/KASE, AUGUST 29, 13/ - Zhaikmunai (Oral, Kazakhstan) provided Kazakhstan Stock Exchange (KASE) with the following communication today:

quote

Zhaikmunai LP

Interim consolidated financial statements

For the six months ended June 30, 2013

with Independent auditors' report

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Independent auditors' report

Interim consolidated financial statements

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Report on review of the interim consolidated financial statements

To the participants and management of Zhaikmunai LP

Introduction

We have reviewed the accompanying interim consolidated statements of Zhaikmunai LP and its subsidiaries ("the Group") as at 30 June 2013, which comprise the interim consolidated statement of financial position as at 30 June 2013 and the related interim consolidated statements of comprehensive income for the three and six-month periods then ended, statements of changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim consolidated financial information in accordance with International Financial Reporting Standards (IFRS). Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2013, and of its financial performance for the three and six-month periods and its cash flows for the six-month period then ended in accordance with IFRS.

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

Auditor Qualification Certificate
No. 0000553 dated December 24, 2003

16 August 2013

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at June 30, 2013

In thousands of US dollars

	Note	June 30, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS			
Non-current assets			
Exploration and evaluation assets	5	15,835	–
Property, plant and equipment	6	1,271,520	1,222,665
Restricted cash	12	4,154	3,652
Non-current investments	11	5,000	–
Advances for non-current assets	7	10,871	25,278
		1,307,380	1,251,595
Current assets			
Inventories	8	19,884	24,964
Trade receivables	9	90,250	54,004
Prepayments and other current assets	10	22,842	24,369
Short-term investments	11	14,500	50,000
Cash and cash equivalents	12	255,882	197,730
		403,358	351,067
TOTAL ASSETS		1,710,738	1,602,662
EQUITY AND LIABILITIES			
Partnership capital and reserves			
Partnership capital	13	367,769	371,147
Additional paid-in capital		7,046	6,095
Retained earnings and translation reserve		366,381	317,862
		741,196	695,104
Non-current liabilities			
Long-term borrowings	14	618,520	615,742
Abandonment and site restoration liabilities	15	11,982	11,064
Due to Government of Kazakhstan	16	6,021	6,122
Employee share option plan	26	11,376	9,788
Deferred tax liability		145,233	148,932
		793,132	791,648
Current liabilities			
Current portion of long term borrowings	14	7,152	7,152
Trade payables	17	51,697	58,390
Advances received		23	60
Obligations under profit distribution	13	63,179	–
Income tax payable		20,107	11,762
Current portion of Due to Government of Kazakhstan	16	1,031	1,031
Other current liabilities	18	33,221	37,515
		176,410	115,910
TOTAL EQUITY AND LIABILITIES		1,710,738	1,602,662

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2013

In thousands of US dollars

		Three months ended June 30,		Six months ended June 30,	
	Notes	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Revenue:					
Revenue from export sales		**181,378**	133,685	**378,090**	272,972
Revenue from domestic sales		**32,595**	26,329	**64,409**	50,437
	19	**213,973**	160,014	**442,499**	323,409
Cost of sales	**20**	**(62,929**	(50,583)	**(135,331)**	(94,976)
Gross profit		**151,04**	109,431	**307,168**	228,433
General and administrative expenses	**21**	**(16,861**	(17,315)	**(27,962)**	(28,461)
Selling and transportation expenses	**22**	**(34,279**	(23,161)	**(60,814)**	(44,636)
Finance costs	**23**	**(14,051**	(9,083)	**(25,622)**	(18,980)
Foreign exchange (loss) / gain, net		**(219)**	190	**(210)**	336
Interest income		**291**	72	**549**	169
Other expenses	**24**	**(6,012**	(874)	**(10,646)**	(2,162)
Other income		**1,58**	1,807	**2,354**	2,324
Profit before Income tax		**81,49**	61,067	**184,817**	137,023
Income tax expense	**25**	**(35,469**	(22,859)	**(73,119)**	(50,374)
Profit for the period		**46,02**	38,208	**111,698**	86,649
Total comprehensive income for the period		**46,02**	38,208	**111,698**	86,649

Chief Executive Officer of the General Partner of Zhaikmunai LP — *Kai-Uwe Kessel*

Chief Financial Officer of the General Partner of Zhaikmunai LP — *Jan-Ru Muller*

