# CIS Chemical Industry News

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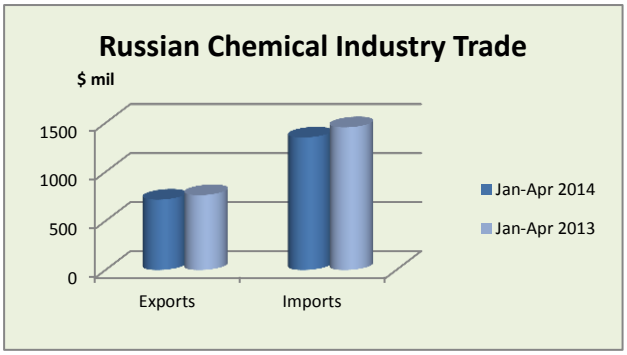
## RUSSIA




### Russian chemical trade, Jan-Apr 2014

Russia's trade deficit for chemical industry products came down slightly in the first four months in 2014, declining from $6.9 billion in 2013 to $6.3 billion. This decline is attributable to a number of factors, some of which include lower demand and a weaker rouble.

The share of chemical products in total Russian exports in January-April 2014 amounted to 4.9% against 5.2% in 2013. Product values declined by 6.0%, whilst physical volumes increased by 8.3%. Exports of organic chemical compounds rose by 11.8%, whilst products of inorganic chemistry fell by 13.9%. The most significant decline this year was recorded in the export of synthetic rubber where both volumes and values were affected.

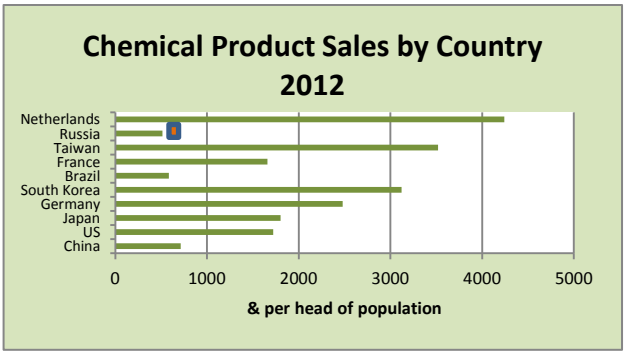
**Russian Chemical Commodity Exports**

| | *Jan-Apr 14* | *Jan-Apr 13* | *Jan-Apr 14* | *Jan-Apr 13* |
|---|---|---|---|---|
| ***Product*** | ***Kilo tons*** | ***USD Mil*** | ***Kilo tons*** | ***USD Mil*** |
| Ammonia | 1,220 | 463 | 1,088 | 600 |
| Methanol | 566 | 245 | 419 | 141 |
| Nitrogen Fertilisers | 3,850 | 1,038 | 3,809 | 1,220 |
| Potash Fertilisers | 3,541 | 933 | 2,109 | 773 |
| Mixed Fertilisers | 2,767 | 963 | 3,450 | 1,443 |
| Synthetic Rubber | 297 | 658 | 328 | 876 |

Against the backdrop of political tensions the Kremlin has been keen to emphasise the value of import substitution in the chemical industry, not that it is a new concept. Bulk polymers should be capable of being produced in sufficient quantities in Russia in the next few years to eliminate the need for imports, but for many other products the outlook remains less clear.

Although it is possible to highlight successful companies such as SIBUR, Nizhnekamskneftekhim, Kazanorgsintez, Kuibyshevazot, etc. the Russian chemical industry is still fundamentally characterized by low competitiveness and a lack of quality. As a result many consumers have historically preferred imports over domestic products.

Despite the considerable potential for development of the chemical industry in Russia, progress remains slow with too much emphasis on large projects. More than 6,000 plastics converters are unable to supply the domestic market due to low quality and a lack of government support.




The graphic opposite illustrates Russia's position for chemical product consumption for 2012 vis-à-vis other countries. This position is only likely to improve over a period of many years and will ultimately depend on economic policy

### Russian petrochemical projects

#### Gazprom-Amur FEED

Gazprom has announced a tender for the development of FEED and project documentation for the Amur gas-chemical project, applications being accepted until 27 June. This project includes the installation of helium


concentrate for production and a gas processing complex which are to be located at Belogorsk. The operator of the project is the Russian design institute VNIPIgazdobycha, whilst the initial cost of works is placed at 1.612 billion roubles. The documentation for the tender specifies that the raw materials for the isolation of NGL and ethane will come from gas supplied from the gas pipeline Power of Siberia. The degree of extraction of ethane feed gas is required to be at least 90%, and propane not less than 99%.

In terms of petrochemical SIBUR and Gazprom signed a memorandum on cooperation in November last year to create a gas chemical complex at Belogorsk. At that time Russian-Chinese gas pipeline was undecided. After signing a 30-year gas contract in May between Moscow and Beijing there is now greater clarity on this issue.


### Irkutsk Oil Company (INK)

The Irkutsk Oil Company (INK) has received permission to build a new gas-chemical plant in Ust-Kut, which it intends to start in 2015. The approval was granted at the start of June allowing INK to use gas from the northern fields to build a chemical complex at Ust-Kut, designed for the production of polyethylene. The planned production capacity could be 500,000 tpa.

Having increased oil production in the past decade INK now intends to start the development of gas reserves of the northern oil and gas fields including Yarakta, Markovo, and West Ayan. The construction of the first plant for the processing of associated gas and natural gas, with the capacity of 1.26 billion cubic metres per annum, has already been launched. The total volume of gas processing after the commissioning of the unit on the Markovo field in 2016 and two more units in Yarakta in 2017 will amount to 7 billion cubic metres per annum.

### Purovsky NGL pipeline to Tobolsk close to commissioning

In June 2014, SIBUR and Novatek announced the launch of integrated NGL production, transportation and processing capacities. The pipeline section between Purovsky and Pyt-Yakh, with a combined length of 686 km, was put into commercial operation and filled with NGL. The remaining sections with a combined length of 414 km between Pyt-Yakh and Tobolsk are currently under construction or at commissioning stages. The pipeline could enter commercial operation in 2015.

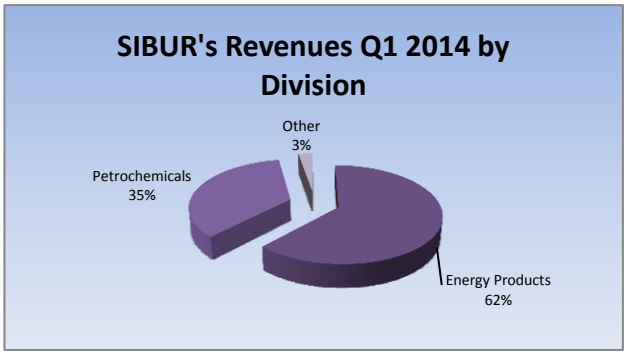

SIBUR launched the second gas fractionation unit at Tobolsk in the past few months, raising capacity from 3.8 million tpa to 6.6 million tpa. The Purovsky Gas Condensate Plant is now one of the important suppliers to Tobolsk. Novatek has recently completed the expansion of the capacity of the Purovsky Gas Condensate Plant from 5 to 11 million tpa.

SIBUR is continuing the FEED stage of the ZapSib-2 petrochemical project at Tobolsk, and is conducting further assessment of the project configuration. The project remains in the early stage of development.

## Russian petrochemical producers & markets

### SIBUR, Q1 2014

SIBUR increased its net profit in the first quarter to 56.8 billion roubles, from 15.6 billion roubles in the same period in 2013. The increase was driven partially by the consolidation of Yugragazpererabotka into SIBUR's management, after the acquisition of the 49% in the jv that belonged to Rosneft.




Partly as a result of the expansion of assets, revenues increased by 20.9% in the first quarter, amounting to 80.002 billion roubles. The growth in financial performance was stimulated mainly from sales of fuel and raw materials, accounting for 42.45% of total revenues or 49.6 billion roubles. SIBUR significantly increased trading volumes for LPG and naphtha, in particular due to the commissioning of the terminal at Ust-Luga.

The production of polymers increased 47.8% in the first quarter partly to the production entry of Tobolsk-Polymer into the polypropylene market, and comprised 7.4 billion roubles. Declines in revenues were recorded from sales of synthetic rubber, intermediates and other chemical products. In physical terms, the production of bulk polymers increased by 33% to 133,400 tons. Production of synthetic rubber declined by 19.1% to 96,600 tons, whilst plastics and organic synthesis products fell by 8.7% to 215,900 tons.

**SIBUR-Naphtha Usage & Sales (unit-kilo tons)**

| | *Q1 14* | *Q1 13* |
|---|---|---|
| Captive Sales to Petrochem division | 147.5 | 161.9 |
| Domestic Sales | 20.5 | 76.7 |
| Exports | 509.6 | 178.8 |
| Total | 677.6 | 417.5 |

**SIBUR-LPG Usage & Sales (unit-kilo tons)**

| | *Q1 14* | *Q1 13* |
|---|---|---|
| Captive Sales to Petrochem division | 122.6 | 133.4 |
| Domestic Sales (Russia) | 205.7 | 187.9 |
| Exports | 622.2 | 494.5 |
| Total | 950.6 | 815.5 |

**SIBUR's Energy Based Product Sales (billion roubles)**

| ***Domestic*** | ***Q1 14*** | ***Q1 13*** |
|---|---|---|
| LPG | 3.285 | 2.466 |
| Naphtha | 0.499 | 1.66 |
| Natural Gas | 7.095 | 7.23 |
| MTBE | 4.372 | 4.333 |
| Crude Gas Liquids | 1.767 | 1.165 |
| Other Fuels/Additives | 0.275 | 0.796 |
| ***Exports*** | ***Q1 14*** | ***Q1 13*** |
| LPG | 15.708 | 10.624 |
| Naphtha | 14.689 | 4.404 |
| Natural Gas | 0 | 0 |
| MTBE | 0 | 1.238 |
| Crude Gas Liquids | 1.092 | 0.928 |
| Other Fuels/Additives | 0.002 | 0.84 |

## SIBUR-gas processing, Q1 2014

In the first quarter of SIBUR gas refineries increased processing of associated gas by 3.4% to 5.04 billion cubic metres. This enabled the company to produce 1.4 million tons of natural gas liquids, 7.5% higher than in 2013.

