Chemical Information Resources for East Europe and CIS

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MONTHLY NEWS

Chemical Industry News for Central Europe, South East Europe and Eurasia

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CENTRAL & SOUTH EAST EUROPE

Petrochemicals

PKN Orlen, Jan-Jun 2014

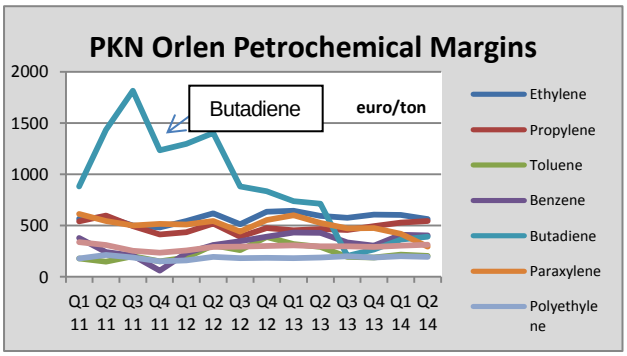
PKN Orlen's second-quarter net loss widened to zl 5.2 billion from zl 207 million in 2013, after writing down zl 4.2 billion from the value of its Lietuva unit and another zl 711 million from the value of Unipetrol. The Lithuanian unit, which Orlen bought for $2.8 billion in 2006, has continued to post losses which has partly influenced by lower sales to its main market, the US, due to shale boom in North America. Lietuva faces a temporary shutdown in late 2014 or early 2015 and the length of the halt will depend on global refining margins.

PKN Orlen Group Chemical Sales (unit-kilo tons)

Product	*Jan-Jun 14*	*Jan-Jun 13*
Monomers	423	355
Polymers	287	344
Aromatics	201	188
Fertilisers	487	488
Plastics	230	223
PTA	251	271
Other	726	728
Total	2605	2597

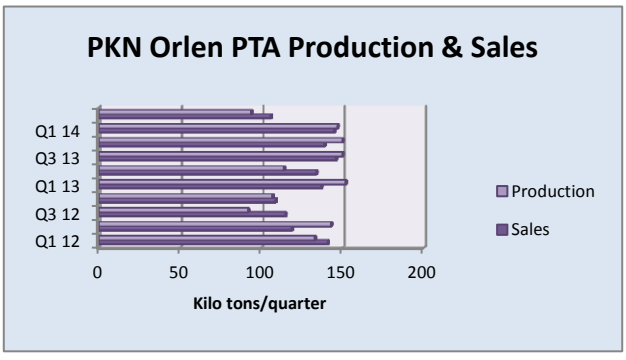
Notwithstanding the write-downs and a drop in downstream margins, PKN Orlen posted an improvement in its overall EBITDA to zl 856 million. It also saw a rise in revenue and maintained the same range of volume sales comparable with those seen in Q2 2013.

In Q2 2014, the downstream division's performance (which includes petrochemicals) was affected to some extent by maintenance shutdowns in Poland. Overall performance for the first six months for the downstream division's showed an a operating profit of zl 1.445 billion which was marginally down against zl 1.532 billion in the same period last year. Revenues totalled zl 45.720 billion in the first six months in 2013 against zl 42.485 billion this year. Factors that affected the first half results included lower margins on refining products and lower margins on butadiene, which is particularly important in the Czech Republic.



Refining volumes were up at Unipetrol due to higher installation availability and increased production capacity after the acquisition of 16.3% stake in Ceska Rafinerska from Shell. The impact of higher volumes on the Czech market compensated lower sales in the markets served by Orlen Lietuva and decreased sales volumes in Poland where the Ukrainian conflict) has been a factor.

PKN Orlen in Poland reduced PTA production in the first half of 2014, and subsequently sales, due to a maintenance shutdown. Lower production of PVC and caustic soda by Anwil was partially compensated by higher volumes at Spolana due to the improved market conditions in the Czech Republic, coupled with the absence of floods this year.



In the first half of 2014 Orlen increased the downstream division's capital expenditures by zl 1,046 million to zl 1,580 million. The largest capital expenditure projects included the CCGT power plant at Wloclawek, the modernisation of the furnace at the Olefin Unit II, and work connected with reduced acetic acid usage at the PTA Installation. Other projects at Wloclawek for the Anwil Group included the construction of loading and package storage installation and modernisation of Freon-cooling system.

PKN Orlen-strategy 2014 to 2017

PKN Orlen has announced its strategy for 2014–2017 which focuses on securing a strong position in large and promising growth markets and strengthening the value chain, and sustainable development of its upstream operations. In 2014−2017, PKN Orlen plans to spend zl 10.8 billion on development projects, including zl 6.4 billion in the downstream division (refinery, petrochemicals, and power generation), zl 3.2 billion in the upstream

division, and zl 1.2 billion in the retail division. The planned capital expenditure is consistent with the assumed average annual EBITDA of zl 5.1 billion.

Central European Refining Volumes (unit-kilo tons)

Company	*Jan-Jun 14*	*Jan-Jun 13*
INA	1.5	1.9
Lotos	4.4	3.8
Lukoil Bourgas	2.7	2.6
Lukoil Ploiesti	1.0	0.8
MOL Hungary	5.1	4.2
NIS	1.6	1.4
Orlen-Lietuva	3.3	4.5
Orlen-Plock	6.8	7.1
Petrom	1.7	1.6
Rompetrol	2.4	1.7
Slovnaft	2.4	2.9
Unipetrol	2.5	1.8
Total	35.4	34.4

In the power division, construction has been ongoing this year of the CCGT unit at Wloclawek which is planned for launch in Q4 2015. In the upstream sector Orlen is currently working on its 11th exploration well in Mełgiew in the Świdnik region. In search of unconventional hydrocarbon deposits, Orlen upstream plans to drill another horizontal well at Nowy Stręczyn in the second half of the year.

Unipetrol, Jan-Jun 2014

Unipetrol Group increased revenues by 31% in the second quarter this year to Kc 32.440 billion. The increase was driven principally by higher refining capacity utilisation by Ceska Rafinerska coupled with higher sales volumes across all divisions (refinery, petrochemical, retail). Unipetrol increased revenues in the first half of 2014 to Kc 61.2 billion from Kc 49.5 billion in 2013. Higher refining capacity from February followed the successful completion by Unipetrol of the acquisition of Shell's stake in Česká Rafinérská. Revenues were also influenced by a significant increase of petrochemical sales volumes and by weaker Kc vis-à-vis the euro and the $ by 7% and 2% respectively.

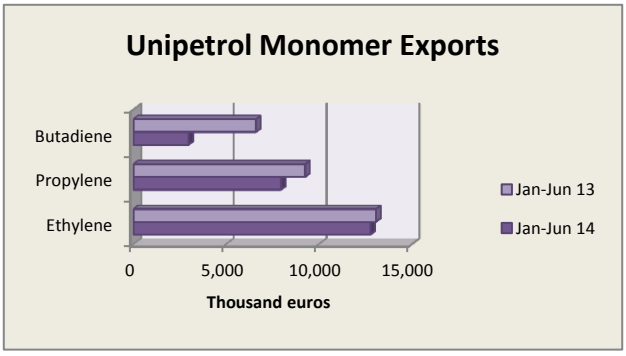
Unipetrol's Petrochemical Sales (unit-kilo tons)

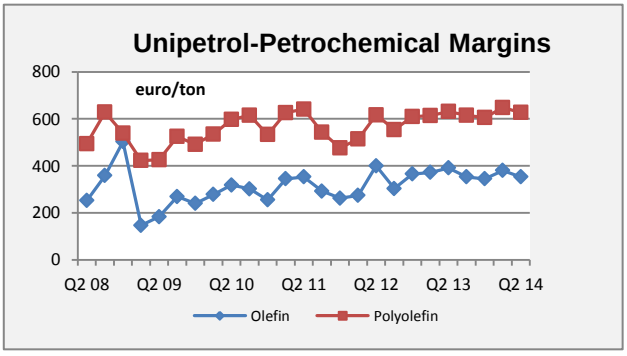
Product	*Jan-Jun 14*	*Jan-Jun 13*
Ethylene	82	68
Propylene	19	17
Benzene	111	96
Urea	0	5
Ammonia	120	95
Butadiene	31	27
HDPE	152	135
PP	135	121
C4	43	42
Total	693	606

Unipetrol processed 1.331 million tons in the second quarter, 47% higher than in 2013. The refinery division recorded an EBITDA of Kc 4.647 billion in the second quarter, mainly due to one-off impairment of fixed assets and driven by a deteriorated mid-term outlook.

Group sales of refinery products increased to 1.130 million tons (+39%) in Q2, mainly due to the increased share in Ceska Rafinerska and due to uninterrupted production compared to 2Q13. No major turnarounds of Unipetrol's refineries are planned for the remainder of 2014.

Unipetrol's petrochemical division improved its profitability in first half of 2014 to Kc 1.853 billion from Kc 1.410 billion in 2013. This compares against a loss of Kc 3.895 in January to June 2014 for the refinery sector after Kc 3.852 billion in 2013.





Unipetrol's unplanned steam-cracker shutdown in May, which lasted 3 days, had a negative impact of Kc 39 million. However, the group still managed a 12% increase in petrochemical sales from 792,000 tons in the first half of 2013 to 885,000 tons in 2014. The company was helped by higher utilisation of the steam-cracker and polyolefin units. Favourable GDP dynamics of the Czech and euro area economy supported sales volumes, despite butadiene revenues being lower.

The model combined petrochemical margin for Unipetrol was €631/ton in the first half of 2013 vs €638/ton in first half of 2014. The model olefin margin declined by 6% from €389/ton in 2013 to €367/ton in the first half of 2014, affecting profitability of steam-cracker products. Conversely, the model polyolefin margin increased by 12% from €242/ton in the first half of 2013 to €271/ton in 2014, supporting profitability of polyethylene and polypropylene.

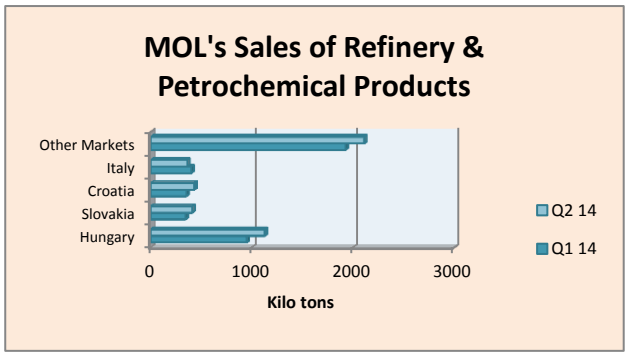
Czech oil transportation

On 25 June 2014, Ceska Rafinerska and the Slovak national pipeline operator Transpetrol signed a pipeline transportation contract that determines new tariffs for crude oil transportation to the Czech Republic through the Slovak branch of the Druzhba Pipeline for 2015 and 2016. Russian Export Blend Crude Oil (REBCO) from is transported through the Druzhba Pipeline to the Litvinov refinery. The part of the Druzhba Pipeline located on the territory of Slovakia is owned and operated by Transpetrol and thus the contract is important in terms of the Czech Republic's oil security.

In the second half of the year the petrochemical division will focus on the reconstruction of the T700 power plant at the Chempark Záluží which is being undertaken partly to meet the demands for the new polyethylene unit. The PE3 plant is under construction at present. The reconstruction of the steam-cracker and the reconstruction of pyrolysis furnace BA-103 are planned for the second half of 2014.

MOL, Jan-Jun 2014

MOL's results in the second quarter and the first half of 2014 were largely restricted by the refining and upstream divisions whilst similarly to the Orlen Group the petrochemical division proved relatively successful. The second-quarter net profit rose 27% to Ft 24.0 billion ($103 million) from the same period in 2013, as costs declined at a faster rate than revenue. In Q2 2014, MOL Group generated an EBITDA of Ft 95 billion, which was lower than the previous quarter by 9%, mainly attributable to weaker figures in the upstream sector. In the first six months this year MOL achieved a net profit of Ft 44.9 billion against Ft 46.7 billion last year.



Downstream the EBITDA showed improvement compared to the previous quarter. However, a further 12% drop in the diesel crack spread to a 4-year low had a serious effect on profitability, as gasoil and other middle distillates represent roughly 50% of the product slate.

Downstream CAPEX more than doubled year-on-year and amounted to Ft 63 billion, mostly driven by the construction of the butadiene plant and the completion of Slovnaft's major maintenance activities. Consolidated revenue fell 7% to Ft 1,238.0 billion during the period, whilst operating costs fell slightly more, by 8%, to Ft 1,205.3 billion.

