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RUSSIA

Russian chemical production & markets, Jan-Jun 2015

Russian chemical production performed with some stability in the first half of 2015, helped to some degree by restored production facilities at several plants and the higher utilisation attained at the new petrochemical facilities introduced in the past two years. Rises were noted for the main monomers, including ethylene, propylene and styrene whilst overall bulk plastics production increased by 13% to 3.641 million tons. Whilst bulk plastics production was driven by rapidly rising utilisation rates by Tobolsk-Polymer and Polyom for polypropylene and RusVinyl for PVC, Russian domestic consumption was noticeably affected by weakness of the domestic economy. Products such as ABS, polycarbonate and PET all witnessed double digit declines in consumption for the first half of 2015, whilst of the main polymers only polypropylene has shown any degree of growth.

Russian Chemical Production (unit-kilo tons)

Product	*Jan-Jun 15*	*Jan-Jun 14*
Caustic Soda	565.0	520.2
Soda Ash	1,522.0	1,251.0
Ethylene	1,426.0	1,240.0
Propylene	837.7	724.2
Benzene	624.8	578.0
Xylenes	275.9	271.4
Styrene	347.7	329.6
Phenol	123.2	129.5
Ammonia	7,300.0	7,700.0
Nitrogen Fertilisers	4,292.0	4,400.0
Phosphate Fertilisers	1,654.0	1,600.0
Potash Fertilisers	3,978.0	4,200.0
Plastics in Bulk	3,641.0	3,150.0
Polyethylene	905.0	830.0
Polystyrene	264.5	270.5
PVC	454.8	338.4
Polypropylene	711.0	492.7
Polyamide	68.7	72.2
Synthetic Rubber	540.0	652.5
Synthetic Fibres	62.1	66.8

As a result of higher production and lower consumption, combined with a much weaker rouble than in recent years, import activity for plastics has been severely affected this year whilst at the same time export activity for products such as PVC and polypropylene has risen dramatically.

Regarding chemical technology, the Russian government has recently introduced regulations whereby equipment imports can be subject to VAT exemption if there are no Russian companies producing the same technology. Such projects that could benefit from these changes include the acrylic acid and acrylate ester investment being developed by Gazprom neftekhim Salavat, the silicon project for KZSK-Silicon at Kazan, and the polyester complex at Ivanovo.

From the start of July, the Russian Ministry of Economic Development instructed Gazprom and other gas supplies to implement a 7.5% rise for natural gas. In practice this is hard to analyse as Russian chemical producers pay different prices depending on volumes and location. Fertiliser producers generally receive the best prices due to volume, whilst chemical producers located in Siberia tend to receive the highest prices.

Russian Natural Gas Prices 2014

Company	Location	Roubles per 000 M3
Akron	Novgorod	4330.9
Azot	Kemerovo	4630.4
Azot	Novomoskovsk	4162.0
Azot	Nevinnomyssk	4442.6
Fosagro	Cherepovets	3903.1
Kamteks-Khimprom	Perm	3869.5
Khimprom	Novocheboksarsk	3922.3
Galopolymer	Perm	3905.6
Metafrax	Gubakha	3476.3
Volzhskiy Orgsintez	Volzhskiy	4236.8

In 2014 the price per cubic metre of natural gas rose by 8% for most consumers, but the arbitrary nature of price settlement between supplier and buyer makes it difficult to paint a clear picture.

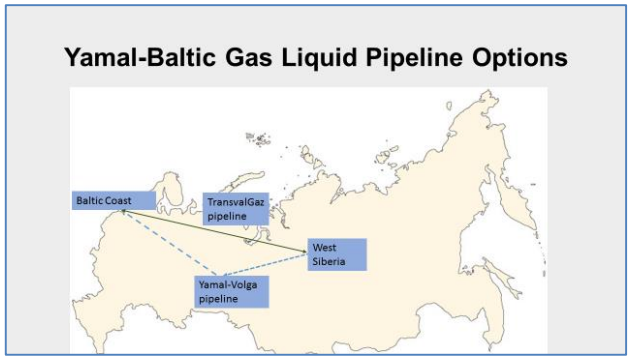
It seems though that due to the deprecation of the rouble last year this actually reduced gas prices in dollars/euros and prices for the main consumers varied from $70 per thousand cubic metres to $100 per

thousand metres. Thus overall, the price of gas in the Russian Federation remains relatively low in comparison with the prices existing in Europe and North America, thus giving an opportunity to significantly reduce production costs compared with foreign manufacturers.

Russian petrochemical producers & markets

NGL pipelines & government support

The Russian government has included the gas liquid pipeline TransValGaz in its strategic programme for the petrochemical industry, transporting feedstocks from the Yamal region in West Siberia to the Baltic coast via Cherepovets, but has not included the Yamal Volga pipeline. The project for construction of gas liquid pipeline Yamal-Volga for the transportation of hydrocarbons from the Yamal region was not included in the government plan for the development of gas and petrochemical industry of Russia up to 2030. It is unlikely that Tatarstan and Bashkortostan would be unable to fund the Yamal-Volga pipeline, considered important for the regional petrochemical industry, without support from the federal government.



