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 30 June 2012 and for the three and six months then ended in conjunction with our combined interim condensed financial information as of and for the three and six months ended 30 June 2012 and 2011 (hereinafter referred to as the "combined financial information"). The combined financial information and the related notes thereto have been prepared in accordance with International Financial Reporting Standards (IFRS).

The combined financial information for the three and six months ended 30 June 2012 and 2011 excludes the results of the mineral fertilizers and tires businesses, which were divested by SIBUR in December 2011. 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 the three and six months ended 30 June 2012 and 2011.

For convenience, the Group also publishes consolidated financial information that includes the results of the mineral fertilizers and tires businesses up to the date of their respective divestitures. The consolidated financial information can be found on the Group's website at www.sibur.com.

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

SELECTED DATA[1]

	Three months ended		Change	Six months ended		Change
	30 June 2012	**30 June 2011**	*%*	**30 June 2012**	**30 June 2011**	*%*
Operating results						
APG processing[2] (thousand cubic meters)	4,514,833	4,501,048	*0.3%*	9,140,248	9,006,158	*1.5%*
APG processing, SIBUR's share[3] (thousand cubic meters)	3,116,594	3,193,034	*(2.4%)*	6,301,268	6,353,960	*(0.8%)*
Natural gas production[2] (thousand cubic meters)	3,955,333	3,958,574	*(0.1%)*	8,008,428	7,900,462	*1.4%*
Natural gas production, SIBUR's share[3] (thousand cubic meters)	2,629,160	2,742,497	*(4.1%)*	5,323,616	5,437,933	*(2.1%)*
NGL production[2] (metric tons)	1,001,061	1,021,356	*(2.0%)*	2,052,198	2,059,952	*(0.4%)*
NGL production, SIBUR's share[3] (metric tons)	669,274	699,910	*(4.4%)*	1,379,469	1,409,859	*(2.2%)*
Natural gas sales volumes (thousand cubic meters)	2,463,872	2,227,035	*10.6%*	5,244,367	4,677,843	*12.1%*
Hydrocarbon liquids sales volumes (metric tons)	1,012,646	1,031,542	*(1.8%)*	1,993,041	1,963,363	*1.5%*
MTBE, other fuels & fuel additives sales volumes (metric tons)	153,628	151,941	*1.1%*	304,692	305,545	*(0.3%)*
Petrochemical products sales volumes (metric tons)	543,708	505,228	*7.6%*	1,154,083	1,051,716	*9.7%*

(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) Includes 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) Excludes TNK-BP's share in processing/production volumes of OOO Yugragazpererabotka

RR million except as stated	Three months ended 30 June 2012	Three months ended 30 June 2011	Change %	Six months ended 30 June 2012	Six months ended 30 June 2011	Change %
Financial results						
Income statement highlights						
Revenues (net of VAT and export duties)	65,330	62,108	*5.2%*	136,926	121,586	*12.6%*
EBITDA	19,503	23,320	*(16.4%)*	42,562	44,836	*(5.1%)*
EBITDA margin, %	*29.9%*	*37.5%*		*31.1%*	*36.9%*	
Operating profit	17,028	21,625	*(21.3%)*	37,845	41,464	*(8.7%)*
Operating margin, %	*26.1%*	*34.8%*		*27.6%*	*34.1%*	
Profit for the reporting period	8,466	15,758	*(46.3%)*	29,662	32,499	*(8.7%)*
Profit margin, %	*13.0%*	*25.4%*		*21.7%*	*26.7%*	
Earnings per share (in Russian rubles)	3.9	3.6	*6.7%*	13.6	7.5	*82.5%*
Weighted average number of shares(1)	2,178,479,100	4,324,655,500		2,178,479,100	4,356,958,300	
Cash flow highlights						
Net cash from operating activities	16,998	16,839	*0.9%*	38,847	27,446	*41.5%*
Net cash (used in) investing activities, incl.	(17,336)	(16,592)	*4.5%*	(15,821)	(23,124)	*(31.6%)*
Purchase of property, plant and equipment	*(20,342)*	*(12,091)*	*68.2%*	*(32,226)*	*(15,599)*	*106.6%*
Proceeds from disposal of the mineral fertilizers business and discontinued operations(2)	*2,631*	*-*	*n/m*	*16,304*	*-*	*n/m*
Net cash (used in) financing activities	(21,624)	(11,704)	*84.8%*	(33,888)	(13,253)	*155.7%*

	As of 30 June 2012	As of 31 March 2012	As of 31 December 2011
Key ratios			
Debt/EBITDA	0.99x	0.85x	0.96x
Net debt(3)/EBITDA	0.94x	0.56x	0.78x
EBITDA/Interest	71x	58x	34x

In the first half 2012, our revenues totaled RR 136,926 million compared to RR 121,586 million in the first half 2011, an increase of 12.6% year-on-year, which was largely due to higher sales volumes of most energy products as well as a launch of new production and consolidation of new petrochemical businesses in the plastics and organic synthesis product group. Our revenue growth slowed down in the second quarter 2012 to 5.2% year-on-year from 20.9% in the first three months of the year, which impacted the half year result. The slowdown was primarily attributable to external factors such as lower prices for oil and oil derivatives as well as for majority of our petrochemical products in the second quarter 2012. We also reported lower production volumes in our synthetic rubber product group due to an unscheduled shutdown at our production plant in Togliatti in April 2012.

Our first half 2012 EBITDA amounted to RR 42,562 million, a decline of 5.1% from RR 44,836 million in the same period a year earlier. The decrease in EBITDA is explained primarily by tighter spreads between feedstock and petrochemicals prices in the second quarter 2012, a non-recurring change in treatment of provisions related to staff costs, and higher transportation and repairs and maintenance costs. EBITDA margin totaled 31.1% compared to 36.9% for the first half 2011, when our margins reached their historical highs partially due to a very favorable external environment, namely high oil prices and a relatively weak ruble (see “Crude Oil, NGL, LPG and Naphtha Prices” and “Foreign Exchange Rate Fluctuations and Inflation” in the “Certain Factors Affecting Our Results of Operations” section for further details).

(1) Taking into account treasury shares cancelation in February 2012 and 1:100 stock split in June 2012
(2) Includes outstanding proceeds received from the disposal of the mineral fertilizers business net of related income tax of RR 900 million, as well as proceeds from the disposal of ZAO Voronezh Tire Plant and OAO Kirov Tire Plant
(3) Net debt represents total debt less cash and cash equivalents

Our profit for the first six months 2012 totaled RR 29,662 million compared to RR 32,499 million in the first half 2011, a decrease of 8.7% year-on-year. The profit for the reporting period was additionally affected by a foreign exchange loss attributable to the revaluation of our USD and EUR-denominated debt. Net margin for the first six months 2012 amounted to 21.7% versus 26.7% reported for the first six months 2011. Net of foreign exchange loss our net profit for the first half 2012 declined 3.5% year-on-year to RR 31,928 million from RR 33,103 million in the first half 2011. Net margin for the first six months 2012 (net of foreign exchange loss) amounted to 23.3% versus 27.2% for the first half 2011.

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

The following table provides a reconciliation of EBITDA to profit for the three and six months ended 30 June 2012 and 2011:

	Three months ended		**Six months ended**	
RR million except as stated	**30 June 2012**	**30 June 2011**	**30 June 2012**	**30 June 2011**
Profit for the reporting period	**8,466**	**15,758**	**29,662**	**32,499**
Loss from discontinued operations	-	-	315	-
Income tax expense	2,468	4,821	6,633	8,565
Loss on disposal of investments	-	246	-	246
Share of net loss/(income) of joint ventures	13	(122)	79	(255)
(Gain) on acquisition of a subsidiary	-	-	(430)	-
Net finance expenses	6,081	922	1,586	409
Impairment of property, plant and equipment	262	-	262	-
Depreciation and amortization	2,213	1,695	4,455	3,372
EBITDA	**19,503**	**23,320**	**42,562**	**44,836**

OVERVIEW

SIBUR is the largest integrated gas processing and petrochemicals company in Russia and CIS as well as Central and Eastern Europe as measured by revenues. We purchase associated petroleum gas and liquid hydrocarbon feedstock from major Russian oil and gas companies and process them into energy products, including liquefied petroleum gases, natural gas(1) and naphtha and further into various petrochemical products, including basic polymers, synthetic rubbers, plastics, products of organic synthesis, intermediates and other chemicals. We sell to around 1,500 customers in the energy, automotive, construction, retail and other industries in 60 countries. In the first half 2012, our sales to the Russian domestic market accounted for 53.1% of total revenues and 46.9% was attributable to exports.

SIBUR was formed in 1995 as part of the Russian Government's privatization process on the basis of gas processing and gas fractionation assets located primarily in Western Siberia. Through the early 2000s, SIBUR pursued an active acquisition strategy and became a vertically integrated petrochemicals company through purchases of several Russian petrochemical enterprises. From 2003 our focus has shifted to predominantly organic development, and we have continuously invested in the expansion and modernization of our assets to enhance our opportunities of growth in both feedstock supplies and domestic demand for petrochemicals. As of 30 June 2012, SIBUR owned and operated 27 production sites across Russia and employed approximately 31,800 people.

Since September 2011, Leonid Mikhelson, the CEO and founder of OAO NOVATEK, has been the ultimate controlling shareholder of the Group. 100% of the share capital of OAO SIBUR Holding is owned by Sibur Limited.

(1) Equivalent to dry gas

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, operating results, cash flow and financial condition are subject to the influence of a number of external factors and conditions, including those set out below.

Macroeconomic Environment

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. We are also subject to economic risks specific to the Russian Federation as all of our production assets are located in Russia.

The slowdown of the global economy, which began in the second half of 2011, continued into the first half 2012. This was largely attributable to the escalation of the sovereign debt crisis in the Eurozone and decelerating growth in China and Asia as a whole, excluding Japan, which is recovering from the low base 2011. On the contrary, the US economy reported healthy growth in the first half 2012, however outstanding debt issues do not provide enough certainty needed for a long-term growth.

Russian GDP growth accelerated in the first half 2012 compared to the first half 2011. In the first quarter 2012, Russian GDP surged 4.9% year-on-year, which was strongly supported by record high oil prices. In the second quarter, the GDP growth rate decelerated to 4.0% on the back of oil price volatility and uncertainty around the Eurozone situation.

Russia's industrial production rose 3.1% in January-June 2012 compared to a 5.3% growth a year earlier. International trade growth rate slowed to 7.3% from 28.7% in the first half 2011. At the same time, growth in Russia's agricultural sector production accelerated to 4.2% compared to just 0.7% in the first half of the previous year. The construction industry also demonstrated a healthy trend, with a 5.4% growth in production versus 1.2% reported for the same period a year earlier. The Russian consumer sector also contributed materially to the GDP growth, with a 7.3% increase in retail turnover in the first half 2012 versus 5.4% in the first six months 2011.

The following table contains selected data on year-on-year GDP growth for the three and six months ended 30 June 2012 and 2011[1]:

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
World	**2.4%**	**2.7%**	**2.5%**	**3.0%**
European Union	(0.3%)	1.6%	(0.1%)	2.0%
United States	2.2%	1.9%	2.3%	1.9%
Asia	5.0%	3.9%	4.9%	4.5%
Asia (excluding Japan)	5.5%	6.5%	5.5%	6.9%
Russia	4.0%	3.6%	4.5%	3.6%

[1] Sources: IHS Chemical, Russian Federal State Statistics Service

Foreign Exchange Rate Fluctuations and Inflation

Movements of the Russian ruble against the US dollar and euro can have a significant effect on our financial performance. Our functional and reporting currency is the Russian ruble. However, our sales to countries outside of Russia (46.9% and 43.6% of total revenues in the first half 2012 and 2011, respectively) are mainly denominated in US dollars with a smaller part denominated also in euro. At the same time, most of our expenses are denominated in Russian rubles. Russian ruble depreciation thus positively affects SIBUR's results, while ruble appreciation has a negative effect.

Mitigating this currency effect, however, is the high historical level of correlation between RR/USD and RR/EUR exchange rates and oil prices. When oil prices go up, the Russian ruble tends to appreciate against major world currencies and vice versa. Prices for a large portion of our products are linked to oil prices. Hence rising oil prices tend to increase our revenues, mitigating the negative effect of the strengthening of the Russian ruble on export sales. On the contrary, lower oil prices, while negatively impacting part of our sales, tend to lead to a weaker Russian ruble, which has a positive effect on SIBUR's export revenue. This works as a natural hedge against foreign exchange rate fluctuations and oil price volatility.

A significant part of the Group's borrowings is also denominated in foreign currencies (67.9% and 51.9% as of 30 June 2012 and 31 December 2011, respectively), primarily in US dollars. When the Russian ruble depreciates against the US dollar, US dollar-denominated liabilities increase in Russian ruble terms, as do interest costs on our foreign currency-denominated borrowings. In addition, our financial expenses tend to increase as a result of foreign exchange losses that we must record.

The following table presents selected data on exchange rate movements for the three and six months ended 30 June 2012 and 2011[(1)]:

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
RR/USD rate at the end of the preceding period	29.3282	28.4290	32.1961	30.4769
RR/USD rate at the end of the reporting period	32.8169	28.0758	32.8169	28.0758
Average RR/USD rate	31.0139	27.9857	30.6390	28.6242
RR/EUR rate at the end of the preceding period	39.1707	40.0223	41.6714	40.3331
RR/EUR rate at the end of the reporting period	41.3230	40.3870	41.3230	40.3870
Average RR/EUR rate	39.8088	40.2939	39.7436	40.1647

Inflation and interest rates in Russia have been steadily declining in recent years, but historically the country had higher inflation and interest rates compared to developed markets. High inflation and interest rates may have a significant effect on our financial performance as they increase our cost base and could also negatively affect our ability to ensure cost-effective debt financing.

The following table presents selected data on inflation rates for the six and twelve months ended 30 June 2012 and 2011[(2)]:

	30 June to 31 December		30 June to 30 June	
	2012/2011	**2011/2010**	**2012/2011**	**2011/2010**
Consumer price index (CPI)	103.2%	105.0%	103.8%	109.5%
Producer price index (PPI)	100.3%	107.8%	106.1%	120.0%

[(1)] Source: the Central Bank of the Russian Federation
[(2)] Sources: Russian Federal State Statistics Service

Feedstock Sourcing and Mix

To operate our business successfully, we must obtain sufficient quantities of feedstock in a timely manner and at acceptable prices. Our feedstock access and mix therefore can have a material impact on our financial results.

Types of Hydrocarbon Feedstock

We primarily use two major types of hydrocarbon feedstock: associated petroleum gas (APG) and liquid hydrocarbons.

APG is used as a feedstock for our feedstock & energy business. It is processed at our gas processing plants (GPPs) into natural gas and natural gas liquids (NGL), which are further fractionated at our gas fractionation units (GFUs) into liquefied petroleum gases (LPG) and naphtha. APG accounted for 21.9% and 18.9% of our expenses related to third-party hydrocarbon feedstock purchases in the first half 2012 and 2011, respectively. As a percentage of total feedstock and materials costs, APG accounted for 11.6% and 11.0% in the first half 2012 and 2011, respectively.

Liquid hydrocarbons comprise NGL, LPG and naphtha. LPG and naphtha represent the principal feedstock for our petrochemical business. NGL can be used as a raw material for both feedstock & energy business and for petrochemicals. A large portion of NGL, LPG and naphtha is produced internally by our feedstock & energy business: NGL is produced through processing of APG at GPPs; while LPG and naphtha are produced through subsequent fractionation of NGL at GFUs. We also purchase NGL, LPG and naphtha from third parties, located primarily in Western Siberia. Liquid hydrocarbon feedstock accounted for 78.1% and 81.1% of our expenses related to third-party hydrocarbon feedstock purchases in the first half 2012 and 2011, respectively(1). As a percentage of total feedstock and materials costs, liquid hydrocarbons purchased from third parties accounted for 41.5% and 47.3% in the first half 2012 and 2011, respectively(1). Due to the abundance of liquid hydrocarbon feedstock in Western Siberia, domestic prices for liquid hydrocarbons are determined on the basis of export netbacks to international market prices. Given relatively high and rising transportation costs and export duties in Russia, our sourcing prices of liquid hydrocarbon feedstock are substantially lower than those available to most of our international petrochemical peers.

Other Feedstock

Other feedstock includes paraxylene, which is used in the production of terephthalic acid (PTA), methanol, which is used in the production of MTBE, and certain intermediate chemicals such as butadiene, benzene and others, which we buy in addition to our own production of intermediates for processing into value-added petrochemical products.

Feedstock Sourcing

A large portion of our hydrocarbon feedstock (47.6% and 45.3% of total hydrocarbon feedstock supply volumes as measured in metric tons of liquids extracted in both the first half 2012 and 2011(2), respectively) is obtained through OOO Yugragazpererabotka, our joint venture (JV) arrangement with TNK-BP located in the Khanty-Mansi Autonomous Area, 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, APG pipelines from compressor stations to the GPPs and NGL transportation infrastructure connecting the GPPs with SIBUR's NGL pipeline.

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(1) NGL purchased from TNK-BP as part of our JV arrangements (OOO Yugragazpererabotka) is accounted for as liquid hydrocarbon feedstock (see "Feedstock Sourcing" below)
(2) Calculation of metric tons of liquids extracted does not take into account natural gas produced through processing of APG

SIBUR and TNK-BP have a series of agreements, under which TNK-BP supplies APG to OOO Yugragazpererabotka for processing into NGL and dry gas[1]. SIBUR pays for 51% of the total APG volumes supplied by TNK-BP to OOO Yugragazpererabotka, while the remaining 49% are processed by OOO Yugragazpererabotka for TNK-BP, which pays a processing fee for these services. SIBUR obtains 51% of all NGL and dry gas volumes produced by the JV's GPPs, while TNK-BP obtains the rest. Subsequently SIBUR purchases TNK-BP's share of NGL and sells its share of dry gas to TNK-BP.

In addition to our arrangements with TNK-BP, we purchase APG from other major oil companies in Western Siberia, including Rosneft, LUKoil, Gazprom Neft and RussNeft, primarily under long-term contracts. As of 30 June 2012, 61% of our planned APG supplies for 2012 were guaranteed under multi-year supply contracts[2]. Overall, as of 30 June 2012, our multi-year APG supply contracts had a weighted average maturity of 6.6 years[2].

Our main suppliers of liquid hydrocarbon feedstock in addition to TNK-BP, which supplies NGL under our JV arrangements, are major oil and gas companies, including Gazprom, Surgutneftegas and Northgas. As of 30 June 2012, 59% of our planned liquid hydrocarbon feedstock supplies for 2012 were guaranteed under multi-year supply contracts[2]. Overall, as of 30 June 2012, our multi-year liquid hydrocarbon feedstock supply contracts had a weighted average maturity of 7.0 years[2].

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 liquid hydrocarbon feedstock supplies.

Feedstock Trends

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. Among other things, companies face fines for flaring APG in excess of an allowed limit (now set at 5% of APG production, while in accordance with the Central Dispatch Administration of the Fuel and Energy Complex (the "CDU-TEK") producers flare up to 24% of APG). Recent tightening of regulations has increased the material risks of flaring for oil companies.

SIBUR provides oil companies with an attractive solution for APG utilization, therefore, we are able to source APG at advantageous prices. As APG does not have a relevant benchmark price, we purchase it from oil companies at prices that are negotiated on a case-by-case basis and are dependent on the following key factors: quality and composition of APG in terms of target liquid fractions content, distance of an APG source from SIBUR's GPP, availability of collection and transportation infrastructure and capital and operating expenditures needed to construct, expand and maintain it as well as which of the parties incurs such expenditures. The price is also dependent on potential capital expenditures of an oil company to construct its own gas processing capacity as an alternative to selling APG to SIBUR. Once agreed upon in absolute terms, our APG purchase price is regularly indexed to reflect changes in the regulated prices for natural gas (see "Natural Gas Prices" in the "Certain Factors Affecting Our Results of Operations" section for further details).

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[1] Equivalent to natural gas
[2] Including all APG and NGL supplies from TNK-BP under JV arrangements (OOO Yugragazpererabotka)

APG volumes from the 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 produced APG may decline. We expect this trend to be partially offset by lower APG flaring rates and SIBUR's efforts to increase the liquids recovery ratio at our GPPs.

Liquid hydrocarbons, our other major feedstock type, can also come from oil production, but they are increasingly produced alongside natural gas. Unlike APG, liquid hydrocarbon feedstock is priced with a reference to international oil prices on an export netback basis. Given abundant volumes of liquid hydrocarbon feedstock in Western Siberia as well as high and rising transportation tariffs and export duties, domestic prices in Western Siberia are substantially lower than those available to the majority of our international petrochemical peers. This makes liquid hydrocarbons an attractive feedstock for a domestic petrochemical business, particularly if it is located close to hydrocarbon resources, where the transportation factor is minimized.

We believe that supplies of liquid hydrocarbons in Western Siberia will grow substantially faster than those of APG, due to steadily growing production of natural gas and increasing share of wet gas in upcoming gas production. Liquid hydrocarbon feedstock is expected to be a growing source for the future development of our petrochemical business, particularly for our projects located in Western Siberia.

Crude Oil, NGL, LPG and Naphtha Prices

Changes in prices for crude oil have a significant effect on both our cost of sales and revenues, as prices for a large portion of our feedstock and processed goods are directly or indirectly linked to oil or oil derivative prices. Oil prices have historically been volatile and dependent on a variety of factors such as changes in market supply and demand balances, geopolitical developments affecting producing countries, force majeure events, etc. Growth in oil prices in the first quarter 2012 turned into a correction in the second quarter of the year, which was attributable to the escalation of the sovereign debt crisis in the Eurozone and decelerating growth in China. These factors were partially offset by continuing instability in the Middle East, including new sanctions against Iran and concerns around Syria. In the second quarter 2012, Brent crude oil prices declined on average by 7.4% year-on-year to USD 108.3 per barrel. In the first half 2012, Brent price increased by 2.3% year-on-year to USD 113.6 per barrel. Oil markets volatility has continued into the second half 2012.