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2013

In thousands of US dollars

	Note	Six months ended June 30, 2013 (unaudited)	2012 (unaudited)
Cash flow from operating activities:			
Profit before income tax		**184,817**	137,023
Adjustments for:			
Depreciation, depletion and amortization	**20, 21**	**63,931**	46,210
Employee share option plan		**2,538**	24
Finance costs		**25,622**	18,980
Interest income		**(549)**	(169)
Foreign exchange gain on investing and financing activities		**(12)**	–
Operating profit before working capital changes		**276,347**	202,068
Changes in working capital:			
Change in inventories		**5,080**	(4,579)
Change in trade receivables		**(36,246)**	(13,925)
Change in prepayments and other current assets		**1,527**	(3,535)
Change in trade payables		**(4,570)**	(8,605)
Change in advances received		**(37)**	(1,758)
Change in due to Government of Kazakhstan		**(515)**	(514)
Change in other current liabilities		**(4,770)**	(2,452)
Cash generated from operations		**236,816**	166,700
Income tax paid		**(68,473)**	(5,782)
Payments under Employee Share Option Plan		**(951)**	(2,593)
Net cash flows from operating activities		**167,392**	158,325
Cash flow from investing activities:			
Interest received		**549**	169
Placement of bank deposits		**(19,500)**	–
Redemption of term bank deposits		**50,000**	–
Purchases of property, plant and equipment		**(111,338)**	(100,100)
Net cash used in investing activities		**(80,289)**	(99,931)
Cash flow from financing activities:			
Finance costs paid		**(26,022)**	(28,442)
Transfer to restricted cash		**(502)**	(340)
Repurchase of GDRs		**(3,858)**	–
Treasury shares sold		**1,431**	4,334
Net cash used in financing activities		**(28,951)**	(24,448)
Net increase in cash and cash equivalents		**58,152**	33,946
Cash and cash equivalents at the beginning of the period		**197,730**	125,393
Cash and cash equivalents at the end of the period		**255,882**	159,339

NON-CASH TRANSACTIONS

Non-cash transaction, including the following, has been excluded from the consolidated statement of cash flows:

Offset of Corporate Income Tax with Value Added Tax

During the six months ended June 30, 2012, the Group offset tax liabilities in the amount for the non-cash amount of US$ 3,622 thousand with value added tax receivables.

Chief Executive Officer of the General Partner of Zhaikmunai LP

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Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

____
Jan-Ru Muller

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2013

In thousands of US dollars

In thousands of US dollars	Partnership capital	Treasury capital	Other reserves	Retained earnings and reserves	Total
As at December 31, 2011 (audited)	**373,990**	**(5,787)**	**1,677**	**215,351**	**585,23**
Net income for the period	–	–	–	**86,649**	**86,64**
Total comprehensive income for the period	–	–	–	**86,649**	**86,64**
Share issue	–	1,741	2,593	–	4,33
As at June 30, 2012 (unaudited)	**373,990**	**(4,046)**	**4,270**	**302,000**	**676,21**
As at December 31, 2012 (audited)	**380,874**	**(9,727)**	**6,095**	**317,862**	**695,10**
Net income for the period	–	–	–	**111,698**	**111,69**
Total comprehensive income for the period	–	–	–	**111,698**	**111,69**
Buyback of GDRs	–	(3,858)	–	–	(3,858
Sale of treasury capital	–	480	951	–	1,43
Profit distribution (Note 13)	–	–	–	(63,179)	(63,179
As at June 30, 2013 (unaudited)	**380,874**	**(13,105)**	**7,046**	**366,381**	**741,19**

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In thousands of US dollars

1. GENERAL

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

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

These consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Zhaikmunai LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Zhaikmunai LP on August 16, 2013.

These consolidated financial statements include the results of the operations of Zhaikmunai LP ("Partnership") and its wholly owned subsidiaries Zhaikmunai Netherlands B.V. (formerly Frans Van Der Schoot B.V.), Zhaikmunai Finance B.V., Zhaikmunai International B.V., Claydon Industrial Limited ("Claydon"), Jubilata Investments Limited ("Jubilata"), Zhaikmunai LLP and Condensate-Holding LLP ("Condensate"). Zhaikmunai LP and its subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan. The General Partner of Zhaikmunai LP is Zhaikmunai Group Limited, which is responsible for the management of the Group (Note 4).

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

On August 17, 2012 Zhaikmunai LLP signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On March 1, 2013 Zhaikmunai LLP has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the Ministry of Oil and Gas of the Republic of Kazakhstan.

Licence terms

The term of the License originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for an additional 4 years and then for a further 2 years according to the supplements to the Contract dated January 12, 2004 and June 23, 2005, respectively. In accordance with the supplement dated June 5, 2008, Tournaisian North reservoir entered into production period as at January 1, 2007. Following additional commercial discoveries during 2008, the exploration period under the license, other than for the Tournaisian horizons, was extended for an additional 3 year period, which expired on May 26, 2011. An application for further extension has been made. The extensions to the exploration periods have not changed the license term, which will expire in 2031.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated February 8, 2008 originally included a 3-year exploration period and a 12-year production period. On April 27, 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision that the exploration period be extended until February 8, 2015. Upon receipt of the ownership rights the Zhaikmunai LLP started the process of application for signing of the relevant supplementary agreement (Note 30).

The contract for exploration and production of hydrocarbons from Darjinskoye field dated July 28, 2006 originally included a 6-year exploration period and a 19-year production period. On October 21, 2008 the exploration period was extended for 6 months so as to expire on January 28, 2013. On April 27, 2009 the exploration period was extended until January 28, 2015. Upon receipt of the ownership rights the Zhaikmunai LLP started the process of application for further extension of the exploration period.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated July 28, 2006 originally included a 5-year exploration period and a 20-year production period. On April 27, 2009 the exploration period was extended until July 28, 2012. On July 8, 2011 the exploration period was further extended until July 28, 2014. Upon receipt of the ownership rights the Zhaikmunai LLP started the process of application for further extension of the exploration period.

