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 2012 and for the year then ended in conjunction with our combined financial information as of and for the years ended 31 December 2012 and 2011 (hereinafter referred to as the "combined financial information"). The audited combined financial information and the related notes thereto have been prepared in accordance with International Financial Reporting Standards (IFRS).

The combined financial information excludes the results of the mineral fertilizers and tires businesses, which were divested by SIBUR in December 2011, for both years. SIBUR's management believes that the combined financial information provides a proper basis for analysis of the underlying performance of the Group based on fully comparable data for both 2012 and 2011.

The financial and operating information contained in this MD&A comprises information on OAO SIBUR Holding and its consolidated subsidiaries other than the divested mineral fertilizers and tires businesses (hereinafter jointly referred to as "we", "SIBUR" or the "Group").

SELECTED DATA(1)

Operating Results

The following table presents the Group's key operational measures for the years ended 31 December 2012 and 2011:

Metric tons, except as stated	**Year ended 31 December** 2012	2011	***Change*** *%*
Processing and production volumes			
APG processing(2) (thousand cubic metres)	18,709,246	18,032,320	*3.8%*
APG processing, SIBUR's share(3) (thousand cubic metres)	12,986,326	12,697,565	*2.3%*
Natural gas production(2) (thousand cubic metres)	16,371,383	15,806,351	*3.6%*
Natural gas production, SIBUR's share(3) (thousand cubic metres)	10,993,627	10,864,052	*1.2%*
Raw NGL production(2)	4,216,067	4,175,843	*1.0%*
Raw NGL production, SIBUR's share(3)	2,870,761	2,864,371	*0.2%*
Sales volumes			
Natural gas sales volumes (thousand cubic metres)	10,572,284	9,144,938	*15.6%*
NGLs sales volumes	4,060,897	3,986,810	*1.9%*
MTBE, other fuels & fuel additives sales volumes	569,454	627,776	*(9.3%)*
Petrochemical products sales volumes	2,269,887	2,164,387	*4.9%*

(1) Please note that 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 TNK-BP's share in processing/production volumes of OOO Yugragazpererabotka (see "Feedstock Sourcing and Mix" in the "Certain Factors Affecting Our Results of Operations" section for further details).

(3) Excluding TNK-BP's share in processing/production volumes of OOO Yugragazpererabotka.

Financial Results

The following table presents the Group's key financial measures for the years ended 31 December 2012 and 2011:

RR millions, except as stated	Year ended 31 December 2012	Year ended 31 December 2011	*Change %*
Income statement highlights			
Revenue (net of VAT and export duties)	271,330	248,660	*9.1%*
EBITDA	82,291	86,669	*(5.1%)*
EBITDA margin, %	*30.3%*	*34.9%*	
Profit for the year	60,085	62,799	*(4.3%)*
Profit margin, %	*22.1%*	*25.3%*	
Earnings per share (in Russian roubles)	27.6	15.7	*75.8%*
Weighted average number of shares[1]	2,178,479,100	3,996,284,700	-
Cash flow highlights			
Net cash from operating activities	62,661	54,181	*15.7%*
Net cash (used in) investing activities, including	(50,992)	(41,290)	*23.5%*
Purchase of property, plant and equipment	*(74,274)*	*(55,553)*	*33.7%*
Proceeds from disposal of non-core businesses[2]	*17,964*	*38,261*	*(53.0%)*
Net cash (used in) financing activities, including	(12,729)	(12,526)	*1.6%*
Dividends paid to SIBUR shareholders	*(29,192)*	-	*n/m*

Key ratios	**As of 31 December 2012**	**As of 31 December 2011**
Debt/EBITDA	1.17x	0.96x
Net debt[3]/EBITDA	1.00x	0.78x
EBITDA/Interest expense	118x	34x

In 2012, our revenue totaled RR 271,330 million compared to RR 248,660 million in 2011, an increase of 9.1% year-on-year. Revenue growth was driven primarily by energy products on higher production and sales volumes for majority of the products, helped by indexation of regulated natural gas prices and the Russian rouble depreciation against the US dollar on almost flat global oil and oil derivative prices in US dollar terms. Selective acquisitions that we made at the end of 2011 and in early 2012 allowed us to enter new attractive market niches and strengthen our existing positions in the petrochemicals segment. We also increased our production and launched new petrochemical capacity. This enabled us to more than compensate for the effects of the challenging market environment in petrochemicals, which was volatile throughout 2012 both globally and in Russia and resulted in stagnant demand and weak pricing trends for majority of the petrochemical products, particularly synthetic rubbers.

Our 2012 EBITDA amounted to RR 82,291 million, a year-on-year decline of 5.1% from RR 86,669 million in 2011. Our 2012 EBITDA margin totaled 30.3% compared to 34.9% in 2011, when our margins reached their historical highs partially due to a very favorable external environment, namely strong demand and record high prices for majority of petrochemical products both globally and in our key markets. The year-on-year decrease in EBITDA and EBITDA margin is primarily explained by tighter spreads between feedstock and petrochemical prices, particularly in the synthetic rubber product group, an increase in transportation expenses and higher staff costs due to changes in staff composition, higher social taxes as well as a non-cash charge related to a non-recurring change in treatment of bonus provisions.

Our profit for 2012 totaled RR 60,085 million compared to RR 62,799 million in 2011, a decrease of 4.3% year-on-year. 2012 net margin amounted to 22.1% versus 25.3% reported in 2011.

For detailed discussion on SIBUR's operational and financial performance see the "Operational Review", "Results of Operations" and "Liquidity and Capital Resources" sections.

---

(1) Taking into account treasury shares cancelation in February 2012 and 1:100 stock split in June 2012.

(2) Includes proceeds from disposal of the mineral fertilizers and tires businesses net of related income tax of RR 900 million in 2012 and RR 4,295 million in 2011, as well as proceeds from the disposal of ZAO Voronezh Tire Plant and OAO Kirov Tire Plant net of related income tax of RR 438 million in 2011.

(3) Net debt represents total debt less cash and cash equivalents.

The following table provides a reconciliation of EBITDA to profit for the years ended 31 December 2012 and 2011:

	Year ended 31 December	
RR millions	**2012**	**2011**
Profit for the reporting period	**60,085**	**62,799**
Loss / (gain) from disposal of Amtel Group assets	315	(1,240)
Income tax expense	15,816	15,561
(Gain) / loss on disposal of investments	(283)	380
Impairment of other receivables	-	1,731
Share of net (income) of joint ventures and associates	(751)	(236)
(Gain) on acquisition of subsidiaries	(430)	(4,957)
Net finance (income) / expenses	(3,040)	4,415
Impairment of property, plant and equipment	262	-
Depreciation and amortization	10,317	8,216
EBITDA	**82,291**	**86,669**

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 and 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) marketing and sales of energy products, such as natural gas, liquefied petroleum gases (LPG), naphtha, raw NGL, 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 and other chemicals.

As of 31 December 2012, SIBUR operated 27 production sites across Russia, had over 1,500 large customers operating in the energy, automotive, construction, fast moving consumer goods (FMCG), chemical and other industries in approximately 60 countries and employed over 31,000 personnel.

RECENT DEVELOPMENTS

New Contracts and Joint Ventures

In March 2013, SIBUR and TNK-BP entered into a set of agreements that define the format of cooperation between the parties within our joint venture (JV) OOO Yugragazpererabotka for the period from 2017 through 2026. The parties have extended the key agreements for supply of associated petroleum gas (APG) and purchase of products of APG processing and also have revised the guaranteed APG volumes to be supplied by TNK-BP to Nizhnevartovskiy and Belozerniy GPPs that are part of the JV. The parties have extended the term of the JV to indefinite, while terminating SIBUR's call options. From the date of call options termination, SIBUR plans to account for its investment in OOO Yugragazpererabotka under the equity method of accounting in accordance with IFRS 11 "Joint Arrangements". Previously, SIBUR consolidated OOO Yugragazpererabotka as a wholly-owned subsidiary on the basis of the call option agreements and accounted for TNK-BP's contribution as long-term loans.

In October 2012, SIBUR and SINOPEC INTERNATIONAL (HONG KONG), Co., Limited ("SINOPEC") entered into an agreement to set up a JV for nitrile-butadiene rubber (NBR) production in Krasnoyarsk on the basis of SIBUR's existing plant with a total production capacity of 42,500 metric tons per annum. Under the terms of this agreement, SINOPEC will hold 25% plus one share in the newly formed entity, while SIBUR will hold 75% minus one share. Currently the parties are in the process of obtaining regulatory approvals required for the establishment of the entity.

In October 2012, SIBUR signed an agreement with Solvay SA (initially negotiations were held with Rhodia (France) prior to its acquisition by Solvay) to establish RusPav, a 50/50% joint venture. The JV was established for the development of surfactants and oilfield process chemicals production site in Dzerzhinsk, the Nizhny Novgorod region. Launch of this project is expected in 2016.

In the period from the end of 2011 to October 2012, SIBUR and NOVATEK entered into several agreements on mutual deliveries of natural gas, including:

- Between 2013 and 2022, SIBUR will deliver to NOVATEK up to 69,700 million cubic metres of natural gas. Under the terms of this agreement, natural gas will be sold to NOVATEK "ex-field", i.e. either at our access points to the UGSS or right at SIBUR's production sites as opposed to similar deliveries made to NOVATEK in 2012, when SIBUR was responsible for transportation via UGSS, which increased our average delivery distances and resulted in higher transportation costs. This contract was approved by the companies' Shareholders' Meetings in October 2012.
- The parties also signed a set of agreements on supplies of natural gas from NOVATEK to SIBUR's production facilities for internal use. These agreements are in effect through 2016.

In August 2012, SIBUR registered SIBUR Petrochemical India, the Group's subsidiary in India. The subsidiary will focus, among other things, on supporting the construction of a butyl rubber production facility (based on SIBUR's technology) in Jamnagar with a total capacity of 100,000 metric tons per annum within our JV (Reliance Sibur Elastomers Private Limited) with Reliance Industries. The JV was formed in February 2012. The butyl rubber plant construction is part of the Jamnagar-3 project implemented by Reliance Industries and its completion, which is preliminarily scheduled for 2015, will also depend on the timeline of the Jamnagar-3 project execution.

In May – June 2012, SIBUR entered into a number of license and design agreements with world-leading engineering and petrochemical companies to develop the design for "ZapSib-2", the largest integrated petrochemical complex ever developed in Russia and the former Soviet Union that the Group is considering to construct in Tobolsk to expand its production of basic polymers. These agreements include:

- License and FEED (Front End Engineering Design) agreements with LINDE AG (Germany) on the development of FEED documentation and the design package for an ethylene cracker unit with a total annual capacity of 1.5 million metric tons;
- License agreement with INEOS (the UK) on four polyethylene production units with a total annual capacity of 1.5 million metric tons;
- Agreement with TECHNIP (France) on the development of FEED documentation and the design package for the abovementioned polyethylene production units;
- License agreement with LyondellBasell (The Netherlands) on a polypropylene production unit with an annual capacity of 0.5 million metric tons;
- Agreement with ThyssenKrupp Uhde (Germany) on the development of FEED documentation and the design package for the abovementioned polypropylene production unit;
- Master design agreement with Russia's leading engineering institution OAO VNIPIneft; and
- Design agreement on off-plot facilities and utilities with a leading R&D and engineering institution in Russian oil and gas industry OAO NIPIgaspererabotka (SIBUR's subsidiary).

SIBUR plans to make a final investment decision on "ZapSib-2" project after completion of the FEED stage no earlier than the second half of 2013.

In March 2012, we signed a long-term chartering agreement with Navigator Gas (the UK) on two ice-class 20,600 cubic metres LPG tankers. Also in March, we signed an agreement with OAO Sovkomflot on two additional gas tankers of the same tonnage and class. The leased tankers will be used for regular year-round LPG shipments. SIBUR plans to export LPG through an LPG transshipment facility at the Ust-Luga sea port, which is currently under construction, starting 2013.

In February 2012, SIBUR signed a ten-year contract with OAO Gazprom Neft for APG supplies to our Vyngapurovskiy GPP. The contract covers terms for the supplies between 2012 and 2016. During this period, annual APG supply volumes are expected to increase from no less than 1.2 billion cubic metres in 2012 to no less than 1.4 billion cubic metres in 2016. APG supply volumes for the period between 2017 and 2021 have not been fixed and are subject to further negotiations.

In January 2012, SIBUR signed a three-year cooperation agreement with Russian Railways (RZD), under which the Sverdlovsk Railway (an RZD branch) will ensure an annual transportation of more than six million metric tons of gas and petrochemical products from SIBUR's plants located in the Tyumen region, the Yamal-Nenets and Khanty-Mansi Autonomous Areas in the period from 2012 through 2014. In December 2012, SIBUR and RZD further extended their cooperation and signed an additional three-year agreement, under which, in the period from 2012 through 2014, the Gorkovskaya Railway (also an RZD branch) will upgrade and modernize the railway infrastructure to support growth in volumes of transportation of feedstock and refined products from our production sites located in the Nizhniy Novgorod region as well as in the Urals from 3.0 million tons per annum in 2012 to 3.4 million tons per annum by 2014 and to 4.1 million tons per annum by 2018.

Completion of Investment Projects

In December 2012, we completed construction of a liquids recovery unit at our Yuzhno-Balykskiy GPP, which increased the GPP's liquids recovery ratio from 90% to 98%.

In December 2012, we launched a third compressor station at the Nizhnevartovskiy GPP, which is part of SIBUR's JV with TNK-BP (OOO Yugragazpererabotka). The project allowed to eliminate bottlenecks in APG supplies to the GPP and facilitated an increase of the APG processing capacity utilization at the plant.

In September 2012, we completed modernization of the Vyngapurovskaya compressor station, which was upgraded to a gas processing plant. As a result, the APG processing capacity at the production site increased by 750 million cubic metres per annum, while liquids recovery ratio surged from 56% to 99%.

In July 2012, we completed construction of a second expandable polystyrene production line at our production site in Perm with an annual capacity of 50 thousand metric tons. Commercial launch of the first production line of the same capacity took place in December 2011.

Acquisitions

In March 2012, we gained control of the BIAXPLEN group of companies, a producer of biaxially oriented polypropylene films (BOPP-films), by increasing our stake from 50% to 100%. At the time of the acquisition, production facilities of the BIAXPLEN group comprised three plants located in the Nizhny Novgorod, Kursk and Moscow regions with a total capacity of 78,000 metric tons of commodity films per annum. During 2012, we consolidated all our BOPP-film production facilities under the BIAXPLEN group umbrella, which included previously acquired OOO Biaxplen NK (located in the Samara region). As of 31 December 2012, the total capacity of BIAXPLEN group exceeded 100,000 metric tons per annum.

Divestitures

In July 2012, SIBUR commenced a gradual decommissioning of Caprolactam, an outdated chlorine and caustic soda production facility located near the city of Dzerzhinsk, owned and operated by SIBUR-Neftekhim, SIBUR's subsidiary. The decommissioning is managed in close cooperation with the authorities of the Nizhny Novgorod region and the city of Dzerzhinsk and under the supervision of the Federal Service for Environmental, Technological and Nuclear Supervision ("Rostekhnadzor") regional office. In February 2013, we divested cooling and hydraulic liquids production facilities as well as ethylene chlorohydrin production units. In March 2013, we shut down the electrolysis unit as well as chlorine, electrolytic caustic, dichloroethane and liquid chlorine production lines. The final shutdown of Caprolactam is scheduled for early April 2013. In parallel, we are in the process of transforming Caprolactam's production site into "Oka Polymer" industrial park, which is expected to accommodate polymer processing companies, R&D institutions and others. In the last six months, ten new residents have confirmed their engagement, including Kazan Synthetic Rubber Plant, Tosol-Sintez, Boryszew Plastik Rus. SIBUR-Neftekhim will also retain its residence. Caprolactam's PVC production capacity will be replaced by a modern and ecologically-friendly PVC production complex, which SIBUR is constructing together with SolVin Holding Nederland B.V. under a JV arrangement (RusVinyl). This new complex, located in Kstovo, the Nizhny Novgorod region, is scheduled for commercial launch in 2014.