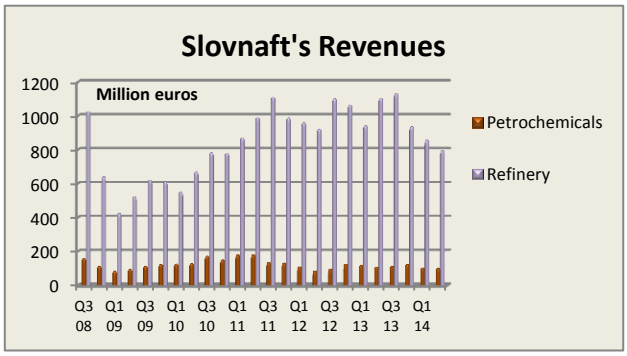
MOL's Olefin & Polyolefin Production (unit-kilo tons)

Product	*Jan-Jun 14*	*Jan-Jun 13*
Ethylene	171	168
Propylene	85	86
Product	*Jan-Jun 14*	*Jan-Jun 13*
LDPE	44	36
HDPE	85	91
PP	114	91

Petrochemicals' performance was favourably impacted by reduced energy costs and favourable foreign exchange movements, off-setting the decline of the integrated margin by 8%. As a result the EBITDA for petrochemicals doubled to Ft 8 billion. Production volumes for the group were broadly similar in the first half of 2014 to 2013.

Slovnaft, Jan-Jun 2014

In the second quarter this year the Slovnaft Group recorded a net loss of €10 million, which aside market factors was due partly to lower sales of refinery products as a result of planned turnarounds. The favourable development of raw material prices and further savings on the cost-side had a positive impact on the results. Slovnaft continued with a strong investment programme, spending €73.4 million in the second quarter against €52.4 million in Q2 2013. A significant part of investments in the second quarter this year (€46.6 million) was allocated to production efficiency projects, improvement of operating reliability and production process quality.



Investments in the petrochemical division increased by €16.3 million and were directed towards the construction of the new LDPE 4 unit. Slovnaft's planned turnarounds in the second quarter meant that crude oil processing was reduced in addition to sales of finished products, which was partially compensated by higher sale of inventories. The completed plant overhaul should allow Slovnaft to operate at full capacity at least for the rest of this year.

As a result of refinery unit turnarounds sales revenues from refinery products decreased by 28% in Q2 2014, due to lower production in company related to shutdown of production units. Total sales revenues decreased by 25% to €913 million in the first half this year, whilst costs of

raw materials and cost of goods sold decreased by 29% to €742.2 million. For the first half of 2014 revenues declined by 18% to €1903 million, whilst costs dropped 17% to €1711 million.

TVK's Sales' Revenues (Ft million)		
Exports	***Jan-Jun 14***	***Jan-Jun 13***
Olefin	1,545	4,849
LDPE	9,549	56
HDPE	54,802	63,316
PP	25,632	26,929
Domestic	***Jan-Jun 14***	***Jan-Jun 13***
Olefin	66,671	66,275
LDPE	5,056	2,414
HDPE	6,026	6,274
PP	26,523	21,551
Total Sales	***Jan-Jun 14***	***Jan-Jun13***
Olefin	68,216	71,124
LDPE	14,605	2,470
HDPE	60,828	69,590
PP	52,155	48,480
Total	195,804	191,664

TVK, Jan-Jun 2014

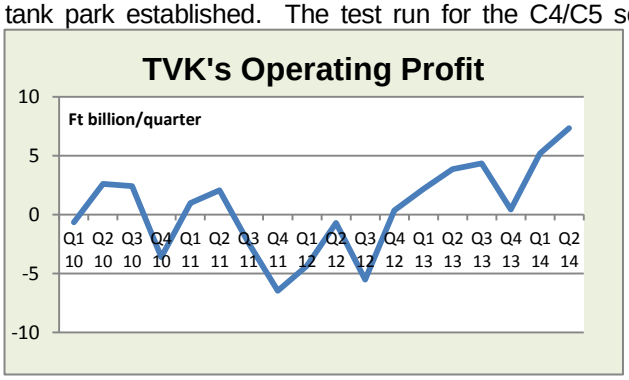
TVK reported a Ft 12.5 billion operating profit for the first half of 2014, Ft 6.5 billion higher than in 2013. TVK's profit before tax amounted to Ft 11,195 million in the H1 2014, representing a Ft 7,105 million increase.

Factors accounting for the increase included favourable exchange rates and lower energy prices. Energy costs went down by Ft 3.1 billion following the price reduction for natural gas and steam. Furthermore a one-off Ft 1.6 billion income was received from the insurance compensation for the fire accident at the LDPE-2 unit in 2012 and from the sale of the land, where the new synthetic rubber plant will be constructed. In the first half of 2013 TVK achieved an income of Ft 327 million from the CO2 quota sale, which did not reoccur in 2014.

Polymer production for TVK increased by 1.4% in the first half of 2014, while polymer sales went down by 0.3%. Capacity utilisation increased by 3% to 83% in the first six months in 2014. This was despite the two week shutdown at the Olefin-1 unit and the planned maintenance shutdowns at the HDPE-2 and PP-4 units carried out in the second quarter of 2014.

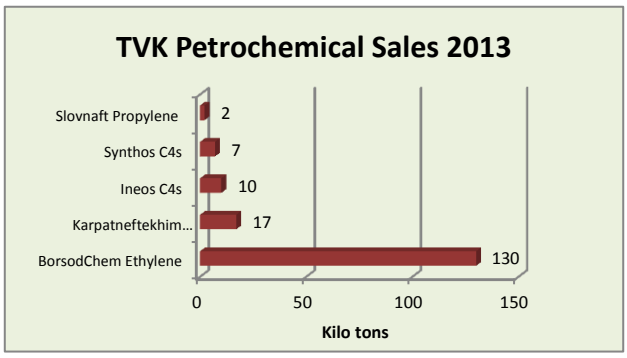
TVK Financial Performance (million euros)		
	Jan-Jun 14	***Jan-Jun 13***
Net Sales	650	662
EBITDA	62.1	43.2
Operating Profit/Loss	40.8	20.2

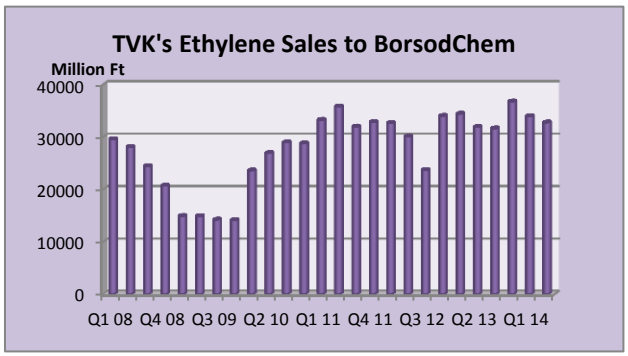
Despite of the delay in the permit procedure for the construction of the butadiene-extraction unit the project is still making good progress, and the planned start of commercial operation is still feasible for May, 2015. The columns have been delivered and the tank park established. The test run for the C4/C5 separation unit and railway load/unload unit were finished successfully.



TVK plans to start butadiene production from its new 130,000 tpa unit from the end of May 2015. Besides the butadiene production, the MOL Group plans to enter the attractive divisions of the synthetic rubber market, and build a 60,000 tpa synthetic rubber plant at Tiszaujvaros in partnership with JSR, the Japanese synthetic rubber producer. MOL Group schedules the start of synthetic rubber production from 2017.

TVK achieved 46% of its sales revenues in the first half of 2014 from export sales. The main export destinations included Italy (18%), Germany (17%), Poland (15%), Slovakia (5%), Austria (5%), Romania (5%), Ukraine (4%), and Czech Republic (4%).





BorsodChem is TVK's strategic partner in the ethylene sales in Hungary. In the first six months of 2014, TVK supplied them with the contracted volume according to the long term ethylene supply contract. In 2013 BorsodChem was TVK's largest customer, shipping 130,000 tons of ethylene, followed by 17,000 tons of ethylene to Karpatneftekhim, and C4 sales of 10,000 tons to Ineos and 7,000 tons to Synthos.

Rompetrol Rafinare, Jan-Jun 2014

Rompetrol Rafinare ended the first half of the year with a net loss of $46.9 million, down 40% versus the loss of $78.4 million recorded in the same period of 2013. The company's turnover increased by 41% in the first six months of 2014, to $2.78 billion. The operational result (EBITDA) reached a value of $25.5 million, compared to a negative result of $8.2 million in the same period of 2013.

Oltchim Product Revenues (Mil euros)

Product Group	*Jan-Jun 14*	*Jan-Jun 13*
Petrochemicals	43.1	26.4
Chlorine division	13.0	12.3
Finished Products	3.0	3.4
Materials for construction	1.1	4.1
Sales to Pitesti	0.0	0.0
Other	0.9	1.3
Total	61.2	47.5

Rompetrol Rafinare, through the Petromidia and Vega Refineries, processed 2.420 million tons of crude during the first half of 2014 which was up 46% on 2013. The company also increased ethylene and propylene processing from 60,000 tons in the first half of 2013 to 76,000 tons this year.

Oltchim narrows loss in first half of 2014

Oltchim narrowed its loss in the first half of 2014 to 114.5 million Romanian leu (over €25 million), down 22% against a loss in 2013 of 147.4 million. The company's operating income increased to 274.3 million leu (€61 million) in this period, while the operating expenses amounted to 383.1 million leu (€85.8 million). The company recorded a turnover of 136.2 million leu (€30.2 million) in the first quarter of 2014, up 64.7% against the same period of the previous year. Losses of 56.2 million leu were recorded in the first quarter (€12.4 million), down 34.6% versus the same period in 2013 and this trend has continued into the second quarter.

Chemicals

Polish Chemical Production (unit-kilo tons)

Product	*Jan-Jul 14*	*Jan-Jul 13*
Caustic Soda Liquid	166.3	187.9
Caustic Soda Solid	50.2	48.0
Soda Ash	623.0	595.4
Ethylene	271.4	298.2
Propylene	195.5	208.5
Butadiene	34.9	32.5
Toluene	8.4	10.7
Phenol	16.5	20.5
Caprolactam	95.6	93.8
Acetic Acid	4.6	4.9
Polyethylene	201.8	212.7
Polystyrene	41.4	31.1
EPS	37.5	43.1
PVC	153.3	182.4
Polypropylene	138.0	158.5
Synthetic Rubber	110.7	113.9
Ammonia (Gaseous)	803.3	769.4
Ammonia (Liquid)	773.0	772.4
Pesticides	22.7	13.8
Nitric Acid	1348.0	1341.0
Nitrogen Fertilisers	1153.0	1100.0
Phosphate Fertilisers	238.9	226.9
Potassium Fertilisers	172.6	186.4

Azoty Kedzierzyn-accident, 13 August

An explosion occurred in the chemical plant at Kedzierzyn whereby three people were injured. It took place in the ammonia section where leaks caused the hydrogen explosion. The situation was brought under control and the company will investigate the cause of leaks. Production is reported to be running normally.

Grupa Azoty, Jan-Jun 2014

In the first half of 2014 Grupa Azoty recorded an EBITDA of almost half lower than a year earlier, but after adjusting for the impact of last year's one-time acquisition of ZA Pulawy, EBITDA is only 11.7%. In the first half of the year fertiliser prices were low, meaning that group revenue decreased by slightly more than 3% to zl 5.07 billion but results have stood up quite well in a weak market environment. The net profit amounted to zl 235 million compared to zl 771 million in the first half of 2013.

Grupa Azoty benefited from lower raw material costs in the first half of the year, with prices for gas dropping 7-9% and coal 12-13%. This has enabled the group to achieve an EBITDA margin of 13% in the fertiliser sector. The group wants ultimately to be able to purchase up to 50% of natural gas requirements from sources other than PGiNG; currently around 35% is being sourced through various channels.

In terms of future acquisitions Grupa Azoty has identified a around ten possible future targets, whilst up to 68 projects are in various stages of planning involving expenditure of around zl 7 billion. Almost one third of this amount will be earmarked for corporate projects (including new materials, a coke oven gas utilization project, and the construction and development of a phosphate mine in Senegal).

Another 30% of the investment will go to the fertiliser division, 19% to energy segment and 11% to processing. Ultimately, by 2020 Grupa Azoty wants to sell approximately 140,000 tpa of polyamide and 30,000 tpa of composites, compared to around 80,000 tpa and 10,000 tpa respectively at present. In effect Grupa Azoty aims to become the third largest European producer of polyamide against its current fifth place at present.

