MANAGEMENT REPORT FOR THE FIRST HALF OF 2012

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1. FINANCIAL REVIEW

The following discussion and analysis should be read together with the unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2012 and 30 June 2011 and the audited consolidated financial statements as at and for the years ended 31 December 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 L.P. is the indirect holding entity of Zhaikmunai, an independent oil and gas enterprise currently engaging in the exploration, production and sale of crude oil in northwestern Kazakhstan. Zhaikmunai's field and Licence area is the Chinarevskoye Field located in the oil-rich Pre-Caspian Basin.

Since 2004, after new management was appointed at Zhaikmunai, the Group's sales, expenses and profit before income tax has increased over the period as a result of increased production due to the Group's investments in infrastructure and an accelerated drilling programme. The primary factors affecting the Group's results of operations are (i) 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.

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

The following table sets forth the Group's revenue, cost of sales, gross profit, profit before income tax and net income/(loss) for the six months ended 30 June 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009:

	Years ended 31 December			**Six months ended 30 June**	
	2011	**2010**	**2009**	**2012**	**2011**
	(US$ millions)			**(US$ millions)**	
Revenue	300.837	178.159	116.033	323.409	125.907
Cost of sales	(70.805)	(53.860)	(44.035)	(94.976)	(28.403)
Gross profit	230.032	124.299	71.998	228.433	97.504
Profit before income tax	148.972	60.773	8.840	137.023	64.038
Net income/(loss)	81.624	22.900	(18.768)	86.649	36.011

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

During the periods under review, the price of Brent crude oil experienced significant fluctuations. After reaching highs of up to US$147 per barrel in mid-2008, international oil prices fell dramatically in late 2008 with an average closing price in December 2008 of US$43 per barrel. Brent crude oil prices recovered in 2009, 2010 and 2011, reaching approximately US$78 per barrel in December 2009, US$93 per barrel in December 2010 and US$107 per barrel in December 2011.

	Years ended 31 December			**Six months ended 30 June**	
	2011	**2010**	**2009**	**2012**	**2011**
	(US$/bbl)			(US$/bbl)	
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	106.87	80.15	62.02	109.05	109.77

These fluctuations have affected the Group's revenues directly, as the price Zhaikmunai receives for its liquid hydrocarbon products is related to the price of Brent crude oil.

Production

Except for a portion of the dry gas that is utilized in the operations of the Gas Treatment Facility, all production by Zhaikmunai is sold. The table below illustrates Zhaikmunai's production for the six months ended 30 June 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009.

	Years ended 31 December			**Six months ended 30 June**	
	2011	**2010**	**2009**	**2012**	**2011**
Total production (boe)	4,802,561	2,829,764	2,697,980	6,424,163	1,758,234
Average production (boepd)	13,158	7,752	7,442	35,298	9,741
Increase (decrease) in production from previous period (boepd)	5,406	310	2,347	25,557	2,480
Increase (decrease) in production from previous period (%)	69.7	4.9	54.3	262.4	34.2

Zhaikmunai's production growth in 2009 and 2010 was primarily driven by its growing drilling programme. In 2011 and the six months to 30 June 2012, Zhaikmunai's production growth was primarily driven by the output from its Gas Treatment Facility. Zhaikmunai experienced a 11.9% increase in average production in Q2 over Q1 to 37,285 boepd. The impact of this production growth on revenue was limited by two factors: (1) primary source of production growth in Q2 2012 relative to Q1 2012 was attributable to dry gas, which has a lower margin; and (2) lower overall pricing across all products in Q2 2012 relative to Q1 2012, due to the Brent crude oil price.

Cost of sales

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

Depreciation costs, during the periods under review, have represented as a percentage of total cost of sales 47.4% and 29.1% for the six months ended 30 June 2012 and 2011, respectively and 27.5%, 28.2% and 36.8% for the years ended 31 December 2011, 2010 and 2009, respectively. Such costs fluctuate according to the level of Zhaikmunai's proved developed reserves, the volume of its production and the net book value of its oil and gas properties. As the Group continues with its capital investment programme, management expects depreciation costs to increase as the Group's proved developed reserves are expected to remain broadly constant while its production and the value of its oil and gas properties increase. Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 1.7% and 7.1% for the six months ended 30 June 2012 and 2011, respectively and 5.6%, 10.9 and 0.3% for the years ended 31 December 2011, 2010 and 2009, respectively.