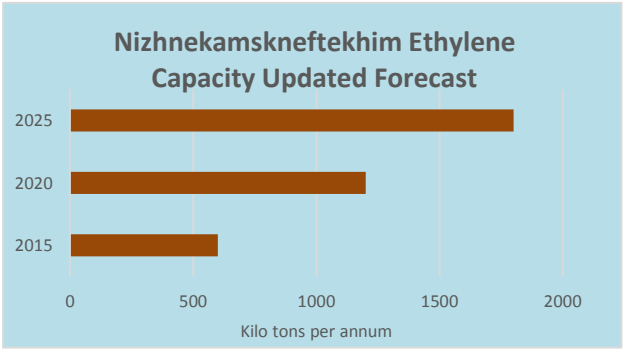
The inclusion of TransValGaz and exclusion of the Yamal-Volga pipeline from the plan for the petrochemical industry up to 2030 does not represent a final decision, but does indicate the preference of the government.

For the Volga-Urals petrochemical industry the construction of a pipeline transporting gas liquids from the Nadym-Pur-Taz region in Yamal to plants such as Nizhnekamsk and Salavat has been considered not essential but important for some time. Targets have been established to supply 2.6 million tpa of NGLs to Nizhnekamsk and 2 million tpa of NGLs to Novokuibyshevsk. Other goals include supplying Kazanorgsintez with 1 million tpa of ethane and 500,000 tpa of propane.

The project TransValGaz, which does not go through the Volga-Urals, plans to increase production of gas from the Nadym-Pur-Taz region and ship gas liquids and condensate to the Baltic coast. As part of the project a gas processing plant will be established at Cherepovets, where fatty gas can be used for the production of chemicals.

Nizhnekamskneftekhim-updated ethylene project plans

Regardless of whether the Yamal-Volga feedstock pipeline is constructed Nizhnekamskneftekhim has reiterated its plans to construct two new ethylene units of 600,000 tpa rather than the original plan of constructing a 1 million tpa cracker. The total cost of the project is estimated at $9 billion, which is three times higher than the $3 billion estimated costs for the previous olefin project. Whereas the 1 million tpa cracker was targeted for 2017 completion there is no specific deadline for either of the two new units. Provisionally the first 600,000 tpa unit will be installed in 2020 and the second 600,000 tpa unit in 2025.



The company is well placed for feedstocks for new petrochemical plants, particularly naphtha. However, its main concerns which have caused the delay of the investment plans relate to the weak economic performance in the Russian economy, not only in 2015 but also 2013 and 2014. At present, the production capacity of ethylene Nizhnekamskneftekhim is 600,000 tpa, 230,000 tpa of polyethylene and 190,000 tpa of polypropylene.

Bashneft-petrochemical plans

Following Bashneft's acquisition of petrochemical assets in United Petrochemical Company this year, the group is now considering potential project investments at Ufaorgsintez. In late June, Bashneft published a notice of interest in the search for contractors in the development of several core projects including 100,000 tpa of polypropylene. Ufaorgsintez already possesses a polypropylene plant of 100,000 tpa, but wants to expand its range and volume.

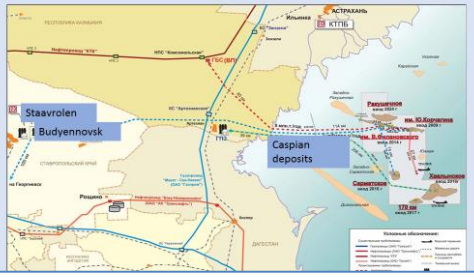
2014 Share of Ufaorgsintez in Russian Petrochemical Production (ktons)			
Product	***Russian total***	***Ufaorgsintez***	***Share of Ufaorgsintez %***
LDPE	634	85	13.40
PP	1033	119	11.50
Phenol	241	69	28.60
Acetone	150	42	28.00
Bisphenol A	98	34 [2]	35.00

Bashneft is also considering an expansion of polyethylene capacity by constructing a HDPE plant of 200,000 tpa. This project is designed to produce high-density polyethylene at low cost and an increased variety of manufactured pipe, film and injection moulding grades.

Ufaorgsintez is conducting a tender for the development of the project of construction of epoxy resins with a production capacity of 60,000 tpa. Regarding phenol and acetone, Ufaorgsintez is seeking a contractor to renovate the plants in addition to the re-equipment of the pyrolysis furnace for the production of ethanol in 2015-2016.

Ufaorgsintez increased ethylene capacity by 25% in 2014 to 150,000 tpa. Bashneft is now considering the possibility of expanding capacity by 20-30% up to 180-200,000 tpa. Earlier ideas of building a one million tpa cracker, when Ufaorgsintez was part of United Petrochemical Company, have been abandoned. The political problems surrounding United Petrochemical Company also affected the jv RusPETF with the Mexican company Alpek which has now been cancelled.