Royalty payments

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

Government "profit share"

Zhaikmunai LLP makes payments to the Government of its "profit share" as determined in the Contract. The "profit share" depends on hydrocarbon production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government "profit share" is expensed as incurred and paid in cash.

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (Note 4). The consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Partnership and its subsidiaries as at June 30, 2013.

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

Subsidiaries

Subsidiaries are all entities over which the Partnership has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and the effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Partnership controls another entity.

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded at the carrying values reported in the consolidated financial statements of the parent. Any difference between the total book value of net assets and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the controlling entity.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2012, except for the adoption of new standards and interpretations as of January 1, 2013, noted below.

The nature and the impact of each new standard/amendment are described below:

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

Improvements to IFRSs 2009-2011

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

The opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim financial statements do not include a third balance sheet. The amendment did not have an impact on the interim consolidated financial statements of the Group.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim consolidated financial statements of the Group.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The amendment did not have an impact on the disclosures in the interim consolidated financial statements for the Group.

New standards, interpretations and amendments thereof

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

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment had no impact on the Group's financial position or performance.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including structured entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Structured Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. As the Group does not have JCEs, hence IFRS 11 had no impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim consolidated financial statements of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16 A (j), thereby affecting the interim consolidated financial statements period. The Group provides these disclosures in Note 29.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

Standards issued but not yet effective

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

- Amendment to IAS 32 – *Offsetting Financial Assets and Financial Liabilities (effective from January 1, 2014)*
- IFRS 9 – *Financial Instruments (issued in 2009) (effective from January 1, 2015)*
- Amendments to IFRS 7 and IFRS 9 – *Mandatory Effective Date and Transition Disclosures (effective from January 1, 2015)*
- Amendments to IFRS 10, IFRS12 and IAS 27 – *Investment Entities (effective from January 1, 2014)*
- IFRIC 21 – *Levies (effective from January 1, 2014)*
- Amendment to IAS 39 – *Continuing hedge accounting after novation (effective from January 1, 2014)*

Seasonality of operations

The Group's operating expenses are subject to seasonal fluctuations, with higher expenses for various maintenance and other oil field services usually performed in the warmer months.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgements, estimates and assumptions

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

Oil and gas reserves

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

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

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

Abandonment and site restoration liabilities

The Group estimates future dismantlement and site restoration cost for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Group reviews site restoration provisions at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the licenses.

Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in profit or loss as a finance cost. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long term inflation and discount rates used to determine the balance sheet obligation at December 31, 2012 and 2011 were 7% and 10% respectively. Movements in the provision for decommissioning liability are disclosed in Note 15.

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The functional currency of the Partnership and its subsidiaries is the United States dollar (the "US dollar" or "US$").

Transactions and balances denominated in foreign currencies

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

Property, plant and equipment

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with exploration wells are capitalized within property, plant and equipment (construction work-in-progress) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration and materials and fuel used, rig costs and payments made to contractors and asset retirement obligation fees. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. There was no exploration expenditure expensed during the period ended June 30, 2013 (2012: Nil).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

Property, plant and equipment (continued)

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalized within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

All capitalized costs of oil and gas properties are amortized using the unit-of-production method based on estimated proved developed reserves of the field, except the Group depreciates its oil pipeline and oil loading terminal on a straight line basis over the life of the License. In the case of assets that have a useful life shorter than the lifetime of the field the straight line method is applied.

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

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

Impairment of non-financial assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

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

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

Other properties

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings and Constructions	7-15
Vehicles	8
Machinery and equipment	3-13
Other	3-10

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Inventories

Inventories are stated at the lower of cost or net realizable value ("NRV"). Cost of oil, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Abandonment and site restoration (decommissioning)

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

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

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

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Accounts receivable

Accounts receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as expense (credit) in the period in which they become known.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets carried at amortized cost (continued)

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

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

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Fair value of financial instruments (continued)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

Derivative financial instruments and hedging

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

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

The fair value of financial instruments contracts is determined by reference to market values for similar instruments. As at December 31, 2012 and June 30, 2013 the Group had no open hedging contracts.

Taxation

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

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

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

Revenue recognition

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

Revenue from the sale of crude oil, gas condensate and LPG is recognized when delivery has taken place and risks and rewards of ownership have passed to the customer.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured.