In the period from December 2011 to February 2012, SIBUR sold its 100% control of OAO Kirov Tire Plant and ZAO Voronezh Tire Plant to a joint venture between Pirelli Group and the State Corporation Rostechnologii. OAO Kirov Tire Plant and ZAO Voronezh Tire Plant owned Amtel Group's tire production assets, which SIBUR acquired in 2011 in the course of Amtel Group's bankruptcy.

Eurobonds and Credit Ratings

In January 2013, SIBUR placed its debut Eurobond due 2018, raising USD 1 billion in gross proceeds. The coupon rate was set at 3.914% per annum and will be paid semi-annually.

In September 2012, Moody's upgraded SIBUR to 'Ba1' from 'Ba2' with stable outlook.

In August 2012, Fitch upgraded SIBUR to 'BB+' from 'BB' with stable outlook.

Dividends

In October 2012, SIBUR paid RR 7,407 million in dividends for the first half of 2012 (determined as 25% of profit for the first half of 2012 in accordance with IFRS consolidated financial statements).

In April 2012, SIBUR paid RR 21,785 million in dividends for the full year 2011. This amount was determined as approximately 25% of the profit for 2011 in accordance with IFRS consolidated financial statements, which included the results of the mineral fertilizers and tires businesses up to the date of their disposal in December 2011.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Macroeconomic and Other Economic Trends

The overall economic conditions in Russia and globally 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.

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. Global GDP growth decelerated in 2012, while slowdown in growth of major regional economies, including Russia, was greater than initially expected, which resulted in stagnation of demand from key end-customer industries and led to a price correction for majority of petrochemical products.

The following table contains selected data on year-on-year GDP growth for the years ended 31 December 2012 and 2011:

	Year ended 31 December	
	2012	**2011**
World	**2.3%**	**2.7%**
European Union (EU-15)	(0.4%)	1.4%
United States	2.2%	1.8%
Asia	5.4%	5.9%
Russia	3.4%	4.3%

Source: World Bank, Eurostat, U.S. Bureau of Economic Analysis, IMF, Russian Federal State Statistics Service

Foreign Exchange Rate Fluctuations

Movements of the Russian rouble against the US dollar and the euro can have a significant effect on our financial performance. The following table presents selected data on exchange rate movements for the years ended 31 December 2012 and 2011:

	Year ended 31 December	
	2012	**2011**
RR/USD rate at the end of the period	30.3727	32.1961
Average RR/USD rate	31.0742	29.3874
RR/EUR rate at the end of the period	40.2286	41.6714
Average RR/EUR rate	39.9083	40.8848

Source: CBR

SIBUR's functional and reporting currency is the Russian rouble. However, our sales to countries outside of Russia (44.5% and 42.9% of total revenue in 2012 and 2011, respectively) are primarily denominated in US dollars and, to a lesser extent, in the euro, while most of our expenses are 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 has a negative effect on our operational results.

A significant part of our borrowings is also denominated in foreign currencies, primarily in US dollars. When the Russian rouble depreciates against the US dollar, US dollar-denominated liabilities 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, while financial income tends to increase as a result of foreign exchange gains recorded by the Group.

The Russian rouble depreciated relative to the US dollar in 2012 compared to the average 2011 level, which had a positive effect on our export revenue and on our operational results. At the same time, the

Russian rouble as of 31 December 2012 appreciated against the year-end level of 2011, which resulted in a financial income reported in SIBUR's financial statements and largely attributable to the revaluation of our foreign currency-denominated debt. SIBUR currently does not employ any financial instruments to hedge against currency fluctuations.

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 other.

The following table presents selected data on inflation rates in Russia for the years ended 31 December 2012 and 2011 relative to the years ended 31 December 2011 and 2010:

	Year ended 31 December	
	2012	**2011**
Consumer price index (CPI)	6.6%	6.1%
Producer price index (PPI)	5.1%	12.0%

Source: Russian Federal State Statistics Service

Interest Rates

SIBUR borrows funds at both fixed and floating rates. As of 31 December 2012, 29.0% of our total borrowings were at fixed rates and 71.0% − at floating rates. As a result, our financial results are sensitive to changes in interest rates on the floating portion of our debt. SIBUR currently does not use any derivative instruments to hedge its interest rate risk.

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.

Crude oil prices typically influence the price of raw NGL, LPG and naphtha we purchase from third parties as feedstock. In addition to purchasing raw NGL, LPG and naphtha from third parties, however, we also produce these products at our GPPs and GFUs, and use them as feedstock for processing into petrochemical products or sell them externally. We ultimately only use a part of the overall volumes of raw NGL, LPG and naphtha that we produce and purchase from third parties as feedstock, and, as a result, we are a net seller of these products. External sales of raw NGL, LPG and naphtha accounted for 31.1% and 30.5% of our total revenue in 2012 and 2011, respectively.

Oil prices have a significant impact on Russian rouble exchange rate fluctuations. Historically, the Russian rouble has typically, though not consistently, appreciated against the US dollar and the euro when oil prices increased and depreciated against these currencies when oil prices decreased. Because prices for a large portion of our products are linked to oil prices, rising oil prices tend to increase our revenue, mitigating the negative effect of the strengthening of the Russian rouble on export sales or domestic sales linked to the US dollar or the euro (see "Foreign Exchange Rate Fluctuations" above).

Oil 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 oil producing nations and force majeure events.

The following table presents average benchmark of world market prices for crude oil, naphtha and LPG for the years ended 31 December 2012 and 2011:

	Year ended 31 December		Change
USD per metric ton, except as stated	**2012**	**2011**	*%*
Brent (USD per barrel)	111.6	111.3	*0.3%*
Naphtha (average FOB Rotterdam/CIF NWE)	934.1	929.2	*0.5%*
LPG (DAF Brest)	778.0	804.2	*(3.3%)*
LPG (Sonatrach)	895.6	869.9	*3.0%*

Source: Platts, Argus

Export Duties on LPG and Naphtha

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

Export duty on LPG 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 metric ton, no export duty is levied. Export duty on naphtha is calculated as a percentage of export duties on crude oil (Urals). In 2010, the export duty on naphtha was set at 67% of the crude oil export duty. As of 1 July 2011, the Russian Government raised export duty on naphtha to 90% of the crude oil export duty with the aim to restrain petroleum prices growth in Russia. The rate remained unchanged in 2012.

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 / ton	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	***2012/2011***
LPG											
At the end of the period	157.3	150.2	237.1	189.6	76.2	192.0	197.4	221.8	197.4	221.8	*(11.0%)*
Average for the period	180.0	166.1	197.4	137.0	92.7	182.6	187.4	218.3	164.4	176.0	*(6.6%)*
Naphtha											
At the end of the period	370.1	244.6	377.8	309.6	354.4	399.7	356.8	365.9	356.8	365.9	*(2.5%)*
Average for the period	360.7	234.3	398.7	299.2	329.9	398.2	366.0	363.2	363.8	323.7	*12.4%*

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. This has a mixed impact on our performance: our sales of raw NGL, LPG and naphtha are negatively affected, at the same time, our feedstock purchasing costs are lower. Additionally, this increases the attractiveness of raw NGL, LPG and naphtha as feedstock for the petrochemicals business and creates rationale for processing these energy products into petrochemicals.

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 effected 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 February 2011, the Government of the Russian Federation announced certain revisions to the domestic natural gas market liberalization plan. According to the revised plan, the target date for full liberalization of the domestic natural gas market is 1 January 2015 but there are various Governmental discussions indicating that this program may be further extended. The regulation of the domestic natural gas price prior to 2015 will be based on the netback parity of natural gas prices on the domestic and export markets.

As part of the liberalization plan, the FTS increased the regulated price for natural gas by 15% effective from 1 January 2011 and 1 July 2012, respectively. According to the Forecast of Socio-economic

Development for 2013, the regulated natural gas prices will be increased by 15% effective in 2013, 2014 and 2015.

The FTS under the Governmental decisions may modify the percentages published, as well as to potentially prolong the timetable toward market price liberalization based on market conditions and other factors.

The following table presents effective dates of regulated natural gas price increases:

Effective date of increase	**Regulated natural gas price increase** **%**
1 January 2009	5.0%
1 April 2009	7.0%
1 July 2009	7.0%
1 October 2009	6.2%
1 January 2010	15.0%
1 January 2011	15.0%
1 July 2012	15.0%

Prices for APG, one of our key raw materials, are not regulated by the 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 gas prices because of the significant capital expenditures required to develop and maintain the processing and transportation infrastructure. Most of our supply contracts, however, regularly index APG prices to reflect changes in the regulated domestic gas prices. In addition, 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 typically also are 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.

Cyclicality of the Petrochemicals Industry

Prices of 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 commercialization 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 feedstock & energy business and is a net seller of energy products, which are not dependent on the cyclicality of the petrochemical 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 primarily use two major types of hydrocarbon feedstock: associated petroleum gas (APG) and natural gas liquids (NGLs), such as raw NGL, LPG and naphtha.

APG is a by-product of oil production and represents a key feedstock for our feedstock & energy business. APG accounted for 22.7% and 18.7% of our expenses related to third-party hydrocarbon feedstock purchases in 2012 and 2011, respectively. As a percentage of total feedstock and materials costs related to third-party, APG accounted for 11.5% and 10.7% in 2012 and 2011, respectively.

NGLs, comprising raw NGL, LPG and naphtha, are used as a 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 stabilization of unstable gas condensate which is obtained from processing of wet gas extracted from gas fields. LPG and naphtha are produced through fractionation of raw NGL. We produce NGLs at our own GPPs and GFUs and also purchase them from third parties. NGLs accounted for 77.3% and 81.3% of our expenses related to third-party hydrocarbon feedstock purchases in 2012 and 2011, respectively. As a percentage of total feedstock and materials costs, NGLs accounted for 39.2% and 46.4% in 2012 and 2011, respectively.

Feedstock Sourcing

A large portion of our hydrocarbon feedstock is obtained from TNK-BP, primarily through our arrangements related to the joint venture (JV) OOO Yugragazpererabotka, which was established in 2007. SIBUR owns a 51% stake in the JV, while TNK-BP’s share is 49%. OOO Yugragazpererabotka owns and operates three GPPs (Nizhnevartovskiy GPP, Belozerniy GPP and Nyagan GPP), three compressor stations and APG pipelines from compressor stations to the GPPs. SIBUR and TNK-BP operate within a contractual network, under which TNK-BP supplies APG to OOO Yugragazpererabotka for processing into raw NGL and dry gas[(1)]. In addition to volumes from TNK-BP, OOO Yugragazpererabotka also processes APG supplied from other oil companies. SIBUR and TNK-BP own the feedstock and refined products, while paying a processing fee to OOO Yugragazpererabotka. SIBUR pays for 51% of the total APG volumes supplied for processing to OOO Yugragazpererabotka and obtains 51% of the total NGLs and dry gas volumes produced by the JV. TNK-BP obtains the remaining volumes. Subsequently SIBUR purchases TNK-BP’s share of NGLs and sells to TNK-BP its share of dry gas. In March 2013, SIBUR and TNK-BP changed the duration of the JV to indefinite, extended key supply contracts until 2026 and increased the guaranteed APG volumes to be supplied by TNK-BP to Nizhnevartovskiy and Belozerniy GPPs after 2016.

In 2012 and 2011, the APG supplies from TNK-BP accounted for 39.3% and 38.2% of SIBUR’s total APG supplies in volume terms, respectively. The raw NGL supplies from TNK-BP accounted for 44.9% and 44.3% of SIBUR’s total NGLs supplies in 2012 and 2011, respectively. In addition to our arrangements with TNK-BP, we purchase APG and NGLs from other major oil and gas companies in Western Siberia, including Gazprom, Gazprom Neft, Rosneft, Surgutneftegas, LUKOIL, RussNeft and Northgas, primarily under long-term contracts.
As of 31 December 2012, approximately 71.1% of our planned APG supplies for 2013 were guaranteed under multi-year supply contracts[(1)]. Overall, as of 31 December 2012, our multi-year APG supply contracts had a weighted average maturity of 11.1 years[(1)].

As of 31 December 2012, approximately 70.3% of our planned NGLs supplies for 2013 were guaranteed under multi-year supply contracts[(1)]. Overall, as of 31 December 2012, our multi-year NGLs supply contracts had a weighted average maturity of 12.5 years[(1)].

---

(1) Equivalent to natural gas.

(1) Including all APG and NGL supplies from TNK-BP under JV arrangements (OOO Yugragazpererabotka).

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 program.

Pricing

APG is currently, and is expected to remain, the most attractive feedstock for SIBUR, based on a number of factors:

- Oil companies produce APG as a by-product of oil extraction and by law have to evacuate it from the field or otherwise utilize it. Failure to do so can result in increasingly high fines and potentially jeopardize 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 utilize 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 IHS CERA, the total volume of flared APG in Russia in 2011 was 16.8 billion cubic metres, while Western Siberia represented 45% of that volume.

SIBUR provides oil companies with an attractive solution for APG utilization, 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 a 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. Once agreed upon in absolute terms, SIBUR's APG purchase price is typically regularly indexed to reflect changes in the FTS regulated prices for natural gas (see "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.

Unlike APG, NGLs feedstock is priced with reference to international 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 in Western Siberia. Export duties are also relatively high due to the Russian Government's current policy of encouraging domestic processing of energy products into higher value added products. 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 linked to the respective netbacks and reflecting 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. IHS CERA estimates that total flared APG volumes will be reduced from 16.8 billion cubic metres in 2011 to 10.4 billion cubic metres by 2015 and to 3.2 billion cubic metres by 2020.

We expect that supplies of wet gas-based NGLs feedstock 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 increasing share of wet gas in gas production, according to IHS CERA. We expect wet gas-based NGLs 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 and pipeline transportation as well as trucks and port facilities. 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 18.8% and 18.2% of our total operating expenses in 2012 and 2011, respectively. Changes in transportation tariffs and prices for third-party services have a significant effect on our operating expenses.

Pipeline Transportation Tariffs

We transport our natural gas through our own gas pipelines into the Unified Gas Supply System (UGSS), which is owned and operated by Gazprom. The FTS regulates tariffs for transportation of natural gas through the UGSS for independent gas producers and reviews these tariffs on an annual basis. As of 1 January 2011, the UGSS transportation tariff was raised by 9.3%, as of 1 July 2012 it was further increased by 7.0%. According to the revised Forecast of Socio-Economic Development of the Russian Federation for 2013, which was published in September 2012, transportation tariffs for natural gas produced by independent producers will be increased in 2013, 2014 and 2015 simultaneously with the increase in regulated natural gas prices but will not exceed the forecasted inflation rate.

According to preliminary estimates of the Ministry of Economic Development, the transportation tariff will increase by 5.4% as of 1 July 2013, by 5.0% as of 1 July 2014 and by 4.8% as of 1 July 2015.

Railway Transportation Tariffs

We use rail for transportation of refined products, intermediates and feedstock, including 100% of our LPG, naphtha and MTBE, significant 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 volume of a delivery. The FTS reviews the Railway

Tariff on an annual basis. The average increase in the Railway Tariff was 6.0% in 2012 and 8.0% in 2011.

Historically, we have been able to obtain discounts from the FTS on the Railway Tariff charged on export deliveries of LPG from Tobolsk GFU, which is our largest LPG production facility, on an annual basis. In 2011, the amount of the discount was 32% of the Railway Tariff, while for 2012 the FTS approved a discount in the amount of 29% of the Railway Tariff.

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 centralized basis. In addition to purchases of electricity for internal needs, we also buy electricity for further resale to third parties, which primarily include other companies located at our production sites. Revenue from sales of electricity to third parties is reported under "Other sales" in the Combined Financial Information.

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 Antitrust Service (FAS) and regional regulatory authorities. One of the most important factors that influences 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 September 2012, we launched a 7.2 MW power unit at the Vyngapurovskiy GPP's site to ensure the GPP's independence from third-party suppliers. However 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 50% of the total heat consumed in 2012) at our own production sites.