Lukoil's Caspian Gas-Budyennovsk



Lukoil-Budyennovsk

Lukoil plans to start deliveries of associated gas in 2016 from the North Caspian fields to Budyennovsk, supplying around 1 billion cubic metres in the first year. Prior to the end of 2015 Lukoil is to open its new combined-cycle plant at Budyennovsk in June, as the forerunner to the expansion of ethylene facilities in addition to providing power to the wholesale electricity market.

The first stage of the gas processing plant at Budyennovsk includes a first line of 2.2 billion cubic metres per annum. By the end of 2014 the company completed work on laying the pipeline for delivering associated gas to the gas processing facilities. The capacity of the pipeline is 8 billion cubic metres of associated gas per annum with a length of 263.3 km. The second stage of the project comprises the construction of the gas processing plant with a capacity of 6.5 billion cubic metres per annum which would be introduced by around 2020.

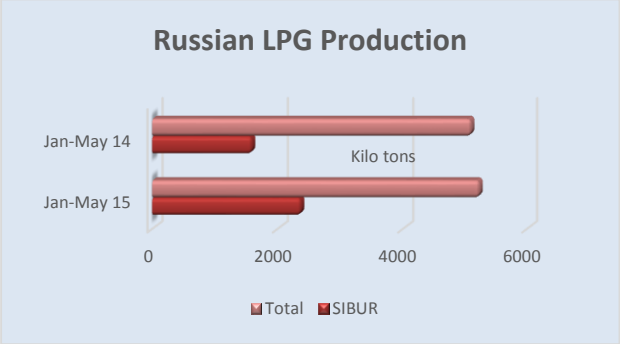
Russian Ethylene Production (unit-kilo tons)		
Producer	***Jan-May 15***	***Jan-May 14***
Angarsk Polymer Plant	87.8	92.9
Kazanorgsintez	233.3	213.8
Stavrolen	41.5	53.6
Nizhnekamskneftekhim	245.3	268.8
SANORS	27.5	33.2
Gazprom n Salavat	144.1	138.9
SIBUR-Kstovo	142.4	62.4
SIBUR-Khimprom	21.8	20.7
Tomskneftekhim	112.7	115.3
Ufaorgsintez	58.4	53.9
Total	1114.9	1053.6

Russian cracker & petrochemical feedstocks

Russian ethylene production increased 9% in the first five months in 2015 to 1.115 million tons, helped by the restart of the Stavrolen cracker. Gazprom neftekhim Salavat and Kazanorgsintez recorded slight increases in production, but the largest rise was seen by SIBUR-Kstovo following the expansion and modernisation specifically to support the RusVinyl project.

For the first half of 2015 sales of gas liquids to the petrochemical sector increased to 739,900 tons against 677,100 tons in the same period last year. However, sales of gas liquids were down 21% in June versus May to 104,430 tons of shipments due mainly to lower deliveries from Astrakhan in particular to Gazprom neftekhim Salavat dropping from 16,570 tons to 1,540 tons.

Stavrolen reduced purchases of natural gas liquids by 4.4 times in June against May, dropping to 5,000 tons from Lukoil, and replacing feedstocks with purchases of n-butane. This was forced by scheduled maintenance at Lukoil's Lokosovsky GPP for in the first part of July. Stavrolen is aiming long term to increase LPG usage over naphtha, but at the same time naphtha offers advantages in relation to benzene production if benzene prices attain higher levels and margins. Lukoil is currently undertaking a project at Stavrolen, where a gas processing facility will be constructed enabling the Budyennovsk complex to operate predominantly on LPGs.



SIBUR-Kstovo and Nizhnekamskneftekhim reduced the volume of purchases of natural gas liquids in June to 44,210 tons (6% down) and 14,910 tons (15% down) respectively. At the same time Tomskneftekhim increased its consumption by 1.6 times to 32,040 tons. SIBUR is the dominant player in LPG production in Russia, dependent mainly on the Tobolsk plant.

Naphtha sales to Russian petrochemical plants increased by 26% in June over May to 102,500 tons. Collectively, SIBUR plants SIBUR-Kstovo and Tomskneftekhim increased naphtha purchases by 95% over May to 51,800 tons. For the first half of 2015 merchant sales of naphtha to the petrochemical industry totalled 421,800 tons against 364,000 tons in the same period last year. The increase was due mainly to the restart of the Stavrolen plant.

Russian Naphtha Sales (unit-kilo tons)

Sector	*Jan-Jun 15*	*Jan-Jun 14*
Fuel	540.3	619.4
Petrochemical	421.8	364.6
Exports	6255.0	6270.0
Total	6676.8	6634.6

Ethylene prices in Russia have risen this year as a side effect of the Russian government's tax manoeuvre introduced at the start of 2015, designed to increase government revenues from oil product exports. This has particularly affected merchant consumers of ethylene such as Bashkir Soda Company, RusVinyl and Sayanskkhimplast which account for around 30% of the open market. RusVinyl has now overcome the problem through a revised contract with SIBUR-Kstovo, and the government is considering other measures that would help to reduce ethylene prices.