The following table presents average benchmark market prices for crude oil, naphtha and LPG for the three and six months ended 30 June 2012 and 2011[(1)]:

	Three months ended		***Change***	**Six months ended**		***Change***
USD per metric ton except as stated	**30 June 2012**	**30 June 2011**	***%***	**30 June 2012**	**30 June 2011**	***%***
Brent (USD per barrel)	108.3	117.0	*(7.4%)*	113.6	111.0	*2.3%*
Naphtha (average FOB Rotterdam/CIF NWE)	876.7	988.8	*(11.3%)*	945.1	946.4	*(0.1%)*
LPG DAF Brest	778.0	796.1	*(2.3%)*	780.1	764.4	*2.1%*
LPG (Sonatrach)	844.1	932.5	*(9.5%)*	917.5	901.6	*1.8%*

Pricing for our feedstock represented by NGL, LPG and naphtha is based on various factors including transportation costs and export duties, which are discussed further in this section, however the most influential effects on prices are directly or indirectly linked to international market prices for oil or oil derivatives. Hence higher prices for oil and oil derivatives negatively affect our cost base, and vice versa.

In addition to purchasing NGL, LPG and naphtha, we also produce them at our GPPs and GFUs, while only a certain portion of produced and purchased volumes is used as feedstock by our petrochemicals business (ranging between 30% and 40% from period to period). As a result, SIBUR is a net seller of these energy products. Sales of NGL, LPG and naphtha accounted for approximately 30.0% and 30.8% of our total external revenues in the first half 2012 and 2011, respectively. We sell NGL, LPG and naphtha on both the domestic and international markets under long-term contracts and on the energy spot markets at prices that are dependent on international market prices for oil and oil derivatives.

[(1)] Sources: Bloomberg, SIBUR estimates

Our position as a net seller of energy products mitigates the negative effect of higher oil prices on our cost base and produces a net positive impact on our financial results driven by higher revenues from sales of products linked to prices for oil and oil-derivatives. Lower oil prices, on the contrary, positively impact our cost base but suppress revenues, with a net negative impact on our financial results.

In addition to our feedstock & energy segment, a large portion of our revenues is derived from the production and sales of petrochemical products (approximately 47.1% and 49.1% of total external revenues in the first half 2012 and 2011, respectively). Prices for many petrochemical products tend to track price movements for oil and oil derivatives, particularly naphtha, the primary feedstock for most chemicals, as petrochemical producers strive to pass feedstock price increases onto consumers. However, petrochemical product prices are also largely dependent on supply and demand fundamentals determined by cyclical factors in the petrochemical industry, which do not necessarily move in parallel with oil and oil product prices, as well as demand trends in the customer industries, which are influenced by the macroeconomic situation globally and in the relevant countries. Our vertically integrated business model enables us to react flexibly to market trends and shifts in supply and demand fundamentals by rebalancing our sales mix between energy products and petrochemicals. This partially protects us against volatility in oil prices as our petrochemical business is exposed to customer industries other than energy with different supply and demand trends.

Natural Gas Prices

The Russian Government, through the Federal Tariff Service (FTS), regulates the price at which Gazprom sells natural gas on the domestic market. Changes in regulated gas prices have a significant effect on both our operating expenses and revenues, as they directly or indirectly influence the prices at which SIBUR purchases a large portion of its feedstock and sells its natural gas, and also has a substantial impact on the utility costs.

In November 2006, the FTS announced a plan to liberalize prices for natural gas sold on the Russian domestic market. Over time, regulated natural gas prices are expected to rise to a level closer to parity with export netbacks, although present prices are significantly below parity. With effect from 1 January 2010 and 2011, respectively, the FTS approved two annual increases of 15% each in regulated natural gas prices. In February 2011, the FTS issued a revised version of the domestic natural gas market liberalization plan, according to which the target date for full liberalization of the domestic natural gas market was set at 1 January 2015. According to the revised Russian Socio-Economic Development Forecast for 2012, issued in September 2011, regulated natural gas prices were increased by an additional 15% with effect from 1 July 2012, with further annual increases of 15% each to be implemented in 2013 and 2014. We believe that the FTS will continue to approve annual rate increases but could modify the percentages from those specified in the revised plan.

APG, one of our key raw materials, does not have a secondary market or a benchmark market price. Prices at which we purchase APG from the oil companies are negotiated on a case-by-case basis and depend on a variety of factors as discussed in "Feedstock Sourcing and Mix" above. While there are major differences in APG and natural gas prices in absolute terms since we typically purchase APG with a substantial discount to the FTS regulated gas prices due to the economic reasons (as discussed in "Feedstock Sourcing and Mix" above, APG requires processing, which is associated with material operational costs and capital expenditures to construct, expand and maintain the required infrastructure) most of our supply contracts regularly index APG prices to reflect changes in FTS regulated gas prices.

SIBUR processes APG to produce NGL, which are further fractionated into LPG and naphtha, and we also produce natural gas for sale on the domestic market. Our natural gas sales accounted for approximately 8.4% and 7.3% of total revenues in the first half 2012 and 2011, respectively. We sell natural gas primarily to major Russian oil and gas companies under long-term agreements. We are not subject to the Russian Government's regulation of natural gas prices, but our effective selling prices are linked to movements in regulated gas prices.

As the prices at which SIBUR purchases APG and at which we sell natural gas are both dependent on changes of regulated gas prices, while APG purchase price is substantially lower than natural gas selling price (due to economic reasons discussed above), increases in natural gas prices at present have a net positive effect on SIBUR's financial results. However, changes in our pricing arrangements with either APG suppliers or natural gas buyers have a negative effect on our financial results if the spread between our average APG purchasing price and our average natural gas selling price tightens.

Additionally, our net long position in natural gas reduces our exposure to growth in utility costs, which to a large extent are influenced by increases in natural gas prices. Nevertheless, expected dilution of natural gas' share in our sales due to the changing composition of our feedstock is likely to increase our potential exposure to utility cost increases.

Trends in Key End-Customer Industries

Demand for our products is affected by trends in key end-customer industries, which differ depending on a segment or a product group. For SIBUR as a whole, the key end-customer industries are energy, refining, petrochemicals, retail, construction, including road building, automotive and others.

The Russian economy continued its slowdown from the second half 2011: the country's industrial production posted a 3.1% growth in the first six months 2012 and only a 2.3% in the second quarter 2012. This trend was largely explained by stagnation in oil, gas and mining industries, which in total account for up to 10% of Russia's GDP. In the first half 2012, oil, gas and mining industries grew by an average of 0.9% year-on-year compared to 2.5% in the first half 2011. Manufacturing industries (approximately 12% of Russia's GDP) reported relatively strong growth of 4.7% and 4.4% in the second and the first quarters 2012, respectively. At the same time this growth was slower than in 2011: in the first half 2012, manufacturing production growth reached 4.5% versus 8.0% in the same period a year earlier.

Sharp growth in Russian automotive production in 2011, due to the entrance of foreign producers and development of localization programs, has expectedly slowed down to 16.8% in the first half 2012 compared to 63.1% in the same period a year earlier. The chemicals industry reported only a 1.1% growth in the first half 2012 versus 6.9% in the first six months 2011. Meanwhile, the retail and construction industries outpaced their 2011 growth rates. In the first half 2012, retail posted a 7.3% growth year-on-year compared to 5,4% in the same period a year earlier. Construction grew by 5.4% in January-June 2012 compared to 1.2% in the first six months 2011.

The following table presents selected data on growth in key customer industries in Russia for the three and six months ended 30 June 2012 and 2011[(1)]:

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June2011**
Industrial production	**2.3%**	**4.8%**	**3.1%**	**5.3%**
including				
Mining	0.4%	1.7%	0.9%	2.5%
Manufacturing	4.7%	5.8%	4.5%	8.0%
including				
Automotive	14.7%	43.6%	16.8%	63.1%
Chemicals	2.0%	5.8%	1.1%	6.9%
Electricity, gas and water production and supply	0.8%	1.9%	1.8%	0.2%
Construction	**5.4%**	**1.0%**	**5.4%**	**1.2%**
including				
Road building	31.7%	(2.9%)	4.2%	(21.2%)
Retail	**7.0%**	**5.7%**	**7.3%**	**5.4%**

(1) Sources: Russian Federal State Statistics Service

A substantial portion of our export revenues is derived from the European Union and Asia. Industrial production growth in these regions defines demand trends and impacts our export strategy. In 2012, Asia and particularly China, remained the global leader in industrial production growth. In the first half 2012, Asian industrial production increased year-on-year by an impressive 8.1%; this, however, is still below the 11.4% reported by the region in the first six months 2011.
The sovereign debt crisis in the Eurozone has a negative impact on the region's real sector with the European Union's industrial production declining by 1.7% year-on-year in the first half 2012 compared to a 5.0% growth of the first half 2011.

The slowdown in China and the declining production in Europe have negatively affected Russian exports and resulted in lower prices for majority of petrochemical products in the first half 2012.

The following table presents selected data on industrial production growth for the three and six months ended 30 June 2012 and 2011[1]:

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
World	**3.7%**	**5.0%**	**3.8%**	**6.0%**
European Union	(2.0%)	3.6%	(1.7%)	5.0%
United States	4.7%	3.6%	4.6%	4.5%
Asia	7.7%	10.7%	8.1%	11.4%

Cyclicality and Trends in the Petrochemicals Industry

Prices of petrochemical products are subject to significant fluctuations as they are influenced by global supply and demand trends. Consequently, petrochemical producers' profit margins have historically been cyclical and are sensitive to domestic and international market imbalances. Demand is generally linked to economic activity, while supply is linked to long-term investments in capacity expansion. When significant new capacity comes on stream and is not matched by corresponding growth in demand, average industry operating margins fall. As a result, the petrochemical cycle is characterized by periods of tight supply, leading to high capacity utilization rates and margins, followed by periods of oversupply, leading to reduced capacity utilization rates and margins.

The years 2012 and 2011 were marked by strengthening of competitive positions of North American petrochemical producers, as growth in shale gas extraction led to lower prices for hydrocarbon feedstock. Several petrochemical players began to consider plans for new gas processing and cracker capacity in shale gas production areas. North American ethane crackers are expected to take leading positions on the global cost curves in the coming years.

Peak capacity expansion in the Middle East is over, due to constraints on further oil production growth; going forward the region is expected to focus on adding downstream capacity. China, on the other hand, is set to continue its aggressive expansion of the domestic petrochemicals production base, seeking self-sufficiency. China also heavily invests in "methanol-to-olefins" technology, which is already competitive compared to traditional cracking facilities due to relatively low construction costs and coal prices.

European producers face intense competition in bulk petrochemicals market segments from players from the Middle East and Asia, which forces them to restructure their businesses and focus on high-tech valued-added products development.

Overall, the first half 2012 was marked by lower rates of global petrochemicals production growth and price corrections on the back of macroeconomic instability, concerns over the escalating debt crisis in Europe, Chinese economy slowdown, and other factors.

[1] Sources: CPB Netherlands Bureau For Economic Policy Analysis, Russian Federal State Statistics Service

In the first half 2012, Russia's chemicals production grew by only 1.1% year-on-year compared to 6.9% in the first six months 2011, due primarily to lower production of plastics and mineral fertilizers as well as a substantial slowdown in synthetic rubbers production growth. An industrial accident at the end of 2011 and subsequent shutdown of a third-party production facility resulted in a 2.3% decrease in bulk plastics production in the first half 2012 compared to an 8.1% growth in the corresponding period of 2011. Production of mineral fertilizers decreased by 2.5% in the first half 2012 as opposed to a 6.1% growth in the corresponding period of 2011, which was attributable to several factors including late spring and an overall challenging macro environment. As a result, mineral fertilizers sales volumes decreased by 3.1% year-on-year in the first half 2012 compared to a growth of 21.1% in the same period a year earlier. Synthetic rubbers production posted a modest growth of 0.9% in the first half 2012, a material slowdown from 9.3% in the corresponding period of 2011. This was attributable primarily to an unscheduled shutdown at our Togliatti production site in April 2012: overall synthetic rubbers production volumes in Russia decreased by 2.4% year-on-year in the second quarter 2012, which partially offset a 3.7% growth reported in the first quarter of the year.

Fundamentally, the outlook for the Russian petrochemicals industry remains strong, as the country substantially lags behind developed and emerging market peers in use of petrochemicals on a per capita basis. In 2011, Russian consumption of polypropylene (PP) per capita was 1.9 times lower than in China, 2.2 times lower than in Central Europe, 3.0 times lower than in the US, while Russian consumption of polyethylene (PE) per capita was 1.1 times, 1.3 times and 2.9 times lower than in China, Central Europe and the US, respectively(1). Russia is well positioned to increase petrochemicals production due to the solid macroeconomic outlook, size of the domestic market, high market share of expensive imports, combined with the access to low-cost feedstock and solid balance sheets of Russian producers.

The following table presents selected data on chemical sector production growth for the three and six months ended 30 June 2012 and 2011(2):

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
European Union	(1.1%)	1.5%	(2.0%)	2.8%
United States	0.5%	(0.2%)	0.4%	0.6%
China	14.4%	18.8%	17.5%	20.6%
Russia	2.0%	5.8%	1.1%	6.9%

Electricity and Heat Tariffs

Our business is energy-intensive. The share of energy as a portion of total processing costs varies significantly between our production facilities, ranging from 10% at certain petrochemical plants to 60% at our GPPs. Electricity and heat account for the largest portion of our energy costs (approximately 86.2% and 88.1% in the first half 2012 and 2011, respectively). Changes in tariffs for electric power and heat have a significant effect on our operating expenses.

Electricity

SIBUR's electricity purchases are centralized, through OAO Mezhregionenergosbyt (Gazprom Group) and our subsidiary OAO SiburEnergoManagement. This approach enables us to leverage our purchasing power and save on the purchase price. In addition to purchases of electricity for SIBUR's internal needs, OAO SiburEnergoManagement also buys electricity for further resale to third parties, which primarily include residents of our production cities, such as repair and auto transportation companies. Revenues from sales of electricity to third parties is reported as "trading and other sales".

(1) Source: IHS Chemical, SIBUR estimates
(2) Sources: Eurostat, China Petroleum and Chemical Industry Association, Federal Reserve Board, Russian Federal State Statistics Service

The Russian electricity market had been liberalized by 1 January 2011. However, maximum levels of electricity prices remain under the supervision of the Federal Antimonopoly Service (FAS) of Russia and regional regulatory authorities. In addition to the investment budgets of generating and grid companies, an important factor that influences electricity prices is fuel cost (mainly natural gas and coal). Increases in natural gas prices tend to result in higher electricity prices despite the Government's efforts to constrain inflation. SIBUR also owns and expands its own electric power generating capacity. In September 2012, we launched a 6.8 MW power plant at our Vyngapurovskiy GPP's site to ensure the GPP's independence from third-party suppliers. However at the Group's level, our own electric power generation accounts for an insignificant share in total electricity consumption.

Heat Energy

SIBUR sources 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 minimize our dependence on third-party providers, SIBUR generates a substantial portion of heat energy (approximately 54% of the total heat consumed) at our own facilities. This enables us to save up to 30% on total heat costs.

The following table presents volumes purchased and effective average tariffs for electricity and heat for the three and six months ended 30 June 2012 and 2011:

	Three months ended				*Change, %*		Six months ended				*Change, %*	
	30 June 2012		30 June 2011				30 June 2012		30 June 2011			
	Volume	Average tariff	Volume	Average tariff	*Volume*	*Average tariff*	Volume	Average tariff	Volume	Average tariff	*Volume*	*Average tariff*
Electricity (millions of kw/hour or RR per kw/hour), *including*	2,328	1.88	2,495	2.02	*(6.7%)*	*(7.0%)*	4,766	1.89	5,279	1.99	*(9.7%)*	*(5.2%)*
Internal use	*1,960*	*1.95*	*2,028*	*1.96*	*(3.4%)*	*(0.5%)*	*3,973*	*1.92*	*4,048*	*2.11*	*(1.9%)*	*(9.0%)*
Heat (thousands of gigacalories or RR per gigacalory)	2,099	658	2,245	646	*(6.5%)*	*2.0%*	5,068	662	5,128	658	*(1.2%)*	*0.6%*

As both electricity and heat tariffs are influenced by increases in natural gas prices, SIBUR's net long position in natural gas partially reduces our exposure to growth in these tariffs. Nevertheless, expected dilution of natural gas' share in our sales due to the changing composition of our feedstock is likely to reduce the level of protection against utility cost growth (see "Natural Gas Prices" in the "Certain Factors Affecting Our Results of Operations" section for further details).

Transportation Tariffs

SIBUR incurs substantial transportation costs due to the geographic spread of our operations. While we operate our own gas and NGL pipelines and railway carrier fleet, we also use third-party transportation services. Changes in transportation tariffs and prices for these services have a significant effect on our operating expenses.

Pipeline Transportation Tariffs

SIBUR transports natural gas through its own gas pipelines into the Unified Gas Supply System (UGSS), which is owned and operated by OAO Gazprom, Russia's state-owned monopoly. The Federal Tariff Service (FTS) regulates tariffs for transportation of natural gas through UGSS for independent gas producers and revises them on an annual basis. In December 2009, the FTS approved a 12.3% average increase in the UGSS transportation tariff for 2010; in December 2010, a further increase of 9.3% on average was introduced.

An average increase of 7.0% was approved by the FTS effective 1 July 2012. According to the revised Forecast of Socio-Economic Development of the Russian Federation for 2012 and 2013-2014, the transportation tariffs for natural gas produced by independent producers will be increased in 2013 and 2014 as of the same date as the increase in the regulated natural gas prices and will not exceed the forecasted inflation rate.

Railway Transportation Tariffs

We use rail for transportation of our refined products, intermediates and feedstock, including 100% of our LPG, MTBE and naphtha, significant volumes of NGL (between our GPPs and GFUs) and a major part of our petrochemical products.

Rail transportation costs in Russia comprise a transportation tariff charged for access to Russia's main railway and usage of locomotives (the "RZD tariff"), which accounts for approximately 80-85% of total rail transportation costs, as well as operator fees and cost of rolling stock (approximately 15-20% of total rail transportation costs). The RZD tariff is charged by Russian Railways (RZD), Russia's state-owned monopoly, and is regulated by the FTS. Operator services and services related to the provision of rolling stock are provided by RZD and independent operators on market terms.

The RZD tariff is specific to types of products, types of carriers and their tonnage, transportation routes and size of a transportation patch. The FTS revises RZD tariffs on an annual basis. In December 2009, the FTS approved a 9.4% average increase for the 2010 RZD transportation tariff. In December 2010, an average increase of the RZD transportation tariff for 2011 was approved at 8.0%. For 2012, an average increase of 6.0% was approved by the FTS.

Historically we have been able to obtain discounted rates from the FTS on export deliveries of LPG from our Tobolsk GFU (our major LPG production facility) on an annual basis. In 2010, the discounted rate was 0.53 of the basic tariff. In 2011, the discounted rate was revised to 0.68 of the basic tariff, while for 2012 the FTS approved the discounted rate of 0.71 of the basic tariff.

SIBUR owns and operates ZAO Sibur-Trans, a licensed railway operator. ZAO Sibur-Trans is responsible for handling SIBUR's rail logistics, which includes purchasing transportation services from RZD and acting as a rail car fleet operator. As of 30 June 2012, total fleet under management of ZAO Sibur-Trans included 16,749 rail cars and tankers (primarily specialized tankers and cars for LPG transportation), 6,222 of which were owned with the remainder rented under long-term lease agreements or short-term transportation contracts. Centralized management of rail logistics and carrier fleet ownership enable SIBUR to optimize transportation expenses and guarantee timely deliveries of required volumes to customers and own production facilities.

Truck Transportation

SIBUR also uses trucks to transport petrochemical products, primarily within Russia (for basic polymers and synthetic rubbers) and to some extent for export (for synthetic rubber deliveries to Europe). We do not operate our own truck fleet but use third-party services from a variety of truck transportation service providers. There is no single operator that handles a significant portion of our truck deliveries, as this is a highly fragmented and competitive market.

Port Facilities

We deliver our LPG, naphtha, MTBE and other products to export markets through the international ports in Odessa (Ukraine), Ilyichevsk (Ukraine), Kerch (Ukraine), Riga (Latvia), St.Petersburg (Russia), Nakhodka (Russia), Vladivostok (Russia) and others. In some ports we are using loading and storage facilities, while to the majority we deliver on FOB basis. Currently port charges do not represent a significant portion of our transportation costs.

SIBUR is in the process of construction of an LPG and light oils trans-shipment facility at Ust-Luga sea port in the Leningrad region with an annual storage and loading capacity of 1.5 million metric tons of LPG and 2.5 million metric tons of light oils per annum. The commercial launch of the project is scheduled for 2013. The project is aimed to support growth in LPG exports to premium Western European markets.

Multimodal Transportation Services

We also use services of Russia's largest multimodal transportation operators to deliver certain volumes of our petrochemical products such as basic polymers and synthetic rubbers to export markets. This implies provision of a comprehensive service of delivering our products to their end-markets and enables us to optimize our transportation costs.

Export Duties on LPG and Naphtha

LPG (excluding butane and isobutene) and naphtha (excluding pentane and isopentane) sold internationally are subject to export duties, which are set monthly by the Russian Government. Exports to CIS countries that are members of the Customs Union (Republic of Belarus and Republic of Kazakhstan) are not subject to export duties.

The 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, export duty on naphtha was 67% of the crude oil export duty. Effective July 2011, the Russian Government raised the 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 average quarterly export duties on LPG and naphtha for the three and six months ended 30 June 2012 and 2011:

	Three months ended 31 March		**Three months ended 30 June**		**Six months ended 30 June**		***Change, %***
Export duties, USD per metric ton	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	***H1 2012 / H12011***
LPG							
At the end of the period	157.3	150.2	237.1	189.6	237.1	189.6	*25.1%*
Average for the period	180.0	166.1	197.4	137.0	188.7	151.6	*24.5%*
Naphtha							
At the end of the period	370.1	244.6	377.8	309.6	377.8	309.6	*22.0%*
Average for the period	360.7	234.3	398.7	299.2	379.7	266.8	*42.3%*

As Russia's domestic prices for LPG and naphtha are based on export netbacks, high export duties and transportation expenses reduce the local price for LPG and naphtha, making them an attractive feedstock for domestic petrochemical producers.