RUSSIA

Russian chemical industry performance, Jan-Jun 2014

Russian chemical producers have reported mixed results for the first half of 2014, with profits many cases falling despite most companies being able to report a rise in revenues. Declines in profits are attributable to a variety of factors, including global and internal markets and exchange rate factors. Rising costs for energy and raw materials have, moreover, served to offset the advantages of high international prices for some products. Prices for products such as synthetic rubber have been affected by global weaknesses in demand from the tyre industry.

Russian Petrochemical Exports (unit-kilo tons)

Product	*Q3 13*	*Q4 13*	*Q1 14*	*Q2 14*
Propylene	0.0	2.2	1.0	2.0
Orthoxylene	15.2	12.7	13.1	19.3
Paraxylene	29.4	26.9	29.1	30.3
Methanol	303.3	287.1	458.8	361.4
Butanols	9.2	21.7	8.2	22.2
Isobutanols	6.5	14.4	11.4	13.5
Styrene	26.6	38.9	8.8	45.1
Phthalic Anhydride	23.7	13.0	5.8	38.1
Phenol	4.7	5.1	3.5	0.5
Caprolactam	14.7	15.8	11.4	17.0
Vinyl Acetate	8.4	10.6	5.5	1.0
Total	441.7	448.4	556.4	550.5

Export activity in 2014 in petrochemicals has been relatively stable by volume. Declines have been noted this year in phenol, due to the accident at Omsk Kaucuk, and propylene, due to the accident at Stavrolen. Styrene exports were up in the second quarter despite tight supply on the domestic market. Other products showing an increase in the second quarter this year included phthalic anhydride and butanols.

The share of exports of chemical products total Russian exports in January-June 2014 comprised was 5.0%, down from 5.3% last year. Compared with January-June last year, the export value of these products declined by 5.4%, whilst the physical volume increased by 11.0%. The volume of potash fertiliser exports increased by 52.9% in the first half of 2014, plastics and products by 40.2%, methanol by 10.1%, and organic chemical compounds by 8.1%. Export volumes declined for detergents by 32.3%, products of inorganic chemistry by 12.0%, and rubber and products by 8.3%.

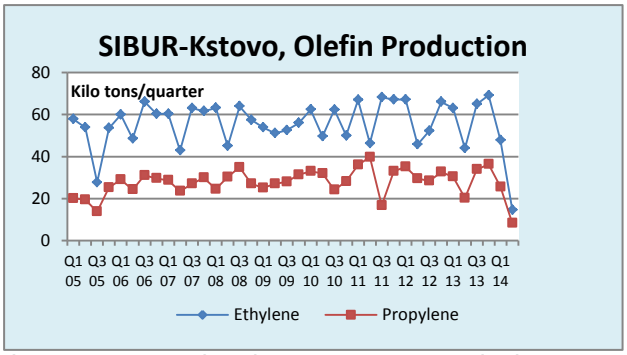
Russian Chemical Commodity Exports

	H1 14	*H1 13*	*H1 14*	*H1 13*
Product	***Kilo tons***	***$ Mil***	***Kilo tons***	***$ Mil***
Ammonia	1,790	719	1,700	890
Methanol	827	348	754	262
Nitrogen Fertilisers	6,196	1,685	5,885	1,855
Potash	4,760	1,239	3,112	1,132
Mixed Fertilisers	4,322	1,549	4,691	1,953
Synthetic Rubber	419	932	475	1,274

Chemical products accounted for 16.4% of total imports into Russia in the first half of 2014 against 16.8% in the same period last year. The value of import of chemical products decreased by 6.2% compared with January-June 2013 and by volume by 11.9%.

The volume of inorganic products decreased by 26.0% in the first six months, pharmaceutical products by 4.9%, whilst plastics and products fell by 7.6%. By contrast, import volumes of soap and detergents grew by 2.0%, whilst cosmetics rose by 1.7%. The second half of the year could witness a decline in imports, partly to do with the value of the rouble and partly due to potential interruptions to trade resulting from the political environment.

Russian petrochemical projects



SIBUR-Kstovo, ethylene expansion

SIBUR Kstovo has finished reconstruction of the ethylene plant EP-300, raising capacity to 360,000 tpa. The completion of the expansion is key to providing ethylene to the new RusVinyl PVC plant, which is undergoing test batches and is expected to start commercial production in the near future.

SIBUR-Kstovo retains the possibility to expand capacity to 430,000 tpa, but this is dependent on market factors. Olefin production at Kstovo this year has been much lower at Kstovo than in recent years, partly due to an enforced outage at the start of 2014 and partly as the result of the planned outage starting in May lasting into July. Production is running well at present and thus the third quarter volumes should reflect a significant improvement.

SIBUR-Neftekhim expands ethylene oxide plant

SIBUR-Neftekhim has completed the construction and installation work on the reconstruction of the production of ethylene oxide and glycols at Dzerzhinsk. The project will increase the capacity of the plant for the production of ethylene oxide from 264,000 tpa to 300,000 tpa to improve the safety and efficiency of the equipment: Due to the reconstruction, production will move to a new generation of catalysts, helping to increase yields. The expansion was undertaken during the maintenance shutdown that took place in the first half of 2014.

Lukoil studying impact of sanctions

Lukoil has not altered its main investment plans in petrochemicals, aside Kalush, but is studying the possible effects of sanctions. As with many Russian companies Lukoil is trying to assess possible barriers to trade and investment resulting from sanctions applied to a wide range of business activities. Russian-Ukrainian relations, which are virtually non-existent at present, may mean that Lukoil abandons its intention to invest at Karpatneftekhim at Kalush. Last year the company announced that it wanted to increase the processing of gas feedstock to 35 tons per month and partly to modernise the VCM plant. It is not inconceivable now that Lukoil may wish to offload these assets; there are one or two obvious potential buyers that could be interested.

Naphtha excise duties

The Ministry of Energy and Finance Ministry have agreed on excise tax deduction for companies supplying naphtha to Russian gas and petrochemical enterprises. This may affect future petrochemical projects where naphtha is involved, such as United Petrochemical Company at Ufa (which has already stated that it is ready to suspend its investment plan) and Eastern Petrochemical Company (VNKH) at Nakhodka in the Russian Far East. Essentially it means that the cost of raw materials will exceed the cost of olefins thus deterring investments in naphtha based petrochemical projects.

This tax would also affect other petrochemical producers in Russia, particularly Nizhnekamskneftekhim which is building a new one million ton cracker based predominantly on naphtha. Nizhnekamskneftekhim's owners the TAIF Group has developed a mechanism of compensation for petrochemical plants, to help circumvent this tax. According to TAIF, the introduction of tax evasion will have a significant impact on the activities of all companies of the group from 2015.

Petrochemical companies have pointed to the fact that the change in the tax system will lead to increased export parity petrochemical raw materials and a spike in prices of naphtha. As a consequence, this could lead to a freezing of new cracker projects. In response, various solutions have been proposed by government ministries in an effort to avoid deterring investment. It is quite possible that taxes will be repaid to the producer via other means, signifying that the producer will not lose overall.

Lukoil's investment projects for Stavrolen at Budyennovsk are more important, involving high-pressure gas pipelines, construction of new power plants and gas, and petrochemical production modernisation. Currently, the basis is being laid for the new gas processing plant at Budyennovsk, which is being designed to have a capacity of 2 billion cubic metres per annum. Associated gas will be supplied from the offshore fields in the North Caspian.

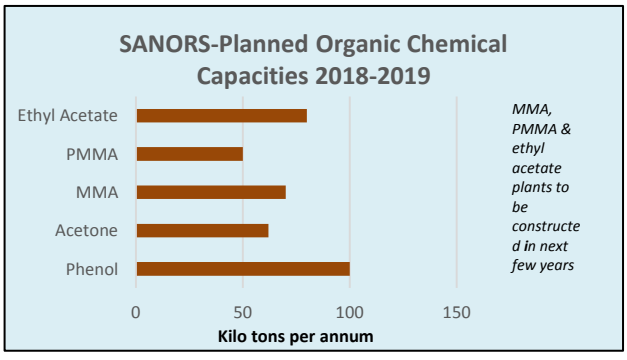
Lukoil recently issued a tender for the construction of the pipeline from Stavrolen to KS George in order to transport gas from the North Caspian Sea to Budyennovsk. Documentation states that the price should include the cost of equipment, materials, taking into account their transportation, receiving, unloading and storage (except for the cost of pipes), the cost of works, all the costs of supervision and inspection, overheads, all taxes, duties fees, and other expenses necessary for the construction of the facility.

UPC -olefin project on hold

United Petrochemical company (UPC) has temporarily suspended its 1 million tpa ethylene project due to concern is over the government's new policy in relation to feedstock duties. In effect UPC could find that the cost of raw materials exceeds the cost of olefins, although the government is attempting to modify new tax laws.

SANORS-completes gas fractionating unit

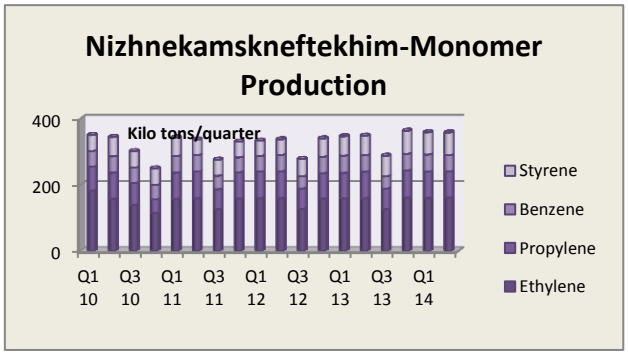
SANORS, which was purchased by Rosneft on 30 July, commissioned its central gas fractionation plant number 3 (TSGFU-3) at the start of August. After modernisation capacity has increased for the gas fractioning unit (TSGFU-3) from 600,000 tpa to 900,000 tpa. The capacity of the entire complex (TSGFU TSGFU-2-3) now comprises 1.3 million tpa. The TSGFU-3 is designed for the separation of NGLs with the production of ethane-propane, propane, isobutane, butane, isopentane, pentane fractions. Total investment in the project for the modernisation of TSGFU-3 was 580 million roubles.



SANORS has stated that sanctions will not affect plans to construct a new refinery and petrochemical complex

in the Samara region. Revenues for SANORS in 2013 amounted to 33.040 billion roubles, whilst Investments in fixed assets from 2010 to 2013 amounted to 3.65 billion roubles.

SANORS also views prospects in the production of polyurethanes; emulsion PVC, ABS plastics, products whereby a significant part of consumption in Russia is provided by imports. The capacity of the entire complex at Novokuibyshevsk could total 2.5 million tpa, if all projects are undertaken. This includes capacities of 480,000 tpa of LPG and naphtha and 250,000 tpa of organic chemicals. As some of these projects are in the early phases of development they may incur delays due to finance or for technological reasons, but for the time being at least the investment programme remains intact.



Nizhnekamskneftekhim Revenues (unit-billion roubles)

Product Group	*Jan-Jun 14*	*Jan-Jun 13*	*Jan-Jun 12*
Synthetic Rubber	24.9	27.3	32.7
Organic Chemicals	11.6	8.8	9.9
Bulk polymers	25.2	20.8	18.5

Russian petrochemical producers & markets

Nizhnekamskneftekhim, Jan-Jun 2014

Preliminary results for Nizhnekamskneftekhim for the first half this year showed a reduction of net profit against the same period in 2013 by 38% to 3.733 billion roubles. Revenues increased by 10% to 65.520 billion roubles, but the cost of sales increased by almost 19% from 46.480 to 55.200 billion roubles.

Production costs overall increased by 21% in the first half and amounted to 2.3 billion roubles, whilst administrative expenses rose by 8% to 2.6 billion roubles. Nizhnekamskneftekhim has spent 7.2 billion roubles this year on its environmental programme.

