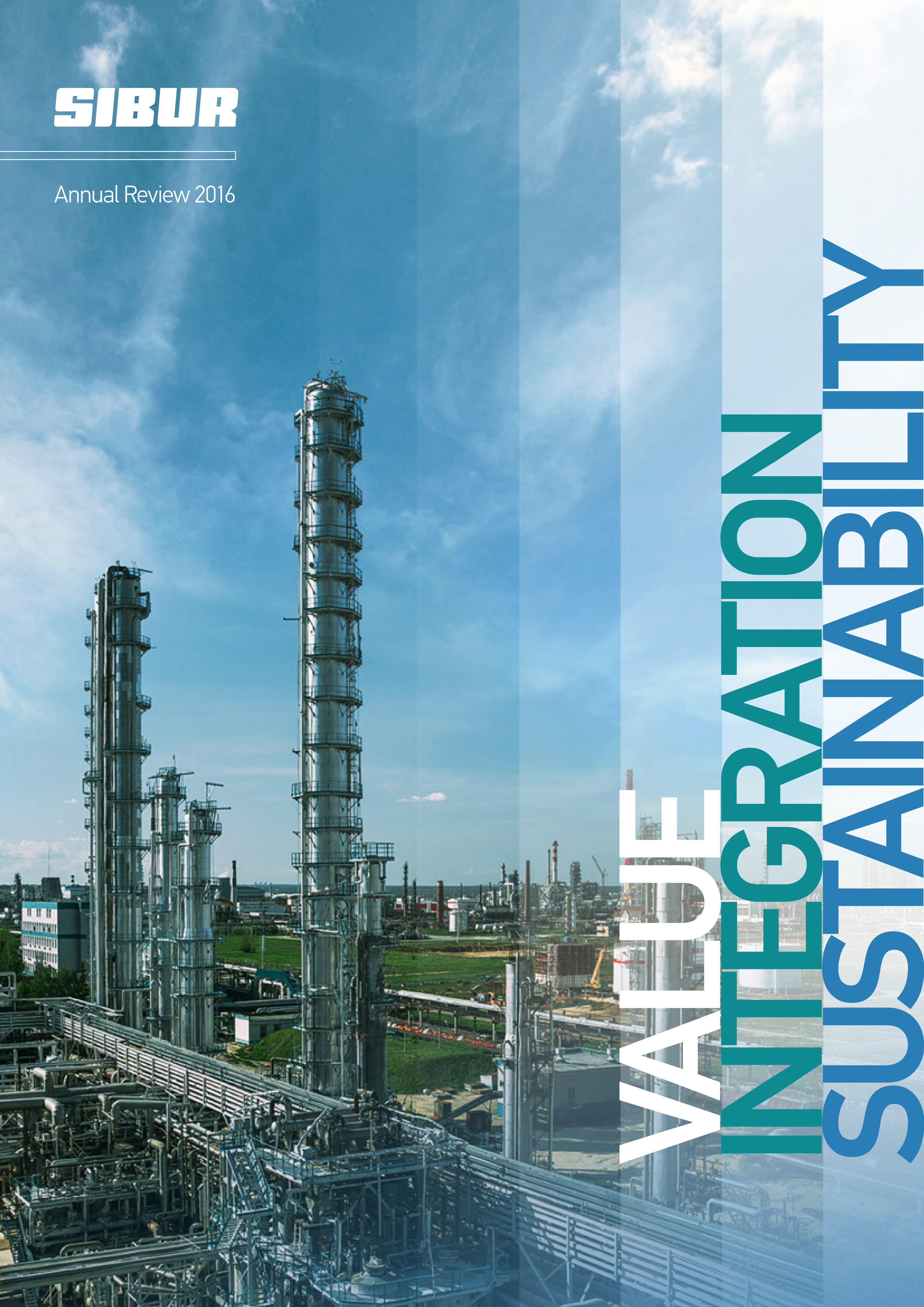
SIBUR

Annual Review 2016



SIBUR

WHO WE ARE

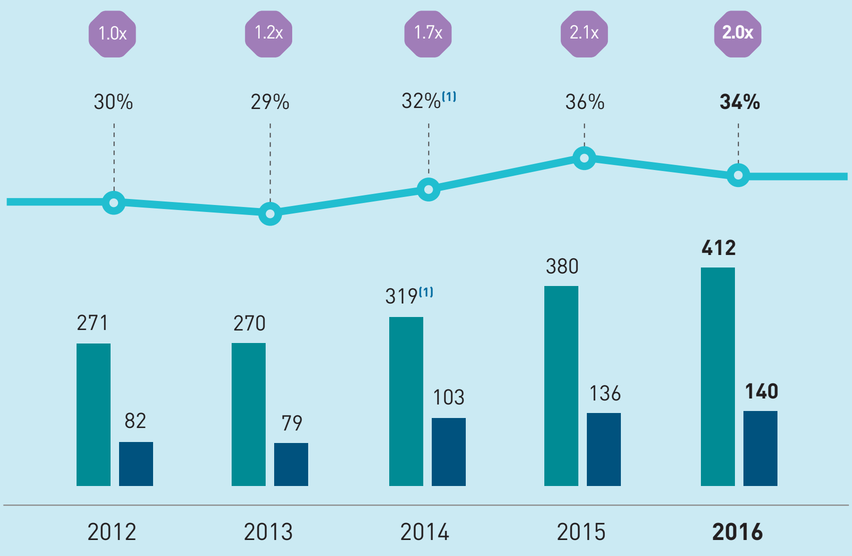
UNIQUE VERTICALLY INTEGRATED GAS PROCESSING & PETROCHEMICALS COMPANY

ONE OF THE HIGHEST EBITDA MARGIN IN THE INDUSTRY WORLDWIDE

DIVERSE RANGE OF PRODUCTS, **OVER 1,400** LARGE CUSTOMERS IN APPROXIMATELY **80 COUNTRIES**

WORLD-SCALE INVESTMENT PROJECT UNDERWAY TO TRIPLE SIBUR POLYOLEFIN CAPACITY

FINANCIAL PERFORMANCE



Revenue, RR bln | EBITDA, RR bln | EBITDA margin, % | Net debt/EBITDA (RR)

26[(2)]

PRODUCTION SITES IN RUSSIA

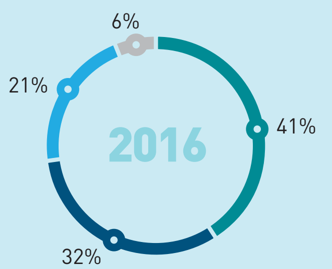
28,000[(2)]

EMPLOYEES

0.30

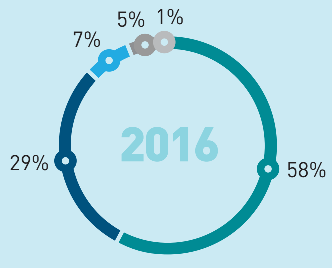
LTIF IN 2016

SALES BY BUSINESS SEGMENTS, %

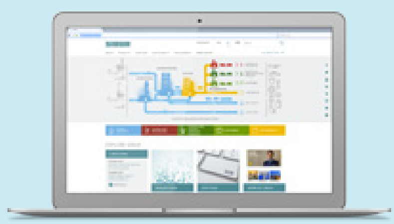


Feedstock & Energy	41%
Plastics, Elastomers & Intermediates	32%
Olefins & Polyolefins	21%
Unallocated[(3)]	6%

SALES BY GEOGRAPHY, %



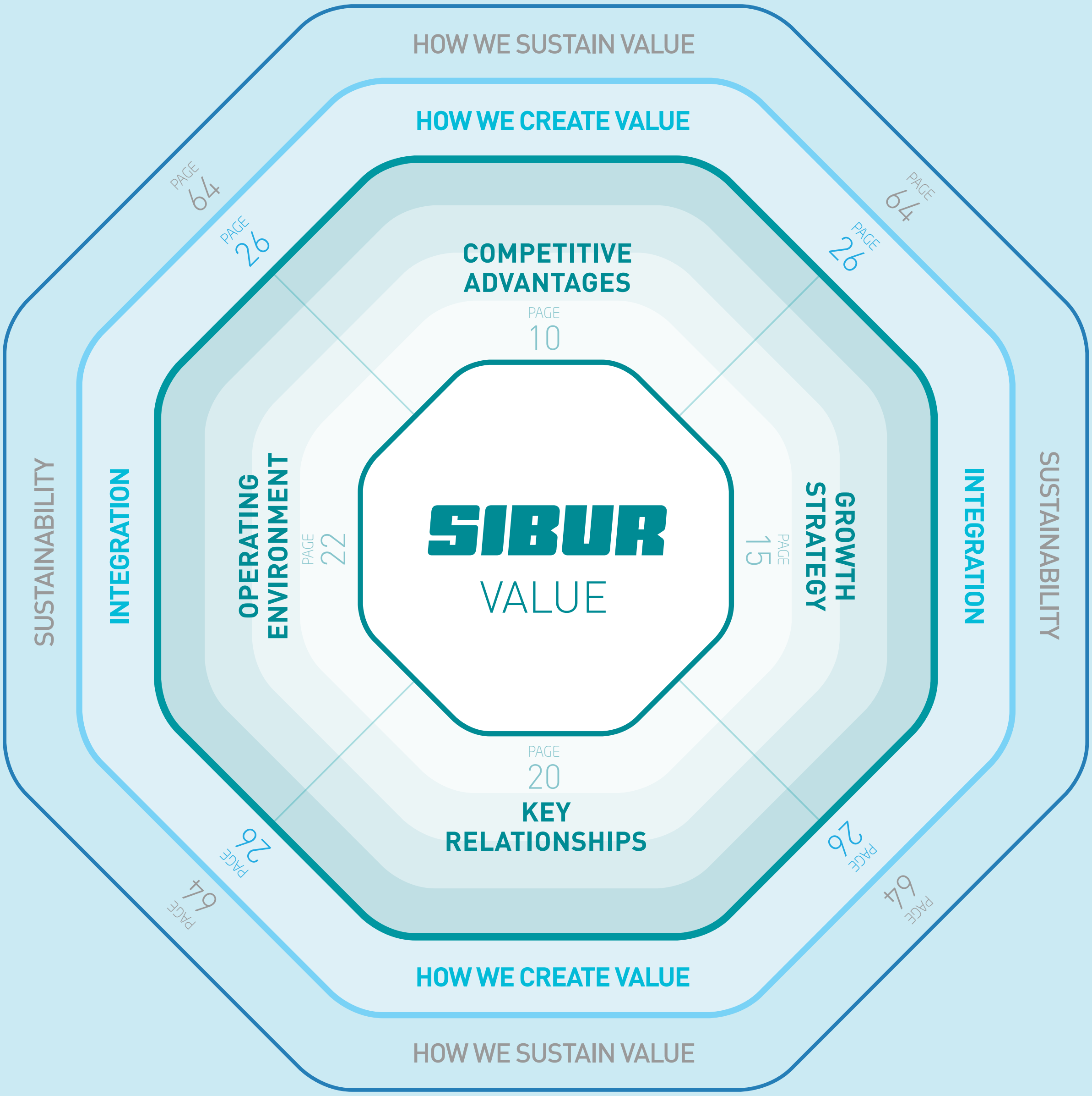
Russia	58%
Europe	29%
Asia	7%
CIS	5%
Other	1%



For further information visit our website: http://www.sibur.ru/en/

[(1)] Adjusted for the estimated value of naphtha trading operations via Ust-Luga, ceased in 2015.
[(2)] As of 31 December 2016.
[(3)] Unallocated revenue is primarily derived from sales of EPC-services.

VALUE. INTEGRATION. SUSTAINABILITY.


HOW WE SUSTAIN VALUE
HOW WE CREATE VALUE
COMPETITIVE ADVANTAGES
PAGE 10
PAGE 64
PAGE 26
OPERATING ENVIRONMENT
PAGE 22
SIBUR
VALUE
GROWTH STRATEGY
PAGE 15
SUSTAINABILITY
INTEGRATION
PAGE 20
KEY RELATIONSHIPS
HOW WE CREATE VALUE
HOW WE SUSTAIN VALUE

CHAIRMAN OF THE BOARD OF DIRECTORS

DEAR SHAREHOLDERS,

SIBUR TODAY IS A STRONG COMPANY THAT IS DELIVERING RESILIENT FINANCIAL PERFORMANCE. WE ARE INCREASINGLY ABLE TO MONETISE THE VALUE OF OUR FEEDSTOCK ADVANTAGE AND ARE POSITIONED FOR LEADERSHIP AND GROWTH IN PETROCHEMICALS.

Despite the less than favorable macro environment – including global commodities pricing volatility and economic recession in Russia – our vertically integrated value chain continues to produce best-in-class margins in the industry.

SIBUR looks very different than it did just a few years ago. We have invested continuously in modernising and upgrading our facilities and doubled our capacity to produce polyolefins ourselves, capturing the higher value of these products and capitalising on growing demand in key markets. This year we broke out our financial results into three operating segments to reflect our strategic development and clearly demonstrate the value of our strategy.

Our future offers exciting opportunities to reinforce SIBUR's leadership and growth. We are already well on the way to building these foundations with the progress of our ZabSibNeftekhim production complex in Tobolsk. This project, now scheduled for mechanical completion in 2019, will enable our Company to produce an additional two million tonnes of polyolefins annually to meet the world's growing demand. With state-of-the-art technology, low raw materials costs and increased scale, SIBUR's competitive advantages increasingly stand out.

Beyond growing our market position in Russia by displacing higher-priced imports, working with customers to increase domestic uses of petrochemicals products, and partnering with oil and gas companies to efficiently process additional feedstock, we expect profitable growth from exports. China represents an especially important opportunity for SIBUR's future growth.

The needs of the Chinese economy are vast and we are positioned as a low-cost producer capable of supplying this market reliably and efficiently. We are proud to cement this mutually beneficial partnership with investment interests and representation on SIBUR's Board of Directors by Sinopec in 2015 and the Silk Road Fund at the beginning of 2017.

I would like to thank our 28 thousand employees for the excellent progress in executing our long-term strategy while delivering strong financial returns. Each year our vision becomes more of a reality, and exciting things remain in store for our future.

Yours faithfully,

LEONID MIKHELSON
Chairman of the Board of Directors

CHAIRMAN OF THE MANAGEMENT BOARD

DEAR SHAREHOLDERS,

2016 WAS A YEAR OF SIGNIFICANT ACCOMPLISHMENTS FOR SIBUR. WE ARE INCREASINGLY REAPING THE BENEFITS OF OUR LONG-TERM STRATEGY AND MULTI-YEAR INVESTMENT PROGRAMME TO BUILD A VERTICALLY INTEGRATED GAS PROCESSING AND PETROCHEMICALS GROUP.

The value of our business model was validated once again by our strong financial returns. SIBUR increased its operating cash flow and delivered high margins close to last year's levels despite weak economies in Russia and other markets, and double-digit decline in global energy prices.

We are now accelerating our plans to position SIBUR for its next major phase of profitable growth and opportunities as a global petrochemicals producer.

THREE-YEAR PERSPECTIVE: STRATEGIC PROJECTS HAVE PAID OFF

To appreciate SIBUR's strategy and the development of our financial results, it is helpful to start with the past three years, and then look to the future.

The completion of major strategic projects in 2013 and 2014 brought our vision of a vertically integrated value chain to reality. Abundant new sources of competitively priced feedstock are now flowing from northern areas of Western Siberia through newly opened pipelines – an extension of SIBUR's unique logistics infrastructure – to our expanded gas fractionation unit and newly constructed petrochemicals facility in Tobolsk – the largest and most modern in Russia.

These projects ramped up operations significantly in the prior year and were running at near full capacity for all of 2016. We are realising the full benefit of our investments and can analyse trends based on actual performance.

Production growth has soared. Processed raw NGL volumes increased 38% compared to 2013, while production of LPG grew by half and polypropylene increased nearly fourfold. This output is being sold to customers in Russia where it is displacing imports, or exported for sale at competitive prices, mainly in European and Asian markets.

Top-line growth and EBITDA are also up significantly. Staying with the three-year period from the completion of our strategic projects, Group sales increased 53% and EBITDA rose 77% from 2013 to 2016, with EBITDA margins averaging 31.8%.

And this has been achieved in the face of a negative macro environment, including economic recession in Russia and energy prices falling in half, partially offset by the positive effects of rouble depreciation for our business.

THIS YEAR'S SEGMENTAL PERFORMANCE VALIDATES OUR STRATEGY

SIBUR's strong performance has been driven by the outstanding results of our polyolefins business. The growth of key products, like polypropylene (PP), has been at the core of our investment strategy: our objective has been to increase the benefits of our vertical integration and create a more balanced gas processing and petrochemicals portfolio – as a natural hedge to our feedstock and energy segment's exposure to global price volatility; as a way to monetise value by processing higher volumes of feedstock into higher-return products ourselves; and to allocate capital towards products with growing end-market demand. Polyolefins check all three of these boxes.

CHAIRMAN OF THE MANAGEMENT BOARD (CONTINUED)

Olefin and polyolefin production has the advantage of being located close to our feedstock supplies, creating a strong rationale for continued expansion through our ZapSibNefthekhim project. This makes the fundamentals and market dynamics quite distinct from other petrochemicals, and starting this year, we have broken out these activities in our segmental financial reporting. The new segment, Olefins & Polyolefins (O&P), will facilitate helpful comparisons with our Plastics, Elastomers & Intermediates (PE&I) and our Feedstock & Energy (F&E) segments, demonstrating the superior benefits of our integrated model.

We have an excellent position and unique advantages in Feedstock & Energy, although this segment is subject to global swings in energy prices. In a world of $100 oil, we were able to generate EBITDA returns in excess of 45% from this segment, and redeploy capital towards the expansion of our pipeline infrastructure to new sources of feedstock and the production facilities to process it into gas and petrochemical end products. We are now operating in a world of lower energy prices, with the Brent average price declining 17% in 2016 to $43 per barrel. Pricing for other products such as LPG and naphtha also experienced double-digit declines.

Our management team is pleased with how Feedstock & Energy performed in this external market environment. Production of energy products continued to grow as a result of the increased availability of hydrocarbon feedstock. Declines in oil prices generally have a net negative effect on our financial results, but since we earn revenues mostly in dollar-priced assets and a substantial portion of our operating expenses are in roubles, currency depreciation partly offsets price declines. The structure of our long-term feedstock contracts also enables us to pass on the decline in oil and oil derivative prices to our suppliers.

As a consequence, F&E segment EBITDA contribution declined 9% to RR 61 billion in 2016 compared to the prior year, and EBITDA margin was 30.9% this year compared to 35.1% in 2015.

The dynamics for Olefins & Polyolefins were even more robust by comparison. This segment enjoyed a triple benefit this year, first from a 15% increase in polypropylene production as capacity utilisation reached 93% in Tobolsk; second, thanks to lower raw materials costs due to the drop in feedstock prices; and third, from higher average selling prices for PP and PE in a favourable domestic market environment. Our Olefins & Polyolefins segment delivered EBITDA growth of 33% this year, from RR 37 billion to RR 49 billion. The O&P segment also delivered the highest EBITDA margin in the Group, at 45.5% this year and 38.8% in 2015. Joint ventures generated a further RR 3 billion of EBITDA for the O&P segment.

Breaking out this segment helps to contrast the dynamics of Olefins & Polyolefins – where the majority of our petrochemicals investments have been directly or indirectly targeted – from other activities represented by Plastics, Elastomers & Intermediates. The PE&I segment, which also contains the MTBE and fuel additives previously in our F&E segment, delivered higher production and sales volumes but lower selling prices for a majority of its products. This resulted in an 8% decline in EBITDA to RR 31.5 billion in 2016. EBITDA margin was 24%, down from 26% in 2015.

THE CASE FOR CONTINUED INVESTMENT

By growing in Olefins & Polyolefins, we are able to process increasingly higher volumes of feedstock ourselves instead of selling it for lower margins on the open market. In so doing, we create new opportunities for SIBUR as a global petrochemicals leader with margins well above the industry average.

SIBUR's feedstock access is our most enduring competitive advantage. The hydrocarbon by-products of the oil and gas extraction process are effectively stranded in remote areas of Western Siberia, and SIBUR has long-term feedstock supply contracts with energy companies with average maturity exceeding 15 years. This gives us a low-cost producer advantage for polyolefins and other petrochemicals according to independent industry analysis.

Our next strategic project, the ZapSibNeftekhim (ZapSib) facility, involves greenfield construction of an ethylene cracking unit (1.5 million tonnes per annum) and polyolefin production complex (1.5 million tonnes of polyethylene and 0.5 million tonnes of polypropylene) within SIBUR's petrochemicals hub in Tobolsk. Excellent progress has been made in the construction phase, and we have already begun recruiting and training staff for this project, which will ultimately result in 1,700 new jobs and be a major contributor to economic development in the region.

Financing for the remaining investment of $5.8 billion is already in place. With construction progressing ahead of schedule, we took the decision at the end of the year to accelerate the mechanical completion to 2019 from 2020.

The case for the investment in ZapSib is based on the opportunity to monetise more of our feedstock advantage, more efficiently, with more scale. As of today our petrochemicals facilities can only process approximately 35% of the liquid energy products we have available, while the remaining 65% of volumes are sold primarily for export. ZapSib will enable us to process a further 3 million tonnes when the project is fully up and running. Financially, we can benefit from the spread between PP and PE over energy product prices to boost EBITDA growth and margin potential.

To illustrate, the spread between polyethylene shipped to China compared to liquefied propane gas shipped to Europe has averaged approximately USD 800 per tonne[1] over the past three years.

Our strategy is supported by long-range analysis of global market demand trends. Polypropylene and polyethylene have grown consistently at annual rates of approximately 4-5% and 3-4% respectively, compared to world GDP growth of approximately 2-3% over the past few years. In volume terms, the world needs several additional million tonnes of these products each year to meet the growing demand.

SIBUR is positioned to grow internationally leveraging our low-cost production advantages and ability to access key economies in Europe and Asia, notably China and other growth markets. While sales to China represent a relatively small portion of our total volumes today, we expect this to be a significant growth market in the future. The economy has slowed but Chinese demand for petrochemicals is expected to be several times the levels that can be efficiently met by domestic production over time. Shareholdings in SIBUR purchased by China's largest petrochemicals producer Sinopec in 2015 and by the Chinese state-owned Silk Road Fund at the beginning of 2017 underscore the opportunity and level of interest in mutually beneficial cooperation.

SIBUR also benefits from long-term domestic demand growth as Russia's consumption of polyolefins and other plastics is well below global averages. In addition, our new production coming on stream is displacing imports. For example, domestic producers including SIBUR accounted for 88% of polypropylene sales volumes in Russia[2] in 2016 compared to 78% three years ago, while consumption expanded 22% in the same period.

MOVING FORWARD

Even as we accelerate our plans for ZapSib, our management team and Board of Directors continue to analyse our market potential and develop SIBUR's strategy over longer-term time horizons. This includes investigating new sources of feedstock such as ethane for conversion to higher value petrochemical products. We are also focused on near-term priorities to increase quality, efficiency and sustainability.

We have thousands of customers in various industries, and our management team is targeting opportunities to enhance these relationships and raise service levels to drive growth. Working with our customers to understand their needs will help to drive adoption and innovative uses of petrochemicals for industrial and consumer applications to develop the Russian market's potential.

We are focused on strategic ways to increase efficiency by looking at our capital allocation and operations. In 2016, we made the decision to divest Uralorgsintez as a non-core asset, and cash proceeds from the sale (completed in April 2017) are being redeployed as capital for ZapSib. Over time we seek to contain cost pressures from rising rail transportation costs through planned increases in petrochemicals production: plastic granules are cheaper and safer to transport over long distances and take up less capacity than hydrocarbon liquids, which require specialised rail cars and handling. We also seek to realise additional scale efficiency benefits across our vertically-integrated operations, implement new technologies and processes, and motivate continuous efficiency improvements through our management systems and KPIs for managers and employees.

I am especially proud of the culture we have created at SIBUR. People understand that good results and good ideas will be rewarded, and that business must be conducted in an ethical and exemplary manner. Performance objectives are clearly communicated up, down and across the company so everyone has a clear understanding of what is expected of them and what each one of us can do to contribute to our overall success.

I would like to thank our more than 28 thousand employees for upholding our values and putting our production system, performance management system, code of conduct and safety and quality systems into action – and delivering on our objectives for this year in less than favorable conditions.

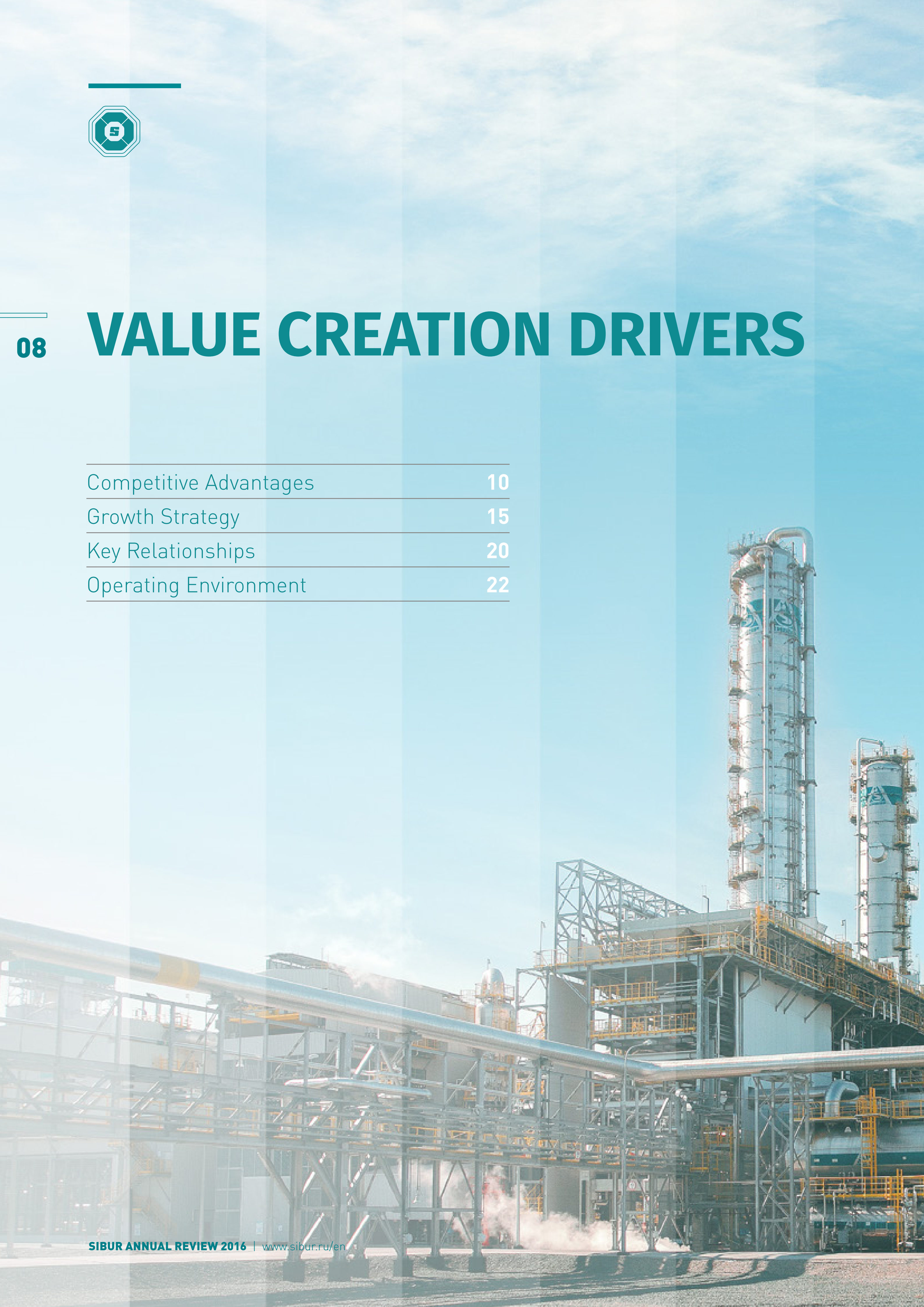
Strong teamwork and culture have been essential elements of success, and we can look with pride at what we have accomplished. There is more to do and the best is yet to come.

We operate in cyclical markets and a volatile world. Yet, our resilience as a company keeps getting stronger. This year's results added more data and more proof to confirm that we are on the right track. We continue to pursue our strategy to build long-term value for our shareholders – with a sharp focus on execution, excellence and excitement about the future.

Yours faithfully,

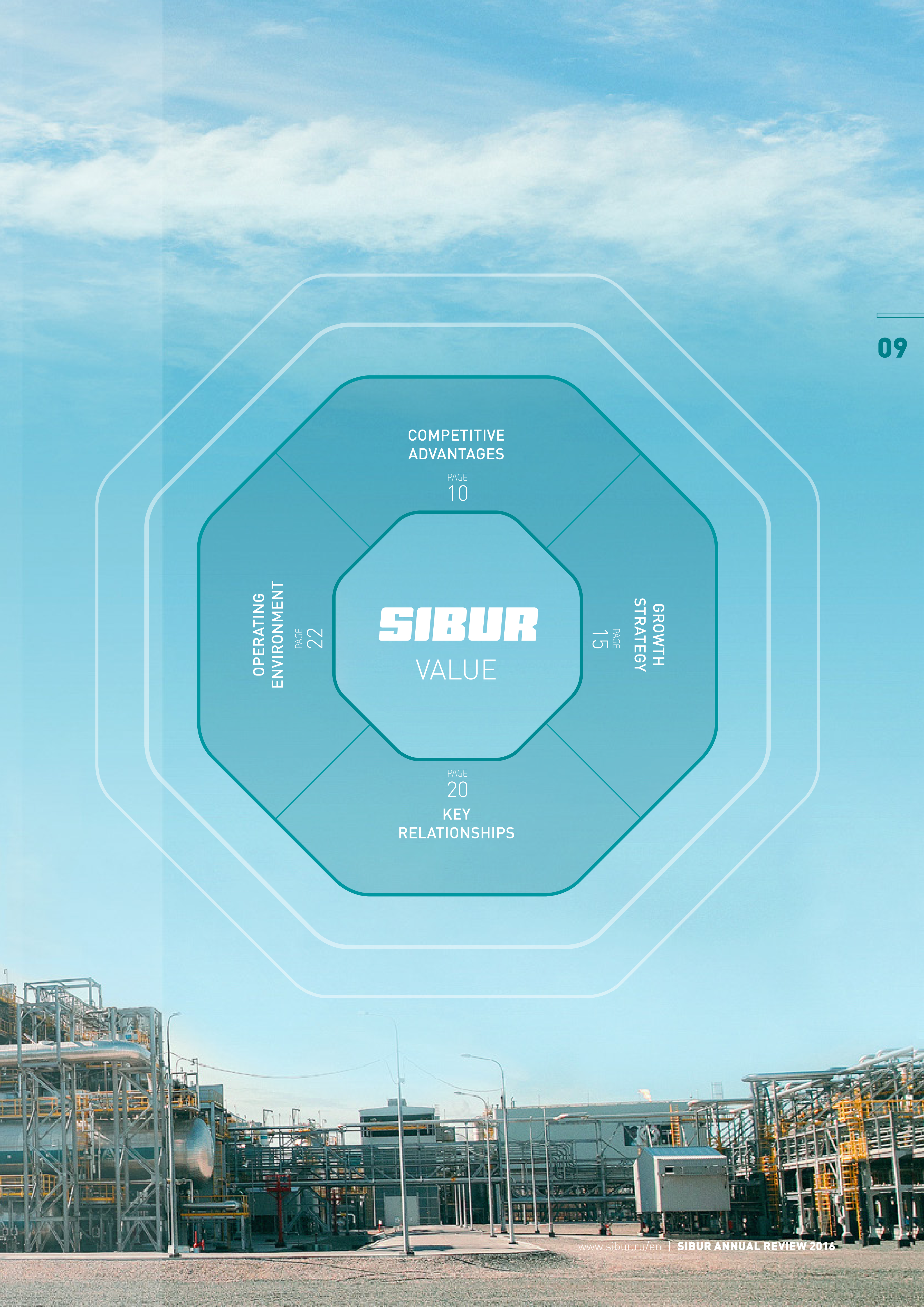
DMITRY KONOV
Chairman of the Management Board

[1] Average PE CFR China - LPG CIF ARA spread for 2013-2016.
[2] Source: Market Report.



08

VALUE CREATION DRIVERS

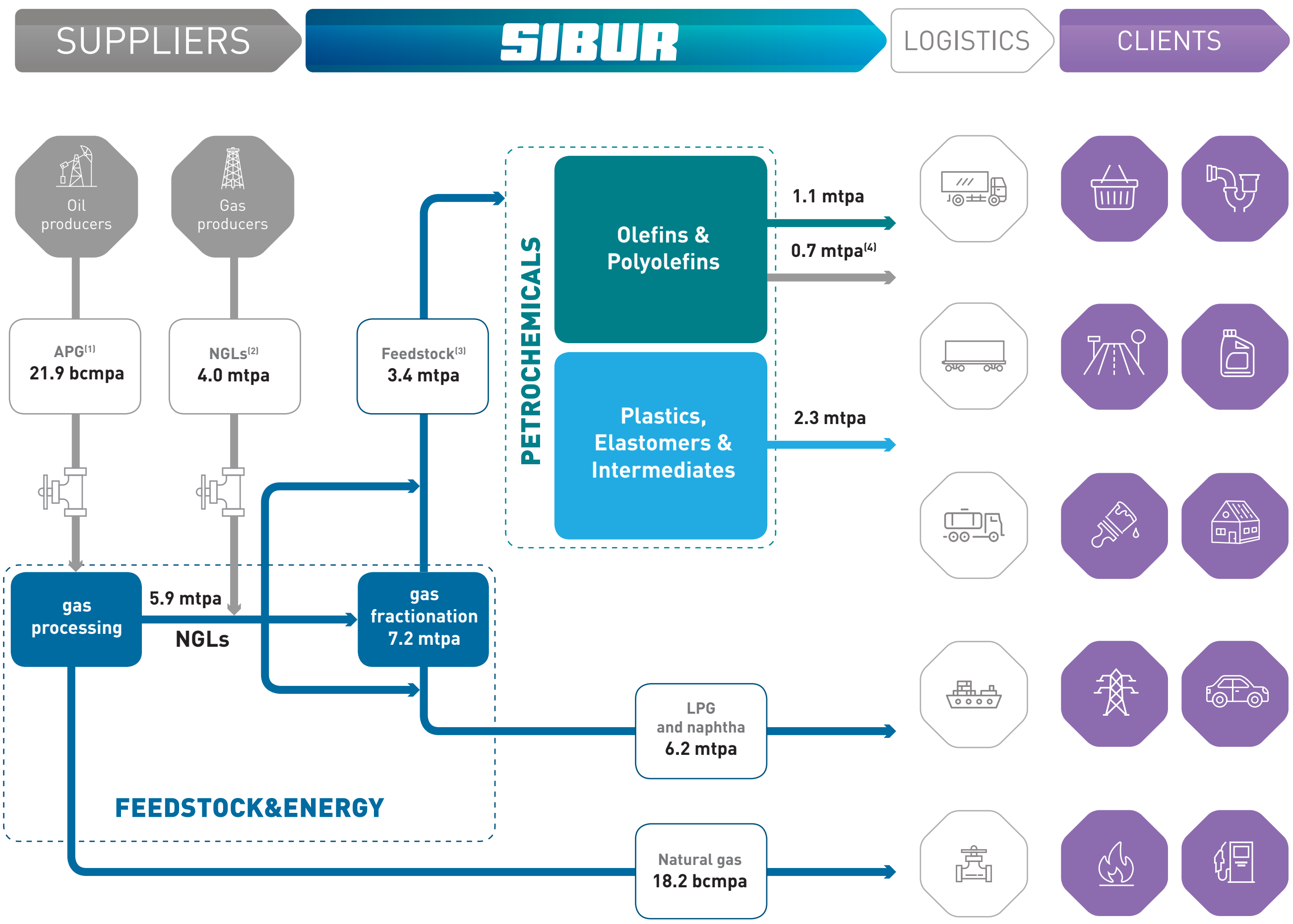

COMPETITIVE ADVANTAGES
PAGE 10
GROWTH STRATEGY
PAGE 15
KEY RELATIONSHIPS
PAGE 20
OPERATING ENVIRONMENT
PAGE 22
SIBUR
VALUE

COMPETITIVE ADVANTAGES

COMPETITIVE ADVANTAGES

VALUE CREATION DRIVERS

SIBUR's access to abundant feedstock is our most enduring competitive advantage. Our strategy to create an integrated gas processing and petrochemicals business has expanded our opportunities for monetising this feedstock advantage. This business model has delivered resilient financial performance and superior margins compared to global industry competitors. In addition, our global cost advantage enables us to capitalise on rising demand trends in Russia and export markets.



[1] Associated petroleum gas (APG) is a by-product of oil production, in billion cubic metres per annum (bcmpa).

[2] Natural gas liquids (NGLs) include raw NGL, LPG (liquefied petroleum gas) and naphtha, in million tonnes per annum (mtpa). Raw NGL is a by-product of gas production.

[3] Includes LPG, naphtha and raw NGL. Composition may vary from year to year depending on market conditions and other limitations.

[4] JV sales include PVC, caustic soda (RusVinyl) and PP (Poliom).

The main hub of our activities is strategically located in Western Siberia, home to two-thirds of Russia's production of hydrocarbons, giving SIBUR a reliable, attractively-priced source of raw materials backed by long-term contracts. This gives SIBUR an unmatched platform for monetising feedstock and driving long-term growth and value creation.

$4.2 bln[1]

SIBUR INVESTMENTS IN WESTERN SIBERIA INFRASTRUCTURE SINCE 2009

2,708 km

PIPELINE NETWORK

Access to feedstock

SIBUR's asset base is strategically located in Western Siberia, giving us access to attractively priced feedstock supplies as the essential raw materials for our business. Western Siberia is the heartland of the Russian energy sector, accounting for nearly 60% of oil production and 85% of gas production. This activity produces substantial quantities of associated petroleum gas (APG) and natural gas liquids (NGLs). These by-products of the oil and gas extraction process are difficult for energy companies to use commercially and are thus effectively stranded in the region.

Long-term contracts

SIBUR takes these hydrocarbon by-products as raw materials for gas processing and petrochemicals production. This provides oil and gas partners with an effective commercial solution and gives SIBUR reliable supplies of feedstock backed by long-term contracts with an average weighted maturity of approximately 15 years for APG and 17 years for NGLs. These contracts are priced very competitively compared to other geographies and are structured to pass on oil and oil derivative price swings to our suppliers, thereby locking in SIBUR's margins.

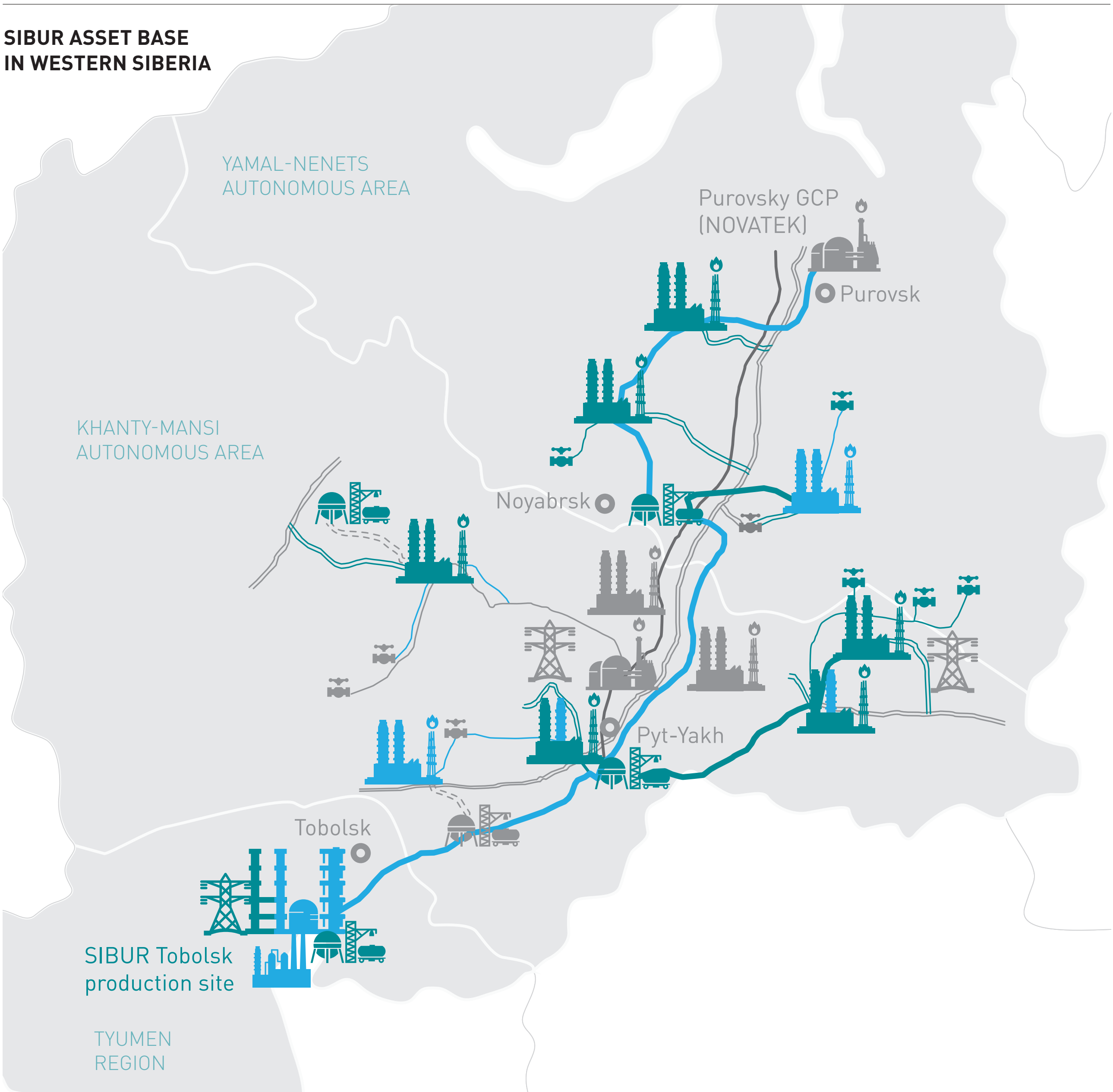
Unmatched infrastructure

SIBUR owns and operates the largest, most modern and extensive infrastructure for processing and transportation of feedstock in Western Siberia including 8 of the 10 gas processing plants in the region with total annual capacity of 25.4 bcmpa of APG, 2,708 km of new pipelines and logistics infrastructure from oil and gas fields to our production facilities, the largest fractionation unit (8.0 mtpa of raw NGL) in Eastern Europe. Our company accounts for over half of APG and three-quarters of NGLs processed in Russia. SIBUR has invested $4.2 bln since 2009 in expansion and upgrade of the gas processing and transportation infrastructure in the region. Multi-year investments have expanded our opportunities for monetising our feedstock advantage – creating a strategic asset base with high barriers to entry and superior opportunities for growth.

[1] Does not include financing of JV and petchem capacities construction.

COMPETITIVE ADVANTAGES (CONTINUED)

SIBUR ASSET BASE IN WESTERN SIBERIA



- SIBUR newly constructed /upgraded assets
- SIBUR / third-party compressor station
- third-party gas condensate plant
- SIBUR / third-party gas processing plant (GPP)
- SIBUR gas fractionation unit (GFU)
- SIBUR propane dehydrogenation facility (PDH)
- SIBUR polymers production
- SIBUR / third-party power plant
- SIBUR / third-party APG pipeline
- Gazprom condensate pipeline
- SIBUR / Gazprom natural gas pipeline
- SIBUR raw NGL pipeline/SIBUR new raw NGL pipeline
- truck transportation
- SIBUR / third-party loading rack

SIBUR'S VERTICALLY INTEGRATED BUSINESS MODEL DELIVERS RESILIENT PERFORMANCE.

The strategy we have been pursuing consistently for the last decade has been to build a vertically integrated gas processing and petrochemicals business. This portfolio diversification strategy and balance between midstream and downstream activities helps to reduce our exposure to global commodities price volatility – and drive resilient financial performance and best-in-class margins.

50%

GROWTH IN POLYPROPYLENE PRODUCTION SINCE 2014

70%

GROWTH IN O&P SEGMENT EBITDA ($) SINCE 2014

Vertical integration

During the years of record oil prices, we used strong cash generation from our feedstock and energy activities to fund our multi-year investment programme to create a vertically integrated business. This has fundamentally changed our product mix and allowed us to capture more value by processing more of our hydrocarbon feedstock supplies ourselves into higher value added petrochemicals. Vertical integration allows us to achieve higher margins for end products like polypropylene through higher netbacks, lower transportation costs and the ability to achieve better pricing in different markets as compared to processing the same volumes of feedstock into LPG and other energy products. This is a structural advantage for SIBUR throughout the cycle.

Value added growth

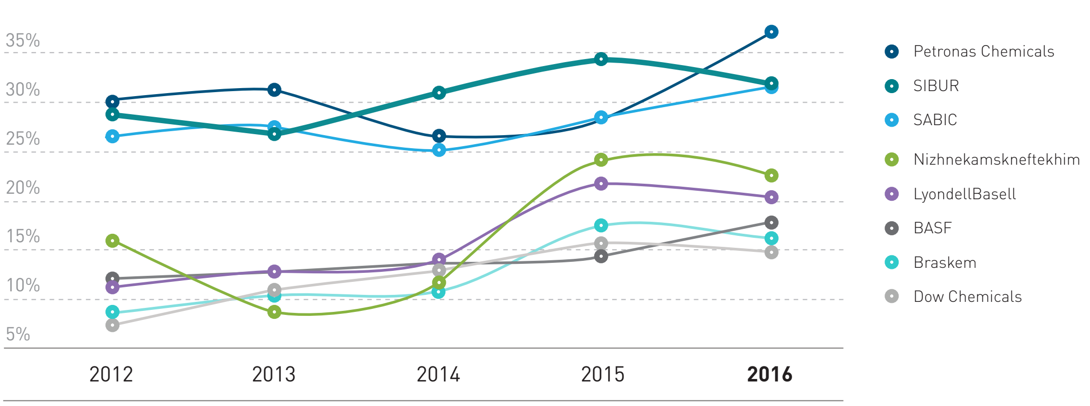
Strategic assets completed three years ago resulted in state-of-the-art production facilities to vastly expand petrochemicals production at our Tobolsk flagship complex, along with the pipeline and gas processing infrastructure needed to monetise significantly higher volumes of raw feedstock supplies. Since these investments began delivering results in 2014, polypropylene production has grown 50%, and EBITDA from Olefins & Polyolefins is up 70% in US dollars, resulting in a better balanced, diversified portfolio. Our strategy has been validated by the strong growth of Olefins & Polyolefins, which contributed over one-third of Group EBITDA in 2016 with the highest margins in our business.

Best-in-class margins

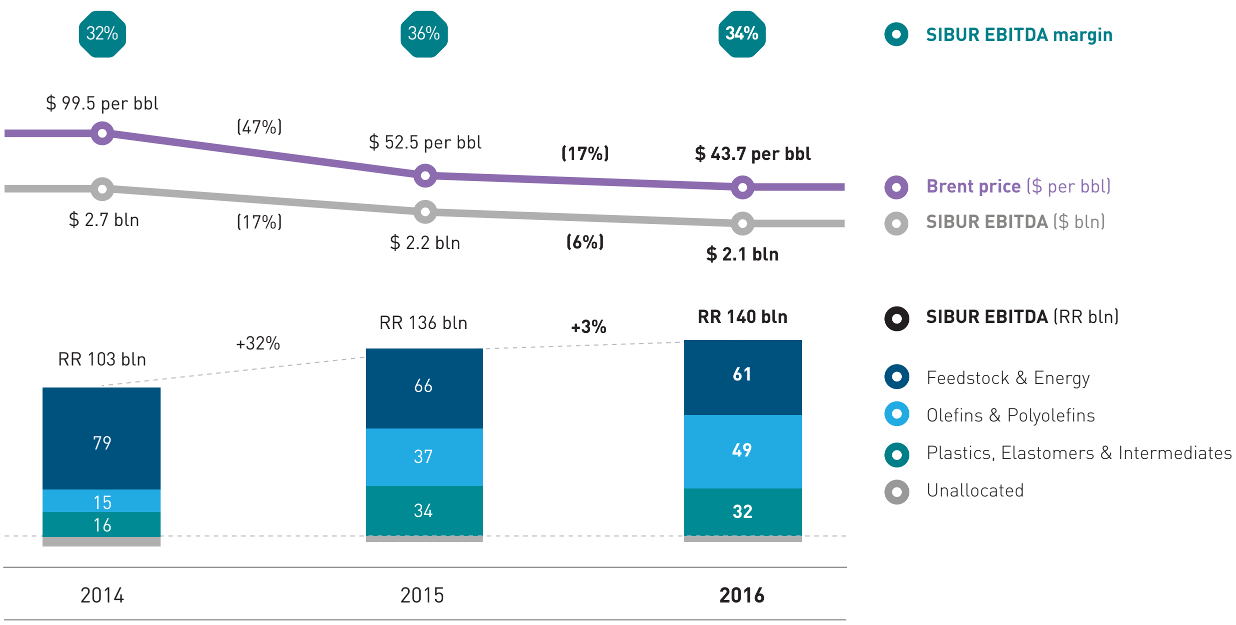
SIBUR has delivered best-in-class performance compared to global industry competitors. Our results tell a powerful story about how our vertical integration drives resilient financial performance and sustains high margins in tough market conditions. SIBUR's three segments – Olefins & Polyolefins; Plastics, Elastomers & Intermediates; and Feedstock & Energy – give us a balanced portfolio of midstream and downstream activities with different market dynamics and a natural hedge against global oil price volatility. Despite the collapse in crude oil prices from $99 in 2014 to $43 in 2016, Group EBITDA margin increased from 32% to 34% over the same period as a decrease in our Feedstock & Energy segment was offset by higher EBITDA and margins in Olefins & Polyolefins.

COMPETITIVE ADVANTAGES (CONTINUED)

BEST-IN-CLASS STABLE EBITDA MARGIN



DOWNSTREAM INTEGRATION:
FOUNDATION OF THE RESILIENT PERFORMANCE AND STABLE MARGINS



GROWTH STRATEGY

VALUE CREATION DRIVERS

Petrochemicals business enhances our structural advantages and growth opportunities. We have grown our leadership and are targeting further significant increases by investing in our next leg of growth. The business case is compelling: SIBUR benefits from a global cost advantage, rising domestic demand trends in Russia and opportunities for growing value-added exports to China and other growth markets.

Low-cost producer

SIBUR's feedstock advantage, vertical integration and scale add up to formidable cost competitiveness. According to independent industry analysis, our production facilities are among the least expensive for the production of polypropylene and polyethylene globally. This gives us longterm opportunities to grow our leadership in petrochemicals. In addition, petrochemicals are safer and less costly to transport than LPG, giving us further opportunities to improve efficiency as we process more of our feedstock volumes into polyolefins over time.

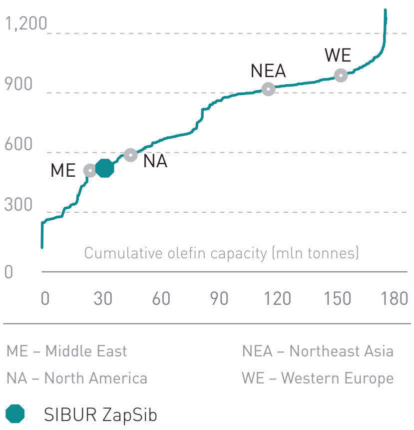
Leadership in Russia

SIBUR has taken significant market share in Russia since ramping up petrochemicals production. In the near-term the main driver has been import substitution, with our low-cost production displacing higher priced imports. Since 2014, SIBUR has increased its domestic sales volumes of polypropylene by 30%, for example. In addition, SIBUR benefits from structural growth of petrochemicals demand in Russia, where consumption is well below international levels and both industrial and consumer sectors are making increasing use of these materials. In 2016, domestic consumption of polypropylene grew by 8% while the Russian economy contracted by 0.2%. Domestic demand for this and other products such as polyethylene and BOPP-films is projected to grow mid-single digits over the medium-term.

Profitable export growth

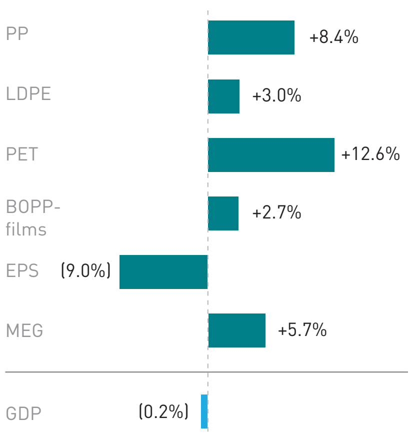
We also see long-term opportunities for growth in our target addressable export markets including China, Turkey and European countries, where additional 24 million tonnes of polyolefin volumes will be needed annually by 2024 according to research estimates. This is also an opportunity for structurally higher margins because the spread on polyolefins exported to China is well above what SIBUR earns on exports of LPG to Europe. Building on our competitive advantages, our ZapSibNeftekhim investment expected to launch after mechanical completion in 2019 will continue to drive our leadership in petrochemicals and produce margins well above the global industry average.

STRONG POSITION ON THE GLOBAL COST CURVE (2021), USD PER TONNE



Source: IHS Markit as of April 2017 (Brent at 79 $/bbl, ex-works basis, light olefins cost basis), SIBUR calculations.

2016 DOMESTIC CONSUMPTION GROWTH FOR VARIOUS PRODUCTS IN RUSSIA, % Y-O-Y



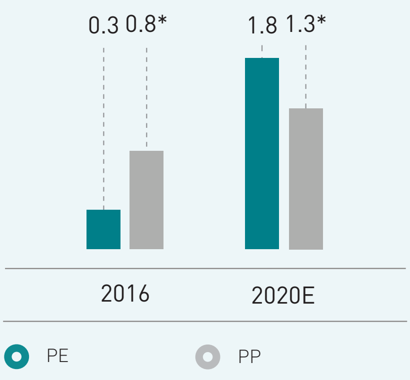
Source: Market Report, Kortes, Alliance analytics, Customs statistics, Russian Federal State Statistics Service.

ZAPSIBNEFTEKHIM:
INVESTING IN SIBUR'S NEXT LEG OF GROWTH

ZapSibNeftekhim (ZapSib) is an investment in SIBUR's next leg of growth with budget up to $9.5 bln. This project offers a more value-added way to monetise natural gas liquid (NGL) feedstock and increase returns. It is located in Western Siberia within SIBUR's Tobolsk petrochemicals hub, building on our existing infrastructure and access to feedstock supplies.

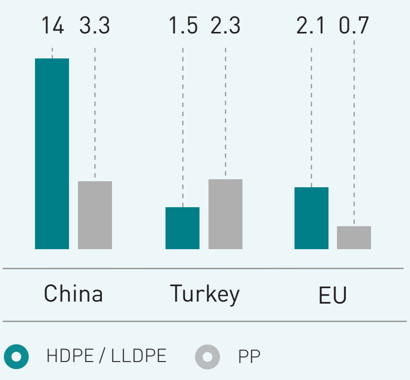
ZapSib is designed to operate world-scale modern facilities: a cracking unit (1.5 mtpa of ethylene) and polyolefin production complex (1.5 mtpa of PE and 0.5 mtpa of PP) that will triple SIBUR's polyolefins capacities from current 1 mtpa by 2020. SIBUR expects to sell its production in domestic and export markets with growing demand for petrochemicals, benefiting from projected growth trends and the low-cost producer advantage compared to competitors.

SIBUR PP AND PE PRODUCTION CAPACITY 2016 VS. 2020E,
MLN TONNES



*Including JV with Gazprom Neft Group.

DEFICIT OF TARGET POLYOLEFINS BY 2024 IN TARGET EXPORT MARKETS,
MLN TONNES



PROJECT RATIONALE: UNLOCKING THE VALUE OF OUR FEEDSTOCK ADVANTAGE

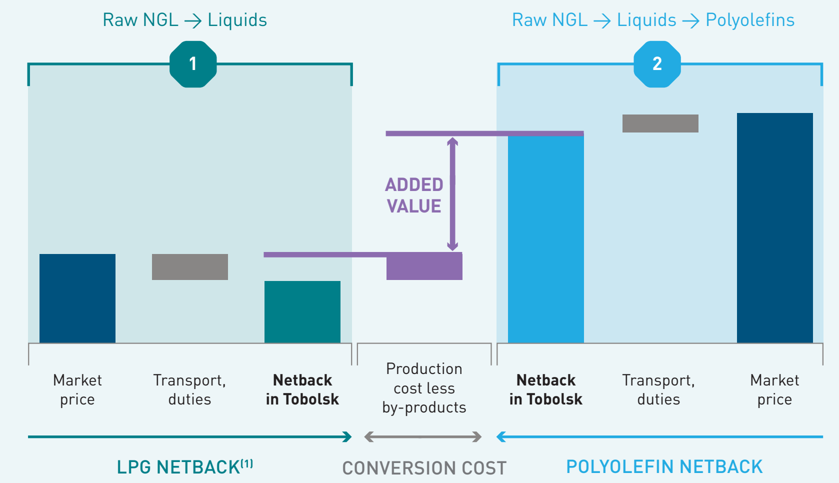
As of today, our petrochemicals facilities can only process approximately 30% of available feedstock into higher margin petrochemicals. The remaining 70% are sold on the market as liquefied petroleum gas (LPG) or naphta. Zapsib will enable us to increase production of polyethylene and polypropylene significantly to boost our overall margin potential.

Specifically, investing in the expansion of our polyolefins business will allow us to capture the attractive economics of processing 8 million tonnes of NGLs into higher value-added products. After raw NGL is processed into marketable liquids there are two options for SIBUR: either to sell these marketable liquids in European markets (as domestic market demand is limited), or to push the liquids further up the value chain and produce polyolefins.

In the first option, half of the value of LPG produced in Tobolsk is eroded by higher costs of transporting flammable liquids and by export duty. In the second option we incur lower costs and no export duties for polyolefin granules, along with higher spreads and favorouble demand trends in end markets.

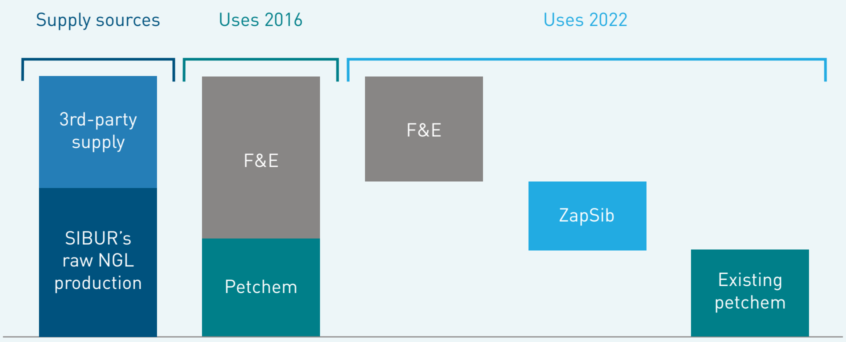
TWO ALTERNATIVES TO MONETISE 8 MTPA OF RAW NGL AVAILABLE TO SIBUR IN TOBOLSK

(illustrative)



[1] Per 1.35 tonne of LPG utilised for production of 1 tonne of polyolefins.

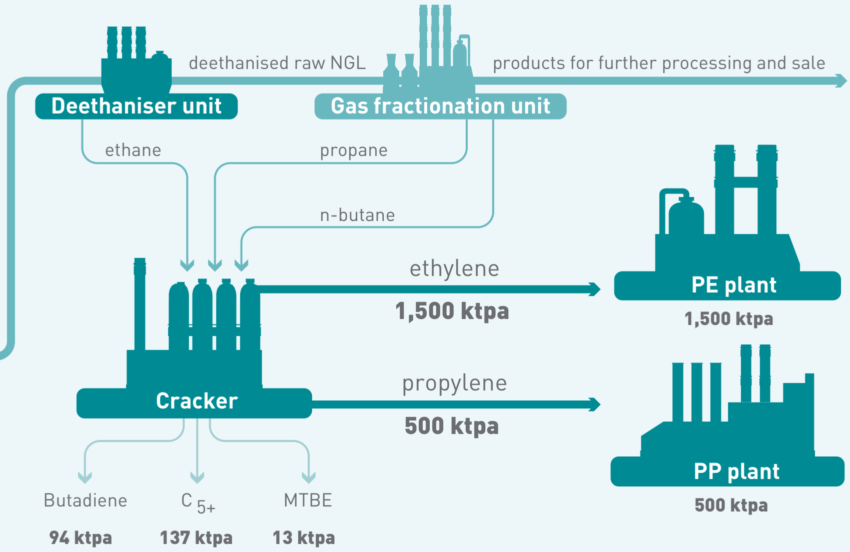
LONG-TERM SHARE OF PETROCHEMICALS BUSINESS IS INCREASING AS A RESULT OF ZAPSIB COMISSIONING



ZAPSIBNEFTEKHIM (CONTINUED)

TEAM

As of 2016 year-end there was an operating team of 192 people, engaged in employee trainings, equipment maintenance and document inspection mainly represented by engineers and technical staff. The ZapSib complex on its own will employ more than 1,700 people when the plant is fully operational.



R&D TO SUPPORT NEW SOLUTIONS FOR ZAPSIB PRODUCTS

In order to drive special product solutions in polymers, SIBUR is creating an R&D centre for the development and application of polyolefins at the Skolkovo Innovation Centre. At the future R&D site, SIBUR is planning to develop and test new materials and new product solutions, to make samples of products for subsequent testing, analysis and refining their properties, customising them to meet customers' needs and to explore opportunities of boosting the efficiency of polyolefin processing technology.

LOGISTICS

To provide efficient distribution of polymer products to end customers, SIBUR started a project to develop its logistic platform in Tobolsk for storage, packaging and shipment of polyolefins and logistic hub located in the Kaluga Region in partnership with Karl Schmidt Spedition GmbH & Co. KG (KSS) and Freight Village Kaluga. According to the agreement, KSS is to set up a logistics hub at the Freight Village Vorsino to distribute SIBUR's polymer products, including those to be delivered from ZapSib. The arrangements in place provide for receiving, packaging, storing, and shipping SIBUR's polyolefin products to its customers in Russia and abroad during 20 years after the hub becomes operational.

KEY PARTNERS

Unit	Licensor	EP Contractor	Construction
Cracker	THE LINDE GROUP		RENAISSANCE HEAVY INDUSTRIES Yamata
PE units	INEOS	Technip	CC-7
PP unit	lyondellbasell	thyssenkrupp	ncr PROMSTROI GROUP

Launch of this hub will enable SIBUR to consolidate end-products flows, minimise transportation costs and increase labor productivity.

PROGRESS UPDATE

In 2016 we completed all major deliveries that were scheduled for the year. A sizeable amount of large-size equipment was delivered to the construction site throughout the navigable season. Most of the delivered equipment was installed for the steam cracker, including the two largest and heaviest propane fractionation columns.

As of year-end 267 km (or 73% of the project's total) of underground pipelines were laid. 12 raw NGL storage tankers were built and installed, 5 of which were successfully tested.

At 2016 year-end, there were more than 12,000 construction workers on site.

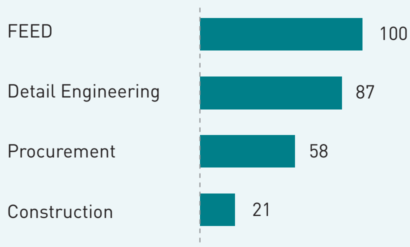
Financing is fully in place and this year we moved up the timeline for mechanical completion at the end of 2019.

For more information see
Employees section on p. 77

OVERALL PROGRESS ON EXECUTION STAGE:

Status as of 31 March 2017

41%



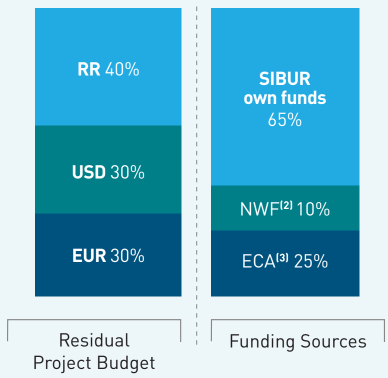
Overall progress by major units:

- Cracker – **44%**
- PE unit – **30%**
- PP unit – **33%**

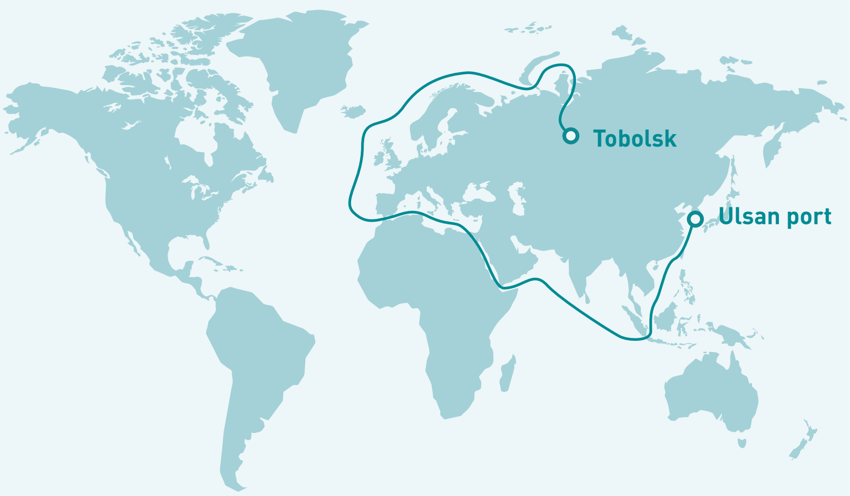
BUDGET AND FINANCING

Project residual budget breakdown by currency and funding source for 2017-2020[1]

$5.8 BLN



DELIVERY ROUTE OF THE HEAVY EQUIPMENT FOR ETHYLENE CRACKER UNIT



[1] Data as of 31 December 2016. Numbers and respective percentages calculated based on exchange rates as of 31 December 2016; RR/USD at 60.7, RR/EUR at 63.8.

[2] Cash balances as of 31 December 2016. NWF stands for National Wealth Fund.

[3] Undrawn amount.

KEY RELATIONSHIPS
VALUE CREATION DRIVERS

Our success would not be possible without cooperation with our diverse universe of stakeholders. We operate and develop our business in constant and open dialogue with them to address their interests. In turn, our stakeholders contribute to our development and help to create value for our business.

Our cooperation with the major Russian oil and gas companies is only the most visible example of win-win partnerships. We have built the infrastructure to provide them with a profitable solution for utilising the by-products of the oil and gas extraction process and reducing harmful emissions from flaring, while securing feedstock for our business on the basis of long-term contracts. Our joint ventures including RusVinyl, NPP Neftekhimia and Yuzhno-Priobskyi GPP are other examples of our collaborative growth model.