RECENT DEVELOPMENTS

Credit Rating Upgrades

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.

Both rating agencies noted that the upgrades were driven by SIBUR's robust historical financial performance, strong credit metrics, and the agencies' opinion that the new shareholders support the Group's strategy and conservative financial policies.

New Contracts and Joint Ventures

In September 2012, SIBUR's Board of Directors approved gas supply contracts between SIBUR and NOVATEK.

- In the first quarter 2013, SIBUR will deliver to NOVATEK up to 800 million cubic meters of natural gas from the Unified Gas Supply System (UGSS), owned and operated by OAO Gazprom, for up to RR 1,700 million (including VAT). The price will be based on forecasted regulated natural gas prices for industrial consumers.
- Between 2013 and 2022, SIBUR will deliver to NOVATEK up to 69,700 million cubic meters of natural gas for up to RR 360,000 million. The price will be based on forecasted regulated natural gas prices for industrial consumers. This contract is subject to approvals by the companies' Shareholders' Meetings.

In August 2012, SIBUR registered its subsidiary in India, SIBUR Petrochemical 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. The project is being developed under our JV with Reliance Industries (Reliance Sibur Elastomers Private Limited), which was formed in February 2012. Reliance Industries owns 74.9% of the JV, while SIBUR's share is 25.1%.

In May – June 2012, SIBUR signed a number of license and design agreements with the world-leading engineering and petrochemical companies to develop the design for ZapSibNeftekhim, the largest in Soviet and Russian history integrated petrochemical complex 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; and
- Master design agreement with Russia's leading engineering institution OAO VNIPIneft.

SIBUR expects to make a final investment decision on ZapSibNeftekhim project in the second half 2013 after the FEED stage completion.

In April – June 2012, SIBUR and China Petrochemical Corporation Sinopec entered into cooperation agreements:

- In June 2012, we signed an agreement to set up a JV for nitrile-butadiene rubber (NBR) and polyisoprene rubber (IR) production in Shanghai. SIBUR will contribute its technologies for both facilities. Total annual capacity is expected to amount to 50,000 metric tons for each facility.
- In April 2012, we signed a framework agreement to form a JV for nitrile rubber production in Krasnoyarsk on the basis of SIBUR's existing plant. Sinopec considers acquisition of a 25% plus 1 share in the plant. In case the JV is established, the partners will consider an expansion of the plant's production capacity from 42,000 metric tons to 56,000 metric tons per annum. The final decision on the establishment of the JV is expected to be made before the end of 2012.

In March 2012, we signed a long-term chartering agreement with Navigator Gas (the UK) on two 20,600 cubic meters gas tankers. Also in March, we signed an agreement with OAO Sovkomflot on two additional gas tankers of the same tonnage. The leased tankers will be used for regular year-round LPG shipments. SIBUR plans to export LPG through an LPG trans-shipment facility at 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 meters in 2012 to no less than 1.4 billion cubic meters 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 will ensure an annual transportation of more than six million metric tons of gas and petrochemical products from SIBUR's plants located in the southern part of the Tyumen region as well as in the Yamal-Nenets and Khanty-Mansi Autonomous Areas in the period from 2012 to 2014.

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.

Divestitures

In July 2012, SIBUR announced a gradual decommissioning of Kaprolaktam, an obsolete chlorine and caustic soda production facility located near the city of Dzerzhinsk. The facility is currently owned by SIBUR-Neftekhim, a subsidiary of SIBUR. The final shutdown of the facility is scheduled for April 2013, however, the decommissioning process is already under way. The decommissioning will be accomplished in close cooperation with the authorities of the Nizhny Novgorod region and the city of Dzerzhinsk and under the supervision of the Rostekhnadzor (Federal Service for Environmental, Technological and Nuclear Supervision) regional office. Kaprolaktam shutdown is a part of our project to wind down utilization of the White Sea sludge reservoir. As the first step under our agreement with the government of the Nizhny Novgorod region to set up an industrial park named "Oka–Polymer" on the former Kaprolaktam site, which was signed a year ago, a management company for the park was registered; the park is expected to accommodate polymer processing companies, R&D institutions and others. SIBUR, under its JV arrangements with SolVin Holding NL BV, plans to launch a modern ecology-friendly PVC production complex at RusVinyl production site in Kstovo in 2014 using the technologies of Solvay (Belgium).

OPERATIONAL REVIEW

Energy Products

Our energy products, mainly comprised of natural gas, liquefied petroleum gases (LPG), naphtha and natural gas liquids (NGL), are sold primarily to end-customers in the energy, utilities and petrochemical industries in Russia and internationally. We also produce fuel additives, including methyl tertiary butyl ether (MTBE), which we sell to major oil refineries on both the domestic and international markets. In the first half 2012, revenues from the Russian domestic market accounted for approximately 41.4% of total external energy product sales and 58.6% was attributable to exports.

We also use LPG, naphtha and NGL as feedstock for processing into petrochemical products: in the first half 2012, approximately 35.5% of our total LPG, naphtha and NGL volumes available for sale (both produced internally and purchased from third parties), were supplied to our petrochemicals business for further processing, while external sales accounted for 64.5% of available for sale volumes.

Growth in global oil and oil derivatives prices in the first quarter 2012 was followed by a price correction in the second quarter of the year (see "Crude Oil, NGL, LPG and Naphtha Prices" in the "Certain Factors Affecting Our Results of Operations" section for further details). Additionally, indexation of FTS regulated gas prices was postponed from January to July 2012 (see "Natural Gas Prices" in the "Certain Factors Affecting Our Results of Operations" section for further details). These two factors suppressed SIBUR's energy products revenue growth both in the second quarter and in the first six months of the year. At the same time we saw a positive impact from higher sales volumes of naphtha, natural gas and MTBE.

In the second quarter 2012, our revenues from external sales of energy products increased by 7.9% year-on-year to RR 30,839 million from RR 28,577 million in the corresponding period of 2011, with sales of MTBE, natural gas and naphtha being the key growth drivers.

In the first half 2012, our revenues from external sales of energy products increased by 15.5% year-on-year to RR 63,441 million compared to RR 54,907 million in the same period a year earlier.

The following table presents data on revenues from energy product sales for the three and six months ended 30 June 2012 and 2011:

	Three months ended					Six months ended				
RR million except as stated	**30 June 2012**	***% of total SIBUR revenues***[(1)]	**30 June 2011**	***% of total SIBUR revenues***[(1)]	***Change %***	**30 June 2012**	***% of total SIBUR revenues***[(1)]	**30 June 2011**	***% of total SIBUR revenues***[(1)]	***Change %***
LPG	13,224	*20.2%*	14,167	*22.8%*	*(6.7%)*	26,691	*19.5%*	26,754	*22.0%*	*(0.2%)*
Domestic	*3,108*	*23.5%*	*3,621*	*25.6%*	*(14.2%)*	*5,560*	*20.8%*	*6,970*	*26.1%*	*(20.2%)*
Export	*10,116*	*76.5%*	*10,546*	*74.4%*	*(4.1%)*	*21,131*	*79.2%*	*19,784*	*73.9%*	*6.8%*
Naphtha	5,821	*8.9%*	5,130	*8.3%*	*13.5%*	12,774	*9.3%*	9,848	*8.1%*	*29.7%*
Domestic	*569*	*9.8%*	*938*	*18.3%*	*(39.3%)*	*1,021*	*8.0%*	*2,792*	*28.3%*	*(63.4%)*
Export	*5,251*	*90.2%*	*4,191*	*81.7%*	*25.3%*	*11,753*	*92.0%*	*7,056*	*71.7%*	*66.6%*
Natural gas, domestic sales	5,381	*8.2%*	4,267	*6.9%*	*26.1%*	11,491	*8.4%*	8,896	*7.3%*	*29.2%*
MTBE	4,812	*7.4%*	3,627	*5.8%*	*32.7%*	9,234	*6.7%*	6,769	*5.6%*	*36.4%*
Domestic	*3,426*	*71.2%*	*2,268*	*62.5%*	*51.1%*	*6,413*	*69.5%*	*3,785*	*55.9%*	*69.4%*
Export	*1,386*	*28.8%*	*1,359*	*37.5%*	*2.0%*	*2,820*	*30.5%*	*2,984*	*44.1%*	*(5.5%)*
Other fuels and fuel additives	782	*1.2%*	924	*1.5%*	*(15.3%)*	1,643	*1.2%*	1,797	*1.5%*	*(8.6%)*
Domestic	*781*	*99.8%*	*921*	*99.6%*	*(15.1%)*	*1,641*	*99.9%*	*1,787*	*99.5%*	*(8.2%)*
Export	*1*	*0.2%*	*3*	*0.4%*	*(60.3%)*	*1*	*0.1%*	*9*	*0.5%*	*(85.3%)*
NGL	820	*1.3%*	462	*0.7%*	*77.5%*	1,608	*1.2%*	844	*0.7%*	*90.7%*
Domestic	*13*	*1.6%*	*363*	*78.6%*	*(96.3%)*	*128*	*7.9%*	*482*	*57.1%*	*(73.5%)*
Export	*807*	*98.4%*	*99*	*21.4%*	*715.3%*	*1,481*	*92.1%*	*362*	*42.9%*	*309.1%*
Total revenues	**30,839**	***47.2%***	**28,577**	***46.0%***	***7.9%***	**63,441**	***46.3%***	**54,907**	***45.2%***	***15.5%***
Domestic	***13,278***	***43.1%***	***12,378***	***43.3%***	***7.3%***	***26,254***	***41.4%***	***24,712***	***45.0%***	***6.2%***
Export	***17,561***	***56.9%***	***16,199***	***56.7%***	***8.4%***	***37,187***	***58.6%***	***30,196***	***55.0%***	***23.2%***

Liquefied Petroleum Gases (LPG)

We sell LPG both in Russia and abroad, to customers in the energy and petrochemical industries. We also use LPG as feedstock for our own petrochemical business: approximately 24.7% and 22.5% of the total volumes of LPG available for sale were delivered to our petrochemical business for further processing in the first half of 2012 and 2011, respectively.

In the second quarter 2012, our revenues from external LPG sales decreased by 6.7% year-on-year to RR 13,224 million from RR 14,167 million in the same period a year earlier on both lower sales volumes and average selling prices on the international markets. Our effective average selling price increased by 2.6% year-on-year while average selling price on the international markets decreased by 2.3%. Growth in the domestic selling prices by 8.5% on average in the second quarter 2012 is explained by local market conditions, in particular, higher retail prices for gasoline, which triggered growth in retail prices for LPG as a substitute product and subsequently translated into higher wholesale prices for LPG.

In the three months ended 30 June 2012, our LPG sales volumes decreased by 9.0% year-on-year despite a 3.8% increase in production due to lower purchases from third parties as in the second quarter 2012 we terminated a temporary purchasing arrangement, which was used in 2011 and the first quarter 2012 primarily for LPG trading purposes.

LPG revenues growth in the first quarter 2012 was largely offset by lower LPG revenues in the second quarter 2012, which resulted in LPG revenues decline in the first half 2012 by 0.2% to RR 26,691 million from RR 26,754 million in the first six months 2011. Approximately 20.8% of total revenues from LPG sales were derived from the domestic market, while export accounted for 79.2% (primarily to Europe and CIS countries).

[(1)] "Domestic" and "export" lines in this table contain percentages of the respective product/product group revenues

The following table presents data on our LPG production, purchases and sales volumes for the three and six months ended 30 June 2012 and 2011:

Metric tons except as stated	Three months ended 30 June 2012	Three months ended 30 June 2011	*Change %*	Six months ended 30 June 2012	Six months ended 30 June 2011	*Change %*
LPG						
Production	939,752	905,780	*3.8%*	1,916,221	1,806,917	*6.0%*
Purchases from third parties, including	36,416	161,702	*(77.5%)*	108,509	309,805	*(65.0%)*
Purchases for resale	*22,903*	*85,509*	*(73.2%)*	*36,353*	*153,619*	*(76.3%)*
Total production and purchases	**976,169**	**1,067,482**	***(8.6%)***	**2,024,730**	**2,116,722**	***(4.3%)***
(Fractionation[(1)] and internal use)	(85,418)	(128,956)	*(33.8%)*	(261,508)	(277,150)	*(5.6%)*
(Increase)/decrease in stock	(2,366)	19,553	*n/m*	7,535	11,668	*(35.4%)*
Gross sales, including	888,385	958,079	*(7.3%)*	1,770,757	1,851,239	*(4.3%)*
Intercompany sales to petrochemical business	201,448	202,818	*(0.7%)*	437,271	416,701	*4.9%*
External sales	**686,937**	**755,262**	***(9.0%)***	**1,333,486**	**1,434,538**	***(7.0%)***
Domestic	***226,944***	***286,833***	***(20.9%)***	***414,685***	***544,167***	***(23.8%)***
Export	***459,993***	***468,429***	***(1.8%)***	***918,801***	***890,371***	***3.2%***

Naphtha

We sell naphtha both in Russia and abroad, to customers in the energy and petrochemical industries. We also use naphtha as feedstock for our own petrochemicals business: approximately 37.9% and 45.8% of the total volumes of naphtha available for sale were delivered to our petrochemicals business for further processing in the first half 2012 and 2011, respectively.

In the second quarter 2012, our revenues from external naphtha sales increased by 13.5% year-on-year to RR 5,821 million from RR 5,130 million in the second quarter 2011 due to higher export sales volumes and an increase in prices on the domestic market. Our effective average selling price in the second quarter 2012 decreased by 6.3% year-on-year while our export prices decreased by 10.4% in line with international naphtha prices. Growth in our effective average domestic selling price by 36.9% was attributable to a change in our naphtha sales mix on the Russian market. As a result of an accident at one of our buyers' production site, we had to redirect certain volumes of the so-called "stable gasoline" grade of naphtha to export markets, which resulted in a higher share of the more expensive isopentane sales on the domestic market (isopentane is a relatively more expensive grade of naphtha on the Russian market as it is not subject to export duties). In the second quarter 2012, naphtha sales volumes increased by 21.2% year-on-year due to higher production volumes and purchases from third parties as well as a decrease in inventories. We increased our naphtha purchases from third parties in order to meet higher feedstock demand of our petrochemicals business.

In the first half 2012, our revenues from external naphtha sales increased by 29.7% year-to-year to RR 12,774 million from RR 9,848 million in the first six months 2011 as strong growth of the first quarter 2012 on higher oil and oil derivatives prices was offset by a subsequent slowdown in the second quarter of the year as discussed above. Approximately 8.0% of our total revenues from external naphtha sales were derived from the domestic market, while export sales accounted for 92.0% (primarily to Europe and the CIS).

The following table presents data on our naphtha production, purchases and sales volumes for the three and six months ended 30 June 2012 and 2011:

	Three months ended		Change	Six months ended		Change
Metric tons except as stated	**30 June 2012**	**30 June 2011**	*%*	**30 June 2012**	**30 June 2011**	*%*
Naphtha						
Production	328,690	314,485	*4.5%*	650,113	615,567	*5.6%*
Purchases from third parties	125,165	112,186	*11.6%*	229,821	260,153	*(11.7%)*
Total production and purchases	**453,855**	**426,671**	***6.4%***	**879,934**	**875,720**	***0.5%***
(Internal use/losses)	(794)	(158)	*402.3%*	(1,002)	(281)	*256.9%*
(Increase)/decrease in stock	4,771	(34,497)	*n/m*	15,377	(42,975)	*n/m*
Gross sales, including	457,833	392,015	*16.8%*	894,309	832,464	*7.4%*
Intercompany sales to petrochemical business	183,481	165,567	*10.8%*	339,127	381,316	*(11.1%)*
External sales	**274,352**	**226,448**	***21.2%***	**555,181**	**451,147**	***23.1%***
Domestic	***19,678***	***44,409***	***(55.7%)***	***37,335***	***147,056***	***(74.6%)***
Export	***254,673***	***182,039***	***39.9%***	***517,846***	***304,092***	***70.3%***

Natural Gas

In accordance with Russian legislation, the domestic market accounts for 100% of our external natural gas sales. We sell primarily to oil and gas companies and, to a limited extent, to regional and municipal power companies. We also use certain volumes of natural gas internally, mainly as fuel at our GPPs and for own heat power generation: internal usage of natural gas accounted for 11.2% of SIBUR's produced and purchased natural gas volumes[(1)] in the first half 2012 and for 11.4% in the respective period of 2011.

In the three months ended 30 June 2012, our revenues from external natural gas sales increased by 26.1% year-on-year to RR 5,381 million from RR 4,267 million in the corresponding period of 2011 on higher sales volumes and an increase in our effective average selling price due to longer delivery distances resulting in a higher share of transportation costs in the average selling price. Our natural gas sales volumes increased by 10.6% year-on-year as part of our volumes, which were previously treated as intercompany, are reported as external sales since the beginning of 2012 after we entered into an agreement with NOVATEK to supply gas to the company (we also buy certain volumes of natural gas from NOVATEK for internal use at our production facilities). Additionally, our inventory accumulation in natural gas was significantly higher in the second quarter 2011. These growth factors more than compensated for a 4.1%[(1)] decrease in natural gas production primarily explained by lower APG processing volumes as one of our short-term APG suppliers decreased deliveries to SIBUR due to logistical issues.

In the first half 2012, our revenues from external natural gas sales increased by 29.2% year-on-year to RR 11,491 million from RR 8,896 million in the first six months 2011 due to similar drivers in both first and second quarter 2012.

[(1)] Excluding TNK-BP's share in processing/production volumes of our JV with TNK-BP OOO Yugragazpererabotka (see "Feedstock Sourcing and Mix" in the "Certain Factors Affecting Our Results of Operations" section for further details)

The following table presents data on our natural gas production, purchases and sales volumes for the three and six months ended 30 June 2012 and 2011:

Thousands of cubic meters except as stated	Three months ended 30 June 2012	Three months ended 30 June 2011	*Change %*	Six months ended 30 June 2012	Six months ended 30 June 2011	*Change %*
Natural gas						
Production[1]	3,955,333	3,958,574	*(0.1%)*	8,008,428	7,900,462	*1.4%*
Production, SIBUR's share[2]	2,629,160	2,742,497	*(4.1%)*	5,323,616	5,437,933	*(2.1%)*
Purchases from third parties	134,954	-	*n/m*	340,494	-	*n/m*
Total production and purchases	**2,764,114**	**2,742,497**	***0.8%***	**5,664,110**	**5,437,933**	***4.2%***
(Internal use/losses)	(286,101)	(267,055)	*7.1%*	(635,230)	(619,954)	*2.5%*
(Increase)/decrease in stock	(14,141)	(248,407)	*(94.3%)*	215,487	(140,136)	*n/m*
External sales	**2,463,872**	**2,227,035**	***10.6%***	**5,244,367**	**4,677,843**	***12.1%***
Domestic	***2,463,872***	***2,227,035***	***10.6%***	***5,244,367***	***4,677,843***	***12.1%***
Export	***-***	***-***	***n/m***	***-***	***-***	***n/m***

Methyl Tertiary Butyl Ether (MTBE)

We sell MTBE primarily to oil refineries in Russia and internationally.

In the second quarter 2012, our revenues from MTBE sales increased by 32.7% year-on-year to RR 4,812 million from RR 3,627 million in the corresponding period of 2011 on both higher prices and sales volumes. The effective average selling price increased by 26.5% year-on-year due to higher benchmark prices on European markets, which rose primarily on a shortage of MTBE in South America. In Russia, stricter regulatory requirements to gasoline quality fueled MTBE demand growth. In the second quarter 2012, our MTBE sales volumes increased by 4.9% year-on-year despite a 2.0% decline in production volumes due to higher purchases from third parties and destocking at our regional warehouses. The decrease in our production volumes resulted from an increased share of target products output at ZAO Sibur-Khimprom in Perm at the expense of MTBE, which is a by-product at this production site.

In the first six months 2012, our revenues from MTBE sales amounted to RR 9,234 million, an increase of 36.4% from RR 6,769 million in the first half 2011, on consistently strong performance since the beginning of 2012. Approximately 69.5% of our revenues from MTBE sales were derived from the domestic market, while exports accounted for 30.5% (primarily to Finland, the CIS countries and the Baltic states). In the first six months 2012, we continued to increase our share of domestic sales to capitalize on favorable pricing environment and growth in demand for fuel additives in Russia as described above.

[1] Includes 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] Excludes 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)

The following table presents data on our MTBE production, purchases and sales volumes for the three and six months ended 30 June 2012 and 2011:

	Three months ended		Change	Six months ended		Change
Metric tons except as stated	**30 June 2012**	**30 June 2011**	*%*	**30 June 2012**	**30 June 2011**	*%*
MTBE						
Production	94,909	96,864	*(2.0%)*	207,279	200,044	*3.6%*
Purchases from third parties	6,885	5,432	*26.8%*	12,815	13,736	*(6.7%)*
Total production and purchases	**101,794**	**102,296**	***(0.5%)***	**220,094**	**213,780**	***3.0%***
(Internal use/losses)	(49)	(122)	*(59.3%)*	(142)	(149)	*(4.1%)*
(Increase)/decrease in stock	13,587	7,806	*74.1%*	5,189	4,452	*16.6%*
External sales	**115,332**	**109,981**	***4.9%***	**225,141**	**218,084**	***3.2%***
Domestic	***80,752***	***65,690***	***22.9%***	***153,369***	***117,665***	***30.3%***
Export	***34,581***	***44,291***	***(21.9%)***	***71,772***	***100,418***	***(28.5%)***

Other Energy Products

Other energy products, including NGL and other fuels and fuel additives, represent an insignificant share of total revenues (2.4% in the first half 2012 and 2.2% in the corresponding period of 2011).

As mentioned in "Feedstock Sourcing and Mix" in the "Certain Factors Affecting Our Results of Operations" section above, NGL is primarily a raw material for both feedstock & energy business and petrochemicals. In the second quarter 2012, our NGL production volumes decreased by 4.4%[(1)] year-on-year, which is primarily attributable to lower APG processing volumes as described above.