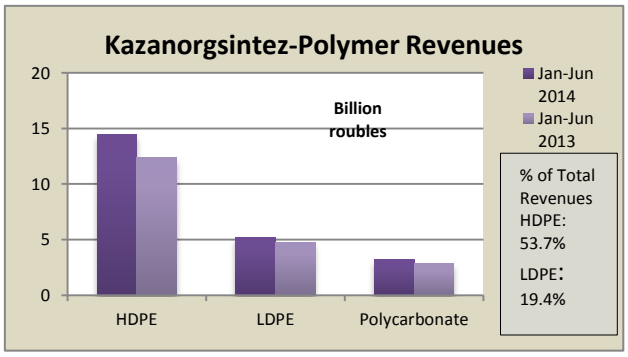
Kazanorgsintez Production (unit-kilo tons)

Product	*Jan-Jun 14*	*Jan-Jun 13*
HDPE	262.8	243.0
LDPE	100.1	87.0
Ethylene	258.1	263.0
Propylene	22.5	21.3
Polycarbonate	36.7	41.9
Phenol	130.6	142.1
Acetone	24.3	23.6
Bisphenol A	36.0	31.0

Kazanorgsintez, Jan-Jun 2014

Preliminary results for Kazanorgsintez in the first half of 2014 indicate a doubling of profit two-fold to 2.83 billion roubles. Revenues increased by 14.4% to 26.9 billion roubles against 23.5 billion roubles in 2013. The cost of sales increased by 10.5% to 20.4 billion roubles and the gross profit rose 29% to 6.5 billion roubles. Revenues from HDPE rose 8% in the first half of 2014, whilst polycarbonate rose by 2%.

The company stressed that HDPE demand was quite strong in the first half 2014, helped by the absence of product from Stavrolen. As a result production of HDPE increased by 8%, whilst LDPE rose 15% to 100,100 tons. Although polycarbonate production declined revenues from product sales were good. In other product areas phenol production was lower in the first half although acetone was slightly higher.



Revenues from HDPE sales for the first six months in 2014 increased by 16.9% due to the increase in sales prices and sales volumes growth. Polycarbonate sales revenues for Kazanorgsintez rose by 13.6%.

Cracker feedstocks, Jan-Jul 2014

LPG production in Russia rose in the first half of 2014 to 6.798 million tons from 6.152 million tons in 2013. SIBUR's production has risen as a result of investments in West Siberia, whilst Rosneft has increased production partly due to the absorption of TNK-BP assets. In January to June 2014 Russia produced 3.69 million tons of NGLs against 3.68 million tons in 2013.

In July 2014 the volume of Russian natural gas liquids in the domestic market increased by 45% over June to 405,610 tons, and was also 33% more than in July 2013. The increase in the supply of gas liquids is mainly due to stops for repairs undertaken in June by Tobolsk-Neftekhim and Surgut Gas Condensate Plant. SIBUR shipped 106,590 tons (+51% compared to June), whilst Surgut Gas Condensate Plant shipped 64,790 tons.

Russian LPG Production (unit-kilo tons)		
Producer	***Jan-Jun 14***	***Jan-Jun 13***
SIBUR	2,031.3	1,873.9
Rosneft	335.8	73.6
Bashneft	167	203.7
Tatneft	221.5	198
TAIF	736.5	691.4
Lukoil	661.5	613.1
Gazprom	679.2	665.2
Gazprom Processing	676.8	594.8
Gazprom Neft	357.8	359.5
Vostokgazprom	49.2	43.6
Surgutneftegaz	359.7	309.9
Others	521.7	525
Total	6,798	6,151.7

Sales of NGLs for petrochemical production amounted to 170,440 tons in July, 1.62 times up on June. Nizhnekamskneftekhim and SIBUR-Kstovo increased purchases to 87,570 tons (2.3 times higher than June) and 39,380 tons (2.14 times higher) respectively. However, Tomskneftekhim reduced consumption of NGLs to 35,170 tons, 11% down on June. For the first seven months of 2014 Russian NGL sales totalled 2.24 million tons, 1% more than in the same period of 2013. Petrochemical producers bought 847,800 against 975,500 tons in the first half last year.

Naphtha sales for Russian companies were up in the first half of 2014 to 6.635 million tons from 5.772 million tons in 2013. Sales to the domestic fuel market and exports both increased but were offset by the decline in consumption from the petrochemical sector.

This decline in petrochemical consumption was due to the reduction of hydrocarbon processing by Stavrolen following the accident in February 2014. Other petrochemical plants that depend on merchant naphtha include Tomskneftekhim, SIBUR-Kstovo, but the remaining plants such as Salavat, Nizhnekamsk, Ufa, and Angarsk mostly purchase naphtha internally from adjacent refineries.

For the first half of 2014 shipments of propane to the Russian market amounted to 336,640 tons, which is 8% less than in the comparable period of 2013. Shipments to petrochemical plants totalled 78,500 tons in January to June 2014 against 86,200 tons in 2013.

Russian Ethylene Production (unit-kilo tons)		
Producer	***Jan-Jun 14***	***Jan-Jun 13***
Angarsk Polymer Plant	111.5	115.4
Kazanorgsintez	258.1	263.0
Stavrolen	53.6	168.2
Nizhnekamskneftekhim	321.9	318.6
SANORS	39.6	40.6
Gazprom N Salavat	165.5	148.4
SIBUR-Kstovo	62.4	107.0
SIBUR-Khimprom	24.6	25.8
Tomskneftekhim	138.5	137.3
Ufaorgsintez	64.8	63.4
Total	1,240.5	1,387.6

Russian ethylene and propylene

Russian ethylene production totalled 1.241 million tons in the first half of 2014 against 1.388 million tons in the same period last year. The Stavrolen accident at the end of February, which disabled the Budyennovsk plant, is the main cause of the decline this year. SIBUR-Kstovo has also been down much longer than expected this year due to various technical reasons. SIBUR-Kstovo has now resumed production and is expected catch up volumes in the second half year, particularly as it completed the expansion the cracker. The only company to show a noticeable increase this year was Gazprom neftekhim Salavat which increased production from 148,400 tons in January to June 2013 to 165,500 tons. Ufaorgsintez (included in United Petrochemical Company) is stopping olefin production for maintenance on 15 August for about a month. This shutdown is part of a four year cycle.

Russian Propylene Production (unit-kilo tons)		
Producer	***Jan-Jun 14***	***Jan-Jun 13***
Angarsk Polymer Plant	62.0	60.9
Kazanorgsintez	22.5	21.3
LUKoil-NNOS	83.9	78.1
Stavrolen	21.9	65.0
Nizhnekamskneftekhim	157.8	156.6
Omsk Kaucuk	0.0	31.2
Polyom	90.1	46.7
Gazprom n Salavat	57.8	57.1
SIBUR Kstovo	33.9	50.6
SIBUR-Khimprom	35.0	31.4
Tomskneftekhim	71.9	70.1
Ufaorgsintez	86.1	80.3
Total	723.0	749.3

Stavrolen is set to be non-operative much longer and Lukoil estimates that the plant could restart by January 2015 after all repairs have been completed. It is possible that polypropylene production at Budyennovsk could restart at any time based on merchant propylene. The accident at the end of February was reported to be caused by depressurized aluminium heat exchanger due to the destruction of the corrugated plate heat exchange section.

Propylene production suffered similarly from the Stavrolen accident, which meant that only 21,900 tons was produced at Budyennovsk in the first half of the year against 65,000 tons in the same period last year. SIBUR-Kstovo also reduced production from 50,600 tons in January to June 2013 to 33,900 tons in January to June 2014.

To a large extent the reduced production at Kstovo and Salavat was offset by the rise in production by Polyom at Omsk which

produced 90,100 tons in the first half of 2014 against 46,700 tons in the same period last year.

Russian styrene, Jan-Jul 2014

Domestic merchant sales of styrene totalled 49,300 tons in the first seven months in 2014, 14% down on the same period last year. In July, shipments of styrene on the Russian market fell by 41% to 6,000 tons, down mainly to the planned outage by Gazprom neftekhim Salavat. The fall in purchases of styrene on the merchant market this year has been due mainly to lower demand from synthetic rubber producers Voronezhsintezkaucuk and Sterlitamak Petrochemical. Russian styrene exports totalled 65,500 tons in the period January to June 2014, 4% less than last year.

Bulk Polymers

Russian Polymer Imports (unit-kilo tons)

Product	*Jan-Jun 14*	*Jan-Jun 13*
HDPE	124.5	155.0
LDPE	46.5	59.5
LLDPE	110.2	97.0
Polypropylene	87.4	104.8
PVC	125.0	238.0
PET	128.1	91.5
Polycarbonate	23.6	25.7
Polyamide	6.2	7.4

Russian polymer duties to be reduced to 6.5%

Though the Eurasian Customs Union Russia, Belarus and Kazakhstan have approved a change in the rates of import duties on a number of large polymers. The duties come into force from 1 September whereby the rates of import duty will be reduced to 6.5% for polyethylene of high and low pressure, homopolymers and copolymers of propylene, ABS plastics, and PVC suspension.

Previous changes in import duties in the Eurasian Customs Union were introduced from 2 September 2013. The rate for polyethylene high and low pressure, propylene homopolymers was then set at 9.1%, whilst import duties on copolymers of propylene and ABS plastics were 8.3%, for PVC suspension 10%.

Russian HDPE Production (unit-kilo tons)

Producer	*Jan-Jun 14*	*Jan-Jun 13*
Kazanorgsintez	262.8	243.0
Stavrolen	46.7	148.9
Nizhnekamskneftekhim	79.4	100.0
Gazprom neftekhim Salavat	51.6	36.0
Total	440.5	527.9

In accordance with the agreements reached within the framework of the WTO, the average tariff on imports to Russia in the past year has been reduced to 7.8% compared with 10% in 2011. For the polymer industry reduction of import duties was agreed to be held in two stages, the second stage of which requires that duties should be lowered to 6.5%. The Commission for the Eurasian Customs Union believes that the decline in tariff protection will not bring significant harm to the Russian market.

Russian LDPE market

Gazprom neftekhim Salavat resumed production of LDPE in August after a planned 30-day outage. The plant capacity is 45,000 tpa. Ufaorgsintez stopped production on 15 July for around a 30 day maintenance turnaround. The plant capacity at Ufa is 120,000 tpa.

LDPE production in Russia totalled 327,800 tons in the first half of 2014, slightly up on 2013. Tomskneftekhim produced 132,800 tons in January to June against 130,700 tons last year. Angarsk Polymer Plant increased production to 32,700 tons whilst Gazprom neftekhim Salavat reduced production 3% to 19,300 tons. Kazanorgsintez reduced production by 8% to 100,100 tons whilst Ufaorgsintez reduced production from 47,400 tons to 47,400 tons.

In the first six months of this year, Russian LDPE exports increased by 23% to 102,800 tons versus 83,700 tons. Tomskneftekhim and Angarsk Polymer Plant exported 48,900 tons and 30,600 tons respectively against 52,000 tons and 13,000 tons respectively. The leading countries for Russian LDPE exports include China (57,400 tons), Ukraine (12,800 tons), Kazakhstan (8,200 tons), Lithuania (5,900 tons) and Belgium (5,500 tons).

The Russian LDPE market showed a 3% fall in 2013 against 2012. Production increased 2% to 667,000 tons, with Tomskneftekhim producing the largest volume of

253,000 tons. Both imports and exports both fell. Despite large-scale production Russia maintains a deficit of high-tech materials, which domestic producers cannot produce and processors have to buy raw materials abroad.

Belarus exported 54,280 tons into Russia in 2013, 17% down on 2012. Russian consumers demand for Belarusian polyethylene is positive as its properties meet domestic requirements and the price is generally lower.

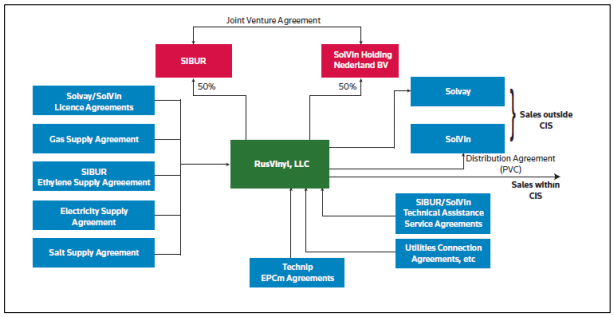
Russian EPS exports, Jan-Jul 2014

In January to July 2014 Russian exports of expandable polystyrene (EPS) decreased by 25% against 2013. Volumes in July amounted to 10,500 tons compared to 14,000 tons in the same month last year. SIBUR remains the largest exporter of EPS, whilst Plastik at Uzlovaya also exports small volumes. The main destination for Russian exports is Ukraine which accounts for around 95% of shipments. Trade has been down this year mainly due to lower demand in the Ukrainian economy. Lower export activity has also meant that imports have been lower this year, declining 9% to 37,000 tons for the period January to July.

Rusvinyl construction completed

At the end of July RusVinyl announced completion of construction work at Kstovo for the production of PVC. Test batches have since proved successful. Start-up operations are being prepared for a trial run, with production targeted for the autumn. The capacity of the complex includes 300,000 tpa of suspension grade PVC, 30,000 tpa of emulsion grade PVC, and 225,000 tpa of caustic soda.

