MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 2014 and for the year then ended (hereinafter referred to as "MD&A") in conjunction with our audited consolidated financial statements as of and for the years ended 31 December 2014 and 2013 (hereinafter referred to as the "consolidated financial statements"). The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial and operational information contained in this MD&A comprises information on PAO SIBUR Holding and its consolidated subsidiaries (hereinafter jointly referred to as "we", "SIBUR", "Company" or the "Group").

SELECTED DATA[1]

Operating Results

The following table presents the Group's key operational measures for the years ended 31 December 2014 and 2013:

Tonnes, except as stated	**Year ended 31 December** **2014**	**2013**	***Change*** ***%***
Processing and production volumes			
APG processing[2] (thousand cubic metres)	20,834,647	19,600,139	*6.3%*
APG processing, SIBUR's share[3] (thousand cubic metres)	19,397,321	13,869,949	*39.9%*
Natural gas production[2] (thousand cubic metres)	17,989,399	16,908,508	*6.4%*
Natural gas production, SIBUR's share[3] (thousand cubic metres)	16,657,211	11,548,022	*44.2%*
Raw NGL fractionation[4][5]	6,315,299	5,256,760	*20.1%*
Raw NGL fractionation, SIBUR's share	5,788,169	5,256,760	*10.1%*
Sales volumes			
Natural gas sales volumes (thousand cubic metres)	16,004,874	11,841,787	*35.2%*
NGLs sales volumes	6,469,868	4,802,073	*34.7%*
MTBE, other fuels & fuel additives sales volumes	603,830	630,966	*(4.3%)*
Petrochemical products sales volumes	2,246,660	2,127,895	*5.6%*
Basic polymers	649,640	455,309	*42.7%*
Synthetic rubbers	360,038	430,128	*(16.3%)*
Plastics and organic synthesis products	787,920	769,414	*2.4%*
Intermediates and other chemicals	449,062	473,044	*(5.1%)*

(1) In this and other tables of this MD&A, immaterial deviations in the calculation of percentage changes, subtotals and totals are explained by rounding.
(2) Including Rosneft's share in the processing / production volumes of OOO Yugragazpererabotka in 2013 and the first quarter of 2014.
(3) Excluding Rosneft's share in the processing / production volumes of OOO Yugragazpererabotka in 2013 and the first quarter of 2014.
(4) Following the acquisition of control in OOO Yugragazpererabotka, we changed our approach to the treatment of raw NGL production and fractionation volumes at Nyagan GPP.
(5) Including fractionation volumes under processing arrangements.

Financial Results

The following table presents the Group's key financial measures for the years ended 31 December 2014 and 2013:

RR millions, except as stated	Year ended 31 December 2014	Year ended 31 December 2013	*Change %*
Income statement highlights			
Revenue (net of VAT and export duties)	361,000	269,814	*33.8%*
EBITDA	102,767	78,862	*30.3%*
EBITDA margin, %	*28.5%*	*29.2%*	
EBITDA margin adjusted for naphtha trading[1], %	*32.2%*	*29.2%*	
Profit for the reporting period	25,071	45,458	*(44.8%)*
Profit margin, %	*6.9%*	*16.8%*	
Adjusted profit for the reporting period[2]	69,311	54,809	*26.5%*
Cash flow highlights			
Net cash from operating activities, *including*	91,052	72,741	*25.2%*
Operating cash flows before working capital changes	*105,313*	*77,916*	*35.2%*
Net cash used in investing activities, *including*	(97,370)	(70,384)	*38.3%*
Purchase of property, plant and equipment	*(67,707)*	*(70,010)*	*(3.3%)*
Acquisition of interest in subsidiaries, net of cash acquired	*(20,666)*	*(1,742)*	*n/m*
Net cash from / (used in) financing activities, *including*	24,093	(7,928)	*n/m*
Dividends paid to SIBUR shareholders	*(14,073)*	*(14,008)*	*0.5%*

	As of 31 December 2014	As of 31 December 2013
Key ratios		
Net debt[3] / EBITDA	1.74x	1.17x
EBITDA / Interest[4]	16x	17x

In 2014, SIBUR delivered strong results despite the challenging environment. We recorded a 30.3% increase in EBITDA, which was driven by threefold growth in the EBITDA of our petrochemicals segment, as well as the higher contribution of our feedstock & energy segment. During 2014, our Tobolsk-Polymer Plant gradually ramped up operations, which enabled us to increase production and sales volumes of polypropylene. We launched our new integrated transportation and feedstock processing system. The new Purovsk–Pyt-Yakh–Tobolsk pipeline provides SIBUR with access to additional available volumes of raw NGL in the northern part of Western Siberia, which are processed at the expanded fractionation capacity in Tobolsk, thus enabling SIBUR to increase its overall production volumes of energy products. We also benefited from the Russian rouble depreciation, as our sales are primarily linked to international commodity benchmark prices quoted in US dollars or euros, which supported our revenues as prices turned downward, while our operating expenses are largely denominated in Russian roubles.

The acquisition from Rosneft of a 49% stake in our JV OOO Yugragazpererabotka in March 2014 had a neutral effect on the processing and production volumes at our GPPs. At the same time, consolidation of this JV and the new cooperation terms with Rosneft resulted in higher revenue from natural gas sales and lower expenses related to raw NGL purchases, which were largely offset by higher expenses related to APG purchases.

In 2014, our revenue increased by 33.8% to RR 361,000 million compared to RR 269,814 million in 2013. We saw solid performance of our energy product group, which was primarily attributable to (i) higher sales volumes on expanded trading activities[5] following the launch of the Ust-Luga transshipment facility in the end of 2013, (ii) higher LPG and naphtha production following the launch of new transportation and fractionation capacities, and (iii) higher sales of natural gas following the acquisition from Rosneft of a 49% stake in the JV OOO Yugragazpererabotka. We also saw strong performance in our basic polymers revenues, which was attributable to higher polypropylene production following the launch of Tobolsk-Polymer Plant. The growth in revenues from sales of plastics & organic

(1) Estimated EBITDA margin excludes naphtha trading via the Ust-Luga transshipment facility.
(2) Profit for the reporting period net of the foreign exchange loss / gain, the equity-settled share-based payment plans, and the non-cash gains on deconsolidation of OOO Yugragazpererabotka in March 2013 and its acquisition in March 2014.
(3) Net debt represents total debt less cash and cash equivalents.
(4) Interest represents accrued interest, i.e. includes interest expense and capitalised interest.
(5) Trading operations via the Ust-Luga transshipment facility were ceased starting 2015.

synthesis products was mainly attributable to capacity expansions in PET and BOPP-films. However, our revenue from sales of synthetic rubbers declined owing to the persistently weak market environment.

Our EBITDA for the period amounted to RR 102,767 million, a growth of 30.3% from RR 78,862 million in 2013. Our EBITDA margin totaled 28.5% compared to 29.2% reported a year earlier. Our estimated EBITDA margin, adjusted for low-marginal naphtha trading activities via the Ust-Luga transshipment facility[(1)], totaled 32.2% in 2014.

The solid growth in the Group's EBITDA was driven by the strong performance of our petrochemicals segment, as well higher EBITDA of the feedstock & energy segment. Our petrochemicals segment recorded threefold growth in EBITDA reaching RR 20,806 million in 2014 from RR 7,623 million in 2013. The segment also demonstrated strong improvement in EBITDA margin to 14.6% in 2014 from 5.9% in 2013. The increase in EBITDA and the respective margin was mainly attributable to the contribution of Tobolsk-Polymer Plant, as well as lower feedstock costs for petrochemical production on the back of declining prices for energy products. Our feedstock & energy segment also posted a healthy growth in EBITDA of 13.9% despite the downward pricing trend, which was attributable to the segment's expansion, as well as higher APG processing volumes.

Our profit in 2014 decreased by 44.8% to RR 25,071 million from RR 45,458 million a year earlier. The decrease was mainly attributable to RR 85,433 million in foreign exchange loss due to the dramatic Russian rouble depreciation and the respective revaluation of our liabilities. This was partially offset by a RR 52,773 million non-cash gain on acquisition of a 49% stake in OOO Yugragazpererabotka. Adjusted for one-off non-cash factors, such as foreign exchange loss, gains on consolidation and deconsolidation of OOO Yugragazpererabotka, and charges related to the equity-settled share-based payment plans, our profit for the period increased by 26.5% to RR 69,311 million in 2014 from RR 54,809 million a year earlier.

Our cash from operating activities before working capital changes increased by 35.2% to RR 105,313 million from RR 77,916 million in 2014 and 2013, respectively. This was primarily attributable to a 30.3% growth in EBITDA.

For a detailed discussion on SIBUR's operational and financial performance see "Results of Operations" and "Liquidity and Capital Resources".

The following table provides a reconciliation of EBITDA to profit for the years ended 31 December 2014 and 2013:

	Year ended 31 December	
RR millions	**2014**	**2013**
Profit for the reporting period	**25,071**	**45,458**
Income tax (benefit) / expense	(2,054)	9,844
Share of net (income) / loss of joint ventures and associates	3,827	(794)
Gain on disposal of subsidiary	(18)	(335)
Gain on deconsolidation of subsidiary	-	(2,413)
Gain on acquisition of subsidiary	(52,773)	-
Net finance expenses	89,765	4,844
Equity-settled share-based payment plans	11,580	7,894
Impairment of PPE and write-off of advances for capital construction	1,048	887
Depreciation and amortisation	26,321	13,477
EBITDA	**102,767**	**78,862**

[(1)] Trading operations via the Ust-Luga transshipment facility were ceased starting 2015.

OVERVIEW

SIBUR is a uniquely positioned vertically integrated gas processing and petrochemicals company. We own and operate Russia's largest gas processing business in terms of associated petroleum gas processing volumes and are a leader in the Russian petrochemicals industry.

We have two operating and reportable segments: feedstock & energy and petrochemicals. SIBUR's feedstock & energy segment comprises (i) gathering and processing of associated petroleum gas (APG) that we purchase from major Russian oil companies, (ii) transportation, fractionation and other processing of natural gas liquids (NGLs) that we produce internally or purchase from major Russian oil and gas companies, and (iii) production, marketing and sales of energy products, such as natural gas, liquefied petroleum gases (LPG), naphtha, methyl tertiary butyl ether (MTBE) and other fuels and fuel additives. We sell these energy products on the Russian and international markets and use some of them as feedstock for our petrochemicals segment. Our petrochemicals segment produces a wide range of petrochemical products, including basic polymers, synthetic rubbers, plastics and products of organic synthesis, as well as intermediates & other chemicals.

As of 31 December 2014, SIBUR operated 26 production sites across Russia and employed more than 25,000 personnel[(1)]. We serve over 1,400 large customers operating in the energy, automotive, construction, fast moving consumer goods (FMCG), chemical and other industries in approximately 70 countries.

RECENT DEVELOPMENTS

In January 2015, SIBUR paid the second installment for the acquisition of a 49% interest in OOO Yugragazpererabotka to Rosneft in the amount of RR 32,797 million (equivalent to USD 500 million). The remaining outstanding amount of USD 500 million is payable in April 2015.

In January 2015, SIBUR signed an agreement for the organisation of the sale of the Ust-Luga liquefied petroleum gas and naphtha transhipment terminal with a consortium of investors including Russia Direct Investment Fund (RDIF), Gazprombank and several foreign investors. The closing is expected within the year.

In December 2014, SIBUR signed agreements with a consortium of European banks for ECA-backed long-term financing of the German content manufacturing for ZapSibNeftekhim (ZapSib-2). Committed credit lines in the amount of EUR 1,575 million covered by Euler Hermes, the German export credit agency, will be open for the Group in order to finance expenditures related to the contracts with Linde AG (Germany) and ThyssenKrupp Industrial Solutions (Germany). The facility is payable in equal installments semi-annually in ten years after the project's completion (see "Capital Expenditures" and "Borrowings" below for further details).

In November 2014, SIBUR changed its registered office and form of incorporation to a public joint stock company. The Company's official name in Russian is «Публичное акционерное общество «СИБУР Холдинг» (ПАО «СИБУР Холдинг»); its official name in English is Public Joint-Stock Company SIBUR Holding (PAO SIBUR Holding). The Group's holding company is registered in Tobolsk. The office of OOO SIBUR (SIBUR Holding's management company) remains in Moscow.

In October 2014, SIBUR expanded its exports of biaxially oriented polypropylene films (BOPP-film) to the European markets. The first lots were shipped to Spain and Bosnia and Herzegovina.

In October 2014, SIBUR paid RR 7,690 million in dividends for the first half of 2014 calculated as 25% of net profit for the first half of 2014 based on its IFRS consolidated financial statements and adjusted for exceptional non-cash items.

[(1)] Excluding the personnel of non-consolidated joint ventures.

In September 2014, SIBUR and SolVin announced the launch of RusVinyl polyvinyl chloride (PVC) production in Kstovo (Nizhny Novgorod Region). RusVinyl is a greenfield project with investments exceeding RR 60 billion. It is one of the largest PVC producers in Russia with an annual production capacity of 330,000 tonnes of PVC and 225,000 tonnes of caustic soda. It will benefit from the nearby supply of ethylene, a key raw material for PVC, from our steam cracker in Kstovo with the capacity expanded to 360,000 tonnes per annum for the launch RusVinyl. Salt, the other feedstock for PVC production, will be supplied from Belarus and from the Astrakhan Region of Russia. SIBUR will not exercise operational control over RusVinyl, thus will not consolidate its results. At the same time, we will record revenues from sales of ethylene.

In September 2014, SIBUR's Board of Directors approved the expansion of the total Company’s 2014 budget for the purpose of ZapSibNeftekhim (ZapSib-2) by RR 21 billion (see “Capital Expenditures” below for further details).

In September 2014, Mr. Kirill Shamalov acquired 17% in SIBUR Holding from Mr. Gennady Timchenko. As a result, Mr. Kirill Shamalov’s ownership in SIBUR Holding increased to 21.3%, while Mr. Gennady Timchenko’s stake decreased to 15.3%.

In June 2014, SIBUR and NOVATEK announced the launch of integrated raw NGL production, transportation and processing capacities. SIBUR launched its second gas fractionation unit (GFU) in Tobolsk and was at the advanced stage of construction of a 1,100 km raw NGL pipeline connecting NOVATEK’s Gas Condensate Plant in Purovsk, SIBUR’s main pumping station near Pyt-Yakh and SIBUR’s Tobolsk production site. The entire pipeline was put into commercial operation at the end of 2014. With the launch of the second GFU, SIBUR can now process up to 6.6 million tonnes of raw NGL per annum (for a full year of operation) at the Tobolsk production site, inter alia supplied from Purovsky GCP.

In May 2014, SIBUR launched a new biaxially oriented polypropylene films (BOPP-films) production line with an annual nameplate production capacity of 30,500 tonnes of BOPP-films at our production site in Novokuybyshevsk, thus increasing the plant’s production capacity to 55,500 tonnes per year. Total capital expenditures on the project amounted to approximately RR 1.9 billion (net of VAT).

In May 2014, SIBUR, Gazprom Neft and Titan Group signed an agreement to establish a joint venture based on Omsk Polypropylene Plant (OOO Poliom). As part of the deal, Sibgazpolimer, a joint venture of SIBUR and Gazprom Neft (each with a 50% stake), acquired a 50% stake in OOO Poliom from Titan Group for a total consideration of RR 4,428 million (partially contingent). According to the agreement, Gazprom Neft will supply feedstock (propane-propylene fraction from Omsk Refinery) to OOO Poliom. The working capital price adjustment was paid in September 2014. In October 2014, OOO Poliom passed a capacity test and confirmed the increase in its annual nameplate capacity to 210,000 from 180,000 tonnes. Following this, Sibgazpolimer paid the remaining price adjustment to Titan Group.

In May 2014, SIBUR and SINOPEC signed a contract to establish a JV for the construction of a 50,000 tonnes per annum butadiene nitrile rubber (NBR) plant in the Shanghai Chemical Industry Park. Under the terms of this contract, SINOPEC will hold 74.9% of the shares in the newly formed entity, while SIBUR will hold 25.1% of the shares. The parties also signed a technology license agreement for the use of SIBUR's NBR production technology at the new facility.

In May 2014, SIBUR paid RR 6,383 million in dividends for the second half of 2013 calculated as 25% of net profit for the second half of 2013 based on its IFRS consolidated financial statements and adjusted for exceptional non-cash items.

In April 2014, SIBUR completed expansion of its polyethylene terephthalate (PET) capacity at our production site in Blagoveshchensk to 210,000 tonnes from 140,000 tonnes per annum. Total capital expenditures on the project amounted to approximately RR 1.9 billion (net of VAT).

In April 2014, SIBUR divested its PVC cable compounds production, previously operated by SIBUR-Neftekhim, a SIBUR's subsidiary. Following the divestment, SIBUR now does not feature plastic compounds in its product portfolio.

In March 2014, SIBUR approved an expansion project for Vyngapurovskiy GPP to accommodate APG supplies from Russneft's fields. In 2013, SIBUR and Russneft signed an agreement for supplies of APG from Varieganneft's fields to SIBUR, with SIBUR to process the supplied volumes. The project is designed to increase the annual APG processing capacity of Vyngapurovskiy GPP from 2.8 to 4.2 billion cubic metres.

In March 2014, SIBUR and Rosneft agreed on a new format and terms of cooperation. SIBUR acquired from Rosneft a 49% interest in OOO Yugragazpererabotka, a joint venture that owned the Nizhnevartovskiy, Belozerniy and Nyagan GPPs, thereby gaining full control over the assets. New contracts with an extended tenor through the end of 2032 were signed for (i) APG supplies from Rosneft's fields to OOO Yugragazpererabotka's GPPs with guaranteed supply volumes of approximately 10 billion cubic metres per annum, and (ii) natural gas sales from these GPPs to Rosneft (see Appendix II for further details).

In February 2014, SIBUR divested its 100% interest in the Oka Polymer industrial park located in Dzerzhinsk, Nizhny Novgorod Region, as a non-core asset, to Tosol-Sintez, a resident of the park. Oka Polymer industrial park was established in the process of transformation of the production site of Caprolactam, an obsolete chlorine and caustic soda production facility that was decommissioned in April 2013.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Macroeconomic and Other Economic Trends

Overall economic conditions in Russia and globally have significantly impact our operations as demand for our products is driven by consumers across a diverse range of industries, which are dependent on the state of the global economy and the economies of their respective countries.

Current Macroeconomic Situation

In 2014, the macroeconomic environment substantially deteriorated on the back of the sharp decline in oil prices and the material Russian rouble depreciation. Also, the political crisis in Ukraine and the respective negative reaction from United States of America, European Union and other aligned countries resulted in the imposition of sanctions against certain Russian individuals and legal entities, which has constrained access to liquidity from international capital markets and banks for some Russian banks and corporate borrowers. SIBUR currently is not subject to any of the above sanctions. SIBUR management believes that sanctions imposed on other Russian entities have had no material effect on SIBUR's operational and financial performance. At the same time, the management closely monitors the situation and takes preventive measures to mitigate negative effects of the changes in macroeconomic parameters.

GDP Growth

One of the key factors that drive demand for our products or otherwise affect our results of operations is GDP growth globally. SIBUR is also subject to economic risks specific to the Russian Federation as all of our production assets are located in Russia.

