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

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 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:

	Year ended 31 December		*Change*
Thousand tonnes, except as stated	**2016**	**2015**	*%*
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:

	Year ended 31 December		***Change***
USD per tonne except as stated	**2016**	**2015**	***%***
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:

	Year ended 31 December		*Change, %*
Export duties, USD per tonne	**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	Year ended 31 December 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	Year ended 31 December 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.

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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	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:

	Year ended 31 December				
RR millions, except as stated	**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:

	Year ended 31 December		***Change***
Tonnes, except as stated	**2016**	**2015**	***%***
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	Year ended 31 December 2016	% of revenue(1)	2015	% of revenue(1)	Change %
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

	Year ended 31 December		*Change*
Tonnes, except as stated	**2016**	**2015**	*%*
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

	Year ended 31 December		*Change*
Tonnes, except as stated	**2016**	**2015**	*%*
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.