The following tables present data on production, purchases and sales volumes of other energy products for the three and six months ended 30 June 2012 and 2011:

	Three months ended		Change	Six months ended		Change
Metric tons except as stated	**30 June 2012**	**30 June 2011**	*%*	**30 June 2012**	**30 June 2011**	*%*
Other fuels and fuel additives						
Production	**65,999**	**78,037**	***(15.4%)***	**142,193**	**162,504**	***(12.5%)***
(Internal use/losses)	(28,817)	(35,954)	*(19.8%)*	(63,091)	(75,630)	*(16.6%)*
(Increase)/decrease in stock	1,057	(645)	*n/m*	392	66	*498.4%*
External sales	**38,296**	**41,960**	***(8.7%)***	**79,552**	**87,461**	***(9.0%)***
Domestic	***38,182***	***41,560***	***(8.1%)***	***79,438***	***86,543***	***(8.2%)***
Export	***114***	***400***	***(71.5%)***	***114***	***918***	***(87.6%)***

(1) Excludes 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)

Metric tons except as stated	Three months ended 30 June 2012	Three months ended 30 June 2011	Change %	Six months ended 30 June 2012	Six months ended 30 June 2011	Change %
NGL						
Production[(1)]	1,001,061	1,021,356	*(2.0%)*	2,052,198	2,059,952	*(0.4%)*
Production, SIBUR's share[(2)]	669,274	699,910	*(4.4%)*	1,379,469	1,409,859	*(2.2%)*
Purchases from third parties, including	715,889	674,516	*6.1%*	1,376,736	1,282,400	*7.4%*
Purchases for resale	*-*	*2,008*	*(100.0%)*	*-*	*2,008*	*(100.0%)*
Total production and purchases	**1,385,163**	**1,374,426**	***0.8%***	**2,756,205**	**2,692,259**	***2.4%***
(Fractionation)	(1,210,367)	(1,204,553)	*0.5%*	(2,332,973)	(2,326,277)	*0.3%*
(Increase)/decrease in stock	321	(27,778)	*n/m*	1,553	(26,843)	*n/m*
Gross sales, including	175,117	142,095	*23.2%*	424,785	339,139	*25.3%*
Intercompany sales to petrochemical business	123,759	92,262	*34.1%*	320,411	261,461	*22.5%*
External sales	**51,358**	**49,833**	***3.1%***	**104,374**	**77,677**	***34.4%***
Domestic	***1,376***	***30,540***	***(95.5%)***	***9,419***	***40,137***	***(76.5%)***
Export	***49,982***	***19,292***	***159.1%***	***94,955***	***37,540***	***152.9%***

Petrochemicals

SIBUR’s petrochemical products comprise basic polymers, synthetic rubbers, plastics and organic synthesis products as well as intermediates and other chemicals. Over 90% of our petrochemical products are sold to customers in high-growth industries, such as automotive, construction, retail and energy. SIBUR’s customer base and sales geographies vary significantly by product group as discussed below. In the first half 2012, revenues from external petrochemicals sales on the Russian domestic market accounted for approximately 62.4% of total revenues, while 37.6% was attributable to exports.

In the second quarter 2012, the global petrochemicals industry was affected by stagnation in demand and lower prices for majority of petrochemical products on the back of the sovereign debt crisis in the Eurozone and a slowdown of economic growth in China in particular and Asia as a whole (excluding Japan). The Russian economy reported healthy growth rates, although petrochemicals industry pricing and demand trends were not uniform and varied from product to product depending on end-customer industries performance and global benchmark prices (see “Macroeconomic Environment”, “Trends in Key End-Customer Industries” and “Cyclicality and Trends in the Petrochemicals Industry” in the “Certain Factors Affecting Our Results of Operations” section for further details). Overall, we saw a price correction in the Russian petrochemicals market in the second quarter 2012. In addition, we reported a decrease in synthetic rubbers production volumes, which was a one-off factor resulting from an industrial accident on a pipe rack at our production site in Togliatti, which did not affect the main production equipment but forced an unscheduled shutdown for 13 days. The above trends were compensated by consolidation of several new petrochemical businesses in our plastics and organic synthesis product group, including OAO Acrylate, an acrylate producer, from the second half 2011, OAO Polief, a terephthalic acid (PTA) and polyethylene terephthalate (PET) producer, from the fourth quarter 2011 and the BIAXPLEN group of companies, a BOPP-film producer, from the second quarter 2012, as well as by commercial launch of an expandable polystyrene production line in Perm in December 2011.

In the second quarter 2012, our revenues from external sales of petrochemical products increased by 4.4% year-on-year to RR 31,322 million from RR 29,990 million in the same period a year earlier. Excluding the effect of consolidation of new businesses in plastics and organic synthesis product group, our revenues from external sales of petrochemical products decreased by 5.7% year-on-year to RR 28,273 million primarily due to the factors described above.

(1) Includes 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) Excludes 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)

In the first half 2012, our revenues from external sales of petrochemical products increased by 7.9% year-on-year to RR 64,426 million from RR 59,735 million in the corresponding period of 2011. Adjusted for consolidation of new businesses, our revenues from external sales of petrochemical products totaled RR 58,902 million, a 1.4% decrease compared to the first six months 2011.

Basic Polymers

Our basic polymer product group comprises low-density polyethylene (LDPE) and polypropylene (PP). LDPE sales are evenly split between the Russian and export markets, serving customers in the retail, construction and agricultural industries. We sell PP primarily on the domestic market to customers in the retail, construction, automotive and road building industries. In the first half 2012, approximately 68.6% of revenues from basic polymers sales were derived from the domestic market, while exports accounted for 31.4%.

In the second quarter 2012 our revenues from external sales of basic polymers decreased by 8.4% year-on-year to RR 5,466 million from RR 5,970 million in the same period a year earlier, which was attributable to lower PP revenues due to the consolidation of the BIAXPLEN group of companies from 29 March 2012, as now our PP sales to BIAXPLEN are treated as intercompany.

In the first half 2012, our revenues from sales of basic polymers increased by 4.9% year-on-year to RR 11,653 million from RR 11,113 million in the same period of 2011 primarily due to higher LDPE sales.

The following table presents data on revenues from basic polymer sales for the three and six months ended 30 June 2012 and 2011:

	Three months ended					**Six months ended**				
RR million except as stated	**30 June 2012**	*% of total SIBUR revenues*[(1)]	**30 June 2011**	*% of total SIBUR revenues*[(1)]	*Change %*	**30 June 2012**	*% of total SIBUR revenues*[(1)]	**30 June 2011**	*% of total SIBUR revenues*[(1)]	*Change %*
PE (LDPE)	3,229	4.9%	3,296	5.3%	(2.0%)	6,278	4.6%	5,861	4.8%	7.1%
Domestic	*1,999*	*61.9%*	*1,597*	*48.4%*	*25.2%*	*3,266*	*52.0%*	*2,799*	*47.8%*	*16.7%*
Export	*1,230*	*38.1%*	*1,699*	*51.6%*	*(27.6%)*	*3,011*	*48.0%*	*3,062*	*52.2%*	*(1.6%)*
PP	2,237	3.4%	2,674	4.3%	(16.3%)	5,376	3.9%	5,252	4.3%	2.3%
Domestic	*2,002*	*89.5%*	*2,520*	*94.3%*	*(20.6%)*	*4,725*	*87.9%*	*5,005*	*95.3%*	*(5.6%)*
Export	*235*	*10.5%*	*153*	*5.7%*	*53.4%*	*651*	*12.1%*	*248*	*4.7%*	*163.0%*
Total revenues	**5,466**	***8.4%***	**5,970**	***9.6%***	***(8.4%)***	**11,653**	***8.5%***	**11,113**	***9.1%***	***4.9%***
Domestic	***4,001***	***73.2%***	***4,117***	***69.0%***	***(2.8%)***	***7,991***	***68.6%***	***7,804***	***70.2%***	***2.4%***
Export	***1,465***	***26.8%***	***1,852***	***31.0%***	***(20.9%)***	***3,663***	***31.4%***	***3,309***	***29.8%***	***10.7%***

Low density polyethylene (LDPE)

In the second quarter 2012, our revenues from sales of LDPE decreased by 2.0% year-on-year to RR 3,229 million compared to RR 3,296 million in the second quarter 2011 on lower sales volumes and a marginal increase in the effective average selling price. Our effective average selling price increased by 0.4% year-on-year as Russian domestic prices demonstrated resilience (+1.1%) compared to negative price dynamics on both Chinese and European markets, where the European debt crisis and economy slowdown restrained demand for refined products and resulted in lower feedstock prices. In response, we increased our share of sales on the Russian domestic market at the expense of exports, which declined to 38.1% of total LDPE sales in the second quarter 2012 from 51.6% a year earlier. Our LDPE sales volumes decreased by 2.4% year-on-year on almost flat production volumes due to accumulation of stock, as we accumulated LDPE inventories in preparation for a planned maintenance shutdown in the third quarter 2012. At the same time, our inventory build-up this year was substantially lower than in the second quarter 2011.

In the first half 2012, our LDPE revenues increased by 7.1% to RR 6,278 million from RR 5,861 million in the first six months 2011, as our strong performance in the first quarter of 2012 was partially offset by revenue decline in the second quarter of the year. In the first six months 2012, LDPE revenues were almost

(1) "Domestic" and "export" lines in this table contain percentages of the respective product/product group revenues

evenly split between the Russian and export markets. We export LDPE primarily to the CIS countries and China, with a small but growing share of sales to Europe.

Polypropylene (PP)

In the second quarter 2012, revenues from external sales of PP declined by 16.3% year-on-year to RR 2,237 million compared to RR 2,674 million in the second quarter 2011. The decline is primarily attributable to the consolidation of the BIAXPLEN group of companies from the second quarter 2012 as our sales of PP to BIAXPLEN are now treated as intercompany. The effective average selling price increased by 12.4% due to higher prices on the premium domestic market as a result of a temporary shortage of PP caused by longer-than-planned maintenance shutdowns of third-party production facilities combined with strong demand from end-customer industries. Our PP sales volumes declined by 25.5% due to the consolidation of BIAXPLEN as discussed above. We also saw a 4.8% decline in our PP production volumes due to equipment repair at our production site in Tomsk in April 2012. We also accumulated PP inventories in preparation for a planned maintenance shutdown in the third quarter 2012, which had a minor effect on our sales volumes.

In the first half 2012, our revenues from external PP sales increased by 2.3% year-on-year to RR 5,376 million from RR 5,252 million in the same period a year earlier as strong revenue growth in the first three months of the year (by 21.7%) more than compensated for the BIAXPLEN consolidation effect in the second quarter 2012. In the first six months 2012, approximately 87.9% of total revenues from PP sales were derived from the domestic market, as we capitalized on strong growth in domestic demand and continued to pursue our import-substitution strategy. Exports, mainly to Belarus and Kazakhstan, accounted for 12.1% of total PP revenues.

The following table presents data on our basic polymer production, purchases and sales volumes for the three and six months ended 30 June 2012 and 2011:

	Three months ended		*Change*	**Six months ended**		*Change*
Metric tons except as stated	**30 June 2012**	**30 June 2011**	*%*	**30 June 2012**	**30 June 2011**	*%*
Production	99,430	100,760	*(1.3%)*	196,193	195,633	*0.3%*
PE (LDPE)	65,797	65,418	*0.6%*	127,915	127,746	*0.1%*
PP	33,633	35,342	*(4.8%)*	68,278	67,888	*0.6%*
Purchases from third parties	29,750	28,474	*4.5%*	59,001	56,963	*3.6%*
Total production and purchases	**129,180**	**129,234**	***(0.0%)***	**255,194**	**252,596**	***1.0%***
(Internal use/losses)	(24,743)	(10,343)	*139.2%*	(28,828)	(13,214)	*118.2%*
(Increase)/decrease in stock	(2,522)	(2,316)	*8.9%*	13,093	(19,465)	*n/m*
External sales						
PE (LDPE)	63,768	65,339	*(2.4%)*	133,586	116,777	*14.4%*
Domestic	*37,078*	*29,949*	*23.8%*	*63,101*	*53,032*	*19.0%*
Export	*26,690*	*35,390*	*(24.6%)*	*70,485*	*63,745*	*10.6%*
PP	38,146	51,235	*(25.5%)*	105,872	103,140	*2.6%*
Domestic	*33,904*	*48,360*	*(29.9%)*	*92,174*	*98,083*	*(6.0%)*
Export	*4,242*	*2,875*	*47.6%*	*13,698*	*5,057*	*170.9%*
External sales volumes	**101,915**	**116,574**	***(12.6%)***	**239,458**	**219,917**	***8.9%***
Domestic	***70,982***	***78,309***	***(9.4%)***	***155,275***	***151,115***	***2.8%***
Export	***30,932***	***38,265***	***(19.2%)***	***84,183***	***68,802***	***22.4%***

Synthetic Rubbers

The slowdown in demand for synthetic rubbers on the key markets combined with a significant price correction, especially compared to a record high base of the first half 2011, had a negative impact on our synthetic rubber business in both the second quarter and the first half 2012. Our synthetic rubber performance was also affected by the unscheduled shutdown at our Togliatti production site in April 2012, as discussed above.

In the second quarter 2012, our revenues from synthetic rubber sales decreased by 21.6% year-on-year to RR 9,739 million from RR 12,423 million in the second quarter 2011.

In the first half 2012, our synthetic rubber revenues declined by 10.8% year-on-year to RR 22,303 million compared to RR 25,008 million in the first six months 2011. Revenue decline both in the first and the second quarter of the year was primarily attributable to a decrease in commodity rubber sales. In the first half 2012, approximately 41.2% of our total synthetic rubber revenues were derived from sales in the Russian market, while export sales accounted for 58.8% of revenues.

The following table presents data on revenues from our synthetic rubber sales for the three and six months ended 30 June 2012 and 2011:

	Three months ended					**Six months ended**				
RR million except as stated	**30 June 2012**	***% of total SIBUR revenues***(1)	**30 June 2011**	***% of total SIBUR revenues***(1)	***Change %***	**30 June 2012**	***% of total SIBUR revenues***(1)	**30 June 2011**	***% of total SIBUR revenues***(1)	***Change %***
Commodity rubbers	7,079	*10.8%*	9,182	*14.8%*	*(22.9%)*	16,330	*11.9%*	18,407	*15.1%*	*(11.3%)*
Domestic	*3,288*	*46.4%*	*4,407*	*48.0%*	*(25.4%)*	*7,037*	*43.1%*	*9,332*	*50.7%*	*(24.6%)*
Export	*3,791*	*53.6%*	*4,775*	*52.0%*	*(20.6%)*	*9,293*	*56.9%*	*9,076*	*49.3%*	*2.4%*
Specialty rubbers	1,809	*2.8%*	2,491	*4.0%*	*(27.4%)*	4,302	*3.1%*	5,162	*4.2%*	*(16.7%)*
Domestic	*403*	*22.3%*	*598*	*24.0%*	*(32.7%)*	*813*	*18.9%*	*1,113*	*21.6%*	*(27.0%)*
Export	*1,406*	*77.7%*	*1,893*	*76.0%*	*(25.7%)*	*3,489*	*81.1%*	*4,049*	*78.4%*	*(13.8%)*
Thermoplastic elastomers	851	*1.3%*	749	*1.2%*	*13.6%*	1,671	*1.2%*	1,438	*1.2%*	*16.2%*
Domestic	*713*	*83.8%*	*669*	*89.3%*	*6.6%*	*1,339*	*80.1%*	*1,242*	*86.3%*	*7.8%*
Export	*138*	*16.2%*	*80*	*10.7%*	*71.4%*	*332*	*19.9%*	*196*	*13.7%*	*69.1%*
Total revenues	**9,739**	***14.9%***	**12,423**	***20.0%***	***(21.6%)***	**22,303**	***16.3%***	**25,008**	***20.6%***	***(10.8%)***
Domestic	***4,404***	***45.2%***	***5,674***	***45.7%***	***(22.4%)***	***9,189***	***41.2%***	***11,686***	***46.7%***	***(21.4%)***
Export	***5,336***	***54.8%***	***6,748***	***54.3%***	***(20.9%)***	***13,114***	***58.8%***	***13,321***	***53.3%***	***(1.6%)***

Commodity rubbers

Commodity rubbers primarily comprise polyisoprene (IR), polybutadiene (BR) and styrene-butadiene (ESBR, SSBR) rubbers and are sold mostly to customers in the automotive (tire manufacturing) and industrial machinery industries (general rubber goods). In the first half 2012, approximately 43.1% of our commodity rubber revenues were derived from the domestic market, while export sales accounted for 56.9% of revenues.

In the second quarter 2012, revenues from commodity rubber sales decreased by 22.9% year-on-year to RR 7,079 million compared to RR 9,182 million in the corresponding period of 2011 on substantially lower sales volumes despite marginally higher prices. Our effective average selling price for commodity rubbers increased by 1.2% year-on-year despite lower benchmark prices on spot trades due to a dominating share of formula-based contracts in our sales structure, which supported our average selling price due to a time lag to spot price declines. Benchmark spot prices for both polyisoprene and butadiene-based rubbers decreased significantly following lower natural rubber prices due to demand stagnation. In the second quarter 2012, our commodity rubber sales volumes decreased by 23.9% year-on-year due to lower production as a result of the unscheduled shutdown discussed above and a longer than last year maintenance shutdown of

(1) “Domestic” and “export” lines in this table contain percentages of the respective product/product group revenues

polyisoprene rubber capacity at our Togliatti site. In addition, we accumulated inventories and reduced third-party purchases as we ceased to use product-swap schemes on behalf of tire businesses divested by SIBUR in December 2011.

In the first six months 2012, our commodity rubber revenues decreased by 11.3% year-on-year to RR 16,330 million compared to RR 18,407 million in the first half 2011.

Specialty rubbers

Specialty rubbers primarily comprise nitrile-butadiene (NBR) and butyl rubbers (IIR) as well as latexes and are sold mostly to customers in the automotive, oil and gas, construction and healthcare industries. In the first half 2012, approximately 18.9% of our specialty rubber revenues were derived from the domestic market, while export sales accounted for 81.1% of revenues.

In the second quarter 2012, specialty rubber revenues decreased by 27.4% year-on-year to RR 1,809 million compared to RR 2,491 million in the second quarter 2011 on both lower volumes and selling prices. Our effective average selling price for specialty rubbers decreased by 10.8% year-on-year following price drops on our key export markets (Asia, including China), where prices reached their 12-months lows in June 2012 due to softened demand. Russia followed the global trends. Our specialty rubber sales volumes decreased by 18.5% year-on-year on an 11.2% decline in production primarily due to the unscheduled shutdown discussed above and lower third-party purchases on reduced usage of product-swap schemes.

In the first half 2012, specialty rubber revenues amounted to RR 4,302 million compared to RR 5,162 million a year earlier, a 16.7% decline year-on-year.

Thermoplastic elastomers

Thermoplastic elastomers are primarily used in the construction and road building industries. We specifically focus on the domestic market to capitalize on the strong growth of the Russian construction industry. In the first half 2012, our domestic market sales of thermoplastic elastomers accounted for 80.1% of revenues, while 19.9% came from exports.

In the second quarter 2012, our revenues from sales of thermoplastic elastomers increased by 13.6% year-on-year to RR 851 million from RR 749 million in 2011 on higher prices despite lower sales volumes. Our effective average selling price for thermoplastic elastomers increased by 14.9% year-on-year primarily due to expansion of our grade portfolio and changes in formula-based pricing. Sales volumes declined by 1.1% year-on-year, which was attributable to a decrease in production volumes, partially compensated by third-party purchases as we bought a limited volume of new grade of thermoplastic elastomers to resell under a pre-marketing program for our new production scheduled for launch in 2013. Production declined by 5.0% as we increased share of more premium TEP grades in our product portfolio.

In the first half 2012, our revenues from sales of thermoplastic elastomers increased by 16.2% to RR 1,671 million compared to RR 1,438 million a year earlier thanks to strong performance in both quarters of the year.

While currently thermoplastic elastomers account for a relatively small share of our synthetic rubber sales (7.5% of synthetic rubber revenues in the first half 2012 and 5.8% in the first six months 2011), we plan to increase output significantly. In early 2011, we initiated construction of a new thermoplastic elastomers production facility with an annual capacity of 50,000 metric tons at our synthetic rubber complex in Voronezh. The project is scheduled for completion in the first quarter 2013.

The following table presents data on our synthetic rubber production, purchases and sales volumes for the three and six months ended 30 June 2012 and 2011:

	Three months ended		Change	Six months ended		Change
Metric tons except as stated	**30 June 2012**	**30 June 2011**	*%*	**30 June 2012**	**30 June 2011**	*%*
Production	95,758	108,586	*(11.8%)*	212,932	218,291	*(2.5%)*
Commodity rubbers	69,865	79,963	*(12.6%)*	155,198	158,429	*(2.0%)*
Specialty rubbers	18,549	20,891	*(11.2%)*	42,585	44,483	*(4.3%)*
Thermoplastic elastomers	7,344	7,732	*(5.0%)*	15,150	15,379	*(1.5%)*
Purchases from third parties	9,333	14,533	*(35.8%)*	18,262	34,055	*(46.4%)*
Total production and purchases	**105,090**	**123,119**	***(14.6%)***	**231,194**	**252,346**	***(8.4%)***
(Internal use/losses)	(405)	(305)	*32.9%*	(405)	(305)	*32.9%*
(Increase)/decrease in stock	(10,201)	(2,425)	*320.7%*	(7,516)	(1,692)	*344.2%*
External sales						
Commodity rubbers	69,871	91,760	*(23.9%)*	165,154	192,480	*(14.2%)*
Domestic	*32,273*	*42,853*	*(24.7%)*	*71,136*	*94,204*	*(24.5%)*
Export	*37,598*	*48,907*	*(23.1%)*	*94,018*	*98,276*	*(4.3%)*
Specialty rubbers	17,290	21,223	*(18.5%)*	42,708	42,927	*(0.5%)*
Domestic	*3,646*	*5,313*	*(31.4%)*	*7,196*	*10,239*	*(29.7%)*
Export	*13,644*	*15,910*	*(14.2%)*	*35,512*	*32,688*	*8.6%*
Thermoplastic elastomers	7,323	7,407	*(1.1%)*	15,412	14,943	*3.1%*
Domestic	*6,084*	*6,564*	*(7.3%)*	*12,042*	*12,710*	*(5.3%)*
Export	*1,238*	*842*	*47.1%*	*3,369*	*2,232*	*50.9%*
External sales volumes	**94,484**	**120,389**	***(21.5%)***	**223,274**	**250,349**	***(10.8%)***
Domestic	***42,003***	***54,730***	***(23.3%)***	***90,374***	***117,153***	***(22.9%)***
Export	***52,481***	***65,659***	***(20.1%)***	***132,900***	***133,196***	***(0.2%)***

Plastics and Organic Synthesis Products

Our plastics and organic synthesis product group comprises primarily glycols, alcohols, polyethylene terephthalate (PET), acrylates(1), plastic compounds(2), expandable polystyrene and biaxially oriented polypropylene films (BOPP-films). Our end-customer industries are chemicals, construction and retail. We also use some of these products for further processing into other petrochemicals in this product group and others. In the first half 2012, out of a total 393,000 metric tons of the product group production volumes, approximately 13% was used internally for further processing.

