Chemical Information Resources for East Europe and CIS

# CIREC MONTHLY NEWS

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

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## FEATURES FROM THIS ISSUE

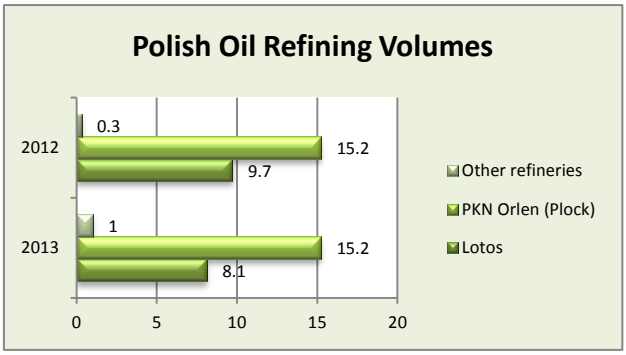
# CENTRAL & SOUTH EAST EUROPE

## Petrochemicals

### Construction of new oil terminal starts at Gdansk

The foundations for a new oil terminal at Gdansk were laid on 26 March, the first phase of which is to be completed by the end of 2015. This project has been in planning for some time, and its importance has been accentuated in terms of energy security by recent events in Ukraine.

Construction of the terminal is being undertaken in two stages. The first is expected to create six tanks for oil with a total capacity of 375 thousand cubic metres, and the infrastructure needed to support these facilities. Completion of the first phase of work, which is estimated to be worth zl 415 million, is planned for the end of 2015. The first phase will allow for the storage and handling of crude oil.




The planned second phase of the project at the terminal comprises additional tanks with a capacity of 325 thousand cubic metres, bringing the total storage capacity of the terminal to 700,000. The terminal is being designed for the storage of petroleum products, chemicals, aviation fuel JET-A and bio added to the fuel. Additionally the terminal could be an important factor for Grupa Azoty and Lotos in determining the possibility of constructing a petrochemical complex at Gdansk. Work on the second stage of the terminal project is expected to be completed by 2018.

### Poland oil refining 2013

Polish refineries processed 24.3 million tons of crude oil in 2013 against 25.2 million tons in 2012. A total of 93% was processed in domestic refineries in 2013, whilst 85% of oil came from Russia via the pipeline Druzhba. PKN Orlen processed 15.6 million tons (an increase of 0.5%), whilst Grupa Lotus processed 8.7 million tons (a decrease of 10%). The start of commercial production of unconventional hydrocarbons (primarily shale gas) in Poland is not anticipated prior to 2020 according to PKN Orlen.

**Main Refining Competitors for Lotos**

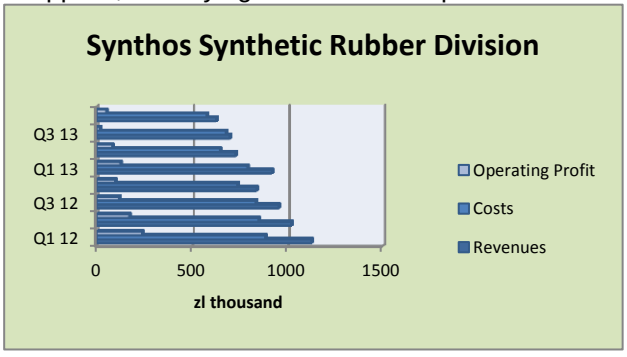
| Company | Location | Capacity (million tpa) |
|---|---|---|
| PKN Orlen | Plock | 16 |
| PKN Orlen | Mazeikiu | 10 |
| PCK Raffinerie | Schwedt | 11 |
| OMV | Schwechat | 10 |
| Slovnaft | Bratislava | 6 |
| Total | Leuna | 12 |
| Unipetrol | Litvinov, Kralupy & Pardubice | 4 |

PKN Orlen expects an improvement in results from the refining sector in 2014 even though the medium term outlook remains difficult. In Lithuania, PKN Orlen wants to build a product pipeline from Mazeikiu to the port of Klaipeda. Development plans for Orlen Lietuva, depend on approval of the pipeline. An estimate has placed the project's investment budget at around $110 million.

**Lotos Feedstock Revenues (zl thousand)**

| | *Jan-Dec 13* | *Jan-Dec 12* |
|---|---|---|
| Naphtha | 824,241 | 1,097,071 |
| Xylenes | 277,635 | 0. |

For Lotos, feedstocks are supplied mainly via a system of pipelines and by sea. Lotos is thus consistently pursuing a policy of diversifying the direction and sources of crude oil supplies, and trying to make full capitalisation of the coastal location of the Gdansk refinery. This includes the possibility of sourcing crude supplies through two independent channels, comprising Russian oil through the Druzhba Pipeline and various types of oil available through Naftoport at Gdansk.




## Chemicals

### Synthos 2013

Synthos achieved a net profit of zl 417 million in 2013, zl 170 million less than in 2012. Last year the Synthos

Group tried to adapt to the market conditions which helped to a degree but revenues dropped from zl 6.2 billion in 2012 to zl 5.36 billion in 2013. The operating profit dropped from zl 776 million to zl 453 million. Despite the market weakness synthetic rubber remains the largest source of revenues in the group, accounting for zl 2.98 billion or 56% of revenues in 2013. In 2012 rubber accounted for 64% of revenues. In second place in terms of importance for Synthos in 2013 were styrene plastics which accounted for zl 1.96 billion or 37% of total revenues in 2013. This was against 29% in 2012.

**Synthos-Main Product Revenues (zl thousand)**

| | *Jan-Dec 2013* | *Jan-Dec 2012* |
|---|---|---|
| Revenues | 5,360.00 | 6,201.0 |
| Costs | 4,904.6 | 5,501.0 |
| Operating Profit | 455.0 | 700.0 |
| | | |
| ***Product Group*** | ***Jan-Dec 2013*** | ***Jan-Dec 2012*** |
| Synthetic Rubber | 2,976.3 | 3,943.46 |
| Polystyrene | 1,962.1 | 1,883.91 |
| Dispersions | 107.6 | 101.74 |
| Energy | 267.1 | 214.91 |
| Others | 47.0 | 58.0 |
| Total | 5,360.0 | 6,201..0 |

The graphic on page 2 above illustrates the problems for synthetic rubber sales for Synthos in the past two years, reflecting the wider problems of the global rubber industry. To achieve any sort of profit in 2013 represented a significant challenge.

Synthos is heavily focused at present on construction of its new SSBR project at Oswiecim. The license was purchased from Goodyear Tyre & Rubber in June 2012, including know-how. The project is expected to create at least 160 new jobs; the planned completion of the investment is June 2015. An important task being currently undertaken involves the expansion of the Central Warehouse Butadiene 3 new spherical tanks at Oswiecim with the accompanying infrastructure.

Synthos is the largest European producer of emulsion rubber (ESBR), and currently produces 14 different types of rubber products. Synthos produces ESBR by the polymerisation of butadiene and other chemicals (styrene, acrylonitrile or the appropriate organic acid). The tyre industry is a key driver of demand for ESBR, accounting for an 80% share in sales of elastomers by the group. The rest of the turnover ESBR sales come from markets other than the tire, for example the production of technical rubber, bottoms footwear, hoses and conveyor belts.

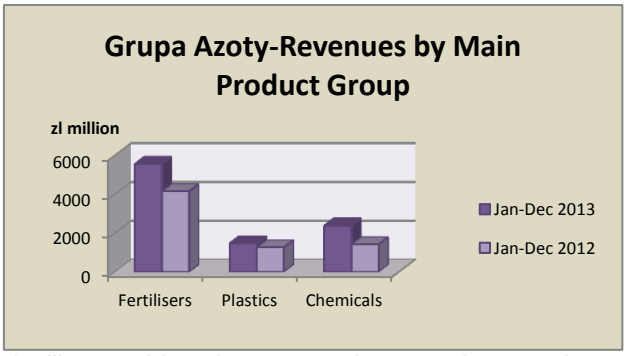
**Polish Tyre Production (unit-thousand pieces)**

| *Product* | *Jan-Feb 14* | *Jan-Feb 13* |
|---|---|---|
| Car Tyres | 5070.0 | 4957.8 |
| Bus & truck Tyres | 784.0 | 820.0 |
| Agricultural tyres | 55.1 | 295.5 |

The aggregate production capacity for synthetic rubber is 280,000 tpa, which will rise to 370,000 tpa in 2015. Most synthetic rubbers are sold to the car tyre producers such as Michelin, Continental, Bridgestone, Goodyear and Pirelli. Other rubber sales are directed to consumers for the production of rubber floor coverings, conveyor belts, technical rubber products (especially for the automotive industry) and footwear components.

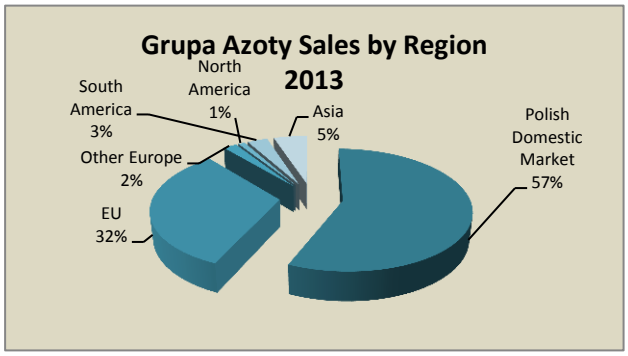
## Grupa Azoty 2013

Grupa Azoty ended 2013 with sales revenues of zl 9.8 billion rising from zl 7.1 billion in 2012. The operating profit rose from zl 372 million to zl 703 million, whilst the next profit rose from zl 315 million to zl 714 million. However the financial results for 2012 were assisted by one-off events worth zl 469 million and the incorporation of ZA Pulawy into the group. After eliminating these events, the consolidated net profit was zl 245 million, lower than in 2012 due to the difficult market situation in the core businesses.




The fertiliser division of the group increased revenues by 35% in 2013 over 2012 mainly as a result of the consolidation process. The EBITDA margins for fertilisers achieved 11.5% against 10% in 2012 due to a significant decline in the prices of raw materials such as phosphates, potassium or sulphur. The EBITDA for the chemical division achieved only 3% even though revenues increased by 60% as the result of reorganisation. Falling prices for oxo alcohols, pigments and plasticizers suppressed profit margins. Part of the losses, was offset by better margins for titanium dioxide.

The plastics division experienced a difficult year, particularly for caprolactam and polyamide. The situation was not helped by high prices of raw materials such as benzene and phenol. High prices for methanol together with a strong market competition for polyoxymethylene (Tarnoform) also contributed towards losses for the group.




### Grupa Azoty Pulawy 2013

Grupa Azoty Pulawy earned a net profit of zl 305 million in 2013, the best performance in the entire Azoty group. Even so the net profit was still down from zl 487 million achieved in 2012. Revenues dropped from zl 3.98 billion in 2012 to zl 2.8 billion in 2013. The company also recorded a fall in EBIT from zl 505 million to zl 340 million. Fertilisers accounts for 60% of revenues from Pulawy, with the 40% from chemicals comprising products such as melamine and caprolactam.

### Grupa Azoty Kedzierzyn 2013

Grupa Azoty Kedzierzyn achieved a net profit of zl 85 million in 2013 against zl 116 million in 2012. Sales revenues totalled zl 2.1 billion against zl 2.2 billion in 2012. Kedzierzyn is distinguished from the other plants in Grupa Azoty by its production facilities for oxo alcohols. The company experienced a weaker fourth quarter, partly influenced by seasonal factors, and achieved a net loss of zl 4.0 million in the last three months of the year.

**Grupa Azoty Merchant Sales Revenues (zl million)**

| *Product* | *2013* | *2012* |
|---|---|---|
| Caprolactam | 573 | 690 |
| Polyamide | 770 | 842 |
| Urea | 425 | 533 |
| Sulphur | 127 | 233 |
| Oxo Alcohols | 689 | 772 |
| Melamine | 415 | 338 |
| Titanium Dioxide | 320 | 391 |

This year, Grupa Azoty Kedzierzyn will allocate investments worth around zl 180 million. The main aim is to start the construction of the new power plant. Other projects include upgrading the urea plant in order to meet updated environmental requirements and further improvements in ammonia production related to the compressor to the cooling system. Finally, one of the most important investments includes plans to produce plasticizers based on terephthalate.

### Grupa Azoty Police 2013

Grupa Azoty Police achieved a net profit of zl 50 million in 2013 against zl 102 million in 2012, with sales revenues of dropping from zl 3 billion to zl 2.5 billion. This was a relatively good result considering market stagnation. Falling prices caused by lower demand of chemicals caused the decreased revenues and profits. Aside fertilisers, Grupa Azoty Police produces titanium dioxide.