The following table presents volumes purchased and effective average prices for electricity and tariffs for heat for the years ended 31 December 2012 and 2011:

	Year ended 31 December				***Change %***	
	2012		**2011**			
	Volume	**Average tariff**	**Volume**	**Average tariff**	**Volume**	**Average tariff**
Electricity (millions of kw/hour or RR per kw/hour), *including*	10,021	1.91	9,482	2.02	*5.7%*	*(5.4%)*
Internal use	*8,127*	*1.98*	*8,123*	*2.03*	*0.0%*	*(2.5%)*
Heat (thousands of gigacalories or RR per gigacalory)	9,856	689	9,537	653	*3.3%*	*5.5%*

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. Going forward, however, we anticipate that natural gas sales will decline as a percentage of our total sales as a result of lower share of APG feedstock in the overall feedstock mix. As a result, SIBUR is likely to have greater exposure to increases in energy and utility costs in the future (see "Natural Gas Prices" above).

DESCRIPTION OF SELETED OPERATIONAL AND FINANCIAL ITEMS

Operating and Reportable Segments

Our business comprises two segments: feedstock & energy; and petrochemicals.

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) marketing and sales of energy products, such as natural gas, liquefied petroleum gases (LPG), naphtha, raw NGL, 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.

Petrochemicals segment comprises production and sale of a wide range of petrochemical products, including basic polymers, synthetic rubbers, plastics and organic synthesis products as well as intermediates and other chemicals.

We define our operating and reportable segments on the basis of the principal production facilities operated by each of the segments and key customers that each segment supplies to. These operating and reportable segments vary significantly in their end-user markets, supply and demand trends, value drivers and consequently current and long-term profitability. SIBUR management measures the performance of the operating and reportable segments based on the EBITDA contribution of each segment. The revenue and expenses of some of our subsidiaries, which provide primarily energy supply, transportation, processing, managerial and other services to SIBUR, are not allocated to operating and reportable segments and are reported as unallocated.

Key Product Groups and Products

In addition to our operating and reportable segments, we monitor our operational performance on the basis of our product groups or products, which we organise into two categories: energy products and petrochemical products. Energy products include LPG, naphtha, natural gas, raw NGL, MTBE, other fuels and fuel additives. Petrochemical products include such product groups as basic polymers, synthetic rubbers, plastics and organic synthesis products, and intermediates and other chemicals. The deviations between revenue split by product group and by segment are explained primarily by the following:

- most of our production facilities in both feedstock & energy and in petrochemicals segments provide a range of services to third parties. Such services primarily represent processing of feedstock and intermediates, rental services, energy supply, repairs and maintenance. Revenue from these services is not included in any product group revenue and is reported separately as sales of processing services and other sales; and
- our petrochemicals segment sells certain volumes of energy products, such as LPG and naphtha, to its established clients, which prefer "single window" service.

For detailed discussion on revenue dynamics by product group see the "Operational Review" section. For segment analysis see the "Segment Information" section.

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). 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. Transportation and logistics costs are related to third-party services and exclude expenses associated with ZAO Sibur-Trans activities and maintenance of our own gas and product pipelines.

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 its respective residual values over its 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.

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

Repairs and maintenance. Repairs and maintenance comprise services for repairs and maintenance of the Group's production facilities provided by third parties.

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 and third-party processing services as well as legal, audit and consulting services. Processing services represent services we obtain from other petrochemical producers to process our feedstock into intermediates or refined products, which we subsequently use for production of higher value-added products or resell. Our decision to use such services depends on existing agreements, market trends, logistical issues and shortages of our own capacity.

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.

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, Nizhny Novgorod and Leningrad regions, 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 organizations, 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 promotion of SIBUR's corporate brand and are aimed at enhancing SIBUR's profile among our customers, suppliers, partners and general public. 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, 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 Internet.

Change in work-in-progress and refined products balances. 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 recognized 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 cost of production of such refined products incurred in the preceding periods while revenue from sale of these products were recognized 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.

Operating Profit

Operating profit represents revenue less operating expenses.

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.

OPERATIONAL REVIEW

Energy Products

In 2012, revenue from sales of energy products reached RR 129,409 million compared to RR 112,337 million in 2011, an increase of 15.2% year-on-year, driven primarily by sales of natural gas, naphtha, LPG and raw NGL.

SIBUR's revenue from sales of natural gas was positively affected by higher sales volumes and a 15% indexation of the regulated natural gas prices as of 1 July 2012 (see "Natural Gas Prices" in the "Certain Factors Affecting Our Results of Operations" section for further details).

Our revenue from sales of naphtha, LPG and raw NGL was driven by growth in aggregate production and sales volumes on higher feedstock processing volumes and purchases from third parties: in 2012, we increased our APG processing by 2.3% and raw NGL fractionation by 2.6% compared to 2011. Additionally, our revenue from energy product sales benefited from the Russian rouble depreciation relative to the US dollar on largely flat global oil and oil derivative prices in US dollar terms. Average RR/USD exchange rate for 2012 increased by 5.7% reaching 31.0742 compared to the average RR/USD exchange rate of 29.3874 in 2011 (see "Macroeconomic and Other Economic Trends", "Foreign Exchange Rate Fluctuations" and "Crude Oil, Naphtha, Raw NGL and LPG Prices" in the "Certain Factors Affecting Our Results of Operations" section for further details).

In 2012, 43.9% of total external energy product sales was derived from the domestic market, while export sales accounted for 56.1%.

The following table presents a breakdown of our revenue from energy product sales for the years ended 31 December 2012 and 2011:

	Year ended 31 December				Change
RR millions, except as stated	**2012**	***% of total revenue*[1]**	**2011**	***% of total revenue*[1]**	***%***
LPG	54,760	*20.2%*	52,502	*21.1%*	*4.3%*
Domestic	*11,931*	*21.8%*	14,887	*28.4%*	*(19.9%)*
Export	*42,829*	*78.2%*	37,615	*71.6%*	*13.9%*
Naphtha	25,727	*9.5%*	21,118	*8.5%*	*21.8%*
Domestic	*3,264*	*12.7%*	5,304	*25.1%*	*(38.5%)*
Export	*22,463*	*87.3%*	15,814	*74.9%*	*42.0%*
Natural gas, domestic sales	*24,938*	*9.2%*	*17,440*	*7.0%*	*43.0%*
MTBE	16,731	*6.2%*	14,946	*6.0%*	*11.9%*
Domestic	*12,419*	*74.2%*	10,589	*70.8%*	*17.3%*
Export	*4,312*	*25.8%*	4,357	*29.2%*	*(1.0%)*
Raw NGL	3,911	*1.4%*	2,113	*0.8%*	*85.1%*
Domestic	*946*	*24.2%*	1,173	*55.5%*	*(19.4%)*
Export	*2,965*	*75.8%*	940	*44.5%*	*215.4%*
Other fuels and fuel additives	3,342	*1.2%*	4,218	*1.7%*	*(20.8%)*
Domestic	*3,341*	*100.0%*	4,205	*99.7%*	*(20.5%)*
Export	*1*	-	13	*0.3%*	*(92.3%)*
Energy products, total	**129,409**	***47.7%***	**112,337**	***45.2%***	***15.2%***
Domestic	***56,839***	***43.9%***	***53,598***	***47.7%***	***6.0%***
Export	***72,570***	***56.1%***	***58,739***	***52.3%***	***23.5%***

[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.

Liquefied Petroleum Gases (LPG)

In 2012, revenue from LPG sales increased by 4.3% year-on-year to RR 54,760 million from RR 52,502 million in 2011 due to a higher effective average selling price despite lower sales volumes.

The effective average selling price increased by 9.8% in Russian rouble terms while in US dollar terms it increased by 3.8%, which reflects the effect of the Russian rouble depreciation against the US dollar. The effective average selling price on export sales increased by 7.6% in Russian rouble terms (an increase of 1.8% in US dollar terms) due to a higher share of separate fractions, particularly those that are not subject to export duties (butane), in total sales volumes as well as higher international market prices on key sea routes (Sonatrach price indicator as one of the benchmarks provides a good example). The effective average selling price on the domestic market increased by 2.9% in Russian rouble terms while it decreased by 2.7% in US dollar terms, which is in line with DAF Brest price movement, as DAF Brest is the key price indicator in Russia since it is used for export duty calculation (see "Crude Oil, Naphtha, Raw NGL and LPG Prices" in the "Certain Factors Affecting Our Results of Operations" section for further details).

In 2012, our external LPG sales volumes decreased by 5.0% compared to 2011, as a 4.1% growth in production on higher raw NGL fractionation volumes was more than offset by lower purchases of LPG from third parties as a result of discontinuing a temporary trading arrangement used in 2011 and in the first quarter of 2012 whereby SIBUR acted as an intermediary. In addition, we increased our internal LPG supplies to the petrochemicals business: in 2012, LPG volumes supplied to our petrochemical facilities as feedstock increased to 21.6% of total available for sale volumes from 20.1% in 2011.

In 2012, domestic sales accounted for 21.8% of total LPG revenue, while 78.2% was attributable to export sales.

The following table presents data on our LPG production, purchases and sales volumes for the years ended 31 December 2012 and 2011:

	Year ended 31 December		***Change***
Metric tons, except as stated	**2012**	**2011**	**%**
LPG			
Production	3,774,028	3,624,868	*4.1%*
Purchases from third parties, including	153,876	548,019	*(71.9%)*
Purchases for resale	*61,554*	*275,377*	*(77.6%)*
Total production and purchases	**3,927,904**	**4,172,887**	***(5.9%)***
(Internal use)[1]	(481,914)	(585,078)	*(17.6%)*
(Increase)/decrease in stock	(698)	(29,008)	*(97.6%)*
Gross sales, including	3,445,292	3,558,801	*(3.2%)*
Intercompany sales to petrochemical business	743,826	714,710	*4.1%*
External sales	**2,701,466**	**2,844,091**	***(5.0%)***
Domestic	***858,052***	***1,101,533***	***(22.1%)***
Export	***1,843,414***	***1,742,558***	***5.8%***

[1] Including internal use at the segment's production facilities and immaterial natural losses.

Naphtha

In 2012, revenue from naphtha sales increased by 21.8% year-on-year to RR 25,727 million from RR 21,118 million in 2011 on both higher sales volumes and an increase in the effective average selling price.

Our external naphtha sales volumes surged 13.2% on a 5.3% increase in production volumes as a result of growth in raw NGL fractionation volumes and a substantial decrease in internal sales of naphtha to the petrochemicals segment due to a partial substitution by raw NGL and LPG. In 2012, our internal sales of naphtha to the Group's petrochemical facilities as a percentage of total available for sale volumes decreased to 39.3% from 47.8% in 2011. At the same time, we reported a decrease in naphtha purchases from third parties due to a temporary discontinuation of a trading arrangement with one of our suppliers as a result of an industrial accident and a long-term subsequent shutdown at their production site.

The effective average selling price increased by 7.7% in Russian rouble terms while it increased by 1.8% in US dollar terms, which was attributable to several factors, including growth in international market prices, the Russian rouble depreciation against the US dollar and a higher share of separate fractions that are not subject to export duties in sales volumes.

In 2012, domestic sales accounted for 12.7% of total naphtha revenue, while 87.3% was attributable to export sales.

The following table presents data on our naphtha production, purchases and sales volumes for the years ended 31 December 2012 and 2011:

	Year ended 31 December		*Change*
Metric tons, except as stated	**2012**	**2011**	*%*
Naphtha			
Production	1,362,711	1,294,536	*5.3%*
Purchases from third parties	469,941	571,497	*(17.8%)*
Total production and purchases	**1,832,652**	**1,866,033**	***(1.8%)***
(Internal use)[1]	(5,230)	(1,054)	*396.4%*
(Increase)/decrease in stock	(1,577)	12,151	*n/m*
Gross sales, including	1,825,844	1,877,130	*(2.7%)*
Intercompany sales to petrochemical business	717,445	897,685	*(20.1%)*
External sales	**1,108,399**	**979,445**	***13.2%***
Domestic	***135,094***	***282,443***	***(52.2%)***
Export	***973,305***	***697,002***	***39.6%***

Natural Gas

In 2012, revenue from natural gas sales increased by 43.0% year-on-year to RR 24,938 million from RR 17,440 million in 2011 on both higher sales volumes and an increase in the effective average selling price.

Natural gas sales volumes increased by 15.6% while production volumes increased by 1.2% as a result of higher volumes of APG processing. The growth in sales volumes was primarily attributable to the sale of natural gas inventories accumulated in 2011. Additionally, sales volumes increased because part of the volumes, which were previously treated as intercompany, are reported as external sales since the beginning of 2012 after SIBUR entered into an agreement with NOVATEK on mutual gas deliveries (from the beginning of 2012, SIBUR also started buying certain volumes of natural gas from NOVATEK for internal use at our production sites). In 2012, we were responsible for handling natural gas deliveries to NOVATEK via the UGSS, which resulted in a higher transportation component in our effective average selling price and a corresponding increase in transportation and logistics costs. As discussed in the "Recent Developments" section, from 2013 we will sell our natural gas to NOVATEK "ex-field" (either at our access points to the UGSS or right at SIBUR's production sites), which should result in lower effective average selling prices on these volumes and a corresponding decrease in transportation and logistics costs.

[1] Including internal use at the segment's production facilities and immaterial natural losses.

The effective average selling price increased by 23.7% compared to 2011 primarily due to an increase in the average delivery distance and a higher transportation component in the Group's effective average selling price as a result of (among other factors) the new agreement with NOVATEK as discussed above. If adjusted for the transportation component, the effective average selling price increased by 9.8% primarily due to a 15% indexation of the regulated natural gas prices as of 1 July 2012.

We sell 100% of our natural gas in Russia.

The following table presents data on our natural gas production, purchases and sales volumes for the years ended 31 December 2012 and 2011:

	Year ended 31 December		***Change***
Thousands of cubic metres except as stated	**2012**	**2011**	***%***
Natural gas			
Production[1]	16,371,383	15,806,351	*3.6%*
Production, SIBUR's share[2]	10,993,627	10,864,052	*1.2%*
Purchases from third parties, including	698,472	-	*n/m*
Total production and purchases	**11,692,099**	**10,864,052**	***7.6%***
(Internal use)[3]	(1,315,750)	(1,200,758)	*9.6%*
(Increase)/decrease in stock	195,935	(518,356)	*n/m*
External sales	**10,572,284**	**9,144,938**	***15.6%***
Domestic	***10,572,284***	***9,144,938***	***15.6%***
Export	***-***	***-***	***n/m***

Methyl Tertiary Butyl Ether (MTBE)

Revenue from MTBE sales increased by 11.9% year-on-year to RR 16,731 million in 2012 from RR 14,946 million in 2011 primarily as a result of an increase in the effective average selling price despite lower sales volumes.

The effective average selling price for MTBE increased by 21.4% on higher MTBE prices on the European markets.

The decrease in MTBE sales volumes by 7.8% in 2012 compared to 2011 was due to a decrease in production volumes by 1.9% as well as higher goods-in-transit balances to export markets, and lower purchases of MTBE from third parties. The decrease in production resulted from a higher share of target products output at the expense of MTBE at our production sites, where MTBE is a by-product.

In 2012, domestic sales accounted for 74.2% of total MTBE revenue, while 25.8% was attributable to export sales.

(1) Including TNK-BP's share in production volumes of OOO Yugragazpererabotka (see "Feedstock Sourcing and Mix" in the "Certain Factors Affecting Our Results of Operations" section for further details).

(2) Excluding TNK-BP's share in production volumes of OOO Yugragazpererabotka (see "Feedstock Sourcing and Mix" in the "Certain Factors Affecting Our Results of Operations" section for further details).

(3) Including internal use at the segment's production facilities and immaterial natural losses.

The following table presents data on our MTBE production, purchases and sales volumes for the years ended 31 December 2012 and 2011:

Metric tons, except as stated	Year ended 31 December 2012	Year ended 31 December 2011	*Change %*
MTBE			
Production	397,868	405,371	*(1.9%)*
Purchases from third parties	21,078	28,972	*(27.2%)*
Total production and purchases	**418,946**	**434,343**	***(3.5%)***
(Internal use)[1]	(309)	(305)	*1.3%*
(Increase)/decrease in stock	(15,045)	3,600	*n/m*
External sales	**403,592**	**437,638**	***(7.8%)***
Domestic	***292,700***	***299,117***	***(2.1%)***
Export	***110,892***	***138,521***	***(19.9%)***

Raw NGL

In 2012, our revenue from external raw NGL sales increased by 85.1% year-on-year to RR 3,911 million from RR 2,113 million in 2011 as a result of an increase in both sales volumes and the effective average selling price. External sales of raw NGL account for a minor share in our total revenue: in 2012 this share amounted to 1.4%.

