

MANAGEMENT REPORT FOR THE FIRST HALF OF 2013

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1. FINANCIAL REVIEW

The following discussion and analysis should be read together with the unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2013 and 2012 and the audited consolidated financial statements as at and for the years ended 31 December 2012, 2011 and 2010. The audited consolidated financial statements and the accompanying notes have been prepared in accordance with IFRS. The unaudited interim condensed consolidated financial statements and accompanying notes have been prepared in accordance with IAS34.

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 35,000 boepd during the six months ended 30 June 2012 to an average daily production of approximately 46,370 boepd during the six months ended 30 June 2013.

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.

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 six months ended 30 June 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010:

	Years ended 31 December			Six months ended 30 June	
	2012	2011	2010	2013	2012
	<i>(U.S.\$ thousands)</i>			<i>(unaudited) (U.S.\$ thousands)</i>	
Revenue	737,065	300,837	178,159	442,499	323,409
Cost of sales	(238,224)	(70,805)	(53,860)	(135,331)	(94,976)
Gross profit	498,841	230,032	124,299	307,168	228,433
Profit before income tax	282,372	148,972	60,773	184,817	137,023
Net income/(loss)	162,009	81,624	22,900	111,698	86,649

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 Bloomberg, international oil prices reached approximately 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. Prices have varied between a low of approximately U.S.\$97.69 per barrel and a high of approximately U.S.\$118.90 per barrel in the first half of 2013. The price per barrel was approximately U.S.\$102.16 as at 30 June 2013.

	Years ended 31 December			Six months ended 30 June	
	2012	2011	2010	2013	2012
	(US\$/bbl)			(US\$/bbl)	
Average Brent crude oil price (US\$/bbl)	111.68	110.91	80.15	107.88	113.61

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 DAP (delivered at place) 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 and Finland.

- *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.

- *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 six months ended 30 June 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Years ended 31 December			Six months ended 30 June	
	2012	2011	2010	2013	2012
Total production (boe).....	13,520,040	4,802,561	2,829,764	8,393,036	6,424,163
Average production (boepd).....	36,940	13,158	7,752	46,370	35,298
Increase (decrease) in production from previous period (boepd)	23,782	5,406	310	11,072	25,557
Increase (decrease) in production from previous period (%).....	180.7	69.7	4.9	31.4	262.4

Zhaikmunai's production growth in 2010 was primarily driven by a growing drilling programme. However, in 2011, 2012 and the six months to 30 June 2013, 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 46.7% and 48.0% for the six months ended 30 June 2013 and 2012, respectively and 42.6%, 27.5% and 28.2% for the years ended 31 December 2012, 2011 and 2010, 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.

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 18.3% and 23.5%, respectively for the six months ended 30 June 2013 and 2012, respectively and 23.3%, 23.5% and 14.1% for the years ended 31 December 2012, 2011 and 2010, respectively. The increases in 2012 and the first half of 2013 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 1.3% and 1.7% for the six months ended 30 June 2013 and 2012, respectively and 3.2%, 5.6% and 10.9% for the years ended 31 December 2012, 2011 and 2010, respectively.

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 six months ended 30 June 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010 consisted of interest expenses and fees and expenses in relation to the USD 560 million 7.125% notes issued by Zhaikmunai International B.V. in November 2012 (the "**2019 Notes**"); the USD 450 million 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); and unwinding of discount on abandonment and site restoration liability.

Interest expense in the six months ended 30 June 2013 and the year ended 31 December 2012 consisted of interest on the 2015 Notes and the 2019 Notes. Interest expense in the six months ended 30 June 2012 and the year ended 31 December 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.

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.\$7.3 million and US\$9.1 million, respectively in the six months ended 30 June 2013 and 2012, respectively, U.S.\$26.1 million in 2012, U.S.\$ 51.6 million in 2011 and U.S.\$51.7 million in 2010. Non-capitalised interest (including withholding tax paid by Zhaikmunai) amounted to U.S.\$24.7 million in the six months ended 30 June 2013 and U.S.\$18.1 million in the same period in 2012. On an annual basis these costs were U.S.\$48.3 million in 2012, U.S.\$3.1 million in 2011 and U.S.\$19.9 million in 2010.

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, in 2010 and again in 2013 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, 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 and U.S.\$60 per tonne in April 2013.

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. 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, 13.3% and 3.1%, respectively for the six months ended 30 June 2013 compared to 7.2% and 1.7%, respectively for the six months ended 30 June 2012, 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 and 16.5% and 3.1% respectively for the year ended 31 December 2010.

