September 2012, the Group approved a dividend payment of U.S.$60.2 million to the Common Unit/GDR holders of Zhaikmunai LP and plans to issue similar payments in the future.

The Group's ability to arrange financing and the cost of financing generally depend on many factors, including:

- economic and capital markets conditions generally, and in particular the non-investment grade debt market;
- investor confidence in the crude oil and gas industry, in Kazakhstan and in the Group;
- the business performance of the Group;
- regulatory developments;
- credit available from banks and other lenders; and
- provisions of tax and securities laws that are conducive to raising capital.

The terms and conditions on which future funding or financing may be made available may not be acceptable or funding or financing may not be available at all. If additional funds are raised by incurring debt, the Group may become more leveraged and subject to additional or more restrictive financial covenants and ratios. The Group's inability to procure future financing would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group's significant leverage may, among other things, make it difficult for it to service its debt and operate its business.

The Group currently uses and plans to continue to use debt financing for Zhaikmunai's future operations and projects. As a result, the risks normally associated with debt financing may affect the Group's business, prospects, financial position and operating results. For example, the Group's substantial leverage could:

- make it more difficult for the Group to satisfy its debt;
- require the Group to dedicate a substantial portion of its cash flows from operations to payments on its debt, which may reduce the funds available for working capital, capital expenditures and other general corporate purposes;
- limit the availability of credit under hedging contracts, which may make it more challenging for the Group to enter into new hedging arrangements;
- increase the Group's vulnerability in the event of general and/or industry-specific adverse economic conditions; and
- limit the Group's ability to borrow additional funds or increase the cost of any such borrowing, particularly due to the financial and other restrictive covenants contained in the agreements governing its debt.

In addition, if principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as debt capital or by issuing additional Common Units in Zhaikmunai L.P., then the Group's cash flow may not be sufficient to repay all maturing debt.

In addition, prevailing interest rates or other factors at the time of refinancing, such as the possible reluctance of lenders to make commercial loans in Kazakhstan, could also result in higher interest rates and the increased interest expense would adversely affect the Group's ability to service debt and to complete its capital expenditure programme.

The Group's planned development projects are subject to risks related to cancellation, delay, non-completion and cost overruns which could result in a reduction or suspension of the Group's production of hydrocarbons.

An important element of the Group's growth strategy is to construct new operating facilities. These projects are at various stages of development and are subject to risks of cancellation, delay and non-completion. For example, the Group is currently in the process of designing and planning the second gas treatment facility, which is expected to result in a significant increase in the Group's operating capacity and production volumes. The Group may experience technical difficulties during construction, testing and commencement of operations that may not be resolved in a timely or cost-effective manner, or at all. The construction of new facilities also depends on the services of certain contractors and the products of specialist suppliers. A reduction or cessation of the performance of the contractors retained to build these facilities, or a shortage in the necessary supplies to complete these facilities, could also result in delays and could inflate the costs associated with these projects. The Group may also incur cost overruns in connection with completing the projects, which it may not have sufficient financial resources to fund. The construction of these facilities may not be completed as scheduled, or at all. The failure to complete any of the Group's planned development projects that lead to a reduction or suspension of the Group's production of hydrocarbons, or any delays or cost overruns in their development, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group may not be able to manage its growth and expansion effectively.

The Group has experienced rapid growth and development in a relatively short period of time, and the Group expects to continue to expand its business through the development of the second gas treatment facility in the future. The Group's management of its growth and projects will require, among other things, stringent control of financial systems and operations; the continued development of the Group's management and financial control; the ability to attract and retain sufficient numbers of qualified management, technical, accounting and other personnel; the continued training of such personnel, the presence of adequate

supervision and the continued consistency in the quality of its services. Failure to manage growth, development and these major projects effectively could have a material adverse effect on the overall growth of the Group's business, prospects, financial condition, cash flows or results of operations.

The Group may face unanticipated increased costs.

The oil and gas business is a capital-intensive industry. To implement its business strategy, the Group has invested in the construction of its oil and gas pipelines, and has invested, and continues to invest, in drilling and exploration activities and infrastructure, including the second gas treatment facility. The Group's current and planned expenditures on such projects may be subject to unexpected problems, costs and delays, and the economic results and the actual costs of these projects may differ significantly from the Group's current estimates. For example, in 2012 the Group experienced some unexpected costs relating to bringing the first gas treatment facility to full design capacity.

The Group relies on oil field suppliers and contractors to provide materials and services in conducting its exploration and production activities, and may incur additional expenses if it is required to perform some of these activities directly.

Any competitive pressures on the oil field suppliers and contractors, or substantial increases in the worldwide prices of commodities, such as steel, could result in a material increase in costs for the materials and services required by the Group to conduct its business. The cost of oil field services and goods has increased significantly in recent years and is heavily linked to the price of oil and could continue to increase in the future. Future increases could have a material adverse effect on the Group's operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of the Group's properties, its planned level of spending for exploration and development and the level of its reserves.

Prices for the materials and services the Group depends on to conduct its business may not be sustained at levels that enable the Group to operate profitably. The Group may also need to incur various unanticipated costs, such as those associated with personnel, transportation and Government taxes. Personnel costs, including salaries, are increasing as the standard of living rises in Kazakhstan and as demand for suitably qualified personnel for the oil and gas industry increases. Additionally, trade unions are active in Kazakhstan, particularly in the oil and gas sector. Although there have been no strikes in the history of the Group, industrial action, and the increased costs associated with such action, could occur. An increase in any of these or other costs could materially and adversely affect the Group's business, prospects, financial condition and results of operations.

The Group cannot accurately predict its future decommissioning liabilities.

The Group, through its operations, has in the past assumed certain obligations in respect of the decommissioning of its field and related infrastructure and is expected to assume additional decommissioning liabilities in respect of its future operations. These liabilities are derived from legislative and regulatory requirements concerning the decommissioning of wells and production facilities and require the Group to make provision for and/or underwrite the liabilities relating to such decommissioning. Although the Group's accounts make a provision for such decommissioning costs, there can also be no assurances that the costs of decommissioning will not exceed the value of the long-term provision set aside to cover such decommissioning costs. It is, therefore, difficult to forecast accurately the costs that the Group will incur in satisfying its decommissioning obligations and the Group may have to draw on funds from other sources to bear such costs.

The Group faces potential conflicts of interest.

The Group has engaged in, and may continue to engage in, transactions with related parties that could give rise to conflicts of interest. For example, the Group has engaged in transactions with companies controlled by and/or related to its shareholders, including management service agreements with Claremont and its affiliates and construction contracts with a member of the KSS Group. Any future conflicts of interest may continue to arise and the Group may not satisfactorily resolve any actual or potential conflict in the future.

The shareholder of the General Partner and its affiliates may be able to exercise substantial influence over the Group.

As at the date of this report, Thyler Holdings BV, which is under common control with Claremont, is the sole shareholder of the General Partner and Claremont and its Affiliates are the beneficial owners of 27.2% of the Common Units (either directly or in the form of GDRs). Claremont and its Affiliates (similar to other shareholders that own at least 25% of the Common Units, such as KSS) are also able to effectively block certain matters requiring approval of holders of Common Units (by way of special resolutions), including the payment of distributions. Claremont and its Affiliates may therefore be able to exercise substantial influence over the Group's business and affairs and may potentially be able to block actions that favour the interests of the Group over their own interests. In addition, as long as Claremont and its Affiliates beneficially own at least 25% (either directly or in the form of GDRs) of the Common Units, Thyler Holdings BV (similar to the rights of other owners of at least 25% of the Common Units, such as KSS) would be able to block any special resolutions (such as a proposal to remove the General Partner or to dissolve Zhaikmunai LP).

This concentration of ownership may also have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control.

Zhaikmunai LP entered into a relationship agreement (the "**Relationship Agreement**") with Thyler and Claremont in March 2008

in which Thyler and Claremont undertook to allow Zhaikmunai LP to operate its business independently from Thyler and its Affiliates, and to ensure that commercial transactions and relationships with Thyler and its Affiliates are conducted on an arm's length basis. However, Zhaikmunai LP may be unable to enforce its rights under the Relationship Agreement and the relevant agreement will cease to have effect if Claremont (together with its Affiliates) holds less than 25% of the Common Units (either directly or in the form of GDRs).