External sales volumes of raw NGL increased by 53.7% in 2012, while production volumes were largely flat. The growth in sales volumes was mainly attributable to higher purchases from third parties as we started purchasing raw NGL from one of our NGLs suppliers, transfer of certain raw NGL volumes from processing to external sales due to a change in the format of cooperation with an export counterparty and a decrease in stock compared to stock accumulation in 2011. These factors were partially offset by an increase in raw NGL fractionation as well as higher volumes of raw NGL supplied to our petrochemicals business without prior fractionation: in 2012, our inter-segment supplies of raw NGL as feedstock for the cracking facilities increased by 28.2% and partially replaced naphtha. The growth in the total raw NGL volumes available for sale (both external and inter-segment) was attributable to rising supplies of raw NGLs in Western Siberia, which outpaced fractionation capacity expansion, and also to certain logistical bottlenecks in delivering raw NGL to our fractionation facilities, two of which are located outside of Western Siberia.

The effective average selling price increased by 20.4% in 2012 compared to 2011, when we observed abnormally low prices in one of our export markets. The second factor was a new contract with a domestic counterparty.

In 2012, domestic sales accounted for 24.2% of total raw NGL revenue, while 75.8% was attributable to export sales.

[1] Including internal use at the segment's production facilities and immaterial natural losses.

The following table presents data on our raw NGL production, purchases and sales volumes for the years ended 31 December 2012 and 2011:

Metric tons, except as stated	Year ended 31 December 2012	Year ended 31 December 2011	*Change %*
Raw NGL			
Production[1]	4,216,067	4,175,843	*1.0%*
Production, SIBUR's share[2]	2,870,761	2,864,371	*0.2%*
Purchases from third parties, including	2,843,668	2,544,569	*11.8%*
Purchases for resale	-	*38,575*	*(100.0%)*
Total production and purchases	**5,714,429**	**5,408,940**	***5.6%***
(Fractionation)	(4,929,482)	(4,803,389)	*2.6%*
(Increase)/decrease in stock	1,261	(24,771)	*n/m*
Gross sales, including	786,208	580,780	*35.4%*
Intercompany sales to petrochemical business	535,177	417,506	*28.2%*
External sales	**251,031**	**163,274**	***53.7%***
Domestic	***60,556***	***93,263***	***(35.1%)***
Export	***190,475***	***70,011***	***172.1%***

Other fuels and fuel additives

Other fuels and fuel additives represent an insignificant share of our total revenue (1.2% and 1.7% in 2012 and 2011, respectively). In 2012, our revenue from other fuels and fuel additives sales decreased by 20.8% year-on-year to RR 3,342 million from RR 4,218 million in 2011 primarily as a result of a 13.1% decrease in production, which led to a 12.8% decrease in sales volume. The effective average selling price decreased by 9.2% year-on-year. The decrease in production was attributable to lower production volumes of certain gasoline grades at our Uralorgsintez production site as a result of lower feedstock supplies, as we chose to sell the internally-produced C_9 fraction externally due to favourable market conditions and at the same time reduced our third-party purchases of benzene-containing fractions.

The following table sets data on our production, purchases and sales volumes of other fuels and fuel additives for the years ended 31 December 2012 and 2011:

Metric tons, except as state	Year ended 31 December 2012	Year ended 31 December 2011	*Change %*
Other fuels and fuel additives			
Production	**293,148**	**337,158**	***(13.1%)***
Purchases from third parties	8,066	1,151	*600.8%*
Total production and purchases	**301,214**	**338,309**	***(11.0%)***
(Internal use)[3]	(130,869)	(146,751)	*(10.8%)*
(Increase)/decrease in stock	(4,483)	(1,420)	*215.7%*
External sales	**165,862**	**190,138**	***(12.8%)***
Domestic	***165,747***	***189,051***	***(12.3%)***
Export	***115***	***1,087***	***(89.4%)***

(1) Including TNK-BP's share in production volumes of OOO Yugragazpererabotka (see "Feedstock Sourcing and Mix" in the "Certain Factors Affecting Our Results of Operations" section for further details).

(2) Excluding TNK-BP's share in production volumes of OOO Yugragazpererabotka (see "Feedstock Sourcing and Mix" in the "Certain Factors Affecting Our Results of Operations" section for further details).

(3) Including internal use at the segment's production facilities and immaterial natural losses.

Petrochemicals

In 2012, our revenue from sales of petrochemical products increased by 3.7% year-on-year to RR 126,439 million from RR 121,902 million in 2011. We made selective acquisitions in the plastics and organic synthesis product group at the end of 2011 and in early 2012 to enter into new attractive market niches or strengthen our existing positions. We also organically increased production in certain product groups and launched a new expandable polystyrene capacity. This more than compensated for the negative effects of stagnating demand and lower prices for majority of petrochemical products as well as certain one-off factors described further. The demand stagnation and pricing pressures was particularly noticeable in the synthetic rubber product group, where declines in benchmark prices and lower spreads between prices for feedstock and finished goods affected both revenue and margins. Additionally, we reported a material decline in sales volumes of synthetic rubbers, which was primarily attributable to (i) an industrial accident and a subsequent shutdown of our supplier's production site from the end of 2011 until the second half of 2012, and (ii) a 13-day unscheduled shutdown at our production site in Togliatti due to an accident on a pipe rack in April 2012.

In 2012, domestic sales accounted for 64.1% of total revenue from external sales of petrochemical products, while 35.9% was attributable to export sales.

Basic Polymers

In 2012, our revenue from external sales of basic polymers increased by 1.8% year-on-year to RR 22,179 million from RR 21,782 million in 2011. The increase was primarily due to higher low density polyethylene (LDPE) revenue, which was partially offset by the reclassification of a large portion of external polypropylene (PP) sales to intercompany following the consolidation of the BIAXPLEN group of companies, which uses PP for BOPP-film production, starting from the second quarter of 2012. In 2012, domestic sales accounted for 70.8% of total basic polymers revenue, while 29.2% was attributable to export sales.

The following table presents data on our revenue from basic polymer sales for the years ended 31 December 2012 and 2011:

	Year ended 31 December				***Change***
RR millions, except as stated	**2012**	***% of revenue***[(1)]	**2011**	***% of revenue***[(1)]	***%***
PE (LDPE)	12,314	*4.5%*	10,978	*4.4%*	*12.2%*
Domestic	*7,086*	*57.5%*	*5,489*	*50.0%*	*29.1%*
Export	*5,228*	*42.5%*	*5,489*	*50.0%*	*(4.8%)*
PP	9,865	*3.6%*	10,804	*4.3%*	*(8.7%)*
Domestic	*8,607*	*87.2%*	*10,010*	*92.7%*	*(14.0%)*
Export	*1,258*	*12.8%*	*794*	*7.3%*	*58.4%*
Total revenue	**22,179**	***8.2%***	**21,782**	***8.8%***	***1.8%***
Domestic	***15,693***	***70.8%***	***15,499***	***71.2%***	***1.3%***
Export	***6,486***	***29.2%***	***6,283***	***28.8%***	***3.2%***

Low density polyethylene (LDPE)

In 2012, our revenue from sales of LDPE increased by 12.2% year-on-year to RR 12,314 million compared to RR 10,978 million in 2011, as a result of higher sales volumes, despite a decrease in the average effective selling price.

In 2012, our LDPE sales volumes increased by 13.5% year-on-year, while production grew by 2.6%. Sales volume growth was primarily attributable to the sale of LDPE inventories accumulated in 2011 to cover a temporary LDPE shortage caused by unscheduled shutdowns and lower utilization rates of third-party production facilities in Russia and the CIS in 2012.

(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 effective average selling price for LDPE decreased by 1.2% year-on-year. Our export selling price decreased by 6.5%, following lower market prices in China and Europe, where the debt crisis resulted in lower demand for end products and a decline in feedstock prices. In response, SIBUR increased its share of domestic sales, where our effective average selling price increased by 2.2% as a result of the short-term deficit discussed above.

As a result, in 2012 we increased the share of domestic LDPE sales to 57.5% of total LDPE revenue in 2012 from 50.0% in 2011, while 42.5% was attributable to export sales.

Polypropylene (PP)

In 2012, our revenue from sales of PP decreased by 8.7% year-on-year from RR 10,804 million in 2011 to RR 9,865 million in 2012. The decline was primarily attributable to the consolidation of the BIAXPLEN group of companies from the second quarter of 2012 as we sell a large portion of our PP to BIAXPLEN as feedstock.

Our PP sales volumes decreased by 16.8%, while PP production volumes increased by 5.1%. Lower sales volumes were attributable to the reclassification of a large portion of our PP volumes from external sales to intercompany following the consolidation of the BIAXPLEN group of companies. We also reported a decline in our third-party PP purchases primarily due to a longer 2012 maintenance shutdown at OOO NPP Neftekhimia, our joint venture with Gazprom Neft Group, compared to 2011, in line with the two-year maintenance cycle. Additionally, OOO NPP Neftekhimia’s capacity was underutilized due to lower feedstock supplies from OAO “Gazpromneft-MNPZ”. At the same time, we reported an increase in production at our own production site in Tomsk due to a shorter maintenance shutdown in 2012 compared to 2011.

The effective average selling price for PP increased by 9.7% in 2012 versus 2011 on the back of a 10.1% increase in the domestic price as a result of a temporary PP shortage caused by unscheduled shutdowns of third-party production facilities in Russia and the CIS combined with strong demand from end-customer industries.

In 2012, domestic sales accounted for 87.2% of total PP revenue, while 12.8% was attributable to export sales.

The following table presents data on our basic polymer production, purchases and sales volumes for the years ended 31 December 2012 and 2011:

	Year ended 31 December		*Change*
Metric tons, except as stated	**2012**	**2011**	*%*
Production	385,794	372,967	*3.4%*
PE (LDPE)	250,456	244,177	*2.6%*
PP	135,338	128,790	*5.1%*
Purchases from third parties	109,452	114,295	*(4.2%)*
Total production and purchases	**495,246**	**487,262**	***1.6%***
(Internal use)[1]	(74,081)	(20,422)	*262.8%*
(Increase)/decrease in stock	18,384	(20,750)	*n/m*
External sales			
PE (LDPE)	255,894	225,476	*13.5%*
Domestic	*135,470*	*107,225*	*26.3%*
Export	*120,424*	*118,251*	*1.8%*
PP	183,655	220,614	*(16.8%)*
Domestic	*159,292*	*203,985*	*(21.9%)*
Export	*24,363*	*16,629*	*46.5%*
External sales volumes	**439,549**	**446,090**	***(1.5%)***
Domestic	***294,762***	***311,210***	***(5.3%)***
Export	***144,787***	***134,880***	***7.3%***

[1] Including internal use at the segment’s production facilities and immaterial natural losses.

Synthetic Rubbers

In 2012, revenue from synthetic rubber sales decreased by 19.3% year-on-year to RR 41,134 million from RR 50,971 million in 2011 led by a decline in revenue from sales of commodity rubbers. Our synthetic rubber results were affected by a number of factors: (i) stagnation in demand for synthetic rubbers on our key markets resulted in a price correction for majority of synthetic rubber grades. For instance, prices for natural rubber, which is a benchmark for several grades of synthetic rubbers as they are substitute products, declined on average by more than 30% in 2012 compared to 2011. Additionally, we reported a substantial decline in synthetic rubber sales volumes primarily due to feedstock undersupplies as a result of an industrial accident and a subsequent long-term shutdown at one of our suppliers' production site as well as a short-term unscheduled shutdown at our production site in Togliatti.

In 2012, domestic sales accounted for 41.0% of total synthetic rubber revenue, while 59.0% was attributable to export sales.

The following table presents a breakdown of revenue from our synthetic rubber sales for the years ended 31 December 2012 and 2011:

	Year ended 31 December				***Change***
RR millions, except as stated	**2012**	***% of revenue***[(1)]	**2011**	***% of revenue***[(1)]	***%***
Commodity rubbers	29,473	*10.9%*	37,525	*15.1%*	*(21.5%)*
Domestic	*12,874*	*43.7%*	*17,743*	*47.3%*	*(27.4%)*
Export	*16,599*	*56.3%*	*19,782*	*52.7%*	*(16.1%)*
Specialty rubbers	8,677	*3.2%*	10,664	*4.3%*	*(18.6%)*
Domestic	*1,534*	*17.7%*	*2,183*	*20.5%*	*(29.7%)*
Export	*7,143*	*82.3%*	*8,481*	*79.5%*	*(15.8%)*
Thermoplastic elastomers	2,983	*1.1%*	2,782	*1.1%*	*7.2%*
Domestic	*2,468*	*82.7%*	*2,406*	*86.5%*	*2.6%*
Export	*516*	*17.3%*	*376*	*13.5%*	*37.0%*
Total revenue	**41,134**	***15.2%***	**50,971**	***20.5%***	***(19.3%)***
Domestic	***16,876***	***41.0%***	***22,332***	***43.8%***	***(24.4%)***
Export	***24,258***	***59.0%***	***28,639***	***56.2%***	***(15.3%)***

Commodity rubbers

In 2012, revenue from sales of commodity rubbers decreased by 21.5% year-on-year to RR 29,473 million from RR 37,525 million in 2011 as a result of a decrease in both sales volumes and the effective average selling price.

Sales volumes of commodity rubbers decreased by 12.0% in 2012 year-on-year, while production declined by only 1.0%. The decrease in the sales volumes was primarily attributable to lower third-party purchases, which declined due to the following reasons: (i) we discontinued a product swap arrangement, where we used third-party capacity to produce polyisoprene rubbers from our own isoprene, as tight spreads between feedstock and end-product prices reduced the scheme's economic rationale, and (ii) the local market experienced a shortage of certain types of commodity rubbers that we used to buy for resale, which was attributable to an undersupply of butadiene-based feedstock as a result of the long-term unscheduled shutdown at a major supplier's production site, as discussed above. In addition, at the end of 2012 we reported higher commodity rubber inventories at our regional warehouses on expectations that the market environment would improve in 2013.

In 2012, the effective average selling price for commodity rubbers decreased by 10.7% compared to 2011. The decrease was attributable to the following key factors: (i) stagnant demand from tyre producers, (ii) a decrease in prices for natural rubber (a benchmark for certain types of commodity rubbers) and for butadiene, a key raw material for butadiene-based rubbers as many of our export contracts are formula-based and depend on the price for butadiene.

---

(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.

In 2012, domestic sales accounted for 43.7% of total commodity rubber revenue, while 56.3% was attributable to export sales.

Specialty rubbers

In 2012, our revenue from specialty rubber sales decreased by 18.6% year-on-year to RR 8,677 million from RR 10,664 million in 2011 primarily due to a decrease in the effective average selling price and, to a smaller extent, lower sales volumes.

The effective average selling price for specialty rubbers decreased by 15.2% in 2012 compared to 2011 driven by market prices for butyl rubbers and nitrile-butadiene rubbers on our key export markets (China and other Asian countries).

Our specialty rubber sales volumes decreased by 4.0% on a 2.0% decline in production and higher inventories due to higher balances of goods-in-transit on the way to China. The decline in production was primarily attributable to lower butyl rubber production as a result of the unscheduled shutdown at our Togliatti site in April 2012. This was partially compensated by an expansion of nitrile-butadiene rubber production at our production site in Krasnoyarsk.

In 2012, domestic sales accounted for 17.7% of total specialty rubber revenue, while 82.3% was attributable to export sales.

Thermoplastic elastomers (TEP)

In 2012, revenue from sales of thermoplastic elastomers increased by 7.2% year-on-year to RR 2,983 million from RR 2,782 million in 2011 due to an increase in both sales volumes and the effective average selling price.

Our TEP sales volumes grew by 5.1% following an increase in production volumes by 6.8%, which was partially offset by inventory accumulation. The growth in production volumes was primarily attributable to higher capacity utilization rates on the back of favourable market environment.

The effective average selling price for TEP increased by 2.0% due to stronger demand from end-customer industries in Russia and better selling terms achieved on our long-term contracts.

In 2012, domestic sales accounted for 82.7% of total TEP revenues, while 17.3% was attributable to export sales.