In the second quarter 2012, our revenues from external sales of plastics and organic synthesis products increased by 89.2% year-on-year to RR 10,577 million from RR 5,590 million in the second quarter 2011. The growth was mainly attributable to the consolidation of OAO Acrylate, OAO Polief and the BIAXPLEN group of companies as well as the commercial launch of an expandable polystyrene production line in Perm in December 2011 as discussed above.

In the first half 2012, our revenues from external sales of plastics and organic synthesis products increased by 64.5% year-on-year to RR 18,872 million from RR 11,471 million in the first six month 2011 due to the reasons discussed above. Approximately 74.4% of our plastics and organic synthesis product revenues in the first half 2012 were derived from the domestic market, while export sales accounted for 25.6%.

(1) From 1 January 2012, we report acrylates as a separate product in the plastics and organic synthesis product group due to the consolidation of OAO Acrylate and higher sales volumes. In 2011, acrylates were included in the intermediates and other chemicals product group, as their sales volumes were non-material

(2) Including ABS plastics and PVC cable compounds

The following table presents data on revenues from sales of our plastics and organic synthesis products for the three and six months ended 30 June 2012 and 2011:

	Three months ended					Six months ended				
RR million except as stated	**30 June 2012**	***% of total SIBUR revenues***[(1)]	**30 June 2011**	***% of total SIBUR revenues***[(1)]	***Change %***	**30 June 2012**	***% of total SIBUR revenues***[(1)]	**30 June 2011**	***% of total SIBUR revenues***[(1)]	***Change %***
Glycols	1,323	*2.0%*	1,466	*2.4%*	*(9.8%)*	2,914	*2.1%*	3,557	*2.9%*	*(18.1%)*
Domestic	*930*	*70.3%*	*1,205*	*82.2%*	*(22.8%)*	*2,021*	*69.4%*	*2,880*	*81.0%*	*(29.8%)*
Export	*393*	*29.7%*	*261*	*17.8%*	*50.4%*	*893*	*30.6%*	*677*	*19.0%*	*32.0%*
Alcohols (including 2-ethylhexanol)	1,578	*2.4%*	1,860	*3.0%*	*(15.1%)*	2,942	*2.1%*	3,762	*3.1%*	*(21.8%)*
Domestic	*651*	*41.2%*	*772*	*41.5%*	*(15.7%)*	*1,106*	*37.6%*	*1,351*	*35.9%*	*(18.1%)*
Export	*928*	*58.8%*	*1,088*	*58.5%*	*(14.7%)*	*1,836*	*62.4%*	*2,411*	*64.1%*	*(23.8%)*
PET	3,340	*5.1%*	988	*1.6%*	*238.2%*	6,452	*4.7%*	1,898	*1.6%*	*240.0%*
Domestic	*3,320*	*99.4%*	*964*	*97.6%*	*244.5%*	*6,413*	*99.4%*	*1,829*	*96.4%*	*250.7%*
Export	*20*	*0.6%*	*24*	*2.4%*	*(15.7%)*	*39*	*0.6%*	*69*	*3.6%*	*(43.2%)*
Acrylates	748	*1.1%*	-	-	*n/m*	1,602	*1.2%*	-	-	*n/m*
Domestic	*259*	*34.6%*	-	*n/m*	*n/m*	*418*	*26.1%*	-	*n/m*	*n/m*
Export	*489*	*65.4%*	-	*n/m*	*n/m*	*1,184*	*73.9%*	-	*n/m*	*n/m*
Plastic compounds[(2)]	640	*1.0%*	766	*1.2%*	*(16.4%)*	1,188	*0.9%*	1,399	*1.2%*	*(15.1%)*
Domestic	*595*	*92.9%*	*724*	*94.6%*	*(17.9%)*	*1,095*	*92.2%*	*1,305*	*93.3%*	*(16.1%)*
Export	*45*	*7.1%*	*42*	*5.4%*	*9.1%*	*92*	*7.8%*	*94*	*6.7%*	*(2.0%)*
Expandable polystyrene	954	*1.5%*	293	*0.5%*	*225.9%*	1,459	*1.1%*	465	*0.4%*	*213.9%*
Domestic	*692*	*72.5%*	*255*	*87.0%*	*171.5%*	*1,051*	*72.1%*	*397*	*85.4%*	*164.8%*
Export	*262*	*27.5%*	*38*	*13.0%*	*591.0%*	*407*	*27.9%*	*68*	*14.6%*	*501.0%*
BOPP-films	1,993	*3.1%*	217	*0.4%*	*816.4%*	2,314	*1.7%*	390	*0.3%*	*493.2%*
Domestic	*1,618*	*81.2%*	*216*	*99.1%*	*650.3%*	*1,939*	*83.8%*	*376*	*96.4%*	*415.4%*
Export	*375*	*18.8%*	*2*	*0.9%*	*20,022.7%*	*375*	*16.2%*	*14*	*3.6%*	*2,601.5%*
Total revenues	**10,577**	***16.2%***	**5,590**	***9.0%***	***89.2%***	**18,872**	***13.8%***	**11,471**	***9.4%***	***64.5%***
Domestic	***8,064***	***76.2%***	***4,135***	***74.0%***	***95.0%***	***14,044***	***74.4%***	***8,139***	***70.9%***	***72.6%***
Export	***2,513***	***23.8%***	***1,455***	***26.0%***	***72.8%***	***4,827***	***25.6%***	***3,332***	***29.1%***	***44.9%***

Glycols, which include mono ethylene glycol, diethylene glycol and triethylene glycol, are used primarily for production of antifreeze and other petrochemical products. Glycols are primarily sold on the domestic market (69.4% of total revenues from sales of glycols in the first half 2012), with the remaining share attributable to exports to Belarus and Eastern Europe. We also use glycols for further processing: out of 112,000 metric tons of glycols produced in the first six months 2012, approximately 32.8% were used internally for PET production.

In the second quarter 2012, our revenues from external sales of glycols totaled RR 1,323 million, a decrease of 9.8% from RR 1,466 million in the second quarter 2011 on a 2.3% decline in sales volumes and a 7.7% decrease in effective average selling price. The effective average selling price declined following lower European benchmark prices. Our external sales volumes decreased as our sales to PET producer OAO Polief, which we consolidate from the fourth quarter 2011, are now reported as intercompany. This decrease was partially offset by a substantial inventory destocking in the second quarter 2012.

In the first half 2012, our revenues from external sales of glycols totaled RR 2,914 million, a decrease of 18.1% from RR 3,557 million in the first six months 2011. The decrease was primarily attributable to the factors mentioned above.

[(1)] "Domestic" and "export" lines in this table contain percentages of the respective product/product group revenues
[(2)] Including ABS plastics and PVC cable compounds

Alcohols, which include 2-ethylhexanol, are used primarily as solvents and also for production of other petrochemical products. We sell our alcohols both in Russia and internationally. In the first half 2012, approximately 62.4% of our revenues from sales of alcohols were derived from exports (mainly to Europe and China), while domestic sales accounted for 37.6%. We also use alcohols for our own production of butyl acrylate: out of 78,000 metric tons of alcohols produced in the first six months 2012, approximately 15.4% were used internally.

In the second quarter 2012, our revenues from external sales of alcohols totaled RR 1,578 million, a decrease of 15.1% from RR 1,860 million in the second quarter 2011 on a 9.2% decrease in sales volumes and a 6.6% decrease in effective average selling price. Effective average selling price declined due to lower feedstock prices and a price correction on the Asian markets. Our external sales volumes decreased as sales to OAO Acrylate, which we consolidate from the second half 2011, are now reported as intercompany.

In the first half 2012, our revenues from external sales of alcohols totaled RR 2,942 million, a decrease of 21.8% from RR 3,762 million in the first six months 2011, due to the reasons discussed above.

PET is mainly used to produce plastic bottles. We sell 100% of PET externally, primarily on the domestic market. In the first half 2012, approximately 99.4% of our revenues from PET sales were derived from Russia, while export sales accounted for 0.6%.

In the second quarter 2012, our revenues from PET sales more than tripled to RR 3,340 million compared to RR 988 million a year earlier due to an almost fourfold increase in sales volumes despite a 13.6% decrease in effective average selling price. The average selling price decline reflects lower benchmark prices, which have been on a downward trend since the beginning of the year. The increase in sales volumes is attributable to the consolidation of OAO Polief from the fourth quarter 2011.

In the first half 2012, our PET revenues more than tripled to RR 6,452 million from RR 1,898 million a year earlier due to the reasons discussed above.

Acrylates are mainly used to produce lacquers, paints and varnishes that are used in the construction and textile industries. SIBUR entered the acrylates market through the acquisition of OAO Acrylate in the second half 2011. Today SIBUR is the only producer of acrylates in Russia. We sell 100% of acrylates externally, both in Russia and internationally.

Our revenues from acrylate sales totaled RR 748 million in the second quarter 2012 and reached RR 1,602 million in the first half 2012. Approximately 26.1% of our first half 2012 revenues from acrylate sales were derived from the domestic market, while export sales accounted for 73.9%.

Plastic compounds(1) are used for production of wire/cable insulation and auto components. We sell 100% of our production volumes of plastic compounds externally, primarily on the Russian and CIS markets, which experience a deficit of these products. In the first half 2012, approximately 92.2% of our revenues from sales of plastic compounds were derived from Russia, while export sales accounted for 7.8%.

In the second quarter 2012, our revenues from sales of plastic compounds totaled RR 640 million, a decrease of 16.4% from RR 766 million in the second quarter 2011 on a 6.1% decrease in the effective average selling price and an 11.0% decline in volumes. Price decrease was attributable to lower feedstock prices, particularly for polyvinyl chloride (PVC) and dioctyl phthalate (DOP). Sales volumes declined due to lower production (a decrease of 21.2%), which was partially compensated by inventory destocking. The decrease in production was due to introduction of new higher-value added grades.

In the first half 2012, our revenues from sales of plastic compounds decreased by 15.1% to RR 1,188 million from RR 1,399 million in the first six months 2011.

(1) Including ABS plastics and PVC cable compounds

Expandable polystyrene is used mainly for production of thermo-insulating and packaging materials as well as decorative elements. We sell 100% of our production volumes externally, primarily on the domestic and CIS markets. In the first half 2012, approximately 72.1% of our revenues from expandable polystyrene sales were derived from Russia, while export sales accounted for 27.9% (primarily to Belarus and Ukraine).

In the second quarter 2012, our revenues from sales of expandable polystyrene more than tripled year-on-year to RR 954 million compared to RR 293 million in the second quarter 2011 on a comparable sales volume growth and almost flat prices. Sales volume growth is attributable to the commercial launch of our new production line of 50,000 metric tons per annum in Perm in December 2011.

In the first half 2012, our expandable polystyrene revenues also tripled to RR 1,459 million from RR 465 million in the first six months 2011. In the third quarter 2012, we put into operation our second line of 50,000 metric tons of expandable polystyrene per annum in Perm. This is expected to further strengthen our market positions and enable SIBUR to capitalize on Russia's import-substitution potential and the strong growth of the domestic construction industry.

BOPP-films are mainly used by the retail industry for packaging and production of price tags and adhesive tapes. We sell 100% of BOPP-films externally, primarily on the domestic market. In the first half 2012, approximately 83.8% of our revenues from BOPP-film sales were derived from Russia, while export sales accounted for 16.2%.

In the second quarter 2012, our revenues from BOPP-film sales increased to RR 1,993 million from RR 217 million in the second quarter 2011 on a ninefold growth in sales volumes and a 4.0% increase in the effective average sales price. Price growth was attributable to a higher share of high-margin BOPP-film grades in our sales portfolio due to the consolidation of the BIAXPLEN group of companies. The increase in sales volumes was also primarily attributable to the consolidation of the BIAXPLEN group from the second quarter 2012. At the time of the acquisition, the BIAXPLEN group of companies comprised three plants in the Nizhny Novgorod, Kursk and Moscow regions with the total annual production capacity of 78,000 metric tons of commodity films.

In the first half 2012, our revenues from BOPP-film sales increased to RR 2,314 million from RR 390 million a year earlier, primarily due to higher sales volumes as described above.

The following table presents data on our production, purchases and sales volumes in plastics and organic synthesis products for the three and six months ended 30 June 2012 and 2011:

	Three months ended		Change	Six months ended		Change
Metric tons except as stated	**30 June 2012**	**30 June 2011**	*%*	**30 June 2012**	**30 June 2011**	*%*
Production	191,157	131,211	*45.7%*	393,288	282,772	*39.1%*
Glycols	45,344	49,503	*(8.4%)*	111,589	116,282	*(4.0%)*
Alcohols (including 2-ethylhexanol)	36,632	41,028	*(10.7%)*	78,004	82,314	*(5.2%)*
PET	52,596	19,171	*174.4%*	106,914	35,716	*199.3%*
Acrylates	10,069	-	*n/m*	21,144	-	*n/m*
Plastic compounds [1]	8,849	11,226	*(21.2%)*	21,226	25,006	*(15.1%)*
Expandable polystyrene	16,144	6,396	*152.4%*	28,831	15,025	*91.9%*
BOPP-films	21,523	3,889	*453.5%*	25,579	8,429	*203.4%*
Purchases from third parties	2,691	655	*311.1%*	3,593	655	*448.9%*
Total production and purchases	**193,848**	**131,866**	***47.0%***	**396,881**	**283,427**	***40.0%***
(Internal use/losses)	(20,228)	(14,336)	*41.1%*	(49,791)	(27,851)	*78.8%*
(Increase)/decrease in stock	30,717	(3,158)	*n/m*	31,101	(14,572)	*n/m*
External sales						
Glycols	34,965	35,773	*(2.3%)*	77,728	89,109	*(12.8%)*
Domestic	*24,122*	*29,319*	*(17.7%)*	*52,686*	*71,826*	*(26.6%)*
Export	*10,843*	*6,454*	*68.0%*	*25,042*	*17,283*	*44.9%*
Alcohols (including 2-ethylhexanol)	36,088	39,728	*(9.2%)*	70,635	79,388	*(11.0%)*
Domestic	*14,223*	*16,530*	*(14.0%)*	*26,138*	*29,340*	*(10.9%)*
Export	*21,865*	*23,199*	*(5.7%)*	*44,497*	*50,048*	*(11.1%)*
PET	68,898	17,601	*291.4%*	124,907	34,809	*258.8%*
Domestic	*68,502*	*17,221*	*297.8%*	*124,153*	*33,643*	*269.0%*
Export	*396*	*380*	*4.2%*	*754*	*1,166*	*(35.4%)*
Acrylates	11,865	-	*n/m*	27,983	-	*n/m*
Domestic	*3,606*	-	*n/m*	*5,929*	-	*n/m*
Export	*8,259*	-	*n/m*	*22,054*	-	*n/m*
Plastic compounds[1]	11,666	13,104	*(11.0%)*	21,652	24,353	*(11.1%)*
Domestic	*10,963*	*12,484*	*(12.2%)*	*20,200*	*22,853*	*(11.6%)*
Export	*703*	*620*	*13.4%*	*1,452*	*1,500*	*(3.1%)*
Expandable polystyrene	18,041	5,575	*223.6%*	28,194	8,754	*222.1%*
Domestic	*12,881*	*4,860*	*165.0%*	*19,754*	*7,485*	*163.9%*
Export	*5,160*	*715*	*621.3%*	*8,440*	*1,269*	*564.9%*
BOPP-films	22,814	2,590	*780.8%*	27,093	4,592	*490.0%*
Domestic	*18,270*	*2,576*	*609.2%*	*22,549*	*4,446*	*407.2%*
Export	*4,544*	*14*	*32,355.0%*	*4,544*	*146*	*3,012.1%*
External sales volumes	**204,336**	**114,372**	***78.7%***	**378,192**	**241,004**	***56.9%***
Domestic	***152,567***	***82,990***	***83.8%***	***271,409***	***169,593***	***60.0%***
Export	***51,770***	***31,382***	***65.0%***	***106,783***	***71,411***	***49.5%***

[1] Including ABS plastics and PVC cable compounds

Intermediates and Other Chemicals

Intermediates and other chemicals primarily comprise benzene, styrene, terephthalic acid (PTA)[(1)], propylene, ethylene oxide, butadiene, isoprene, isobutylene, ethylene and others. These chemicals are mainly used internally and processed into higher value-added products within three product groups discussed above. Out of 1.7 million metric tons of intermediates and other chemicals produced in the first half 2012, approximately 82.5% were used internally for further processing. We also sell these products externally, primarily to other petrochemical companies, particularly under our product swap schemes when we supply feedstock in exchange for refined products. This enables us to strengthen our market positions in respective products and enhance sales efficiency.

SIBUR's integrated business model enables us to change the composition of our feedstock and product mix to optimize purchasing, production and sales in order to support blended Group margins. As a result, our share of external sales in intermediates and other chemicals fluctuates significantly period to period depending on market trends, shifts in supply and demand fundamentals, capacity constraints and other factors.

In the second quarter 2012, our revenues from external sales of intermediates and other chemicals decreased by 7.8% year-on-year to RR 5,539 million from RR 6,007 million in the second quarter 2011 due to a 7.1% decrease in sales volumes and almost flat prices.

In the first six months 2012, our revenues from external sales of intermediates and other chemicals decreased by 4.5% year-on-year to RR 11,598 million from RR 12,142 million in the first six months 2011 as our strong results in the first quarter 2012 were partially offset by a slowdown in the second quarter 2012.

[(1)] From 1 January 2012, we report terephthalic acid as a separate product in the intermediates and other chemicals product group due to the consolidation of OAO Polief from the fourth quarter 2011

The following table presents data on revenues from sales of our intermediates and other chemicals for the three and six months ended 30 June 2012 and 2011:

	Three months ended					Six months ended				
RR million except as stated	**30 June 2012**	***% of total SIBUR revenues[1]***	**30 June 2011**	***% of total SIBUR revenues[1]***	***Change %***	**30 June 2012**	***% of total SIBUR revenues[1]***	**30 June 2011**	***% of total SIBUR revenues[1]***	***Change %***
Intermediates, including										
Benzene	209	*0.3%*	301	*0.5%*	*(30.6%)*	624	*0.5%*	627	*0.5%*	*(0.5%)*
Domestic	*209*	*100.0%*	*301*	*100.0%*	*(30.6%)*	*624*	*100.0%*	*627*	*100.0%*	*(0.5%)*
Export	-	-	-	-	*n/m*	-	-	-	-	*n/m*
Styrene	772	*1.2%*	440	*0.7%*	*75.5%*	1,580	*1.2%*	1,229	*1.0%*	*28.6%*
Domestic	*375*	*48.6%*	*79*	*18.0%*	*373.3%*	*836*	*52.9%*	*216*	*17.5%*	*287.6%*
Export	*397*	*51.4%*	*361*	*82.0%*	*10.0%*	*745*	*47.1%*	*1,014*	*82.5%*	*(26.5%)*
Terephthalic acid	610	*0.9%*	-	-	*n/m*	1,306	*1.0%*	-	-	*n/m*
Domestic	*610*	*100.0%*	-	*n/m*	*n/m*	*1,306*	*100.0%*	-	*n/m*	*n/m*
Export	-	-	-	*n/m*	*n/m*	-	-	-	*n/m*	*n/m*
Propylene	305	*0.5%*	657	*1.1%*	*(53.5%)*	777	*0.6%*	1,538	*1.3%*	*(49.5%)*
Domestic	*217*	*71.1%*	*421*	*64.1%*	*(48.5%)*	*594*	*76.4%*	*1,225*	*79.7%*	*(51.5%)*
Export	*88*	*28.9%*	*236*	*35.9%*	*(62.5%)*	*183*	*23.6%*	*313*	*20.3%*	*(41.5%)*
Ethylene oxide	495	*0.8%*	438	*0.7%*	*13.2%*	982	*0.7%*	945	*0.8%*	*4.0%*
Domestic	*419*	*84.7%*	*349*	*79.7%*	*20.3%*	*843*	*85.8%*	*781*	*82.7%*	*7.9%*
Export	*76*	*15.3%*	*89*	*20.3%*	*(14.7%)*	*139*	*14.2%*	*163*	*17.3%*	*(14.8%)*
Butadiene	53	*0.1%*	238	*0.4%*	*(77.7%)*	128	*0.1%*	517	*0.4%*	*(75.1%)*
Domestic	*53*	*100.0%*	*238*	*100.0%*	*(77.7%)*	*128*	*100.0%*	*517*	*100.0%*	*(75.1%)*
Export	-	-	-	-	*n/m*	-	-	-	-	*n/m*
Isoprene	307	*0.5%*	206	*0.3%*	*49.5%*	971	*0.7%*	504	*0.4%*	*92.6%*
Domestic	*4*	*1.5%*	*6*	*2.7%*	*(18.7%)*	*9*	*0.9%*	*10*	*2.0%*	*(12.2%)*
Export	*303*	*98.5%*	*200*	*97.3%*	*51.4%*	*962*	*99.1%*	*494*	*98.0%*	*94.7%*
Isobutylene	230	*0.4%*	214	*0.3%*	*7.8%*	508	*0.4%*	404	*0.3%*	*25.7%*
Domestic	*162*	*70.1%*	*170*	*79.4%*	*(4.8%)*	*373*	*73.5%*	*326*	*80.8%*	*14.3%*
Export	*69*	*29.9%*	*44*	*20.6%*	*56.5%*	*135*	*26.5%*	*78*	*19.2%*	*73.7%*
Ethylene	-	-	-	-	*n/m*	-	-	-	-	*n/m*
Domestic	-	*n/m*	-	*n/m*	*n/m*	-	*n/m*	-	*n/m*	*n/m*
Export	-	*n/m*	-	*n/m*	*n/m*	-	*n/m*	-	*n/m*	*n/m*
Other intermediates	829	*1.3%*	784	*1.3%*	*5.8%*	1,370	*1.0%*	1,456	*1.2%*	*(5.9%)*
Domestic	*650*	*78.4%*	*623*	*79.5%*	*4.3%*	*1,057*	*77.1%*	*1,179*	*81.0%*	*(10.4%)*
Export	*179*	*21.6%*	*161*	*20.5%*	*11.5%*	*313*	*22.9%*	*276*	*19.0%*	*13.4%*
Total intermediates	3,811	*5.8%*	3,276	*5.3%*	*16.3%*	8,246	*6.0%*	7,219	*5.9%*	*14.2%*
Domestic	*2,699*	*70.8%*	*2,187*	*66.7%*	*23.4%*	*5,769*	*70.0%*	*4,881*	*67.6%*	*18.2%*
Export	*1,111*	*29.2%*	*1,090*	*33.3%*	*2.0%*	*2,477*	*30.0%*	*2,338*	*32.4%*	*5.9%*
Other chemicals	1,728	*2.6%*	2,731	*4.4%*	*(36.7%)*	3,352	*2.4%*	4,924	*4.0%*	*(31.9%)*
Domestic	*1,648*	*95.4%*	*2,478*	*90.7%*	*(33.5%)*	*3,187*	*95.1%*	*4,417*	*89.7%*	*(27.9%)*
Export	*80*	*4.6%*	*253*	*9.3%*	*(68.4%)*	*165*	*4.9%*	*507*	*10.3%*	*(67.4%)*
Total revenues	**5,539**	***8.5%***	**6,007**	***9.7%***	***(7.8%)***	**11,598**	***8.5%***	**12,142**	***10.0%***	***(4.5%)***
Domestic	***4,347***	***78.5%***	***4,665***	***77.6%***	***(6.8%)***	***8,956***	***77.2%***	***9,298***	***76.6%***	***(3.7%)***
Export	***1,191***	***21.5%***	***1,343***	***22.4%***	***(11.3%)***	***2,642***	***22.8%***	***2,845***	***23.4%***	***(7.1%)***