In March 2014, SIBUR approved an expansion project of the Vyngapur GPP to accommodate associated gas supplies from Russneft's fields. The project is designed to increase the annual associated gas processing capacity of the Vyngapur GPP from 2.8 to 4.2 billion cubic metres. New contracts with extended by SIBUR for associated gas supplies from Rosneft's fields to Yugragazpererabotka's GPPs with guaranteed supply volumes of approximately 10 billion cubic metres per annum. Equally SIBUR agreed to deliver dry gas sales from Nizhnevartovsk and Belozerny GPPs, which make up Yugragazpererabotka, to Rosneft.

## SIBUR-energy products, Q1 2014

In the first quarter of 2014, SIBUR's revenue from sales of energy products amounted to 49.622 billion roubles compared to 34.846 billion roubles in the first quarter of 2013. The 42.4% increase was due to a substantial increase in sales volumes in LPG and naphtha, as well as higher average prices. The launch of the Ust-Luga transhipment facility, and higher production following the launch of the second gas fractionating unit at Tobolsk, were major factors behind the rises.

Export sales accounted for 65.2% of SIBUR's energy based product revenues versus 49.3% in the first quarter in 2013. Moreover, exports accounted for 82.7% of SIBUR's total LPG revenues, showing a sharp rise over last year due to the Ust-Luga terminal. For naphtha, SIBUR's revenue rose 150.5% to 15.188 billion roubles from 6.064 billion roubles in the first quarter of 2013 on a 107.4% increase in sales volumes and a 20.7% growth in average price.

NGL sales for increased by 36.6% for SIBUR to 2.859 billion roubles from 2.093 billion roubles in the first quarter in 2013. Prices increased on higher netbacks mainly due to the rouble depreciation, which compensated a moderate decline in energy products market prices. The growth in NGL production was attributable to higher volumes of associated gas processing. Additional available volumes of NGL were partially utilised at the second gas fractionating unit at Tobolsk following its launch. In the first three months of 2014, domestic sales accounted for 61.8% of SIBUR's total NGL revenues.

| SIBUR's Monomer & Intermediate Production (unit-kilo tons) | | |
|---|---|---|
| ***Product*** | ***Q1 14*** | ***Q1 13*** |
| Benzene | 31.9 | 40.6 |
| Styrene | 46.3 | 43.1 |
| PTA | 64.1 | 67.7 |
| Propylene | 124.1 | 78.6 |
| Ethylene Oxide | 46.2 | 71.1 |
| Butadiene | 53.8 | 67.9 |
| Isoprene | 16.0 | 20.7 |
| Isobutylene | 38.5 | 32.8 |
| Ethylene | 130.1 | 142.8 |
| Other Intermediates | 327.8 | 312.5 |
| Other Chemicals | 183.0 | 224.9 |
| Purchases from 3rd parties | 3.6 | 2.5 |
| Total | 1065.4 | 1105.3 |

| Stavrolen Production & Sales (unit-kilo tons) | | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Production Total** | **902.3** | **301.1** | **959.7** |
| **Merchant Sales Total** | **675.8** | **223.5** | **710.7** |
| HDPE | 293.6 | 69.1 | 309.0 |
| Liquid pyrolysis | 130.9 | 54.1 | 147.3 |
| Propylene | 11.7 | 0.5 | 6.3 |
| Polypropylene | 122.3 | 82.5 | 125.6 |
| Benzene | 66.0 | 0.0 | 51.3 |
| VAM | 18.6 | 7.0 | 33.1 |
| Heavy oil fuel | 31.3 | 9.7 | 36.8 |
| Other | 1.4 | 0.6 | 1.4 |

### SIBUR-petrochemicals, Jan-May 2014

In the first quarter of 2014, SIBUR's revenue from sales of petrochemical products remained largely unchanged at 28.235 billion roubles. Higher revenue from sales of basic polymers, plastics and organic synthesis products was offset by lower revenue from sales of synthetic rubber and other chemicals. Lower revenue from sales of intermediates and other chemicals was attributable to an unscheduled shutdown at the steam cracker at Kstovo and decommissioning of Kaprolactam in the second half of 2013. Revenue from sales of basic polymers increased on higher polypropylene production following the launch of Tobolsk-Polymer plant.

### Stavrolen to restart in January 2015

Lukoil estimates that it could restart the Stavrolen petrochemical complex by January 2015 after all repairs have been completed, although polypropylene production at Budyennovsk could restart in the near future 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.

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.

As a result of these investments, Lukoil intends to increase the share of consumption of natural gas liquids in petrochemical production at Budyennovsk by more than 30%. The project to increase the share of consumption of natural gas liquids will be completed in mid-to late 2015. Currently, the share of consumption of gas liquids is 20%, with naphtha providing the remaining share.

Lukoil recorded a net loss for petrochemical products of 392.6 million roubles in the first quarter against profit of 1.0 billion roubles in the same period last year. Revenues from sales of petrochemical products fell by 14% to 16.5 billion roubles. Operating costs for the first quarter of this division amounted to 6.3 billion roubles against 7.2 billion roubles in 2013.

### Gazprom neftekhim Salavat-improvements

Due to ongoing modernisation Gazprom neftekhim Salavat has increased the production of ethylene by 11% in the first five months this year to 140,000 tons. In the first part of 2014 the company installed a new pyrolysis furnace F-04 type SRT-VI, supplied by Lummus Global. The third generation furnace is part of the modernisation of EP-300 and possesses a high efficiency (91-92%), unlike the existing types of furnaces SRT-I where efficiency is only 73%. The company has moreover increased ethane usage as a feedstock in place of other feedstocks.

The company has sought to install flexible furnaces that can run on different raw materials including NGL, naphtha and ethane. In 2014, production of ethylene at Gazprom neftekhim Salavat is forecast to reach 310,000 tons which would be 23% more than in 2012. Gazprom neftekhim Salavat provides a full cycle of hydrocarbon raw materials, produces gasoline, diesel fuel, kerosene, other petroleum products, liquefied gases, butanols, plasticizers, polyethylene, polystyrene, ammonia, and urea.

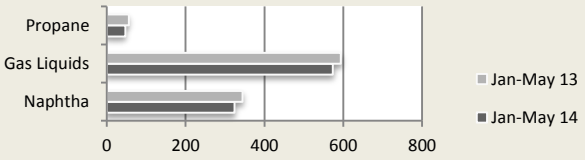
### Cracker feedstocks, Jan-May 2014

Russian consumers bought 142,100 tons of naphtha in May, 6% more than in April. From the total petrochemical plants reduced purchases by 4% against April to 47,700 tons. In the first five months of this year a total of 744,900 tons of naphtha has been delivered on the domestic market, 17% less than in the same period in 2013.

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

| *Product* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Caustic Soda | 433.5 | 448.7 |
| Soda Ash | 1,046.0 | 1,072.0 |
| Ethylene | 1,053.0 | 1,149.0 |
| Propylene | 621.8 | 557.7 |
| Benzene | 491.5 | 507.8 |
| Xylenes | 226.7 | 215.0 |
| Styrene | 272.4 | 271.1 |
| Phenol | 109.5 | 119.5 |
| Ammonia | 6,500.0 | 6,200.0 |
| Nitrogen Fertilisers | 3,700.0 | 3,619.0 |
| Phosphate Fertilisers | 1,400.0 | 1,328.0 |
| Potash Fertilisers | 3,500.0 | 2,644.0 |
| Plastics in Bulk | 2,616.0 | 2,488.0 |
| Polyethylene | 694.0 | 764.0 |
| Polystyrene | 224.0 | 186.6 |
| PVC | 279.8 | 285.9 |
| Polypropylene | 403.8 | 333.9 |
| Polyamide | 59.6 | 56.5 |
| Synthetic Rubber | 552.9 | 661.0 |

**Russian Merchant Cracker Feedsock Deliveries**




The decline in supply due to the reduction of hydrocarbon processing to Stavrolen because of the accident in February 2014. In addition, the Khabarovsk refinery reduced shipments to the Far East SNG terminals due to an increase in captive usage.

Gas liquid consumption by petrochemical plants is expected to rise in the near term due in part to the increase in gas fractionating at Tobolsk. Consumption was slightly down in the first five months in 2014, due to market complications.