The following table presents data on our synthetic rubber production, purchases and sales volumes for the years ended 31 December 2012 and 2011:

Metric tons, except as stated	**Year ended 31 December** **2012**	**2011**	***Change*** ***%***
Production	423,348	426,200	*(0.7%)*
Commodity rubbers	304,620	307,594	*(1.0%)*
Specialty rubbers	88,859	90,629	*(2.0%)*
Thermoplastic elastomers	29,869	27,977	*6.8%*
Purchases from third parties	32,287	63,828	*(49.4%)*
Total production and purchases	**455,635**	**490,028**	***(7.0%)***
(Internal use)[(1)]	(650)	(557)	*16.8%*
(Increase)/decrease in stock	(16,398)	(4,595)	*256.9%*
External sales			
Commodity rubbers	321,422	365,383	*(12.0%)*
Domestic	*140,217*	*169,480*	*(17.3%)*
Export	*181,205*	*195,903*	*(7.5%)*
Specialty rubbers	88,647	92,359	*(4.0%)*
Domestic	*14,342*	*19,092*	*(24.9%)*
Export	*74,305*	*73,267*	*1.4%*
Thermoplastic elastomers	28,518	27,134	*5.1%*
Domestic	*23,083*	*23,133*	*(0.2%)*
Export	*5,435*	*4,001*	*35.8%*
External sales volumes	**438,587**	**484,876**	***(9.5%)***
Domestic	***177,642***	***211,705***	***(16.1%)***
Export	***260,945***	***273,171***	***(4.5%)***

Plastics and Organic Synthesis Products

In 2012, revenue from sales of plastics and organic synthesis products increased by 60.2% year-on-year to RR 39,633 million from RR 24,742 million in 2011. The increase was primarily attributable to the consolidation of the results of OAO Acrylate, OAO Polief and the BIAXPLEN group of companies as discussed above, as well as the commercial launch of two production lines of expandable polystyrene in Perm in December 2011 and in July 2012.

[(1)] Including internal use at the segment's production facilities and immaterial natural losses.

The following table presents a breakdown of revenue from sales of our plastics and organic synthesis products for the years ended 31 December 2012 and 2011:

	Year ended 31 December				Change
RR millions, except as stated	**2012**	***% of revenue[1]***	**2011**	***% of revenue[1]***	***%***
PET	11,488	*4.2%*	4,553	*1.8%*	*152.3%*
Domestic	*11,427*	*99.5%*	*4,391*	*96.4%*	*160.2%*
Export	*61*	*0.5%*	*162*	*3.6%*	*(62.3%)*
Glycols	6,587	*2.4%*	7,886	*3.2%*	*(16.5%)*
Domestic	*4,785*	*72.6%*	*6,063*	*76.9%*	*(21.1%)*
Export	*1,802*	*27.4%*	*1,823*	*23.1%*	*(1.2%)*
BOPP-films	6,091	*2.2%*	1,048	*0.4%*	*481.2%*
Domestic	*5,255*	*86.3%*	*1,035*	*98.8%*	*407.7%*
Export	*836*	*13.7%*	*13*	*1.2%*	*6,330.8%*
Alcohols (including 2-ethylhexanol)	5,815	*2.1%*	6,003	*2.4%*	*(3.1%)*
Domestic	*2,175*	*37.4%*	*2,328*	*38.8%*	*(6.6%)*
Export	*3,640*	*62.6%*	*3,675*	*61.2%*	*(1.0%)*
Expandable polystyrene	4,153	*1.5%*	1,624	*0.7%*	*155.7%*
Domestic	*2,821*	*67.9%*	*1,397*	*86.0%*	*101.9%*
Export	*1,332*	*32.1%*	*227*	*14.0%*	*486.8%*
Acrylates	3,039	*1.1%*	790	*0.3%*	*284.7%*
Domestic	*782*	*25.7%*	*393*	*49.7%*	*99.2%*
Export	*2,257*	*74.3%*	*397*	*50.3%*	*468.5%*
Plastic compounds[2]	2,460	*0.9%*	2,838	*1.1%*	*(13.3%)*
Domestic	*2,296*	*93.3%*	*2,639*	*93.0%*	*(13.0%)*
Export	*164*	*6.7%*	*199*	*7.0%*	*(17.6%)*
Total revenue	**39,633**	***14.6%***	**24,742**	***10.0%***	***60.2%***
Domestic	***29,542***	***74.5%***	***18,246***	***73.7%***	***61.9%***
Export	***10,091***	***25.5%***	***6,496***	***26.3%***	***55.3%***

PET

In 2012, our revenue from PET sales was materially impacted by a change of scope due to acquisition of control of OAO Polief, a PTA and PET producer, and consolidation of its results from November 2011. As a result, our revenue from PET sales increased by 152.3% year-on-year to RR 11,488 million in 2012 from RR 4,553 million in 2011. Our PET sales volumes increased by 169.9% year-on-year due to change of scope and sale of inventories in 2012 compared to inventory accumulation in 2011. The effective average selling price decreased by 6.5%, primarily as a result of a negative price dynamics on Asian markets throughout 2012. In 2012, domestic sales accounted for 99.5% of total PET revenue, while 0.5% was attributable to export sales.

Glycols

In 2012, our revenue from sales of glycols was also affected by the consolidation of OAO Polief due to reclassification of certain volumes from external to intercompany sales as OAO Polief uses glycols for PET production. As a result, our revenue from sales of glycols decreased by 16.5% year-on-year to RR 6,587 million in 2012 from RR 7,886 million in 2011 on a 13.9% decrease in sales volumes and a 3.0% decline in the effective average selling price. The decline in the effective average selling price was attributable to a negative price dynamics on the European markets during the first nine months in 2012, which was partially compensated by a bounce-back in the fourth quarter of the year due to seasonal growth in demand and a short-term shortage of glycols on the domestic market. In 2012, domestic sales accounted for 72.6% of total glycols revenue, while 27.4% was attributable to export sales.

[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.

BOPP-films

In 2012, our revenue from BOPP-film sales was materially impacted by a change of scope due to acquisition of control of the BIAXPLEN group of companies and consolidation of its results from the second quarter of 2012. As a result, our revenue from BOPP-film sales increased by 481.2% year-on-year to RR 6,091 million in 2012 from RR 1,048 million in 2011 on a 437.0% increase in sales volumes. The effective average selling price increased by 8.2% primarily as a result of higher PP prices due to a temporary shortage in the domestic market, as discussed above, and also due to a change in our BOPP-films marketing strategy. In 2012, domestic sales accounted for 86.3% of total BOPP-film revenue, while 13.7% was attributable to export sales.

Alcohols

In 2012, our revenue from sales of alcohols was affected by the consolidation of OAO Acrylate from the third quarter of 2011 due to reclassification of certain volumes from external to intercompany sales as OAO Acrylate uses alcohols for acrylates production. As a result, despite a 7.8% increase in production volumes, our sales volumes increased by only 4.4%. This, combined with a 7.2% decrease in the effective average selling price resulted in a 3.1% decline in our revenue from sales of alcohols to RR 5,815 million in 2012 from RR 6,003 million in 2011. The increase in production was attributable to a shorter maintenance shutdown in 2012 compared to 2011 in accordance with our maintenance cycle at SIBUR-Khimprom. The decline in the effective average selling price was attributable to a price correction on the European and Chinese markets. In 2012, domestic sales accounted for 37.4% of total alcohols revenue, while 62.6% was attributable to export sales.

Expandable polystyrene

In 2012, our revenue from sales of expandable polystyrene rose 155.7% year-on-year to RR 4,153 million from RR 1,624 million in 2011 as a result of a 101.7% increase in sales volumes and a 26.7% growth in the effective average selling price. The increase in sales volumes was attributable to a 108.9% growth in production following the commercial launch of two production lines at Sibur-Khimprom in Perm in December 2011 and in July 2012 (each production line has an annual capacity of 50,000 tons). The growth in the effective average selling price was a result of better selling terms due to achieved improvements in the product quality as well as international market prices growth in the second half of 2012. In 2012, domestic sales accounted for 67.9% of total expandable polystyrene revenue, while 32.1% was attributable to export sales.

Acrylates

In 2012, our revenue from sales of acrylates was materially impacted by a change of scope due to acquisition of control of OAO Acrylate and consolidation of its results from the third quarter of 2011. As a result, our revenue from sales of acrylates increased by 284.7% year-on-year to RR 3,039 million in 2012 from RR 790 million in 2011 due to a 392.4% growth in volumes and a 21.9% decrease in the effective average selling price on market price corrections both globally and in Russia. The growth in sales volumes was primarily attributable to the change of scope combined with inventory sales in 2012 versus inventory accumulation in 2011 in line with the prevailing market trends. In 2012, domestic sales accounted for 25.7% of total acrylates revenue, while 74.3% was attributable to export sales.

Plastic compounds (including ABS plastics and PVC cable compounds)

In 2012, our revenue from sales of plastic compounds decreased by 13.3% year-on-year to RR 2,460 million from RR 2,838 million in 2011 as a result of a 10.5% decline in sales volumes and a 3.1% decrease in the effective average selling price. Sales volumes declined due to a 9.4% decrease in production as we discontinued production of certain low-margin grades. The decrease in effective average selling price was attributable to lower feedstock prices, particularly for polyvinyl chloride (PVC) and dioctyl phthalate (DOP). In 2012, domestic sales accounted for 93.3% of total revenue from sales of plastic compounds, while 6.7% was attributable to export sales.

The following table presents data on our production, purchases and sales volumes in plastics and organic synthesis products for the years ended 31 December 2012 and 2011:

	Year ended 31 December		Change
Metric tons, except as stated	**2012**	**2011**	*%*
Production	844,836	607,293	*39.1%*
PET	211,093	95,230	*121.7%*
Glycols	240,847	243,664	*(1.2%)*
BOPP-films	68,467	13,761	*397.5%*
Alcohols (including 2-ethylhexanol)	160,056	148,425	*7.8%*
Expandable polystyrene	76,770	36,741	*108.9%*
Acrylates	43,085	20,349	*111.7%*
Plastic compounds [(1)]	44,518	49,123	*(9.4%)*
Purchases from third parties	8,565	655	*1,207.6%*
Total production and purchases	**853,401**	**607,948**	***40.4%***
(Internal use)[(2)]	(96,436)	(55,322)	*74.3%*
(Increase)/decrease in stock	24,829	(26,955)	*n/m*
External sales			
PET	230,213	85,305	*169.9%*
Domestic	*229,023*	*82,256*	*178.4%*
Export	*1,190*	*3,049*	*(61.0%)*
Glycols	169,618	196,909	*(13.9%)*
Domestic	*120,038*	*150,066*	*(20.0%)*
Export	*49,580*	*46,843*	*5.8%*
BOPP-films	70,094	13,054	*437.0%*
Domestic	*60,119*	*12,907*	*365.8%*
Export	*9,975*	*147*	*6,685.7%*
Alcohols (including 2-ethylhexanol)	138,045	132,219	*4.4%*
Domestic	*49,741*	*52,837*	*(5.9%)*
Export	*88,304*	*79,382*	*11.2%*
Expandable polystyrene	76,524	37,935	*101.7%*
Domestic	*51,077*	*33,499*	*52.5%*
Export	*25,447*	*4,436*	*473.6%*
Acrylates	53,025	10,768	*392.4%*
Domestic	*11,318*	*4,494*	*151.8%*
Export	*41,707*	*6,274*	*564.8%*
Plastic compounds	44,274	49,481	*(10.5%)*
Domestic	*41,849*	*46,438*	*(9.9%)*
Export	*2,425*	*3,043*	*(20.3%)*
External sales volumes	**781,793**	**525,671**	***48.7%***
Domestic	***563,165***	***382,497***	***47.2%***
Export	***218,628***	***143,174***	***52.7%***

Intermediates and Other Chemicals

In 2012, our revenue from sales of intermediates and other chemicals decreased by 3.7% year-on-year to RR 23,493 million from RR 24,407 million in 2011 as a result of a 13.8% decrease in sales volumes despite an 11.7% increase in the effective average selling price. The decrease in sales volumes is attributable to lower purchases from third parties as well as an increase in volumes of intermediates and other chemicals used internally. Out of 3,445 thousand tons of intermediates and other chemicals produced in 2012, approximately 82.3% were used internally for further intercompany processing compared to 79.9% in 2011.

SIBUR's integrated business model enables us to change the composition of our feedstock and product mix to optimize purchasing, production, sales and logistics in order to maximize blended Group margins. As a result, the share of external sales of intermediates and other chemicals may fluctuate significantly

[(1)] Including ABS plastics and PVC cable compounds.

[(2)] Including internal use at the segment’s production facilities and immaterial natural losses.

period to period depending on market trends, shifts in supply and demand fundamentals, capacity constraints and other factors.

The following table presents a breakdown of revenue from sales of our intermediates and other chemicals for the years ended 31 December 2012 and 2011:

	Year ended 31 December				Change
RR millions, except as stated	**2012**	***% of revenue*[(1)]**	**2011**	***% of revenue*[(1)]**	***%***
Intermediates, including					
Benzene	1,356	*0.5%*	2,348	*0.9%*	*(42.2%)*
Domestic	*1,356*	*100.0%*	*2,348*	*100.0%*	*(42.2%)*
Export	*-*	*-*	*-*	*-*	*n/m*
Styrene	2,390	*0.9%*	2,090	*0.8%*	*14.4%*
Domestic	*1,297*	*54.3%*	*398*	*19.0%*	*225.9%*
Export	*1,093*	*45.7%*	*1,692*	*81.0%*	*(35.4%)*
Terephthalic acid	2,593	*1.0%*	486	*0.2%*	*433.5%*
Domestic	*2,593*	*100.0%*	*486*	*100.0%*	*433.5%*
Export	*-*	*-*	*-*	*-*	*n/m*
Propylene	1,637	*0.6%*	2,426	*1.0%*	*(32.5%)*
Domestic	*1,251*	*76.4%*	*1,715*	*70.7%*	*(27.1%)*
Export	*386*	*23.6%*	*711*	*29.3%*	*(45.7%)*
Ethylene oxide	1,947	*0.7%*	1,907	*0.8%*	*2.1%*
Domestic	*1,699*	*87.3%*	*1,583*	*83.0%*	*7.3%*
Export	*248*	*12.7%*	*324*	*17.0%*	*(23.5%)*
Butadiene	420	*0.2%*	1,358	*0.5%*	*(69.1%)*
Domestic	*420*	*100.0%*	*1,358*	*100.0%*	*(69.1%)*
Export	*-*	*-*	*-*	*-*	*n/m*
Isoprene	1,482	*0.5%*	1,082	*0.4%*	*37.0%*
Domestic	*16*	*1.1%*	*24*	*2.2%*	*(33.3%)*
Export	*1,466*	*98.9%*	*1,058*	*97.8%*	*38.6%*
Isobutylene	936	*0.3%*	742	*0.3%*	*26.1%*
Domestic	*743*	*79.4%*	*651*	*87.7%*	*14.1%*
Export	*193*	*20.6%*	*91*	*12.3%*	*112.1%*
Ethylene	-	-	-	-	*n/m*
Other intermediates	2,931	*1.1%*	2,849	*1.1%*	*2.9%*
Domestic	*2,164*	*73.8%*	*2,514*	*88.2%*	*(13.9%)*
Export	*767*	*26.2%*	*335*	*11.8%*	*129.0%*
Total intermediates	15,692	*5.8%*	15,288	*6.1%*	*2.6%*
Domestic	*11,539*	*73.5%*	*11,077*	*72.5%*	*4.2%*
Export	*4,153*	*26.5%*	*4,211*	*27.5%*	*(1.4%)*
Other chemicals	7,801	*2.9%*	9,119	*3.7%*	*(14.5%)*
Domestic	*7,355*	*94.3%*	*7,136*	*78.3%*	*3.1%*
Export	*446*	*5.7%*	*1,983*	*21.7%*	*(77.5%)*
Total revenue	**23,493**	***8.7%***	**24,407**	***9.8%***	***(3.7%)***
Domestic	***18,894***	***80.4%***	***18,213***	***74.6%***	***3.7%***
Export	***4,599***	***19.6%***	***6,194***	***25.4%***	***(25.8%)***

(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.