The following table contains selected data on year-on-year GDP growth for the years ended 31 December 2014 and 2013:

	Year ended 31 December	
	2014	**2013**
European Union (EU-15)	1.2%	(0.0%)
United States	2.4%	2.2%
China	7.4%	7.7%
Russia	0.6%[1]	1.3%

Source: Eurostat, U.S. Bureau of Economic Analysis, National Bureau of Statistics of the People's Republic of China, Russian Federal State Statistics Service

Foreign Exchange Rate Fluctuations

The movements of the Russian rouble against the US dollar and the euro may have a significant impact on our financial performance.

The following table presents selected data on exchange rate movements for the years ended 31 December 2014 and 2013:

	Year ended 31 December	
	2014	**2013**
RR/USD rate at the end of the preceding period	32.7292	30.3727
RR/USD rate at the end of the reporting period	56.2584	32.7292
Average RR/USD rate	38.4217	31.8480
RR/EUR rate at the end of the preceding period	44.9699	40.2286
RR/EUR rate at the end of the reporting period	68.3427	44.9699
Average RR/EUR rate	50.8150	42.3129

Source: CBR

SIBUR's functional and reporting currency is the Russian rouble. Our sales to countries outside of Russia (51.2% and 42.8% of total revenue in 2014 and 2013, respectively) are primarily denominated in US dollars and, to a lesser extent, in euros. In many cases our domestic sales are linked to international benchmark prices quoted in US dollars and euros. At the same time, our expenses are primarily

[1] Preliminary data.

denominated in Russian roubles. As a result, depreciation of the Russian rouble relative to the US dollar or the euro positively affects our operational results, while appreciation of the Russian rouble relative to these currencies tends to have a negative effect on our operational results.

A significant part of our borrowings is also denominated in foreign currencies, primarily in US dollars and, to a lesser extent, in euros. When the Russian rouble depreciates against the US dollar or euro, our liabilities denominated in these currencies increase in Russian rouble terms, as do interest costs on SIBUR's foreign currency-denominated borrowings. Correspondingly, our financial expenses tend to increase as a result of foreign exchange losses recorded by the Group. When the Russian rouble appreciates against the US dollar or euro, our liabilities denominated in these currencies decrease in Russian rouble terms, as do interest costs on SIBUR's foreign currency-denominated borrowings. Correspondingly, our financial income tends to increase as a result of foreign exchange gain recorded by the Group.

The Russian rouble on average depreciated by 20.6% relative to the US dollar and by 20.1% relative to the euro in 2014 compared to the average 2013 levels, which had a positive impact on our revenue. At the same time, the Russian rouble as of 31 December 2014 depreciated against the year-end level of 2013 by 71.9% relative to the US dollar, resulting in a substantial financial loss reported in SIBUR's consolidated financial statements for 2014, which was largely attributable to the revaluation of our foreign currency-denominated debt.

Inflation

Historically Russia has reported higher inflation rates compared to developed markets. Increases in inflation may significantly affect our financial results because of an increase in operating expenses, which are linked to the general price level in Russia, such as staff costs, rent and others.

The following table presents selected data on inflation rates for the years ended 31 December 2014 and 2013:

	Year ended 31 December	
	2014/2013	**2013/2012**
Consumer price index (CPI)	11.4%	6.5%
Producer price index (PPI)	5.9%	3.7%

Source: Russian Federal State Statistics Service

Crude Oil, Naphtha, Raw NGL and LPG Prices

Prices for a large portion of our feedstock and processed goods are directly or indirectly linked to oil or oil derivative prices. Growth in prices for oil or oil derivatives generally has a net positive effect on our financial results because our position as a net seller of energy products allows us to mitigate the negative effect that growth in oil and oil derivative prices has on our cost base. Decline in prices for oil or oil derivatives generally has a net negative effect on our financial results, which is partially offset by decrease in our cost base.

Crude oil prices typically influence prices for raw NGL, LPG and naphtha, which we purchase from third parties as feedstock. This correlation, however, is not perfect, as prices for LPG and naphtha are also influenced by supply and demand trends and other factors in their own markets, while prices for raw NGL, depending on its composition, largely correlate with prices for LPG and naphtha.

Oil prices have a significant impact on the Russian rouble exchange rate fluctuations. Historically, the Russian rouble has typically, though not consistently, appreciated in real terms against the US dollar and the euro when oil prices increased, and depreciated against these currencies when oil prices decreased. The negative effect of declining oil prices tends to reduce our revenue, while mitigated by the positive effect of the weakening Russian rouble on export sales or domestic sales linked to the US dollar or the euro (see “Foreign Exchange Rate Fluctuations” above).

Oil and oil derivative prices have historically been volatile and dependent on a variety of factors including, among others, market supply and demand balances, geopolitical developments affecting the principal producing nations and force majeure events.

The following table presents average benchmark international market prices for crude oil, naphtha and LPG for the years ended 31 December 2014 and 2013:

	Year ended 31 December		Change
USD per tonne except as stated	2014	2013	%
Brent crude oil (USD per bbl)	99.5	108.8	*(8.5%)*
Naphtha (CIF NWE)	836.6	903.2	*(7.4%)*
LPG DAF Brest	715.1	699.4	*2.2%*
LPG Sonatrach for Bethioua	728.8	825.5	*(11.7%)*
LPG Argus cif ara (large)	712.3	837.0	*(14.9%)*

Source:
(1) Bloomberg
(2) Argus

Export and Excise Duties

The LPG and naphtha (excluding pentane and isopentane) that we export are subject to export duties, which are set monthly by the Russian Government. Export sales to member states of the Customs Union (Republic of Belarus and Republic of Kazakhstan) are not subject to export duties.

The export duty on LPG (excluding butane and isobutane) is formula-based and depends on the international benchmark price of LPG (LPG DAF Brest). When the market price for LPG is below USD 490 per tonne, no export duty is levied. Effective 1 January 2015, the Russian Government imposed an export duty on butane and isobutane, which is calculated as the percentage of the export duty on LPG grades excluding butane and isobutane and is set at 10% of that level for 2015 with successive annual increases by 10% until 2022 inclusively.

The export duty on naphtha is calculated as a percentage of export duties on crude oil (Urals). On 1 July 2012, the export duty on naphtha was set at 90% of the crude oil export duty. Effective 1 January 2015, the Russian Government decreased the export duty on naphtha to 85% of the crude oil export duty and announced successive decreases in this rate to 71% for 2016 and 55% for 2017 and further. The decrease in export duty rates for naphtha is implemented as part of the tax maneuver in the Russian oil industry.

The following table presents export duties on LPG and naphtha for the periods and as of the dates indicated:

	1 quarter		2 quarter		3 quarter		4 quarter		12 months		*Change, %*
Export duties, USD per tonne	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	*2014 / 2013*
LPG (excl. butane and isobutane)											
At the end of the period	169.1	131.4	86.0	72.2	221.0	75.5	124.8	203.5	124.8	203.5	*(38.7%)*
Average for the period	189.3	176.8	101.1	71.4	152.7	53.7	131.9	159.7	143.8	115.4	*24.6%*
Naphtha (excl. pentane and isopentane)											
At the end of the period	345.9	378.6	346.5	323.3	330.8	360.6	249.7	347.1	249.7	347.1	*(28.1%)*
Average for the period	351.5	365.9	344.4	341.8	342.3	344.9	281.6	359.4	330.0	353.0	*(6.5%)*

Source: Russian Government

As Russia's domestic prices for raw NGL, LPG and naphtha are based on export netback prices, higher export duties reduce the domestic price for these products, while declining export duties support domestic prices. Increase in export duties negatively affect our export and domestic sales of LPG and naphtha, at the same time reducing our feedstock purchasing costs. Decrease in export duties as a result of declining prices for LPG and naphtha supports our external export and domestic sales of these products.

In November 2014, the Russian Government approved a series of changes in taxation of the oil and gas industry (the “tax maneuver”), introducing increases in the unified natural resources production tax rates with a simultaneous decrease in excise taxes and export duties. In particular, the law defines a procedure for calculation of excise duties and tax deductions with respect to domestic sales and processing of naphtha, benzene and paraxylene. According to the procedure an excise duty is incurred at the production of these products. An incremental tax deduction is applicable if the product is processed into nonexcisible petrochemical products. For naphtha the incremental factor was set at 1.37 for 2015, 1.60 for 2016 and 1.94 for 2017. For benzene and paraxylene the incremental factor was set at 2.88 for 2015, 2.84 for 2016 and 3.40 for 2017. A tax deduction is not applicable for naphtha if it is sold to entities that do not convert excisable goods into non-excisable petrochemical products. A tax deduction with a factor of 1 is applied in all other cases. The tax maneuver and the respective changes in the excise duties will have a mixed impact on SIBUR. SIBUR does not produces oil and gas, so not exposed to the unified natural resources production tax increase. SIBUR produces naphtha internally, purchases it from third-parties, uses it internally for petrochemicals production and sells it externally. SIBUR produces benzene, purchases it from third parties, uses it for petrochemicals production and sells externally. SIBUR purchases paraxylene from third parties and utilises it internally for petrochemicals production. Overall we expect the tax maneuever to have a slightly positive effect on SIBUR's financial results.

Natural Gas Prices

The prices at which we purchase a large portion of feedstock and sell natural gas as well as our utility costs are significantly impacted by changes in regulated domestic gas prices at which Gazprom, the major Russian gas producer, sells natural gas on the domestic market. This price regulation is executed by the Russian Government, through the Federal Tariff Service (FTS). Although this price regulation does not apply to independent gas producers, the regulated price significantly influences domestic market conditions and our effective selling prices.

In 2013, natural gas prices for sales to end-customers on the domestic market (excluding residential customers) were set by the FTS using a price formula. The price formula provided for quarterly changes of natural gas prices, as well as the possibility of adjusting natural gas prices within the quarter in case there was a significant deviation (more than 5%) of natural gas prices calculated using a price formula in the previous quarter from the annual wholesale price changes set by the Russian Federation government.
In 2013, natural gas prices for sales to end-customers on the domestic market (excluding residential customers) were decreased by an average of 3.0% from 1 April and subsequently increased by an average of 15.0%, 3.1% and 1.9% from 1 July, 1 August and 1 October, respectively. Effective from 1 January 2014, the FTS set natural gas prices back to the August-September levels of 2013, decreasing them by an average of 1.9% from the December 2013 price levels.

In March 2014, the FTS made changes to the "Statement of Gas Price Formula Definition", which effectively abandoned the quarterly wholesale price calculation based on the natural gas price formula. As a result, natural gas prices in 2014 for sales to all customer categories on the domestic market (excluding residential customers) were calculated using a price formula based on parameters set by FTS in December 2013 and did not change during 2014 (effectively remained at the same price level as the August-September 2013 prices).

Based on the Ministry of Economic Development Forecast published in September 2014, wholesale natural gas prices for sales to all customer categories (excluding residential customers) in July 2015, 2016 and 2017 will be increased by 7.5%, 5.5% and 3.6%, respectively. The Russian Federation government continues to debate various policies relating to the natural gas industry development and natural gas prices growth rate on the Russian domestic market.

The following table presents information on regulated natural gas price changes:

Effective date of increase	**Regulated natural gas price changes** **%**
1 January 2011	15.0%
1 July 2012	15.0%
1 April 2013	(3.0%)
1 July 2013	15.0%
1 August 2013	3.1%
1 October 2013	1.9%
1 January 2014	(1.9%)

Although we are not subject to the Russian Government's regulation of prices for natural gas that we produce from APG, our effective average selling prices for natural gas are close to the regulated gas prices and are typically also indexed in line with the regulated price changes. SIBUR is a net seller of natural gas and historically our financial results have been positively impacted by increases in domestic natural gas prices.

Prices for APG, one of our key feedstock, are not regulated by the Russian Government. There is also no benchmark market price for APG. Prices at which we purchase APG from oil companies are negotiated on a case-by-case basis and depend on a variety of factors (see “Feedstock Sourcing and Mix” below). We typically purchase APG at a price that substantially differs from the regulated domestic natural gas prices because of the significant capital expenditures required to develop and maintain the processing and transportation infrastructure. At the same time, some of our supply contracts regularly index APG prices to reflect changes in the regulated domestic gas prices. Such indexations, however, are not always synchronised with the respective changes in the regulated domestic gas prices. Additionally, there are other factors that influence our APG purchase prices; hence there may be certain discrepancies between movements in our APG purchase prices and the regulated domestic gas prices (see “Feedstock Sourcing and Mix” below for further details).

Cyclicality of the Petrochemicals Industry

Prices for petrochemical products are subject to significant fluctuations as they are influenced by trends in global and domestic supply and demand, including differences in supply and demand between domestic and export markets. Demand is generally linked to economic activity, while supply is linked to long-term investments in capacity expansion and structural changes in feedstock supply, such as, for example, the discovery and commercialisation of new feedstock sources. When significant new capacity becomes available and is not matched by corresponding growth in demand, average industry operating margins typically fall. At the same time, capacity additions require substantial lead times and when growth in demand is not matched by respective capacity expansions, average industry operating margins typically rise. As a result, the petrochemicals industry experiences periods of tight supply, leading to high capacity utilisation rates and margins, followed by periods of oversupply, leading to reduced capacity utilisation rates and margins, and, accordingly, the profit margins of petrochemical producers historically have been cyclical.

As the Group is vertically integrated into the feedstock & energy business and is a net seller of energy products, which are not dependent on the cyclicality of the petrochemicals industry, this partially protects the Group against margin pressures in the periods of oversupply in the petrochemicals industry. Additionally, the Group's access to attractively priced feedstock, its diversified mix as well as a diversified product portfolio puts the Group in a more advantaged position compared to majority of other petrochemical companies during market downturns in the petrochemicals industry.

Feedstock Sourcing and Mix

Types of Hydrocarbon Feedstock

To operate our business successfully we must obtain sufficient quantities of feedstock in a timely manner and at acceptable prices. Therefore, our access to feedstock and its mix have a material impact on our financial results. We use two major types of hydrocarbon feedstock: associated petroleum gas (APG) and natural gas liquids (NGLs), primarily raw NGL, as well as LPG and naphtha.

APG is a by-product of oil production. We process APG at our gas processing plants (GPPs) to produce natural gas and raw NGL. Following the changes in the terms of cooperation with Rosneft and the acquisition of Yugragazpererabotka in March 2014, APG accounted for 44.3% and 26.9% of our expenses related to third-party hydrocarbon feedstock purchases in 2014 and 2013, respectively. As a percentage of total feedstock and materials costs, APG accounted for 26.3% and 14.0% in 2014 and 2013, respectively (see Appendix II for further details).

NGLs are used as raw material for both the feedstock & energy business and for the petrochemicals business. Raw NGL is produced as a result of APG processing or through stabilisation of unstable gas condensate which is obtained from the processing of wet gas extracted from gas fields. LPG and naphtha are produced through fractionation of raw NGL. We also produce NGLs at our own GPPs and GFUs and also purchase them from third parties. Following the changes in the terms of cooperation with Rosneft and the acquisition of Yugragazpererabotka in March 2014, NGLs accounted for 55.7% and 73.1% of our expenses related to third-party hydrocarbon feedstock purchases in 2014 and 2013, respectively. As a percentage of total feedstock and materials costs, NGLs accounted for 33.1% and 38.1% in 2014 and 2013, respectively (see Appendix II for further details).

Feedstock Sourcing

A large portion of our hydrocarbon feedstock is obtained from Rosneft and particularly from its subsidiary RN Holding (formerly TNK-BP Holding; renamed RN Holding as of 30 July 2013 following its acquisition by Rosneft). In addition to our arrangements with Rosneft and its subsidiary RN Holding, we purchase APG and NGLs from other major oil and gas companies in Western Siberia, including Gazprom Neft, RussNeft, LUKOIL, NOVATEK and Gazprom, primarily under long-term contracts.

In 2014, SIBUR expanded its access to abundant raw NGL resources in Western Siberia through commissioning of a raw NGL pipeline connecting NOVATEK's Purovsky Gas Condensate Plant to our expanded gas fractionation capacities in Tobolsk, which enabled us to consolidate rising supplies of raw NGL. Our major external raw NGL suppliers are NOVATEK and Gazprom.

In March 2014, SIBUR acquired from Rosneft a 49% interest in OOO Yugragazpererabotka. The transaction had a neutral effect on the processing and production volumes at our GPPs, while the parties entered into new contracts with extended tenor through 2032 for (i) APG supplies from Rosneft's fields to OOO Yugragazpererabotka's GPPs with guaranteed supply volumes increased to approximately 10 billion cubic metres per annum, and (ii) dry gas sales from OOO Yugragazpererabotka's GPPs to Rosneft. Following the acquisition, SIBUR pays for 100% of APG supplied to the GPPs of OOO Yugragazpererabotka with Rosneft remaining the major supplier and retains 100% of raw NGL and natural gas produced at the GPPs. As a result, in 2014 Rosneft's share (including RN Holding) in our APG supplies increased to 68.6% from 62.9% of SIBUR's total APG supplies in volume terms in 2013. The raw NGL supplies from Rosneft (including RN Holding) in 2014 decreased to 15.1% from 41.8% in SIBUR's total NGLs supplies in volume terms in 2013 (see Appendix II for further details).

As of 31 December 2014, approximately 92% of our planned APG supplies for 2015 were guaranteed under multi-year supply contracts. Overall, as of 31 December 2014, our multi-year APG supply contracts had a weighted average maturity of 16.4 years.

As of 31 December 2014, approximately 80% of our planned NGLs supplies for 2015 were guaranteed under multi-year supply contracts. Overall, as of 31 December 2014, our multi-year NGLs supply contracts had a weighted average maturity of 17.9 years.

We continuously work with all the largest oil and gas producers in Western Siberia with the view of extending tenors of the existing agreements and/or entering into new long-term supply contracts on both APG and NGLs supplies. Multi-year supply contracts and joint venture arrangements enhance predictability of feedstock pricing and volumes and allow better planning of the Group's future operating expenses and investments, which is particularly important given the capital-intensive nature of the Group's investment programme.

Pricing

Oil companies produce APG as a by-product of oil extraction and by law must evacuate it from the field or otherwise utilise it. Failure to do so can result in increasingly high fines and potentially jeopardise an oil company's license to operate the field. Most oil companies in Western Siberia do not own gas processing facilities and have been reluctant to develop such facilities as this requires substantial capital investments, while oil companies prefer to invest in their core oil exploration and production business.

Apart from being processed into hydrocarbon feedstock at a GPP, only limited volumes of APG can be used productively, mostly for power generation or for re-injection into the reservoir.

The Russian Government has consistently increased incentives for oil companies to utilise APG. Based on the Russian Government's resolution issued in November 2012, penalties for APG flaring exceeding permitted thresholds (currently set at 5% of APG production volumes) have been substantially increased and become material for oil companies: effective 1 January 2013, the penalty has been increased from 4.5x the standard emission charge in 2012 to 12x the standard emission charge in 2013 and 25x the standard emission charge starting from 2014. The standard emission charges depend on the type of pollutant and are regularly indexed. According to the preliminary estimates of CDU TEK, the total volume of flared APG in Russia in 2014 was 12.2 billion cubic metres or 16% of total produced volumes, while APG utilisation level totaled 84% as a percentage of produced volumes.

SIBUR provides oil companies with an attractive solution for APG utilisation, therefore, we are able to source APG at advantageous prices. Given the limited options for using APG and the lack of alternatives for evacuating it from oil fields, there is no market or benchmark price for APG. APG pricing is also not subject to government regulation. As a result, we purchase APG from oil companies at prices that are negotiated on a case-by-case basis and typically substantially differ from the FTS regulated natural gas prices. The magnitude of the difference and the absolute price for APG is dependent on the following key factors: the quality and composition of APG in terms of target liquid fractions content, distance of an APG source from our GPPs, availability of collection and transportation infrastructure and capital and operating expenditures needed to construct, expand and maintain that infrastructure. The price is also dependent on the potential capital expenditures that the oil company would need to incur to construct its own gas processing capacity as an alternative to selling APG to SIBUR.

