CIS Chemical Industry News

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RUSSIA

Russian Chemical Commodity Exports

	Jan-May 14	Jan-May 13	Jan-May 14	Jan-May 13
Product	***Kilo tons***	***USD Mil***	***Kilo tons***	***USD Mil***
Ammonia	1,531	600	1,345	732
Methanol	729	310	586	200
Nitrogen Fertilisers	5,080	1,381	4,697	1,505
Potash	4,127	1,078	2,639	967
Mixed Fertilisers	3,532	1,267	4,085	1,706
Synthetic Rubber	361	803	404	1,085

Russian foreign trade, Jan-May 2014

The share of exports of chemical products in Russia's foreign trade for January-May 2014 amounted to 4.9% against 5.2% in the same period last year. Values of exports decreased by 4.9%, whilst physical volumes increased by 12.0%. Exports of potash fertilisers rose by 56.3%, plastics and their products by 50.3%, methanol 24.9%, and organic chemical compounds by 13.0%. Conversely, export volumes declined for detergents by 48.0%, products of inorganic chemistry by 8.4%, and rubber and their products by 7.7%.

Russian Chemical Companies-Natural Gas Prices ($ per thousand cubic metres)

Company	***2013***	***2012***
Akron	116.0	101.0
Azot Novomoskovsk	110.0	104.0
Azot Nevinnomyssk	118.0	106.0
Fosagro	108.0	103.0
Kamteks-Khimprom	106.7	104.0
Bashkir Soda	102.4	121.1
Kaustik Volgograd	116.9	105.0
Kazanorgsintez	119.3	106.9
Khimprom Novocheboksarsk	111.1	104.2
Galopolymer	103.1	110.0
Gazprom N Salavat	110.4	102.0
Metafrax	91.0	104.0
Nizhnekamskneftekhim	111.0	97.9
Kuibyshevazot	104.3	90.8
Nefis Cosmetics	120.0	105.9
Pigment Tambov	136.7	130.0
United Petrochemical	98.9	98.9
Togliattiazot	104.3	94.2
Sterlitamak Petrochemical Plant	119.5	117.0

The share of chemical products in the commodity structure of imports in January-May 2014 amounted to 16.4% against 16.9% in 2013. The value of import of chemical products decreased compared with January-May 2013 by 6.6%, and the physical volumes by 13.9%. Products from inorganic chemistry decreased in tonnage by 29.4%, pharmaceutical products by 5.8%, and plastics and products by 10.1%. Import volumes of soap and detergents increased by 3.1%, and cosmetics by 3.4%. Although there is a political drive aimed at reducing import activity in chemical products, the main factors determining imports are expected to remain the general economy and the strength of the currency.

Russian petrochemical projects

SIBUR-Vyngapur GPP expansion

SIBUR is expanding capacity at the Vyngapur gas processing plant in the Yamal region of West Siberia to 4.2 billion cubic metres per annum from 2.8 billion cubic metres at present. The agreement was signed between Stroytransgaz-M (part of the STG) and SIBURTyumenGaz.

The main supplier of associated gas to Vyngapur GPP is Gazprom Neft, and the expansion is being undertaken to meet demand from the oil fields of RussNeft. The company already supplies associated gas to Nizhnevartovsk and Belozerny gas processing plants. Russneft plans to build a gas pipeline of more than 100 km from the compressor station to Vyngapur to supply the gas.

SIBUR annually processes about 30% of Russia's total associated gas production. According to data for 2013, SIBUR's processing volume was 19.7 billion cubic metres. In the first quarter of 2014, the company's processing plants increased volumes by 3.4% to 5.04 billion cubic metres.

SIBUR NGL Production (unit-kilo tons)		
Plant	***Jan-May 14***	***Jan-May 13***
Yuzhniy Balyk GPP	402.3	338
Muravelenko GPP	150.4	126.4
Gubkinsky GPP	157.3	137.6
Vyngapur GPP	286.4	292.4
Total	996.4	894.4

Irkutsk Oil Company-Power of Siberia

Irkutsk Oil Company (INK) is negotiating with the Ministry of Energy and Gazprom for the supply of associated gas through the pipeline Power of Siberia in order to support the needs of the planned gas-chemical complex at Ust-Kut. INK plans to build a plant for the processing of associated gas from the pipeline Power of Siberia, linking it with fields Yarakta and Markovski. Ethane will be made available for the chemical complex at Ust Kut, which will be built by 2019. According to recent reports, the design capacity of the polyethylene plant was reduced from 650,000 tpa to 500,000 tpa.

Irkutsk Oil Company (INK) Investment Outline	
Project	***Capacity/Length***
2 Gas Processing Plants	7 billion cubic metres per annum
Product Pipelines	500 km
Polyethylene	500,000 tpa

Irkutsk Oil Company (INK) is in talks with Chinese investors regarding support of plans to construct a new gas processing plant in East Siberia. INK is also hoping to attract Japanese companies such as JOGMEC and Inpex already both operating in Russia. In the new few years INK wants to build two gas processing plants with a total processing capacity of more than 7 billion cubic metres of gas per annum, about 500 km of product pipelines, a gas fractionation plant, and a station for the shipment of liquefied gases.

During the period 2016-2019 the company hopes to build a petrochemical chemical complex. The cost of construction is estimated at 120-130 billion roubles. The capacity of the polyolefin plants under planning comprise 650,000 tpa in the first phase, before a possible second phase extension of up to 1 million tpa.

Russian Chemical Production (unit-kilo tons)		
Product	***Jan-Jun 14***	***Jan-Jun 13***
Caustic Soda	519.1	532.0
Soda Ash	1,243.0	1,267.0
Ethylene	1,238.0	1,365.0
Propylene	614.2	661.7
Benzene	580.0	607.3
Xylenes	273.2	264.0
Styrene	321.0	370.6
Phenol	129.5	142.1
Ammonia	7,800.0	7,400.0
Nitrogen Fertilisers	4,400.0	4,266.0
Phosphate Fertilisers	1,600.0	1,581.0
Potash Fertilisers	4,200.0	3,258.0
Plastics in Bulk	3,128.0	3,003.0
Polyethylene	814.0	921.0
Polystyrene	272.0	227.4
PVC	336.1	341.6
Polypropylene	499.6	410.3
Polyamide	71.5	66.3
Synthetic Rubber	651.8	776.0
Synthetic Fibres	66.4	101.8

Other Irkutsk petrochemical projects

For the existing chemical producers in the Irkutsk region opportunities to make use of the gas from the southern fields and Kovytka have been helped significantly by the decision to build the Power of Siberia pipeline to deliver gas to China. Angarsk Polymer Plant and Sayanskkhimplast are both hoping to receive gas for fuel in not too distant future. Moreover, both companies may seek to utilise gas as a petrochemical feedstock and to expand the capacities already in place. Angarsk Polymer Plant is examining the expansion of the EP-300 cracker to 454,000 tpa of ethylene and the construction of new polyethylene facilities with a capacity of 340,000 tpa for HDPE.

Rosnano and Sberbank are considering how to utilise gas availability for chemical production, based at the former Usolyekhimprom site. This was previously closed in order to concentrate on polycrystalline silicon by Usolye-Silicon. However, the 5,000 tpa plant became unviable after a fall was recorded in world prices from $400 to $16 per kilogram against a production cost of $35. Production was stopped in early 2014, and the Nitol group started to clear the site. The cycle has progressed to considering the use of gas to develop a new gas-chemical complex, which would rejuvenate the local area of Usolye-Sibirsk.

VNKH-Nakhodka

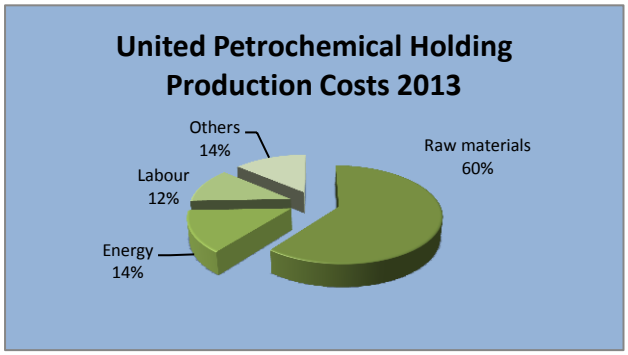
Rosneft and the Ministry of Eastern Development intend to increase cooperation to support the Eastern Petrochemical Company (VNHK) project. In particular, the parties agreed to consider public support for the project by incorporating physical and social infrastructure. Rosneft has received from Transneft the technical conditions for connection of the VNHK proposed complex to the mainline ESPO pipeline system. Moreover, Gazprom has confirmed readiness to transport gas via the Sakhalin-Khabarovsk-Vladivostok pipeline to VNHK.

Numerous concerns have emerged over the construction of the refinery-petrochemical facilities at Nakhodka, including financial costs coupled with doubts over feedstock supply. Questions have been raised about the

economic viability of the third stage of investment, concerning petrochemicals and suggestions for its delay until 2025. One of the reasons argued is that sales of petrochemicals from the Russian Far East are likely to meet stiff competition in the Asia-Pacific markets, meaning possibly that production may need to be sold at low margins or even at a loss. By contrast, a phased implementation of the petrochemical project may allow for a more gradual strategy of breaking into these markets.

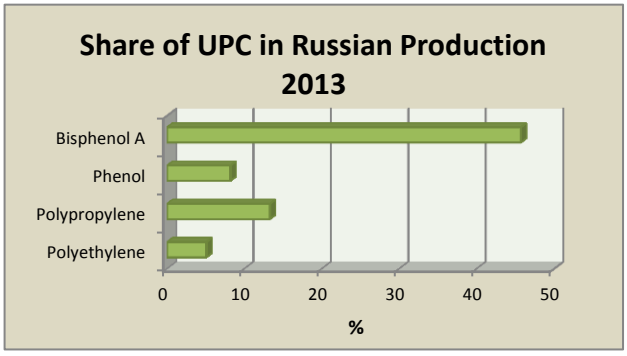
To recap, the project involves the construction of the VNHK petrochemical complex near Padi Elizarova Partizansk region of Primorsk Kray with a total refining capacity of 30 million tpa, of which 24 million tpa will come from oil and 6 million tpa of naphtha. The general designer of the complex is Angarskneftehimproekt. The project involves the construction of seaport terminals for reception and shipping of both oil and petroleum products. At the same time, Rosneft has asked Moscow to support the project through the construction of infrastructure: including oil and gas pipelines, railways, power lines, ports.