If Claremont and its Affiliates block actions and thereby favour their interests over those of the Group (in violation of the terms of the Relationship Agreement), the Group's business, prospects, financial position or results of operations may be materially adversely affected.

The Group requires significant water supplies in order to conduct its business and failure to obtain such water may adversely affect its business.

Normal drilling operations and exploration activities, and the use of water injection techniques in the Group's crude oil reservoirs, require access to significant supplies of water. The Group currently extracts water pursuant to a water use permit issued on 28 August 2008 (the "**Water Use Permit**") which is valid until August 2030 with certain limitations on the amounts of water that can be used. The Water Use Permit can be withdrawn if the terms of special water use specified in the Water Use Permit are breached. Such terms include monitoring the quality of underground water, submitting statistical reports and monitoring reports, complying with requirements relating to water protection during mining operations and regular checking of equipment. As the Group's production increases, the amount of water required by the Group for its operations will also increase, which will require the Group to apply for additional permits to access additional water sources. The Group's current Water Use Permit allows the Group to use around half of the anticipated requirements of the Group when it reaches full production capacity. The Group intends to apply for further Water Use Permits at an appropriate time. In the event the Group ceases to have access to the necessary amount of water, if the level of water available to it is curtailed or if the Group fails to obtain further Water Use Permits, the Group's ability to pursue its drilling and production activities may be materially and adversely affected, which would have a material adverse effect on its business, prospects, financial condition and results of operations.

The Group depends on key members of management, external consultants and service providers and on its ability to retain and hire new qualified personnel and consultants.

The Group depends on the contribution of a number of its key senior management and personnel. For example, the Group depends on the services of Mr. Kai-Uwe Kessel, Zhaikmunai LP's Chief Executive for overall management of the Group's business.

The Group depends on the extensive contacts and relationships of its executives and Frank Monstrey, the Chairman of the Board of Directors of the General Partner. Management personnel are provided pursuant to agreements between Probel Capital Management N.V. ("**Probel**"), Prolag BVBA ("**Prolag**") and Amersham Oil Limited, each of which is indirectly controlled by Frank Monstrey, and Zhaikmunai. The services provided under these agreements are integral to the management of the Group. Key personnel, such as Mr. Kessel, may not remain with the Group and these companies may not continue to supply the services of these senior managers to the Group on similar terms, or at all. The Group is not insured against damage that may be incurred in case of loss or dismissal of the Group's key specialists or managers. The loss of or diminution in the services of one or more of the Group's senior executives, or the Group's inability to attract, retain and maintain additional senior management personnel, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group depends on the services of Zhaikmunai management personnel on issues related to daily business of the Group.

The Group's future success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in Kazakhstan for personnel with relevant expertise is intense due to the relatively small number of qualified individuals. Currently, all Kazakh employers attracting foreign employees must obtain a labour permit for such employees to work in Kazakhstan from regional authorities and the Ministry of Labour and Social Protection of Population of Kazakhstan imposes an annual quota on the number of foreigners who can be given such a permit. The quota is typically too small to permit the desired number of foreign employees and, accordingly, the process of obtaining work permits for foreign employees can be time-consuming and uncertain. Sanctions may also be imposed during the period between applying for, and obtaining, a work permit, which could include deportation of the individual concerned. While approximately 1.14% of Zhaikmunai's staff as at 31 December 2012 were non-Kazakhs requiring a work permit, these individuals tend to serve in senior positions. As such, any changes affecting the availability of, or difficulties in obtaining, work permits for these individuals could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Factors critical to retaining the Group's present personnel and to attracting additional highly qualified personnel include the Group's ability to provide competitive compensation arrangements. Wage structures in Kazakhstan, though rising, remain lower than in industrialised nations and it may be difficult to attract and retain experienced and skilled personnel from outside Kazakhstan at wages that are acceptable to the Group. In addition, the Group operates in areas which are subject to extreme temperatures and climate. As such, it is difficult to attract and retain skilled management personnel at affordable rates. The Group also retains external consultants to provide services that are critical to its operations and strategy, such as creating geological models used in exploration and performing hydro-fracturing and other stimulation techniques. Any failure by the Group to retain the services of its existing personnel and the services of specialist external consultants, and to successfully manage its personnel needs generally, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Harsh climate conditions may detrimentally affect the lifespan of the Group's assets and the future cost and operation of the Group's facilities.

West Kazakhstan, where the Chinarevskoye Field is located, is subject to extreme temperatures and climate. These temperature fluctuations impose additional stress on buildings and equipment and, as a result, the lifespan of buildings and equipment is not as long as in milder climates. The need to cater to extreme temperatures and climate also imposes additional costs in design, construction and maintenance. Since most of the equipment used by the Group is imported, maintenance costs are high. Supplies of spare parts and replacement parts are not readily or cheaply available and there is a shortage of skilled maintenance personnel to adequately maintain the Group's equipment. As a result, the increased costs of design, construction and maintenance, or delays while replacement equipment and spare parts are delivered to the Chinarevskoye Field, could have an adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group is subject to risks related to fluctuations in the U.S. Dollar/Tenge exchange rate.

The products that the Group exports are sold at prices quoted in U.S. Dollars and cash payment to the Group is made in U.S. Dollars. Approximately 20% of the Group's expenses for the year ended 31 December 2012 and the year ended 31 December 2011 were denominated in Tenge and not indexed to the U.S. Dollar and hence were subject to fluctuations of the U.S. Dollar/Tenge exchange rate. The Group does not maintain any currency hedging arrangements. If the value of the U.S. Dollar falls against the Tenge, then the Group will have less Tenge available to pay its Tenge expenses and its results will be affected.

The Group's insurance coverage may not be adequate for covering losses arising from potential operational hazards and unforeseen interruptions.

The insurance industry in Kazakhstan is not as developed as in more advanced economies and many forms of insurance protection typically used in more advanced economies, such as business interruption insurance, are unavailable. Kazakhstan law only requires oil and gas companies to insure against certain limited types of risks, such as employees' health and safety, environmental damage and certain civil liability, for instance civil liability of owners of objects, activities of which may cause damage to third parties, and vehicle owners' civil liability. As a result of its engagement in extraction and exploration activities, the Group may become subject to liabilities for hazards against which it either cannot obtain insurance, or may elect not to do so because of high insurance premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business, prospects, operating results and financial condition.

The Group's insurance does not cover business interruption, key-man, terrorism or sabotage insurance. The proceeds of insurance applicable to covered risks may not be adequate to cover increased expenses relating to these losses or liabilities. Accordingly, the Group may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage which could materially and adversely affect the Group's business, prospects, financial condition and results of operations.

Risk Factors Relating to the Oil and Gas Industry

Any volatility and future decreases in commodity prices could materially adversely affect the Group's business, prospects, financial condition and results of operations.

The Group's business depends heavily on prevailing world crude oil prices. Crude oil sales have been the Group's primary source of revenue and the price of crude oil is affected by a variety of factors beyond the Group's control. Historically, crude oil prices have been highly volatile. According to the Intercontinental Exchange, after reaching highs of up to approximately U.S.$147 per barrel in mid-2008, international oil prices fell dramatically in late 2008, reaching approximately U.S.$78 per barrel in December 2009, U.S.$93 per barrel in December 2010 and U.S.$94 per barrel in December 2011. Prices have varied between a low of approximately U.S.$89 per barrel and a high of approximately U.S.$126 per barrel in the year ended 31 December 2012. The price per barrel was approximately U.S.$111 as at 31 December 2012.