Currently SIBUR has two types of APG purchase contracts:

- Under first contract type, APG purchase price once agreed upon in absolute terms, is typically regularly indexed to reflect changes in the FTS regulated prices for natural gas.
- Under the new arrangements with Rosneft for APG supplies to Nizhnevartovskiy, Belozerniy and Nyagan GPPs, the APG purchase price is indexed in line with changes in prices for APG derivatives: natural gas and raw NGL (see "Crude Oil, Naphtha, Raw NGL and LPG Prices" and "Natural Gas Prices" above).

Additional volumes of APG that we source from oil companies (new volumes under new agreements or volumes under existing agreements that exceed initially pre-agreed or guaranteed volumes) can be supplied at a higher price due to additional capital and operating expenses incurred by oil companies to produce and deliver such volumes. Also, modification of terms of the existing agreements, both at expiry or as a result of renegotiation, may cause material changes in our APG pricing levels.

Our NGLs feedstock is typically priced with reference to international prices for LPG and naphtha, while prices for raw NGL, depending on its composition, are largely correlated with prices for LPG and naphtha. As the supply of NGLs significantly exceeds demand in Russia and particularly in Western Siberia, prices for NGLs are determined on an export netback basis, which reflects transportation costs and export duties. Transportation of NGLs out of Western Siberia is costly, with transportation costs consistently rising, reducing the prices at which NGLs are available for purchase in Western Siberia. Therefore, the domestic prices for NGLs feedstock in Western Siberia are substantially lower than those available to the majority of SIBUR's international petrochemical peers. The Group's NGLs supply contracts typically contain a formula where prices are determined by the respective netbacks and reflect the fraction content of NGLs, need for and cost of fractionation, capital expenditures required to construct and maintain the respective infrastructure as well as the availability and quality of alternative selling channels that the oil or gas company supplying the NGLs has.

Feedstock Trends

APG volumes from oil fields located in Western Siberia are expected to increase only moderately given the maturity profile of the region's oil fields, while concentration of liquid fractions in the APG may decline. We expect this trend to be partially offset by lower APG flaring rates and our efforts to increase the liquids recovery ratio at our GPPs.

We expect that supplies of NGLs from gas fields in Western Siberia will grow substantially faster than supplies of APG or NGLs derived from APG, due to the steadily growing production of natural gas and the increasing share of wet gas in gas production, according to IHS CERA. We expect NGLs derived from wet gas to be a growing source for the future development of our petrochemicals business, particularly for projects located in Western Siberia.

Transportation Tariffs

We incur substantial transportation costs due to the geographic spread of our operations. For the transportation services we use railway, port facilities and trucks. While we operate our own gas and raw NGL pipelines and railway carrier fleet, we also use third-party transportation services. Third-party transportation services accounted for 14.7% and 18.3% of our total operating expenses in 2014 and 2013, respectively. Changes in transportation tariffs and prices for third-party services have a significant effect on our operating expenses.

Railway Transportation Tariffs

We use rail for transportation of refined products, intermediates and feedstock, including 100% of our LPG, naphtha and MTBE, certain volumes of raw NGL and a major part of our petrochemical products.

Our rail transportation costs comprise a transportation tariff charged for access to Russia's main railway and usage of locomotives (the “Railway Tariff”), which accounts for the majority of our total rail transportation costs. The Railway Tariff is charged by Russian Railways, Russia's state-owned monopoly, and is regulated by the FTS. The Railway Tariff is specific to types of products, types of carriers and their tonnage, transportation routes and the volume of a delivery. The FTS reviews the Railway Tariff on an annual basis. The average increase in the Railway Tariff was 7.0% in 2013 and remained unchanged in 2014 for the majority of products, while effective 9 August 2014, Russian Railways increased railroad transportation tariffs within the Russian Federation territory for LPG deliveries to the export markets by 13.4%. Effective 1 January 2015, the FTS increased railroad transportation tariffs by 10% in accordance with the Ministry of Economic Development Forecast published in September 2014. Additionally, effective 29 January 2015, Russian Railways expanded a 13.4% increase in tariffs for export deliveries for all types of products.

In 2013, the FTS has granted Russian Railways the authority to increase or decrease the Railway Tariff applied to individual customers for deliveries of particular products from/to particular geographies based on the economic rationale for Russian Railways (within limits set by the FTS) and subject to approval by the FTS and the Russian Government.

Electricity and Heat Tariffs

Our business is energy-intensive. Electricity and heat account for the largest portion of our energy costs. As a result, changes in tariffs for electric power and heat have a significant effect on our operating expenses.

Electricity

We make electricity purchases on a centralised basis. In addition to purchases of electricity for internal needs, we also buy electricity for further resale to third parties, which, inter alia, include other companies located at our production sites. Revenue from sales of electricity to third parties is reported under “Other sales” in the consolidated financial statements.

The Russian electricity market has been liberalised gradually over the past few years. However, maximum levels of electricity prices remain under the supervision of the Federal Antimonopoly Service

(FAS) and regional regulatory authorities. One of the most important factors that influence electricity prices is fuel cost (primarily natural gas and coal), and increases in natural gas prices tend to result in higher electricity prices. We also own and continue to expand our own electric power generating capacity in order to reduce our exposure to higher electricity prices from third-party suppliers. In 2014, SIBUR launched an 18 MW power plant at the Perm production site, which will enable us to meet approximately 40% of the site's electric power needs. At the Group's level, internal electric power generation accounts for an insignificant share in total electricity consumption.

Heat Energy

We source heat energy in the form of steam and hot water from regional suppliers at regulated prices. Heat energy prices are also largely dependent on prices for natural gas. In order to minimise dependence on third-party providers, we generate a substantial portion of heat energy (approximately 53% of the total heat consumed in 2014) at our own production sites.

The following table presents volumes purchased and effective average prices for electricity and heat tariffs for the years ended 31 December 2014 and 2013:

	Year ended 31 December				Change %	
	2014		2013			
	Volume	Average tariff	Volume	Average tariff	Volume	Average tariff
Electricity (millions of kw·hour or RR per kw·hour)	8,363	2.14	6,470	2.17	*29.3%*	*(1.1%)*
Heat (thousands of gigacalories or RR per gigacalorie)	8,842	771	9,072	756	*(2.5%)*	*2.0%*

SIBUR's ability to sell natural gas enables it to balance its exposure to growth in electricity and heat costs, which to a large extent are influenced by increases in natural gas prices.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

The following table presents selected data on our results of operations for the years ended 31 December 2014 and 2013:

	Year ended 31 December				*Change*
RR millions, except as stated	**2014**	***% of revenue***	**2013**	***% of revenue***	***%***
Revenue	**361,000**	***100.0%***	**269,814**	***100.0%***	***33.8%***
Energy products	217,233	*60.2%*	144,716	*53.6%*	*50.1%*
Petrochemical products	132,513	*36.7%*	116,018	*43.0%*	*14.2%*
Other	11,254	*3.1%*	9,080	*3.4%*	*23.9%*
Operating expenses before equity-settled share-based payment plans	(285,602)	*(79.1%)*	(205,316)	*(76.1%)*	*39.1%*
Equity-settled share-based payment plans	(11,580)	*(3.2%)*	(7,894)	*(2.9%)*	*46.7%*
Operating expenses	(297,182)	*(82.3%)*	(213,210)	*(79.0%)*	*39.4%*
Operating profit	**63,818**	***17.7%***	**56,604**	***21.0%***	***12.7%***
Net finance expenses	(89,765)	*(24.9%)*	(4,844)	*(1.8%)*	*n/m*
Gain on acquisition of subsidiary	52,773	*14.6%*	-	-	*n/m*
Gain on deconsolidation of subsidiary	-	-	2,413	*0.9%*	*(100.0%)*
Gain on disposal of subsidiary	18	*0.0%*	335	*0.1%*	*(94.6%)*
Share of net income / (loss) of joint ventures and associates	(3,827)	*(1.1%)*	794	*0.3%*	*n/m*
Profit before income tax	**23,017**	***6.4%***	**55,302**	***20.5%***	***(58.4%)***
Income tax gain / (expense)	2,054	*0.6%*	(9,844)	*(3.6%)*	*n/m*
Profit for the reporting period	**25,071**	***6.9%***	**45,458**	***16.8%***	***(44.8%)***
Profit for the reporting period, including attributable to:	**25,071**	***6.9%***	**45,458**	***16.8%***	***(44.8%)***
Non-controlling interest	67	*0.0%*	(140)	*(0.1%)*	*n/m*
Shareholders of SIBUR	25,004	*6.9%*	45,598	*16.9%*	*(45.2%)*

Revenue

The following table presents a breakdown of our revenue by product group for the years ended 31 December 2014 and 2013:

	Year ended 31 December				*Change*
RR millions, except as stated	**2014**	***% of revenue***	**2013**	***% of revenue***	***%***
Energy products					
LPG	77,165	*21.4%*	60,823	*22.5%*	*26.9%*
Naphtha	68,877	*19.1%*	26,256	*9.7%*	*162.3%*
Natural gas	38,007	*10.5%*	26,673	*9.9%*	*42.5%*
MTBE	19,364	*5.4%*	18,596	*6.9%*	*4.1%*
Raw NGL	9,709	*2.7%*	9,405	*3.5%*	*3.2%*
Other fuels and fuel additives	4,111	*1.1%*	2,963	*1.1%*	*38.7%*
Total energy products sales	**217,233**	***60.2%***	**144,716**	***53.6%***	***50.1%***
Petrochemical products					
Plastics and organic synthesis products	45,777	*12.7%*	41,583	*15.4%*	*10.1%*
Basic polymers	38,393	*10.6%*	22,818	*8.5%*	*68.3%*
Synthetic rubbers	27,847	*7.7%*	32,432	*12.0%*	*(14.1%)*
Intermediates and other chemicals	20,496	*5.7%*	19,185	*7.1%*	*6.8%*
Total petrochemical products sales	**132,513**	***36.7%***	**116,018**	***43.0%***	***14.2%***
Sales of processing services	979	*0.3%*	1,393	*0.5%*	*(29.7%)*
Other sales	10,275	*2.8%*	7,687	*2.8%*	*33.7%*
Total revenue	**361,000**	***100.0%***	**269,814**	***100.0%***	***33.8%***

In 2014, our revenue increased by 33.8% year-on-year to RR 361,000 million from RR 269,814 million in 2013 on higher sales of energy products and basic polymers.

Energy Products

In 2014, our revenue from sales of energy products increased by 50.1% to RR 217,233 million from RR 144,716 million in 2013 primarily on a significant increase in sales volumes, as well as an increase in the effective average selling prices across the product group.

Our energy products sales volumes were affected by the following key factors:

(i) Substantial expansion of trading activities following the launch of the Ust-Luga transshipment facility in the end of 2013, which resulted in a significant increase in naphtha trading volumes;

(ii) Organic increase in LPG and naphtha production following the launch of integrated transportation and fractionation capacities, which enabled SIBUR to process increased volumes of available raw NGL feedstock;

(iii) Acquisition from Rosneft of a 49% stake in OOO Yugragazpererabotka (JV) in March 2014, which resulted in consolidation of 100% of natural gas volumes produced at the GPPs of the JV, and therefore, in higher sales of natural gas (see Appendix II for further details).

Substantial Russian rouble depreciation supported our effective average selling prices across the product range despite volatile market prices for most products. Longer delivery basis for the trading volumes also contributed to the average price increase, which was offset by higher transportation costs.

In 2014, 36.5% of total external energy product sales was derived from the domestic market compared to 48.6% in 2013, while export sales accounted for 63.5% versus 51.4% in 2014 and 2013, respectively. The increase in export volumes was attributable to higher naphtha and LPG seaborne sales following the launch of the Ust-Luga transshipment facility.

In 2015, SIBUR ceased naphtha trading operations via the Ust-Luga terminal and replaced them with transshipment services maintaining the facility's capacity load.

Liquefied Petroleum Gases (LPG)

In 2014, our revenue from LPG sales increased by 26.9% to RR 77,165 million from RR 60,823 million in 2013 on a 16.2% increase in sales volumes, as well as a 9.2% increase in the effective average selling price. The increase in our external LPG sales volumes on a 14.8% production growth was a result of higher fractionation volumes primarily due to the launch of the second GFU in Tobolsk and expanded access to the additional volumes of raw NGL via the newly launched pipeline. This was partially offset by higher volumes supplied to our petrochemicals business following the launch of Tobolsk-Polymer Plant that consumes propane as feedstock. Our effective average selling price increased by 9.2% in Russian rouble terms (a decrease of 9.5% in US dollar terms) reflecting the negative dynamics of international market prices coupled with higher export duties that on average increased by 24.6% in US dollar terms. The negative dynamics in US dollar terms was mitigated by the Russian rouble depreciation. In 2014, domestic sales accounted for 19.2% of total LPG revenue, while 80.8% was attributable to export sales.

Naphtha

In 2014, our revenue from naphtha sales surged 162.3% to RR 68,877 million from RR 26,256 million in 2013 primarily on a 111.8% increase in sales volumes, as well as on a 23.9% growth in the effective average selling price. Our external naphtha sales volumes surged on substantial expansion of trading activities initiated following the launch of the Ust-Luga transshipment facility in the end of 2013. Our effective average selling price increased by 23.9% in Russian rouble terms (almost flat in US dollar terms) on lower international market prices, which was more than offset by lower export duties (in US dollar terms), Russian rouble depreciation and longer delivery basis for trading operations. In 2014, our share of export sales increased to 98.6% of total naphtha revenue from 77.8% in 2013, while 1.4% and 22.2%, respectively, were derived from domestic sales. The change in the mix was primarily attributable to the expansion of international trading operations following the launch of the Ust-Luga transshipment facility.

Starting 2015, SIBUR changed the terms of cooperation with its naphtha trading suppliers and ceased purchases of the product for resale, instead providing transshipment services via the Ust-Luga transshipment facility to the partners. This is expected to result in a reduction in purchasing and export sales volumes from 2015.

Natural Gas

In 2014, our revenue from natural gas sales increased by 42.5% to RR 38,007 million from RR 26,673 million in 2013 on a 35.2% increase in sales volumes and a 5.4% increase in the effective average selling price. The growth in natural gas sales volumes was largely attributable to the OOO Yugragazpererabotka transaction in March 2014 and the subsequent consolidation of 100% of natural gas produced at the GPPs of the JV, while previously we were entitled to 51% of the JV's production volumes (see Appendix II for further details). This was partially offset by the relatively flat dynamics in inventories in 2014 versus a material decrease in inventories a year earlier, as we sold the volumes of natural gas accumulated in the UGSS in the first quarter of 2013. The effective average selling price increased by 5.4% largely reflecting an indexation of the regulated natural gas prices of 7.4% year-on-year. The slower price growth relative to the tariff indexation was attributable to the new pricing arrangements with the existing customers. We sell 100% of our natural gas in Russia.

Methyl Tertiary Butyl Ether (MTBE)

In 2014, our revenue from MTBE sales increased by 4.1% to RR 19,364 million from RR 18,596 million in 2013 on an 11.2% increase in the effective average selling price despite a 6.3% decrease in sales volumes. The effective average selling price increased by 11.2% in Russian rouble terms (a decrease of 7.8% in US dollar terms) reflecting the negative dynamics in international market prices fully mitigated by the Russian rouble depreciation. The decrease in sales volumes on flat production was largely attributable to the purchases for resale and substantial inventory sales in 2013, while in 2014 we did not purchase MTBE from third parties and only moderately increased stock. In 2014, we sold 100% of our MTBE in Russia, while in 2013 domestic sales accounted for 92.1% of total MTBE revenue and 7.9% was attributable to export sales.

Raw NGL

In 2014, our revenue from raw NGL sales increased by 3.2% to RR 9,709 million from RR 9,405 million in 2013 on a 15.8% increase in the effective average selling price despite a 10.8% decrease in sales volumes. Our effective average selling price increased on higher netbacks in line with international market prices for LPG and naphtha net of export duties in Russian rouble terms. In 2014, we increased production of raw NGL by 6.6% at our GPPs on higher APG processing. We also increased third-party purchases outside of OOO Yugragazpererabotka on additional raw NGL volumes available in Western Siberia, inter alia from NOVATEK following the expansion of Purovsky GCP. Additional available volumes were fully utilised internally following the fractionation capacity expansion in Tobolsk in the first quarter of 2014. As a result, our external raw NGL sales volumes decreased year-on-year.

New cooperation terms with Rosneft had a neutral impact on availability of raw NGL for external sales and internal usage. Following the transaction, we consolidate 100% of raw NGL production at the GPPs of OOO Yugragazpererabotka, and as a result we recorded higher production volumes. At the same time, we terminated raw NGL purchases from Rosneft, which resulted in a corresponding decrease in third-party purchases (see Appendix II for further details).

In 2014, domestic sales accounted for 50.7% of total raw NGL revenue, while 49.3% was attributable to export sales.

Other Fuels and Fuel Additives

In 2014, our revenue from other fuels and fuel additives sales increased by 38.7% to RR 4,111 million from RR 2,963 million in 2013 on a 35.9% increase in the effective average selling price and a 2.1% increase in sales volumes. Our effective average selling price increased due to the changes in product mix. The increase in sales volumes was attributable to inventory sales in 2014, while in 2013 our stock level did not significantly change. At the same time, we decreased production volumes by 25.9% and correspondingly decreased internal use following the changes in product mix and the subsequent termination of a certain intermediate production. In 2014, domestic sales accounted for 29.5% of total fuel and fuel additives revenue, while 70.5% was attributable to export sales.

Petrochemical Products

In 2014, our revenue from sales of petrochemical products increased by 14.2% to RR 132,513 million from RR 116,018 million a year earlier mainly on higher revenue from sales of basic polymers and plastics & organic synthesis products, which was offset by lower revenue from sales of synthetic rubbers. The growth in revenue from sales of basic polymers was primarily attributable to higher PP production following the launch of Tobolsk-Polymer Plant in the second half of 2013. The growth in revenue from sales of plastics & organic synthesis products was mainly attributable to capacity expansions in PET and BOPP-films. Our revenue from sales of synthetic rubbers continued to decline in a persistently weak market environment in 2014.

Basic Polymers

In 2014, our revenue from sales of basic polymers increased by 68.3% to RR 38,393 million from RR 22,818 million in 2013. The increase was largely attributable to higher PP sales volumes following the launch of Tobolsk-Polymer Plant in the second half of 2013, as well as higher selling prices for PP and LDPE due to the Russian rouble depreciation.

Polypropylene (PP)

In 2014, our revenue from sales of PP increased by 113.4% to RR 23,067 million from RR 10,809 million in 2013 on an 86.5% increase in sales volumes and a 14.4% increase in the effective average selling price. Our PP sales volumes growth was primarily attributable to a 159.5% increase in PP production following the launch of Tobolsk-Polymer Plant (annual nameplate production capacity of 500,000 tonnes) in the second half of 2013. This was partially offset by (i) lower purchases for resale from third parties and (ii) lower purchases from NPP Neftekhimia, our JV with Gazprom Neft in Moscow, as a result of a temporary feedstock shortage. We also recorded higher internal use following the capacity expansion at BOPP-film production sites in Tomsk and Novokuybyshevsk. Our export selling prices increased by 20.2% reflecting largely flat international market prices and the Russian rouble depreciation. Our domestic selling prices grew at a lower rate of 12.4% due to the ongoing adjustment of our domestic end customers to the movements in the foreign exchange rates. In 2014, our share of export sales increased to 39.2% of the total PP revenue from 25.4% in 2013, while domestic sales decreased to 60.8% from 74.6% in 2013.