Our international partners also include China Petroleum & Chemical Corporation or Sinopec, which purchased a 10% stake in our Company in 2015 to strengthen the opportunities driven by our complementary businesses and geographic markets. The purchase of an additional 10% percent stake in our Company by China's Silk Road Fund in January 2017 furthers our relationship with Chinese stakeholders. Ms. Wang Dan, Executive Vice President of the Silk Road Fund Co., Ltd. (SRF), joined our Board of Directors in May 2017.

Interaction with our stakeholders is guided by the Code of Corporate Ethics approved by the PJSC SIBUR Holding Board of Directors on 16 December 2014 (Revision No. 3).

Visit the Company's website to find more information on these documents at: https://www.sibur.ru/en/about/corporate/documents/

Stakeholder groups	Contribution to success	Key interaction principles	Interaction tools
SHAREHOLDERS	Provide financial capital	Value creation at levels of international benchmarks; equal treatment; transparent disclosure	Shareholder meetings; Board of Directors' meetings, operational and financial reporting; internal restrictions on the use of insider information
EMPLOYEES	Run business efficiently and provide creative solutions to business challenges	Equal opportunity; safe work environment; professional development	Collective labour agreements; internal communications; social benefits; training and career development programmes; internal restrictions on the use of insider information
CUSTOMERS	We operate our business for customers and value their feedback	Gain and maintain loyalty by offering high quality, competitive pricing; compliance with competition and antitrust law	Information distribution via industry media; participation in trade shows; customer surveys

SUPPLIERS	Solid and reliable foundation of our business	Mutually beneficial cooperation; solution for processing the by-products of oil and gas extraction	Long-term contracts; tender procedures
BUSINESS PARTNERS (joint venture partners and contractors)	Sharing expertise; provision of high quality services at competitive pricing	Mutual benefit and respect	Joint ventures; long-term contracts; tender procedures
CAPITAL MARKETS AND LENDERS	Provide investment and financing	Value creation at levels of international benchmarks; equal treatment; transparent disclosure	Operational and financial reporting; press releases; investor meetings
COMMUNITIES AND NGOs	Provide feedback on all environmental and social aspects of our business	Fair and open conduct of business; high level of social responsibility; environmental awareness	Media; public hearings; roundtables; social projects; volunteering
GOVERNMENTAL AUTHORITIES	Maintaining and improving regulatory framework of our operations	Compliance with applicable law; responsible taxpayer; zero tolerance for corruption	Agreements on social and economic development; joint working groups

OPERATING ENVIRONMENT

VALUE CREATION DRIVERS

SIBUR's three operating segments complement each other and react in differing ways to oil price movements. This integrated business model – which allows us to offset price fluctuations and sustain overall profit margins – is at the core of our financial resilience.

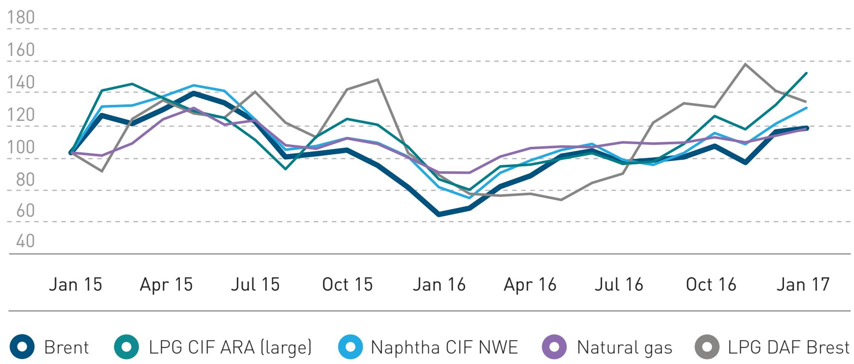
SIBUR continued to operate in an unfavourable macroeconomic environment in 2016, characterised by low oil prices and economic recession in Russia. Despite this, we delivered higher cash generation and sustained margins close to last year's levels, while growing rouble sales and EBITDA.

PRICES

Average market prices for most of the products in SIBUR's portfolio declined for the year as a whole, nevertheless we saw a recovery during the second half of 2016. Oil prices fell sharply at the start of the year before returning to 2015 levels around midyear. Brent crude prices fell 16.7% on average for the year as a whole, impacting prices for energy products such as LPG and naphtha, which nearly halved year-on-year. Prices for most petrochemical products also decreased, but the magnitude of the drop was smaller than for hydrocarbon prices. This wider spread repeats a pattern we have seen in prior years.

FEEDSTOCK & ENERGY
(BENCHMARKS PRICE DYNAMICS)

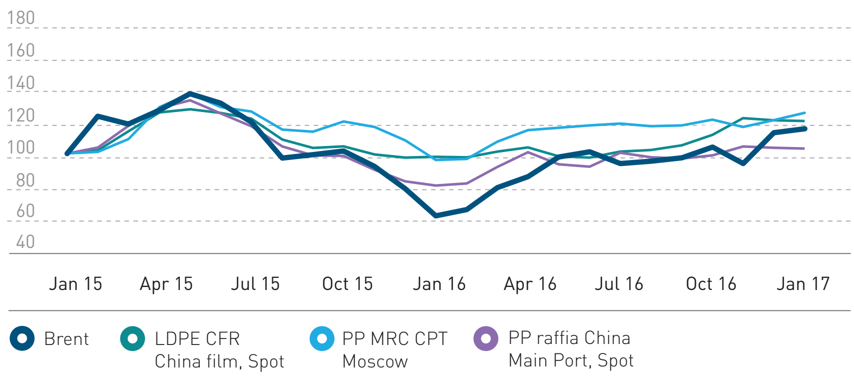
Rebased to 100



Source: Argus, Platts, Bloomberg, Federal Antimonopoly Service of Russian Federation.

OLEFINS & POLYOLEFINS
(BENCHMARKS PRICE DYNAMICS)

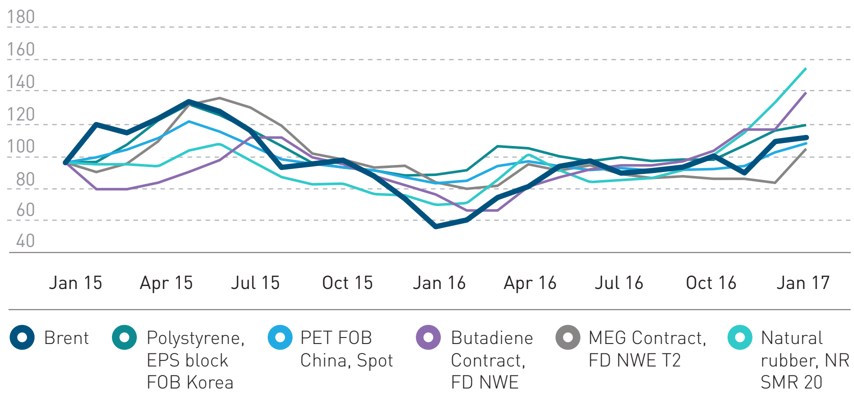
Rebased to 100



Source: Bloomberg, ICIS.

PLASTICS, ELASTOMERS & INTERMEDIATES
(BENCHMARKS PRICE DYNAMICS)

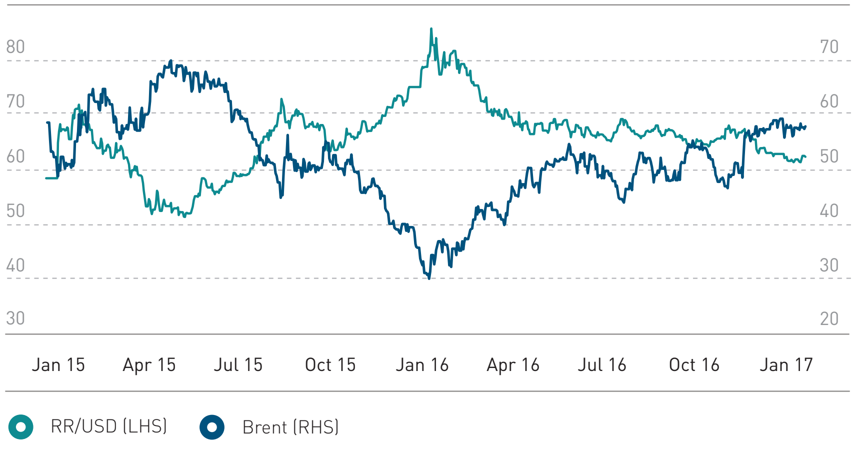
Rebased to 100



Source: Bloomberg, ICIS, Malaysian Rubber Board.

RR/USD – OIL PRICE NEGATIVE CORRELATION

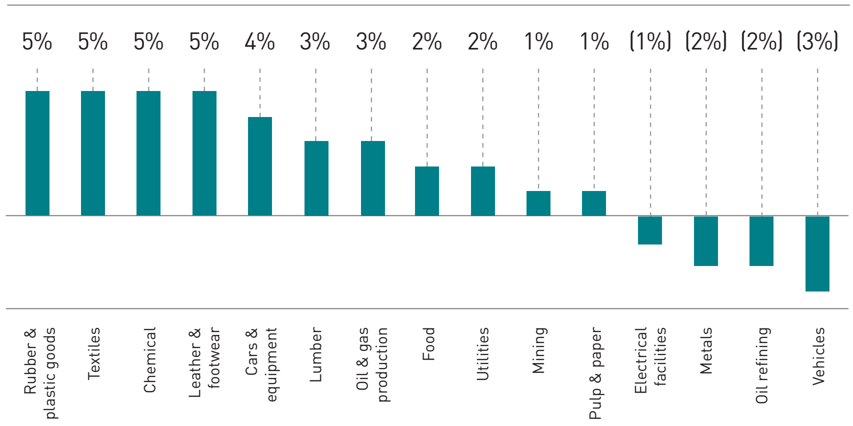
USD per bbl



Source: Bloomberg, CBR.

CHANGE IN INDUSTRIAL OUTPUT IN 2016,

% y-o-y



Source: Russian Federal State Statistics Service.

EXCHANGE RATE

Our currency, the Russian rouble, lost 9.1% of its value compared to the US dollar and 8.7% against the euro in 2016. Because we earn most of our revenues on products priced in dollars, rouble depreciation partially offset lower oil prices and was a supportive factor for SIBUR's overall profit margins.

RUSSIAN ECONOMY

Economic recession continued in Russia, with a 0.2% decline in GDP in 2016 compared to a sharp 3.7% contraction the prior year. Despite the headline trend, however, most of the industries that consume petrochemicals demonstrated growth. Important end customer segments for SIBUR including consumer rubber and plastic goods, the automotive sector, and the textile, food and chemical industries, benefited from positive domestic market trends. In addition, increased domestic petrochemicals output continued to displace imports, and import restrictions imposed by the Russian government also benefited petrochemical producers sourcing raw materials for these industries.

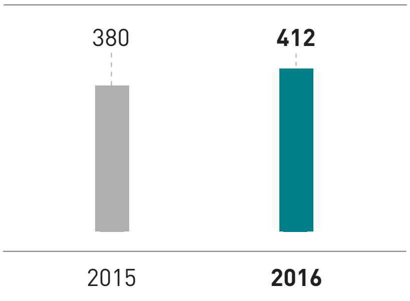
OPERATING ENVIRONMENT (CONTINUED)

SIBUR's investments in strategic assets have made us a stronger company better able to withstand difficult market conditions. The expansion of our petrochemicals business, lower feedstock costs and the spread between oil and petrochemicals prices allowed us to generate higher cash flows in rouble and dollar terms and deliver EBITDA margins close to last year's levels.

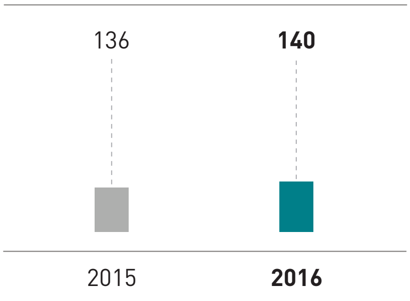
Group revenues increased 8.4% to RR 411.8 billion. We processed higher volumes of APG (4.4%) and raw NGL (5.2%), and fully utilised these volumes for further processing into energy and petrochemicals products instead of selling raw NGL feedstock on the market. In particular, we continued the ramp-up of polypropylene production following the launch of expanded capacity with a volume increase of 14.8% and increased production of other products including LPG (6.4%) and elastomers (8.4%).

Higher production volumes and favorable currency effects were offset by the sharp price declines for our major products, however, resulting in 1.4% lower sales in dollar terms. This combined with higher utility and transportation tariffs drove an adjusted EBITDA increase of 5.3% to RR 149.2 billion including joint venture contributions, or a 4.3% decline in dollars.

REVENUE,
RR BLN



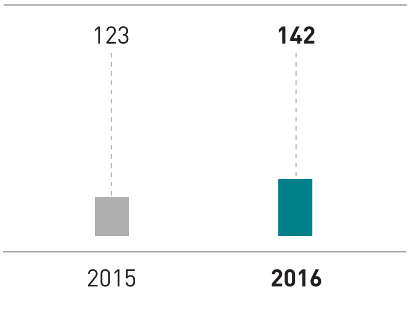
EBITDA,
RR BLN



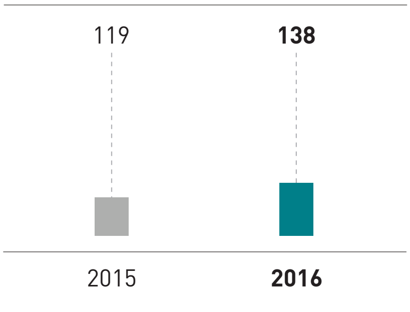
RR411.8 bln

GROUP REVENUES IN 2016

INVESTING CASH FLOW[1],
RR BLN



OPERATING CASH FLOW,
RR BLN



33.9%

SIBUR EBITDA MARGIN

[1] Includes Capex and M&A.

THE VALUE OF OUR BUSINESS MODEL WAS VALIDATED ONCE AGAIN BY OUR STRONG FINANCIAL RETURNS.

In 2016, we changed our segmental reporting to reflect SIBUR's strategic development and the profitability fundamentals of different operating activities and products to make the financial resilience of business model even more transparent. The Petrochemicals segment was separated into two new segments: Olefins & Polyolefins (O&P), which includes PP, PE, BOPP-films and other polymers from new strategic assets and joint ventures; and Plastics, Elastomers & Intermediates (PE&I), which includes other petrochemicals, elastomers and MTBE & fuel additives. The Feedstock & Energy (F&E) purely includes energy products such as LPG, natural gas, naphtha and raw NGL.

Olefins & Polyolefins revenue increased by 16.4%, while EBITDA grew by an impressive 32.6% in 2016 to RR 48.9 billion or 35% of total. Higher production of polypropylene combined with higher domestic selling prices and lower feedstock costs drove a powerful increase in O&P EBITDA margin from 39% in 2015 to 46% in 2016. Joint ventures contributed RR 8.9 billion for a total segment EBITDA of RR 57.8 billion.

45.5%

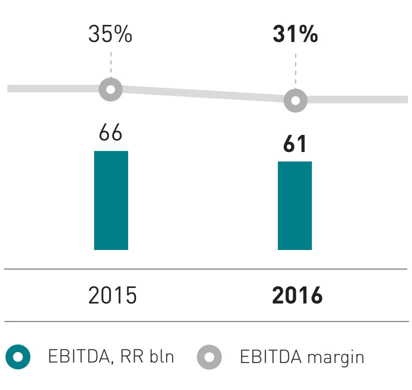
O&P SEGMENT EBITDA MARGIN

These results underscore the different dynamics of Olefins & Polyolefins compared to Plastics, Elastomers & Intermediates. PE&I revenues increased 2.1% in 2016 and segmental EBITDA declined 7.8% to RR 31.5 billion or 23% of total as lower selling prices for MTBE and majority of plastics & organic synthesis products were only partially mitigated by rouble depreciation. Segmental EBITDA declined somewhat from 26% to 24% year over year.

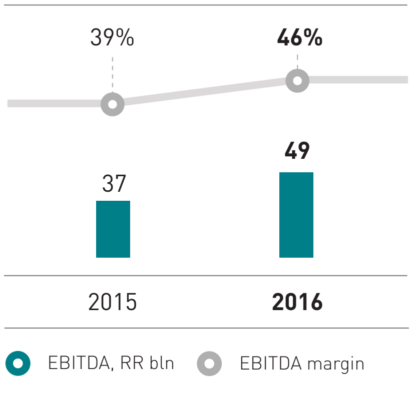
Similarly, our Feedstock & Energy segment revenues were up 4.3% in rouble terms but EBITDA decreased 9% compared to last year to RR 60.5 billion or 43% of total. Higher sales volumes largely attributable to production growth on the increased availability of liquid hydrocarbon feedstock were offset by negative price movements on global markets, partly mitigated by the weaker rouble. Despite these factors, this business produced a still high EBITDA margin of 31% compared to 35% in 2015 thanks to the structure of our feedstock contracts that allow us to pass price declines through to our suppliers.

The benefits of our vertical integration and investments to unlock the value of our feedstock advantage through expansion in higher value-added activities are visible more than ever. Despite challenging market conditions we delivered 15.6% higher operating cash flow in rouble terms and a 5.1% increase in dollars, and a still high 2016 EBITDA margin of 33.9% compared to 35.7% in the prior year, and adjusted EBITDA margin of 36.2% this year compared to 37.3% in 2015.

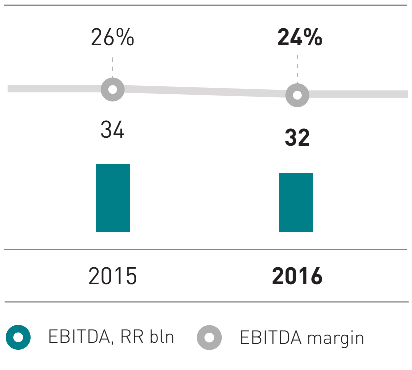
FEEDSTOCK AND ENERGY



OLEFINS AND POLYOLEFINS



PLASTICS, ELASTOMERS AND INTERMEDIATES



HOW WE CREATE VALUE


HOW WE CREATE VALUE
PAGE 28
PAGE 28
INTEGRATION
SIBUR
VALUE
INTEGRATION
PAGE 28
PAGE 28
HOW WE CREATE VALUE

INTEGRATED VALUE CHAIN

SUPPLIERS

PROCESSING & PRODUCTION

Oil companies

Gas companies

APG 21.9 bcm

Stranded APG purchased from oil companies processed by SIBUR's GPPs to produce natural gas and raw NGL

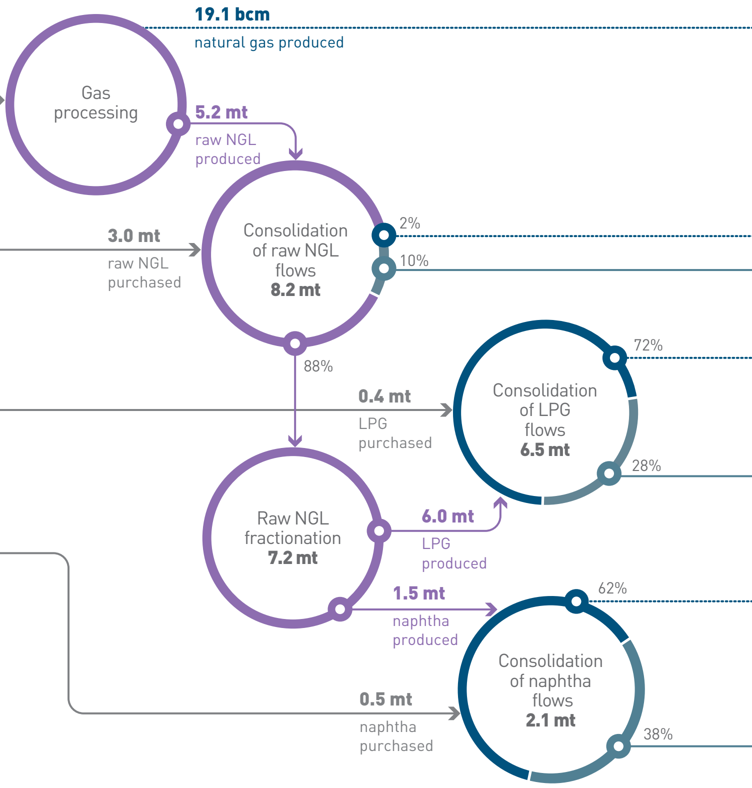
Raw NGL 3.0 mt raw NGL purchased

Raw NGL produced internally or purchased from oil & gas companies fractionated at SIBUR GFUs into LPG and naphtha

LPG 0.4 mt LPG purchased

LPG and naphtha produced internally or purchased from oil & gas companies as petrochemical feedstock

Naphtha 0.5 mt naphtha purchased



Methanol & other 0.2 mt methanol purchased

MTBE produced from reaction of methanol with isobutylene as an additive to gasoline

Intermediates

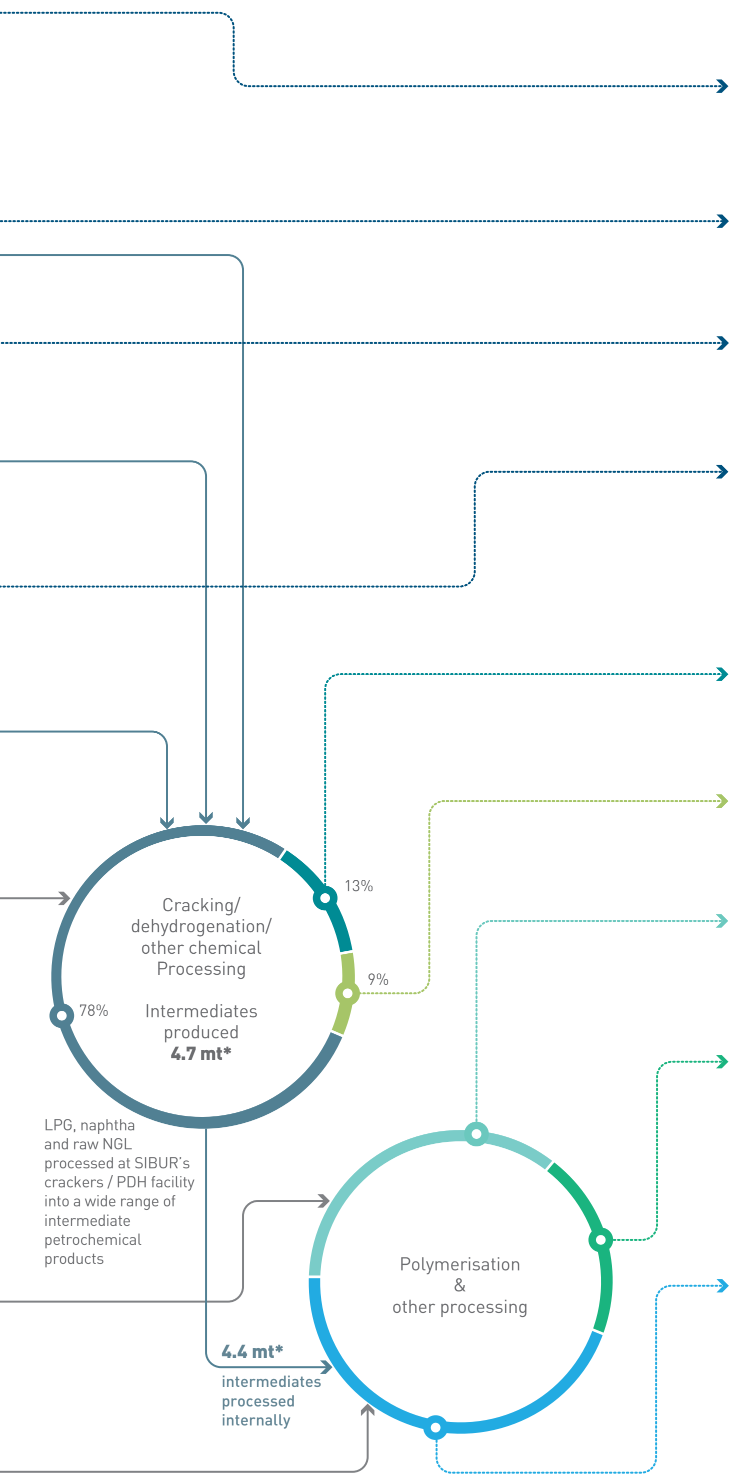
Intermediates polymerised or otherwise processed into higher value-added petrochemical products

Trading

Depending on local market balances and logistical constraints we purchase certain volumes of petrochemical products for further resale

ILLUSTRATIVE

Used to produce energy products | Energy products sold externally
Used to produce petrochemicals | Petrochemicals sold externally



CUSTOMERS

SALES VOLUMES			SHARE IN EXTERNAL REVENUE
FEEDSTOCK AND ENERGY			
18.2 bcm	natural gas	Utilities	11%
0.2 mt	raw NGL	Petrochemicals	1%
4.7 mt	LPG	Fuels Petrochemicals Utilities	22%
1.3 mt	naphtha	Petrochemicals Fuels	7%
PLASTICS, ELASTOMERS AND INTERMEDIATES			
0.7 mt	MTBE & fuel additives	Fuels Fuel additives and components	6%
0.5 mt	intermediates	Chemicals	5%
0.8 mt	plastics & organic synthesis	FMCG Construction Chemicals	11%
0.4 mt	elastomers	Automotive Construction	10%
OLEFINS AND POLYOLEFINS			
1.1 mt	olefins & polyolefins	FMCG Construction Chemicals	21%

Other revenue represented 6% of external revenue in 2016

* Gross volumes

OUR BUSINESS

SIBUR is a vertically integrated gas processing and petrochemicals company with unique competitive advantages. We own and operate Russia's largest APG processing and raw NGL fractionation business and are a leader in the Russian petrochemicals industry.

We purchase by-products of the oil and gas extraction activities under long-term contracts from Russian energy companies, and process them into energy and petrochemical products.

This year SIBUR introduced a new segmental reporting structure with three business segments. In addition to Feedstock & Energy, we have broken out results for our petrochemicals activities into two new business segments with different profitability fundamentals – Olefins & Polyolefins, and Plastics, Elastomers & Intermediates – to provide increased transparency.

These business segments vary in their fundamentals including end-user markets, supply and demand trends, value drivers, and consequently, profitability. However, they are highly integrated, with most of the feedstock for our petrochemicals businesses supplied by our Feedstock & Energy segment.

FEEDSTOCK & ENERGY BUSINESS

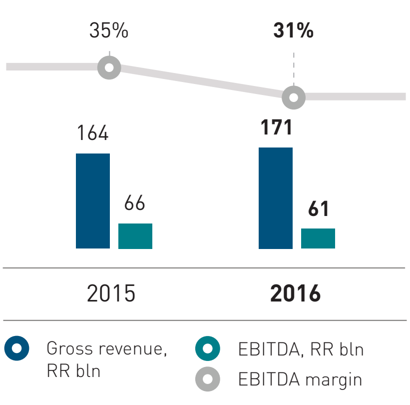
SIBUR owns and operates Russia's most extensive infrastructure for processing and transportation of hydrocarbon feedstock.

Our Feedstock & Energy segment comprises:

- gathering APG from oil companies and processing it into natural gas and raw NGL at our gas processing plants (GPPs);
- transportation, fractionation and other processing of NGLs produced internally or purchased from outside suppliers;
- production of energy products that are sold externally or used as raw materials by our Olefins & Polyolefins and Plastics, Elastomers and Intermediates segments.

The Feedstock & Energy segment currently supplies approximately 35% of NGLs available for sale as feedstock for our petrochemicals businesses, with the rest marketed as energy products in domestic and export markets.

F&E FINANCIAL PERFORMANCE[1]



FEEDSTOCK & ENERGY SEGMENT ASSETS AND INFRASTRUCTURE
AS OF 31 DECEMBER 2016

8 GPPs[2]

5 Compressor stations

3 GFUs

[1] Due to the introduction of the new reporting structure, like-for-like segmental information is available for 2015 and 2016 only.

[2] Including Yuzhno-Priobskiy GPP, JV between SIBUR and Gazprom Neft.

PETROCHEMICALS BUSINESSES

SIBUR operates an extensive petrochemicals production base that has been substantially modernised and expanded in recent years, with continuing investments planned for the future. Our Feedstock & Energy segment provides a reliable source of attractively priced raw materials for our petrochemicals businesses.

Starting in 2016, SIBUR's petrochemicals business comprises two segments: Olefins & Polyolefins and Plastics, Elastomers & Intermediates.

The Olefins & Polyolefins (O&P) segment comprises the production and sales of polyolefins, such as polypropylene and polyethylene, BOPP-films; and olefins, specifically comprising propylene and ethylene, which are either used internally for petrochemicals production or sold externally.

The Plastics, Elastomers & Intermediates (PE&I) segment produces a variety of petrochemical products, such as plastics and organic synthesis products, elastomers, methyl tertiary butyl ether (MTBE) and fuel additives, which are sold externally. The segment also produces intermediates, which are primarily used internally with a minor share being sold to the market.

PETROCHEMICALS SEGMENT ASSETS AND INFRASTRUCTURE

AS OF 31 DECEMBER 2016

3 Steam crackers

1 PDH facility

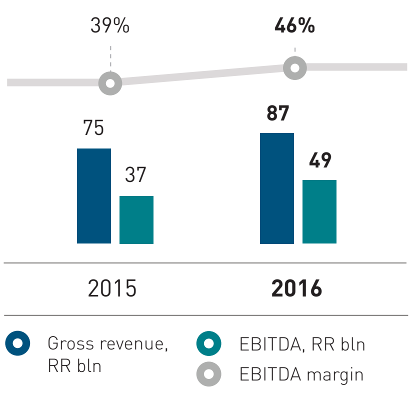
2 PP and LDPE production plants

3 Elastomers production plants

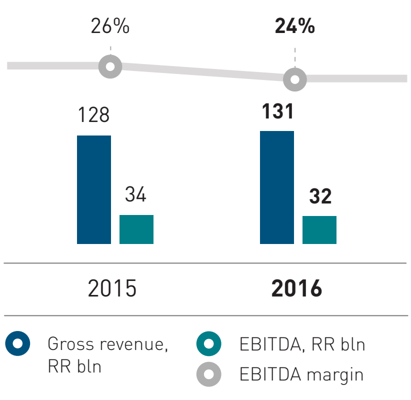
5 BOPP-films production plants

4 Plastic & organic synthesis production plants

O&P FINANCIAL PERFORMANCE[1]



PE&I FINANCIAL PERFORMANCE[1]



[1] Due to the introduction of the new segment breakdown, figures are available for 2015 and 2016 only.

FEEDSTOCK & ENERGY

Products of the Feedstock & Energy segment, including LPG, naphtha and natural gas, are sold primarily to customers in the utilities, fuels and petrochemicals industries both in Russia and internationally. The majority of available raw NGL is used internally as petrochemical feedstock and raw materials for LPG and naphtha.

2016 revenue from Feedstock & Energy amounted to RR 170,708 million, an increase of 4.3% year-on-year. This represents 41.5% of total Group revenue for 2016.

Domestic sales accounted for 44.2% of total revenue from Feedstock & Energy products sales, while 55.8% was attributable to exports.

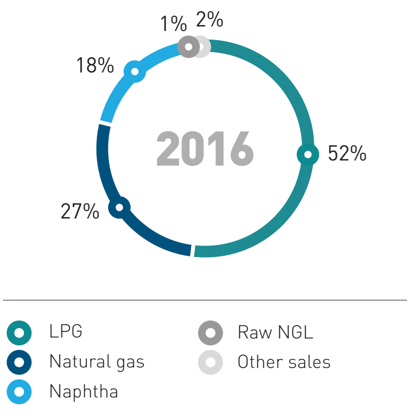
LPG, naphtha and raw NGL are used as feedstock for internal processing into petrochemical products and sold externally.

35.3 %

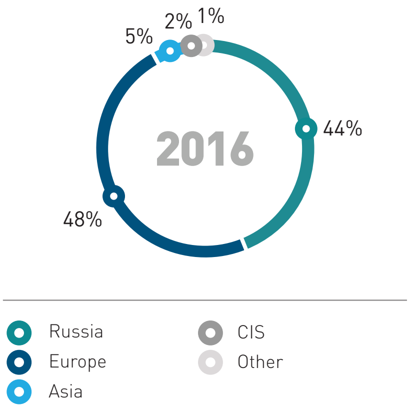
OF NGL VOLUMES AVAILABLE FOR SALE ARE SUPPLIED INTERNALLY AS FEEDSTOCK FOR PETROCHEMICALS PRODUCTION

FEEDSTOCK & ENERGY REVENUE STRUCTURE (2016)

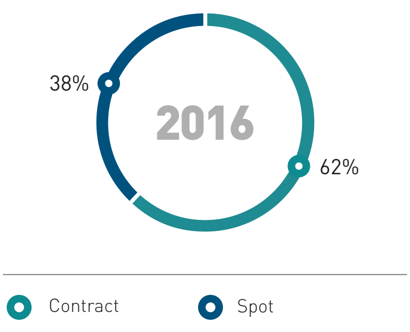
By product



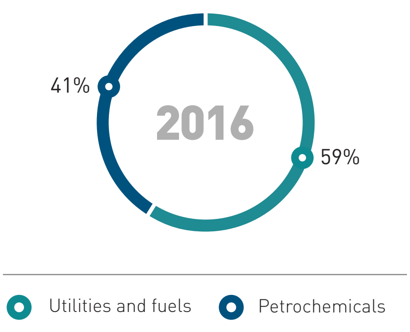
By region



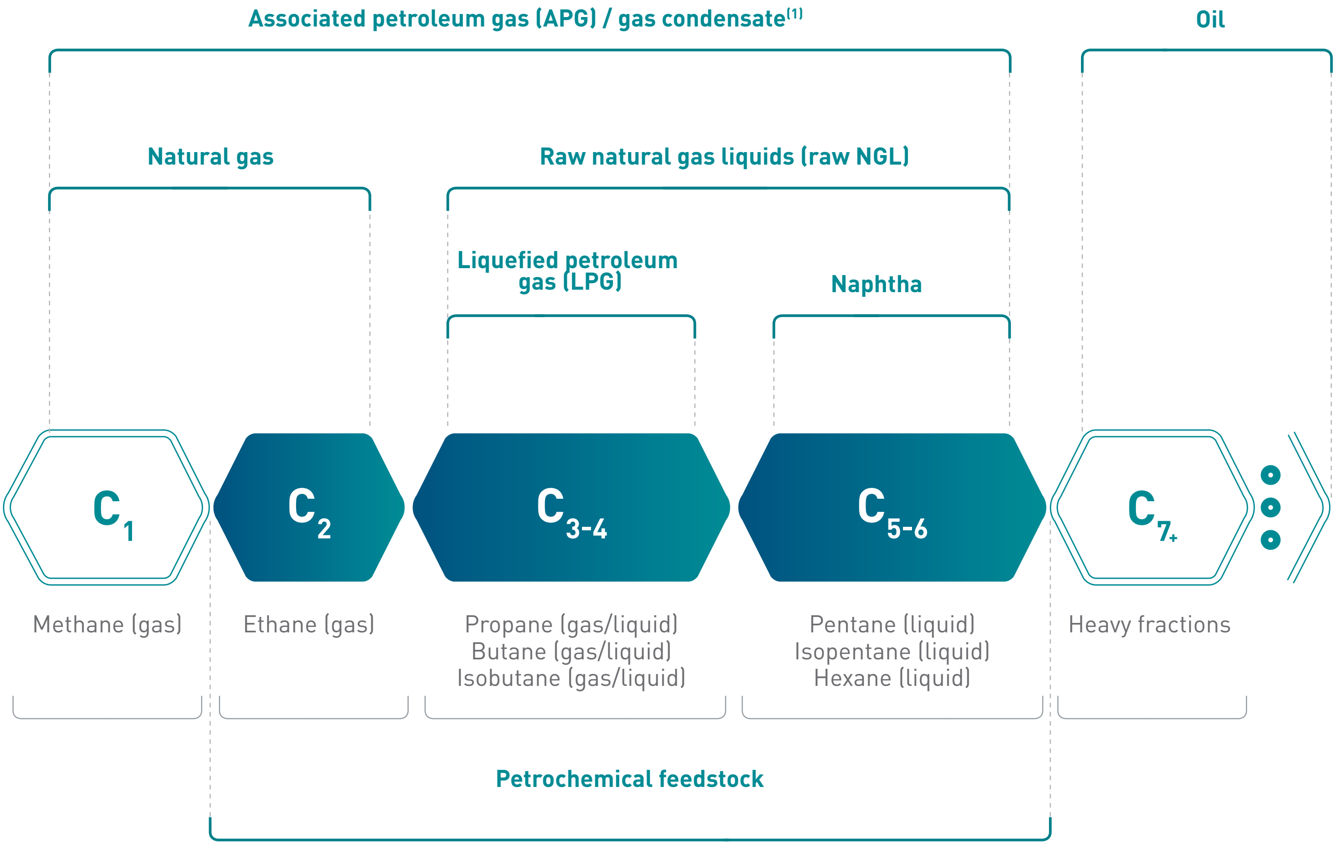
By contract/spot



By key end-customer industry

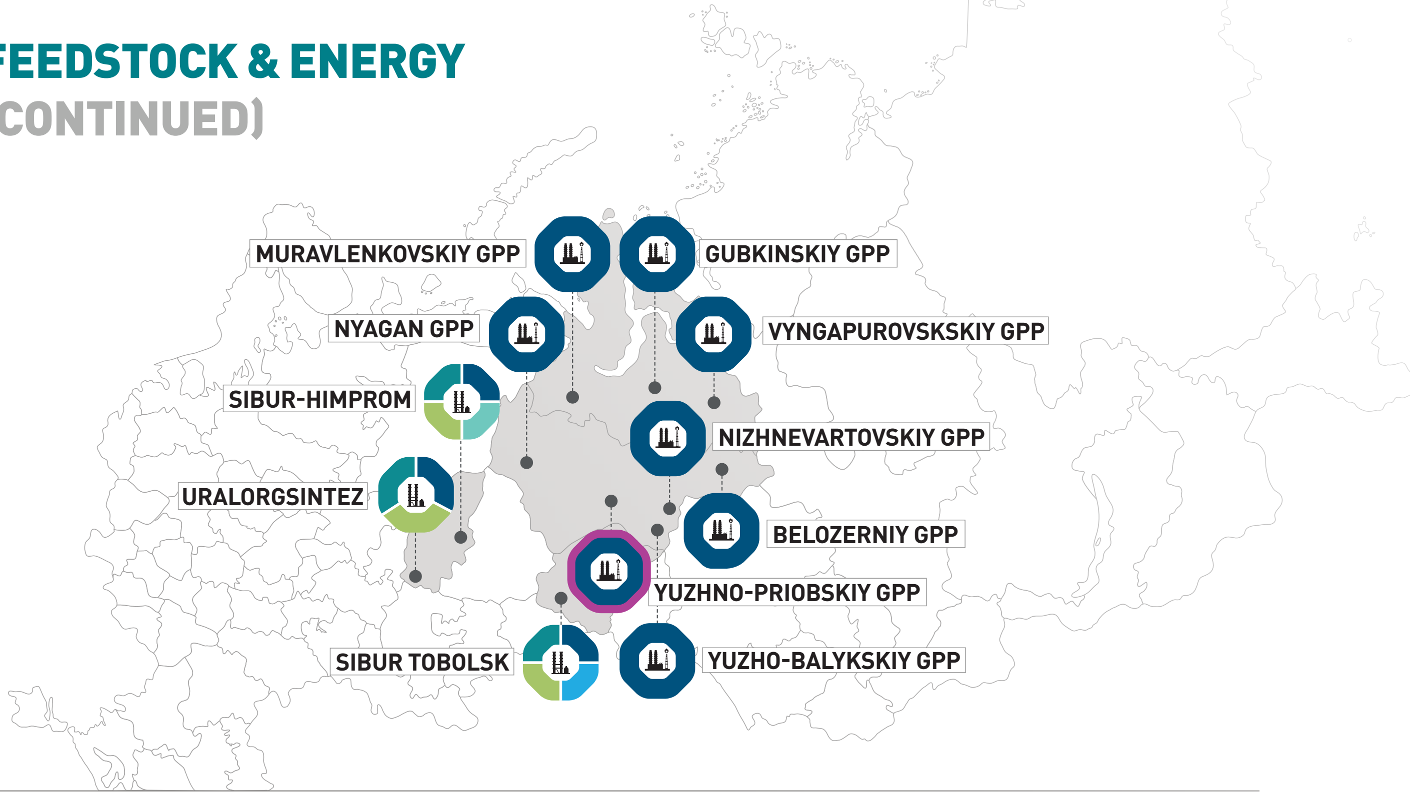


HYDROCARBON CHAIN



[1] APG and gas condensate are composed of the same fractions but in different proportions.

FEEDSTOCK & ENERGY
(CONTINUED)



FEEDSTOCK & ENERGY	OLEFINS & POLYOLEFINS	PLASTICS, ELASTOMERS & INTERMEDIATES	JOINT VENTURES
gas processing & fractionation	olefins & polyolefins	plastics & organic synthesis intermediates & other chemicals MTBE & fuel additives	operated under JV

Production site	Location	Products	Nameplate processing capacity as of 31 December 2016	2015
			billion cubic metres of APG	
Gas processing plants (GPPs)			25.4	24.0
Gubkinskiy GPP	Yamal-Nenets Autonomous Area	Natural gas, raw NGL	2.6	2.6
Vyngapurovskiy GPP	Yamal-Nenets Autonomous Area	Natural gas, raw NGL	4.2	2.8
Muravlenkovskiy GPP	Yamal-Nenets Autonomous Area	Natural gas, raw NGL	1.3	1.3
Yuzhno-Balykskiy GPP	Khanty-Mansi Autonomous Area	Natural gas, raw NGL	2.9	2.9
Belozerniy GPP	Khanty-Mansi Autonomous Area	Natural gas, raw NGL	4.6	4.6
Nizhnevartovskiy GPP	Khanty-Mansi Autonomous Area	Natural gas, raw NGL, naphtha, LPG	6.2	6.2
Nyagan GPP	Khanty-Mansi Autonomous Area	Natural gas, raw NGL, naphtha, LPG	2.6	2.6
Yuzhno-Priobskiy GPP[1]	Khanty-Mansi Autonomous Area	Natural gas, raw NGL	0.9	0.9
			million tonnes of raw NGL	
Gas fractionation units (GFUs)			9.5	8.0
SIBUR-Tobolsk	Tobolsk	LPG, naphtha	8.0	6.6
SIBUR-Himprom	Perm	LPG, naphtha	0.6	0.6
Uralorgsintez	Perm region	LPG, naphtha	0.9	0.8

	Average capacity utilisation, % 2016	2015
GPPs 100% owned by SIBUR	88%	92%
Yuzhno-Priobskiy GPP[1]	98%	91%
GFUs	86%	98%

[1] Operated under JV with Gazprom Neft.

LIQUEFIED PETROLEUM GASES (LPG)
(FEEDSTOCK & ENERGY)

PRODUCT DESCRIPTION

LPG refers primarily to propane (C_3), butane and isobutane (C_4) or propane-butane mixtures and produced by fractionating raw NGL at our GFUs.

Key applications:
Motor fuel, feedstock for petrochemicals, utilities.

SALES

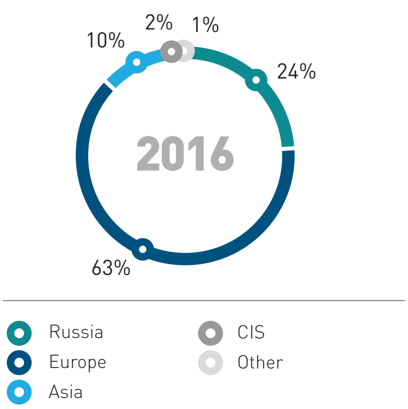
We sell LPG externally and also supply it as feedstock to our petrochemicals production facilities.

21.6 %
OF TOTAL GROUP REVENUE

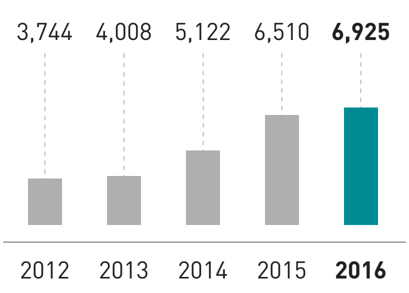
52.0 %
OF FEEDSTOCK & ENERGY REVENUE

27.5 %
OF LPG VOLUMES AVAILABLE FOR SALE ARE USED INTERNALLY AS FEEDSTOCK FOR PETROCHEMICALS PRODUCTION

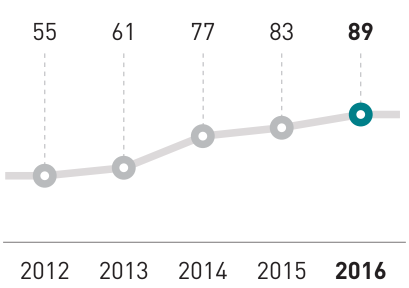
REVENUE STRUCTURE BY MARKET, %



PRODUCTION VOLUMES[1], '000 TONNES



REVENUE FROM SALES, RR BLN



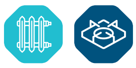
[1] Including volumes under processing arangements.

NATURAL GAS
(FEEDSTOCK & ENERGY)

PRODUCT DESCRIPTION

Natural gas comprises methane (C_1) and ethane (C_2). SIBUR produces natural gas at its GPPs through processing of APG purchased from oil companies, which we separate into natural gas and raw NGL.

Key applications:
Utilities.



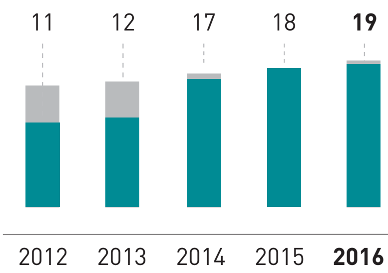
SALES

We sell natural gas to Russian oil and gas companies and, to a limited extent, to Russian regional and municipal power companies. Natural gas is not used as feedstock for our petrochemicals business, only as a fuel at the GPPs and for our own heat and power generation.

REVENUE STRUCTURE BY MARKET, %

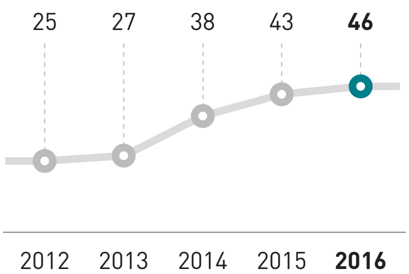
Russia

PRODUCTION VOLUMES, BLN CUBIC METRES



JVs' share in production volumes

REVENUE FROM SALES, RR BLN



11.2%

OF TOTAL GROUP REVENUE

26.9%

OF FEEDSTOCK & ENERGY REVENUE

NAPHTHA
(FEEDSTOCK & ENERGY)

PRODUCT DESCRIPTION

Naphtha (C_{5+}) refers primarily to pentane, isopentane, hexane, heavier fraction hydrocarbons and produced by fractionating raw NGL at our GFUs.

Key applications:
Fuels, feedstock for petrochemicals industries.

SALES

We sell naphtha externally and supply it as feedstock for our petrochemicals production facilities.

7.5%

OF TOTAL GROUP REVENUE

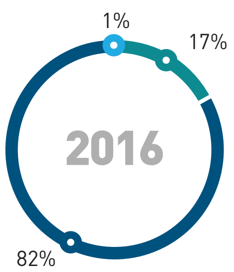
18.1%

OF FEEDSTOCK & ENERGY REVENUE

37.5%

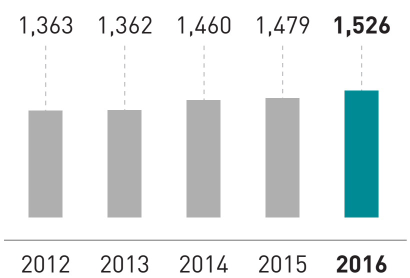
OF NAPHTHA VOLUMES AVAILABLE FOR SALE ARE USED INTERNALLY AS FEEDSTOCK FOR PETROCHEMICALS PRODUCTION

REVENUE STRUCTURE BY MARKET, %

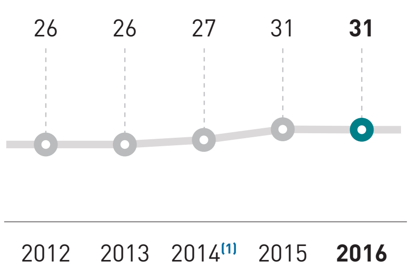


Russia · Europe · CIS

PRODUCTION VOLUMES, '000 TONNES



REVENUE FROM SALES, RR BLN



[1] Net of revenue from trading operations via Ust-Luga in the sum of RR 42 bln, ceased in 2015.

RAW NATURAL GAS LIQUIDS (RAW NGL) (FEEDSTOCK & ENERGY)

PRODUCT DESCRIPTION

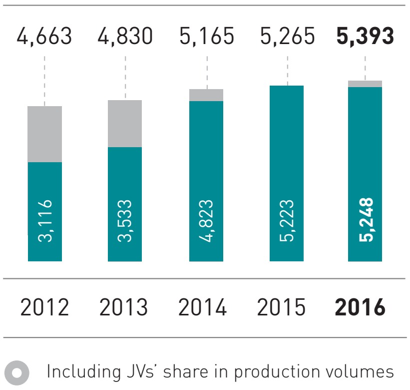
Raw NGL represents a wide mixture of hydrocarbon fractions, ranging from C_3 to C_6 (propane, butane, isobutane, pentane, isopentane, and hexane) and produced at GPPs through processing of APG by separating it into natural gas and raw NGL.

Key applications:
Petrochemicals.

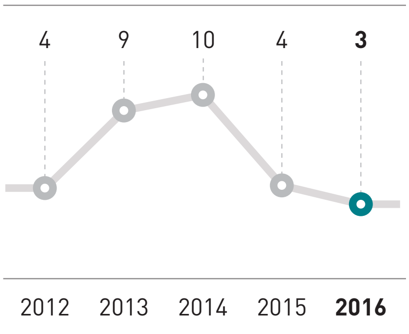
SALES

We use 100% of raw NGL for internal fractionation into energy products and as feedstock at our own petrochemicals facilities without prior fractionation.

PRODUCTION VOLUMES,
'000 TONNES



REVENUE FROM SALES,
RR BLN



80.0%

OF RAW NGL VOLUMES AVAILABLE FOR SALE ARE USED INTERNALLY AS FEEDSTOCK FOR PETROCHEMICALS PRODUCTION

88.2%

FRACTIONATED INTO ENERGY PRODUCTS OUT OF PRODUCED AND PURCHASED VOLUMES

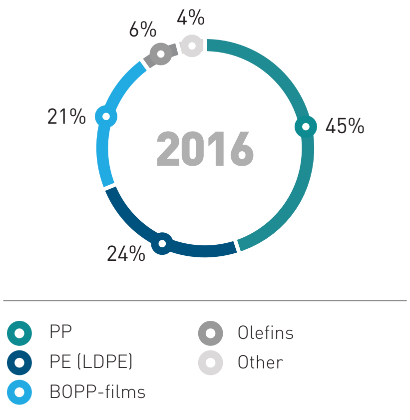
OLEFINS & POLYOLEFINS

SIBUR's Olefins & Polyolefins segment comprises polypropylene, polyethylene, BOPP-films and olefins. Polyolefins are sold primarily to customers in the fast moving consumer goods (FMCG), construction and chemical industries both on the domestic and export markets. The majority of olefins is used to produce higher value added petrochemical products and sold in Russia, primarily to RusVinyl, our PVC JV with Solvay.

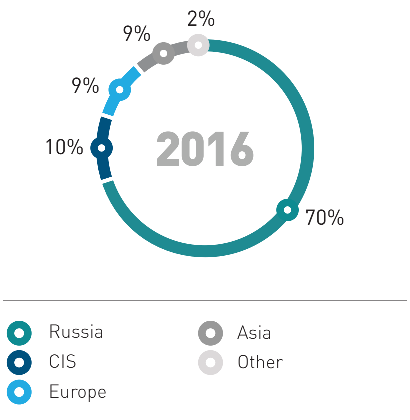
In 2016, our revenue from Olefins & Polyolefins totaled RR 86,830 million, a 16.4% increase year-on-year, and accounted for 21.1% of the total Group revenue for 2016. Domestic sales accounted for 70% of total revenue from Olefins & Polyolefins sales, while 30% was attributable to exports.

OLEFINS & POLYOLEFINS REVENUE STRUCTURE (2016)

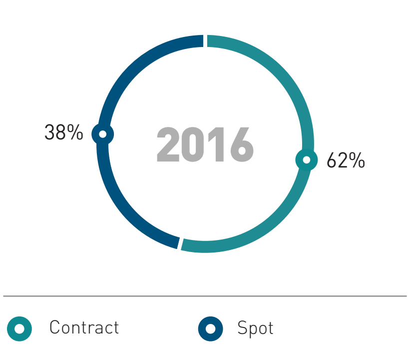
By product



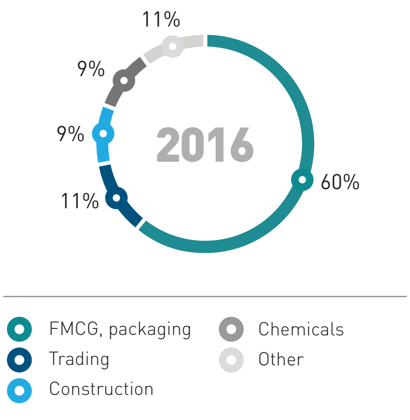
By region



By contract/spot



By key end-customer industry



OLEFINS & POLYOLEFINS (CONTINUED)

FEEDSTOCK & ENERGY	OLEFINS & POLYOLEFINS	PLASTICS, ELASTOMERS & INTERMEDIATES	JOINT VENTURES
gas processing & fractionation	olefins & polyolefins	intermediates & other chemicals MTBE & fuel additives	operated under JV

Product	Production site	Location	Nameplate capacity (tonnes) as of 31 December		Capacity utilisation, %	
			2016	2015	2016	2015
PE (LDPE)	Tomskneftekhim	Tomsk	270,000	245,000	97%	101%
PP	SIBUR Tobolsk, Tomskneftekhim	Tobolsk, Tomsk	640,000	640,000	93%	82%
PP	NPP Neftekhimia (non-consolidated JV)	Moscow	120,000	120,000	109%	101%
PP	Poliom (non-consolidated JV)	Omsk	210,000	210,000	97%	91%
BOPP-films	BIAXPLEN group of companies	Samara region, Moscow region, Kursk, Tomsk, Nizhniy Novgorod region	184,600	184,600	86%	83%
PVC	RusVinyl (non-consolidated JV)	Nizhniy Novgorod region	330,000	330,000	93%	72%
Ethylene	Tomskneftekhim, SIBUR-Kstovo	Tomsk, Nizhniy Novgorod region	672,000	660,000	94%	88%
Propylene	SIBUR Tobolsk, Tomskneftekhim, SIBUR-Kstovo	Tobolsk, Tomsk, Nizhniy Novgorod region	829,000	829,000	91%	82%
Benzene	SIBUR-Kstovo	Nizhniy Novgorod region	96,000	96,000	77%	71%
Caustic soda	RusVinyl (non-consolidated JV)	Nizhniy Novgorod region	225,000	225,000	89%	69%

OLEFINS & POLYOLEFINS
(CONTINUED)

PRODUCT DESCRIPTION

SIBUR's Olefins and Polyolefins include polypropylene (PP) and polyethylene (LDPE), BOPP-films and olefins.

PP and LDPE are granulated thermoplastic polymers that are derived from polymerisation of olefins – propylene and ethylene, respectively, that are produced internally.

BOPP-films include coextruded, coated, non-heat sealable or homopolymer films in a variety of finishes.

PP

Key applications:
Consumer goods, packaging, BOPP-films, hygiene products, pipes, fibres and automotive components.

LDPE

Key applications:
Consumer goods, coating materials for electrotechnical and energy industry, film for agricultural industry, various packaging.

BOPP-films

Key applications:
Packaging and production of labels and adhesive tapes.

Olefins

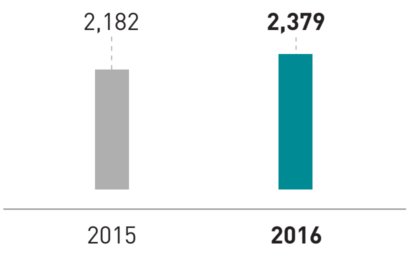
Key applications:
Production of PP and LDPE.

SALES

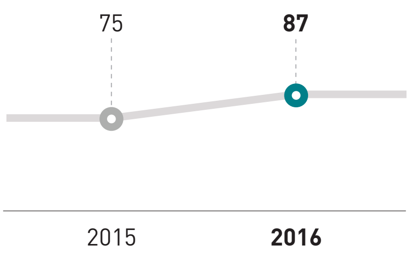
We sell polyolefins to external clients in Russia and abroad and also use certain volumes of PP internally in BOPP-films production.

We sell certain volumes of olefins externally to other petrochemicals companies, while we use most of them internally for processing into higher value-added petrochemical products.

PRODUCTION VOLUMES[1],
'000 TONNES



REVENUE FROM SALES[1],
RR BLN



21.1 %
OF TOTAL GROUP REVENUE

39.9 %
OF PETROCHEMICAL BUSINESSES REVENUE

[1] Due to introducing the new segment breakdown, figures are available for 2015 and 2016 only.

PLASTICS, ELASTOMERS & INTERMEDIATES

Within the Plastics, Elastomers & Intermediates segment we produce plastics and organic synthesis products comprising PET, glycols, expandable polystyrene, alcohols and acrylates; elastomers comprising various grades of commodity and specialty rubbers and thermoplastic elastomers; MTBE and fuel additives, which are sold externally. The segment also produces intermediates, which are primarily used internally with a minor share being sold to the market.

Each of these product groups has particular characteristics and distinct market fundamentals, however, all are sold to industrial customers in key end-markets, such as chemicals, utilities & fuels, automotive, fast moving consumer goods (FMCG), construction and other sectors.

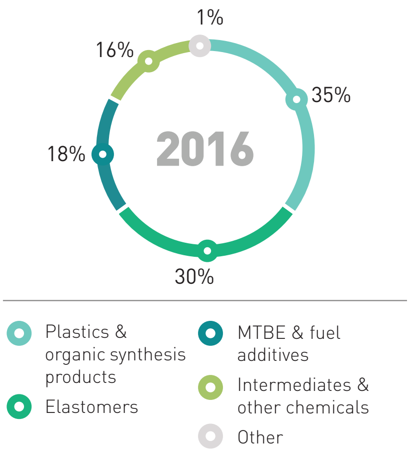
In 2016, SIBUR's Plastics, Elastomers & Intermediates segment external revenue increased by 2.1% to RR 130,690 million and accounted for 31.7% of the total Group revenue for 2016. Domestic sales accounted for 61% of total revenue from Plastics, Elastomers & Intermediates sales, while 39% was attributable to exports.

We use a large portion of intermediates & other chemicals internally for processing into higher value added petrochemical products.

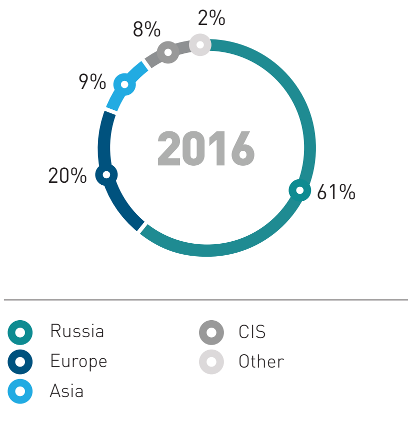
SIBUR's integrated business model enables us to change the composition of our feedstock and product mix to optimise purchasing, production, sales and logistics in order to maximise blended margins.

PLASTICS, ELASTOMERS & INTERMEDIATES REVENUE STRUCTURE (2016)

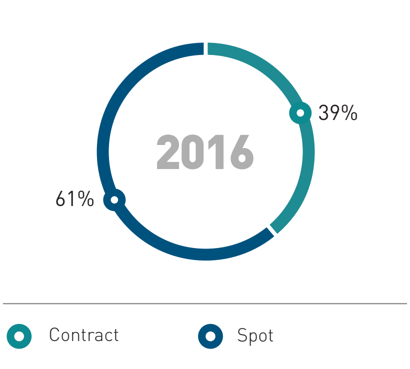
By product



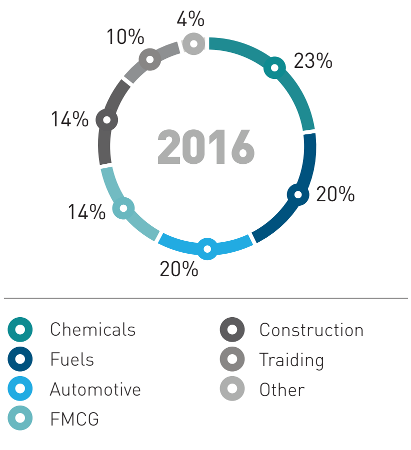
By region



By contract/spot



By key end-customer industry



FEEDSTOCK & ENERGY
- gas processing & fractionation

OLEFINS & POLYOLEFINS
- olefins & polyolefins

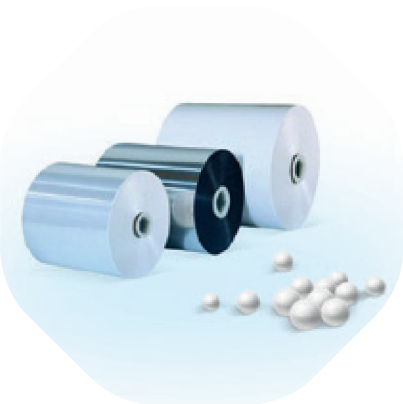
PLASTICS, ELASTOMERS & INTERMEDIATES
- plastics & organic synthesis
- intermediates & other chemicals
- MTBE & fuel additives
- elastomers

JOINT VENTURES
- operated under JV

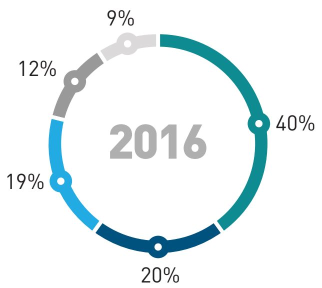
Product	Production site	Location	Nameplate capacity (tonnes) as of 31 December		Capacity utilisation, %	
			2016	2015	2016	2015
Plastics & organic synthesis products						
PET	Polief, SIBUR-PETF	Blagoveshchensk (Bashkortostan), Tver	294,490	285,250	102%	105%
Glycols	SIBUR-Neftekhim	Nizhniy Novgorod region	297,700	297,700	98%	94%
Alcohols	SIBUR-Himprom	Perm	164,700	164,700	103%	98%
Expandable polystyrene	SIBUR-Himprom	Perm	100,000	100,000	99%	99%
Acrylates	SIBUR-Neftekhim	Nizhniy Novgorod region	63,211	57,100	84%	79%
Elastomers						
Commodity rubbers	SIBUR Togliatti, Voronezhsintezkauchuk	Togliatti, Voronezh	369,800	369,800	73%	69%
Specialty rubbers	Krasnoyarskiy ZSK, SIBUR Togliatti, Voronezhsintezkauchuk	Krasnoyarsk, Togliatti, Voronezh	117,500	107,500	94%	90%
Thermoplastic elastomers	Voronezhsintezkauchuk	Voronezh	85,000	85,000	86%	68%
Intermediates & other chemicals						
Propylene	SIBUR-Himprom	Perm	96,500	96,500	61%	51%
Ethylene	SIBUR-Himprom	Perm	60,000	60,000	87%	85%
Butadiene	SIBUR Togliatti	Togliatti	80,000	80,000	74%	66%
Isoprene	SIBUR Togliatti	Togliatti	90,000	90,000	73%	74%
Benzene	Uralorgsintez	Perm region	95,000	95,000	96%	100%
Styrene	SIBUR-Himprom, Plastic[1]	Perm, Tula region	195,000	195,000	90%	90%
Ethylene oxide	SIBUR-Neftekhim	Nizhniy Novgorod region	300,000	300,000	95%	89%
Terephthalic acid	Polief	Blagoveshchensk (Bashkortostan)	272,640	272,640	96%	98%
MTBE						
MTBE	Uralorgsintez SIBUR Tobolsk SIBUR Togliatti SIBUR-Khimprom	Perm region, Tobolsk, Togliatti, Perm	545,000	525,000	92%	89%

[1] Plastic divested in December 2013 produces styrene for SIBUR under processing arrangement.

PLASTICS & ORGANIC SYNTHESIS PRODUCTS (PLASTICS, ELASTOMERS & INTERMEDIATES)

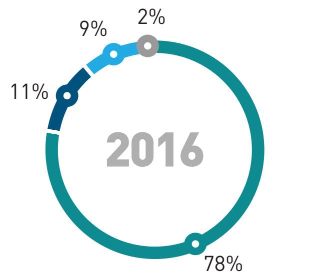


REVENUE STRUCTURE BY PRODUCT, %



- PET
- Glycols
- EPS
- Alcohols
- Acrylates

REVENUE STRUCTURE BY MARKET, %



- Russia
- CIS
- Europe
- Asia

PRODUCT DESCRIPTION

SIBUR produces plastics and organic synthesis products primarily from ethylene and propylene derivatives, as well as a wide range of intermediates.

PET is a thermoplastic polymer resin in the polyester family.

Key applications:
Packaging for beverages and food, other containers.

Glycols include mono-ethylene glycol, diethylene glycol and triethylene glycol.

Key applications:
PET, polyester fiber, de-icing liquids, cooling and antifreeze liquids, extragent for aromatic hydrocarbons and reagent for natural gas drying.

Expandable polystyrene is a granulated polymer, produced from styrene monomer.

Key applications:
Production of thermoinsulation blocks, packaging materials as well as for decorative elements.

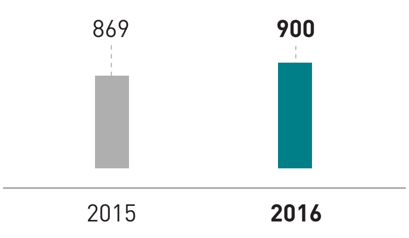
Alcohols include 2-ethylhexanol, butyl alcohol and isobutyl alcohol.

Key applications:
Production of plasticisers, acetates, acrylates, oil additives, as solvents for plastics and varnish, as antifoaming agents, as well as a component for perfume compounds.

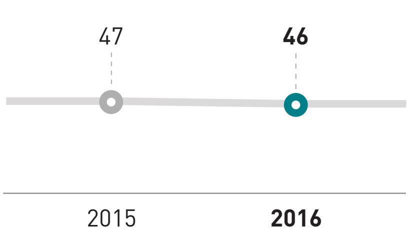
Acrylates comprise ethers of acrylic acid, butyl, methyl and ethyl.

Key applications:
Production of acrylic emulsions, superabsorbents, building mixes and adhesives used in the construction and textile industries.