### Grupa Azoty-gas supply security

The annexation of Crimea by Russia raises the spectre of gas supply security should sanctions be increased. The Polish fertiliser industry would be affected significantly, and Grupa Azoty in particular. Overall Grupa Azoty consumes about 2.2 billion m3 of gas per annum, a large share of which is supplied by the Polish company PGNiG from Russia. Conversely since the gas supply via Lasow is now possible, whilst other opportunities exist for receiving through Cieszyn.

Moreover In 2014 Polish importers are likely to gain access to the Lasow interconnector on the Western border, as well as the virtual and actual pipeline transmission reversal in the Yamal-Europe pipeline. Polish companies will be able to import 6.7 billion cubic metres of natural gas from Germany, with prices possibly cheaper than gas bought from Russia. In addition, the issue of shale gas is expected to enter the equation at some stage, although this will not be of help in the short term.

**Grupa Azoty Raw Material Suppliers (zl thousand)**

| *Company* | *2013* | *2012* |
|---|---|---|
| PGNiG | 2270.7 | 1127.3 |
| Kompania Weglowa | 176.2 | 427.0 |
| PKP Cargo | 115.0 | 49.2 |
| PKN Orlen | 262.1 | 196.4 |
| Tauron | 126.9 | 135.2 |
| PGE | 165.2 | 104.5 |
| Enea | 2.0 | 189.0 |
| PKO BP | 548.6 | 162.4 |
| Total | 3666.8 | 2390.9 |

The LNG terminal in Swinoujscie when opened will provide Grupa Azoty and Poland with a significant alternative in gas supply. However, costs are paramount and with supplies from Russia still representing the most cost-effective source Grupa Azoty is negotiating with PGNiG over the supply of gas. In 2011 Poland bought only 9% of total gas imports from sources other than Gazprom but this figure is increasing rapidly. Within 2-3 years more than half of all gas supplies could be outside of Gazprom.

### Grupa Azoty raw materials 2013

Grupa Azoty is the largest producer of ammonia in Poland, which is produced in several plants, whilst the group is also the largest consumer. As a result there is considerable intra-plant trade, mostly being shipped outwards from the Police and Kedzierzyn plants whilst Tarnow is the main recipient.

The supply of phosphate rock is sourced on the basis of fixed-term contracts or spot contracts, from North Africa. Grupa Azoty pursues a diversified supply strategy, including a large extent based on its own deposits (Senegal), which gives a significant competitive advantage.

**Polish Chemical Production (unit-kilo tons)**

| *Product* | *Jan-Feb 14* | *Jan-Feb 13* |
|---|---|---|
| Caustic Soda Liquid | 53.0 | 53.7 |
| Caustic Soda Solid | 16.0 | 14.5 |
| Soda Ash | 172.9 | 166.0 |
| Ethylene | 89.1 | 85.7 |
| Propylene | 63.0 | 57.4 |
| Butadiene | 9.9 | 10.2 |
| Toluene | 2.9 | 2.1 |
| Phenol | 4.6 | 5.2 |
| Caprolactam | 27.6 | 28.6 |
| Acetic Acid | 1.1 | 1.5 |
| Polyethylene | 63.5 | 62.5 |
| Polystyrene | 9.9 | 9.1 |
| EPS | 10.3 | 10.8 |
| PVC | 54.4 | 46.7 |
| Polypropylene | 42.6 | 43.0 |
| Synthetic Rubber | 32.7 | 31.7 |
| Ammonia (Gaseous) | 230.0 | 220.0 |
| Ammonia (Liquid) | 238.0 | 237.0 |
| Pesticides | 6.6 | 4.1 |
| Nitric Acid | 412.0 | 414.0 |
| Nitrogen Fertilisers | 334.0 | 343.0 |
| Phosphate Fertilisers | 51.6 | 64.7 |
| Potassium Fertilisers | 38.0 | 46.5 |

The main suppliers of potassium (KCl) are from the Eurasian Customs Union, due to the rich sources of raw materials and competitive trading conditions. Deliveries are made on the basis of quarterly contracts. Supplementary supply comes occasionally from West Europe.

Sulphur is sourced from petrochemical companies as well as supplementary supplies of newly purchased company Grupa Azoty SIARKOPOL (the largest producer of liquid sulphur in Poland and in the region). Grupa Azoty is the largest consumer of liquid sulphur in Poland and Central Europe.

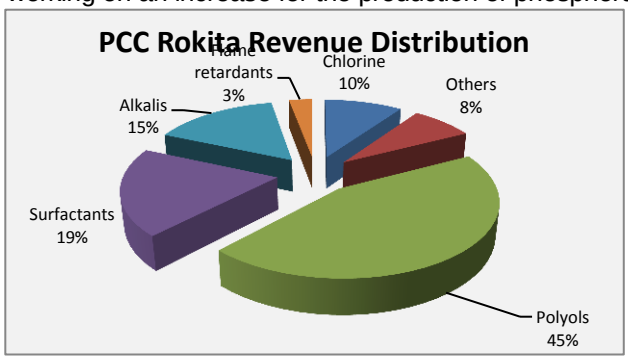
The supply of propylene is most directly to Kedzierzyn for oxo alcohol production, and the group operates mostly through annual contracts. Most of the propylene in 2013 was sourced from West Europe. Deliveries of orthoxylene are carried out mainly on the basis of annual contracts and some spot. Phenol is purchased primarily from sources in West Europe and PKN Orlen. In addition, Grupa Azoty began a regular supply from Scandinavia as a supplementary supply.

Deliveries of methanol for the group are carried out mainly on the basis of annual contracts. As Poland is not a producer of methanol domestic demand is covered largely by imports from Russia. Benzene supply is met from domestic sources and from Central and East Europe.

## PCC Rokita 2013

PCC Rokita's revenues increased 4.2% in 2013 to zl 1.1 billion from zl 1.06 billion in 2012. The operating profit was zl 77.2 million in 2013 against zl 73.9 million, whilst the net profit dropped 78% from zl 209.74 million to zl 58.3 million. The fall in net profit was due to the deconsolidation of a subsidiary PCC Exol.

The key to the group's investment plans includes the construction of the membrane electrolysis unit which is already at an advanced stage. The polyol business unit reported a significant increase in sales volumes in 2013 due to the start-up of the fourth production line and the significant increase in production capacity. The group is working on an increase for the production of phosphorus trichloride and phosphorus oxychloride by up to 150% of current capacity.




PCC Rokita announced that on 12 March 2014 that intended to conclude the agreement signed on 20 December 2012 with Total Petrochemicals for the supply of propylene. The contract was intended to last two years when concluded in 2012. Propylene is one of the key raw materials for production by PCC Rokita.

Later this year, PCC Rokita plans to conduct a public offering of shares in order to provide the capital to support investment of zl 50 million in polyurethanes. PCC Rokita intends to increase the production capacity of polyols from 100,000 tpa to 130,000 tpa and for polyurethanes from 20,000 tpa to 50,000 tpa.

The new polyurethane systems will provide primarily for the furniture industry and construction, in particular for use in thermal insulation. The long-term business strategy envisages PCC Rokita concentrating on polyols and polyurethane systems. The group intends to focus on the development of specialty products while reducing its share in the portfolio of standard products.

# RUSSIA

| Russian Chemical Production (unit-kilo tons) | | |
|---|---|---|
| ***Product*** | ***Jan-Feb 14*** | ***Jan-Feb 13*** |
| Caustic Soda | 170.0 | 181.4 |
| Soda Ash | 430.0 | 458.0 |
| Ethylene | 455.0 | 444.0 |
| Propylene | 211.1 | 202.7 |
| Benzene | 211.0 | 207.0 |
| Xylenes | 91.8 | 82.8 |
| Styrene | 110.4 | 98.7 |
| Phenol | 48.3 | 48.7 |
| Ammonia | 2,600.0 | 2,500.0 |
| Nitrogen Fertilisers | 1,500.0 | 1,435.0 |
| Phosphate Fertilisers | 600.0 | 523.0 |
| Potash Fertilisers | 1,400.0 | 926.0 |
| Plastics in Bulk | 1,055.0 | 944.0 |
| Polyethylene | 314.0 | 288.0 |
| Polystyrene | 83.8 | 69.6 |
| PVC | 111.9 | 114.2 |
| Polypropylene | 146.9 | 118.1 |
| Polyamide | 24.0 | 21.5 |
| Synthetic Rubber | 231.0 | 275.0 |
| Synthetic Fibres | 21.5 | 20.0 |
| Naphtha | 2,300 | 2,100.0 |

### Russian chemical industry, Jan-Feb 2014

Russian polymer production in January-February 2014 increased by 10.9% compared to the same period in 2013, rising up to 1.078 million tons. Polypropylene rose by 10.2% to 146,900 tons whilst polystyrene increased by 9.2% to 83,800 tons. At the same time production of PVC decreased by 6.3% to 152,400 tons.

Production of synthetic rubber fell by 15.4% to 231,000 tons as producers responded to weak markets by cutting production. There have been some more recent signs, however, in some slight improvement in rubber demand.

Events in Ukraine have progressed rapidly in the past few weeks and it remains too early to gauge the possible economic effects of Russia's annexation of Crimea. For companies such as SIBUR, the conflict between Russia and Ukraine does not have much direct impact, either in terms of competition or as a market. For companies from Tatarstan the Ukrainian market has more importance in terms of rubber and tyre sales, polyethylene, etc. On a wider scale the Eurasian Customs Union project, as promoted by Moscow, looks ineffective without the participation of Ukraine.

### Russian safety issues, Feb/Mar 2014

In recent weeks a number of accidents have taken place in chemical and refining industry in Russia, reflecting the problems of out-dated equipment and health and safety issues. Omsk Kaucuk's fire and explosion in March at its phenol and acetone plant on 6 March followed other recent incidents at Stavrolen's petrochemical plant at Budyennovsk, and the Kuibyshev refinery.

The Kuibyshev refinery suffered a fire on 7 March, whilst similar incidents took place in February at the Ryazan refinery and TAIF-NK's naphtha unit at Nizhnekamsk. Following the huge Nizhnekamsk fire at the start of March TAIF-NK suspended the production of motor gasoline for at least two months, although it has continued oil refining and other production. Processing capacity of the refinery is 8 million tpa, including 7 million tpa of oil and 1 million tpa of gas condensate. Under normal conditions the plant is capable of providing more than 50% of motor gasoline consumed in Tatarstan.

| Russian Refinery/Petrochemical Plant Incidents, Feb-Mar 2014 | | | | |
|---|---|---|---|---|
| ***Company*** | ***Location*** | ***Accident site*** | ***Date*** | ***Repair Time*** |
| Rosneft | Ryazan Ref | Rail car crash | 10 Feb | Two weeks |
| Lukoil (Stavrolen) | Budyennovsk | Olefin unit | 26 Feb | Up to one year |
| Taneko | Nizhnekamsk | Motor gasoline | 3 Mar | Two months |
| Omsk Kaucuk | Omsk | Phenol & acetone | 6 Mar | Six months |
| Rosneft | Kuibyshev Ref | Crude distillation | 7 Mar | n/a |

The government has applied stricter safety conditions on plant management, but the age of the equipment is primary cause of some accidents which can only be resolved through investment. An unscheduled on-site inspection at Budyennovsk, which was conducted by commission RPN following the accident on 26 February, revealed no violations of environmental laws by Lukoil. However, investments in equipment are required to avoid similar incidents recurring. In the meantime Stavrolen will be idle for an extended period affecting olefin and polyolefin markets whilst Omsk Kaucuk will be down for up to six months affecting phenol and acetone markets.