Russian petrochemical producers & markets



United Petrochemical Company
Petrochemical Sales 2013

Product	*Sold volume (unit-kilo tons)*	*Sales Value (billion roubles)*
Polypropylene	120	6.207
Polyethylene	92	4.31
Phenol	49	2.611
Liquid pyrolysis products	69	1.747
Bisphenol A	26	1.319
Acetone	38	1.085
Ethylene	15	0.431
C4s	28	0.634
Other	27	0.85
Total	464	19.194



United Petrochemical Company 2013

United Petrochemical Company, part of AFK System, achieved revenues of 22.2 billion roubles in 2013 against 17.5 billion roubles in 2012. The share of revenue from sales of petrochemical products amounted to 87% and most of the remainder from gas processing. The operating profit in 2013 totalled 2.96 billion roubles against 1.49 billion roubles in net profit.

In 2013, United Petrochemical Company acquired gas refineries and installations in addition to the bisphenol-A unit at Ufa. The group also created a jv with Alpek from Mexico for the production of PET and PTA at Ufa under the jv RusPETF.

United Petrochemical Company was established in September 2011, as a joint venture controlled by AFK System Bashneft and Petrochemical Holding Yakov Godowsky. The main activity was initially conducting research and analysis of the status and investment attractiveness of the Russian petrochemical industry. At the beginning of 2013, Bashneft bought Goldovsky's 25% of shares in United Petrochemical Company, and then the consolidated package in September 2013 went into AFK System.

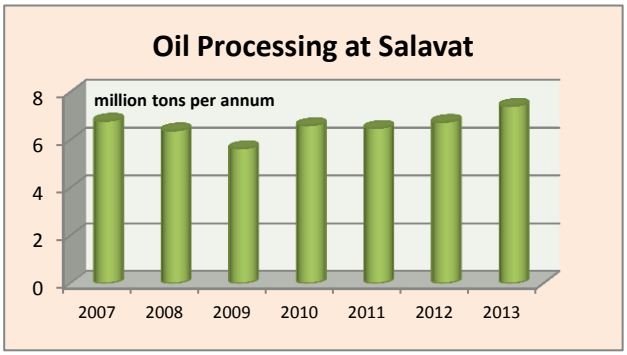
Ufaorgsintez constitutes the main production centre for United Petrochemical Company which focuses product concentration on polyolefins, phenol and acetone, and bisphenol-A. Vertical integration gives United Petrochemical Company great advantage for raw materials in terms of low logistics costs (transportation of raw materials by pipeline), and the ability to reduce losses from transportation of raw materials.

In 2013, United Petrochemical Company processed 752,000 tons of hydrocarbons including NGLs, benzene, etc., of which 580,000 tons went through Ufaorgsintez and 172,000 through the gas processing plants Tuimazinskoye and Shkapovskoe.

The main supplier of raw materials to United Petrochemical Company is ANK Bashneft. Polymer production totalled 217,000 tons in 2013, with gas processing amounting to 163,000 tons and liquid chemicals 228,000 tons.

United Petrochemical Company is focusing on three main areas in the medium term including the improvement in efficiency of current assets, investment in new projects and carrying out M & A transactions where companies offer significant synergies with existing assets and potential projects. On 25 June Ufaorgsintez approved a loan contract amount up to 2.5 billion roubles from its parent company United Petrochemical Company (UPC). The capacity of the ethylene plant at Ufaorgsintez is 100,000 tpa which is used for the production of polyethylene. The company also produces polypropylene, capacity 100,000 tpa, phenol, acetone and ethylene-propylene rubber.

The PTA-PET project represents the major investment plan, but recent doubts have emerged over the construction of a one million tpa olefin cracker. These doubts stem from tax rules which render the project uneconomic. The PTA plant, being constructed as part of the jv RusPETF, requires cooperation with Bashneft which will supply the paraxylene from the Ufaneftekhim refinery. This will create the largest competitive and complex for the production of PTA and PET in Russia.



Gazprom neftekhim Salavat 2013

Gazprom neftekhim Salavat increased its net profit 14.9 times in 2013 over 2012 to 1.892 billion roubles, although this remains very small in relation to turnover. Revenues rose 8.8% to 167.222 billion roubles, whilst the cost of sales increased by 7.6% to 119.552 billion roubles. As a result, the gross profit rose 12.2% to 47.669 billion roubles. Exports accounted for 69% of revenues in 2013, and most of the exports came from oil products.

Gazprom neftekhim Salavat is reducing the purchase of natural gas liquids (NGL) due to an increase in consumption of its own raw materials from the F-04 type SRT-VI furnace. The new furnace has facilitated the possibility of processing up to 95 tons per hour of naphtha for the cracker, thereby reducing the need for NGLs. In addition, the company has introduced a new collection scheme of hydrocarbon gases from the refinery that can be fed to the pyrolysis unit NGL line EP-300.

After ABB Lummus installed two units Gazprom neftekhim Salavat will now be able to process associated gas and use it as raw material for ethylene-propylene plant. According to the company, the introduction of this scheme will reduce purchases of NGLs by around 10,000 tpa. Total NGL consumption in 2014 is expected at 185,000 tons. Due to the technology improvement in the EP-300 last year, the company increased the production of ethylene to 277,000 tons against 205,000 tons in 2012. Gazprom neftekhim Salavat aims to produce 310,000 tons of ethylene in 2014.

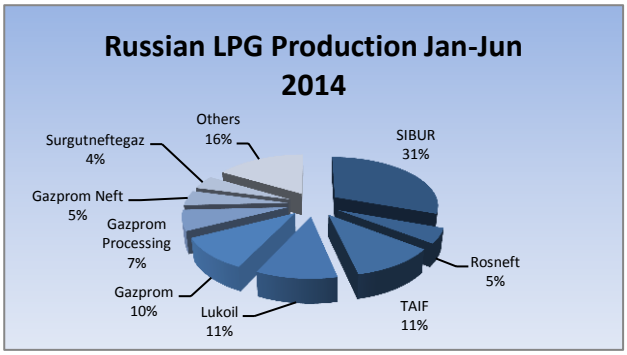
The F-04 type SRT VI furnace was supplied by ABB Lummus Global, possesses a high efficiency (91-92%), and differs from the existing furnaces used by Gazprom neftekhim Salavat, namely SRT I with an efficiency of 73%. Due to the commissioning of a new furnace, the company is now capable of processing 100 tons per hour of raw materials. In addition to increasing production, the new F-04 furnace uses less fuel thus decreasing emissions of flue gases into the atmosphere. Another important project ongoing this year involves the construction of the new acrylates complex that will complete the vertical chain of production from propylene through to glacial acrylic acid, butyl acrylate and other esters.

Gazprom neftekhim Salavat, propane-propylene project

Gazprom neftekhim Salavat is holding a tender for works on the development of design data block for fractionation of propane-propylene fractions at the FCC. According to the tender, the initial cost of the works is 20,855,000 roubles. Potential contractors are to develop baseline data for the design, conduct and disaggregating data integration unit in the FCC complex. The expected capacity of the fractionation unit for PPF is 85,000 tpa. Refined data will be provided after receipt of complete documentation package under a contract with Shell Global Solutions.

Cracker feedstocks

In the first half this year Russian companies increased NGL shipments to domestic consumers by 1% to 274,290 tons, of which 104,370 tons were delivered to petrochemical plants which was down 4% against May. Lower NGL consumption in petrochemicals in June was due mainly to a 31% reduction in deliveries to Nizhnekamskneftekhim, dropping to 36,920 tons, although this was offset by SIBUR-Kstovo returning to the market and buying 18,370 tons. In the first half of 2014 a total of 1.83 million tons of NGLs were supplied to Russian market, 5% less than in the same period in 2013. Deliveries to petrochemical plants totalled 677,000 tons in the first half of the year against 734,000 tons in 2013.



In June, a total of 144,700 tons of naphtha was supplied to the Russian domestic market which was 2% more than in May. Petrochemical plants, that do not access internal refinery based naphtha, purchased 40,600 tons on the merchant market which was 15% down. Tomskneftekhim reduced shipments from 41,900 tons in May to 24,800 tons in June whilst SIBUR-Kstovo returned to the market after maintenance to purchase 8,800 tons.

In the first half of 2014 a total of 889,600 tons of naphtha was delivered to the Russian market, 13% less than the same period last year. The drop has been due mainly to the reduction of hydrocarbon processing by Stavrolen after the accident in February 2014. Russian ethylene production amounted to 185,100 tons in May, 4% down on 2012. SIBUR-Kstovo was down for maintenance. Russia's total ethylene production decreased in the first five months of 2013 by 10% to 1.1 million tons. Ufaorgsintez (included in United Petrochemical Company) will stop olefin production for maintenance on 15 August for about a month. This shutdown is part of a four year cycle. The company has already made the necessary inventory to cover this period.

Russian Propylene Domestic Sales (unit-kilo tons)

Producer	*Jan-Jun 14*	*Jan-Jun 13*
Angarsk Polymer Plant	41.0	34.5
Omsk Kaucuk	3.4	2.7
SIBUR-Neftekhim	33.7	48.9
Akrilat	7.9	2.0
LUKoil-NNOS	83.9	71.1
Tomskneftekhim	3.1	0.1
Gazprom Neftekhim Salavat	14.7	0.0
SIBUR-Khimprom	0.5	0.0
Stavrolen	3.3	2.9
Tobolsk-Polymer	5.7	0.0
Total	197.3	162.2

Russian propylene, Jan-Jun 14

Russian propylene sales to the domestic market increased 43% in June over May to 30,700 tons. The rise was due primarily to the shutdown at SIBUR-Kstovo for planned maintenance during June and SIBUR more than compensating for this outage with suppliers from other plants. For example, Tobolsk-Polymer shipped 4,400 tons of monomer to the internal market and Tomskneftekhim 2,900 tons, against 132 tons in May. Gazprom neftekhim Salavat increased propylene sales to domestic processors 3.9 times in June, up to 4,000 tons.

Sales of propylene on the Russian domestic market totalled 193,200 tons in the first six months in 2014, 19% up on the same period in 2013. Regarding propane-propylene fractions domestic sales totalled 68,600 tons in the first half of the year which was 16% down on the same period in 2013.

Russian styrene, Jan-Jun 2014

Russian sales of styrene on the domestic amounted to 10,200 tons in June, 1.7 times more than in May. In June Angarsk Polymer Plant increased its sales of monomer to Russian processors six times up to 1,300 tons, and Gazprom neftekhim Salavat twice to 6,600 tons. Both producers undertook scheduled maintenance in July, and a number of customers increased purchases in June in order to compensate for the perceived shortages. In the first half of 2014 sales on the domestic market totalled 43,200 tons which is 15% down over 2013.