5. EXPLORATION AND EVALUATION ASSETS

During the six months ended June 30, 2013 the Group had additions of exploration and evaluation assets of US$ 15,835 thousand (six months ended June 30, 2012: US$ nil).The additions are related to the acquisition of subsoil use rights of three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the six months ended June 30 was as follows:

	Oil and gas properties			Non oil and gas properties					
In thousands of US dollar	Working assets	CIP	Total oil and gas proper-ties	Buildings	Machi-nery & equip-ment	Vehicles	Others	Total non oil gas proper-ties	Total
Balance at December 31, 2011, net of accumulated depreciation (audited)	**903,178**	**205,242**	**1,108,420**	**5,488**	**2,919**	**1,106**	**2,520**	**12,033**	**1,120,453**
Additions	1,290	77,876	79,166	215	1,096	32	3,148	4,491	83,657
Transfers	54,739	(55,097)	(358)	362	2,218	192	(2,414)	358	–
Disposals	(5)	–	(5)	–	(238)	–	(99)	(337)	(342)
Disposals depreciation	–	–	–	–	121	–	90	211	211
Depreciation charge	(44,701)	–	(44,701)	(414)	(697)	(158)	(237)	(1,506)	(46,207)
Balance at June 30, 2012 net of accumulated depreciation (unaudited)	914,501	228,021	1,142,522	5,651	5,419	1,172	3,008	15,250	1,157,772
Balance at December 31, 2012, net of accumulated depreciation (audited)	**1,002,602**	**202,788**	**1,205,390**	**5,607**	**6,496**	**1,170**	**4,002**	**17,275**	**1,222,665**
Additions	915	110,906	111,821	69	1,414	215	1,584	3,282	115,103
Transfers	94,803	(94,803)	–	(29)	829	21	(821)	–	–
Disposals	–	(885)	(885)	–	(1,050)	(50)	(313)	(1,413)	(2,298)
Disposals depreciation	–	–	–	8	18	46	4	76	76
Depreciation charge	(61,658)	–	(61,658)	(434)	(1,247)	(158)	(529)	(2,368)	(64,026)
Balance at June 30,2013, net of accumulated depreciation (unaudited)	**1,036,662**	**218,006**	**1,254,668**	**5,221**	**6,460**	**1,244**	**3,927**	**16,852**	**1,271,520**
Cost at June 30, 2012	1,066,768	228,021	1,294,789	8,170	8,888	2,849	4,653	24,560	1,319,349
Accumulated depreciation	(152,267)	–	(152,267)	(2,519)	(3,469)	(1,677)	(1,645)	(9,310)	(161,577)
Balance at June 30, 2012 net of accumulated depreciation (unaudited)	914,501	228,021	1,142,522	5,651	5,419	1,172	3,008	15,250	1,157,772
Cost at June 30, 2013	1,305,091	218,006	1,523,097	8,601	12,171	3,189	6,101	30,062	1,553,159
Accumulated depreciation	(268,429)	–	(268,429)	(3,380)	(5,711)	(1,945)	(2,174)	(13,210)	(281,639)
Balance at June 30,2013, net of accumulated depreciation (unaudited)	**1,036,662**	**218,006**	**1,254,668**	**5,221**	**6,460**	**1,244**	**3,927**	**16,852**	**1,271,520**

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

The depletion rate for oil and gas working assets was 6.66% and 5.34% during six months ended June 30, 2013 and 2012, respectively. The unamortized costs of oil and gas properties include all capitalized costs net of accumulated amortization.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at January 1, 2013. Depletion has been calculated using the unit of production method based on these reserves estimates.

The Group incurred borrowing costs including amortization of arrangement fee of US$ 30,112 thousand and US$ 27,152 thousand for the six months ended June 30, 2013 and June 30, 2012. For the same periods, the Group capitalized borrowing costs totaling US$ 7,268 thousand and US$ 9,111 thousand, at capitalization rates of 4.88% and 6.06%, respectively.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. ADVANCES FOR NON-CURRENT ASSETS

As at June 30, 2013 and December 31, 2012 advances for non-current assets comprised the following:

In thousands of US dollars	**June 30, 2013 (unaudited)**	December 31, 2012 (audited)
Advances for pipes and construction materials	**7,551**	9,126
Advances for construction services	**3,320**	6,063
Advances for purchase of licenses	–	10,089
	10,871	25,278

8. INVENTORIES

As at June 30, 2013 and December 31, 2012, inventories comprised the following:

In thousands of US dollars	**June 30, 2013 (unaudited)**	December 31, 2012 (audited)
Materials and supplies	**15,893**	17,127
Gas condensate	**2,751**	4,633
Crude oil	**951**	2,750
LPG	**289**	454
	19,884	24,964

As at June 30, 2013 and December 31, 2012 inventories are carried at cost.

9. TRADE RECEIVABLES

As at June 30, 2013 and December 31, 2012 trade receivables were denominated in US dollars, their collection period was less than 30 days and they were not impaired.

As at June 30, 2013 and December 31, 2012 the ageing analysis of trade receivables is as follows:

			Past due but not impaired				
In thousands of US Dollars	**Total**	Neither past due nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
June 30, 2013 (unaudited)	**90,250**	**71,784**	–	**18,240**	–	–	**226**
December 31, 2012 (audited)	54,004	54,000	–	–	–	–	4

10. PREPAYMENTS AND OTHER CURRENT ASSETS

As at June 30, 2013 and December 31, 2012 prepayments and other current assets comprised the following:

In thousands of US dollars	**June 30, 2013 (unaudited)**	December 31, 2012 (audited)
VAT receivable	**13,025**	10,782
Advances paid	**9,136**	12,613
Other	**681**	974
	22,842	24,369

Advances paid consist primarily of prepayments made to service providers.