Prices for commodities are subject to large fluctuations in response to a variety of factors beyond the Group's control, including:

- the condition of the world economy and geopolitical events;
- relatively minor changes in the global and regional supply of and demand for commodities and expectations regarding future supply and demand;
- market uncertainty and speculative activities by those who buy and sell commodities on the world markets;
- weather, natural disasters and general economic conditions;
- actions of the Organisation of Petroleum Exporting Countries, and other nations exporting petroleum products, to set and maintain specified levels of production and prices;
- governmental regulation in Kazakhstan and elsewhere;
- political stability in Kazakhstan, neighbouring countries and other regions exporting petroleum products; and
- prices and availability of alternative and competing fuel sources.

Accordingly, the Group may not continue to receive the same prices for its products as it currently receives or historically has received. If prices for the Group's products fall below current levels and/or if the Group's overall production quantities are

curtailed, this could have a material adverse effect on the Group's business prospects, financial condition and results of operations.

Any decline in commodities prices and/or any curtailment in the Group's overall production volumes could result in a reduction in net income, could impair the Group's ability to make planned capital expenditures and to incur costs necessary for the development of the Group's fields, and could materially and adversely affect the Group's business, prospects, financial condition and results of operations.

The level of the Group's reserves, their quality and production volumes may be lower than estimated or expected.

Unless stated otherwise, the reserves data included in this report has been derived or extracted from the Ryder Scott Reports, which have been prepared in accordance with the standards established by the PRMS. There are numerous uncertainties inherent in estimating the quantity and the quality of reserves and in projecting future rates of production, including many factors beyond the Group's control. Estimating the amount and quality of reserves is a subjective process and estimates made by different experts often vary significantly. In addition, results of drilling, testing and production subsequent to the date of an estimate may result in revisions to that estimate. Accordingly, reserves estimates may be different from the quantity or quality of hydrocarbons that are ultimately recovered and, consequently, the revenue derived therefrom could be less than that currently expected. The significance of such estimates depends heavily on the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards.

The reserves data contained herein are estimates only and should not be construed as representing exact quantities. These estimates are based on production data, prices, costs, ownership, geological and engineering data, and other information assembled by us, and they assume, among other things, that the future development of the Group's fields and the future marketability of the Group's products will be similar to past development and marketability. Many of the factors, assumptions and variables involved in estimating reserves are beyond the Group's control and may prove to be incorrect over time, and potential investors should not place undue reliance on the forward-looking statements contained herein (including data taken from the Ryder Scott Reports) concerning the Group's reserves or production levels. The Group's 2012 production results differ from the estimates in the 2012 Ryder Scott Report as a result of slower than expected ramp-up to the full design capacity of the gas treatment facility in 2012.

If the assumptions on which the estimates of the Group's reserves have been based are wrong, the Group may be unable to produce the estimated levels or quality of products set out in this report, which would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group may not be able to develop commercially its reserves and resources.

The SPE standards are applied to the Group's reserves and resources. Under SPE standards, probable reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than proved reserves. Possible reserves may be assigned to areas of a reservoir adjacent to probable where data control and interpretations of available data are progressively less certain. Contingent resources are those deposits that are estimated, on a given date, to be potentially recoverable from known accumulations but that are not currently considered commercially recoverable. The resources may not be considered commercially recoverable by the Group for a variety of reasons, including the high costs involved in recovering the contingent resources, the price of oil at the time and the availability of the Group's resources and other development plans that the Group may have. By contrast, prospective resources are those deposits that are estimated, on a given date, to be potentially recoverable from undiscovered accumulations. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. The Group's estimates of its possible and probable reserves are uncertain and can change with time and there can be no guarantee that the Group will be able to develop its reserves and resources commercially.

The Group faces drilling, exploration, production and transportation risks and hazards that may affect the Group's ability to produce oil and gas products at expected levels, quality and costs.

The Group's future success will depend, in part, on its ability to develop oil and gas products reserves in a timely and cost-effective manner. The Group's drilling activities may be unsuccessful and the actual costs incurred to drill and operate wells, and to complete well workovers, may have an impact on the Group's profits. The Group may be required to curtail, delay or cancel any drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of hydrocarbons or well fluids, pollution and other environmental risks, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. The Group's current or future oil and gas appraisal and exploration projects may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. The Group is also exposed to drilling hazards and environmental damage that could greatly increase its operating costs or result in the deterioration of its field operations. In addition, various field conditions may adversely affect its oil and gas production. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity, and adverse geological conditions.

For example, in August 2012, the Group decided to expand its operations and has agreed, subject to government approvals, to acquire subsoil use rights to three new oil and gas fields in Kazakhstan, located approximately 90 kilometres from the Chinarevskoye field. The company is currently in the process of analysing the optimal appraisal and development programme for the fields. However, appraisal and exploration activities are capital intensive and inherently uncertain in their outcome and there can be no assurance that the Group will be successful in its plans to develop these fields.

The Group may also encounter various transportation risks with regards to its oil and gas products, which may affect the Group's ability to deliver its products in a timely and cost effective manner. If the Group experiences any problems with its crude oil pipeline, which connects the Chinarevskoye Field with its railway-loading terminal in Rostoshi near Uralsk, or its 17 kilometre gas pipeline, which links the gas treatment facility to the Orenburg-Novopskov gas pipeline, as well as any other material transport disruptions, it might be required to curtail its production activities or incur additional transportation and storage expenses from accessing alternative transport. The occurrence of any of these events could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group's production operations are also subject to risks associated with natural catastrophe, fire, explosion, blowouts, encountering formations with abnormal pressure, the level of water cut, cratering and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury. Any of these risks could result in loss of hydrocarbons or could lead to environmental pollution and other damage to the Group's properties or nearby areas and increased costs. Should the gas treatment facility cease to be operational due to operational risks or hazards or phase of construction is delayed, the Group may have to apply for additional gas flaring permits from the Competent Authority in order to flare associated gas. There can be no guarantee that these would be issued. If no gas flaring permits were issued, the Group would have to suspend or cease production. Any of these drilling, exploration, production and operational risks and hazards could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Government has the ability to require the Group to make deliveries of hydrocarbons to domestic refineries and these may be at prices that are materially below international market prices.

According to the PSA, the State has the priority right to purchase up to 50% of hydrocarbons produced by Zhaikmunai calculated after the share of production with the State at prices not exceeding world market prices, as determined by the Kazakh government. In addition, the State has the right under the PSA to request Zhaikmunai to deliver the State's distributed oil and gas in-kind to destinations specified by the State. Also, the State has the right to requisition part or all hydrocarbons owned by Zhaikmunai under the PSA in the event of war, natural disasters or other emergency situations.

In the event the Government were to require Zhaikmunai to supply the domestic market with more crude oil than its agreed 15% volume, this could force the Group to reduce its production and result in lost sales and could materially adversely affect the Group's business, prospects, financial condition and results of operations.

The Group may be unable to comply with its obligations under the PSA and the Licence.

The Group's exploration, mining and processing activities depend on the grant, renewal or continuance in force of the PSA, the Licence, other licences, permits, and regulatory approvals and consents, each of which are valid for a limited time period. The PSA, the Licence, other licences, permits and regulatory approvals and consents may not in the future be granted on terms acceptable to the Group or at all, and may not continue in force. Various provisions of Kazakh law provide that fines may be imposed and licences and hydrocarbon contracts may be suspended, amended or terminated if a licence holder fails to comply with its obligations under such documents, including if a licence holder fails to make timely payments of levies and taxes for subsoil use, fails to provide the required geological information or fails to meet other reporting requirements. Failure to comply may also lead to suspension, revocation or termination of such licences and hydrocarbon contracts.

The Group's operations must be carried out in accordance with the terms of applicable law, the Licence and the PSA (including the production permit, the exploration permit, the Development Plans, the gas flaring permits, the technological scheme of development of the Licence area and work programmes) and other licences, permits, regulatory approvals and consents. Under the Kazakhstan law "On Subsoil and Subsoil Use" dated 24 June 2010 (the "**New Subsoil Law**"), which came into force on 7 July 2010, the failure by a subsoil user to remedy more than two breaches of its obligations under a subsoil use contract or project documents within a period of time established in the notice of such breach from the Competent Authority may result in a termination of the relevant subsoil use contract. Recently, the Competent Authority announced it has terminated subsoil use contracts of certain companies due to breaches of Kazakhstan regulations relating to goods, supplies and services from Kazakh sources. In addition, any antecedent breach under the Licence, the PSA, and other licences, permits, regulatory approvals and consents could result in the Group being ineligible for the permits it needs in the future.