Sales of NGLs to the petrochemical sector amounted to 108,670 tons in May, 5% less than in April. Of the consumers Gazprom neftekhim Salavat bought 4,160 tons, SIBUR-Kstovo did not purchase NGLs due to maintenance. Nizhnekamskneftekhim and Tomskneftekhim increased consumption of natural gas liquids to 53,590 tons (18%) and to 36,090 tons (1.74 times more than in April), respectively. Maintenance over the summer period may affect gas liquid supply. Permneftegazpererabotka is undertaking a turnaround from 26 June to 9 July, whilst around the same time SIBUR-Khimprom will undertake a scheduled stop. From 1 July to 26 July Surgut Gas Condensate has scheduled a shutdown whilst Tobolsk-Neftekhim will undertake repairs for three weeks in July.

Overall cracker feedstocks have been affected by the outage at Stavrolen, and other plant outages such as Omsk Kaucuk. Propane purchases dropped 1.5 times in May against April, with Kazanorgsintez reducing shipments by 9% to 8,250 tons and Tomskneftekhim not buying due to increased usage of NGLs. On 24 June Kazanorgsintez intends via tender to buy 28,862 tons of normal butane and propane for delivery in July 2014.

### Russian olefins, Jan-May 2014

Russian ethylene production amounted to 1.053 million tons in the first five months in 2014 against 1.149 million tons in 2013, the drop being due largely to the Stavrolen outage. SIBUR-Kstovo reduced production by 34%, to 14,600 tons and Kazanorgsintez by 27%, to 35,300 tons. Angarsk polymer plant produced 18,600 tons.

Russia produced 116,300 tons of propylene in April, 11% less than in March. Kazanorgsintez reduced production 37% to 2,800 tons. SIBUR-Khimprom reduced production by 44% to 4,100 tons and SIBUR-Kstovo by 32% to 8,300 tons. In the first four months in 2014 Russian propylene production totalled 505,000 tons, unchanged from last year.

**Russian Propylene Domestic Sales (unit-kilo tons)**

| *Producer* | *Jan-May 14* | *Jan-May 14* |
|---|---|---|
| Angarsk Polymer Plant | 33.6 | 29.9 |
| Omsk Kaucuk | 0.0 | 2.7 |
| SIBUR-Neftekhim | 33.7 | 47.6 |
| Akrilat | 7.9 | 1.2 |
| LUKoil-NNOS | 72.1 | 59.1 |
| Tomskneftekhim | 0.2 | 0.1 |
| Gazprom Neftekhim Salavat | 10.7 | 0.0 |
| SIBUR-Khimprom | 0.5 | 0.0 |
| Stavrolen | 3.3 | 2.9 |
| Tobolsk-Polymer | 1.3 | 0.0 |
| Total | 163.2 | 143.7 |

Domestic propylene sales dropped 34% in May to 21,400 tons due to maintenance work at SIBUR-Kstovo. For the period January to May 2014 sales of propylene on the merchant market totalled 162,500 tons which was 13% higher than in 2013. In May Russian supplies of propane-propylene fractions to the domestic market increased by 44% to 9,100 tons. The restart of the Ryazan refinery after maintenance was the main reason for the rise in May. Domestic sales totalled 59,400 tons in the first five months in 2014, 10% less than in the same period in 2013.

Rosneft announced a tender for the sale of petrochemical products, which will be implemented in July. It includes sale

of 5,240 tons of propylene from Angarsk Polymer Plant, 7,459 tons and 1,300 tons of propane-propylene fraction produced at Ryazan and Slavneft-Yanos respectively. Also, next month Rosneft plans to supply the domestic market with 3,299 tons of C4s from Angarsk Polymer Plant.

## Bulk Polymers

### Russian HDPE, Jan-May 2014

HDPE production in Russia totalled 373,000 tons in the first five months in 2014 against 431,200 tons in the same period last year. In May, production rose to 67,000 tons from 60,800 tons in April. Kazanorgsintez increased production to 44,000 tons in May, bringing the total 222,200 tons for the first five months and 8% higher than in 2013. Gazprom neftekhim Salavat produced 9,000 tons of HDPE against 7,800 tons in April. The Salavat plant produced 43,400 tons in the period January-May 2014 which was 48% over the same period in 2013. Nizhnekamskneftekhim produced 61,500 tons of HDPE in the first five months against 69,200 tons last year.

**Russian HDPE Production (unit-kilo tons)**

| *Producer* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Kazanorgsintez | 220.3 | 199.0 |
| Stavrolen | 46.7 | 120.9 |
| Nizhnekamskneftekhim | 62.7 | 83.0 |
| Gazprom n Salavat | 43.3 | 27.9 |
| Total | 373.0 | 430.8 |

Kazanorgsintez has been undertaking its 30 day maintenance turnaround for its HDPE plant. As a result of the planned outage the market in Russia has become much tighter with prices rising subsequently. Prices for blow-density polyethylene has grown by an average of 3-4,000 roubles. HDPE production capacity for Kazanorgsintez is 470,000 tpa. In the first five months in 2014 the company produced 222,200 tons which was 8% higher than in 2013.

Kazanorgsintez increased profits in the first quarter this year, mainly due to rising prices for HDPE. The forced stoppage at Stavrolen at the end of February combined with the depreciation of the rouble helped considerably and the company expects to continue recording good profits this year. The only concern could be a lack of ethane for ethylene production or a reduction of import duties on polyethylene. Last year Kazanorgsintez produced 472,500 tons of HDPE, whilst Stavrolen produced 309,000 tons.

**SIBUR Polypropylene Sales (billion roubles)**

| *Sales* | *Q1 14* | *Q1 13* |
|---|---|---|
| Domestic | 1.6 | 1.9 |
| Exports | 1.6 | 0.4 |
| Total | 3.2 | 2.2 |

### Russian polypropylene, Jan-May 2014

For the first five months of this year, production of polypropylene in Russia increased by 23% to 403,800 tons against 333,900 in the same period in 2013. Production in May amounted to 90,000 tons against 87,500 tons in April. Tobolsk-Polymer produced 76.200 tons of polypropylene in the first five months and Polyom 70,000 tons. Nizhnekamskneftekhim and Ufaorgsintez produced 87,800 tons and 53,800 tons respectively in the first five months. Other producers included the Moscow refinery with 49,200 tons and Tomskneftekhim 56,000 tons.

**SIBUR Polyolefin Sales (unit-kilo tons)**

| *Polypropylene* | *Q1 14* | *Q1 13* |
|---|---|---|
| Exports | 30.9 | 7.5 |
| Domestic Sales | 43.5 | 34.7 |
| Total | 74.3 | 42.2 |
| *LDPE* | *Q1 14* | *Q1 13* |
| Exports | 29.0 | 24.9 |
| Domestic Sales | 35.6 | 35.6 |
| Total | 64.5 | 60.5 |

In May 2014, SIBUR, Gazprom Neft and Titan Group signed an agreement to establish a jv at Polyom at Omsk. As part of the deal, Sibgazpolimer, a jv of SIBUR and Gazprom Neft (each a 50% stake), acquired a 50% stake in Polyom from Titan Group. According to the agreement, Gazprom Neft is to supply feedstock (propane-propylene fraction from Omsk Refinery) to Polyom, and SIBUR is to sell Polyom's products through its distribution network.

Nizhnekamskneftekhim plans to expand its product portfolio with the launch of four new grades of polypropylene for packaging and automotive industries. The company has mastered the production of block copolymers which are analogues of well-known brands Braskem C706-21NA, Borealis BH381MO, and are used for the manufacture of rigid packaging. Also Nizhnekamskneftekhim intends to start the production of block copolymers with a high ethylene content which can be used to obtain products with high toughness and resistance to frost. In 2013 Nizhnekamskneftekhim produced 208,700 tons of polypropylene against 210,400 tons in 2012.

### SIBUR-polyolefins, Q1 2014

In the first quarter of 2014, SIBUR's revenue from sales of polymers increased by 47.8% to 7.396 billion roubles. The increase was largely attributable to higher polypropylene sales following the launch of Tobolsk-Polymer

plant in the second half of 2013. The share of SIBUR's export sales for polyolefins increased to 44.2% total polymer revenue from 29.2% in 2013, while domestic sales dropped to 55.8% of polymer revenue from 70.8% in the first three months in 2013. The change was attributable to higher export sales due to the growth in polypropylene supply in Russia.

SIBUR's revenue from sales of LDPE increased by 25.0% in the first quarter to 3.465 billion roubles compared to 2.771 billion roubles in 2013. This was on a 17.2% increase in the average price and a 6.7% growth in sales volumes. The increase in LDPE sales volumes was due to a 4.3% growth in production combined with lower inventory build-up. In the first three months in 2014, domestic sales accounted for 52.6% of SIBUR's LDPE revenues.

**SIBUR LDPE Sales (billion roubles)**

| *Sales* | *Q1 14* | *Q1 13* |
|---|---|---|
| Domestic | 1.8 | 1.7 |
| Exports | 1.6 | 1.3 |
| Total | 3.5 | 3.0 |

Revenues from sales of polypropylene increased by 76.1% to 3.931 billion roubles from 2.233 billion roubles in 2013 on a 76.2% increase in sales volumes. Production increased 84.8% following the launch of the Tobolsk-Polymer plant in the second half of 2013. SIBUR also recorded higher third-party purchases from Polyom and a lower inventory build-up. Slightly higher internal use was noted after the launch of the BOPP-film unit at Tomsk in the second half of 2013. In the first three months this year, domestic sales accounted for 58.7% of total SIBUR's polypropylene revenues.