11. SHORT-TERM INVESTMENTS

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

12. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

In thousands of US dollars	**June 30, 2013 (unaudited)**	**December 31, 2012 (audited)**
Current accounts in US dollars	**272,074**	84,615
Current accounts in tenge	**1,521**	10,595
Cash accounts in other currencies	**1,780**	2,520
Petty cash	**7**	–
Bank deposits with maturity less than three month	**–**	100,000
	275,382	197,730

The Group has restricted cash accounts as liquidation fund deposits in the amount of US$ 4,154 thousand with Kazkommertsbank JSC and SB Sberbank JSC in Kazakhstan (December 31, 2012: US$ 3,652 thousand), which are kept as required by the License for abandonment and site restoration liabilities of the Group.

13. PARTNERSHIP CAPITAL

The ownership interests in Zhaikmunai LP consist of (a) Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and (b) the interest of the General Partner. At any general meeting every holder of Common Units shall have one vote for each Common Unit of which he or she is the holder. Under the Partnership Agreement, distributions to limited partners will be made either as determined by the General Partner in its sole discretion or following the approval of a majority of limited partners provided such amount does not exceed the amount recommended by the General Partner. Any distributions to Zhaikmunai LP's limited partners will be made on a pro rata basis according to their respective partnership interests in Zhaikmunai LP and will be paid only to the recorded holders of Common Units.

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

On June 28, 2013 the limited partners of Zhaikmunai duly passed all proposed resolutions at the Annual General Meeting ("AGM") of limited partners. Such resolutions included approval by the limited partners at the AGM of the distribution to Zhaikmunai's limited partners of US$ 0.34 per common unit, payable by Zhaikmunai on July 26, 2013 to common unit holders on the register of partners and interests at the close of the business on July 19, 2013.

As at December 31, 2012 Zhaikmunai LP had issued 188,182,958 common units, all but 10 of which are represented by GDRs, including 1,421,076 new common units (represented by GDRs) issued to support its obligations to employees under the Employee Share Option Plan (ESOP). The issued GDRs are held by Ogier Employee Benefit Trustee Limited ("the Trustee"), which upon request from employees to exercise options, sells GDRs on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these newly issued GDRs are recorded as treasury capital of Zhaikmunai LP. During the six months ended June 30, 2013 no new common units were issued but 120,325 share options were exercised by employees (year ended December 31, 2012: 735,894 GDRs).

The movements in GDR's during the six months ended June 30, 2013 and 2012 were as follows:

	2013	2012
Balance at January 1 (audited)	188,182,958	186,761,882
Issued during the period	–	–
Balance at June 30 (unaudited)	188,182,958	186,761,882

14. BORROWINGS

Borrowings comprise the following as at June 30, 2013 and December 31, 2012:

In thousands of US dollar	**June 30, 2013 (unaudited)**	December 31, 2012 (audited)
Notes payable with maturity in 2019	**532,565**	530,425
Notes payable with maturity in 2015	**93,107**	92,469
	625,672	622,894
Less: amounts due within 12 months	**(7,152)**	(7,152)
Amounts due after 12 months	**618,520**	615,742

2015 Notes

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

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

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

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

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

On October 19, 2012, Zhaikmunai International B.V. commenced a cash tender offer (the "Tender Offer") to purchase any and all of the 2015 Notes. US$ 347,604 thousand aggregate principal amount of the 2015 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2015 Notes, by the time the Tender Offer for 2015 Notes expired on November 19, 2012. The holders of US$ 200,732 thousand 2015 Notes that accepted the Tender Offer have subscribed to the 2019 Notes of the same amount.

2019 Notes

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

On April 24, 2013 Zhaikmunai LLP (the "2019 Issuer") replaced the 2019 Initial Issuer of the 2019 Notes, whereupon it assumed all of the obligations of the 2019 Initial Issuer under the 2015 Notes. The 2019 Notes bear interest at the rate of 7.125% per year. Interest on the 2019 Notes is payable on May 14 and November 13 of each year, beginning on May 14, 2013. Prior to November 13, 2016, the 2019 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2019 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2019 Notes (including Additional

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. BORROWINGS (continued)

2019 Notes (continued)

Notes as defined in the indenture relating to the 2019 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

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

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

15. ABANDONMENT AND SITE RESTORATION LIABILITIES

The summary of changes in abandonment and site restoration liabilities during the six months ended June 30, 2013 and 2012 are as follows:

In thousands of US dollar	**2013**	2012
Abandonment and site restoration liability as at January 1 (audited)	**11,064**	8,713
Unwinding of discount	**517**	407
Additional provision	**1,125**	1,041
Change in estimates	**(724)**	(570)
Abandonment and site restoration liability as at June 30 (unaudited)	**11,982**	9,591

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at June 30, 2013 were 7% and 10%, respectively (June 30, 2012: 7% and 10%).