[1] "Domestic" and "export" lines in this table contain percentages of the respective product/product group revenues

The following table presents data on our production, purchases and sales volumes in intermediates and other chemicals for the three and six months ended 30 June 2012 and 2011:

Metric tons except as stated	**Three months ended** **30 June 2012**	**30 June 2011**	*Change %*	**Six months ended** **30 June 2012**	**30 June 2011**	*Change %*
Production	791,299	726,097	*9.0%*	1,709,220	1,554,768	*9.9%*
Intermediates, including	615,579	551,697	*11.6%*	1,328,162	1,181,222	*12.4%*
Benzene	29,090	30,140	*(3.5%)*	64,285	67,816	*(5.2%)*
Styrene	36,921	28,423	*29.9%*	79,517	64,132	*24.0%*
Terephthalic acid	65,824	-	*n/m*	133,224	-	*n/m*
Propylene	69,651	79,989	*(12.9%)*	157,159	172,450	*(8.9%)*
Ethylene oxide	16,644	19,311	*(13.8%)*	39,106	41,672	*(6.2%)*
Butadiene	56,055	60,075	*(6.7%)*	114,380	119,938	*(4.6%)*
Isoprene	2,147	1,394	*54.0%*	7,843	4,558	*72.1%*
Isobutylene	7,679	11,612	*(33.9%)*	16,359	23,764	*(31.2%)*
Ethylene	124,265	120,198	*3.4%*	269,446	264,927	*1.7%*
Other intermediates	207,302	200,555	*3.4%*	446,842	421,964	*5.9%*
Other chemicals	175,721	174,400	*0.8%*	381,058	373,546	*2.0%*
Purchases from third parties	2,244	18,978	*(88.2%)*	6,850	25,299	*(72.9%)*
Total production and purchases	**793,543**	**745,075**	***6.5%***	**1,716,069**	**1,580,067**	***8.6%***
(Internal use/losses)	(663,976)	(579,571)	*14.6%*	(1,409,269)	(1,231,229)	*14.5%*
(Increase)/decrease in stock	13,406	(11,611)	*n/m*	6,359	(8,392)	*n/m*
External sales, including						
Benzene	7,608	11,748	*(35.2%)*	23,618	24,460	*(3.4%)*
Domestic	*7,608*	*11,748*	*(35.2%)*	*23,618*	*24,460*	*(3.4%)*
Export	*-*	*-*	*n/m*	*-*	*-*	*n/m*
Styrene	17,084	8,927	*91.4%*	36,903	29,043	*27.1%*
Domestic	*8,267*	*1,793*	*360.9%*	*19,316*	*5,127*	*276.8%*
Export	*8,817*	*7,133*	*23.6%*	*17,587*	*23,916*	*(26.5%)*
Terephthalic acid	18,454	-	*n/m*	37,947	-	*n/m*
Domestic	*18,454*	*-*	*n/m*	*37,947*	*-*	*n/m*
Export	*-*	*-*	*n/m*	*-*	*-*	*n/m*
Propylene	7,251	16,042	*(54.8%)*	21,896	41,122	*(46.8%)*
Domestic	*5,333*	*10,545*	*(49.4%)*	*17,522*	*33,703*	*(48.0%)*
Export	*1,918*	*5,497*	*(65.1%)*	*4,374*	*7,419*	*(41.0%)*
Ethylene oxide	14,070	13,634	*3.2%*	30,344	30,216	*0.4%*
Domestic	*12,043*	*11,729*	*2.7%*	*26,356*	*26,594*	*(0.9%)*
Export	*2,026*	*1,904*	*6.4%*	*3,987*	*3,623*	*10.1%*
Butadiene	643	3,609	*(82.2%)*	1,647	8,592	*(80.8%)*
Domestic	*643*	*3,609*	*(82.2%)*	*1,647*	*8,592*	*(80.8%)*
Export	*-*	*-*	*n/m*	*-*	*-*	*n/m*
Isoprene	2,526	1,890	*33.7%*	8,343	4,793	*74.1%*
Domestic	*37*	*42*	*(12.0%)*	*75*	*81*	*(8.2%)*
Export	*2,489*	*1,848*	*34.7%*	*8,269*	*4,712*	*75.5%*
Isobutylene	4,235	5,071	*(16.5%)*	9,685	10,098	*(4.1%)*
Domestic	*3,046*	*3,902*	*(21.9%)*	*7,282*	*7,821*	*(6.9%)*
Export	*1,189*	*1,169*	*1.7%*	*2,403*	*2,277*	*5.5%*
Ethylene	-	-	*n/m*	-	-	*n/m*
Domestic	*-*	*-*	*n/m*	*-*	*-*	*n/m*
Export	*-*	*-*	*n/m*	*-*	*-*	*n/m*
Other intermediates	32,372	33,780	*(4.2%)*	55,542	76,389	*(27.3%)*
Domestic	*25,808*	*26,801*	*(3.7%)*	*42,939*	*62,825*	*(31.7%)*
Export	*6,564*	*6,980*	*(6.0%)*	*12,603*	*13,565*	*(7.1%)*
Total intermediates	104,242	94,700	*10.1%*	225,924	224,714	*0.5%*
Domestic	*81,238*	*70,169*	*15.8%*	*176,702*	*169,203*	*4.4%*
Export	*23,004*	*24,531*	*(6.2%)*	*49,223*	*55,511*	*(11.3%)*
Other chemicals	38,731	59,192	*(34.6%)*	87,235	115,732	*(24.6%)*
Domestic	*37,907*	*54,013*	*(29.8%)*	*83,695*	*106,933*	*(21.7%)*
Export	*824*	*5,179*	*(84.1%)*	*3,540*	*8,799*	*(59.8%)*
External sales volumes	**142,973**	**153,892**	***(7.1%)***	**313,159**	**340,445**	***(8.0%)***
Domestic	***119,145***	***124,183***	***(4.1%)***	***260,397***	***276,135***	***(5.7%)***
Export	***23,828***	***29,710***	***(19.8%)***	***52,763***	***64,310***	***(18.0%)***

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2012 AND 2011

The following table presents selected data on our results of operations for the three and six months ended 30 June 2012 and 2011:

	Three months ended					Six months ended				
RR million except as stated	**30 June 2012**	*% of total revenues*	**30 June 2011**	*% of total revenues*	*Change %*	**30 June 2012**	*% of total revenues*	**30 June 2011**	*% of total revenues*	*Change %*
Revenue	**65,330**	***100.0%***	**62,108**	***100.0%***	*5.2%*	**136,926**	***100.0%***	**121,586**	***100.0%***	*12.6%*
Energy products	30,839	*47.2%*	28,577	*46.0%*	*7.9%*	63,441	*46.3%*	54,907	*45.2%*	*15.5%*
Petrochemical products	31,322	*47.9%*	29,990	*48.3%*	*4.4%*	64,426	*47.1%*	59,735	*49.1%*	*7.9%*
Other	3,169	*4.9%*	3,541	*5.7%*	*(10.5%)*	9,059	*6.6%*	6,943	*5.7%*	*30.5%*
Operating expenses	(48,302)	*(73.9%)*	(40,483)	*(65.2%)*	*19.3%*	(99,081)	*(72.4%)*	(80,122)	*(65.9%)*	*23.7%*
Operating profit	**17,028**	***26.1%***	**21,625**	***34.8%***	***(21.3%)***	**37,845**	***27.6%***	**41,464**	***34.1%***	***(8.7%)***
Net finance expenses	(6,081)	*(9.3%)*	(921)	*(1.5%)*	*560.0%*	(1,586)	*(1.2%)*	(408)	*(0.3%)*	*288.3%*
Gain on acquisition of a subsidiary	-	-	-	-	*n/m*	430	*0.3%*	-	-	*n/m*
Share of net (loss)/income of joint ventures	(13)	*(0.0%)*	122	*0.2%*	*n/m*	(79)	*(0.1%)*	255	*0.2%*	*n/m*
Loss on disposal of investments	-	-	(246)	*(0.4%)*	*(100.0%)*	-	-	(246)	*(0.2%)*	*(100.0%)*
Profit before income tax	**10,934**	***16.7%***	**20,579**	***33.1%***	***(46.9%)***	**36,610**	***26.7%***	**41,064**	***33.8%***	***(10.8%)***
Income tax expense	(2,468)	*(3.8%)*	(4,821)	*(7.8%)*	*(48.8%)*	(6,633)	*(4.8%)*	(8,565)	*(7.0%)*	*(22.6%)*
Profit from continuing operations	**8,466**	***13.0%***	**15,758**	***25.4%***	***(46.3%)***	**29,977**	***21.9%***	**32,499**	***26.7%***	***(7.8%)***
Loss from discontinued operations	-	-	-	-	*n/m*	(315)	*(0.2%)*	-	-	*n/m*
Profit for the reporting period	**8,466**	***13.0%***	**15,758**	***25.4%***	***(46.3%)***	**29,662**	***21.7%***	**32,499**	***26.7%***	***(8.7%)***
(Profit)/loss attributable to non-controlling interest	3	*0.0%*	9	*0.0%*	*(66.7%)*	(61)	*0.0%*	44	*0.0%*	*n/m*
Profit attributable to shareholders of SIBUR	**8,469**	***13.0%***	**15,767**	***25.4%***	***(46.3%)***	**29,601**	***21.6%***	**32,543**	***26.8%***	***(9.0%)***

Revenues

In the second quarter 2012, our revenues totaled RR 65,330 million compared to RR 62,108 million in the corresponding period of 2011, a 5.2% increase year-on-year. Excluding the effect of consolidation of new businesses in plastics and organic synthesis product group, our second quarter 2012 revenues increased by 0.3% year-on-year to RR 62,282 million.

In the first half 2012, our revenues increased by 12.6% year-on-year to RR 136,926 million compared to RR 121,586 million in the respective period of 2011. Adjusted for consolidation of new businesses, our sales rose 8.1% year-on-year to RR 131,402 million in the six months ended 30 June 2012.

The following table presents a breakdown of our revenues by product group for the three and six months ended 30 June 2012 and 2011:

	Three months ended					Six months ended				
RR million except as stated	**30 June 2012**	*% of total revenues*	**30 June 2011**	*% of total revenues*	*Change %*	**30 June 2012**	*% of total revenues*	**30 June 2011**	*% of total revenues*	*Change %*
Energy products										
LPG	13,224	*20.2%*	14,167	*22.8%*	*(6.7%)*	26,691	*19.5%*	26,754	*22.0%*	*(0.2%)*
Naphtha	5,821	*8.9%*	5,130	*8.3%*	*13.5%,*	12,774	*9.3%*	9,848	*8.1%*	*29.7%*
Natural gas	5,381	*8.2%*	4,267	*6.9%*	*26.1%*	11,491	*8.4%*	8,896	*7.3%*	*29.2%*
MTBE	4,812	*7.4%*	3,627	*5.8%*	*32.7%*	9,234	*6.7%*	6,769	*5.6%*	*36.4%*
Other fuels and fuel additives	782	*1.2%*	924	*1.5%*	*(15.3%)*	1,643	*1.2%*	1,797	*1.5%*	*(8.6%)*
NGL	820	*1.3%*	462	*0.7%*	*77.7%*	1,608	*1.2%*	844	*0.7%*	*90.7%*
Total energy product sales	**30,839**	***47.2%***	**28,577**	***46.0%***	***7.9%***	**63,441**	***46.3%***	**54,907**	***45.2%***	***15.5%***
Petrochemical products										
Synthetic rubbers	9,739	*14.9%*	12,423	*20.0%*	*(21.6%)*	22,303	*16.3%*	25,008	*20.6%*	*(10.8%)*
Plastics and organic synthesis products	10,577	*16.2%*	5,590	*9.0%*	*89.2%,*	18,872	*13.8%*	11,471	*9.4%*	*64.5%*
Basic polymers	5,466	*8.4%*	5,970	*9.6%*	*(8.4%)*	11,653	*8.5%*	11,113	*9.1%*	*4.9%*
Intermediates and other chemicals	5,539	*8.5%*	6,007	*9.7%*	*(7.8%)*	11,598	*8.5%*	12,142	*10.0%*	*(4.5%)*
Total petrochemical product sales	**31,322**	***47.9%***	**29,990**	***48.3%***	***4.4%,***	**64,426**	***47.1%***	**59,735**	***49.1%***	***7.9%***
Sales of processing services	1,212	*1.9%*	1,320	*2.1%*	*(8.2%)*	2,410	*1.8%*	2,651	*2.2%*	*(9.1%)*
Trading and other sales	1,957	*3.0%*	2,221	*3.6%*	*(11.9%)*	6,649	*4.9%*	4,293	*3.5%*	*54.9%*
Total revenue	**65,330**	***100.0%***	**62,108**	***100.0%***	***5.2%,***	**136,926**	***100.0%***	**121,586**	***100.0%***	***12.6%***

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

Operating Expenses

In the second quarter 2012, our operating expenses rose 19.3% year-on-year to RR 48,302 million compared to RR 40,483 million in the second quarter 2011. As a percentage of total revenues, our operating expenses increased to 73.9% from 65.2% a year earlier. The growth in absolute and relative terms was mainly due to higher staff costs, feedstock and materials, repairs and maintenance and transportation expenses, which was partially attributable to the consolidation of new businesses. The growth was partially compensated by lower goods for resale and energy and utilities costs.

In the first half 2012, our operating expenses increased by 23.7% to RR 99,081 million from RR 80,122 million in the same period of 2011. As a percentage of total revenues, our operating expenses amounted to 72.4% compared to 65.9% in the six months ended 30 June 2012. This dynamics was largely attributable to the factors described above.

The following table presents a breakdown of our operating expenses for the three and six months ended 30 June 2012 and 2011:

	Three months ended					Six months ended				
RR million except as stated	**30 June 2012**	*% of total revenues*	**30 June 2011**	*% of total revenues*	*Change %*	**30 June 2012**	*% of total revenues*	**30 June 2011**	*% of total revenues*	*Change %*
Feedstock and materials	14,472	*22.2%*	12,307	*19.8%*	*17.6%*	28,824	*21.1%*	24,037	*19.8%*	*19.9%*
Transportation	9,205	*14.1%*	8,136	*13.1%*	*13.1%*	18,304	*13.4%*	15,782	*13.0%*	*16.0%*
Energy and utilities	6,654	*10.2%*	7,018	*11.3%*	*(5.2%)*	14,238	*10.4%*	15,563	*12.8%*	*(8.5%)*
Staff costs	7,752	*11.9%*	4,401	*7.1%*	*76.2%*	14,204	*10.4%*	8,463	*7.0%*	*67.8%*
Goods for resale	1,673	*2.6%*	4,192	*6.7%*	*(60.1%)*	6,700	*4.9%*	7,721	*6.4%*	*(13.2%)*
Depreciation and amortization	2,212	*3.4%*	1,694	*2.7%*	*30.6%*	4,455	*3.3%*	3,372	*2.8%*	*32.1%*
Repairs and maintenance	2,098	*3.2%*	706	*1.1%*	*197.1%*	3,320	*2.4%*	1,464	*1.2%*	*126.7%*
Services provided by third parties	1,122	*1.7%*	1,178	*1.9%*	*(4.8%)*	2,123	*1.6%*	1,998	*1.6%*	*6.3%*
Rent expenses	1,063	*1.6%*	743	*1.2%*	*43.0%*	2,014	*1.5%*	1,536	*1.3%*	*31.2%*
Charity and sponsorship	617	*0.9%*	201	*0.3%*	*206.6%*	827	*0.6%*	228	*0.2%*	*262.6%*
Taxes other than income tax	403	*0.6%*	239	*0.4%*	*68.9%*	811	*0.6%*	600	*0.5%*	*35.2%*
Impairment of PPE	262	*0.4%*	-	-	*n/m*	262	*0.2%*	-	-	*n/m*
Marketing and advertising	165	*0.3%*	92	*0.1%*	*79.4%*	247	*0.2%*	210	*0.2%*	*17.5%*
Other	665	*1.0%*	1,525	*2.5%*	*(56.4%)*	1,706	*1.2%*	2,136	*1.8%*	*(20.2%)*
Change in WIP and refined products balances	(61)	*(0.1%)*	(1,949)	*(3.1%)*	*(96.9%)*	1,046	*0.8%*	(2,988)	*(2.5%)*	*n/m*
Total operating expenses	**48,302**	***73.9%***	**40,483**	***65.2%***	***19.3%***	**99,081**	***72.4%***	**80,122**	***65.9%***	***23.7%***

Feedstock and Materials

Feedstock and materials mainly comprise various types of feedstock and intermediates that we process into higher value-added products. In the three months ended 30 June 2012, our feedstock and materials costs totaled RR 14,472 million versus RR 12,307 million in the second quarter 2011, increasing 17.6% year-on-year in absolute terms. As a percentage of total revenues these expenses rose to 22.2% as opposed to 19.8% in the second quarter 2011. The major factors behind higher feedstock and materials expenses were the consolidation of paraxylene purchases for OAO Polief starting from the fourth quarter 2011 and higher NGL purchasing prices.

The following table presents information on our costs related to purchasing of feedstock and materials for the three and six months ended 30 June 2012 and 2011:

	Three months ended					Six months ended				
RR million except as stated	**30 June 2012**	*% of total feedstock and materials*	**30 June 2011**	*% of total feedstock and materials*	*Change %*	**30 June 2012**	*% of total feedstock and materials*	**30 June 2011**	*% of total feedstock and materials*	*Change %*
APG	1,647	*11.4%*	1,327	*10.8%*	*24.2%*	3,345	*11.6%*	2,655	*11.0%*	*26.0%*
Liquid hydrocarbon feedstock	6,336	*43.8%*	5,382	*43.7%*	*17.7%*	11,954	*41.5%*	11,380	*47.3%*	*5.0%*
Paraxylene	1,328	*9.2%*	-	-	*n/m*	2,849	*9.9%*	-	-	*n/m*
Other feedstock and materials	5,188	*35.8%*	6,015	*48.9%*	*(13.8%)*	11,411	*39.6%*	12,286	*51.1%*	*(7.1%)*
Change of stock	(27)		(417)		*(93.6%)*	(736)		(2,284)		*(67.8%)*
Total feedstock and materials	**14,472**	***100.0%***	**12,307**	***100.0%***	***17.6%***	**28,824**	***100.0%***	**24,037**	***100.0%***	***19.9%***

The following table presents selected data on our feedstock purchasing volumes for the three and six months ended 30 June 2012 and 2011[(1)]:

	Three months ended			Six months ended		
Metric tons except as stated	**30 June 2012**	**30 June 2011**	***Change %***	**30 June 2012**	**30 June 2011**	***Change %***
APG (thousands of cubic meters)	3,116,594	3,193,034	*(2.4%)*	6,301,268	6,353,960	*(0.8%)*
Liquid hydrocarbon feedstock	854,518	856,319	*(0.2%)*	1,677,350	1,686,689	*(0.6%)*
Paraxylene	39,061	-	*n/m*	86,990	-	*n/m*

In the second quarter 2012, APG purchasing costs amounted to RR 1,647 million compared to RR 1,327 million in the respective period of 2011, increasing by 24.2% year-on-year. As a percentage of total feedstock and materials costs, APG purchases increased to 11.4% from 10.8% a year earlier. This growth was mainly attributable to a 27.2% increase in our average purchasing prices, while our purchasing volumes declined by 2.4%. The average purchasing price increase is attributable to a new supply agreement for approximately 1.2 billion cubic meters of APG at a higher price and, to a smaller extent, price indexations in accordance with our contract terms under the JV arrangements with TNK-BP (OOO Yugragazpererabotka) (see “Feedstock Sourcing and Mix” in the “Certain Factors Affecting Our Results of Operations” section for further details). Decline in APG processing volumes is explained by a reduction in deliveries from one of our suppliers under short-term contracts due to logistical issues.