Other cost of sales during the periods under review have included environmental levies, which increased by 39.2% during the six months ended 30 June 2012 compared to the six months ended 30 June 2011 and decreased by 49.9% during the year ended 31 December 2011 compared to the year ended 31 December 2010. This compared to a decrease of 23.6% during the year ended 31 December 2010 compared to the year ended 31 December 2009, due to reduction of flared gas volumes. Management fees increased as a result of increases in remuneration while the increase in labour costs resulted from an increase in the number of personnel contracted and/or employed by Zhaikmunai as well as through increases in salaries. Costs for repairs and maintenance and material and supplies are expected to fluctuate in line with changes in the market price of oil.

Finance costs

Finance costs in the six months ended 30 June 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009 consisted of interest expenses in relation to the Notes, fees and expenses in relation to the Notes, interest expenses in relation to the Syndicated Facility, commitment fees on the Syndicated Facility, unwinding of discount on amounts due to the Government, loan review fees (only in 2009), unwinding of discount on abandonment and site relocation liability and amortisation of fees incurred on arrangement of the Syndicated Facility (only in 2009).

Interest expense in the six months ended 30 June 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009 consisted solely of interest on the Notes following the prepayment of the Syndicated Facility on 19 October 2010. A portion of the finance costs is capitalised based on the average construction in progress. Capitalised interest (including withholding tax paid by Zhaikmunai) amounted to US$9.1 million and US$27.7 million, respectively in the six months ended 30 June 2012 and 2011, respectively and to US$51.6 million in 2011, US$51.7 million in 2010 and US$26.4 million in 2009. Non-capitalised interest (including withholding tax paid by Zhaikmunai) amounted to US$18.1 million in the six months ended 30 June 2012 and zero dollars in the same period in 2011. On an annual basis these costs were US$3.1 million in 2011, US$19.9 million in 2010 and US$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, an effect, both positive and negative, on Zhaikmunai's results of operations as a result of (i) the beneficial tax rates available to Zhaikmunai, (ii) increasing royalty expenses payable to the State, (iii) the share of profit oil and the share of gas that Zhaikmunai pays to the State and (iv) recovery bonus payable to the State.

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

For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from crude oil sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25.0%. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, expected to be approximately 14.0%. Under the PSA, the exploration phase for the remainder of the Chinarevskoye Field expired 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. 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, 7.2% and 1.7% respectively, for the six months ended 30 June 2012, compared to 18.5% and 4.2%, respectively for the six months ended 30 June 2011, 12.3% and 2.6% respectively, for the year ended 31 December 2011, 16.5% and 1% respectively for the year ended 31 December 2010 and 13.0% and 2.5% respectively for the year ended 31 December 2009.

Summary of Critical Accounting Policies

The Group's significant accounting policies are more fully described in note 3 to the audited consolidated financial statements for 2011, 2010 and 2009 and note 2 to the unaudited condensed consolidated financial statements for the six months ended 30 June 2012 and 2011. However, certain of the Group's accounting policies are particularly important to the presentation of the Group's results of operations and require the application of significant judgment by its management.

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

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

Estimations and Assumptions

Oil and gas reserves

Oil and gas reserves are a material factor in Zhaikmunai L.P.'s computation of depreciation, depletion and amortisation (the "**DD&A**"). Zhaikmunai L.P. estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (the "**SPE**"). In estimating its reserves under SPE methodology, Zhaikmunai L.P. uses long-term planning prices, which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature 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 oilfield infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period.

Derivative Financial Instruments and Hedging

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

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

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

Description of key financial terms

Revenue during the period under review is affected by the Group's quantities of production and the prices achieved by the Group for its products. The unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2012 and 2011 and the audited consolidated financial statements as at and for the year ended 31 December 2011, 2010 and 2009 included in this report present revenue gross of any portion required to be delivered to the State under the terms of the PSA since, during the periods under review, it has elected to settle its obligations to the State in cash. Consequently, the incurrence of any such obligation is reported as an expense in cost of sales. If it elects, in the future, to settle such obligation by the delivery of products to the State, its revenue will be affected.

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

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

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

Comparison of the six months ended 30 June 2012 and 2011

The table below sets forth the line items of the Group's income statement for the six months ended 30 June 2012 and 2011 in US Dollars and as a percentage of revenue.