Russian Propylene Domestic Sales (unit-kilo tons)

Producer	*Jan-Jun 15*	*Jan-Jun 14*
Angarsk Polymer Plant	35.9	41.0
Omsk Kaucuk	3.8	0.0
SIBUR-Kstovo	46.0	33.7
Akrilat	1.7	7.9
LUKoil-NNOS	81.4	83.9
Tomskneftekhim	0.0	3.1
Gazprom neftekhim Salavat	12.0	14.9
Nizhnekamskneftekhim	2.0	0.0
SIBUR-Khimprom	0.0	0.5
Stavrolen	0.6	3.3
Tobolsk-Polymer	7.7	5.7
Ufaorgsintez	5.0	0.0
Total	196.0	194.1

Russian propylene, Jan-Apr 2015

Domestic propylene sales amounted to 32,400 tons in June, 3% down on May. Shipments by Angarsk Polymer Plant decreased by 20% to 4,348 tons whilst Gazprom neftekhim Salavat increased sales by 10% to times to 4,137 tons. In the first six months in 2015 domestic propylene sales in Russia totalled 196,000 tons against 194,100 tons in the same period last year. The largest supplier to the domestic market is LUKoil-NNOS at Kstovo, which ships most of its propylene to Saratovorgsintez for the production of acrylonitrile.

Domestic sales of propane-propylene fractions amounted to 9,400 tons in June, 1.5 times more than May. The main reason for the rise was the resumption of sales of the Ryazan refinery after maintenance at the plant. For the first six months in 2015 sales on the domestic market totalled 63,200 tons, 8% less than in the same period in 2013.

Omsk Kaucuk has installed new equipment for the purification of propylene. The circuit can work with imported propylene and propylene obtained by separation of propane-propylene fraction at Omsk Kaucuk. Currently, propylene purified by Omsk Kaucuk meets the requirements of technological regulations of LyondellBasell and enters as a raw material in the Omsk Polypropylene Plant.

Bulk Polymers

Russian polyolefins, May-June 2015

Russian polyethylene production totalled 664,700 tons in the first five months in 2015, 0.4% up on 2014. The largest producer in Russia is Kazanorgsintez which produced 313,900 tons in the period January to May 2015. Gazprom neftekhim Salavat is the only other producer to Kazanorgsintez that produces both HDPE and LDPE. The LDPE at Salavat stopped production of LDPE on 24 June for scheduled maintenance, expected to be down for 30 days. The capacity for the production of LDPE at Salavat is 45.000 tpa, whilst production totalled 16,600 tons in the first five months this year.

Russian Polypropylene Production (unit-kilo tons)		
Producer	***Jan-May 15***	***Jan-May 14***
Ufaorgsintez	53.9	54.8
Stavrolen	47.2	17.6
Moscow NPZ	47.6	49.0
Nizhnekamskneftekhim	90.6	85.9
Polyom	82.3	69.0
Tomskneftekhim	58.8	55.4
Tobolsk-Polymer	183.3	79.7
Total	563.7	411.4

Russian polypropylene exports totalled 168,100 tons in the first five months in 2015, 116% higher than the 77,900 tons shipped in the same period last year. Exports are diversified globally and by product category are largely dominated by homopolymer. Polypropylene production in Russia totalled 563,800 tons in the first five months in 2015 which was 37% up against the same period last year.

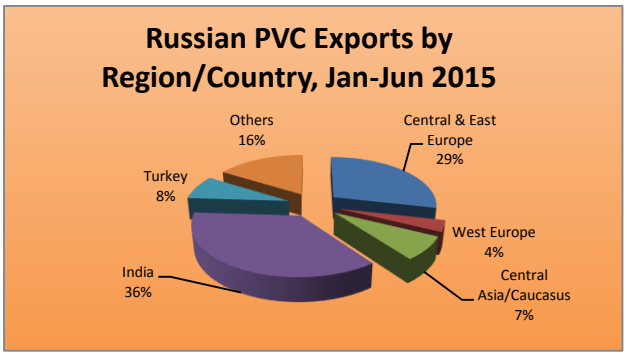
Tobolsk-Polymer produced 183,300 tons of polypropylene in the first five months against 76,200 tons in 2014, followed by Nizhnekamskneftekhim which produced 90,600 tons against 85,900 tons. Polyom at Omsk produced 82,300 tons against 69,000 tons.

Russian PVC Production (unit-kilo tons)		
Producer	***Jan-May 15***	***Jan-May 14***
Bashkir Soda	104.9	94
Kaustik	39.8	40.1
RusVinyl	88.6	0
Khimprom	0.0	7.5
Sayanskkhimplast	98.7	124.8
Total	332.0	266.4

Russian PVC, Jan-May 2015

Russian PVC production increased 25% in the first five months in 2015 to 332,000 tons. The main increase in production was provided from RusVinyl and Bashkir Soda. At the same time Sayanskkhimplast in the Irkutsk Oblast has recorded a decline in production due to lack of ethylene, but this was more than offset by growth in volumes from other producers and particularly RusVinyl. Angarsk Polymer Plant has reduced ethylene supplies to Sayanskkhimplast meaning that production declined 21% in the first five months to 98,700 tons.