PRODUCTION VOLUMES[1], '000 TONNES



REVENUE FROM SALES[1], RR BLN



SALES

We sell these products to external customers in a variety of industries in Russia and abroad with a strong focus on domestic market for the majority of the products and also use certain volumes internally, primarily in the production of higher value-added products.

11.2 %

OF TOTAL GROUP REVENUE

21.1 %

OF PETROCHEMICAL BUSINESSES REVENUE

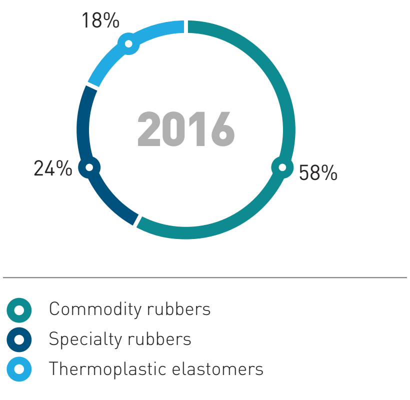
35.1 %

OF PLASTICS, ELASTOMERS & INTERMEDIATES REVENUE

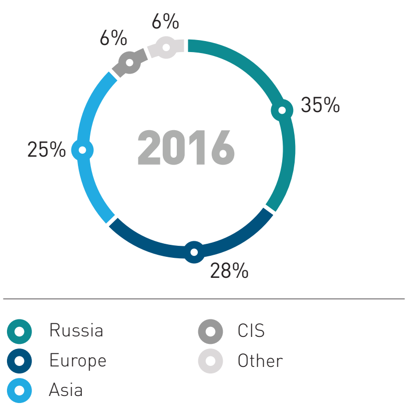
[1] Due to the introduction of the new segmental breakdown, figures are available for 2015 and 2016 only.

ELASTOMERS
(PLASTICS, ELASTOMERS & INTERMEDIATES)

REVENUE STRUCTURE BY PRODUCT, %



REVENUE STRUCTURE BY MARKET, %



PRODUCT DESCRIPTION

Elastomers comprise commodity rubbers, specialty rubbers and thermoplastic elastomers (SBS). Commodity rubbers have elastic and other properties that are partly similar to natural rubbers. Some specialty rubbers have properties such as oil and petrol resistance, gas impermeability, in addition to basic rubber properties. Thermoplastic elastomers demonstrate both thermoplastic and elastomeric properties.

Commodity rubbers

Key applications:

Tyres, mechanical rubber goods for automotive and machine building industries, asbestos technical (frictional) goods and adhesives, footwear.

Specialty rubbers

Key applications:

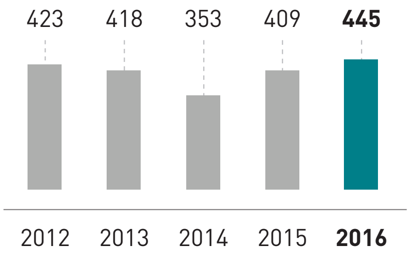
Mechanical rubber goods for asbestos technical (frictional) goods and adhesives, footwear.

Thermoplastic elastomers

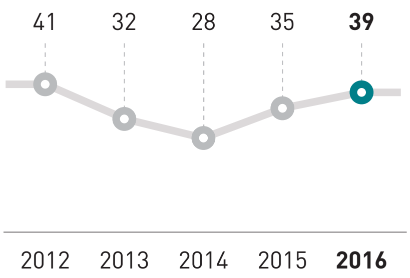
Key applications:

Construction, healthcare, automotive and electronics.

PRODUCTION VOLUMES,
'000 TONNES



REVENUE FROM SALES,
RR BLN



SALES

We sell 100% of rubbers to industrial customers both in Russia and abroad.

9.6%

OF TOTAL GROUP REVENUE

18.1%

OF PETROCHEMICAL BUSINESSES REVENUE

30.2%

OF PLASTICS, ELASTOMERS & INTERMEDIATES REVENUE

MTBE & FUEL ADDITIVES
(PLASTICS, ELASTOMERS & INTERMEDIATES)

PRODUCT DESCRIPTION

MTBE is a fuel additive that is used to increase the octane level in gasoline and produced from the reaction of methanol with isobutylene fraction.

Key applications:
Motor fuel.

SALES

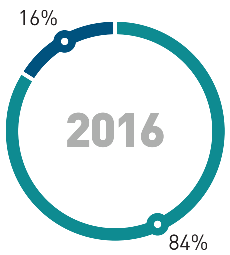
We sell 100% of MTBE externally to oil refineries in Russia and abroad.

5.6%
OF TOTAL GROUP REVENUE

10.7%
OF PETROCHEMICAL BUSINESSES REVENUE

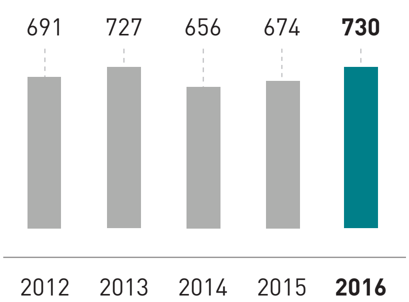
17.8%
OF PLASTICS, ELASTOMERS & INTERMEDIATES REVENUE

REVENUE STRUCTURE BY PRODUCT, %

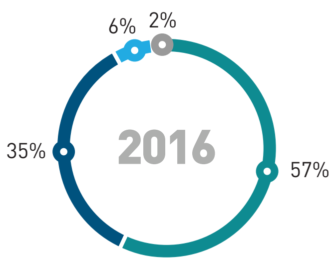


- MTBE
- Other fuels and fuel additives

PRODUCTION VOLUMES, '000 TONNES

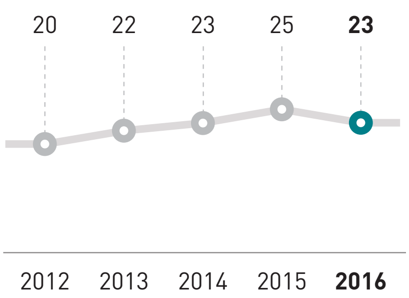


REVENUE STRUCTURE BY MARKET, %



- Russia
- Europe
- CIS
- Other

REVENUE FROM SALES, RR BLN



INTERMEDIATES AND OTHER CHEMICALS
(PLASTICS, ELASTOMERS & INTERMEDIATES)

PRODUCT DESCRIPTION

Intermediates and other chemicals primarily comprise benzene, styrene, terephthalic acid, ethylene oxide, butadiene, isoprene, isobutylene and others and are produced primarily from raw NGL, LPG and naphtha.

Key applications:
These chemicals are primarily used internally for processing into higher value added petrochemical products.

SALES

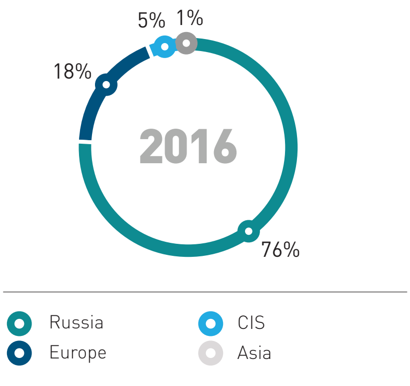
We also sell these products externally, primarily to other petrochemicals companies.

5.0%
OF TOTAL GROUP REVENUE

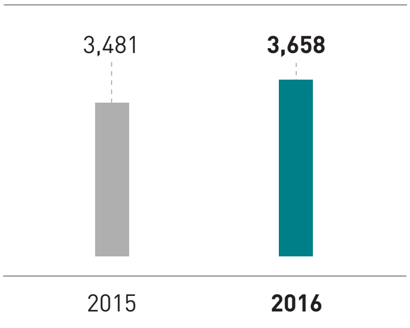
9.4%
OF PETROCHEMICAL BUSINESSES REVENUE

15.7%
OF PLASTICS, ELASTOMERS & INTERMEDIATES REVENUE

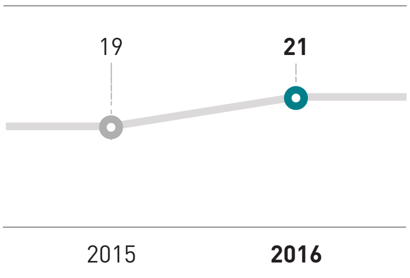
REVENUE STRUCTURE BY MARKET, %



PRODUCTION VOLUMES[1], '000 TONNES



REVENUE FROM SALES[1], RR BLN



[1] Due to the introduction of the new segmental breakdown, figures are available for 2015 and 2016 only.

FEEDSTOCK SOURCING

WE USE TWO MAJOR TYPES OF HYDROCARBON FEEDSTOCK: APG AND NGLs, INCLUDING RAW NGL, LPG AND NAPHTHA. BY PROCESSING APG WE PRODUCE NATURAL GAS AND RAW NGL. WE ALSO PURCHASE NGLs FROM THIRD PARTIES. OUR LONG-TERM SUPPLIERS OF FEEDSTOCK ARE MAJOR RUSSIAN OIL AND GAS COMPANIES.

APG

15 years

WEIGHTED AVERAGE MATURITY OF OUR MULTI-YEAR APG CONTRACTS[1]

90 %

OF OUR PLANNED APG SUPPLIES FOR 2017 GUARANTEED UNDER MULTI-YEAR SUPPLY CONTRACTS

NGLs

17 years

WEIGHTED AVERAGE MATURITY OF OUR MULTI-YEAR NGL CONTRACTS[1]

93 %

OF OUR PLANNED NGL SUPPLIES FOR 2017 GUARANTEED UNDER MULTI-YEAR SUPPLY CONTRACTS

OUR LONG-TERM SUPPLIERS OF FEEDSTOCK

NOVATEK

Gazprom

Rosneft

SUPPLIERS

Lukoil

RussNeft

Gazprom Neft

[1] As of 31 December 2016.

FEEDSTOCK PRICING

APG

APG prices are negotiated by agreement between parties. There is no regulated or market price due to the limited options for oil producers to use APG. The base price for APG depends on target liquid fractions content, distance of an APG source from our GPPs, availability of collection and transportation infrastructure and costs to construct and maintain it.

We have two types of APG purchase contracts:

- APG price once agreed upon in absolute terms is indexed to reflect changes in FAS regulated prices for natural gas;
- For our contract with Rosneft, the APG price is indexed with changes in APG derivatives such as natural gas and NGLs.

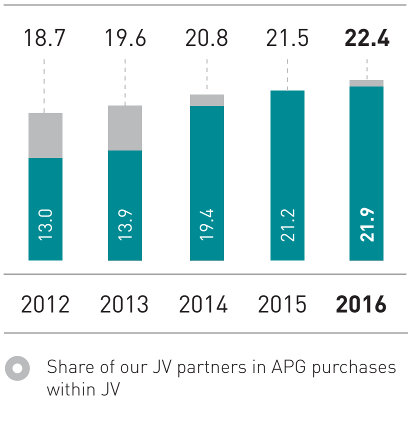
NGLs

NGLs are typically priced with reference to prices for LPG and naphtha. As the supply of NGLs exceeds demand in Russia, prices for NGLs are determined on an export netback basis, which reflects transportation costs and export duties. Pricing in NGLs supply contracts is determined by the respective netbacks and reflects the fraction content of NGLs, cost of fractionation, capital expenditures required to construct and maintain infrastructure, and alternative selling channels available for NGLs supplier.

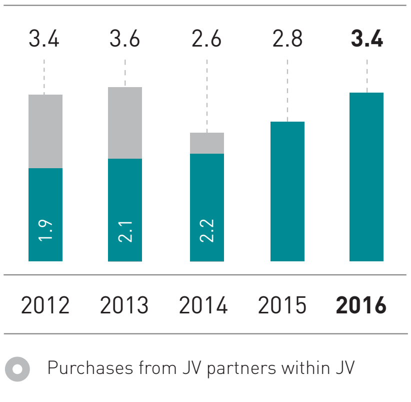
FEEDSTOCK TRENDS IN WESTERN SIBERIA

Given the maturity profile of oil fields APG volumes will increase only moderately, while concentration of liquid fractions in the APG may decline. We expect this trend to be partially offset by a higher liquids recovery ratio. In recent years we have substantially expanded our raw NGL transportation infrastructure to match the production growth at our suppliers' gas fields in the northern parts of Western Siberia. We do not expect significant further increase in NGLs feedstock supplied volumes; however we do expect to process an increasing portion of NGLs into petrochemicals as we expand capacity, as today we sell approximately 65% of feedstock on the market as energy products and can use only 35% internally for higher added value petrochemicals.

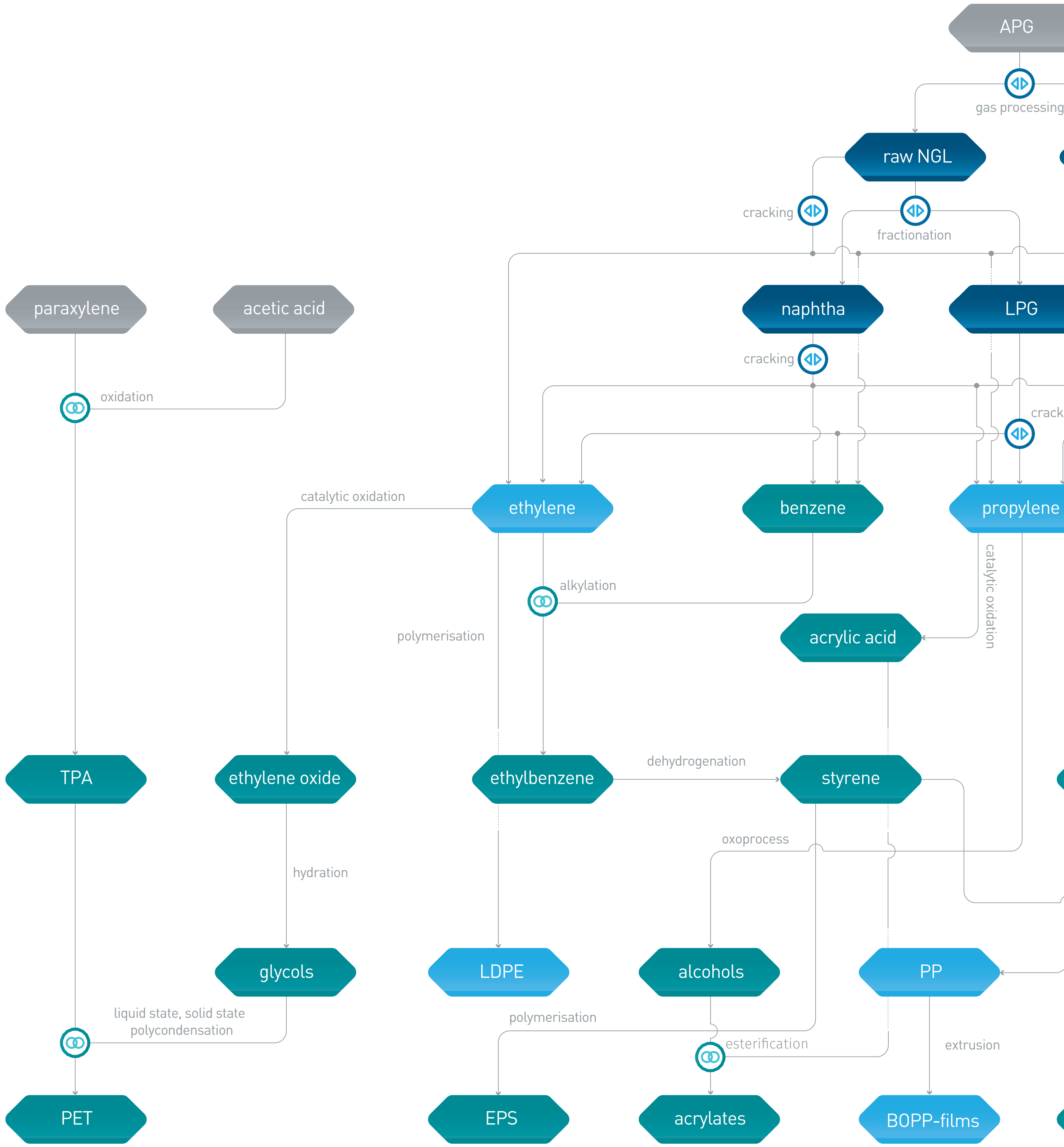
APG SOURCING, BLN CUBIC METRES

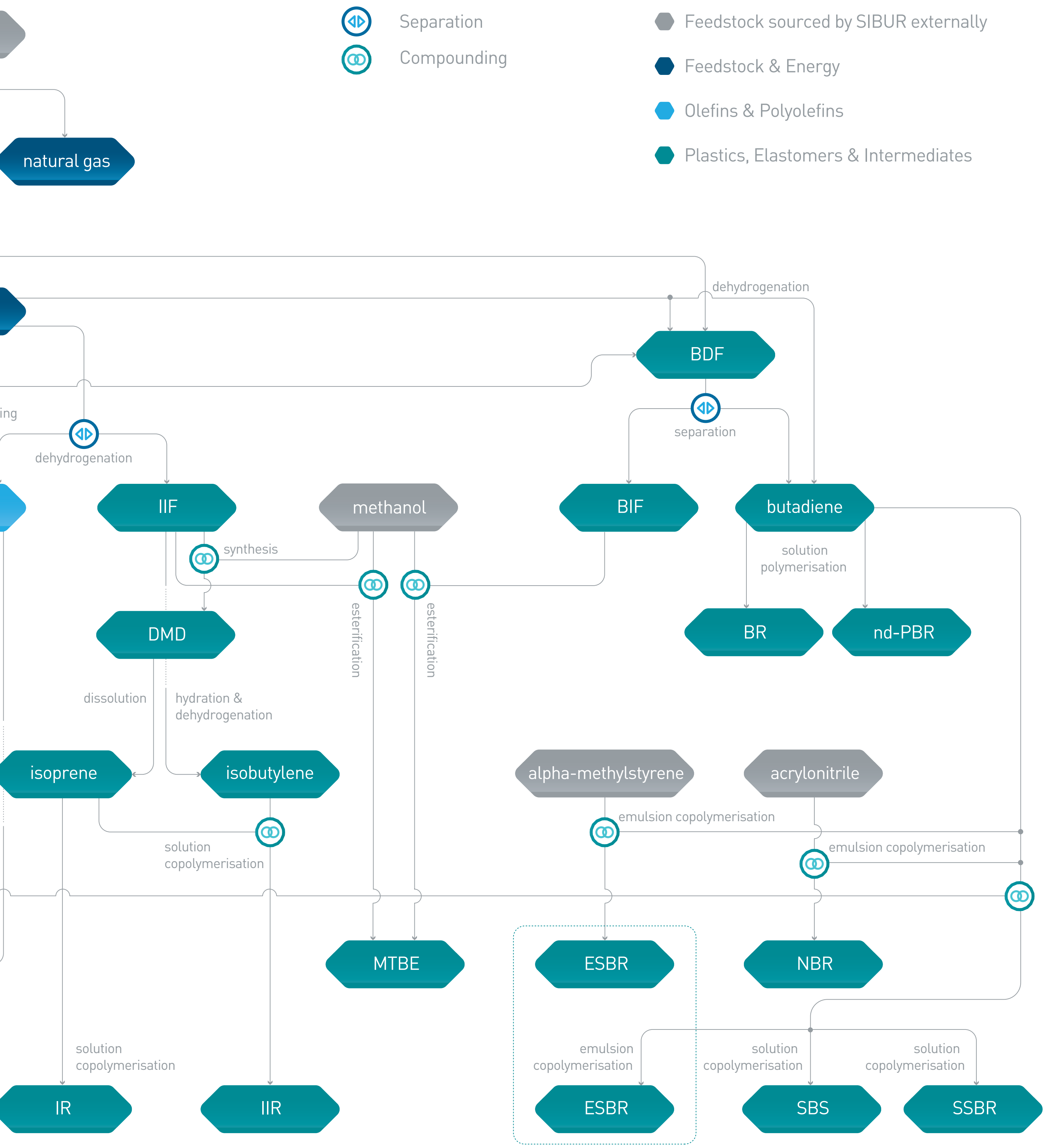


NGLs SOURCING, MLN TONNES



PRODUCTION FLOWS




Separation
Compounding
Feedstock sourced by SIBUR externally
Feedstock & Energy
Olefins & Polyolefins
Plastics, Elastomers & Intermediates
natural gas
dehydrogenation
BDF
separation
ing
dehydrogenation
IIF
methanol
BIF
butadiene
synthesis
solution polymerisation
esterification
esterification
DMD
BR
nd-PBR
dissolution
hydration & dehydrogenation
isoprene
isobutylene
alpha-methylstyrene
acrylonitrile
emulsion copolymerisation
emulsion copolymerisation
solution copolymerisation
MTBE
ESBR
NBR
solution copolymerisation
emulsion copolymerisation
solution copolymerisation
solution copolymerisation
IR
IIR
ESBR
SBS
SSBR

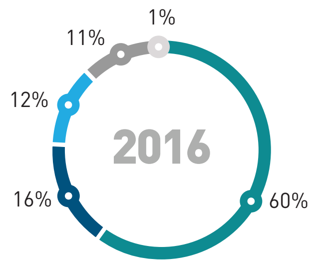
TRANSPORTATION & LOGISTICS

SIBUR's core operations are located in close proximity to feedstock supplies in remote regions that are far from end-markets. This supports our competitive feedstock advantage but creates logistical challenges for end-products deliveries. Logistics plays an important role in ensuring operational efficiency and the reliable, uninterrupted supply of feedstock and finished products.

We use pipelines, railway, trucks, port facilities and multimodal transportation services for delivery of feedstock and finished products. SIBUR's own infrastructure (pipelines and on-site railway facilities) meet part of our transportation needs, and we also make significant use of third-party services.

In 2016, transportation volumes, including volumes shipped between our facilities by various forms of transport (excluding pipelines) totaled 19.2 mln tonnes, and logistics costs totalled RR 73.8 bln. Volumes transported between the Company's enterprises accounted for 33% of total transported volumes.

TRANSPORTATION VOLUMES BY TYPE OF TRANSPORT, %



19.2 mln tonnes
TRANSPORTATION VOLUMES IN 2016

33 %
VOLUMES TRANSPORTED BETWEEN THE COMPANY'S ENTERPRISES

PIPELINES

APG pipelines

APG purchased from oil companies is transported via pipelines linking oil fields to our GPPs. Most pipelines are owned by the oil companies, while some are owned by SIBUR.

Natural gas pipelines

SIBUR transports the gas it produces through its own pipelines into the Unified Gas Supply System (the UGSS), owned by Gazprom, and to regional power companies.

Raw NGL pipelines

We transport the majority of raw NGL to our GFUs via specialised raw NGL pipelines. SIBUR has developed its own pipeline network to help secure long-term access to abundant raw NGL resources in Western Siberia.

819 km
APG PIPELINES

250 km
NATURAL GAS PIPELINES

1,639 km
RAW NGL PIPELINES

RAIL TRANSPORTATION

SIBUR's subsidiary AO Sibur-Trans, a licensed railway operator, is responsible for handling rail logistics within Russia and for export deliveries. Rail accounts for the largest share of SIBUR's transportation volumes and costs.

The main cost components for rail transportation are:

- tariffs for access to Russian Railways' network and usage of locomotives, which are regulated by the Federal Antimonopoly Service of Russia (FAS);
- costs of forwarding services outside Russia;
- costs of contracted and rented rolling stock.

22,639

RAIL CARS AND TANK WAGONS UNDER MANAGEMENT

9

REGIONAL BRANCHES COORDINATING DISPATCHING OPERATIONS

49

SIBUR'S OWN LOCOMOTIVES

PORT FACILITIES AND SEA FREIGHT

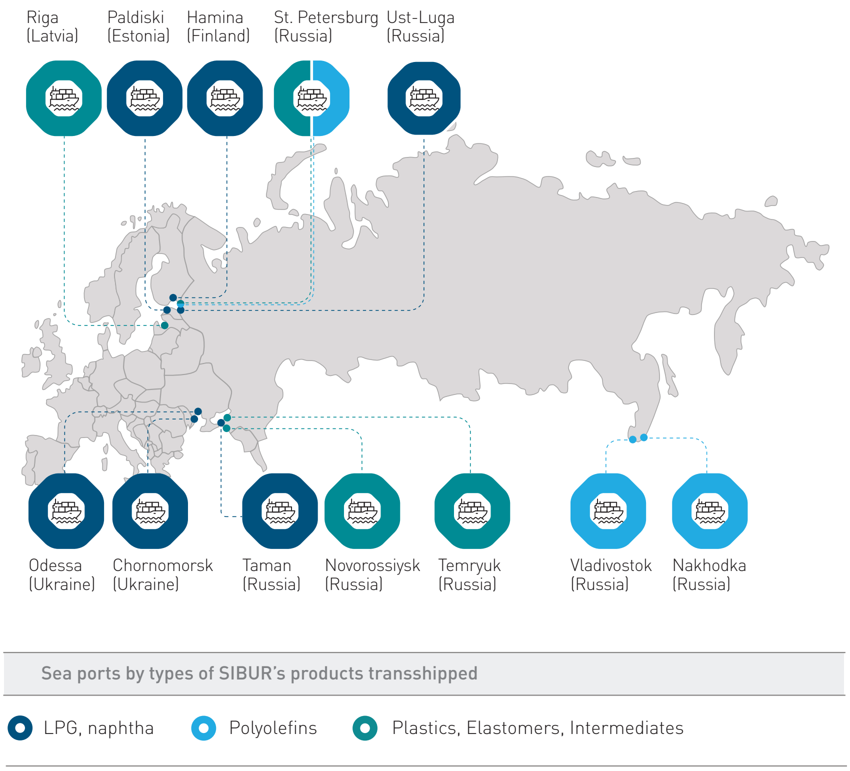
We deliver LPG, naphtha and other products to export markets through sea ports, the largest of which are shown on the map below. In 2016, SIBUR trans-shipped 1.9 mln tonnes of LPG through the sea terminal in the port of Ust-Luga[1], for which SIBUR performs the operational management.

Most of the trans-shipped LPG volumes were exported by 6 ice-class gas carrier vessels with volume capacity ranging from 5,000 to 22,000 cubic metres. In 2016 we also successfully introduced the use of MGC class (medium gas carrier) vessels with cargo capacity of 40,000 cubic metres at Ust-Luga.

6

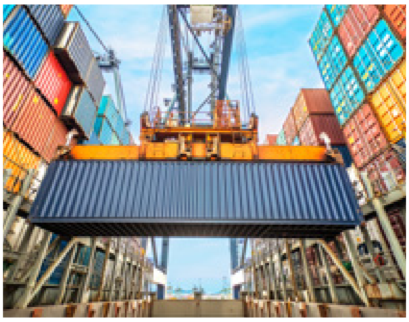
SEA VESSELS IN LONG-TERM LEASE

EXPORT LOGISTICS THROUGH THIRD-PARTY FACILITIES



[1] In November 2015, SIBUR sold its terminal in the commercial port of Ust-Luga on the Baltic Sea. According to the agreement, SIBUR has long-term rights to utilise 100% of the LPG transshipment capacity on pre-agreed terms and retains operational management.

TRANSPORTATION & LOGISTICS
(CONTINUED)



TRUCK TRANSPORTATION

We use trucks of different types (box trucks, container trucks, refrigerator trucks, tank trucks and polyolefins-carrying trucks) to transport petrochemicals within Russia and to export markets. We use the services of leading Russian and foreign logistics providers (about 9 thousand car dispatches per month).

MULTIMODAL TRANSPORTATION SERVICES

Multimodal transportation is the most convenient type of delivery of large consignments of goods for medium and long distances, making the most of the advantages of various modes of transportation. We use the services of largest multimodal transportation operators to deliver products such as polyolefins and elastomers in containers within Russia and to export markets.

WAREHOUSES AND DISTRIBUTION CENTRES

We purchase warehouse services to store our petrochemical products closely to our production sites and facilities of key customers. SIBUR has its own sales desks in Russia and abroad.

9,000

CAR DISPATCHES PER MONTH

R&D

SIBUR's R&D activities are mainly aimed at increasing the efficiency of existing production, as well as expanding the range of our products, in particular, development of new grades of polyolefins, elastomers, etc. In addition, SIBUR carries out strategic research, aimed at creating new technologies and products for the industry.

The Company carries out new technology and product development in its two R&D centres: NIOST, the Chemical Technology Centre in Tomsk, and the Voronezhsintezkauchuk Synthetic Rubber Research Centre in Voronezh. The total R&D budget in 2016 amounted to about RR 600 million.

SIBUR patents its technologies and products both in Russia and internationally. As of 2016 year-end, SIBUR owns 337 Russian and foreign registered patents and applications.

RR600 mln

TOTAL R&D BUDGET IN 2016

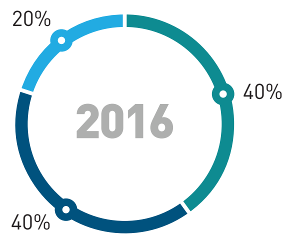
139 trademarks

PROTECT THE BRAND AND PRODUCTS OF SIBUR

Patenting in the main R&D areas for the Company includes processes for obtaining and modifying grades of polyethylene and polypropylene, synthetic rubbers and thermoplastic elastomers; the production of plasticisers, monomers and catalysts; as well creating new equipment capable of producing new product grades for our customers. SIBUR in recent years has focused on steadily increasing the number of patents it holds in international markets.

The brand and products of SIBUR are protected by 139 trademarks, with product trademarks registered in more than 70 countries around the world, including those where SIBUR is present.

TYPES OF SIBUR R&D PROJECTS, %



- Increasing the efficiency of existing production
- Expanding the range of produced polymers – polyethylene, polypropylene, rubbers
- Strategic research

SIBUR PERFORMANCE MANAGEMENT SYSTEM

(MOTIVATING OUR PEOPLE TO CREATE VALUE)

The system is designed to motivate talent and ensure continuous improvement, accountability and risk reduction to increase our value and sustainability as a business. It is a company-wide tool that lets everyone know what is expected of them, and how they will be evaluated. KPIs defined in the system must be simple, clear and easy to measure. They are benchmarked against relevant market comparisons and internal measures to ground them in reality.

KPI GOAL-SETTING SYSTEM

SIBUR's system is based on a cascading principle at each management level, from administrative and functional lines to individual goals of employees. KPIs for each employee must be aligned with the goals of their respective managers and must be approved by them. This provides transparency and uniformity in setting goals and expectations to promote accountability for achieving the Company's targets.

PERFORMANCE CONTRACT AS A SCORECARD FOR EVALUATING PERFORMANCE

The Company's KPIs are annually approved by the Board of Directors based on the business plan for the next year and are set in the Performance Contract. We monitor the achievement of KPIs on a monthly and semi-annual basis.

The annual KPI performance report is reviewed by the Human Resources and Remuneration Committee and approved by the Board of Directors.

KPI FOR 2016 INCLUDED:

Operational performance indicators (liquids production at SIBUR's GPPs; total production volumes)

Financial performance indicators (EBITDA; administrative expenses; operating expenses; working capital turnover)

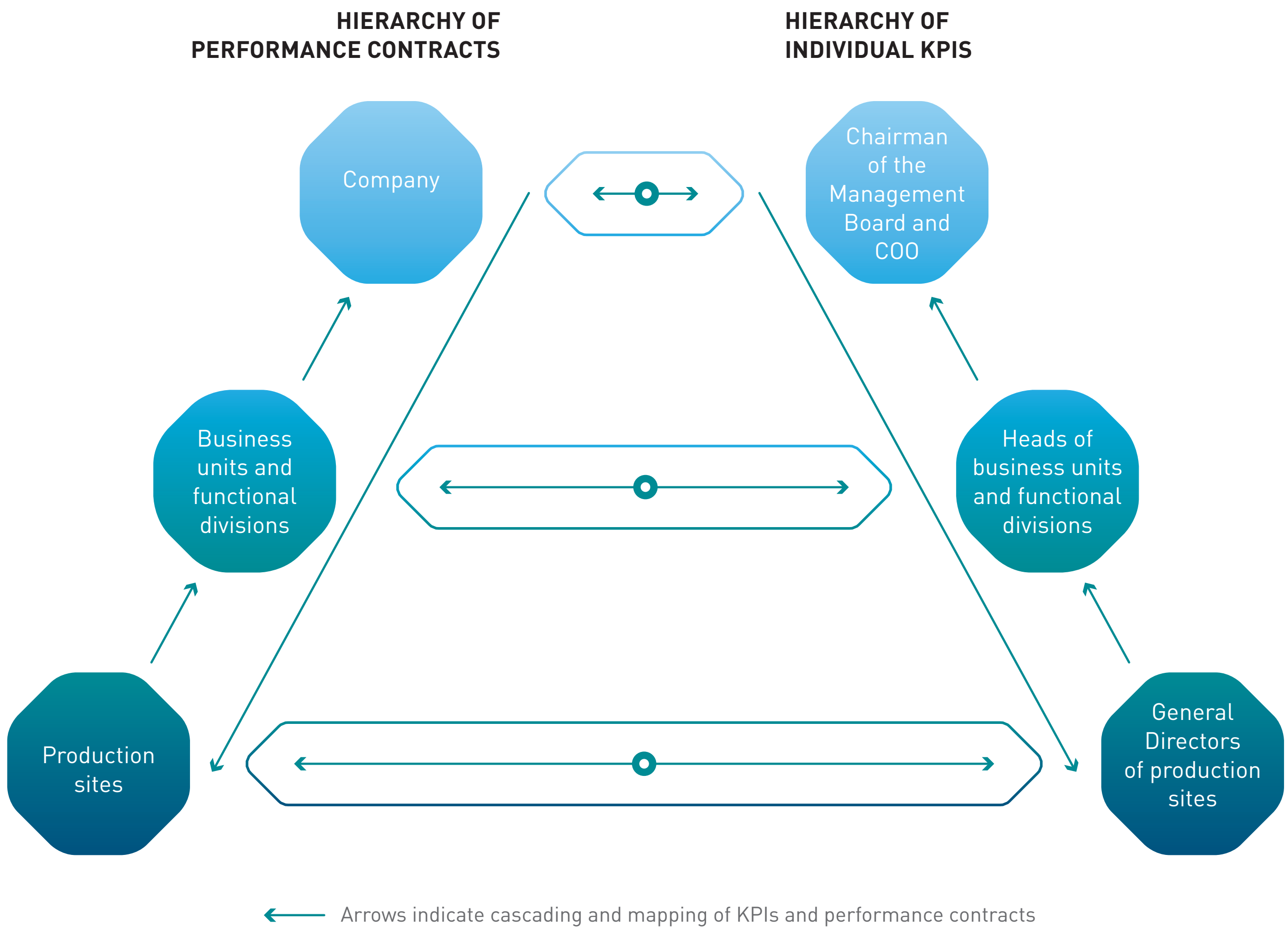
Health and safety indicators (LTIF)[1]

Strategic execution indicators (executing the plan for commissioning key assets)

These KPIs provide essential signals and motivation to employees and managers to make operational improvements and strengthen our business and financial results. They are, of course, a basis for monetary and non-monetary incentives, including career development opportunities and promotions.

[1] Lost Time Injusry Frequency.

THE OVERARCHING PRINCIPLE OF THE SIBUR PERFORMANCE MANAGEMENT SYSTEM IS TO ALIGN OUR PEOPLE AND PROJECT TEAMS WITH OUR STRATEGIC GOALS FOR THE CURRENT YEAR AND OVER THE MEDIUM TERM.



PRODUCTION SYSTEM OF SIBUR:

DRIVING A CULTURE OF PERFORMANCE EXCELLENCE

>300 "Six Sigma"

PROJECTS WERE IMPLEMENTED, AND MORE THAN 5,000 MANAGERS WERE TRAINED TO THE "LEADER STANDARD OF WORK"

>128 '000 ideas

"SMALL STEPS IMPROVEMENTS" IDEAS FOR IMPROVING SAFETY AND HEALTH CONDITIONS WERE APPLIED

PSS helps instill our corporate culture, values and expectations into the conduct of every employee, to develop their potential, make the best use of resources and take personal responsibility for risk reduction, loss prevention, and safeguarding health and safety standards. It gives every team and employee tools to identify issues and develop solutions, and share lessons learned, innovations and best practices across the Company.

PSS was implemented in cooperation with Du Pont, a global chemical industry leader in innovation and production efficiency.

We align our employees with the principles and modules of PSS, through management training programmes and new business processes and ways of working together. PSS focuses on improvements to the workplace environment, cross-functional collaboration, relations between management and employees and organisational efficiency. We have seen substantial improvements in teamwork and creative problem solving, identification of risks and opportunities to beat benchmarks for safety and operational efficiency at our production sites, and development of long-term programmes for achieving targeted goals.

In 2016, the roll-out of PSS was successfully completed. SIBUR implemented PSS at all production sites with 28 thousand employees; more than one thousand employees were involved in PSS project teams. More than 300 "Six Sigma" projects were implemented, and more than 5,000 managers were trained to the "Leader Standard of Work". PSS' positive economic impact amounts to several billion roubles for our Company. As of 2016, all the tools of the PSS project have been successfully transferred to the Company's divisions operations and have become an integral part of our corporate culture.

PSS values idea generation as a way to solve problems and achieve targets. Our people have submitted more than 215 thousand "small steps improvements" ideas for improving safety and health conditions, operational efficiency and loss minimisation. We have applied more than 128 thousand of those ideas at SIBUR's production sites. In 2016, more than one in five (22%) of our employees submitted ideas and the average period for implementation of ideas was 44 days.

In 2016, for the second consecutive year, SIBUR bested 60 Russian companies to win the A.K. Gastev Cup for the main category, "Absolute leader among corporations".

IN LINE WITH OUR GOAL TO BE COMPETITIVE WITH WORLD LEADING PRODUCERS, SIBUR HAS CONTINUED TO DEVELOP ITS PRODUCTION SYSTEM (PSS).

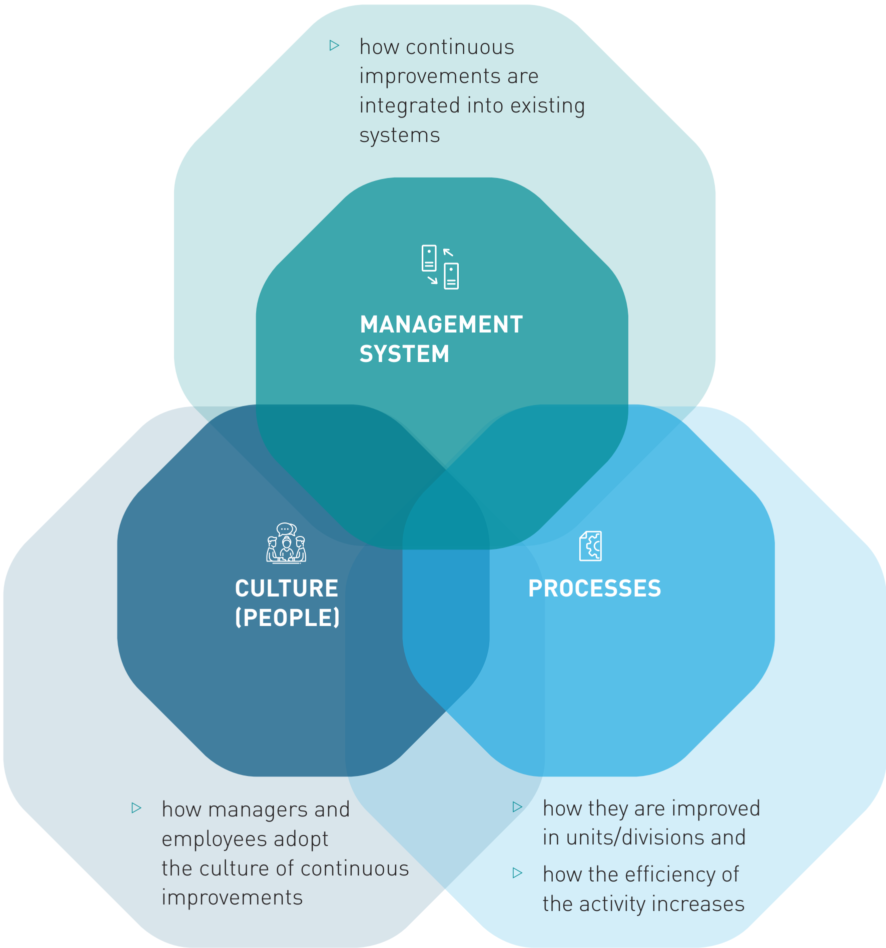
To sustain these results and further develop our system of continuous improvement, the Company has put in place a PSS development screening programme.

This focuses on systematically diagnosing the current level of development of the Production System of SIBUR in various business units, determining the target end-state for the year and evaluating plans for achieving it. The main focus of the programme is a self-assessment carried out by departments, in order to independently determine the current level of development, identify the main areas to strengthen and formulate activities for further impact.

44 days

THE AVERAGE PERIOD FOR IMPLEMENTATION OF IDEAS

THE DEVELOPMENT SCREENING PROGRAMME HAS THREE MAIN ELEMENTS:



PSS development screening allows us to compare divisions with each other to see areas for development and to track changes.

PRODUCTION SYSTEM OF SIBUR (CONTINUED)

THE NEXT STEP FOR DEVELOPING THE PRODUCTION SYSTEM IS TEACHING OUR ORGANISATION TO MAKE SMARTER AND FASTER DECISIONS. WE ARE IMPLEMENTING APPROACHES TO OPTIMISE BUSINESS MANAGEMENT AND DECISION-MAKING PROCESSES, INCREASE PRODUCTIVITY, DELEGATE RESPONSIBILITY TO APPROPRIATE LEVELS, AND USE OUR IT SYSTEMS AND TECHNOLOGIES TO THEIR FULL POTENTIAL.

OBJECTIVES OF PSS	MEANS OF ACHIEVING OBJECTIVES
Increasing the Company's competitiveness by building a self-developing system of continuous improvements to eliminate all types of losses	Diagnosis of the current state and analysis of the gap from benchmarks, inclusion of gaps coverage in plans and goal setting at all levels of the Company
Developing a corporate culture that allows employees to maximise their potential and contribute to the development of other employees	Solving problems, developing and fulfilling the potential of employees through working in cross-functional groups and encouraging self-improvement of employees
Implementation of the philosophy of "Unified SIBUR", including the creation of a system for collecting, analysing and using of the best practices	Definition, unification and standardisation of practices, identification and dissemination of the best practices throughout the Company

TOOLS FOR LOSS REDUCTION AND SHARING OF BEST PRACTICES

PROBLEM DETECTION

Losses diagnostics

Identify risk of losses

Value stream mapping

Identify bottlenecks

Up-time

Analyse and measure

SOLUTION

Small Steps Improvements

- Web-based platform for employees to submit ideas
- Transparent evaluation and recognition by expert panels

Six Sigma

- Use of empirical and statistical tools
- Elimination of defects and reduction in variability to improve outcomes

Teamwork and problem solving

- Active personnel engagement
- Solving problems in teams

EXPERTISE SHARING

Best practices

- Electronic platform to share gained experience across the Company
- Best ideas applied at our production sites

Visual efficiency management

- Day-to-day tool to track KPIs
- Transparency of focus areas
- Common information space

Standard operating procedure

- User-friendly instructions on frequently implemented procedures

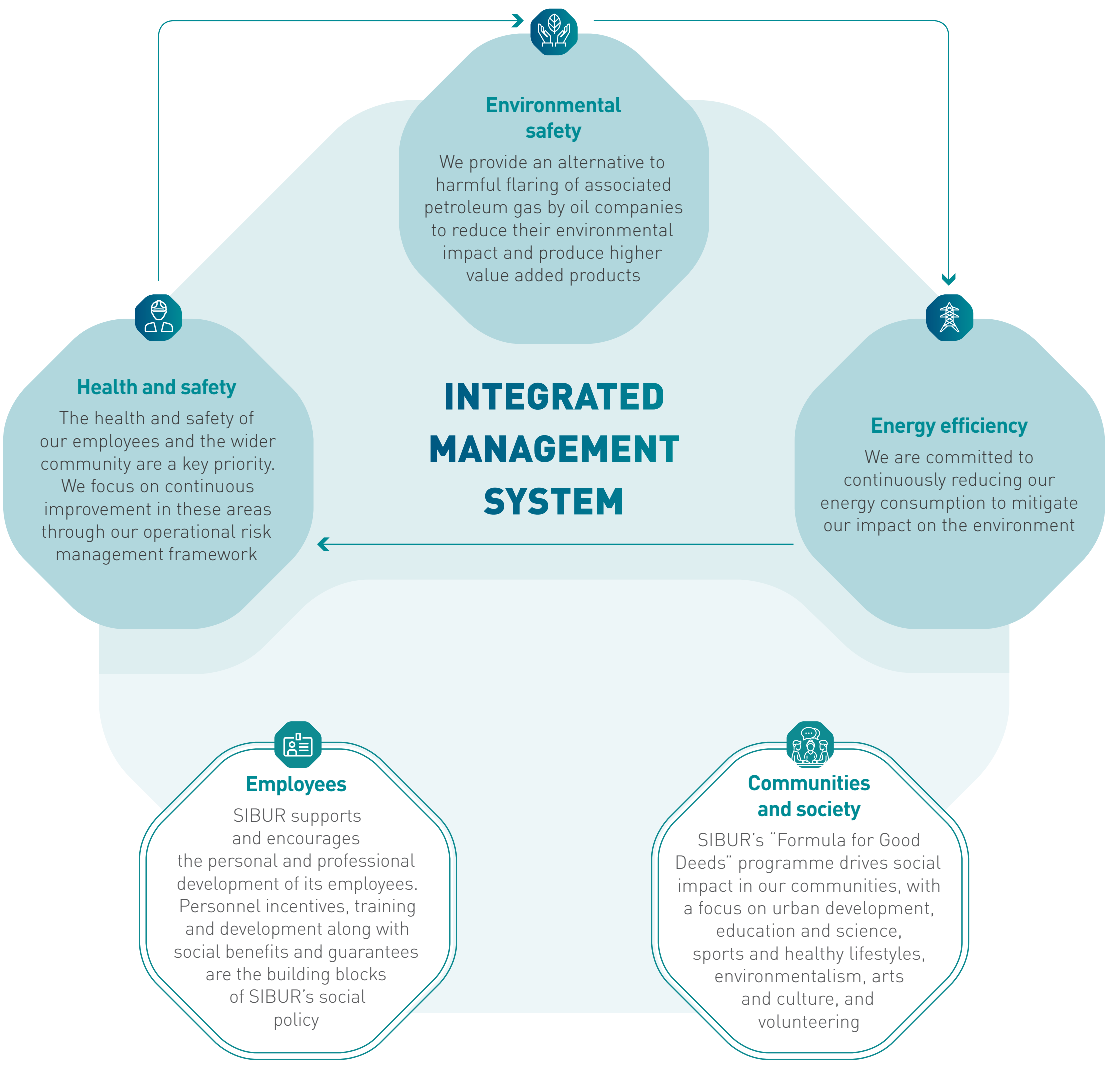
HOW WE SUSTAIN VALUE


HOW WE SUSTAIN VALUE
PAGE 64
PAGE 64
SUSTAINABILITY
SIBUR
VALUE
SUSTAINABILITY
PAGE 64
PAGE 64
HOW WE SUSTAIN VALUE

SUSTAINABILITY

SUSTAINABLE DEVELOPMENT IS AN INTEGRAL PART OF THE COMPANY'S STRATEGY, UNDERPINNING ITS INVESTMENT AND PRODUCTION ACTIVITIES AND STAKEHOLDER RELATIONS

As the largest integrated gas processing and petrochemicals company in Russia, SIBUR is fully aware of its responsibility to wider society. We treat health, safety and environmental matters as a priority and are committed to having a positive impact on local communities in the regions where we operate.

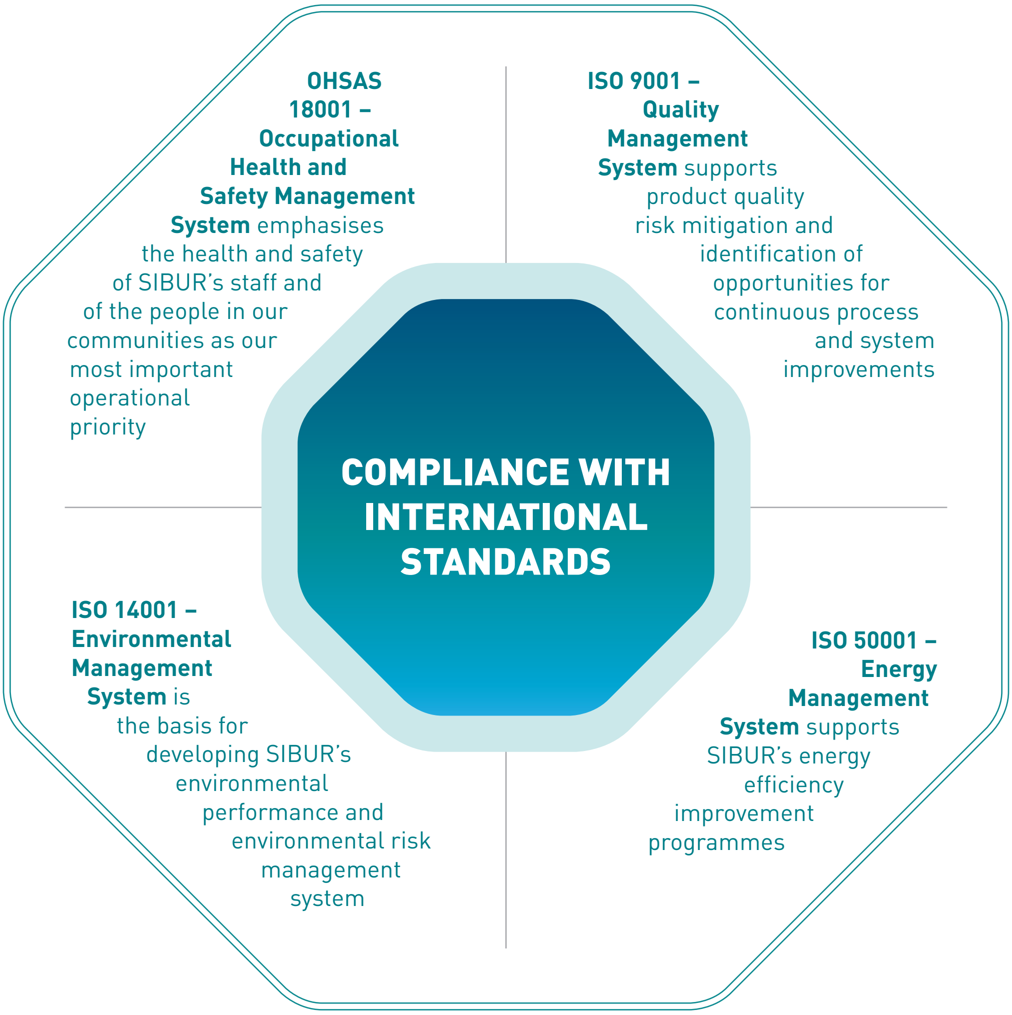


INTEGRATED MANAGEMENT SYSTEM

We continuously evolve our management systems to meet the ever increasing requirements for Health, Safety and Environmental (HSE) performance, energy efficiency and market demand for higher product quality and customer experience.

To maintain growth momentum and ensure sustainable development in a competitive and dynamic market environment, we have introduced a unified integrated management system (IMS) based on best international practices.

IMS brings together SIBUR's former standalone management systems into one integrated framework that is compliant with international standards, including ISO 9001, OHSAS 18001, ISO 14001 and ISO 50001.



INTEGRATED MANAGEMENT SYSTEM (CONTINUED)

IMS strategic objectives are to:

- establish and maintain a safe working environment, protecting the health of workers;
- mitigate the risk of accidents;
- maintain sustainable production of competitive, quality products that meet customer requirements;
- reduce environmental impact and prevent pollution, and promote environmentally responsible socio-economic development and rational use of natural resources; and
- improve energy efficiency of production processes, eliminate wasteful use of energy, reduce the cost of energy procurement and generation.

To achieve our IMS objectives, SIBUR's leadership aims to:

- prevent injuries and health hazards to personnel (including contractors and visitors);
- comply with applicable legal requirements and corporate commitments;
- prevent environmental pollution;
- identify hazards and assess the risks of possible accidents at hazardous industrial facilities, and take measures to prevent accidents;
- consult with staff at hazardous industrial facilities and their representatives on matters of safety;
- ensure IMS compliance with applicable regulations;
- continuously improve the effectiveness of the IMS ;
- ensure that energy efficiency is factored into the design and procurement of products and services;
- ensure access to resources and information for achieving these objectives.

When planning its operations, the Company gives priority to ensuring the safety of its employees and the people who live in the areas in which it operates, to prevent accidents, work-related illnesses, pollution, and environmental harm.

SIBUR has developed an Integrated Management System Policy document that codifies our principles and guidelines on HSE, product quality and energy efficiency to ensure consistency and drive improvements across the Company.

Visit the Company's website to see the document at: http://www.sibur.ru/sustainability/ims

SOME OF OUR PRODUCTION SITES ARE CATEGORISED AS HAZARDOUS INDUSTRIAL FACILITIES, REQUIRING THE HIGHEST LEVEL OF SAFETY PRECAUTIONS.

HEALTH AND SAFETY

To improve safety across production sites, in 2016, SIBUR continued to implement its dedicated programmes to minimise incident rates both for Company employees and contractors, such as:

- cascading HSE KPIs throughout the business, and assigning individual HSE contracts and accountability to the managers of our subsidiaries;
- developing a safety culture for all of our employees at every level;
- implementing an industrial accident risk management system, and a health and safety risk management system.

Since 2012, SIBUR has implemented an upgrade programme to improve safety at its hazardous industrial facilities. As of the end of 2016, the number of hazardous industrial facilities has been reduced by 19% as compared to 2015.

Key health and safety measures implemented in 2016 include:

- investigation of all reported accidents internally and subsequent corrective follow-up actions;
- behavioural safety audits to evaluate hazard levels at our production facilities;
- successful re-licensing of the operation of explosive and chemically hazardous industrial facilities of I, II, III hazard classes at all enterprises;
- introduction of individual and group HSE educational initiatives, employee contests and prizes;
- hazard identification and risk assessment for employee health and safety at all work sites;
- hazard identification and risk assessment of industrial equipment safety at our facilities;
- drilling of managers and employees on various scenarios using an electronic simulator programme developed for this purpose;
- creation of motivational signage and visual displays to promote good HSE practices at all work sites.

The following HSE best practices were implemented at all work sites:

- Management interviews with each incoming employee to review HSE standards;
- Additional HSE supervisors assigned to facilities during maintenance shutdowns;
- Review of HSE practices at our sites by authorised trade union representatives;
- Rotating internships for our employees to work temporarily in the HSE division;
- Face-to-face examinations and HSE appraisals by our central evaluation committee;
- HSE audit of contractors employed by SIBUR in our operations;
- Competition and award for "Best contractor for HSE".

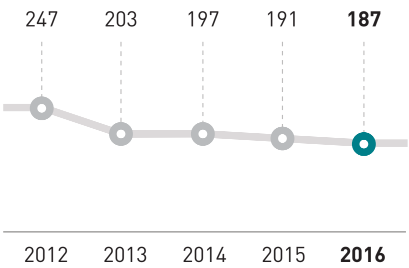
INTEGRATED MANAGEMENT SYSTEM (CONTINUED)

The Company's health and safety hotline was set up last year, enabling employees to report health and safety issues, working conditions posing an immediate danger to life and health, and potentially hazardous incidents directly to Company management. Information can be reported publicly or anonymously and employees can also directly report violations by sending a free anonymous SMS text message.

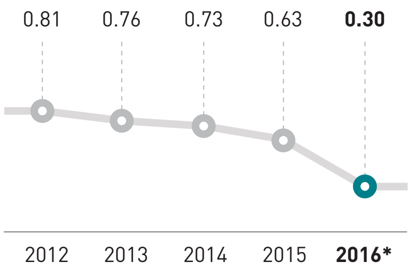
In line with our long-term objectives, the Company has improved its lost time injury frequency (LTIF) every year for the past five years. In 2016, we expanded the use of this metric to also include injuries to our contractors in annual performance measures. The injury frequency decreased by 52%, and fortunately, there were no fatalities. In each case, we investigated the incidents to determine the cause and took measures to prevent a future reoccurrence.

Employee involvement in health and safety management is the most effective tool to increase safety across the Company. SIBUR holds an annual competition for the best maintenance of industrial areas and buildings among its facilities. In 2016, we carried out quarterly competitions for operating and maintenance crews. The Company has also implemented the Leaders and Champions programme, honouring employees for their personal contributions to health and safety at SIBUR, with 1,733 employees recognised as Leaders and 177 as Champions.

HAZARDOUS FACILITIES



LOST TIME INJURY FREQUENCY (LTIF)



*(including injuries of contractors)

ENVIRONMENTAL PROTECTION

As a company involved in the primary processing of associated petroleum gas (APG), which is a by-product of oil production, SIBUR helps to reduce harm to the environment in oil-producing regions. Using these by-products as feedstock for processing fuels and petrochemical products is an environmentally friendly alternative to flaring on oil fields. The resulting output of olefins and polyolefins, elastomers and plastic and organic synthesis products also reduces the need for exploiting other natural resources for use as industrial materials.

According to independent experts, flaring of one million cubic meters of APG emits 300 tonnes of air pollutants, including nitrogen oxide, soot, carbon monoxide and other toxic substances. In 2016, APG processing at SIBUR enterprises totalled 22.4 billion cubic metres, equivalent to preventing more than 7 million tonnes of harmful emissions from entering the atmosphere and more than 70 million tonnes of greenhouse gases into the atmosphere.

We conduct environmental protection reviews and implement technical solutions and processes at all of our facilities. We focus on effective compliance with environmental protection legislation, rules and regulations, and employees are actively engaged in environmental management training and processes. All employees, including contractors, are responsible for complying with environmental regulations and procedures. At the heart of our approach to environmental management is systematic risk assessment and identification of the most significant environmental risk factors at our facilities. Our focus on enterprise risk is also key to the Company's sustainable development.

The key areas of focus for environmental protection at SIBUR in 2016 include:

- development and approval of sanitary protection zones;
- construction or renovation of wastewater treatment plants;
- measures to reduce harmful emissions;
- waste reduction and increased recycling;
- dialogue with government authorities on development of permissible emission rates;
- improvements to production safety and greenhouse gas data collection and analysis;
- improvements to our environmental management system in line with ISO 14001 standard;
- creation of motivation signs displayed at all work sites;
- drilling of managers and employees on various scenarios using an electronic simulator programme developed for this purpose;
- development of a corporate head office HSE code and management system and safety brochures for headquarters staff and visitors.

INTEGRATED MANAGEMENT SYSTEM (CONTINUED)

SIBUR environmental protection programmes

We develop and implement annual and long-term environmental programmes aimed at reducing SIBUR's impact on the environment.

In 2016, the Company developed a new Environmental Impact Index (EIS), which is a composite benchmark calculated using total emissions, discharges and waste as a share of total production volumes. This provides an easy-to-understand indicator for reducing environmental impact. EIS is now embedded into the annual production contracts of all our facilities, motivating managers and employees to make further improvements in environmental performance.

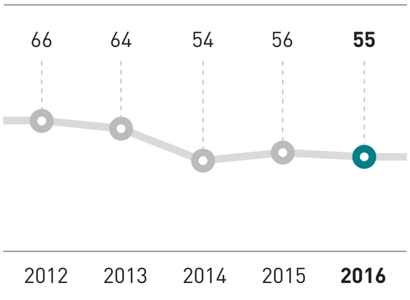
Over the past several years, we have significantly expanded production capacity while reducing emissions and waste. In 2016, these improvements were reflected in a decrease in SIBUR's Environmental Impact Index from 4.5 to 4.2.

1. Water conservation and wastewater treatment

SIBUR key measures to improve water conservation and wastewater treatment in 2016 include:

- reduction of chlorides in wastewater as a result of an overhaul of the coagulation management system at Krasnoyarskiy ZSK;
- review of biological wastewater treatment stages (anaerobes, aerobes and methane tanks), and hydrochemical and hydrobiological studies of activated sludge conducted, resulting in recommendations for improving Polief's treatment facilities;
- local network equipment and pumping equipment maintenance completed and construction of treatment facilities underway at SIBUR-PET;
- reconstruction of the aerotank aeration system at Togliattisintez;
- Epanchinskiy water intake equipment cleaned and repaired; repair and installation of fish protection equipment at SIBUR Tobolsk;
- renovation of sewage neutralisation and purification unit to provide biochemical treatment and post-treatment capability; capital investments and maintenance of circulating water supply units at Sibur-Himprom;
- project documentation for local treatment facilities for the production of monomers developed at Tomskneftekhim.

WASTEWATER DISCHARGE, MLN CUBIC METRES

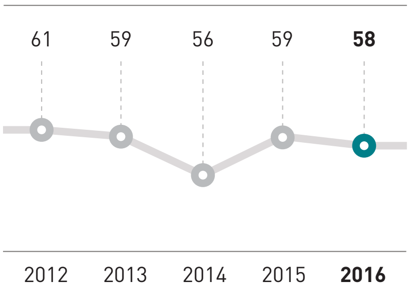


2. Air protection

Key measures implemented to reduce emissions of air pollutants in 2016 include:

- reconstruction of a kiln with a system for cleaning air emissions (Voronezhsintezkauchuk);
- reduction in emissions due to overhaul of the polymerisation pressure measurement circuit and ammonia evaporator control circuit at Krasnoyarskiy ZSK;
- project readied to modernise the industrial emissions purification system of unit No 1 at Polief;
- capital investments and maintenance of flare facilities; design and surveying for modernisation of nitrogen respiration rectification system at Sibur-Himprom;
- replacement of naphtha tank in the commodity unit with more efficient model at SIBUR-Kstovo;
- air quality monitoring at the perimeter of sanitary protection zones operationalised with the installation of mobile control posts at SIBUR-Kstovo, SIBUR Tobolsk, Polief, Sibur-Himprom.

AIR POLLUTION, '000 TONNES



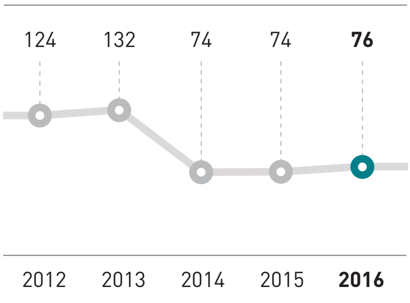
INTEGRATED MANAGEMENT SYSTEM (CONTINUED)

3. Waste management

Key measures to improve waste management in our use of materials and production processes, and for the prevention of soil contamination in 2016 include:

- euro-containers for waste sorting purchased at Polief;
- technical re-equipment of a solid waste incinerator: maintenance and major parts replacement for incinerator and furnace lining at Togliattisintez;
- sludge collector de-commissioned, environmental clean-up conducted and landscape improved with plantings, video surveillance system was installed at Togliattisintez;
- groundwater monitoring at the landfill for disposal of spent catalysts, replacement of catalyst to increase efficiency and improve feedstock and other resource consumption rates; construction of a reservoir at the landfill for disposal of non-recyclable waste at SIBUR Tobolsk.

SANITARY WASTE GENERATION, '000 TONNES



Responsible Care©

In addition to ensuring compliance with Russian statutory requirements, SIBUR also strives to comply with international environmental protection standards. In January 2014, the Company joined the Responsible Care® programme, a global voluntary initiative committed to continuous improvement in health, safety and environmental practices.

As a member of the Responsible Care programme, SIBUR issues an annual report on its HSE performance to the national industry association (the Russian Chemists Union).

REACH Regulation

SIBUR complies with the European Union's REACH Regulation (Registration, Evaluation, Authorisation and Restriction of Chemicals) on safety of chemical products produced in and imported to the EU. All substances contained in the Company's products exported to the EU have been registered with the European Chemicals Agency (ECHA). SIBUR has developed and keeps updating safety data sheets for its products once the substances they contain are registered by the ECHA, and fulfils other (delivery) obligations to end users.

"Green Office" project

In 2016, SIBUR initiated the process for participating in Greenpeace's Green Office project. In the five years since the project was launched in Russia, some 200 companies have joined. The purpose is to focus the attention of business and society on environmental problems and demonstrate how individuals can help nature without even leaving the office.

To participate in the Green Office project, companies must develop and introduce a series of technical and communications activities to promote responsible environmental practices. An eco-friendly office that works in accordance with these principles can help to protect the environment while reducing financial costs for the business. Green Office principles include:

- reducing consumption of electricity, water, heat, paper, and plastic;
- reducing waste volumes and promoting recycling and safe disposal of waste materials;
- using products made from recycled or environmentally safe materials;
- creating eco-friendly work spaces and working conditions for employees.

In 2016, SIBUR's Management Company implemented the following at its head office:

- eco-containers for collecting and sorting various types of waste and recycling;
- waste paper and plastic collection by an outside processing and recycling service;
- eco-friendly cleaning products for use by maintenance staff in our corporate centre;
- systematic replacement of incandescent lightbulbs with LED lighting, and installation of automatic lighting control systems including photocells, motion sensors, presence sensors.

INTEGRATED MANAGEMENT SYSTEM (CONTINUED)

ENERGY EFFICIENCY

SIBUR has made considerable efforts to reduce energy costs through the safe and effective management of energy consumption, conservation and efficiency improvements.

All our production sites develop near-term and long-term energy efficiency programmes. Best practices are subsequently rolled out across all of SIBUR's facilities. In 2016, we implemented 140 energy saving initiatives based on our Top 50 best practices, which have the potential to save us hundreds of millions of roubles. We continue to roll these out in 2017 and identify new opportunities and best practises.

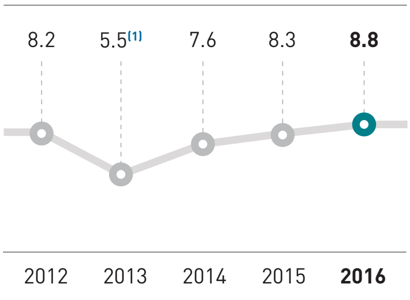
As part of SIBUR's Integrated Management System, we are implementing an ISO 50001 compliant energy management system that integrates best practices while also ensuring continuous development and refinement.

In 2016, the Company's subsidiaries SiburTyumenGaz, Nizhnevartovsky GPP, and Polief were audited and certified by external experts. Within the audit, previously certified enterprises, such as SIBUR Limited, Sibur-Himprom, Tomskneftekhim, SIBUR Togliatti, SIBUR Tobolsk, and Uralorgsintez, confirmed their compliance with ISO 50001.

In February 2016, SIBUR acquired 100% of Tobolsk Heating and Power Plant (HPP). Today, this plant is the only supplier of steam for SIBUR's Tobolsk production site, and is also a supplier of power in the wholesale market as the municipality's main source of heating. Tobolsk HPP's installed capacity is 665 MW of power and 2,585 MW of heat.