## Russian petrochemical investments

### Nizhnekamskneftekhim ethylene project

Nizhnekamskneftekhim sees no cause for concern from possible isolation regarding its project investments. In recent weeks the company has continued its negotiations for financing the 1 million tpa cracker from export credit agencies Hermes (Germany), Atradius (The Netherlands) and SACE (Italy). The project is

currently at the stage of project documentation, and the overall costs of investment are placed $3 billion. The company still retains its target of a 2017 start-up.

| Nizhnekamskneftekhim Project Plans 2017-2018 | |
|---|---|
| **Product** | Capacity |
| **Ethylene** | 1000 |
| **Propylene** | 559 |
| **Benzene** | 243 |
| **Butadiene** | 123 |
| **Isobutylene** | 68 |
| **C9** | 62 |

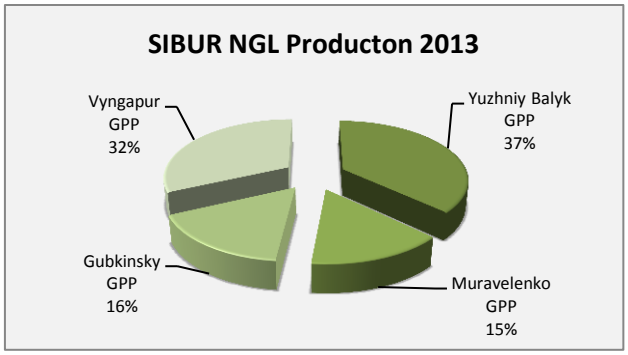
Nizhnekamskneftekhim is currently reconstructing its units for the production of hydrocarbons and butadiene in order to improve its performance and energy savings. In early March, the central gas fractionation plant replaced internal devices for the extractive distillation column K-2, where C4-C5 hydrocarbon fractions are separated.

### Rosneft tender for study of gas processing plant in Irkutsk region

Rosneft has announced a tender for a feasibility study to build a gas-processing complex on the Bratsk gas condensate field in the Irkutsk region. The contractor will be required to study the production of methanol, synthetic liquid hydrocarbons by the Fischer-Tropsch (GTL) or liquefied natural gas. Helium may also be included. The processing capacity could reach 200-422 million cubic metres per annum. Rosneft has yet to find ways to develop the Bratsk gas field, which it took over from Itera last year through acquisition. The composition of gas from the field comprises 86.6% methane, and 6.6% ethane.

### Vyngapur to become centre for natural & associated gas for SIBUR

Vyngapur in the Yamal-Nenets region of West Siberia has grown in importance for SIBUR in recent years, particularly following the start-up of the gas processing facilities in 2012. Vyngapur is now becoming a regional centre for the disposal of natural and associated gas.




SIBUR has recently approved the expansion of Vyngapur Gas Processing Plant in order to allow the processing of associated gas from the fields of Russneft (not to be confused with Rosneft). Construction of the new line will increase the capacity for associated gas from 2.8 to 4.2 billion cubic metres per annum. For the transport of associated gas to Vyngapur Russneft plans to build a gas pipeline over 100 km. The oil company is already one of the suppliers of associated gas to the processing plants at Nizhnevartovsk and Belozerny which belong to SIBUR through Yugragazpererabotka.

**SIBUR's Monomer & Intermediate Production (unit-kilo tons)**

| *Product* | *Jan-Dec 13* | *Jan-Dec 12* |
|---|---|---|
| Benzene | 134.2 | 134.8 |
| Styrene | 159.7 | 161.7 |
| PTA | 259.7 | 252.1 |
| Propylene | 310.4 | 328.0 |
| Ethylene Oxide | 82.9 | 80.3 |
| Butadiene | 195.9 | 212.1 |
| Isoprene | 8.7 | 13.9 |
| Isobutylene | 39.4 | 37.4 |
| Ethylene | 533.3 | 540.4 |
| Other Intermediates | 720.0 | 1044.3 |
| Other Chemicals | 662.1 | 837.5 |
| Purchases from 3rd parties | 4.9 | 13.1 |
| Total | 3111.1 | 3655.6 |

In 2013, SIBUR and Russneft entered into a new long-term agreement on the supply of associated gas until 2025 for about 16 billion cubic metres. SIBUR commissioned the Vyngapur gas processing plant in September 2012, built on the compressor station of the same name. Currently, Gazprom Neft is the major supplier of associated gas to Vyngapur.

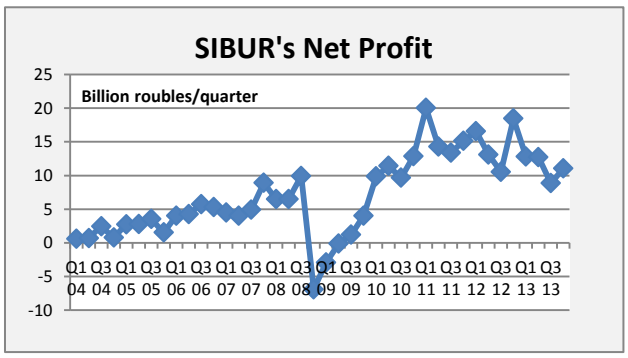
## Russian petrochemical producers & markets

### SIBUR performance 2013

SIBUR's revenues totalled 269.814 billion roubles in 2013 against 271.330 billion roubles in 2012. The energy product group delivered strong performance on higher volumes despite lower prices.

The good performance of plastics and organic synthesis products was attributable to higher production following the commercial launch of the second EPS production line at Perm in 2012 and the expansion of BOPP-films production capacity at Tomsk in the fourth quarter of 2013.

However, these plant start-ups were fully offset by declining revenue from sales of synthetic rubber, intermediates and other chemicals, processing services, trading and other sales. As with other global producers, SIBUR's synthetic rubber business remained under pressure in 2013.




The decommissioning of non-core and obsolete facilities at Dzerzhinsk, moreover, resulted in a decline in revenue from sales of intermediates and other chemicals.

The 2013 EBITDA amounted to 78.862 billion roubles, a decline of 4.2% from 82.291 billion roubles in 2012. The EBITDA margin totalled 29.2% compared to 30.3%. The decrease in EBITDA and EBITDA margin was primarily attributable to tighter spreads between feedstock and end-product prices, particularly in the synthetic rubber product group. The net profit totalled 45.458 billion roubles in 2013 against 60.085 billion roubles in 2012, with the profit margin dropping from 22.1% to 16.8%.

## SIBUR energy 2013

SIBUR continues to expand its own electric power generating capacity in order to reduce exposure to higher electricity prices from third-party suppliers. In September 2012, SIBUR launched a 7.2 MW power unit at the Vyngapur GPP site to ensure the GPP's independence from third-party suppliers. In 2013, SIBUR started construction of an 18 MW power plant at the Perm production site. The plant is scheduled for launch in 2014 and is expected to meet approximately 40% of the site's electric power needs.

| SIBUR's Revenues by Product % | | |
|---|---|---|
| ***Product*** | ***2013*** | ***2012*** |
| LPG | 22.5 | 20.2 |
| Naphtha | 9.7 | 9.5 |
| Natural Gas | 9.9 | 9.2 |
| MTBE | 6.9 | 6.2 |
| Crude Gas Liquids | 3.5 | 1.4 |
| Other Fuels/Additives | 1.1 | 1.2 |
| **Energy Group** | **53.6** | **47.7** |
| ***Product*** | ***2013*** | ***2012*** |
| Polyethylene | 4.5 | 4.5 |
| Polypropylene | 4 | 3.6 |
| Commodity Rubbers | 8 | 10.9 |
| Speciality Rubbers | 2.9 | 3.2 |
| Thermoelastomers | 1.1 | 1.1 |
| **Polyolefins & Rubber Group** | **20.5** | **23.3** |
| ***Product*** | ***2013*** | ***2012*** |
| PET | 3.6 | 4.2 |
| BOPP | 3 | 2.2 |
| Glycols | 2.6 | 2.4 |
| EPS | 2.4 | 1.5 |
| Alcohols | 2.1 | 2.1 |
| Acrylates | 1 | 1.1 |
| Plastic Compounds | 0.7 | 0.9 |
| **Plastics & Organics Group** | **15.4** | **14.4** |
| ***Product*** | ***2013*** | ***2012*** |
| Benzene | 0.5 | 0.7 |
| Styrene | 0.7 | 0.9 |
| PTA | 1 | 1 |
| Propylene | 0.1 | 0.6 |
| Ethylene Oxide | 1.1 | 0.7 |
| Butadiene | 0 | 0.2 |
| Isoprene | 0.3 | 0.5 |
| Isobutylene | 0.2 | 0.3 |
| Other Intermediates | 1 | 1.1 |
| Other Chemicals | 2 | 2.9 |
| Others | 3.6 | 5.7 |
| **Intermediates Group** | **10.5** | **14.6** |
| **Total** | **100** | **100** |

Heat energy is sourced by SIBUR in the form of steam and hot water from regional suppliers at regulated prices. In order to minimize dependence on third-party providers, SIBUR generates a substantial portion of heat energy (approximately 50% of the total heat consumed in 2013) at its own production sites.

In 2013, revenue from sales of energy products of increased by 11.8% to 144,716 billion roubles from 129.409 billion roubles in 2012. SIBUR benefited from the depreciation of the rouble relative to dollar, which partially compensated for the decline in global oil and oil derivative prices in US dollar terms. In 2013, 48.6% of SIBUR's revenues from energy product sales came from the domestic market, while export sales accounted for 51.4%.

Revenues from LPG sales increased by 11.1% in 2013 to 60.823 billion roubles from 54.760 billion roubles in 2012 on higher sales volumes and a largely flat effective average selling price. LPG sales volumes increased by 10.5%, attributable to a 6.2% production rise due to higher fractionation volumes.

The growth in sales volumes was also attributable to lower internal use, as well as lower intercompany sales to the petrochemical business due to the partial replacement of LPG by crude NGLs as a cracking feedstock. In 2013, domestic sales accounted for 20.4% of total LPG revenue, while 79.6% was attributable to export sales.

## SIBUR petrochemicals 2013

SIBUR's revenue from sales of petrochemical products declined by 8.2% in 2013 to 116.018 billion roubles from 126.439 billion roubles in 2012. The decline was primarily attributable to the weak performance of the synthetic rubber product group. A decline was also reported in revenues from intermediates and other chemicals due to the decommissioning of the Kaprolactam division at Dzerzhinsk.

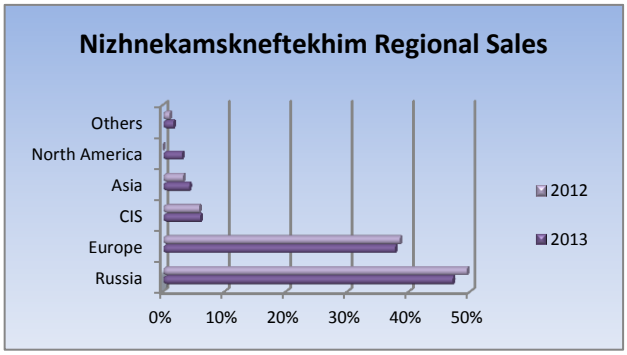
This was partially offset by good performance in plastics and organic synthesis products, including the effects of the acquisition of the Biaksplen group of companies for BOPP production. Higher production and sales volumes in basic polymers group on extended trading and the launch of Tobolsk-Polymer additionally supported revenue in 2013. SIBUR's revenue from petrochemical exports was also positively affected by the Russian rouble's depreciation.

| Nizhnekamskneftekhim Revenues (Bil roubles) | | |
|---|---|---|
| ***Product*** | ***2013*** | ***2012*** |
| Rubbers | 53.8 | 59.8 |
| Plastics | 36.7 | 33.5 |
| Olefins and derivatives | 25.4 | 24.9 |
| Other products | 10.2 | 12.3 |
| **TOTAL** | **126 0** | **130.5** |

### Nizhnekamskneftekhim 2013

Nizhnekamskneftekhim's profitability in 2013 was affected by the weakness in global rubber markets combined with higher costs. The company's net profit in 2013 dropped from 17 billion roubles in 2012 to 6 billion roubles in 2013, whilst revenues dropped 3.4% from 130.5 billion roubles to 126.0 billion roubles.

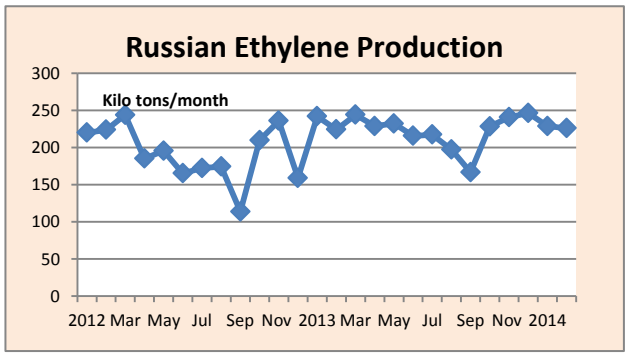
A 20% fall in the price of natural rubber was a major cause of lower profits, whilst rising energy prices contributed to the fall. Another factor was a decline of butadiene monomer prices by almost 40%, which negatively affected butadiene rubber prices.




Despite the weak market Nizhnekamskneftekhim increased rubber production in 2013 and sold 60,000 tons more in 2013. Compared to 2012 production of rubbers increased by 8.6%, whilst plastics production grew by 6.8% helped by the new ABS plant.