The State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, which was until recently the Ministry of Energy and Mineral Resources of Kazakhstan, which on 12 March 2010 was reorganized into the Ministry of Oil and Gas with respect to the oil and gas industry and the mining authorities have on various occasions in the past, notified Zhaikmunai of purported violations of certain provisions of the PSA and requested information from Zhaikmunai demonstrating its compliance with its obligations under the PSA. Zhaikmunai has responded to all such notices and requests and has provided the requested information, which Zhaikmunai believes demonstrates its compliance with the terms of the PSA, to the relevant authorities. To date such authorities have not taken any further action in relation to such notices following receipt of such information from Zhaikmunai.

However, the views of the Government agencies regarding the development of the Chinarevskoye Field or compliance with the terms of its licences or permits may not coincide with the Group's views, which might lead to disagreements that cannot be resolved. The Group could also encounter challenges from third parties to the validity of its existing Licence and contracts, or any future permits that may be required, which could trigger suspension and subsequent termination of these contracts.

The Group is obliged to comply with environmental regulations and cannot guarantee that it will be able to comply with these regulations in the future.

The Group's operations are subject to environmental risks inherent in oil and gas exploration and production industries. Compliance with environmental regulations may make it necessary for the Group, at costs that may be substantial, to undertake measures in connection with the storage, handling, transportation, treatment or disposal of hazardous materials and waste and the remediation of contamination.

The legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan. Stricter environmental requirements, such as those governing discharges to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of contamination, may be adopted in the near future, and the environmental authorities may move towards a stricter interpretation of existing legislation. The costs associated with compliance with such regulations could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group's environmental liabilities currently stem from gas flaring, the disposal of waste water and oil spillage. The costs of environmental compliance in the future and potential liability due to any environmental damage that may be caused by the Group could be material. Moreover, the Group could be adversely affected by future actions and fines imposed on the Group by the environmental protection agencies of the Government, including the potential suspension or revocation of the Licence and termination of the PSA. To the extent that any provision in the Group's accounts relating to remediation costs for environmental liabilities proves to be insufficient, this could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Although the Group is obliged to comply with all applicable environmental laws and regulations, given the changing nature of environmental regulations, it may not be in compliance at all times. Any failure to comply with these environmental requirements could subject the Group to, among other things, civil liabilities and penalty fees and possibly temporary or permanent shutdown of the Group's operations. In the past, the Government claimed that the operator of the Kashagan oil field (a consortium of international investors) had breached certain provisions of its licence and environmental regulations, and consequently suspended the operator's licence. The New Subsoil Law empowers the Competent Authority to terminate existing subsoil licences in certain circumstances. The PSA and the Licence could be suspended as a consequence of non-compliance with environmental regulations. Any such suspension or revocation of the Licence, or the costs associated with compliance with such regulations, could materially adversely affect the Group's business, prospects, financial condition and results of operations.

The Group is subject to an uncertain tax environment that may lead to disputes with regulatory authorities.

The PSA provides that for the lifetime of the PSA and the Licence, Zhaikmunai shall be subject to the tax regime that was in place in Kazakhstan at the time the PSA was signed. In addition, under the PSA, Zhaikmunai is required to share a proportion of its production (in cash or kind), and make royalty payments in addition to certain other payments.

As of 1 January 2009, a new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). While the Tax Code does not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Article 308 of the Tax Code, the Tax Code applies to the three new licenses the Group has agreed to purchase.

The Competent Authority has recently entered into discussions with all subsoil users who are parties to PSAs with the Government, including Zhaikmunai, with regard to potential changes to the tax regime applicable to such PSAs. Government officials have publicly expressed a desire to remove tax stability provisions from PSAs in cases where such a change is necessary to restore the balance of interests between the parties. While Zhaikmunai believes that such a change would not be justified or appropriate in relation to its PSA, there is no certainty that the Government will share this view. There is currently no indication as to whether the current discussions will result in any change in the tax regime applicable to Zhaikmunai's PSA or what such change, if any, would be.

Recently the Kazakhstan government has also stated an intention to draft new tax rules to abolish tax exemptions for foreign firms working on large oil and gas projects in Kazakhstan. The uncertainty of application, including retroactive application, a reintroduction of export duties taxes and the evolution of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Future tax investigations or inquiries could create tax liabilities for the Group or could result in assessments to which the Group believes it is not subject, or with which the Group believes it has complied. Tax authorities could conceivably impose material fines, penalties and interest charges that could be challenged unsuccessfully by the Group either with the tax authorities or through the courts. The uncertainty of application, including retroactive application, a reintroduction of export duties taxes and the evolution of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. For more detail, see footnote 25 of the

audited consolidated financial statements of Zhaikmunai LP and its subsidiaries for 2011 and footnote 26 of the audited consolidated financial statements of Zhaikmunai LP and its subsidiaries for 2012.

The Group operates in a highly competitive industry.

The oil and gas industry is highly competitive. The Group competes with numerous other participants in the acquisition of subsoil use rights for oil and gas exploration, production and properties, and access to export transportation routes for oil and gas. Competitors include oil and gas companies that have greater financial resources, staff and facilities than the Group has. The Group's ability to increase reserves in the future will depend not only on its ability to develop existing properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and gas products include price, methods and reliability of delivery and availability of imported products. The Group's failure to compete effectively could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Risk Factors Relating to Kazakhstan

Risks associated with emerging and developing markets generally.

The disruptions recently experienced in the global and regional capital markets have led to reduced liquidity and increased credit risk for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets such as Kazakhstan may be particularly susceptible to these disruptions and to reductions in the availability of credit or increased financing costs, which could result in financial difficulties. In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in these markets, and, as such, any factors that impact market confidence, (for example, a decrease in credit ratings, or state or central bank intervention in one market or terrorist activity and conflict), could affect the price or availability of funding for entities within any of these markets.

Since the advent of the global economic crisis in 2007, Kazakhstan's economy has been, and may continue to be, adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside Kazakhstan or an increase in the perceived risks associated with investing in emerging and developing economies could dampen foreign investment in Kazakhstan and adversely affect the Kazakhstan economy. Kazakhstan's banking sector has been particularly affected by the lack of availability of international wholesale debt financing, the volatility of deposits and the fact that they have suffered significant losses, all of which led to a destabilisation of Kazakhstan's banking sector. This led to a Government bail-out program in 2009 which led to State support for Kazakhstan's four largest banks (BTA, Alliance Bank, JSC Halyk Bank and Kazkommertsbank). This resulted in new banking legislation which is largely untested and there can be no assurance that this legislation will lead to a recovery of the domestic financial markets or the condition of Kazakhstan banks. This in turn may have further negative effects on the Kazakhstan economy.

The oil and gas sector in Kazakhstan has recently experienced significant volatility. As oil and gas production and exports, to a large degree, form the foundation of the country's economy, the Kazakhstan economy is particularly sensitive to fluctuations in the price of oil and gas on the world market. A decline in the price of oil and/or gas could therefore have a significant negative effect on Kazakhstan's economy. In turn, this could have a direct negative effect on the Group, whose primary source of revenue is crude oil sales.

In addition, on-going terrorist activity and armed conflicts in the Middle East have also had a significant effect on international finance and commodity markets. Any future national or international acts of terrorism or armed conflicts could have an adverse effect on the financial and commodities markets in Kazakhstan and the global economy. As Kazakhstan produces and exports large volumes of crude oil and gas, any acts of terrorism or armed conflicts causing disruptions of Kazakh oil and gas exports could negatively affect the Kazakhstan economy and thereby materially adversely affect the Group's business, financial condition, results of operations or prospects.

Potential investors in emerging markets such as Kazakhstan should therefore be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Potential investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this report may become outdated relatively quickly. Accordingly, potential investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging and developing markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Potential investors are urged to consult with their own legal and financial advisers before making an investment.