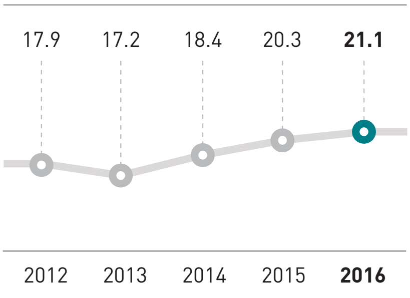
The integration of Tobolsk HPP will secure long-term thermal power supply to SIBUR's Tobolsk production site set for further expansion, and also give the Company more control of energy costs.

ELECTRICITY CONSUMPTION, BLN KW•H



[1] The decrease was mainly due to the fact that Yugragazpererabotka was not included in the perimeter of the consolidation during the 3 quarters of 2013.

HEAT CONSUMPTION, MLN GCAL



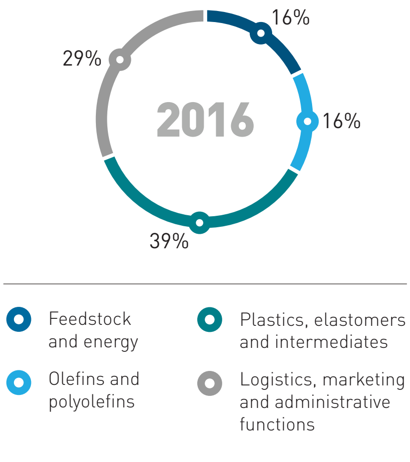
The Company's electricity consumption increased 5% in 2016, primarily due to the acquisition of the Tobolsk Heating and Power Plant. Net of this effect, the increase in electricity consumption was 2% year-on-year, mainly due to increased polypropylene production and expansion of gas fractionation capacity at SIBUR Tobolsk.

A 3.9% increase in heat consumption was mainly attributable to the expansion of production at the Tobolsk site, as well as at SIBUR-Neftekhim and SIBUR-Kstovo.

EMPLOYEES

№1 EMPLOYER IN RUSSIA
ACCORDING TO "RUSSIAN EMPLOYERS" ANNUAL SURVEY CONDUCTED BY HEADHUNTER AND RBC

EMPLOYEES BY SEGMENT



SIBUR won first place as best employer in the Russian Employers annual survey conducted by HeadHunter and RBC. The Company was also ranked as the most attractive employer in the chemical industry in the Randstad Award and Universum annual international surveys of the best employers.

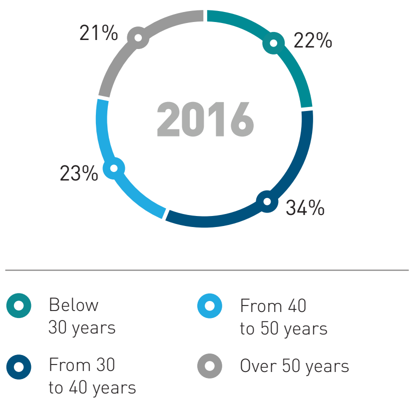
In addition, SIBUR won HeadHunter's "HR-brand Award 2016" in the "Federation" category for the most successful effort to build the company's reputation as an employer. SIBUR was honoured for its educational projects in Russian regions as part of its "Formula for Good Deeds" corporate charitable programme.

As of 31 December 2016, SIBUR had 27,950 employees with 16% employed in the Feedstock and Energy segment, 16% in the Olefins and Polyolefins segment, 39% in the Plastics, Elastomers and Intermediates segment, and 29% in logistics, marketing and administrative functions, project offices and service centres.

Our workforce gender profile is in line with industry averages in the petrochemicals and gas processing industries: men outnumber women 64% to 36%, mostly in technical and engineering occupations.

We recognise that attracting talented young employees and retaining experienced, qualified professionals is essential to building a strong and effective team.

EMPLOYEES BY AGE GROUP



EMPLOYEES (CONTINUED)

Employee compensation

A transparent, performance-linked remuneration system is a key competitive advantage for attracting and retaining professional talent. SIBUR utilises a standard, company-wide grade system at all Group enterprises to ensure a well-managed remuneration framework.

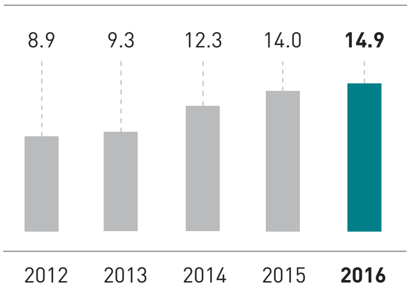
Compensation includes a base salary and performance bonuses that depend on the employee's grade, their performance against KPI targets, and SIBUR's overall results.

SIBUR's compensation and bonus strategy uses the market median salary as a benchmark for base pay calculation, with the total compensation exceeding the benchmark.

Base pay is revised annually, taking into account the economic situation, labour market environment and the employee's individual performance. In 2016, the average salary at SIBUR increased by 13% year-on-year, and reached RR 70,963 per month.

All changes in the remuneration and incentive framework promote our corporate culture principles and motivate employees to boost their productivity. This drives our competitive strengths both as a business and as an employer.

REVENUES PER EMPLOYEE, RR MLN



Health and wellness programmes

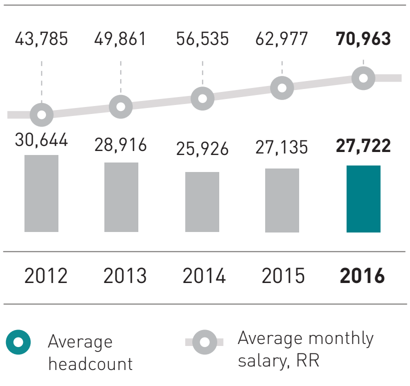
SIBUR's social policy aims to create an attractive environment for our employees and their families. We go significantly above and beyond the social guarantees required by law. Our health and wellness programmes are designed to provide a wide range of opportunities for employees to maintain a healthy lifestyle.

All employees are covered by our Voluntary Health Insurance programmes. The Company organises pre-employment medical examinations and routine check-ups for employees who could be exposed to hazardous or harmful working conditions.

In 2016, SIBUR introduced a company-wide employee discount on its healthy eating menu, which was developed based on Russian and international guidelines including those of the World Health Organization.

We actively promote employee participation in sports, both as a way to stay healthy and to promote corporate culture. Our best athletes also take part in the Russian energy sector's joint tournaments and competitions. The Company's subsidiaries host football, volleyball, hockey, ski, karate and other classes.

HEADCOUNT AND SALARY



SIBUR regularly holds company-wide sports events such as the SIBUR Spartakiada Games (football, volleyball, table tennis), the Volga Autumn competition (basketball, hockey, chess), the SIBUR Ski Track, open chess tournament, a hockey tournament, and an international football tournament.

SIBUR-Yug, the Company's corporate resort in Anapa on the Black Sea coast, offers medical treatment and summer holidays to our employees and their families. In summer, SIBUR-Yug operates a children's recreation camp; in spring and autumn, the Center accepts employees and their family members.

In addition to medical examinations and treatment by health professionals, guests of SIBUR-Yug are offered ample recreational activities: sports grounds, entertainment, karaoke, and board games.

Starting in 2016, SIBUR provides vouchers covering all expenses at the SIBUR-Yug resort for both employees and their families. In 2016, more than 2,000 employees and 1,850 family members vacationed at the SIBUR-Yug resort, and more than 1,600 children aged 7 to 16 years attended summer camp there.

SIBUR CONTINUES TO PAY SPECIAL ATTENTION TO PERSONNEL TRAINING AND CAREER DEVELOPMENT AS ONE OF THE KEY DRIVERS BEHIND THE COMPANY'S SUSTAINABLE GROWTH AND COMPETITIVENESS.

Staff recruitment

In 2016, we started recruiting staff for the ZapSibNeftekhim project, the construction of the largest modern petrochemical complex in Russia. The new facility will ultimately create 1,700 full-time jobs. In 2016, the top 100 professionals bringing the required technical expertise were selected for key positions.

In order to train ZapSibNeftekhim staff and ensure we have enough qualified personnel at launch for a project of this size, SIBUR developed a special job shadowing programme at our existing operating facilities. Participants in the programme – internal and external candidates who have passed the selection for behavioral and professional competencies – are trained by mentors as shadow employees to become specialists in various operating capacities. Participation in the job shadowing programme gives candidates an opportunity to acquire unique experience and knowledge of the latest technologies and equipment in the field of petrochemistry.

After successful completion of the programme, the newly trained specialist or in some cases the mentor will be transferred to ZapSibNeftekhim.

Currently, this programme is being implemented at the Company's operations in the cities of Tobolsk, Tomsk, Togliatti, Dzerzhinsk, Kstovo, Perm and Voronezh.

In 2016 we introduced new recruitment technologies to help with the ambitious task of finding specialists from all over the country to staff our projects:

1. Video interviews with job candidates.

For the first stage of the selection process we use an online interview platform that does not require real-time meetings. Candidates choose a convenient time and place to record a video interview of up to 15 minutes. Managers can then review the video at their convenience to get an initial understanding of the candidates' strengths and professional background, and decide on whether to schedule an in-person follow-up interview.

2. Automatic phone updates.

The Company has implemented an automated phone system to inform candidates about the stages of selection, the process of preparing for each stage, confirms whether the candidate is ready, and guides on the timeline.

In order to improve the quality of the recruitment process, a training programme for managers on how to conduct effective interviews was launched at the end of 2016. The training programme helps managers effectively evaluate candidates, prioritise applicants according to key competencies, reduce hiring risks and speed decision-making processes.

EMPLOYEES (CONTINUED)

Personnel training and career development

SIBUR continues to pay special attention to personnel training and career development as one of the key drivers behind the Company's sustainable growth and competitiveness. In 2016, SIBUR's Corporate University held over 2,800 training and development events.

2016 highlights:

- professional development – over 150 corporate training programmes were offered to raise employee professional qualifications and competencies;
- HSE corporate training programmes – Nine compulsory HSE training modules were implemented, reaching a total of over 23 thousand participants;
- Centre for Development of Workers – the programme was updated to create unified programme modules, and implemented at two pilot enterprises;
- development of the Company's human resources potential and internal recruitment system – human resources committees were organised at our facilities, as well as at the functional level at our headquarter;
- relationships with educational institutions – SIBUR continued to develop joint training and development opportunities with major universities and schools near our operations.

To increase the efficiency and impact of training, in 2016 SIBUR's Corporate University focused on:

- curriculum and faculty development with courses taught by the Company's top managers;
- introduction of new evaluation metrics for "Participation, Comprehension and Practical Application";
- creation of cross-functional development sessions;
- knowledge exchange within the Company: self-study opportunities, participation of managers and experts in training programs as speakers, lecturers, case study writers and workshop facilitators.

Recruitment and development of young talent

We aim to recruit and retain talented young people and create an environment that will help everyone fully realise his potential. Each year, the Company welcomes more than 300 young professionals.

In order to ensure that every candidate has an opportunity to ask questions about employment in SIBUR, an open group "Career in SIBUR" operates in the social network VKontakte. Every day Company's employees answer the questions of applicants.

Our two-year induction programme for young employees ensures comprehensive adaptation and development of new recruits and facilitates their "embedding" into the working process, understanding of the corporate culture and, most importantly, helps them to learn the new professional environment and boost their career growth. In 2016, 120 young professionals joined the programme, with a total 360 participants enrolled by year-end.

Since 2011, the Company has offered paid internships of three to six months to students in their final year. Competition for spring and autumn internships is intense, with more than 20 applicants per internship position, and a selection process that includes testing, interviews, business case exercises and in-person appraisals at our assessment centre. In 2016, more than 100 students completed internships at SIBUR and approximately 50% of the interns were then invited to join the Company as full-time employees.

Starting in 2016, SIBUR is a sponsor of the III National Championship of working professions in high-tech industries, which follows the WorldSkills International Movement methodology. SIBUR Holding's team took part in the championship, and one of the participants won the prize in the "Industrial Automation" category. SIBUR is also rebuilding its corporate professional skills competitions and training and development programmes in accordance with WorldSkills standards.

Partnership with higher education

Chemical education and scientific development is a priority for SIBUR's social responsibility efforts. We attach great importance to cooperation with educational institutions as a means to promote petrochemicals research and train young professionals. SIBUR partners with universities and colleges around the country.

The Company supports specialised departments within higher educational institutions and on-site internships and refresher courses for university professors at its facilities.

We also take an active part in student life. The Company's employees attend career days, organise SIBUR's Days and professional holiday events, and also arrange on-site tours for students and take part in thesis defences. These events give students the opportunity to ask questions about employment in SIBUR and apply for internships, apprenticeships or our young specialists programme. In 2016, more than 150 events were held at the regional and federal levels, which led to approximately 1,500 internships and apprenticeships at SIBUR's facilities.

In 2016, the Company began implementing employer-targeted education programmes for the needs of the ZapSibNeftekhim project in Kstovo, Tomsk, Tobolsk, Tyumen, Perm, Blagoveshchensk and Voronezh. This includes participation of the enterprises in developing education programmes and bringing experts from the production side into the educational process.

In 2016, the Company began developing new forms of education at leading regional universities in order to improve training quality and outcomes. For the first time, a network approach to education was implemented: students from Tyumen and Amur were given an opportunity to study theory in the universities of Tomsk and Kazan, and then develop practical skills at the Company's facilities.

We introduced a pilot programme of dual training in Tobolsk in 2016, in which 61 students received on-the-job training. They were immersed in our corporate values and learnt SIBUR's culture of safety and performance during classes at the enterprise, and received work experience as interns before graduating.

COMMUNITIES AND SOCIETY

We have continued to implement the Open Doors Weeks annual initiative in which production sites invite schoolchildren, students, journalists and representatives of local authorities to visit our facilities. More than 900 guests attended six of the Company's production sites.

In 2016, we continued to support the SIBUR Grant programme aimed at encouraging schoolchildren to master subjects relevant to the Company, identifying the most promising talent and promoting their focus on petrochemicals professions, as well as recruiting the best graduates for SIBUR's subsidiaries. The programme gives additional motivation for teachers to train schoolchildren. In 2016, the Company awarded 334 grants to schoolchildren and 27 grants to teachers in Khanty-Mansi Autonomous Area, Tyumen and Nizhniy Novgorod regions.

In 2016, the Company expanded the scope of work with school teachers, launching a series of seminars in the Tyumen region: over 100 teachers from schools in Tobolsk and Tyumen learned innovative teaching techniques, tested the best Russian practices in their own classes, and led research projects with schoolchildren with the help of educational experts from Moscow.

SIBUR actively collaborates with secondary schools, opening specialised chemistry classes in Togliatti, Perm, Voronezh, Tobolsk, Nizhnevartovsk, Noyabrsk, Gubkinsky and Pyt-Yakh. The Company's employees teach lessons at these schools, hold professional holiday events, contests and master classes, arrange production site visits for schoolchildren, and organise preparation for the Unified State Exam.

Charity and social investments are an important part of the Company's operations. We partner with regional and municipal authorities in the regions of our operations to define priorities and implement important projects. Several regions have special social partnership agreements with SIBUR: in 2016, such agreements were signed with regional authorities of the Khanty-Mansi Autonomous Area, Yamal-Nenets Autonomous Area and Tomsk Region.

On 1 February 2016, SIBUR officially launched its corporate charitable programme "Formula for Good Deeds", which brings together all of the Company's social initiatives. The programme operates in 17 cities where SIBUR is present and is organised into six work streams: urban development, education and science, sports and healthy lifestyle, environmental protection, culture, and volunteering.

A major development this year was the launch of regional project contests to increase the impact of the Company's social investments. For the first contest, held in February-March 2016, more than 500 applications from 16 cities were submitted. Of these, 168 winning projects were selected, and Tobolsk was named the absolute leader in the number of applications among participating cities.

Tobolsk residents got to vote for important projects for the city, and more than five thousand Tobolsk residents took part. They chose 18 out of more than forty projects, which subsequently received funding from the Company. In other cities, the winners were selected by a special jury, based on local priorities, circumstances, and expert assessments.

In addition to the projects selected during the contests, we implement other interregional projects under the umbrella of the "Formula for Good Deeds" programme. These work streams cover several regions at once and allow us to address high priority development problems in a comprehensive manner.

ON 1 FEBRUARY 2016, SIBUR OFFICIALLY LAUNCHED ITS CORPORATE CHARITABLE PROGRAMME "FORMULA FOR GOOD DEEDS", WHICH BRINGS TOGETHER ALL OF THE COMPANY'S SOCIAL INITIATIVES.

1. Urban development

Urban development contributes to the steady development and improvement of the quality of life in the cities of our operations. In 2016, following results of the contest, 37 grants were awarded to support local initiatives, including landscaping, citywide events, and helping socially vulnerable groups of citizens. With the Company's support, 16 social services centres were refurbished and we equipped two children's rehabilitation centres in Tomsk and Tobolsk.

As part of the Common Sense interregional initiative, we continued to roll out our "Playing Fields for Every Neighbourhood" project. In 2015 and 2016, this programme supported the construction of 13 outdoor athletic complexes with playing fields, sports and playground equipment for people of all ages in Dzerzhinsk, Perm, Togliatti and other cities.

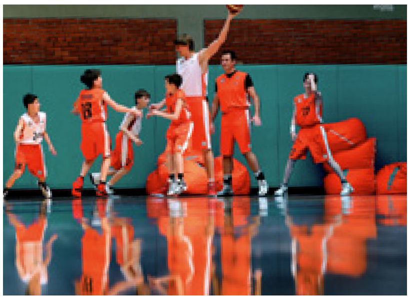
2. Education and science

Education and science promotes natural sciences among schoolchildren and provides methodological support for chemistry and physics teachers. As a result of the contest, 24 grants were awarded for regional projects in the field of education for 20 educational institutions, and we equipped modern chemical laboratories in schools and vocational institutions, organised additional classes and competitions in natural sciences, and held creative activities for children.

The Company supported five initiatives at the federal level: "I Love Chemistry" master classes, "I Love Science" fairs and master classes, the Festival of Contemporary Scientific Cinema, Interregional Chemical Tournament and Mendeleev Competition.

Master classes and science fairs led by senior professors from Moscow State University brought together more than 10,000 schoolchildren and 500 teachers. The Festival of Contemporary Scientific Cinema was successfully held at 170 universities, with more than 100,000 students participating. We also equipped the Company's eight partner universities with permanent demonstration zones. More than 3,200 students from 57 cities of Russia and the CIS participated in the Interregional Chemical Tournament. The brightest undergraduate and post-graduate students from Russia and the CIS countries participated in the Mendeleev Competition for Young Scholars, and 99 students from 35 universities and 26 cities participated in the final conference in Samara.

COMMUNITIES AND SOCIETY (CONTINUED)



3. Sports and healthy lifestyles

Sports and healthy lifestyles is one of the programme's most important areas of focus. The expert jury of the contest awarded 44 grants for projects covering 16 different sports. Ten competitions at various levels were held using the grant funds to pay for necessary equipment and uniforms for young athletes, equipping of seven new sports facilities, and activities to promote a healthy lifestyle among residents of the Company's cities of operation.

Interregional initiatives held in 2016 include the Basketball School programme, which brought together all of the Company's projects to support basketball, WinterFest and SportSummer sports festivals, the Common Sense project, and Sibur Dance Fest in Tobolsk.

As part of the Basketball School programme, SIBUR, together with partners from the United League of VTB and BC Zenith, organised summer camps #SIBURCAMP and SIBUR-Zenith for young basketball players in key regions, as well as seminars for trainers.

The Common Sense project conducted training sessions open to the public in Tobolsk, Perm, Voronezh, Togliatti, Dzerzhinsk and Tchaikovsky, which were visited by more than 8,000 people throughout the summer. Well known athletes, actors and singers including Aleksey Yagudin, Ilya Averbukh, Maria Butyrskaya, Fedor Kanareikin, Alexander Sokolovsky, Evgeny Lovchev, Dmitry Khlestov led master classes for more than 2,500 people as part of these local festivals.

4. Environmentalism

Environmentalism is one of our top priorities. As part of the "Formula for Good Deeds" programme, we support various environmental and educational activities in the regions. In 2016, 21 grants were awarded to create ecological walking paths, organise mass voluntary clean-ups, clean up lakes, rivers and streams, and conduct educational activities for schoolchildren.

More than 500 schoolchildren from 20 Russian cities participated in the Company's Pure Art children's competition, where objects of art are created from discarded household items. The best works were presented at the exhibition, which took place in Moscow, in the ZIL Culture Centre in May-June 2016.

WE PARTNER WITH REGIONAL AND MUNICIPAL AUTHORITIES IN THE REGIONS OF OUR OPERATIONS TO DEFINE PRIORITIES AND IMPLEMENT IMPORTANT PROJECTS.

5. Arts and culture

Arts and culture covers SIBUR's major interregional initiatives to improve the quality of life and cultural development of cities and regions:

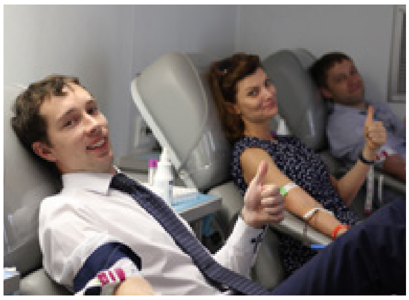
- Joint programme with the TERRITORY Festival – educational Art-labs in various Russian regions, held under the guidance of leading representatives of the avant-garde theatre;
- Joint programme with the State Theatre of Nations – guest performances and meet-the-artist sessions;
- Joint guest performance programme with Golden Mask Festival in Tobolsk – performances and meet-the-artist sessions with Festival's laureates.

In 2016, interregional project activities were held in 11 cities, and were attended by more than 6,000 spectators, and more than 200 young actors participated in art-labs. For Tobolsk, the most significant result of the art-labs was the staging a new documentary performance "Tobolsk. Board of Honour," which became a part of the Ershov Tobolsk Drama Theatre's repertoire.

Following the results of the contest, 33 grants were also awarded to support local theatres and Palaces of Culture and Children's and Youth Creativity.

6. Volunteering

Volunteering is our way to give our employees opportunities to help those in need. In 2016, more than 1,500 employees took part in volunteer campaigns, including blood drives to help young patients of the Bakulev Center, and giving out school supplies and New Year's presents to disadvantaged children. SIBUR partners with the annual "Under the Flag of Good!" campaign to raise money for children in need of medical treatment. In 2016 this raised more than 5 million roubles in charitable contributions from around the country to help 65 children from Tyumen and Tomsk regions.



CORPORATE GOVERNANCE

Adherence to the Code of Corporate Conduct at all levels of the Company makes SIBUR a more robust, efficient, high-performing business and a more attractive long-term investment.

The Company complies with the requirements of the Code of Corporate Conduct, approved by the PJSC SIBUR Holding Board of Directors on 16 December 2014 (Revision No. 5), as well as with the revised Code of Corporate Conduct, approved by the Central Bank of the Russian Federation on 21 March 2014.

CORPORATE GOVERNANCE PRINCIPLES

CORPORATE GOVERNANCE PRINCIPLES

- Ability of shareholders **to effectively exercise their rights**
- **Equal treatment** of the Company's shareholders
- **Strategic management** of the Company's activities and effective supervision over the Company's executive bodies by the Board of Directors
- **Reliable and responsible implementation** of Company's plans and management of business activities by the Company's executive bodies
- **Timely and accurate** disclosure of information about the Company
- **Effective control** over the financial and business activities of the Company
- **Active engagement** with the Company's investors, creditors and other stakeholders

GOOD CORPORATE GOVERNANCE, TRANSPARENCY AND RISK MANAGEMENT ARE CRITICALLY IMPORTANT TO BUILDING LONG-TERM VALUE FOR SIBUR'S SHAREHOLDERS AND INCREASING OUR INVESTMENT APPEALS.

CORPORATE GOVERNANCE STRUCTURE

GENERAL MEETING OF SHAREHOLDERS

Audit Commission

Corporate Secretary
MARINA MEDVEDEVA

Board of Directors

Audit Committee

Human Resources and Remuneration Committee

Strategy and Investments Committee

LEONID MIKHELSON
Chairman

Executive bodies

Management Board

Sole Executive Body

DMITRY KONOV
Chairman

CORPORATE GOVERNANCE (CONTINUED)

SIBUR's management structure consists of the General Meeting of Shareholders, the Group's Board of Directors, the Management Board, the Sole Executive Body and the Audit Commission.

The General Meeting of Shareholders, which is the supreme governing body of SIBUR, is empowered to decide on the Group's most critical issues and activities, expressly set forth in the Russian Federation Law "On Joint Stock Companies" and SIBUR's Charter, including election of the Board of Directors. The most recent Annual General Shareholders' Meeting took place on 26 April 2016.

The Board of Directors is the collegial governing body of SIBUR responsible for the strategic management of the Group's activities, focused on creating and enhancing shareholder value. The Board of Directors makes decisions on all general management issues except for those that are the exclusive prerogative of the General Shareholders' Meeting, Collegial and Sole Executive Bodies.

SIBUR's **Management Board** is the Group's collegial executive body, responsible for effective management of the Group. The Management Board develops and monitors implementation of the Company's strategy, and implements resolutions adopted by the General Shareholders' Meeting and the Group's Board of Directors.

SIBUR's **Sole Executive Body** is the Management Company OOO SIBUR, established as per a resolution of the General Shareholders' Meeting. The rights and responsibilities of the Management Company are governed by the Federal Law "On Joint Stock Companies", the Group's Charter, and the agreement between PJSC SIBUR Holding and the Management Company. The responsibilities of the Management Company include all day-to-day management issues except for those that are the exclusive prerogative of the General Shareholders' Meeting, the Board of Directors and the Management Board.

In accordance with Russian law, the General Shareholders' Meeting elects the Group's Audit Commission to review the preparation of accurate financial and accounting statements, other information about the Group's financial and operational activities, and the status of the Group's assets. The Audit Commission is also tasked with enhancing asset management effectiveness, mitigating SIBUR's financial and operational risks, and optimising internal controls.

An external independent auditor conducts an annual audit of the Group's financial statements in accordance with Russian Accounting Standards (RAS) and consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

The auditor is approved by the General Shareholders' Meeting based on the recommendation of the Board of Directors.

All issues concerning the formation, responsibilities and activities of the Group's governing and controlling bodies are stipulated in the Charter and relevant internal documents, including:

- by-laws of the General Shareholders' Meeting of PJSC SIBUR Holding;
- by-laws of the Board of Directors of PJSC SIBUR Holding;
- by-laws of the Management Board of PJSC SIBUR Holding;
- by-laws of the Audit Commission of PJSC SIBUR Holding.

Visit the Company's website to find more information on these documents at: https://www.sibur.ru/en/about/corporate/documents/

BOARD OF DIRECTORS

Strong Corporate Governance starts with the Board of Directors. SIBUR's Board focuses on overseeing corporate strategy development and management performance, and protecting the interests of our shareholders.

BOARD ROLE AND RESPONSIBILITIES

The responsibilities of the Board of Directors include the strategic management of the Group's business activities in compliance with the Federal Law "On Joint Stock Companies" and SIBUR's Charter.

The Board of Directors determines SIBUR's strategic priorities, approves annual and long-term business plans and annual investment programmes, oversees the Group's financial activities and internal controls, and makes recommendations on dividends payments.

BOARD COMPOSITION

Members of the Board of Directors are elected by the Annual General Meeting of Shareholders. They serve until the next Annual General Meeting of Shareholders unless the Board in its entirety is terminated prior to the expiration of its term based upon a decision of the Group's shareholders.

The members of the Group's Board of Directors as of 31 December 2016 were elected by the Annual General Meeting of Shareholders held on 26 April 2016.

In accordance with the Charter, the minimum number of elected members of the Board of Directors is seven. The Group is committed to transparent election procedures for each member, which, among other provisions, entail the following:

- the Group's shareholders are entitled to nominate members of the Board of Directors;
- the Group discloses information on the composition of the current Board of Directors and on prospective candidates in a timely manner;
- cumulative voting is applied in the election of members of the Board of Directors.

BOARD OF DIRECTORS' COMPOSITION AS OF 31 DECEMBER 2016

Name	Year of birth	Title	Year of appointment
Leonid Mikhelson	1955	Director, Chairman of the Board of Directors	2011
Alexander Dyukov	1967	Director, Deputy Chairman of the Board of Directors, Chairman of the Strategy and Investments Committee	2005
Dmitry Konov	1970	Director	2007
Denis Nikienko	1976	Director, Chairman of the Human Resources and Remuneration Committee, member of the Audit Committee and the Strategy and Investments Committee	2014
Vladimir Razumov	1944	Director, member of the Strategy and Investments Committee, member of the Human Resources and Remuneration Committee	2013
Kirill Shamalov	1982	Director, member of the Human Resources and Remuneration Committee, member of the Strategy and Investments Committee	2014
Ilya Tafintsev	1985	Director, member of the Audit Committee	2013
Gennady Timchenko	1952	Director, member of the Strategy and Investments Committee	2012
Ruben Vardanyan	1968	Independent Director[1], Chairman of the Audit Committee	2011
Chang Zhenyong	1958	Director, member of the Strategy and Investments Committee	2015

[1] Independent director in accordance with director independence criteria established by Russian law.

BOARD OF DIRECTORS (CONTINUED)

ACTIVITIES REVIEW

In 2016, the Board of Directors held 10 meetings, including 7 meetings held remotely.

Strategic planning and investment activities:

- review and approval of the report on 2015 annual investment programme execution;
- decisions made in respect of the execution of large-scale investment projects;
- approval of Rouble bonds issuance documentation;
- review and approval of regular reports on the progress of major investment projects.

Corporate governance:

- approval of revisions to SIBUR's internal by-laws;
- election of the Management Board in new composition;
- convening of the General Shareholders' Meeting to review and approve a revised version of the Charter and Company by-laws.

Approval of PricewaterhouseCoopers as an independent auditor for SIBUR's 2016 financial statements in accordance with RAS and IFRS.

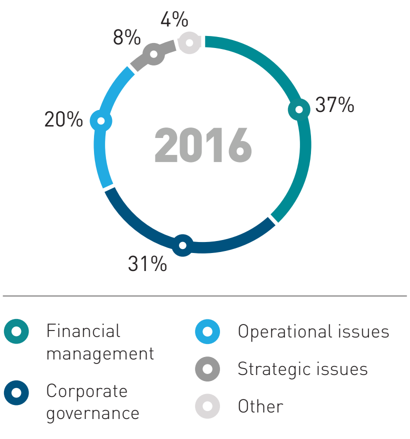
Budget planning and financing activities:

- review and approval of the report on 2015 annual business plan execution, including financial and operational performance;
- approval of the business plan and investment programme for 2017;
- approval of the SIBUR Performance Contract[1] for 2017;
- approval of several financing transactions and issuance of independent guarantees;
- approval of the additional terms of the agreement on transferring power of attorney between SIBUR and the Management Company for the period of 2016-2018.

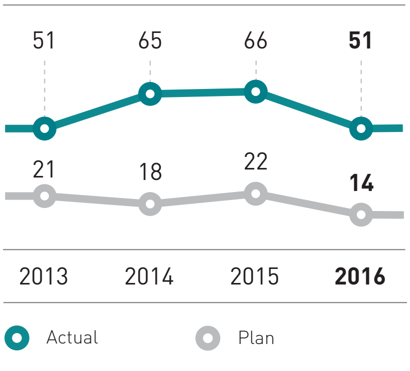
10 meetings

WERE HELD BY THE BOARD OF DIRECTORS IN 2016

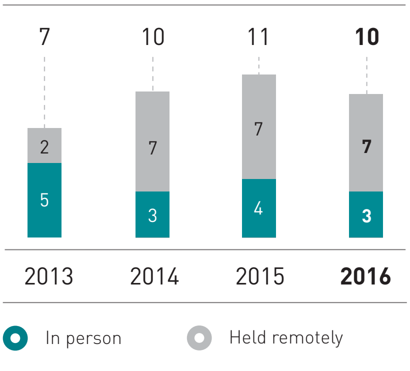
ISSUES CONSIDERED BY THE BOARD OF DIRECTORS MEETINGS IN 2016



NUMBER OF ISSUES CONSIDERED BY THE BOARD OF DIRECTORS MEETINGS



NUMBER OF BOARD MEETINGS



[1] SIBUR Performance Contract is a set of indicators and targets against which the Company's performance is evaluated. For more information see SIBUR Performance Contract on p. 58.

PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN THE WORK OF THE BOARD OF DIRECTORS AND THE COMMITTEES IN 2016

Members of the Board of Directors in 2016	Independent director	Board of Directors (10 meetings)	Audit Committee (6 meetings)	Strategy and Investments Committee (8 meetings)	Human Resources and Remuneration Committee (4 meetings)
Leonid Mikhelson		10/10			
Alexander Dyukov		10/10		8/8	3/4
Dmitry Konov		10/10			
Denis Nikienko		10/10	6/6	8/8	4/4
Vladimir Razumov		10/10		8/8	4/4
Kirill Shamalov		10/10		8/8	4/4
Ilya Tafintsev		10/10	5/6		
Gennady Timchenko		10/10		8/8	
Ruben Vardanyan	●	10/10	6/6		
Chang Zhenyong		9/10		8/8	

BOARD REMUNERATION

As of 31 December 2016, the Group's Board of Directors comprised ten individuals. Members of the Board of Directors are entitled to annual compensation, as approved by the Annual General Shareholders' Meeting.

For the years ended 31 December 2016 and 2015, the Group accrued RR 88 million and RR 87 million net of social taxes as compensation to Board of Directors.

LEONID MIKHELSON

Chairman of the Board of Directors,
Non-Executive Director

LEONID MIKHELSON

Election:
Chairman of the Board of Directors since 2011

Year of birth: 1955

Education:
1977: Graduated from the Kuybyshev Institute of Civil Engineering with a degree in Industrial Civil Engineering. He was awarded the Order of the Badge of Honor of the Russian Federation, the Order of Merit for the Fatherland II degree and the title of honor "Honored man of the gas industry".

Professional Experience:

Active employment as for 31 December 2016:

Since 2002: Member of the Board of Directors and Chairman of the Management Board of PAO NOVATEK

Past employment:

Mr. Mikhelson began his career as a foreman of a construction and assembly company in Tyumen region, where he worked on the construction of the first section of Urengoi-Chelyabinsk gas pipeline. Mr. Mikhelson served as Chief Engineer of Ryazantruboprovodstroy, General Director of Kuibishevtruboprovodstroy, Managing Director of SNP NOVA and General Director of Novafininvest, was a member and chairman of the Board of Directors of OAO Stroytransgaz and OAO Yamal LNG, a member of the Board of Directors of OOO Art Finance and also a member of the Supervisory Board of OAO Russian Regional Development Bank.

ALEXANDER DYUKOV

Deputy Chairman of the Board of Directors (since 2011), Non-Executive Director

ALEXANDER DYUKOV

Election:
Board Member since 2005

Chairman of the Strategy and Investments Committee since 2011

Member of the Human Resources and Remuneration Committee since February 2016

Year of birth: 1967

Education:
1991: Graduated from the Leningrad Shipbuilding Institute with a degree in Engineering

2001: Received an MBA from the International Management Institute of St. Petersburg.

Professional Experience:
Career at SIBUR:

2003–2005: President of OAO AK SIBUR
2005–2006: President of OAO SIBUR Holding

2005–2009: Chairman of the Board of Directors of OAO SIBUR Russian Tyres

2006: CEO of the Management Company OOO SIBUR

2006–2011: Chairman of the Group's Board of Directors

Active employment as for 31 December 2016

Since 2006: President, CEO, Chairman of the Management Board and a member of the Board of Directors of PJSC Gazprom Neft

President and chairman of the Board of Directors of AO Football Club Zenit

Since 2007: Member (since 2009 – Chairman) of the Board of Directors of AO Lakhta Center

Member of the Board of Directors of OOO Hockey Club SKA

Since 2009: Member of the Board of Directors of OOO National Oil Consortium

Since 2012: Member of the Board of Directors of OOO Hockey City

Past employment:

Mr. Dyukov served as Financial Director and General Director of Joint Venture ZAO Petersburg Oil Terminal, Director of Economics and Acting General Director of St. Petersburg Sea Port, was chairman of the Board of Directors of the Petersburg Oil Terminal and OAO NGK Slavneft, a member of the Board of Directors of OAO MoscowOil and Gas company, OOO Gazprom gazomotornoye toplivo and OOO LIGA-TV.

DMITRY KONOV

Executive Director

DMITRY KONOV

Election:
Board Member since 2007

Chairman of the Management Board since 2007

Year of birth: 1970

Education:
1994: Graduated from the Moscow State Institute of International Relations (MGIMO) with a degree in International Economic Relations

2001: Received an IMD MBA degree

Professional Experience:

Career at SIBUR:

2004–2009: Various positions at OAO AK SIBUR, including Advisor to the President, Vice President for Corporate Policy and Strategy, Senior Vice President for Corporate Policy and Strategy, President, member of the Board of Directors

2005–2012: Chairman of the Board of Directors of OAO SIBUR Russian Tyres

Since 2006: President (2001-2006), General Director (2011-2016), Chairman of the Management Board of the Management Company OOO SIBUR

2007–2010: Member of the Board of Directors of OAO Polief

Chairman of the Board of Directors of ZAO Sibur-Trans

Since 2007: Chairman of the Group's Management Board

2008–2011: Chairman of the Board of Directors of OAO Sibur-Fertilizers

Since 2009: Chairman of the Management Board of the Management Company OOO SIBUR

2010–2013: Member of the Board of Directors of OOO Tobolsk-Polymer

Active employment as for 31 December 2016:

Since 2014: Member of the Board of Directors of AO Stroytransneftegaz

Member of the Board of Directors of OOO STGM

Since 2016: Chairman of the Board of Directors of AO NIPIgazpererabotka

Past employment:

Mr. Konov served in the Treasury Department of OAO NK YUKOS, held various positions at AKB Trust and Investment Bank, including Vice President – Head of the Investment Banking Department and Managing Director of Corporate Finance Department, was a member of the Board of Directors of OAO Gazprom neftekhim Salavat and OAO Gazprombank, AO SDS AZOT, OOO Tobolsk-Polymer, Chairman of the Board of Directors of OOO RusVinyl, OOO SNHK, OAO Stroytransgaz.

DENIS NIKIENKO

Non-Executive Director

DENIS NIKIENKO

Election:
Board Member since 2014; Member of the Audit Committee since 2014; Member of the Strategy and Investments Committee since February 2016; Chairman of the Human Resources and Remuneration Committee since February 2016

Year of birth: 1976

Education:
2000: Graduated from the Moscow State University with a degree in Law

2009: Completed executive management courses at INSEAD (Fontainebleau, France), participated in Gazprom Neft Leading in Global Economy programme

2010-2011: Completed executive management courses at Skolkovo Moscow School of Management (Moscow, Russia)

Professional Experience:
Career at SIBUR:

2005-2009: Various positions at Legal department of the Management Company OOO SIBUR

2009-2014: Director of the Legal department, Director for legal support of the Management Company OOO SIBUR

Active employment as for 31 December 2016:

Since 2014: General Director of OOO Ladoga Management

Since 2015: General Director of OOO Kronwerk Capital

Since 2016: Member of the Board of Directors of AO NIPIgazpererabotka

Past employment:
Lawyer at Inkombank, general legal practice.

VLADIMIR RAZUMOV

Executive Director

VLADIMIR RAZUMOV

Election:
Board Member in 2011 – April 2012 and since 2013

Member of the Strategy and Investments Committee since 2012

Member of the Human Resources and Remuneration Committee since 2015

Year of birth: 1944

Education:
1967: Graduated with honors from the Voronezh Technological Institute with a degree in Engineering

1980: Graduated from the Plekhanov Russian Academy of Economics, with a degree in Procurement

1987–1989: Studied at the Academy of the National Economy under the USSR Council of Ministers, specialising in Economics and Management of the National Economy

Professional Experience:
Career at SIBUR:

1999–2002: Served as Vice President in charge of Production of Synthetic Rubber and Tyres and Senior Vice President in charge of Petrochemical Production of OAO AK SIBUR

2003–2005: Re-joined OAO AK SIBUR, served as Advisor to the President, Vice President in charge of Production, Senior Vice President in charge of Production and Marketing

2005–2006: Senior Executive Vice President at OAO SIBUR Holding

2005–2008: Member of the Board of Directors of OAO SIBUR-Russian Tyres

2006–2008: Member of the Board of Directors of OAO SIBUR-Neftekhim

2006–2009: Member of the Board of Directors of OAO Plastic

2006–2012: Member of the Board of Directors of AO Sibur-Trans

Senior Executive Vice President at the Management Company OOO SIBUR

Since 2007: Member of the Management Board of PJSC SIBUR Holding

Since 2009: Member of the Management Board of the Management Company OOO SIBUR

2010–2011: Member of the Board of Directors of OAO SIBUR-Fertilisers

2010–2016: Chairman of the Board of Directors of OOO Tobolsk-Polymer

2012–2016: Executive Director of the Management Company OOO SIBUR

Since 2016: Member of the Management Board – Chairman of the Committee of the Management Company OOO SIBUR

Past employment:

Mr. Razumov worked at Voronezh Synthetic Rubber Plant as an engineer, section manager, mechanic, shop manager and Deputy Director for Procurement and Marketing, was Director of the Volga Synthetic Rubber Plant, Head of the Main Procurement Department of the USSR Ministry of the Oil Refining and Petrochemicals Industry, USSR Deputy Minister of the Oil Refining and Petrochemicals Industry, Vice President and First Vice President of ZAO Korporatsiya Rosshina, Vice President of ZAO Roskhimneft, COO of OAO Avtotor Holding and a member of the Board of Directors of OAO VNIPIneft.

KIRILL SHAMALOV

Non-Executive Director

KIRILL SHAMALOV

Election:
Board Member since 2014

Member of the Human Resources and Remuneration Committee since 2014

Member of the Strategy and Investments Committee since December 2014

Year of birth: 1982

Education:
2004: Graduated from the St. Petersburg State University with a degree in Law

Professional Experience:

2008–2012: Vice-President for Business Administration of the Management Company OOO SIBUR

2008–2015: Member of the Management Board of PJSC SIBUR Holding

2009–2015: Member of the Management Board of the Management Company OOO SIBUR

2012–2015: Deputy Chairman of the Management Board of the Management Company OOO SIBUR

Since 2014: Member of the Board of Directors of PJSC SIBUR Holding

Active employment as for 31 December 2016:

Since 2014: Member of the Board of Directors of OOO Russian Cement Company

Since 2015: President of OOO Ladoga Management

Past employment:

Mr. Shamalov was Chief Legal Counsel for foreign economic activity at OAO Gazprom, Expert in the regional department FGUP Rosoboronexport, Chief Lead Counsel in the legal department ZAO AB Gazprombank, Expert consultant in the Economics and Finance Department for the Russian Government.

ILYA TAFINTSEV

Non-Executive Director

ILYA TAFINTSEV

Election:
Board Member since 2013

Member of the Audit Committee in 2013 – May 2015 and since February 2016

Year of birth: 1985

Education:
2006: Obtained a BA in Economics from the Higher School of Economics in Moscow

2007: Graduated from University of London, where he majored in Investment and Finance

Professional Experience:
Active employment as for 31 December 2016:

Since 2013: Strategic Projects Director of PAO NOVATEK

Past employment:

Mr. Tafintsev also was Deputy Head of PAO NOVATEK's Representative Office in London, held a position of a Director of Themis Holdings Limited, was an Advisor for Finance and Investment at United Bureau of Consultants Limited, Finance Director of OOO LEVIT, Chairman of the Board of Directors of OAO Yamal LNG.

GENNADY TIMCHENKO

Non-Executive Director

GENNADY TIMCHENKO

Election:
Board Member since 2012

Member of the Strategy and Investments Committee since 2012

Year of birth: 1952

Education:
1976: Graduated from the Leningradsky Mechanical University with a degree in Electromechanical Engineering

Professional Experience:
Active employment as for 31 December 2016:

Since 2009: Member of PAO NOVATEK's Board of Directors

Since 2011: Co-Chairman of the Economic Council of the Franco-Russian Chamber of Commerce

Since 2011: Chairman of the Board of Directors of the Ice Hockey Club SKA St. Petersburg

Since 2012: Chairman of the Board of Directors of the Continental Hockey League (KHL)

Since 2012: Member of the Board of Trustees of the All-Russian public organisation Russian Geographical Society

Since 2014: Chairman of the Russian Council of the NPO Russian Chinese Business Council

Chairman of the Board to promote OCD

Vice-President of the Olympic Committee of the Russian Federation

Past employment:

Mr. Timchenko began his career at Izhorsk plant in Leningrad, which specialised in engineering and production of equipment for the energy industry. Mr. Timchenko also was Senior Engineer at the Ministry of Foreign Trade, Vice President of Kirishineftekhimexport, worked for Urals Finland, was Managing Director of IPP OY Finland and IPP AB Sweden, was also member and Chairman of the Board of Directors of OOO Transoil, a member of the Board of Directors of Airfix Aviation OY and OOO BaltTransService, Co-founder of Gunvor, a leading independent oil trading company. Mr. Timchenko has more than 20 years of experience in the Russian and international energy sectors. He has built interests in trading, logistics and transportation related companies.

RUBEN VARDANYAN

Independent Director[1]

RUBEN VARDANYAN

Election:
Board Member since 2011

Chairman of the Audit Committee since May 2015

Year of birth: 1968

Education:
1992: Graduated with honors from the Moscow State University with a degree in Economics

1992: Interned at Banca CRT in Italy, attended courses on emerging markets organised by Merrill Lynch in New York

2000: Completed executive management courses at INSEAD (Fontainebleau, France)

2001, 2005: Completed courses at the Harvard Business School (USA)

2012, 2013: Completed special programmes at Yale University and Stanford University Graduate School of Business

Professional Experience:
Active employment as for 31 December 2016:

Since 2006: Founding Partner and member of Coordination Council of Moscow School of Management Skolkovo

Since 2007: Member of the Board of Directors of ZAO AmeriaBank

Since 2009: Member of the Board of Directors of OAO KAMAZ

Since 2010: Member of the Board of Directors of Joule Unlimited, Inc

Since 2012: Advisor to the Chairman of the Board and CEO of Sberbank of Russia

Since 2013: Vice-Chairman of the International Advisory Board of Moscow School of Management Skolkovo

Since 2014: Member of the Investment Council under the Chairman of the State Duma of Russia

Member of the Strategic Council for Investments in New Industries under the Ministry of Industry and Trade of Russia

Member of the Economic Advisory Board at the International Finance Corporation (World Bank Group)

Chairman of the Skolkovo Institute for Emerging Market Studies

Chairman of the Expert Council of Wealth Transformation Center Skolkovo

President of LLC Vardanyan, Broitman & Partners

Past employment:

Mr. Vardanyan was chairman of the Board of Directors of ZAO Sukhoi Civil Aircraft, ZAO Sberbank CIB, OAO Russian Venture Company, ZAO AMERIABANK, a member of the Board of Directors of OAO NOVATEK, OAO AK BARS Bank, OAO URSA bank, ZAO RusSpecSteel, OAO Insurance company ZHASO, IG SEISMIC SERVICES LIMITED, OAO Sheremetyevo International Airport, OAO United Automotive Technologies, OAO AvtoVAZ, Standard Bank Plc, OAO Rosgosstrakh, OAO United Grain Company, Managing Director of ZAO Sberbank CIB and also was President of the Moscow School of Management Skolkovo.

[1] In accordance with director independence criteria established by Russian law.

CHANG ZHENYONG

Non-Executive Director

CHANG ZHENYONG

Election:
Board Member since December 2015

Member of the Strategy and Investments Committee since February 2016

Year of birth: 1958

Education:
1982: Graduated from Tianjin University with a Bachelor's degree in Engineering for basic organic chemicals

1998: Obtained MBA from China Europe International Business School in China (CEIBS)

Professional Experience:
Active employment as for 31 December 2016:

Vice President of China Petroleum & Chemical Corp., Director General of Chemical Department, China Petroleum & Chemical Corporation; President of Sinopec Chemical Commercial Holding Company Limited, Vice Chairman of Board of Directors of Sinopec Great Wall Energy & Chemical Co., Ltd.

BOARD COMMITTEES

In order to ensure the effectiveness of the Board's functions, SIBUR's Board of Directors has established three Board Committees. They undertake a more detailed review of the issues within their areas of responsibility and make recommendations to the Board as necessary.

The Chairman of the Audit Committee is an independent director of the Board, in accordance with best practices. Committee members are elected by the Board during the first meeting of the newly composed Board of Directors for a term lasting until the next Board of Directors' election by the shareholders. The current Committee members have been elected by the Board on 6 May 2016.

AUDIT COMMITTEE

Committee role:

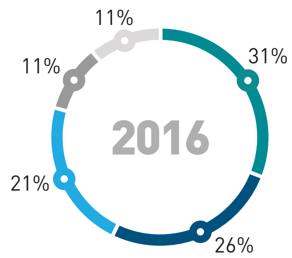
Responsible for developing and making recommendations to the Board of Directors on:

- an annual independent external audit of the Group's financial statements, including the IFRS financial statements;
- independent external auditor's qualifications, the quality of the services rendered by the auditor, and whether the auditor satisfies the requirements for independence;
- improvements to the internal controls and risk management functions;
- assessment of the effectiveness of internal controls and risk management functions and recommendations for further improvement;
- dividend amounts and payout schedules.

Committee composition:

- Ruben Vardanyan (Chairman)
- Denis Nikienko
- Ilya Tafintsev

ISSUES CONSIDERED BY THE AUDIT COMMITTEE MEETINGS IN 2016

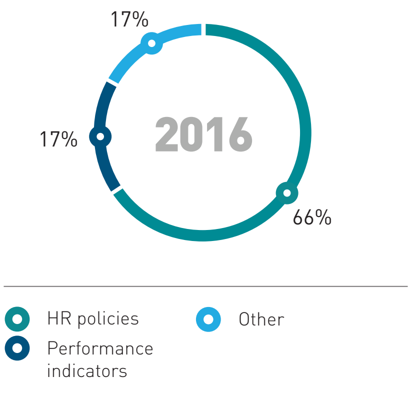


- Risk management
- Financial management
- Issues on audit conduction
- Recommendations on dividends
- Other

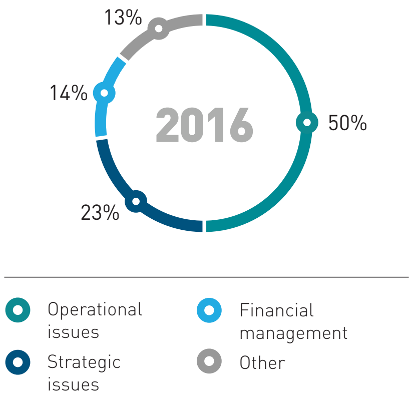
6 meetings

OF THE AUDIT COMMITTEE IN 2016

ISSUES CONSIDERED BY THE HUMAN RESOURCES AND REMUNERATION COMMITTEE MEETINGS IN 2016



ISSUES CONSIDERED BY THE STRATEGY AND INVESTMENTS COMMITTEE MEETINGS IN 2016



HUMAN RESOURCES AND REMUNERATION COMMITTEE

Committee role:

Responsible for developing and making recommendations to the Board of Directors on:

- the key Group's human resource policies;
- the Group's annual performance indicators and annual and semi-annual results;
- the Group's long-term incentive programmes;
- criteria and policies for candidate selection to the management bodies;
- remuneration policy applicable to members of management bodies;
- implementation of personnel policy for subsidiaries and affiliates.

The Committee submits recommendations to the Group's Board of Directors on improvements in Group and Management Company HR policies, and qualification criteria for Independent Directors.

Committee composition:

- Denis Nikienko (Chairman)
- Alexander Dyukov
- Vladimir Razumov
- Kirill Shamalov

4 meetings

OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE IN 2016

8 meetings

OF THE STRATEGY AND INVESTMENTS COMMITTEE IN 2016

STRATEGY AND INVESTMENTS COMMITTEE

Committee role:

Responsible for developing and making recommendations to the Board of Directors on:

- defining SIBUR's priority areas for development;
- defining the Group's long-term strategy (including financing strategy), objectives and tasks, as well as annual and long-term investment programmes;
- evaluating the Group's investment programme and strategic planning process as well as the Group's policy on interaction with investors and shareholders and proposing improvements;
- issues related to the Group's establishment of commercial entities, as well as mergers, acquisitions, divestments or pledges of the Group's assets;
- issuance of bonds or other securities.

Committee composition:

- Alexander Dyukov (Chairman)
- Denis Nikienko
- Vladimir Razumov
- Kirill Shamalov
- Gennady Timchenko
- Chang Zhenyong

CORPORATE SECRETARY

The Corporate Secretary position was established in SIBUR in 2008. The Corporate Secretary's key responsibilities are to ensure efficient corporate procedures aimed at protecting shareholder rights and ensuring SIBUR's commitment to their interests, as well as supporting management decision making, inter alia:

1. Interaction with shareholders and their representatives to support the effective work of the Group's governing bodies and ensure shareholders' rights and commitment to their interests;
2. Ensuring execution of procedures regulating the activities of collegial bodies in compliance with federal laws, SIBUR's Charter and other internal corporate policies;
3. Arrangement of the Company's engagement with shareholders, preparation of replies to their requests and inquires;
4. Advisory support to the Board of Directors, Management Board and shareholders;
5. Ensuring the efficient functioning of the collegial executive bodies of PJSC SIBUR Holding and the Management Company OOO SIBUR, including:
   - General Meeting of Shareholders of PJSC SIBUR Holding,
   - Board of Directors of PJSC SIBUR Holding,
   - Management Board of SIBUR Holding,
   - Board Committees of PJSC SIBUR Holding,
   - Investment committee of the Management Company OOO SIBUR,
   - Governing boards of investment projects,
   - Organisational Projects committee of the Management Company OOO SIBUR,
   - Management Board of the Management Company,
   - Ethics and Compliance committee of the Management Company OOO SIBUR;
6. Ensuring best practices in accordance with professional standards and bodies;
7. Control over the implementation of decisions made by the governing bodies.

MARINA MEDVEDEVA

Corporate Secretary
of PJSC SIBUR Holding

MARINA MEDVEDEVA

Winner of "Director of the year" in 2014 / 2012 "Corporate Governance Director / Corporate Secretary" award presented by the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs

Education:

2000: Graduated with honours from the Moscow Academy of Economics and Law with a degree in Law.

2004: Winner of the Edmund S. Muskie Graduate Fellowship Program (U.S. Department of State)

2008: Completed MBA course "International Oil & Gas Business" at the Faculty of Additional Professional Education at the Moscow State Institute of International Relations (MGIMO)

2004–2009: Completed executive management courses at INSEAD

Professional Experience:

Active employment as for 31 December 2016

Since 2016: General Director in OOO «OleFinInvest».

Career at SIBUR:

Since 2008: Served as Head of Governing and Executive bodies Administration, Administrative Services Director.

Since 2012: Member of the Board of Directors of Petrochemical India Private Limited.

Since 2012: Member of the Board of Directors of Reliance Sibur Elastomers Private Limited.

Since 2016: Member of the Management Board of the Management Company OOO SIBUR, Director, Corporate Secretary & Administrative Services.

Head of the Corporate IT programme on automation of documentation workflow and storage.

Corporate Secretary & Administrative Services also manage protocol and branding activities, international trade and business support services.

Secretary to the Board of Directors of PJSC SIBUR Holding, Secretary to the Board Committees, Secretary to the Management Board of PJSC SIBUR Holding and the Management Company OOO SIBUR.

Past employment:

Ms. Medvedeva served as Head of the Management Board and Committees Services Department, Corporate Secretary to the Management Board of OJSC "TNK-BP Management".

Ms. Medvedeva does not own shares of PJSC SIBUR Holding or its subsidiaries and affiliates; and is not related to other persons who are members of the governing bodies and/or bodies supervising financial and operational activities of PJSC SIBUR Holding.

MANAGEMENT BOARD

MANAGEMENT BOARD ROLE AND RESPONSIBILITIES

SIBUR's Management Board is the Group's Collegial Executive Body. The Management Board is responsible for the effective management of the Group. The Management Board also participates in the development and execution of the Group's strategy.

The primary objectives of the Management Board include managing SIBUR assets to maximise their value and returns, improving the efficiency of internal controls and risk management functions, and ensuring the protection of shareholder rights and interests.

MANAGEMENT BOARD COMPOSITION

In accordance with the Group's Charter, the Management Board is formed by the Board of Directors from the Group's senior executives based on the recommendations of the Sole Executive Body.

The Group's Management Board consisted of six members as of 31 December 2016.

MANAGEMENT BOARD COMPOSITION AS OF 31 DECEMBER 2016

Name	Year of birth	Title	Year of appointment
Dmitry Konov	1970	Chairman of the Management Board	2007
Mikhail Karisalov	1973	Deputy Chairman of the Management Board	2007
Alexey Kozlov	1982	Deputy Chairman of the Management Board	2015
Sergey Lukichev	1964	Member of the Management Board	2016
Alexander Petrov	1981	Member of the Management Board	2016
Vladimir Razumov	1944	Deputy Chairman of the Management Board	2007

SEE BIOGRAPHY ON PAGE 94

DMITRY KONOV

Chairman of the Management Board since 2007, Chairman of the Management Board of the Management Company OOO SIBUR

MIKHAIL KARISALOV

Deputy Chairman of the Management Board of PJSC SIBUR Holding, Member of the Management Board, Chief Operating Officer of the Management Company OOO SIBUR

Year of birth: 1973

Education:

1998: Graduated from the Russian Civil Service Academy under the President of the Russian Federation, where he majored in State and Municipal Management

2010: Completed professional retraining course in Chemical Technology of Natural Energy Sources and Carbon Materials at Tyumen State Oil and Gas University

Professional Experience:

Career at SIBUR:

2003–2005: Various positions at OAO AK SIBUR, including Advisor to the President, Director of Procurement, Head of Logistics and Capital Construction

2005–2006: Various positions at OAO SIBUR Holding, including Head of Logistics and Capital Construction and Head of Hydrocarbon Feedstock Department

2006–2008: General Director of OAO SiburTyumenGaz

2006–2011: Vice-President – Head of Hydrocarbon Feedstock Department at the Management Company OOO SIBUR

Since 2007: Deputy Chairman of the Management Board of PJSC SIBUR Holding

2007–2016: Member of the Board of Directors of OOO Yuzhno-Priobskiy GPP

2009–2016: Member of the Board of Directors of OOO Tobolsk-Polymer

2009–2012: General Director of OOO Tobolsk-Polymer

2011–2012: Executive Director of the Management Company OOO SIBUR

2012–2016: Deputy Chairman of the Management Board of the Management Company OOO SIBUR

Since 2016: Member of the Management Board – Chief Operating Officer of OOO SIBUR

Active employment as for 31 December 2016:

Since 2014: Chairman of the Board of Directors of OOO STGM

Since 2016: Member of the Board of Directors of AO NIPIgazpererabotka

Past employment:

Mr. Karisalov was General Director of OOO Oblkonservprom.

ALEXEY KOZLOV

Deputy Chairman of the Management Board of PJSC SIBUR Holding

Year of birth: 1982

Education:

2004: Graduated with honors from the Moscow State Law University with a degree in Law. Ph.D. in Law

Professional Experience:

Career at SIBUR:

Since 2015: Deputy Chairman of the Management Board of PJSC SIBUR Holding

Member of the Management Board and Managing Director, Administrative support and GR of the Management Company OOO SIBUR

Past employment:

Mr. Kozlov held various positions in the Russian Ministry for Economic Development, including Deputy Head of State Property Management; Chief Counselor at the Department of Priority National Projects and an Assistant to Deputy Chairman in the Government of the Russian Federation; Head of the Department of Social Development of the Government of the Russian Federation.

Year of birth: 1964

Education:
1986: Graduated from the Perm Krasnoznamennoe High Command Military Academy specialising in Physics and Power Plants

Professional Experience:
Career at SIBUR:

Since 2004: Director of the Information Security Department

Since 2011: Member of the Management Board and Managing Director, Information Security of the Management Company OOO SIBUR

SERGEY LUKICHEV

Member of the Management Board since February 2016, Member of the Management Board and Managing Director, Information Security of the Management Company OOO SIBUR

Past employment:

Served in the military.

Left the Management Board as of 5 February 2016

Year of birth: 1970

Education:
1991: Graduated from the Moscow State Institute of International Relations (MGIMO) with a degree in International Law

1995: Graduated with a Master's degree from the University of Chicago Law School

Professional Experience as of 31 December 2015:
Career at SIBUR:

2011–2013: Member of the Board of Directors of OAO SIBUR Holding

Since 2013: Member of the Management Board of PJSC SIBUR Holding

PAVEL MALYI

Member of the Management Board of PJSC SIBUR Holding, Member of the Management Board, Deputy Chairman of the Management Board and Chief Financial Officer of the Management Company OOO SIBUR

Since 2013: Deputy Chairman of the Management Board of the Management Company OOO SIBUR

Since 2013: Chief Financial Officer of the Management Company OOO SIBUR

Past employment:

Mr. Malyi held various positions at UBS Investment Bank, including Director, Executive Director,

Managing Director and Head of UBS Investment Bank in the Russian Federation, Ukraine and Kazakhstan, was President of ZAO Miracle and Managing Director of OOO LEVIT.

Year of birth: 1981

Education:

2003: Graduated from the Finance Academy under the Government of the Russian Federation (currently, the Financial University under the Government of the Russian Federation) with a degree in Finance

2014: graduated with MBA for executives from INSEAD

Professional Experience:

Career at SIBUR:

2006–2016: various positions at SIBUR, including Head of the Economics Department, CFO at SiburTyumenGaz, Financial Director of the Hydrocarbons Division, and Director for Financial Controlling

ALEXANDER PETROV

Member of the Management Board of PJSC SIBUR Holding, Member of the Management Board, Managing Director for Economics and Finance of the Management Company OOO SIBUR

Since 2016: Member of the Management Board, Managing Director for Economics and Finance

Past employment:

Mr. Petrov held various positions at PricewaterhouseCoopers Audit, including audit consultant and senior advisor.

SEE BIOGRAPHY ON PAGE 96

VLADIMIR RAZUMOV

Deputy Chairman of the Management Board of PJSC SIBUR Holding
Member of the Management Board, Chairman of the Committee of the Management Company OOO SIBUR

ANTI-CORRUPTION POLICIES AND COMPLIANCE

SIBUR complies with the requirements of anti-corruption legislation and codes of conduct in each country where we operate. SIBUR applies anti-corruption principles in its operating activities as well as in the implementation of strategic projects and participation in joint ventures, and in relations with commercial and financial counterparties.

SIBUR's Code of Corporate Conduct is designed to implement policies to protect property rights, safeguard against bribery or fraud and avoid potential conflicts of interest. It contains the fundamental requirements and principles that all SIBUR employees must follow.

Visit the Company's website to find more information on SIBUR Code of Corporate Conduct at: http://www.sibur.ru/en/about/corporate/documents/

To mitigate corruption risks, SIBUR has approved guidelines and requirements for employees when interacting with governmental authorities and counterparties to ensure compliance with anti-corruption legislation. All SIBUR employees are informed of the following fundamental principles prohibiting:

- Directly or indirectly offering bribes to government officials;
- Commercial bribery;
- Requesting, accepting or approving illegaly-obtained money, securities or other material property from third parties;
- Illegal abuse of authority for personal or third-party gains and purposes contrary to SIBUR's interests.

SIBUR continuously reviews and strengthens its compliance management system and develops respective by-laws on anti-corruption matters.

In 2016, SIBUR approved the revised by-law on compliance management, which requires all employees to disclose all conflicts of interest and establishes anti-corruption standards and procedures of management, internal investigations and taking corrective action when potential instances of corruption are detected.

The Ethics and Compliance Committee established by the Company's management is comprised of the heads of the Economic Security, Legal Services, Corporate Secretary & Administrative Services, and Human Resources Departments. The Committee's key objective is to coordinate activities among SIBUR's subsidiaries and ensure compliance with regulatory requirements, ethical business behaviour, prevention of corrupt practices and violations, and resolution of conflicts of interest.

Commissions on Ethics and Compliance were established at SIBUR's production sites and are headed by these sites' General Directors, whose authority includes investigating conflicts of interests at the sites, evaluation of detected conflicts, and developing processes to mitigate conditions that may lead to conflicts of interest among employees.

SIBUR's corporate principles require all employees to report any existing or potential conflicts of interest. A confidential hot line was set up for employees to report abuses. A dedicated security department investigates all reported cases of potential conflict of interests and makes recommendations on the course of action.

All situations that may signal a conflict of interests are investigated by the Ethics and Compliance Committee and Commissions on Ethics and Compliance.

ISSUES CONSIDERED BY ETHICS AND COMPLIANCE COMMITTEE AND COMMISSIONS MEETINGS IN 2016

In 2016 SIBUR's Ethics and Compliance Committee and Commissions held 40 meetings in total, 44 potential conflicts of interests were investigated, and each was separately evaluated and followed up with subsequent corrective actions.

SIBUR's anti-corruption and compliance strategy and policies are designed to mitigate the risk of Company management and employee involvement in corrupt activities irrespective of their position, and minimise negative consequences for the Company resulting from employee conflicts of interest.

SHARE CAPITAL AND DIVIDENDS

SHARE CAPITAL

The share capital of PJSC SIBUR Holding amounts to RR 21,784,791,000. As of 31 December 2015, the share capital consisted of 2,178,479,100 ordinary shares with a par value of RR 10 each. The state registration number is 1-02-65134-D, with a registration date of 31 May 2012.

The number of authorised shares amount to 9,653,045,500 ordinary shares and 2,500,000,000 preferred shares with a par value of RR 10 each. No preferred shares have been issued.

DIVIDENDS

Our dividend policy is aimed at increasing SIBUR's investment appeals and shareholder value.

Our capital allocation objective is to balance the financial needs of the business and returns for shareholders, while respecting shareholders' rights and complying with Russian legislation and SIBUR charter documents.

The General Shareholders' Meeting makes decisions on dividend payouts and amounts, and the timing and form of payment, based on the Board of Directors' recommendations.

The Board of Directors makes dividend recommendations based on SIBUR's payout target of 25% of the net profit for the period in our IFRS consolidated financial statements, adjusted for exceptional non-cash items[1].

Visit the Company's website to find more information on SIBUR dividend policy at: http://www.sibur.ru/en/about/corporate/documents/

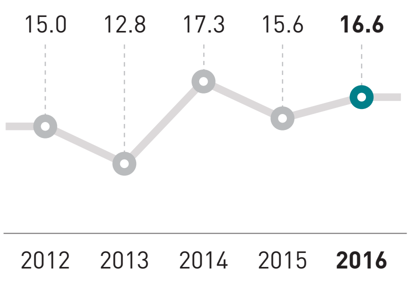
25.0%

SIBUR PAYOUT RATIO TARGETED BY OUR DIVIDEND POLICY

DIVIDENDS ACCRUED AND PAID FOR 2012-2016

Dividend accrual period	Dividend per share, RR	Dividends accrued, RR
H1 2012	3.40	7,406,828,940
H2 2012	3.50	7,624,676,850
H1 2013	2.93	6,382,943,763
H2 2013	2.93	6,382,943,763
H1 2014	3.53	7,690,031,223
H2 2014	4.42	9,628,877,622
H1 2015	3.90	8,496,068,490
H2 2015	3.24	7,058,272,284
H1 2016	3.33	7,254,335,403
H2 2016	4.30	9,367,460,130

DIVIDENDS ACCRUED AND PAID FOR 2012-2016, RR BLN



RR16.6 bln

DIVIDEND PAYOUT ON 2016 RESULTS

[1] Adjustment made since 2014.