### Tomskneftekhim-polyolefin expansion

SIBUR-Holding is modernising Tomskneftekhim with a view towards improving quality, in addition to a small increase in capacity. Reconstruction involves the replacement of obsolete equipment in the production of polyethylene and polypropylene. SIBUR plans to invest 8.3 billion roubles at Tomskneftekhim by 2017, with the emphasis on the expansion and modernisation of polymer units. The objective is to increase the production of polymers by 2017 by 10.5% over current levels of 375,000 tpa to around 410,000 tpa. However, the main goal is to produce products of better quality to meet domestic demand. The current capacity for the production of LDPE is 235,000 TPA and polypropylene 140,000 tpa.

**Russian PVC Imports (unit-kilo tons)**

| *Source* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| US | 24.4 | 92.0 |
| China | 56.7 | 90.4 |
| Europe | 16.7 | 17.5 |
| Others | 8.9 | 0.0 |
| Total | 106.7 | 200.0 |

### Russian PVC imports, Jan-May 2014

For the first five months of 2014 Russian imports of PVC decreased by 47% compared with 2013. Imports rose in May to 36,800 tons from 25,000 tons in April. For January to May 2014 Russian PVC imports fell to 106,700 ton against 200,000 tons in 2013. A significant decline in demand for finished products from PVC has led many processors to cut back on raw material purchases, whilst also the lack of liquidity at banks has helped to deteriorate the position regarding credit.

This year Chinese PVC imports, based on acetylene, have outstripped imports from the US where shipments fell from 92,000 tons to 24,400 tons in January to May. The drop in imports to a large extent has been affected by devaluation of the currency. Chinese imports are now the largest source, but even import volumes from China dropped from 90,400 tons in January-May 2013 to 56,700 tons in the same period this year. May saw an increase from China and this is expected to continue in the next few months due to lower prices and a seasonal increase in demand in the Russian market.

## PTA/PET Chain

**Russian Paraxylene Domestic Sales (unit-kilo tons)**

| *Producer* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Gazprom Neft | 29.1 | 14.4 |
| Ufaneftekhim | 43.7 | 39.9 |
| Total | 72.8 | 54.3 |

### Russian PET, Jan-May 2014

Russian companies reduced PET production by 3% in the first five months against 2013 to 188,500 tons. Production in May amounted to 44,600 tons. Polief produced 18,000 tons in May which is the highest figure in the history of the company. Alko-Naphtha resumed production of PET in April after two months of inactivity. Imports of PET into Russia totalled 85,000 tons in the first four months, which is 32% higher than last year. Imports rose due to cheaper Chinese raw materials.

### SIBUR paraxylene, Q1 2014

SIBUR's paraxylene costs decreased by 15.8% in the first quarter to 1.268 billion roubles from 1.506 billion roubles in 2013. This meant that paraxylene costs as a proportion of total costs fell for SIBUR from 8.7% in the first quarter last year to 6.5% in 2014. Not only did prices fall by 11% on the Russian market, but also there was a 5.1% reduction in purchased volumes.

| SIBUR Paraxylene, PTA-PET Chain (unit-kilo tons) | | |
|---|---|---|
| | **Q1 14** | **Q1 13** |
| Paraxylene Purchases | 41.581 | 43.804 |
| PTA Production | 64.094 | 67.114 |
| PTA Domestic Sales | 8.765 | 17.504 |
| PTA Exports | 5.985 | 0 |
| PET Production | 67.958 | 54.903 |

For PET, SIBUR increased sales by 15.6% in the first quarter to 2.857 billion roubles from 2.471 billion roubles. This was the result of a 21.3% increase in sales volumes and a 4.7% decline in the average price. The increase in sales volumes was primarily attributable to a 24.7% growth in production following the completion of the PET expansion at Blagoveshchensk. The growth in production was offset by higher inventory accumulation in order to mitigate risks related to the launch after the expansion maintenance shutdown. In the first quarter of 2014, domestic sales accounted for 99.7% of total PET revenue for SIBUR.

### United Petrochemical Company, PTA-PET projects

United Petrochemical Company aims to finalise the design documentation (FEED) for the construction of PTA and PET plants at Ufa in the first quarter of 2015. In January this year the company created a subsidiary RusPETF, which is a jv between United Petrochemical Company and the Mexican holding Alpek, which is currently engaged in the design of new production facilities. The required investment is estimated at $700 million. There is sufficient reason to believe that this project may not adhere to its time goals taking into account the various parts of the production chain that need to be configured.

| Russian Benzene Sales (unit-kilo tons) | | |
|---|---|---|
| | ***Jan-May 14*** | ***Jan-May 13*** |
| **Synthesis Total** | 246.9 | 242.4 |
| Angarsk Polymer Plant | 27.6 | 25.4 |
| SIBUR-Neftekhim | 13.7 | 35.5 |
| Severstal | 15.0 | 15.6 |
| Uralorgsintez | 37.3 | 27.6 |
| Kirishinefteorgsintez | 20.4 | 24.5 |
| West Siberian MC | 25.7 | 24.2 |
| Ryazan NPZ | 12.3 | 8.2 |
| Slavneft-Yanos | 21.2 | 19.4 |
| Gazprom Neft (Omsk) | 41.1 | 43.2 |
| Gazprom n Salavat | 10.8 | 1.2 |
| Stavrolen | 14.3 | 0.0 |
| Ufaneftekhim | 6.0 | 1.9 |
| Zaporozhkoks | 0.0 | 2.7 |
| Ukrtatnafta | 0.0 | 7.2 |
| Yasinovsky Coke | 0.0 | 5.0 |
| ArcelorMittal | 1.5 | 0.7 |
| **Nitration Total** | 14.9 | 15.6 |
| Novolipetsk MK | 10.7 | 9.7 |
| Chelyabinsk MK | 4.1 | 6.0 |
| **Crude** | 56.6 | 68.5 |
| Altay-Koks | 12.2 | 15.4 |
| Koks | 13.1 | 12.2 |
| Magnitogorsk MK | 19.0 | 21.9 |
| Nizhny Tagil MK | 4.6 | 9.2 |
| Novokuznetsk MK | 1.9 | 3.6 |
| Moskoks | 3.8 | 3.7 |
| Ural Steel | 2.0 | 2.7 |
| **Full Total** | 318.3 | 320.6 |

## Aromatics & derivatives

### Russian benzene, Jan-May 2014

Benzene sales on the domestic market totalled 318,300 tons in the first five months in 2014, slightly down on the same period last year. The largest merchant consumer this year has been Kuibyshevazot which accounted for 35% of shipments. A number of repairs were carried out in May and June affecting benzene production and availability, helping to drive up benzene prices.

The most important of the shutdowns involves Stavrolen which is expected to be down for the rest of 2014. The largest suppliers to the merchant market include Gazprom Neft from the Omsk refinery, Uralorgsintez and Angarsk Polymer Plant. Nizhnekamskneftekhim is the largest benzene producer in Russia, but uses all of its production captively for ethylbenzene, and occasionally has to augment its supply through merchant purchases. Kazanorgsintez is an important consumer, using benzene for cumene and bisphenol A. On 24 June the company plans to buy 3,706 tons of benzene through a tender for delivery in July 2014.

Russian benzene production declined 1% in May to 88,500 tons. SIBUR-Kstovo was down for maintenance in April, whilst the Bashkirian refineries also lowered production. Russian benzene production totalled 491,500 tons in the first five months in 2014, down from 507,800 tons last year.

Exports of benzene from Russia totalled 37,682 tons in the first five months in 2014, 62% of which was supplied by coal based producers. Imports from ArselorMittalTemirtau comprised 301 tons in May, 28% less than in April. Kazanorgsintez reduced purchases of Kazakh product 1.6 times in May to 181 tons.

Kuibyshevazot imported 120 tons which almost corresponds to April. For the first five months in 2014 domestic companies purchased 1,500 tons of benzene from ArselorMittalTemirtau, 3% less than the same period of 2013. Imports from Ukraine have been non-existent in the past few months, but in June Yasinovsky Coke supplied 199 tons to the Russian market where supply has become tighter.

**Russian Toluene Domestic Sales (unit-kilo tons)**

| *Producer* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Novolipetsk MK | 0.683 | 0.398 |
| Slavneft-Yanos | 17.381 | 6.232 |
| Severstal | 2.556 | 1.608 |
| LUKoil-NNOS | 13.457 | 9 |
| Gazprom Neft | 13.112 | 4.343 |
| Zapsib | 1.955 | 1.209 |
| Kinef, Kirishi | 7.812 | 6.808 |
| Gazprom Neftekhim Salavat | 0 | 0.466 |
| Others | 0.151 | 0.041 |
| Total | 57.107 | 30.105 |

### Russian toluene, Jan-May 2014

Shipments of toluene to the Russian domestic market amounted to 14,970 tons in May, 35% more than in April and 36% higher than in May 2013. The increase in demand came from consumers using toluene as a high-octane additive for motor fuels, accounting for 29% of consumption.

Manufacturers of industrial explosives increased their purchases of toluene significantly to 1,720 tons (12% of purchases), which is 59% higher than the previous month. From January to May 2014 domestic shipments of toluene on the Russian domestic market by rail amounted to 57,000 tons, 14% higher than the same period in 2013.

Russian toluene production totalled 20,800 tons in April, 18% less than in March. Gazprom Neft produced 6,630 tons, Slavneft 4,490 tons, Ryazan Oil Refining 2,820 tons Lukoil-Perm 2,460 tons, Kirishinefteorgsintez 1,870 tons, West Siberian MK 750 tons, Gazprom neftekhim Salavat 670 tons, Severstal 590 tons, NLMK 210 tons Mechel-Koks 130 tons (less than 1%). From January to April 2014 production of toluene in Russia totalled 102,700 tons, 3% less than in 2013.