Expenses related to purchasing of liquid hydrocarbon feedstock, mainly comprised of NGL, LPG and naphtha, totaled RR 6,336 million and RR 5,382 million in the second quarter 2012 and 2011, respectively, an increase of 17.7% year-on-year due to a number of different factors. Our NGL purchasing costs increased substantially due to higher purchasing volumes and an expiry of a discount adjustment, which was previously applicable to NGL purchases within our JV arrangements with TNK-BP. We also saw an increase in our average LPG purchasing price as a result of a change in the mix of purchased fractions towards a higher share of LPG types that are not subject to export duties. The impact from LPG price growth was mitigated by lower LPG purchasing volumes. At the same time we benefited from a decline in average naphtha purchasing prices combined with higher purchasing volumes. As a percentage of total feedstock & energy costs, expenses related to purchasing of liquid hydrocarbon feedstock remained almost unchanged year-on-year at 43.8% in the second quarter 2012 versus 43.7% in the corresponding period of 2011.

Following the consolidation of OAO Polief, PTA and PET producer, from the fourth quarter 2011 we record additional expenses associated with paraxylene purchases as paraxylene is used for PTA production. In the second quarter 2012, our expenses related to paraxylene purchases totaled RR 1,328 million or 9.2% in total feedstock and materials costs. These expenses were nil in the respective period of 2011.

Other feedstock includes methanol used in the production of MTBE and certain intermediate chemicals such as butadiene, benzene and others, which we buy in addition to our own production of intermediates and which we further process into higher value-added petrochemical products. Materials primarily include supplementary raw materials, spare parts, materials for auxiliary workshops and other operating supplies.

In the three months ended 30 June 2012, costs associated with purchases of other feedstock and materials totaled RR 5,188 million versus RR 6,015 million in the second quarter 2011, a decrease of 13.8% year-on-year. As a percentage of total feedstock and materials expenses these costs declined to 35.8% in the second quarter 2012 compared to 48.9% in the respective period of 2011. The decline was mainly attributable to the following factors: first, we stopped purchasing PTA following OAO Polief consolidation; second, we optimized our materials purchases. These factors more than compensated for the reclassification of polypropylene purchases to other feedstock and materials expenses 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.

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

We recorded a reversal of RR 27 million and RR 417 million to our feedstock and materials costs in the second quarter 2012 and 2011, respectively, which is related primarily to growth in balances of feedstock and materials in both periods.

In the first half 2012, our feedstock and materials costs increased to RR 28,824 million compared to RR 24,037 in the six months ended 30 June 2011, an increase of 19.9% year-on-year. As a percentage of total revenues these costs totaled 21.1% in the first half 2012 versus 19.8% in the respective period of 2011. The growth was largely attributable to the factors discussed above.

Transportation

Transportation costs comprise expenses related to transportation of feedstock and materials as well as transportation of refined products. These costs include third-party services and exclude expenses related to ZAO Sibur-Trans activities and maintenance of SIBUR gas and product pipelines. Transportation of feedstock and materials represents third-party services related to deliveries of feedstock and intermediate products to and between our processing facilities. Transportation of refined products represents third-party services to deliver our products to customers and comprises expenses primarily related to railway transportation as well as usage of trucks and port facilities and services of multimodal transportation operators (see “Transportation Tariffs” in the “Certain Factors Affecting Our Results of Operations” section for further details).

In the second quarter 2012, our transportation expenses rose 13.1% year-on-year to RR 9,205 million from RR 8,136 million a year earlier. As a percentage of total revenues transportation expenses amounted to 14.1% and 13.1% in the three months ended 30 June 2012 and 2011, respectively. The increase was mainly attributable to higher transported volumes and to growth in railway transportation tariffs set by the FTS (see “Transportation Tariffs” in the “Certain Factors Affecting Our Results of Operations” section for further details). In particular, as discussed above in the “Transportation Tariffs” in the “Certain Factors Affecting Our Results of Operations” section, the discounted tariffs for export deliveries of LPG from the Tobolsk production site for SIBUR increased to 0.71 of the base tariff in 2012 versus 0.68 in 2011. The growth in transportation tariffs was partially offset by the development of our own NGL transportation infrastructure in order to lower our transportation expenses.

In the first half 2012, our transportation expenses increased by 16.0% year-on-year to RR 18,304 million from RR 15,782 million in the six months ended 30 June 2011. As a percentage of total revenues our transportation costs totaled 13.4% in the first half 2012 versus 13.0% a year earlier.

Energy and Utilities

Energy and utilities primarily comprise expenses associated with purchases of electric power and heat.

In the second quarter 2012, energy and utility expenses decreased by 5.2% year-on-year to RR 6,654 million from RR 7,018 million in the second quarter 2011. As a percentage of total revenues these costs decreased to 10.2% from 11.3% in the respective periods. The decline in absolute and relative terms was primarily attributable to an 8.8% decrease in our electricity expenses due to lower tariffs and consumption volumes (see “Electricity and Heat Tariffs” in the “Certain Factors Affecting Our Results of Operations” section for further details). Costs related to heat consumption were flat year-on-year in the three months ended 30 June 2012 and 2011, respectively. In the second quarter 2012, our fuel costs rose 87.1% to RR 637 million compared to RR 341 million in the corresponding period of 2011. This growth was attributable to 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 for further details).

The above factors applied to both the first and the second quarter 2012. As a result, our first half 2012 energy and utility expenses declined by 8.5% year-on-year to RR 14,238 million from RR 15,563 million a year earlier. As a percentage of total revenues our energy and utility costs decreased to 10.4% from 12.8% in the first half 2011.

The following table presents data on our energy and utility costs for the three and six months ended 30 June 2012 and 2011:

	Three months ended					Six months ended				
RR million except as stated	**30 June 2012**	***% total energy and utilities***	**30 June 2011**	***% total energy and utilities***	***Change %***	**30 June 2012**	***% total energy and utilities***	**30 June 2011**	***% total energy and utilities***	***Change %***
Electricity	4,437	*66.7%*	4,867	*69.3%*	*(8.8%)*	8,987	*63.1%*	10,502	*67.5%*	*(14.4%)*
Heat	1,385	*20.8%*	1,383	*19.7%*	*0.1%*	3,282	*23.1%*	3,214	*20.7%*	*2.1%*
Fuel	637	*9.6%*	341	*4.9%*	*87.1%,*	1,589	*11.2%*	818	*5.3%*	*94.2%*
Other	194	*2.9%*	427	*6.1%*	*(54.6%)*	380	*2.7%*	1,029	*6.6%*	*(63.1%)*
Total energy and utilities	**6,654**	***100.0%***	**7,018**	***100.0%***	***(5.2%)***	**14,238**	***100.0%***	**15,563**	***100.0%***	***(8.5%)***

Staff Costs

In the second quarter 2012, our staff costs rose 76.2% year-on-year to RR 7,752 million from RR 4,401 million in the corresponding period of 2011. As a percentage of total revenues staff costs increased to 11.9% from 7.1% a year earlier. The growth in absolute terms and as a percentage of total revenues is attributable to a non-recurring non-cash change in treatment of bonus provisions, bonuses accrued and paid to employees of the production facilities, higher headcount due to the consolidation of new businesses, an increase in average salaries as well as higher social taxes due to regulatory changes and higher cost base.

In 2012, SIBUR changed its approach to bonus provision treatment. First, from the beginning of 2012, SIBUR started accruing bonus provisions on a quarterly basis, while in 2011 bonus provisions were accrued on an annual basis and recorded in the fourth quarter of each year. Second, beginning this year the Group accrues provisions for bonuses to employees of our production facilities due to adoption of a new motivation system and introduction of production and functional contracts with the employees of the production facilities, which has improved bonus predictability. In 2011, bonus provisions were created only with respect to bonuses to headquarter employees.

In the three months ended 30 June 2012, SIBUR accrued and paid bonuses to the employees of the production facilities, which were not accounted for in the annual bonus provision created at the end of 2011 in line with the previous motivation system.

Net of the effect of the aforementioned factors (including respective social taxes), SIBUR's staff costs totaled RR 5,667 million in the second quarter 2012 compared to RR 4,414 million in the second quarter 2011, an increase of 28.4% year-on-year. The increase is attributable to the following key factors:

- Higher social taxes due to changes in rates and grid for calculation of mandatory contributions to pension and other funds effective 1 January 2012 and generally higher staff cost base;
- A 5% increase in average headcount due to the consolidation of new businesses acquired in the second half 2011 – first half 2012 (net of the consolidation effect, SIBUR's average headcount decreased by 1% year-on-year);
- An 18% increase in our average monthly salary due to regular wage indexation and changes in the headcount composition with shift towards more competent and higher-paid employees at our production facilities and a higher share of personnel engaged in project activities on the back of extensive project implementation, particularly with respect to our investment activity;
- A non-cash expense accrued in relation to a launch of a new long-term incentive (LTI) program.

The factors described above also affected our staff costs in the first half 2012: our staff costs increased by 67.8% to RR 14,204 million from RR 8,463 million in the first half 2011. As a percentage of total revenues, staff costs grew to 10.4% from 7.0% a year ago. Excluding the effect of the new bonus provision treatment and expenses associated with bonus payments to production employees, our first half 2012 staff costs amounted to RR 10,502 million compared to RR 8,454 million in the first half 2011, an increase of 24.2% year-on-year.

Goods for Resale

In the three months ended 30 June 2012, our expenses related to purchases of goods for resale decreased by 60.1% year-on-year to RR 1,673 million from RR 4,192 million in the corresponding period of 2011. As a percentage of total revenues, goods for resale decreased to 2.6% in the second quarter 2012 from 6.7% in the second quarter 2011. The decrease both in absolute terms and as a percentage of revenues is primarily explained by the following three factors: first, in the second quarter 2012 we discontinued our trading activity with the tires and mineral fertilizers businesses divested in December 2011; second, we stopped purchases of LPG for further resale from one of our counterparties in the second quarter 2012; and third, our polypropylene purchases have been reclassified to feedstock and materials costs after we began consolidating the results of the BIAXPLEN group of companies at the end of March 2012. Previously, these polypropylene purchases were treated as goods for resale.

In the first half 2012, our expenses related to purchases of goods for resale decreased by 13.2% year-on-year to RR 6,700 million compared to RR 7,721 million in the first six months 2011. As a percentage of total revenues, goods for resale decreased to 4.9% from 6.4% in the respective periods.

Depreciation and Amortization

In the second quarter 2012, depreciation and amortization expenses increased by 30.6% year-on-year to RR 2,212 million from RR 1,694 million in the three months ended 30 June 2011. The increase was attributable to the launch of new production facilities and acquisitions completed at the end of 2011 and the beginning of 2012. As a percentage of total revenues, depreciation and amortization increased to 3.4% in the second quarter 2012 from 2.7% in the corresponding period of 2011.

Our depreciation and amortization costs totaled RR 4,455 million and RR 3,372 million in the first half 2012 and 2011, respectively, increasing 32,1% year-on-year due to the same factors as described above. As a percentage of total revenues these expenses rose to 3.3% in the six months ended 30 June 2012 from 2.8% a year earlier.

Repairs and Maintenance

In the three months ended 30 June 2012, repairs and maintenance expenses increased by 197.1% year-on-year to RR 2,098 million from RR 706 million in the second quarter 2011. As a percentage of total revenues repairs and maintenance grew to 3.2% from 1.1% in the second quarter 2011.

The growth is explained primarily by changes in maintenance schedules and launch of several programs aimed at further industrial and ecological safety improvements, industrial infrastructure development and enhancement of the existing equipment efficiency.

In the first half 2012, our repairs and maintenance expenses rose by 126.7% year-on-year to RR 3,320 million from RR 1,464 million in the corresponding period of 2011. As a percentage of total revenues, repairs and maintenance expenses increased to 2.4% in the first six months 2012 compared to 1.2% in the first six months 2011.

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.

Third-party services costs decreased by 4.8% year-on-year to RR 1,122 million in the three months ended 30 June 2012 from RR 1,178 million in the corresponding period of 2011, declining as a percentage of total revenues to 1.7% from 1.9% a year earlier.

In the first half 2012, our expenses related to services provided by third parties amounted to RR 2,123 million compared to RR 1,998 million in the first half 2011, an increase of 6.3% year-on-year. As a percentage of total revenues, these expenses were flat year-on-year at 1.6% level.

Rent Expenses

Rent expenses primarily represent rental of rolling stock for transportation of NGL and LPG, as SIBUR rents specialized tankers and rail cars as well as general purpose rail cars. Rent expenses also include lease payments for land plots.

In the second quarter 2012, our rent expenses increased by 43.0% year-on-year to RR 1,063 million from RR 743 million a year earlier. As a percentage of total revenues, our rent expenses amounted to 1.6% and 1.2% in the three months ended 30 June 2012 and 2011, respectively. The growth was largely driven by a 13.9% expansion of leased rolling stock (to 7,337 cars and tankers as of 30 June 2012 from 6,443 units as of 30 June 2011), which is related to longer transportation routes and lower rolling stock turnover due to Russian railways' infrastructural bottlenecks. In addition, our rental rates increased in the range of 8% to 24% depending on a particular rail car or tanker type.

In the first half 2012, our rent expenses grew by 31.2% year-on-year to RR 2,014 million from RR 1,536 million in the corresponding period of 2011. As a percentage of total revenues rent expenses totaled 1.5% versus 1.3% a year earlier.

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 it operates, the Group has signed mutually beneficial agreements with a number of regional authorities, including agreements on social-economic cooperation. Under such agreements we implement a range of social programs and humanitarian projects in several regions, including Western Siberia, the Nizhny Novgorod and the 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. SIBUR is also actively promoting Russia's chemical science and professional education in cooperation with leading chemical institutions, universities and schools.

In the second quarter 2012, our expenses related to charity and sponsorship increased to RR 617 million from RR 201 million in the corresponding period of 2011. As a percentage of total revenues, charity and sponsorship expenses increased to 0.9% compared to 0.3% in the three months ended 30 June 2011.

In the first half 2012, expenses related to charity and sponsorship grew to RR 827 million from RR 228 million a year ago. As a percentage of total revenues charity and sponsorship expenses totaled 0.6% and 0.2% in the first half 2012 and 2011, respectively.

Taxes Other than Income Tax

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

In the three months ended 30 June 2012, our taxes other than income tax amounted to RR 403 million versus RR 239 million in the respective period of 2011, an increase of 68.9% year-on-year. As a percentage in total revenues, these expenses amounted to 0.6% and 0.4% in the second quarter 2012 and 2011, respectively. The growth was primarily attributable to an increase in property tax as new taxable properties were put in operation and higher land tax as we purchased several land plots occupied by our production facilities.

In the first half 2012, our taxes other than income tax increased by 35.2% year-on-year and totaled RR 811 million compared to RR 600 million a year earlier. As a percentage of total revenues these expenses increased to 0.6% from 0.5% in the six months ended 30 June 2011.

Impairment of Property, Plant and Equipment

In the second quarter 2012, we recognized an impairment charge of RR 262 million, which was attributable to a gradual decommissioning of Kaprolaktam, 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 is already under way. The shutdown of Kaprolaktam 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 under a JV arrangement (RusVynil). The complex, located in Kstovo, the Nizhny Novgorod region, is scheduled for commercial launch in 2014.

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 Moscow, Nizhny Novgorod, St. Petersburg and regional leagues in Western Siberia, which helps to strengthen SIBUR’s corporate brand visibility and positions us as an active promoter of Russian sports both nationally and in the regions where we operate. SIBUR also sponsors the Caterham F1 Team. Additionally, marketing and advertising costs include promotion of SIBUR’s corporate brand and selected products at industrial exhibitions, conferences and via TV and print media.

In the second quarter 2012, our marketing and advertising costs increased by 79.4% year-on-year to RR 165 million from RR 92 million in the corresponding period of 2011. As a percentage of total revenues, marketing and advertising expenses increased to 0.3% from 0.1% a year earlier. The growth was attributable to the expansion of our sponsorship and other corporate brand promotion initiatives in Russia and internationally.

In the first half 2012, our expenses related to marketing and advertising rose by 17.5% year-on-year and totaled RR 247 million compared to RR 210 million a year earlier. As a percentage of total revenues, these costs remained almost unchanged year-on-year at 0.2%.

Change in WIP and Refined Products Balances

In the second quarter 2012, we recorded a reversal of RR 61 million to our operating expenses compared to a reversal of RR 1,949 million a year earlier, which was related primarily to growth in balances of refined products. Growth in refined products inventories in the second quarter 2012 was much lower than in the same period a year ago: in the second quarter 2012 inventory accumulation was attributable to our preparation for planned maintenance shutdowns scheduled for the second half of the year while in 2011 the increase was due to changes in our marketing and distribution strategy.

In the first half 2012, we recorded an increase in our operating expenses of RR 1,046 million versus a reversal of RR 2,988 million in the six months ended 2011. This dynamics is explained by destocking in the first quarter 2012 in line with market trends compared to inventory build-up in the first quarter 2011 as a result of changes in SIBUR’s marketing and distribution strategy.

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

As a result of factors discussed above, our operating profit for the second quarter 2012 decreased by 21.3% year-on-year to RR 17,028 million from RR 21,625 million a year earlier. Our operating margin for the period totaled 26.1% compared to 34.8% in the three months ended 30 June 2011.

In the first half 2012, our operating profit amounted to RR 37,845 versus RR 41,464 a year earlier, decreasing 8.7% year-on-year. Operating margin totaled 27.6% and 34.1% in the six months ended 30 June 2012 and 2011, respectively.

Finance Income and Expenses

In the second quarter 2012, we reported a net finance expense in the amount of RR 6,081 million compared to RR 921 million a year earlier primarily due to a higher foreign exchange loss and lower interest income.

In the six months ended 30 June 2012, our net finance expense totaled RR 1,586 million compared to RR 408 million in the six months ended 30 June 2011 for the reasons discussed above.

The following table presents data on our finance income and expenses for the three and six months ended 30 June 2012 и 2011:

RR million except as stated	**Three months ended**		***Change***	**Six months ended**		***Change***
	30 June 2012	**30 June 2011**	***%***	**30 June 2012**	**30 June 2011**	***%***
Interest income	-	725	*(100.0%)*	463	1,582	*(70.7%)*
Interest expense	(325)	(547)	*(40.6%)*	(600)	(1,362)	*(55.9%)*
Foreign exchange loss	(5,524)	(1,002)	*451.7%*	(2,265)	(604)	*275.1%*
Other finance (expenses)/income	(233)	(99)	*134.8%*	815	(25)	*n/m*
Total finance (expenses)/income	**(6,081)**	**(921)**	***560.0%***	**(1,586)**	**(408)**	***288.6%***

We did not record any interest income in the second quarter 2012, while our interest income in the second quarter 2011 totaled RR 725 million. Interest income is primarily related to bank deposits as well as loans provided to our joint ventures or partners. In 2012 we stopped lending to the recently divested mineral fertilizers and tires businesses. In addition, our loans to OAO Polief are now treated as intercompany as we consolidate the company from the fourth quarter 2011. Also at the end of 2011, SIBUR changed its approach to the financing of RusVinyl's investment program, which is now being reported as an equity contribution as opposed to previous reporting as loans issued. In the first half 2012, our interest income decreased by 70.7% year-on-year to RR 463 million from RR 1,582 million in the corresponding period of 2011. Interest income recorded in the first quarter 2012 was mainly attributable to accrued interest on SIBUR's bank deposits.

In the second quarter 2012, our interest expenses decreased by 40.6% to RR 325 million from RR 547 million in the corresponding period of 2011. In the first half 2012, our interest expenses totaled RR 600 million compared to RR 1,362 million a year earlier, decreasing by 55.9% year-on-year. The decrease was mainly attributable to the capitalization of part of our interest expenses due to a higher share of borrowings associated with funding of our investment program. As of 30 June 2012, our weighted average interest rates were as follows: 7.4% on RR-denominated loans, 3.3% on USD-denominated borrowings, and 2.4% on EUR-denominated loans.

In the second quarter 2012, we recorded a primarily non-cash foreign exchange loss in the amount of RR 5,524 million versus RR 1,002 million a year earlier, which is attributable to Russian ruble depreciation and the revaluation of our USD-denominated debt. In the first half 2012, the Russian ruble depreciated by 1.9%, which resulted in a foreign-exchange loss of RR 2,265 million for the period compared to RR 604 million in the corresponding period a year earlier.

In the three months ended 30 June 2012, other finance expenses totaled RR 233 million compared to RR 99 million in the same period a year earlier due to amortization of a discount for loans obtained for the acquisition of OAO Polief and OOO BIAXPLEN-NK. In the first half 2012, SIBUR recorded other finance income of RR 815 million compared to an expense of RR 25 million a year earlier. This income is mainly attributable to a recovery of a discount on receivables from the BIAXPLEN group of companies, which we consolidated at the end of March 2012.

Gain on Acquisition of a Subsidiary

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

Share of Net Loss / Income of Joint Ventures

In the three months ended 30 June 2012, our share of net loss of joint ventures totaled RR 13 million compared to share of net income in the amount of RR 122 million recorded in the second quarter 2011. This was mainly attributable to a non-cash foreign-exchange loss of RusVinyl, caused by revaluation of its euro-denominated debt. In the first half 2012, our share of net loss of joint ventures amounted to RR 79 million versus share of net income in the amount of RR 255 million recorded a year earlier.

Income Tax Expense

In the second quarter 2012, our income tax expense totaled RR 2,468 million compared to RR 4,821 million in the second quarter 2011, a decrease of 48.8% year-on-year on a lower pre-tax profit, which declined 46.9% year-on-year.

In the first half 2012, our income tax expense decreased by 22.6% year-on-year to RR 6,633 million from RR 8,565 million in the same period a year earlier. Our effective tax rate (total income tax expense as a percentage of our profit before income tax) totaled 18.1% in the six months ended 30 June 2012 compared to 20.9% in the first half 2011.

The Russian statutory income tax rate for the reporting periods was 20%. The difference between our effective and statutory tax rates is 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.

Loss from Discontinued Operations

In the first quarter 2012 and thus in the first half 2012, SIBUR recorded RR 315 million in a loss from discontinued operations, which relates to the disposal of ZAO Voronezh Tire Plant.