The following table presents data on our production, purchases and sales volumes in intermediates and other chemicals for the years ended 31 December 2012 and 2011:

	Year ended 31 December		Change
Metric tons, except as stated	**2012**	**2011**	***%***
Production	3,445,000	3,147,238	*9.5%*
Intermediates, including	2,679,355	2,391,459	*12.0%*
Benzene	134,870	149,019	*(9.5%)*
Styrene	161,674	122,664	*31.8%*
Terephthalic acid	252,060	44,128	*471.2%*
Propylene	327,992	327,441	*0.2%*
Ethylene oxide	80,279	85,746	*(6.4%)*
Butadiene	212,082	226,558	*(6.4%)*
Isoprene	13,879	10,111	*37.3%*
Isobutylene	37,427	38,883	*(3.7%)*
Ethylene	540,382	535,080	*1.0%*
Other intermediates	918,710	851,829	*7.9%*
Other chemicals	765,646	755,779	*1.3%*
Purchases from third parties	13,127	69,698	*(81.2%)*
Total production and purchases	**3,458,128**	**3,216,936**	***7.5%***
(Internal use)[1]	(2,835,425)	(2,514,949)	*12.7%*
(Increase)/decrease in stock	(12,743)	5,763	*n/m*
External sales			
Benzene	47,001	93,035	*(49.5%)*
Domestic	*47,001*	*93,035*	*(49.5%)*
Export	-	-	*n/m*
Styrene	53,711	51,807	*3.7%*
Domestic	*28,693*	*9,571*	*199.8%*
Export	*25,018*	*42,236*	*(40.8%)*
Terephthalic acid	76,762	12,888	*495.6%*
Domestic	*76,762*	*12,888*	*495.6%*
Export	-	-	*n/m*
Propylene	47,953	67,247	*(28.7%)*
Domestic	*38,797*	*48,065*	*(19.3%)*
Export	*9,156*	*19,182*	*(52.3%)*
Ethylene oxide	60,298	60,853	*(0.9%)*
Domestic	*53,242*	*53,317*	*(0.1%)*
Export	*7,056*	*7,536*	*(6.4%)*
Butadiene	5,812	18,147	*(68.0%)*
Domestic	*5,812*	*18,147*	*(68.0%)*
Export	-	-	*n/m*
Isoprene	13,580	9,587	*41.7%*
Domestic	*149*	*196*	*(24.0%)*
Export	*13,431*	*9,391*	*43.0%*
Isobutylene	17,967	17,555	*2.3%*
Domestic	*14,512*	*14,966*	*(3.0%)*
Export	*3,455*	*2,589*	*33.4%*
Ethylene	-	-	*n/m*
Other intermediates	112,235	131,826	*(14.9%)*
Domestic	*77,954*	*114,741*	*(32.1%)*
Export	*34,281*	*17,085*	*100.6%*
Total intermediates	435,318	462,945	*(6.0%)*
Domestic	*342,921*	*364,926*	*(6.0%)*
Export	*92,397*	*98,019*	*(5.7%)*
Other chemicals	174,641	244,805	*(28.7%)*
Domestic	*166,238*	*221,084*	*(24.8%)*
Export	*8,403*	*23,721*	*(64.6%)*
External sales volumes	**609,960**	**707,750**	***(13.8%)***
Domestic	***509,160***	***586,010***	***(13.1%)***
Export	***100,800***	***121,740***	***(17.2%)***

[1] Including internal use at the segment's production facilities and immaterial natural losses.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

The following table presents selected data on our results of operations for the years ended 31 December 2012 and 2011:

RR millions, except as stated	Year ended 31 December 2012	*% of revenue*	2011	*% of revenue*	*Change %*
Revenue	**271,330**	***100.0%***	**248,660**	***100.0%***	***9.1%***
Energy products	129,409	*47.7%*	112,337	*45.2%*	*15.2%*
Petrochemical products	126,439	*46.6%*	121,902	*49.0%*	*3.7%*
Other	15,482	*5.7%*	14,421	*5.8%*	*7.4%*
Operating expenses	(199,618)	*(73.6%)*	(170,207)	*(68.4%)*	*17.3%*
Operating profit	**71,712**	***26.4%***	**78,453**	***31.6%***	***(8.6%)***
Net finance income /(expense)	3,040	*1.1%*	(4,415)	*(1.8%)*	*n/m*
Gain on acquisition of subsidiaries	430	*0.2%*	4,957	*2.0%*	*(91.3%)*
Share of net income of joint ventures and associates	751	*0.3%*	236	*0.1%*	*218.2%*
Impairment of other receivables	-	-	(1,731)	*(0.7%)*	*(100.0%)*
Gain/(loss) on disposal of investments	283	*0.1%*	(380)	*(0.2%)*	*n/m*
Profit before income tax	**76,216**	***28.1%***	**77,120**	***31.0%***	***(1.2%)***
Income tax expense	(15,816)	*(5.8%)*	(15,561)	*(6.3%)*	*1.6%*
Profit from continuing operations	**60,400**	***22.3%***	**61,559**	***24.8%***	***(1.9%)***
(Loss)/gain from disposal of Amtel Group assets	(315)	*(0.1%)*	1,240	*0.5%*	*n/m*
Profit for the year, including:	**60,085**	***22.1%***	**62,799**	***25.3%***	***(4.3%)***
Loss attributable to non-controlling interest	(41)	*(0.0%)*	(30)	*(0.0)%*	*36.7%*
Profit attributable to shareholders of SIBUR	60,126	*22.2%*	62,829	*25.3%*	*(4.3%)*

Revenue

In 2012, our revenue increased by 9.1% year-on-year to RR 271,330 million from RR 248,660 million in 2011.

The following table presents a breakdown of our revenue by product group for the years ended 31 December 2012 and 2011:

RR millions, except as stated	Year ended 31 December 2012	*% of revenue*	2011	*% of revenue*	*Change %*
Energy products					
LPG	54,760	*20.2%*	52,502	*21.1%*	*4.3%*
Naphtha	25,727	*9.5%*	21,118	*8.5%*	*21.8%*
Natural gas	24,938	*9.2%*	17,440	*7.0%*	*43.0%*
MTBE	16,731	*6.2%*	14,946	*6.0%*	*11.9%*
Raw NGL	3,911	*1.4%*	2,113	*0.8%*	*85.1%*
Other fuels and fuel additives	3,342	*1.2%*	4,218	*1.7%*	*(20.8%)*
Total energy product sales	**129,409**	***47.7%***	**112,337**	***45.2%***	***15.2%***
Petrochemical products					
Synthetic rubbers	41,134	*15.2%*	50,971	*20.5%*	*(19.3%)*
Plastics and organic synthesis products	39,633	*14.6%*	24,742	*10.0%*	*60.2%*
Intermediates and other chemicals	23,493	*8.7%*	24,407	*9.8%*	*(3.7%)*
Basic polymers	22,179	*8.2%*	21,782	*8.8%*	*1.8%*
Total petrochemical product sales	**126,439**	***46.6%***	**121,902**	***49.0%***	***3.7%***
Sales of processing services	5,184	*1.9%*	5,171	*2.1%*	*0.3%*
Other sales	10,298	*3.8%*	9,250	*3.7%*	*11.3%*
Total revenue	**271,330**	***100.0%***	**248,660**	***100.0%***	***9.1%***

For a detailed discussion on revenue dynamics see the "Operational Review" section above.

Operating Expenses

In 2012, our operating expenses rose 17.3% year-on-year to RR 199,618 million from RR 170,207 million in 2011, increasing as a percentage of total revenue to 73.6% in 2012 from 68.4% in 2011. The growth in absolute and relative terms was mainly due to higher feedstock and materials, transportation, staff and repairs and maintenance costs, as well as higher depreciation and amortization, which was partially attributable to the consolidation of new businesses. The increase in the above expenses was partially offset by lower goods for resale.

The following table presents a breakdown of our operating expenses for the years ended 31 December 2012 and 2011:

	Year ended 31 December				
RR millions, except as stated	**2012**	*% of revenue*	**2011**	*% of revenue*	*Change %*
Feedstock and materials	63,197	*23.3%*	49,309	*19.8%*	*28.2%*
Transportation and logistics	37,525	*13.8%*	30,909	*12.4%*	*21.4%*
Energy and utilities	29,793	*11.0%*	28,950	*11.6%*	*2.9%*
Staff costs	26,116	*9.6%*	22,091	*8.9%*	*18.2%*
Depreciation and amortisation	10,317	*3.8%*	8,216	*3.3%*	*25.6%*
Goods for resale	9,775	*3.6%*	15,516	*6.2%*	*(37.0%)*
Repairs and maintenance	7,602	*2.8%*	5,001	*2.0%*	*52.0%*
Services provided by third parties	6,559	*2.4%*	6,437	*2.6%*	*1.9%*
Rent	4,451	*1.6%*	2,962	*1.2%*	*50.3%*
Taxes other than income tax	2,118	*0.8%*	1,543	*0.6%*	*37.3%*
Charity and sponsorship	1,586	*0.6%*	1,051	*0.4%*	*50.9%*
Marketing and advertising	871	*0.3%*	783	*0.3%*	*11.2%*
Impairment of PPE	262	*0.1%*	-	-	*n/m*
Other	2,441	*0.9%*	3,415	*1.4%*	*(28.5%)*
Gain on disposal of property, plant and equipment	(1,728)	*(0.6%)*	(308)	*(0.1%)*	*(461,0%)*
Change in work-in-progress and refined products balances	(1,267)	*(0.5%)*	(5,668)	*(2.3%)*	*(77.6%)*
Total operating expenses	**199,618**	***73.6%***	**170,207**	***68.4%***	***17.3%***

Feedstock and Materials

In 2012, our feedstock and materials costs rose 28.2% year-on-year to RR 63,197 million from RR 49,309 million in 2011. As a percentage of total revenue, feedstock and materials costs increased to 23.3% in 2012 from 19.8% in 2011. The growth was primarily attributable to the consolidation of paraxylene purchases for OAO Polief starting from November 2011, higher costs associated with purchases of other feedstock and materials and, to a smaller extent, an increase in APG and NGL purchasing costs.

The following table presents information on our costs related to purchasing of feedstock and materials for the years ended 31 December 2012 and 2011:

	Year ended 31 December				
RR millions, except as stated	**2012**	*% of feedstock and materials expenses*	**2011**	*% of feedstock and materials expenses*	*Change %*
NGLs	24,743	*39.2%*	22,903	*46.4%*	*8.0%*
APG	7,254	*11.5%*	5,268	*10.7%*	*37.7%*
Paraxylene	5,448	*8.6%*	1,090	*2.2%*	*399.8%*
Other feedstock and materials	26,190	*41.4%*	21,580	*43.8%*	*21.4%*
Change of stock	(438)	*(0.7%)*	(1,532)	*(3.1%)*	*(71.4%)*
Total feedstock and materials	**63,197**	***100.0%***	**49,309**	***100.0%***	***28.2%***

The following table presents selected data on our feedstock purchasing volumes for the years ended 31 December 2012 and 2011(1):

Metric tons, except as stated	Year ended 31 December 2012	Year ended 31 December 2011	Change %
NGLs	3,405,600	3,349,138	*1.7%*
APG (thousand cubic metres)	12,986,326	12,697,565	*2.3%*
Paraxylene	166,810	30,014	*455.8%*

In 2012, our expenses related to purchasing of NGLs rose 8.0% year-on-year to RR 24,743 million from RR 22,903 million in 2011, which was attributable to a 6.2% increase in the affective average purchase price and a 1.7% increase in purchasing volumes. The increase in the average purchase price was mainly attributable to an expiry of a discount adjustment, which was previously applicable to our raw NGL purchases from TNK-BP within our JV arrangements (OOO Yugragazpererabotka), from the second quarter of 2012 (see "Feedstock Sourcing and Mix" in the "Certain Factors Affecting Our Results of Operations" section above for further details). In 2012, we also started purchasing raw NGL from a new supplier in the European part of Russia to optimize logistics and increase fractionation capacity utilization at SIBUR-Khimprom (Perm), which at the same time increased our average purchase price of raw NGL due to generally higher prices in the European part of Russia and because of a higher share of target hydrocarbon fractions in the purchased feedstock. The growth in the purchasing volumes was primarily attributable to additional volumes of attractively priced raw NGL available from one of our suppliers due to an increase in their natural gas production volumes, as well as to new purchases in the European part of Russia, as discussed above. The above factors were partially offset by lower purchasing volumes of LPG and naphtha, which are more expensive compared to raw NGL. As a percentage of total feedstock and materials expenses, NGLs purchasing costs decreased to 39.2% in 2012 from 46.4% in 2011, which was primarily attributable to the consolidation of paraxylene purchases for OAO Polief and change in stock of feedstock and materials.

In 2012, our APG purchasing expenses rose 37.7% year-on-year to RR 7,254 million from RR 5,268 million in 2011, increasing as a percentage of total feedstock and materials to 11.5% in 2012 from 10.7% in 2011. The growth in absolute and relative terms was attributable to an increase in the affective average purchase price by 34.6% and an increase in purchasing volumes by 2.3%. The increase in the effective average APG purchase price was primarily attributable to additional APG volumes purchased from one of the counterparties at a higher price in accordance with the initial agreement, as production of additional volumes is more capital intensive for the supplier. Additionally, there was a structural change in our arrangements with an existing supplier. The increase in purchasing volumes was driven by expanded cooperation with oil producers and development of APG processing infrastructure as part of our investment programme implementation.

Following the acquisition of control of OAO Polief, a PTA and PET producer, from November 2011, we consolidate paraxylene purchases, as paraxylene is used for PTA production. In 2012, our expenses related to paraxylene purchases rose 399.8% year-on-year to RR 5,448 million from RR 1,090 million in 2011, increasing as a percentage of total feedstock and materials to 8.6% from 2.2% in 2011.

In 2012, other feedstock and materials expenses increased by 21.4% year-on-year to RR 26,190 million from RR 21,580 million in 2011. The growth was mainly attributable to the reclassification of polypropylene purchases to other feedstock and materials from goods for resale following the consolidation of the BIAXPLEN group of companies from the second quarter of 2012, as it uses polypropylene as feedstock for production of BOPP-films. As a percentage of total feedstock and materials expenses, other feedstock and materials decreased to 41.4% in 2012 from 43.8% in 2011.

In 2012, we recorded a reversal of RR 438 million to our feedstock and materials costs compared to a reversal of RR 1,532 million in 2011, which was primarily related to an increase in balances of feedstock and materials in both periods, while this increase was lower in 2012 compared to 2011.

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

Transportation and Logistics

In 2012, our transportation and logistics costs increased by 21.4% year-on-year to RR 37,525 million from RR 30,909 million in 2011. As a percentage of total revenue, our transportation and logistics costs increased to 13.8% in 2012 from 12.4% in 2011. The increase in absolute and relative terms was attributable to three factors. First, our transportation and logistics costs were affected by longer natural gas delivery distances in 2012 compared to 2011, partially due to commencement of natural gas sales to NOVATEK (which was also reflected in revenue from natural gas sales) combined with an increase in the regulated gas transportation tariffs effective 1 July 2012. We expect that in 2013 our delivery distances on supplies to NOVATEK will decrease based on a change in delivery terms to "ex-field" under a new agreement signed in 2012 (see "Recent Developments" section and "Natural gas" subsection in the "Operational Review" section above for further details). Second, average Russian Railways tariffs increased in 2012 compared to 2011, while our discount rate on export deliveries of LPG from our Tobolsk GFU decreased (see "Transportation Tariffs" in the "Certain Factors Affecting Our Results of Operations" section for further details). Third, higher transported volumes of feedstock and refined products also contributed to the increase in our transportation and logistics expenses.

Energy and Utilities

In 2012, our energy and utilities expenses increased by 2.9% year-on-year to RR 29,793 million from RR 28,950 million in 2011, decreasing as a percentage of total revenue to 11.0% in 2012 from 11.6% in 2011. The growth in absolute terms was primarily attributable to higher fuel costs due to the reclassification of certain natural gas volumes from intercompany to external purchases following the commencement of natural gas purchases from NOVATEK (see "Natural gas" in the "Operational Review" section above for further details). The growth was also attributable to higher heat consumption due to increase in volumes and effective average tariff (see "Electricity and Heat Tariffs" in the "Certain Factors Affecting Our Results of Operations" section above for further details). The above factors were partially compensated by lower electricity expenses on a decrease in the average tariff despite higher purchasing volumes (see "Electricity and Heat Tariffs" in the "Certain Factors Affecting Our Results of Operations" section above for further details).