Low Density Polyethylene (LDPE)

In 2014, our revenue from sales of LDPE increased by 27.6% to RR 15,326 million from RR 12,009 million in 2013 on a 21.8% increase in the effective average selling price and a 4.8% growth in sales volumes. The increase in the effective average selling price for LDPE reflected largely flat international market prices supported by the Russian rouble depreciation. The increase in LDPE sales volumes was largely attributable to a 3.7% growth in production volumes due to a shorter maintenance shutdown at our production site in Tomsk. In 2014, domestic sales accounted for 67.5% of total LDPE revenue, while 32.5% was attributable to export sales.

Synthetic Rubbers

In 2014, our revenue from synthetic rubber sales decreased by 14.1% to RR 27,847 million from RR 32,432 million in 2013 due to the continuing weak market performance throughout 2014. The decrease was attributable to lower revenue from sales of commodity rubbers and specialty rubber sales, while the revenue from thermoplastic elastomers sales increased.

Commodity Rubbers

In 2014, our revenue from sales of commodity rubbers decreased by 23.1% to RR 16,678 million from RR 21,676 million in 2013 on a 26.1% decrease in sales volumes partially compensated by a 4.1% increase in the effective average selling price. Our sales volumes of commodity rubbers declined on a 20.1% decrease in production on the back of the unfavorable market environment. The decrease in sales volumes was also attributable to moderate inventory accumulation as compared to substantial destocking in 2013. Additionally, we reduced product purchases under third-party manufacturing arrangements. The growth in the effective average selling price for commodity rubbers of 4.1% in Russian rouble terms (a decrease of 13.7% in US dollar terms) reflected the negative dynamics in European and Asian market prices fully mitigated by the Russian rouble depreciation. In 2014, domestic sales accounted for 41.7% of total commodity rubber revenue, while 58.3% was attributable to export sales.

Specialty Rubbers

In 2014, our revenue from sales of specialty rubbers decreased by 5.0% to RR 7,516 million from RR 7,912 million in 2013 on a 7.6% decrease in effective average selling price despite a 2.8% growth in sales volumes. Our effective average selling price for specialty rubbers decreased by 7.6% in Russian rouble terms (a decrease of 23.4% in US dollar terms) following the decline in Asian market prices for nitrile-butadiene rubber (NBR) and butyl rubber (IIR). Our specialty rubber sales volumes increased by 2.8% on inventory sales in 2014 compared to marginal inventory accumulation in 2013. In 2014, we decreased production of specialty rubbers by 2.9%, which was attributable to lower NBR production in the persistently unfavorable pricing environment. This was partially compensated by higher IIR production volumes on the expanded production capacity following completion of an investment project at our production site in Togliatti in the end of 2013 (increase in the annual IIR nameplate production capacity to 60,000 tonnes from 48,000 tonnes). In 2014, domestic sales accounted for 13.8% of total specialty rubber revenue, while 86.2% was attributable to export sales.

Thermoplastic Elastomers

In 2014, our revenue from sales of thermoplastic elastomers (SBS) increased by 28.5% to RR 3,653 million from RR 2,844 million in 2013 on a 22.8% increase in sales volumes and a 4.6% growth in the effective average selling price. Our sales volumes of thermoplastic elastomers increased by 22.8% on inventory sales in 2014 compared to a substantial inventory accumulation in 2013, partially offset by a 10.7% decrease in production due to the ongoing product homologation following the launch of the new production facility in Voronezh in the end of 2013 (annual nameplate production capacity of 50,000 tonnes). Our effective average selling price for thermoplastic elastomers increased reflecting the negative dynamics for butadiene prices and positive dynamics for styrene prices (butadiene and styrene are key feedstock for SBS), supported by the Russian rouble depreciation. In 2014, domestic sales accounted for 59.2% of total thermoplastic elastomers revenue, while 40.8% was attributable to export sales.

Plastics and Organic Synthesis Products

In 2014, our revenue from sales of plastics and organic synthesis products increased by 10.1% to RR 45,777 million from RR 41,583 million in 2013. The increase was primarily attributable to higher sales volumes of PET and BOPP-films following the capacity expansions, as well as to higher revenue from sales of acrylates, alcohols and expandable polystyrene. This was partially offset by lower sales of glycols due to lengthy shutdowns at our production sites in Kstovo and Dzerzhinsk in the first half of 2014. Additionally, we deconsolidated PVC cable compounds and ABS Plastics from our product portfolio following the divestments of the respective production sites in April 2014 and December 2013. We observed declining market prices for the vast majority of products, which was more than compensated by material Russian Rouble depreciation.

Polyethylene Terephthalate (PET)

In 2014, our revenue from PET sales increased by 40.0% to RR 13,627 million from RR 9,734 million on a 40.1% increase in sales volumes and relatively flat effective average selling price. The increase in sales volumes was primarily attributable to a 45.2% growth in production volumes following the completion of a PET capacity expansion project at our production site in Blagoveshchensk (increase in annual nameplate production capacity from 140,000 tonnes to 210,000 tonnes). This was partially offset by a substantial inventory accumulation in line with the production expansion. Our effective average selling price largely reflected negative dynamics in the international market prices, which was substantially compensated by Russian rouble depreciation, though we could not fully pass changes in foreign exchange rates to our customers in the domestic market. In 2014, domestic sales accounted for 99.7% of total PET revenue, while 0.3% was attributable to export sales.

BOPP-films

In 2014, our revenue from BOPP-film sales increased by 32.8% to RR 10,756 million from RR 8,100 million in 2013 on a 23.7% growth in sales volumes and a 7.3% increase in the effective average selling price. Higher sales volumes were largely attributable to a 25.6% increase in production following the launch of a new BOPP-film production facility in Tomsk in the second half of 2013 (annual nameplate production capacity of 38,500 tonnes) and the completion of a capacity expansion project in Novokuybyshevsk in May 2014 (increase in the annual nameplate production capacity to 55,500 tonnes from 30,500 tonnes). The increase in the effective average selling price reflected largely flat international market prices supported by the Russian rouble depreciation, which was somewhat negated by a substantial increase in export volumes and increased competition in the domestic market. In 2014, domestic sales accounted for 74.9% of total BOPP-film revenue, while 25.1% was attributable to export sales.

Expandable Polystyrene

In 2014, our revenue from sales of expandable polystyrene increased by 5.5% to RR 6,938 million from RR 6,577 million in 2013 on a 10.7% increase in the effective average selling price despite a 4.7% decrease in sales volumes. The increase in the effective average selling price reflected lower international market prices mitigated by the Russian rouble depreciation. The decrease in our sales volumes of expandable polystyrene was attributable to a 4.8% decline in production related to the divestment of Plastic, an expandable polystyrene producer. In 2014, domestic sales accounted for 70.0% of total expandable polystyrene revenue, while 30.0% was attributable to export sales.

Alcohols

In 2014, our revenue from sales of alcohols increased by 9.0% to RR 6,087 million from RR 5,583 million in 2013 on a 6.9% increase in sales volumes and a 2.0% increase in the effective average selling price. The increase in alcohols sales volumes was attributable to an 11.1% increase in production due to the biennial maintenance shutdown in 2013 at our Perm production site in line with the two-year maintenance cycle, as well as propylene feedstock shortage in 2013. This was partially offset by higher internal use of alcohols as a result of higher internal use of propylene (feedstock for certain alcohols) mostly for polypropylene production in 2013 and moderate inventory accumulation versus inventory sales in 2013. The movements in the export and domestic effective average selling prices of alcohols were a result of changes in our sales mix, as we redirected substantial volumes of isobutanol sales to the domestic market. In 2014, our share of domestic sales increased to 58.5% of the total alcohols revenue from 47.9% in 2013, while 41.5% and 52.1% were derived from export markets in 2014 and 2013, respectively.

Glycols

In 2014, our revenue from sales of glycols decreased by 30.4% to RR 4,795 million from RR 6,893 million a year earlier as a result of a 34.3% decrease in sales volumes despite a 5.9% growth in the effective average selling price. The decrease in sales volumes was largely attributable to a 20.6% decrease in production volumes due to the shutdowns at our production sites in Kstovo and Dzerzhinsk in the first half of 2014. Additionally, we recorded higher internal use following the PET production capacity expansion, which utilises glycols as raw material. These factors were only partially compensated by (i) higher third-party purchases to meet contractual obligations during the lengthy shutdowns and (ii) moderate inventory sales versus stock build-up in 2013 when we accumulated inventories pending completion of the PET capacity expansion at our production site in Blagoveshchensk. Higher effective average selling price reflected the decrease in the European market prices for monoethylene glycol mitigated by the Russian rouble depreciation. In 2014, domestic sales accounted for 74.7% of total glycols revenue, while 25.3% was attributable to export sales.

Acrylates

In 2014, our revenue from acrylates sales increased by 21.8% to RR 3,409 million from RR 2,800 million in 2013 on an 11.9% increase in sales volumes and an 8.8% increase in the effective average selling price. Our sales volumes increased on a 5.6% increase in production, which was attributable to longer maintenance shutdowns in 2013 and inventory sales as compared to inventory accumulation a year earlier. Higher effective average selling price reflected the decrease in the market prices mitigated by the Russian rouble depreciation. In 2014, we increased the share of domestic sales of acrylates to 48.7% of total revenue from 41.7% in 2013, while 51.3% and 58.3% was attributable to export sales in 2014 and 2013, respectively. In 2014, we specifically continued to keep focus on the more attractive domestic market, where prices are higher than on export markets.

Plastic Compounds (including ABS plastics and PVC cable compounds)

In 2014, our revenue from sales of plastic compounds dropped by 91.3% to RR 165 million from RR 1,896 million in 2013 as a result of the divestment of Plastic, ABS plastics producer, in December 2013 and subsequent divestment of PVC cable compounds division at SIBUR-Neftekhim in April 2014. Following these divestments SIBUR does not consolidate plastic compounds in its product portfolio.

Intermediates and Other Chemicals

In 2014, our revenue from sales of intermediates and other chemicals increased by 6.8% to RR 20,496 million from RR 19,185 million in 2013. The increase was primarily attributable to (i) higher revenue from sales of styrene as a result of lower internal use due to the divestment of Plastic that consumed styrene for polystyrene and ABS plastics production and (ii) higher revenue from sales of propylene due to the increase in production inter alia following the expansion of the cracking capacity in Kstovo in 2014. These factors were partially offset by lower revenue from sales of terephthalic acid as a result of higher internal use following the PET capacity expansion. In 2014, we also recorded revenue from sales of ethylene, which marked the launch of RusVinyl, our JV for PVC production with SolVin Holding Nederland B.V., that consumes ethylene as a key feedstock.

Out of 4.2 million tonnes of intermediates and other chemicals produced in 2014, approximately 89.5% was used internally for further intercompany processing compared to 89.2% in 2013.

Other Revenue

In 2014, other revenue increased by 23.9% year-on-year to RR 11,254 million from RR 9,080 million in 2013. The growth was mainly attributable to the launch of liquid hydrocarbon transportation services provided to NOVATEK, which was also reflected in transportation expenses. This was partially compensated by the ceased sales of processing services following the deconsolidation of OOO Yugragazpererabotka in March 2013 (see Appendix II for further details).

Operating Expenses

The following table presents a breakdown of our operating expenses for the years ended 31 December 2014 and 2013:

	Year ended 31 December				Change
RR millions, except as stated	**2014**	***% of revenue***	**2013**	***% of revenue***	***%***
Feedstock and materials	78,052	*21.6%*	67,152	*24.9%*	*16.2%*
Transportation, logistics and rent	52,010	*14.4%*	44,767	*16.6%*	*16.2%*
Transportation and logistics	*43,789*	*12.1%*	*38,984*	*14.4%*	*12.3%*
Rent expenses	*8,221*	*2.3%*	*5,783*	*2.1%*	*42.2%*
Goods for resale, *including*	48,051	*13.3%*	6,446	*2.4%*	*645.4%*
Naphtha trading via Ust-Luga	*41,580*	*11.5%*	*152*	*0.1%*	*n/m*
Energy and utilities	31,218	*8.6%*	25,823	*9.6%*	*20.9%*
Staff costs	27,152	*7.5%*	25,144	*9.3%*	*8.0%*
Depreciation and amortisation	26,321	*7.3%*	13,477	*5.0%*	*95.3%*
Repairs and maintenance	8,782	*2.4%*	7,468	*2.8%*	*17.6%*
Services provided by third parties	6,496	*1.8%*	5,082	*1.9%*	*27.8%*
Processing services of third parties	1,917	*0.5%*	5,225	*1.9%*	*(63.3%)*
Taxes other than income tax	1,783	*0.5%*	1,790	*0.7%*	*(0.4%)*
Charity and sponsorship, Marketing and advertising	1,411	*0.4%*	1,999	*0.7%*	*(29.4%)*
Charity and sponsorship	*987*	*0.3%*	*1,257*	*0.5%*	*(21.5%)*
Marketing and advertising	*424*	*0.1%*	*742*	*0.3%*	*(42.9%)*
Impairment of PPE and write-off of advances for capital construction	1,048	*0.3%*	887	*0.3%*	*18.2%*
Loss / (gain) on disposal of property, plant and equipment	221	*0.1%*	(2,223)	*(0.8%)*	*n/m*
Other	1,998	*0.6%*	2,289	*0.8%*	*(12.7%)*
Change in work-in-progress and refined products balances	(858)	*(0.2%)*	(10)	*(0.0%)*	*n/m*
Operating expenses before equity-settled share-based payment plans	**285,602**	***79.1%***	**205,316**	***76.1%***	***39.1%***
Equity-settled share-based payment plans	11,580	*3.2%*	7,894	*2.9%*	*46.7%*
Operating expenses	**297,182**	***82.3%***	**213,210**	***79.0%***	***39.4%***

In 2014, our operating expenses increased by 39.4% year-on-year to RR 297,182 million from RR 213,210 million in 2013. As a percentage of total revenue, our operating expenses increased to 82.3% in 2014 from 79.0% in 2013. In 2014 and 2013, we recorded non-cash charges related to equity-settled share-based payment plans for directors and key management, as the Group has been recognising current and past service costs associated with the respective payment plans as operating expenses together with a corresponding increase in the shareholders' equity starting from the third quarter of 2013 (see Appendix III for further details).

Our operating expenses before equity-settled share-based payment plans (the "net operating expenses") increased by 39.1% to RR 285,602 million from RR 205,316 million in 2013. As a percentage of total revenue, our net operating expenses amounted to 79.1% in 2014 compared to 76.1% in 2013. The growth in net operating expenses was primarily attributable to (i) an increase in the expenses related to purchases of goods for resale largely driven by expanded trading activities, (ii) higher feedstock and materials costs primarily related to the new terms of cooperation between SIBUR and Rosneft, (iii) higher depreciation and amortisation costs due to the commissioning of new production facilities and the amortisation of intangible assets related to the APG supply contracts between SIBUR and Rosneft, and (iv) higher transportation, logistics and rent expenses.

Acquisition of a 49% stake in OOO Yugragazpererabotka from Rosneft and the related new terms of cooperation between SIBUR and Rosneft have resulted in a net increase in our operating expenses, as higher APG purchase expenses are only partially compensated by lower raw NGL purchase expenses. Also, following the transaction SIBUR consolidates 100% of the JV operating expenses, while the related processing fee is treated as intercompany.

Feedstock and Materials

In 2014, our feedstock and materials costs increased by 16.2% to RR 78,052 million from RR 67,152 million in 2013. As a percentage of total revenue, feedstock and materials costs decreased to 21.6% in

2014 from 24.9% in 2013. The increase in absolute terms was primarily driven by higher expenses related to purchases of hydrocarbon feedstock.

In 2014, our expenses related to hydrocarbon feedstock purchases were largely affected by the acquisition of a 49% stake in JV OOO Yugragazpererabotka from Rosneft in March 2014 and the related changes in terms of cooperation between Rosneft and SIBUR. The parties entered into a new APG supply agreement and at the same time terminated the raw NGL supply agreement effective from 1 April 2014. Under the new arrangements SIBUR (i) pays for 100% of APG supplied to the GPPs of OOO Yugragazpererabotka, while previously SIBUR paid for 51%, and (ii) retains 100% of raw NGL volumes produced at these GPPs, while previously SIBUR purchased 49% of these volumes from Rosneft. As a result, our APG purchasing volumes increased by 39.9% in 2014 with a corresponding decrease in the NGLs purchasing volumes as compared to 2013. The new APG price is formula-based and subject to indexation in line with changes in prices for APG derivatives: natural gas and raw NGL (see Appendix II for further details).

The following table presents information on our costs related to purchasing of feedstock and materials for the years ended 31 December 2014 and 2013:

	Year ended 31 December				
RR millions, except as stated	**2014**	***% of feedstock and materials expenses***	**2013**	***% of feedstock and materials expenses***	***Change %***
NGLs	25,832	*33.1%*	25,613	*38.1%*	*0.9%*
APG	20,544	*26.3%*	9,402	*14.0%*	*118.5%*
Paraxylene	4,828	*6.2%*	5,522	*8.2%*	*(12.6%)*
Polypropylene	4,570	*5.9%*	4,210	*6.3%*	*8.6%*
Other feedstock and materials	23,007	*29.4%*	21,905	*32.7%*	*5.0%*
Change of stock	(729)	*(0.9%)*	500	*0.7%*	*n/m*
Feedstock and materials, total	78,052	*100.0%*	67,152	*100.0%*	*16.2%*

The following table presents selected data on our feedstock purchasing volumes for the years ended 31 December 2014 and 2013(1):

	Year ended 31 December		
Tonnes, except as stated	**2014**	**2013**	***Change %***
NGLs	2,553,000	3,624,087	*(29.6%)*
APG (thousand cubic metres)	19,397,321	13,869,949	*39.9%*
Paraxylene	163,729	169,116	*(3.2%)*
Polypropylene	81,925	90,988	*(10.0%)*

In 2014, our expenses related to purchases of NGLs were largely flat at RR 25,832 million in 2014, while decreasing as a percentage of total feedstock and materials to 33.1% in 2014 from 38.1% in 2013. The growth in expenses was attributable to a 43.2% year-on-year increase in the effective average purchase price, which was fully offset by a 29.6% decrease in purchasing volumes. New cooperation terms with Rosneft, when SIBUR ceased raw NGL purchases, as described above, resulted in lower purchasing volumes and higher effective average purchase price. The increase in purchase prices was also driven by higher export netbacks in Russian rouble terms. The decrease in purchasing volumes was partially compensated by the launch of raw NGL purchases from NOVATEK.

In 2014, our expenses related to APG purchases increased by 118.5% to RR 20,544 million from RR 9,402 million in 2013, increasing as a percentage of total feedstock and materials expenses to 26.3% from 14.0%. The growth in expenses was attributable to a 56.2% year-on-year increase in the effective average purchase price and a 39.9% increase in purchasing volumes. The increase in the effective average purchase price and purchasing volumes was largely attributable to the redefinition of cooperation terms with Rosneft as discussed above. The effective average purchase price increased also on the back of the regular price indexation reflecting changes in the regulated natural gas prices in Russia.