The political environment in Kazakhstan has a significant impact on the Group.

Kazakhstan became an independent sovereign nation in 1991 following the break-up of the Union of Soviet Socialist Republics (the "**USSR**" or the "**Soviet Union**"). Since then, Kazakhstan has undergone major change as part of its transformation from a centralised planned economy to a free-market economy. Initially, this transformation was accompanied by political uncertainty and strain, where economic downturns were accompanied by high inflation, volatility in the national currency and rapid, although incomplete, changes to the legal environment.

Following the break-up of the Soviet Union, a number of the former republics of the USSR went through periods of political

instability, civil unrest, military action and territorial disputes accompanied by violence. From the period of independence up to the date of this report, the political situation in Kazakhstan has generally remained calm. At the same time, no assurances can be given that the situation will not change as a result of an internal conflict or outside influence. An example of this is provided by the events which occurred on 16 December 2011 in the city of Zhanaozen in the Mangistau region of Kazakhstan. Mass riots which started in the city's main square during the celebrations of the 20th anniversary of Kazakhstan's independence resulted in dozens of people being killed or injured and significant damage being caused to the city's infrastructure. According to some sources, the riots were caused by discontent amongst oil workers, including over low wages.

Since 1991 and until present, Kazakhstan has had only one president, Nursultan Abishevich Nazarbayev, and the country has been largely free from political instability. Under President Nazarbayev's leadership, the foundations of a market economy have been established, including the privatisation of state-owned assets, liberalisation of capital controls, tax reforms and pension system development. The Group's operations have benefited from these stable conditions. In 2007, Kazakhstan's Parliament voted to amend Kazakhstan's Constitution to allow President Nazarbayev to run in an unlimited number of elections. In April 2011, President Nazarbayev was re-elected for a further five year term. Despite the above amendments to the Constitution, there is no guarantee that President Nazarbayev will remain in office for any period of time. Given that an independent Kazakhstan has not had to face a Presidential succession, there can be no assurance that the handing over of power to a new president will be smooth or democratic.

The Kazakhstan economy is highly dependent on oil exports. Accordingly, the Kazakhstan economy and the Group may be affected by oil price volatility.

The economy and state budget of Kazakhstan, as with other countries in the Central Asian region, rely on the export of crude oil and oil products and other commodities, the import of capital equipment and significant foreign investment in infrastructure projects. As a result, Kazakhstan could suffer from volatility, or a sustained decline in oil and other commodity prices, or from the frustration or delay of any infrastructure projects caused by political or economic instability in countries participating in such projects. Kazakhstan's dependence on oil and oil products also has an indirect impact on its currency, the Tenge, which is indirectly correlated to the price of oil.

In addition, any fluctuations in the value of the U.S. dollar relative to other currencies may cause volatility in earnings from U.S. dollar-denominated crude oil exports. An oversupply of crude oil or other commodities in world markets or a general downturn in the economies of any significant markets for crude oil or other commodities or weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy which, in turn, could have an adverse effect on the business, financial condition and results of operations of the Group.

All the Group's assets are located in Kazakhstan and the Group is therefore susceptible to country-specific risk factors, such as political, social and economic instability.

The Group is subject to Kazakhstan-specific risks, including, but not limited to, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes with respect to taxes, withholding taxes on distributions to foreign investors, changes in anti-monopoly legislation, nationalisation or expropriation of property, and interruption or blockage of hydrocarbons or other strategic materials exports. The occurrence of any of these factors could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group is exposed to the risk of adverse sovereign action by the Government.

The oil and gas industry is central to Kazakhstan's economy and its future prospects for development, and thus can be expected to be the focus of continuing attention and debate. In similar circumstances in other developing countries, petroleum companies have faced the risks of expropriation or renationalisation, breach or abrogation of project agreements, application to such companies of laws and regulations from which they were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls, and other risks.

Kazakhstan may revise the stability of the tax regime of Zhaikmunai's PSA which could result in negative tax consequences.
In January 2010, President Nazarbayev of Kazakhstan spoke out against tax stabilisation clauses stating that parties operating in Kazakhstan should work under the same legislation. Furthermore, the Minister of Energy and Natural Resources (currently the Minister of Oil and Gas), Sauat Mynbayev, has publicly warned foreign companies that they should prepare themselves for losing their exemption from domestic taxation. Moreover, the New Subsoil Law came into force on 7 July 2010 and the application of this law is relatively new. Any complaints by the Government or the invocation or application by the Government of the New Subsoil Law in relation to the Chinarevskoye Field may have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The laws and regulations of Kazakhstan are developing and uncertain. Any changes in laws, regulations and permit requirements to which the Group is subject could require it to make substantial expenditures or subject the Group to material liabilities or other sanctions.

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use, licensing, companies, procurement, customs, currency, capital markets, pensions, insurance, banking, taxation and competition are still developing and are uncertain. Many such laws provide regulators and officials with substantial discretion in their application, interpretation and enforcement. Furthermore, the judicial system may not be fully independent of social, economic and political forces. Court decisions can be

difficult to predict and enforce, and the Group's best efforts to comply with applicable law may not always result in compliance as determined by regulators and/or the courts. Furthermore, because the New Subsoil Law does not define the course of action available to the Government by reference to the gravity of a breach, a minor breach could conceivably lead to severe consequences, such as suspensions or termination of the subsoil user rights. Because the New Subsoil Law is new, there are no precedents that would make the consequences of a breach more predictable. The Group is required to obtain, on an on-going basis, all permits as are required by the laws of Kazakhstan. Failure to obtain all such permits could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Given Kazakhstan's legislative, judicial and administrative history, it is not possible to predict the effect of current and future legislation on the Group's business. Moreover, the New Subsoil Law came into force on 7 July 2010 and the application of this law is untested. The on-going rights of the Group under the PSA, the Licence and other licences, approvals and permits (if applicable) and other agreements may be susceptible to revision or cancellation, and legal redress in relation to such revocation or cancellation may be uncertain. Any changes to the rights of the Group under the PSA, the Licence and other licences (and any other relevant legislative changes) could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

6. MANAGEMENT AND CORPORATE GOVERNANCE

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

Corporate Structure

Management of Zhaikmunai is exercised by its General Director on the basis of its articles of association (or the charter) and decisions taken by the general meeting of participants in Zhaikmunai.

Limited partners and, consequently, holders of GDRs are not entitled to participate, directly or indirectly, in Zhaikmunai LP's management. Following a proposal by the General Partner, the prior approval of the limited partners is however required to permit the General Partner to withdraw as Zhaikmunai L.P's general partner and appoint a replacement general partner. Following a proposal by the General Partner, the prior approval of the holders of a majority of the Common Units voting at a General Meeting of the limited partners is required for the appointment or removal of the General Partner's directors.

Corporate Governance

As a limited partnership with GDRs admitted to the official list of the FSA, Zhaikmunai LP is not required to comply with the provisions of the UK Corporate Governance Code. There are no statutory corporate governance recommendations applicable to limited partnerships formed in the Isle of Man. However, the Board has established a corporate governance code. In determining its corporate governance code, the General Partner has given consideration to the best practice provisions on corporate governance set out in the UK Corporate Governance Code.

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

In addition, 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 Listing Rules to ensure that such persons do not deal in the GDRs when in possession of inside information or during close periods in accordance the 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.

Takeover Code

The Takeover Code does not apply to Zhaikmunai LP As a result, a takeover offer for Zhaikmunai LP will not be regulated by the UK takeover authorities. The Partnership Agreement contains certain takeover protections, although these will not provide the full protections afforded by the Takeover Code.

Board Structure, Practices and Committees of the General Partner

The Board currently has eight members, consisting of two executive directors and six non-executive directors, of whom three 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 UK Corporate Governance Code. The Board voted in September 2012 to recommend to the limited partners that the size of the Board be increased to eight directors and that an additional non-executive director be appointed to the Board.