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 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 and 2010, note 4 to the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2013 and note 2 to the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012.

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, *provided that* significant work has been in progress during the reporting period. 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 six months ended 30 June 2013 and 2012

The table below sets forth the line items of the Group's income statement for the six months ended 30 June 2013 and 2012 in US Dollars and as a percentage of revenue.

	Six months ended 30 June 2013	% of revenue	Six months ended 30 June 2012	% of revenue
	(US\$ millions)		(US\$ millions)	
Revenue	442,499	100.0	323,409	100.0
Cost of sales.....	(135,331)	(30.6)	(94,976)	(29.4)
Gross Profit	307,168	69.4	228,433	70.6
General and administrative expenses	(27,962)	(6.3)	(28,461)	(8.8)
Selling and transportation expenses	(60,814)	(13.7)	(44,636)	(13.8)
Finance costs	(25,622)	(5.8)	(18,980)	(5.9)
Foreign exchange (loss)/gain, net.....	(210)	(0.0)	0.336	0.1
Interest income	549	(0.1)	0.169	0.1
Other expenses.....	(10,646)	(2.4)	(2,162)	(6.7)
Other income	2,354	0.5	2,324	7.2
Profit/(loss) before income tax	184,817	41.8	137,023	42.4
Income tax expense	(73,119)	(16.5)	(50,374)	(15.6)
Net Loss/Income	111,698	25.2	86,649	26.8

Revenue increased by US\$119.1 million, or 36.8%, to US\$442.5 million in the six months ended 30 June 2013 from US\$323.4 million in the six months ended 30 June 2012 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 2013 and 2012:

Six months ended 30 June 2013	Six months ended 30 June 2012
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Revenue (US\$ millions)	442,499	323,409
Sales volumes (boe)	8,067,414	5,844,829

Cost of sales increased by US\$40.4 million, or 42.5%, to US\$135.3 million in the six months ended 30 June 2013 from US\$95.0 million in the six months ended 30 June 2012 due primarily to an increase in royalties, government share, changes in stock, repair and maintenance and payroll expenses, partially offset by a decrease in materials and supply expenses. Materials and supply expenses decreased 16.1% to \$6.3 million while repair and maintenance expenses increased 10.8% to \$24.8 million, mainly due to the increased operations and production related to the Gas Treatment Facility. Depreciation and amortization also increased 38.5% or \$17.6 million in the six months ended 30 June 2013 to \$63.2 million. Well workover costs increased to US\$1.7 million in the six months ended 30 June 2013 from US\$1.6 million in the six months ended 30 June 2012. Royalty costs increased 163.0% to US\$18.0 million in the first six months of 2012, as compared to US\$6.9 million in the first six months of 2012. Costs for government profit share increased by US\$2.7 million or 168.4%, to US\$4.2 million in the first six months of 2012 from US\$1.6 million in the first six months of 2012.

On a boe basis, cost of sales increased marginally by US\$0.31 or 1.9%, to US\$16.56 in the first six months of 2013 from US\$16.25 in the first six months of 2012, and cost of sales net of depreciation per boe increased US\$0.38, or 4.5% to US\$8.82 in the first six months of 2013 from US\$8.44 in the first six months of 2012.

General & administrative expenses decreased by US\$0.5 million, or 1.8%, to US\$28.0 million in the six months ended 30 June 2013 from US\$28.5 million in the six months ended 30 June 2012 due primarily to a decrease in social program expenditures of US\$11.2 million in the first half of 2013 from US\$11.2 million in the first half of 2012. This decrease was related to the completion of construction of a 37 kilometre asphalt road accessing the field site. The decrease in social costs was partially offset by increased management fees, other taxes and the change in the value of the employee share option plan (ESOP).

Selling and transportation expenses increased US\$16.2 million, or 36.2%, to US\$60.8 million in the six months ended 30 June 2013 from US\$44.6 million in the six months ended 30 June 2012. This was driven primarily by an increase of US\$8.4 million for transportation costs to US\$39.5 million in the first six months of 2012 from US\$31.0 million in the first six months of 2012. Additionally, the company's loading and storage costs increased to US\$16.0 million in the six months ended 30 June 2013 from US\$10.3 million in the six months ended 30 June 2012. These cost increases were driven by the rise in output of LPG and condensate volumes.

Finance costs increased by US\$6.6 million, to US\$25.6 million in the six months ended 30 June 2013 from US\$19.0 million in the six months ended 30 June 2012. The increase in costs was primarily driven by increasing the long term debt total through the repurchase of US\$358 million of the 2015 Notes and the issue of US\$560 million of 2019 Notes at 7.125%, in Q4 2012.