In 2014, our expenses related to paraxylene purchases decreased by 12.6% to RR 4,828 million from RR 5,522 million in 2013, decreasing as a percentage of total feedstock and materials expenses to 6.2% from 8.2%. The decrease was attributable to a 9.7% decline in the effective average purchase price due to lower market prices and a 3.2% decrease in purchasing volumes. Decrease in our paraxylene purchasing

(1) Excluding volumes purchased for trading, which are reported as goods for resale.

volumes, while our PET production surged 45.2% was explained by increased terephthalic acid internal use with no material changes in its production volumes.

In 2014, our expenses related to polypropylene purchases increased by 8.6% to RR 4,570 million from RR 4,210 million in 2013, decreasing as a percentage of total feedstock and materials expenses to 5.9% from 6.3%. The increase was attributable to a 20.6% increase in the effective average purchase price on higher international benchmark prices in Russian rouble terms despite a 10.0% decrease in purchasing volumes, as we partially substituted third-party purchases with polypropylene from Tobolsk-Polymer Plant.

In 2014, other feedstock and materials expenses increased by 5.0% to RR 23,007 million from RR 21,905 million in 2013, decreasing as a percentage of total feedstock and materials expenses to 29.4% from 32.7%.

Transportation, Logistics and Rent

In 2014, our combined expenses related to transportation, logistics and rent increased by 16.2% to RR 52,010 million from RR 44,767 million in 2013, decreasing as a percentage of total revenue to 14.4% from 16.6%. The increase in absolute terms was mainly attributable to (i) Russian rouble depreciation, which affected our international transportation expenses, (ii) expenses incurred in relation to the launch of liquid hydrocarbon transportation services provided to NOVATEK, which was also reflected in other revenue, and (iii) longer delivery basis and higher transported volumes of naphtha, LPG and polypropylene on expanded trading activities and production capacities, which was also reflected in our revenue from sales of the respective products. This was partially compensated by lower transportation expenses due to rerouting of certain energy products via the Ust-Luga transshipment facility. Our rolling stock under management increased by 12.4% to 23,719 as of 31 December 2014 from 21,100 as of 31 December 2013.

Goods for Resale

In 2014, our expenses related to purchases of goods for resale increased more than seven times to RR 48,051 million from RR 6,446 million in 2013, increasing as a percentage of total revenue to 13.3% from 2.4%. The growth in expenses was driven by higher third-party purchases of energy products for resale following the launch of the Ust-Luga transshipment facility. The matching amount was recorded in our naphtha revenue from sales.

Starting 2015, SIBUR changed the terms of cooperation with its naphtha trading suppliers and ceased purchases of the product for resale, instead providing transshipment services to the partners. This will result in materially lower goods for resale from 2015.

Energy and Utilities

In 2014, our energy and utilities expenses increased by 20.9% to RR 31,218 million from RR 25,823 million in 2013, decreasing as a percentage of total revenue to 8.6% from 9.6%. The increase in absolute terms was primarily attributable to the consolidation of OOO Yugragazpererabotka from March 2014, which resulted in higher electricity consumption volumes. Our effective average electricity tariffs were down by 1.1% and our heat tariffs were up by 2.0% year-on-year, respectively.

The following table presents data on our energy and utilities costs for the years ended 31 December 2014 and 2013:

	Year ended 31 December				
RR millions, except as stated	**2014**	***% of total energy and utilities***	**2013**	***% of total energy and utilities***	***Change %***
Electricity	18,490	*59.2%*	14,041	*54.4%*	*31.7%*
Heat	6,757	*21.6%*	6,798	*26.3%*	*(0.6%)*
Fuel	4,180	*13.4%*	3,836	*14.9%*	*9.0%*
Other	1,791	*5.7%*	1,147	*4.4%*	*56.1%*
Energy and utilities, total	31,218	*100.0%*	25,823	*100.0%*	*20.9%*

Staff Costs

In 2014, our staff costs increased by 8.0% to RR 27,152 million from RR 25,144 million in 2013, decreasing as a percentage of total revenue to 7.5% from 9.3%. The growth in absolute terms was primarily attributable to (i) higher bonus provisions and related growth in social taxes, and (ii) growth in payroll on higher average salary despite lower headcount. Our average headcount totaled 25,926 employees, decreasing by 10.3% year-on-year as a result of decommissioning of Caprolactam completed in April 2013 and divestment of Plastic in the end of 2013, as well as headcount optimisation at our production sites, which was partially compensated by consolidation of OOO Yugragazpererabotka and launch of new production facilities.

Depreciation and Amortisation

In 2014, our depreciation and amortisation expenses increased by 95.3% to RR 26,321 million from RR 13,477 million in 2013, increasing as a percentage of total revenue to 7.3% from 5.0%. The growth in expenses was attributable to (i) commissioning of new production facilities, including Purovsk – Pyt-Yakh – Tobolsk Pipeline launched in 2014, Tobolsk-Polymer Plant launched in October 2013, as well as the second GFU with certain elements of related infrastructure in Tobolsk launched in March 2014, and (ii) amortisation of intangible assets related to the APG supply contracts between SIBUR and Rosneft (see Appendix II for further details).

Repairs and Maintenance

In 2014, our repairs and maintenance expenses increased by 17.6% to RR 8,782 million from RR 7,468 million in 2013, decreasing as a percentage of total revenue to 2.4% in 2014 from 2.8% in 2013. The increase in expenses in absolute terms was primarily attributable to (i) deconsolidation of OOO Yugragazpererabotka from the second quarter of 2013 to March 2014, (ii) higher expenses related to the maintenance works during the shutdowns at our production sites in Kstovo and Dzerzhinsk, as well as (iii) maintenance of the Purovsk – Pyt-Yakh – Tobolsk Pipeline launched in 2014.

Services Provided by Third Parties

In 2014, our expenses related to services provided by third parties increased by 27.8% to RR 6,496 million from RR 5,082 million in 2013, decreasing as a percentage of total revenue to 1.8% from 1.9%. The increase in expenses in absolute terms was primarily attributable to services of subcontractors in relation to Yuzhno-Priobskiy GPP construction, where SIBUR acts as a general contractor.

Processing Services of Third Parties

In 2014, our expenses related to third-party processing services decreased by 63.3% to RR 1,917 million from RR 5,225 million in 2013, decreasing as a percentage of total revenue to 0.5% from 1.9%. The decline in expenses was primarily attributable to the consolidation of OOO Yugragazpererabotka from March 2014, when we started reporting our payments for APG processing as intercompany expenses, while before (March 2013 – February 2014) they were treated as external payments for APG processing to OOO Yugragazpererabotka (see Appendix II for further details). This was partially compensated by payments for styrene processing to Plastic, initiated following the divestment of the asset in the end of 2013.

Taxes other than Income Tax

In 2014, our taxes other than income tax remained broadly flat at RR 1,783 million, decreasing as a percentage of total revenue to 0.5% from 0.7%.

Charity and Sponsorship, Marketing and Advertising

In 2014, our combined expenses related to charity and sponsorship, marketing and advertising decreased by 29.4% to RR 1,411 million from RR 1,999 million in 2013, decreasing as a percentage of total revenue to 0.4% from 0.7%. The decline in expenses was related to the changes in the respective activities.

Impairment of Property, Plant and Equipment and Write-off of Advances for Capital Construction

In 2014, we recognised an impairment charge of RR 1,048 million, attributable to a minor investment project termination. In 2013, we recognised an impairment charge of RR 887 million, primarily attributable to materials and equipment related to construction in progress.

Loss / (Gain) on Disposal of Property, Plant and Equipment

In 2014, we recorded a loss of RR 221 million on disposal of property, plant and equipment compared to a gain of RR 2,223 million reported in 2013, which was attributable to divestments of non-core assets.

Equity-Settled Share-Based Payment Plans

In 2014, our charge related to equity-settled share-based payment plans increased by 46.7% to RR 11,580 million from RR 7,894 million in 2013, as we recognised the charge for full year in 2014 versus half year in 2013 (see Appendix III for further details).

Operating Profit

In 2014, our operating profit increased by 12.7% year-on-year to RR 63,818 million from RR 56,604 million inter alia due to the non-cash charges associated with the share-based equity-settled payment plans of RR 11,580 million and RR 7,894 million in 2014 and 2013, respectively (see Appendix III for further details). Our operating margin totaled 17.7% in 2014 compared to 21.0% in 2013.

Net of the non-cash charge related to the equity-settled share-based payment plans, our operating profit increased by 16.9% to RR 75,398 million in 2014 from RR 64,498 million in 2013. The increase in net operating profit was attributable to the launch of our strategic large-scale investment projects and positive impact of the foreign exchange rate fluctuations on our revenues. The corresponding operating margin totaled 20.9% and 23.9% in 2014 and 2013, respectively.

Net Finance Expense

In 2014, we reported a net finance expense of RR 89,765 million compared to RR 4,844 million in 2013, which was primarily attributable to a dramatically surged foreign exchange loss in 2014 compared to 2013 on substantial Russian rouble depreciation.

The following table presents data on our finance income and expenses for the years ended 31 December 2014 and 2013:

	Year ended 31 December		*Change*
RR millions, except as stated	**2014**	**2013**	*%*
Interest income	632	745	*(15.2%)*
Interest expense	(3,541)	(1,538)	*130.2%*
Foreign exchange loss	(85,433)	(3,870)	*n/m*
Other finance expense	(1,423)	(181)	*n/m*
Total finance expense	(89,765)	(4,844)	*n/m*

In 2014, our interest expenses increased by 130.2% to RR 3,541 million from RR 1,538 million in 2013. The increase was attributable to (i) the growth in total debt in Russian rouble terms, (ii) completion of certain investment projects, for which interest on borrowings was previously capitalised, and (iii) higher interest expense on US dollar-denominated debt (in Russian rouble terms) due to Russian rouble depreciation (see "Borrowings" below for further details). Our weighted average interest rate on Russian rouble-denominated borrowings was 10.1% and 7.7% as of 31 December 2014 and 2013. Our weighted average interest rate on US dollar-denominated borrowings was 3.0% and 3.1% as of 31 December 2014 and 2013. Our weighted average interest rate on euro-denominated borrowings was 1.5% and 1.7% as of 31 December 2014 and 2013.

In 2014, our net foreign exchange loss surged to RR 85,433 million from RR 3,870 million reported in 2013. The loss recorded in 2014 was attributable to the revaluation of US dollar-denominated debt and USD 1 billion in payables related to the acquisition of OOO Yugragazpererabotka, as RR/USD rate increased by 71.9% to 56.2584 as of 31 December 2014 from 32.7292 as of 31 December 2013. The foreign exchange loss recorded in 2013 was attributable to the Russian rouble depreciation and the respective revaluation of our US dollar-denominated debt, as RR/USD rate increased by 7.8% to 32.7292 as of 31 December 2013 from 30.3727 as of 31 December 2012.

Gain on Acquisition of Subsidiary

In 2014, we recorded a non-cash gain on acquisition of subsidiary in the amount of RR 52,773 million following the acquisition of a 49% stake in OOO Yugragazpererabotka from Rosneft in March 2014. The gain was attributable to the difference between the fair value of SIBUR's interest in the JV following the transaction and SIBUR's share in the JV accounted for at historical cost before the transaction (see Appendix II for further details).

Gain on Deconsolidation of Subsidiary

In 2013, we recorded a gain of RR 2,413 million on deconsolidation of OOO Yugragazpererabotka, our JV with RN Holding (see Appendix II for further details).

Gain on Disposal of Subsidiary

In 2014, we recognised a gain of RR 18 million on disposal of OAO OKA-Polimer in January of 2014. In 2013, we recognised a gain of RR 335 million on disposal of OAO Plastic in the end of 2013.

Share of Net Income / (Loss) of Joint Ventures and Associates

In 2014, our share of net loss of joint ventures totaled RR 3,827 million, which was attributable to the foreign exchange loss of OOO RusVinyl due to the Russian rouble depreciation.

In 2013, our share of net income of joint ventures totaled RR 794 million. It was primarily attributable to the servicing of RusVinyl debt and was compensated by income of NPP Neftekhimia.

Income Tax Benefit / (Expense)

In 2014, our income tax benefit amounted to RR 2,054 million compared to an income tax expense of RR 9,844 million a year earlier. The tax benefit in 2014 was attributable to the pre-tax loss, calculated as our pre-tax results for the year adjusted for the non-cash charge related to the equity-settled share-based payment plans and non-cash gain on acquisition of subsidiary. The pre-tax loss was recorded due to the foreign exchange loss.

Profit for the Reporting Period and Profit Attributable to Shareholders of SIBUR

In 2014, our profit decreased by 44.8% to RR 25,071 million from RR 45,458 million in 2013. The decrease was largely attributable to the foreign exchange loss despite higher operating profit, which was partially compensated by a non-cash gain on the acquisition of a 49% stake in OOO Yugragazpererabotka. Our net margin totaled 6.9% and 16.8% in 2014 and 2013, respectively. In 2014, profit attributable to shareholders of SIBUR decreased by 45.2% to RR 25,004 million from RR 45,598 million in 2013.

SEGMENT INFORMATION

In 2014, our feedstock and energy segment's gross revenue increased by 47.4% to RR 252,813 million from RR 171,464 million in 2013. EBITDA contribution of the feedstock and energy segment increased by 13.9% to RR 88,346 million in 2014 from RR 77,587 million in 2013. The increase of the segment's contribution was attributable to (i) launch of the raw NGL pipeline connecting the Purovsky Gas Condensate Plant of NOVATEK and our Tobolsk production site, as well as the second gas fractionation facility in Tobolsk in 2014, and (ii) 6.3% growth in APG processing volumes at our GPPs. EBITDA margin of the segment declined to 34.9% in 2014 from 45.2% in 2013 due to low-margin naphtha trading operations via the Ust-Luga transshipment facility performed in 2014.

In 2014, our petrochemicals segment's gross revenue increased by 10.9% to RR 142,308 million from RR 128,333 million in 2013. EBITDA contribution of the petrochemicals segment increased almost three times to RR 20,806 million in 2014 from RR 7,623 million in 2013. EBITDA margin of the segment increased to 14.6% in 2014 from 5.9% in 2013. The increase in EBITDA and EBITDA margin of the petrochemicals segment was largerly attributable to the launch of Tobolsk-Polymer in the second half of 2013, as well as lower feedstock prices due to decreasing prices for energy products.

The following table presents data on our segments' revenue and EBITDA contribution for the years ended 31 December 2014 and 2013:

	Year ended 31 December							
	2014				**2013**			
RR millions, except as stated	**Feedstock & Energy**	**Petro-chemicals**	**Unallocated**	**Total**	**Feedstock & Energy**	**Petro-chemicals**	**Unallocated**	**Total**
Total segment revenue	252,813	142,308	14,192	409,313	171,464	128,333	15,058	314,855
Inter-segment transfers	(29,686)	(10,408)	(8,219)	(48,313)	(27,757)	(8,463)	(8,821)	(45,041)
External revenue	223,127	131,900	5,973	361,000	143,707	119,870	6,237	269,814
EBITDA	**88,346**	**20,806**	**(6,385)**	**102,767**	**77,587**	**7,623**	**(6,348)**	**78,862**
EBITDA margin	*34.9%*	*14.6%*		*28.5%*	*45.2%*	*5.9%*		*29.2%*

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table presents selected data on our net cash flows for years ended 31 December 2014 and 2013:

RR millions, except as stated	**Year ended 31 December** 2014	2013	***Change*** *%*
Net cash from operating activities	91,052	72,741	*25.2%*
Operating cash flows before working capital changes	*105,313*	*77,916*	*35.2%*
Changes in working capital	*2,016*	*7,059*	*(71.4%)*
Income tax paid	*(16,277)*	*(12,234)*	*33.0%*
Net cash used in investing activities, *including*	(97,370)	(70,384)	*38.3%*
Purchase of property, plant and equipment	*(67,707)*	*(70,010)*	*(3.3%)*
Acquisition of interest in subsidiaries, net of cash acquired	*(20,666)*	*(1,742)*	*n/m*
Additional contribution to the share capital of joint ventures	*(5,875)*	*(6,299)*	*(6.7%)*
Loans issued	*(4,801)*	*(946)*	*407.5%*
Proceeds from sale of property, plant and equipment	*1,374*	*5,134*	*(73.2%)*
Other	*305*	*3,479*	*(91.2%)*
Net cash from / (used in) financing activities, *including*	24,093	(7,928)	*n/m*
Dividends paid to the Company's shareholders	(14,073)	*(14,008)*	*0.5%*
Net proceeds from debt	34,346	*4,513*	*n/m*
Effect of exchange rate changes on cash and cash equivalents	1,944	(51)	*n/m*
Net increase / (decrease) in cash and cash equivalents	19,719	(5,622)	*n/m*

Net Cash from Operating Activities

In 2014, our net cash from operating activities increased by 25.2% to RR 91,052 million from RR 72,741 million in 2013. Operating cash flows before working capital changes increased by 35.2% year-on-year to RR 105,313 million from RR 77,916 million in 2013 on the back of higher EBITDA that was up by 30.3%. In 2014, changes in working capital had a positive impact on our net cash from operating activities in the amount of RR 2,016 million compared to a positive impact of RR 7,059 million in 2013. In 2014, positive impact of working capital changes was primarily attributable to advances received in relation to Yuzhno-Priobskiy GPP construction, where SIBUR acts as a general contractor. Income tax paid increased by 33.0% and totaled RR 16,277 million as compared to RR 12,234 million a year earlier, which was attributable to substantial advance tax payments.

The following table presents data on changes in working capital for the years ended 31 December 2014 and 2013:

RR millions, except as stated	**Year ended 31 December** 2014	2013
Decrease in trade and other receivables	959	649
Decrease in prepayments and other current assets	117	2,226
Increase in inventories	(1,369)	(954)
Increase in trade and other payables	1,764	5,571
Increase / (decrease) in taxes payable	545	(433)
Changes in working capital	**2,016**	**7,059**

SIBUR's management monitors its liquidity and operational efficiency on the basis of the adjusted working capital (see Appendix I for further details). Our adjusted working capital was positive at RR 37,205 as of 31 December 2014 and RR 31,277 million as of 31 December 2013. Our working capital days decreased to 38 in 2014 from 42 in 2013.

Our net working capital balance may fluctuate from period to period due to factors within or outside our control, such as market conditions, our tactical marketing initiatives in response to changes in market conditions, logistical constraints as well as completion of major investment projects, which could require substantial inventory accumulation.

Net Cash Used in Investing Activities

In 2014, our net cash used in investing activities increased by 38.3% year-on-year to RR 97,370 million from RR 70,384 million a year earlier, which was largely attributable to (i) the payment of the first tranche for the acquisition of a 49% stake in OOO Yugragazpererabotka from Rosneft in the amount of RR 20,547 million, (ii) a five times increase in loans issued to the total amount of RR 4,801 million in 2014 compared to RR 946 million in 2013, related to the launch of Yuzhno-Priobskiy GPP construction and stake acquisition in OOO Poliom, and (iii) lower proceeds from sale of property, plant and equipment. Our capital expenditures decreased by 3.3% to RR 67,707 million in 2014 from RR 70,010 million a year earlier, as we completed several large-scale projects in 2013 and early 2014, while started financing ZapSibNeftekhim (ZapSib-2) in the end of 2014.