Total production increased by 0.9% to 2.269 million tons, with synthetic rubber production increasing by 8.6% (by 51,000 tons) up to 640,000 tons. Plastics production increased by 6.8% (by 41,000 tons) up to 647,000 tons.

Structural changes in production reflect the efforts of the company to shift more volumes of low-margin monomers into higher value-added petrochemicals such as rubbers and plastics. Despite low margins Nizhnekamskneftekhim increased sales in physical volumes to large tyre producers via long-term contracts, which account for approximately three quarters of rubber shipments. This allowed to strengthen the market share of the company (approximately by 1.5% for isoprene rubber and by 0.2% for butadiene rubber), as well as avoid growth in inventories and decreases in capacity utilisation.




For 2013, the EBITDA for Nizhnekamskneftekhim amounted to 13.209 billion roubles, a 42.4% decrease against 2012 whilst the EBITDA margin was 10.5%. Profit before income tax decreased by 53.4% to 9.214 billion roubles.

### Russian olefins, Jan-Feb 2014

Ethylene production amounted to 225,800 tons in February, with most producers showing a fall. Lower naphtha and NGL prices in March helped reduce ethylene prices by 2% to 31,700-31,900 roubles per ton including VAT. Propylene prices by 15% fell due in part to high inventories and also the accident at Omsk Kaucuk which meant that propylene demand was affected.

After completion of the repair work SIBUR-Kstovo produced 21,200 tons of ethylene in February which was six times more than in January. Ufaorgsintez reduced ethylene production by 14% to 10,000 tons, Angarsk Polymer Plant by 10%, to 17,200 tons. Stavrolen reduced ethylene production 18% to 24,200 tons, with the plant stopping on 26 February due to the accident which will now keep the plant out of action for an extended period.

### Russian propylene & propane-propylene fractions

Russian plants shipped 41,100 tons of propylene to the domestic market, 1.6 times more than in January. The resumption of activity by SIBUR-Kstovo resulted in an increase in sales by 12.1 times to 11,500 tons. In addition, Gazprom neftekhim Salavat doubled deliveries to 3,100 tons from January to February. At the same time Lukoil-

**Russian Propylene Sales by Consumer (unit-kilo tons)**

| *Consumer* | *Jan-Feb 14* | *Jan-Feb 13* |
|---|---|---|
| Ufaorgsintez | 3.6 | 4.9 |
| Omsk Kaucuk | 9.9 | 0 |
| Samaraorgsintez | 0.0 | 1.4 |
| SIBUR-Khimprom | 6.0 | 13.9 |
| Volzhskiy Orgsintez | 2.4 | 1.2 |
| Khimprom Kemerovo | 0.0 | 0.2 |
| Saratovorgsintez | 18.1 | 26.5 |
| Zavod of Isopropanol | 1.0 | 0 |
| Kazanorgsintez | 0.0 | 0.9 |
| Akrilat | 10.3 | 2.0 |
| Tomskneftekhim | 0.0 | 0.6 |
| Total | 51.3 | 51.5 |

NNOS decreased by 8% to 13,600 tons and from the Angarsk Polymer Plant by 3% to 7,100 tons. In the first two months in 2014 domestic companies purchased 66,200 tons of Russian monomer, 13% up on 2013.

Russian producers of propane-propylene fractions reduced domestic sales in the domestic market by 27% in February to 14,200 tons. In the first two months in 2014 sales to the Russian market amounted to 33,718 tons, 1.6 times more than in 2013. Tobolsk-Polymer increased the utilisation rate of the propane dehydrogenation plant to 77% in March. By 13 March the plant had achieved a rate of 48 tons per hour or 68% of capacity which rose by 18 March to 77%. The polypropylene plant is running at around 250,000 tpa at present from the total capacity of 500,000 tpa.

## Bulk Polymers

### Russian polyethylene exports, Jan-Feb 2014

Russian producers increased exports of polyethylene in February on the back of a weak seasonal demand in the domestic market and a high level of capacity utilisation. Russia's polyethylene exports increased by 55% in January and February 2014 over 2013 to 61,700 tons. LDPE exports increased to 34,300 tons in January and February 2014, compared with 22,100 tons in January and February 2013. More than half of the LDPE exports sales were accounted for LDPE by Tomskneftekhim. Exports became more profitable in February on the back of the rouble devaluation.

Exports of HDPE increased to 20,600 tons in February, from 6,800 tons in January. Kazanorgsintez exported 12,800 tons in February, followed by Stavrolen with 7,500 tons until its accident at the end of the month. Russian exports of HDPE over the first two months grew by 56% to 27,400 tons. Polyethylene exports declined in March partly to the enforced extensive outage at Stavrolen for HDPE and due to scheduled maintenance works at Kazanorgsintez for its LDPE plant in April and May.

In contrast to exports, Russian HDPE imports dropped 20% in the first two months in 2014 to 37,700 tons. Lower demand and higher domestic production caused the drop.

A weakening of the Russian rouble and the low level of demand led to a decline of LLDPE imports by 16% in February against January. In the first two months in 2014 LLDPE imports totalled 24,600 tons against 29,200 tons in 2013. Demand for LLDPE film in Russia decreased by 18% in the first two months in 2014 and amounted to 22,200 tons.

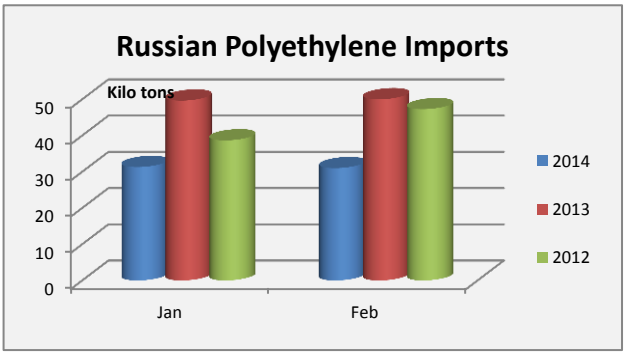
### Russian styrene Jan-Feb 2014

Merchant sales of styrene dropped 40% in February against January to 4,000 tons. Plastik at Uzlovaya did not ship in February whilst Gazprom neftekhim Salavat reduced shipments of styrene by 4.8 times to 474 tons. In the first two months of the year 10,700 tons of styrene was sold on the merchant market.

Styrene exports totalled 13,400 tons in February similar to January. Angarsk Polymer Plant increased exports by 23% to 1,200 tons whilst Plastik reduced exports 7.1 times to 87 tons. Volumes of styrene from Gazprom neftekhim Salavat were unchanged and amounted to 12,100 tons. In the first two months this year Russian styrene exports totalled 26,700 tons, 1.7 times more than in the same period 2013.

Styrene production rose 10% in February to 52,400 tons. SIBUR-Khimprom reduced production 12% to 9,900 tons whilst Gazprom neftekhim Salavat reduced the production of styrene by 11% to 14,400 tons and to Nizhnekamskneftekhim by 9% to 20,800 thousand tons. Russia produced 110,400 tons of monomer in January and February 2014 12% more than the same period of 2013.

Production of Russian polyethylene increased by 4% in the first two months to 298,000 tons, from 287,000 tons in the same period in 2013. Russian HDPE production over the first two months of this year rose to 183,600 tons, from 177,400 tons in 2013. LDPE production in Russia in January and February 2014 rose to 114,600 tons against 109,600 tons in the same period in 2013.




### Stavrolen could be down for a year

Lukoil could take up to a year to restore production at

Stavrolen after a fire on 26 February, according to Russian engineering institute estimates. The accident that took place on 26 February occurred in the same area of the accident in December 2011, which kept the plant out of action until September 2012. On 26 February a fire took place in the gas separation plant at Budyennovsk which took several days to extinguish and has stopped the production of olefins and polyolefins. Kazanorgsintez has stated that it is ready to increase HDPE production to compensate for the Budyennovsk plant, although this would depend on the amount of feedstock available either as ethane, LPGs, or ethylene.

**Russian Imports of LDPE (unit-kilo tons)**

| Country | 2013 | 2012 |
|---|---|---|
| Belarus | 54.3 | 65.1 |
| Germany | 16.7 | 17.5 |
| Sweden | 4.0 | 9.2 |
| Netherlands | 4.6 | 6.7 |
| Belgium | 4.5 | 6.4 |
| Finland | 3.4 | 3.9 |
| South Korea | 2.6 | 3.5 |
| Azerbaijan | 0.0 | 2.4 |
| Austria | 3.0 | 1.3 |
| Lithuania | 1.2 | 1.1 |
| Total | 94.3 | 117.2 |

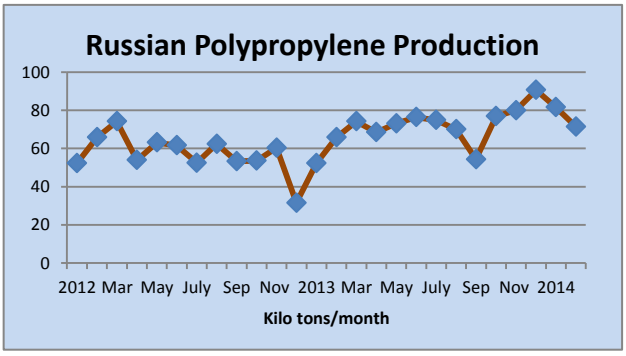
Kazanorgsintez in 2013 increased the production of HDPE by 6% to 468,000 tons whilst Stavrolen as the second largest producer produced 309,000 tons. Lukoil does possess other HDPE facilities in the CIS, at Kalush in western Ukraine, but the plant is idle at present.

## Russian LDPE market

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.

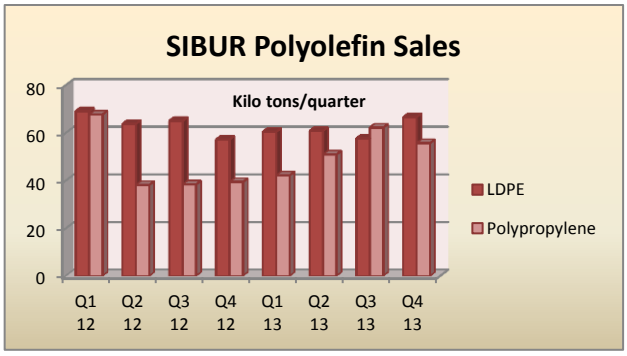
## Russian polypropylene market

Russia's polypropylene exports increased in the first two months this year to 26,700 tons in January and February 2014, from 5,500 tons in the same period in 2013 (excluding exports to the countries of the Customs Union). The growth in exports was achieved due to the doubling of capacity in Russia, which last year rose to 1.38 million tpa. Most of the exports comprised homopolymers, half of which was supplied by Tobolsk-Polymer. The second and third largest exporters were Polyom and Tomskneftekhim. Exports of other grades of polypropylene (block and stat-propylene copolymers) were negligible due to the small production volumes.




In the first two months in 2014, imports of polypropylene decreased by 27% against the same period in 2013 or dropping from 37,000 tons to 27,100 tons. Last year's entry of two new production plants (Polyom and Tobolsk-Polymer) with a total capacity of 680,000 tpa is the main reason to further reduce Russia's dependence on polypropylene imports.

Production totalled 153,000 tons in the first two months in 2014 against 123,500 tons in 2013. A decline in production in February took place at Stavrolen following the accident at the end of the month and Polyom. Japanese trading company Sojitz Corporation is considering contracting with Polyom to supply large batches of polypropylene for BOPP production.

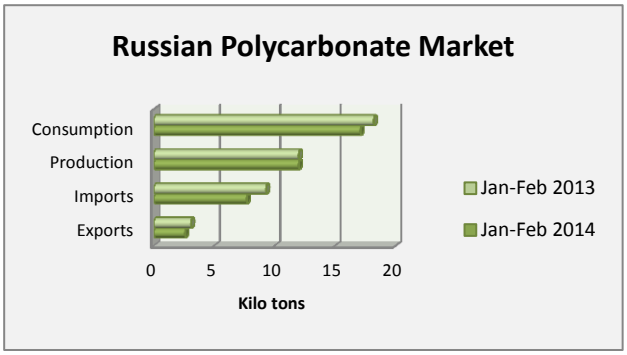



## Tobolsk-Polymer affected by climatic factors

Propylene produced in the production of propane dehydrogenation by Tobolsk-Polymer has now been registered in accordance with European regulations and REACH. This allows the plant to export to West Europe.