The following table presents data on our energy and utilities costs for the years ended 31 December 2012 and 2011:

	Year ended 31 December				***Change***
RR millions, except as stated	**2012**	***% of revenue***	**2011**	***% of revenue***	***%***
Electricity	19,143	*64.3%*	20,652	*71.3%*	*(7.3%)*
Heat	6,694	*22.5%*	6,057	*20.9%*	*10.5%*
Fuel	3,252	*10.9%*	1,727	*6.0%*	*88.3%*
Other	704	*2.4%*	514	*1.8%*	*37.0%*
Total energy and utilities	**29,793**	***100.0%***	**28,950**	***100.0%***	***2.9%***

Staff Costs

In 2012, our staff costs rose 18.2% year-on-year to RR 26,116 million from RR 22,091 million in 2011, increasing as a percentage of total revenue to 9.6% in 2012 from 8.9% in 2011.

In 2012, our average headcount totaled 30,644 employees, almost unchanged year-on-year, while adjusted for the effect of change of scope (accounting for both acquisitions and divestitures), it decreased by 3%. Average monthly salary increased by 17%, which was attributable to regular wage indexation and changes in the headcount composition due to a shift towards highly skilled and higher-paid employees at the production facilities and a higher share of personnel engaged in project activities on the back of extensive project implementation, primarily with respect to the investment activity.

In 2012, social taxes increased primarily due to changes in rates and grid for calculation of mandatory contributions to pension and other funds effective 1 January 2012.

In 2012, we started accruing provisions for bonuses to employees of our production facilities due to the adoption of a new motivation system and introduction of production and functional contracts with the employees of the production facilities, which has improved the overall bonus predictability. In 2011, bonus provisions were accrued only with respect to bonuses to headquarter employees.

Depreciation and Amortisation

In 2012, our depreciation and amortisation expenses rose 25.6% year-on-year to RR 10,317 million from RR 8,216 million in 2011, increasing as a percentage of total revenue to 3.8% in 2012 from 3.3% in 2011. The increase in absolute and relative terms was attributable to the launch of new production facilities and acquisitions completed in 2011 and 2012.

Goods for Resale

In 2012, our expenses related to purchases of goods for resale declined 37.0% year-on-year to RR 9,775 million from RR 15,516 million in 2011, decreasing as a percentage of total revenue to 3.6% in 2012 from 6.2% in 2011. The decline in absolute and relative terms was mainly attributable to the following factors: first, we discontinued trading activity with the tyres and mineral fertilizers businesses divested in December 2011; second, from the second quarter of 2012, we reclassified part of polypropylene purchases to other feedstock and materials from goods for resale as a result of consolidation of the BIAXPLEN group of companies, which use polypropylene as a feedstock for production of BOPP-films; third, we stopped purchases of LPG for further resale from one of our counterparties in the second quarter of 2012.

Repairs and Maintenance

In 2012, our repairs and maintenance expenses rose 52.0% year-on-year to RR 7,602 million from RR 5,001 million in 2011, increasing as a percentage of total revenue to 2.8% in 2012 from 2.0% in 2011. The growth in absolute and relative terms was primarily attributable to increased repairs and maintenance initiatives aimed at further industrial and ecological safety improvements, industrial infrastructure development and enhancement of the existing equipment efficiency.

Services Provided by Third Parties

In 2012, our expenses related to services provided by third parties rose 1.9% year-on-year to RR 6,559 million from RR 6,437 million, decreasing as a percentage of total revenue to 2.4% in 2012 from 2.6 % in 2011.

Rent Expenses

In 2012, our rent expenses rose 50.3% year-on-year to RR 4,451 million from RR 2,962 million, increasing as a percentage of total revenue to 1.6% in 2012 from 1.2% in 2011. The growth in absolute and relative terms was largely driven by a 39.8% expansion of leased rolling stock (to 9,300 rail cars and tankers as of 31 December 2012 from 6,652 units as of 31 December 2011), which was related to longer transportation distances and lower rolling stock turnover due to Russian Railways' infrastructural bottlenecks, as well as higher volumes of transported feedstock and refined goods. In addition, SIBUR's rental rates increased year-on-year in the range of 7% to 18% depending on a particular rail car or tanker type.

Taxes Other than Income Tax

In 2012, our taxes other than income tax rose 37.3% year-on-year to RR 2,118 million from RR 1,543 million in 2011, increasing as a percentage of total revenue to 0.8% in 2012 from 0.6% in 2011. The growth was primarily attributable to a provision related to a challenged tax benefit, which we applied in 2011 and 2010 in one of the regions of our operations, as well as higher property tax as new taxable properties were commissioned and new businesses were acquired in 2011 and 2012.

Charity and Sponsorship

In 2012, our expenses related to charity and sponsorship rose 50.9% year-on-year to RR 1,586 million from RR 1,051 million in 2011, increasing as a percentage of total revenue to 0.6% in 2012 from 0.4% in 2011. The growth in absolute and relative terms was primarily attributable to new sponsorship contracts, in particular related to social initiatives in the regions, where we implement our large-scale investment projects.

Marketing and Advertising

In 2012, our expenses related to marketing and advertising rose 11.2% year-on-year to RR 871 million from RR 783 million in 2011, largely flat as a percentage of total revenue at 0.3% in both 2012 and 2011. The growth in absolute terms was attributable to the expansion of our sponsorship and sports organizations support, as well as other corporate brand promotion initiatives in Russia and internationally.

Impairment of Property, Plant and Equipment

In 2012, we recognized an impairment charge of RR 262 million, which was attributable to a gradual decommissioning of Caprolactam, an outdated chlorine and caustic soda production facility located near the city of Dzerzhinsk, the Nizhny Novgorod region. The final shutdown of the facility is scheduled for April 2013, however, the decommissioning process started in the middle of 2012. The shutdown of Caprolactam is a part of our project to wind down utilization of the White Sea sludge reservoir. This production will be replaced by a modern and ecologically-friendly PVC production complex, which SIBUR is constructing together with SolVin Holding Nederland B.V. under a JV arrangement (RusVinyl). This new complex, located in Kstovo, the Nizhny Novgorod region, is scheduled for commercial launch in 2014.

Gain on Disposal of Property, Plant and Equipment

In 2012, we recorded RR 1,728 million in a gain on disposal of property, plant and equipment primarily related to the divestment of non-core gas transportation assets.

Change in Work-In-Progress and Refined Products Balances

In 2012, we recorded a reversal of RR 1,267 million to our operating expenses as compared to a reversal of RR 5,668 million in 2011, which was related to growth in balances of refined products and higher cost of such refined products. The growth was slower in 2012 compared to 2011. In 2012, we were accumulating inventory in certain product groups due to expected improvement in market conditions in 2013. In 2011, we were building-up inventory as a result of a change in our marketing and distribution strategy in basic polymers and synthetic rubbers aimed at eliminating intermediates and dealing directly with our customers. This increased average transportation distances and required stocking up at our regional warehouses.

Operating Profit

As a result of the factors discussed above, our operating profit decreased by 8.6%, to RR 71,712 million in 2012 from RR 78,453 million in 2011. Our operating margin totaled 26.4% in 2012 and 31.6% in 2011.

Finance income and expenses, net

In 2012, we had a net finance income of RR 3,040 million as compared to a net finance expense of RR 4,415 million in 2011, primarily as a result of a foreign exchange gain, as well as lower interest expense, which was partially offset by lower interest income.

The following table presents data on our finance income and expenses for the years ended 31 December 2012 and 2011:

RR millions, except as stated	Year ended 31 December 2012	2011	*Change %*
Interest income	870	2,142	*(59.4%)*
Interest expenses	(696)	(2,524)	*(72.4%)*
Foreign exchange gain/(loss)	2,633	(3,660)	*n/m*
Other finance income/(expense)	233	(373)	*n/m*
Total finance income/(expense)	**3,040**	**(4,415)**	***n/m***

In 2012, our interest income decreased by 59.4% year-on-year to RR 870 million from RR 2,142 million in 2011, which was attributable to a decrease in outstanding loans issued to third parties. First, we stopped lending to the mineral fertilizers and tyres businesses divested in 2011. Second, our loans to OAO Polief and the BIAXPLEN group of companies were treated as intercompany following the consolidation from November 2011 and the second quarter 2012, respectively. Third, at the end of 2011, we changed our approach to the financing of RusVinyl's investment programme and now report our share of financing as an equity contribution as opposed to previous reporting as loans issued.

In 2012, our interest expenses decreased by 72.4% year-on-year to RR 696 million from RR 2,524 million in 2012. The decrease was mainly attributable to the capitalisation of a part of our interest expense due to a higher share of borrowings associated with funding of SIBUR's investment program, as well as lower interest rates. Our weighted average interest rate on RR-denominated borrowings was 7.4% as of 31 December 2012 and 7.5% as of 31 December 2011. Our weighted average interest rate on USD-denominated borrowings was 2.8% as of 31 December 2012 and 3.2% as of 31 December 2011. Our weighted average interest rate on EUR-denominated borrowings was 1.8% as of 31 December 2012 and 3.0% as of 31 December 2011.

In 2012, we recorded a primarily unrealized foreign exchange gain in the amount of RR 2,633 million compared to a foreign exchange loss of RR 3,660 million reported in 2011, which was attributable to the year-end Russian rouble appreciation compared to the end of 2011 (RR/USD rate decreased by 5.7% to 30.3727 as of 31 December 2012 from 32.1961 as of 31 December 2011) and the respective revaluation of our USD-denominated debt, which also increased during 2012. On the contrary, the revaluation of our USD-denominated debt in 2011 resulted in an unrealized foreign exchange loss due to the Russian rouble depreciation.

In 2012, we recorded other finance income of RR 233 million compared to an expense of RR 373 million in 2011. The income in 2012 was mainly attributable to a recovery of a discount on non-current receivables from the BIAXPLEN group of companies, which the Group consolidated at the end of March 2012, as well as the revaluation of financial instruments, which was partially offset by an unwind of a discount on SIBUR's liabilities to third parties. In 2011, the expense was primarily attributable to the unwind of SIBUR's liabilities and the revaluation of financial instruments.

Gain on Acquisition of Subsidiaries

In 2012, we recognised a gain on acquisition of subsidiaries in the amount of RR 430 million. This was mainly attributable to the revaluation of a previously acquired stake in the BIAXPLEN group of companies after the Group gained 100% control at the end of March 2012.

In 2011, we recognised a gain on acquisition of subsidiaries in the amount of RR 4,957 million, which was mainly attributable to the re-measurement of previously held interest in OAO Polief and OOO National Polymers and also the re-measurement of loans and notes receivable from OAO Polief, which were impaired in 2009.

Share of Net Income of Joint Ventures and Associates

In 2012, our share of net income of joint ventures and associates totaled RR 751 million compared to RR 236 million recorded in 2011. The increase was primarily attributable to lower expenses related to the servicing of RusVinyl debt.

Gain / Loss on Disposal of Investments

In 2012, we recorded RR 283 million in a gain on disposal of investments as opposed to a loss of RR 380 million in 2011. The gain was related to the divestment of non-core transportation infrastructure assets. The loss was associated with disposals of ZAO Novokuybyshevskaya Neftekhimicheskaya Kompaniya and OAO Saranskiy zavod RTI.

Income Tax Expense

In 2012, our income tax expense increased by 1.6% year-on-year to RR 15,816 million from RR 15,561 million in 2011. Our effective income tax rate was 20.8% and 20.2% in 2012 and 2011, respectively.

Loss / Gain from Disposal of Amtel Group Assets

In 2012, we recorded RR 315 million in a loss from disposal of Amtel Group assets, which related to the disposal of ZAO Voronezh Tyre Plant. In 2011, we recorded RR 1,240 million in a gain from disposal of Amtel Group assets, which primarily related to the disposal of OAO Kirov Tyre Plant.

Profit for the Year and Profit Attributable to Shareholders of SIBUR

Our profit for 2012 decreased by 4.3% year-on-year to RR 60,085 million from RR 62,799 million in 2011. Net margin totaled 22.1% as compared to 25.3% in 2011. In 2012, profit attributable to shareholders of SIBUR decreased by 4.3% year-on-year to RR 60,126 million from RR 62,829 million in 2011.

SEGMENT INFORMATION

Our gross revenue of the feedstock and energy segment increased by 12.5% to RR 168,091 million in 2012 from RR 149,478 million in 2011. EBITDA contribution of the feedstock and energy segment increased by 9.9% year-on-year to RR 74,831 million in 2012 from RR 68,106 million in 2011. EBITDA margin of the segment totaled 44.5% in 2012 compared to 45.6% in 2011. The decrease in EBITDA margin of the feedstock and energy segment was primarily attributable to higher feedstock purchasing costs (see “Operating Expenses” in the “Results of Operations” section above for further details) and an increase in transportation, staff and repairs and maintenance costs.

Our gross revenue of the petrochemicals segment increased by 1.0% year-on-year to RR 135,634 million in 2012 from RR 134,243 million in 2011. EBITDA contribution of the petrochemicals segment decreased by 33.7% year-on-year to RR 16,130 million in 2012 from RR 24,330 million in 2011. EBITDA margin of the segment decreased to 11.9% in 2012 from 18.1% in 2011 primarily due to tighter spreads between feedstock and petrochemicals prices, which particularly negatively affected the results of our synthetic rubber product group, as well as higher cost base due to consolidation of new businesses in the plastics and organic synthesis product group.

The following table presents data on our segments’ revenue and EBITDA contribution for the years ended 31 December 2012 and 2011:

	Year ended 31 December							
	2012				**2011**			
RR millions, except as stated	**Feedstock & Energy**	**Petro-chemicals**	**Unallocated**	**Total**	**Feedstock & Energy**	**Petro-chemicals**	**Unallocated**	**Total**
Total segment revenue	168,091	135,634	21,298	325,023	149,478	134,243	18,221	301,942
Inter-segment transfers	(33,656)	(8,686)	(11,351)	(53,693)	(36,329)	(9,525)	(7,428)	(53,282)
External revenue	134,435	126,948	9,947	271,330	113,149	124,718	10,793	248,660
EBITDA	74,831	16,130	(8,670)	82,291	68,106	24,330	(5,767)	86,669
EBITDA margin	*44.5%*	*11.9%*	*n/m*	*30.3%*	*45.6%*	*18.1%*	*n/m*	*34.9%*

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table presents selected data on our net cash flows for the years ended 31 December 2012 and 2011:

	Year ended 31 December		Change
RR millions, except as stated	**2012**	**2011**	*%*
Net cash from operating activities, including	62,661	54,181	*15.7%*
Operating cash flows before working capital changes	*82,580*	*84,484*	*(2.3%)*
Changes in working capital	*(1,586)*	*(11,926)*	*(86.7%)*
Income tax paid	*(18,333)*	*(18,377)*	*(0.2%)*
Net cash (used in) investing activities, including	(50,992)	(41,290)	*23.5%*
Purchase of property, plant and equipment	*(74,274)*	*(55,553)*	*33.7%*
Proceeds from disposal of the mineral fertilizers and tyres businesses[(1)]	*7,751*	*33,023*	*(76.5%)*
Cash from investing activities of discontinued operations [(2)]	*6,584*	*2,157*	*205.2%*
Loans issued	*(2,041)*	*(41,968)*	*(95.1%)*
Other	*10,988*	*21,051*	*(47.8%)*
Net cash (used in) financing activities	(12,729)	(12,526)	*1.6%*
Dividends paid to the Company's shareholders	*(29,192)*	-	*n/m*
Effect of exchange rate changes on cash and cash equivalents	(341)	(810)	*(57.9%)*
Net decrease in cash and cash equivalents	(1,401)	(445)	*214.8%*

Net cash from operating activities

In 2012, our net cash from operating activities increased by 15.7% year-on-year to RR 62,661 million from RR 54,181 million in 2011. Operating cash flows before working capital changes decreased by 2.3% year-on-year to RR 82,580 million from RR 84,484 million in 2011 on the back of lower EBITDA. Income tax paid marginally decreased in 2012 and totaled RR 18,333 million as compared to RR 18,377 million in 2011. Changes in working capital had a negative impact of RR 1,586 million in 2012 versus a negative impact of RR 11,926 million in 2011.