16. DUE TO GOVERNMENT OF KAZAKHSTAN

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

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

The balances as at June 30, 2013 and 2012 and changes in the amount due to Government of Kazakhstan were as follows:

In thousands of US dollar	**2013**	2012
Due to Government of Kazakhstan as at January 1 (audited)	**7,153**	7,242
Unwinding of discount	**414**	425
Paid during the period	**(515)**	(514)
	7,052	7,153
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at June 30 (unaudited)	**6,021**	6,122

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. TRADE PAYABLES

In thousands of US dollars	**June 30, 2013 (unaudited)**	December 31, 2012 (audited)
Tenge denominated trade payables	**35,369**	48,622
US dollar denominated trade payables	**12,129**	6,659
Trade payables denominated in other currencies	**4,199**	3,109
	51,697	58,390

18. OTHER CURRENT LIABILITIES

In thousands of US dollars	**June 30, 2013 (unaudited)**	December 31, 2012 (audited)
Taxes payable, other than corporate income tax	**10,219**	24,650
Training obligations	**10,795**	9,256
Due to employees	**2,043**	1,180
Other	**10,164**	2,429
	33,221	37,515

19. REVENUE

	Three months ended June 30,		**Six months ended June 30,**	
In thousands of US dollars	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Oil and gas condensate	**170,602**	120,263	**353,386**	250,871
Gas and LPG	**43,371**	39,751	**89,113**	72,538
	213,973	160,014	**442,499**	323,409

During six months ended June 30, 2013 the revenue from sales to two major customers amounted to US$ 95,809 thousand and US$ 77,522 thousand, respectively (six months ended June 30, 2012: US$ 113,115 thousand and US$ 64,093 thousand, respectively).

20. COST OF SALES

	Three months ended June 30,		**Six months ended June 30,**	
In thousands of US dollars	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Depreciation, depletion and amortization	**27,545**	23,984	**63,213**	45,631
Repair, maintenance and other services	**12,486**	13,740	**24,770**	22,346
Royalties	**8,257**	3,646	**18,028**	6,855
Payroll and related taxes	**3,819**	4,814	**7,804**	8,780
Materials and supplies	**3,276**	3,799	**6,279**	7,483
Government profit share	**1,954**	796	**4,249**	1,583
Other transportation services	**1,178**	1,256	**2,356**	2,867
Well workover costs	**891**	171	**1,745**	1,648
Management fees	**776**	444	**1,587**	950
Environmental levies	**393**	385	**574**	803
Change in stock	**1,758**	(3,708)	**3,847**	(6,434)
Other	**596**	1,256	**879**	2,464
	62,929	50,583	**135,331**	94,976

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
In thousands of US dollars	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Management fees	**3,775**	2,896	**7,626**	5,687
Other taxes	**3,285**	71	**3,379**	215
Payroll and related taxes	**1,259**	1,151	**2,911**	2,310
Training	**1,472**	1,054	**2,549**	1,858
Professional services	**938**	995	**2,326**	1,794
Business travel	**1,381**	957	**2,190**	2,200
Insurance fees	**526**	344	**999**	667
Depreciation and amortization	**355**	303	**718**	579
Sponsorship	**287**	102	**625**	244
Bank charges	**313**	233	**588**	463
Communication	**242**	190	**467**	407
Lease payments	**145**	94	**285**	189
Materials and supplies	**144**	138	**276**	270
Social program	**75**	11,183	**150**	11,317
Employee share option plan	**2,720**	(2,541)	**2,537**	23
Other	**(56)**	145	**336**	238
	16,861	17,315	**27,962**	28,461

22. SELLING AND TRANSPORTATION EXPENSES

	Three months ended June 30,		Six months ended June 30,	
In thousands of US dollars	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Transportation costs	**21,009**	15,806	**39,485**	31,049
Loading and storage costs	**9,946**	5,608	**15,990**	10,263
Payroll and related taxes	**598**	633	**1,199**	1,040
Management fees	**277**	432	**475**	908
Other	**2,449**	682	**3,665**	1,376
	34,279	23,161	**60,814**	44,636

23. FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
In thousands of US dollars	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Interest expense on borrowings	**13,535**	8,623	**24,691**	18,148
Unwinding of discount on Abandonment and Site Restoration Liability	**259**	203	**517**	407
Unwinding of discount on Due to Government	**257**	257	**414**	425
	14,051	9,083	**25,622**	18,980

24. OTHER EXPENSES

	Three months ended June 30,		Six months ended June 30,	
In thousands of US dollars	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Export customs duty	**4,812**	–	**6,60**	–
Compensation	**813**	421	**1,33**	1,061
Other	**387**	453	**2,70**	1,101
	6,012	874	**10,64**	2,162