Bashkir Soda Company at Sterlitamak produced 104,900 tons of PVC in the first five months in 2015, 12% higher than in 2014, whilst RusVinyl produced 88,600 tons against zero last year as the plant was still undergoing construction. Kaustik at Volgograd produced 39,800 tons of PVC in the first five months, which was 1% down on 2014.



Higher Russian PVC production in 2015 combined with stagnant demand in the domestic market has led to more export activity, which was before this year almost non-existent. Export destinations have been diverse; India representing the main market followed by the countries in Central and East Europe. At the same time imports have dropped dramatically from 260,000 tons in the first half of 2014 to 5,200 tons in the same period this year.

Russian polycarbonate, Jan-May 2015

In the first five months of 2015 Russian polycarbonate imports decreased by 4% compared to last year and amounted to 29,400 tons. Consumption amounted to 32,400 tons in the first five months, 12% less than in 2014. Pellet supply fell almost half to 8,600 tons. In January-May 2015 the Russian market of polycarbonate fell by 27% over last year and amounted to only 38,000 tons.

PTA/PET & Fibres

Russian paraxylene market

Paraxylene exports from Russia are starting to fall as PTA production at Polief is gradually increased. Although exports increased slightly in the first quarter this year, some of the shipments were based on inventory from the end of 2014 but the trend in the second quarter has been lower.

Russian paraxylene producers have traditionally been successful exporters on the global market, but in recent years the addition of new global capacity in the Middle East and Asia (aside increased domestic demand) has affected margin and volume possibilities. The launch of new paraxylene plants has been influenced to some degree by the expansion of PTA capacity in China. As a result the rapid growth of paraxylene and PTA, which is occurred since 2012, has led to a surplus of these products on the market. In terms of market dynamics, moreover, the slower demand in China for fibres has allowed increases in supply of paraxylene and PTA available on the

market has led to reduced prices and margins. Many paraxylene producers have been working at a reduced capacity utilisation or stopped production temporarily.

SIBUR-Bashneft paraxylene long term supplies

SIBUR and Bashneft re discussing the possibility of long-term contract for the supply of paraxylene to Polief. This was not possible under the previous leadership of the Ufaneftekhim refinery which was AFK System. In October last year Bashneft announced the signing of a 25-year contract for the supply of paraxylene to RusPETF. The document at the time was approved at the shareholders meeting of Bashneft, involving the supply of paraxylene in the amount of 240,000 tpa.

This long term contract now appears null and void following the withdrawal of the Mexican company Alpek from the RusPETF jv, leaving SIBUR as the sole domestic large-scale consumer of paraxylene.

Russian PET consumption

Aside higher domestic PET production imports have been affected this year by lower demand in Russia, with consumption falling by 20% in the first five months in 2015 to 230,000 tons. Market players noted a decrease in demand from manufacturers of beer whilst good performance was observed in demand from manufacturers of water and soft drinks.

In Europe, beer consumption per capita is between 110 and 160 litres. In Russia, the peak consumption is not more than 70 litres, but in the last year, consumption dropped to 55 litres. Due to the government campaign against alcohol packaging beer in PET bottles has been banned in larger than 0.5 litres. PET consumption could be affected by reduced packaging in this sector.

PET consumption totalled 566,000 tons in 2014 against 580,000 tpa in 2013, whilst production amounted to 405,000 tons in 2014. Imports dropped 7% in 2014 to 175,000 tons. PTA consumption in Russia totalled 354,000 tons in 2014, 3% down on 2013.

Polief completed a major project to expand production capacity in 2014 and is now capable of producing 210,000 tpa of PET and 250,000 tpa of PTA. At present, Bashneft is able to annually produce up to 155,000 tpa of paraxylene and was considering an upgrade to 260,000 tpa but this unlikely to happen unless a new jv partner steps forward.

Polief plans to invest around 1.9 billion roubles into the PTA facilities at Blagoveshchensk to improve production performance. Polief achieved revenues of 13.860 billion roubles in 2014 and a net profit of 164.38 million roubles.

In March last year, Polief completed the expansion of PET production capacity from 140,000 tpa to 210,000 tpa. In the medium term the chemical industrial park at Blagoveshchensk is being created to utilise product from Polief in terms of processing and finished products. The type of products processed expected included the production of a strip tape, PET sheet, PET preforms and recycled PET.

Ivregionsintez raw material negotiations

Ivregionsintez is exploring the possibility of working on PTA imported from Southeast Asia, and MEG from SIBUR-Neftekhim at Dzerzhinsk and Nizhnekamskneftekhim. The company has signed letters of intent with both companies, but has not yet determined the formula for calculation of the price. One year prior to the start of production at Ivanovo, the question of price from the two Russian companies will be considered.

The company is considering the raw material supply situation, having held talks in June with Kazakh company Oralneftekhim which intends to implement projects for the production of MEG, paraxylene, and PTA. Ivregionsintez estimates it will require around 155,000 tpa of PTA, 65,000 tpa of MEG from Kazakhstan from 2020 onwards.