The structure, practices and committees of the Board, including matters relating to the size, independence and composition of the Board, the election and removal of directors, requirements relating to Board action, the powers delegated to Board committees and the appointment of executive officers, are governed by the General Partner's articles of association, the Partnership Agreement, the terms of the Relationship Agreement and the terms of the Claremont Subscription Agreement. The following summarises certain provisions of those articles of association, the Partnership Agreement and the Relationship Agreement that affect Zhaikmunai LP's corporate governance.

Size, Independence and Composition of the Board of Directors

The Board, which as at the date of this report has eight members, may consist of such number of directors as may be determined from time to time by a resolution of the General Partner's shareholders. Under the General Partner's articles of association, at least one of the directors holding office must be independent of Zhaikmunai LP, the General Partner, Thyler and its Affiliates, as determined by the full Board (an "**Independent Director**"). The General Partner currently has three Independent Directors. Upon the death, resignation or removal of an Independent Director, the vacancy must be filled promptly. The current sole shareholder of the General Partner is Thyler Holdings B.V., an Affiliate of Thyler, which has assumed all of Thyler's obligations under the Relationship Agreement.

In connection with the Claremont Subscription, Zhaikmunai LP and the General Partner agreed to appoint one director nominated by Claremont (such person in turn being nominated by BVCP pursuant to the investment agreement between Claremont and BVCP) (the "**BVCP Director**"), together with an additional Independent Director to be nominated by BVCP and Claremont (subject to approval by the independent limited partners). Mr Ivanov was appointed as the BVCP Director and Mr Gupta is the relevant Independent Director. In addition, Claremont has agreed in connection with its sale of 50 million GDRs to KSS Global

that it would take reasonable steps, including voting as a limited partner in any general meeting of the limited partners, to procure that an individual nominated by KSS Global (or two individuals if the size of the Board of the General Partner is increased to nine directors) is appointed to the Board of the General Partner. The limited partners approved the expansion of the Board to eight directors and the addition of Mr Pankaj Jain as a director in November 2012. Neither Thyler nor Claremont nor their Affiliates have entered into any other agreement pursuant to which any other director may be appointed to the Board of the General Partner.

Election and Removal of Directors

At every annual general meeting, one-third of the directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third shall retire from office by rotation *provided that* if there is only one director who is subject to retirement by rotation, he shall retire. Vacancies on the Board may be filled and additional directors may be added by a resolution of shareholders of the General Partner or a vote of the directors then in office, *provided that* any new directors satisfy certain eligibility requirements. Those eligibility requirements generally provide, among other things, that:

- a person may not be appointed to the office of Independent Director unless he or she has been approved by a majority of the limited partners independent of Thyler and its Affiliates; and
- a person may not be appointed to the office of director unless he or she has been approved by a majority of the limited partners.

A director, other than an Independent Director, may be removed from office for specified reasons, including for any reason by a written resolution requesting resignation signed by all other directors then holding office or by a resolution duly passed by the General Partner’s shareholder following the proposal by the General Partner and subsequent approval of a majority of limited partners. An Independent Director may only be removed by a resolution duly passed by the General Partner’s shareholders following the proposal by the General Partner and subsequent approval of a majority of limited partners independent of Thyler and its Affiliates. Claremont has undertaken, pursuant to the Relationship Agreement, not to vote on any resolution to appoint or remove an Independent Director unless the term of appointment of such Independent Director has expired and such Independent Director is seeking re-election at a general meeting of limited partners or the Board has determined (acting reasonably) that the Independent Director is no longer independent. Thyler, and its affiliated successor Thyler Holdings B.V., have undertaken, pursuant to the Relationship Agreement, to comply with the decisions of the limited partners in respect of the appointment and removal of directors and not to propose amendments to the General Partner’s articles of association that alter (i) the standards that are used to determine whether a director is an “independent director”, (ii) the requirements relating to the eligibility and qualification of Independent Directors and (iii) the requirement that the General Partner’s Board consist of at least one Independent Director, each of which may be effected only with the consent of a majority of limited partners independent of Thyler and its Affiliates. A director will be automatically removed from the Board if he or she becomes bankrupt, becomes insolvent or suspends payments to his or her creditors or if he or she becomes prohibited by law from acting as a director.

Alternate Directors

A director may, by written notice to the General Partner, appoint any person, including another director, who has been approved by the Board and who meets any minimum standards that are required by applicable law, to serve as an alternate director who may attend and vote in such director’s place at any meeting of the Board at which the director is not personally present and to otherwise perform any duties and functions and exercise any rights that the director could perform or exercise personally.

Action by the Board

The Board may take action in a duly convened meeting in which a quorum is present or by a written resolution signed by all directors then holding office. When action is to be taken at a meeting of the Board, subject to any requirements relating to the approval by Independent Directors, the affirmative vote of a majority of the directors then holding office is required for any action to be taken other than with respect to the enforcement of any contractual or other rights under the Partnership Agreement and the Relationship Agreement. Matters relating to the enforcement of any such rights, if considered at a meeting of the Board, may be decided by the vote of a majority of directors then holding office that are independent of Thyler and its Affiliates.

Actions Requiring Approval by Independent Directors

In addition to requiring approval by the Board, the following matters require the additional approval of a majority of the Independent Directors in order for any action to be taken with respect thereto:

- dissolution;
- any amendment of the Partnership Agreement that is not ministerial in nature or that has not been consented to by the limited partners;
- the enforcement of any contractual or other rights that the General Partner or Zhaikmunai LP may have against Thyler or any of its Affiliates pursuant to any contract, arrangement or transaction entered into with Thyler or any of its Affiliates, including the Partnership Agreement or the Relationship Agreement;
- any amendment of the Relationship Agreement with Thyler and Claremont; and
- any transaction with any related party not controlled by the General Partner or Zhaikmunai LP.

Transactions in which a Director has an Interest

A director who directly or indirectly has an interest in a contract, transaction or arrangement with the General Partner, Zhaikmunai LP or any member of the Group is required to disclose the nature of his or her interest to the full Board. Such disclosure may generally take the form of a general notice given to the Board to the effect that the director has an interest in a specified company or firm and is to be regarded as interested in any contract, transaction or arrangement which may after the date of the notice be made with that company or firm or its affiliates.

Except as provided below, a director shall not vote on or be counted in the quorum in relation to any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any proposal whatsoever to which the General Partner (in its own capacity or acting as a general partner to Zhaikmunai LP), or any of its subsidiaries is or is to be a party and in which he has (directly or indirectly) an interest which is material (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the General Partner or Zhaikmunai LP) unless his duty or interest arises only because the resolution relates to one of the matters set out in the following sub-paragraphs, in which case he shall be entitled to vote and be counted in the quorum:

(a) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of Zhaikmunai LP or any of its subsidiaries;

(b) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the General Partner, any subsidiary of the General Partner or Zhaikmunai LP or any of its subsidiaries for which he himself has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

(c) where the General Partner, any subsidiary of the General Partner or Zhaikmunai LP or any of its subsidiaries is offering securities in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate;

(d) relating to another company in which he or she and any persons connected with him or her (within the meaning of section 346 of the UK Companies Act 1985) do not to his or her knowledge hold voting rights (as that term is used in chapter 5 of the Disclosure and Transparency Rules) representing 1% or more of any class of the shares (as that term is used in the chapter 5 of the Disclosure and Transparency Rules) in such company;

(e) relating to an arrangement for the benefit of the employees of the General Partner, any subsidiaries of the General Partner or Zhaikmunai LP or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or

(f) concerning insurance which the General Partner or Zhaikmunai LP proposes to maintain or purchase for the benefit of directors or for the benefit of persons including directors.