RISK MANAGEMENT

SIBUR's sustainable development requires Company management to make decisions involving a variety of risks that need to be thoroughly evaluated and properly mitigated. Risk management is an important element of SIBUR's corporate strategy, and it involves a constant cycle of identification, assessment and mitigation of near-term and long-term risks that could affect our performance, value and ability to conduct business.

KEY GOALS

- Support for strategy implementation;
- Preservation of asset value and increase in operational efficiency.

IMPROVEMENTS IN 2016

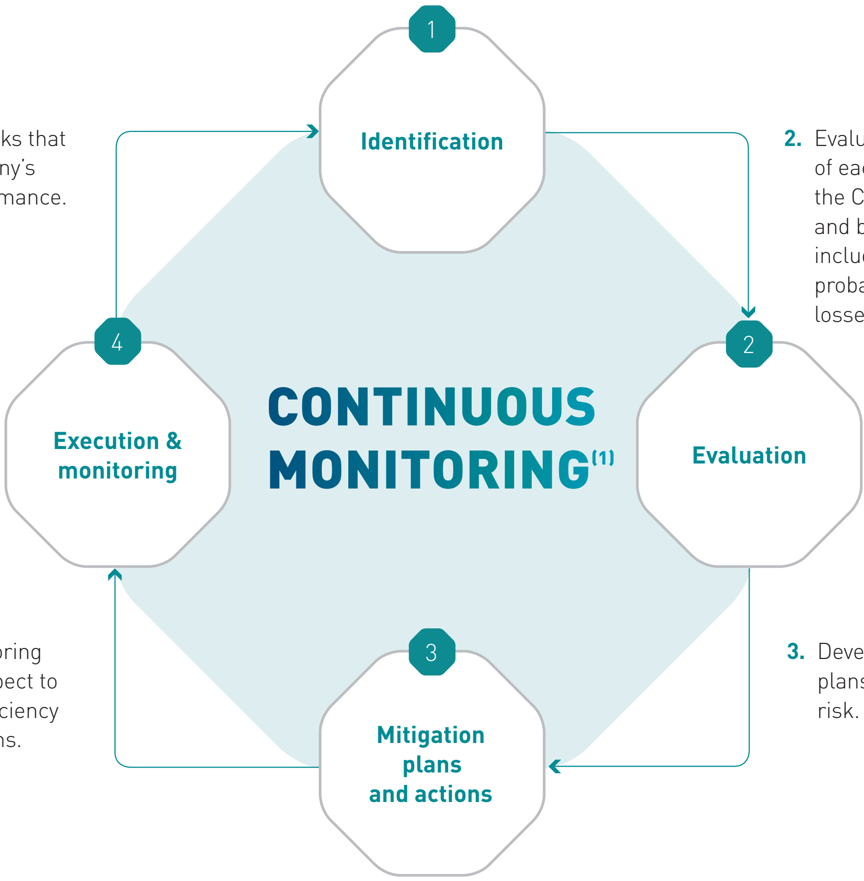
- Risk-oriented approach integrated into business planning;
- Risk detection procedures synchronised with business planning schedule;
- Conducted trainings on risk-oriented approach;
- Conducted cross-functional risk sessions;
- Key risks and respective mitigation actions included in Company business planning;
- Processes for managing key risks periodically reviewed at the Audit Committee meetings.

ONGOING DEVELOPMENTS

- Conduct regular risk update through factor analysis of business plan implementation;
- Development of methodology on evaluation of risks realisation and probabilities based on accumulated statistics;
- Development of unified corporate risks register;
- Development and implementation of strategy on key risks management for annual and 5-year periods.

1. Identification of risks that impact the Company's operational performance.

2. Evaluation and prioritisation of each risk's impact on the Company's performance and business as a whole, including an analysis of risk probabilities and possible losses.



3. Development of mitigation plans and actions for each risk.

4. Continuous monitoring of each risk in respect to timeliness and efficiency of mitigation actions.

[1] Risk owners report on the status of risks annually at the Audit Committee meetings.

RISK MANAGEMENT PRINCIPLES

Integrated approach

We apply an integrated and unified approach to risk management. Implementation of a consistent policy ensures a holistic approach across the entire risk spectrum.

Goal setting

Risks are identified simultaneously with goal-setting. To manage risks effectively, we seek to integrate risk analysis as we set business goals at all levels of the Company.

Open discussion

Risk management requires open discussion both internally and with key stakeholders. SIBUR employees take part in our risk management process, assessing risk probabilities and possible losses, providing input targeted at risk prevention and loss minimisation, which are openly discussed with managers and directors.

Lessons learned

By analysing past experience – the reasons for risk occurrences and lessons learned – and by sharing knowledge Group-wide, we aim to prevent the same issues from being repeated in other Group entities. Knowledge and experience sharing in respect to realised risks allows us to optimise risk management processes Group-wide.

Accountability

SIBUR employees at every level are responsible for the risks related to their functional and control areas. They monitor and manage risks, applying risk matrices and appropriate oversight procedures.

Decision making subject to risks

All management decisions incorporate information regarding risk probabilities and possible losses provided by internal and external sources.

All secondary effects that could arise as a consequence of mitigating primary risks are taken into account as well.

Receptivity to new ideas

Risk management requires constant assessment, flexibility and a preventive mindset in all business areas. Openness to change allows us to take advantage of new ideas and technologies and translate them into opportunities, while mitigating negative impacts.

Continuity

Risk management involves a constant cycle of interconnections and changes. All elements of our risk management system are interconnected and influence each other, and they are directly correlated with the Company's business processes and updated to reflect major changes and business developments.

RISK MANAGEMENT SYSTEM STRUCTURE

Board of Directors
Key risks[1]

Management Board
Risks at corporate level

Process owners
Risks at operational level

Production sites
Risks at production level

[1] According to the relevant Management Board resolution, key risks include events that could have a negative impact on achievement of the Group's strategic goals, and sufficiently and irreversibly damage or threaten SIBUR's business continuity.

RISK MANAGEMENT (CONTINUED)

KEY RISKS

Operating activity		
Country risk	Market risk	Operational risk
Macroeconomic risk	Logistical risk	Risk of feedstock undersupply
Regulatory risk	Industrial accident risk	IT systems risk
Investing activity		
Risk of investment project non-performance		
Financing activity		
Risks to the Company's long-run financial sustainability		

SIBUR applies its risk-oriented approach in the decision-making process and management of operations. Risks are considered an inherent part of operating the business, and risk management is built into each employee's responsibilities. Regular monitoring and evaluation is conducted in relation to the identified risks, while the Company plans and monitors the implementation of specific actions aimed at risk prevention and mitigation.

Key risks[1] and related response strategies are reviewed by the Management Board and are approved by the Board of Directors as a part of annual and long-term business plans and progress reports on implementation.

Regular updates to the list of key risks helps to guide Management and employee efforts to manage the most significant risks that could impact the Company's operations.

The current list[2] of key risks was revised in March 2016. Due to the economic and political volatility in Russia and worldwide, macroeconomic, country and regulatory risks remained the focus of management attention. Operational and feedstock undersupply risks also remained among the key factors to strengthen the Company's focus on business continuity and efficiency improvements at existing production sites.

At present, heightened economic and political volatility could have a significant impact on the Company's ability to continue its long-term investing activities. For this reason, risks to the Company's long-term financial sustainability and potential non-performance of investment projects remain key focus areas for senior management.

[1] According to the relevant Management Board resolution, key risks include events that could have a negative impact on achievement of the Group's strategic goals, and sufficiently and irreversibly damage or threaten SIBUR's business continuity.

[2] The list of risks presented herein is not exhaustive and only reflects SIBUR's opinion and estimates. This section does not include any analysis of general economic and social risks, such as slowdowns in economic growth or decreases in consumer purchasing power, among others.

OPERATING ACTIVITY

Country risk

Description

The risk is related to political conditions in Russia and regions where the Company operates. The risk is associated with the political crisis in some countries, i.e. in Ukraine, and the possibility of further sanctions imposed by the United States and the European Union (i.e. a ban on supplies of equipment, technologies, goods and services could be an example of risk implementation).

Risk mitigation actions

To reduce the risk, SIBUR diversifies its geographic mix of customers and suppliers, reduces activity in regions with uncertain economic environments, and develops alternative transportation routes.

Macroeconomic risk

Risks in the macroeconomic environment increase the potential for economic volatility in Russia and other regions where the Company operates.
These risk factors include declining oil prices, currency volatility, interest rate fluctuations and inflation.

Inflation risk

Description

Higher inflation may lead to financial losses stemming from higher operating costs, a decrease in the purchase power of available funds and the value of receivables when substantial delays in repayment take place.

Risk mitigation actions

The Group continuously takes measures to optimise its receivables and cost structure through the development of cost management programmes and improvement in current assets turnover.

Currency risk

Description

The Group's operational and financial results, liquidity, sources of financing, are affected by changes in currency exchange rates. Movements of the Russian rouble against the US dollar and the euro result in a revaluation of our liabilities denominated in these currencies.
When the Russian rouble depreciates against the US dollar or the euro, our liabilities denominated in these currencies increase in Russian rouble terms, as do interest costs on SIBUR's foreign currency denominated borrowings.

Risk mitigation actions

To minimise the effect of foreign exchange rate fluctuations on our foreign currency-denominated borrowings, SIBUR aims to match the currency split of its liabilities with the currency structure of the Company's revenues. SIBUR uses derivative instruments to hedge foreign exchange rate fluctuations impact on borrowings.

Interest rate risk

Description

The Group's interest rate risk arises primarily from long-term borrowings with floating interest rates. An increase in interest rates results in higher interest expense on borrowings, decreasing the Company's financial results.

Risk mitigation actions

SIBUR analyses its interest rate exposure on a regular basis. Financing decisions are made after careful consideration of various scenarios and may include alternative financing at fixed interest rates.

Regulatory risk

Description

Substantive changes to the legal or regulatory framework may have a negative effect on the Group's business and operations through stronger antitrust regulation and foreign exchange, tax, customs or licensing controls.
SIBUR faces particular risks with respect to regulatory increases in energy or transportation tariffs, export duties on energy products, import duties on production equipment, tighter foreign trade regulations imposed by other countries, as well as larger tax burdens or changes in judicial practices in relation to Company's legal disputes.

Risk mitigation actions

SIBUR implements an information management system that monitors and analyses the Company's counterparties, the regulatory environment and government initiatives, to enable the Group to react in a timely manner to relevant legislative and regulatory changes. SIBUR also plays an active role in discussions and the development of draft legislation, and conducts trainings of personnel on legislative matters.

Market risk

Description

SIBUR's business and operational results may be negatively affected by lower demand or reduced prices for its products, changes in consumers' requirements, higher competition as well as market share losses in its key markets. These factors may negatively affect the Company's operational and financial results.

RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Risk mitigation actions

To manage market risks, SIBUR focuses on the following key areas:

- monitoring and analysis of existing markets;
- segmental diversification;
- developing the product portfolio;
- diversification of sales geographies;
- concluding long-term agreements with both suppliers and customers;
- meeting our customers' expectations through execution and fulfillment of specifications for product quality, transportation, packaging;
- developing sales channels for customers in end markets;
- conducting pre-marketing activities.

Logistical risk

Description

SIBUR may face an increase in logistics costs, delays in the supply of feedstock and finished products, changes in quality of products when delivering its products to customers.

Limitations of the transportation infrastructure, logistical bottlenecks and damage to products during shipment could negatively affect SIBUR's ability to meet its contractual obligations related to delivery of intermediate or finished goods to customers and lead to a loss of revenue and increased logistics costs.

Risk mitigation actions

SIBUR develops alternative transportation routes, implements measures for the creation and/or development of infrastructure facilities, and develops long-term logistical solutions in cooperation with the Russian Government and SIBUR's logistics partners, including Russian Railways (RZD).

Industrial accident risk

Description

SIBUR's operational activity may be affected by accidents at the Group's production sites. Loss of containment and other factors may lead to fires, explosions, emission of toxic fumes and other hazardous conditions that could cause personnel injuries or death, property damage, environmental damage or interruption of operations, as well as costs for elimination of these damages.

Risk mitigation actions

SIBUR takes active steps to minimise the potential impact of such risks. These include continuous monitoring of assets to prevent emergencies and accidents; promotion of an industrial safety culture among employees and continuous training of personnel; and ensuring appropriate insurance coverage is in place.

Operational risk

Description

SIBUR's production may be negatively affected by unscheduled shutdowns and failures in equipment at SIBUR's production sites and those of its counterparties. Such factors as obsolescence of certain equipment, control systems failure, human error and other factors may result in a decrease in output and losses from equipment downtime, as well as additional maintenance costs.

Risk mitigation actions

To minimise the risk, SIBUR conducts modernisation and reconstruction work on processing units, continuously monitoring their condition.
SIBUR introduces advanced technologies and asset maintenance methods; provides trainings to improve technical skills of employees; and ensures appropriate insurance coverage is in place, both for property damage and potential disruptions of operations.

Risk of feedstock undersupply

Description

The lack of sufficient feedstock volumes or of certain raw materials may result in increased competition among producers for the feedstock base as well as a decline in quality and quantity of supplied feedstock.

Risk mitigation actions

SIBUR manages risk through a number of key measures:

- SIBUR's production facilities are located in close proximity to the feedstock base;
- SIBUR has long-term contracts with oil and gas companies for feedstock supplies;
- SIBUR invests in the feedstock processing and transportation infrastructure to consolidate feedstock flows and cement its access to the resource base;
- SIBUR strives to diversify its supplier base where possible.

IT systems risk

Description

SIBUR's business and operations may be negatively affected by failures of the Group's IT systems and equipment, unauthorised access to confidential information, and distortion of information during data transfers that may cause disruptions in the Group's decision-making process. In particular, the risk relates to potential negative consequences that could arise in the process of integrating IT systems on production sites within the Group. These factors may result in lower operating efficiency and affect SIBUR's operational and financial reporting.

Risk mitigation actions

To minimise IT-related risks, SIBUR has implemented and continues to develop back-up and information protection systems.

INVESTING ACTIVITY

Risk of investment project non-performance

Description

The risk covers the negative potential impacts on the timing, quality and costs of SIBUR's investment projects. SIBUR's strategic objectives include implementation of largescale investment projects and modernisation of the Group's production facilities and infrastructure. Non-conforming procurements and shortages of skilled workers could result in delays to the completion of these projects and cause actual costs to exceed planned levels, negatively affecting our future operational performance.

Risk mitigation actions

SIBUR actively develops mechanisms to make the contractor selection process more efficient, and the Group is also strengthening its in-house technical supervision capabilities to ensure appropriate design and construction quality, while implementing efficient business processes and controls to manage counterparties and contractors.

FINANCING ACTIVITY

Risk to the Company's long-run financial sustainability

Description

The risk relates to the Company's inability to meet its obligations in relation to investment and operating activities due to insufficient liquidity.

Risk mitigation actions

The Company undertakes five-year, annual, quarterly and monthly cash flow planning, monitors investment programmes, manages accounts receivable, and also analyses the impact of macroeconomic and political factors on the Company's operations.

RISK MANAGEMENT (CONTINUED)

INSURANCE

To mitigate operational risks, SIBUR maintains insurance coverage that meets global standards and best practices with reputable Russian insurance companies, with partial placement of risks on international insurance and reinsurance markets.

All of SIBUR's production facilities are covered under comprehensive property damage insurance programmes (PD). For the facilities where accidents could incur the largest financial impact and replacement costs, we maintain insurance coverage against property damage and business interruption (PD / BI).

PD insurance is maintained for full replacement value based on an independent valuation. An independent surveyor identifies risks at each production facility. Based on the surveyor's reports, estimated maximum losses are determined and we then implement and monitor compliance with the surveyor's recommendations.

SIBUR also maintains liability insurance for harm to the life, health, or property of third parties. This liability policy is supplemental to the compulsory insurance of hazardous production facilities, to provide efficient coverage against possible third-party claims resulting from accidents and risk occurrences at SIBUR's production sites.

SIBUR also maintains directors and officers liability insurance (D&O) that protects the Company and its directors and officers against possible third-party lawsuits that may arise from unintentional and/or erroneous actions.

To protect its trading operations and risks to product supplies on extended payment terms, SIBUR maintains comprehensive cargo and credit insurance programmes.

Additionally, SIBUR maintains insurance coverage for construction risks at its major investment projects, including risks related to construction, third-party liabilities, cargo transportation, and financial losses resulting from delays in commissioning of new facilities due to material damage or destruction of insured objects.

SIBUR regularly reviews the terms of its insurance coverage and relationships with reinsurance market players. Reinsurance is provided by major reinsurance companies with a credit rating of "A-" or better on the S&P Global Ratings' financial strength rating scale.

SIBUR believes that insurance coverage is only one of the risk mitigation actions it must take as part of a comprehensive risk mitigation approach, and works to implement other measures to decrease the maximum cumulative risk.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 2016 and for the year then ended (hereinafter referred to as "MD&A") in conjunction with our audited consolidated financial statements as of and for the years ended 31 December 2016 and 2015 (hereinafter referred to as the "consolidated financial statements"). The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

SELECTED DATA[1]

Operating Results

The following table presents the Group's key operational measures for the years ended 31 December 2016 and 2015:

Thousand tonnes, except as stated	**Year ended 31 December** 2016	2015	***Change*** *%*
Processing and production volumes			
APG processing[2] (million cubic metres)	22,415	21,467	*4.4%*
APG processing, SIBUR's share[3] (million cubic metres)	21,927	21,228	*3.3%*
Natural gas production[2] (million cubic metres)	19,427	18,471	*5.2%*
Natural gas production, SIBUR's share[3] (million cubic metres)	19,051	18,343	*3.9%*
Raw NGL fractionation[4]	8,177	7,773	*5.2%*
Raw NGL fractionation, SIBUR's share	7,246	6,573	*10.2%*
Sales volumes			
Natural gas (million cubic metres)	18,241	17,622	*3.5%*
LPG	4,709	4,268	*10.3%*
Naphtha	1,299	1,229	*5.7%*
Petrochemical products, *including*	3,441	3,188	*8.0%*
PP	539	461	*17.0%*
Elastomers	442	411	*7.6%*
Plastics and organic synthesis products	776	771	*0.7%*
MTBE and fuel additives sales volumes	668	602	*11.1%*

(1) In this and other tables of this MD&A, immaterial deviations in the calculation of percentage changes, subtotals and totals are explained by rounding.
(2) Including Gazprom Neft's share in the processing / production volumes of Yuzhno-Priobskiy GPP starting September 2015.
(3) Excluding Gazprom Neft's share in the processing / production volumes of Yuzhno-Priobskiy GPP starting September 2015.
(4) Including fractionation volumes under processing arrangements.

Financial Results

The following table presents the Group's key financial measures for the years ended 31 December 2016 and 2015:

RR millions, except as stated	Year ended 31 December 2016	Year ended 31 December 2015	*Change* %
Income statement highlights			
Revenue (net of VAT and export duties)	411,812	379,852	*8.4%*
Adjusted EBITDA[1]	149,157	141,663	*5.3%*
EBITDA	139,629	135,635	*2.9%*
EBITDA margin, %	*33.9%*	*35.7%*	
EBITDA of reportable segments			
Feedstock & Energy	*60,526*	*66,490*	*(9.0%)*
Olefins & Polyolefins	*48,909*	*36,895*	*32.6%*
Plastics, Elastomers & Intermediates	*31,508*	*34,166*	*(7.8%)*
Profit for the year	113,089	6,505	*n/m*
Distributable profit[2]	66,518	62,182	*7.0%*
Cash flow highlights			
Net cash from operating activities, *including*	137,694	119,102	*15.6%*
Operating cash flows before working capital changes	*142,142*	*128,916*	*10.3%*
Net cash used in investing activities, *including*	(142,243)	(123,403)	*15.3%*
Capital expenditures[3]	*(145,693)*	*(84,391)*	*72.6%*
Acquisition of interest in subsidiary, net of cash acquired	*(2,765)*	*(61,726)*	*(95.5%)*
Net cash (used in) / from financing activities, *including*	(104,718)	146,440	*n/m*
Dividends paid to SIBUR shareholders	*(16,163)*	*(18,125)*	*(10.8%)*
Net (repayment of, settlement) / proceeds from debt	*(64,036)*	*186,014*	*n/m*

	As of 31 December 2016	As of 31 December 2015
Key ratios		
Net debt[4] / EBITDA	2.0x	2.1x
EBITDA / Interest[5]	6.0x	8.3x[6]

In 2016, we continued expansion of our operations, having increased processing volumes of hydrocarbon feedstock and utilisation rate at our flagship polypropylene (PP) production in Tobolsk. Our GPPs processed 22.4 billion cubic metres of APG, a year-on-year increase of 4.4%, following the launch of Yuzhno-Priobskiy GPP in September 2015 and expansion of Vyngapurovsky GPP in March 2016. In July 2016, SIBUR completed the expansion of the raw NGL fractionation capacity, and as a result the overall fractionation volumes totaled 8.2 million tonnes, a year-on-year increase of 5.2%, which further translated in a 7.9% growth in LPG production volumes to 6.9 million tonnes. In 2016, the average capacity utilisation rate at the PP production in Tobolsk reached 93%, and our total PP output amounted to 592,911 tonnes.

In 2016, SIBUR recorded a 5.3% increase in Adjusted EBITDA[1], which totaled RR 149,157 million. Operationally the growth was primarily a result of higher PP production volumes, as well as the growth in hydrocarbon feedstock processing volumes following the recent capacity expansions. RusVinyl, our PVC joint venture, also contributed to the growth as it increased capacity load in 2016. The increase in volumes across the majority of products, was somewhat offset by the overall negative pricing environment in international markets, which was partially compensated by the Russian rouble depreciation.

(1) EBITDA adjusted for the respective portion of EBITDA of joint ventures and associates.
(2) Distributable profit is calculated as profit attributable to SIBUR shareholders adjusted for non-recurring non-cash income and expenses such as gain on acquisition of subsidiary and foreign exchange result from revaluation of loans and borrowings. In 2016, it was adjusted, inter alia, for an unrealised foreign exchange loss of 2015, which was not included in distributable profit in the previous year.
(3) Includes purchase of property, plant and equipment, intangible assets and other non-current assets.
(4) Net debt represents total debt less cash and cash equivalents.
(5) Interest represents accrued interest, i.e. includes interest expense and capitalised interest.
(6) Number changed due to reclassification of interest expense for 2015.

Our revenue increased by 8.4% year-on-year to RR 411,812 million in 2016 from RR 379,852 million in 2015 on positive dynamics in each segment:

(i) Olefins & Polyolefins segment made the highest contribution to the total revenue growth with the segment revenue increasing by 16.4% to RR 86,830 million in 2016 from RR 74,616 million in 2015 on higher PP production and sales;

(ii) Feedstock & Energy segment revenue increased by 4.3% to RR 170,708 million in 2016 from RR 163,707 million in 2015 largely due to higher sales volumes of LPG and natural gas following the recent capacity expansions;

(iii) Plastics, Elastomers & Intermediates segment revenue increased by 2.1% to RR 130,690 million in 2016 from RR 127,954 million in 2015 due to higher Elastomers revenue on higher capacity load, which was partially offset by lower revenue from MTBE and fuel additives on lower prices;

(iv) Unallocated revenue increased by 73.7% to RR 23,584 million in 2016 from RR 13,575 million in 2015, which was driven by higher revenue from NIPIGAZ services and sales of power following the acquisition of Tobolsk Heating and Power Plant in February 2016.

In 2016, our EBITDA increased by 2.9% to RR 139,629 million from RR 135,635 million. The growth was fueled by the strong performance in the Olefins & Polyolefins segment, which EBITDA increased by 32.6% to RR 48,909 million from RR 36,895 million. The increase resulted from higher PP production and sales volumes coupled with the decline in feedstock costs due to lower netbacks following the decrease in international benchmarks, partially offset by the Russian rouble depreciation. The growth was somewhat negated by lower EBITDA of Feedstock & Energy and Plastics, Elastomers & Intermediates segments on the negative dynamics in international benchmark prices.

Our net profit in 2016 totaled RR 113,089 million, while a year earlier we recorded RR 6,505 million. The increase was primarily a result of movements in currency exchange rates, as we recorded RR 48,924 million in foreign exchange gain in 2016 versus RR 63,135 million in foreign exchange loss a year earlier. Our distributable profit for 2016 increased by 7.0% year-on-year to RR 66,518 billion from RR 62,182 billion.

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

The following table provides a reconciliation of Adjusted EBITDA to profit for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
RR millions	**2016**	**2015**
Profit for the year	**113,089**	**6,505**
Income tax expense	29,463	6,814
Share of net (income) / loss from joint ventures	(6,471)	1,264
Loss on disposal of an asset held for sale	-	188
Gain on disposal of subsidiary	-	(1,012)
Result of subsidiary's acquisition	(1,666)	-
Net finance (income) / expenses	(31,284)	76,923
Equity-settled share-based payment plans	-	12,976
Impairment of property, plant and equipment	1,502	479
Depreciation and amortisation	34,996	31,498
EBITDA	**139,630**	**135,635**
Portion of EBITDA of joint ventures and associates	9,528	6,028
Adjusted EBITDA	**149,157**	**141,663**

OVERVIEW

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

Starting 2016, SIBUR introduces new segment reporting. Petrochemicals segment has been split in two segments to provide transparency on two petrochemicals sub-segments with different profitability fundamentals. Purely energy products were retained within the Feedstock & Energy segment, while MTBE and fuel additives were moved to the new Plastics, Elastomers & Intermediates segment. Figures for 2016 are published in the new breakdown with the comparables for 2015.

SIBUR has three operating and reportable segments:

- Feedstock & Energy segment comprises (i) gathering and processing of associated petroleum gas (APG) that we purchase from major Russian oil companies, (ii) transportation, fractionation and other processing of natural gas liquids (NGLs) that we produce internally or purchase from major Russian oil and gas companies, and (iii) production, marketing and sales of energy products, such as natural gas, liquefied petroleum gases (LPG) and naphtha. We sell these energy products on the Russian and international markets and use some of them as feedstock for our petrochemicals segments.
- Olefins & Polyolefins is a petrochemicals segment that produces polyolefins, such as polypropylene and polyethylene, BOPP-films, olefins comprising propylene and ethylene, which are used internally by our petrochemicals segments and sold externally (primarily sales of ethylene to RusVinyl).
- Plastics, Elastomers & Intermediates is a petrochemicals segment that produces a variety of petrochemical products, such as (i) plastics and organic synthesis products comprising PET, glycols, expandable polystyrene, alcohols and acrylates, (ii) elastomers comprising various grades of commodity and specialty rubbers and thermoplastic elastomers, (iii) methyl tertiary butyl ether (MTBE) and fuel additives, which are sold externally. The segment also produces intermediates, which are primarily used internally with a minor share being sold to the market.

As of 31 December 2016, SIBUR operated 26 production sites across Russia and employed almost 28,000 personnel[(1)]. We serve over 1,400 large customers operating in the energy, automotive, construction, fast moving consumer goods (FMCG), chemical and other industries in approximately 80 countries.

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

RECENT DEVELOPMENTS

In February 2017, Moody's changed to Stable from Negative the outlook on the "Ba1" SIBUR rating.

In January 2017, the Silk Road Fund ("SRF"), a Chinese investment fund, completed the acquisition of a 10% stake in SIBUR.

In September and December 2016, SIBUR executed two tender offers on its USD 1 billion Eurobond maturing in 2018 and bought back USD 384 million to optimise the maturity profile of its debt portfolio. Following the transactions, the outstanding debt under the Notes amounts to USD 616 million.

In September 2016, SIBUR placed rouble bonds in the amount of RR 10 billion. With a coupon period of 182 days, the bonds have a tenor of 10 years and a put option in 3 years. The par value of the bonds is RR 1,000 each. The offering price was 100% of the par value. The coupon rate was set at 9.65% per annum.

In September 2016, SIBUR upgraded and ramped up its polyolefins production in Tomsk, expanding the production site's PP and LDPE production capacities from 130 to 140 ktpa and from 245 to 270 ktpa, respectively. SIBUR's investment in the project exceeded RR 10 billion (excl. VAT).

In August 2016, SIBUR placed rouble bonds in the amount of RR 10 billion. With a coupon period of 182 days, the bonds have a tenor of 10 years and a put option in 3 years. The par value of the bonds is RR 1,000 each. The offering price was 100% of the par value. The coupon rate was set at 9.65% per annum.

In July 2016, SIBUR completed the reconstruction project at the raw NGL fractionation capacity in Tobolsk, expanding the production site's total fractionation capacity from 6.6 to 8 mtpa. SIBUR's investment in the project totaled RR 5.5 billion (excl. VAT).

In June 2016, the Company sold 44% in AO NIPIgazpererabotka ("NIPIGAZ"), representing 50% of voting shares, to companies controlled by some of SIBUR shareholders. The Company has continued to consolidate NIPIGAZ into its accounts. NIPIGAZ has a contract with Gazprom for managing a project of construction of the Amur Gas Processing Plant. Under this agreement NIPIGAZ manages and supervises the engineering work, procurement and delivery to site of equipment, materials and construction work until the mechanical completion.

In April 2016, Moody's confirmed SIBUR rating at "Ba1" with Negative outlook.

In March 2016, SIBUR completed APG processing capacity expansion and modernisation project at the Vyngapurovskiy Gas Processing Plant. The project included the increase in annual APG processing capacity at the Vyngapurovskiy GPP to 4.2 bcm from 2.8 bcm, the construction of the 114 km pipeline between the Varieganskaya compressor station and Vyngapurovskiy GPP, and the compressor station upgrade.

In March 2016, SIBUR placed rouble bonds in the amount of RR 10 billion. With a coupon period of 182 days, the bonds have a tenor of 10 years and a put option in 5 years. The par value of the bonds is RR 1,000 each. The offering price was 100% of the par value. The coupon rate was set at 10.5% per annum.

In March 2016, SIBUR was placed under review for possible downgrade by Moody's along with ratings of other private non-financial corporates rated "Ba2" and above, which reflected the decision to place Russia's government bond ratings on review for downgrade. Earlier in December 2015 Moody's updated the outlook on SIBUR from Negative to Stable, the rating was affirmed at "Ba1".

In March 2016, Fitch revised the outlook on SIBUR from Stable to Negative, the rating was affirmed at "BB+". Previously, the rating was affirmed in February 2015 with the Stable outlook.

In February 2016, SIBUR acquired 100% of the Tobolsk Heating and Power Plant ("Tobolsk HPP") from Fortum. Launched as part of the infrastructure to support Tobolsk production site, Tobolsk HPP is currently the only supplier of steam and also sells power in the wholesale market, acting as the key source of heat for the city of Tobolsk. The Tobolsk HPP has an installed capacity of 665 MW of electric power and 2,585 MW of heat.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Macroeconomic and Other Economic Trends

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

Current Macroeconomic Situation

In 2016, Russian economy withstood continued sanctions pressure and oil price shocks, when at the start of the year prices for oil reached their trough and recovered to 2015 levels by mid-year. Inflation has been falling rapidly since mid-2015, when it reached its peak.

SIBUR currently is not subject to any sanctions against certain Russian individuals and legal entities. The management believes that sanctions imposed on other Russian entities have had no material effect on SIBUR's operational or financial performance and continues to closely monitor the situation and takes preventive measures to mitigate negative effects of the changes in macroeconomic parameters.

GDP Growth

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

The following table contains selected data on year-on-year GDP growth for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
European Union (EU-15)	1.7%	2.0%
United States	1.6%	2.7%
China	6.7%	6.9%
Russia	(0.2%)	(3.7%)

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

Foreign Exchange Rate Fluctuations

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

The following table presents selected data on exchange rate movements for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
RR/USD rate at the end of the preceding period	72.8827	56.2584
RR/USD rate at the end of the reporting period	60.6569	72.8827
Average RR/USD rate	67.0349	60.9579
RR/EUR rate at the end of the preceding period	79.6972	68.3427
RR/EUR rate at the end of the reporting period	63.8111	79.6972
Average RR/EUR rate	74.2310	67.7767

Source: CBR

SIBUR's functional and reporting currency is the Russian rouble. Our sales to countries outside of Russia (42.2% and 44.3% of total revenue in 2016 and 2015, respectively) are primarily denominated in US dollars and, to a lesser extent, in euros. In many cases our domestic sales are linked to international benchmark prices quoted in US dollars and euros, however in case of substantial shifts in the Russian rouble exchange rate the adjustment of domestic selling prices can take a certain amount of time. At the same time, our expenses are primarily denominated in Russian roubles. As a result, depreciation of the Russian rouble relative to the US dollar or the euro positively affects our operational results, while appreciation of the Russian rouble relative to these currencies tends to have a negative effect on our operational results.

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

The Russian rouble on average depreciated by 10.0% relative to the US dollar and by 9.5% relative to the euro in 2016 compared to the average 2015 levels, which had a positive impact on our revenue. At the same time, the Russian rouble as of 31 December 2016 appreciated against the year-end level of 2015 by 16.8% relative to the US dollar, resulting in a substantial finance gain reported in SIBUR's consolidated financial statements for 2016, which was largely attributable to the revaluation of our foreign currency-denominated debt. A year earlier the Russian rouble as of 31 December 2015 depreciated against the year-end level of 2015 by 29.5% relative to the US dollar, resulting in a substantial finance loss reported in SIBUR's consolidated financial statements for 2015, which was largely attributable to the revaluation of our foreign currency-denominated debt.

Inflation

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

In 2016, inflation rates muted compared to 2015 as a result of contracting demand, Russian Rouble appreciation and Russian Central Bank's restrictive policy.

The following table presents selected data on inflation rates for the years ended 31 December 2016 and 2015:

	31 December	
	2016/2015	**2015/2014**
Consumer price index (CPI)	5.4%	12.9%
Producer price index (PPI)	7.4%	10.6%

Source: Russian Federal State Statistics Service

Crude Oil, Naphtha, Raw NGL and LPG Prices

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

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

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

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

The following table presents average benchmark international market prices for crude oil, naphtha and LPG for the years ended 31 December 2016 and 2015:

USD per tonne except as stated	**Year ended 31 December** 2016	2015	***Change*** *%*
Brent crude oil (USD per bbl)	43.7	52.5	*(16.7%)*
Naphtha (CIF NWE)	385.5	461.9	*(16.5%)*
LPG DAF Brest	296.4	348.4	*(14.9%)*
LPG Sonatrach for Bethioua	300.9	352.3	*(14.6%)*
LPG Argus cif ara (large)	311.8	362.9	*(14.1%)*

Source: Bloomberg, Argus

Export Duties on LPG and Naphtha

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

The export duty on LPG (excluding butane and isobutane) is formula-based and depends on the international benchmark price of LPG (LPG DAF Brest). When the market price for LPG is below USD 490 per tonne, no export duty is levied. Effective 1 January 2015, the Russian Government imposed an export duty on butane and isobutane, which is calculated as the percentage of the export duty on LPG grades excluding butane and isobutane and was set at 10% of that level for 2015 and at 20% for 2016 with successive annual increases by 10% until 2022 inclusively. As the average LPG price for the export duty rate calculation was below USD 490 per ton in both reporting periods, we applied a zero export duty rate in respect of our LPG export sales.

The export duty on naphtha is calculated as a percentage of export duties on crude oil (Urals). In January 2015, the Russian Government set the export duty on naphtha at 85% of the crude oil export duty. For 2016 this rate was set at 71% and for 2017 at 55%. The decrease in export duty rates for naphtha is implemented as part of the “tax maneuver” in the Russian oil industry.

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

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

Export duties, USD per tonne	Year ended 31 December		Change, %
	2016	**2015**	***2016 / 2015***
LPG			
excl. butane and isobutane			
At the end of the period	0.0	0.0	*n/m*
Average for the period	0.0	4.0	*n/m*
butane and isobutane			
At the end of the period	0.0	0.0	*n/m*
Average for the period	0.0	0.4	*n/m*
Naphtha (excl. pentane and isopentane)			
At the end of the period	64.1	75.1	*(14.6%)*
Average for the period	53.6	102.2	*(47.5%)*

Source: Russian Government

Natural Gas Prices

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

In 2015, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by the Regulator effective 1 July by 7.5% and remained unchanged through the end of 2016.

In November 2016, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for 2017 and planned period 2018 and 2019" stating that wholesale natural gas prices for sales to all customer categories (excluding residential customers) will be increased from 1 July 2017, 2018 and 2019 by an average of 3.9%, 3.4% and 3.1%, respectively. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

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

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

Cyclicality of the Petrochemicals Industry

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

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

Feedstock Sourcing and Mix

Types of Hydrocarbon Feedstock

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

APG is a by-product of oil production. We process APG at our gas processing plants (GPPs) to produce natural gas and raw NGL. APG accounted for 45.9% and 44.6% of our expenses related to third-party hydrocarbon feedstock purchases in 2016 and 2015, respectively. As a percentage of total feedstock and materials costs, APG accounted for 27.0% and 26.7% in 2016 and 2015, respectively.

NGLs are used as raw material by all our operating segments. Raw NGL is produced as a result of APG processing or through stabilisation of unstable gas condensate which is obtained from the processing of wet gas extracted from gas fields. LPG and naphtha are produced through fractionation of raw NGL. We also produce NGLs at our own GPPs and GFUs and also purchase them from third parties. NGLs accounted for 54.1% and 55.4% of our expenses related to third-party hydrocarbon feedstock purchases in 2016 and 2015, respectively. As a percentage of total feedstock and materials costs, NGLs accounted for 31.7% and 33.3% in 2016 and 2015, respectively.

Feedstock Sourcing

We purchase APG and NGLs from major oil and gas companies in Western Siberia, including Rosneft, Gazprom Neft, RussNeft, LUKOIL, NOVATEK and Gazprom, primarily under long-term contracts.

As of 31 December 2016, approximately 90% of our planned APG supplies for 2017 were guaranteed under multi-year supply contracts. Overall, as of 31 December 2016, our multi-year APG supply contracts had a weighted average maturity of 15.1 years. Rosneft remained our major APG supplier with 70.8% share in SIBUR’s total APG supplies in volume terms in 2016.

As of 31 December 2016, approximately 93% of our planned NGLs supplies for 2017 were guaranteed under multi-year supply contracts. Overall, as of 31 December 2016, our multi-year NGLs supply contracts had a weighted average maturity of 16.9 years. Our major external raw NGL suppliers are NOVATEK and Gazprom.

SIBUR and Gazprom Neft jointly operate Yuzhno-Priobskiy Gas Processing Plant (Yuzhno-Priobskiy GPP) with annual APG processing capacity of 900 million cubic metres, each owning 50%. Gazprom Neft supplies APG to the plant for processing into raw NGL and natural gas. SIBUR pays for 50% of the total APG volumes supplied to the plant, while the remaining 50% is processed for Gazprom Neft. SIBUR obtains 50% of all raw NGL and dry gas volumes produced, while Gazprom Neft obtains the rest. Subsequently SIBUR purchases Gazprom Neft’s share of raw NGL and sells its share of natural gas to Gazprom Neft.

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

Pricing

Oil companies produce APG as a by-product of oil extraction and by law must evacuate it from the field or otherwise utilise it. Failure to do so can result in fines and potentially jeopardise an oil company’s license to operate the field. Most oil companies in Western Siberia do not own gas processing facilities and have been reluctant to develop such facilities as this requires substantial capital investments, while oil companies prefer to invest in their core oil exploration and production business. Apart from being processed into hydrocarbon feedstock at a GPP, only limited volumes of APG can be used productively, mostly for power generation or for re-injection into the reservoir.

The Russian Government has consistently increased incentives for oil companies to utilise APG. Based on the Russian Government’s resolution issued in November 2012, penalties for APG flaring exceeding permitted thresholds (currently set at 5% of APG production volumes) have been substantially increased and become material for oil companies: effective 1 January 2013, the penalty has been increased from 4.5x the standard emission charge in 2012 to 12x the standard emission charge in 2013 and 25x the standard emission charge starting from 2014. The standard emission charges depend on the type of pollutant and are regularly indexed. According to CDU TEK, the total volume of flared APG in Russia in 2015 was 10.4 billion cubic metres or 13% of total produced volumes, while APG utilisation level totaled 87% as a percentage of produced volumes. In 2016, the total volume of flared APG in Russia was 12.4 billion cubic metres or 13% of total produced volumes, while APG utilisation remained at the previous year level of 87% as a percentage of produced volumes.

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

Currently SIBUR has two types of APG purchase contracts:

- Under first contract type, APG purchase price once agreed upon in absolute terms, is typically regularly indexed to reflect changes in the FAS regulated prices for natural gas.

- Under second contract type, the APG purchase price is indexed in line with changes in prices for APG derivatives: natural gas and raw NGL (see "Crude Oil, Naphtha, Raw NGL and LPG Prices" and "Natural Gas Prices" above).

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

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

Transportation Tariffs

We incur substantial transportation costs due to the geographic spread of our operations. For the transportation services we use railway, port facilities, trucks and multimodal transportation services. While we operate our own gas and raw NGL pipelines and railway carrier fleet, we also use third-party transportation services. Third-party transportation services accounted for 23.9% and 23.8% of our operating expenses in 2016 and 2015, respectively. Changes in transportation tariffs and prices for third-party services have a significant effect on our operating expenses.

Railway Transportation Tariffs

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

Our rail transportation costs comprise a transportation tariff charged for access to Russia's main railway and usage of locomotives (the "Railway Tariff"), which accounts for the majority of our total rail transportation costs. The Railway Tariff is charged by Russian Railways, Russia's state-owned monopoly, and is regulated by the FAS. The Railway Tariff is specific to types of products, types of carriers and their tonnage, transportation routes and the volume of a delivery. The FAS reviews the Railway Tariff on an annual basis.

Effective 1 January 2015, the FAS increased railroad transportation tariffs by 10% in accordance with the Ministry of Economic Development Forecast published in September 2014. Effective 3 January 2016, the tariff was further increased by 9%. Effective 1 January 2017, the FAS increased railroad transportation tariffs by 4% with subsequent increase by 2% effective 9 January 2017.

Effective 29 January 2015, Russian Railways implemented a 13.4% tariff surcharge for deliveries of all types of our products within the Russian Federation territory to the export markets. Effective 1 January 2017, Russian Railways ceased a 13.4% tariff surcharge for deliveries of oil derivatives to the export market. Effective 29 January 2017, Russian Railways set tariff surcharge at 10% for all types of products, while for LPG it came into effect on 12 February 2017 and was ceased for other types of oil derivatives products.

Electricity and Heat Tariffs

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

Electricity

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

The Russian electricity market has been liberalised gradually over the past few years. However, maximum levels of electricity prices remain under the supervision of the Federal Antimonopoly Service (FAS) and regional regulatory authorities. One of the most important factors that influence electricity prices is fuel cost (primarily natural gas and coal), and increases in natural gas prices tend to result in higher electricity prices. We also own and continue to expand our own electric power generating capacity in order to reduce our exposure to higher electricity prices from third-party suppliers. In 2014, SIBUR launched an 18 MW power plant at the Perm production site. In February 2016, SIBUR acquired Tobolsk Heating and Power Plant with power capacity of 665 MW. At the Group's level, internal electric power generation accounts for an insignificant share in total electricity consumption.

Heat Energy

We source heat energy in the form of steam and hot water from regional suppliers at regulated prices. Heat energy prices are also largely dependent on prices for natural gas. In order to minimise dependence on third-party providers, we generate a substantial portion of heat energy at our own production sites. In February 2016, SIBUR acquired Tobolsk Heating and Power Plant with the capacity of 2,585 MW (or 2,223 gigacalories) of heat. The Plant is the only supplier of steam for SIBUR's Tobolsk production site. As a result, in 2016 we increased the share of internally generated heat to 73% from 53% a year earlier.

The following table presents volumes purchased and effective average prices for electricity and heat tariffs for the years ended 31 December 2016 and 2015:

	Year ended 31 December				Change %	
	2016		2015			
	Volume	Average tariff	Volume	Average tariff	Volume	Average tariff
Electricity (millions of kw·hour or RR per kw·hour)	10,025	2.12	9,462	2.06	6.0%	2.9%
Heat (thousands of gigacalories or RR per gigacalorie)	5,753	962	9,586	759	(40.0%)	26.7%

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

The following table presents selected data on our results of operations for the years ended 31 December 2016 and 2015:

	Year ended 31 December				*Change*
RR millions, except as stated	**2016**	*% of revenue*	**2015**	*% of revenue*	*%*
Revenue	**411,812**	***100.0%***	**379,852**	***100.0%***	***8.4%***
Feedstock & Energy	170,708	*41.5%*	163,707	*43.1%*	*4.3%*
Plastics, Elastomers & Intermediates	130,690	*31.7%*	127,954	*33.7%*	*2.1%*
Olefins & Polyolefins	86,830	*21.1%*	74,616	*19.6%*	*16.4%*
Unallocated	23,584	*5.7%*	13,575	*3.6%*	*73.7%*
Operating expenses before equity-settled share-based payment plans	(308,681)	*(75.0%)*	(276,194)	*(72.7%)*	*11.8%*
Equity-settled share-based payment plans	-	-	(12,976)	*(3.4%)*	*n/m*
Operating expenses	(308,681)	*(75.0%)*	(289,170)	*(76.1%)*	*6.7%*
Operating profit	**103,131**	***25.0%***	**90,682**	***23.9%***	***13.7%***
Net finance income / (expenses)	31,284	*7.6%*	(76,923)	*(20.3%)*	*n/m*
Result of subsidiary's acquisition	1,666	*0.4%*	-	-	*n/m*
Gain on disposal of subsidiary	-	-	1,012	*0.3%*	*n/m*
Loss on disposal of assets held for sale	-	-	(188)	*0.0%*	*n/m*
Share of net income / (loss) of joint ventures and associates	6,471	*1.6%*	(1,264)	*(0.3%)*	*n/m*
Profit before income tax	**142,552**	***34.6%***	**13,319**	***3.5%***	*n/m*
Income tax expense	(29,463)	*(7.2%)*	(6,814)	*(1.8%)*	*n/m*
Profit for the year	**113,089**	***27.5%***	**6,505**	***1.7%***	*n/m*
Profit for the year, including attributable to:	**113,089**	***27.5%***	**6,505**	***1.7%***	***n/m***
Non-controlling interest	1,950	*0.5%*	254	*0.1%*	*n/m*
Shareholders of SIBUR	111,139	*27.0%*	6,251	*1.6%*	*n/m*

Revenue

In 2016, our revenue increased by 8.4% year-on-year to RR 411,812 million from RR 379,852 million in 2015 on positive dynamics across all segments:

(i) Polyolefins & Olefins segment made the highest contribution to the total revenue growth with the segment revenue increasing by 16.4% to RR 86,830 million in 2016 from RR 74,616 million in 2015 on the increase in the average capacity utilisation rate at our polypropylene production site in Tobolsk;

(ii) Feedstock & Energy segment revenue increased by 4.3% to RR 170,708 million in 2016 from RR 163,707 million in 2015 largely due to higher sales volumes of LPG and natural gas following the recent capacity expansions;

(iii) Plastics, Elastomers & Intermediates segment revenue increased by 2.1% to RR 130,690 million in 2016 from RR 127,954 million in 2015 due to higher Elastomers revenue on higher capacity load, which was partially offset by lower revenue from MTBE and fuel additives on lower prices;

(iv) Unallocated revenue increased by 73.7% to RR 23,584 million in 2016 from RR 13,575 million in 2015, which was driven by higher revenue from NIPIGAZ services and sales of power following the acquisition of Tobolsk Heating and Power Plant in February 2016.

For a detailed discussion on results in each operating segment see "Segment Information".

Operating Expenses

The following table presents a breakdown of our operating expenses for the years ended 31 December 2016 and 2015:

RR millions, except as stated	Year ended 31 December 2016	% of revenue	2015	% of revenue	Change %
Feedstock and materials	82,993	*20.2%*	83,931	*22.1%*	*(1.1%)*
Transportation and logistics	73,738	*17.9%*	65,815	*17.3%*	*12.0%*
Energy and utilities	37,716	*9.2%*	28,397	*7.5%*	*32.8%*
Depreciation and amortisation	34,996	*8.5%*	31,498	*8.3%*	*11.1%*
Staff costs	34,510	*8.4%*	30,658	*8.1%*	*12.6%*
Goods for resale	14,182	*3.4%*	11,929	*3.1%*	*18.9%*
Services provided by third parties	9,484	*2.3%*	6,946	*1.8%*	*36.5%*
Repairs and maintenance	8,534	*2.1%*	8,620	*2.3%*	*(1.0%)*
Taxes other than income tax	2,246	*0.5%*	1,923	*0.5%*	*16.8%*
Processing services of third parties	2,040	*0.5%*	981	*0.3%*	*107.9%*
Charity and sponsorship, marketing and advertising	1,727	*0.4%*	1,269	*0.3%*	*36.0%*
Charity and sponsorship	*950*	*0.2%*	*816*	*0.2%*	*16.4%*
Marketing and advertising	*777*	*0.2%*	*453*	*0.1%*	*71.5%*
Impairment of PPE	1,502	*0.4%*	479	*0.1%*	*213.5%*
Rent expenses	1,256	*0.3%*	973	*0.3%*	*29.1%*
Loss on disposal of PPE	172	*0.0%*	244	*0.1%*	*(29.4%)*
Impairment of assets held for sale	-	-	479	*0.1%*	*n/m*
Other	3,869	*0.9%*	3,940	*1.0%*	*(1.8%)*
Change in work-in-progress and refined products balances	(284)	*(0.1%)*	(1,409)	*(0.4%)*	*(79.8%)*
Operating expenses before equity-settled share-based payment plans	**308,681**	***75.0%***	**276,194**	***72.7%***	***11.8%***
Equity-settled share-based payment plans	-	-	12,976	*3.4%*	*(100.0%)*
Operating expenses	**308,681**	***75.0%***	**289,170**	***76.1%***	***6.7%***

In 2016, our operating expenses increased by 6.7% to RR 308,681 million as compared to RR 289,170 million a year earlier. The increase was primarily attributable to higher transportation, logistics and rent expenses on the railway tariff indexation and higher transported volumes, as well as the increase in energy and utilities expenses due to a provision release in 2015. Final vesting under the equity-settled share-based payment plans for directors and key management in 2015 and the related non-cash charge in the amount of RR 12,976 million was a compensating factor. As a percentage of total revenue, our operating expenses decreased to 75.0% in 2016 from 76.1% in 2015.

Feedstock and Materials

In 2016, our feedstock and materials costs decreased by 1.1% to RR 82,993 million from RR 83,931 million in 2015. As a percentage of total revenue, feedstock and materials costs decreased to 20.2% from 22.1% in 2015. The decrease was largely driven by lower expenses related to purchases of hydrocarbon feedstock due to the decrease of the respective export netbacks, partially offset by higher purchases of benzene and other feedstock & materials.

The following table presents information on our costs related to purchasing of feedstock and materials for the years ended 31 December 2016 and 2015:

RR millions, except as stated	Year ended 31 December 2016	% of feedstock and materials expenses	2015	% of feedstock and materials expenses	Change %
NGLs	26,326	*31.7%*	27,908	*33.3%*	*(5.7%)*
APG	22,376	*27.0%*	22,426	*26.7%*	*(0.2%)*
Paraxylene	6,697	*8.1%*	6,478	*7.7%*	*3.4%*
Benzene	4,169	*5.0%*	3,620	*4.3%*	*15.2%*
Other feedstock and materials	24,944	*30.1%*	24,512	*29.2%*	*7.9%*
Change of stock	(1,519)	*(1.8%)*	(1,013)	*(1.2%)*	*199.5%*
Feedstock and materials, total	**82,993**	***100%***	**83,931**	***100%***	***(1.1%)***

The following table presents selected data on our feedstock purchasing volumes for the years ended 31 December 2016 and 2015[(1)]:

Tonnes, except as stated	Year ended 31 December 2016	2015	*Change %*
NGLs	3,413,144	2,844,814	*20.0%*
APG (thousand cubic metres)	21,927,209	21,227,997	*3.3%*
Paraxylene	171,034	180,947	*(5.5%)*
Benzene	140,006	128,084	*9.3%*

In 2016, our expenses related to purchases of NGLs decreased by 5.7% to RR 26,326 million from RR 27,908 million in 2015, increasing as a percentage of total feedstock and materials to 31.7% from 33.1%. The decrease in expenses was attributable to a 21.4% decrease in the effective average purchase price, which was largely offset by a 20.0% increase in purchasing volumes. The decrease in the effective average purchase price was a result of the respective export netbacks dynamics. The increase in purchasing volumes by 20.0% year-on-year was largely attributable to higher raw NGL purchases under the long-term contract with NOVATEK.

In 2016, our expenses related to purchases of APG remained largely flat at RR 22,376 million compared to RR 22,426 million in 2015, increasing as a percentage of total feedstock and materials to 27.0% from 26.7%. The decrease in our average purchase price by 3.4% was fully offset by a 3.3% increase in purchasing volumes. The decrease in the effective average purchase prices was a result of the negative dynamics in netbacks for liquids, partially offset by the indexation of regulated natural gas prices of 7.5% as of 1 July 2015. The increase in purchasing volumes was largely attributable to APG processing capacities expansion.

In 2016, our expenses related to paraxylene purchases increased by 3.4% to RR 6,697 million from RR 6,478 million in 2015, increasing as a percentage of total feedstock and materials expenses to 8.1% from 7.7%. The growth in expenses was attributable to a 9.4% increase in purchase price despite a 5.5% decrease in purchasing volumes. The increase in the effective average purchase prices was a result of Russian rouble depreciation, while international benchmark prices decreased year-on-year, as well as changes in contracts with our suppliers. The decrease in paraxylene purchasing volumes was attributable to lower production volumes of terephthalic acid due to longer maintenance shutdowns at our production site in Blagoveshchensk in 2016 compared to 2015.

In 2016, our expenses related to benzene purchases increased by 15.2% to RR 4,169 million from RR 3,620 million in 2015, increasing as a percentage of total feedstock and materials expenses to 5.0% from 4.3%. The growth in expenses was attributable to a 9.3% increase in purchasing volumes and a 5.4% increase in the effective average purchase price. The increase in benzene purchasing volumes was largely attributable to higher purchases of benzene from certain suppliers, which was fully offset by higher sales volumes. The increase in the effective average purchase prices was a result of temporary shortage on the domestic market caused by shutdowns of third-party production facilities.

In 2016, other feedstock and materials expenses increased by 7.9% to RR 23,319 million from RR 20,745 million in 2015, increasing as a percentage of total feedstock and materials expenses to 31.9% from 29.2%. The increase was largely related to higher purchases of materials, partially compensated by a reversal in the change of stock, as well as changes in perimeter and Russian rouble depreciation.

Transportation and Logistics

In 2016, our transportation and logistics expenses increased by 12.0% to RR 73,738 million from RR 65,815 million in 2015, increasing as a percentage of total revenue to 17.9% from 17.3%. The growth in expenses was largely attributable to (i) a 9.0% increase in railroad transportation tariffs by the FAS in January 2016 (see "Transportation Tariffs" in "Certain Factors Affecting Our Results of Operations"), (ii) higher transported volumes, mainly LPG, polypropylene and elastomers, which was also reflected in our revenue from sales of the respective products, as well as (iii) higher transshipment expenses following the deconsolidation of Ust-Luga terminal in November 2015, as well as (iv) Russian rouble depreciation, which affected our international transportation expenses.

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

Energy and Utilities

In 2016, our energy and utilities expenses increased by 32.8% to RR 37,716 million from RR 28,397 million in 2015, increasing as a percentage of total revenue to 9.2% from 7.5%.

The growth was primarily attributable to one-off factors such as (i) low base of 2015 year due to the release of the provision in the amount of RR 4,617 million (OAO Tyumenenergo lawsuit closed in July 2015) and (ii) Tobolsk HPP consolidation from February 2016 and consequently higher fuel and electricity consumption volumes, which was fully offset by lower external purchases of heat and higher revenue from sales of heat and energy to third parties. Operationally, the growth of energy and utilities expenses was driven by the production growth and higher energy and utilities tariffs. Our effective average electricity tariffs were up by 3.3%, our effective average heat tariffs were up by 26.8%, as we consolidated Tobolsk HPP, which supplied heat at relatively low tariffs compared to other suppliers.

The following table presents data on our energy and utilities costs for the years ended 31 December 2016 and 2015:

	Year ended 31 December				
RR millions, except as stated	**2016**	***% of total energy and utilities***	**2015**	***% of total energy and utilities***	***Change %***
Electricity	21,706	*57.6%*	15,081	*53.1%*	*43.9%*
Heat	5,553	*14.7%*	7,227	*25.4%*	*(23.2%)*
Fuel	8,181	*21.7%*	3,963	*14.0%*	*106.4%*
Other	2,275	*6.0%*	2,126	*7.5%*	*7.0%*
Energy and utilities, total	**37,716**	***100.0%***	**28,397**	***100.0%***	***32.8%***

Depreciation and Amortisation

In 2016, our depreciation and amortisation expenses increased by 11.1% to RR 34,996 million from RR 31,498 million in 2015, increasing as a percentage of total revenue to 8.5% from 8.3%. The growth in expenses was attributable to the commissioning of new production facilities following the capacity expansion and modernisation projects in our site in Tobolsk in 2016, as well higher depreciation and amortisation following the acquisition of Tobolsk HPP.

Staff Costs

In 2016, our staff costs increased by 12.6% year-on-year to RR 34,510 million from RR 30,658 million in 2015, increasing as a percentage of total revenue to 8.4% from 8.1%. The growth in expenses was primarily attributable to (i) growth in the headcount of NIPIGAZ as a result of the expansion in their project portfolio, (ii) changes in the perimeter due to the consolidation of Tobolsk HPP and IT-service company that previously functioned on outsourcing basis, as well as (iii) movement in bonus provisions. Our average headcount totaled 27,722 employees in 2016.

Goods for Resale

In 2016, our expenses related to purchases of goods for resale increased by 18.9% to RR 14,182 million from RR 11,929 million in 2015, decreasing as a percentage of total revenue to 3.4% from 3.1%. The increase in expenses was driven by a temporary naphtha trading arrangement.

Services Provided by Third Parties

In 2016, our expenses related to services provided by third parties increased by 36.5% to RR 9,484 million from RR 6,946 million in 2015, increasing as a percentage of total revenue to 2.3% from 1.8% in 2015. The growth in expenses was primarily attributable to the expenses of NIPIGAZ related to the subcontractors.

Repairs and Maintenance

In 2016, our repairs and maintenance expenses decreased by 1.0% to RR 8,534 million from RR 8,620 million in 2015, decreasing as a percentage of total revenue to 2.1% from 2.3% in 2015. The decrease was mainly attributable to changes in the perimeter.

Taxes other than Income Tax

In 2016, our taxes other than income tax increased by 16.8% to RR 2,246 million from RR 1,923 million in 2015, remaining flat as a percentage of total revenue at 0.5%. The increase was mainly attributable to Tobolsk HPP consolidation, as well as commissioning of new production facilities following the capacity expansion and modernisation projects at our production site in Tobolsk.

Processing Services of Third Parties

In 2016, our expenses related to third-party processing services increased twice and totalled RR 2,040 million versus RR 981 million in 2015, increasing as a percentage of total revenue to 0.5% from 0.3%. The growth in expenses was largely attributable to higher APG processing expenses due to launch of Yuzhno-Priobskiy GPP (JV with Gazprom Neft) in September 2015.

Charity and Sponsorship, Marketing and Advertising

In 2016, our combined expenses related to charity and sponsorship, marketing and advertising increased by 36.0% to RR 1,726 million from RR 1,269 million in 2015, increasing as a percentage of total revenue to 0.4% from 0.3%. The growth in expenses was related to higher expenses related to sponsorship of sports organisations.

Equity-Settled Share-Based Payment Plans

In the first quarter of 2015, the Equity-Settled Share-Based Payment Plans was modified by shareholders. As a result the shares granted were immediately vested and the remaining tranches were expensed in the amount of RR 12,976 million in 2015 (see Appendix II for further details).

Operating Profit

In 2016, our operating profit increased by 13.7% year-on-year to RR 103,131 million from RR 90,682 million. Net of the non-cash charge related to the equity-settled share-based payment plans, our operating profit remained flat and totalled RR 103,131 million versus RR 103,658 million in 2015. The corresponding operating margin totaled 25.0% and 27.3% in 2016 and 2015, respectively.

Net Finance Income / (Expense)

In 2016, we reported a net finance income of RR 31,284 million compared to a net finance expense of RR 76,923 million in 2015, which was largely attributable to the foreign exchange gain incurred in 2016.

The following table presents data on our finance income and expenses for the years ended 31 December 2016 and 2015:

	Year ended 31 December		***Change***
RR millions, except as stated	**2016**	**2015**	***%***
Interest income	1,013	1,412	*(28.3%)*
Interest expense	(13,880)	(12,387)	*12.1%*
Foreign exchange gain/(loss)	48,924	(63,135)	*n/m*
Other finance expense	(4,773)	(2,813)	*69.6%*
Total finance income/(expense)	**31,284**	**(76,923)**	***n/m***

In 2016, we recorded a non-cash foreign exchange gain in the amount of RR 48,924 million compared to a non-cash foreign exchange loss of RR 63,135 million reported in 2015. The substantial gain from financing activities was attributable primarily to the revaluation of US dollar-denominated debt, as

RR/USD rate increased by 16.8% to 60.6569 as of 31 December 2016 from 72.8827 as of 31 December 2015.

n 2016, our interest expense increased by 12.1% to RR 13,880 million from RR 12,387 million in 2015 largely due to the movements in our credit portfolio.

Result of Subsidiary's Acquisition

In 2016, the non-cash result on acquisition of subsidiary amounted to RR 1,666 million following the acquisition of Tobolsk HPP from OAO Fortum in February 2016.

Gain on Disposal of Subsidiary

In 2015, we recognised a gain of RR 1,012 million on disposal of OOO SIBUR-Portenergo.

Loss on disposal of assets held for sale

In 2015, we recognised a loss of RR 188 million.

Share of net income of joint ventures and associates

In 2016, we recorded a net income of joint ventures and associates in the amount of RR 6,471 million compared to a net loss of RR 1,264 million reported in 2015. The increase was largely attributable to the higher income of OOO RusVinyl due to higher production volumes and selling prices.

Income Tax Expense

In 2016, our income tax expense amounted to RR 29,463 million compared to RR 6,814 million in 2015. The increase was driven by higher pre-tax profit on higher operating profit and foreign exchange gain as opposed to the foreign exchange loss a year earlier.

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

In 2016, our profit increased to RR 113,089 million from RR 6,505 million in 2015 on factors described above. Our net margin totaled 27.5% and 1.7% in the 2016 and 2015, respectively. In 2016, profit attributable to shareholders of SIBUR increased to RR 111,139 million from RR 6,251 million in 2015.

SEGMENT INFORMATION

The following table presents selected financial information by segment for the years ended 31 December 2016 and 2015:

RR millions, except as stated	**Year ended 31 December** 2016	2015	***Change*** *%*
External Revenue			
Feedstock & Energy	170,708	163,707	*4.3%*
Olefins & Polyolefins	86,830	74,616	*16.4%*
Plastics, Elastomers & Intermediates	130,690	127,954	*2.1%*
Unallocated	23,584	13,575	*73.7%*
TOTAL	**411,812**	**379,852**	***8.4%***
EBITDA			
Feedstock & Energy	60,526	66,490	*(9.0%)*
Olefins & Polyolefins	48,909	36,895	*32.6%*
Plastics, Elastomers & Intermediates	31,508	34,166	*(7.8%)*
Unallocated	(1,314)	(1,916)	*(31.4%)*
TOTAL	**139,629**	**135,635**	***2.9%***
EBITDA margin			
Feedstock & Energy	*30.9%*	*35.1%*	
Olefins & Polyolefins	*45.5%*	*38.8%*	
Plastics, Elastomers & Intermediates	*23.8%*	*26.4%*	
Unallocated	*n/m*	*n/m*	
TOTAL	***33.9%***	***35.7%***	
Adjusted EBITDA[1]			
Feedstock & Energy	61,211	66,819	*(8.4%)*
Olefins & Polyolefins	57,752	42,594	*35.6%*
Plastics, Elastomers & Intermediates	31,508	34,166	*(7.8%)*
Unallocated	(1,314)	(1,916)	*(31.4%)*
TOTAL	**149,157**	**141,663**	***5.3%***

[1] EBITDA adjusted for the respective portion of EBITDA of joint ventures and associates.

Feedstock & Energy Segment

The following table presents selected financial information for the Feedstock & Energy segment for the years ended 31 December 2016 and 2015:

	Year ended 31 December				
RR millions, except as stated	**2016**	***% of external revenue***	**2015**	***% of external revenue***	***Change %***
Total Segment Revenue	196,025		189,529		*3.4%*
External Revenue	170,708		163,707		*4.3%*
LPG	88,839	*52.0%*	82,926	*50.7%*	*7.1%*
Natural gas	45,958	*26.9%*	42,991	*26.3%*	*6.9%*
Naphtha	30,846	*18.1%*	31,445	*19.2%*	*(1.9%)*
Raw NGL	2,701	*1.6%*	3,669	*2.2%*	*(26.4%)*
Other sales	2,364	*1.4%*	2,677	*1.6%*	*(11.7%)*
EBITDA	60,526		66,490		*(9.0%)*
EBITDA margin	*30.9%*		*35.1%*		
Adj. EBITDA	61,211		66,819		*(8.4%)*

External Revenue

In 2016, our Feedstock & Energy external revenue increased by 4.3% to RR 170,708 million from RR 163,707 million in 2015 largely due to higher sales volumes of LPG and natural gas, which was additionally supported by the indexation of natural gas prices and partially offset by the negative dynamics of prices for liquids.

Liquefied Petroleum Gases (LPG)

In 2016, our revenue from LPG sales increased by 7.1% to RR 88,839 million from RR 82,926 million in 2015 on a 10.3% increase in sales volumes, partially offset by a 2.9% decrease in the effective average selling price.

The increase in our sales volumes was largely attributable to a 12.8% production growth, which was partially offset by higher supplies to our petrochemicals business. The increase in our production volumes was a result of fractionation capacity expansion in Tobolsk in the middle of 2016, as well as higher purchases of raw NGL from NOVATEK. These factors were partially offset by higher LPG supplies to our petrochemicals business following (i) increase in supplies to our crackers in Kstovo and Tomsk following a temporary replacement with raw NGL a year ago, and (ii) a year-on-year increase in capacity utilisation rate at our polypropylene production site in Tobolsk that consumes propane as feedstock.