Net Cash from / (Used in) Financing Activities

In 2014, our net cash received from financing activities amounted to RR 24,093 million compared to the net cash used in financing activities in the amount of RR 7,928 million in 2013. In 2014, our net cash flow from financing activities was primarily related to (i) the new borrowings to fund the first tranche for the acquisition of a 49% stake in the OOO Yugragazpererabotka and (ii) grants and subsidies received in the amount of RR 10,227 million. A payment of RR 14,073 million in 2014 represents dividends paid to the Group’s shareholders. In 2013, our net cash used in financing activities related primarily to RR 14,008 million paid in dividends to the Group’s shareholders and interest payment of RR 3,718 million.

Capital Expenditures

In 2014, our capital expenditures decreased by 3.3% to RR 67,707 million compared to RR 70,010 million in 2013 (net of VAT). The decrease was attributable to the completion of several large-scale investment projects in 2013 and early 2014, while we started financing ZapSibNeftekhim (ZapSib-2) in the end of 2014.

The following table presents data on our key ongoing investment projects for the years ended 31 December 2014 and 2013:

RR millions, except as stated		Year ended 31 December		
Location	**Description**	**2014**	**2013**	**Completion**
Feedstock and Energy				
Transportation infrastructure development				
Western Siberia	Purovsk – Pyt-Yakh – Tobolsk pipeline	11,168	19,789	Completed
Tobolsk	Expansion of railway infrastructure	2,194	1,030	2015
Gas fractionation capacity modernisation and expansion				
Yamal-Nenets Autonomous Area	APG processing capacity expansion at Vyngapurovskiy GPP	6,102	2,443	2015
Tobolsk	Second GFU	3,229	6,726	Completed
Petrochemicals				
Tobolsk	ZapSibNeftekhim (ZapSib-2)[(1)]	21,135	2,838	2020[(2)]
Tomsk	Expansion of PP and LDPE production	2,292	689	2016
Dzerzhinsk	Reconstruction of ethylene oxide production capacity	2,243	555	Completed
Kstovo	Steam cracker upgrade	1,812	2,015	Completed
Novokuybyshevsk	Expansion of BOPP-film production	402	715	Completed
Tobolsk	Propane purification facility to reduce methanol content	340	843	Completed
Blagoveshchensk	Expansion of PET production	261	759	Completed

In 2014, we completed implementation of a number of investment projects in both feedstock & energy and petrochemicals businesses and commenced implementation of the large-scale petrochemical project ZapSibNeftekhim (ZapSib-2) in line with SIBUR’s strategic objectives. Description of our key investment projects is presented below.

Feedstock & Energy

Completed

Second Gas Fractionation Unit (GFU) in Tobolsk

In March 2014, SIBUR launched the second gas fractionation unit in Tobolsk, thus expanding overall raw NGL fractionation capacity at the site to 6.6 million tonnes per annum from 3.8 million tonnes per annum. The project is aimed at handling the growing volumes of raw NGL supplies. Total capital expenditures on the project amounted to approximately RR 14 billion (net of VAT).

Purovsk – Pyt-Yakh – Tobolsk Pipeline

SIBUR finalised construction of a 1,100 km raw NGL pipeline connecting NOVATEK’s GCP in Purovsk, Pyt-Yakh and Tobolsk, where SIBUR's flagship GFU is located (Purovsk – Pyt-Yakh – Tobolsk pipeline). The pipeline's throughput capacity between Purovsk and SIBUR's loading rack in Noyabrsk is up to 4 million tonnes per annum, between Noyabrsk and Pyt-Yakh – approximately 5.5 million tonnes per annum, and between Pyt-Yakh and Tobolsk – approximately 8 million tonnes per annum. The launch of the new pipeline is expected to result in a substantial extension of SIBUR's raw NGL transportation infrastructure, an increase in its throughput capacity and reliability. The project is aimed at securing our long-term access to abundant raw NGL resources of Western Siberia, and particularly its northern parts, where projected growth in wet gas production is expected to support rising supplies of raw NGL. We

(1) Includes financing of FEED stage.
(2) The project implementation timeline is currently under review.

expect the expansion and upgrade of the infrastructure for transportation of raw NGL to our flagship GFU to create a secure foundation for further development of our petrochemicals business in Tobolsk.

Petrochemicals

Completed

Reconstruction of Ethylene Oxide Production Capacity in Dzerzhinsk

In September 2014, SIBUR completed reconstruction and expansion of existing ethylene oxide capacity at the production site in Dzerzhinsk from 264,000 to 300,000 tonnes per annum. Total capital expenditures on the project amounted to approximately RR 3.3 billion (net of VAT).

Steam Cracker Upgrade in Kstovo

In September 2014, SIBUR completed the upgrade of a steam cracker facility in Kstovo, the Nizhniy Novgorod region, thus expanding the facility's nameplate capacity from 300,000 to 360,000 tonnes of ethylene per annum. Additional ethylene volumes produced at the expanded capacity are supplied as feedstock for PVC production at OOO RusVinyl, our joint venture with SolVin Holding Nederland B.V. launched in September 2014. Total capital expenditures on the project amounted to approximately RR 8.8 billion (net of VAT).

Expansion of BOPP-film Production in Novokuybyshevsk

In May 2014, SIBUR launched a new BOPP-film production capacity of 30,500 tonnes per annum at its existing BOPP-film production site in Novokuybyshevsk, thus increasing SIBUR's total BOPP-film production capacity to 180,250 tonnes per annum. Total capital expenditures on the project amounted to approximately RR 1.9 billion (net of VAT).

Propane Purification Facility to Reduce Methanol Content in Tobolsk

In December 2014, SIBUR completed the construction of propane purification facility in Tobolsk of 2 million tonnes per annum to reduce methanol content. This will ensure compliance with EU quality requirements for LPG and enable increased exports to European countries. Total capital expenditures on the project amounted to approximately RR 1.2 billion (net of VAT).

Expansion of PET Production in Blagoveshchensk

In April 2014, SIBUR completed the expansion of its PET capacity in Blagoveshchensk from 140,000 tonnes to 210,000 tonnes per annum, thus increasing overall PET production capacity to 285,950 tonnes per annum. Total capital expenditures on the project amounted to approximately RR 1.9 billion (net of VAT).

Ongoing

ZapsibNeftekhim (ZapSib-2)

ZapSibNeftekhim (ZapSib-2) is designed to operate (i) a world-scale ethylene cracking unit with an annual capacity of 1.5 million tonnes, that will also produce 525,000 tonnes of propylene and 100,000 tonnes of crude C_4 (technology provided by Linde), and (ii) polyolefin units with an annual capacity of 1.5 million tonnes of polyethylene (technology provided by INEOS) and 500,000 tonnes of polypropylene (technology provided by LyondellBasell). This is a greenfield construction near our Tobolsk production site, and the facility will have direct access to the existing fractionation capacity. SIBUR believes that the investment will enable us to achieve economies of scale, further strengthen our vertically integrated business model and provide us with the first-mover advantage in establishing large-scale petrochemicals production capacities in Western Siberia.

SIBUR is currently at an advanced stage of the site preparation works. We have signed contracts for detailed engineering and procurement of equipment and materials (EP contracts) with the three major contractors: (i) Linde AG (Germany) for the ethylene cracking facility, (ii) ThyssenKrupp Industrial Solutions (Germany) for the polypropylene production unit, and (iii) Technip (France) for the polyethylene production unit. In December 2014, SIBUR signed an agreement with a consortium of European banks for ECA-backed long-term financing in the amount of EUR 1,575 million for the contracts with Linde AG and ThyssenKrupp Industrial Solutions (see "Borrowings" below for further details). We also received the in-principal approval from Coface, a French export credit agency, for the contract with Technip.

SIBUR's management is currently revising the previously announced budget (around USD 9.5 billion in total net of VAT) and timeline (5 – 5.5 years) for the project. The project implementation parameters are currently reviewed under new macroeconomic assumptions and will be revised to assure compliance with our financial policy.

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We expect that we will finance the approved capital expenditures through a combination of cash and cash equivalents, cash flows from operations as well as new borrowings within the limits of our financial policy.

Borrowings

As of 31 December 2014, our total debt amounted to RR 206,294 million compared to RR 100,474 million as of 31 December 2013, a twofold increase year-on-year. The increase was primarily driven by a substantial Russian rouble depreciation against the US dollar and euro and the respective revaluation of loans denominated in these currencies. The US dollar equivalent of our total debt increased by 19.5% to USD 3,667 million from USD 3,070 million as of 31 December 2014 and 2013, respectively. The increase was also attributable to the new borrowings to fund the acquisition of a 49% stake in OOO Yugragazpererabotka.

Our net debt[1] increased by 93.1% to RR 178,627 million as of 31 December 2014 from RR 92,526 million as of 31 December 2013. The US dollar equivalent of our net debt increased by 12.3% to USD 3,175 million from USD 2,827 million as of 31 December 2014 and 2013, respectively. The increase was attributable to the growth in total debt. At the same time our cash balances substantially increased as of 31 December 2014, as we accumulated funds pending the payment of the USD 1 billion outstanding for 2015 related to OOO Yugragazpererabotka acquisition.

The following table presents data on our total debt, cash and cash equivalents and net debt position as of 31 December 2014 and 2013:

RR millions, except as stated	**As of 31 December 2014**	**As of 31 December 2013**	***Change, %***
Total debt	206,294	100,474	*105.3%*
Cash and cash equivalents	27,667	7,948	*248.1%*
Net debt	178,627	92,526	*93.1%*

As of 31 December 2014, all of our debt was unsecured. The Tobolsk-Polymer Plant project finance facility, previously secured by OOO Tobolsk-Polymer shares and property, plant and equipment, was fully released from the pledge by August 2014.

The following table presents detailed information on our borrowings as of 31 December 2014 and 2013:

RR millions, except as stated	**Currency**	**Due**	**As of 31 December 2014**	**As of 31 December 2013**
Variable rate loans				
Vnesheconombank	USD	2013-2023	26,822	15,729
UniCredit Bank Group	USD, EUR	2013-2019	17,900	7,417
RaiffeisenBank	USD	2015-2017	16,812	4,909
Promsvyazbank	USD	2017	14,041	-
Nordea Bank	USD	2013-2016	11,252	7,359
ING Bank Group	USD, EUR	2008-2021	5,065	8,343
Alfa-Bank	USD	2016	3,376	-
Citibank	USD	2013-2023	2,449	3,495
Deutsche Bank	EUR	2014-2022	2,120	-
HSBC Bank	USD	2013-2014	-	2,805
KFW IPEX-Bank	USD	2014	-	1,636
Fixed rate loans				
Eurobonds	USD	2018	56,150	32,585
Sberbank of Russia	RR	2014-2019	37,805	10,636
Alfa-Bank	USD	2015	11,252	-
NPP Neftekhimia	RR	2011-2017	800	1,000
Gazprom Mezhregiongaz	RR	2011-2017	425	573
Russian Agricultural Bank	USD	2014	-	3,273
ZAO Sibgazpolimer	RR	2014	-	697
The Royal Bank of Scotland	USD	2014	-	-
Gazprombank	USD	2014	-	-
Other	USD	2031	25	17
Total debt			**206,294**	**100,474**

SIBUR aims to maintain a diversified debt portfolio with a sound balance of fixed and floating interest rate instruments. Our share of fixed rate borrowings was 51.6% as of 31 December 2014 and 48.5% as of

[1] Net debt is calculated as total debt less cash and cash equivalents.

31 December 2013, while the share of variable rate borrowings amounted to 48.4% as of 31 December 2014 and 51.5% as of 31 December 2013.

The following table presents scheduled maturities of our outstanding debt as of 31 December 2014 and 2013:

RR millions, except as stated	**As of 31 December 2014**	***% of total borrowings***	**As of 31 December 2013**	***% of total borrowings***	***Change, %***
Due for repayment:					
Within one year	56,240	*27.3%*	42,743	*42.5%*	*31.6%*
Between one and two years	31,500	*15.3%*	6,344	*6.3%*	*396.5%*
Between two and five years	105,062	*50.9%*	42,454	*42.3%*	*147.5%*
After five years	13,492	*6.5%*	8,933	*8.9%*	*51.0%*
Total debt	**206,294**	***100.0%***	**100,474**	***100.0%***	***105.3%***

As of 31 December 2014, the share of long-term debt increased to 72.7% from 57.5% as of 31 December 2013, while the portion of short-term debt decreased to 27.3% from 42.5% as of 31 December 2013.

The following table presents the currency split of our outstanding debt as of 31 December 2014 and 2013:

RR millions, except as stated	***As of 31 December 2014***	***% of total borrowings***	***As of 31 December 2013***	***% of total borrowings***	***Change, %***
Denominated in:					
Russian rouble	39,030	*18.9%*	11,270	*11.2%*	*246.3%*
Euro	8,112	*3.9%*	3,950	*3.9%*	*105.4%*
US Dollar	159,152	*77.2%*	85,254	*84.9%*	*86.7%*
Total debt	**206,294**	***100.0%***	**100,474**	***100.0%***	***105.3%***

As of 31 December 2014, the Russian rouble-denominated debt as a percentage of total borrowings increased to 18.9% from 11.2% as of 31 December 2013. The growth in Russian rouble borrowings was mainly attributable to obtaining RR-denominated financing to fund the acquisition of OOO Yugragazpererabotka. Russian rouble equivalent of USD-denominated debt increased in absolute terms largely due to the Russian rouble depreciation (in USD equivalent increase to USD 2,829 million from USD 2,605 million as of 31 December 2014 and 2013), while decreased as a percentage of total borrowings.

The following table presents our key liquidity and credit ratios as of 31 December 2014 and 2013:

	As of 31 December 2014	**As of 31 December 2013**
Current ratio	0.66x	0.84x
Debt / EBITDA	2.01x	1.27x
Net debt[(1)] / EBITDA	1.74x	1.17x
EBITDA / Interest[(2)]	16x	17x

As of 31 December 2014, our net debt to EBITDA ratio was 1.74x compared to 1.17x as of 31 December 2013. The EBITDA to interest[(2)] ratio was at 16x as of 31 December 2014 and 17x as of 31 December 2013.

As of 31 December 2014, SIBUR had RR 135,313 million available under its existing credit facilities denominated in Russian roubles, US dollars and euros, both short- and long-term, of which an equivalent of RR 53,000 million was committed.

In December 2014, SIBUR signed agreements with a consortium of European banks for ECA-backed long-term financing of the German content manufacturing for ZapSibNeftekhim (ZapSib-2). Committed credit lines in the amount of EUR 1,575 million covered by Euler Hermes, the German export credit agency, will be open for the Group to finance expenditures related to the contracts with Linde AG (Germany) and ThyssenKrupp Industrial Solutions (Germany). The funds can be claimed for the actual

(1) Net debt is calculated as total debt less cash and cash equivalents.
(2) Interest represents accrued interest, i.e. includes interest expense and capitalised interest.

payments to the respective contractors. The facility is payable in equal installments semi-annually in ten years after the project's completion. As of 31 Decemeber 2014, we did not withdraw any funds under these lines.

Management considers SIBUR to have a strong financial position, supported by robust internal cash generation and sustainable access to external financing. These resources enable us to finance capital expenditure needs, while meeting our debt and other obligations.

OPERATIONAL DATA

Energy Products

The following table presents a breakdown of our revenue from energy product sales for the years ended 31 December 2014 and 2013:

RR millions, except as stated	**Year ended 31 December**				**Change**
	2014	***% of revenue[(1)]***	**2013**	***% of revenue[(1)]***	***%***
LPG	77,165	21.4%	60,823	22.5%	*26.9%*
Domestic	*14,824*	*19.2%*	*12,394*	*20.4%*	*19.6%*
Export	*62,341*	*80.8%*	*48,429*	*79.6%*	*28.7%*
Naphtha	68,877	19.1%	26,256	9.7%	*162.3%*
Domestic	*991*	*1.4%*	*5,829*	*22.2%*	*(83.0%)*
Export	*67,886*	*98.6%*	*20,427*	*77.8%*	*232.3%*
Natural gas, domestic sales	38,007	10.5%	26,673	9.9%	*42.5%*
MTBE	19,364	5.4%	18,596	6.9%	*4,1%*
Domestic	*19,364*	*100.0%*	*17,127*	*92.1%*	*13.1%*
Export	*-*	*-*	*1,469*	*7.9%*	*(100.0%)*
Raw NGL	9,709	2.7%	9,405	3.5%	*3.2%*
Domestic	*4,927*	*50.7%*	*5,710*	*60.7%*	*(13.7%)*
Export	*4,782*	*49.3%*	*3,695*	*39.3%*	*29.4%*
Other fuels and fuel additives	4,111	1.1%	2,963	1.1%	*38.7%*
Domestic	*1,211*	*29.5%*	*2,636*	*89.0%*	*(54.1%)*
Export	*2,900*	*70.5%*	*327*	*11.0%*	*786.9%*
Energy products, total	**217,233**	**60.2%**	**144,716**	**53.6%**	***50.1%***
Domestic	***79,324***	***36.5%***	***70,369***	***48.6%***	***12.7%***
Export	***137,909***	***63.5%***	***74,347***	***51.4%***	***85.5%***

[(1)] Percentages against export and import lines represent percentage of revenue from the respective product sales, while percentages against the respective total product lines represent percentages of total revenue.

The following table present data on production, purchases and sales volumes of our energy products for the years ended 31 December 2014 and 2013:

Tonnes, except as stated	**Year ended 31 December 2014**	**2013**	***Change %***
LPG			
Production[(1)]	5,121,538	4,007,997	*27.8%*
Production, SIBUR's share	**4,602,315**	**4,007,997**	***14.8%***
Purchases from third parties, including	242,282	164,909	*46.9%*
Purchases for resale	163,801	55,456	*195.4%*
Total production and purchases	**4,844,597**	**4,172,906**	***16.1%***
(Internal use)[(2)]	(453,270)	(476,581)	*(4.9%)*
(Increase) / decrease in stock	(42,641)	(51,501)	*(17.2%)*
Gross sales, including	4,348,686	3,644,824	*19.3%*
Intercompany sales to petrochemical business	880,426	659,047	*33.6%*
External sales	**3,468,260**	**2,985,777**	***16.2%***
Domestic	***909,656***	***852,512***	***6.7%***
Export	***2,558,604***	***2,133,265***	***19.9%***
Naphtha			
Production	1,460,179	1,362,014	*7.2%*
Purchases from third parties, including	1,602,261	490,663	*226.6%*
Purchases for resale	*1,323,708*	*63,985*	*1,968.8%*
Total production and purchases	**3,062,440**	**1,852,677**	***65.3%***
(Internal use)[(2)]	(3,834)	(5,430)	*(29.4%)*
(Increase) / decrease in stock	20,272	(75,341)	*n/m*
Gross sales, including	3,078,878	1,771,906	*73.8%*
Intercompany sales to petrochemical business	691,633	644,709	*7.3%*
External sales	**2,387,245**	**1,127,197**	***111.8%***
Domestic	***36,611***	***281,017***	***(87.0%)***
Export	***2,350,634***	***846,180***	***177.8%***
Natural gas (thousands of cubic metres)			
Production[(3)]	17,989,399	16,908,508	*6.4%*
Production, SIBUR's share[(4)]	**16,657,211**	**11,548,022**	***44.2%***
Purchases from third parties	937,375	845,337	*10.9%*
Total production and purchases	**17,594,586**	**12,393,359**	***42.0%***
(Internal use)[(5)]	(1,587,111)	(1,350,916)	*17.5%*
(Increase) / decrease in stock	(2,601)	799,344	*n/m*
External sales	**16,004,874**	**11,841,787**	***35.2%***
Domestic	***16,004,874***	***11,841,787***	***35.2%***
Export	***-***	***-***	***n/m***
MTBE			
Production	448,981	447,178	*0.4%*
Purchases from third parties	-	10,275	*(100.0%)*
Total production and purchases	**448,981**	**457,453**	***(1.9%)***
(Internal use)[(2)]	(791)	(424)	*86.4%*
(Increase) / decrease in stock	(721)	20,742	*n/m*
External sales	**447,469**	**477,771**	***(6.3%)***
Domestic	***447,469***	***438,540***	***2.0%***
Export	***-***	***39,231***	***(100.0%)***

(1) Including production volumes under processing arrangements.
(2) Including internal use at the segment's production facilities and immaterial natural losses.
(3) Including Rosneft's share in production volumes of OOO Yugragazpererabotka for 2013 and the first quarter of 2014.
(4) Excluding Rosneft's share in production volumes of OOO Yugragazpererabotka for 2013 and the first quarter of 2014.
(5) Including internal use at our production facilities and immaterial natural losses.