**Russian Orthoxylene Domestic Sales (unit-kilo tons)**

| *Producer* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Gazprom Neft | 27.5 | 16.2 |
| Ufaneftekhim | 14.7 | 4.8 |
| Kinef, Kirishi | 18.5 | 10.5 |
| Total | 60.6 | 31.5 |

### Russian orthoxylene, Jan-May 2014

Sales of orthoxylene on the Russian domestic market rose 17% in May over April to 13,350 tons. Despite the increase it was still 3% down on May last year. Gazprom Neft shipped 44% of delivers, or 5,870 tons, Kirishinefteorgsintez 30% or 4,000 tons), and Ufaneftekhim 17% 2,280 tons.

Kamteks Khimprom increased purchases of orthoxylene in May by 5% to 7,160 tons (54% of Russia's consumption) and Gazprom neftekhim Salavat 31%, to 470 tons. In the first five months in 2014 sales of orthoxylene on the domestic market totalled 62,400 tons, 13% up on 2013. Around 40-50% of orthoxylene production in Russia is on average consumed by the phthalic anhydride producers, mainly Kamteks Khimprom and less importantly Gazprom neftekhim Salavat. About a quarter of the production is exported, and the remaining 25-35% is divided between numerous manufacturers of alkyd paints, high-octane additives to motor fuels, agrochemicals and pharmaceuticals.

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

| *Supplier Source* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Omsk Kaucuk | 10.9 | 23.1 |
| Samaraorgsintez | 21.4 | 16.7 |
| Kazanorgsintez | 4.8 | 4.5 |
| Ufaorgsintez | 12.8 | 9.4 |
| Neftekhimya | 0.0 | 0.2 |
| Sterlitamak NPZ | 0.0 | 0.1 |
| Total | 49.9 | 54.0 |

### Russian phenol market, Jan-May 2014

Due to the tightness in the Russian market Samaraorgsintez stopped exports of phenol in May in preference for the domestic market. Whilst Omsk Kaucuk is inactive undergoing repairs Samaraorgsintez is the main supplier of phenol to the merchant market. The other two phenol producers Kazanorgsintez and Ufaorgsintez both mainly utilise phenol for the production of bisphenol A.

After the explosion at the phenol and acetone plant on 6 March Rostekhnadzor undertook a spot check at Omsk Kaucuk and found 133 violations of industrial safety. According to the audit, Rostekhnadzor demanded to bring the company to administrative responsibility for 90 days. Omsk Kaucuk has been met with a minimal fine of 200,000 roubles. The phenol and acetone plants will require around half a year to complete the repairs following the accident in March.

**Russian C4 Sales by Consumer (unit-kilo tons)**

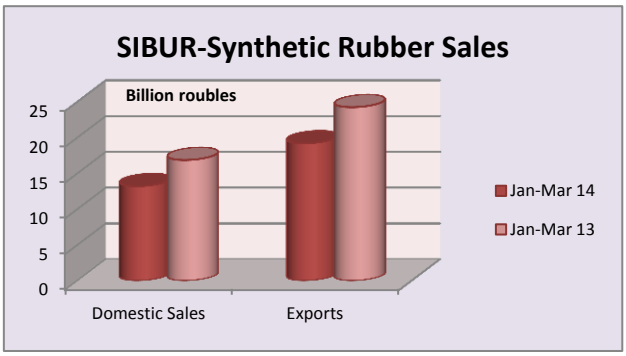
| *Consumer* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Omsk Kaucuk | 36.1 | 32.3 |
| Nizhnekamskneftekhim | 57.6 | 60.8 |
| Togliattikaucuk | 55.4 | 68.2 |
| Sterlitamak Petrochemical | 5.6 | 2.7 |
| Total | 154.7 | 164.0 |

## Synthetic Rubber

### Russian C4s, Jan-May 2014

Russian C4 prices are encountering upward pressure due to market tightness, which to some extent has been hampered by the Stavrolen outage. In June Kazanorgsintez increased prices by 9% to 46,256 roubles per ton, whilst Ufaorgsintez

increased by 8% to 41,000 roubles per ton. Of the four consumers in Russia Nizhnekamskneftekhim has been the largest buyer this year, slightly beating Togliattikaucuk. In total C4 sales amounted to 154,700 tons in the first five months in 2014, against 164,000 tons in the same period last year.




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

| | *Jan-Mar 14* | *Jan-Mar 13* |
|---|---|---|
| Commodity Rubber | 57.0 | 87.9 |
| Speciality Rubber | 23.5 | 24.3 |
| Thermoplastic elastomers | 16.2 | 7.2 |
| 3rd part purchases | 0.2 | 3.4 |
| Total | 96.8 | 122.8 |

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

| | *Jan-Mar 14* | *Jan-Mar 13* |
|---|---|---|
| Commodity Rubber | 4,025 | 6,248 |
| Speciality Rubber | 7,912 | 8,677 |
| Thermoplastic elastomers | 2,844 | 2,984 |
| Total | 14,781 | 17,909 |

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

| | *Jan-Mar 14* | *Jan-Mar 13* |
|---|---|---|
| Domestic Sales | 29.0 | 43.8 |
| Exports | 61.4 | 63.4 |
| Total | 90.4 | 107.2 |

### SIBUR, synthetic rubber production, Q1 2014

In the first quarter of 2014, SIBUR's revenue from synthetic rubber sales fell by 21.3% to 6.739 billion roubles from 8.566 billion roubles in 2013. The decline resulted from the negative global market environment for synthetic rubber and mainly due to lower revenue from sales of commodity rubbers. Revenue from sales of thermoplastic elastomers and specialty rubbers was supported by growth in sales volumes as a result of the launch of the new thermoplastic elastomer facility at Voronezh with a capacity of 50,000 tpa and an expansion of butyl rubber capacity at Togliatti in the second half of 2013. In the first three months of 2014, exports accounted for 67.8% of SIBUR's rubber sales.

### Commodity rubbers

In the first quarter of 2014, SIBUR's revenues from sales of commodity rubbers decreased by 35.6% to 4.025 billion roubles from 6.248 billion roubles in 2013. This was set against a 28.7% decrease in sales volumes and a 9.7% decline in average prices.

Sales of commodity rubbers declined on a 35.2% decrease in production. The decrease in sales volumes was also attributable to lower third-party purchases as SIBUR reduced product purchases under third-party manufacturing arrangements. The average price for commodity rubbers declined, following the negative dynamics in European and Asian market prices.

Asian prices for natural rubber, which is a benchmark for polyisoprene, declined on average by more than 30% in US dollar terms. European prices for styrene-butadiene rubber (ESBR) were down more than 15% in euro terms, while prices for butadiene declined by almost 30%. At the same time prices for styrene declined by only 1% in US dollar terms. The negative dynamics of the international market prices was partially compensated by the Russian rouble depreciation. In the first three months of 2014, domestic sales accounted for 37.3% of total commodity rubber revenue, while 62.7% was attributable to export sales.

**Omsk Kaucuk-Financial Performance (Billion roubles)**

| | *2013* | *2012* |
|---|---|---|
| Revenues | 5.0 | 5.6 |
| Gross Profit | 0.5 | 1.3 |
| Net Profit | -0.08 | 0.6 |

### Omsk Kaucuk 2013

Omsk Kaucuk (part of Titan) decided not to pay dividends on 2013 results after incurring a small loss. Lower production volumes for major products affected whilst at the same time costs rose due to major repairs, energy, depreciation, and outsourcing. In 2013 Omsk Kaucuk accounted for over a quarter of the Russian market of phenol, about 40% of the Russian market of synthetic rubber, and 17% of the Russian market of MTBE.

As part of the investment program for 2014 the company plans to start production of lower olefins and styrene rubbers, reconstruct nitrogen-oxygen station, build a water treatment plant, and reduce losses during discharge-filling of finished products and raw materials. The priorities also called phased reconstruction of phenol-acetone and cumene production. In the first quarter in 2014 Omsk Kaucuk increased its net profit 57 times compared to last year, to 42.5 million roubles, whilst the company's revenue increased 10.5% to 1.3 billion roubles. Revenues in 2013 amounted to 5.005 billion roubles, with a loss of 78 million roubles.

| Russian Methanol Consumption (unit-kilo tons) | | |
|---|---|---|
| ***Consumer*** | ***Jan-May 14*** | ***Jan-May 13*** |
| Nizhnekamskneftekhim | 101.1 | 101.3 |
| Togliattikaucuk | 42.7 | 46.5 |
| Uralorgsintez | 27.2 | 29.1 |
| SIBUR-Khimprom | 4.7 | 5.6 |
| Tobolsk-Neftekhim | 21.3 | 18.1 |
| Ektos-Volga | 19.3 | 20.7 |
| Omsk Kaucuk | 29.1 | 40.2 |
| Novokuibyshevsk NPZ | 20.4 | 28.2 |
| Uralkhimplast | 12.0 | 12.1 |
| Slavneft-Yanos | 2.1 | 0.0 |
| Others | 303.7 | 284.4 |
| Total | 583.5 | 586.1 |

Omsk Kaucuk reduced production of synthetic rubber by 3,900 tons in 2013 against 2012, 7.7% down. At the same time production of rubber was widened to include new grades. Although the company wishes to revamp and expand capacity the main focus is targeted on improving productivity from the existing facilities. Current tasks include the reduction of consumption of propane, propylene and gas liquids.