The decrease in our effective average selling price was driven by different dynamics on export and domestic markets. Our export selling price decreased following the negative dynamics of international market prices partially compensated by the Russian rouble depreciation. The increase in the domestic effective average selling price despite lower international market prices was largely a result of (i) Russian rouble depreciation, (ii) growing demand on the domestic market, as well as (iii) the change in certain sales contracts.

In 2016, domestic sales accounted for 24.1% of total LPG revenue, while 75.9% was attributable to export sales.

Natural Gas

In 2016, our revenue from natural gas sales increased by 6.9% to RR 45,958 million from RR 42,991 million in 2015 on a 3.5% increase in sales volumes and a 3.3% increase in the effective average selling price. The growth in natural gas sales volumes was attributable to a 3.9% growth in production on higher volumes of APG processing following the recent capacity expansions. The increase in our effective average selling price was driven by an indexation of the regulated natural gas prices of 7.5% as of 1 July 2015. We sell 100% of our natural gas in Russia.

Naphtha

In 2016, our revenue from naphtha sales decreased by 1.9% to RR 30,846 million from RR 31,445 million in 2015 on a 7.2% decrease in the effective average selling price despite a 5.7% increase in sales volumes.

The decrease in our effective average selling price was driven by the negative dynamics of international market prices, as well as depreciation of the Russian rouble and lower export duties that on average decreased by 47.5% year-on-year in US dollar terms.

The increase in sales volumes was largely attributable to the launch of a temporary trading arrangement. Our naphtha production increased by 3.2% year-on-year following the fractionation capacity expansion in Tobolsk. We also increased third-party purchases of naphtha for further processing. Additionally available volumes were fully utilised internally by the Group, which resulted in higher naphtha supplies to our crackers in Kstovo and Tomsk, while a year ago they temporarily consumed larger volumes of raw NGL.

In 2016, our share of export sales decreased to 82.8% of total naphtha revenue from 91.7% in 2015, while 17.2% and 8.3%, respectively, were derived from domestic sales. The change in the sales mix was largely attributable to higher sales under trading arrangement with one of our domestic suppliers.

Raw NGL

In 2016, our revenue from raw NGL sales decreased by 26.4% to RR 2,701 million from RR 3,669 million in 2015 on an 18.5% decrease in the effective average selling price and a 9.7% decrease in sales volumes.

The decrease in effective average selling price was driven by negative dynamics of international market prices as well as a temporary increase of raw NGL available for external sales in first half of 2016 year pending the fractionation capacity expansion and consequently lower effective average selling price in this period. These factors were partially mitigated by the Russian rouble depreciation.

In 2016, raw NGL production at our GPPs increased by 2.4%. However, the volumes attributable to SIBUR were almost flat, which was a result of lower production at our fully owned GPPs, while production at the JV with Gazprom Neft (Yuzhno-Priobskiy GPP launched in September 2015) increased. In 2016, we increased third-party purchases of raw NGL by 20.0% year-on-year, primarily under the long-term supply contract with NOVATEK. The decrease in sales volumes, despite increased availability of raw NGL, was a result of the expansion of fractionation capacity in Tobolsk in the middle of 2016. Following the launch of the expanded capacity, SIBUR ceased external sales of raw NGL and plans to fully utilise it internally for the production of LPG and naphtha.

In 2016, domestic sales accounted for 26.2% of total raw NGL revenue, while 73.8% was attributable to export sales.

EBITDA

In 2016, our Feedstock & Energy EBITDA decreased by 9.0% year-on-year to RR 60,526 million from RR 66,490 million primarily due to (i) lower international benchmark prices for liquids, (ii) release of a RR 4,617 million provision in 2015 (the provision was previously accrued in relation to the litigation of OOO Yugragazpererabotka with OAO Tyumenenergo, until the respective lawsuit was closed in July 2015), as well as (iii) higher operating expenses, mainly related to transportation and logistics, energy and utilities *(see "Operating expenses" in "Results of operations")*. This decrease was partially compensated by higher sales volumes of LPG, naphtha and natural gas following the recent expansions of our feedstock processing infrastructure.

In 2016, the segment EBITDA margin totaled 30.9% as compared to 35.1% a year ago. The lower margin was attributable to the provision release as discussed above, as well as tighter spreads between selling prices and feedstock purchase prices.

Olefins & Polyolefins Segment

The following table presents selected financial information for the Olefins & Polyolefins segment for the years ended 31 December 2016 and 2015:

	Year ended 31 December				
RR millions, except as stated	**2016**	***% of external revenue***	**2015**	***% of external revenue***	***Change %***
Total Segment Revenue	107,426		95,063		*13.0%*
External Revenue	86,830		74,616		*16.4%*
PP	39,302	*45.3%*	32,066	*43.0%*	*22.6%*
PE	20,923	*24.1%*	18,820	*25.2%*	*11.2%*
BOPP-films	18,509	*21.3%*	17,066	*22.9%*	*8.4%*
Olefins	5,072	*5.8%*	3,899	*5.2%*	*30.1%*
Other polymers products	2,344	*2.7%*	2,118	*2.8%*	*10.7%*
Other sales	680	*0.8%*	647	*0.8%*	*9.0%*
EBITDA	48,909		36,895		*32.6%*
EBITDA margin	*45.5%*		*38.8%*		
Adj. EBITDA	57,752		42,594		*35.6%*

External Revenue

In 2016, our Olefins & Polyolefins segment external revenue increased by 16.4% to RR 86,830 million from RR 74,616 million in 2015. The increase was largely driven by higher polyolefins revenue attributable to a year-on-year increase in the average capacity utilisation rate at our polypropylene production site in Tobolsk and higher average selling prices for PP and LDPE. Increase in revenue from BOPP-films additionally contributed to the segment's revenue growth, which was a result of higher sales volumes and effective average selling prices.

Polypropylene (PP)

In 2016, our revenue from sales of PP increased by 22.6% to RR 39,302 million from RR 32,066 million in 2015 on a 17.0% increase in sales volumes and a 4.8% increase in the effective average selling price.

Our PP sales volumes growth was primarily attributable to a 14.8% increase in production due to an increase in capacity utilization rate at our polypropylene production site in Tobolsk from 76% in 2015 to 93% in 2016. This was partially offset by lower PP production at our site in Tomsk due to a lengthy scheduled shutdown as part of capacity expansion investment project. Our effective selling prices for PP increased despite lower international market prices mainly due to favourable environment on the domestic market in the mid-2016. In 2016, domestic sales accounted for 60.3% of total PP revenue, while 39.7% was attributable to export sales.

Low Density Polyethylene (LDPE)

In 2016, our revenue from sales of LDPE increased by 11.2% to RR 20,923 million from RR 18,820 million in 2015 on a 14.0% increase in the effective average selling price despite a 2.4% decrease in sales volumes. The increase in the effective average selling price for LDPE reflected lower international market prices supported by the Russian rouble depreciation and temporary shortage on the domestic market in the mid-year caused by unscheduled shutdowns of third-party production facilities. The decrease in LDPE sales volumes on largely flat production was attributable to lagged sales of inventories accumulated pending maintenance shutdown at our production site in Tomsk. In 2016, domestic sales accounted for 76.9% of total LDPE revenue, while 23.1% was attributable to export sales.

BOPP-films

In 2016, our revenue from BOPP-film sales increased by 8.5% to RR 18,509 million from RR 17,066 million in 2015 on a 5.3% growth in sales volumes and a 3.0% increase in the effective average selling price. Higher sales volumes were largely attributable to a 3.9% production growth on higher capacity utilisation rates and lower inventory accumulation. The increase in the effective average selling price was largely driven by increased domestic consumption and continuing optimisation in grades and export geographies sales mix, despite negative dynamics of international market prices. In 2016, domestic sales accounted for 69.3% of total BOPP-film revenue, while 30.7% was attributable to export sales.

Olefins (Ethylene)

In 2016, our external revenue from olefins sales represented by ethylene increased by 30.1% to RR 5,072 million from RR 3,899 million in 2015. The increase was largely attributable to higher sales volumes to our JV RusVinyl due to the increase in production resulted from shorter maintenance shutdowns at our production site in Kstovo compared to the previous year. We sell 100% of our ethylene in Russia.

EBITDA

In 2016, our Olefins & Polyolefins EBITDA increased by 32.6% year-on-year to RR 48,909 million from RR 36,895 million primarily on (i) higher sales volumes of PP resulted from increased average capacity utilisation rate at our PP production site in Tobolsk (from 76% in 2015 to 93% in 2016), (ii) higher average selling prices for PP and PE on the back of favourable environment on the domestic market, as well as (iii) higher operating expenses, mainly related to transportation and logistics, energy and utilities *(see "Operating expenses" in "Results of operations").* Lower feedstock costs resulted from lower netbacks following the decrease in international benchmarks and partially offset by Russian rouble depreciation were an additional supportive factor.

In 2016, the segment EBITDA margin totaled 45.5%, a year-on-year increase from 38.8%. Higher margin was attributable to (i) higher share of polypropylene produced in Tobolsk, which is more marginal, in total segment sales mix, and (ii) wider spreads between PP and liquids international benchmark prices.

Plastics, Elastomers & Intermediates Segment

The following table presents selected financial information for the Plastics, Elastomers & Intermediates segment for the years ended 31 December 2016 and 2015:

	Year ended 31 December				
RR millions, except as stated	**2016**	***% of external revenue***	**2015**	***% of external revenue***	***Change %***
Total Segment Revenue	132,379		129,303		*1.7%*
External Revenue	130,690		127,954		*2.1%*
Plastics and organic synthesis products	45,929	*35.1%*	46,677	*36.5%*	*(1.6%)*
Elastomers	39,421	*30.2%*	35,079	*27.4%*	*12.4%*
MTBE and fuel additives	23,213	*17.8%*	25,446	*19.9%*	*(8.8%)*
Intermediates and other chemicals	20,539	*15.7%*	19,164	*15.0%*	*7.2%*
Other sales	1,588	*1.2%*	1,587	*1.2%*	*0.1%*
EBITDA	31,508		34,166		*(7.8%)*
EBITDA margin	*23.8%*		*26.4%*		
Adj. EBITDA	31,508		34,166		*(7.8%)*

External Revenue

In 2016, our Plastics, Elastomers & Intermediates segment external revenue increased by 2.1% to RR 130,690 million from RR 127,954 million in 2015. The increase was largely driven by higher revenue from elastomers sales, with commodity rubbers being a key growth driver, as well as higher revenue from intermediates. These factors were largely offset by lower revenue from MTBE and plastics and organic synthesis products mainly due to negative dynamics of international market prices, only partially compensated by Russian rouble depreciation.

Plastics and organic synthesis products

In 2016, our revenue from sales of plastics and organic synthesis products decreased by 1.6% to RR 45,929 million from RR 46,677 million in 2015 on a 2.3% decrease in the effective average selling price and a 0.7% increase in sales volumes. The decrease in the effective average selling price was largely attributable to the negative dynamics of international market prices for the vast majority of products, only partially compensated by Russian rouble depreciation. The flat sales volumes were a result of higher production and sales volumes of glycols and acrylates largely due to shorter maintenance shutdowns at our production site in the Nizhniy Novgorod region in 2016 as compared to a year earlier. This was fully offset by lower production and sales volumes of PET due to substantial sales of inventories in 2015, as well as longer maintenance shutdowns at our production sites in Blagoveshchensk and Tver in the reporting period. In 2016, domestic sales accounted for 77.8% of total plastics and organic synthesis products revenue, while 22.2% was attributable to export sales.

Elastomers

In 2016, our revenue from elastomers sales increased by 12.4% year-on-year to RR 39,421 million from RR 35,079 million in 2015 largely attributable to a 7.6% increase in sales volumes and a 4.4% increase in our effective average selling price. The increase in sales volumes was largely attributable to higher production on improved demand from tyre producers and completed homologation of thermoplastic elastomers with key clients by the end of 2015. Increase in our effective average selling price was mainly driven by specific pricing arrangements in our contract sales of commodity rubbers and supported by higher product quality and cancellation of discounts applied for premarketing sales of thermoplastic elastomers (SBS) in 2015. In 2016, domestic sales accounted for 35.0% of total plastics and organic synthesis products revenue, while 65.0% was attributable to export sales.

MTBE and fuel additives

In 2016, our revenue from MTBE and fuel additives sales decreased by 8.8% year-on-year to RR 23,213 million from RR 25,446 million in 2015 on a 16.5% decrease in the effective average selling price despite a 11.0% increase in sales volumes.

The effective average selling price for MTBE decreased by 19.2% in Russian rouble terms (a decrease of 25.9% in US dollar terms), which was attributable to (i) the negative dynamics in international market prices, (ii) significant decrease in domestic demand for high-octane fuel additives, which resulted in higher export sales at the expense of domestic sales that are more premium. These factors were partially offset by the Russian rouble depreciation. The increase in MTBE sales volumes was largely attributable to an 11.1% increase in production due to the capacity expansion in Togliatti, as well as higher feedstock availability due to shutdowns at the production of feedstock for MTBE a year earlier.

In 2016, our share of domestic sales decreased to 57.3% of total MTBE and fuel additives revenue from 80.3% in 2015, while 42.7% and 19.7%, respectively, were derived from export sales. The change in the sales mix was primarily attributable to lower domestic demand as mentioned above.

Intermediates and other chemicals

In 2016, our revenue from sales of intermediates and other chemicals increased by 7.2% year-on-year to RR 20,539 million from RR 19,164 million in 2015. The increase was largely attributable to (i) higher revenue from benzene sales on production growth as a result of shorter maintenance shutdowns at our sites in Perm region and Kstovo during the reporting period, as well as an increase in the effective average selling price due to temporary shortage of benzene on the domestic market, and (ii) higher revenue from styrene sales largely due to higher styrene capacity utilisation in Tula region, where we produce styrene under processing arrangement. These factors were partially offset by lower revenue from sales of propylene as a result of (i) lower effective average selling price due to negative dynamics of international market prices, partially compensated by the Russian rouble depreciation, as well as (ii) decrease in sales volumes due to changes in stock: in 2015 we sold inventories, inter alia related to goods-in-transit balances to export markets, while in 2016 we saw moderate inventory accumulation.

EBITDA

In 2016, our Plastics, Elastomers & Intermediates decreased by 7.8% to RR 31,508 million from RR 34,166 million primarily on lower international benchmark prices for MTBE and majority of plastics & organic synthesis products, only partially mitigated by RR depreciation. This decrease was partially compensated by higher sales volumes of MTBE due to the capacity expansion in Togliatti, as well as higher sales of elastomers on improved demand for certain grades of synthetic rubbers.

In 2016, the segment EBITDA margin totaled 23.8%, a year-on-year decrease from 26.4%. The lower margin was largely attributable to decline in selling prices for majority of segment products, mainly MTBE, only partially compensated by increase in sales volumes and Russian rouble depreciation, as well as) higher operating expenses, mainly related to transportation and logistics, energy and utilities *(see "Operating Expenses" in "Results of Operations")*.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table presents selected data on our net cash flows for years ended 31 December 2016 and 2015:

RR millions, except as stated	Year ended 31 December 2016	2015	*Change %*
Net cash from operating activities	137,694	119,102	*15.6%*
Operating cash flows before working capital changes	*142,142*	*128,916*	*10.3%*
Changes in working capital	*8,464*	*(5,509)*	*n/m*
Income tax paid	*(12,912)*	*(4,305)*	*200.0%*
Net cash used in investing activities, *including*	(142,243)	(123,403)	*15.3%*
Capital expenditures[(1)]	*(145,693)*	*(84,391)*	*72.6%*
Acquisition of interest in subsidiaries, net of cash acquired	*(2,765)*	*(61,726)*	*(95.5%)*
Proceeds from disposal of subsidiaries, net of cash disposed	*3,445*	*21,278*	*(83.8%)*
Net cash (used in) / from financing activities, *including*	(104,718)	146,440	*n/m*
Net (repayment of, settlement) / proceeds from debt	*(64,036)*	*186,014*	*n/m*
Dividends paid	*(16,163)*	*(18,125)*	*(10.8%)*
Interest paid	*(21,894)*	*(14,867)*	*47.3%*
Bank fees paid	*(3,239)*	*(9,994)*	*(67.6%)*
Effect of exchange rate changes on cash and cash equivalents	(2,181)	2,277	*n/m*
Net decrease in cash and cash equivalents	(111,448)	144,416	*n/m*

Net Cash from Operating Activities

In 2016, our net cash from operating activities increased by 15.6% to RR 137,694 million from RR 119,102 million in 2015. Operating cash flows before working capital changes increased by 10.3% year-on-year to RR 142,142 million from RR 128,916 million in 2015 on the back of higher EBITDA adjusted for the release of the provision in the amount of RR 4,617 million related to OAO Tyumenenergo lawsuit closed in July 2015. In 2016, changes in working capital had a positive impact on our net cash from operating activities in the amount of RR 8,464 million compared to a negative impact of RR 5,509 million in 2015. In 2016, positive impact of working capital changes was primarily attributable to the increase in net advances received, as well as trade and other payables mainly related to projects of NIPIGAZ. Income tax paid increased by a factor of 3x and totaled RR 12,912 million as compared to RR 4,305 million a year earlier, as we reported higher pre-tax profit for 2016 as compared to 2015, partially compensated by a decrease in advance tax payments, as we utilised advance tax payments accumulated during 2014.

The following table presents data on changes in working capital for the years ended 31 December 2016 and 2015:

RR millions, except as stated	Year ended 31 December 2016	2015
Increase in advances received under construction management	41,412	-
Increase/(decrease) in trade and other payables	2,699	(596)
Increase in taxes payable	2,316	744
Decrease/(increase) in trade and other receivables	1,016	(3,128)
Increase in prepayments and other current assets	(87)	(1,362)
Increase in inventories	(1,153)	(1,167)
Increase in advances issued under construction management	(37,739)	-
Changes in working capital	**8,464**	**(5,509)**

SIBUR's management monitors its liquidity and operational efficiency on the basis of the adjusted working capital (see Appendix I for further details). Our adjusted working capital was positive at RR 29,787 million as of 31 December 2016 and RR 49,297 million as of 31 December 2015. Our working capital days decreased to 26.4 in 2016 from 47 in 2015.

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

(1) Includes purchase of property, plant and equipment, intangible assets and other non-current assets.

conditions, logistical constraints as well as completion of major investment projects, which could require substantial inventory accumulation.

Net Cash Used in Investing Activities

In 2016, our net cash used in investing activities increased by 15.3% year-on-year to RR 142,243 million from RR 123,403 million a year earlier, which was largely attributable to a 72,6% increase in our capital expenditures to RR 145,693 million in 2016 as compared to RR 84,391 million a year earlier due to expansive financing of ZapSib. Additionally, in 2015 we recorded proceeds from the divestment of LPG and naphtha transshipment terminal located in Ust-Luga region for cash consideration of RR 21,335 million. This was partially compensated by the payment of the final tranche for the acquisition of Rosneft's 49% stake in OOO Yugragazpererabotka in the amount of RR 61,410 million in 2015.

Net Cash (Used in) / from Financing Activities

In 2016, our net cash used in financing activities amounted to RR 104,718 million compared to the net cash received from financing activities in the amount of RR 146,440 million in 2015. In 2016, our net cash used in financing activities related primarily to substantial repayment of conventional debt, while we withdrew EUR 500 million of ECA-backed financing. In 2015, our net cash flow from financing activities was primarily related to the new borrowings (i) for ZapSib financing (primarily raised from NWF) and (ii) funding the final tranche for the acquisition of a 49% stake in the OOO Yugragazpererabotka. Dividends paid amounted to RR 16,163 million and RR 18,125 million in 2016 and 2015, respectively.

Capital Expenditures

In 2016, our capital expenditures[1] increased 72.6% year-on-year to RR 145,693 million compared to RR 84,391 million in 2015 (net of VAT), as we continued expansive financing of ZapSibNeftekhim ("ZapSib") through the reporting year.

The following table presents data on our key ongoing investment projects for the years ended 31 December 2016 and 2015:

RR millions, except as stated		Year ended 31 December		
Location	**Description**	**2016**	**2015**	**Completion**
Tobolsk	ZapSib	121,395	43,168	2019
Tomsk	Expansion of PP and LDPE production	3,321	2,689	Completed
Tobolsk	Second GFU expansion	2,174	2,868	Completed
Moscow region	Logistic hub for polymers distribution	1,337	242	2019

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

During 2016, a sizeable part of large-size equipment has been delivered to the construction site throughout the navigation season; most of the delivered equipment was installed for the steam cracker, including two largest and heaviest propane fractionation columns.

The residual capital expenditures for the project was estimated by the Company at USD 5.8[2] billion as of 31 December 2016 with the following currency structure: approximately 40% in Russian roubles, approximately 30% in US dollars and 30% in euro.

(1) Includes purchase of property, plant and equipment, intangible assets and other non-current assets.
(2) The respective residual expenditures are calculated at the respective foreign exchange rates as of 31 December 2016.

The following funding sources are available for the project:

(i) in December 2014, SIBUR signed an agreement with a consortium of European banks for ECA-backed long-term financing in the amount of EUR 1,575 million for the contracts with Linde AG and ThyssenKrupp Industrial Solutions, later the amount was revised upward to EUR 1,676 million; As of 31 December 2016, SIBUR had drawn down EUR 615 million from this credit facility;

(ii) in September 2015, SIBUR signed credit facility arrangements with a consortium of European banks, which is covered by a EUR 412 million guarantee from French credit agency Coface, to raise long-term financing for a portion of the capital expenditures related to ZapSib; the credit line is available for disbursements;

(iii) in November 2015, RDIF(1) and leading Middle Eastern sovereign wealth funds invested USD 210 million in ZapSib;

(iv) in December 2015, ZapSib raised USD 1.75 billion with a tenor of 15 years from NWF(2) within RDIF's quota in NWF.

***

SIBUR's Board of Directors has approved the 2017 capital expenditures budget in the aggregate amount of RR 200 billion (net of VAT). This amount represents Russian rouble equivalent of projected capital expenditures denominated in multiple currencies and excludes investments under joint ventures, loans issued to joint ventures or acquisitions. The Board of Directors will review the budget later in the year and the number may be revised subject to macroeconomic and market environment.

Borrowings

As of 31 December 2016, our total debt amounted to RR 341,812 million, a decrease of 25.2% from RR 457,149 million as of 31 December 2015. The decrease was attributable to substantial repayment of debt denominated primarily in foreign currencies, inter alia partial Eurobond redemption, as well as to Russian rouble appreciation as RR/USD rate decreased by 16.8% to 60.6569 as of 31 December 2016 from 72.8827 as of 31 December 2015.

Our net debt(3) decreased by 1.4% to RR 281,178 million as of 31 December 2016 from RR 285,066 million as of 31 December 2015, due to decrease in total debt, while we substantially utilised sources provided by NWF for the construction of ZapSib.

The following table presents data on our total debt, cash and cash equivalents, as well as net debt position as of 31 December 2016 and 2015:

RR millions	As of 31 December 2016	As of 31 December 2015	*Change, %*
Total debt	**341,813**	**457,149**	*(25.2%)*
Debt excluding related to ZapSib	*182,128*	*299,004*	*(39.1%)*
ZapSib related debt	*159,685*	*158,145*	*1.0%*
Cash and cash equivalents	60,635	172,083	*(64.8%)*
Net debt	**281,178**	**285,066**	*(1.4%)*
Debt excluding related to ZapSib	*163,369*	*247,121*	*(33.9%)*
ZapSib related debt	*117,809*	*37,945*	*210.5%*

As of 31 December 2016, all of our debt was unsecured.

(1) Russian Direct Investment Fund.
(2) National Wealth Fund.
(3) Net debt is calculated as total debt less cash and cash equivalents and bank deposits.

The following table presents detailed information on our total borrowings as of 31 December 2016 and 2015:

RR millions, except as stated	**Currency**	**Due**	**As of 31 December 2016**	**As of 31 December 2015**
Variable rate loans				
National Wealth Fund financing	USD	2030	106,150	127,545
Deutsche Bank	EUR	2014-2029	41,449	13,492
Alfa Bank	USD	2017	16,377	-
RaiffeisenBank	USD	2017	6,043	10,893
VTB	USD	2021	5,000	-
ING Bank	USD, EUR	2011-2021	3,183	14,151
Citibank	USD	2013-2023	1,989	2,840
PAO Sberbank of Russia	RR	2016-2021	1,415	29,818
UniCredit Bank	USD, EUR	2013-2019	618	1,029
Vnesheconombank	USD	2013-2023	-	31,620
Promsvyazbank	USD	2017	-	18,205
Rosbank	USD	2017	-	10,907
Nordea Bank	USD	2015-2016	-	5,831
Fixed rate loans				
Eurobonds	USD	2018	37,352	72,809
Russian rouble bonds	RR	2021	30,000	-
Gazprombank	RR	2021	22,000	32,000
PAO Sberbank of Russia	RR	2014-2020	20,000	50,659
Alfa Bank	USD	2016-2019	15,164	-
UniCredit Bank AG	RR	2019	12,917	17,905
Russian Direct Investment Fund	USD	2018-2020	12,738	15,305
VTB	USD	2021	4,988	-
RaiffeisenBank	USD	2017	3,033	-
NPP Neftekhimia	RR	2017	825	1,625
Mezhregiongaz	RR	2011-2017	544	482
Other	USD	2031	27	33
Total debt			**341,813**	**457,149**

SIBUR aims to maintain a diversified debt portfolio with a sound balance of fixed and floating interest rate instruments. As of 31 December 2016, our share of fixed rate borrowings increased to 46.7% from 41.7% as of 31 December 2015. Our share of variable rate borrowings decreased to 53.3% as of 31 December 2016 from 58.3% as of 31 December 2015. These changes were attributable mostly to repayment of foreign currency-denominated variable rate borrowings.

The following table presents weighted average loan tenors of our outstanding debt as of 31 December 2016 and 2015:

	As of 31 December 2016	**As of 31 December 2015**
WA loan tenor (years)	6.8	6.3
WA Conventional debt	*2.7*	*2.7*
WA ZapSib related debt	*11.4*	*13.0*

The following table presents scheduled maturities of our outstanding debt excluding related to ZapSib as of 31 December 2016 and 2015:

RR millions, except as stated	**As of 31 December 2016**	***% of total borrowings***	**As of 31 December 2015**	***% of total borrowings***	**Change, %**
Due for repayment:					
Within one year	21,273	*11.7%*	46,605	*15.6%*	*(54.4%)*
Between one and two years	39,074	*21.5%*	47,654	*15.9%*	*(18.0%)*
Between two and five years	114,868	*63.1%*	192,787	*64.5%*	*(40.4%)*
After five years	6,913	*3.8%*	11,958	*4.0%*	*(42.2%)*
Total debt	**182,128**	***100.0%***	**299,004**	***100.0%***	***(39.1%)***

The share of long-term debt excluding related to ZapSib amounted to 88.3% as of 31 December 2016 and 84.4% as of 31 December 2015, while the portion of short-term debt amounted to 11.7% as of 31 December 2016 and 15.6% as of 31 December 2015.

The following table presents scheduled maturities of our outstanding debt related to ZapSib as of 31 December 2016 and 2015:

RR millions, except as stated	**As of 31 December 2016**	***% of total borrowings***	**As of 31 December 2015**	***% of total borrowings***	***Change, %***
Due for repayment:					
Within one year	915	*0.6%*	1,140	*0.7%*	*(19.7%)*
Between one and two years	2,506	*1.6%*	1,140	*0.7%*	*119.8%*
Between two and five years	20,543	*12.9%*	19,500	*12.3%*	*5.4%*
Between five and ten years	18,655	*11.7%*	-	-	*n/m*
After ten years	117,066	*73.3%*	136,366	*86.2%*	*(14.2%)*
Total debt	**159,685**	***100.0%***	**158,145**	***100.0%***	***1.0%***

Our debt related to ZapSib is almost fully represented by long-term debt, with 73.3% attributable to debt maturing after ten years.

The following table presents the currency split of our outstanding debt as of 31 December 2016 and 2015:

RR millions, except as stated	**As of 31 December 2016**	***% of total borrowings***	**As of 31 December 2015**	***% of total borrowings***	***Change, %***
Denominated in:					
Russian rouble	97,690	*28.6%*	131,097	*28.7%*	*(25.5%)*
Euro	45,156	*13.2%*	19,470	*4.3%*	*131.9%*
US Dollar	198,967	*58.2%*	306,582	*67.1%*	*(35.1%)*
Total debt	**341,813**	***100.0%***	**457,149**	***100.0%***	***(25.2%)***

As of 31 December 2016, the Russian rouble-denominated debt as a percentage of total borrowings remained unchanged at 28.6% as compared to 2015 year-end.

Our weighted average interest rate on Russian rouble-denominated borrowings was 10.9% and 13.0% as of 31 December 2016 and 2015, respectively. Our weighted average interest rate on US dollar-denominated borrowings was 3.1% and 3.4% as of 31 December 2016 and 2015. Our weighted average interest rate on euro-denominated borrowings was 1.0% and 1.3% as of 31 December 2016 and 2015.

The following table presents our key liquidity and credit ratios as of 31 December 2016 and 2015:

	As of 31 December 2016	**As of 31 December 2015**
Current ratio	1.7x	2.7x
Debt / EBITDA	2.4x	3.4x
Net debt[1] / EBITDA	2.0x	2.1x
Net debt excluding related to ZapSib	*1.2x*	*1.8x*
ZapSib related net debt	*0.8x*	*0.3x*
EBITDA / Interest[2][3]	6.0x	8.3x

As of 31 December 2016, our net debt to EBITDA ratio moderately improved to 2.0x compared to 2.1x as of 31 December 2015. The EBITDA to interest[2] ratio was at 6.0x as of 31 December 2016 compared to 8.3x[3] as of 31 December 2015.

As of 31 December 2016, SIBUR had RR 184,539 million available under its existing credit facilities denominated in Russian roubles, US dollars and euros, both short- and long-term, of which an equivalent of RR 112,467 million was committed.

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

(1) Net debt is calculated as total debt less cash and cash equivalents and bank deposits.
(2) Interest represents aaccrued interest, i.e. includes interest expense and capitalised interest.
(3) Number changed due to reclassification of interest expense for 2015.

OPERATIONAL DATA

Feedstock & Energy Segment

The following table presents a breakdown of our revenue from sales of feedstock & energy products for the years ended 31 December 2016 and 2015:

	Year ended 31 December				
RR millions, except as stated	**2016**	***% of revenue***[(1)]	**2015**	***% of revenue***[(1)]	***Change %***
LPG	88,839	*21.6%*	82,926	*21.8%*	*7.1%*
Domestic	*21,403*	*24.1%*	*17,322*	*20.9%*	*23.6%*
Export	*67,436*	*75.9%*	*65,604*	*79.1%*	*2.8%*
Natural gas, domestic sales	*45,958*	*11.2%*	*42,991*	*11.3%*	*6.9%*
Naphtha	30,846	*7.5%*	31,445	*8.3%*	*(1.9%)*
Domestic	*5,302*	*17.2%*	*2,617*	*8.3%*	*102.6%*
Export	*25,544*	*82.8%*	*28,827*	*91.7%*	*(11.4%)*
Raw NGL	2,701	*0.7%*	3,669	*1.0%*	*(26.4%)*
Domestic	*707*	*26.2%*	*1,468*	*40.0%*	*(51.9%)*
Export	*1,994*	*73.8%*	*2,201*	*60.0%*	*(9.4%)*
Other sales	2,364	*0.6%*	2,676	*0.7%*	*(11.7%)*
Domestic	*2,020*	*85.4%*	*2,248*	*84.0%*	*(10.2%)*
Export	*345*	*14.6%*	*428*	*16.0%*	*(19.4%)*
Feedstock & Energy products, total	**170,708**	***41.5%***	**163,707**	***43.1%***	***4.3%***
Domestic	***75,389***	***44.2%***	***66,647***	***40.7%***	***13.1%***
Export	***95,319***	***55.8%***	***97,060***	***59.3%***	***(1.8%)***

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

The following table present data on production, purchases and sales volumes of our feedstock & energy products for the years ended 31 December 2016 and 2015:

Tonnes, except as stated	Year ended 31 December 2016	Year ended 31 December 2015	*Change %*
LPG			
Production[1]	6,925,332	6,510,329	*6.4%*
Production, SIBUR's share	**6,008,730**	**5,328,329**	***12.8%***
Purchases from third parties, including	442,788	513,570	*(13.8%)*
Purchases for resale	*429,648*	*476,964*	*(9.9%)*
Total production and purchases	**6,451,519**	**5,841,900**	***10.4%***
(Internal use)[2]	(19,834)	(26,988)	*(26.5%)*
(Increase) / decrease in stock	67,186	23,964	*180.4%*
Gross sales, including	6,498,871	5,838,876	*11.3%*
Intercompany sales to petrochemical business	1,789,832	1,571,126	*13.9%*
External sales volumes	**4,709,040**	**4,267,750**	***10.3%***
Domestic	***1,376,810***	***1,185,502***	***16.1%***
Export	***3,332,230***	***3,082,248***	***8.1%***
Natural gas (thousands of cubic metres)			
Production[3]	19,427,417	18,470,903	*5.2%*
Production, SIBUR's share[4]	**19,051,362**	**18,342,824**	***3.9%***
Purchases from third parties	432	2,401	*(82.0%)*
Total production and purchases	**19,051,794**	**18,345,225**	***3.9%***
(Internal use)[2]	(810,517)	(722,852)	*12.1%*
(Increase) / decrease in stock	0	-	*n/m*
External sales volumes	**18,241,276**	**17,622,372**	***3.5%***
Domestic	***18,241,276***	***17,622,372***	***3.5%***
Export	***-***	***-***	***n/m***
Naphtha			
Production	1,525,536	1,478,908	*3.2%*
Purchases from third parties, including	544,061	335,637	*62.1%*
Purchases for resale	*115,069*	*2,975*	*3,767.9%*
Total production and purchases	**2,069,597**	**1,814,545**	***14.1%***
(Internal use)[2]	(4,811)	(1,821)	*164.2%*
(Increase) / decrease in stock	15,064	46,987	*(67.9%)*
Gross sales, including	2,079,851	1,859,711	*11.8%*
Intercompany sales to petrochemical business	780,781	630,935	*23.7%*
External sales volumes	**1,299,069**	**1,228,776**	***5.7%***
Domestic	***244,026***	***118,559***	***105.8%***
Export	***1,055,043***	***1,110,216***	***(5.0%)***
Raw NGL			
Production[3]	5,393,328	5,265,436	*2.4%*
Production, SIBUR's share[4]	**5,247,785**	**5,222,799**	***0.5%***
Purchases from third parties, including	2,971,140	2,475,546	*20.0%*
Purchases for resale	-	-	*n/m*
Total production and purchases	**8,218,925**	**7,698,345**	***6.8%***
(Fractionation)[5]	(8,177,021)	(7,772,976)	*5.2%*
(Fractionation, SIBUR's share)	**(7,246,461)**	**(6,572,976)**	***10.2%***
(Increase) / decrease in stock	48,359	6,612	*631.4%*
Gross sales, including	1,020,822	1,131,980	*(9.8%)*
Intercompany sales to petrochemical business	816,229	905,387	*(9.8%)*
External sales volumes	**204,593**	**226,593**	***(9.7%)***
Domestic	***70,050***	***107,164***	***(34.6%)***
Export	***134,543***	***119,429***	***12.7%***

[1] Including production volumes under processing arrangements.
[2] Including internal use at the segment's production facilities and immaterial natural losses.
[3] Including Gazprom Neft's share in the processing / production volumes of Yuzhno-Priobskiy GPP starting September 2015.
[4] Excluding Gazprom Neft's share in the processing / production volumes of Yuzhno-Priobskiy GPP starting September 2015.
[5] Including fractionation volumes under processing arrangements.

Olefins and Polyolefins Segment

The following table presents data on our revenue from sales of olefins and polyolefins for the years ended 31 December 2016 and 2015:

RR millions, except as stated	Year ended 31 December 2016	*% of revenue*[(1)]	2015	*% of revenue*[(1)]	*Change %*
PP	39,302	*9.5%*	32,066	*8.4%*	*22.6%*
Domestic	*23,701*	*60.3%*	*19,774*	*5.2%*	*19.9%*
Export	*15,601*	*39.7%*	*12,292*	*3.2%*	*26.9%*
PE (LDPE)	20,923	*5.1%*	18,820	*5.0%*	*11.2%*
Domestic	*16,088*	*76.9%*	*14,106*	*3.7%*	*14.1%*
Export	*4,835*	*23.1%*	*4,715*	*1.2%*	*2.5%*
BOPP-films	18,509	*4.5%*	17,066	*4.5%*	*8.5%*
Domestic	*12,831*	*69.3%*	*11,756*	*3.1%*	*9.1%*
Export	*5,678*	*30.7%*	*5,311*	*1.4%*	*6.9%*
Olefins	5,072	*1.2%*	3,899	*1.0%*	*30.1%*
Domestic	*5,072*	*100.0%*	*3,899*	*1.0%*	*30.1%*
Export	*-*	*-*	*-*	*-*	*n/m*
Other polymers products	2,344	*0.6%*	2,118	*0.6%*	*10.7%*
Domestic	*2,243*	*95.7%*	*2,060*	*0.5%*	*8.9%*
Export	*101*	*4.3%*	*58*	*0.0%*	*73.6%*
Other sales	680	*0.2%*	647	*0.2%*	*5.1%*
Domestic	*677*	*99.5%*	*647*	*0.2%*	*4.6%*
Export	*3*	*0.5%*	*-*	*-*	*n/m*
Olefins and Polyolefins, total	**86,829**	***21.1%***	**74,616**	***19.6%***	***16.4%***
Domestic	***60,612***	***69.8%***	***52,241***	***13.8%***	***16.0%***
Export	***26,217***	***30.2%***	***22,375***	***5.9%***	***17.2%***

The following table presents data on our olefins and polyolefins production, purchases and sales volumes for the years ended 31 December 2016 and 2015:

Tonnes, except as stated	Year ended 31 December 2016	2015	*Change %*
Production	**1,622,589**	**1,501,358**	***8.1%***
PP	592,911	516,337	*14.8%*
PE (LDPE)	246,007	247,754	*(0.7%)*
BOPP-films	159,510	153,465	*3.9%*
Olefins	624,160	583,803	*6.9%*
Purchases from third parties	135,316	125,029	*8.2%*
Total production and purchases	**1,757,904**	**1,626,387**	***8.1%***
(Internal use)[(2)]	(437,370)	(426,913)	*2.4%*
(Transfers to other segments)	(224,410)	(214,517)	*4.6%*
(Increase)/decrease in stock	(14,997)	(16,567)	*(9.5%)*
External sales			
PP	539,242	460,918	*17.0%*
Domestic	*308,965*	*278,151*	*11.1%*
Export	*230,277*	*182,767*	*26.0%*
PE (LDPE)	237,956	243,923	*(2.4%)*
Domestic	*180,155*	*179,911*	*0.1%*
Export	*57,801*	*64,012*	*(9.7%)*
BOPP-films	159,095	151,034	*5.3%*
Domestic	*105,417*	*100,299*	*5.1%*
Export	*53,679*	*50,735*	*5.8%*
Olefins	144,835	112,514	*28.7%*
Domestic	*144,835*	*112,514*	*28.7%*
Export	*-*	*-*	*n/m*
External sales	**1,081,127**	**968,389**	***11.6%***
Domestic	***739,371***	***670,875***	***10.2%***
Export	***341,756***	***297,514***	***14.9%***

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

Plastics, Elastomers and Intermediates Segment

The following table presents a breakdown of revenue from sales of our plastics, elastomers and intermediates for the years ended 31 December 2016 and 2015:

Plastics and organic synthesis products

	Year ended 31 December				
RR millions, except as stated	**2016**	***% of revenue***[(1)]	**2015**	***% of revenue***[(1)]	***Change %***
PET	18,550	*4.5%*	19,472	*5.1%*	*(4.7%)*
Domestic	*18,173*	*98.0%*	*19,249*	*98.9%*	*(5.6%)*
Export	*377*	*2.0%*	*222*	*1.1%*	*69.9%*
Glycols	9,154	*2.2%*	8,385	*2.2%*	*9.2%*
Domestic	*5,049*	*55.2%*	*3,779*	*45.1%*	*33.6%*
Export	*4,105*	*44.8%*	*4,606*	*54.9%*	*(10.9%)*
Expandable polystyrene	8,505	*2.1%*	8,351	*2.2%*	*1.8%*
Domestic	*6,248*	*73.5%*	*6,302*	*75.5%*	*(0.9%)*
Export	*2,257*	*26.5%*	*2,049*	*24.5%*	*10.2%*
Alcohols	5,620	*1.4%*	6,524	*1.7%*	*(13.9%)*
Domestic	*3,393*	*60.4%*	*3,340*	*51.2%*	*1.6%*
Export	*2,227*	*39.6%*	*3,184*	*48.8%*	*(30.1%)*
Acrylates	4,099	*1.0%*	3,946	*1.0%*	*3.9%*
Domestic	*2,862*	*69.8%*	*2,263*	*57.4%*	*26.4%*
Export	*1,237*	*30.2%*	*1,683*	*42.6%*	*(26.5%)*
Plastics and organic synthesis products, total	**45,929**	***11.2%***	**46,677**	***12.3%***	***(1.6%)***
Domestic	***35,725***	***77.8%***	***34,934***	***74.8%***	***2.3%***
Export	***10,204***	***22.2%***	***11,743***	***25.2%***	***(13.1%)***

Elastomers

	Year ended 31 December				
RR millions, except as stated	**2016**	***% of revenue***[(1)]	**2015**	***% of revenue***[(1)]	***Change %***
Commodity rubbers	22,930	*5.6%*	20,390	*5.4%*	*12.5%*
Domestic	*9,320*	*40.6%*	*7,200*	*35.3%*	*29.4%*
Export	*13,610*	*59.4%*	*13,191*	*64.7%*	*3.2%*
Specialty rubbers	9,488	*2.3%*	8,821	*2.3%*	*7.6%*
Domestic	*1,326*	*14.0%*	*1,084*	*12.3%*	*22.3%*
Export	*8,163*	*86.0%*	*7,737*	*87.7%*	*5.5%*
Thermoplastic elastomers	7,003	*1.7%*	5,868	*1.5%*	*19.3%*
Domestic	*3,137*	*44.8%*	*2,891*	*49.3%*	*8.5%*
Export	*3,866*	*55.2%*	*2,977*	*50.7%*	*29.9%*
Elastomers, total	**39,421**	***9.6%***	**35,079**	***9.2%***	***12.4%***
Domestic	***13,782***	***35.0%***	***11,174***	***31.9%***	***23.3%***
Export	***25,639***	***65.0%***	***23,905***	***68.1%***	***7.3%***

MTBE and fuel additives

	Year ended 31 December				
RR millions, except as stated	**2016**	***% of revenue***[(1)]	**2015**	***% of revenue***[(1)]	***Change %***
MTBE	19,572	*4.8%*	21,657	*5.7%*	*(9.6%)*
Domestic	*12,104*	*61.8%*	*19,229*	*88.8%*	*(37.1%)*
Export	*7,468*	*38.2%*	*2,428*	*11.2%*	*207.6%*
Other fuels and fuel additives	3,640	*0.9%*	3,789	*1.0%*	*(3.9%)*
Domestic	*1,201*	*33.0%*	*1,205*	*31.8%*	*(0.3%)*
Export	*2,439*	*67.0%*	*2,584*	*68.2%*	*(5.6%)*
MTBE and fuel additives, total	**23,213**	***5.6%***	**25,446**	***6.7%***	***(8.8%)***
Domestic	***13,305***	***57.3%***	***20,434***	***80.3%***	***(34.9%)***
Export	***9,908***	***42.7%***	***5,012***	***19.7%***	***97.7%***

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

Intermediate and other chemicals

RR millions, except as stated	**2016**	***% of revenue***[(1)]	**2015**	***% of revenue***[(1)]	***Change %***
	Year ended 31 December				
Benzene	3,048	*0.7%*	2,302	*0.6%*	*32.4%*
Domestic	*3,048*	*100.0%*	*2,302*	*100.0%*	*32.4%*
Export	*-*	*-*	*-*	*-*	*n/m*
Styrene	3,871	*0.9%*	3,163	*0.8%*	*22.4%*
Domestic	*2,728*	*70.5%*	*2,752*	*87.0%*	*(0.9%)*
Export	*1,143*	*29.5%*	*410*	*13.0%*	*178.5%*
Terephthalic acid	613	*0.1%*	626	*0.2%*	*(2.1%)*
Domestic	*412*	*67.3%*	*493*	*78.8%*	*(16.5%)*
Export	*201*	*32.7%*	*133*	*21.2%*	*51.2%*
Propylene	2,251	*0.5%*	3,339	*0.9%*	*(32.6%)*
Domestic	*513*	*22.8%*	*604*	*18.1%*	*(15.1%)*
Export	*1,737*	*77.2%*	*2,735*	*81.9%*	*(36.5%)*
Ethylene oxide	4,240	*1.0%*	3,787	*1.0%*	*12.0%*
Domestic	*3,328*	*78.5%*	*3,023*	*79.8%*	*10.1%*
Export	*913*	*21.5%*	*764*	*20.2%*	*19.6%*
Butadiene	238	*0.1%*	116	*0.0%*	*105.0%*
Domestic	*238*	*100.0%*	*116*	*100.0%*	*105.0%*
Export	*-*	*-*	*-*	*-*	*n/m*
Isoprene	477	*0.1%*	542	*0.1%*	*(12.0%)*
Domestic	*18*	*3.8%*	*14*	*2.6%*	*27.3%*
Export	*459*	*96.2%*	*528*	*97.4%*	*(13.0%)*
Isobutylene	657	*0.2%*	524	*0.1%*	*25.5%*
Domestic	*657*	*100.0%*	*524*	*100.0%*	*25.5%*
Export	*-*	*-*	*-*	*-*	*n/m*
Other intermediates	1,658	*0.4%*	1,472	*0.4%*	*12.7%*
Domestic	*1,379*	*83.2%*	*959*	*65.2%*	*43.7%*
Export	*279*	*16.8%*	*512*	*34.8%*	*(45.5%)*
Total intermediates	17,053	*4.1%*	15,870	*4.2%*	*7.5%*
Domestic	*12,321*	*72.3%*	*10,788*	*68.0%*	*14.2%*
Export	*4,732*	*27.7%*	*5,082*	*32.0%*	*(6.9%)*
Other chemicals	3,487	*0.8%*	3,293	*0.9%*	*5.9%*
Domestic	*3,135*	*89.9%*	*2,880*	*87.4%*	*8.9%*
Export	*352*	*10.1%*	*414*	*12.6%*	*(14.9%)*
Intermediates and other chemicals, total	**20,539**	***5.0%***	**19,164**	***5.0%***	***7.2%***
Domestic	***15,455***	***75.2%***	***13,668***	***71.3%***	***13.1%***
Export	***5,084***	***24.8%***	***5,495***	***28.7%***	***(7.5%)***
Other sales	**1,588**	***0.4%***	**1,587**	***0.4%***	***0.0%***
Domestic	***1,577***	***99.3%***	***1,587***	***100.0%***	***(0.6%)***
Export	***10***	***0.7%***	***-***	***-***	***n/m***

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

The following table presents data on our production, purchases and sales volumes in plastics, elastomers and intermediates for the years ended 31 December 2016 and 2015:

Plastics and organic synthesis products

Tonnes, except as stated	**Year ended 31 December 2016**	**2015**	***Change %***
Production	899,857	869,462	*3.5%*
Glycols	291,329	264,560	*10.1%*
Alcohols (including 2-ethylhexanol)	169,489	161,801	*4.8%*
PET	290,618	298,571	*(2.7%)*
Acrylates	49,099	45,316	*8.3%*
Expandable polystyrene	99,322	99,214	*0.1%*
Purchases from third parties	8,908	5,490	*62.3%*
Total production and purchases	**908,765**	**874,952**	***3.9%***
(Internal use)[1]	(126,289)	(126,811)	*(0.4%)*
(Increase)/decrease in stock	(6,425)	22,381	*n/m*
External sales			
Glycols	195,067	167,681	*16.3%*
Domestic	*107,686*	*78,068*	*37.9%*
Export	*87,381*	*89,612*	*(2.5%)*
Alcohols	141,268	143,513	*(1.6%)*
Domestic	*85,115*	*78,180*	*8.9%*
Export	*56,152*	*65,332*	*(14.1%)*
PET	285,961	309,446	*(7.6%)*
Domestic	*280,049*	*306,059*	*(8.5%)*
Export	*5,912*	*3,387*	*74.5%*
Acrylates	54,666	51,127	*6.9%*
Domestic	*36,186*	*26,814*	*35.0%*
Export	*18,481*	*24,314*	*(24.0%)*
Expandable polystyrene	99,090	98,755	*0.3%*
Domestic	*73,028*	*76,112*	*(4.1%)*
Export	*26,061*	*22,643*	*15.1%*
External sales volumes	**776,051**	**770,522**	***0.7%***
Domestic	***582,064***	***565,233***	***3.0%***
Export	***193,987***	***205,289***	***(5.5%)***

Elastomers

Tonnes, except as stated	**Year ended 31 December 2016**	**2015**	***Change %***
Production	444,612	409,345	*8.6%*
Commodity rubbers	269,285	256,658	*4.9%*
Specialty rubbers	101,998	94,712	*7.7%*
Thermoplastic elastomers	73,330	57,975	*26.5%*
Purchases from third parties	712	2	*n/m*
Total production and purchases	**445,324**	**409,347**	***8.8%***
(Internal use)[1]	(787)	(502)	*56.9%*
(Increase)/decrease in stock	(2,184)	2,253	*n/m*
External sales			
Commodity rubbers	273,845	254,699	*7.5%*
Domestic	*109,208*	*91,550*	*19.3%*
Export	*164,637*	*163,149*	*0.9%*
Specialty rubbers	99,493	94,184	*5.6%*
Domestic	*11,995*	*10,236*	*17.2%*
Export	*87,498*	*83,948*	*4.2%*
Thermoplastic elastomers	69,015	62,215	*10.9%*
Domestic	*29,471*	*29,103*	*1.3%*
Export	*39,544*	*33,112*	*19.4%*
External sales volumes	**442,353**	**411,098**	***7.6%***
Domestic	***150,674***	***130,889***	***15.1%***
Export	***291,679***	***280,209***	***4.1%***

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

MTBE and fuel additives

Tonnes, except as stated	Year ended 31 December 2016	2015	*Change %*
MTBE			
Production	502,961	452,846	*11.1%*
Purchases from third parties	6,230	-	*n/m*
Total production and purchases	**509,191**	**452,846**	***12.4%***
(Internal use)[1]	(516)	(499)	*3.4%*
(Increase) / decrease in stock	(1,543)	1,355	*n/m*
External sales volumes	**507,132**	**453,701**	***11.8%***
Domestic	***290,414***	***400,079***	***(27.4%)***
Export	***216,718***	***53,622***	***304.2%***
Other fuels and fuel additives			
Production	**227,161**	**220,910**	***2.8%***
Purchases from third parties	1,933	2,450	*(21.1%)*
Total production and purchases	**229,094**	**223,360**	***2.6%***
(Internal use)[1]	(68,349)	(72,520)	*(5.8%)*
(Increase) / decrease in stock	1,578	(1,438)	*n/m*
Gross sales, including	162,323	149,402	*8.6%*
Intercompany sales to petrochemical business	1,474	1,597	*(7.7%)*
External sales volumes	**160,849**	**147,806**	***8.8%***
Domestic	***66,411***	***62,978***	***5.5%***
Export	***94,438***	***84,828***	***11.3%***

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

Intermediates and other chemicals

Tonnes, except as stated	Year ended 31 December 2016	2015	*Change %*
Production	3,257,950	3,102,873	*5.0%*
Intermediates, including	2,400,905	2,288,733	*4.9%*
Benzene	91,432	85,156	*7.4%*
Styrene	175,334	174,803	*0.3%*
Terephthalic acid	260,558	265,983	*(2.0%)*
Propylene	59,228	49,456	*19.8%*
Ethylene oxide	284,281	268,141	*6.0%*
Butadiene	255,990	232,654	*10.0%*
Isoprene	65,271	66,735	*(2.2%)*
Isobutylene	170,711	146,006	*16.9%*
Other intermediates	1,038,100	999,798	*3.8%*
Other chemicals	857,046	814,141	*5.3%*
Transfers from other segments	1,156,261	1,058,071	*9.3%*
Benzene	73,596	67,989	*8.2%*
Propylene	756,283	680,437	*11.1%*
Other intermediates	326,382	309,645	*5.4%*
Purchases from third parties	4,033	5,027	*(19.8%)*
Total production, transfers and purchases	**4,418,244**	**4,165,972**	***6.1%***
(Internal use)[1]	(3,947,522)	(3,748,140)	*5.3%*
(Increase)/decrease in stock	(7,561)	7,662	*n/m*
External sales			
Benzene	77,288	62,945	*22.8%*
Domestic	*77,288*	*62,945*	*22.8%*
Export	-	-	*n/m*
Styrene	58,437	48,910	*19.5%*
Domestic	*40,944*	*42,338*	*(3.3%)*
Export	*17,493*	*6,572*	*166.1%*
Terephthalic acid	15,251	14,822	*2.9%*
Domestic	*10,497*	*11,630*	*(9.7%)*
Export	*4,754*	*3,192*	*48.9%*
Propylene	65,998	75,575	*(12.7%)*
Domestic	*17,237*	*17,118*	*0.7%*
Export	*48,761*	*58,458*	*(16.6%)*
Ethylene oxide	73,679	76,866	*(4.1%)*
Domestic	*59,199*	*63,483*	*(6.7%)*
Export	*14,479*	*13,382*	*8.2%*
Butadiene	4,390	2,103	*108.8%*
Domestic	*4,390*	*2,103*	*108.8%*
Export	-	-	*n/m*
Isoprene	4,749	5,313	*(10.6%)*
Domestic	*179*	*160*	*11.8%*
Export	*4,570*	*5,153*	*(11.3%)*
Isobutylene	9,260	6,655	*39.1%*
Domestic	*9,260*	*6,655*	*39.1%*
Export	-	-	*n/m*
Other intermediates	100,269	73,616	*36.2%*
Domestic	*85,276*	*53,075*	*60.7%*
Export	*14,993*	*20,540*	*(27.0%)*
Other chemicals	53,840	58,689	*(8.3%)*
Domestic	*44,057*	*48,793*	*(9.7%)*
Export	*9,783*	*9,896*	*(1.1%)*
External sales volumes	**463,160**	**425,495**	***8.9%***
Domestic	***348,327***	***308,301***	***13.0%***
Export	***114,833***	***117,194***	***(2.0%)***

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

DESCRIPTION OF SELECTED OPERATIONAL AND FINANCIAL ITEMS

Revenue

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

Operating Expenses

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

Transportation and logistics. Transportation and logistics comprise expenses related to transportation of feedstock, materials and refined products by railway, via pipelines that are not owned and operated by SIBUR, by trucks, as well as through multimodal transportation operators. These costs also include transshipment and storage services, as well as charges for rail cars/tankers used by SIBUR under short-term transportation contracts as well as operating lease contracts related to rail cars and marine vessels, which are used by the Group to transport its goods to customers. Transportation and logistics costs are related to third-party services and exclude expenses associated with ZAO Sibur-Trans (the Group's subsidiary) activities and maintenance of our own gas and product pipelines.

Rent expenses. Rent expenses represent primarily lease payments for buildings and land plots on which our facilities are located.

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

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

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

Depreciation and amortisation. Depreciation comprises depreciation of property, plant and equipment calculated on a straight-line basis to allocate the cost of property, plant and equipment to their respective residual values over their respective estimated useful lives (except for depreciation of catalysts, which are depreciated using the unit-of-production method). Amortisation comprises amortisation of intangible assets calculated using a straight-line method to allocate the cost of relevant intangible assets over their estimated useful lives.

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

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

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

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

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

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

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

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

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

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

Operating Profit

Operating profit represents revenue less operating expenses.

EBITDA

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

Adjusted EBITDA

Adjusted EBITDA represents EBITDA as defined above and accounting for the portion of EBITDA of joint ventures and associates.

Finance Income and Expenses

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

Share of Net Income / (Loss) of Joint Ventures

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

Income Tax Expense

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

APPENDIX I: Net Working Capital

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

The following table presents detailed calculation of our net working capital position as of 31 December 2016 and 2015:

RR millions, except as stated	**As of 31 December 2016**	**As of 31 December 2015**
Current assets	142,976	262,566
Current liabilities	(85,954)	(98,114)
Working capital	**57,022**	**164,452**
Adjustments to assets, including:	**(65,315)**	**(178,790)**
Loans receivable	(971)	(4,101)
Cash and cash equivalents	(60,635)	(172,083)
Prepaid borrowing cost	(3,709)	(2,610)
Recoverable VAT related to assets under construction[1]		4
Adjustments to liabilities, including:	**38,079**	**63,288**
Accounts payable to contractors and suppliers of property, plant and equipment	11,605	8,029
Payables for acquisition of subsidiaries	2,104	3,038
Interest payable	2,182	2,288
Derivative financial instruments		2,188
Short-term debt and current portion of long-term borrowings	22,188	47,745
Adjusted working capital	**29,786**	**49,950**

[1] Represents non-current portion.

APPENDIX II: Equity-Settled Share-Based Payment Plans

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

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

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

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

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

In the first quarter 2015 the plan was modified by shareholders. As a result the shares granted were immediately vested and the remaining tranches were expensed in the amount of RR 12,976 million and recognised in the consolidated statement of profit or loss with a corresponding increase in shareholders' equity.

Independent Auditor's Report

To the Shareholders and Board of Directors of PAO SIBUR Holding:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PAO SIBUR Holding (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

AO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

Our audit approach

Overview

- Overall group materiality: Russian Roubles ("RUB") 3,000 million, which represents 2.5% of Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") estimated by group audit team.

  Refer to Note 9 and Note 37 in the consolidated financial statements.

- The Group has offices and operations in a number of countries. We conducted audit work covering all significant reporting units, which are located in two countries.
- The group engagement team audited Group components, located in Russia, while PwC network firm in Austria audited the Group's foreign subsidiary in the respective country.
- Our audit scope addressed 85% of the Group's revenue.

- Acquisition of 100% interest in OOO Tobolsk HPP
- Business development of AO NIPIgazpererabotka
- Impairment assessment of goodwill
- Revenue recognition

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RUB 3,000 million
How we determined it	2.5% of EBITDA estimated by group audit team
Rationale for the materiality benchmark applied	We chose to apply EBITDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We chose 2.5% which is within the range of acceptable quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Acquisition of 100% interest in OOO Tobolsk HPP *Refer to Note 4 in the consolidated financial statements* In February 2016, the Group acquired a 100% interest in OOO Tobolsk Heating and Power Plant (Tobolsk HPP) for a total purchase consideration of RR 7,909 million. As a part of the purchase price allocation, the Group recognised an intangible asset of RR 4,115 million related to Tobolsk HPP's capacity supply contract. The Group recognised a gain on the acquisition of RR 2,356 million in its consolidated statement of profit or loss, which represents the excess of net assets acquired over the total purchase consideration. This was a significant focus area for our audit due to the significance of management's judgements and estimates involved in accounting for this acquisition. The key judgements related to the determination of the purchase consideration and the allocation of the purchase price to the assets and liabilities acquired.	Our audit procedures included, among others, reconciliation of the purchase consideration to the share purchase agreement. We evaluated intangible asset recognition criteria, methodology used by the Group's management in determination of the contingent consideration and reviewed that contingent consideration. We involved our internal valuation experts to evaluate the results of the purchase price allocation, including an assessment of the fair value of acquired net assets and the assumptions and methodology used by the Group's management for the fair value measurement of the net assets acquired. The management's key assumptions used for the fair value measurement were evaluated as follows: • the long-term growth rate was compared to economic and industry growth rate forecasts; • the forecast for electricity tariffs and power capacity tariffs and the Consumer Price Index were compared to independent forecasts by widely known information agencies and/or government economical and statistical bodies;

Key audit matter	How our audit addressed the Key audit matter
	• the discount rate was assessed by our valuation experts, who reviewed the methodology of discount rate calculation and its components by comparing the cost of debt and equity to similar companies; • production volume forecasts were reconciled to the maximum production capacity to ensure that they were within the appropriate range, and the prior year's average actual production volume to ensure the viability of management's plans. We have not identified any significant issues in the determination of fair values and no significant exceptions were noted in the accounting and financial statements disclosures for this acquisition.
Business development of AO NIPIgazpererabotka *Refer to Note 4 and Note 32 in the consolidated financial statements* In July 2015, AO NIPIgazpererabotka ("NIPIGAZ"), a Group subsidiary, and OOO Gazprom Pererabotka Blagoveshchensk, a Gazprom Group subsidiary, signed a contract for managing a construction project of the Amur Gas Processing Plant (the "Contract"). Under the Contract, NIPIGAZ manages and supervises engineering and construction work as well as the procurement and delivery to the site of equipment and materials until the plant is transferred to OOO Gazprom Pererabotka Blagoveshchensk. We paid particular attention to this event, due to the materiality of the Contract and the fact that it differs from the Group's core business activity. In June 2016, the Group transferred title to 50% of the voting shares in NIPIGAZ to companies controlled by some of the Group's shareholders, including those that simultaneously serve as senior members of the Group management. As a result, the effective percentage of NIPIGAZ's share capital held by the Group decreased to 45% (representing 50% of the ordinary voting shares).	Our audit procedures included review of the Contract and an analysis of the underlying risks and rewards. We reviewed the contractual terms and concurred with management's accounting treatment of this transaction. We reviewed the accounting policies applied by management including the revenue recognition criteria for the service fees stipulated by the Contract, and concluded that they are in line with the requirements of IAS 18 "Revenue". We reviewed documents, supporting the revenue recognised by the Group under the Contract, including arrangements with subcontractors and suppliers, invoices and payment schedules, underlying budgets, and revenue and cost forecasts. We discussed the status of the project with management, including financial and technical experts. We examined the share purchase-and-sale agreements and confirmed the date of transfer of ownership title and the Group's remaining ownership interest in NIPIGAZ as well as the number of voting shares remaining at the Group's disposal. We analysed the charter documents of NIPIGAZ and corporate governance policies, supporting

Key audit matter	How our audit addressed the Key audit matter
The Group's management made a significant judgement that the Group retained control over NIPIGAZ due to certain corporate governance policies. This was a significant focus area of our audit due to the significance of management's judgement involved in determining whether the Group retained control over NIPIGAZ and the magnitude of the resulting effect from this transaction on the Group's consolidated financial statements.	retention of the Group's control over the subsidiary. We also reviewed presentation of this transaction in the consolidated financial statements. No significant exceptions were noted as a result of our procedures.
Impairment assessment of goodwill *Refer to Note 13 to the consolidated financial statements* The Group is required to test goodwill for impairment on an annual basis. We focused on this area of the audit due to the materiality of the goodwill recognised by the Group (RUB 12,097 at 31 December 2016) and the significant management judgement involved. Management applied its judgement and estimates primarily to projections of long-term growth rates, foreign currency exchange and discount rates, as well as forecasts of oil prices, their application to revenue forecasts and projections of operating expenses based on the growth rate of the Consumer Price Index. Management has concluded that no impairment should be recognised in respect of the Group's goodwill as at 31 December 2016.	We evaluated and critically assessed the composition of future cash flows in management's forecasts, and the process for preparing them. We found that management had followed the Group's process for preparing future cash flow forecasts. We engaged valuation experts to assist us in evaluating the assumptions and methodologies used by the Group's management in the impairment model. The management's key assumptions used in the impairment model were evaluated as follows: • the long-term growth rate was compared to economic and industry growth rate forecasts; • the forecasts for the oil price, the USD/ RR exchange rate, and the Consumer Price Index were compared to independent forecasts by widely known information agencies and/or government economic and statistical bodies; • the discount rate was assessed by our valuation experts, who reviewed the methodology of discount rate calculation and its components by comparing the cost of debt and equity to similar companies. We compared the actual financial results for the year ended 31 December 2016 to the 2016 forecasts included in the previous year impairment model to assess whether the prior year assumptions included in the forecast were reasonable. Our internal valuation experts performed sensitivity analysis of the impairment model by

Key audit matter	How our audit addressed the Key audit matter
	changing the assumptions to which the model was most sensitive to: EBITDA, long-term growth rate and discount rate. No significant exceptions were noted as a result of our procedures.
Revenue recognition *Refer to Note 6 to the consolidated financial statements* The Group recognises revenue from sales of goods at the point of transfer of ownership risks and rewards, which is determined according to the terms of the underlying customer contract. A number of revenue contracts specify separate points of transfer of legal title and ownership risks and rewards. Certain sales also require long-distance shipping; as a result, the procedure to identify the moment of transferring ownership risks and rewards is more complex and requires making certain estimates. Difficulty in identification of proper moment of transferring of ownership risks and rewards increases the risk of revenue recognition in the wrong period, thus leading to potential overstatement or understatement of revenue. Due to the high rate of volatility of the Russian rouble during the reporting period sales denominated in foreign currency, if recognised in the wrong period, also pose the risk of misclassification of foreign currency gain/loss and revenue in the consolidated statement of profit or loss. Due to a high volume of transactions and possible manual intervention there is a potential for deliberate manipulation or error. Under ISAs, there is a rebuttable presumption of fraud risk in revenue recognition on every audit engagement.	We selected individual transactions to test whether they were appropriately recorded in the correct period. For selected transactions, the date of revenue recognition was traced to shipping documents with reference to the underlying sales contract with the customer. For foreign currency-denominated sales, we verified that the relevant exchange rate used for translating the sale into the functional currency was equal to the official Central Bank of Russia exchange rate on the date of risks and rewards transfer. We also verified the selected outstanding balances of trade accounts receivable at the year-end by receiving confirmations directly from customers. No significant exceptions were noted as a result of our procedures.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

Considering our ultimate responsibility for the opinion on the Group's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In establishing the scope of our audit work, we have determined the nature and extent of the audit procedures to be performed at the reporting units to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements as a whole.

We have also determined the type of work that needed to be performed directly by us, as the group engagement team or component auditors represented by PwC network, or other audit firms. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion as a whole.

In establishing our overall approach to the Group audit, we considered the significance of the Group components to the consolidated financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with insignificant components not brought into the full scope of our audit.

Based on the above we determined the nature and extent of work to be performed both at the reporting units and at the consolidated level. Where the work was performed by the PwC network firm, we performed consolidated level oversight and audit of revenue to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements taken as a whole.

Our approach to determining the scope of the Group audit is a process whereby reporting units are deemed to be within the scope for audit testing based on significant contribution, the presence of a significant risk, or to add elements of unpredictability .

Based on this process, we identified locations in Russia and Austria that required full scope audit procedures or procedures over specific financial statement line items. Together, these reporting units accounted for 85% of the Group revenue. In respect of the Group's significant joint venture OOO RusVinyl, the audit was performed by another audit firm under our instruction.