Tobolsk-Polymer's propylene and polypropylene plant, which was opened in October 2013, has been slow to accelerate its utilisation rate. This has been attributed to its start-up time in the latter part of the year at a time of cold and ice and at a temperature of -30 C.

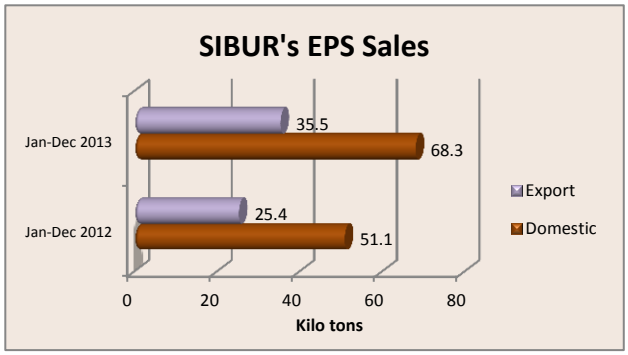
Originally the plant was intended to start in the spring of 2013. The utilisation rate has gradually risen but technical challenges remain in the first part of the production cycle, consisting of the dehydrogenation of propane. Output of the plant at full capacity is expected only after six months of operation. Tecnimont built the plant which consists of 500,000 tpa of polypropylene and 510,000 tpa of propane.




### Russian polycarbonate, Jan-Feb 2014

Russian production of polycarbonate totalled 12,000 tons in the first two months in 2014, unchanged from last year. The sole producer Kazanorgsintez operated at close to full capacity at 65,000 tpa. Extrusion grades PC-007 and PC-005 accounted for 68% of production in the first two months this year.

The import duty for polycarbonate sheets into Russia is established at 8.8% and thus it is more profitable to produce these products domestically. As a result of domestic demand opportunities Kazanorgsintez is set to produce material mainly for the domestic market from January to May 2014.




Russia's polycarbonate market increased by 4% over the first two months in 2014 to 16,000 tons. Import volumes rose 3% to 7,700 tons in January and February 2014 whilst exports declined 19% to 2,600 tons. Despite the increase in domestic prices of imported polycarbonate due to a depreciating rouble, buying activity in the market is stable.

### SIBUR EPS 2013

Expandable polystyrene (EPS) revenues for SIBUR increased in 2013 by 58.4% to 6.577 billion roubles from 4.153 billion roubles in 2012 on a 35.6% increase in sales volumes and a 16.8% increase in the average price. The increase in sales volumes was attributable to a 33.2% rise in production following the launch of the second 50,000 tpa line at SIBUR-Khimprom in July 2012. In 2013, domestic sales accounted for 65.9% of total expandable polystyrene revenue for SIBUR.

## Russian PET Chain

### Ivanovo PET project

Construction of the complex for the production of PET in the Ivanovo region worth 10.86 billion roubles is planned to start in 2015. The Ministry of Industry and Trade of the Russian Federation is studying prospects for building PTA facilities to serve the planned PET project, but at least for the first years production will be based on purchased raw materials.

Commissioning of the plant capacity of 200,000 tpa is scheduled for 2016. The plant will produce 170,000 tpa of staple fibre and 30,000 tpa of textile granulate. By the end of the year the local administration expects to sign agreements with investors and a loan agreement with Vnesheconombank. The process of agreeing terms with the bank lending will begin in July.

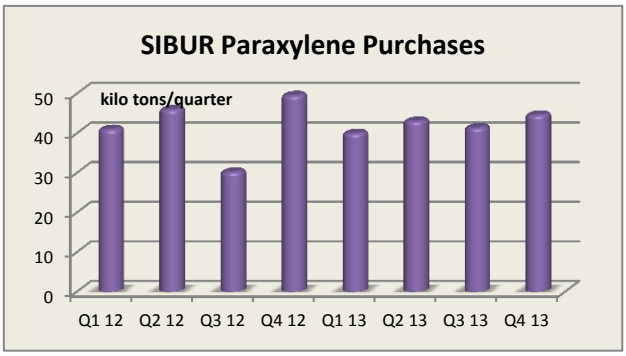
The plant is intended to be constructed at Vichugskaya based on a land area of 200 hectares. Negotiations are underway with suppliers of raw materials for the production of PET. Already agreements have been reached with the producers of PTA and ethylene glycol. The launch of this project will bring a new level of the textile industry to the Ivanovo region.

### SIBUR-PTA & PX supply

SIBUR's has been unable to secure guarantees of sufficient paraxylene supplies from Bashneft and this may prevent the group from pursuing an expansion of PTA facilities at Polief. SIBUR currently buys paraxylene from Bashneft's Ufaneftekhim refinery for consumption at Polief's PTA plant at nearby Blagoveshchensk.

In order to expand the capacity of the PTA facilities SIBUR requires additional paraxylene from Ufa, but this demand has opened up questions of conflict. Bashneft is linked very closely to United Petrochemical Company which itself is planning a jv for PTA-PET with the Mexican group Alpek. Thus, if Bashneft is to increase paraxylene supply the aim would be to supply the jv between United Petrochemical Company and Alpek.

Not only does this scenario hinder agreements on expanding paraxylene supplies to Polief, but it also threatens to redirect the deliveries away from Polief to the Russian-Mexican jv. As a result SIBUR may be forced to seek alternative supplies of paraxylene which could be




sourced from the Omsk refinery or even the prospective Kazakh aromatics complex at Atyrau. The main point from this situation is that a Polief expansion of PTA capacity is likely to be much more modest than previously planned.

### Etana PTA project

The PTA project under review in the Kabardino-Balkaria region could be started by 2018, according to plans outlined by Etana and the local administration. Design of the plant is being undertaken by Nalchik company Plan of Chemical Engineering. Initial investment in the project is estimated at 16.8 billion roubles. The plant is to be located in the new agro industrial park in the region, the Plan. The initial capacity being outlined for the project is 450,000 tpa which will then increase to 700,000 tpa.

## Aromatics & derivatives

| Russian Benzene Production (unit-kilo tons) | | |
|---|---|---|
| ***Producer*** | ***Jan-Feb 14*** | ***Jan-Feb 13*** |
| Altay-Koks | 0.0 | 2.0 |
| Angarsk Polymer Plant | 16.0 | 15.1 |
| Chelyabinsk MK | 2.3 | 2.3 |
| Gazprom Neft | 15.9 | 30.3 |
| Koks | 0.0 | 0.0 |
| Stavrolen | 12.4 | 0.0 |
| LUKoil-Permnefteorgsintez | 7.3 | 8.6 |
| Magnitogorsk MK | 10.8 | 10.1 |
| Nizhnekamskneftekhim | 35.0 | 34.4 |
| Novolipetsk MK | 5.2 | 5.2 |
| Gazprom Neftekhim Salavat | 28.5 | 17.4 |
| Severstal | 5.4 | 6.0 |
| SIBUR-Holding | 4.9 | 15.7 |
| Slavneft-Yaroslavlorgsintez | 11.7 | 11.2 |
| Surgutneftegaz | 10.3 | 10.9 |
| TNK-BP | 4.8 | 5.2 |
| Ufaneftekhim | 14.8 | 12.8 |
| Ural Steel | 1.8 | 0.0 |
| Uralorgsintez | 14.2 | 11.3 |
| Zapsib | 9.5 | 9.0 |
| SANORS | 6.3 | 0.0 |
| Total | 211.0 | 207.0 |

### Russian benzene production, Jan-Feb 14

Russian benzene production amounted to 99,400 tons in February 5% down on January. The Ryazan refinery reduced production 42% against January to 1,700 tons whilst Severstal reduced by 27% to 2,300 tons.

In addition, Ufaneftekhim and Uralorgsintez reduced production of benzene by 17% to 6,700 tons, and by 16% to 6,400 tons respectively. SIBUR-Kstovo increased production 40.7 times over January when the plant was mostly idle, but still it only produced 4,800 tons in February. Production totalled 204,500 tons in the first two months of the year, 4% up on 2013.

The accident at Stavrolen's cracker at Budyennovsk, which took place at the end of February, has shifted the Russian market from a position of surplus to deficit which needs to be met by imports. Ukraine provides most of Russian benzene imports, but it is not clear how the political situation will affect relations between the two countries and trading relationships.

Benzene imports into Russia from Kazakhstan dropped three times in February against January to 119 tons, all of which was bought by Kazanorgsintez. ArselorMittalTemirtau shipped 419 tons to Russia in the first two months in 2013. Kirishinefteorgsintez doubled benzene exports to 2,000 tons.

### Russian toluene, Jan-Feb 14

Russia produced 24,900 tons of toluene in February 22% less than in January, and 17% lower than in February last year. Gazprom Neft produced 8,910 tons, Slavneft-Yanos 4,450 tons and Lukoil at Perm 3,630 tons.

For the first two months in 2014 production of toluene totalled 57,000 tons, 2% less than in the same period last year. The toluene market is fully integrated in that all production is consumed by domestic customers. Most of the toluene is shipped to manufacturers of coatings, fuel and explosives. Around 55% of toluene is consumed captively and the remainder bought on the merchant market through rail deliveries.

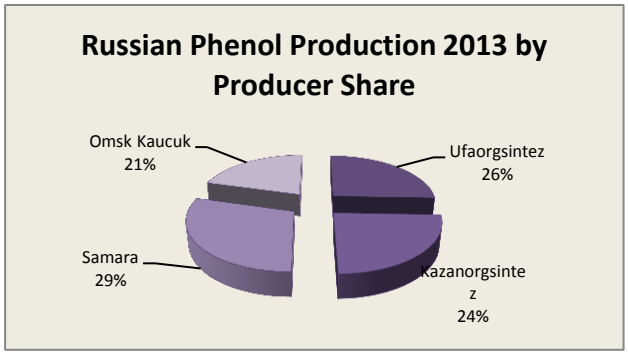
| Russian Benzene Consumption by Sector 2014 (unit-kilo tons) | | |
|---|---|---|
| ***Sector*** | ***Jan*** | ***Feb*** |
| Caprolactam | 30.7 | 23.5 |
| Phenol | 13.9 | 13.2 |
| Styrene | 12.9 | 8.8 |
| Explosives | 4.3 | 3.3 |
| Others | 11.2 | 7.8 |
| Exports | 9.3 | 10.5 |
| Total | 82.3 | 67.1 |

| Russian Orthoxylene Domestic Sales (unit-kilo tons) | | |
|---|---|---|
| *Consumer* | *Jan-Feb 14* | *Jan-Feb 13* |
| Kamteks-Khimprom | 16.5 | 13.8 |
| Gazprom Neftekhim Salavat | 2.0 | 0.3 |
| Kaustik Volgograd | 0.1 | 0.0 |
| TD Laki Kraski | 0.2 | 0.1 |
| Inter | 0.4 | 0.3 |
| Virazh | 0.0 | 0.1 |
| Yaroslavl Lakokraska | 0.3 | 0.4 |
| Russkie Kraski | 0.0 | 0.4 |
| ZLKZ | 0.1 | 0.7 |
| Others | 2.1 | 3.7 |
| Total | 21.7 | 19.6 |

### Russian orthoxylene, Jan-Feb 2014

Domestic sales of orthoxylene in February amounted to 13,300 tons in February, 18% more than in January and 33% higher than in February 2013. Gazprom Neft Omsk supplied 41% of sales from Omsk (5,390 tons), 30% was supplied by Ufaneftekhim (4,000 tons), and Kirishinefteorgsintez supplied 29% (3,820 tons). Kamteks Khimprom purchased 9,140 tons in February whilst 1,350 tons was bought by manufacturers of paints. For the first two months in 2013 orthoxylene sales to the domestic market amounted to 24,600 tons, 25% up on 2013.

Orthoxylene exports amounted to 1,260 tons in February, 6.2 times less than in January and 2.4 times lower than in February 2013. Russia's largest exporter in February 2014 was Ufaneftekhim which shipped 1,000 tons (79% of the gross volume). Gazprom Neft exported 260 tons (21%). In the first two months exports amounted to 9,100 tons, 40% more than 2013.




### Russian phenol

Samaraorgsintez reduced exports of phenol 3.5 times in February against January to 835 tons, whilst Omsk Kaucuk exported 100 tons which is 13% down. The largest consumers of Russian product remained Polish companies, accounting for approximately 60% of exports. The other 40% went to Latvia. Exports in March stopped due to the accident at Omsk Kaucuk. The plant is expected to require around six months to repair.

Whilst Omsk Kaucuk is out of action it is unlikely that Russia will export phenol and conversely imports could rise in this period. Borealis from Finland shipped 520 tons to Russia in February, which had been down on January but the downward trend may now be reversed.