Russian styrene production dropped in May by 12% to 48,800 tons due to maintenance and lower output at Nizhnekamskneftekhim. In the first five months in 2014 Russian production of styrene totalled 272,800 tons which was the same as in 2013.

Russian HDPE Imports (unit-kilo tons)

Category	*Jan-Jun 14*	*Jan-Jun 13*
Extrusion	32.6	30.1
Pipe	32.5	37.7
Film	10.4	16.7
Blow	19.2	18.1
Injection	23.9	24.1
Others	5.9	26.8
Total	124.5	153.6

Bulk Polymers

Russian HDPE, Jan-Jun 14

HDPE production in Russia declined from 527,000 tons in the first half of 2013 to 440,000 tons in the same period this year. The decline was due to the outage at Stavrolen. HDPE imports amounted to 124,500 tons in the first six months this year compared to 153,600 tons in the same period, thus 19% down. Falling imports were recorded in all sectors of consumption, with blow moulding

grades the only application area where there was an increase. Since the outage at Stavrolen at the end of February the domestic market has been put under some pressure, particularly for pipe grade HDPE, leading to a rise in import activity in April and May. Imports are expected to remain in demand over the next few months due to scheduled maintenance outages.

Import duty on HDPE, in particular used for corrosion protection of large diameter pipes, is to be held at 0% for a period of nine months. Total imports of pipe grade HDPE in 2013 amounted to 73,800 tons, the main suppliers including Borealis, Total Petrochemicals, etc.

Russian Polypropylene Production (unit-kilo tons)

Producer	*Jan-Jun 14*	*Jan-Jun 13*
Ufaorgsintez	64.1	61.0
LUKoil-Neftekhim	18.0	63.7
Moscow NPZ	59.2	60.9
Nizhnekamskneftekhim	104.3	108.7
Polyom	86.3	46.8
SIBUR-Holding	67.3	62.3
Tobolsk-Polymer	97.8	0.0
Total	497.0	403.4

Russian polypropylene, Jan-Jun 2014

Polypropylene production increased 23% in the first half of 2014 to 498,800 tons from 405,000 tons in the same period last year. Only Neftekhimya at the Kapotnya refinery and Tomskneftekhim reduced production, down 1% and 2% respectively. Nizhnekamskneftekhim and Ufaorgsintez increased production by 2% and 6% respectively, but the major change really came from the new plants Polyom at Omsk and Tobolsk-Polymer.

Polyom produced 86,300 tons in the first six months against 46,300 tons last year (the plant started in February 2013), whilst Tobolsk-Polymer produced 97,800 tons after starting production late in 2013. Both producers have the capacity to increase production above current levels. Historical data for Russian polypropylene producers can be viewed on the Statistical Database at www.cirec.net.

Russian Polypropylene Imports (unit-kilo tons)

Category	*Jan-Jun 14*	*Jan-Jun 13*
Homopolymers	30.0	39.0
Block	23.4	27.8
Random	15.3	18.8
Other	18.7	22.8
Total	87.4	108.4

Polypropylene imports into Russia declined by 19% in the first six months in 2014 to 87,400 tons from 108,400 tons in the same period last year. Homopolymer imports declined 30% to 30,000 tons whilst block copolymers fell from 27,800 tons in January to June 2013 to 23,400 tons in 2014.

Russian polypropylene producers have started planned outages for maintenance work for the period July to September. Tobolsk-Polymer started maintenance on 29 June, lasting several weeks, followed by Tomskneftekhim on 20 July for three weeks. In late June Ufaorgsintez officially announced plans to routine maintenance from 15 August for 30 days, whilst Polyom plans to close also for 30 days from 28 August. Partly as a result of these planned outages the spot market price of homopolymer increased by 1,500-2,000 roubles in the first part of July.

Despite the tighter market Stavrolen has stated that it will not start the production of polypropylene, based on merchant propylene, until market conditions change. The company is technically ready to start production of polypropylene, but considers the market is rather weak at present. Although the cracker is under repair until next year Stavrolen had planned to restart the polypropylene plant in June using market propylene.

Russian BOPP Market (unit-kilo tons)

	2013	**2012**
Production	127.0	103.0
Export	26.2	21.0
Import	34.5	37.5
Market Balance	135.3	119.5

Russian BOPP market

In May 2014, SIBUR launched a new BOPP-film production line at Novokuibyshevsk with a capacity of 30,500 tpa, thus increasing the plant's production capacity to 55,500 tpa. Total capital expenditures on the project amounted to approximately 1.9 billion roubles.

The new line was installed by Bruckner Maschinenbau. Total capacity of BOPP film production in Russia rose from 150,000 to 180,500 tpa following the launch of the second line at Novokuibyshevsk. In late 2013 Biaksplen started production of test batches of BOPP film at the Tomskneftekhim site. The line of 38,000 tpa represents the seventh unit in the Biaksplen group.

The BOPP film market in Russia is growing in the range of 3-5% per annum. The country has two producers, the most of which is concentrated on Biaksplen consisting of four plants at Kursk, Balachna (Nizhny Novgorod region), Novokuibyshevsk and Railway (Moscow region). The other producer is Evrometfilms in the Moscow

region with a capacity of 25,000 tpa. As part of the Customs Union Belarus also possesses a small plant of 10,000 tpa at Mogilev.

Russian PVC-S Production (unit-kilo tons)

Producer	*Jan-Jun 14*	*Jan-Jun 13*
Bashkir Soda	113.1	107.3
Kaustik Volgograd	48.5	47.2
Khimprom (emulsion)	9.2	9.0
Sayanskkhimplast	152.1	154.2
SIBUR-Neftekhim	0.0	10.3
Total	322.9	317.7

Russian PVC, Jan-Jun 2014

Production of suspension PVC in Russia rose slightly in the first half of 2014 to 322,900 tons. SIBUR-Neftekhim halted production permanently at Dzerzhinsk in April 2013, and the new RusVinyl plant is expected to start producing by the end of the summer. Sayanskkhimplast produced 152,100 tons in the first six months this year, 2% down on 2013 whilst Bashkir Soda increased production by 4% to 113,100 tons. Kaustik at Volgograd increased production by 2% to 48,500 tons.

In the first half of this year, imports of PVC declined by 47% to 125,600 tons from 238,000 tons in the same period in 2013. Imports recorded the largest drop from the U.S due to high export prices and the devaluation of the Russian rouble. Imports could possibly rise slightly over the third and fourth quarters due to planned outages. Sayanskkhimplast is undertaking a shutdown from 2 August to 28 August, whilst Bashkir Soda Company is going down from 10 September to 30 September, and Kaustik at Volgograd from 3 October to 20 October.

Russian PVC Imports (unit-kilo tons)

Source	*Jan-Jun 14*	*Jan-Jun 13*
US	26.4	113.8
China	69.4	98.3
Europe	20.3	21.0
Others	8.9	4.8
Total	125.0	238.0

Russian EPS, Jan-Jun 2014

In the first half imports of expandable polystyrene (EPS) in Russia decreased by 16.5% compared to January-June 2013 and amounted to 29,000 tons. The increased role of production by SIBUR-Khimprom in the domestic market has been the main reason for slower import activity. The largest supplier of EPS on the Russian market is China, which increased shipments to 17,500 tons in the first six months in 2014 from 13,800 tons in the same period last year.

Russian Polycarbonate Market (unit-kilo tons)

	Jan-Jun 14	*Jan-Jun 13*
Production	36.7	35.8
Exports	4.4	6.4
Imports	23.6	25.7
Market Balance	55.9	55.0

Russian polycarbonate, Jan-Jun 2014

Exports of polycarbonate declined by almost half in the first six months in 2014 and amounted to 4,700 tons. From this total 3,800 tons were injection grades and 973 tons extrusion grades. Imports of polycarbonate declined 5% in the first half of 2014 to 23,600 tons. Partly due to increased domestic sales by the sole producer Kazanorgsintez and partly due to the devaluation of the rouble this year consumers have been reducing purchases of imported polycarbonate. Consumption has risen slightly this year mainly due to growth in the extrusion sector, which is the most dynamic and promising of the market and accounts for around 80% of total consumption. A plant for the processing of polycarbonate is under construction in the Krasnodar region, consisting of 15,000 tpa of capacity. The location of the plant under construction gives it certain advantages in terms of logistics, especially given the fact that the market capacity of monolithic sheets in Russia is still only 5,000 tpa.

Kazanorgsintez is operating at 100% capacity and producing 6,000 tons per month. Regarding import activity, shift in orientation has taken place this year from European to Asian suppliers. Kazanorgsintez will undertake a scheduled maintenance shutdown from 21 July to 17 August.

PTA/PET Chain

Russian Imports of PET (unit-kilo tons)

Country	*Jan-Jun 14*	*Jan-Jun 13*
China	98.0	51.5
South Korea	11.9	24.4
Others	18.2	15.6
Total	128.1	91.5

Russian PET imports, Jan-Jun 2014

Russian imports of PET increased 40% in the first six months in 2014 to 128,100 tons. In June imports amounted to 22,500 tons. Chinese companies almost doubled the supply of PET to the Russian market in the first half of 2014 against the same period last year.

A total of 98,000 tons was imported from China in the period January to June 2014 against 51,500 tons in 2013. The main reason for switching to Chinese products by Russian processors has been price. At the same

time Korean imports of PET decreased from 24,400 tons to 11,900 tons.

Alko-Naphtha-PET production

Alko-Naphtha produced 145,000 tons of PET in 2013 and hopes to produce 180,000 tons in 2014. Almost all of the production is sold in the Russian domestic market. The European partner of Alko-Naphtha received approval for exemption from import duty (outward processing relief OPR) for the supply of PET in Europe. OPR provides a partial exemption from import duty on PET, which was produced using European materials outside the European Union. Consequently Alko-Naphtha's import duty was reduced from 6.5% (effective from 1 January duties for the Russian producers of PET) to 1%.

United Petrochemical CompanyAlpek PTA & PET jv

United Petrochemical Company expects to finalise the design documentation (FEED) for the construction of the PTA and PET plants in Bashkortostan in the first quarter of 2015. The jv RusPETF was formed this year between United Petrochemical Company and the Mexican holding Alpek. The required investment is estimated at $700 million. Tecnimont has won the contract to prepare the FEED for the project, which intends to use IntegRex technology for PTA with a capacity of 600,000 tpa of PTA in addition to 600,000 tpa of PET.