## Methanol & Ammonia

### Russian methanol market, Jan-May 2014

For the Russian domestic market methanol sales totalled 583,500 tons in the first five months in 2014, against 586,100 tons in the same period last year. Nizhnekamskneftekhim remains the largest consumer, buying 101,100 tons or 17% of total consumption. Other important buyers include mainly MTBE producers. Tomet at Togliatti was the largest supplier on the domestic market in May, delivering 38,101 tons. This was followed by Metafrax with 36,442 tons and Sibmetakhim with 31,107 tons.

Russian methanol exports amounted to 135,800 tons in May, 10% down on April (or 15,000 tons) to 135,800 tons. Sibmetakhim, Metafrax and Shchekinoazot accounted for 73% of total exports, with Tomet and Azot accounting for the remaining 27%. Azot at Novomoskovsk increased exports by 4% in May to 19,300 tons, whilst Tomet reduced shipments by 37% to 17,500 tons. Metafrax and Sibmetakhim exported 27,000 tons and 41,700 tons of methanol, whilst Shchekinoazot reduced exports by 15% to 30,500 tons. Russian producers are continuing to export methanol through the Odessa terminal, although only in small quantities. In May exports amounted to 12,800 tons.

| Metafrax Production (unit-kilo tons) | | |
|---|---|---|
| **Product** | **2013** | **2012** |
| **Methanol** | 436.556 | 425.77 |
| **Formaldehyde 37%** | 71.642 | 77.085 |
| **Formaldehyde 55%** | 59.082 | 55.406 |
| **Urea-formaldehyde con** | 151.213 | 155.270 |
| **Pentaerythritol** | 8.669 | 10.55 |
| **Utropin** | 5.318 | 5.185 |
| **Polyamide block** | 0.748 | 0.683 |
| **Polyamide granular** | 0.115 | 0.091 |
| **Sodium formate** | 11.115 | 11.712 |

The largest importer of Russian methanol remains Finland accounting for 50% of shipments in May or 66,800 tons. Other consumers included Poland (15%) and Slovakia (16%). Ukrainian consumers bought 780 tons which is almost three times more than in April. Turkish consumers purchased only 1,700 tons compared to 5,700 tons in April.

### Metafrax 2013

In 2013, Metafrax used about 30% of methanol captively. The largest consumer of methanol production from Metafrax included Nizhnekamskneftekhim with a share of 53%, SIBUR 14%, and Omsk Kaucuk 11%.

In the formaldehyde sector the main competitors for Metafrax include Sibmetakhim, Kronospan, Khimsintez, Pigment and Akron. Metafrax has the advantage over its competitors in that it produces its own raw materials. The sole buyer of concentrated formaldehyde (55%) is MetaDynea. Production of commercial urea-formaldehyde concentrate (UFC) in Russia is mainly concentrated in three companies: Togliattiazot, Metafrax and Shchekinoazot. Total capacity in Russia is currently about 400,000 tpa, whilst consumption totalled 280,000 tons in 2013.

| Akron Production (unit-kilo tons) | | |
|---|---|---|
| ***Product*** | ***Q1 14*** | ***Q1 13*** |
| Ammonia | 472.6 | 482.0 |
| Urea | 166.5 | 152.0 |
| Methanol | 20.86 | 21.65 |
| Formaldehyde | 30.4 | 34.1 |
| Urea-formaldehyde resins | 38.6 | 42.6 |
| Calcium Carbonate | 86.2 | 52.0 |
| Hydrochloric Acid | 41 | 36.5 |

For pentaerythritol, the company's share in the domestic market has remained at 80%, the market capacity is stable, and the increase is only possible through the expansion of the scope of this product. For hexamine supplies to the domestic market in 2013 remained at the 2012 level, although exports declined. .

### Russian ammonia market, Jan-May 2014

Gazprom neftekhim Salavat produced 244,098 tons of ammonia in the first five months in 2014. Amid the ongoing tension in relations between Russia and Ukraine, Togliattiazot has already established relations with the new government in Kiev. Togliattiazot is the largest producer of ammonia in Russia, a large part of which is supplied to US

### NHC fertiliser project Nakhodka

The National Chemical Group (NHC) estimates that the project for the production of fertilisers in the Primorsk Krai will cost 426.4 billion roubles. The project includes 1 million tpa of ammonia and methanol, and 2 million tpa of urea. The plant is scheduled for completion in March 2019, and most of the products will be exported. The project will be located at Nakhodka in the Russian Far East. The project is being implemented in close cooperation with Gazprom, which is interested in increasing the consumption of gas supplied by pipeline in the Primorsk region from Sakhalin-Khabarovsk-Vladivostok.

and half of the company's exports runs through Ukraine, including seven regions in the south-eastern part of the country. Ammonia is supplied by pipeline to the Odessa terminal for onward transportation, and this export route provides a vital part of the production chain.

### Akron-ammonia project

Akron has projected capital investments of 10 billion roubles in 2014, 43% higher than in 2013. A major investment project involves the construction of a new ammonia plant. Revenue from the company's sales in 2014 is expected to reach 31 billion roubles against 33.421 billion roubles in 2013.

Akron has received the ninth piece of equipment for the Ammonia-4 project. There are plans to ship four more pieces of equipment, including heater purge gases, heat exchanger circulating water cooler inert purge and third separator demister. The Ammonia-4 project refers to the construction of the ammonia unit capacity of 700,000 tpa. Total investment in the project is expected to reach $420 million whilst the start of production is planned for 2015.

## Organic Chemicals

**Russian Butanol Domestic Sales (unit-kilo tons)**

| *Producer* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Gazprom neftekhim Salavat | 10.0 | 10.7 |
| SIBUR-Khimprom | 11.4 | 10.7 |
| Angarsk Polymer Plant | 2.0 | 1.7 |
| Azot Nevinnomyssk | 1.0 | 1.3 |
| Total | 24.4 | 24.4 |

### Russian butanols, Jan-May 2014

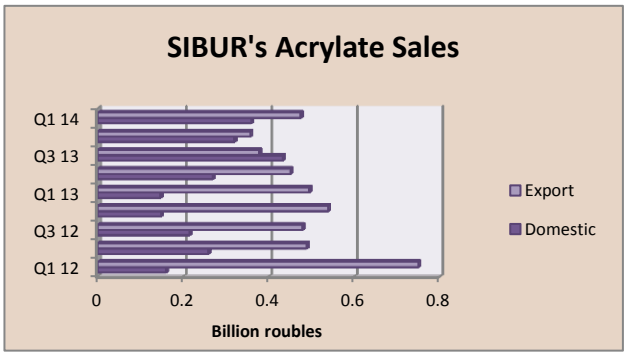
Domestic butanol sales on the Russian market amounted to 6,900 tons in May, 23% more than in April this year and 2.1 times higher than in May 2013. The proportion of n-butanol in total sales in May 2014 was 73%. Gazprom neftekhim Salavat shipped 3,340 tons (50% of total shipments), following maintenance in April when the company only shipped 1,522 tons. SIBUR-Khimprom 3,130 tons (46%), Azot Nevinnomyssk 230 tons (3%), and Angarsk Petrochemical Company 100 tons (1%).

**SIBUR's Organic Chemical Sales (unit-kilo tons)**

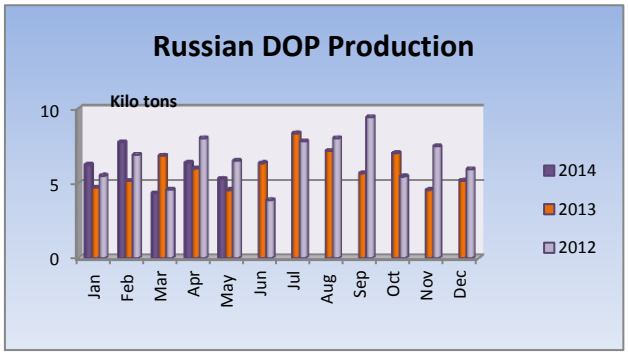
| *Domestic* | *Q1 14* | *Q1 13* |
|---|---|---|
| Acrylates | 4.4 | 2.255 |
| Oxo Alcohols | 14.5 | 13.5 |
| | | |
| *Export* | *Q1 14* | *Q1 13* |
| Acrylates | 7.2 | 8.944 |
| Oxo Alcohols | 19.4 | 20.5 |

The main buyer in May was the Dmitrievsky Chemical Plant which both uses butanol for the production of butyl acetate, and sending for export in small packages on behalf of Gazprom neftekhim Salavat. The company bought 3,240 tons (47% of Russia's consumption). Akrilat bought 660 tons in May, 10% down on April. Other major buyers included the tank farm Nefttorgservis (Moscow region) with 750 tons or 11% of Russia's consumption, Kamenskvolokno (350 tons, or 5%) and Roshalsky Plant of Plasticizers (340 tons, or 5%). In the first five months in 2014 sales on the domestic market totalled 24,400 tons which is unchanged from 2013. The proportion of n-butanol shipments was 77% and isobutanol 23%.

Butanol production in April in Russia amounted to 18,230 tons, against 18,160 tons in March and in April 2013 15,430 tons. N-butanol accounted for 56% of production, and isobutanol 44%. SIBUR-Khimprom produced 7,260 tons, Gazprom neftekhim Salavat produced 5,540 tons Angarsk Petrochemical 5,090 tons and Azot 350 tons. Butanol production amounted to 71,820 tons in the period January to April this year, 22% less than in 2013.