## Synthetic Rubber

| Russian C4 Sales by Consumer (unit-kilo tons) | | |
|---|---|---|
| *Consumer* | *Jan-Feb 14* | *Jan-Feb 13* |
| Omsk Kaucuk | 13.1 | 11.3 |
| Nizhnekamskneftekhim | 27.0 | 22.4 |
| Togliattikaucuk | 23.7 | 30.5 |
| Sterlitamak Petrochemical Plant | 4.1 | 1.2 |
| Total | 67.9 | 65.4 |

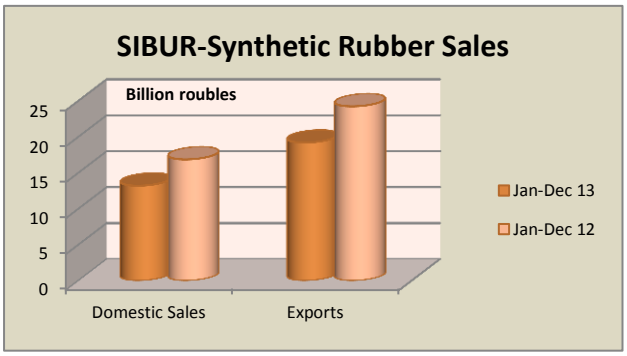
### Russian C4s, Jan-Feb 2014

C4 sales on the domestic m market amounted to 28,100 tons In February, 3% higher than January. Following downtime SIBUR-Kstovo increased shipments 13.8 times up to 5,300 tons. Due to the accident at Budyennovsk deliveries from Stavrolen dropped 25% to 5,200 tons in February. Ufaorgsintez also reduced supply by 24% to 2,100 tons and Angarsk Polymer Plant reduced by 10% to 6,200 tons. In the first two months in 2014 domestic sales totalled 55,300 tons, 5% down on 2013.

Shortages of C4s started to become evident in March following the accident at Stavrolen. Although Omsk Kaucuk suffered an accident on 6 March the rubber division was not affected and thus C4s are still required. Prices of C4s from other suppliers in Russia started to rise in March with the possibility of imports being required to meet the shortfall in supply. Nizhnekamskneftekhim may look to Iran for supplies.

### Chinese anti-dumping measures on Russian synthetic rubber exports

Chinese authorities have recommended to extend the anti-dumping duty on imports of synthetic rubber in several countries, including Russia. If implemented, it could lead to Chinese authorities preserving the five-year additional duties on imports of styrene-butadiene rubber from Russia, South Korea and Japan. If Chinese companies do not apply to the relevant authorities within 60 days from 7 March, anti-dumping duties will be abolished on 8 September this year. China imposed anti-dumping duties on imports of styrene-butadiene rubber of the three countries on 7 September 2009.




### SIBUR's synthetic rubber sales 2013

Revenues from synthetic rubber sales for SIBUR in 2013 dropped by 21.2% against 2012 to 32.432 billion roubles from 41.134 billion roubles. The decline in revenue was reported across all synthetic rubber product groups, with commodity rubbers being affected the most. In 2013, domestic sales accounted for 40.8% of total synthetic rubber revenue, while 59.2% was attributable to export sales. Both domestic and export revenues declined against the previous year.

### Commodity rubbers

Revenues from sales of commodity rubbers fell by 26.5% in 2013 to 21.676 billion roubles from 29.473 billion roubles in 2012. This follows a substantial decline in the average price despite higher sales volumes by tonnage. Sales prices for commodity rubbers declined by 23.3% in 2013, following the trends in market prices for butadiene and natural rubber, which was partially compensated for by positive dynamics in market prices for styrene. European prices for butadiene were down 37% whilst Asian prices for natural rubber dropped by 49% in 2013.

**SIBUR-Synthetic Rubber Production (unit-kilo tons)**

| | *Jan-Dec 13* | *Jan-Dec 12* |
|---|---|---|
| Commodity Rubber | 286.9 | 304.6 |
| Speciality Rubber | 89.3 | 88.9 |
| Thermoplastic elastomers | 41.9 | 29.8 |
| 3rd part purchases | 7.3 | 32.2 |
| Total | 425.5 | 455.6 |

**SIBUR-Synthetic Rubber Sales (billion roubles)**

| | *Jan-Dec 13* | *Jan-Dec 12* |
|---|---|---|
| Commodity Rubber | 21.676 | 29.473 |
| Speciality Rubber | 7.912 | 8.,677 |
| Thermoplastic elastomers | 2.844 | 2.984 |
| Total | 32.432 | 41.134 |

**SIBUR-Synthetic Rubber Sales (billion roubles)**

| | *Jan-Dec 13* | *Jan-Dec 12* |
|---|---|---|
| Domestic Sales | 13.2 | 16.9 |
| Exports | 19.2 | 24.3 |
| Total | 32.4 | 41.1 |

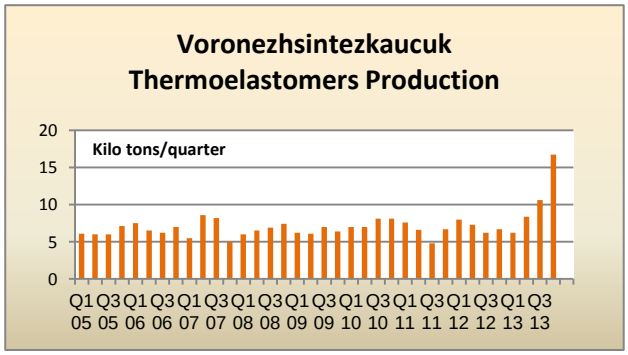
SIBUR's commodity rubber sales volumes fell by 4.2% in 2013 on a 5.8% decrease in production as well as substantially lower third-party purchases for resale. The decline in production was attributable to butadiene-based commodity rubbers, while polyisoprene rubber production increased due to an unscheduled shutdown at the Togliatti production site in the second quarter in 2012. In 2013, domestic sales accounted for 44.5% of total commodity rubber revenue for SIBUR, while 55.5% was attributable to export sales.

### Specialty rubbers

SIBUR's revenues from sales of specialty rubbers for 2013 dropped by 8.8% to 7.912 billion roubles against 8.677 billion roubles in 2012. Sales prices fell 8.4%, whilst sales volumes declined by 1.4%. SIBUR exports most of its speciality rubbers, with domestic sales accounting for only 16.1% of revenues based on last year's results.

In physical terms, specialty rubber sales declined by 0.4% on relatively flat production, and a substantial decrease in third-party purchases. The decrease in third-party purchases was attributable to the termination of a temporary trading arrangement.

In 2013, SIBUR's nitrile-butadiene rubber production dropped due to a prolonged maintenance shutdown at the Krasnoyarsk plant in the second half of 2013, which was partially compensated by inventory sales. At the same time butyl rubber production increased following the completion of the capacity expansion at the Togliatti production site in the fourth quarter of 2013. This has increased the capacity of butyl rubber from 48,000 tpa to 53,000 tpa. The increase was also attributable to the lower base of 2012, marked by an unscheduled shutdown in the second quarter.




### Thermoplastic elastomers

Revenues from thermoplastic elastomers (SBS) for 2013 for SIBUR dropped from 2.983 billion roubles to 2.844 billion roubles. Although prices were down, volumes were up due mainly to the start of the TEP-50 plant at Voronezh.

As a result production rose 40.3% over 2012. Average prices for thermoplastic elastomers decreased by 19.7%

in 2013 following negative market price dynamics for butadiene on the global markets, partially compensated for by stronger styrene prices. In 2013, domestic sales accounted for 81.2% of total thermoplastic elastomers revenue, while 18.8% was attributable to export sales.

**Russian Methanol Consumption (unit-kilo tons)**

| *Consumer* | *Jan-Feb 14* | *Jan-Feb 13* |
|---|---|---|
| Nizhnekamskneftekhim | 39.4 | 44.3 |
| Togliattikaucuk | 16.2 | 22.5 |
| Uralorgsintez | 13.3 | 12.2 |
| SIBUR-Khimprom | 1.8 | 2.2 |
| Tobolsk-Neftekhim | 7.8 | 6.6 |
| Ektos-Volga | 7.3 | 8.9 |
| Omsk Kaucuk | 14.0 | 17.2 |
| Novokuibyshevsk NPZ | 9.5 | 12.3 |
| Uralkhimplast | 4.5 | 3.5 |
| Slavneft-Yanos | 2.1 | 0.0 |
| Others | 119.2 | 121.5 |
| Total | 235.0 | 251.3 |

### Fosagro-Ust Luga

Fosagro intends to build its own terminal for fertiliser handling at the port of Ust-Luga. Investment in the project will amount to $15 million, allowing Fosagro to save on shipping raw materials to by $13 per ton of fertiliser. The Latvian company Ultramar is to partner Fosagro in the project, taking a 30% share. Full capacity of the port will be 1.5 million tpa, about 25% of its Fosagro products.

The intention to implement projects for the construction of fertiliser handling terminal at Ust-Luga stated Evrokhim and a group of ICT. In particular, Evrokhim announced its intention to invest in the 2012-2017 years of 5 billion roubles. in the construction of a bulk terminal capacity of 5 million tons of ICT plans to invest in the construction of the terminal with a capacity of more than 4 million tpa $140 million

### Linde-Togliatti ammona project

Linde Nitrogen Togliatti (jv Kuibyshevazot and Linde) has signed a memorandum of the investment project to build ammonia plant. The project is estimated to be worth over 11 billion roubles. In the past year, Kuibyshevazot and Linde Group signed an agreement to establish a joint venture Linde Nitrogen Togliatti for the production of ammonia and hydrogen on an equal footing. Design capacity is 120,000 tpa of Nm3/h of hydrogen and 1.34 tons of ammonia per day.

## Methanol

### Russian methanol market, Jan-Feb 2014

Russia produced 296,000 tons of methanol in February, almost 10% less than in January. Metafrax, Sibmetakhim and Tomet accounted for about 74% of methanol produced in Russia, which follows traditional shares. Methanol sales to the domestic market totalled 112,000 tons in February, 9% less than in January.

Metafrax, Sibmetakhim and Tomet accounted for 85% of sales. MTBE producers accounted for 30% of shipments, or 33,700 tons, followed by synthetic rubber 16% or 18,000 tons, formaldehyde 16% or 17,400 tons and gas companies 25% or 27,600 tons).

Domestic methanol consumption is rising slightly faster in Russia than production, although exports remain a key part of the distribution mix. In recent years most of the strong demand for methanol in the Russian market has taken place in the second half of the year.

Russian producers exported 127,400 tons of methanol in February, 2% less than in January. Sibmetakhim, Metafrax, Shchekinoazot and Tomet accounted for 91% of Russian methanol exports, whilst Finland accounted for 50% of export shipments or 64,000 tons.

A less significant share in February went to Slovakia (14%), Romania (14%) and Turkey (10%). Russian producers of methanol planned to export 28,400 tons through the Odessa terminal, 5% more than in February at 27,200 tons. Tomet and Shchekinoazot operate through Odessa, covering Romania, Turkey and Israel.

The devaluation of the rouble since the start of the year has helped Russian methanol exporters significantly. In the first two months in 2014 Metafrax increased its exports by 46% over the same period last year. Revenues for the company surpassed all expectations and totalled more than 2 billion roubles in the first two months of the year. The net profit increased 200 million roubles over the same period last year to 800 million roubles.

### Rosneft-Angarsk methanol project

Angarskneftehimproekt (included in Rosneft) has announced a tender for the execution of engineering research on the construction of a plant for methanol for Angarsk petrochemical company. The maximum price of the tender is estimated at 3.72 million roubles, including VAT. Currently under review committee submitted bids. Summarizing procurement held on 28 March 2014.

The total capacity of raw material methanol synthesis unit will be levelled to 30,000 cubic metres of synthesis gas per hour. The complex will include methanol storage tanks of four product tanks with a capacity of 1,000 cubic metres each as well as the pump for pumping methanol. One of the factors behind the methanol project is that Rosneft has accumulated large surpluses of gas in the past three years. Angarsk Petrochemical Company recently began the final stage of construction of the MTBE plant, involving a capacity of 120,000 tpa.

### Itera-Uralkhimplast methanol project

Although Itera sold its oil and gas business of Rosneft, it maintained its involvement in project construction for a methanol project at Nizhny Tagil under a jv with Uralkhimplast. The new plant of 600,000 tpa was expected originally to start in 2013-2014, but start-up has now been postponed until 2017. Investment costs amount to €396.4 million. Haldor Topsoe has supplied the license for the project for the production of methanol, based on consumption of natural gas up to 600 million cubic metres per annum.