A director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his or her own appointment (including fixing or varying the terms of his or her appointment or its termination) as the holder of any office or place of profit with the General Partner, Zhaikmunai LP or any company in which Zhaikmunai LP is interested. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or termination) of two or more directors to offices with the General Partner, Zhaikmunai LP or any company in which Zhaikmunai LP is interested, such proposals may be divided and a separate resolution considered in relation to each director. In such case each of the directors concerned shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

Committees

The Board can delegate any of its powers, authorities and discretions (with power to sub-delegate) for such time on such terms and subject to such conditions as it thinks fit to any committee consisting of one or more directors and (if thought fit) one or more other persons *provided that* a majority of the members of a committee shall be directors or alternate directors and no resolution of a committee shall be effective unless a majority of those present when it is passed are directors or alternate directors. Any committee so formed may exercise its power to sub-delegate by sub-delegating to any person or persons (whether or not a member or members of the Board or of the committee).

The directors have established audit and remuneration committees, as described below, and will utilise other committees as necessary to ensure effective governance.

Audit Committee

The Board has established an audit committee that operates pursuant to written terms of reference. The audit committee is required to consist of at least two independent directors and at least one member who has recent and relevant financial experience. The audit committee consists of Mr McGowan, Mr von der Linden and Mr Gupta, each of whom is considered to be an Independent Director and Mr von der Linden serves as chairman. The Board considers each member of the audit committee to have appropriate financial experience.

The audit committee will meet not fewer than four times each year and is responsible for assisting and advising the Board with matters relating to:

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

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

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 shall be a matter for the Board as a whole.

The remuneration committee comprises Mr Monstrey (as Chairman), Mr McGowan, Mr von der Linden and Mr Ivanov and will meet not less than two times a year. At least one member of the remuneration committee shall be an Independent Director.

Appointment of a New General Partner

The Partnership Agreement generally provides that the General Partner may not transfer its general partner interest in Zhaikmunai LP to any person other than Thyler or an Affiliate of Thyler, unless (i) the holders of a majority representing not less than 75% of the holders of the Common Units attending and voting at the relevant meeting consent to the transfer or (ii) there is a transfer of Common Units or GDRs representing not less than 50% of the total number of Common Units in issue from a limited partner and its affiliates to a third party in accordance with Clause 18 of the Partnership Agreement. Upon such a transfer, the General Partner may assign all or any of its general partner interests to such third party or, upon transfer of the entire share capital of the General Partner to such third party, withdraw as the general partner of Zhaikmunai LP without the approval of the holders of Common Units from the partnership with effect from the date on which the replacement general partner assumes the rights and undertakes the obligations of the General Partner under the Partnership Agreement. In addition, following a proposal by the General Partner, the prior approval of holders of 75% of the Common Units voting at a meeting of limited partners is required to permit the General Partner to withdraw from the partnership upon appointment of a replacement general partner.

For as long as the Relationship Agreement is effective control over the General Partner may only be transferred to a third party other than Thyler or its Affiliates with the consent of limited partners representing not less than 75% of the Common Units attending and voting at the relevant meeting, which has the same substantive effect as if the General Partner withdrew or transferred its interest in Zhaikmunai LP directly, unless the transfer is done in accordance with the paragraph above.

Conflicts of Interest and Fiduciary Duties

Zhaikmunai LP's organisational, ownership and investment structure involves a number of relationships that may give rise to conflicts of interest between Zhaikmunai LP, on the one hand, and Affiliates of its General Partner or limited partners and holders of GDRs, on the other hand. In particular, conflicts of interest could arise, among other reasons, because:

- the Group's arrangements with Thyler and its Affiliates were negotiated in the context of an affiliated relationship, which may have resulted in those arrangements containing terms that are less favourable than those which otherwise might have been obtained from unrelated parties; and
- conflicts of interest may arise between Zhaikmunai LP and the KazStroyService Group, which constructed the gas treatment facility for Zhaikmunai's Kazakh operating subsidiary Zhaikmunai LLP and has ongoing drilling and other commercial relationships with Zhaikmunai Group companies, because Pankaj Jain, Chief Executive Officer of the KazStroyService Group, has been appointed as a director of the General Partner.

Pursuant to the Relationship Agreement, Thyler, and its affiliated successor Thyler Holdings B.V., have undertaken to ensure that Zhaikmunai LP is capable at all times of carrying on its business independently of Thyler and its Affiliates (other than Zhaikmunai LP and any of its subsidiaries) and that all of Zhaikmunai LP's transactions and relationships with Thyler and its Affiliates (other than Zhaikmunai LP and any of its subsidiaries) are at arm's length and on normal commercial terms.

Except as described above, there are no potential conflicts of interest between any duties owed by the General Partner's directors to Zhaikmunai LP and any other private interests or other duties that they may have.

Indemnification and Limitations on Liability

The Partnership Agreement

Isle of Man law permits the partnership agreement of a limited partnership, such as Zhaikmunai LP, to provide for the indemnification of a partner, the officers and directors of a partner and any other person against any and all claims and demands

whatsoever, except to the extent that the indemnification may be held by the courts of Isle of Man to be contrary to public policy or to the extent that Isle of Man law prohibits indemnification against personal liability that may be imposed under specific provisions of Isle of Man law.

Isle of Man law also permits a partnership to pay or reimburse an indemnified person's expenses in advance of a final disposition of a proceeding for which indemnification is sought. Under the Partnership Agreement, Zhaikmunai LP is required to indemnify to the fullest extent permitted by law the General Partner and any of its Affiliates (and their respective officers, directors, agents, shareholders, partners, members and employees), in each case, against all losses, claims, damages, liabilities, costs or expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings, incurred by an indemnified person in connection with the Group's business or by reason of their holding such positions, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the indemnified person's bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful. In addition, under the Partnership Agreement, (i) the liability of such persons has been limited to the fullest extent permitted by law, except to the extent that their conduct involves bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful and (ii) any matter that is approved by a majority of the Independent Directors will not constitute a breach of any duties stated or implied by law or equity, including fiduciary duties. The Partnership Agreement requires Zhaikmunai LP to advance funds to pay the expenses of an indemnified person in connection with a matter in which indemnification may be sought until it is determined that the indemnified person is not entitled to indemnification.

The General Partner's Articles of Association

Isle of Man law permits the articles of association of a limited company, such as the General Partner, to provide for the indemnification of its officers, directors and shareholders and any other person designated by the company against any and all claims and demands whatsoever, except to the extent that the indemnification may be held by the courts of Isle of Man to be contrary to public policy or to the extent that Isle of Man law prohibits indemnification against personal liability that may be imposed under specific provisions of Isle of Man law. Isle of Man company law also permits a limited company to pay or reimburse an indemnified person's expenses in advance of a final disposition of a proceeding for which indemnification is sought.

Under the General Partner's articles of association, the General Partner is required to indemnify, to the fullest extent permitted by law, its Affiliates, directors, officers, shareholders and employees against any and all losses, claims, damages, liabilities, costs or expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings, incurred by an indemnified person in connection with the Group's business or in respect of or arising from their holding such positions, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the indemnified person's bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful. In addition, under the General Partner's articles of association, (I) the liability of such persons has been limited to the fullest extent permitted by law, except to the extent that their conduct involves bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful and (ii) any matter that is approved by a majority of the independent directors will not constitute a breach of any duties stated or implied by law or equity, including fiduciary duties, or adversely affect the right of any indemnified person to an indemnity thereunder. The General Partner's articles of association require it to advance funds to pay the expenses of an indemnified person in connection with a matter in which indemnification may be sought until it is determined that the indemnified person is not entitled to indemnification.

Insurance

Zhaikmunai LP and the General Partner has obtained insurance under which the directors and officers of the General Partner will be insured, subject to the limits of the policy, against certain losses arising from claims made against such directors and officers by reason of any acts or omissions covered under the policy in their respective capacities as directors or officers of the General Partner, including certain liabilities under securities laws.

7. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Significant Limited Partners

As at the date of this report, the partnership has received notice that companies controlled by Frank Monstrey, the chairman of the General Partner, own approximately 27.20% of the Common Units of the partnership (including those held through GDRs). In addition, companies indirectly controlled by Mr. Monstrey own 100% of the issued shares of ZGL, the General Partner.

The partnership understands that KazStroyService Global B.V. ("**KSS Global**"), an entity which the partnership understands is indirectly controlled by Timur Kulibayev, Arvind Tiku, Lakshmi Mittal and Goldman Sachs, holds a 26.57% interest in the voting rights of the partnership's Common Units (including those held through GDRs).