Profit for the Period and Profit Attributable to Shareholders of SIBUR

Our profit for the three months ended 30 June 2012 decreased by 46.3% year-on-year to RR 8,466 million from RR 15,758 million a year earlier. Net margin decreased to 13.0% from 25.4%. In the second quarter 2012, profit attributable to shareholders of SIBUR amounted to RR 8,469 million versus RR 15,767 million in the second quarter 2011.

Our profit for the first half 2012 was supported by strong results of the first quarter and decreased by 8.7% year-on-year to RR 29,662 million from RR 32,499 million in the corresponding period of 2011. Net margin totaled 21.7% compared to 26.7% a year earlier. Profit attributable to shareholders of SIBUR amounted to RR 29,601 million in the first half 2012 versus RR 32,543 million in the first half 2011.

SEGMENT INFORMATION

SIBUR's business structure comprises two segments: feedstock & energy and petrochemicals. These business segments vary significantly in their end-user markets, supply and demand trends, value drivers and consequently current and long-term profitability. The Group management measures the performance of the operating segments based on the EBITDA contribution of each segment. The revenues and expenses of some of the Group`s subsidiaries, which provide primarily energy supply, transportation, processing, managerial and other services to the Group, are not allocated into operating segments.

Gross revenues generated by our feedstock & energy segment reached RR 82,721 million(1) in the first half 2012. The segment's contribution to the Group EBITDA amounted to RR 36,879 million(2) for an EBITDA margin of 44.6%. Our feedstock & energy segment employed approximately 6,700 people as of 30 June 2012(3).

Gross revenues generated by our petrochemicals segment reached RR 68,712 million(1) in the first half 2012. The segment's contribution to the Group EBITDA amounted to RR 10,620 million(2) for an EBITDA margin of 15.5%. The headcount of the petrochemicals segment totaled approximately 19,900 people as of 30 June 2012.

The following table presents data on our segments' revenue and EBITDA contribution for the three and six months ended 30 June 2012 and 2011:

	Three months ended 30 June							
	2012				**2011**			
RR million except as stated	**Feedstock & Energy**	**Petro-chemicals s**	**Unallocated**	**Total**	**Feedstock & Energy**	**Petro-chemicals**	**Unallocated**	**Total**
Total segment revenue	40,831	33,556	4,745	79,132	37,791	29,630	5,696	73,117
Inter-segment transfers	(8,592)	(2,083)	(3,127)	(13,802)	(7,631)	(778)	(2,600)	(11,009)
External revenue	32,239	31,473	1,618	65,330	30,160	28,852	3,096	62,108
EBITDA	**16,640**	**4,583**	(1,720)	**19,503**	**17,995**	**6,348**	**(1,023)**	**23,320**

	Six months ended 30June							
	2012				**2011**			
RR million except as stated	**Feedstock & Energy**	**Petro-chemicals**	**Unallocated**	**Total**	**Feedstock & Energy**	**Petro-chemicals**	**Unallocated**	**Total**
Total segment revenue	82,721	68,712	11,751	163,184	73,790	64,253	10,879	148,922
Inter-segment transfers	(17,050)	(4,187)	(5,021)	(26,258)	(19,030)	(4,483)	(3,823)	(27,336)
External revenue	65,671	64,525	6,730	136,926	54,760	59,770	7,056	121,586
EBITDA	**36,879**	**10,620**	**(4,937)**	**42,562**	**34,898**	**12,177**	**(2,239)**	**44,836**

(1) Including inter-segment revenues, excluding unallocated revenues
(2) Does not include corporate overheads and other unallocated expenses
(3) Does not include logistics, marketing and administrative personnel

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table presents selected data on our net cash flows for the three and six months ended 30 June 2012 and 2011:

RR million except as stated	**Three months ended**		*Change*	**Six months ended**		*Change*
	30 June 2012	**30 June 2011**	*%*	**30 June 2012**	**30 June 2011**	*%*
Net cash from operating activities, *including*	16,998	16,839	*0.9%*	38,847	27,446	*41.5%*
Operating cash flows before working capital changes	*21,053*	*24,062*	*(12.5%)*	*45,455*	*45,482*	*(0.1%)*
Changes in working capital	*683*	*(3,464)*	*n/m*	*1,140*	*(11,110)*	*n/m*
Income tax paid	*(4,738)*	*(3,759)*	*26.0%*	*(7,748)*	*(6,926)*	*11.9%*
Net cash (used in) nvesting activities, *including*	(17,336)	(16,592)	*4.5%*	(15,821)	(23,124)	*(31.6%)*
Purchase of property, plant and equipment	*(20,342)*	*(12,091)*	*68.2%*	*(32,226)*	*(15,599)*	*106.6%*
Proceeds from disposal of the mineral fertilizers business[(1)]	-	-	*n/m*	*7,689*	-	*n/m*
Cash from investing activities of discontinued operations net of related income tax[(2)]	-	-	*n/m*	*5,984*	-	*n/m*
Loans issued	*(184)*	*(6,788)*	*(97.3%)*	*(1,415)*	*(9,599)*	*(85.3%)*
Other	*3,190*	*2,287*	*39.5%*	*4,147*	*2,074*	*100.0%*
Net cash (used in) financing activities	(21,624)	(11,704)	*84.8%*	(33,888)	(13,253)	*155.7%*
Effect of exchange rate changes on cash and cash equivalents	195	(286)	*n/m*	(154)	(161)	*(4.3%)*
Net decrease in cash and cash equivalents	(21,767)	(11,743)	*85.4%*	(11,016)	(9,092)	*21.2%*

Net Cash from Operating Activities

In the second quarter 2012, our net cash from operating activities increased by 0.9% year-on-year to RR 16,998 million from RR 16,839 million in the respective period of 2011. Operating cash flows before working capital changes decreased by 12.5% year-on-year to RR 21,053 million compared to RR 24,062 million in the same period a year earlier mainly due to lower EBITDA. Income tax paid in the second quarter 2012 grew by 26.0% year-on-year to RR 4,738 million from RR 3,759 million in the corresponding period of 2011, which is attributable to a higher pre-tax profit reported in the first quarter 2012. In the second quarter 2012, changes in working capital had a positive impact on our net cash from operating activities in the amount of RR 683 million as opposed to a negative effect of RR 3,464 million in the corresponding period a year earlier.

In the first half 2012, our net cash from operating activities increased by 41.5% year-on-year to RR 38,847 million from RR 27,446 million in the six months ended 30 June 2011. Operating cash flows before working capital changes were almost flat year-on-year and amounted to RR 45,455 million and RR 45,482 million in the first half 2012 and 2011, respectively. Income tax paid in the first half 2012 grew by 11.9% year-on-year to RR 7,748 million from RR 6,926 million a year earlier due to a higher income tax paid in the second quarter 2012. Changes in working capital had a positive impact on our net cash from operating activities in the amount of RR 1,140 million in the first half 2012 versus a negative effect of RR 11,110 million in the first half 2011.

[(1)] Net of related income tax of RR 900 million
[(2)] Proceeds from the disposal of ZAO Voronezh Tire Plant and OAO Kirov Tire Plant

The following table presents data on changes in working capital for the three and six months ended 30 June 2012 and 2011:

	Three months ended		Six months ended	
RR million except as stated	**30 June 2012**	**30 June 2011**	**30 June 2012**	**30 June 2011**
Decrease/(increase) in trade and other receivables	5,766	6,369	4,528	(392)
(Increase)/decrease in prepayments and other current assets	(1,429)	(3,938)	(1,067)	917
(Increase) in inventories	(797)	(2,586)	(344)	(5,519)
(Decrease) in trade and other payables	(3,062)	(4,131)	(3,681)	(5,414)
Increase/(decrease) in taxes payable	205	822	1,704	(702)
Changes in working capital	**683**	**(3,464)**	**1,140**	**(11,110)**

Our net working capital totaled RR 30,522 million as of 30 June 2012 compared to RR 30,986 million as of 31 March 2012 and RR 32,405 million as of 31 December 2011(1) (see Appendix I for further details).

The changes in our working capital in the three and six months ended 30 June 2012 were mainly attributable to improvements in our receivables collection due to the successful implementation of our receivables turnover optimization program. As a result, receivable days decreased to 13 days as of 30 June 2012 from 16 days as of both 31 March 2012 and 31 December 2011(2).

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

Net Cash Used in Investing Activities

In the second quarter 2012, our net cash used in investing activities increased by 4.5% year-on-year to RR 17,336 million from RR 16,592 million in the corresponding period of 2011. This is mainly the result of the following key factors: a 68.2% year-on-year growth in capital expenditures (purchase of PP&E) to RR 20,342 million in the second quarter 2012 from RR 12,091 million in the respective period of 2011; outstanding proceeds received from the disposal of the mineral fertilizers businesses in the amount of RR 2,631 million; proceeds received from the sale of our stake in OAO Phosagro in the amount of RR 2,273 million; dividend payments from OOO NPP Neftekhimia, other JVs and OAO Phosagro in the total amount of RR 1,314 million.

In the first six months 2012, our net cash used in investing activities decreased by 31.6% year-on-year to RR 15,821 million from RR 23,124 million a year earlier. At the same time capital expenditures more than doubled to RR 32,226 million from RR 15,599 million spent in the first half 2011 due to the implementation of our investment program (see the "Capital Expenditures" section below for further details). The growth in capital expenditures was largely compensated by proceeds from the disposal of ZAO Voronezh Tire Plant and OAO Kirov Tire Plant in the amount of RR 5,984 million received in the first quarter 2012, as well as proceeds from the disposal of mineral fertilizers businesses in the amount of RR 7,689 million and other proceeds, as discussed above.

(1) Absolute change in working capital as recorded in the statement of financial position is not equal to the change in working capital recorded in the statement of cash flows as it includes non-cash items
(2) Calculated using items of the statement of financial position at the end of respective period

Net Cash Used in Financing Activities

In the second quarter 2012, our net cash used in financing activities increased to RR 21,624 million from RR 11,704 million in the three months ended 30 June 2011. This was attributable to a net repayment of our debt and RR 21,786 million in dividend payment in line with SIBUR's dividend policy.

In the first half 2012, our net cash used in financing activities increased to RR 33,888 million from RR 13,253 million in the corresponding period of 2011 due to the factors discussed above. At the same time, SIBUR's debt remained largely unchanged from 31 December 2011 (see "Borrowings" below for further details) due to the consolidation of the BIAXPLEN group of companies' debt in the amount of RR 7,047 million.

Capital Expenditures

In the second quarter 2012, the Group's capital expenditures increased by 68.2% year-on-year to RR 20,342 million compared to RR 12 091 million in the second quarter 2011. In the first half 2012, our capital expenditures more than doubled to RR 32,226 million compared to RR 15,599 million in the corresponding period of 2011. The growth was attributable to our substantial investments in development of both our feedstock & energy and petrochemical businesses in line with our strategic objectives.

The following table presents data on our capital expenditures and key investment projects for the three and six months ended 30 June 2012 and 2011:

RR million except as stated		**Three months ended 30 June**		**Six months ended 30 June**	
Location	**Description**	**2012**	**2011**	**2012**	**2011**
Feedstock & Energy					
Transportation infrastructure development					
Western Siberia	Construction of an NGL pipeline between Purovskiy gas condensate plant (GCP), Yuzhno-Balykskaya main pumping station and the Tobolsk production site	9,043	121	9,470	196
Leningrad region	Greenfield construction of an LPG and light oils trans-shipment facility at Ust-Luga sea port	1,791	1,178	2,597	1,695
Gas processing capacity modernization and expansion					
Noyabrsk	Construction of Vyngapurovskiy GPP on the basis of Vyngapurovskaya compressor station	560	130	1,373	772
Pyt-Yakh	Construction of a new gas processing unit at Yuzhno-Balykskiy GPP	546	426	826	427
Nizhnevartovsk	Construction of a third compressor station at the Nizhnevartovsk GPP's site	68(1)	661(1)	364(1)	722(1)
Gas fractionation capacity modernization and expansion					
Tobolsk	Construction of a new gas fractionation unit (GFU)	781	44	1,145	117
Petrochemicals					
Tobolsk	Greenfield construction of a polypropylene complex	5,091	5,521	10,528	9,374
Voronezh	Construction of a thermoplastic elastomers production capacity	655	266	1,010	332
Kstovo	Reconstruction of an ethylene cracker	419	318	817	481
Togliatti	Technical re-equipment of a butyl rubber production capacity	123	76	381	98
Perm	Construction of an expandable polystyrene production capacity	174	412	335	529

(1) Including TNK-BP's share of financing

Borrowings

As of 30 June 2012, the Group's total debt stood at RR 83,374 million, an increase of 0.6% from RR 82,910 million as of 31 December 2011, as net repayment of debt by SIBUR was offset by the consolidation of RR 7,047 million in debt of the BIAXPLEN group of companies as of 29 March 2012.

Our net debt[(1)] increased by 16.9% to RR 79,419 million as of 30 June 2012 from RR 67,939 million as of 31 December 2011. The growth is attributable to a decrease in cash and cash equivalents due to a dividend payment in the amount of RR 21,786 million in the second quarter 2012 and funding of our capital expenditure program.

The following table presents our total debt, cash and cash equivalents and net debt position as of 30 June 2012, 31 March 2012 and 31 December 2011:

RR million except as stated	**As of 30 June 2012**	**As of 31 March 2012**	**As of 31 December 2011**	***Change, % vs 31-Dec-2011***
Total debt	83,374	74,921	82,910	*0.6%*
Cash and cash equivalents	3,955	25,722	14,971	*(73.6%)*
Net debt[(1)]	79,419	49,199	67,939	*16.9%*

In the first half 2012, we increased debt under our VEB project finance facility to fund the Tobolsk-Polymer construction project by the US dollar equivalent of RR 4,084 million, including RR 2,318 million obtained in the second quarter 2012.

As of 30 June 2012, all of our debt was unsecured with the exception of the US dollar equivalent of RR 17,802 million outstanding under the Tobolsk-Polymer 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 30 June 2012, 31 March 2012 and 31 December 2011:

RR million except as stated	**Currency**	**Due**	**As of 30 June 2012**	**As of 31 March 2012**	**As of 31 December 2011**
Variable rate loans					
UniCredit Bank, Germany	EUR	2013-2019	920	825	858
ING Bank	RR, USD, EUR	2008-2021	5,003	1,572	6,405
OAO Nordea Bank	USD	2013-2016	11,463	10,245	11,246
OAO Vnesheconombank	USD	2013-2023	17,802	15,484	13,718
AKB Rosbank	USD	2013	4,923	4,399	4,829
OAO Sberbank of Russia	RR	2012	-	-	3,000
Credit Agricole	RR	2012	1,000	-	3,000
HSBC Bank plc.	USD	2012-2014	4,923	-	2,415
The Royal Bank of Scotland	USD	2012	1,713	-	-
Raiffeisen Bank	USD	2012	4,923	4,399	4,829
Fixed rate loans					
Russian ruble denominated bonds	RR	2012	31	31	31
Gazprombank	RR, USD, EUR	2012-2017	1,969	5,889	-
OOO Mezhregiongaz	RR	2011-2014	4,657	4,587	4,547
TNK-BP	RR, USD	2013-2017	4,825	4,537	4,545
OAO Sberbank of Russia	RR	2012-2014	15,429	16,714	18,000
OOO NPP Neftekhimia	RR	2012-2015	325	650	500
TransCreditBank	RR	2012	1,400	2,900	2,900
Credit Suisse	RR	2012	1,500	-	1,500
Citibank International	USD	2012	39	-	431
Other	RR, USD	2011-2031	530	2,689	156
Total borrowings			**83,374**	**74,921**	**82,910**

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

Our financial policy is aimed at maintaining a diversified debt portfolio with a sound balance of fixed and floating interest rate instruments. We also target improvements in our debt maturity profile.

The following table presents scheduled maturities of our outstanding debt as of 30 June 2012, 31 March 2012 and 31 December 2011:

RR million except as stated	**As of 30 June 2012**	*% of total borrowings*	**As of 31 March 2012**	*% of total borrowings*	**As of 31 December 2011**	*% of total borrowings*	*Change, % vs 31-Dec-2011*
Due for repayment:							
Within one year	29,430	*35.3%*	19,358	*25.8%*	31,194	*37.6%*	*(5.7%)*
Between one and two years	24,473	*29.4%*	14,919	*19.9%*	16,364	*19.7%*	*49.6%*
Between two and five years	15,045	*18.0%*	22,174	*29.6%*	22,636	*27.3%*	*(33.5%)*
After five years	14,426	*17.3%*	18,471	*24.7%*	12,716	*15.3%*	*13.4%*
Total borrowings	**83,374**	***100%***	**74,921**	***100%***	**82,910**	***100%***	***0.6%***

The following table presents currency split of our outstanding debt as of 30 June and 31 March 2012 and 31 December 2011:

RR million except as stated	**As of 30 June 2012**	*% of total borrowings*	**As of 31 March 2012**	*% of total borrowings*	**As of 31 December 2011**	*% of total borrowings*	*Change, % vs 31 Dec 2011*
Denominated in:							
Russian ruble	26,788	*32.1%*	35,157	*46.9%*	39,911	*48.1%*	*(32.9%)*
Euro	2,317	*2.8%*	2,415	*3.2%*	2,629	*3.2%*	*(11.9%)*
US dollar	54,268	*65.1%*	37,349	*49.9%*	40,370	*48.7%*	*34.4%*
Total borrowings	**83,374**	***100%***	**74,921**	***100%***	**82,910**	***100%***	***0.6%***

USD-denominated debt as a percentage of total borrowings increased to 65.1% as of 30 June 2012 from 49.9% as of 31 March 2012 and 48.7% as of 31 December 2011. The growth in US dollar borrowings was mainly attributable to new draw-downs under the Tobolsk-Polymer project finance facility as well as new borrowings from the leading international banks as we expect higher export revenues, including future exports of Tobolsk-Polymer's polypropylene.

The following table presents our key liquidity and credit ratios as of 30 June 2012, 31 March 2012 and 31 December 2011:

	30 June 2012	**31 March 2012**	**31 December 2011**
Current ratio	1.00x	1.54x	1.39x
Debt to equity	0.48x	0.40x	0.50x
Debt/EBITDA	0.99x	0.85x	0.96x
Net debt[1]/EBITDA	0.94x	0.56x	0.78x
EBITDA/Interest	71x	58x	34x

SIBUR's financial policy is to maintain a net debt to EBITDA ratio of no higher than 2.5x and EBITDA to interest ratio of no lower than 7x. These objectives are stricter than bank covenants stipulated in some of our credit agreements. As of 30 June 2012, our net debt to EBITDA ratio was 0.94x compared to 0.56x as of 31 March 2012 and 0.78x as of 31 December 2011. EBITDA to interest ratio was 71x, 58x and 34x as of 30 June 2012, 31 March 2012 and 31 December 2011, respectively.

As of 30 June 2012, SIBUR had access to an equivalent of RR 72,797 million of undrawn credit facilities denominated in Russian rubles, US dollars and euro, both short- and long-term, of which RR 51,939 million were committed. Committed credit facilities include RR 27, 265 million under the Tobolsk-Polymer project finance facility, which can be used only for this purpose as well as RR 111 million of ECA-backed financing linked to particular import contracts. The remaining RR 24,563 million are available for general corporate purposes and are sufficient to cover our short-term liquidity needs.

Management considers the Group to have a strong financial position, supported by robust internal cash generation and sustainable access to external financing. These resources enable the Group to finance its capital expenditure needs, while meeting its debt and other obligations in a timely manner.

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

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 30 June 2012, 31 March 2012 and 31 December 2011:

RR million except as stated	**As of 30June 2012**	**As of 31 March 2012**	**As of 31 December 2011**
Trade receivables including advances from customers	9,627	12,995	11,047
Trade receivables	*12,625*	*16,355*	*14,816*
Advances from customers	*(2,998)*	*(3,360)*	*(3,769)*
Inventory	22,756	22,570	22,187
Refined products	*13,318*	*13,459*	*14,251*
Materials and supplies	*8,741*	*8,217*	*7,148*
Goods for resale	*697*	*894*	*788*
VAT balance	7,255	5,736	5,535
VAT receivable	*5,965*	*4,054*	*4,567*
VAT recoverable	*3,141*	*3,702*	*3,384*
VAT	*(1,851)*	*(2,020)*	*(2,416)*
Trade payables including prepayments	(3,582)	(3,130)	(1,531)
Prepayments and advances to suppliers	*3,746*	*4,198*	*5,142*
Trade payables	*(7,328)*	*(7,328)*	*(6,673)*
Payables to employees	(4,510)	(5,314)	(4,059)
Long-term payables to employees	-	-	-
Payables to employees	*(4,510)*	*(5,314)*	*(4,059)*
Other assets and liabilities	(1,024)	(1,871)	(774)
Other prepaid taxes	*1,076*	*998*	*1,367*
Recoverable excise	*3,838*	*2,678*	*1,275*
Other current assets	*188*	*421*	*646*
Post-employment obligations	*(1,296)*	*(1,296)*	*(1,296)*
Other non-financial liabilities	*(106)*	*(171)*	*(177)*
Other payables	*(1)*	*(15)*	*(217)*
Excise tax	*(3,413)*	*(2,421)*	*(1,061)*
Property tax	*(287)*	*(354)*	*(227)*
Unified social tax	*(743)*	*(402)*	*(235)*
Other taxes	*(280)*	*(1,309)*	*(849)*
Total working capital	**30,522**	**30,986**	**32,405**

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This MD&A contains forward-looking statements, including (without limitation) statements, based on the current expectations and projections of the Group about future events and are subject to change without notice. All statements, other than statements of historical fact, contained herein are forward-looking statements. Forward-looking statements are subject to inherent risks and uncertainties, such that future events and actual results may differ materially from those set forth in, contemplated by or underlying such forward-looking statements. The Group may not actually achieve or realize its plans, intentions or expectations. There can be no assurance that the Group’s actual results will not differ materially from the expectations set forth in such forward-looking statements. Factors that could cause actual results to differ from such expectations include, but are not limited to, the state of the global economy, the ability of the petrochemical sector to maintain levels of growth and development, risks related to petrochemical prices and regional political and security concerns. The above is not an exhaustive list of the factors that could cause actual results to differ materially from the expectations set forth in such forward-looking statements. The Group is under no obligation to update the information, opinions or forward-looking statements in this MD&A.