Foreign exchange loss amounted to US\$210 thousand in the six months ended 30 June 2013 compared to a gain of US\$336 thousand in the six months ended 30 June 2012.

Profit before income tax amounted to a profit of US\$184.8 million in the six months ended 30 June 2013 compared to a profit of US\$137.0 million in the six months ended 30 June 2012. 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\$73.1 million in the six months ended 30 June 2013 compared to US\$50.4 million in the six months ended 30 June 2012, a 45.2% increase.

Net income amounted to US\$111.7 million in the six months ended 30 June 2013, an increase of US\$25.0 million from US\$86.6 million in the six months ended 30 June 2012. This higher profitability was driven by increased revenue from increased production of hydrocarbons.

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
	<i>(U.S.\$ thousands)</i>			
Revenue	737,065	100.0	300,837	100.0
Cost of sales	(238,224)	32.3	(70,805)	23.5

	Year ended 31 December 2012	% of revenue	Year ended 31 December 2011	% of revenue
	<i>(U.S.\$ thousands)</i>			
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
	<i>(U.S.\$ thousands)</i>	
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
	<i>(U.S.\$ thousands)</i>	
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
	<i>(U.S.\$ thousands)</i>		<i>(U.S.\$ thousands)</i>	
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
	<i>(U.S.\$ thousands)</i>	
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
	<i>(U.S.\$ thousands)</i>	
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
	<i>(U.S.\$ thousands)</i>	
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 and the 2015 Notes. 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 six months ended 30 June 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Year ended 31 December			Six months ended 30 June	
	2012	2011	2010	2013	2012
	(US\$ millions)				
Net cash flow from operating activities.....	291.825	132.223	98.955		158.325
Net cash flows in investing activities	(269.674) ⁽¹⁾	(103.681)	(132.428)		(99.931)
Net cash provided by/(used in) financing activities	50.390	(47.350)	39.710		(24.448)
Cash and cash equivalents at the end of period	197.730	125.393	144.201		159.339

- (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.\$167.4 million for the six months ended 30 June 2013 as compared to U.S.\$158.3 million for the six months ended 30 June 2012 and were primarily attributable to:

- profit before income tax for the period of U.S.\$184.8 million, adjusted by a non-cash charge for depreciation and amortisation of U.S.\$63.9 million, and finance costs of U.S.\$25.6 million;
- a U.S.\$39.5 million increase in working capital primarily attributable to (i) an increase in receivables of U.S.\$36.2 million, (ii) a decrease in payables of U.S.\$4.6 million, (iii) an decrease in inventories of U.S.\$5.1 million and (iv) an decrease in other current liabilities of U.S.\$4.8 million; and
- income tax paid of U.S.\$68.5 million.

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

- a 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) an decrease in payables of U.S.\$2.7 million, (iii) an increase in inventories of U.S.\$10.4 million and (iv) a 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) a 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 for the period 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.\$80.3 million for the six months ended 30 June 2013 due primarily to the drilling of new wells (U.S.\$80.8 million), investments in the gas treatment facility (U.S.\$4.9 million) and the placement of U.S.\$19.5 million of cash deposits, partially offset by the redemption of U.S.\$50.0 million of term bank deposits.

Net cash used in investing activities was U.S.\$269.7 million for the year ended 31 December 2012 primarily due 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).

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.\$29.0 million for the six months ended 30 June 2013.

Net cash provided by financing activities was U.S.\$50.4 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 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.

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. Zhaikmunai's cash capital expenditure during the first half of 2013 was U.S.\$128.8 million compared to U.S.\$124.0 million during the first half of 2012. 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.\$80.8 million for the six months ended 30 June 2013, compared to U.S.\$56.0 million for the six months ended 30 June 2012.

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 loss of U.S.\$210 thousand in the six months ended 30 June 2013 (compared to a gain of U.S.\$336 thousand in the six months ended 30 June 2012), a gain of U.S.\$776 thousand in the year ended 31 December 2012, 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

The distribution approved on June 28, 2013 was paid on July 26, 2013 to Common Unit holders on the register of partners and interests at the close of business on July 19, 2013.

On August 9, 2013 the Rostoshinskoye oilfield appraisal period was extended to February 8, 2015.

2. 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 information required.

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

Kai-Uwe Kessel

Chief Executive Officer

Jan-Ru Muller

Chief Financial Officer