Russian Paraxylene Domestic Sales (unit-kilo tons)

Producer	*Jan-Jun 14*	*Jan-Jun 13*
Gazprom Neft	37.3	23.4
Ufaneftekhim	53.8	59.9
Total	91.0	83.2

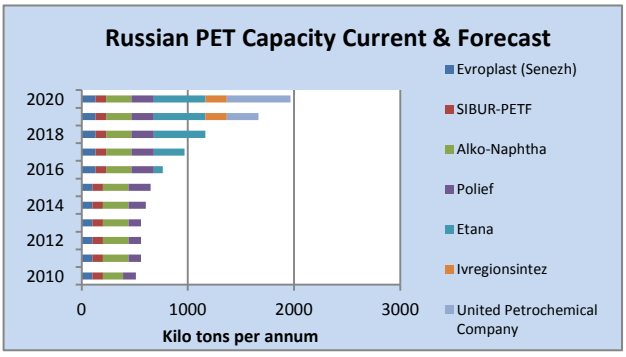
Bashneft, United Petrochemical paraxylene contracts

Bashneft plans to consider new contracts for the supply of paraxylene to United Petrochemical Company and RusPETF (jv with Mexican holding Alpek). Shareholders are recommended to change the terms of the contract to supply petrochemical Ufaorgsintez and approve the delivery of paraxylene to RusPETF. To ensure sufficient raw materials Bashneft intends to increase the production of paraxylene from 155,000 tpa to 260,000 tpa.

Ivregionsintez-Uhde

Ivregionsintez has chosen Uhde at Dzerzhinsk as the contractor for carrying out engineering works in the project for the production of PET for the textile industry in the Ivanovo region. The company is currently conducting negotiations to attract investment in the project as only 15% of the required amount is yet to m come from private investors. Previously Ivregionsintez sought to bring Russian bank Vnesheconombank to the project, but talks have not progressed. Total costs are estimated at about 10 billion roubles. Other factors to be resolved in this project include sources of raw materials for the production of PET and a supplier of equipment. Thus the 2015 start date for construction almost certainly will not be met.

The planned project includes 170,000 tpa of staple fibres by direct moulding granulate and textile industry. The estimated revenue from the new complex when completed is more than 12 billion roubles per annum. The company Ivregionsintez is wholly owned by the Ivanovo region.



Etana PET project to start in 2016

Etana's plant for the production of PET food and textile grades is scheduled to be completed in 2016, in which raw materials will be supplied largely by Russian companies. By 2018 Etana expects to move to its own production of raw materials, although there is some uncertainty over whether the back-integration projects can be achieved. The project is located near Nalchik in the southern region of Kabardino-Balkaria and consists of various capacity stages including 486,000 tpa by 2017 and 1.5 million tpa by 2022.

In April this year, Etana announced that it completed the complex infrastructure of treatment plants, electrical substations, facilities and water supply systems. Etana has been involved in the establishment Agroindustrial park, joined by more than 30 international companies. This will provide an opportunity to attract new residents and receive direct investment from foreign partners.

ThyssenKrupp is responsible for the construction of the plant. Initially, the cost of project was estimated at 12.3 billion roubles, but costs have since risen by 40% up to 22 billion roubles. The project is set up to produce 162,000 tpa in the first phase, followed by 288,000 tpa in 2015 and 486,000 tpa in 2016.

Taneko, PTA-PET project

Taneko at Nizhnekamsk, (part of Tatneft), states that it has not given up on its PTA-PET project planned and then abandoned several years ago. Although it was thought that the project had been shelved indefinitely, Taneko is hoping at some stage to proceed with the plan.

Originally Tatneftekhiminvest-holding aimed to attract to the Marubeni Corporation into the project, a company that had expressed a desire to participate in the tender for the aromatics complex for the Taneko refinery. This was to be followed by developing capacities for the production of paraxylene, PTA and PET. The original plan comprised 200,000 tpa of paraxylene, 250,000 tpa of PTA and 250,000 tpa for polyester fibre and PET bottle grade.

Due to complications in the financial aspects the project was suspended whilst Taneko concentrated on installing the first 7 million tpa of refining capacity to be followed by the second 7 million tpa. The aromatics and PET projects are not priorities at present, but could be revived at a later date. Tatneft owns 91% of shares of Taneko.

Aromatics & derivatives

Russian Benzene Sales (unit-kilo tons)

	Jan-Jun 14	*Jan-Jun 13*
Synthesis Total	288.9	294.5
Angarsk Polymer Plant	33.2	30.2
SIBUR-Kstovo	14.2	37.8
Severstal	18.2	18.3
Uralorgsintez	39.8	33.1
Kirishinefteorgsintez	27.4	29.3
West Siberian MC	30.2	29.0
Ryazan NPZ	14.1	10.8
Slavneft-Yanos	26.2	24.8
Gazprom Neft (Omsk)	51.7	51.6
Gazprom Neftekhim Salavat	10.8	1.2
Stavrolen	14.3	6.0
Ufaneftekhim	6.5	3.2
Zaporozhkoks	0.0	3.8
Ukrtatnafta	0.0	7.2
Yasinovsky Coke	0.5	6.9
ArcelorMittal	1.8	1.3
Nitration Total	16.2	19.2
Novolipetsk MK	11.6	12.0
Chelyabinsk MK	4.6	7.3
Crude	65.3	81.7
Altay-Koks	14.2	18.0
Koks	14.8	14.9
Magnitogorsk MK	22.5	27.3
Nizhny Tagil MK	5.6	10.1
Novokuznetsk MK	1.9	4.1
Moskoks	4.2	4.1
Ural Steel	2.2	3.3
Full Total	370.5	388.2

Russian benzene Jan-Jun 2014

Russian benzene production totalled 580,000 tons in the first half of 2014, against 607,300 tons in the same period in 2013. Benzene sales on the domestic Russian market amounted to 52,170 tons, slightly down on May. In terms of suppliers Kirishinefteorgsintez increased its sales 1.8 times in June to 7,100 tons, whilst Angarsk Polymer Plant increased shipments 22% over May to 5,700 tons. At the same time, due to maintenance work Uralorgsintez reduced shipments by 2.6 times to 2,600 tons. For the first six months sales on the Russian market, including imported benzene, totalled 370,500 tons against 388,200 tons in 2013.

After completion of maintenance in June by Uralorgsintez (at Tchaikovsky) and Lukoil-PNOS (at Perm), supply increased from both plants to the domestic market in July. SIBUR-Kstovo completed maintenance in July, whilst at the beginning of the month Gazprom neftekhim Salavat stopped for a planned outage. Benzene prices in the Russian market range 41-47,000 roubles per ton for synthesis, whilst for nitration prices are lower at 36,500 roubles to 38,100 roubles per ton.

Russia imported 471 tons of benzene in June from ArselorMittalTemirtau in Kazakhstan, 1.6 times more than in May. Kazanorgsintez increased its purchases of Kazakh benzene by 27% to 230 tons, and Kuibyshevazot doubled purchases to 241 tons. For the first six months in 2014 domestic processors imported 2,000 tons of benzene from ArselorMittalTemirtau, 8% less than in the same period 2013. Imports from Ukraine have to date been very small this year.

Russian exports of benzene increased from 16,700 tons in the first six months in 2013 to 42,200 tons in the same period this year. The main export volumes were shipped in the first quarter this year when Kirishinefteorgsintez and Slavneft exported 5,400 tons and 4,900 tons respectively. In the second quarter, Kirishinefteorgsintez shipped only 2,400 tons whilst Slavneft did not export. The main reason for lower export volumes in the second quarter this year was the extended outage at Stavrolen, which is not expected to be finished until the start of 2015. Of the coal-based producers, Magnitogorsk Metallurgical

Russian Benzene Exports (unit-kilo tons)				
Producer	Q1 13	Q2 13	Q1 14	Q2 14
Altay-Koks	3.0	3.0	4.0	3.6
Gazprom Neft	0.0	0.0	2.0	0.0
Koks	0.0	0.0	0.7	2.0
Magnitogorsk MK	3.9	4.1	5.6	6.3
Kirishinefteorgsintez	0.0	0.0	5.4	2.0
Slavneft	0.0	0.0	4.9	0.0
Severstal	0.0	0.0	2.2	0.2
Ural Steel	1.3	1.3	2.2	1.2
Total	8.2	8.5	26.9	15.3

Combine exported the largest amount, 11,900 tons, in the first half of 2014 against 8,000 tons in the same period last year.

Russian toluene, Jan-Jun 2014

Domestic supply of toluene by rail to Russian consumers in June amounted to 10,950 tons which is 27% less than in May and 10% lower than in June 2013. Slavneft-Yanos accounted for 43% of sales (4,700 tons), Gazprom Neft 29% (3,160 tons) Kirishinefteorgsintez 22% (2,440 tons), Severstal 5% (540 tons) and West Siberian Metallurgical Combine 1% (110 tons). In the first half of 2014 shipments to the Russian domestic market for toluene amounted to 68,500 tons, 9% more than over the same period in 2013. Rail deliveries of toluene to the Russian paint industry amounted to 1,970 tons in June, 18% of total supply. Manufacturers of lubricants and additives for motor fuels decreased by 17% to 3.58 million tons (share in total Russian consumption 33%). Industrial explosives accounted for 1.060 million tons or 10% or purchases in June.

Russian Toluene Domestic Sales (unit-kilo tons)		
Producer	***Jan-Jun 14***	***Jan-Jun 13***
Novopiletsk MK	0.7	0.7
Slavneft-Yanos	22.2	9.2
Severstal	3.1	3.0
LUKoil-NNOS	13.5	19.5
Gazprom Neft	16.6	10.8
Zapsib	2.1	2.7
Kinef, Kirishi	10.2	15.6
Gazprom neftekhim Salavat	0.0	0.6
Others	0.2	0.2
Total	68.5	62.3

Russian toluene production amounted to 21,900 tons in May, 6% more than in April. From January to May 2014 production of toluene in Russia totalled 124,500 tons, 5% less than in 2013.