	Six months ended 30 June 2012	% of revenue	Six months ended 30 June 2011	% of revenue
	(US$ millions)		(US$ millions)	
Revenue	323.409	100.0	125.907	100.0
Cost of sales	(94.976)	(29.4)	(28.403)	(22.6)
Gross Profit	**228.433**	**70.6**	**97.504**	**77.4**
General and administrative expenses	(28.461)	(8.8)	(15.643)	(12.4)
Selling and transportation expenses	(44.636)	(13.8)	(15.437)	(12.3)
Gain/(loss) on derivative financial instruments	0	0	(0.189)	(0.2)
Interest income	0.169	0.1	0.121	0.1
Finance costs	(18.980)	(5.9)	(0.789)	(0.6)
Foreign exchange (loss)/gain	0.336	0.1	(0.026)	(0.0)
Other (expenses)/income	0.162	0.1	(1.503)	(1.2)
Profit/(loss) before income tax	**137.023**	**42.4**	**64.038**	**50.9**
Income tax expense	(50.374)	(15.6)	(28.027)	(22.3)
Net Loss/Income	**86.649**	**26.8**	**36.011**	**28.6**

Revenue increased by US$ 197.5 million, or 56.9%, to US$ 323.4 million in the six months ended 30 June 2012 from US$125.9 million in the six months ended 30 June 2011 due primarily to the increase in output from the Gas Treatment Facility.

The following table shows the Group's revenue and sales volumes for the six months ended 30 June 2012 and 2011:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenue (US$ millions)	323.409	125.907
Sales volumes (boe)	5,844,829	1,285,923

Cost of sales increased by US$66.6 million, or 234.4%, to US$95.0 million in the six months ended 30 June 2012 from US$28.4 million in the six months ended 30 June 2011 due primarily to an increase in materials and supplies, repair and maintenance and payroll expenses. Materials and supply expenses increased 403.9% to $7.5 million while repair and maintenance expenses increased 456.7% to $22.3 million, mainly due to the increased operations and production related to the Gas Treatment Facility. Depreciation and amortization also increased 451.6% or $37.4 million in the six months ended 30 June 2012 to $45.6 million. Well workover costs decreased to US$1.6 million in the six months ended 30 June 2012 from US$2.0 million in the six months ended 30 June 2011. Royalty costs increased 30.0% to US$6.9 million in the first six months of 2012, as compared to US$5.3 million in the first six months of 2011. Costs for government profit share increased by US$385 thousand or 32.1%, to US$1.6 million in the first six months of 2012 from US$1.2 million in the first six months of 2011. On a boe basis, cost of sales decreased by US$5.84 or 26.4%, to US$16.25 in the first six months of 2012 from US$22.08 in the first six months of 2011, and cost of sales net of depreciation per boe decreased US$7.21, or 46.1% to US$8.44 in the first six months of 2012 from US$15.65 in the first six months of 2011.

General & administrative expenses increased by US$12.8 million, or 81.9%, to US$28.5 million in the six months ended 30 June 2012 from US$15.6 million in the six months ended 30 June 2011 due primarily to an increase in social program expenditures of US$11.2 million in the first half of 2012 from US$150 thousand in the first half of 2011. This increase was related to the start of construction of a 37 kilometre asphalt road accessing the field site.

Selling and transportation expenses increased US$29.2 million, or 189.1%, to US$44.6 million in the six months ended 30 June 2011 from US$15.4 million in the six months ended 30 June 2011. This was driven primarily by an increase of US$18.7 million for transportation costs to US$31.0 million in the first six months of 2012 from US$12.3 million in the first six months of 2011. Additionally, the company's loading and storage costs increased to US$10.3 million in the six months ended 30 June 2012 from US$283 thousand in the six months ended 30 June 2011. These cost increases were driven by the rise in output of LPG and condensate volumes.

Finance costs increased by US$18.2 million, to US$19.0 million in the six months ended 30 June 2012 from US$789 thousand in the six months ended 30 June 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.

Foreign exchange gain amounted to US$336 thousand in the six months ended 30 June 2012 compared to a loss of US$26 thousand in the six months ended 30 June 2011.

Profit before income tax amounted to a profit of US$137.0 million in the six months ended 30 June 2011 compared to a profit of US$64.0million in the six months ended 30 June 2011. The higher profitability was driven primarily by the increased revenue due to the inclusion of Gas Treatment Facility output.

Income tax expense increased to US$50.4 million in the six months ended 30 June 2012 compared to US$28.0 million in the six months ended 30 June 2011, a 79.7% increase.

Net income amounted to US$86.6 million in the six months ended 30 June 2012, an increase of US$50.6 million from US$36.0 million in the six months ended 30 June 2011. This higher profitability was driven by increased revenue from increased production of hydrocarbons.

Liquidity and Capital Resources

General

Historically, during the periods under review, Zhaikmunai's principal sources of funds have been cash from operations and amounts raised under the offering of Notes, the Syndicated Facility, the initial public offering of GDRs in April 2008 and the additional offering of GDRs in September 2009. Its liquidity requirements primarily relate to meeting ongoing

debt service obligations (under the Syndicated Facility prior to the offering of Notes and under the Notes following that offering) and to funding capital expenditures and working capital requirements.