Ivregionsintez approval Glavgoekspertiza

Ivregionsintez has received a positive opinion from Glavgosekspertiza for the polyester/PET plant planned for construction at Ivanovo. The next step will be to obtain a permit for construction of the complex, which is expected to start in the third quarter this year. From the 17.7 billion roubles required for the project, 80% is being provided by the Russian state bank VEB and the remaining 20% through private capital.

Uhde at Dzerzhinsk is managing the project, supported by Uhde Inventa Fischer. Polyester fibre at the plant will be manufactured by direct melt spinning PET. Also provided by the manufacture of synthetic fibres from recycled materials.

The basic design of the complex has been designed to ensure that production could be reconstructed with the production of one type of fibres to another, depending on market conditions. Uhde Inventa Fischer worked on the PET complex at Kaliningrad and thus is well prepared for the Vichuga project. Technological solutions for the production of staple fibre are being developed by Trützschler (Germany), which specialises in technologies for production of synthetic fibres.

Russian PET, Jan-May 2015

Russian PET production totalled 208,000 tons in the first five months this year, 12% up on 2014. The increase in supply from local suppliers contributes to the gradual displacement of imported product, resulting in inward shipments dropping by 68% in the first five months in 2014 to 34,000 tons in 2015.

Russian PET Production (unit-kilo tons)

Producer	*Jan-May 15*	*Jan-May 14*
Senezh	34.3	41.1
SIBUR-PETF	33.1	37.8
Alko-Naphtha	48.8	30.6
Polief	91.8	79
Total	208.0	188.5

Polief is the largest producer in Russia, producing 91,800 tons in the first five months in 2015 against 79,000 tons in the same period last year. Alko Naphtha at Kaliningrad produced 48,800 tons in January to May 2015 against 30,600 tons in 2014, whilst both SIBUR-PETF and Senezh recorded declines to 33,100 tons and 34,300 tons respectively.

Capacity utilisation for PET producers remains high, despite a decline in domestic consumption estimated at 20% to 230,000 tons. Market players say the decrease in consumer activity is due to regulation changes in the use of PET preforms for alcoholic beverages.

Aromatics & derivatives

Russian Benzene Sales (unit-kilo tons)

	Jan-Jun 15	*Jan-Jun 14*
Synthesis Total	255.9	238.6
Angarsk Polymer Plant	25.1	33.2
SIBUR-Kstovo	35.1	14.2
Uralorgsintez	39.7	39.8
Kirishinefteorgsintez	24.2	27.4
Ryazan NPZ	17.0	14.1
Slavneft-Yanos	30.2	26.2
Gazprom Neft (Omsk)	63.5	51.7
Gazprom Neftekhim Salavat	8.1	10.8
Stavrolen	2.9	14.3
Ufaneftekhim	10.1	6.5

Russian benzene Jan-Jun 2015

Benzene sales from petrochemical plants and refineries dropped 20% in June against May to 48,500 tons. This was due to maintenance at Kirishinefteorgsintez, which did not ship in June, and the Ryazan refinery which reduced shipments 3.6 times to 858 tons. Stavrolen reduced shipments 16.5 times in June against May to 172 tons. The plant at Budyennovsk was down in the first four months this year due to extensive repairs.

At the same time Uralorgsintez from the Tchaikovsky plant at Perm increased shipments 1.5 times to 7,700 tons. In the first half of 2015 sales of benzene from petrochemical plants and refineries amounted to 255,900 tons, 8% up on 2014.

Due to a number of derivative outages in July, demand for benzene on the merchant market was weak putting pressure on prices. The main Russian consumers of benzene in 2015 have included the caprolactam producers Kuibyshevazot, Azot at Kemerovo and Shchekinoazot, followed by Samaraorgsintez which is used for the production of phenol and Nizhnekamskneftekhim which supplements its own benzene to support styrene production.

Russian Caprolactam Production (unit-kilo tons)

Producer	*Jan-May 15*	*Jan-May 14*
Kuibyshevazot	70.4	78.0
Shchekinoazot	21.5	16.7
SDS Azot	44.7	40.7
Total	136.6	135.4

Russian caprolactam, Jan-May 2015

Caprolactam production totalled 136,600 tons in the first five months in 2015 against 135,400 tons in the same period last year. Of the three Russian producers, SDS is the sole company that is dependent exclusively on merchant sales which are predominantly undertaken in exports. Kuibyshevazot and Shchekinoazot both use caprolactam for polyamide production at their subsidiary divisions at Kuibyshev, Kursk and Shchekino. SDS Azot also sells urea and ammonium nitrate together with caprolactam.

Russian Toluene Domestic Sales (unit-kilo tons)

Producer	*Jan-Jun 15*	*Jan-Jun 14*
Novopiletsk MK	0.6	0.7
Slavneft-Yanos	14.3	22.2
Severstal	3.5	3.1
LUKoil-Perm	9.9	13.5
Gazprom Neft	25.9	16.6
Zapsib	2.7	2.1
Kinef, Kirishi	12.2	10.2
Gazprom n Salavat	0.0	0.0
Others	0.3	0.2
Total	69.5	68.5

Russian aromatic duties

Aromatic export duties for benzene, xylenes and toluene in Russia were established at $68.6 per ton for July against $69.3 per ton in June. At present the duty on aromatic hydrocarbons equal to the duty on diesel fuel and 48% of the oil, while in 2014 it was calculated as 66% of oil prices.