The new plant is expected to focus initially on the domestic market, which has been faced by undersupply for almost a decade. The share of imports of PVC into Russia from 2007 to 2011 increased from 27% to over 50% and has remained at that level since then. Aside the US, imports have been sourced into Russia from China where PVC is produced using acetylene as feedstock.



Russian polycarbonate, Jan-Jul 2014

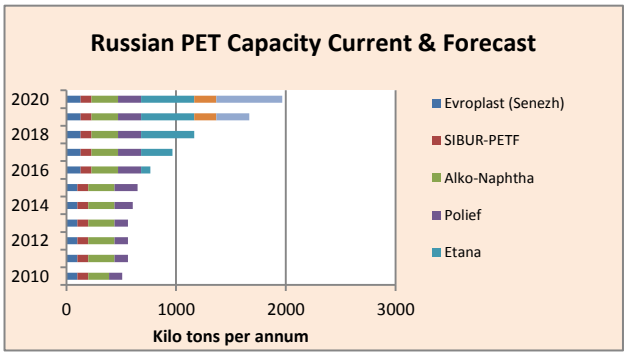
Kazanorgsintez is not exporting polycarbonate at present with the focus on gradual import substitution and supporting domestic processors who are faced by the high price of imported material.

Exports in July amounted to only 2 tons. Apart from the cost of imports products is tight in Russia as Kazanorgsintez started its annual shutdown on 17 July lasting till 20 August. Exports of polycarbonate from Russia fell by 51% in seven months in 2014 to 4,700 tons.

Imports of polycarbonate to the Russian market fell by 6% in January-July 2014 to 27,000 tons. The reduction in import volumes was primarily due to the depreciation of the rouble and rise in prices. Purchasing power of consumers has also been affected due to the deteriorating economic situation in Russia. The main suppliers of polycarbonate blow moulding imports to Russia include LG Chem, Samyang Corporation, and Mitsubishi Engineering Plastics.

Some processors fear supply disruptions for European raw materials due to the tense political situation. Kazanorgsintez is targeting import substitution and promotion of the domestic market by cutting exports. However, the capacity of 65,000 tpa means that the company will be unable to provide material for the extrusion division, which takes consumption for Russia up 80-90,000 tpa. In the first seven months this year Russian imports of polycarbonate (PC) sheet extrusion from South Korea increased by 37% to 700 tons.

PTA/PET & Fibre Chain

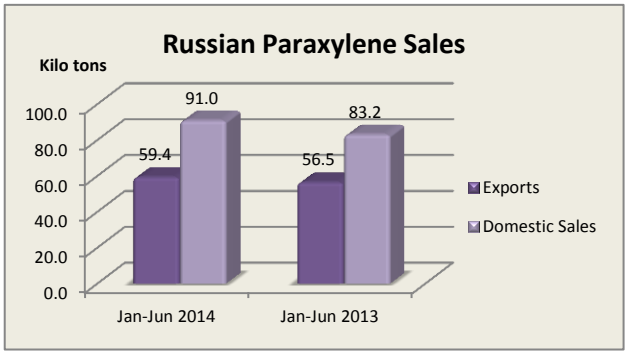


Russian PET, Jan-Jun 2014

Russian PET production was unchanged in the first half of 2014 to 218,000 tons, whilst exports fell 32% to 9,000 tons. Russian PET consumption increased by 12% in the first half of 2014 to 346,000 tons, despite the stagnation in the beer industry where production in the first half of the year decreased by 6.4%. At the same time the production of mineral water in Russia increased by 4.1%.

Growing market demand this year has been met by increasing imports; the share of imported PET

consumption increased by 7% against the first half of 2013 and amounted to 37%. By volume imports totalled 128,000 tons in the first half of the year, 40% up on 2013. Capacity projections for the Russian PET market are illustrated in the graphic above.



Russian PTA duties

The Customs Union, consisting of Russia, Belarus and Kazakhstan has decided to abolish import duty rates for PTA. The import duty of 0% for PTA will operate from 2 September 2014 to 31 December 2015 inclusive, coming down from 5%. The sole producer of PTA in Russia is Polief with a capacity of 250,000 tpa. The only other project under design and construction at present is the jv between Alpek of Mexico and United Petrochemical company at Ufa.

Russian polyamide, Jan-Jun 2014

Production of polyamide totalled 71,000 tons in the first half of 2014, 9% up on last year. Exports of polyamide (PA6) from Russia decreased by 22% in the first half of 2014 to 51,300 tons. The main consumers of Russian PA-6 are based in China, India and Turkey, whilst the only company exporting is Kuibyshevazot with a capacity of 150,000 tpa. Polyamide imports dropped 20% in the first half of 2014 to 6,200 tons. The main types of imported polyamide include PA-6, PA-66, PA-6.66 and polyamide resins. Their share in the external supply in the current year is 48%, 18%, 16% and 9% respectively. Most of the PA 66 is processed in the automotive industry, as well as in the furniture industry. Polyamide-6 accounted for 1,300 tons in January to June 2014.

Kuibyshevazot has inaugurated a new unit for the production of high heat-set (soaked) cord fabric. The product is used as a reinforcing material in the production of tyres. Benninger Zell from Germany supplied the equipment for the project where capacity is up to 30 million metres per annum. The new unit is part of Kuibyshevazot's aim to increase processing of caprolactam.

Kurskkhimvolokno, part of Kuibyshevazot, launched five lines on 22 July with a total capacity of 9,000 tpa. The new lines include three new moulding machines provided by Trützschler. Commissioning of the new equipment will increase the production of high technical fabrics by 30% to 990 tons per month.

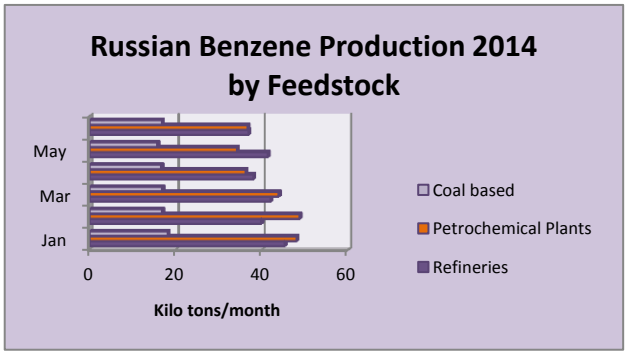
Russian Benzene Production (unit-kilo tons)

Producer	*Jan-Jun 14*	*Jan-Jun 13*
Altay-Koks	0.0	5.4
Angarsk Polymer Plant	47.4	46.5
Chelyabinsk MK	6.1	7.1
Gazprom Neft	51.9	63.6
Stavrolen	12.7	11.9
LUKoil-Perm	18.0	24.2
Magnitogorsk MK	31.9	31.6
Nizhnekamskneftekhim	101.1	102.1
Novolipetsk MK	11.7	19.3
Gazprom n Salavat	74.8	72.6
Severstal	17.3	18.7
SIBUR-Kstovo	11.7	37.5
Slavneft-Yanos	30.9	27.1
Surgutneftegaz	35.0	30.0
Ryazan Refinery	13.4	15.9
Ufaneftekhim	37.7	42.2
Ural Steel	4.4	2.6
Uralorgsintez	40.2	34.0
Zapsib	29.9	29.0
SANORS	16.2	0.0
Total	592.3	621.3

Aromatics & derivatives

Russian benzene, Jan-Jul 2014

After hardly importing any benzene from Ukraine in the first half of this year Russia imported 1,952 tons in July from Yasinovsky Coke, all of which was bought by Kuibyshevazot. In the first half of 2014 benzene supply has been difficult in the Russian market faced by shortages and the subsequent increase in prices. Production from petrochemical and refinery plants declined 4% in the first half of 2014 to 557,900 tons, due largely to the forced stoppage at Stavrolen at the end of February.



Other factors included an extended outage at SIBUR-Kstovo which only restarted in July after expecting originally to restart in early June. On the other hand Kirishinefteorgsintez increased production of benzene by 16% and Uralorgsintez by 19%. In June, the Russian production of benzene for synthesis and nitration totalled

84,400 tons.

Exports of benzene from petrochemical and refinery plants were not undertaken in July after volumes of 2,000 tons were exported in June and May. The main exporter was Kirishinefteorgsintez which increased exports 1.5 times over May. The other exporter in May was Slavneft-Yanos with 658 tons. Exports from petrochemical and refinery plants totalled 14,234 tons in the first seven months the year.

Russian Benzene Domestic Sales (unit-kilo tons)

	Jan-Jul 14	*Jan-Jul 13*
Synthesis Total	332.3	335.3
Angarsk Polymer Plant	36.4	34.7
SIBUR-Neftekhim	14.6	45.2
Severstal	21.4	20.9
Uralorgsintez	47.7	37.3
Kirishinefteorgsintez	33.3	32.3
West Siberian MC	35.1	33.8
Ryazan NPZ	16.0	11.4
Slavneft-Yanos	31.4	25.1
Gazprom Neft (Omsk)	59.1	59.3
Gazprom Neftekhim Salavat	11.8	1.2
Stavrolen	14.3	6.0
Ufaneftekhim	6.6	3.2
Zaporozhkoks	0.0	4.1
Ukrtatnafta	0.0	10.1
Yasinovsky Coke	2.4	8.9
ArcelorMittal	2.3	2.0
Nitration Total	19.4	22.7
Novolipetsk MK	12.8	13.8
Chelyabinsk MK	6.6	8.8
Crude	75.5	95.7
Altay-Koks	16.7	21.2
Koks	16.7	18.1
Magnitogorsk MK	26.5	31.8
Nizhny Tagil MK	6.4	11.1
Novokuznetsk MK	1.9	4.6
Moskoks	5.1	4.9
Ural Steel	2.3	3.9
Full Total	427.2	444.9

The benzene market has not only been tightened by production problems at petrochemical plants this year but also increased demand. In the second half of 2013 Nizhnekamskneftekhim resumed purchases of benzene in the domestic market due to increasing production of polystyrene. Currently Nizhnekamskneftekhim is buying around several thousand tons per month on the open market and purchased 21,118 tons in the period January to July this year.

In addition to rising demand and lower supply, benzene exports have risen this year. Despite the lack of product in the country, domestic processors have found it difficult to compete with the offer of foreign consumers due to the attractiveness of foreign prices. At the same time consumers such as Kuibyshevazot, the largest Russian importer of raw materials, have found it difficult to purchase from Ukraine until more recently In June Kuibyshevazot resumed purchases of benzene from Ukraine, but the position is unstable.

Only the Kazakh company ArselorMittalTemirtau has been a regular supplier this year to the Russian market. Exports of benzene from coal based producers totalled 31,695 tons in the period January to July 2014, against only 19,000 tons in the same period last year. Coal based producers tend to sell benzene on the domestic market to manufacturers of explosives and for further processing, but sell only small volumes to petrochemical producers.

For derivatives styrene has been the main product where consumption has risen this year in Russia; caprolactam has been static whilst phenol has been affected by the extended outage at Omsk Kaucuk. Full benzene production figures by producer up to Q2 2014 are available on the Statistical Database at www.cirec.net.

Russian orthoxylene, Jan-Jul 2014

Sales of orthoxylene in the Russian domestic market amounted to 14,560 tons in July, 6% less than in June. Gazprom-Neft at Omsk supplied 36% or 5,240 tons), Kirishinefteorgsintez 30% or 4,410 tons, and Ufaneftekhim 22% or 3,180 tons. Kamteks-

Russian Orthoxylene Domestic Sales (unit-kilo tons)

Producer	*Jan-Jul 14*	*Jan-Jul 13*
Gazprom Neft	39.5	38.1
Ufaneftekhim	20.0	17.8
Kinef, Kirishi	27.5	23.3
Total	87.0	79.3

Khimprom purchased 5,920 tons of orthoxylene in July, which was 41% of consumption, whilst Gazprom neftekhim Salavat bought 1,070 tons. Paint manufacturers reduced purchases in July by 32% against June to 1,830 tons. Manufacturers of fuel, agrochemical, pharmaceutical and other products bought 4,370 tons of orthoxylene (30% of gross supply), and 34% more than in the previous month.

Another 1,360 tons (9%) was shipped to trading companies. From January to July 2014 orthoxylene sales on the domestic market amounted to 92,500 tons, 16% higher than in 2013. Russian orthoxylene exports totalled 32,300 tons in the first half of 2014, 79% more than the same period in 2013.