The export customs duty is represented by the custom duties for export of crude oil and customs fees for its services such as processing of declarations, temporary warehousing etc. Based on their interpretation of CIS free-trade legislation the Kazakhstan customs authorities have imposed customs duties on oil exports from Kazakhstan to Ukraine starting from December 2012. Zhaikmunai LLP believes such customs duties should not be applicable to its oil exports to Ukraine and is contesting the imposition of such duties to such exports.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. INCOME TAX EXPENSES

The income tax expense consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
In thousands of US dollars	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Current income tax expenses comprise:	**34,304**	19,323	**76,818**	45,517
Deferred income tax expense/(benefit)	**1,165**	3,536	**(3,69**	4,857
Total income tax expense	**35,469**	22,859	**73,1**	50,374

The Group's profits are assessed for income taxes only in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate applicable to the License is as follows:

	Three months ended June 30,		Six months ended June 30,	
In thousands of US dollars	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
Profit before income tax	**82,374**	61,067	**184,817**	137,023
Statutory tax rate	**30%**	30%	**30%**	30%
Expected tax provision	**24,712**	18,320	**55,445**	41,107
Non-deductible interest expense on borrowings	**6,760**	5,425	**11,275**	10,830
Change of the tax base	**810**	(382)	**911**	(1,017)
Foreign exchange (gain)/loss	**447**	(83)	**553**	(150)
Non-assessable income	**1,382**	(2,036)	**1,194**	(2,347)
Other	**1,358**	1,615	**3,741**	1,951
Income tax expense reported in the financial statements	**35,469**	22,859	**73,119**	50,374

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

In thousands of US dollar	**June 30, 2013 (unaudited)**	December 31, 2012 (audited)
Deferred tax asset:		
Accounts payable and provisions	**3,339**	2,589
Deferred tax liability:		
Property, plant and equipment	**(148,572)**	(154,120)
Net deferred tax liability	**(145,233)**	(151,531)

The movements in the deferred tax liability were as follows:

In thousands of US dollar	**2013**	2012
Balance at January 1 (audited)	**(148,932)**	(146,674)
Current period charge to profit or loss	**3,699**	(4,857)
Balance at June 30 (unaudited)	**(145,233)**	(151,531)

26. EMPLOYEE SHARE OPTION PLAN

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

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

The equity-based payment plan is described below.

26. EMPLOYEE SHARE OPTION PLAN (continued)

During the period from January 1, 2008 to June 30, 2013 4,147,958 equity appreciation rights (SARs) were granted to senior employees and executive directors of members of the Group, which can only be settled in cash. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting till the end of the contractual life and give its holder a right to a difference between the market value of the Group's GDRs at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period.

Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The carrying value of the liability relating to 2,976,398 of SARs at June 30, 2013 is US$ 11,376 thousand (December 31, 2012: 2,131,723 SARs with carrying value of US$ 9,788 thousand). During the six months ended June 30, 2013, 560,551 SARs were vested (six months ended June 30, 2012: 560,554 SARs).

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

	2013		2012	
	No.	**EP, US$**	No.	EP, US$
Outstanding at the beginning of the period (with EP of US$ 4)	**1,931,723**	**4**	2,667,617	4
Outstanding at the beginning of the period (with EP of US$ 10)	**200,000**	**10**	200,000	10
Total outstanding at January 1	**2,131,723**		2,867,617	
Granted	**965,000**	**10**	–	–
Exercised	**(120,325)**	**4**	(435,276)	4
Outstanding at June 30	**2,976,398**		2,432,341	
Exercisable at June 30	**1,751,398**		1,271,171	

The weighted average fair value of SARs granted during the six months ended June 30, 2013 amounted to US$ 5.18 per SAR and the weighted average price at the date of exercise for SARs exercised during the period amounted to US$ 7.89 per SAR (2012: US$ 5.96 per SAR). The following table lists the inputs to the models used for the plan for the six months ended June 30, 2013 and 2012:

In thousands of US dollars	**2013**	2012
Dividend yield (%)	**1.5**	1,5
Expected volatility (%)	**85**	86
Risk-free interest rate (%)	**2.0**	2.0
Expected life (years)	**3.5**	3.5
Option turnover (%)	**10**	10
Price trigger	**2**	2

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

27. RELATED PARTY TRANSACTIONS

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

Accounts payable to and borrowings from related parties as at June 30, 2013 and December 31, 2012 consisted of the following:

In thousands of US dollars	**June 30, 2013 (unaudited)**	December 31, 2012 (audited)
Trade payables		
Probel Capital Management B.V.	**268**	288
Amersham Oil LLP	**49**	48
Prolag BVBA	**35**	298

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. RELATED PARTY TRANSACTIONS (continued)

During the six months ended June 30, 2013 and 2012 the Group had the following transactions with related parties:

In thousands of US dollars	Three months ended June 30, 2013 (unaudited)	2012 (unaudited)	Six months ended June 30, 2013 (unaudited)	2012 (unaudited)
Management fees and consulting services				
Probel Capital Management B.V.	**3,966**	3,044	**8,197**	5,881
Prolag BVBA	**391**	501	**842**	1,073
Amersham Oil	**325**	295	**650**	591

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

Remuneration of key management personnel amounted to US$ 107 thousand for six months ended June 30, 2013 (six months ended June 30, 2012: US$ 331 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management and whose remuneration forms part of management fees and consulting services above.