The following table presents data on changes in working capital for the years ended 31 December 2012 and 2011:

	Year ended 31 December	
RR millions, except as stated	**2012**	**2011**
Decrease in trade and other receivables	1,720	322
(Increase) in prepayments and other current assets	(3,176)	(5,092)
(Increase) in inventories	(1,076)	(7,327)
Increase/(decrease) in trade and other payables	2,477	(502)
(Decrease)/increase in taxes payable	(1,531)	673
Changes in working capital	**(1,586)**	**(11,926)**

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 RR 38,876 million and RR 35,446 million as of 31 December 2012 and 2011, respectively, a 9.7% increase year-on-year.

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.

---

(1) Net of related income tax of RR 900 million in 2012 and RR 4,295 million in 2011.

(2) Proceeds from the disposal of ZAO Voronezh Tyre Plant and OAO Kirov Tyre Plant net of related income tax of RR 438 million in 2011.

Net Cash Used in Investing Activities

In 2012, our net cash used in investing activities increased by 23.5% year-on-year to RR 50,992 million from RR 41,290 million in 2011. The growth was mainly attributable to higher capital expenditures, which rose 33.7% year-on-year to RR 74,274 million from RR 55,553 million in 2011 due to the implementation of our investment programme (see the "Capital Expenditures" section below for further details).

The growth in capital expenditures in 2012 was partially compensated by proceeds from disposals: RR 7,751 million from the disposal of mineral fertilizers businesses and RR 6,584 million from the disposal of ZAO Voronezh Tyre Plant and OAO Kirov Tyre Plant.

In 2011, we also received material amounts in net cash proceeds, including the proceeds from the disposal of the mineral fertilizers and tyres businesses in the amount of RR 33,023 million and dividend payments of RR 6,921 million from the divested businesses. At the same time, in 2011, we issued loans in the total amount of RR 41,968 million, including RR 34,250 million related to the change in ownership and spent cash on acquisition of interest in joint ventures, which was attributable to the contribution of RR 12,650 million to the share capital of OOO RusVinyl.

Net Cash Used in Financing Activities

In 2012, our net cash used in financing activities increased by 1.6% year-on-year to RR 12,729 million from RR 12,526 million in 2011. In 2012, it related primarily to the dividend payments for 2011 and the first half of 2012 in the total amount of RR 29,192 million. It was partially compensated by proceeds from new borrowings and grants and subsidies received in connection with the implementation of our key investment projects. The total amount of grants and subsidies received in 2012 totaled RR 12,761 million.

In 2011, our net cash used in financing activities primarily related to a net repayment of debt, which was partially compensated by grants and subsidies in the total amount of RR 13,632 million, as well as sale of treasury shares for a total amount of RR 6,984 million.

Capital Expenditures

In 2012, our capital expenditures increased by 33.7% year-on-year to RR 74,274 million compared to RR 55,553 million in 2011 (net of VAT). The growth was attributable to our substantial investments in the development of our feedstock processing and transportation infrastructure as well as in our petrochemical projects in line with our strategic objectives.

The following table presents data on our key investment projects for the years ended 31 December 2012 and 2011:

RR millions, except as stated		Year ended 31 December		
Location	**Description**	**2012**	**2011**	**Completion**
Feedstock and Energy				
Transportation infrastructure development				
Western Siberia	Purovsk – Pyt-Yakh – Tobolsk pipeline	21,445	553	2015
Leningrad region	Ust-Luga LPG and light oils transshipment facility	6,234	6,423	2013
Gas processing capacity modernization and expansion				
Noyabrsk	Modernization of Vyngapurovskaya compressor station and its upgrade to a gas processing plant	2,824	1,639	Completed
Pyt-Yakh	Recovery unit at Yuzhno-Balykskiy GPP	767[1]	920[1]	Completed
Nizhnevartovsk	Third compressor station at Nizhnevartovskiy GPP[2]	577	1,931	Completed
Gas fractionation capacity modernization and expansion				
Tobolsk	Second GFU	3,756	337	2014
Petrochemicals				
Tobolsk	Tobolsk-Polymer Plant	16,958	22,463	2013
Tobolsk	"ZapSib-2" project FEED stage	3,891	208	2013
Voronezh	New thermoplastic elastomers production	2,743	1,015	2013
Kstovo	Steam cracker upgrade	1,636	1,240	2014
Tomsk	New BOPP-film production	939	22	2013
Tobolsk	Expansion of propylene intermediate depot	907	12	End of 2013
Blagoveshchensk	Expansion of PET production	791	46	2014
Novokuybyshevsk	Expansion of BOPP-film production	690	121	2014
Togliatti	Modernization/expansion of butyl rubber production	607	140	2013
Perm	Expandable polystyrene production line	519	1,379	Completed

In 2012 we successfully completed several large-scale investment projects (see the "Recent Developments" section above) and continued implementation of a number of investment projects in line with SIBUR's strategic objectives. Description of our key investment projects is presented below.

Feedstock & Energy

Purovsk – Pyt-Yakh – Tobolsk Pipeline for Raw NGL Transportation

SIBUR is in the process of construction of a 1,100 kilometre raw NGL pipeline connecting Purovskiy GCP owned by NOVATEK, Yuzhno-Balykskaya main pumping station near Pyt-Yakh and the Tobolsk production site, where SIBUR's flagship GFU is located (Purovsk – Pyt-Yakh – Tobolsk pipeline). The pipeline's throughput capacity between Purovskiy GCP and SIBUR's loading rack in Noyabrsk is expected to total approximately 4 million metric tons per annum, between the loading rack in Noyabrsk and Yuzhno-Balykskaya main pumping station – approximately 5.5 million metric tons per annum, and between Yuzhno-Balykskaya main pumping station and the Tobolsk production site – approximately 8 million metric tons per annum. The launch of the new pipeline will enable SIBUR to replace certain parts of the existing raw NGL pipeline and is expected to result in a substantial extension of SIBUR's raw NGL

[1] The difference between the amount invested during the first nine months of 2012 and during the whole year is explained by a repayment made by our EPC contractor for certain materials in accordance with the terms of the agreement.

[2] Including TNK-BP's share of financing.

transportation infrastructure, an increase in its throughput capacity and reliability. The project is aimed at securing our long-term access to abundant 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 expect that the creation of a single infrastructure for transportation of raw NGL to its flagship GFU will create a secure foundation for development of our petrochemicals business in Tobolsk. The project is scheduled for completion in 2015.

Ust-Luga LPG and Light Oils Transshipment Facility

SIBUR is in the process of construction of an LPG transshipment facility at Ust-Luga sea port in the Leningrad region with an annual loading capacity of 1.5 million metric tons of LPG and 2.5 million metric tons of light oils per annum. This project that is scheduled for completion in 2013 is expected to support growth in LPG exports to the premium Western European markets.

Second Gas Fractionation Unit (GFU) in Tobolsk

SIBUR expands its gas fractionation facility in Tobolsk through construction of a second GFU, which is expected to increase the overall raw NGL fractionation capacity at the Tobolsk production site to 6.6 million tons per annum from the current 3.8 million tons per annum. The project is scheduled for completion in 2014 and is aimed at handling the growing volumes of raw NGL supplies.

Petrochemicals

Tobolsk-Polymer Plant, an Integrated Propylene and Polypropylene Production Complex

SIBUR is in the process of construction of a large scale world-class petrochemicals complex in Tobolsk (Tobolsk-Polymer Plant). The complex will apply the propane dehydrogenation technology provided by UOP to produce 510,000 metric tons of propylene per annum to be further processed into 500,000 tons of polypropylene using the technology of INEOS. Tobolsk-Polymer Plant is located at the same production site as our flagship GFU. Tobolsk-Polymer is on the state top-priority project list in the region and represents a major step in execution of SIBUR's strategy of creating a full-scale petrochemicals hub in Western Siberia in close proximity to the hydrocarbon resource base. The project is almost completed and is scheduled for launch in 2013.

“ZapSib-2”, an Integrated Ethylene, Polyethylene and Polypropylene Production Complex, FEED Stage

SIBUR plans to make a final investment decision on the ZapSib-2 project after completion of the FEED stage no earlier than the second half of 2013. ZapSib-2 is a greenfield construction of an integrated basic polymers production complex in Tobolsk and is projected to operate a steam cracker with a total annual capacity of 1.5 million tons of ethylene (technology provided by LINDE), four polyethylene production units with a total annual capacity of 1.5 million tons (technology provided by INEOS), and one polypropylene production unit with an annual capacity of 500,000 tons (technology provided by LyondellBasell). In case of a decision to proceed with the project, we believe that it will be the largest integrated facility for production of basic polymers in Russia.

***

In December 2012, SIBUR's Board of Directors approved the 2013 capital expenditures budget in the aggregate amount of RR 74 billion (net of VAT). This excludes investments under joint ventures, loans issued to joint ventures or acquisitions. In addition to projects that have been formally approved by the Group's Investment Committee and the “ZapSib-2” project described above, a number of other projects have not yet gone through the formal approval process and are at various stages of review by SIBUR's management. Therefore, the actual amount of capital expenditures that we may incur may exceed the amounts that have been formally approved.

We expect that we will finance these 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 2012, our total debt amounted to RR 95,994 million compared to RR 82,910 million as of 31 December 2011, an increase of 15.8% year-on-year. Our net debt[(1)] increased by 21.3% year-on-year to RR 82,424 million as of 31 December 2012 from RR 67,939 million as of 31 December 2011. The increase is primarily attributable to raising funds to finance our capital expenditure programme.

The following table presents data on our total debt, cash and cash equivalents and net debt position as of 31 December 2012 and 2011:

RR millions, except as stated	**As of 31 December 2012**	**As of 31 December 2011**	***Change, %***
Total debt	95,994	82,910	*15.8%*
Cash and cash equivalents	13,570	14,971	*(9.4%)*
Net debt	82,424	67,939	*21.3%*

As of 31 December 2012, all of our debt was unsecured with the exception of the US dollar equivalent of RR 17,844 million outstanding under the Tobolsk-Polymer Plant project finance facility. The financing is primarily secured by OOO Tobolsk-Polymer shares and property, plant and equipment.

The following table presents detailed information on our borrowings as of 31 December 2012 and 2011:

			As of 31 December	
RR millions, except as stated	**Currency**	**Due**	**2012**	**2011**
Variable rate loans				
UniCreditBank	USD, EUR	2013-2019	5,465	858
ING Bank	RR, USD, EUR	2008-2021	1,748	6,406
Nordea Bank	USD	2013-2016	10,609	11,246
Vnesheconombank	USD	2013-2023	17,844	13,718
Rosbank	USD	2013	4,556	4,829
Sberbank of Russia	RR	2012	-	3,000
HSBC Bank plc.	USD	2013-2014	4,556	2,415
The Royal Bank of Scotland	USD	2013	275	-
RaiffeisenBank	USD	2012-2013	4,556	4,829
Citibank International	USD	2012-2013	7,593	431
KFW IPEX-Bank	USD	2013	1,822	-
RBS, JP Morgan	USD	2013	9,112	-
Fixed rate loans				
Russian rouble denominated bonds	RR	2012	-	31
Mezhregiongaz	RR	2011-2014	2,285	4,547
TNK-BP	RR, USD	2013-2017	4,485	4,545
Sberbank of Russia	RR, USD	2012-2014	18,932	18,000
NPP Neftekhimia	RR	2012-2015	625	500
TransCreditBank	RR	2012	-	2,900
CreditSuisse	RR	2012	-	1,500
Credit Agricole	RR	2012	-	3,000
The Royal Bank of Scotland	USD	2013	1,519	-
Other	RR, USD	2012-2013	12	155
Total debt			**95,994**	**82,910**

SIBUR aims to maintain a diversified debt portfolio with a sound balance of fixed and floating interest rate instruments. We also target improvements in our debt maturity profile.

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

The following table presents scheduled maturities of our outstanding debt as of 31 December 2012 and 2011:

RR millions, except as stated	**As of 31 December 2012**	***% of total debt***	**As of 31 December 2011**	***% of total debt***	***Change,%***
Due for repayment::					
Within one year	54,936	*57.2%*	31,194	*37.6%*	*76.1%*
Between one and two years	15,175	*15.8%*	16,364	*19.7%*	*(7.3%)*
Between two and five years	12,679	*13.2%*	22,636	*27.3%*	*(44.0%)*
After five years	13,204	*13.8%*	12,716	*15.4%*	*3.8%*
Total debt	**95,994**	***100.0%***	**82,910**	***100.0%***	***15.8%***

The following table presents currency split of our outstanding debt as of 31 December 2012 and 2011:

RR millions, except as stated	**As of 31 December 2012**	***% of total debt***	**As of 31 December 2011**	***% of total debt***	***Change, %***
Denominated in:					
RR	17,573	*18.3%*	39,910	*48.1%*	*(56.0%)*
Euro	2,171	*2.3%*	2,630	*3.2%*	*(17.5%)*
US Dollar	76,250	*79.4%*	40,370	*48.7%*	*88.9%*
Total debt	**95,994**	***100.0%***	**82,910**	***100.0%***	***15.8%***

As of 31 December 2012, the USD-denominated debt as a percentage of total borrowings increased to 79.4% from 48.7% as of 31 December 2011. The growth in US dollar borrowings was mainly attributable to obtaining short-term financing from international banks prior to the Eurobond placement, as well as new draw-downs under the Tobolsk-Polymer project finance facility.

The following table presents our key liquidity and credit ratios as of 31 December 2012 and 2011:

	As of 31 December 2012	**As of 31 December 2011**
Current ratio	0.87x	1.39x
Debt to equity	0.49x	0.50x
Debt/EBITDA	1.17x	0.96x
Net debt[1]/EBITDA	1.00x	0.78x
EBITDA/Interest expense	118x	34x

SIBUR's financial policy stipulates maintaining a net debt to EBITDA ratio of no higher than 2.5x and EBITDA to interest expense ratio of no lower than 7x. These objectives are stricter than the bank covenants included in the Group's most restrictive credit agreements. As of 31 December 2012, our net debt to EBITDA ratio was 1.00x compared to 0.78x as of 31 December 2011. EBITDA to interest expense ratio was 118x as of 31 December 2012 compared to 34x as of 31 December 2011. The increase in interest coverage was partially attributable to the capitalisation of a part of our interest expense due to a higher share of borrowings associated with funding of SIBUR's investment program.

As of 31 December 2012, SIBUR had RR 74,026 million available under its existing credit facilities denominated in Russian roubles, US dollars and euro, both short- and long-term, of which RR 41,225 million were committed. Committed credit facilities include RR 17,057 million under the Tobolsk-Polymer project finance facility, which can be used only for construction of this project as well as RR 93 million of ECA-backed financing linked to particular import contracts. The remaining RR 24,075 million are available for general corporate purposes and are sufficient to cover our short-term liquidity needs.

On 31 January 2013 we placed our debut Eurobond due 2018, raising USD 1 billion in gross proceeds. The coupon rate was set at 3.914% per annum and will be paid semi-annually. The issue was 5.5 times oversubscribed with orders received from 280 international accounts.

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

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.

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 2012 and 2011:

	As of 31 December	
RR millions, except as stated	**2012**	**2011**
Current assets	83,145	100,169
Current liabilities	(95,641)	(71,908)
Working capital	**(12,496)**	**28,261**
Adjustmets to assets, including:	**(18,960)**	**(37,611)**
Receivables for disposed businesses	-	(11,368)
Loans receivable	(1,222)	(911)
Cash and cash equivalents	(13,570)	(14,971)
Restricted cash	(890)	-
Assets classified as held for sale	(1,044)	(5,993)
Listed equity securities held for trading	-	(1,400)
Derivative financial instruments	-	(548)
Prepaid borrowing cost	(2,371)	(2,784)
Recoverable VAT related to assets under construction [1]	137	364
Adjustmets to liabilities, including:	**70,332**	**44,796**
Accounts payable to contractors and suppliers of property, plant and equipment	12,565	9,094
Payables for acquisition of subsidiaries	1,730	-
Short term promissory notes payable	2	2,631
Interest payable	521	510
Grants and subsidies	578	700
Short-term debt and current portion of long-term borrowings	54,936	31,194
Liabilities associated with non-current assets classified as held for sale	-	667
Adjusted working capital	**38,876**	**35,446**

[1] Represents non-current portion.