The partnership understands that Dehus Dolmen Nominees Limited, an entity which the partnership understands is affiliated with and controlled by Baring Vostok Capital Partners ("**BVCP**"), holds a 12.65% interest in the voting rights of the partnership's Common Units (including those held through GDRs).

Relationship Agreement with Thyler, the General Partner and Claremont

The partnership entered into a Relationship Agreement with Thyler Holdings Limited ("**Thyler**"), the General Partner and Claremont Holdings Limited ("**Claremont**") on 28 March 2008 that regulates (in part) the degree of control that Thyler and Claremont and their affiliates (other than the General Partner, the partnership and any subsidiary of the partnership) may exercise over the management of the partnership. The principal purposes of the Relationship Agreement are to ensure that the partnership is capable at all times of carrying on its business independently of Thyler and Claremont and their affiliates (other than the General Partner, the partnership and any of its subsidiaries) and that all of the partnership's transactions and relationships with Thyler and its affiliates (other than the General Partner, the partnership and any of its subsidiaries) are at arm's length and on normal commercial terms.

Pursuant to the Relationship Agreement, each of Thyler (and its affiliated successor Thyler Holdings BV) and Claremont undertake to allow the partnership to be operated in the best interests of the limited partners and holders of the GDRs as a whole; to allow the partnership and its affiliates at all times to carry on business independently of Claremont and Thyler and its affiliates; and to allow for the partnership's transactions and relationships with Thyler, Claremont and their affiliates to be at arm's length and on normal commercial terms. In addition, (a) Thyler undertakes to comply with the terms of the Partnership Agreement (as though it were a party thereto), not to amend the Articles of Association of the General Partner in respect of certain specified action (including amendments to the definition of an independent director), and not to pass a shareholder resolution in respect of Claremont that would violate the terms of the Relationship Agreement; (b) the partnership undertakes to treat all holders of GDRs that are in the same position equally in respect of the rights attaching to such GDRs; (c) Claremont undertakes that any voting rights it holds in respect of Common Units shall not be exercised in respect of any resolution relating to a transaction, arrangement, agreement or dispute between the partnership, on the one hand, and Claremont and its affiliates, on the other hand, or to make any variations to the Partnership Agreement that would be contrary to the maintenance of the partnership's ability to carry on its business independently of Claremont and its affiliates; and (d) each of Thyler and Claremont undertake not to vote on any resolution of the limited partners or the board of directors to appoint or remove any independent director unless the term of appointment of such independent director has expired and such independent director is seeking re-election or the board of directors has determined that the independent director is no longer independent.

Each of Thyler and Claremont has also undertaken that if Claremont (and/or its affiliates) agrees to sell, transfer or dispose of Common Units or GDRs representing not less than 50% of the total number of Common Units in issue to a third party (the "**Acquiror**") in circumstances where the takeover provisions in the Partnership Agreement apply, they shall use their reasonable endeavours to procure that the Acquiror (or its affiliates) shall also agree to purchase the entire issued share capital of the General Partner (and Thyler has undertaken that, if required, it shall sell such shares in the General Partner in such circumstances or otherwise permit the withdrawal of the General Partner as the general partner of the partnership).

The Relationship Agreement will continue in full force and effect until the occurrence of the earliest of (i) the partnership's securities ceasing to be admitted to the official list of the FSA and to trading on the London Stock Exchange; or (ii) Thyler (and its affiliates) ceasing to own 25% or more of the outstanding Common Units of the partnership. Claremont has also undertaken to procure that any of their affiliates to which they transfer any interest in the partnership will accede to the Relationship Agreement prior to such transfer.

The Directors believe that the terms of the Relationship Agreement enable the partnership to ensure that Thyler and its affiliates are not able to abuse their position as a holder of Common Units of the partnership and a shareholder in the General Partner.

Construction and Drilling Agreements

Drilling Contract

A drilling contract with Sun Drilling LLP was entered into in 2012. Sun Drilling LLP is an affiliate of KSS Global.

Service Agreements

Certain senior managers provide their services to the partnership's principal operating subsidiary Zhaikmunai LLP pursuant to a

service agreement dated 27 March 2007 between Probel Capital Management N.V. and Zhaikmunai (the "**Probel Services Agreement**"). Probel is controlled by Mr Monstrey, the chairman of the General Partner. Under the Probel Services Agreement, Zhaikmunai pays a fee to Probel calculated by multiplying the relevant executive's or manager's number of working days per month by the executive's or manager's daily rate as stipulated in the Probel Services Agreement. The aggregate compensation paid by Zhaikmunai to Probel under the Probel Services Agreement was U.S.$12.6 million for the year ended 31 December 2012 (U.S.$ 10.3 million in 2011).

Certain personnel provide their services to Zhaikmunai pursuant to a service agreement dated 1 January 2009 between Amersham Oil Limited ("**Amersham**") and Zhaikmunai (the "**Personnel Agreement**"). Amersham is indirectly controlled by Mr Monstrey. Under the Personnel Agreement, Zhaikmunai pays a monthly fee to Amersham in return for Amersham's provision of personnel and consultancy services for management and related activities. The fee is determined each month the Personnel Agreement remains in force. The aggregate compensation paid by Zhaikmunai to Amersham under the Personnel Agreement was U.S.$1.1 million for the year ended 31 December 2012 (U.S.$1.4 million for the year ended 31 December 2011).

Frank Monstrey, Kai-Uwe Kessel, Jan-Ru Muller and Thomas Hartnett provide their services to the partnership pursuant to a consultancy agreement between the General Partner and Zhaikmunai Netherlands B.V. dated 1 September 2008 and as amended and restated on 17 September 2009, with effect from 20 December 2007 (the "**Executive Services Agreement**"). Zhaikmunai Netherlands B.V., formerly an affiliate of Probel, was, at the admission to listing of the GDRs, indirectly controlled by Mr Monstrey. Zhaikmunai Netherlands B.V. was subsequently transferred to the partnership on 30 June 2008 (but the transfer was not effective until 1 January 2009). Under the terms of the Executive Services Agreement, Zhaikmunai Netherlands B.V. agrees to provide the consultancy services of these individuals to the General Partner and its subsidiaries as consultants, rather than as employees of the General Partner or any of its subsidiaries. Zhaikmunai Netherlands B.V. entered into a back-to-back services agreement with Probel dated 1 September 2008 and as amended and restated on 17 September 2009 (the "**Probel Executive Services Agreement**"), sub-contracting Zhaikmunai Netherlands B.V.'s responsibilities and obligations under the Executive Services Agreement to Probel, with effect from 20 December 2007, on materially the same terms as set out in the Executive Services Agreement.

On 28 February 2009, Zhaikmunai entered into a service agreement with Prolag, an affiliate of Probel, pursuant to which Prolag has agreed to provide certain commercial, marketing and other services to Zhaikmunai, including, but not limited to, consultations on Zhaikmunai's sales strategy and effective marketing policy, structuring its pricing policy and providing regular consultations and assistance on financial matters such as budgeting, credit policy and finance control. Fees are agreed per project on an ad hoc basis, or otherwise an agreed fee is paid, calculated for the specified period of the services with reference to an agreed schedule set out in the agreement. The aggregate compensation paid by Zhaikmunai to Prolag under the agreement was U.S.$1.6 million for the year ended 31 December 2012 (U.S.$1.9 million for the year ended 31 December 2011).

Other

Piet Everaert, a Non-Executive Director, is a partner in the law firm VWEW Advocaten in Brussels, which rendered legal services to Probel since 2006. This business relationship is ongoing to date.

The Group has undertaken certain other transactions with related parties as disclosed in footnote 25 to the audited consolidated financial statements for the year ended 31 December 2012.

Any transaction with any related party not controlled by the General Partner or the partnership must be approved by a majority of the independent directors of the General Partner.

8. 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	Jan-Ru Muller
Chief Executive Officer	Chief Financial Officer

unquote

[2013-03-18]