SIBUR-Neftekhim completed repairs at its plant for acrylic acid and esters at Dzerzhinsk in June. All planned work in manufacturing plants and support facilities were completed on time. The stoppage was undertaken in the period 13 to 25 May. Production restarted on 26 May. The capacities of the plant include 31,000 tpa of acrylic acid, 40,200 tpa of butyl acrylate and 10,000 tpa of acrylic esters. The plant was taken over from Akrilat in 2011.

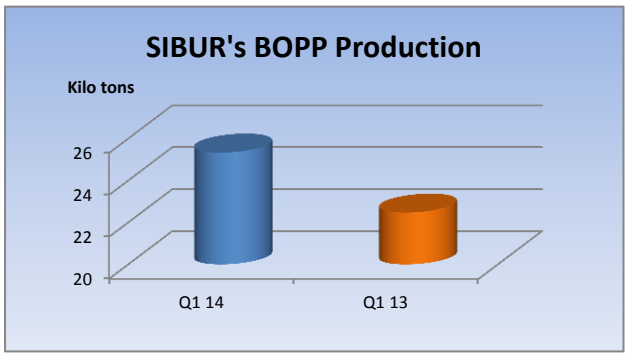



### Russian DOP production, Jan-May 2014

Russian DOP production amounted to 5,290 tons in May, 17% down on April. The main reason for the reduction in gross production was for repairs to Gazprom neftekhim Salavat. Other plants increase production to compensate for the absence of Salavat.

Roshalsky Plant of Plasticizers increased DOP production by 77%, to 2,730 tons, whilst Kamteks-Khimprom increased by 4%, to 2,560 tons. At the Ural Plant of Plasticizers the production of DOTP decreased by 6% to 490 tons. In the first five months Russian DOP production amounted to 29,900 tons, 10% more than in the same period. DOTP production at the Ural Plant of Plasticizers totalled 2,120 tons.

## Other Products




### SIBUR BOPP market, Q1 2014

In the first quarter of 2014, revenues from BOPP-film sales increased by 26.0% to 2.180 billion roubles from 1.731 billion roubles in the first quarter of 2013. Sales volumes rose 25.4%, largely attributable to a 12.7% increase in production following the launch of a new BOPP-film unit at Tomsk in the second half of 2013. SIBUR also reduced its stock in anticipation of additional BOPP-film production volumes pending the capacity expansion at Novokuibyshevsk. In the first quarter of 2014, domestic sales accounted for 79.9% of total BOPP-film revenues.

For 2013 SIBUR's revenue from BOPP-film sales increased by 33.0% against 2012 to 8.100 billion roubles on a 36.9% increase in sales volumes. SIBUR launched a new BOPP plant at Tomsk in November 2013 with a capacity of 38,000 tpa, and followed in April 2014 with the commissioning of the new Novokuibyshevsk plant which is based on Bruckner equipment and has a capacity of 38,000 tpa.

As a result production capacity for Biaksplen has now risen to 179,000 tpa. Russia now has sufficient capacity to meet domestic demand over the next few years and at the same time be capable of exporting part of the production.

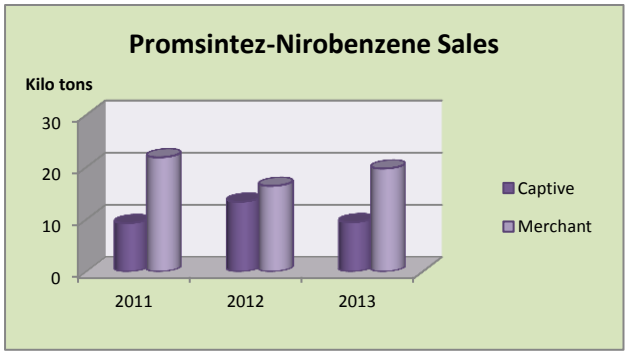
| Kotlas Chemical Plant-Production (unit-kilo tons) | | |
|---|---|---|
| **Product** | **2012** | **2013** |
| **Synthetic resins** | **1.081** | **1.043** |
| **Corrosion inhibitors** | **17.162** | **16.953** |
| **Paint materials** | **3.489** | **3.352** |

### Kotlas Chemical Plant 2013

Kotlas Chemical Plant sold 95% of its production in the Russian domestic market in 2013, followed by 2.27% to Belarus, 0.23% to Kazakhstan, and 2.5% to Ukraine.

### Promsintez 2013

Promsintez at Chapayevsk, in the Samara region, achieved revenues of 2.043 billion roubles in 2013 against 2.086 billion roubles in 2012. The net profit increased marginally to 21.9 million roubles from 15.3 million roubles. The company is the main Russian producer of nitrobenzene, of which it sells partly to the merchant market and the remainder is used captively. The company's main competitors include the Sverdlov plant at Dzerzhinsk in addition to the Ukrainian plant Zarya at Rubezhnoye.




Last year Promsintez was seeking financial support for an MDI project with a view towards construction starting in 2014. However, prospects for this project have since deteriorated and it is believed that the project has been

shelved. Promsintez is 96.6% owned and non-transparently by a company called Visial Trading Limited (Cyprus). It is of no surprise that no information can be found about this company.

### Pigment 2013

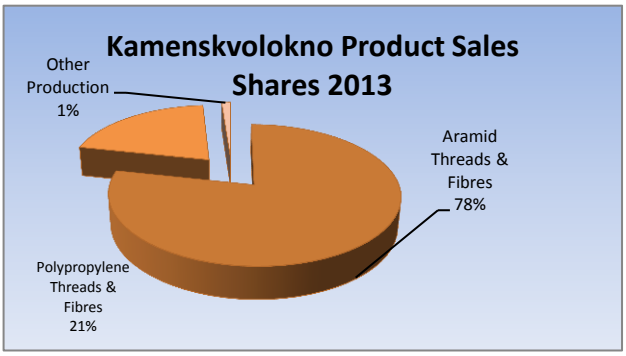
Pigment at Tambov increased revenues in 2013 to 5.063 billion roubles against 4.586 billion roubles in 2012, thus representing the highest turnover in the company's history. The company produces additives for gasoline, phenol-formaldehyde resins, lacquers for paints, additives for concrete, acrylic emulsions, dispersions and PVA adhesives. Other products include brighteners, sulphamic acid and maleid F which is a vulcanization agent.

In 2013 Pigment produced 104,948 tons of chemicals, slightly above 2012. The highest rates of growth in production volumes in 2013 came from optical brighteners, concrete additives, formaldehyde resins, sulphamic acid and acrylic dispersions.

The company exports organic pigments, additives in concrete, additive in gasolines, acrylic dispersions and emulsions, ready paints, varnishes semi-finished, etc. The geographical scope of activity of the company is distributed in almost all regions of Russia, CIS countries, as well as some countries in Central and Western Europe, the Middle East. In 2013 the company began the construction of its own power unit, which is reliable and a cheaper alternative to the external power supply.

### Bor restarts sales of boron chemicals

Mining and Chemical Company Bor (Primorsk Krai) which is the only active boron deposit in Russia sold the first 3,000 tons of production after a short from 1 June until the middle of the month. The company's warehouses are completely full with products. In the period January-May 2014 Bor increased its production by 59% against the same period last year to 34,800 tons.




### Kamenskvolokno 2013

Aramid fibre producer Kamenskvolokno decided not to pay dividends for 2013 and to redirect net profits to the development of the company. Kamenskvolokno achieved a net profit of 93.287 million roubles in 2013 against 85.485 million roubles in 2012. Kamenskvolokno expects to see demand rise from the Russian military, where applications have become more important following sanctions imposed on imports of defence equipment from West Europe. One important area for the company involves the application of aramid fibres into the manufacture of body armour, which accounts for around 150-200 tpa.

In 2013, Kamenskvolokno increased sales volumes aramid yarns by 36.0%. The company operates in a highly competitive environment between domestic producers and the pressure of imports on the domestic market. Around 60% of carpet yarns are imported by Russia whilst Kamenskvolokno maintains a small share of the market. The company increased sales of polyolefin threads to 122 tons in 2013.

## Belarus

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

| *Product* | *Jan-May 14* | *Jan-May 13* |
|---|---|---|
| Methanol | 33.6 | 37.3 |
| Caprolactam | 53.3 | 56.7 |
| Polyamide primary | 35.4 | 30.1 |
| Polyamide filled | 4.3 | 4.3 |
| Ammonia | 467.4 | 462.8 |
| Urea | 447.5 | 426.0 |
| Fertilisers | 341.4 | 334.6 |
| Fibres | 17.1 | 16.1 |

### Belarussian petrochemicals

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.

The sole Belarusian LDPE producer Polymir, part of Naftan), resumed production in June after a two-week stop for routine repairs. Plant capacity is 65,000 tpa from total polyethylene capacity of 130,000 tpa. The company produced 42,900 tons of LDPE in the first four months.

In the first five months in 2014 Belarussian exports of phthalic

anhydride to Russia totalled 422 tons against 3,100 tons in the same period last year. The main Russian consumers include Russian Paint and Kazan State Treasury Powder Mill.