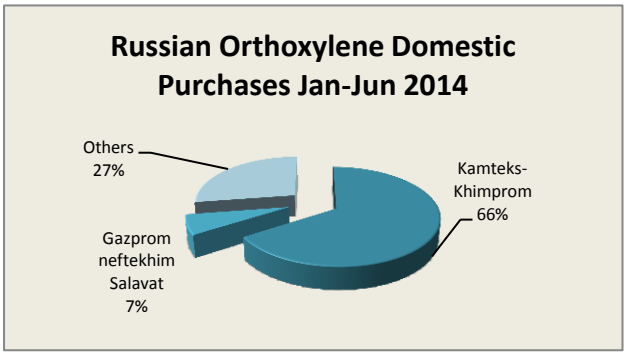
Russian orthoxylene market, Jan-Jun 2014

Orthoxylene is very tight in the Russian market, caused by the increase in purchases by companies using orthoxylene as octane additives for motor fuels, amid increasing cost of gasoline in Russia. Prices are expected to rise by the end of July.

Domestic sales of orthoxylene totalled 74,400 tons in the first six months in 2014 against 67,400 tons in the same period last year. Gazprom neftekhim Salavat was the main supplier. Kamteks-Khimprom accounted for 66% of purchases.

Exports of orthoxylene from Russia amounted to 8,500 tons in May, 6% lower than in April. Gazprom Neft shipped abroad 5,990 tons of orthoxylene, Kirishinefteorgsintez 2,000 tons, and Ufaneftekhim 530 tons. All orthoxylene exported from Russia was shipped to Finland. For the first five months in 2014 exports of orthoxylene totalled 30,700 tons which is 96% more than in 2013.

Russian Orthoxylene Domestic Sales (unit-kilo tons)		
Producer	***Jan-Jun 14***	***Jan-Jun 13***
Gazprom Neft	34.3	33.7
Ufaneftekhim	16.8	12.7
Kinef, Kirishi	23.3	20.9
Total	74.4	67.4



Russian phthalic anhydride, Jan-May 2014

Phthalic anhydride production totalled 9,250 tons in May, 3% less than in April. Gazprom neftekhim Salavat stopped for scheduled maintenance in May for the production of phthalic anhydride and plasticizers, and thus produced only 125 tons against 902 tons in April. Kamteks-Khimprom produced 9,130 tons of phthalic anhydride, 6% more than in April. For the first five months in 2014 Russian production of phthalic anhydride totalled 46,820 tons which was 2% higher than the same period in 2013.

Exports of phthalic anhydride from Russia amounted to 6,020 tons in May, 13% more than in April. In May, Russia's export destinations included India (29% of Russia's total supply), China (17%) and Turkey (15%). From January to May 2014, exports of Russian phthalic anhydride totalled 30,160 tons which is 10% less than the same period last year.

Russian Phenol-Domestic Market Sales (unit-kilo tons)

Supplier Source	*Jan-Jun 14*	*Jan-Jun 13*
Omsk Kaucuk	10.9	28.4
Samaraorgsintez	25.8	18.4
Kazanorgsintez	5.9	5.7
Ufaorgsintez	16.4	10.7
Sterlitamak NPZ	0.0	0.1
Total	59.1	63.2

Russian phenol, Jan-Jun 2014

Sales of phenol on the Russian domestic market totalled 59,100 tons in the first half of 2014, against 63,200 tons in the same period last year. Sales have been affected by the outage by Omsk Kaucuk following its accident at the start of March. Increases in sales by Samaraorgsintez and Ufaorgsintez have been insufficient to compensate for the extended repairs at Omsk Kaucuk. Exports have been reduced to meet domestic demand, which overall has been down slightly against last year. Imports have been negligible, with the sole importer Borealis in Finland shipping 1,115 tons in the first half of 2014.

The current deficit of phenol in the Russian market is causing trading companies to face free volumes of products. In July, the declared price-list selling price of phenol in its domestic producers varied from 76,000-79,000 roubles per ton including VAT. A scheduled maintenance stop by Kazanorgsintez at the end of July may affect prices in August.

Shchekinoazot completed repairs at the caprolactam plant on 30 June after stopping earlier in the month. The company carried out repairs in the shops of cyclohexane, cyclohexanone, hydroxylamine (ASG), caprolactam, and ammonium sulphate. The repairs at the caprolactam plant took place at the same time as the shutdown for the sulphuric acid plant at the nearby Efremov chemical plant. The capacity of the sulphuric acid plant at Efremov will increased from 500,000 tpa to 800,000 tpa and will be completed in 2015.

Synthetic Rubber

Russian C4 Sales by Consumer (unit-kilo tons)

Consumer	*Jan-Jun 14*	*Jan-Jun 13*
Omsk Kaucuk	42.1	37.9
Nizhnekamskneftekhim	70.8	70.2
Togliattikaucuk	62.6	78.6
Sterlitamak PP	6.1	2.7
Total	181.6	189.4

Russian C4s, Jan-Jun 2014

Russian C4 sales in June amounted to 18,500 tons. Kazanorgsintez increased its deliveries to Nizhnekamskneftekhim by 1.5 times over May to 2,700 tons whilst Tomskneftekhim reduced sales volumes by 7% to 7,200 tons. For the first half of 2014 C4 sales from Russian domestic plants to domestic consumers totalled 140,400 tons, 25% down on the same period last year. The decline was due to the downtime at Stavrolen following the accident at the end of February.

In order to support the loss of the Stavrolen sales Russian C4 imports totalled 41,200 tons in the first six months in 2014 against 27,400 tons in the same period last year. The main source of imports was Belarus. Nizhnekamskneftekhim was the largest consumer in the first half of 2014, surpassing Togliattikaucuk. The other consumers are Omsk Kaucuk, owned by the Titan Group, and Sterlitamak Petrochemical Plant, owned by TAU Neftekhim.

Nizhnekamskneftekhim-catalyst production

Nizhnekamskneftekhim plans to start production of isobutane dehydrogenation catalysts in 2015. Catalysts for the dehydrogenation of isobutane are to be used for subsequent production of isobutylene. The project is being implemented in phases; laboratory tests of the catalyst at the scientific-technological centre for Nizhnekamskneftekhim already has been completed, and are now being carried out through a series of experimental tests at the factory. Funding for the project is partially funded from the federal budget within subsidies.

Russian SBR Production (unit-kilo tons)

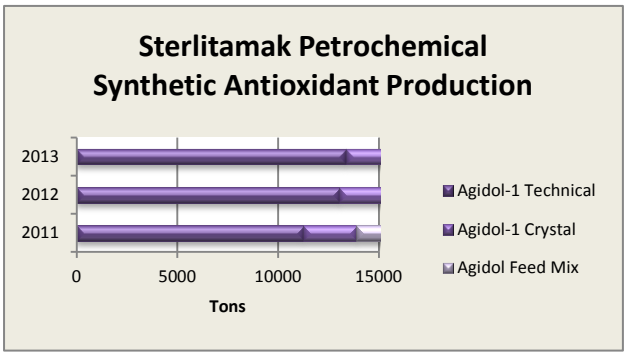
Producer	*2013*	*2012*
Voronezhsintezkaucuk	62.5	71.5
Sterlitamak PP	45.4	39.7
Togliattikaucuk	53.6	56.6
Omsk Kaucuk	47.3	51.2
Total	208.8	219.1

Sterlitamak Petrochemical Plant 2013

Revenues for Sterlitamak Petrochemical Plant in 2013 amounted to 6.810 billion roubles in 2013, fractionally higher than in 2012. Net profits, however, recorded a decline to 144 million roubles from 249 million roubles. The main products produced by Sterlitamak Petrochemical Plant (SPP) include styrene-butadiene rubber, phenolic antioxidants, high-octane gasoline, liquid rubbers and other petrochemical products.

For SBR production Sterlitamak Petrochemical Plant (SPP) is the smallest of the four Russian producers, all of which are similarly sized. Around 50% of world consumption of synthetic rubber is based on SBR, but in Russia SBR comprises less than 20% of production with more product diversification. Between 2000 and 2011, global annual demand for styrene-butadiene rubber rose from 3.29 million tons to 4.6 million tons. Despite the problems

in the tyre industry in the past two years forecasts indicate that global demand for styrene-butadiene rubber could exceed 8.2 million tpa by 2020. This is based on compound annual growth rate estimated at 5.7% from 2012 to 2018.



SPP is the only producer in Russia of phenolic antioxidants brand Agidol. These products are used in oil refineries, in the production of synthetic rubber, rubber, plastics, fibres and other polymeric materials, as well as in the feed, food and cosmetic industries. By purity Agidol-1, produced by SPP meets quality standards of foreign counterparts.

In 2013, SPP completed the expansion of capacity for the production of Agidol-1 from 18,000 tpa to 25,000 tpa. Aside SPP, Khimprom at Novocheboksarsk is the other main Russian producer of synthetic antioxidants. Khimprom produces special rubber chemicals Atsetonanil H and Novantoks for industry rubber, and rubber tyres. These products are both consumed in Russia and exported.

A new potential application for Agidol-1 technical is the biodiesel market, where demand is rising in Russia and could stimulate demand for antioxidants. Agidol feed mix is part of the vitamin-mineral premix, although imported premixes are of better quality compared to the Russian producers that relate to the old enterprises with mostly obsolete industrial base and technology.

The overall increase in antioxidants for plastics depends on the Increase in the production of plastics, especially olefins; and a transition to new environmental standards in Russia led to a growing interest of domestic consumers to MTBE, which in turn stimulated the domestic producers to increase production capacity for the output.