Tonnes, except as stated	**Year ended 31 December**		***Change***
	2014	**2013**	***%***
Raw NGL			
Production[(1)(2)]	5,150,165	4,829,786	*6.6%*
Production, SIBUR's share[(3)]	**4,822,694**	**3,532,795**	***36.5%***
Purchases from third parties, including	2,195,966	3,087,956	*(28.9%)*
Purchases for resale	-	-	*n/m*
Total production and purchases	**7,018,660**	**6,620,751**	***6.0%***
(Fractionation)[(2)(4)]	(6,315,299)	(5,256,760)	*20.1%*
(Fractionation, SIBUR's share)	**(5,788,169)**	**(5,256,760)**	***10.1%***
(Increase) / decrease in stock	37,350	(4,758)	*n/m*
Gross sales, including	1,267,841	1,359,234	*(6.7%)*
Intercompany sales to petrochemical business	653,477	670,134	*(2.5%)*
External sales	**614,364**	**689,100**	***(10.8%)***
Domestic	***350,590***	***433,960***	***19.2%)***
Export	***263,774***	***255,140***	***3.4%***
Other fuels and fuel additives			
Production	207,439	280,031	*(25.9%)*
Purchases from third parties	2,772	537	*416.2%*
Total production and purchases	**210,211**	**280,568**	***(25.1%)***
(Internal use)[(5)]	(59,662)	(126,616)	*(52.9%)*
(Increase) / decrease in stock	5,813	(756)	*n/m*
External sales	**156,362**	**153,196**	***2.1%***
Domestic	***60,957***	***136,544***	***(55.4%)***
Export	***95,405***	***16,652***	***472.9%***

(1) Including Rosneft's share in production volumes of OOO Yugragazpererabotka for 2013 and the first quarter of 2014.
(2) Following the acquisition of control in OOO Yugragazpererabotka, we changed our approach to the treatment of raw NGL production and fractionation volumes at Nyagan GPP.
(3) Excluding Rosneft's share in production volumes of OOO Yugragazpererabotka for 2013 and the first quarter of 2014.
(4) Including fractionation volumes under processing arrangements.
(5) Including internal use at the segment's production facilities and immaterial natural losses.

Basic Polymers

The following table presents data on our revenue from basic polymer sales for the years ended 31 December 2014 and 2013:

RR millions, except as stated	**Year ended 31 December** 2014	***% of revenue***[(1)]	**2013**	***% of revenue***[(1)]	***Change %***
PP	23,066	*6.4%*	10,810	*4.0%*	*113.4%*
Domestic	*14,018*	*60.8%*	*8,062*	*74.6%*	*73.9%*
Export	*9,048*	*39.2%*	*2,748*	*25.4%*	*229.3%*
PE (LDPE)	15,327	*4.2%*	12,008	*4.5%*	*27.6%*
Domestic	*10,348*	*67.5%*	*6,912*	*57.6%*	*49.7%*
Export	*4,979*	*32.5%*	*5,097*	*42.4%*	*(2.3%)*
Basic polymers, total	**38,393**	***10.6%***	**22,818**	***8.5%***	***68.3%***
Domestic	***24,366***	***63.5%***	***14,973***	***65.6%***	***62.7%***
Export	***14,027***	***36.5%***	***7,845***	***34.4%***	***78.8%***

The following table presents data on our basic polymer production, purchases and sales volumes for the years ended 31 December 2014 and 2013:

Tonnes, except as stated	**Year ended 31 December** 2014	**2013**	***Change %***
Production	655,590	403,251	*62.6%*
PP	395,309	152,359	*159.5%*
PE (LDPE)	260,281	250,891	*3.7%*
Purchases from third parties	141,203	180,693	*(21.9%)*
Total production and purchases	**796,793**	**583,944**	***36.5%***
(Internal use)[(2)]	(137,891)	(115,642)	*19.2%*
(Increase) / decrease in stock	(9,262)	(12,993)	*(28.7%)*
External sales			
PP	393,719	211,087	*86.5%*
Domestic	*239,498*	*154,790*	*54.7%*
Export	*154,221*	*56,297*	*173.9%*
PE (LDPE)	255,921	244,222	*4.8%*
Domestic	*171,830*	*139,627*	*23.1%*
Export	*84,091*	*104,595*	*(19.6%)*
External sales	**649,640**	**455,309**	***42.7%***
Domestic	***411,328***	***294,417***	***39.7%***
Export	***238,312***	***160,892***	***48.1%***

(1) Percentages against export and import lines represent percentage of revenue from the respective product sales, while percentages against the respective total product lines represent percentages of total revenue.
(2) Including internal use at the segment's production facilities and immaterial natural losses.

Synthetic Rubbers

The following table presents a breakdown of revenue from our synthetic rubber sales for the years ended 31 December 2014 and 2013:

	Year ended 31 December				Change
RR millions, except as stated	**2014**	***% of revenue***[(1)]	**2013**	***% of revenue***[(1)]	***%***
Commodity rubbers	16,679	4.6%	21,676	8.0%	*(23.1%)*
Domestic	*6,956*	*41.7%*	*9,644*	*44.5%*	*(27.9%)*
Export	*9,723*	*58.3%*	*12,032*	*55.5%*	*(19.2%)*
Specialty rubbers	7,516	2.1%	7,912	2.9%	*(5.0%)*
Domestic	*1,035*	*13.8%*	*1,272*	*16.1%*	*(18.6%)*
Export	*6,481*	*86.2%*	*6,640*	*83.9%*	*(2.4%)*
Thermoplastic elastomers	3,652	1.0%	2,844	1.1%	*28.4%*
Domestic	*2,161*	*59.2%*	*2,308*	*81.2%*	*(6.4%)*
Export	*1,491*	*40.8%*	*536*	*18.8%*	*178.2%*
Synthetic rubbers, total	**27,847**	**7.7%**	**32,432**	**12.0%**	***(14.1%)***
Domestic	***10,152***	***36.5%***	***13,224***	***40.8%***	***(23.2%)***
Export	***17,695***	***63.5%***	***19,208***	***59.2%***	***(7.9%)***

The following table presents data on our synthetic rubber production, purchases and sales volumes for the years ended 31 December 2014 and 2013:

	Year ended 31 December		Change
Tonnes, except as stated	**2014**	**2013**	***%***
Production	353,257	418,147	*(15.5%)*
Commodity rubbers	229,127	286,913	*(20.1%)*
Specialty rubbers	86,700	89,313	(2.9%)
Thermoplastic elastomers	37,430	41,921	*(10.7%)*
Purchases from third parties	3,310	7,394	*(55.2%)*
Total production and purchases	**356,567**	**425,541**	***(16.2%)***
(Internal use)[(2)]	(1,283)	(1,534)	*(16.4%)*
(Increase) / decrease in stock	4,754	6,121	*(22.3%)*
External sales			
Commodity rubbers	227,758	308,007	*(26.1%)*
Domestic	*97,376*	*130,003*	*(25.1%)*
Export	*130,382*	*178,004*	*(26.8%)*
Specialty rubbers	90,705	88,256	*2.8%*
Domestic	*11,759*	*13,277*	*(11.4%)*
Export	*78,946*	*74,979*	*5.3%*
Thermoplastic elastomers	41,575	33,865	*22.8%*
Domestic	*24,500*	*27,234*	*(10.0%)*
Export	*17,075*	*6,631*	*157.5%*
External sales	**360,038**	**430,128**	***(16.3%)***
Domestic	***133,635***	***170,514***	***(21.6%)***
Export	***226,403***	***259,614***	***(12.8%)***

(1) Percentages against export and import lines represent percentage of revenue from the respective product sales, while percentages against the respective total product lines represent percentages of total revenue.
(2) Including internal use at the segment's production facilities and immaterial natural losses.

Plastics and Organic Synthesis Products

The following table presents a breakdown of revenue from sales of our plastics and organic synthesis products for the years ended 31 December 2014 and 2013:

RR millions, except as stated	**Year ended 31 December** **2014**	***% of revenue***[(1)]	**2013**	***% of revenue***[(1)]	***Change %***
PET	13,627	*3.8%*	9,734	*3.6%*	*40.0%*
Domestic	*13,584*	*99.7%*	*9,703*	*99.7%*	*40.0%*
Export	*43*	*0.3%*	*31*	*0.3%*	*38.7%*
BOPP-films	10,755	*3.0%*	8,100	*3.0%*	*32.8%*
Domestic	*8,057*	*74.9%*	*6,512*	*80.4%*	*23.7%*
Export	*2,698*	*25.1%*	*1,588*	*19.6%*	*69.9%*
Expandable polystyrene	6,938	*1.9%*	6,577	*2.4%*	*5.5%*
Domestic	*4,856*	*70.0%*	*4,336*	*65.9%*	*12.0%*
Export	*2,082*	*30.0%*	*2,241*	*34.1%*	*(7.1%)*
Alcohols (including 2-ethylhexanol)	6,088	*1.7%*	5,583	*2.1%*	*9.0%*
Domestic	*3,559*	*58.5%*	*2,675*	*47.9%*	*33.0%*
Export	*2,529*	*41.5%*	*2,908*	*52.1%*	*(13.0%)*
Glycols	4,795	*1.3%*	6,899	*2.6%*	*(30.4%)*
Domestic	*3,580*	*74.7%*	*4,825*	*70.0%*	*(25.8%)*
Export	*1,215*	*25.3%*	*2,069*	*30.0%*	*(41.3%)*
Acrylates	3,409	*0.9%*	2,799	*1.0%*	*21.8%*
Domestic	*1,662*	*48.8%*	*1,168*	*41.7%*	*42.3%*
Export	*1,747*	*51.2%*	*1,631*	*58.3%*	*7.1%*
Plastic compounds[(2)]	165	*0.0%*	1,896	*0.7%*	*(91.3%)*
Domestic	*161*	*97.6%*	*1,727*	*91.1%*	*(90.7%)*
Export	*4*	*2.4%*	*169*	*8.9%*	*(97.6%)*
Plastics and organic synthesis products, total	**45,777**	***12.7%***	**41,583**	***15.4%***	***10.1%***
Domestic	***35,459***	***77.5%***	***30,946***	***74.4%***	***14.6%***
Export	***10,318***	***22.5%***	***10,637***	***25.6%***	***(3.0%)***

(1) Percentages against export and import lines represent percentage of revenue from the respective product sales, while percentages against the respective total product lines represent percentages of total revenue.
(2) Including ABS plastics and PVC cable compounds.

The following table presents data on our production, purchases and sales volumes in plastics and organic synthesis products for the years ended 31 December 2014 and 2013:

Tonnes, except as stated	**Year ended 31 December**		***Change***
	2014	**2013**	***%***
Production	900,118	858,970	*4.8%*
PET	279,920	192,749	*45.2%*
BOPP-films	120,386	95,869	*25.6%*
Expandable polystyrene	97,377	102,263	*(4.8%)*
Alcohols (including 2-ethylhexanol)	158,260	142,404	*11.1%*
Glycols	197,665	248,825	*(20.6%)*
Acrylates	43,852	41,519	*5.6%*
Plastic compounds[(1)]	2,658	35,341	*(92.5%)*
Purchases from third parties	11,201	6,403	*74.9%*
Total production and purchases	**911,319**	**865,373**	***5.3%***
(Internal use)[(2)]	(119,491)	(92,942)	*28.6%*
(Increase)/decrease in stock	(3,908)	(3,017)	*29.5%*
External sales			
PET	268,690	191,724	*40.1%*
Domestic	*267,874*	*191,150*	*40.1%*
Export	*816*	*574*	*42.1%*
BOPP-films	118,761	95,983	*23.7%*
Domestic	*86,314*	*75,619*	*14.1%*
Export	*32,447*	*20,364*	*59.3%*
Expandable polystyrene	98,874	103,774	*(4.7%)*
Domestic	*69,998*	*68,262*	*2.5%*
Export	*28,876*	*35,512*	*(18.7%)*
Alcohols (including 2-ethylhexanol)	134,555	125,843	*6.9%*
Domestic	*80,568*	*55,243*	*45.8%*
Export	*53,987*	*70,600*	*(23.5%)*
Glycols	113,127	172,251	*(34.3%)*
Domestic	*85,423*	*118,128*	*(27.7%)*
Export	*27,705*	*54,123*	*(48.8%)*
Acrylates	49,450	44,189	*11.9%*
Domestic	*22,575*	*16,786*	*34.5%*
Export	*26,875*	*27,403*	*(1.9%)*
Plastic compounds[(1)]	4,462	35,650	*(87.5%)*
Domestic	*4,327*	*33,100*	*(86.9%)*
Export	*135*	*2,550*	*(94.7%)*
External sales	**787,920**	**769,414**	***2.4%***
Domestic	***617,079***	***558,288***	***10.5%***
Export	***170,840***	***211,126***	***(19.1%)***

(1) Including ABS plastics and PVC cable compounds.
(2) Including internal use at the segment's production facilities and immaterial natural losses.

Intermediates and Other Chemicals

The following table presents a breakdown of revenue from sales of our intermediates and other chemicals for the years ended 31 December 2014 and 2013:

	Year ended 31 December				
RR millions, except as stated	**2014**	***% of revenue***[(1)]	**2013**	***% of revenue***[(1)]	***Change %***
Benzene	1,679	*0.5%*	1,760	*0.7%*	*(4.6%)*
Domestic	*1,679*	*100.0%*	*1,760*	*100.0%*	*(4.6%)*
Export	*-*	*-%*	*-*	*-%*	*n/m*
Styrene	3,078	*0.9%*	1,826	*0.7%*	*68.6%*
Domestic	*2,767*	*89.9%*	*1,495*	*81.9%*	*85.1%*
Export	*311*	*10.1%*	*331*	*18.1%*	*(6.0%)*
Terephthalic acid	1,366	*0.4%*	2,625	*1.0%*	*(48.0%)*
Domestic	*724*	*53.0%*	*2,288*	*87.2%*	*(68.4%)*
Export	*642*	*47.0%*	*337*	*12.8%*	*90.5%*
Propylene	1,506	*0.4%*	319	*0.1%*	*372.1%*
Domestic	*756*	*50.2%*	*146*	*45.8%*	*417.8%*
Export	*750*	*49.8%*	*173*	*54.2%*	*333.5%*
Ethylene oxide	2,826	*0.8%*	2,993	*1.1%*	*(5.6%)*
Domestic	*2,287*	*80.9%*	*2,661*	*88.9%*	*(14.1%)*
Export	*539*	*19.1%*	*332*	*11.1%*	*62.3%*
Butadiene	115	*0.0%*	71	*0.0%*	*62.0%*
Domestic	*115*	*100.0%*	*71*	*100.0%*	*62.0%*
Export	*-*	*-%*	*-*	*-%*	*n/m*
Isoprene	891	*0.2%*	813	*0.3%*	*9.6%*
Domestic	*10*	*1.1%*	*13*	*1.6%*	*(23.1%)*
Export	*881*	*98.9%*	*800*	*98.4%*	*10.1%*
Isobutylene	437	*0.1%*	415	*0.2%*	*5.3%*
Domestic	*437*	*100.0%*	*394*	*94.9%*	*10.9%*
Export	*-*	*-%*	*21*	*5.1%*	*(100.0%)*
Ethylene	579	*0.2%*	-	*-%*	*n/m*
Domestic	*579*	*100.0%*	-	*n/m*	*n/m*
Export	*-*	*-%*	-	*n/m*	*n/m*
Other intermediates	2,472	*0.7%*	2,830	*1.0%*	*(12.7%)*
Domestic	*1,844*	*74.6%*	*1,681*	*59.4%*	*9.7%*
Export	*628*	*25.4%*	*1,149*	*40.6%*	*(45.3%)*
Total intermediates	14,949	*4.1%*	13,652	*5.1%*	*9.5%*
Domestic	*11,198*	*74.9%*	*10,509*	*77.0%*	*6.6%*
Export	*3,751*	*25.1%*	*3,143*	*23.0%*	*19.3%*
Other chemicals	5,547	*1.5%*	5,533	*2.1%*	*0.2%*
Domestic	*5,319*	*95.9%*	*5,349*	*96.7%*	*(0.6%)*
Export	*228*	*4.1%*	*184*	*3.3%*	*23.9%*
Intermediate and other chemicals, total	**20,496**	***5.7%***	**19,185**	***7.1%***	***6.8%***
Domestic	***16,517***	***80.6%***	***15,858***	***82.7%***	***4.2%***
Export	***3,979***	***19.4%***	***3,327***	***17.3%***	***19.6%***

(1) Percentages against export and import lines represent percentage of revenue from the respective product sales, while percentages against the respective total product lines represent percentages of total revenue.

The following table presents data on our production, purchases and sales volumes in intermediates and other chemicals for the years ended 31 December 2014 and 2013:

	Year ended 31 December		***Change %***
Tonnes, except as stated	**2014**	**2013**	
Production[(1)]	4,232,671	4,207,925	*0.6%*
Intermediates, including	3,520,928	3,451,009	*2.0%*
Benzene	125,164	134,162	*(6.7%)*
Styrene	171,525	159,717	*7.4%*
Terephthalic acid	252,391	259,710	*(2.8%)*
Propylene	608,589	310,385	*96.1%*
Ethylene oxide	204,665	262,741	*(22.1%)*
Butadiene	189,428	230,392	*(17.8%)*
Isoprene	70,068	77,890	*(10.0%)*
Isobutylene	161,665	128,173	*26.1%*
Ethylene	516,724	533,330	*(3.1%)*
Other intermediates	1,220,709	1,354,509	*(9.9%)*
Other chemicals	711,743	756,916	*(6.0%)*
Purchases from third parties	11,362	4,867	*133.4%*
Total production and purchases	**4,244,033**	**4,212,792**	***0.7%***
(Internal use)[(1)(2)]	(3,787,482)	(3,752,040)	*0.9%*
(Increase) / decrease in stock	(7,489)	12,292	*n/m*
External sales			
Benzene	40,873	58,995	*(30.7%)*
Domestic	*40,873*	*58,995*	*(30.7%)*
Export	*-*	*-*	*n/m*
Styrene	58,149	35,242	*65.0%*
Domestic	*53,223*	*28,698*	*85.5%*
Export	*4,926*	*6,544*	*(24.7%)*
Terephthalic acid	39,475	75,372	*(47.6%)*
Domestic	*21,999*	*66,098*	*(66.7%)*
Export	*17,476*	*9,274*	*88.4%*
Propylene	35,322	10,355	*241.1%*
Domestic	*20,423*	*5,902*	*246.0%*
Export	*14,899*	*4,453*	*234.6%*
Ethylene oxide	64,669	84,276	*(23.3%)*
Domestic	*54,228*	*76,326*	*(29.0%)*
Export	*10,441*	*7,950*	*31.3%*
Butadiene	2,094	1,211	*72.9%*
Domestic	*2,094*	*1,211*	*72.9%*
Export	*-*	*-*	*n/m*
Isoprene	10,695	8,716	*22.7%*
Domestic	*118*	*152*	*(22.4%)*
Export	*10,577*	*8,564*	*23.5%*
Isobutylene	6,460	6,765	*(4.5%)*
Domestic	*6,460*	*6,379*	*1.3%*
Export	*-*	*386*	*(100.0%)*
Ethylene	20,581	-	*n/m*
Domestic	*20,581*	*-*	*n/m*
Export	*-*	*-*	*n/m*
Other intermediates	87,014	95,958	*(9.3%)*
Domestic	*60,229*	*37,080*	*62.4%*
Export	*26,785*	*58,878*	*(54.5%)*
Total intermediates	365,332	376,890	*(3.1%)*
Domestic	*280,228*	*280,841*	*(0.2%)*
Export	*85,104*	*96,049*	*(11.4%)*
Other chemicals	83,730	96,154	*(12.9%)*
Domestic	*80,047*	*92,895*	*(13.8%)*
Export	*3,683*	*3,259*	*13.0%*
External sales	**449,062**	**473,044**	***(5.1%)***
Domestic	***360,275***	***373,736***	***(3.6%)***
Export	***88,787***	***99,308***	***(10.6%)***

(1) In 2014, we changed approach to the treatment of production and internal use volumes for intermediates and other chemicals and reflect gross production volumes and the respective increase in internal use.
(2) Including internal use at the segment's production facilities and immaterial natural losses.