## Crimea

### Crimean Soda, Jan-May 2014

In recent weeks the Crimean have undertaken improvement in the Krasnoperekopsk resort area with the aim of transforming the area into a tourist location. This could ultimately affect production by Crimean Soda and even possible closure. Another variant in the ongoing uncertainty is that Bashkir Soda, which already controls the Sterlitamak and Berezniki soda ash plants in Russia, might be interested in acquiring Crimean Soda.

Regarding current activity, Crimean Soda produced 47,000 tons of soda ash in May, together with 2,280 tons of edible salt and 1,556 tons of sodium bicarbonate. Savings this year have been made by the company on raw materials and energy, in particular, including ammonia, hydrogen sulphate, anthracite and limestone. Crimean Soda Plant invested 175 million hryvnia in 2013 in projects aimed at creating its own resource base, launching new products and reducing the cost of the finished product. This involved 90 million hryvnia in the construction of a cogeneration plant for the production of electricity and heat from the gas, for which the company expects to recoup the investment within four years. The project will enable the company to provide around 90% of its own energy needs, and at the same time reduce natural gas consumption by 11%.

## Ukraine

**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 |
| Domestic Consumption | 10.8 | 48.1 |

### Ukrainian benzene market 2014

Zarya at Rubeznoye was forced to stop production in May due to the on-going hostilities in eastern Ukraine. In early June Yasinovsky Coke shipped 199 tons of benzene to Russia, the first export shipment from Ukraine this year, at a price of $1,140 per ton. The deficit in benzene in Russia has emerged in the past two months resulting in an increase in price and raising the need for imports. In July Yasinovsky Coke is expected to continue to ship benzene to the Russian market.

Benzene production amounted to 8,400 tons in April, unchanged from March. Ukrtatnafta increased production by 24% to 1,900 tons, whilst Zarya reduced production 9% to 1,600 tons. In addition, Zaporozhkoks reduced volumes of benzene by almost 5%, to 1,400 tons. In the first four months this year Ukrainian production totalled 30,400 tons which was 29% more than in 2013.

The benzene market in Ukraine has been badly affected by the stops in adipic acid at Rivne and Severodonetsk, and caprolactam at Cherkassy. The Cherkassy plant is owned by Ostchem and worked between June and September last year, buying 7,200 tons of benzene from Ukrtatnafta and Yasinovsky Coke. However, after September the plant closed again due to the fall in demand for Ukrainian caprolactam.

**Karpatneftekhim Production & Sales (unit-kilo tons)**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Production Total** | **721.0** | **537.1** | **36.3** |
| **Merchant Sales Total** | **565.8** | **429.9** | **37.1** |
| S-PVC | 84.0 | 121.7 | 12.2 |
| HDPE | 102.7 | 73.5 | 11.3 |
| Ethylene | 7.8 | 1.8 | 0 |
| Propylene | 81.6 | 55.0 | 0 |
| Benzene | 31.6 | 25.5 | 0 |
| Heavy oil fuel | 39.6 | 23.3 | 0 |
| Liquid pyrolysis fractions | 46.7 | 54.7 | 0 |
| VCM | 64.8 | (3.6) | 0 |
| Caustic soda | 107.0 | 76.4 | 9.0 |

Domestic producers of adipic acid did not purchase benzene in 2013, and the situation is unlikely to change soon. Azot at Severdonetsk has stopped most production units due the turbulence in eastern Ukraine, whilst the lack of profitability prevents Rivneazot restarting. In the first quarter this year Azot at Cherkassy exported the benzene stocks that had not been processed into caprolactam.

As a result of weak demand in the domestic market Ukrainian benzene producers have become almost exclusively dependent on exports. Moreover, due to the fractious state of relations between Ukraine and Russia, which has limited trading possibilities, producers have been forced to seek out alternative export markets. This year Zaporozhkoks has supplied benzene to Singapore, whilst Yasinovsky Coke has delivered to Hong Kong, and Ukrtatnafta to Gibraltar. Product shipments are economically beneficial due to weakness of the domestic currency and the lack of export duty in most countries, aside Russia.

### Ukrainian oxo alcohols, June 2014

Demand for oxo alcohols and plasticizers in Ukraine remains low, with consumers facing uncertainty on the political and economic front.

Due to crisis in the eastern part of Ukraine Lizinvest at Rubeznoye has stopped the production of phthalic anhydride and phthalate plasticizers. Another Ukrainian producer Polikem stopped GOP production for 10 days in June due to disruptions in supply of raw materials and lower sales volumes. Lizinvest is selling stocks to customers from the warehouses. In the second half of June DOP from domestic sources was being offered at 27,300-27,600 hryvnia per ton including VAT, which is 400-500 hryvnia higher than in May. However, Polish product was available at lower prices.

### Ukrainian methanol, Jan-May 2014

Azot produced 46,500 tons of methanol in the first five months in 2014 against 70,800 tons in the same period last year. Azot produced 13,300 tons in April, 40% up against March. Due to the unstable position in the Lugansk region, and in particular, Severodonetsk, Azot suspended production of methanol in May.

Domestic sales amounted to 2,700 tons in April, the main consumers of which were Ukrainian gas companies accounting for 58% of shipments or 1,600 tons. Another 40% of shipments were delivered to Stirol at Gorlovka. The remaining 2% (or 55 tons) was bought by Dniproazot.

From inventory the company sold 1,300 tons in May, almost two times less than in April. The main consumers of methanol sold by Azot remain Ukrainian gas companies, accounting for 60% of shipments in May or 750 tons. Stirol at Gorlovka bought 480 tons or 37% of shipments. The remaining 4% (or 50 tons) was purchased by Dniproazot. Whilst production has been stopped at Severdonetsk Azot is undertaking scheduled maintenance for some products, including acetic acid.

### Ukrainian PET imports, Jan-Apr 2014

Imports of PET declined by 24% against to 51,400 tons. Ukrainian companies have reduced purchases of Chinese and Lithuanian grades. Imports from India increased to 10,000 tons, compared to 5,700 tons in January

April 2013. Imports from Pakistan have tripled to 4,500 tons. At the same time supply the Lithuanian PET fell to 5,400 tons. Chinese PET supplies fell by 36% to 28,700 tons.

### Ukrainian PVC imports, Jan-Apr 2014

Imports of PVC in Ukraine in January-April 2014 decreased by 34% from 38,600 tons to 25,500 tons. Key suppliers to the Ukrainian market remain producers from Hungary and Poland. Imports from the US have averaged 4,000 tons per month in 2014, totalling 15,900 tons in January-April 2014 against 19,300 tons in the same period last year.

Ukraine's Interdepartmental Commission on International Trade (ICIT) has not found sufficient evidence of price manipulation from US sales of PVC and has decided against imposing anti-dumping duties which had been requested for by Lukoil. Imports of PVC from the US totalled 67,800 tons in 2013, almost twice that of 2012. The largest US suppliers of resin to the Ukrainian market in 2013 were Formosa (28,000 tons) and Oxyvinyls (22,000 tons). About 99% of PVC shipments from Europe came from Hungary and Poland.

### Ukrainian polyethylene, Jan-Apr 2014

For the first four months of this year, the total volume of imports of polyethylene into Ukraine decreased by 27% from 102,900 tons to 75,600 tons. Ukrainian imports of LDPE amounted to 25,100 tons in the period January to April 2014, versus 33,800 tons a year earlier. LLDPE imports totalled 15,000 tons in the period January to April 2014, against 20,000 tons in 2013. HDPE imports dropped 29% to 32,300 tons from 45,200 tons in 2013. Political instability in the country and currency devaluation has forced many local companies into reducing purchases this year.

In the first four months of the year HDPE film imports fell to 12,900 tons against 20,000 tons in 2013. Total shipments of polyethylene pipe into Ukraine decreased by 35% in the first four months to 5,400 tons. Imports of blow moulding HDPE amounted to about 6,200 tons, which is 25% lower than in 2013. In contrast to the other categories, Injection moulding grades increased by 15% to 6,600 tons.

## Caucasus-Central Asia

### Ineos licenses Innovene S process for Turkmen project

Ineos has licensed its Innovene S process to Hyundai Engineering for the Turkmengaz new greenfield petrochemical complex in the Balkan region of Turkmenistan. The complex, which will be operated by Turkmengaz, will include a 386,000 tpa line of high-density polyethylene (HDPE) using Innovene S technology alongside a 50,000 tpa black compounding line. In addition the complex will comprise a polypropylene plant with a capacity of 81,000 tpa.

The project is being undertaken involving a consortium of Japanese and South Korean companies, and completion is targeted for 2019. Construction of the facility is designed to diversify the usage of natural gas reserves in Turkmenistan, as well as large-scale plans to diversify the national fuel and energy complex. LG International Corp, Toyo Engineering Corp. and Hyundai Engineering are to take responsibility for constructing the project. This is the first Innovene S license awarded to Ineos Technologies in Central Asia.

The Turkmengaz plant will serve customers with a broad product range, including Bimodal PE 100 Pressure Pipe, ensuring a competitive advantage for their customers both in domestic and global markets. The companies have now begun the engineering phase of the project.

### AzMeCo-Sberbank

Sberbank has agreed to finance Azmeco's projects to the value of $1.5 billion. This includes the refinancing of the Garadag methanol plant near Baku at a value of $450 million. It also includes a long term project financing of methanol plant construction in the South West of Russia and project financing of a series of medium and large business deals in Crimea. The Memorandum of Cooperation has a five year term, with the possibility to extend. Specific projects will be subject to separate agreements. This memorandum does not limit AzMeCo in its cooperation with other banks.

***Relevant Currencies***

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

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