Russian Toluene Domestic Sales (unit-kilo tons)		
Producer	***Jan-Jul 14***	***Jan-Ju1 13***
Novopiletsk MK	0.7	0.8
Slavneft-Yanos	26.6	11.2
Severstal	3.7	3.6
LUKoil-Perm	16.8	23.6
Gazprom Neft	19.7	14.1
Zapsib	2.1	3.1
Kinef, Kirishi	12.8	19.6
Gazprom Neftekhim Salavat	0.0	0.6
Others	0.7	0.2
Total	82.9	76.8

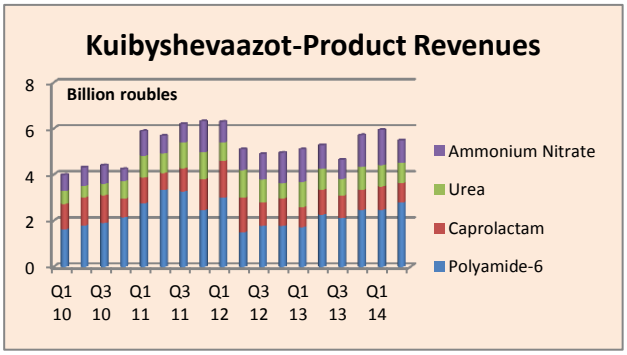
Russian toluene, Jan-Jul 2014

Sales of toluene by rail in the Russian market amounted to 14,400 tons in July, 26% more than June but similar to July 2013. Slavneft-Yanos supplied 30% of supply in July (4,380 tons), Lukoil-Permnefteorgsintez 23% (3,300 tons), and Gazprom Neft 21% (3,030 tons). Other shipments came from Kirishinefteorgsintez 18% (2,540 tons), Severstal 5% (650 tons), West Siberian MK 2% (340 tons), and Novolipetsk Steel 1% (150 tons).

Russian paint manufacturers increased toluene purchases in July by 90% over June to 3,740 tons comprising 26% of total deliveries. Manufacturers of lubricants and additives for motor fuels reduced purchases of toluene by 40% to 2,140 tons whilst manufacturers of industrial explosives increased volumes of raw materials purchased by 5% to 1,110 tons. For the period January to July 2014 domestic sales of toluene totalled 82,900 tons which was 8% up on 2013. The first half of 2014 production of toluene in Russia totalled 142,200 tons, 10% less than in the corresponding period last year.

Kuibyshevazot, Jan-Jun 2014

Kuibyshevazot reduced its net profit by 21% in the first half of 2014 against the same period last year, totalling 1.42 billion roubles. The company's revenue for the period increased slightly from 14.22 to 14.96 billion roubles. The cost of sales amounted to 11.410 billion roubles against 10.250 billion roubles a year earlier. Gross profit decreased by 8.5% to 3.54 billion roubles. Similarly to other Russian producers exchange rate factors have been extremely influential for Kuibyshevazot this year.



About 60% of the revenues in the first half this year came from exports, mainly in US dollars, while 99% of operating costs are denominated in roubles. Production costs for the first half more than doubled to 1.26 billion roubles.

Polyamide revenues rose in the first half of 2014 to 5.273 billion roubles from 3.991 billion roubles in the same period in 2013, with the product's share in total company revenues rising from 28.07% to 35.26%. Sales by volume increased by 9,700 tons which was 11.8% higher. At the same time caprolactam sales declined by 3,400 tons in the period January to June 2014, whilst revenues dropped to 1.857 billion roubles against 1.959 billion roubles in 2013. Caprolactam's share in total company revenues declined to 12.42% in 2014 against 13.78% last year.

Kuibyshevazot has approved the transaction for the jv Linde Nitrogen Togliatti (Kuibyshevazot and the German Linde Group for the production of ammonia and hydrogen using Sberbank for bank guarantees. The size of bank guarantee is 250 million roubles. In another agreement the IFC is providing Kuibyshevazot with $150 million in debt financing to support its expansion and modernisation, in order to make the company more competitive.

Russian Phenol Sales by Producer (unit-kilo tons)		
Producer	***Jan-Jul 14***	***Jan-Jul 13***
Omsk Kaucuk	10.9	33.3
Samaraorgsintez	30.6	22.0
Kazanorgsintez	6.1	5.8
Ufaorgsintez	20.5	13.2
Neftekhimya	0.0	0.2
Sterlitamak NPZ	0.0	0.1
LUKoil-VNPZ	0.0	0.1
Total	68.1	74.5

Russian phenol, Jan-Jul 2014

Phenol supply in Russia remains tight, there is no news at this stage regarding the restart of Omsk Kaucuk but this will probably not take place until the fourth quarter. In June, Russian producers of phenol stopped deliveries of products to foreign markets and only exported a small volume in July. Domestic sales have dropped slightly in the period January to July 2014 to 68,100 tons from 74,500 tons in the same period last year.

The domestic customer base is fairly diversified, the largest buyer in the first seven months this year was Kuibyshevazot accounting for around 18% of purchases. Other important consumers include resin producers Uralkhimplast and MetaDynea. Shchekinoazot is also a major buyer, using it in the production of phenol-formaldehyde resins. Due to

shortages on the domestic market Shchekinoazot has imported 1,448 tons of phenol from Borealis this year. For the whole of 2013 Borealis imported 2,151 tons of phenol into the Russian market.

Russian producers sold 10,700 tons on phenol on the domestic market in July, 14% up on June. Samaraorgsintez accounted for 55% of sales in July, or 5,800 tons, increasing shipments by 30% over June. Ufaorgsintez increased sales by 25% over June to 4,600 tons, whilst due to a shutdown Kazanorgsintez reduced sales four-fold to 320 tons. The largest outlet for phenol purchases in July was phenol-formaldehyde resins, accounting for 75% of total sales or 8,200 tons. Urea-formaldehyde resin producers took 10% of shipments or 1,200 tons, whilst other outlets included caprolactam, anti-oxidants, alkylphenols and additives.

Synthetic Rubber

Russian C4s, Jan-Jul 2014

Nizhnekamskneftekhim imported 6,900 tons of C4s in the first half of 2014, 1.9 times higher than in 2013. In June Nizhnekamskneftekhim imported 2,000 tons from France. Omsk Kaucuk cut imports by 45% to 846 tons. For the first seven months in 2014 Russian C4 imports totalled 43,000 tons, 42% more than in 2013. The outage at Stavrolen has helped caused the deficit and rise in imports this year.

Russian C4 Supplies, Domestic & Imports (unit-kilo tons)

Supplier	*Jan-Jul 14*	*Jan-Jul 13*
Angarsk Polymer	43.8	40.1
Krasnoyarsk Synthetic Rubber	0.2	0.4
Kazanorgsintez	18.1	18.6
Stavrolen	12.7	41.1
SIBUR-Kstovo	16.2	26.0
Gazprom neftekhim Salavat	6.4	40.8
Tomskneftekhim	42.2	15.1
Ufaorgsintez	17.0	26.5
Naftan (Belarus)	31.1	3.9
SANORS	0.3	0.2
Azerkhimya	12.6	2.8
Efremov Synthetic Rubber	0.2	0.0
Iran	4.4	0.0
France	2.0	0.0
Slovakia	0.2	0.0
Turkey	11.3	0.0
Total	218.7	215.5

In July Nizhnekamskneftekhim imported 11,336 tons from Turkey, nearly twice the total imported in the first half of the year. The only other two consumers in July were Omsk Kaucuk and Togliattikaucuk. For the first seven months of 2014 sales on the domestic market, from domestic producers and imports, totalled 216,700 tons against 214,500 tons last year. Imports accounted for 8% of purchases in the period January to July 2014.

Rosneft-Pirelli deal not affected by sanctions

Rosneft's shareholding stake in Pirelli appears not to violate US sanctions and thus will be allowed to continue. Rosneft bought a non-majority stake this year in Pirelli. The deal does not violate regulations of the US Treasury in regard to the presence of Rosneft in the shareholder structure of the company.

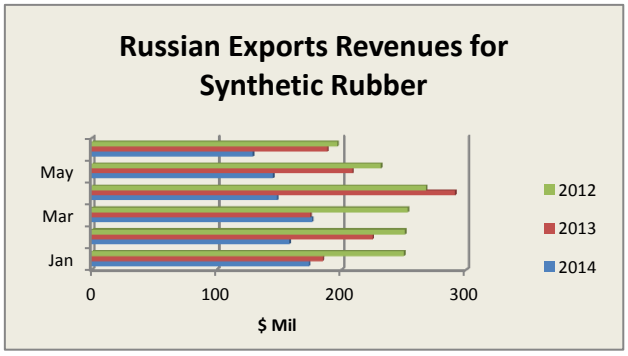
Rosneft and Pirelli intend to create a jv for the production of synthetic rubber at Nakhodka as part of the project Eastern Petrochemical Company and are also considering the production of chloroprene rubber in Armenia.

SIBUR-thermoplastic elastomers

Following the expansion of thermoplastic elastomer (TEP) capacity at Voronezh last year SIBUR is able to provide more support to the producers of polymer bitumen binders (PBB) and the road construction projects. SIBUR's production capacity of TEP was increased to 85,000 tpa last year and can now meet all the needs of the internal market.

Russian synthetic rubber market

Revenues from synthetic rubber exports totalled $932.1 million in the first half of 2014 against $1273.5 million in the same period in 2013 and $1449.7 million in 2012. A large part of the decline in revenues is attributable to commodity rubbers such as SBR. These declines are affecting profitability for SIBUR's rubber subsidiaries and Nizhnekamskneftekhim which depends heavily on these markets.



In terms of current global trends prices have tended to hold up relatively well despite reductions in operating rates by European and Chinese producers and a switch by a number of consumers to cheap natural rubber. Thus prices are not expected to go down for the time being, even though the FOB Rotterdam butadiene price dropped $5/ton from the start of August to $1,240/ton. The CFR China butadiene price benchmark dropped $55/ton in August to $1,505/ton. Asian SBR producers are suffering

negative margins as they typically need a $550-600/ton margin to break even.

Indications have emerged of tightness in Asia due to lower plant operations but at the same time this has created excess butadiene supply. Overall though there is no upturn expected near-term due to a range of supply/demand factors. Russian and European SBR producers have lowered operating rates in the first half of the year as global demand has as yet failed to improve. Some tyre manufacturers have switched as much synthetic rubber capacity as they could to cheaper natural rubber, and this has impacted on the demand for synthetic rubber.

Russian Carbon Black Market (unit-kilo tons)

	2013	*2012*
Production	765.9	729.8
Exports	517.2	449.8
Imports	5.4	5.1
Market Balance	254.1	285.1

Russian carbon black market 2013

Russian carbon black production increased 5% in 2013 to 766,000 tons. The only companies to show higher production were Yaroslavl Carbon Black (+15%) and Volgograd ZTU (+13%). Reductions elsewhere were partly due to a decline in demand in the main consuming sectors as the consumption of tyres in Russia decreased in both the primary and secondary markets.

The market for 2013 dropped 11% to 254,000 tons. Due to low demand virtually all suppliers increased their exports and in total Russian exports totalled 517,300 tons for 2013 which was 15% up over 2012. An increase in purchases of imported carbon black was recorded by Nokian Tyres (14 times up), and Yokohama R. item Z. (74%).

Russian Methanol Production (unit-kilo tons)

Producer	*Jan-Jun 14*	*Jan-Jun 13*
Shchekinoazot	240.5	200.1
Sibmetakhim	439.3	439.5
Metafrax	533.0	537.0
Akron	39.8	40.0
Azot, Novomoskovsk	168.0	128.1
Angarsk Petrochemical	2.3	1.8
Azot, Nevinnomyssk	59.4	58.5
Togliattiazot (Tomet)	386.8	389.5
Totals	1869.0	1794.5

Methanol & Ammonia

Russian methanol, Jan-Jul 2014

Russian methanol production totalled 1.869 million tons in the first half of 2014 against 1.795 million tons in the same period last year. Shchekinoazot and Azot Novomoskovsk both increased production by around 40,000 tons, accounting for the rise. Production dropped in June this year to 299,000 tons due to maintenance by Tomet.