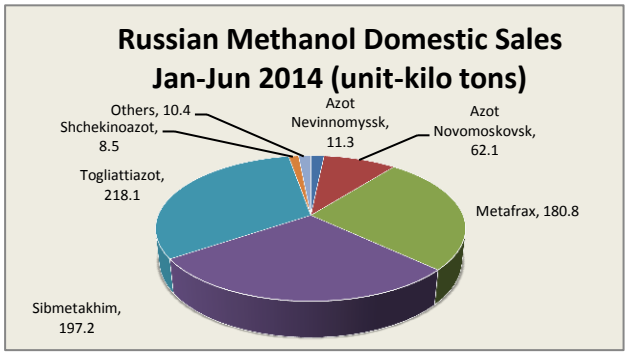
Methanol

Russian Methanol Consumption (unit-kilo tons)

Consumer	*Jan-Jun 14*	*Jan-Jun 13*
Nizhnekamskneftekhim	115.2	123.3
Togliattikaucuk	50.8	51.9
Uralorgsintez	30.6	35.4
SIBUR-Khimprom	6.2	6.8
Tobolsk-Neftekhim	26.0	20.8
Ektos-Volga	22.2	25.3
Omsk Kaucuk	36.5	48.2
Novokuibyshevsk NPZ	26.0	35.1
Uralkhimplast	14.5	15.7
Slavneft-Yanos	2.6	0.0
Others	358.2	339.0
Total	688.9	701.4

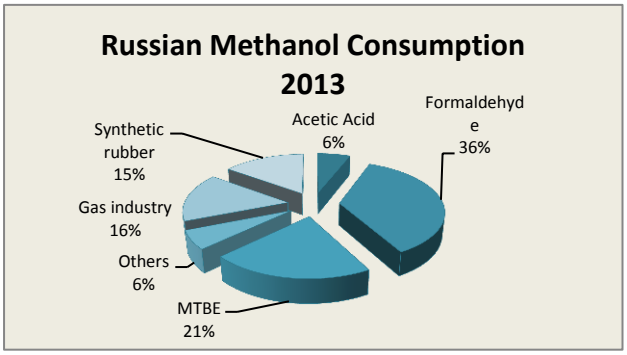
Russian methanol, Jan-Jun 2014

Methanol sales on the Russian domestic market amounted to 104,800 tons in June, 15% down on May. Metafrax, Sibmetakhim and Tomet accounted for 86% of domestic sales in June. Sibmetakhim: sold 31,200 tons in June, Metafrax 21,800 which is 40% less than in May whilst Tomet reduced shipments by 2% to 37,500 tons. The main domestic consumers in June were gas companies and MTBE producers, accounting for 23% (24,000 tons) and 33% (35.000 tons) of shipments respectively. Smaller amounts of methanol were acquired by domestic producers of formaldehyde amounting to 19% of sales or 20.000 tons. Synthetic rubber producers significantly reduced purchases by 45% against May to 9,700 tons. Domestic prices range 14,000-20,000 roubles per ton including VAT, depending on the manufacturer and the terms of delivery.



Russian methanol production amounted to 330,000 tons in May, 8% more than in April. Metafrax, Sibmetakhim and Tomet together accounted for 73% of the total production. Azot at Nevinnomyssk produced 11,500 tons of methanol, exceeding the figure recorded in April by almost 80%. Shchekinoazot produced 41,200 tons of methanol, only 1% more than in April.

Russian methanol production totalled 1.570 million tons in the first five months in 2014 against 1.499 million tons in the same period in 2013. Methanol exports amounted



to 729,000 tons in January to May 2014 against 586,000 tons last year. The average price per ton rose from $341 to $425.

Methanol proect under review for Leningrad region

A proposed project of 1.65 million tpa capacity is under assessment for the Leningrad region under the heading Methanol North. Initial engineering studies have been undertaken, including a feasibility study that examined the Russian and global methanol markets. Should the project advance to construction stage, due to its location on the Gulf of Finland it would be predominantly export-oriented with no more than about 20% of production targeted for the domestic market.

Russian methanol projects

Capital expenditures for the construction of the Ammonium complex at Mendeleevsk rose 65% in 2013 by $185 million for 2013. The main reasons for the increase are the rise in the cost of materials. The project comprises 717,500 tpa of ammonia (without methanol), or 455,000 tpa of ammonia and 238,000 tpa of methanol. The existing production capacity of ammonium nitrate is expected to rise to 450,000 tpa.

Shchekinoazot has started the construction of a new 450,000 tpa methanol plant coupled with 135,000 tpa of ammonia. This project is being undertaken in alliance with Haldor Topsoe. In 2013 the two sides signed a contract for engineering services for the preparation of the project documentation package to cover the period 2014 2018. The project cost is estimated at €270 million. Early in 2014 Shchekinoazot decommissioned the old methanol plant in preparation for construction of the new methanol and ammonia plant. Construction is expected to start in the middle of May.

Shchekinoazot-phenol-formaldehyde resins

On 7 July Shchekinoazot completed construction and installation for the production of phenol-formaldehyde resins. The project involves the installation of additional equipment, including a second reactor, as well as storage space for finished products and raw materials. The plant is operated as a jv with Hexion Speciality Chemicals, Hexion–Shchekinoazot. In addition, the company intends to increase the assortment of pitches and start production of pilot batches of products.

The increase in formaldehyde production by Shchekinoazot has allowed the Hexion-Shchekinoazot plant for phenol-formaldehyde resins to be expanded, in addition to the new unit for the production of concentrated low methanol formaldehyde.

The intention is to construct the plant near the port of Ust-Luga, with design work starting bin the first quarter in 2015. Construction could potentially start in the second half of 2018. Preliminary studies have been made by the Russian engineering and construction company NSCC, which was established in 2003 by the Ministry of Fuel and Energy.

The organisation has access to construction and installation work at the facilities of oil and gas pipelines, oil and gas processing, petrochemical. SIBUR and Rosneft are customers of NSCC. In 2013 exports accounted for approximately 39% of Russian methanol production, down 3% against 2012. The main importers of Russian methanol include Finland, Slovakia, Romania, Turkey and Poland.

More than 30% of Russian methanol production in 2014 was accounted by in-plant consumption. Major outlets for methanol in Russia include formaldehyde, isoprene, MTBE, etc. For the production of formaldehyde in 2013 757,000 tons of methanol was used, 416,000 tons for MTBE and 300,500 tons for the oil and gas industry.

Organic Chemicals

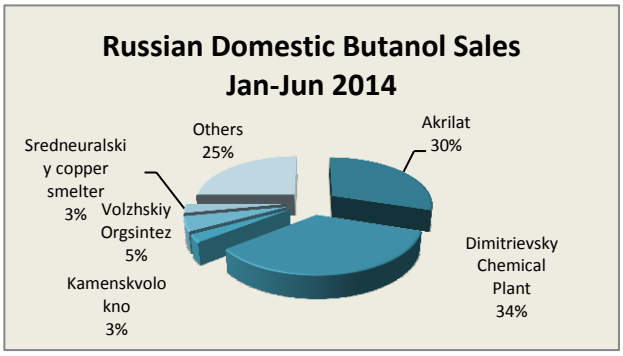
Russian butanols, Jan-Jun 2014

Butanol sales on the Russian domestic market amounted to 4,600 tons in June, 33% less than in May this year, but 39% higher than in June 2013. N-butanol accounted for 71% of shipments in June. SIBUR-Khimprom delivered 67% or 3,090 tons, Gazprom neftekhim Salavat 26% or 1,170 tons, Azot Nevinnomyssk 6% or 280 tons and Angarsk Petrochemical Company 1% or 6 tons.

Russian Butanol Domestic Sales (unit-kilo tons)

Producer	*Jan-Jun 14*	*Jan-Jun 13*
Gazprom neftekhim Salavat	12.2	11.6
SIBUR-Khimprom	17.7	12.6
Angarsk Polymer Plant	1.9	1.9
Azot Nevinnomyssk	1.2	1.7
Total	33.0	27.7

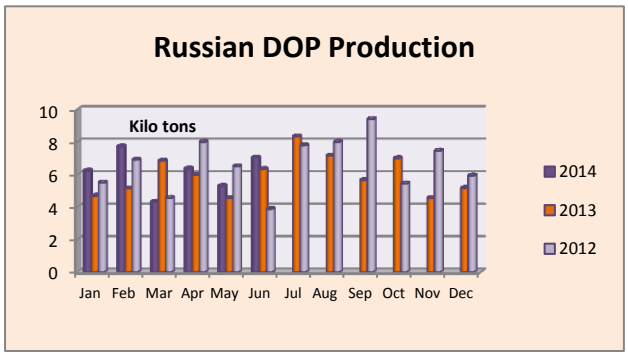
Regarding consumers Akrilat purchased 1,290 tons in June for the production of butyl acrylate. Dmitrievsky Chemical Plant, which uses butanol for the production of butyl acetate in addition to exporting on behalf of Gazprom neftekhim Salavat, bought 990 tons (22%). Other major buyers of butanols in June included a tank farm Nefttorgservis (Taldom, Moscow region) which bought 580 tons, 13% of Russia's consumption, as well as Flotoreagent manufacturers Volzhskiy Orgsintez and Sredneuralsky smelter 340 tons and 180 tons respectively.



In the first half of 2014 shipments of butanol on the Russian domestic market amounted to 33,000 tons, 8% more than same period last year. The share of n-butanol in domestic market sales was 76%. Market prices for butanols are stable at present. In the first half of July, traders in the Volga region offered n-butanol at 53,500-54,000 roubles per ton including VAT. Isobutanol is sold at 47,500 roubles per ton including VAT. In August, Gazprom neftekhim Salavat plans to restart its second line which has been under repair in the past year following the accident at the May 2013.

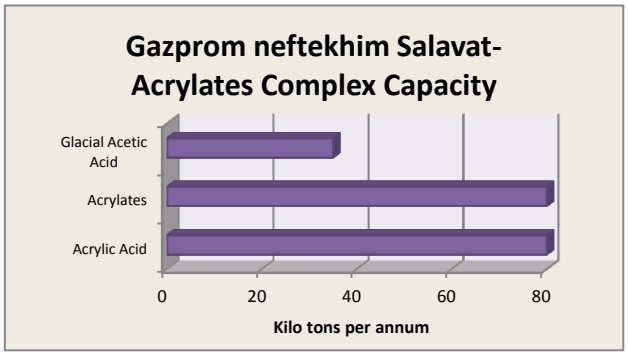
Russian DOP, Jan-Jun 2014

Russian DOP production amounted to 7,030 tons in June, 33% up over May. Gazprom neftekhim Salavat restarted after maintenance and produced 3,000 tons in June, whilst Roshalsky Plasticizer Plant reduced production by 43% to 1,550 tons due to insufficient amounts of phthalic anhydride. Production of DOP by Kamteks-Khimprom decreased by 3% to 2,500 tons, whilst the Ural Plant of Plasticizers reduced DOTP by 53% to 230 tons.



In the first half of 2014 DOP production in Russia totalled 36,950 tons, which is 10% more than in the same period last year. DOTP production by Ural Plant of Plasticizers totalled 2,350 tons.

In July, the Russian DOP market witnessed a decline in prices due to excess supply. By the end of June DOP production increased by 33%, while demand rose only slightly and not enough to absorb the extra availability. In July Roshalsky Plasticizer Plant dropped prices by about 4,000 roubles per ton, to 80,000-82,000 roubles per ton. Minor amounts of Russian DOP are shipped to Belarus.



Gazprom neftekhim Salavat-acrylic project

Gazprom neftekhim Salavat has started inward reception of large equipment required for the construction of its new complex for acrylic acid and acrylates. On 3 July, the absorption column with a length of 54 metres, and weight of 91 tons, started its transferral to the construction site.