DESCRIPTION OF SELECTED OPERATIONAL AND FINANCIAL ITEMS

Revenue

Revenue, unless otherwise stated, represents revenue from sales to third parties, which excludes any inter-segment transfers. It is reported net of VAT, excise taxes and export duties and includes transportation costs incurred in relation to the delivery of respective refined products to the customers.

Operating Expenses

Feedstock and materials. Feedstock and materials include purchases from third-party suppliers of various types of feedstock and intermediates, which are used for further processing into higher value-added products, and materials. Our key raw materials are represented by hydrocarbon feedstock, such as APG and NGLs, which comprise raw NGL, LPG and naphtha, as well as paraxylene, which is used in the production of terephthalic acid (PTA) and polypropylene, which is used in the production of BOPP-films. We also purchase other feedstock and materials. Other feedstock includes methanol, which is used in the production of MTBE and certain intermediate chemicals such as butadiene, benzene and others. We purchase intermediates in addition to our own production of intermediates primarily for further processing into higher value-added petrochemical products. Materials primarily include supplementary raw materials, spare parts, materials for auxiliary workshops and other operating supplies.

Transportation and logistics. Transportation and logistics comprise expenses related to transportation of feedstock, materials and refined products by railway, via pipelines that are not owned and operated by SIBUR, by trucks and marine vessels, as well as through multimodal transportation operators. These costs also include transshipment and storage services, as well as charges for rail cars/tankers used by SIBUR under short-term transportation contracts.

Rent expenses. Rent expenses primarily represent rental of rolling stock for transportation of raw NGL and LPG, as we rent specialised rail cars and tank wagons, as well as general purpose rail cars. Rent expenses also include lease payments for land plots on which our facilities are located.

Goods for resale. Goods for resale include purchases of products from third parties for further resale externally, including refined products and intermediates.

Energy and utilities. Energy and utilities costs primarily comprise expenses associated with purchases of electric power, heat and fuel from third-party suppliers.

Staff costs. Staff costs comprise primarily salaries, bonuses and other personnel incentives, severance payments, pension expenses and related social taxes.

Depreciation and amortisation. Depreciation comprises depreciation of property, plant and equipment calculated on a straight-line basis to allocate the cost of property, plant and equipment to their respective residual values over their respective estimated useful lives. Amortisation comprises amortisation of intangible assets calculated using a straight-line method to allocate the cost of relevant intangible assets over their estimated useful lives.

Repairs and maintenance. Repairs and maintenance comprise services for repairs and maintenance of the Group's production facilities provided by third parties. These expenses include inter alia expenses incurred in relation to implementation of one-off targeted programmes.

Processing services of third parties. Processing services represent services we obtain from other manufacturers, including our non-consolidated joint ventures, to process our feedstock / intermediates into higher value-added products. Our decision to use such services depends on existing agreements, market trends, logistical issues and shortages of our own capacity.

Services provided by third parties. Services provided by third parties comprise services related to environmental and industrial safety, R&D, design and engineering, security expenses as well as legal, audit, consulting services, etc.

Taxes other than income tax. Taxes other than income tax primarily include land tax and property tax.

Charity and sponsorship. SIBUR places a very high degree of importance on social responsibility. As a major investor in the economic development of the regions where we operate, we have signed mutually beneficial agreements with a number of regional authorities, including agreements on social-economic cooperation. As part of our social initiatives, we implement a range of humanitarian projects and programmes in several regions, including Western Siberia, the Tomsk and the Nizhny Novgorod regions, St. Petersburg and other areas, where we are implementing our strategic investment projects. This includes investments in regional infrastructure, improvement of people's life quality, ecological initiatives, support of sports organisations, promotion of child and youth sports, etc. We also actively promote Russia's chemical science and professional education in cooperation with leading chemical institutions, universities and schools.

Marketing and advertising. Marketing and advertising costs are associated with the promotion of SIBUR's corporate brand and are aimed at enhancing SIBUR's profile among our customers, suppliers, partners and general public. The majority of our marketing and advertising expenses relate to corporate sponsorships of leading Russian and regional football, hockey, basketball and volleyball teams in different regions of Russia, including Tyumen, Nizhny Novgorod, and St.Petersburg, which positions us as an active promoter of Russian sports both nationally and in the regions where we operate.

Additionally, marketing and advertising costs include promotion of SIBUR's corporate brand and selected products at industrial exhibitions, conferences and forums, as well as via TV, print media and the Internet.

Change in work-in-progress and refined products balances. The change in work-in-progress and refined product balances represents an adjustment to expenses associated with the production of refined products to reflect changes in inventory balances of such products. When inventory balances of refined products increase at the end of a reporting period compared to the beginning of the respective period, operating expenses are reduced by an amount, which represents the cost of production of such refined products incurred in the reporting period, while revenue from sale of these products will be recognised in the future. When inventory balances of refined products decrease at the end of a reporting period compared to the beginning of the respective period, operating expenses are increased by an amount, which represents the cost of production of such refined products incurred in the preceding periods, while revenue from the sale of these products is recognised in the reporting period.

Our volumes of refined product balances fluctuate from period to period depending on market conditions, changes in marketing and distribution strategy, as well as logistical constraints. They also tend to increase in the periods of completion of our major investment projects, which may trigger substantial inventory accumulation.

Equity-settled share-based payment plans represent respective grants to certain current and former directors and members of the key management of the Group. In accordance with IFRS 2 "Share-based Payment", the Group has to recognise current and past service costs associated with the plans as operating expenses in the statement of profit or loss, and also record the corresponding amounts as an increase in equity in the statement of changes in equity and the statement of financial position (see Appendix III for further details).

Net operating expenses represent total operating expenses less operating expenses related to equity-settled share-based payment plans.

Operating Profit

Operating profit represents revenue less operating expenses.

EBITDA

EBITDA represents profit / loss for the reporting period adjusted for income tax expense, finance income and expenses, share of net income / loss of joint ventures, depreciation and amortisation, impairment of property, plant and equipment, gain / loss on disposal of investments, equity-settled share-based payment plans and exceptional items.

Finance Income and Expenses

Finance income includes primarily interest income on bank deposits and loans issued and foreign exchange gains. Finance expenses include primarily interest expense on debt, bank charges and foreign exchange losses.

Share of Net Income / (Loss) of Joint Ventures

Share of net income / loss of joint ventures represents our share of post-acquisition profit or loss of joint ventures as recognised under equity accounting method.

Income Tax Expense

We do not pay corporate income tax on a consolidated basis since, for taxation purposes, the members of the Group are assessed individually. The statutory corporate income tax rate in Russia was set at 20% for the periods under review. The difference between our effective and statutory tax rates is typically attributable to certain non-deductible expenses and (or) non-taxable income as well as tax benefits that we may obtain in certain regions where we operate.

Effective Income Tax Rate

Effective income tax rate represents share of income tax expense in the adjusted profit for the period.

Adjusted Profit / (Loss)

Adjusted profit / loss represents net profit / loss for the period adjusted for exceptional non-cash items.

APPENDIX I: Net Working Capital

SIBUR's net working capital position takes into account trade receivables net of advances from customers; inventory balances of refined products, goods for resale, feedstock and materials; VAT balance; trade payables net of prepayments and advances to suppliers; payables to employees; and other assets and liabilities listed in the table below.

The following table presents detailed calculation of our net working capital position as of 31 December 2014 and 2013:

RR millions, except as stated	**As of 31 December 2014**	**As of 31 December 2013**
Current assets	105,667	68,544
Current liabilities	(159,205)	(81,480)
Working capital	**(53,538)**	**(12,936)**
Adjustmets to assets, including:	**(30,124)**	**(10,756)**
Loans receivable	(1,245)	(1,735)
Cash and cash equivalents	(27,667)	(7,948)
Restricted cash	(910)	(1,106)
Prepaid borrowing cost	(310)	-
Recoverable VAT related to assets under construction[1]	8	33
Adjustmets to liabilities, including:	**120,867**	**54,969**
Accounts payable to contractors and suppliers of property, plant and equipment	6,803	10,424
Payables for acquisition of subsidiaries	56,032	819
Short term promissory notes payable	-	1
Interest payable	1,477	982
Derivative financial instruments	315	-
Short-term debt and current portion of long-term borrowings	56,240	42,743
Adjusted working capital	**37,205**	**31,277**

[1] Represents non-current portion.

APPENDIX II: OOO Yugragazpererabotka

Establishment of OOO Yugragazpererabotka in 2007

In 2007, SIBUR and TNK-BP Holding (renamed RN Holding as of 30 July 2013 following the acquisition by Rosneft) established a joint venture (JV) OOO Yugragazpererabotka. SIBUR owned a 51% stake in the JV, while RN Holding's share was 49%. OOO Yugragazpererabotka owned and operated three GPPs with total APG processing capacity of 13.4 billion cubic metres per annum (Nizhnevartovskiy GPP, Belozerniy GPP and Nyagan GPP), three compressor stations and APG pipelines from compressor stations to the GPPs. SIBUR and RN Holding operated within a contractual network, under which RN Holding supplied APG to OOO Yugragazpererabotka for processing into raw NGL and natural gas. In addition to volumes from RN Holding, dominant supplier of APG to the JV, OOO Yugragazpererabotka also processed APG supplied from other oil companies. SIBUR and RN Holding owned the feedstock and refined products, while paying a processing fee to OOO Yugragazpererabotka. SIBUR paid for 51% of the total APG volumes supplied for processing to OOO Yugragazpererabotka and obtained 51% of the total NGLs and dry gas volumes produced by the JV. RN Holding obtained the remaining volumes. Subsequently SIBUR purchased RN Holding's share of NGLs and sold to RN Holding its share of natural gas.

Deconsolidation of OOO Yugragazpererabotka in 2013

In March 2013, SIBUR's call options that had entitled the Group to purchase RN Holding's share in OOO Yugragazpererabotka were terminated, and the term of the JV was extended to indefinite. Following the termination of the call options, we started accounting for our investment in OOO Yugragazpererabotka as an investment in joint ventures, while previously OOO Yugragazpererabotka was consolidated as a wholly owned subsidiary and RN Holding's contribution was accounted for as interest-bearing long-term loans. As a result of the deconsolidation, we recognised a gain of RR 2,413 million (post-tax) in the first quarter of 2013, which was attributable to higher carrying amount of newly recognised balance sheet items of OOO Yugragazpererabotka compared to carrying amount of deconsolidated balance sheet items.

The following table presents calculation of the post-tax gain recognised on deconsolidation of OOO Yugragazpererabotka in the first half of 2013:

Income from derecognition of RN Holding's share previously recognised as long-term debt	4,949 [(1)]
Share of net assets recognised as investment in joint ventures (based on net assets of RR 5,176 million and a 51% ownership)	2,640
Total income from deconsolidation of a subsidiary	**7,589**
Less: Net assets deconsolidated	(5,176)
Post-tax gain on deconsolidation of a subsidiary	**2,413**

Acquisition of control in OOO Yugragazpererabotka and new supply and purchase contracts in 2014

On 6 March 2014, SIBUR acquired from Rosneft Group a 49% interest in OOO Yugragazpererabotka, gaining full control over the three GPPs and related infrastructure, at the same time the parties entered into new APG supply and natural gas purchase contracts. The deal value totaled USD 1.567 billion in cash with USD 0.567 billion (RR 20,547 million) paid in March 2014 and USD 0.5 billion in January 2015. The remaining amount equivalent to USD 0.5 billion is payable in April 2015.

New contracts replaced a number of supply and purchase contracts for APG, raw NGL and dry gas supplied to and produced at the GPPs of OOO Yugragazpererabotka, under which the parties previously operated. The new contracts are effective from 1 April 2014. Tenor of the APG and natural gas contracts was extended from 2026 to 2032 (inclusive). Rosneft increased guaranteed volumes of APG to be supplied to the three GPPs to approximately 10 billion cubic metres per annum from 6.6 billion cubic metres per annum. Under new arrangements, SIBUR pays for 100% of APG supplied to the GPPs of

[(1)] Includes principal amounts of debt owed by SIBUR to RN Holding and accrued interest. Excludes debt owed by OOO Yugragazpererabotka to RN Holding.

OOO Yugragazpererabotka with Rosneft remaining the dominant supplier. The new APG price is formula-based and indexed in line with changes in prices for APG derivatives: natural gas and raw NGL. SIBUR retains 100% of natural gas produced at the GPPs and has an arrangement to sell all volumes produced at the GPPs at a price directly linked to the regulated domestic gas price. The supply contracts for raw NGL produced at the the GPPs of OOO Yugragazpererabotka were terminated and SIBUR retains 100% of raw NGL volumes produced at these GPPs.

SIBUR consolidates OOO Yugragazpererabotka as a wholly owned subsidiary from the acquisition date. The arrangements have the following impact on our operational and financial results:

- *increase in APG purchasing volumes and costs*. SIBUR purchases 100% of APG supplied to the GPPs of OOO Yugragazpererabotka, while previously we purchased 51% of the volumes.
- *increase in raw NGL production, decrease in raw NGL purchasing volumes and costs*. SIBUR consolidates 100% of raw NGL produced by the GPPs of OOO Yugragazpererabotka, while previously we retained 51% of these volumes and purchased the remaining 49% from Rosneft.
- *increase in production volumes, sales volumes and revenue from sales of natural gas*. SIBUR consolidates 100% of natural gas produced by the GPPs of OOO Yugragazpererabotka and has a right to sell 100% of these volumes to Rosneft. Previously Rosneft obtained 49% of natural gas produced at the the GPPs of OOO Yugragazpererabotk, while SIBUR sold the remaining 51% to Rosneft.
- *increase in operating expenses other than feedstock & materials*. SIBUR consolidates operating expenses of OOO Yugragazpererabotka, while the related processing fee is treated as intercompany. Following the deconsolidation in March 2013, we paid processing fee to the JV and did not consolidate its operating expenses. The change primarily affects energy & utilities, staff costs, depreciation & amortisation, repairs & maintenance, as well as processing services of third parties.
- *increase in the value of PP&E, goodwill and other non-current assets*. As a result of the transaction, the Group recognised intangible assets related to the supply contracts of RR 115,816 million and goodwill arising on the acquisition of RR 2,479 million as of 31 March 2014.

  The following table presents the carrying amounts of assets and liabilities at the acquisition date:

	Fair values
Property, plant and equipment	23,934
Intangible assets related to the supply contracts	115,816
Deferred income tax liabilities	(26,096)
Short-term and long-term debt	(2,559)
Other	(2,414)
Net assets of the acquired subsidiary	**108,681**
Less:	
Fair value of interest previously held	55,427
Total purchase consideration	55,733
Goodwill arising on acquisition	**2,479**

- *increase in the value of accounts payable and total debt.* The increase relates to payables for the acquisition of OOO Yugragazpererabotka of RR 55,913 million as of year-end as well as new borrowings for funding the transaction.
- *non-cash gain on equity interest recorded in our statement of profit or loss in the amount of RR 52,773 million.* It relates to the difference between fair value of SIBUR's interest in the JV and the amount of the deconsolidated net assets, which represent SIBUR's share in the JV accounted for at historical cost. For the purpose of dividends calculation SIBUR's net profit will be adjusted for this charge.
- *increase in capital expenditures*. Following the acquisition of control in OOO Yugragazpererabotka, SIBUR consolidates OOO Yugragazpererabotka's capital expenditures, while previously we paid 51% and reported them as loans issued or contributions to share capital of joint ventures.

APPENDIX III: Equity-Settled Share-Based Payment Plans

On 28 June 2013, a company beneficially owned by Mr. Mikhelson and Mr. Timchenko granted equity-settled share-based payment plans to certain current and former Group's directors and key management. Consequently, the indirect interest beneficially owned by Mr. Mikhelson and Mr. Timchenko in the Company's share capital decreased from 94.5% to 82.5%. Furthermore, the total combined equity interest held by the current and former members of the Group's management increased from 5.5% to 17.5%.

The transactions resulting in this change in ownership were made through companies that are not under the control of the Group but through a company jointly and beneficially held by the major shareholders. Thus, at the Group level, there are no current or future cash payments or liabilities under two plans, terms and conditions of which vary for different Participants. However, under IFRS 2 "Share-Based Payment", the Group must recognise current and past service costs in its statement of profit or loss with corresponding amounts recorded in a statement on changes in equity.

The final terms of the plans, which cover certain members of the directors and key management (the "Participants") of the Group, were approved by the Group's shareholders in July 2013.

The First Plan **-** The plan for one group of Participants (the "First Plan") requires that the Participants provide services to the Group within a certain time period. If the services are terminated before the vesting date, the First Plan Participants retain their rights under the First Plan pro rata to the period of service provided. The granted shares are vested to each Participant annually in tranches. Each tranche comes to 20% of the total shares granted provided that the participant is continuously employed by the Company from the grant date until the applicable vesting date. Each tranche is accounted as a separate arrangement and expensed, together with a corresponding increase in shareholders' equity, on a straight–line basis over the vesting periods.

The Second Plan **-** The plan for the other participants (the "Second Plan") was immediately vested and there are no future charges under this plan.

In 2014, the Group recognised RR 11,580 million within equity reserves and a corresponding increase in operating expenses and RR 7,894 million in 2013.

The equity-settled share awards under the plans are measured at the fair value for the underlying shares calculated at the grant date using a valuation model.

As of the grant date, the calculation of the Group's equity value uses pre-tax cash flow projections based on a five-year financial forecast. Cash flows beyond the five-year period are extrapolated based on an estimated growth rate of 2.35%, which is the long-term average growth rate for the industry in which the Group operates. The following key assumptions are used in the equity value calculation: a pre-tax discount rate of 16.63%, oil price of USD 89-99 per bbl and Russian Federation Consumer Price Index of 5.0 – 6.5%.