Cash Flows

The following table sets forth the Group's cash flow statement data for the six months ended 30 June 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			Six months ended 30 June	
	2011	**2010**	**2009**	**2012**	**2011**
			(US$ millions)		
Net cash flow from operating activities	132.223	98.955	45.934	158.325	56.071
Net cash flows in investing activities	(103.681)	(132.428)	(200.673)	(99.931)	(39.085)
Net cash provided by/(used in) financing activities	(47.350)	39.710	279.418	(24.448)	(25.016)
Cash and cash equivalents at the end of period	125.393	144.201	137.375	159.339	136.171

Net cash flows from operating activities

Net cash flows from operating activities were US$158.3 million in the six months ended 30 June 2012 and were primarily attributable to:

- a profit before income tax for the period of US$137.0 million, adjusted by a non-cash charge for depreciation and amortisation of US$46.2 million;

- a US$35.4 million increase in working capital primarily attributable to (i) an increase in receivables of US$13.9 million, (ii) a decrease in payables of US$8.6 million, (iii) an increase in pre-payments of US$3.5 million, (iv) a decrease in other current liabilities of US$2.5 million; and

- income tax paid of US$5.8 million.

Net cash flows in investing activities

Net cash used in investing activities was US$99.9 million in the six months ended 30 June 2012 due primarily to investments in the drilling of new wells (US$56.0 million) and the Gas Treatment Facility (US$38.7 million).

Net cash used in financing activities

Net cash used in financing activities was US$24.4 million in the six months ended 30 June 2012, primarily due to interest paid on the Notes.

Capital Expenditures

Following the successful implementation of the first phase of the Gas Treatment Facility, Zhaikmunai expects to build a third unit, which is the second phase of the Gas Treatment Facility. This will depend on a number of factors such as the ability of Zhaikmunai to convert probable reserves into proved reserves, the oil price environment and the cash flow being generated from phase one.

Drilling Expenditures

Drilling expenditures amounted to US$56.0 million in the six months ended 30 June 2012, compared to US$27.6 million in the six months ended 30 June 2011.

Based on historical contracts, Zhaikmunai has budgeted a cost per well of approximately US$11.0 million for production/appraisal wells to be drilled to the Devonian reservoirs (and an additional US$3.0 million per well for horizontal wells). The cost per well for vertical production wells to the Tournaisian reservoir is budgeted at approximately US$8.0 million.

Gas Treatment Facility

Handover of the Gas Treatment Facility from KSS took place in December 2011. As of 31 December 2011, the outstanding amounts due to KSS for construction of the Gas Treatment Facility were US$37 million, which included

US$22.6 million related to retention monies to be paid to KSS in 2012. During the six months ended 30 June 2012 Zhaikmunai paid US$36 million to KSS.

Oil treatment units

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

Oil Pipeline and rail loading terminal

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

Disclosure about Market Risk

The Group is exposed to a variety of market risks with respect to the market price of crude oil and gas 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 prices of its products. Commodity price risk is extremely significant to the Group's results of operations given that all revenue is based on the commodity prices. Commodity prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals.

Foreign currency exchange rate risk

The Group is exposed to foreign currency risk associated with transactions entered into, and assets and liabilities denominated, in currencies other than the functional currency of its operating entities, being the US dollar since 1 January 2009. This exposure is primarily associated with transactions, contracts and borrowings denominated in Tenge. Most of the Group's cash inflows as well as its accounts receivable are denominated in US Dollars, and most of the Group's expenses are primarily denominated in US Dollars, with approximately 20% denominated in Tenge. There is no significant forward market for the Tenge and the Group does not use other foreign exchange or forward contracts to manage this exposure. With respect to foreign exchange, the Group incurred a gain of US$336 thousand in the six months ended 30 June 2012, a loss of US$26 thousand in the six months ended 30 June 2011, a loss of US$389 thousand in the year ended 31 December 2011, a gain of US$46 thousand in the year ended 31 December 2010 and a loss of US$2.2 million in the year ended 31 December 2009. The Group does not hedge against this risk. As at the date of this report, all of the Group's financing is in US Dollars and in the future the Group's capital expenditures are expected to be primarily denominated in US Dollars.

Interest rate risk

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

Credit risk

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

2. RESPONSIBILITY STATEMENT

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

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

Kai-Uwe Kessel	Jan-Ru Muller
Chief Executive Officer	Chief Financial Officer