Other information

Management is responsible for the other information. The other information comprises "Management's discussion and analysis of financial condition and result of operations for the year ended 31 December 2016" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and PAO SIBUR Holding complete Annual Review for the year ended 31 December 2016 and 1st quarter 2017 Quarterly Issuer's Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such

disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Vladimir Konoplin.

AO PricewaterhouseCoopers Audit

14 March 2017
Moscow, Russian Federation

В. Коп

V.V. Konoplin, certified auditor (licence no. 01-000491), AO PricewaterhouseCoopers Audit

Audited entity: PAO SIBUR Holding

Certificate of inclusion in the Unified State Register of Legal Entities issued on 8 July 2005 under registration № 1057747421247

Block 1, No. 6, bld. 30, Eastern Industrial Park, Tobolsk, Tyumen Region, Russian Federation, 626150

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

Notes		Year ended 31 December 2016	2015
6	Revenue	411,812	379,852
7	Operating expenses before equity-settled share-based payment plans	(308,681)	(276,194)
36	Equity-settled share-based payment plans	-	(12,976)
	Operating profit	**103,131**	**90,682**
8	Finance income	53,196	1,764
8	Finance expenses	(21,912)	(78,687)
4	Result of subsidiary's acquisition	1,666	-
4	Gain on disposal of subsidiary	-	1,012
5	Loss on disposal of an asset held for sale	-	(188)
14	Share of net income/(loss) of joint ventures and associates	6,471	(1,264)
	Profit before income tax	**142,552**	**13,319**
33	Income tax expense	(29,463)	(6,814)
	Profit for the year	**113,089**	**6,505**
	Profit for the year, including attributable to:	**113,089**	**6,505**
32	Non-controlling interest	1,950	254
	Shareholders of the parent company	111,139	6,251
10	**Basic and diluted earnings per share (in Russian roubles per share)**	51.02	2.87
10, 31	Weighted average number of shares outstanding (in thousands)	2,178,479	2,178,479

Supplementary Information (non-IFRS measure)

Notes		2016	2015
9	EBITDA	139,629	135,635
	EBITDA margin	**33.9%**	**35.7%**
9	Adjusted EBITDA	149,157	141,663
	Adjusted EBITDA margin	**36.2%**	**37.3%**
	Distributable profit	66,518	62,182

D.V. Konov
Chairman of the Management Board
14 March 2017

A.A. Petrov
Chief Financial Officer
14 March 2017

The accompanying notes on pages 179 to 237 are an integral part of these consolidated financial statements

(In millions of Russian roubles, unless otherwise stated)

Notes		As of 31 December 2016	2015
	Assets		
	Non-current assets		
11	Property, plant and equipment	435,002	359,527
12	Advances and prepayments for capital construction	95,998	44,051
4, 13	Goodwill	12,097	11,959
13	Intangible assets excluding goodwill	114,228	115,414
14	Investments in joint ventures and associates	31,757	27,064
33	Deferred income tax assets	11,081	15,440
15	Long-term advances issued under project management services	33,109	-
16	Prepaid borrowing costs	3,432	5,855
17	Trade and other receivables	1,754	1,898
18	Other non-current assets	2,150	2,422
	Total non-current assets	**740,608**	**583,630**
	Current assets		
19	Inventories	30,992	27,306
33	Prepaid current income tax	5,523	16,392
20	Loans receivable	971	4,101
17	Trade and other receivables	20,135	23,629
21	Prepayments and other current assets	16,381	16,445
15	Short-term advances issued under project management services	4,630	-
16	Prepaid borrowing costs	3,709	2,610
23	Cash and cash equivalents	60,635	172,083
	Total current assets	**142,976**	**262,566**
4, 5	Assets classified as held for sale	2,641	609
	Total assets	**886,225**	**846,805**
	Liabilities and equity		
	Non-current liabilities		
24	Long-term debt excluding related to ZapSibNeftekhim	160,855	252,399
25	Long-term ZapSibNeftekhim related debt	158,770	157,005
26	Grants and subsidies	41,082	42,096
15	Long-term advances received under project management services	35,481	-
33	Deferred income tax liabilities	34,355	32,324
27	Other non-current liabilities	12,390	5,791
	Total non-current liabilities	**442,933**	**489,615**
	Current liabilities		
28	Trade and other payables	50,007	45,451
15	Short-term advances received under project management services	5,931	-
33	Income tax payable	2,213	1,566
29	Short-term debt and current portion of long-term debt excluding related to ZapSibNeftekhim	21,273	46,605
25	Current portion of long-term ZapSibNeftekhim related debt	915	1,140
30	Taxes other than income tax payable	5,615	3,352
	Total current liabilities	**85,954**	**98,114**
4, 5	Liabilities associated with assets classified as held for sale	600	369
	Total liabilities	**529,487**	**588,098**
	Equity		
31	Ordinary share capital	21,784	21,784
	Share premium	9,357	9,357
36	Equity-settled share-based payment plans	32,450	32,450
	Retained earnings	290,889	193,900
	Total equity attributable to the shareholders of the parent company	**354,480**	**257,491**
32	Non-controlling interest	2,258	1,216
	Total equity	**356,738**	**258,707**
	Total liabilities and equity	**886,225**	**846,805**

(In millions of Russian roubles, unless otherwise stated)

Notes		Year ended 31 December 2016	2015
	Operating activities		
34	Cash from operating activities before income tax payment	150,606	123,407
33	Income tax paid	(12,912)	(4,305)
34	**Net cash from operating activities**	**137,694**	**119,102**
	Investing activities		
	Purchase of property, plant and equipment	(141,766)	(80,486)
	Purchase of intangible assets and other non-current assets	(3,927)	(3,905)
4	Acquisition of interest in subsidiary, net of cash acquired	(2,765)	(61,726)
4	Proceeds from disposal of subsidiary, net of cash disposed	3,445	21,278
14	Additional contributions to the share capital of joint ventures	(4,076)	(1,852)
14	Dividends received	2,573	1,670
	Interest received	672	1,282
20	Loans issued	(1,268)	(1,296)
	Repayment of loans receivable	4,438	368
	Proceeds from sale of property, plant and equipment	283	354
	Proceeds from sales of other financial assets	148	-
	Transfers from restricted cash for investing activities	-	910
	Net cash used in investing activities	**(142,243)**	**(123,403)**
	Financing activities		
	Proceeds from debt	177,628	309,729
	Repayment of debt	(215,569)	(123,715)
22	Loan settlement arrangement	(26,095)	-
	Interest paid	(21,894)	(14,867)
31, 32	Dividends paid	(16,163)	(18,125)
	Sale of currency under swap agreements	(10,072)	(16,993)
	Proceeds under swap agreements	8,002	16,969
	Placement of deposits	(3,342)	(8,631)
	Return of deposits	3,208	10,293
	Bank commissions paid	(3,239)	(9,994)
26	Grants and subsidies received	1,723	1,774
	Proceeds from sale of non-controlling interest	1,500	-
	Purchase of non-controlling interest	(405)	-
	Net cash (used in)/from financing activities	**(104,718)**	**146,440**
	Effect of exchange rate changes on cash and cash equivalents	(2,181)	2,277
	Net (decrease)/increase in cash and cash equivalents	**(111,448)**	**144,416**
	Cash and cash equivalents, at the beginning of the reporting year	172,083	27,667
	Cash and cash equivalents, at the end of the reporting year	**60,635**	**172,083**

(In millions of Russian roubles, unless otherwise stated)

Notes		Share capital	Share premium	Equity-settled share-based payment plans	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to the shareholders of the parent company						
	Balance as of 31 December 2014	**21,784**	**9,357**	**19,474**	**206,402**	**257,017**	**964**	**257,981**
	Profit for the year	-	-	-	6,251	6,251	254	6,505
	Actuarial loss on post-employment benefit obligations	-	-	-	(282)	(282)	(2)	(284)
	Total comprehensive income for the year	**-**	**-**	**-**	**5,969**	**5,969**	**252**	**6,221**
	Other adjustments	-	-	-	(346)	(346)	-	(346)
36	Equity-settled share-based payment plans	-	-	12,976	-	12,976	-	12,976
31	Dividends	-	-	-	(18,125)	(18,125)	-	(18,125)
	Balance as of 31 December 2015	**21,784**	**9,357**	**32,450**	**193,900**	**257,491**	**1,216**	**258,707**
	Profit for the year	-	-	-	111,139	111,139	1,950	113,089
	Actuarial gain on post-employment benefit obligations	-	-	-	98	98	7	105
	Total comprehensive income for the year	**-**	**-**	**-**	**111,237**	**111,237**	**1,957**	**113,194**
4	Transactions with non-controlling interest in subsidiaries	-	-	-	65	65	935	1,000
31, 32	Dividends	-	-	-	(14,313)	(14,313)	(1,850)	(16,163)
	Balance as of 31 December 2016	**21,784**	**9,357**	**32,450**	**290,889**	**354,480**	**2,258**	**356,738**

(In millions of Russian roubles, unless otherwise stated)

	Year ended 31 December	
	2016	**2015**
Profit for the year	**113,089**	**6,505**
Other comprehensive income/(loss):	**105**	**(284)**
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on post-employment benefit obligations	153	(349)
Deferred tax effect	(48)	65
Total comprehensive income for the year	**113,194**	**6,221**
Total comprehensive income for the year, including attributable to:	**113,194**	**6,221**
Non-controlling interest	1,957	252
Shareholders of the parent company	111,237	5,969

1 NATURE OF OPERATIONS

PAO SIBUR Holding (the "Company") and its subsidiaries (jointly referred to as the "Group") form a vertically integrated gas processing and petrochemical business. The Group purchases and processes raw materials (primarily associated petroleum gas and natural gas liquids), and produces and markets energy and petrochemical products, both domestically and internationally.

The Group's production facilities are located in the Russian Federation.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC). Most of the Group's companies maintain their accounting records in Russian roubles (RR) and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (RAR). The financial consolidated statements are based on the statutory records of Group's companies, with adjustments and reclassifications recorded to ensure fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of consolidated financial statements under IFRS requires certain critical accounting estimates. It also requires management to exercise judgement when applying the Group's accounting policies. Those areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Changes in presentation. The Group is investing into the project ZapSibNeftekhim ("ZapSib"), construction of the ethylene cracking unit and polymers production units located in Tobolsk, Tyumen Region. The project is financed by the Group's operating cash flows and borrowed funds. As of 31 December 2016, the Group presented long- and short-term debt balances, related to the borrowings, received specifically for ZapSib, on the consolidated statement of financial position in the lines long-term ZapSibNeftekhim related debt and current portion of long-term ZapSibNeftekhim related debt, respectively (see Note 25). As of 31 December 2015, the long- and short-term debt balances related to the borrowings received specifically for ZapSib were reclassified correspondingly.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group has (i) the power to direct relevant activities of the investees that significantly affect their returns, (ii) exposure, or rights, to variable returns from its involvement with the investees, and (iii) the ability to use its power over the investees to affect the amount of an investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have the practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than a majority of voting power in an investee. In such cases, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes in an investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which such control ceases.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired, as well as liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, regardless of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction-by-transaction basis, either at: a) fair value, or b) the non-controlling interest's proportionate share of the acquiree's net assets.

Goodwill is measured by deducting the acquiree's net assets from the aggregate amount of the consideration transferred for the acquiree, as well as the amount of non-controlling interest in the acquiree and the fair value of the interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognized in profit or loss after management reassesses whether it identified all the assets acquired, all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets released, equity instruments issued, and liabilities incurred or assumed, including the fair values of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as fees for advisory, legal, valuation and similar professional services. Transaction costs related to an acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of a business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. In addition, unrealised losses are also eliminated unless the relevant cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies that are consistent with the Group's policies.

Non-controlling interest is the part of a subsidiary's net results and equity that is attributable to interests that the Company does not own, either directly or indirectly. Non-controlling interest forms a separate component of the Group's equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the acquisition method of accounting. Identifiable assets acquired, as well as liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, regardless of the extent of any non-controlling interest.

Assets and disposal groups classified as held for sale. Assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "assets classified as held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control over the subsidiary holding the assets) within 12 months after the reporting period and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or presented again in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Property, plant and equipment. Property, plant and equipment items are stated at cost, restated to the equivalent purchasing power of the Russian rouble as of 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, wherever required.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Costs for minor repairs and day-to-day maintenance are expensed when incurred. The cost for replacing major parts or components of property, plant and equipment items is capitalised when it is probable that future economic benefits will flow to the Group, the cost of the item can be measured reliably, and the replaced part has been taken out of commission and derecognized. Gains and losses on disposals determined by comparing proceeds with carrying amounts are recognised in profit or loss.

An asset's carrying amount is immediately recorded to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation. Depreciation of property, plant and equipment items is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (except for depreciation of catalysers, which are depreciated using the unit-of-production method):

	Useful lives in years
Buildings	20-60
Facilities	10-50
Machinery and equipment	5-30
Transport vehicles and other	5-20

The useful lives are reviewed annually with due consideration of the nature of the assets, existing practices regarding their repair and maintenance, their intended use and technological evolution. A change in the useful life of a property, plant and equipment item is handled as a change in accounting estimate and is accounted for on a prospective basis.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is assumed to be nil if the Group expects to use the asset until the end of its physical life. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Operating leases. Where the Group is a lessee in a lease that does not substantially transfer all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Intangible assets

a) Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the acquisition date. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill with respect to the entity sold.

Goodwill is allocated to cash-generating units for impairment testing. The allocation is made to those cash-generating units, or groups of cash-generating units, which are expected to benefit from the synergies as the result of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

b) Development costs directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Development costs are carried at cost less accumulated depreciation.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Research expenditure is recognized as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

d) Other intangible assets with finite useful lives are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their estimated useful lives. Supply contracts are amortised during the contract maturity (Note 4). The useful lives are reviewed annually taking into consideration the nature of the intangible assets. Annually, at each reporting date, management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Impairment of non-financial assets. Assets with an indefinite useful life, goodwill for example, are not subject to amortisation and are tested annually for impairment. Assets subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Investments in joint ventures. Joint ventures are entities over which the Group exercises joint control. Investments in joint ventures are accounted for by the equity method of accounting and are initially recognized at cost. Dividends received from joint ventures reduce the carrying value of the investment in joint ventures. The carrying amount of joint ventures includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group’s share of the post-acquisition profit or loss of joint ventures is recorded in profit or loss for the year as a share of the net income of joint ventures. The Group’s share of other post-acquisition comprehensive income of joint ventures is recognized in the Group’s other comprehensive income.

When the Group’s share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognize any further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group’s interest in the joint ventures. In addition, unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally resulting from a shareholding of between 20 and 50 percent of voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Dividends received from associates reduce the carrying value of investments in associates. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group’s share of the post-acquisition profit or loss of associates is recorded in profit or loss for the year as a share of the net income of associates. The Group’s share of other post-acquisition comprehensive income of associates is recognized in the Group’s other comprehensive income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Group's share of the losses of an associate equals or exceeds its interest in an associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. In addition, unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Loans and receivables. Loans and receivables are recognized initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method amount less a provision made for impairment of these receivables.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of an asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is recorded accordingly and a corresponding impairment loss is recognized in profit or loss for the year.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is assigned on a weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads, but nonetheless excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held on call with banks, and other short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period are included in other non-current assets. Foreign exchange gains and losses from deposits held on call with banks are classified as foreign exchange gains or losses from operating activities.

Cash inflows and outflows related to long-term deposits are classified within financing activities.

Trade and other payables. Trade payables are accrued when a single counterparty has performed its obligations under a relevant contract, and are recognized initially at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and so that a reliable estimate of the relevant amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision is recognized even if there is little likelihood of an outflow connected to any item included in the same class of obligations. Where the Group expects a provision to be reimbursed, under an insurance contract for example, the reimbursement is recognized as a separate asset but only when reimbursement is virtually certain. Provisions are reassessed at each reporting date and changes in the provisions are reflected in the profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions are measured at the present value of the expenditures expected to be required in order to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in a provision due to passage of time is recognized as interest expense.

Value added tax. Output value added tax (VAT) related to sales is payable to the relevant tax authorities upon the earlier of a) collection of receivables from customers or b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the relevant VAT invoice. The Russian tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases that have not been settled at the reporting date (VAT recoverable and payable) is recognized on a gross basis and disclosed separately as a current asset and current liability, respectively. Where a provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT liability is maintained until the debt is written off for tax purposes.

Grants and subsidies. Grants and subsidies are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all accompanying conditions. Grants and subsidies related to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit or loss: a) on a straight-line basis over the expected lives of the related assets, or b) in full when the assets are sold. Grants and subsidies received as compensation for non-capital expense are credited to profit or loss reducing the corresponding expense.

Where grants are seen as a mechanism to finance acquisition of property, plant and equipment the cash inflows are shown as a financing activity.

Debt. Debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of profit or loss over the period of the debt using the effective interest method.

Fees paid for the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and presented as prepaid borrowing costs. The split-off between the short-term and long-term portion of prepaid borrowing cost is performed based on the expected schedule of the related financing withdrawal.

To the extent there is no evidence of the probability that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the relevant facility.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that require considerable time to be prepared for their intended use or sale (qualifying assets) are capitalised as part of the costs for such assets if the commencement date for capitalisation occurred on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred, less any investment income on the temporary investment of the borrowings, are capitalised.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as share premium.

Where the Group companies purchase the Company's equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity until the equity instruments are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects is included in shareholders' equity. The gains (losses) arising from treasury shares transactions are recognized in the consolidated statement of changes in shareholders' equity, net of associated costs including taxation.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Dividends. Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when declared after the reporting date but before the consolidated financial statements are authorised for issue.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interests. The Group recognises the difference between the purchase consideration and the carrying amount of non-controlling interests acquired and records it as a capital transaction directly in equity. Any difference between the sales consideration and carrying amount of non-controlling interests sold is also recognized as a capital transaction in the consolidated statement of changes in equity.

Current and deferred income tax. Income taxes are covered in the consolidated financial statements in accordance with Russian law as enacted, or substantively enacted, by the reporting date. The income tax charge or credit comprises current tax and deferred tax, and is recognized in profit or loss, unless it is recognized in other comprehensive income or directly in equity because it relates to transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current income tax is the amount expected to be paid to or refunded by the tax authorities on taxable profits or losses for the current and prior periods. Deferred income tax is recognized using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Under the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities are netted only within individual Group companies. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that there are sufficient taxable temporary differences, or that it is probable there will be future taxable profit against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Taxes other than income tax, including VAT, excise tax and export duties are recorded within operating expenses.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Post-employment obligations. Some Group companies provide retirement benefits to their retired employees. Entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of such benefits are accrued over the period of employment using the same accounting methodology used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

Employee benefits. Wages, salaries and contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the Group's employees.

Equity-settled share-based payment plans. The share option programme allows the Group's management to hold shares in the Company. The fair value of the options is measured at the grant date and is spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured at the fair value for the underlying shares calculated at the grant date using a valuation model that takes into account the terms and conditions of the options granted. Each tranche is accounted for as a separate arrangement and expensed, together with a corresponding increase in shareholder's equity, on a straight-line basis over the vesting periods.

Revenue recognition. Revenues from sales of goods are recognized for financial reporting purposes at the point of transfer of ownership risks and rewards, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognized when the goods are delivered to the customer at the destination point. In an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal which do not result in increases in equity for the Group. Thus, revenue for such arrangements is the commission, received by the agent, and accounted on net basis.

Sales are shown net of VAT, excise tax and other similar mandatory payments. Revenues are measured at the fair value of the consideration received or receivable.

Interest income is recognized on a time-proportion basis using the effective interest method.

Classification of financial assets. The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired principally for the purpose of selling in the short term. Derivatives are also categorised as financial assets at fair value through profit or loss. Assets in this category are classified as current assets as they are expected to be settled within 12 months from the reporting date. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the profit or loss within finance income and finance expenses in the period in which they arise.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's loans and receivables include trade and other receivables, loans and notes receivable, and cash and cash equivalents in the consolidated statement of financial position.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the reporting date.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss for the year as finance income. All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognized in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognized in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through current period's profit or loss.

Classification of financial liabilities. Financial liabilities have the following measurement categories: a) held for trading, which also includes financial derivatives, and b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognized in profit or loss for the year (as finance income or finance expenses) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Group's other financial liabilities comprise of 'trade and other payables' and 'long-term and short-term debt' in the consolidated statement of financial position.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is a price quoted in an active market. An active market is one where transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is insufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received from selling a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of the investees' financial data are used to measure the fair value of certain financial instruments for which external market pricing information is unavailable. Fair value measurements are analysed according to their levels in the fair value hierarchy as follows: (i) level one are measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the given asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). No transfers between the levels of the fair value hierarchy are deemed to have occurred during the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are, instead, included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method for allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next date for establishing a new interest price, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract which are an integral part of the effective interest rate.

Derivative financial instruments, including interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets carried at amortised cost. Impairment losses are recognized in profit or loss when incurred as a result of one or more events (hereinafter "loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the given asset in a group of financial assets with similar credit risk characteristics, and then collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and the realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information which the Group has obtained;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of the counterparty's financial difficulties, impairment is measured using the original effective interest rate before the modification of terms. Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all necessary procedures for recovering the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

Foreign currency transactions. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the given entity operates. The functional currency of the Company and most of its subsidiaries (including SIBUR International GmbH, an export trading company of the Group) and the Group's presentation currency, is the national currency of the Russian Federation, the Russian rouble (RR).

Monetary assets and liabilities held by Group entities as of 31 December 2016 and 2015 and denominated in foreign currencies are translated into RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in a foreign currency are recognized as exchange gains or losses in profit or loss.

(In millions of Russian roubles, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The official exchange rates of the US dollar (USD) and euro (EUR) against the Russian rouble (RR), as set by the Central Bank of Russia, are as follows:

	USD/RR	EUR/RR
As at 31.12.2016	60.6569	63.8111
2016 weighted average	67.0349	74.2310
As at 31.12.2015	72.8827	79.6972
2015 weighted average	60.9579	67.7767

Segment reporting. Segments are reported in a manner consistent with the internal reporting as provided to the Group's chief operating decision makers. Segments with revenue, operating profit or assets that represent ten percent or more of all segments are reported separately.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group formulates estimates and assumptions that affect the reported amounts of assets and liabilities in future financial reporting periods. Estimates and judgements are continually evaluated and are based on management's experience and other factors, such as forecasts of future events that are considered to be reasonable under the given circumstances.

Management also makes certain judgements, in addition to those involving estimates, when it applies its accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities in future financial reporting periods are as follows:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (see Note 39).

Deferred income tax asset recognition. The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that the application of the related tax benefit is probable. When determining future taxable profits and the amount of tax benefits available to certain Group entities, the management makes judgements and applies estimates based on recent taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Useful lives of property, plant and equipment. Property, plant and equipment items are stated net of accumulated depreciation. Estimating the useful life of a property, plant and equipment item is a matter of management judgement and is based on experience with similar assets. When determining the useful life of an asset, the management considers the expected usage, estimated technical obsolescence, residual value, physical wear and tear, and the environment in which the asset is operated. Differences between such estimates and actual results may result in losses in future periods, and changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Estimated impairment of goodwill. The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amounts of cash-generating units are the higher of their fair value less costs to sell and their value-in-use calculations. These calculations require the use of estimates (see Note 13).

Estimated impairment of property, plant and equipment and intangible assets excluding goodwill. Property, plant and equipment and intangible assets excluding goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGU).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value-in-use calculations, which require the estimation of discounted cash flows. The estimation of cash flows and assumptions consider all information available at the year-end on the future development of the operating business and may deviate from actual future developments. An impairment charge is the difference between the carrying amount and the recoverable CGU amount.

Equity-settled share-based payment plans for directors and key management. The Group's management applied estimates and judgments in its consolidated financial statements with respect to equity-settled share-based payment plans for the Group's directors and key management (see Note 36).

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

Grants and subsidies. As a major investor in infrastructure and social projects in the regions where it operates, the Group has signed cooperation agreements with several regional authorities, including investment and financial support agreements, under which the Group is entitled to a partial refund of capital expenditures incurred in the respective regions subject to certain conditions set for the period up to 2018 inclusive, including amounts of regional investments in business and social infrastructure, local income taxes paid, and number of jobs created and safeguarded. Such reimbursements are made after supporting documents have been submitted to the relevant authority either in the form of an income tax rebate or a direct grant of public funds. Quarterly, at each reporting date, management assesses whether there is a reasonable assurance that the Group is able to comply with the required conditions. The management believes that the Company will be able to comply with the conditions stipulated by the agreements.

Operating leases. The Group has a number of contracts with third parties for the rental of tank wagons (railway cars) with terms of 5-10 years each. At their inception minimum lease payments for some of the contracts were close to the market value of the wagons. At the same time this situation resulted from a shortage of rail cars on the market and the strong negotiating position of service providers. Based on that, and on the fact that the rewards are not substantially transferred to the Company because at the end of the lease period cars will be capable of generating significant cash flow (even if they are subsequently sold or rented at significant discounts), the rented cars are accounted as an operating lease in the consolidated financial statements.

In 2012, the Group entered into arrangements with the shipping companies Sovcomflot and Navigator for freight of four vessels with terms of 15 and 10 years, respectively. At the inception date, the minimum lease payments for contracts were 80-85 percent of the value of the vessels and the economic useful life amounted to approximately 30 years. Based on that, and on the fact that the rewards are not substantially transferred to the Company because at the end of the lease period vessels will be capable for generating significant cash flow, the rented vessels are presented as an operating lease in these consolidated financial statements.

OOO SIBUR-Portenergo disposal. In November 2015, the Company sold its 100% interest in OOO SIBUR-Portenergo, the subsidiary of the Group that operates the liquefied petroleum gas and naphtha transshipment terminal located in Ust-Luga, Leningrad Region (the "Terminal"), to Baltic Sea Transshipment PTE. Ltd (the "Buyer"), a company established by a consortium of Russian and international investors, including the Russian Direct Investment Fund (see Note 4).

After the disposal, OOO Management company SIBUR-Portenergo (the "Management Company"), a subsidiary of the Group, manages Terminal operations for a service fee. The Buyer is entitled to terminate the service contract with the Management Company at any time after two years have passed from the disposal date.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The Buyer makes decisions regarding all relevant Terminal activities, as defined by IFRS 10 "Consolidated Financial Statements", including approving its budgets, setting the terms of significant contracts, and financing and investing activities. The Management Company operates under budgets approved by the Buyer. Should the Management Company disagree with the Buyer's approved budget, it will formally relinquish responsibility for Terminal operations and will officially notify the Buyer accordingly.

In November 2015, the Company signed a long-term, take-or-pay transshipment contract with OOO SIBUR-Portenergo, which is valid through December 2029 (the "Transshipment Contract"). Under the Transshipment Contract, the Company must transship its liquefied petroleum gas (LPG) and fully utilize the Terminal's LPG transshipment capacity. As well, the Company must transship its naphtha and utilize a pre-determined percentage of the Terminal's naphtha transshipment capacity if there are no other customers.

The Company's management took the requirements of IFRS 10 "Consolidated Financial Statements" into consideration and made a significant judgement that, although the Group has retained some exposure or rights to variable returns from its involvement with the Terminal, it does not control the Terminal because it is the Buyer's prerogative to make decisions on relevant Terminal operations, and the Terminal's naphtha transshipment capacity may be utilized by third parties upon a decision of the Buyer.

Cash and cash equivalents. In 2015, cash received by the Group's subsidiary OOO ZapSibNeftekhim from Russia's National Wealth Fund, was placed on a special account at Sberbank of Russia (see Note 25). This cash can only be used for payments for equipment delivered and services provided to the ZapSib. The Group's management made a judgement that, while this cash is limited to the aforementioned use, it can be classified as cash and cash equivalents as OOO ZapSibNeftekhim has no other significant expenditures. As of 31 December 2016, the outstanding balance of cash held on this special account was RR 37,397 (as of 31 December 2015 – RR 109,478).

4 ACQUISITION AND DECONSOLIDATION OF SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTEREST

OOO Yugragazpererabotka

In 2007, the Company and the TNK-BP Group, which was subsequently acquired by the Rosneft Group, established a joint venture, OOO Yugragazpererabotka, in which the Company owned a 51 percent stake, while TNK-BP's share was 49 percent.

On 6 March 2014, the Company acquired the remaining 49 percent stake in OOO Yugragazpererabotka from the Rosneft Group (formerly, the TNK-BP Group) for a cash consideration of RR 55,733 representing the rouble equivalent of USD 1,567 million. As a result, the Company has acquired control over OOO Yugragazpererabotka and its production subsidiaries. In March 2014, under the terms of the share purchase agreement, the Company paid RR 20,548 (equivalent to USD 567 million). The remaining amount RR 61,410 (equivalent to USD 1,000 million) was paid during the first half of 2015.

Between 2014 and July 2015, OOO Yugragazpererabotka's subsidiaries were involved in litigation with AO Tyumenenergo, an electrical utility. As of 31 December 2014, liability related to this litigation recognized by the Group as part of the OOO Yugragazpererabotka purchase price allocation amounted to RR 4,617. In July 2015, the lawsuit against AO Tyumenenergo was closed when AO Tyumenenergo waived its claims, which was then accepted by the court. The accrued provision of RR 4,617 was released in full and the related gain was recognized in the energy and utilities line within operating expenses before the equity-settled share-based payment plans line of the consolidated statement of profit or loss in the second half of 2015.

(In millions of Russian roubles, unless otherwise stated)

4 ACQUISITION AND DECONSOLIDATION OF SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTEREST (CONTINUED)

OOO SIBUR-Portenergo

The Company's interest in OOO SIBUR-Portenergo was sold in November 2015 for a cash consideration of RR 21,335, which was received at the disposal date, as well as deferred and contingent considerations. The deferred consideration, amounted to USD 50 million (equivalent of RR 3,220) as of the disposal date, was adjusted by USD 2.1 million after confirmation of the Terminal's basic capacity in 2016. The contingent consideration amount of RR 1,156 (USD 18 million) is payable after seven years and was derived based on a specific formula linked to the pricing of OOO SIBUR-Portenergo's long-term transshipment contracts in excess of a defined threshold.

The carrying amounts of OOO SIBUR-Portenergo's assets and liabilities are summarized below:

Assets	**As of the disposal date**
Property, plant and equipment	25,515
Trade and other receivables	741
Inventories	81
Prepaid taxes	68
Cash and cash equivalents	57
Prepayments and other current assets	49
Intangible assets	4
Total assets	**26,515**
Liabilities	
Deferred income tax liabilities	1,438
Trade and other payables	827
Taxes other than income tax payable	9
Total liabilities	**2,274**

As a result, the Company recognized a gain in the amount of RR 1,012, which was classified as a gain on disposal of subsidiary in the consolidated statement of profit or loss in 2015.

At the disposal date, the Company recognized the deferred consideration of RR 3,220 as a financial asset classified as other receivables in the consolidated statement of financial position. Additionally, at the disposal date the Company recognized the contingent consideration in the amount of RR 698 (RR 1,156 less a discount of RR 458) as a financial asset classified as available for sale within non-current trade and other receivables in the consolidated statement of financial position (see Note 17).

As of 31 December 2015, the deferred consideration was RR 3,680 (see Note 17). The deferred consideration was received in full in the amount of USD 52.1 million (equivalent of RR 3,445) in July 2016. As of 31 December 2016 and 2015, the contingent consideration was RR 719 and RR 800, respectively (see Note 38).

OOO IT-Service

On 25 June 2015, the Company acquired a 100% stake in IT services provider OOO IT-Service from its joint venture OOO ITSK for a cash consideration of RR 197 (RR 232 purchase price less cash as of the acquisition date of RR 35), for the purpose of reselling the acquired company. As a result of the acquisition, the Group recognized goodwill of RR 138.

As of 31 December 2015, assets, including goodwill recognized by the Group on acquisition, and liabilities of OOO IT-Service in the amount of RR 257 and RR 285, respectively, were classified as held for sale in the respective lines of the consolidated statement of financial position.

In 2016, to support the implementation of major investment projects the Company decided to terminate the sale of OOO IT-Service. Its financial results are reported as Unallocated in the segment information (see Note 9).

4 ACQUISITION AND DECONSOLIDATION OF SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTEREST (CONTINUED)

AO Polief

In December 2015, following the results of a privatisation auction, the Company signed an agreement to acquire a 17.5 percent non-controlling interest in AO Polief from the Government of the Republic of Bashkortostan for a cash consideration of RR 500. The transaction was finalised in January 2016; as a result, the Company, previously held an 82.5 percent stake in the entity, became the sole owner of AO Polief. The difference between the consideration paid and the non-controlling interest acquired was recognized in retained earnings in the amount of RR 193.

OOO Tobolsk HPP

In February 2016, the Company acquired a 100 percent stake in OOO Tobolsk Heating and Power Plant (Tobolsk HPP) from a third party, OAO Fortum (the "Seller"), for the purposes of further development of the Tobolsk production site, to which Tobolsk HPP is the sole steam supplier. In addition, Tobolsk HPP sells electrical power on the wholesale market and is a primary heat supplier to the city of Tobolsk, Tyumen Region.

The Company purchased Tobolsk HPP for a cash consideration of RR 1,200 and a working capital price adjustment of RR 254, both of which were paid in 2016. Additionally, the Company should reimburse the Seller for all Tobolsk HPP cash inflows under its capacity supply contracts, which are specific to this industry revenue stream, guaranteed by the legislation of the Russian Federation, as the recovery of capital investments. Such reimbursements are payable on a monthly basis from the date of acquisition until 2020. In addition, there is a contingent consideration payable after 1 April 2018 if the Group realises synergies as a result of integrating Tobolsk HPP into its production site infrastructure in Tobolsk.

As at the transaction date, a reimbursement amount of RR 5,870 was calculated based on the estimated future cash flows under the relevant capacity supply contracts discounted by the Group's weighted average cost of capital. In 2016, the Company reimbursed the Seller RR 1,192.

As of 31 December 2016 the Company reassessed the present value of future cash flows under the relevant capacity supply contracts, considering market inputs, relevant at the reporting date and changes in electricity supply legislation, adopted subsequently to the acquisition date. As a result, the Company recognised loss on revaluation of RR 690 in the result of subsidiary's acquisition line of the consolidated statement of profit or loss.

As of 31 December 2016, a corresponding liability was recognized in the amount of RR 6,117. The non-current portion of this liability in the amount of RR 4,132 was recognized in the other non-current liability line, while the current portion in the amount of RR 1,985 was recognized in the trade and other payables line of the consolidated statement of financial position. In 2016, unwinding of discount on the liability in the amount of RR 749 was recognised in the finance expenses line of the consolidated statement of profit or loss.

In accordance with industry practice and Russian law, the tariff charged under Tobolsk HPP's power capacity supply contracts includes reimbursement of the initial capital investments required for providing new power capacity to customers. This tariff is higher than tariffs for power capacity. As a result, at the acquisition date the Group recognized an intangible asset of RR 4,115 related to Tobolsk HPP's capacity supply contracts.

(In millions of Russian roubles, unless otherwise stated)

4 ACQUISITION AND DECONSOLIDATION OF SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTEREST (CONTINUED)

As at the transaction date, the contingent consideration of RR 585 was calculated as the sum of the potential outcomes of different scenarios in which the Group realises synergies from integrating Tobolsk HPP into its production site infrastructure in Tobolsk, multiplied by the probability of each scenario. As of 31 December 2016 a corresponding liability was recognized in the amount of RR 666 in the other non-current liabilities line of the consolidated statement of financial position (See Note 38) and unwinding of discount on the liability in the amount of RR 81 was recognised in the finance expenses line of the consolidated statement of profit or loss.

At the reporting date the Company completed purchase price allocation of the acquired subsidiary. The fair values of assets and liabilities at the acquisition date are summarized in the table below:

	Fair value
Property, plant and equipment (see Note 11)	6,546
Intangible assets (see Note 13)	4,115
Trade and other receivables	694
Loans receivable	653
Inventory	278
Cash and cash equivalents	78
Prepayments and other assets	10
Other non-current assets	6
Deferred income tax liabilities	(1,287)
Trade and other payables	(616)
Other liabilities	(162)
Income tax payable	(50)
Net assets of the acquired subsidiary	**10,265**
Less:	
Cash consideration, including working capital adjustment	1,454
Reimbursement of revenue under capacity supply contracts	5,870
Consideration contingent to synergy effect	585
Total purchase consideration	**7,909**
Gain on the acquisition	**2,356**

The Company recognized an excess amount totalling RR 2,356 of net assets acquired over the total purchase consideration in a result of subsidiary's acquisition line of the consolidated statement of profit or loss.

The gain on the bargain acquisition resulted from the fact that Tobolsk HPP's previous owner did not consider it to be a strategic asset, because it historically had been integrated with OOO SIBUR Tobolsk through heat and steam supplies and, therefore, if the Group had undertaken to build its own energy generating capacity to ensure uninterrupted production, then Tobolsk HPP would have become an economically ineffective asset for the Seller.

The acquired company contributed revenues of RR 4,294 and losses of RR 522 to the Group, mainly attributable to the amortisation expense of RR 798 of the recognized intangible asset related to Tobolsk HPP's capacity supply contracts for the period from the date of acquisition to 31 December 2016. Had the acquisition occurred on 1 January 2016, the Group's revenue would have been RR 412,268 and its net profit would have been RR 113,158 for the year ended 31 December 2016.

The Company did not incur any significant transaction costs on this acquisition.

4 ACQUISITION AND DECONSOLIDATION OF SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTEREST (CONTINUED)

AO NIPIgazpererabotka

In December 2015, the Company signed several agreements with certain companies controlled by some of its shareholders, including those that simultaneously serve as senior Group management, to sell a 44 percent ownership interest (representing 50 percent of the voting shares) in the Group's subsidiary, AO NIPIgazpererabotka ("NIPIGAZ"). Title to the shares sold was transferred on 30 June 2016, the transaction date. As a result, the effective percentage of NIPIGAZ's share capital held by the Group decreased to 45 percent (representing 50 percent of the voting shares).

The Group has continued to consolidate NIPIGAZ as it has retained control over its relevant activities as defined by IFRS 10 "Consolidated Financial Statements". The Group has made a significant judgement that it has retained control over NIPIGAZ as the Group and its key management, as shareholders of NIPIGAZ, can cumulatively control a majority of votes at the meetings of NIPIGAZ's governing bodies. Also, the Group holding 50 percent of the voting shares can block any decisions by NIPIGAZ's governing bodies.

The difference between the amount of non-controlling interest, calculated as 44 percent of NIPIGAZ's net assets, and the fair value of the consideration received for the shares sold was recognized in equity attributable to the shareholders of the parent company, in the amount of RUB 128.

5 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

OOO ITSK

In 2014, an investment of RR 795 in OOO ITSK, a joint venture of the Group, was classified as asset held for sale. In June 2015, the Group withdrew from OOO ITSK and recognized a loss on disposal in the amount of RR 188 (presented within the separate line item in the consolidated statement of profit or loss).

OOO ITSK's financial results are reported as Unallocated in the segment information (see Note 9).

OOO SIBUR GEOSINT

As of 31 December 2015, assets and liabilities associated with assets classified as held for sale included the assets and liabilities of the Group's geosynthetics producer OOO SIBUR GEOSINT, which amounted to RR 352 in assets and RR 84 in liabilities. The Group recognized a pre-tax loss of RR 479 on the remeasurement of OOO SIBUR GEOSINT's net assets to the lower of carrying amount and fair value less selling costs. This loss was recognized within operating expenses before the equity-settled share-based payment plans in the consolidated statement of profit or loss.

In 2016, the Group decided to stop sale of OOO SIBUR GEOSINT due to unfavourable market conditions, and reclassified its assets and liabilities accordingly.

OOO SIBUR GEOSINT's financial results are reported in the Plastics, Elastomers and Intermediates segment (see Note 9).

AO Uralorgsintez

As of 31 December 2016, the assets and liabilities associated with the assets classified as held for sale included the assets and liabilities of the Group's subsidiary AO Uralorgsintez. The main operating activities of AO Uralorgsintez include processing of hydrocarbon feedstock to liquefied petroleum gases and naphtha and production of benzene hydrocarbons and methyl tertiary butyl ether (MTBE), a high-octane fuel additive.

(In millions of Russian roubles, unless otherwise stated)

5 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (CONTINUED)

AO Uralorgsintez is not integrated into the Group's raw NGL transportation infrastructure, as it is located in the city of Tchaikovsky, Perm Region, far from the NGL pipeline system; so the Group does not consider it to be a strategic asset. The sale of the asset is approved by the Group's management and the Group is currently engaged in negotiations with the potential buyers of the asset.

As of 31 December 2016, the assets and liabilities associated with the assets classified as held for sale amounted to RR 2,641 and RR 600, respectively.

Assets and liabilities of AO Uralorgsintez classified as held for sale	31 December 2016
Assets	
Property, plant and equipment (see Note 11)	2,421
Prepaid taxes	137
Inventories	63
Other	20
Total assets	**2,641**
Liabilities	
Trade and other payables	223
Deferred income tax liabilities	131
Taxes other than income tax payable	57
Other	189
Total liabilities	**600**

AO Uralorgsintez's financial results are reported in the Plastics, Elastomers and Intermediates segment (see Note 9).

6 REVENUE

Revenue by products and reportable segments is presented below:

	Year ended 31 December	
	2016	2015
Feedstock and Energy	**170,708**	**163,707**
Liquefied petroleum gas	88,839	82,926
Natural gas	45,958	42,991
Naphtha	30,846	31,445
Raw natural gas liquids	2,701	3,669
Other sales	2,364	2,676
Olefins and Polyolefins	**86,830**	**74,616**
Polyolefins	60,225	50,886
BOPP films	18,509	17,066
Olefins	5,072	3,899
Other polymers products	2,344	2,118
Other sales	680	647
Plastics, Elastomers and Intermediates	**130,690**	**127,954**
Plastics and organic synthesis products	45,929	46,677
Elastomers	39,421	35,079
MTBE and fuel additives	23,213	25,446
Intermediates and other chemicals	20,539	19,164
Other sales	1,588	1,588
Unallocated	**23,584**	**13,575**
Other revenue*	23,584	13,575
Total revenue	**411,812**	**379,852**

* Including agency fees.

(In millions of Russian roubles, unless otherwise stated)

7 OPERATING EXPENSES BEFORE EQUITY-SETTLED SHARE-BASED PAYMENT PLANS

	Year ended 31 December	
	2016	**2015**
Feedstock and materials	82,993	83,931
Transportation and logistics	73,738	65,815
Energy and utilities	37,716	28,397
Depreciation and amortisation	34,996	31,498
Staff costs	34,510	30,658
Goods for resale	14,182	11,929
Services provided by third parties	9,484	6,946
Repairs and maintenance	8,534	8,620
Taxes other than income tax	2,246	1,923
Processing services of third parties	2,040	981
Impairment of property, plant and equipment	1,502	-
Rent expenses	1,256	973
Charity and sponsorship	950	816
Marketing and advertising	777	453
Loss on disposal of property, plant and equipment	172	244
Impairment of assets held for sale	-	479
Change in WIP and refined products balances	(284)	(1,409)
Other	3,869	3,940
Total operating expenses before equity-settled share based payment plans	**308,681**	**276,194**

Staff costs for the years ended 31 December 2016 and 31 December 2015 included statutory pension and other social security contributions of RR 6,563 and RR 6,066, respectively, also RR 472 and RR 227 of statutory pension and other social security contributions were capitalised in property, plant and equipment for the years ended 31 December 2016 and 31 December 2015, respectively.

8 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2016	**2015**
Foreign exchange gain from financing activities	51,740	-
Interest income	1,013	1,412
Unwinding of discount on loans receivable and non-current accounts receivable	247	253
Gain on derivative financial instruments (Note 38)	104	-
Discount on borrowings and non-current accounts payable	-	79
Other income	92	20
Total finance income	**53,196**	**1,764**
Interest expense	(13,880)	(12,387)
Bank commissions	(3,619)	(146)
Foreign exchange loss from non-financing activities	(2,816)	(1,975)
Foreign exchange loss from financing activities	-	(61,160)
Unwinding of discount on borrowings and non-current accounts payable	(1,094)	(734)
Interest expense on post-employment obligations	(209)	(219)
Fair value loss on derivative financial instruments	-	(1,644)
Discount on loans receivable and non-current accounts receivable	-	(273)
Other expense	(294)	(149)
Total finance expenses	**(21,912)**	**(78,687)**

9 SEGMENT INFORMATION

The Group operates as a vertically integrated business, gathering and processing hydrocarbon feedstock, obtained from major Russian oil and gas companies, and producing and selling energy products as well as a wide range of petrochemical products.

At the beginning of the reporting period, the chief operational decision-makers were the Chief Executive Officer, two Executive Directors and the Chief Financial Officer. In March 2016, the Group completed a number of organisational changes in its management structure, including the transfer of several management functions to the regional level. The new management system is designed to facilitate the implementation of the Group's development strategy in the most balanced way. As a result, the chief operational decision-makers are now the Chairman of the Management Board, the Chief Operating Officer, the Chief Financial Officer and three Executive Directors. These executives regularly review the Group's internal reporting in order to assess performance and allocate resources.

In 2016, following the organisational changes and the respective changes in the areas of responsibility among the Executive Directors, the Petrochemicals segment was divided into two new segments: the Plastics, Elastomers and Intermediates segment and the Olefins and Polyolefins segment, and the financial results of MTBE and other fuel additives were transferred from the Feedstock and Energy segment to the newly formed Plastics, Elastomers and Intermediates segment.

Comparative figures for 2015 were changed to reflect the logic of segment information implemented in 2016.

As a result the Group's management has determined three operating and reportable segments:

- Feedstock and Energy – processing of associated petroleum gas and raw natural gas liquids to produce energy products, including natural gas, liquefied petroleum gases and naphtha, which are marketed and sold externally and are also used as feedstock by the Olefins and Polyolefins segment and the Plastics, Elastomers and Intermediates segment;
- Olefins and Polyolefins – mainly the production of polypropylene, polyethylene, propylene, ethylene and BOPP films;
- Plastics, Elastomers and Intermediates – the production of synthetic rubbers, plastics, organic synthesis products and other petrochemical products. In addition, the Plastics, Elastomers and Intermediates segment produces fuel additives, including MTBE, 100 percent of which is sold externally.

The Group's management assesses the performance of each operating segment based on their respective EBITDA contributions. The revenues and expenses of some of the Group's subsidiaries, which primarily provide energy supply, transportation, processing, managerial and other services to other Group entities are not allocated into the operating segments.

To reflect and assess the results of the joint ventures that launched their operations in 2014 – 2015 the Group's EBITDA was adjusted by a portion of the EBITDA of joint ventures and associates (Adjusted EBITDA). EBITDA is calculated as the profit or loss for the period, adjusted by income tax expense, finance income and expenses, share of net income or loss of joint ventures and associates, depreciation and amortisation, impairment of property, plant and equipment, profit or loss on disposal of investments, as well as other one-off items.

(In millions of Russian roubles, unless otherwise stated)

9 SEGMENT INFORMATION (CONTINUED)

Other information provided to management, except as noted below, is measured in a manner consistent with that in these consolidated financial statements.

	Feedstock and Energy	Olefins and Poly-olefins	Plastics, Elastomers and Intermediates	Total reportable segments	Unallocated	Total
Year ended 31 December 2016						
Total segment revenue	196,025	107,426	132,379	435,830	26,159	461,989
Inter-segment transfers	(25,317)	(20,596)	(1,689)	(47,602)	(2,575)	(50,177)
External revenue	**170,708**	**86,830**	**130,690**	**388,228**	**23,584**	**411,812**
EBITDA	**60,526**	**48,909**	**31,508**	**140,943**	**(1,314)**	**139,629**
Group's portion of joint ventures and associates EBITDA	685	8,843	-	9,528	-	9,528
Adjusted EBITDA	**61,211**	**57,752**	**31,508**	**150,471**	**(1,314)**	**149,157**
Year ended 31 December 2015						
Total segment revenue	189,529	95,063	129,303	413,895	18,920	432,815
Inter-segment transfers	(25,822)	(20,447)	(1,349)	(47,618)	(5,345)	(52,963)
External revenue	**163,707**	**74,616**	**127,954**	**366,277**	**13,575**	**379,852**
EBITDA	**66,490**	**36,895**	**34,166**	**137,551**	**(1,916)**	**135,635**
Group's portion of joint ventures and associates EBITDA	329	5,699	-	6,028	-	6,028
Adjusted EBITDA	**66,819**	**42,594**	**34,166**	**143,579**	**(1,916)**	**141,663**

A reconciliation of EBITDA to profit before income tax was as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
EBITDA	**139,629**	**135,635**
Finance income	53,196	1,764
Finance expenses	(21,912)	(78,687)
Result of subsidiary's acquisition	1,666	-
Gain on disposal of subsidiary	-	1,012
Loss on disposal of assets held for sale	-	(188)
Share of net income/(loss) of joint ventures and associates	6,471	(1,264)
Depreciation and amortisation	(34,996)	(31,498)
Equity-settled share-based payments plans	-	(12,976)
Impairment of property, plant and equipment	(1,502)	-
Impairment of assets held for sale	-	(479)
Profit before income tax	**142,552**	**13,319**

Geographical information. All of the Group's production facilities are located in the Russian Federation.

The breakdown of revenues by geographical regions is as follows:

	Year ended 31 December	
	2016	**2015**
Russia	237,843	211,512
Europe	117,680	113,224
Asia	28,146	29,058
CIS	22,462	21,208
Other	5,681	4,850
Total revenue	**411,812**	**379,852**

(In millions of Russian roubles, unless otherwise stated)

10 EARNINGS PER SHARE

The basic and diluted earnings per share ratio has been calculated by dividing the profit for the reporting year attributable to equity holders of the parent company by the weighted average number of shares outstanding during the year, excluding treasury shares. The weighted average number of ordinary shares outstanding for the years ended 31 December 2016 and 2015 was 2,178,479,100.

11 PROPERTY, PLANT AND EQUIPMENT

Movements in the net book value of property, plant and equipment were as follows:

	Buildings	Facilities	Machinery and equipment	Transport	Assets under construction	Other	Total
Net book value as of 31 December 2014	**37,069**	**136,753**	**98,174**	**7,075**	**32,356**	**5,756**	**317,183**
Depreciation charge	(1,810)	(9,421)	(14,606)	(542)	-	(1,136)	(27,515)
Additions	-	-	-	-	67,841	5,122	72,963
Transfers	2,785	16,298	15,003	918	(35,586)	582	-
Disposals	(158)	(140)	(154)	(53)	(1,023)	(502)	(2,030)
Reclassification to assets held for sale (see Note 5)	(185)	(203)	(421)	(1)	(239)	(25)	(1,074)
Historical cost as of 31 December 2015	47,445	174,637	147,616	11,507	63,349	12,114	456,668
Accumulated depreciation	(9,744)	(31,350)	(49,620)	(4,110)	-	(2,317)	(97,141)
Net book value as of 31 December 2015	**37,701**	**143,287**	**97,996**	**7,397**	**63,349**	**9,797**	**359,527**
Depreciation charge	(1,998)	(9,955)	(15,005)	(713)	-	(1,861)	(29,532)
Additions	-	-	-	-	105,128	386	105,514
Acquisition of subsidiary (see Note 4)	2,563	1,231	2,715	16	19	2	6,546
Transfers	8,077	11,159	16,755	151	(36,664)	522	-
Reclassification to inventories	-	-	-	-	-	(1,525)	(1,525)
Impairment	(269)	(877)	(44)	-	(262)	-	(1,452)
Disposals	(75)	(425)	(275)	(126)	(456)	(317)	(1,674)
Reclassification from/(to) assets held for sale (see Note 5)	(399)	(355)	(1,290)	(76)	(260)	(22)	(2,402)
Historical cost as of 31 December 2016	56,904	184,450	163,706	11,283	130,854	9,959	557,156
Accumulated depreciation	(11,304)	(40,385)	(62,854)	(4,634)	-	(2,977)	(122,154)
Net book value as of 31 December 2016	**45,600**	**144,065**	**100,852**	**6,649**	**130,854**	**6,982**	**435,002**

Transfers for the year ended 31 December 2016 related to the following main items of property, plant and equipment, construction of which had been finalised: extensions of polymer production at OOO Tomskneftekhim, raw natural gas liquids production facility at OOO SIBUR Tobolsk and the compressor plant at OOO Nizhnevartovsky Gas Processing Complex.

For 2016 and 2015, the Group capitalized borrowing costs of RR 9,600 and RR 8,338, respectively. Borrowing costs included foreign exchange losses from financing activities in the amount of RR 118 and RR 4,408 for the year ended 31 December 2016 and 31 December 2015, respectively. The capitalization rates, excluding the effect of capitalized foreign exchange losses from financing activities, were 7.25 percent and 5.75 percent, respectively.

(In millions of Russian roubles, unless otherwise stated)

12 ADVANCES AND PREPAYMENTS FOR CAPITAL CONSTRUCTION

Advances and prepayments in the amount of RR 95,998 and RR 44,051 as of 31 December 2016 and 2015, respectively, primarily were paid to suppliers and contractors under the ZapSib. Construction is to be completed by the end of 2019.

As of 31 December 2016, the most significant advances and prepayments were paid to Linde AG Engineering Division, Renaissance Heavy Industries, Technip France, Yamata Endüstriyel Projeler Inşaat Taahhüt ve Ticaret, ThyssenKrupp Industrial Solutions AG.

As of 31 December 2015, the most significant advances and prepayments were paid to Linde AG Engineering Division, Technip France, Renaissance Heavy Industries, Yamata Endüstriyel Projeler Inşaat Taahhüt ve Ticaret, ThyssenKrupp Industrial Solutions AG and Polyplastic Group AO.

Management assessed the risks of non-recoverability and requested a collateral against advances and prepayments when the risk was considered as moderate or higher. On a regular basis, management reviews and monitors the status of work performed under each construction, other services and supply agreements. The Group's management assesses the risk that some of the advances and prepayments would not be recovered as insignificant.

13 GOODWILL AND INTANGIBLE ASSETS EXCLUDING GOODWILL

The net book value of intangible assets was as follows:

	Goodwill	Customer relationships	Supply contracts	Software and licences	Development costs	Total
Net book value as of 31 December 2014	**11,959**	**485**	**110,697**	**6,239**	**690**	**130,070**
Additions	-	-	-	4,682	628	5,310
Transfers	-	-	-	29	(29)	-
Disposals	-	-	-	(21)	(343)	(364)
Amortisation charge	-	(71)	(6,150)	(1,422)	-	(7,643)
Historical cost as of 31 December 2015	11,959	680	115,816	11,759	946	141,160
Accumulated amortisation	-	(266)	(11,269)	(2,252)	-	(13,787)
Net book value as of 31 December 2015	**11,959**	**414**	**104,547**	**9,507**	**946**	**127,373**
Acquisition of subsidiary (see Note 4)	-	-	4,115	-	-	4,115
Additions	-	-	-	3,006	909	3,915
Disposals	-	-	-	-	(201)	(201)
Impairment	-	-	-	-	(50)	(50)
Amortisation charge	-	(71)	(6,947)	(1,942)	-	(8,960)
Reclassification from/(to) assets held for sale (see Note 5)	138	-	-	(5)	-	133
Historical cost as of 31 December 2016	12,097	680	119,931	15,038	1,604	149,350
Accumulated amortisation	-	(337)	(18,216)	(4,472)	-	(23,025)
Net book value as of 31 December 2016	**12,097**	**343**	**101,715**	**10,566**	**1,604**	**126,325**

Amortisation of intangible assets is recognized within operating expenses before the equity-settled share-based payment plans in the consolidated statement of profit or loss. Intangible assets other than goodwill are presented in a separate line in the consolidated statement of financial position.

(In millions of Russian roubles, unless otherwise stated)

13 GOODWILL AND INTANGIBLE ASSETS EXCLUDING GOODWILL (CONTINUED)

Impairment tests for goodwill

Goodwill related to the acquisitions of SIBUR International GmbH, OOO Biaxplen and OOO Yugragazpererabotka is allocated to the Group's cash-generating units (CGUs), which are the same as operating and reportable segments (see Note 9).

An operating segment-level summary of the goodwill allocation is presented below:

	31 December 2016	31 December 2015
SIBUR International GmbH		
Feedstock and Energy	3,189	3,189
Olefins and Polyolefins	1,160	1,160
Plastics, Elastomers and Intermediates	2,348	2,348
OOO Biaxplen		
Olefins and Polyolefins	2,783	2,783
OOO Yugragazpererabotka		
Feedstock and Energy	2,479	2,479
OOO IT-Service		
Unallocated	138	-
Total goodwill	**12,097**	**11,959**

The recoverable amount for each CGU is the higher of its fair value, less the selling cost and its value-in-use calculations, and has been determined based on a value-in-use calculation. These calculations use pre-tax cash flow projections based on management's five-year financial forecast prepared as of the year end. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of three percent. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The following key assumptions are used in the value-in-use calculation: a discount rate of 17.87 percent, an exchange rate of RR 63-65 to USD 1, an oil price of USD 57-80 per bbl, and a Consumer Price Index of 4.3-5.8 percent. The discount rates used are pre-tax and reflect specific risks relating to the CGU's operating activity.

As the result of the management assessment no impairment of goodwill was identified.

14 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	31 December 2016	31 December 2015
OOO RusVinyl	19,058	15,590
OOO Yuzhno-Priobsky GPZ	6,096	5,428
OOO NPP Neftekhimia	3,225	4,321
AO Sibgazpolimer	2,060	565
Reliance Sibur Elastomers Private Limited	1,317	1,159
OOO SNHK	1	1
Total investments in joint ventures and associates	**31,757**	**27,064**

(In millions of Russian roubles, unless otherwise stated)

14 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

The table below summarises the movements in the carrying amount of the Group's investment in associates and joint ventures.

	2016		2015	
	Joint Ventures	Associates	Joint Ventures	Associates
Investments in joint ventures and associates as of the beginning of the year	**25,905**	**1,159**	**26,580**	**181**
Share of profit/(loss) of joint ventures and associates	6,461	10	(1,266)	2
Additions	614	437	1,498	816
Dividends received from joint ventures and associates	(2,540)	-	(907)	-
Translation differences	-	(289)	-	160
Investments in joint ventures and associates as of the end of the year	**30,440**	**1,317**	**25,905**	**1,159**

All individually material associates and joint ventures are private companies and, thus, there are no quoted prices for their shares. All of these entities have share capital consisting solely of ordinary shares, which are held directly by the shareholders.

The Group reviews its investments in joint ventures and associates for potential impairment indicators on a regular basis. As of 31 December 2016 there were no circumstances that would indicate the carrying value of investments in joint ventures and associates exceeds its recoverable amount.

The nature of the Group's relationship with and the financial information of each individually material associate and joint venture are described below.

OOO RusVinyl. In June 2007, the Group formed a joint venture, OOO RusVinyl, with SolVin Holding Nederland B.V. (which is ultimately controlled by Solvay SA) for the construction of a polyvinyl chloride production complex in the Nizhny Novgorod Region. In September 2014, OOO RusVinyl began its operation. During the year ended 31 December 2015, the Group and SolVin Holding Nederland B.V. each additionally contributed RR 875 to the share capital of OOO RusVinyl; the Group's ownership share remained unchanged.

In 2011, the Group issued a finance guarantee for 50 percent of loans obtained by OOO RusVinyl and pledged its share in the joint venture as security for the financial obligations of OOO RusVinyl. In December 2016, the coverage of the Group guarantee was decreased to 20% of loans of OOO RusVinyl and in addition to that the Group issued EUR 32.5 million guarantee as a liquidity support undertaking.

As of 31 December 2016 and 31 December 2015, the maximum credit risk exposures due to financial guarantees issued for the OOO RusVinyl loans were RR 8,580 and RR 21,548, respectively.

(In millions of Russian roubles, unless otherwise stated)

14 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

The table below provides information on the statement of financial position and the results of OOO RusVinyl as of and for the years ended 31 December 2016 and 2015.

	31 December 2016	31 December 2015
Assets		
Non-current assets		
Property, plant and equipment	67,898	71,105
Other non-current assets	2,636	4,459
Total non-current assets	**70,534**	**75,564**
Current assets		
Cash and cash equivalents	1,471	1,170
Other current assets	3,951	3,631
Total current assets	**5,422**	**4,801**
Total assets	**75,956**	**80,365**
Liabilities		
Non-current liabilities		
Financial liabilities	29,307	38,247
Total non-current liabilities	**29,307**	**38,247**
Current liabilities		
Financial liabilities	5,454	8,690
Other current liabilities	3,078	2,248
Total current liabilities	**8,532**	**10,938**
Total liabilities	**37,839**	**49,185**
Net assets	**38,117**	**31,180**

Reconciliation to carrying amounts:

	Year ended 31 December	
	2016	2015
Opening net assets	**31,180**	**35,245**
Profit/(loss) for the period	6,937	(5,815)
Additional contribution to the share capital	-	1,750
Closing net assets	**38,117**	**31,180**
Group's share in percent	*50*	*50*
Group's share	19,058	15,590
Carrying amount	**19,058**	**15,590**

	Year ended 31 December	
	2016	2015
Revenue	22,621	15,580
Depreciation and amortisation	(3,423)	(3,359)
Interest income	54	62
Interest expense	(3,183)	(3,579)
Other finance expense	(88)	(26)
Foreign exchange gain/(loss)	6,101	(4,630)
Income tax (expense)/benefit	(1,800)	1,342
Profit/(loss) for the period	6,937	(5,815)

The Group analyses events and changes within the economy and the industry, indicating that the carrying value of OOO RusVinyl may be impaired, and, if any, assesses the recoverable amount of this investment based on value-in-use calculations. As of 31 December 2015 no impairment has been recognized as a result of the review. The Group performed a sensitivity analysis of key assumptions used in the impairment model, which in certain scenarios indicated an insignificant impairment of the investment.

14 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

As of 31 December 2016 no indicators of potential impairment were identified by management, as the actual financial results of OOO RusVinyl for 2016 are more optimistic than estimated by management for assessing the recoverable amount as of 31 December 2015.

OOO Yuzhno-Priobsky GPZ. In 2007, the Group and the Gazprom Neft Group established a joint venture in the Khanty-Mansiysk Autonomous District to construct a gas processing plant based on Yuzhno-Priobskaya compressor station. On 3 September 2015, OOO Yuzhno-Priobsky GPZ began its operation.

In September 2014 and February 2015, the Gazprom Neft Group made additional contributions to the joint venture's share capital of RR 4,810 and RR 1,240, respectively. According to the shareholders' agreement, both shareholders are obligated to finance the joint venture on a parity basis. Thus, the contributions made by the Gazprom Neft Group require that the Group either provide equivalent funding to the joint venture or compensate the Gazprom Neft Group for 50 percent of the contribution made. As a result, as of 31 December 2015 the Group recognized a liability for contributions to the share capital of OOO Yuzhno-Priobsky GPZ in the amount of RR 3,025 (see Note 28), with a corresponding increase in the investments in joint ventures and associates line.

Following the contributions made by the Gazprom Neft Group, the Group's nominal ownership in the joint venture has temporarily decreased to 26.3 percent.

Under the shareholders' agreement, a unanimous decision is required to approve key financial and operating policy decisions with respect to the joint venture's business activities. The Group's economic interest in the joint venture has remained unchanged and it continued to account for its investment in OOO Yuzhno-Priobsky GPZ as a joint venture under the equity method.

The Group paid to the Gazprom Neft Group RR 2,053 in 2014 and RR 972 during the first half of 2015 in cash, which were recognized as loans receivable as of 31 December 2015. In April 2016, these loans were settled by Gazprom Neft Group and the Group has settled its liability for additional contribution to the share capital of OOO Yuzhno-Priobsky GPZ in the amount of RR 3,025. As a result, the Group's stake in the joint venture has increased to 50 percent upon the transfer of the related portion of shares previously owned by the Gazprom Neft Group.

In September 2016, the Group and the Gazprom Neft Group each made additional contribution to the joint venture's share capital in the amount of RR 614; the Group's ownership share remained unchanged.

(In millions of Russian roubles, unless otherwise stated)

14 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

The table below provides information on the statement of financial position and the results of OOO Yuzhno-Priobsky GPZ as of and for the years ended 31 December 2016 and 2015.

	31 December 2016	31 December 2015
Assets		
Non-current assets		
Property, plant and equipment	9,802	10,018
Other non-current assets	258	249
Total non-current assets	**10,060**	**10,267**
Current assets		
Cash and cash equivalents	9	641
Other current assets	2,906	595
Total current assets	**2,915**	**1,236**
Total assets	**12,975**	**11,503**
Liabilities		
Non-current liabilities		
Other non-current liabilities	319	283
Total non-current liabilities	**319**	**283**
Current liabilities		
Other current liabilities	464	364
Total current liabilities	**464**	**364**
Total liabilities	**783**	**647**
Net assets	**12,192**	**10,856**

Reconciliation to carrying amounts:

	Year ended 31 December	
	2016	**2015**
Opening net assets	**10,856**	**9,612**
Profit for the period	108	4
Additional contribution to the share capital	1,228	1,240
Closing net assets	**12,192**	**10,856**
Group's share in percent	*50*	*50*
Reporting entity's share	6,096	5,428
Carrying amount	**6,096**	**5,428**

	Year ended 31 December	
	2016	**2015**
Revenue	2,160	1,196
Depreciation and amortization	(1,255)	(646)
Interest income	20	6
Income tax expense	(28)	(13)
Profit for the period	108	4

OOO NPP Neftekhimia. In September 2010, the Group established a joint venture, OOO NPP Neftekhimia, with OAO Moskovskiy NPZ (later renamed as AO Gazpromneft-MNPZ), a member of Gazprom neft Group. The joint venture is a polypropylene producer located in Moscow, and the Group purchases substantially all of its production volumes.

In 2016 and 2015, the Group received dividends from OOO NPP Neftekhimia of RR 2,540 and RR 907, respectively.

(In millions of Russian roubles, unless otherwise stated)

14 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

The table below provides information of the statement on financial position and the results of OOO NPP Neftekhimia as of and for the years ended 31 December 2016 and 2015.

	31 December 2016	31 December 2015
Assets		
Non-current assets		
Property, plant and equipment	1,531	1,763
Other non-current assets	96	61
Total non-current assets	**1,627**	**1,824**
Current assets		
Cash and cash equivalents	321	233
Other current assets	2,892	3,982
Total current assets	**3,213**	**4,215**
Total assets	**4,840**	**6,039**
Liabilities		
Non-current liabilities		
Other non-current liabilities	21	26
Total non-current liabilities	**21**	**26**
Current liabilities		
Other current liabilities	1,052	515
Total current liabilities	**1,052**	**515**
Total liabilities	**1,073**	**541**
Net assets	**3,767**	**5,498**

Reconciliation to carrying amounts:

	Year ended 31 December	
	2016	**2015**
Opening net assets	**5,498**	**4,042**
Profit for the period	3,349	3,269
Dividends paid	(5,080)	(1,813)
Closing net assets	**3,767**	**5,498**
Group's share in percent	*50*	*50*
Group's share	1,883	2,749
Unrealised gain	(230)	-
Goodwill	1,572	1,572
Carrying amount	**3,225**	**4,321**

	Year ended 31 December	
	2016	**2015**
Revenue	8,186	8,334
Depreciation and amortisation	(264)	(160)
Interest income	303	332
Foreign exchange gain	6	-
Income tax expense	(912)	(842)
Profit for the period	3,349	3,269

(In millions of Russian roubles, unless otherwise stated)

14 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

Summarised financial information of each individually immaterial joint venture and associate is provided below.