## Organic Chemicals

| Russian Butanol Production (unit-kilo tons) | | |
|---|---|---|
| ***N-Butanol*** | | |
| ***Producer*** | ***Jan-Feb 14*** | ***Jan-Feb 13*** |
| Angarsk Petrochemical | 5.7 | 6.6 |
| Evrokhim | 2.7 | 2.6 |
| Gazprom neftekhim Salavat | 8.5 | 19.5 |
| SIBUR-Khimprom | 4.2 | 4.5 |
| Total | 21.1 | 33.1 |
| ***Isobutanol*** | | |
| ***Producer*** | ***Jan-Feb 14*** | ***Jan-Feb 13*** |
| Angarsk Petrochemical | 2.7 | 3.6 |
| Gazprom neftekhim Salavat | 6.2 | 8.1 |
| SIBUR-Khimprom | 7.2 | 7.7 |
| Total | 16.1 | 19.5 |

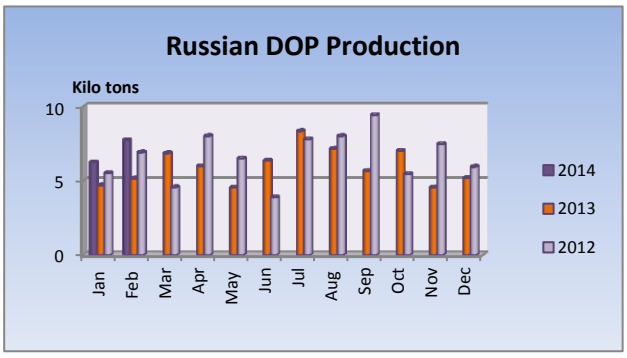
### Russian butanols, Jan-Feb 2014

Gazprom neftekhim Salavat aims to soon restart its second butanol line that was damaged in the accident last May, although a date has not been specified. The company fears by announcing the restart too soon that the news will affect quotes and the market situation in Asia.

Russian companies produced 16,450 tons of butanols in February, 13% less than in January and 33% lower than in February 2013. Normal butanols accounted for 58% of production in February. SIBUR-Khimprom produced 6,290 tons which was 38% of total production, followed by Gazprom neftekhim Salavat with 6,000 tons or 37%. Angarsk Petrochemical produced 3,130 tons or 19% of production and Azot Nevinomyssk 1,030 tons 6%. Production totalled 35,430 tons in the first two months in 2014, 33% less than in the same period in 2013.

Domestic butanol sales amounted to 5,700 tons in February, 16% more than January and 7% more than February last year. Isobutanol accounted for 22% of domestic sales which is higher than normal. SIBUR-Khimprom sold 2,460 tons in February, followed by Gazprom neftekhim Salavat with 2,410 tons, Angarsk Petrochemical Company 560 tons and Azot Nevinomyssk with 240 tons. The largest consumer of butanol in February was Dmitrievsky Chemical Plant which uses butanol for the production of butyl acetate, as well as supplying for export on behalf of Gazprom neftekhim Salavat.

Dmitrievsky Chemical Plant purchased 2,090 tons, whilst Akrilat at Dzerzhinsk received deliveries of 1,870 tons for the production of butyl acrylate. Flotoreagent producers Volzhskiy Orgsintez bought 300 tons and Sredneuralsky smelter bought 250 tons. In the first two months in 2014 butanol supplies to the domestic market totalled 10,600 tons, 6% less than in 2013. The proportion of n-butanol in sales was 82%.




### Russian plasticizer alcohols, Jan-Feb 2014

DOP production rose 24% in February over January by 24% to 7,720 tons. The increase in output was due to the Roshalsky Plant of Plasticizers, which increased production from 910 tons to 2,930 tons. Kamteks-Khimprom and Gazprom neftekhim Salavat both reduced production by 10% compared with January. Production of DOTF at the Ural Plant of Plasticizers increased by 62% to 418 tons. Russian companies produced 13,950 tons of plasticizer, 42% more than the same period in 2013.

Exports of Russian DOP amounted to 262 tons in February, 22% less than in January due to no shipments being delivered to Uzbekistan. Exports totalled 598 tons in the first two months in 2014, 13 times more than the same period last year.

In February production of phthalic anhydride in Russia amounted to 12,620 tons, 8% less than in January but 13% higher than in February 2013. The share of production of Kamteks Khimprom in output in February 2014 was 92% (11,650 tons), and Gazprom neftekhim Salavat 8% (970 tons). In the first two months of this year phthalic anhydride production increased 9% to 26,280 tons.

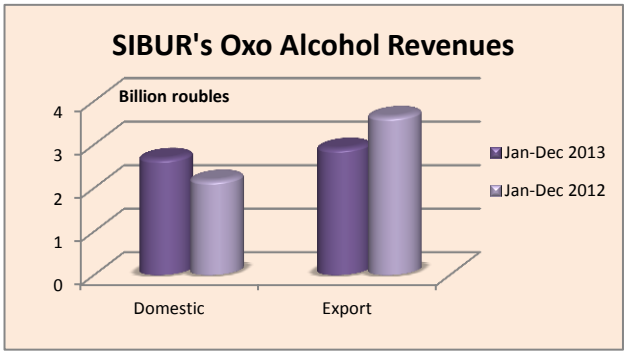
### Omsk Kaucuk, fire and stoppage of phenol-acetone production

Omsk Kaucuk suffered a fire its organic chemical division on 6 March, which will mean that the phenol and acetone facilities are expected to require around six months to repair. The company has not yet estimated the full costs or repair, but effects are expected to be seen in both phenol and acetone markets.

| Russian Acetone Production (unit-kilo tons) | | |
|---|---|---|
| ***Producer*** | ***Jan-Feb 14*** | ***Jan-Feb 13*** |
| Ufaorgsintez | 8.2 | 7.7 |
| Kazanorgsintez | 8.0 | 7.6 |
| Samaraorgsintez | 7.6 | 8.7 |
| Omsk Kaucuk | 6.3 | 6.6 |
| Total | 30.1 | 30.6 |

Omsk Kaucuk is the largest domestic supplier of commercial phenol in Russia, accounting for more than half of the product sold on the domestic market. Prices are likely to rise in the near term for both phenol and acetone. In order to compensate for the lengthy outage Samaraorgsintez could stop phenol exports and sell more product domestically. Omsk Kaucuk produces roughly 5,500 tons of phenol and 3,600 tons of acetone a month. The company accounts for 22% of the Russian domestic market for phenol.

Omsk Kaucuk shipped 4,600 tons of phenol to the domestic market in February 12% down against January. Phenol-formaldehyde producers accounted for 52% of purchases in February, followed by 40% directed to caprolactam. The remaining 8% has been directed to other phenol derivatives, such as antioxidants and alkylphenols.

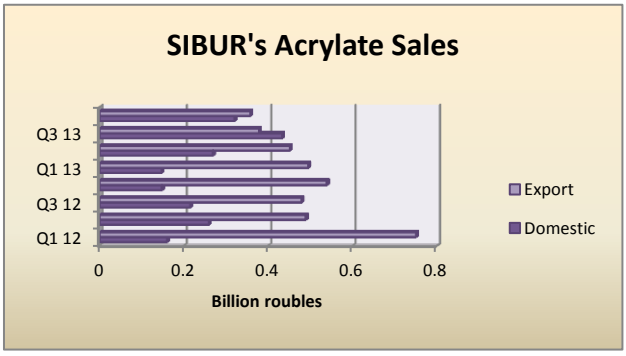



### SIBUR oxo alcohols 2013

SIBUR recorded a 4.0% fall in revenues from the sale of oxo alcohols in 2013, dropping from 5.583 billion roubles from 5.815 billion roubles in 2012. Sales volumes declined 8.8%, which was partially compensated by a 5.3% increase in prices. The decline in oxo alcohol sales was attributable to an 11.0% decrease in production. This was due to the biennial maintenance shutdown at the Perm production site and the higher internal use of propylene for polypropylene production.

| SIBUR's Organic Chemical Production & Sales (unit-kilo tons) | | |
|---|---|---|
| ***Product*** | ***Jan-Dec 13*** | ***Jan-Dec 12*** |
| Acrylates | 35.3 | 44.5 |
| Oxo Alcohols | 142.4 | 160.1 |

The increase in the average prices of alcohols was a result of mixed dynamics on export and domestic markets. The average domestic price increased by 10.7% driven by temporary supply constraints and demand in Russia. In 2013, SIBUR's share of domestic sales increased to 47.9% of the total alcohols revenue from 37.4% in 2012.




### SIBUR acrylates 2013

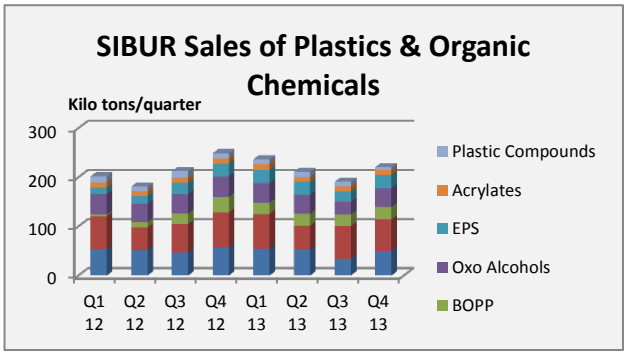
Acrylate sales revenues decreased by 7.9% in 2013 to 2.800 billion roubles from 3.039 billion roubles in 2012 on a 16.7% decrease in sales volumes. Sales volumes declined on a 3.6% decrease in production, which was attributable to changes in the product mix, as well as inventory accumulation from 2012.

The increase in the average price was largely driven by higher market prices. In 2013, SIBUR increased the share of domestic sales of acrylates to 41.7% of total revenue from 25.7% in 2012, while 58.3% and 74.3% was attributable to export sales in 2013 and 2012, respectively. In 2013, SIBUR specifically focused on the more attractive domestic market, where prices are higher than on export markets.

## Other Products

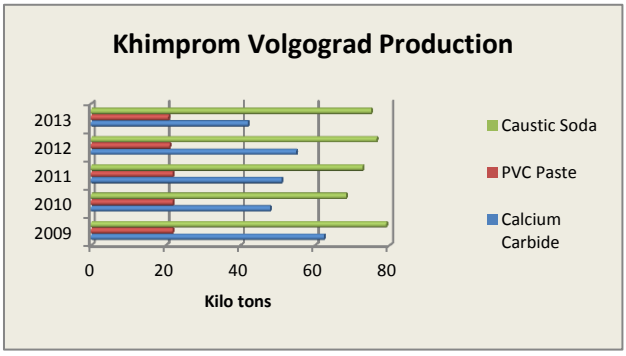
### SIBUR plastics and organic chemicals 2013

Revenues from the sales of plastics and organic synthesis products increased for SIBUR by 4.9% to 41.583 billion roubles from 39.633 billion roubles in 2012. The increase was primarily attributable to the launch of the




second production line for expandable polystyrene at Perm in July 2012, the consolidation of Biaksplen group from the second quarter in 2012, as well as the launch of the new BOPP-film production in Tomsk in November 2013. These factors were partially offset by lower revenue from sales of PET, plastic compounds, acrylates, and alcohols primarily due to longer maintenance shutdowns as compared to 2012.

Revenue from PET sales for SIBUR decreased by 15.3% in 2013 to 9.734 billion roubles from 11.488 billion roubles in 2012. PET sales decreased primarily due to a lengthy scheduled shutdown at Polief as part of the capacity expansion.




### Khimprom Volgograd faces closure 2015-2016

Production by Khimprom at Volgograd could be phased out completely in March 2015, although the management of the company is attempting to resist outside pressures. According to its owner, Rostec the plant should be closed by May 2016 in full to comply with environmental requirements. At present, the company is undergoing cuts in electricity due to unpaid debts and the business has become unsustainable. The closure could possibly have a knock-on effect on other Russian producers.

The Russian Ministry of Industry and Trade believes that liquidating Khimprom, which currently produces a wide range of chemical products, could cause problems elsewhere. Khimprom produces a wide range of chemical products, being the only Russian producer of calcium carbide, emulsion PVC and perchloroethylene. Key customers include law enforcement agencies (the defense ministry, the FSB, MVD), which buy components for the manufacture of body armour and tear gas, as well as Khimprom's branded disinfectant Volgotab. Cutting supplies of these products to the Russian army would mean the Russian Ministry of Defence having to import. Moreover, closing Khimprom could also disrupt military chemical waste disposal waste, which previously was one of its primary spheres of activity.