In 2015 the rate of excise duty for benzene, paraxylene and orthoxylene is set at 2,300 roubles per ton, in 2016 it will grow to 3,000 roubles, and in 2017 to 3,500 roubles per ton.

Russian toluene, Jan-Jun 2015

Toluene sales on the domestic market amounted to 14,050 tons in June, 9% up on May and 23% higher than in June 2014. Gazprom Neft shipped 5,200 tons (37%), followed by Lukoil at Perm with 3,550 tons (25%) and Slavneft-Yanos with 2.880 tons (21%).

Regarding consumption, manufacturers of explosives reduced the volume of purchases of toluene in June almost 2.4 times compared to May, to 750 tons (5% of Russia's total purchases). The paint sector, by contrast, increased sales by 34% to 5,590 tons whilst manufacturers of lubricants and additives for motor fuels increased purchases by 72%, to 2,240 tons (16%). Another 1,030 tons was delivered in June to synthetic rubber producers, using toluene as a solvent. In the first half of 2015 Russian domestic sales of toluene totalled 69,500 tons against 68,500 tons in the same period last year.

Russian Orthoxylene Domestic Sales (unit-kilo tons)

Producer	*Jan-Jun 15*	*Jan-Jun 14*
Gazprom Neft	30.9	34.3
Ufaneftekhim	14.4	16.8
Kirishinefteorgsintez	17.8	23.3
Total	63.0	74.4

Russian orthoxylene, Jan-Apr 2015

Russian orthoxylene domestic sales rose 12% in June over May to 12,220 tons. Gazprom Neft at Omsk shipped 8,130 tons (67% of Russian sales), Kirishinefteorgsintez 2,680 tons (22%), and Ufaneftekhim 1,400 tons (11%). Kamteks-Khimprom purchased 8,350 tons in June, 38% up on May, whilst Gazprom neftekhim Salavat increased purchases 2.8 times to 1,060 tons after completing maintenance in the middle of the month.

Russian manufacturers of paints reduced the volume of purchases of orthoxylene in June by 13% to 1,650 tons (14% of Russian purchases), whilst manufacturers of fuel, agricultural products pharmaceuticals and other products bought 410 tons. In the first half of 2015 domestic sales of orthoxylene totalled 63,040 tons, 15% down on the same period last year.

Russian phenol, Jan-Jun 2015

Russian phenol production amounted to 21,200 tons in May, 6% higher than in April. Novokuibyshevsk Petrochemical Company (Samaraorgsintez) increased production by 10% to 7,800 tons. Kazanorgsintez and Ufaorgsintez produced 6,800 tons and 6,600 tons respectively, 5% and 4% higher. Novokuibyshevsk Petrochemical Company stopped for maintenance in mid-June and restarted in mid-July.

Russian Phenol Sales by Supplier (unit-kilo tons)

Producer	*Jan-Jun 15*	*Jan-Jun 14*
Omsk Kaucuk	0.0	10.9
Samaraorgsintez	27.8	25.8
Kazanorgsintez	6.4	5.9
Ufaorgsintez	20.4	16.4
Total	54.6	59.1

Regarding the fourth Russian producer Omsk Kaucuk, which has been idle since 2014, the plant for the production of phenol and acetone may not be capable of restarting for at least another year or even two.

A shutdown in June at the Novokuibyshevsk Petrochemical Plant in June was the chief factor in domestic phenol sales dropping 35% less than May to 8,500 tons. Despite the shutdown the Novokuibyshevsk plant still accounted for 45% of merchant sales on the domestic market, or 3,800 tons. Kazanorgsintez shipped 1,000 tons to the market in June, which is 40% less than in May.

Russian C4 Supplies (unit-kilo tons)

Supplier	*Jan-Jun 15*	*Jan-Jun 14*
Angarsk Polymer	39.7	35.6
Krasnoyarsk Synthetic Rubber	0.2	0.3
Kazanorgsintez	15.4	16.2
Stavrolen	23.2	35.1
SIBUR-Kstovo	30.2	22.0
Tomskneftekhim	33.5	38.8
Ufaorgsintez	15.0	12.7
Naftan (Belarus)	27.1	22.4
SANORS	0.3	0.0
Azerkhimya	12.9	3.9
Efremov Synthetic Rubber	0.2	0.2
Iran	1.4	2.7
Total	205.3	188.7

The reduction in the supply of merchant product was due to increased production volumes of more profitable bisphenol A before the Kazan plant shut for scheduled maintenance at the end of the month, lasting until the end of July. Ufaorgsintez sold 3,600 tons of phenol in the domestic market in June, only 1% down on May.

The main application for phenol in June was phenol-formaldehyde resins, accounting for 7,000 tons of shipments even if this was 30% less than May. About 9% of phenol shipments, or 755 tons, were purchased by Sterlitamak Petrochemical Plant in June for the production of antioxidants, 55% down on May. Nizhnekamskneftekhim purchased 412 tons of phenol in June, 60% lower than the previous month.