Installation work is expected to start in the near future. The delivery route for the first batch of equipment started from Antwerp before reaching Nizhnekamsk via the Kama River and then sent to Ufa by the Belaya River. From Ufa the columns and tanks were shipped to Salavat by rail. The same route will be used in August for three more deliveries of equipment.

The contract for the project was signed in 2012, where Gazprom neftekhim Salavat (GNS) concluded agreements with Mitsubishi Heavy Industries, Sojitz Corporation and Renaissance Construction (Turkey) for the construction of the acrylic acid complex. A new company Acryl Investments Ltd was registered in Cyprus, 100% owned by GNS. The complex will manufacture acrylic acid with a capacity of 80,000 tpa, butyl acrylate (acrylic ester and butanol) with a capacity of 80,000 tpa and glacial acrylic acid with a capacity of 35,000 tpa. Production start-up at Salavat is scheduled for the fourth quarter in 2016. The sole producer of acrylic acid and acrylates in Russia at present is SIBUR-Neftekhim, previously Akrilat, at Dzerzhinsk.

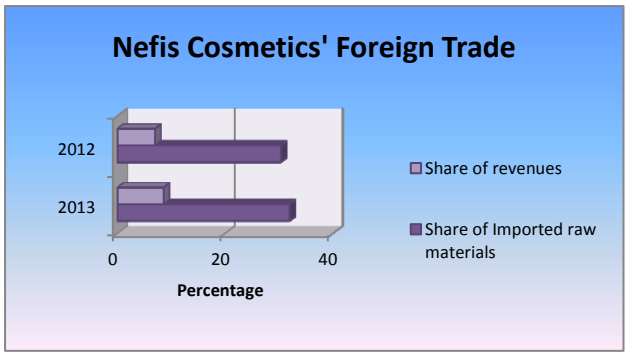
Other Products

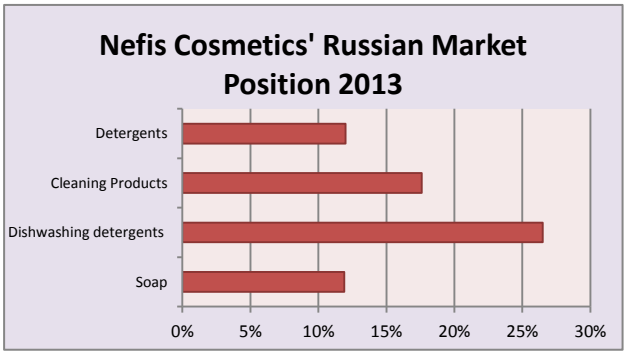
Kazan project for methylsiloxane

Construction of a plant for the production of silicone materials at Kazan was officially started in June. Kazan Synthetic Rubber Plant-Silicon (KZSK-Silicon) will spend 9.8 billion roubles on the project to construct a plant for

methylsiloxane, of which 7.9 billion roubles has been provided by Vnesheconombank. The design capacity of KZSK-Silicon is 40,000 tpa, with the potential for further expansion.

The materials are used for the manufacture of special adhesives, sealants and rubbers, which are necessary for innovative industries in the civil and military industry. It is expected that construction of the plant will be completed by the end of 2015 and the design capacity by the end of 2016.





Nefis Cosmetics 2013

Nefis Cosmetics reduced its net profit in 2013 by 40% to 219 million roubles, due largely to more spending on advertising and promotion. The decline in net profit was also in part due to exchange rate fluctuations, as it is a net importer measuring raw material imports against finished product exports. The company's revenue in 2013 increased by 11% to 21.7 billion roubles.

In 2013, Nefis Cosmetics produced about 320 kinds of household products and cosmetic products, including widely known brands AOS, BiMax, Sorti, etc. The company also produces technical acids (stearic and oleic) and glycerol. In 2013 sales of detergents from Nefis Cosmetics comprised 12% of the Russian market, first amongst Russian producers and third place after Procter & Gamble and Henkel.

Sales of dishwashing detergents comprised 26.5% of the Russian market, which was first amongst Russian producers and third place after Procter & Gamble and Henkel. Sales of cleaning products comprised 17.6% of the Russian market, first amongst Russian producers and third place after Procter & Gamble and Henkel. For the production of soap, Nefis Cosmetics accounted for 11.9% of the Russian market, fourth amongst Russian producers and behind big players such as Neva Cosmetics, NMGK, etc.

Market demand for detergents is estimated to be rising at roughly 7% per annum in Russia. Domestic consumption per capita is rated at 5.5 kg at present against an average of 10-14 kg across Europe and 28 kg in the US. Nefis Cosmetics relies to some extent on imported raw materials, increasing slightly from 30.4% of total purchases to 32.0% in 2013. At the same time exports comprised 8.6% of total revenues in 2013.

Evonik Russian investments

Evonik is entering the Russian market in the field of drilling in particular drilling fluid based on an organic chemicals and lubricants. The company also produces inhibitors paraffin and gas hydrates and various additives. Together with its Russian joint venture partner Varshavsky Group, Evonik is building a new production plant for amino acids in the Rostov-on-Don region of Russia close to the Ukrainian border. The plant is due to come into service in 2014/15. Evonik is the minority partner in this joint venture. Evonik's jv in Russia for the production of extruded acrylic plexiglass is called Destek and was formed in 2004. Currently Destek supplies several thousand tons per annum of extrusion sheet to the Russian market.

Gammakhim-fatty alcohol project in Alabuga SEZ

Russian company Gammakhim is planning a project for the production of fatty alcohols, natural fatty acids and glycerol to be located in the SEZ Alabuga. The aim of the project is import substitution and further development of the petrochemical industry in Tatarstan. The project cost has been estimated at around €60 million, of which 80% will be sourced from Gammakhim's own funds. The raw material palm oil will be delivered from Southeast Asia. The plant's capacity is 47,000 tpa which is expected to start production in 2017.

Air Products-new industrial gas project at Rostov

In early July construction was officially started of a new industrial gas plant in the Azov district of Rostov region. The cost of the project is estimated at $30 million, with start-up scheduled for 2015. The plant's products including liquefied gases and helium are designed for the needs of metallurgy, glass, food and chemical industries. The capacity of the plant for the production of industrial gases (oxygen, nitrogen, and argon) is expected to comprise 200 tons per day. Products will be supplied to the Rostov region and the neighbouring regions.

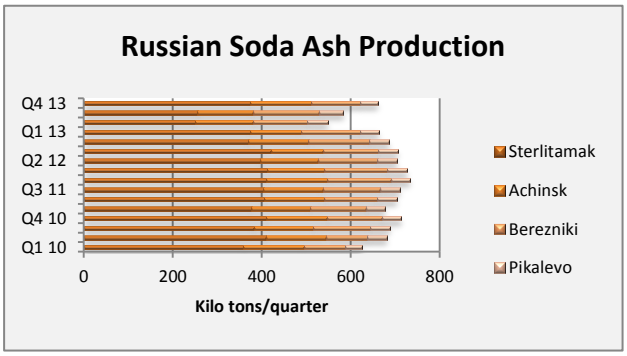
Bashkir Soda Company-Berezniki & air separation plant

Bashkir Soda Company (BSC) is planning to launch an air separation plant at Sterlitamak in July 2014, having spent about 1 billion roubles on the project. The aim of the new unit is to optimize energy consumption in the production of gaseous nitrogen and oxygen.

Air Liquide, Saratov industrial gas project

Air Liquide launched a plant for the production of technical gases in the Saratov region on 14 July. The project was implemented in conjunction with Severstal, to which it will supply oxygen, nitrogen and argon for the smelter at Balakovo. Part of the output will be sent to customers of Saratov, Samara and other regions. The capacity of the plant Air Liquide Balakovo is around 300 tons of oxygen per day. The investment by Air Liquide in the production and logistics system was €40 million. According to Air Liquide, the demand for oxygen in Russia is growing by 8-9% per annum and hydrogen by 3-4%.

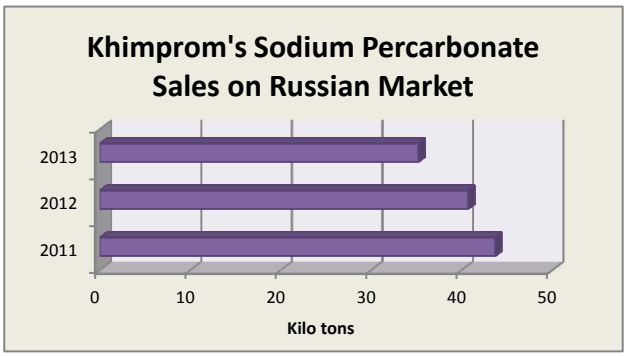
Russian FAS examines soda ash market



The Federal Antimonopoly Service (FAS Russia) has been undertaking a market analysis of soda ash, in view of complaints from domestic producers regarding imports. Production of soda ash is undertaken by four main plants including Bashkir Soda Company, Berezniki Soda Plant, Achinsk Alumina, and Pikalevo Soda. Bashkir Soda controls the Sterlitamak and Berezniki plants, which produce more than 50% of Russian production. Imports have become a source of problems for the domestic producers in recent years, and as a result the FAS has decided to examine the costs and the geography of supplies.

Khimprom-Novocheboksarsk

The Russian Federal Anti-Monopoly Service (FAS) has identified a violation of the antimonopoly legislation by Khimprom at Novocheboksarsk. A fine of 4.476 million roubles was charged for setting monopolistically high prices for raw materials, used for the production of products supplied by the state defense order.



According to FAS, from 2008 to 2012 Khimprom supplied the Defense Ministry, as well as a number of enterprises of the military-aerospace and nuclear industries for the production of the same monomer aramid yarns.

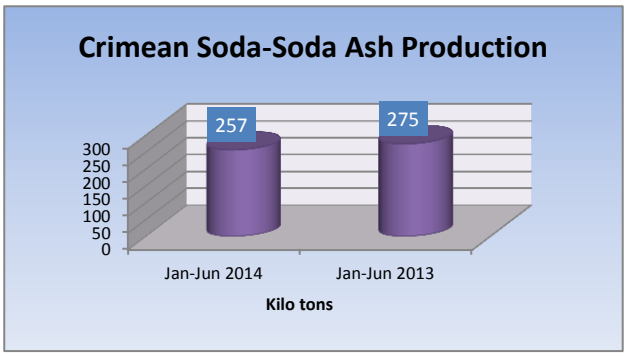
Khimprom, which is controlled by Group Orgsintez, received REACH registration last year for five products that the company ships to customers in Europe. These include diphenylguanidine (DFG), methylene chloride, TCPP, TCS and Atsetonanil. A substantial portion of Khimprom's production is used as a raw material by the chemical industry. Such products include aniline, emollient-2 Atsetonanil, chloroparaffins, silicone resins, chloroform, sodium percarbonate, hydrogen peroxide, etc. Sodium percarbonate is produced and sold through a 100% owned subsidiary Percarbonate. Sales have been in decline in the past couple of years due to competition from Kemira and suppliers from South Korea.