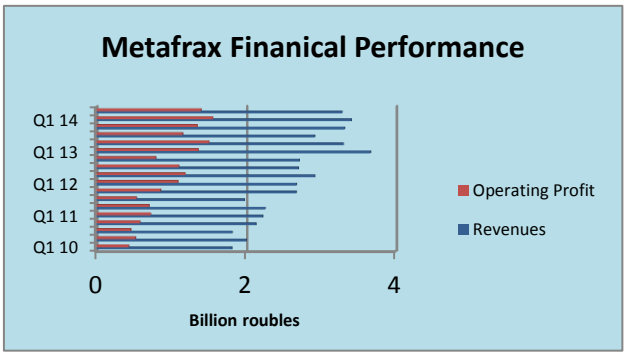
Tomet has signed a contract with RM Rail Ruzkhimmash for the delivery of ammonia and methanol. Delivery includes 244 carriages for transporting ammonia and urea formaldehyde concentrate, and 30 wagons for the transportation of methanol under a contract with Tomet. Products will be shipped before the end of this year.

Metafrax Production (unit-kilo tons)

Product	*Jan-Jun 14*	*Jan-Jun 13*
Methanol	533	537
Formaldehyde	170	151.9
Urea-formaldehyde conc	96	92.3
Hexamine	14.6	11.8

Metafrax, Jan-Jun 2014

Metafrax achieved a net profit of 1.76 billion roubles in the first half of 2014, 2.5% down against 2013. Revenues for the first six months amounted to 6.69 billion roubles, as against 6.96 billion roubles last year earlier. The cost of sales decreased by 8.3% to 3.74 billion roubles, and the gross profit increased by 3% to 2.96 billion roubles. Metafrax is concerned, as with other methanol Russian producers, that sanctions could affect business with European partners although there is no sign at the moment of that happening.



Metafrax produced 533,000 tons of methanol in the first half of 2014 against 537,000 tons in the same period last year. Formaldehyde production increased by 9% to 170,000 tons, urea-formaldehyde concentrate by 6.5% to 96,000 tons and hexamine 1.6 times to 14,600 tons.

In the first half of this year methanol was supplied by Metafrax to Kazakhstan, and international markets via Finnish ports. Utropin was delivered to a wide range of countries including Australia, Germany, Spain, Italy, India, Belarus, Kazakhstan and Ukraine. Pentaerythritol was delivered to the Netherlands, Germany, India, Poland,

Turkey and the CIS markets. Urea-formaldehyde concentrate (UFC) was supplied to Belarus and Ukraine, whilst formaldehyde was supplied to Belarus and Latvia.

Fosagro Production (unit-kilo tons)

Product	Jan-Jun 14	Jan-Jun 13
Ammonia	575.1	521.2
Urea	448.5	459.6
Phosphate fertilisers	2,378.4	2,305.6
Nitrogen fertilisers	374.8	675.2
Ammonium nitrate	157.8	182.3
Aluminium fluoride	14.4	14.1
Phosphoric acid	945.2	874.8
Sulphuric acid	1,103.4	2,187.3
Sodium Tripolyphospahe	64.1	60.0

MetaDynea-investments in formaldehyde and resins

MetaDynea (a subsidiary of Metafrax) has attracted a revolving credit line from Sberbank up to 300 million roubles. Funds will be used for ongoing operations, including working capital. MetaDynea hopes this year to start construction of a new installation for formaldehyde and a parallel project to increase the production of synthetic resins. This will increase urea-formaldehyde resin capacity by 100,000 tpa. MetaDynea manufactures synthetic resins used in the chemical, woodworking, engineering, automotive, tire and other industries. The total design capacity of the two plants is 450,000 tpa.

Commissioning of the plants is scheduled for the first half of 2016. By this time, the production capacity of formaldehyde for the Metafrax group will increase by 300,000 tpa of formaldehyde. In 2012 Metafrax produced 308,000 tons. The reason for investment in formaldehyde capacity is to meet the demand from new potential customers in Russia, including Kronospan at Ufa.

Akron Production (unit-kilo tons)

Product	Jan-Jun 14	Jan-Jun 13
Ammonia	952.1	954.6
Urea	331	315.5
Methanol	39.8	40.0
Formaldehyde	64.7	67.2
Urea-formaldehyde resins	38.6	84.1
Calcium Carbonate	186.9	121.8
Hydrochloric Acid	83.5	70.3

Akron, Jan-Jun 2014

Akron increased commodity production by 6.2% to 3.28 million tons in the first half of 2014. Production of fertilisers increased by 3.7%, amounting to 2.75 million tons. Ammonia fell 0.3% to 952,100 tons and urea by 6% to 331,000 tons.

Akron recorded a net loss for the first half of 2014 of 863.5 million roubles against a net profit of 141.770 million in January to June 2013. The financial results were influenced by the revaluation of investments at market value, the effect of which was minus 1.99 billion roubles, as well as a foreign exchange loss of 1.06 billion roubles. The company's revenue has remained unchanged at 17.180 billion roubles. The gross margin decreased from 8.21 billion roubles to 7.49 billion roubles, whilst the sales profit fell by 10.5% to 5.13 billion roubles.

Akron plans in 2014 to invest $400 million in the development of three strategic projects, as well as maintaining current operations. The most important project involves the construction of the ammonia-4 unit at Novgorod with a capacity of 700,000 tpa. Investment in the project has already exceeded $150 million, accounting for a third of the total project budget.

Russian Butanol Production (unit-kilo tons)

N-Butanol		
Producer	**Jan-Jun 14**	**Jan-Jun 13**
Angarsk Petrochemical	17.8	18.2
Evrokhim	7.8	7.4
Gazprom n Salavat	23.9	41.1
SIBUR-Khimprom	13.2	12.7
Total	62.6	79.3
Isobutanol		
Producer	**Jan-Jun 14**	**Jan-Jun 13**
Angarsk Petrochemical	8.9	9.6
Gazprom n Salavat	13.4	15.3
SIBUR-Khimprom	22.8	23.2
Total	45.0	48.0

Organic Chemicals

Russian butanol market

Export volumes of butanol from Russia in June 2014 amounted to 15,800 tons, 3.9 times more than in May and more than five times higher than in June 2013. Normal butanol exports comprised 71% in June 2014. China accounted for 64% of exports shipments, followed by Finland with 27%. Normal butanols comprised 42% of export shipments. China accounted for 74% of the 4,000 tons, followed by Turkey with 15%.

In the first half of 2014 Russian butanol exports totalled 55,300 tons, 37% less than in the same period in 2013. The share of n-butanol was 55% and isobutanol 45%.

Russian plasticizer alcohols

Russian production of 2-ethylhexanol (2-EH) totalled 53,800 tons in the first half of 2014, against 43,500 tons in the same period last year. DOP exports from Russia totalled 914

tons in the first half of 2014, 2.5 times more than the same period last year. Growth in exports was due to increased production of DOP. Amongst the plasticizer producers, Kamteks-Khimprom increased revenues from 442 million roubles in the first half of 2013 to 510 million roubles in the first half this year, but still the company increased its losses from operations. DOP production totalled 43,900 tons in the first seven months of 2014, 5% up on last year. DOTP production by Ural Plant of Plasticizers amounted to 4,170 tons in the first seven months, showing a significant rise in July.

In June, exports of phthalic anhydride from Russia amounted to 5,620 tons which is 7% less than in May. India was the main destination for Russian exports in June, accounting for 40% of shipments, followed by China with 18% and Finland 10%. For the first half of 2014 Russian exports of phthalic anhydride totalled 36,790 tons, 8% less than the same period last year.

Russian pentaerythitol market, Jan-Jun 2014

Metafrax produced 10,890 tons of pentaerythritol in the first half of the year, 8% less than in the same period in 2013. In the second half of May, demand started to increase in the pentaerythritol alkyd paints market, and the market has been rather tight since then. Prices have risen subsequently.

Russian Pentaerthyitol **Market (unit-kilo tons)**

	H1 14	*H1 13*	*2013*	*2012*
Production	10.9	11.8	21.1	23.2
Exports	6.7	6.1	12.5	11.3
Imports	0.9	1.6	2.65	2.7
Market Balance	**5.1**	**7.2**	**11.2**	**14.7**

A significant reduction in the volume of imports of pentaerythritol in Russia this year has taken place due in part to exchange rate factors. The largest trader of pentaerythritol imported into Russia, GC United Trading System (ETC), has completely stopped purchasing pentaerythritol abroad for economic reasons. Moreover, in the second half of March this year the only sole producer in Russia Metafrax and GK ETC signed a distribution agreement, reducing the need for foreign suppliers. Levels of consumption in the Russian market in the last few years have shown a downward trend, due mainly to the reductions in demand from the alkyd paint manufacturers. The recent upward trend has taken some consumers by surprise, and particularly higher prices, but it is not clear at this stage how long the rally will last

Volzhskiy Orgsintez, Jan-Jun 2014

Volzhskiy Orgsintez achieved a net profit of 500.1 million roubles in the first half of 2014, 22% down on 2013. Revenues dropped from 4.86 billion roubles last year to 4.46 billion roubles this year, whilst the cost of sales declined by 6.8% to 3.26 billion roubles. The reasons for the decline in financial performance were both domestic and foreign markets which restricted sales, particularly for monomethylaniline.

Volzhskiy Orgsintez Main Product Revenues (bil roubles)

Product	*Jan-Jun 14*	*Jan-Jun 13*
Methionine	1.7	1.4
Monomethylaniline	1.8	2.5
Other	1.4	0.6
Total	4.9	4.5

Volzhskiy Orgsintez produces methionine, n-methylaniline (additive to increase the octane number of motor gasoline), vulcanization accelerators of rubber compounds, and carbon disulphide. The main shareholders include are the German-Russian joint venture Farminvestprom (26%), and Rhone Poulenc (25%).

Other Products

Bor-boron chemicals, Primorsk Kray, new products

Mining and Chemical company Bor in the Primorsk Krai in the Russian Far East is considering expanding the product range and to develop its range of enriched ore production. Gold and silver ores represent the first priority, which would add to the boron raw materials already produced. Bor exports around 90% of its production and would like to sell more domestically but import competition provides a barrier to sales.

In the first five months in 2014, Bor produced 34,800 tons, including 34,614 tons of boric acid and 186 tons of calcium borate. Last year, by comparison, the company produced 21,900 tons in the first five months. The Bor plant is located at Dalnegorsk based on the borax mine. The company produces primarily produces boric acid in various grades, boric anhydride and calcium borate. In 2013, the company aimed to produce 91,625 tons but only ended up producing 72,936 tons of boron products due to lower global demand. Furthermore, in order to maintain its share of the global market, the company was forced to reduce prices.

Russian Chemical Production (unit-kilo tons)		
Product	***Jan-Jul 14***	***Jan-Jul 13***
Caustic Soda	520.2	532.0
Soda Ash	1,448.0	1,469.0
Ethylene	1,425.0	1,582.0
Propylene	848.2	768.7
Benzene	666.5	708.3
Xylenes	317.9	311.3
Styrene	369.6	414.9
Phenol	149.5	165.4
Ammonia	9,000.0	8,500.0
Nitrogen Fertilisers	5,100.0	4,910.0
Phosphate Fertilisers	1,800.0	1,852.0
Potash Fertilisers	4,900.0	3,845.0
Plastics in Bulk	3,662.0	3,526.0
Polyethylene	950.0	1,076.0
Polystyrene	318.5	265.4
PVC	394.7	397.9
Polypropylene	588.5	485.2
Polyamide	84.1	77.9
Synthetic Rubber	751.4	872.0

Khimgrad-Kazan expansion plans

SPE Tasma launched the production of food shrink barrier film in the Khimgrad industrial zone at Kazan on 11 August. The investment in the project totalled 303.5 million roubles, financed by loans from Sberbank. The capacity of the plant is 48 million linear metres per annum, providing barrier film used for food packaging.

The Khimgrad industrial zone at Kazan intends to increase the number of residents from around 230 at present up to around 300 by 2016. Khimgrad is Russia's largest chemical-technological park for small and medium businesses, with plans to process 31,900 tons of petrochemicals in 2014 against 28,100 tons in 2013. Petrochemical raw materials used include polypropylene, polyethylene, rubber, neonol, triethanolamine, acetone, etc.

The largest residents in Khimgrad: include NIInefteprom khim, Danaflex-Nano, Gerobplast, Gazplast, Unipack, and the Kazan Plant of Chemicals. NiiNeftekhimprom produces reagents for a wide range of applications, increasing production by 3% in 2013 over 2012 to 18.466 tons. The main suppliers of raw materials for the residents Khimgrad include Nizhnekamskneftekhim, Kazanorgsintez and Nefis Cosmetics.

Khimprom, Volgograd-post chemical plant projects

Due to the company's inability to service its debts, Khimprom has now been put on the stop-list for most of its raw materials. Suppliers are facing their own pressure from major creditors to not supply Khimprom. The local energy company Volgogradenergosbyt, by contrast, says that it is interested in the revival of Khimprom and its creditworthiness, if it is profitable. Raw material shortages could even force some of Khimprom's units to close in the near future, amounting to weeks or months at most.