28. CONTINGENT COMMITMENTS AND OPERATING RISKS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at June 30, 2013. As at June 30, 2013 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation.

Capital commitments

As at June 30, 2013 the Group had contractual capital commitments in the amount of US$ 44,344 thousand (December 31, 2012: US$ 23,088 thousand) mainly in respect to the Group's oil field development activities.

Operating lease

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

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

28. CONTINGENT COMMITMENTS AND OPERATING RISKS (continued)

Social and education commitments

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

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

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

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

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

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields require fulfillment of several social and other obligations. However, these obligations represent part of the work programs and may change in the process of negotiations and approval of the renewed work programs submitted by the Partnership to the MOG.

The current contract for exploration and production of hydrocarbons from Rostoshinskoye field requires the subsurface user to:

(i) spend at least 1% of investments for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 1,250 thousand to finance social infrastructure of the region during the last year of the exploration stage;

(iii) fund development of Astana city for the amount of US$ 1,000 thousand during the last year of the exploration stage;

(iv) invest at least US$ 13,420 thousand for exploration of the field during the exploration period;

(v) reimburse historical costs of US$ 383 thousand to the Government, including US$ 11 thousand for the right to use geological information; and

(vi) create a liquidation fund (special deposit account with local bank) equal to 1% of investment during the exploration stage and 0.1% of operational costs during the production stage.

The current contract for exploration and production of hydrocarbons from Darjinskoye field requires the subsurface user to:

(i) spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 18,850 thousand to finance social infrastructure of the region (including US $1,000 thousand for funding of development of Astana city in case of commercial discovery);

(iii) invest at least US$ 20,000 thousand for exploration of the field during the exploration period;

(iv) reimburse historical costs of US$ 6,499 thousand to the Government, including US$ 195 thousand for right to use geological information; and

(v) create a liquidation fund (special deposit account with local bank) equal to 1% of capital expenditures during the exploration stage and 0.1% of operational costs during the production stage.

The current contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field requires the subsurface user to:

(i) spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 18,850 thousand to finance social infrastructure of the region (including US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);

(iii) invest at least US$ 23,050 thousand for exploration of the field during the exploration period;

(iv) reimburse historical costs of US$ 3,194 thousand to the Government, including US$ 96 thousand for right to use geological information; and

(v) create a liquidation fund (special deposit account with local bank) equal to 1% of capital expenditures during the exploration stage and 0.1% of operational costs during the production stage.

28. CONTINGENT COMMITMENTS AND OPERATING RISKS (continued)

Domestic oil sales

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations. The Group's financial assets consist of trade and other receivables, short-term investments and cash and cash equivalents.

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

Interest rate risk

The Group is not exposed to interest rate risk in 2013 and 2012 as the Group had no floating-rate borrowings as at June 30, 2013 and December 31, 2012.

Foreign currency risk

As a significant portion of the Group's operation is the Kazakhstani Tenge denominated, the Group's statement of financial position can be affected significantly by movements in the US dollar / Tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollars exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in Tenge to US$ exchange rate	**Effect on profit before tax**
June 30, 2013		
US dollar thousand	+1.57	(195)
US dollar thousand	-1.57	195
December 31, 2012		
US dollar thousand	+1.57	(235)
US dollar thousand	-1.57	235

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the maturity profile of the Group's financial liabilities at June 30, 2013 and December 31, 2012 based on contractual undiscounted payments:

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

June 30, 2013	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–		49,613	886,702	–	936,315
Dividends	–	63,179	–	–	–	63,179
Trade payables	51,697	–	–	–	–	51,697
Other current liabilities	12,838	–	–	–	–	12,838
Due to Government of Kazakhstan	–	258	773	5,155	12,113	18,299
	64,535	63,437	50,386	891,857	12,113	1,082,328
December 31, 2012						
Borrowings	–	740	51,873	277,531	639,800	969,944
Trade payables	59,855	–	–	–	–	59,855
Other current liabilities	10,437	–	–	–	–	10,437
Due to Government of Kazakhstan	–	258	773	4,124	13,402	18,557
	70,292	998	52,646	281,655	653,202	1,058,793

Credit risk

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

The Group places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba2 (stable) and Citibank, which has a credit rating of Baa2 (negative) from Moody's rating agency and its US dollar denominated cash with BNP Paribas with a credit rating of A2 (stable) and ING with a credit rating of A2 (negative) from Moody's rating agency at June 30, 2013. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low.

Fair values of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The Group's borrowings are at market rates of interest specific to those instruments and as such are stated at fair value. The The fair value of other financial assets has been calculated using market interest rates.

Management believes that the Group's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable, trade and other payables are not significantly different from their fair values at June 30, 2013 and December 31, 2012.

30. EVENTS AFTER THE REPORTING PERIOD

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.

unquote

[2013-08-29]