As of and for the year ended 31 December 2016

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenues	Oper. profit/ (loss)	Profit
Reliance Sibur Elastomers Private Limited	1,195	10,036	4,047	1,518	55	53	38
AO Sibgazpolimer	12	6,167	2,059	-	-	(1)	2,990

As of and for the year ended 31 December 2015

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenues	Oper. profit/ (loss)	Profit
Reliance Sibur Elastomers Private Limited	1,551	5,876	2,456	-	12	10	9
AO Sibgazpolimer	590	3,190	2,651	-	-	(1)	15

In May 2014, AO Sibgazpolimer acquired a 50% stake in OOO Poliom from AO GK Titan for a cash consideration of RR 2,297 and a contingent consideration of RR 2,131. Purchase price allocation resulted in recognition of goodwill in the amount of RR 5,960, which was included in carrying value of investment in OOO Poliom. The Group has reviewed AO Sibgazpolimer investment in OOO Poliom for impairment and has assessed its recoverable amount as of 31 December 2016 and 31 December 2015 based on value-in-use calculations. No impairment has been recognized as a result.

The Group has a number of long-term contracts with joint ventures, including contracts for procurement of processing services and purchase of finished goods. Balances outstanding as of 31 December 2016 and 31 December 2015 and transactions for the year ended 31 December 2016 and 31 December 2015 with joint ventures and associates are disclosed in Note 36.

The Group will finance investments in its joint ventures and associates should these entities be unable to attract third parties' financing. The Group's commitments under these investment arrangements comprised RR 2,121 and RR 4,413 as of 31 December 2016 and 2015, respectively.

The table below summarizes information about the Group's major investments in joint ventures and associates.

			Interest held (percent) as of	
	Country of incorporation and principal place of business	Nature of operations	31 December 2016	31 December 2015
Joint ventures:				
OOO RusVinyl	Russia	Polyvinyl chloride production	50	50
OOO NPP Neftekhimia	Russia	Polypropylene production	50	50
AO Sibgazpolimer*	Russia	Investments in Omsk polypropylene plant, OOO "Poliom" (50 percent stake)	50	50
OOO SNHK	Russia	Production of plastics and synthetic resins	50	50
OOO Yuzhno-Priobsky GPZ	Russia	Associated petroleum gas processing	50	26
Associates:				
Reliance Sibur Elastomers Private Limited	India	Butyl rubber production (investment project)	25	25

*Special purpose vehicle established for investing in production entities.

(In millions of Russian roubles, unless otherwise stated)

14 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

The voting and ownership percentage in joint ventures and associates are the same, except for OOO Yuzhno-Priobsky GPZ (as described above).

15 ADVANCES ISSUED AND RECEIVED UNDER PROJECT MANAGEMENT SERVICES

Advances issued under project management services	**31 December 2016**
Amur Gas Processing Plant	36,465
Moscow Combined Oil Refining	1,274
Total	**37,739**
Less current portion	(4,630)
	33,109

Advances received under project management services	**31 December 2016**
Amur Gas Processing Plant	36,256
Moscow Combined Oil Refining	5,156
Total	**41,412**
Less current portion	(5,931)
	35,481

In July 2015, OOO Gazprom Pererabotka Blagoveshchensk, a Gazprom Group's subsidiary, and AO NIPIgazpererabotka, a Group's subsidiary, signed a contract for managing a project of construction of the Amur Gas Processing Plant (Amur GPP), located near the town of Svobodny, Amur Region. Upon its completion, the Amur GPP will be the Russia's largest natural gas processing facility with a maximum design capacity of 42 bcm per annum as well as the world's largest helium production plant. Under this agreement, NIPIGAZ will manage and supervise engineering work and the procurement and delivery to site of equipment, materials and construction work until the transfer of the plant in a state of mechanical completion to OOO Gazprom Pererabotka Blagoveshchensk.

16 PREPAID BORROWING COSTS

As of 31 December 2016 and 31 December 2015, prepaid borrowing costs of RR 7,141 and RR 8,465, respectively, included credit agencies premiums and fees paid to a consortium of European banks for arranging long-term credit facilities for the Group's subsidiary, OOO ZapSibNeftekhim, for the ZapSib execution. The current portion of prepaid borrowing costs of RR 3,709 and RR 2,610 as of 31 December 2016 and 31 December 2015, respectively, will be accounted for under loans and borrowings within one year from the reporting date.

17 TRADE AND OTHER RECEIVABLES

	31 December 2016	**31 December 2015**
Trade receivables (net of impairment provisions of RR 830 and RR 232 as of 31 December 2016 and 31 December 2015, respectively)	18,909	18,055
Other receivables (net of impairment provisions of RR 174 and RR 177 as of 31 December 2016 and 31 December 2015, respectively)	2,980	3,792
Receivable from disposal of subsidiary (see Note 4)	-	3,680
Total trade and other receivables	**21,889**	**25,527**
Less non-current portion: other receivables (Notes 4 and 38)	(1,754)	(1,898)
	20,135	**23,629**

(In millions of Russian roubles, unless otherwise stated)

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

The fair values of trade and other receivables approximate their carrying values. As of 31 December 2016 and 2015, respectively, RR 2,759 and RR 2,807 in trade receivables were secured by bank guarantees and other collaterals. All non-current receivables are due within ten years from reporting period date.

The aging analysis of receivables that are past due but not impaired is as follows:

	Trade receivables	Other receivables	Total
As of 31 December 2016			
Up to three months	618	115	733
Three to twelve months	57	2	59
Total	**675**	**117**	**792**
As of 31 December 2015			
Up to three months	833	26	859
Three to twelve months	101	462	563
Total	**934**	**488**	**1,422**

Movements in the Group's provision for impairment of receivables are as follows:

	Trade receivables	Other receivables	Total
As of 31 December 2014	**280**	**534**	**814**
Written off during the year as uncollectible	(11)	(37)	(48)
Unused amounts reversed	(75)	(353)	(428)
Impairment for receivables	38	33	71
As of 31 December 2015	**232**	**177**	**409**
Written off during the year as uncollectible	(251)	(28)	(279)
Unused amounts reversed	(42)	(41)	(83)
Acquisition of subsidiary	104	-	104
Impairment for receivables	787	66	853
As of 31 December 2016	**830**	**174**	**1 004**

The impairment provision was accrued on trade and other receivables that are more than 365 days past due. Accrual and release of the impairment provision have been recognized within other operating expenses in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash. The individually impaired receivables include those related to wholesalers, which are facing unexpectedly difficult economic circumstances.

18 OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Raw natural gas liquids in pipelines	1,975	2,017
Advances issued	112	230
Other	63	175
Total other non-current assets	**2,150**	**2,422**

19 INVENTORIES

	31 December 2016	31 December 2015
Refined products and work in progress	16,689	16,746
Materials and supplies	12,670	9,633
Goods for resale	1,633	927
Total inventories	**30,992**	**27,306**

As of 31 December 2016 and 31 December 2015, inventory write-downs amounted to RR 281 and RR 227, respectively. No significant reversals of previous inventory write-downs were made during the years ended 31 December 2016 and 31 December 2015.

(In millions of Russian roubles, unless otherwise stated)

20 LOANS RECEIVABLE

In 2016, the Group issued loans to entities controlled by several members of the Company's Board of Directors and key management personnel for a total amount of RR 1 203, part of which was paid back in cash during the reporting period. As of 31 December 2016 the outstanding balance of these loans was RR 120. The Group provided loans to its related parties on an arm's length basis.

The fair values of loans receivable approximate their carrying value.

21 PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Non-financial assets		
Prepayments and advances to suppliers	4,637	5,995
VAT receivable	6,477	4,729
Recoverable VAT	2,210	2,595
Prepaid excise	1,015	1,048
Other prepaid taxes and custom duties	944	953
Recoverable excise	705	933
Other current assets	177	157
Total non-financial assets	**16,165**	**16,410**
Financial assets		
Other financial assets	216	39
Total financial assets	**216**	**39**
Total prepayments and other current assets	**16,381**	**16,449**
Less:		
Non-current portion of recoverable VAT related to assets under construction	-	(4)
	16,381	**16,445**

22 BANK DEPOSITS

In October 2016, the Company signed a USD 414 million long-term deposit agreement due in March 2023. The main terms of the deposit agreement, including maturity schedule and interest rate, matched with the respective terms of the agreement, under which the Group had obtained a loan from the same bank. This transaction meets the pass-through arrangement criteria defined in IAS 39 "Financial Instruments: Recognition and Measurement". On the transaction date, therefore, the long-term deposit and long-term loan were derecognised by the Group from its consolidated statement of financial position.

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included deposits held in banks, which are readily convertible to cash and have an original maturity of less than three months, of RR 19,522 and RR 53,316 as of 31 December 2016 and 31 December 2015, respectively.

(In millions of Russian roubles, unless otherwise stated)

24 LONG-TERM DEBT EXCLUDING RELATED TO ZAPSIBNEFTEKHIM

Long-term debt payable to	Currency	Due	31 December 2016	31 December 2015
Variable rate				
Raiffeisen Bank	USD	2017-2022	6,043	10,893
Deutsche Bank (Export credit agency financing)	EUR	2014-2023	5,058	4,826
VTB Bank	RR	2021	5,000	-
Sberbank of Russia	RR	2018-2021	1,415	12,501
NPP Neftekhimia	RR	2020	825	-
ING Bank Group	EUR, USD	2011-2021	767	1,288
UniCredit Bank Group	EUR	2013-2019	618	1,029
Vnesheconombank	USD	2013-2023	-	31,620
Promsvyazbank	USD	2017	-	18,205
Rosbank	USD	2017	-	10,907
Nordea Bank	USD	2015-2016	-	5,831
Fixed rate				
Eurobonds	USD	2018	37,352	72,809
Russian rouble bonds	RR	2019-2021	30,000	-
Bank GPB	RR	2021	22,000	32,000
Sberbank of Russia	RR	2015-2020	20,000	50,659
Alfa-Bank	USD	2019	15,164	-
UniCredit Bank Group	RR	2019	12,917	17,905
VTB Bank	RR	2021	4,988	-
Gazprom mezhregiongaz	RR	2011-2017	544	482
NPP Neftekhimia	RR	2020	-	1,625
Other	USD	2031	26	33
Total long-term debt excluding related to ZapSibNeftekhim			**162,717**	**272,613**
Less: current portion (see Note 29)			(1,862)	(20,214)
			160,855	**252,399**

Eurobonds. On 31 January 2013, the Group issued notes worth USD 1 billion on the Irish Stock Exchange, bearing 3.914 percent annual interest and maturing in 2018. The Group used the aggregate net proceeds from the notes issue to refinance short-term debt and for general corporate purposes. In 2016, the Group placed an offer to buy back notes before its original maturity date in the amount of USD 193.8 million in September at nominal value and USD 190 million in December at USD 1,017.5 per note with nominal value of USD 1,000 each. These bought-back notes were redeemed in full in 2016, and related loss on early redemption was recognized in the amount of RR 205 within other finance expenses in the consolidated statement of profit or loss for the year ended 31 December 2016. The nominal amount of notes outstanding as of 31 December 2016 was USD 616.2 million.

Russian rouble bonds. In 2016, the Group placed three 10-year, non-convertible, rouble-denominated bond issues in the amount of RR 10,000 each on Moscow Exchange with an annual fixed coupons payable on a semi-annual basis. The first issue was on 29 March 2016 with a coupon rate of 10.5 percent for 5 subsequent years, the second and third issues were on 3 August 2016 and 28 September 2016 with a coupon rates of 9.65 percent for 3 and 3.5 subsequent years, respectively. At the end of periods with defined coupon rate, bondholders may request that the Group redeems the bonds. The Group allocated the aggregate net proceeds from the bond issue toward refinancing its long-term debt.

The Group had no subordinated debt and no debts that may be converted into an equity interest in the Group.

24 LONG-TERM DEBT EXCLUDING RELATED TO ZAPSIBNEFTEKHIM (CONTINUED)

The scheduled maturities of long-term debt excluding related to the ZapSib as of 31 December 2016 and 31 December 2015 are presented below:

	31 December 2016	31 December 2015
Due for repayment:		
Between one and two years	39,074	47,654
Between two and five years	114,868	192,787
More than five years	6,913	11,958
Total long-term debt excluding related to ZapSibNeftekhim	**160,855**	**252,399**

The carrying amounts of long-term fixed-rate borrowings approximate their fair value as of 31 December 2016 and 31 December 2015, except for those, which fair value is disclosed in Note 37.

The carrying amounts of long-term debts with variable interest rates linked to LIBOR, EURIBOR or the Central Bank of Russia key interest rate approximate their fair value.

As of 31 December 2016 and 31 December 2015, the Group had the following committed long-term credit facilities excluding related to the ZapSib:

	Credit limit	Undrawn amount
As of 31 December 2016		
USD-denominated (in millions of USD)	175	175
RR-denominated (in millions of RR)	9,300	7,885
As of 31 December 2015		
EUR-denominated (in millions of EUR)	74	45
RR-denominated (in millions of RR)	9,300	9,156

As of 31 December 2016 and 31 December 2015, the total rouble equivalent of the Group's undrawn committed long-term credit facilities excluding related to the ZapSib was RR 18,500 and RR 12,742, respectively.

25 LONG-TERM ZAPSIBNEFTEKHIM RELATED DEBT

Long-term debt payable to	Currency	Due	31 December 2016	31 December 2015
Variable rate				
National Wealth Fund financing	USD	2030	106,150	127,545
Deutsche Bank (Export credit agency financing)	EUR	2020-2029	36,391	8,666
ING Bank Group	EUR	2013-2021	2,417	3,789
Citibank	USD	2013-2023	1,989	2,840
Fixed rate				
Russian Direct Investment Fund	USD	2018-2020	12,738	15,305
Total long-term ZapSibNeftekhim related debt			**159,685**	**158,145**
Less: current portion			(915)	(1,140)
			158,770	**157,005**

National Wealth Fund. On 4 December 2015, OOO ZapSibNeftekhim issued 15-year bonds worth USD 1,750 million to the Russian Federation Ministry of Finance. As a result, the Group received financing from Russia's National Wealth Fund.

Export credit agency (ECA) financing. In December 2014, the Group signed an agreement with a consortium of European banks led by Deutsche Bank to raise a long-term ECA credit facility in the amount of EUR 1,575 million, which was increased in October 2015 by EUR 101 million to a total amount of EUR 1,676 million. As of 31 December 2016 and 31 December 2015, the Company had drawn down EUR 615 and EUR 115 million from this credit facility.

25 LONG-TERM ZAPSIBNEFTEKHIM RELATED DEBT (CONTINUED)

Russian Direct Investment Fund. In November 2015, a consortium of investors, consisting of the Russian Direct Investment Fund and leading Middle Eastern sovereign wealth funds, provided a loan to OOO ZapSibNeftekhim in the amount of USD 210 million.

The scheduled maturities of long-term ZapSib related debt as of 31 December 2016 and 31 December 2015 are presented below:

	31 December 2016	31 December 2015
Due for repayment:		
Between one and two years	2,506	1,140
Between two and five years	20,543	19,500
Between five and ten years	18,655	5,354
More than ten years	117,066	131,011
Total long-term ZapSibNeftekhim related debt	**158,770**	**157,005**

The carrying amounts of long-term fixed-rate borrowings approximate their fair value as of 31 December 2016 and 31 December 2015.

The carrying amounts of long-term debt with variable interest rates linked to LIBOR, EURIBOR or USA CPI approximate their fair value.

As of 31 December 2016 and 31 December 2015, the Group had the following committed long-term ZapSib related credit facilities:

	Credit limit	Undrawn amount
As of 31 December 2016		
EUR-denominated (in millions of EUR)	2,088	1,473
As of 31 December 2015		
EUR-denominated (in millions of EUR)	2,088	1,972

As of 31 December 2016 and 31 December 2015, the total rouble equivalent of the Group's undrawn committed long-term ZapSib related credit facilities was RR 93,967 and RR 157,163, respectively.

Total Group's long-term debt both including and excluding related to the ZapSib bore the following average interest rates: RR-denominated of 10.9 percent and 12.9 percent as of 31 December 2016 and 31 December 2015, respectively; USD-denominated of 3.3 percent and 3.4 percent as of 31 December 2016 and 31 December 2015, respectively; and EUR-denominated of 1.1 percent and 1.2 percent as of 31 December 2016 and 31 December 2015, respectively.

26 GRANTS AND SUBSIDIES

As a major investor in infrastructure and social projects in the regions where it operates, the Group has signed cooperation agreements with a number of regional authorities, including investment and financial support agreements. Under these agreements, the Group is entitled to a partial refund of capital expenditures and finance expenses incurred in the respective regions subject to certain conditions, including amounts of regional investments in business and social infrastructure and local income taxes paid. Such refunds are made, either in the form of an income tax rebate or a direct grant of public funds, after the Group submits appropriate supporting documents to the relevant regional authority.

	2016	2015
Grants and subsidies as of 1 January	**42,096**	**42,747**
Grants and subsidies received	1,723	1,774
Recognized in profit or loss (depreciation)	(2,737)	(2,425)
Grants and subsidies as of 31 December	**41,082**	**42,096**

(In millions of Russian roubles, unless otherwise stated)

27 OTHER NON-CURRENT LIABILITIES

	31 December 2016	31 December 2015
Financial liabilities		
Payables for acquisition of subsidiaries	6,496	1,663
Accounts payable to contractors and suppliers of property, plant and equipment	1,988	533
Interest payable	-	27
Total financial non-current liabilities	**8,484**	**2,223**
Non-financial liabilities		
Post-employment obligations	2,121	2,260
Payables to employees	1,773	1,307
Advances received	12	-
Other liabilities	-	1
Total non-financial non-current liabilities	**3,906**	**3,568**
Total other non-current liabilities	**12,390**	**5,791**

As of 31 December 2016, payables for the acquisition of subsidiaries included payables for the acquisition of OOO Tobolsk HPP of RR 4,798 (see Note 4) and AO Polief of RR 1,645. As of 31 December 2015, payables for the acquisition of subsidiaries included payables for the acquisition of AO Polief of RR 1,618.

The Group maintains a cash-settled long-term incentive (LTI) plan. Among other factors, remuneration under the LTI plan is contingent upon the contribution that management makes toward increases in the Group's business fair value, which is measured by changes in the Group's business fair value divided by the median change in the business fair values of certain other international corporations operating in the petrochemical industry. The LTI plan requires that participants provide services to the Group within a specific time period. Remuneration granted is vested to each participant on an annual basis and in separate tranches. Each tranche equals 33.3 percent of the total remuneration granted, provided that the participant is continuously employed by the Group from the grant date until the applicable vesting date. Each tranche is accounted for as a separate arrangement and expensed, together with a corresponding increase within payables to employees in other non-current liabilities. The current portion of liabilities under the long-term incentive plan is classified within payables to employees in trade and other payables. For the years ended 31 December 2016 and 31 December 2015, the Group recognized RR 290 and RR 427, respectively, as expenses under the LTI plan.

The carrying amounts of other non-current liabilities approximate their fair value.

28 TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Financial liabilities		
Trade payables	19,377	16,792
Accounts payable to contractors and suppliers of property, plant and equipment	11,605	8,029
Interest payable	2,182	2,288
Payables for acquisition of subsidiaries and joint ventures	2,104	3,038
Derivative financial instruments (Note 38)	-	2,188
Other payables	1,406	351
Total financial trade and other payables	**36,674**	**32,686**
Non-financial liabilities		
Payables to employees	6,818	6,148
Advances from customers	4,951	5,886
Other payables	1,564	731
Total non-financial trade and other payables	**13,333**	**12,765**
Total trade and other payables	**50,007**	**45,451**

(In millions of Russian roubles, unless otherwise stated)

28 TRADE AND OTHER PAYABLES (CONTINUED)

As of 31 December 2016, payables for the acquisition of subsidiaries and joint ventures included payables for the acquisition of OOO Tobolsk HPP of RR 1,985 (see Note 4) and AO Polief of RR 119. As of 31 December 2015, payables for the acquisition of subsidiaries and joint ventures included payables for the acquisitions of AO Polief of RR 119 and OOO Yuzhno-Priobsky GPZ of RR 2,919 (RR 3,025 less discount of RR 106).

As of 31 December 2016 and 2015, payables to employees included provisions for annual bonuses, other bonuses and vacation reserves (including provisions for social taxes) of RR 6,818 and RR 6,052, respectively.

29 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT EXCLUDING RELATED TO ZAPSIBNEFTEKHIM

	31 December 2016	31 December 2015
Short-term debt:		
USD-denominated debt	19,411	10,424
RR-denominated debt	-	15,926
EUR-denominated debt	-	41
Total short-term debt	**19,411**	**26,391**
Current portion of long-term debt excluding related to ZapSibNeftekhim (Note 24)	1,862	20,214
	21,273	**46,605**

Short-term USD-denominated debt bore average interest rates of 1.5 percent and 4.0 percent as of 31 December 2016 and 31 December 2015, respectively. Short-term RR-denominated debt bore average interest rates of 13.7 percent as of 31 December 2015. Short-term EUR-denominated debt bore average interest rates of 1.6 percent as of 31 December 2015.

The carrying amount of short-term debt approximates its fair value.

As of 31 December 2016 and 31 December 2015, the Group had no committed short-term credit facilities.

30 TAXES OTHER THAN INCOME TAX PAYABLE

	31 December 2016	31 December 2015
VAT	4,676	2,283
Social taxes	500	396
Property tax	355	478
Excise tax	-	72
Other taxes	84	123
Total taxes other than income tax payable	**5,615**	**3,352**

31 SHAREHOLDERS' EQUITY

On 14 December 2016, the Group's shareholders entered into the sale of 10 percent stake in the Company's share capital to the Silk Road Fund, an investment fund registered in China. The transaction was finalized in January 2017.

As of 31 December 2015, OOO OleFinInvest was the Group's direct parent company. As of 31 December 2016, the Group ceased to have direct parent company.

Share capital. The share capital of PAO SIBUR Holding (authorised, issued and paid-in) was RR 21,784 as of 31 December 2016 and 31 December 2015, and consisted of 2,178,479,100 ordinary shares, each with a par value of ten Russian roubles.

(In millions of Russian roubles, unless otherwise stated)

31 SHAREHOLDERS' EQUITY

Dividends. Dividends in the amount of RR 14,313 (6.57 Russian roubles per share) and RR 18,125 (8.32 Russian roubles per share) were paid during years ended 31 December 2016 and 31 December 2015, respectively.

Equity-settled share-based payment plans for directors and key management. On 28 June 2013, a company beneficially owned by Mr Leonid V. Mikhelson and Mr Gennady N. Timchenko granted equity-settled share-based payment plans to certain current and former members of the Group's key management (see Note 36).

32 NON-CONTROLLING INTEREST

The following table provides information about each subsidiary with a non-controlling interest:

	Place of business	Proportion of non-controlling interest, percent	Proportion of non-controlling interest's voting rights held, percent	Total comprehensive income attributable to non-controlling interest	Transactions with non-controlling interest	Dividends	Accumulated non-controlling interest in the subsidiary
Year ended 31 December 2016							
AO Polief	Russia	-	-	-	(693)	-	-
AO NIPIgazpererabotka	Russia	55	50	2,050	1,628	(1,850)	2,080
AO Krasnoyarsk Synthetic Rubbers Plant	Russia	25	25	(3)	-	-	174
OOO PlasticGeosintetika	Russia	33	33	(13)	-	-	81
OOO SIBUR Krasnodar*	Russia	55	50	(77)	-	-	(77)
				1,957	**935**	**(1,850)**	**2,258**
Year ended 31 December 2015							
AO Polief	Russia	17.5	17.5	281	-	-	693
AO NIPIgazpererabotka	Russia	11	-	(82)	-	-	252
AO Krasnoyarsk Synthetic Rubbers Plant	Russia	25	25	87	-	-	177
OOO PlasticGeosintetika	Russia	33	33	(34)	-	-	94
				252	**-**	**-**	**1,216**

*a subsidiary of AO NIPIgazpererabotka

During the year ended 31 December 2016 the Group's subsidiary NIPIGAZ distributed dividends in the amount of RR 1,850 to non-controlling shareholders including those that simultaneously serve as senior management of the Group (see Note 4).

The summarised financial information of AO NIPIgazpererabotka before inter-company eliminations was as follows:

As of and for the year ended	31 December 2016	31 December 2015
Non-current assets	40,952	1,075
Current assets	10,831	3,381
Non-current liabilities	35,894	179
Current liabilities	12,028	1,717
Revenue	14,220	7,062

(In millions of Russian roubles, unless otherwise stated)

33 INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes within one entity. The offset amounts are as follows:

	31 December 2016	31 December 2015
Deferred income tax assets to be recovered after more than 12 months after the reporting date	21,981	21,360
Deferred income tax assets to be recovered within 12 months after the reporting date	3,646	8,398
Total deferred income tax assets	**25,627**	**29,758**
Deferred income tax liabilities to be paid after more than 12 months after the reporting date	(40,741)	(38,169)
Deferred income tax liabilities to be paid within 12 months after the reporting date	(8,160)	(8,473)
Total deferred income tax liabilities	**(48,901)**	**(46,642)**

(In millions of Russian roubles, unless otherwise stated)

33 INCOME TAXES (CONTINUED)

The movement in deferred income tax assets and liabilities during the year was as follows:

	31 December 2016	Business combinations and acquisitions	Credited/ (charged) to profit or loss/equity	Reclassifications to / from assets held for sale	31 December 2015	Other	Deconsolidation and disposal of subsidiaries	(Charged)/ credited to profit or loss/ equity	Deferred tax assets and liabilities classified as held for sale as of 31 December 2014	31 December 2014
Tax effects of taxable temporary differences										
Property, plant and equipment	(22,853)	(445)	(2,461)	216	(20,163)	-	1,438	(2,387)	(1,220)	(17,994)
Intangible assets	(20,287)	(823)	1,524	-	(20,988)	-	-	1,256	-	(22,244)
Trade and other receivables	(3,142)	-	(59)	-	(3,083)	-	-	239	-	(3,322)
Prepaid borrowing costs	(1,378)	-	315	-	(1,693)	-	-	(1,600)	-	(93)
Debt	(755)	-	(443)	-	(312)	-	-	(151)	-	(161)
Inventory	(349)	(29)	(158)	-	(162)	-	-	49	-	(211)
Others	(137)	-	104	-	(241)	-	-	340	-	(581)
Deferred tax liabilities	**(48,901)**	**(1,297)**	**(1,178)**	**216**	**(46,642)**	**-**	**1,438**	**(2,254)**	**(1,220)**	**(44,606)**
Less: deferred tax assets offset	14,546	-	195	33	14,318	-	-	(1,683)	627	15,374
Total deferred tax liabilities	**(34,355)**	**(1,297)**	**(983)**	**249**	**(32,324)**	**-**	**1,438**	**(3,937)**	**(593)**	**(29,232)**
Tax effects of deductible temporary differences										
Tax loss carry-forwards	15,191	-	(3,182)	55	18,318	(52)	-	7,682	627	10,061
Grants and subsidies	7,261	-	(624)	-	7,885	-	-	(358)	-	8,243
Payables to employees	1,842	-	(219)	-	2,061	-	-	634	-	1,427
Trade and other payables	675	-	675	-	-	-	-	(4,562)	-	4,562
Inventory	416	-	(523)	(6)	945	-	-	(694)	-	1,639
Intangible assets	147	-	(50)	-	197	-	-	(50)	-	247
Others	95	10	(267)	-	352	(36)	-	(801)	-	1,189
Deferred tax assets	**25,627**	**10**	**(4,190)**	**49**	**29,758**	**(88)**	**-**	**1,851**	**627**	**27,368**
Less: deferred tax liabilities offset	(14,546)	-	(195)	(33)	(14,318)	-	-	1,683	(627)	(15,374)
Total deferred tax assets	**11,081**	**10**	**(4,385)**	**16**	**15,440**	**(88)**	**-**	**3,534**	**-**	**11,994**
Total net deferred tax liabilities	**(23,274)**	**(1,287)**	**(5,368)**	**265**	**(16,884)**	**(88)**	**1,438**	**(403)**	**(593)**	**(17,238)**

Differences between recognition criteria under Russian tax regulations and under IFRS have given rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting and income tax purposes. The tax effect of changes in these temporary differences is recorded at the statutory tax rate.

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefits through future taxable profits is probable. Under the Russian Tax Code, during the period from 1 January 2017 to 31 December 2020 only up to 50% of a tax loss can be carried forward. After 31 December 2020 a tax loss in full amount can be carried forward until fully recognized without time limitation.

(In millions of Russian roubles, unless otherwise stated)

33 INCOME TAXES (CONTINUED)

	Year ended 31 December	
	2016	**2015**
Current income tax:		
Current income tax on profits for the year	24,228	6,076
Adjustments for prior years	(85)	270
Total current income tax	**24,143**	**6,346**
Deferred income tax:		
Accrual of temporary differences	5,320	468
Total deferred income tax	**5,320**	**468**
Total income tax expense	**29,463**	**6,814**

The tax on the Group's profit before income tax differs from the theoretical amount that would arise if the Russian statutory tax rate applicable to the consolidated entities' profits were used as follows:

	Year ended 31 December	
	2016	**2015**
Profit before income tax and non-controlling interest	**142,552**	**13,319**
Theoretical income tax expense at statutory rate of 20 percent	(28,510)	(2,664)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	(3,930)	(4,605)
Other non-taxable income	2,977	455
Total income tax (expense)	**(29,463)**	**(6,814)**

As of 31 December 2016 and 2015 the Group prepaid income tax of RR 5,523 and RR 16,392, respectively. This prepayment may not be utilised by the Group within 12 months as it depends on the Group's profit earned within 12 months. The Group did not classify this portion of prepaid income tax as non-current asset as it expects to realise this asset in its normal operating cycle.

(In millions of Russian roubles, unless otherwise stated)

34 CASH GENERATED FROM OPERATIONS

		Year ended 31 December	
Notes		**2016**	**2015**
	Profit before income tax	**142,552**	**13,319**
	Adjustments to profit before income tax		
7	Depreciation and amortisation	34,996	31,498
8	Interest expense	13,880	12,387
8	Bank commissions	3,619	146
7	Impairment of property, plant and equipment	1,502	-
5, 7	Impairment of asset held for sale	-	479
8	Unwinding of discount on borrowings and non-current accounts payable	1,094	734
27, 28	Accrual of bonuses	1,005	(236)
	Provision for court decisions	677	(4,636)
17	Impairment/(reversal of impairment) of trade and other receivables and loans issued	616	(409)
8	Pension liabilities	209	183
7	Loss on disposal of property, plant and equipment	172	244
8	Discount on loans receivable and non-current accounts receivable	-	273
36	Equity-settled share-based payment plans	-	12,976
5	Loss on disposal of assets held for sale	-	188
4	Gain on disposal of subsidiary	-	(1,012)
8	Unwinding of discount on loans receivable and non-current accounts receivable	(247)	(253)
8	Loss on derivative financial instruments – realised	2,084	24
8	Change in fair value of derivative financial instruments	(2,188)	1,644
8	Interest income	(1,013)	(1,412)
4	Gain on acquisition of subsidiary	(1,666)	-
14	Share of net (income)/loss of joint ventures and associates	(6,471)	1,264
8	Foreign exchange (gain)/loss from investing and financing activities, net	(48,968)	61,144
	Other adjustments	289	371
	Operating cash flows before working capital changes	**142,142**	**128,916**
	Changes in working capital		
	Increase in advances received under construction management	41,412	-
	Increase/(decrease) in trade and other payables	2,699	(596)
	Increase in taxes payable	2,316	744
	Decrease/(increase) in trade and other receivables	1,016	(3,128)
	Increase in prepayments and other current assets	(87)	(1,362)
	Increase in inventories	(1,153)	(1,167)
	Increase in advances issued under construction management	(37,739)	-
	Total changes in working capital	**8,464**	**(5,509)**
	Cash generated before income tax payment	**150,606**	**123,407**
33	Income tax paid	(12,912)	(4,305)
	Net cash from operating activities	**137,694**	**119,102**

(In millions of Russian roubles, unless otherwise stated)

35 PRINCIPAL SUBSIDIARIES

Principal wholly owned operating subsidiaries of the Group:

OOO BIAXPLEN	OOO SIBUR Tobolsk*
OOO BIAXPLEN T	OOO SIBUR Togliatti
OOO SIBUR GEOSINT	OOO Tomskneftekhim
SIBUR International GmbH	AO Uralorgsintez
AO Sibur-Neftehim	AO Voronezhsintezkauchuk
AO SIBUR-PET	AO Siburenergomenedgment
AO SIBUR-Trans	OOO Belozerny Gas Processing Complex
OOO SIBUR-Kstovo	OOO Nizhnevartovsky Gas Processing Complex
OOO Zapsibtransgaz	OOO Nyagangazpererabotka
AO SiburTyumenGaz	OOO Western Siberian Petrochemical Complex
AO Sibur-Himprom	

* In March 2016 Tobolsk-Neftekhim was renamed OOO SIBUR Tobolsk. In December 2016, as part of the integration process of Tobolsk Industrial Site, the Group's subsidiaries OOO Tobolsk HPP and OOO Tobolsk-Polymer were merged with OOO SIBUR Tobolsk.

Other principal operating subsidiaries of the Group:

	Effective percent of share capital held by the Group as of	
	31 December 2016	**31 December 2015**
AO NIPIgazpererabotka	45	89
AO Polief	100	82.5
AO Krasnoyarsk Synthetic Rubbers Plant	75	75
OOO PlasticGeosintetika	67	67

The changes in the composition of the Group and changes in the ownership interest in the subsidiaries are disclosed in Note 4.

As of 31 December 2016 and 31 December 2015 the voting and ownership percentage in the Group's subsidiaries with a non-controlling interest are the same, except for AO NIPIgazpererabotka in which the Group had 50% and 100% voting rights, respectively (see Note 4, 32).

The Group's operating subsidiaries are registered and located in the Russian Federation, except for SIBUR International GmbH, an export trading company of the Group registered in Austria.

36 RELATED PARTIES

For the purposes of these consolidated financial statements, parties are generally considered to be related if the party is part of the Group's key management or the Board of Directors; the party has the ability to control or jointly control the other party; both parties are under common control; or one party can exercise significant influence over the other party in the financial and operational decision-making process. In considering each possible related-party relationship, the Group's management pays attention to the substance of the relationship, and not merely the entities' legal form.

Related parties may enter into transactions that unrelated parties may not enter into, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related-party relationships for those related parties with whom the Group entered into significant transactions during the years ended 31 December 2016 and 2015, or had significant balances outstanding as of 31 December 2016 and 31 December 2015, are presented below.

(In millions of Russian roubles, unless otherwise stated)

36 RELATED PARTIES (CONTINUED)

a) Significant transactions with parties under the control, joint control or significant influence of Mr Leonid V. Mikhelson

Between September 2011 and December 2015, Mr Leonid V. Mikhelson was the Group's ultimate controlling shareholder. On 16 December 2015, China Petroleum & Chemical Corporation ("Sinopec"), a major global petrochemicals corporation, acquired a 10 percent stake in the Company's share capital. This has resulted in changes in the composition of the Company's Board of Directors and the procedures for approving certain transactions. As a result of these changes, Mr Mikhelson is no longer the Group's ultimate controlling shareholder. Since December 2015, the Group has not had an ultimate controlling shareholder.

OAO NOVATEK and its subsidiaries (jointly, the "NOVATEK Group") were considered related parties of the Group because the Group's ultimate controlling shareholder, Mr L.V. Mikhelson, had significant influence over NOVATEK Group. In December 2015, Mr L.V. Mikhelson lost ultimate control over the Group. As such, NOVATEK Group is no longer a related party of the Group.

Until December 2015, the Group had the following transactions with NOVATEK Group.

	Year ended 31 December 2015
Operating activities	
Purchases of raw natural gas liquids	9,483
Purchases of liquefied petroleum gas	4,585
Purchases of natural gas	3,085
Purchases of services	6
Natural gas sales	12,812
Liquid hydrocarbons sales	1,248
Sales of processing services	1,172
Sales of other work and services	2,385

In November 2015, Mr L.V. Mikhelson sold controlling stake in PAO Pervobank, as a result PAO Pervobank ceased to be a related party of the Group.

In 2015, the Group had the following transactions with PAO Pervobank:

	Year ended 31 December 2015
Finance income and expense	
Interest income on cash and cash equivalents	307
Other expense	4

b) Significant transactions with parties under control or joint control of Mr Gennady N. Timchenko

During the years ended 31 December 2016 and 2015, the Group entered into transactions with AO Stroytransgaz and its subsidiaries (jointly, the AO "Stroytransgaz Group"), controlled by Mr G. N. Timchenko, who has a significant influence over the Group. These transactions primarily included purchases by the Group from AO Stroytransgaz Group of construction, repair and maintenance services.

(In millions of Russian roubles, unless otherwise stated)

36 RELATED PARTIES (CONTINUED)

In 2016 and 2015, the Group had the following transactions with AO Stroytransgaz Group:

	Year ended 31 December	
	2016	**2015**
Operating and investing activities		
Purchases of construction and repair and maintenance services	680	2,606
Sales of other goods and services	4	6

As of 31 December 2015, the Group had the following balances with AO Stroytransgaz Group:

	31 December 2015
Advances and prepayments for capital construction	257
Trade and other payables	537

As of 31 December 2016 and 31 December 2015, the Group had contractual capital commitments with AO Stroytransgaz Group of RR nil and RR 767, respectively.

c) Remuneration of directors and key management

The Company's Board of Directors comprised ten individuals, including shareholder representatives. Members of the Board of Directors are entitled to annual compensation, as approved by the Annual General Shareholders' Meeting.

In 2016 and 2015, the Company accrued RR 88 and RR 87 net of social taxes, respectively, to Board of Directors members as part of their compensation for the years ended 31 December 2016 and 2015.

During the first six month of 2016 the number of key management personnel comprised 15 individuals. During the second half of the year ended 31 December 2016 and the whole year ended 31 December 2015 the number of key management personnel comprised 16 individuals. Key management personnel are entitled to salaries, bonuses, voluntary medical insurance and other employee benefits (see Notes 27 and 28). Remuneration for key management personnel is determined by the terms set out in the relevant employment contracts. Remuneration of key management personnel amounted to RR 1,401 and RR 826 net of social taxes for the years ended 31 December 2016 and 2015, respectively, including adjustments for accruals of provision for previous years. Excluding those adjustments the net remuneration of key management amounted RR 1,150 and RR 935 for the years ended 31 December 2016 and 2015, respectively.

d) Equity-settled share-based payment plans for directors and key management

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

The transactions resulting in this change in ownership were not made through companies that are under the control of the Group, but rather through a company that is jointly and beneficially held by the Group's majority shareholders. Thus, at the Group level, there are no current or future cash payments or liabilities under any plans. However, under IFRS 2 "Share-Based Payment", the Group must recognise current and past service costs in its consolidated statement of profit or loss with corresponding amounts recorded in the consolidated statement of changes in equity.

(In millions of Russian roubles, unless otherwise stated)

36 RELATED PARTIES (CONTINUED)

In July 2013, the Group's shareholders approved the final terms of the plan that covers certain Group directors and key management members (the "Participants"). The terms of the plan vary for different Participants. The plan (the "Plan") required that the Participants provided services to the Group within a certain time period. If the services were terminated before the vesting date, the Plan Participants retain their rights under the Plan pro rata to the period of service provided. The shares granted were vested to each Participant annually in tranches. Each tranche equalized 20 percent of the total shares granted provided that the Participant is continuously employed by the Company from the grant date until the applicable vesting date. Each tranche was accounted for as a separate arrangement and expensed, together with a corresponding increase in shareholders' equity, on a straight–line basis over the vesting periods.

In the first quarter of 2015, the Plan was modified by shareholders. As a result the shares granted were immediately vested and the remaining tranches were expensed in the amount of RR 12,976 and recognized in the consolidated statement of profit or loss with a corresponding increase in shareholders' equity.

e) Joint ventures

In 2016 and 2015, the Group had the following transactions with its joint ventures:

	Year ended 31 December	
	2016	**2015**
Operating and investing activities		
Purchases of materials, goods and services	8,129	8,709
Purchases of processing services	949	147
Sales of materials, goods and services	7,186	5,586
Interest income	94	114
Interest expense	135	150
Other financial income/(expense)	5	(37)
Other (expense)/ income	(59)	1

As of 31 December 2016 and 2015, the Group had the following balances with its joint ventures:

	31 December 2016	**31 December 2015**
Trade and other receivables	1,843	2,240
Loans receivable	846	1,179
Trade and other payables	1,621	3,395
Long-term debt	825	1,625

The Group provided and received loans to and from its joint ventures on market terms.

The Group has several agency arrangements with its joint ventures under which the Group is providing marketing, selling, construction management and procurement services. The agent remuneration earned by the Group under the agent arrangements is included in sales of materials line. The balances outstanding under the agent arrangements are included into trade and other payables and receivables.

(In millions of Russian roubles, unless otherwise stated)

37 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

	Financial assets	
	31 December 2016	**31 December 2015**
Non-current financial assets		
Trade and other receivables	1,035	1,098
Non-current financial assets classified as available for sale	719	800
Loans receivable	-	-
Other non-current financial assets	26	175
Total non-current financial assets	**1,780**	**2,073**
Current financial assets		
Cash and cash equivalents	60,635	172,083
Trade and other receivables	20,135	23,629
Loans receivable	971	4,101
Other current financial assets	216	39
Total current financial assets	**81,957**	**199,852**
Total current and non-current financial assets	**83,737**	**201,925**

	Financial liabilities	
	31 December 2016	**31 December 2015**
Non-current financial liabilities		
Other non-current liabilities	8,484	2,223
Debt	319,625	409,404
Total non-current financial liabilities	**328,109**	**411,627**
Current financial liabilities		
Trade and other payables	36,674	30,498
Derivative financial instruments	-	2,188
Debt	22,188	47,745
Total current financial liabilities	**58,862**	**80,431**
Total current and non-current financial liabilities	**386,971**	**492,058**

The Group's activities are exposed to a variety of financial risks: market risk (including foreign currency exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on financial market unpredictability, and seeks to minimise potential adverse effects on its financial performance. The Group focuses on managing exposure to risks that could lead to a potential loss of RR 1 billion or more.

Financial risk management is carried out by the central finance function. The Group's treasury manages credit risks related to transactions with financial institutions and liquidity risk. Relevant business units manage credit risks related to operating activities in accordance with the Group policies.

Foreign exchange risk. As the Group operates internationally, exports its products to Europe and Asia, and has a substantial amount of foreign currency-denominated debt, it is exposed to foreign exchange risk.

The table below summarises the Group's exposure to foreign currency exchange risk at the reporting date:

	Denominated in		
As of 31 December 2016	**USD**	**EUR**	**Other currency**
Cash and cash equivalents	16,581	779	72
Trade and other receivables	3,287	1,795	491
Non-current financial asset classified as available for sale	719	-	-
Total financial assets	**20,587**	**2,574**	**563**
Trade and other payables	4,695	5,955	23
Debt	198,968	45,156	-
Total financial liabilities	**203,663**	**51,111**	**23**

(In millions of Russian roubles, unless otherwise stated)

37 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

	Denominated in		
As of 31 December 2015	**USD**	**EUR**	**Other currency**
Cash and cash equivalents	55,031	1,114	49
Trade and other receivables	8,750	1,731	273
Non-current financial asset classified as available for sale	800	-	-
Total financial assets	**64,581**	**2,845**	**322**
Trade and other payables	4,074	2,480	51
Debt	306,582	19,470	-
Total financial liabilities	**310,656**	**21,950**	**51**

The sensitivity analysis given in the table below reflects the hypothetical gain/loss that would occur assuming the Russian rouble had weakened/strengthened by 20 percent against the US dollar and euro and that there were no changes in the securities portfolio and other variables as of 31 December 2016 and 2015, respectively.

	Increase in exchange rate	**31 December 2016**	**31 December 2015**
Effect on profit before income tax			
RR / USD	20 percent	(36,615)	(49,215)
RR / EUR	20 percent	(9,707)	(3,821)

	Decrease in exchange rate	**31 December 2016**	**31 December 2015**
Effect on profit before income tax			
RR / USD	20 percent	36,615	49,215
RR / EUR	20 percent	9,707	3,821

Cash flow and fair value interest rate risk. The Group is exposed to interest rate risk primarily due to short- and long-term debt at variable rates. Debt issued at fixed rates exposes the Group to fair value interest rate risk. As of 31 December 2016 and 2015, the Group's debt at variable rates was denominated in Russian roubles, US dollars and euro (see Notes 24, 25, 29). As of 31 December 2016 and 2015, the Group's interest-bearing assets were primarily comprised by loans receivable and cash deposits. The Group analyses its interest rate exposure on a regular basis. The Group's management makes financial decisions after careful consideration of various scenarios, which may include refinancing, renewing existing positions or alternative financing.

If variable interest rates were higher/lower, assuming all other variables remain constant, the Group's profit before income tax would change as follows:

	Increase in floating rates by	**31 December 2016**	**31 December 2015**
Effect on profit before income tax			
RUR-denominated debt	10 percent	(63)	(235)
USD-denominated debt	10 percent	(14)	(48)
EUR-denominated debt	10 percent	-	-

	Decrease in floating rates by	**31 December 2016**	**31 December 2015**
Effect on profit before income tax			
RUR-denominated debt	10 percent	63	235
USD-denominated debt	10 percent	14	48
EUR-denominated debt	10 percent	-	-

Credit risk. The Group is exposed to credit risk primarily due to cash and cash equivalents, loans issued and customers credit risks.

The Group deposits cash and cash equivalents only in banks that have minimal risk of default within set credit limits at the deposit date.

(In millions of Russian roubles, unless otherwise stated)

37 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

A large portion of the Group's receivables from domestic sales relates to large companies such as Rosneft and Gazprom Pererabotka, with low credit risks. The Group's export customers are also key market players such as BOREALIS AG, Totsa-Total Oil Trading SA, SHV Gas Supply & Risk Management, INEOS EUROPE AG, and Aygaz A.S. The Group sells its products on export sales based on prepayments or advances received or secures its export sales by letters of credit. The Group assesses the credit quality of its customers based on market segment, customer's financial position, its market share past experience and other relevant factors. Although economic factors affecting the Group's customers influence cash collection of the Group's accounts receivable, the Group's management assesses that there is no significant risk of loss other than bad debts provided as of 31 December 2016.

As of 31 December 2016 and 2015, the maximum credit risk exposure due to accounts receivable was RR 22,129 and RR 25,741 respectively.

The Group estimates the fair value of its financial liabilities as a close-out amount that does not incorporate changes in credit risks.

The credit risk posed by off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to adhere to the relevant contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The table below shows the credit limit and balance of cash and cash equivalents of the Group's major counterparty groups as of the reporting date.

As of and for the year ended 31 December 2016

	Bank equity	Rating	Credit limit for one bank	Balance
Major banks	>= 25,000	BBB-, BB-	USD 200 mln, in individual cases - unlimited	60, 606
Other banks	Not set	Not set	Individually set	29
Total cash and cash equivalents				**60,635**

As of and for the year ended 31 December 2015

	Bank equity	Rating	Credit limit for one bank	Balance
Major banks	>= 25,000	BBB-	USD 200 mln	171,575
Secondary banks	>= 5,000	BB-	RR 5,000 mln	440
Other banks	Not set	Not set	Individually set	68
Total cash and cash equivalents				**172,083**

The Group did no exceed its credit limits during the reporting period, and the Group's management does not expect any losses resulting from these counterparties' non-performance. As of 31 December 2016 and 2015, the maximum credit risk exposure due to cash and cash equivalents was RR 60,635 and RR 172,083, respectively.

Liquidity risk and capital risk management. Liquidity risk management includes maintaining sufficient cash balances, available funding from an adequate amount of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's management maintains funding flexibility by ensuring funds availability under committed credit lines and expected cash flows from operating activities. Management monitors rolling forecasts of the Group's liquidity reserve, comprising the undrawn debt facilities (see Notes 24, 25, 29), and cash and cash equivalents on the basis of expected cash flow. This is carried out at the Group level on a monthly and annual basis. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet cash requirements while maintaining debt financing plans.

(In millions of Russian roubles, unless otherwise stated)

37 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The table below analyses the Group's non-derivative financial liabilities in relevant maturity groupings based on the remaining period at the reporting date up to the contractual maturity date.

As of 31 December 2016	Less than one year	Between one and two years	Between two and five years	Over five years
Debt	39,432	57,794	163,217	165,285
Trade and other payables	34,492	3,015	6,884	1,938
Total	**73,924**	**60,809**	**170,101**	**167,223**
As of 31 December 2015				
Debt	74,030	72,874	256,998	176,606
Trade and other payables	28,209	670	2,031	-
Total	**102,239**	**73,544**	**259,029**	**176,606**

Guarantees issued by the Group as of 31 December 2016 and 31 December 2015 are disclosed in Note 14.

The following table represents the maturity profile of the Group's derivative based on undiscounted cash flows:

As of 31 December 2015	Less than one year	Total
Cash inflows	8,007	8,007
Cash outflows*	(10,060)	(10,060)
Net cash flows	**(2,053)**	**(2,053)**

*Cash flows presented in the table are calculated using exchange rate as at the end of the reporting period.

The Group's derivative was settled in April 2016.

As the amounts in the tables represent contractual undiscounted cash flows, they may not reconcile with those disclosed in the consolidated statements of financial position on debt, derivative financial instruments, and trade and other payables.

The Group monitors liquidity on the basis of the net debt to EBITDA ratio, which was calculated as net debt divided by EBITDA. Net debt is calculated as total debt less cash and cash equivalents.

EBITDA for any period means the Group's profit or loss for the period adjusted for income tax expense, finance income and expenses, share of net income/loss of joint ventures and associates, depreciation and amortisation, impairment of property, plant and equipment, profit or loss on disposal of investments and other exceptional items.

In accordance with the Group's financial policy the Group shall maintain a net debt to EBITDA ratio of no higher than 2.5 and an EBITDA to interest accrued ratio of no lower than 7. This policy is stricter than the relevant contractual requirements. The net debt to EBITDA ratio was 2.01 and 2.1 as of 31 December 2016 and 2015, respectively. The EBITDA to interest accrued ratio was 6.4 and 8.8 for the years ended 31 December 2016 and 2015, respectively.

The primary objectives of the Group's liquidity management policy is to ensure a strong liquidity base to fund and sustain its business operations through prudent investment decisions as well as to maintain investor, market and creditor confidence to support its business activities.

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

Recurring fair value measurements

Recurring fair value measurements are those that are required or permitted under the relevant accounting standards in the consolidated statement of financial position at the end of each reporting period.

a) Financial instruments carried at fair value

Swap agreements. In 2014-2015, the Group entered into several arrangements with Sberbank of Russia, Nordea Bank and Promsvyazbank. In accordance with those arrangements, the Group swaps principal amounts and interest payable in US dollars to Russian roubles at a fixed rate. As of 31 December 2015, the notional amounts under these swap arrangements were RR 7,900.

The Group recognized swap arrangements as derivatives at fair value through profit or loss determined based on Level 2 measurements. Fair value was calculated based on projected cash flows defined in accordance with the contractual terms, discounted at the risk-free rates denominated in the relevant currencies and converted at the prevailing spot currency exchange rate as at the reporting date.

As of 31 December 2015, the current portion of the derivative in the amount of RR 2,188, was recognized within trade and other payables in the consolidated statement of financial position (see Note 28). In 2015, the Group recognized losses on the revaluation of derivatives at fair value as finance expenses in the amount of RR 1,644 in the consolidated statement of profit or loss (see Note 8).

In the first half of 2016, these agreements were settled. The Group recognized gain on derivative financial instruments in the amount of RR 104 as finance income in the consolidated statement of profit or loss as a result of the settlement.

Contingent consideration for the sale of OOO SIBUR-Portenergo. In November 2015, the Group recognized the contingent consideration in the amount of RR 698 as a financial asset classified as available for sale within non-current trade and other receivables in the consolidated statement of financial position as the part of the consideration from disposal of its subsidiary OOO SIBUR-Portenergo (see Note 4).

Fair value of this financial instrument was determined using Level 3 measurements, as the sum of potential outcomes determined in the share purchase agreement weighted by the corresponding probability of each scenario. As of 31 December 2016 and 31 December 2015, the fair value of this contingent consideration was assessed as RR 719 and RR 800, respectively. The unwinding of discount in the amount of RR 54 and RR 9 was recognized as finance income in the consolidated statement of profit or loss for the years ended 31 December 2016 and 2015, respectively. A forex loss and gain in the amount of RR 135 and RR 93, respectively, were recognized as finance expense and income in the consolidated statement of profit or loss for the years ended 31 December 2016 and 2015, respectively.

Contingent consideration for the purchase of OOO Tobolsk HPP. In February 2016, the Group recognized a contingent consideration in the amount of RR 585 as a financial liability within other non-current liabilities in the consolidated statement of financial position as a part of the total purchase consideration for the acquisition of its subsidiary OOO Tobolsk HPP (see Note 4). The fair value of this financial instrument was determined using Level 3 measurements, as the sum of potential outcomes for different scenarios in which the Group realises synergies from integrating Tobolsk HPP into its production site infrastructure in Tobolsk, multiplied by the probability of each scenario. As at 31 December 2016, the fair value of this contingent consideration was assessed as RR 666. Correspondingly, the unwinding of a discount amounting to RR 81 was recognized as a financial expense in the consolidated statement of profit or loss for the year ended 31 December 2016.

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Liabilities carried at amortised cost. As of 31 December 2016 and 2015, the fair value of the Eurobonds (see Note 24) was RR 38,477 and RR 72,228, respectively. It was calculated based on Level 1 measurements such as quoted market prices. The fair values of other long-term and short-term debt carried at amortised cost were determined using valuation techniques. The estimated fair value of variable interest rate instruments linked to LIBOR, EURIBOR, USA CPI or the Central Bank of Russia key interest rate with stated maturity was estimated based on Level 2 measurements as expected cash flows discounted at current LIBOR, EURIBOR, USA CPI or the Central Bank of Russia key interest rate increased by the margin stipulated by the corresponding loan agreement. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on Level 3 measurements as expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The carrying amounts of other long-term and short-term liabilities carried at amortised cost in the consolidated statement of financial position approximate their fair value.

Other financial assets and liabilities. The carrying amounts of other financial assets and liabilities in the consolidated statement of financial position approximate their fair value, as determined based on Level 3 measurements.

39 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Operating environment. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

During 2016, the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia’s credit rating was downgraded to below investment grade.

In the year 2014, the USA and the EU imposed a number of sectorial and personal sanctions against some of Russian companies and Russian citizens. These sanctions restrict certain US and EU persons and companies from providing financing, goods and services to certain entities. The Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group’s financial position and results of operations. As of 31 December 2016 the Group was not subject to economic sanctions and restrictions imposed by the USA and the EU.

Russia’s future economic development is dependent upon both external factors and government measures to sustain growth and change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group’s business in the current business and economic environment. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

Legal proceedings. During the reporting period, the Group was involved in a number of lawsuits (as both plaintiff and defendant) arising in the ordinary course of business. Management believes there are no current legal proceedings or other outstanding claims that could have a material adverse effect on the

Group’s operational results or financial position, and which have not been accrued or disclosed in the consolidated financial statements.

39 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (CONTINUED)

Certain agreements under which the Group has disposed of various businesses and assets contain warranties and indemnities in favour of purchasers related to title, environmental and other matters. Although the Group's potential obligations under such warranties and indemnities may be material, the scope of such potential obligations cannot be accurately assessed until a specific claim is filed.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. The Group management's interpretation of such legislation, as applied to the Group's transactions and activity, may be challenged by the relevant federal and regional authorities.

The Russian tax authorities may take a more assertive position in their interpretation of the law and assessments, and it is possible that transactions and activities that have not been challenged in the past may now be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the year under review. However, earlier periods also could be reviewed under certain conditions. According to the Group's management as at 31 December 2016 their interpretation of relevant legislation is correct and the Group's position will be stable from tax, currency and customs legislation standpoint.

Russian transfer pricing legislation has been in force since 1999. Recent amendments to Russian transfer pricing legislation took effect on 1 January 2012. These new transfer pricing rules appear more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. The Group's management exercises its judgment about the arm's length of prices applied in 2016 and earlier periods, and it has implemented internal control procedures as required by the new transfer pricing legislation. Given that the practice of implementing the new Russian transfer pricing rules has not yet fully developed, the impact of any challenge to an entity's transfer prices cannot be reliably predicted; however, it may be significant to the financial condition and/or overall operations of the Group.

The Group includes companies incorporated outside of Russia. The Group's tax liabilities are determined on the assumption that these companies are not subject to Russian income tax, if they are not permanently established in Russia. Russian tax law does not provide detailed rules on the taxation of foreign companies. With the evolution of the interpretation of these rules and changes in the Russian tax authorities' approach, it is possible that the non-taxable status of some or all of the Group's foreign companies in Russia may be challenged. The impact of any such challenge cannot be reliably assessed; however, it may be significant to the financial condition and/or overall operations of the entity.

The Group's management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Where the Group's management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulations in the Russian Federation is evolving, and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. Obligations are recognized as soon as they are determined. Potential liabilities that could arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material.

Management believes that there are no likely liabilities for environmental damage, that would have a materially adverse impact on the Group's financial position or operating results.

(In millions of Russian roubles, unless otherwise stated)

39 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (CONTINUED)

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of employees in those areas where it has production operations, including contributions to the construction, development and maintenance of housing, hospitals, transport services, recreational facilities and other social infrastructure. Such funding is expensed as incurred.

Compliance with covenants. The Group is subject to certain covenants primarily related to its debt. Non-compliance with such covenants may result in negative consequences for the Group, i.e. increased borrowing costs. Management believes that the Group is in compliance with its covenants.

Operating lease commitments. Where the Group is a lessee in a lease that does not substantially transfer all risks and rewards incidental to ownership from the lessor to the Company, the total lease payments (as specified in a lease contract) are charged to profit or loss for the year on a straight-line basis over the lease term. The Company has two types of lease contracts in place: fixed-term agreements and continuous contracts. The vast majority of fixed-term contracts are non-cancellable before the expiry date and only a few of them may be terminated by the lessee at its sole discretion. The continuous contracts may be terminated by either party by giving proper notice of termination. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Lease payments include payments for non-lease elements in the arrangement such as scheduled maintenance expenses, insurance expenses, pollution charges and related taxes. Payments for the non-lease elements are not specifically predetermined in the contracts and may vary depending on the level of servicing required. Accordingly, it would not be practicable to disclose them separately.

The Group’s operating lease commitments as of 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	**31 December 2015**
Less than 1 year	8,642	9,387
From 1 year to 5 years	26,121	33,688
More than 5 years	2,742	5,625
Total operating lease commitments	**37,505**	**48,700**

The majority of the Group’s lease contracts are for rail cars and shipping vessels that the Group uses to transport its produced goods to customers. Since 2016, related expenses have been accounted as transportation and logistics within operating expenses before the equity-settled share-based payment plans line in the consolidated statement of profit or loss. In 2015, those expenses were classified as rent expenses.

Capital commitments. In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment and construction services. As of 31 December 2016, the Group had contractual capital expenditure commitments of RR 218,308, including RR 213,703 related to the ZapSib (31 December 2015: RR 278,383, including RR 263,597 related to the ZapSib), calculated as the contractual amount of construction contracts less cash paid under these contracts. The capital commitments should not be considered as binding since they can be cancelled on the sole management’s decision without any significant losses for the Group, except those liabilities, which were already recognized in the consolidated statement of financial position.

40 NEW ACCOUNTING DEVELOPMENTS

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2016 or later, which have not had a material impact on the Group's financial position or operations:

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

41 NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

41 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 consolidated financial statements.

The Group is currently assessing the impact of the amendments and new standards on its consolidated financial statements.

41 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

<u>The Group's Head Office:</u>

PAO SIBUR Holding
16/1 Krzhizhanovskogo St.
Moscow, GSP-7, 117997
Russia
Tel./fax: +7 (495) 777 5500
Website:
www.sibur.ru (Russian)
www.sibur.com (English)

ADDITIONAL INFO

ABBREVIATIONS AND UNITS

Abbreviations	
APG	Associated petroleum gas
BDF	Butylene-divinyl fraction
BIF	Butylene-isobutylene fraction
BOPP-films	Biaxially oriented polypropylene films
BR	Polybutadiene rubber
CBR	Central Bank of Russia
CIS	Commonwealth of Independent States
COO	Chief Operating Officer
DMD	Dimethyl dioxane
ECA	Export credit agency
ECHA	European Chemicals Agency
EIS	Environmental Impact Index
EP	Engineering and procurement
EPC	Engineering, procurement and construction
EPS	Expandable polystyrene
ESBR	Emulsion styrene-butadiene rubber
FAS	Federal Antimonopoly Service
FEED	Front end engineering and design
FMCG	Fast moving consumer goods
GCP	Gas condensate plant
GDP	Gross domestic product
GFU	Gas fractionation unit
GPP	Gas processing plant
HDPE	High-density polyethylene
HPP	Heating and Power Plant
HSE	Health, Safety and Environment
IFRS	International Financial Reporting Standards
IHS	Independent industry and research consulting firm (Information Handling Services)
IIF	Isobutane-isobutylene fraction
IIR	Butyl rubber
IMS	Integrated management system
IR	Polyisoprene rubber
ISO	International Organisation for Standardisation
JV	Joint venture
KPI	Key performance indicator
LDPE	Low-density polyethylene
LLDPE	Linear low-density polyethylene
LPG	Liquefied petroleum gas
LTIF	Lost Time Injury Frequency

MEG	Monoethylene glycol
MGC	Medium gas carrier
MTBE	Methyl tertiary butyl ether
NBR	Nitrile-butadiene rubber
nd-PBR	Polybutadiene rubber (Neodymium based)
NGLs	Natural gas liquids
NGO	Non-governmental organization
NWF	National Wealth Fund
OHSAS	Occupational Health and Safety Assessment Series
PDH facility	Propane dehydrogenation facility
PE	Polyethylene
PET	Polyethylene terephthalate
PP	Polypropylene
PSS	Production System of SIBUR
PVC	Polyvinyl chloride
R&D	Research and Development
RAS	Russian Accounting Standards
Raw NGL	Raw natural gas liquid
RDIF	Russian direct investment fund
REACH	Registration, Evaluation and Authorization of Chemicals
SBS	Styrene-butadiene-styrene thermoplastic elastomers
SRF	Silk Road Fund
SSBR	Solution styrene-butadiene rubber
TPA	Terephthalic acid
UGSS	Unified Gas Supply System
VAT	Value added tax

Units	
barrel	One stock tank barrel, or 42 US gallons of liquid volume
bbl	Barrel(s)
bcm	Billion cubic metres
bcmpa	Billion cubic metres per annum
EUR	Euro
Gcal	Gigacalories
km	Kilometres
kW•h	Kilowatt-hour
mt	Million tonnes
mtpa	Million tonnes per annum
MW	Megawatt
RR	Russian rouble
USD	United States dollar

NAMEPLATE CAPACITY AND PRODUCTION CAPACITY UTILISATION RATES

The nameplate capacity of our production sites is the capacity registered with the Federal Service for Environmental, Technological and Nuclear Supervision ("Rostekhnadzor"). It is defined as the volume of products that could be produced by a plant or a unit if it operates a certain number of hours per annum, usually less than the number of hours in a calendar year. As such, the nameplate capacity implicitly assumes scheduled shutdowns, but it does not take into account possible cyclicality of scheduled shutdowns (for example, two year maintenance cycle adopted at some of SIBUR's facilities). The nameplate capacity also does not take into account quality, grade and other characteristics of the products produced. For our petrochemical facilities we provide capacity for each product group separately, since certain petrochemicals are used for production of other products.

Capacity utilisation is calculated as total production as a percentage of the weighted average capacity during the year. Weighted average capacity during the year may differ from nameplate capacity as of the year-end, if the capacity was expanded or the asset was consolidated during the respective period. We seek to operate our production facilities at optimal levels of capacity utilisation, taking into consideration prevailing general economic conditions, availability of feedstock, demand for our products and other factors. Capacity utilisation below 100% at GPPs is driven primarily by availability of feedstock at a particular location. Capacity utilisation below 100% at other production facilities is driven more by a combination of market demand for each particular product and our decision and ability to switch the production between different types of products.

In addition, capacity utilisation levels below 100% may reflect lost days of production due to unscheduled shutdowns at our own facilities as well as at facilities of our suppliers or customers. Capacity utilisation exceeds 100% when we are able to run a facility more efficiently over time, upgrading the technology and implementing various debottlenecking measures. As the nameplate capacity includes scheduled shutdowns, the capacity utilisation at a particular facility may exceed 100% during those periods in which the frequency and duration of shutdowns is less than scheduled.

DISCLAIMER

The information contained herein pertaining to SIBUR (the "Group") has been provided by the Company solely for information purposes. By reading this Annual Review, you agree to be bound by the limitations set out below.

The material contained in this Annual Review is presented solely for information purposes and is not to be construed as providing investment advice. As such, it has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It should not be regarded by recipients as a substitute for the exercise of their own judgment.

There may be material variances between estimated data set forth in this Annual Review and actual results, and between the data set forth in this Annual Review and corresponding data previously published by or on behalf of the Company.

This Annual Review contains forward-looking statements, including (without limitation) statements, based on the current expectations and projections of the Company 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 Company may not actually achieve or realise its plans, intentions or expectations.

There can be no assurance that the Company'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 Company and its Affiliates are under no obligation to update the information, opinions or forward- looking statements in this Annual Review.

CONTACT INFORMATION

LEGAL OFFICE

Building 30, No. 6, Quarter 1, Vostochniy Industrial District,Tobolsk, Tyumen Region, 626150

Tel./Fax: +7 (3456) 266 686

HEAD OFFICE

16/1 Krzhizhanovskogo St., Moscow, GSP-7, 117997

Tel./Fax: +7 (495) 777 5500

MEDIA CENTER

International Media Relations

Tel.: + 7 (495) 937 1726

E-mail: press@sibur.ru

INVESTOR RELATIONS

Olga Kostyurina
Head of IR

Tel.: +7 (495) 777 5500 (*34-99)

Daria Belova
IR manager

Tel.: +7 (495) 777 5500 (*67-48)

Ekaterina Kazakova
IR manager

Tel.: +7 (495) 777 5500 (*30-28)

Anastasiia Levina
IR manager

Tel.: +7 (495) 777 5500 (*61-39)

E-mail: SIBUR_IR@sibur.ru

WEBSITE

www.sibur.ru (Russian version)

http://www.sibur.ru/en/ (English version)