For the past month Khimprom has been unable to procure products such as hydrogen fluoride, paraffins and oleum. Suppliers that have refused to supply Khimprom include Shchekinoazot and Kinef at Kirishi. Thus it seems only a question of time before Khimprom stops its current production activities and moves towards its new role as revamped business and creating a new range of jobs.

On a positive side a draft reorganisation of Khimprom has been drawn up, involving investments of $25 billion to find a new direction after the anticipated closure of the main facilities by 2015. Khimprom's debt is valued about 10 billion roubles and still rising; the company was recognised as bankrupt in November 2012. More than 85% of the assets of the enterprise are controlled by Rostec and the bank Petrocommerce. Khimprom is the sole Russian producer of PVC emulsion, producing 17,200 tons in 2013.

Russian Soda Ash Market (unit-kilo tons)				
	H1 14	***H1 13***	***2013***	***2012***
Production	1248.2	1235.8	2418.9	2812.7
Exports	194.6	240.2	469.2	579.3
Imports	150.7	295.5	573.3	431.1
Market Balance	1204.3	1291.1	2523.0	2664.5

Russian soda ash market, Jan-Jun 2014

Russian soda ash production rose slightly in the first half of 2014 over 2017, but at the same time market consumption dropped. The largest Russian producer is Bashkir Soda Company (BSC) which has allocated 2.7 billion roubles for investment over 2014.

Already the company has commissioned equipment for separating filtering distilled liquid, enabling soda ash to be produced with virtually no waste. New equipment was supplied by Andritz at a cost of 600 million roubles. BSC will also provide its subsidiary Berezniki Soda Plant (BSZ) with a loan of 70 million roubles, over a period of five years, which is intended to support modernisation.

Rusal Achinsk Alumina Production (unit-kilo tons)		
Product	***2013***	***2012***
Alumina	926	944.8
Soda Ash	488.6	499
Potassium Sulphate	32	30

Another Russian soda ash producer RUSAL Achinsk Alumina (AGC) has been recently fined 39.6 million roubles for emissions and negative effects on the environment. AGC was founded in 1970 and is the largest Russian producer of alumina. The plant has a

capacity for producing 1.069 million tpa of alumina, and additionally produces soda ash from nepheline, aluminium hydroxide and potassium sulphate. Rusal took over the company in 2004.

Belarus

Azot Grodno Production (unit-kilo tons)

Product	*Jan-Jun 14*	*Jan-Jun 13*
Methanol	40.1	37.3
Caprolactam	64.8	56.7
Polyamide primary	43.0	30.1
Polyamide filled	5.2	4.3
Ammonia	553.7	462.8
Urea	539.3	426.0
Fertilisers	407.0	334.6

Belarussian petrochemicals

Naftan and Mozyr refineries have stopped production from mid-August for planned overhaul, according to mid/late September. The Naftan outage does not affect the polyethylene producer Polimir which stopped production for two weeks for scheduled maintenance in late May-early June 2014. Naftan is planning to build a plant for the production of MTBE at Novopolotsk. Naftan currently purchases MTBE from Russia, including producers Omsk Kaucuk, Sterlitamak Petrochemical and Ektos-Volga.

Polimir resumed LDPE production in June after a two-week stoppage for routine repairs. Plant capacity for LDPE at Novopolotsk is 65,000 tpa from total polyethylene capacity of 130,000 tpa. In the first five months of 2014 production of LDPE by Polimir dropped 11% to 60,700 tons. Imports into Belarus totalled 6,200 tons in this period, 10% less than in 2013. For the first six months of 2014 Polimir exported 41,300 tons of LDPE, 1% less than in 2013. Russia remains the main market for Belarussian LDPE, but exports to Ukraine have risen significantly this year. Demand for LDPE from Belarus is expected to grow in both Russia and Ukraine over the next few months.

Belarus increased benzene production by 29% in June to 11.400 tons. This brought total production to 68,500 tons for the first six months in 2014, 4% less than in 2013. Grodno Azot produced 64,900 tons of caprolactam in the period January to June 2014, 5% less than the same period last year. Regarding phthalic anhydride exports to Russia the sole producer Lakokraska at Lida has reduced shipments from 3,500 tons in the first half of 2013 to 505 tons in the same period in 2014.

Ukraine

Ukrainian Chemical Production (unit-kilo tons)

Product	*Jan-Jun 14*	*Jan-Jun 13*
Ammonia	1,780	2.440
Benzene	48.0	58.9
Carbon Black	30.9	30.3
Methanol	46.5	70.8
Urea	572.7	393.9

Ukrainian market overview

Chemical production in Ukraine fell by 20.8% in the first six months in 2014, due mainly to the combined effects of fighting in the east of the country and the loss of two chemical companies in the Crimea. The largest chemical enterprises in Lugansk and Donetsk regions have ceased production of ammonia and nitrogen fertilisers and this is coupled with the loss of Crimean Titan and Crimean Soda. Hostilities are continuing in eastern Ukraine, but the Ukrainian military has eroded much of the rebel influence in the region. The key question is whether the Kremlin will allow Ukraine to rebuild itself or will try to keep the conflict going in any way possible.

Sumykhimprom, Jan-Jun 2014

During the first half of 2014 Sumyhimprom reduced production of mineral fertilizers by 21.4% to 66,900 tons, although sales increased by 4.7%, to 83,700 tons. Titanium dioxide production fell by 20.3% to 9,400 tons and sales by 27.1% to 7,400 tons. The net income for Sumyhimprom in January to June this year decreased by 11% to 741.7 million hryvnia. The gross profit for the first half amounted to 33.3 million hryvnia compared to a loss of 8.6 million hryvnia for January to June 2013. Sumyhimprom produces 35% of complex and superphosphate fertilisers in Ukraine. Through privatisation bidders may be offered a 92.75% stake. The State Property Fund of Ukraine suspended trading in shares in Sumyhimprom in June.

Production of synthetic ammonia in June amounted to 153,000 tons, down 59.8% against June 2013 and 40% less than May 2014. In the first six months, Ukraine has reduced the production of ammonia by 37.1% against 2013 to 1.781 million tons.

The Odessa Portside Plant is expected to be privatised as part of the mass privatisation proposed by the Ukrainian government, which is aimed at yielding much needed revenues.

The main advantage of the Odessa Portside Plant includes the transhipment facilities for receiving and handling ammonia in sea-going vessels. The Cabinet of Ministers included Odessa Port Plant in the list of enterprises to be privatized in 2014. Kyiv expects to receive around $600 million for the asset. Plant facilities include ammonia and urea production of 900,000 tpa and 660,000 tpa respectively, and capacity for handling 4.3 million tpa of ammonia. This is the fourth attempt to

privatize the IPF, the last time he tried to sell in 2009, but the auction was cancelled due to low prices offered by the winner.

Ukrainian Benzene Market (unit-kilo tons)

	2013	*2012*
Production	100.7	80.2
Domestic Sales	9.3	27.7
Exports	63.4	51.5
Imports	1.5	20.4
Consumption	10.8	48.1

Ukrainian benzene, Jan-Jun 2014

Benzene production in Ukraine declined 21% in June against May to 8,100 tons. Zarya at Rubeznoye stopped production in June after producing 1,900 tons in May, whilst Yasinovsky Coke reduced production by 7% to 3,400 tons.

For the first half of 2014 benzene production in Ukraine totalled 48,000 tons against 58,900 tons last year. Due to the fall in demand from the domestic benzene market export activity will represent the most important part of sales for Ukrainian benzene producers at least for the rest of 2014.

Ukrainian oxo-alcohols, Jan-Jun 2014

Phthalic anhydride imports into Ukraine totalled 3,380 tons in the first half this year, 28% down against 2013. DOP imports totalled 2,279 tons which is 8% up on 2013. The main Ukrainian buyers for DOP include Padana Chemical Compounds and Galich-cable. The main domestic producer Polikem restarted production in July but the other producer Lizinvest remains idle due to the instability in the Lugansk region.

Ukrainian methanol, Jan-Jul 2014

The enforced downtime at Azot's Severdonetsk methanol plant, due to the ongoing chaos in eastern Ukraine, means that methanol imports into Ukraine have increased in recent months. In June imports rose six times over May to 2,200 tons, of which 1,800 tons came from Russia and most of the remainder from Belarus. Prices have been rising, in June the average for imports was $470 per ton DAF border Ukraine against $430 per ton in May. Russian methanol is imported at lower prices than from Belarus, ranging at $450 from Russia and $580 from Belarus.

Almost 70% of methanol imported to Ukraine in June went to domestic gas companies, buying 1,500 tons. Resin company KarpatSmol bought 490 tons of Russian methanol, increasing purchases by 80% over May, and Azon-2 increased purchases three-fold to 160 tons. Shchekinoazot is the main Russian company selling methanol on the Ukrainian market, and expects to continue shipping product whilst the Severdonetsk plant remains idle.

Kremenchug Carbon Black Plant

Kremenchug Carbon Black Plant increased production by 25.22% in the first six months in 2014 to 30,998 tons. Last year the plant produced 52,353 tons of carbon black, 12.8% down on 2012. In the second quarter the Kremenchug Carbon Black Plant reduced production volumes against the first quarter by 200 tons to 15,398 tons. The plant produces 10 brands of carbon black, the relevant standards of the USA ASTMD 1765, used in the tyre and rubber industry, in addition to paint production.

Caucasus-Central Asia

Mangistau methanol project

Kazakhstan aims to construct plants for the production of methanol and liquefied natural gas in the Mangistau region in the western part of the country, the name of the company being Kazakhstan Methanol Limited. The cost of the plant is estimated at around $700 million with the chosen location Kuryk. Agreements have been signed with Malaysian partners for the project.

Navoiazot-nitric acid project

Navoiazot has announced a tender for modernisation of production capacities for of nitric acid with the starting price of $185 million. According to the tender terms, the project should be completed within 36 months. The project will be financed from the company's own resources, a loan of Fund for Reconstruction and Development of Uzbekistan, loans of foreign banks, as well as loans of the contractor. The tender proposals will be accepted till 12 September. The tender results will be announced in the end of 2014. The reconstruction will help to increase production of non-concentrated nitric acid by 1.4 times to 500,000 tpa.

UzKorGasChemical-completion Q4 2015

Construction of Ustyurt Gas Chemical at the Surgil deposit in Karakalpakstan is expected to be completed in the fourth quarter of 2015. Previously the plan was to complete construction by late 2016, but the project has advanced ahead of schedule.

UzKorGasChemical was founded by Uzbek and Korean companies in May 2008 to develop, finance, construct and exploitation of integrated gas and oil processing project in Ustyurt region of Uzbekistan. Uzbekneftegaz owns 50% stake in the joint venture, while Uz-Kor Gas Chemical Investment holds 50% share. Korea Gas Corporation (KOGAS), Honam Petrochemical and STX Energy are Korean founders of the venture. The complex gas will be

processed with the production of ethane, liquefied gases and marketable natural gas (3.8 billion cubic metres), from which ethane and LPG will be sent for pyrolysis. There will also be guided and gas condensate in the amount of 162,000 tpa. The cost of the project has been placed at $4.16 billion.

Asian Development Bank, leading European and Asian commercial banks like Korean Financial Corporation, Korean Development Bank, ING Bank, Siemens Bank, Credit Suisse, Bayern LB, KfW IPEX, Nordea and Swedish bank SEK, as well as insurance companies are participating in the financing of the project.

Lotte Chemical has estimated considerable annual sales revenue from UzKorGasChemical. By the fourth quarter in 2015, the Surgil chemicals project in Uzbekistan is expected to be completed and after 2016, the plants could bring in more than 1 trillion won in sales revenue. UzKorGasChemical is a jv with Uzbekneftegaz which is being constructed at a cost of around $4 billion. Based on the gas produced locally, the partners will produce 387,000 tpa of HDPE and 83,000 tpa of polypropylene.

Relevant Currencies

Czech crown. Kc. $1= 20.753. €1 = 25.833: Hungarian Forint. Ft. $1 = 229.448. €1 = 288.154: Polish zloty. zl. $1=3.414. €1 =4.280: Bulgarian leva: $1 = 1.5956. €1= 1.557: Romanian Lei. $1 = 3.555. €1= 4.463: Croatian Kuna HRK. $1 = 5.998. €1= 7.530: Ukrainian hryvnia. $1 = 11.07. €1 = 14.140: Rus rouble. $1 = 36.002. €1= 49.967

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