The result of closure will be to lay off 4,100 employees although there are efforts to try to relocate the staff in other parts of Khimprom's main shareholders Rostec. Rostec has taken the decision to close Khimprom due to the high dependence on energy prices, outdated technology and equipment depreciation (up 95%), as well as competition from foreign producers. There are also raw material problems for brine in particular and coke, which have threatened production. Rostec received 51% of the shares in Khimprom in March 2009 when the debt totalled 3.51 billion roubles. It has since risen to 10.3 billion roubles.

### Khimprom Novocheboksarsk-MDI project

Khimprom at Novocheboksarsk wants to construct an MDI plant with a capacity of 100,000 tpa. Negotiations on the creation of an MDI plant are underway with Chematur Engineering AB which is currently building a hydrogen peroxide plant for Khimprom. Despite several project announcements in recent years MDI is currently not produced in Russia. Khimprom is owned by Group Orgsintez and the cost of the investment is estimated at $280 million.

### German companies-Russian market 2013

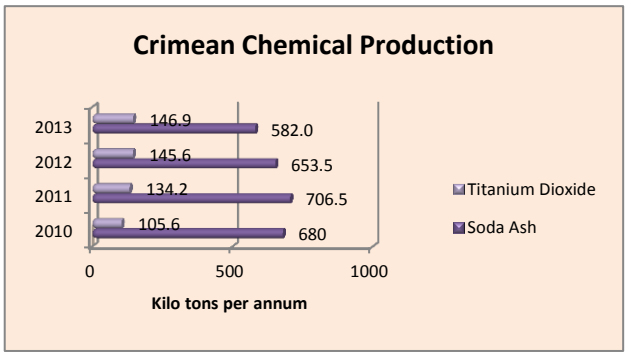
BASF increased sales in Russia by 5.9% in 2013 to €1.42 billion. Last year BASF opened the first production line for the production of construction chemicals in Tatarstan. Bayer in 2013 increased sales in Russia by 8.3% over 2012 to €747 million. In particular, sales of Bayer HealthCare division totaled €528 million (71% of total sales), an increase of 15.9%. At the same time the division Bayer MaterialScience, which produces high-tech polymer materials, reduced sales by 13% to €127 million (17% of total sales). The decrease was due to a slowdown in industrial construction and automotive industries. Sales from Bayer CropScience, agricultural business was €92 million, showed an increase of 3.2% (2% of total sales).

Lanxess recorded a turnover of €76 million in 2013 against €79.5 million in 2012. The main sources of turnover in Russia are high quality rubbers for the tyre and automotive industries, as well as products for the construction industry and water management. Since July 2013, Lanxess has operated its own factory Rhein Chemie at Lipetsk. This plant produces additives for rubber and release agents for the markets in Russia and the CIS.

### Pluses and minuses for integration of Crimean chemical plants into Russia

The annexation of Crimea to Russia means that Crimean Soda can now benefit from cheaper energy, but at the same is losing its main market in Ukraine. Natural gas for Russian industrial consumers costs $130-150 per thousand cubic metres against normal levels of around $400 in Ukraine. The largest consumers of gas in Crimea belong to the Group DF, Crimean Titan and Crimean Soda Plant. Both companies recently implemented large-scale projects to reduce gas consumption, leading to respective cuts of 30% and 11%. Together these two plants account for around 25% of gas consumption in Crimea. Crimean Soda Plant uses about 160 million cubic metres of gas per annum and Crimean Titan about 90 million cubic metres.

In terms of marketing Crimean Titan exports around 90% of its titanium dioxide of which around 30% has been delivered to Russia in recent years and which will now constitute domestic sales. As most countries have not recognised Russia's annexation of Crimea complications may arise in the application of duties for exports.




The biggest supply side problem for Crimean Titan is that the plant is dependent on raw materials from Ukraine. Ilmenite concentrate is delivered to Crimea from Zhytomyr and Dnipropetrovsk regions and Irshansky and Volnogorsky deposits. It is not clear if these raw materials can be supplied to Crimea as under previous conditions.

Crimean Soda Plant uses North Baksan limestone deposits in the Crimea and is independent of the supply of raw materials from Ukraine. However, its distribution is geared towards the Ukrainian market. Although Russian soda ash production has been in decline in the past couple of years there is still insufficient scope to absorb most of the production from Crimean Soda. Thus, despite the advantages of cheap gas many questions remain unresolved over the Crimean plants regarding the supply chain, logistics and marketing.

## Ukraine

### Ukrainian gas prices to rise from 1 April

The political and economic movement of Ukraine toward the EU has major implications for gas prices in Ukraine, which were discounted in December as part of Moscow's strategy of trying to attract Kiev into the Eurasian Customs Union. On 4 March Gazprom took the decision to withdraw from the gas discount granted to Ukraine in December 2013. This will mean that the price will revert to the normal level from 1 April, or from $268.5 per thousand cubic metres to anything above $386.

This price hike may put considerable pressure on Ukrainian fertiliser plants to continue production only a few months after they were restarted. The interim government has agreed terms from for IMF support to avoid short term financing problems whilst also signing the so-called Deep and Comprehensive Free Trade Area (DCFTA) with the EU but this only can take effect after the elections on 25 May.

In 2013, Ukraine reduced gas imports (from Russia and the EU) compared with 2012 by 15% to 27.972 billion cubic metres. This year Naftogaz of Ukraine plans to buy 27 to 30 billion cubic metres of natural gas under contract with Gazprom, although this may depend on ability to pay. In the meantime production of synthetic ammonia in Ukraine in February dropped 33.6% against February last year and amounted to 315,000 tons. Compared with January 2014 production of ammonia increased by 1.5%. In January and February Ukraine reduced the production of ammonia against 2013 by 37.2% to 625,000 tons.

**Ukrainian Average Chemical Prices (hryvnia per ton pre-VAT)**

| *Product* | *27/12/2013* | *31/01/2014* | *28/02/2014* | *28/03/2014* |
|---|---|---|---|---|
| Methanol | 10,450 | 10,450 | 12,350 | 12,350 |
| Benzene | 8,150 | 8,900 | 9,400 | 10,250 |
| N-Butanol | 16,550 | 16,600 | 17,350 | 20,000 |
| Phthalic Anhydride | 15,200 | 15,200 | 17,000 | 21,200 |
| DOP | 19,800 | 20,000 | 21,350 | 24,750 |
| MTBE | 13,250 | 13,250 | 13,750 | 14,500 |

### Ukrainian chemical prices

Since the start of 2014 domestic prices across the industry have risen primarily due to the currency devaluation.

Prices of phthalic anhydride in the Ukrainian market increased by 25% in March due to the devaluation of the hryvnia combined with the

increase the cost from Russian suppliers. At the same time, the demand for these products is low because of the difficult economic and political situation in the country. The cost of purchases from the Belarusian producer Lakokraska at Lida is much lower than in Russia, but the volumes are smaller.

## Belarus

**Belarussian Chemical Output (unit-kilo tons)**

| *Fertilisers* | *Jan-Feb 14* | *Jan-Feb 13* |
|---|---|---|
| Potassium Fertilisers | 819.9 | 823.9 |
| Nitrogen Fertilisers | 146.2 | 144.2 |
| Phosphate Fertilisers | 28.8 | 36.8 |
| Ammonia | 185.0 | 184.3 |
| Sulphuric Acid | 157.7 | 198.1 |
| ***Petrochemicals*** | ***Jan-Feb 14*** | ***Jan-Feb 13*** |
| Ethylene | 36.5 | 37.0 |
| Benzene | 24.4 | 26.0 |
| Caprolactam | 22.9 | 22.5 |
| Phthalic Anhydride | 0.0 | 0.0 |
| Polyethylene | 22.2 | 24.7 |
| PET | 28.5 | 28.8 |

### Naftan

Naftan announced two tenders in March for the purchase of 3,000 tons of hydrocarbons (normal butane, natural gas liquids, ethane and other feedstocks. Naftan produced 12,100 tons of benzene in February, almost the same as January. The company produced 24,400 tons of benzene in the first two months in 2014, 5% down on last year.

### Azot Grodno-new complex

The State Property Committee of Belarus is preparing to tender for the privatisation of 25% plus one share of Azot at Grodno. The investor will need to invest $400 million, as well as construction of a new production plant valued at $1.2 billion. Another prerequisite is that the investor must have gas to supply Azot.

Azot produced 22,900 tons of caprolactam in the first two months in 2014 against 23,000 tons last year. Azot at Grodno will begin construction of a new nitrogen complex in 2015. The cost of the project is estimated at $1.4 million. Belarus owns 99.97% of shares of the company.

**Azot Grodno Production (unit-kilo tons)**

| *Product* | *Jan-Feb 14* | *Jan-Feb 13* |
|---|---|---|
| Methanol | 14.2 | 14.9 |
| Caprolactam | 22.9 | 23.0 |
| Polyamide primary | 11.9 | 8.4 |
| Polyamide filled | 1.6 | 1.6 |
| Ammonia | 184.9 | 179.0 |
| Urea | 173.4 | 162.4 |
| Fertilisers | 134.1 | 129.8 |

### Belarussian soda ash project

Research and Design Institute of Basic Chemistry NIOCHIM (Kharkiv) has undertaken a feasibility study for construction of a soda ash plant from local raw materials in the Mozyr region. NIOCHIM's suggested best option is to construct a soda ash plant factory, using as raw material and potash production wastes. This will create almost no waste chemical complex for the production of potash, soda ash, sodium bicarbonate and some other products.

The plant's capacity of 300,000 tpa could be constructed in the Mozyr region in the next two years. The Chinese company CITIC hopes to start the construction in 2014. Belarus consumes about 200,000 tpa of soda ash, all of which is currently being imported.

## Caucasus-Central Asia

By 2020 the Special Economic Zone (SEZ) Taraz chemical park in the Zhambyl region Kazakhstan is expected to see the establishment of around twenty plants. The first stage of projects includes products such as sodium cyanide, caustic soda and chlorine, phosphorus trichloride, and the production of glyphosate. Investors from Singapore have already shown strong interest in developing these projects.

Polief and the NGO Composite (Pavlodar, Kazakhstan) have signed a memorandum of cooperation. The document provides for the delivery of PTA for the production for composite polyester resins in Kazakhstan. Volumes are not large comprising 1,000 tpa.

### Atyrau Aromatics Complex

The Atyrau Refinery is to start pre-commissioning, commissioning of the construction project for the production of aromatic hydrocarbons in April to May of this year. The process of installation well advanced and actual project completion is expected later this year. Production will not start until 2015. Sinopec Engineering has been responsible for project which will result in capacities of 133,000 tpa of benzene and 496,000 tpa of paraxylene. KazMunaiGaz owns 99.5% of the Atyrau Refinery.

### Turkmenistan-ammonia project

Turkmenistan is close to completion and launch of its urea and ammonia complex at Mary in Turkmenistan. Commissioning of the plant is scheduled for June this year. This project will produce 640,000 tpa of urea, and will create more than 850 new jobs. To meet the needs of agricultural industry of Turkmenistan the state concern Turkmenkhimiya signed a contract with a consortium of foreign companies to undertake the project, include

Kawasaki Plant Systems and Sojitz Corporation. The construction has been carried out by the Turkish company Ronesans.

### Rosneft-Pirelli rubber project

Rosneft and Pirelli are making a pre-feasibility study for the styrene-butadiene rubber project at Yerevan, although the role of Nairit is still unclear. Jacobs Consultancy has assessed technical and ecological status of Nairit and needed investment.

The Armenian government is ready to provide tax incentives to Rosneft for the synthetic rubber project under planning. Rosneft plans to invest $500 million in the construction of the production of styrene butadiene rubber plant at Nairit. Rosneft is currently studying the feasibility study. In late December last year, Rosneft, Pirelli Tyre Armenia and Rosneft-Armenia signed a memorandum to establish a jv for the production of styrene-butadiene rubber.

***Relevant Currencies***

***Czech crown. Kc. $1= 20.161. €1 = 27.480: Hungarian Forint. Ft. $1 = 220.721. €1 = 300.887: Polish zloty. zl. $1=3.066 €1 =4.180: Bulgarian leva: $1 = 1.434. €1= 1.955: Romanian Lei. $1 = 3.301. €1= 4.498: Croatian Kuna HRK. $1 = 5.597. €1= 7.628: Ukrainian hryvnia. $1 = 11.09. €1 = 15.27: Rus rouble. $1 = 35.59 €1= 49.01***

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