Khimprom produces and sells corrosion inhibitors for oilfield equipment, components plugging fluids, demulsifiers, etc. Khimprom is a leading manufacturer of chelating agents in Russia. The company is the largest domestic provider of technical hydrogen peroxide in Russia. The company is building a new plant for hydrogen peroxide with a capacity of 50,000 tpa, and a new unit for hydrogen.

Crimea

Crimean Soda, Jan-Jun 2014

Crimean Soda produced 52,700 tons of soda ash in June of which 39,300 tons was grade A. Edible salt production amounted to 2,110 tons and sodium bicarbonate 1,542 tons. Despite fears about the plant's future production has continued in recent months uninterrupted. At the same time savings have been made in certain



areas such as raw materials and energy, and in relation to products ammonia, ammonium sulphide, sodium hydrogen sulphate, anthracite, and limestone.

For the first six months in 2014 Crimean Soda produced 257,500 tons of soda ash, including 181,400 tons of grade A. Other products included 12,300 tons of edible salt and 7,394 tons of sodium bicarbonate. In 2013, Crimean Soda produced 582,000 tons of soda ash, including 427,500 tons of soda brand A, 24,400 tons of edible salt and 4,000 tons of sodium bicarbonate.

Demand for limestone by Crimean Soda Plant equates to around 1.1 million tpa, but could increase if the company completes the expansion of capacity to 2.2 million tpa. However, there are doubts whether this project will proceed due to the dramatic sequence of events that have unfolded in 2014. Moreover on June 25 the EU imposed a ban on imports from the Crimea and Sevastopol, affecting Crimean Soda and Crimean Titan. The EU is now allowed to import only products having official certificates from the Ukrainian authorities. Such restrictions imposed by the EU comply with sanctions measures on non-recognition by the European countries of the Crimea.

Ukraine

Ukrainian market overview

Ukrainian benzene exports increased 18% in the first half this year to 33,600 tons, of which 24% was supplied to Italy. Benzene volumes to Russia have been small this year due to numerous factors, including the political situation.

The official signing of the free trade association agreement with the EU on 27 June marks a significant turning point in Ukraine's economic development. Trade relations with Russia have already been under duress and this agreement is expected to further divide the two countries. The Interdepartmental Commission on International Trade of Ukraine has decided to increase the customs duty on Russian suppliers of ammonium nitrate from 11.91% to 36.03%. The -dumping duties for Russian producers of ammonium nitrate have been extended for 5 years.

The process of transferring sales from Russia will take time, from the polymer processers around 40% are estimated to be working normally with Russian consumers. However, the general trend is trade reduction with Russia. The economic impact of the agreement with the EU should be slow-moving initially as exports to the EU have to surmount formidable obstacles as international certification, standardization and quality control.

Ukrainian PVC Imports

Source	*Jan-Jun 14*	*Jan-Jun 13*
US	25.6	31
China	1.1	0
Europe	20.4	27.5
Others	0.4	3.5
Total	47.5	62

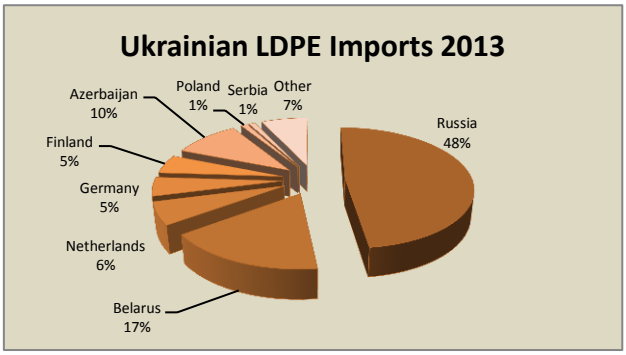
Ukrainian polymer imports, Jan-Jun 2014

For the first six months of this year, Ukrainian PVC imports dropped by 23%, from 62,000 tons to 47,500 tons. Polypropylene imports dropped 27% to 40,800 tons from 56,000 tons.

Ukraine imported 12,000 tons of high-impact polystyrene and general purpose polystyrene in the first half of 2014, which is 10% less than last year. Stirol, the only Ukrainian producer of polystyrene, continues to remain idle.

For the first six months of the year, Russian companies exported 9,400 of general purpose polystyrene and high impact polystyrene to Ukraine versus 9,600 tons a year earlier. Nizhnekamskneftekhim increased the supply of polystyrene to the Ukrainian market by 10% in the first half of the year. Nizhnekamskneftekhim sent 1,700 tons of general purpose polystyrene to the Ukrainian against 1,550 tons in the same period last year.

LDPE imports have declined by 15% in the first half of 2014, with Russian imports down. Russia exported 43,300 tons of LDPE to Ukraine in 2013, 2% more than in 2012. Imports from Belarus rose 14% to 15,000 tons, whilst Azerbaijan reduced deliveries by 22% to 8,800 tons. Other sources included the Netherlands with 5,600 tons and Germany 9,900 tons, mainly supplied from SABIC and Dow. Finland delivered 4,450 tons which was 7 % less than in 2012.



In contrast to other polymers imports of polycarbonate into Ukraine increased by 14% in the first six months in 2014 to 2,000 tons. The sole Ukrainian producer of cellular and solid polycarbonate sheets Tagol at Dnipropetrovsk processed over 200 tons in the period January to June 2014.

PET consumption declined 23% in the first half of 2014, with imports dropping to 77,600 tons. The fall in imports of PET in the first half of this year was due to a reduction in demand for beer and soft drinks in Ukraine, and in particular the loss of the Crimean market.

Also a significant decline in consumption has been inevitably seen in the Donetsk and Lugansk regions where the Ukrainian military has been in conflict with the rebel groups in the region. Despite these negative factors demand in Central and Western Ukraine remains normal.

Central Asia

Uzbek petrochemical projects

China National Petroleum Corporation (CNPC) is expected to join the UzIndoramaGasChemical project for the construction of a gas chemical complex in Kashkadarya region in Uzbekistan. CNPC presented its partners is preliminary feasibility project on construction of gas chemical complex, and the final decision to proceed could be made in September-October 2014.

The partners in UzIndoramaGasChemical include Uzbekneftegaz and the Indorama Group (Singapore), having created the 50/50 jv in May 2012 on the base of Mubarek Gas Processing Plant. The capacity of the plant will comprise 492,000 tpa of polyethylene, 66,000 tpa of gas condensate and 53,000 tpa of pyrolized petroleum. The project cost is estimated at $2.5 billion and is being financed through combined resources of the founders of the joint venture. CNPC is expected to take a 33.3% stake in the venture.

Uzbek Petrochemical Project Capacity (unit-kilo tpa)

Company	*PE*	*PP*	*Biocrude*	*C4s*
UzIndoramaGasChemical	492	-	53	-
UzKorGasChemical	387	83	110	105

Uzbekistan aims to launch the Ustyurt Gas-Chemical Complex (UGCC) under the jv UzKorGasChemical by the end of 2016. The complex is being designed to produce 387,000 tpa of polyethylene and 83,000 tpa of polypropylene. Other products include C4s (105,000 tpa), pyrolized petroleum (110,000 tpa) and pyrolysis resin (8,600 tpa). The total number of licenses for the project agreed include 21 grades of HDPE and 47 grades of polypropylene. Construction work is scheduled to be completed in 2016.

Navoi ammonia project-ThyssenKrupp

ThyssenKrupp is planning to participate in construction of chemical complex in Navoi region of Uzbekistan. The German company expressed its readiness to participate in the project and detailed talks will be held in next several months. Navoiazot announced a tender for construction of a complex on production of ammonia with the capacity of 900,000 tpa and urea with a capacity of 1 million tpa.

The Ustyurt Gas Chemical Complex will ensure processing of 4.5 billion cubic metres of gas and produce 400,000 tpa of polyethylene and 100,000 tpa of polypropylene, as well as 110,000 tpa of pyrolized petroleum. The complex will export products to Europe, East and South-East Asia. It is expected that Ustyurt Gas Chemical Complex will be commissioned in early 2016. The project cost is $3.9 billion.

The project for the construction of the Ustyurt gas chemical complex at the base of Surgil complex was developed in cooperation between Uzbekistan and South Korea. The project is endorsed by the governments of two states. The project participants will allow $1.4 billion and attract $2.5 billion from financial institutions to complete the project.

Turkmen polyolefin project-Caspian coast

In order to support the construction of polyolefin projects Turkmenistan has reached agreement for loans of $2.5 billion with the Japanese Bank for International Cooperation, the Export-Import Bank of Korea, as well as syndicate of financial institutions in Japan, Korea, France, etc. **This** loan is needed to finance the construction of the new gas chemical complex in the Kiyanly village on the Caspian coast, which will produce polypropylene and polyethylene. The loan with the Japanese Bank for International Cooperation is estimated at $730.26 million.

Turkmenistan-Chemical Projects under Turkmengaz (unit-kilo tpa)	
Product	*Capacity*
Polyethylene	386
Polypropylene	81
PVC	290
Caustic Soda	100

Total construction costs are estimated at $3.43 billion in which 5 billion cubic metres of natural gas will be processed for the production of polyethylene and polypropylene. The capacity of the new complex involves 386,000 tpa of polyethylene and 81,000 tpa of polypropylene. The remaining 4.5 billion cubic metres of gas will be sent to the gas supply systems for further use as fuel.

Turkmen PVC project

Turkmenistan and South Korea agreed on the implementation of the gas chemical plant worth $2 billion. The company will be located in the north-east of Turkmenistan where PVC will be the main product. Also, South Korea and Turkmenistan hope to create a processing capacity of natural gas into light products, particularly kerosene and diesel.

This project is estimated at $3 billion project will engage in Turkmengaz jointly with LG International Corp. and Hyundai Engineering Co. The project consists of a gas chemical complex in Turkmenistan with a capacity of 2.2 billion cubic metres of natural gas per annum leading to the production of PVC. Capacity ideas have been proposed for PVC at 290,000 tpa and caustic soda 190,000 tpa.

Relevant Currencies

Ukrainian hryvnia. $1 = 11.09. €1 = 15.27: Rus rouble. $1 = 35.59 €1= 49.01

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