Synthetic Rubber

Russian C4s, Jan-Jun 2015

Russian C4 sales on the domestic market totalled 205,300 tons in the first six months in 2015 against 188,700 tons in the same period last year. C4 imports from Belarus and Azerbaijan increased in 2015, and SIBUR-Kstovo, Ufaorgsintez and Kazanorgsintez have all recorded higher sales on the domestic market. Butadiene prices have risen recently due to a number of outages, and this may start to affect rubber prices if the trend continues.

C4 sales in June were unchanged from May at 30,400 tons. Tomskneftekhim increased shipments 1.7 times to 8,100 tons, a record number for the plant, whilst Kazanorgsintez increased sales by 21% to 2,600 tons. Stavrolen reduced shipments by 22% in June to 4,600 tons and Angarsk Polymer Plant by 15% to 6,100 tons.

Russian C4 Purchases (unit-kilo tons)

Consumer	*Jan-Jun 15*	*Jan-Jun 15*
Omsk Kaucuk	48.0	42.1
Nizhnekamskneftekhim	66.8	70.8
Togliattikaucuk	78.4	62.6
Sterlitamak Petrochemical Plant	2.9	6.1
Others	9.2	7.1
Total	205.3	188.7

Russian synthetic rubber market

The Russian synthetic rubber market is estimated to have witnessed a decline of around 25% to date in 2015, although some domestic producers have been able to significantly increase sales of niche products. Due to devaluation domestic producers have increased market share this year, rising from 75% in 2014 to 88% in the first quarter in 2015), while the share of Chinese manufacturers, by contrast, have declined from 13% to 5%. At the same time, competition has increased amongst Russian companies all seeking so-called import-substituting products.

Russian Synthetic Rubber Exports (unit-kilo tons)

Country	*Jan-Apr 15*	*Jan-Apr 14*
Belarus	12.9	17.7
Belgium	4.7	59.7
Brazil	13.7	4.7
Canada	10.2	6.1
China	34.0	16.3
Czech Republic	8.4	9.3
Germany	9.5	7.2
Hungary	23.1	26.2
India	41.3	5.7
Japan	13.4	2.1
Poland	37.8	36.5
Romania	11.6	13.3
Slovakia	9.5	11.3
Taiwan	7.6	3.2
Turkey	13.9	10.9
US	19.1	20.1
Others	47.3	46.9
Total	318.0	297.0

Russian synthetic rubber exports have increased in 2015 due to slightly better market opportunities, particularly in India and China. Even if prices per ton in US dollars are lower than last year, the rouble devaluation has made exports more profitable. For the first four months the largest region for Russian exports of synthetic rubber remains Central and East Europe which accounts for around 35% of shipments.

Russian rubber standard approvals

Nizhnekamskneftekhim has recently received the audit certificates of conformity of production for butyl rubber BK 1675P meeting international standard EN ISO 22000. The audit was conducted by the Czech Association Quality System Certification CQS.

In the Samara region Togliattikaucuk has had its production of isoprene rubber SKI-3 approved by Research Institute of Synthetic Rubber. Academician SV Lebedev (NIISK) chose isoprene rubber SKI-3 brand and copolymer rubber stamp SKMS 30 ARKM-15.

In Bashkortostan the rubber plants at Sterlitamak underwent an audit by SGS in June. Both Sintez-Kaucuk and Sterlitamak Petrochemical Plant belong to TAU Neftekhim, and during the audit plants for the production of isoprene rubber and Agidol were closely inspected in order to check on standards.

Sterlitamak Petrochemical Company 2014

Sterlitamak Petrochemical Company, part of TAU Neftekhim, reduced revenues in 2014 to 6.269 billion roubles against 8.810 billion roubles in 2013. Net profits rose, however, from 144 million roubles to 182 million roubles despite capacity only running at 50.3%. The main products produced by Sterlitamak Petrochemical Company include styrene-butadiene rubber, phenolic antioxidants, high-octane gasoline, liquid rubbers, etc.

Sterlitamak Petrochemical Company 2014

Production	119,076 tons
Utilisation	50.50%
Revenues	6.270 bil roubles
Pre-tax profit	182.3 mil roubles

In the past two years, the company has made merchant butadiene available in volumes of around 2,000 tons per month, helping to

SIBUR-RN Asphalt polymer binders

SIBUR and RN-Asphalt (part of Rosneft) signed an agreement on cooperation in the use of materials with the use of polymers in the road sector. It is assumed that one of the key areas of cooperation will be the construction of several pilot experimental road sections with domestic thermoplastic elastomers in several regions of activity of Sibur and Rosneft (in Moscow, Leningrad, Voronezh and Ryazan regions and the Far East). The monitoring results will be formed product requirements according to different climatic conditions and traffic loads. Also scheduled to attend the parties in improving the legal and technical regulations in the use of polymer materials for road construction.

supplement the main producers Nizhnekamskneftekhim and SIBUR. Sterlitamak Petrochemical Company0 is the only producer in Russia of phenolic antioxidants brand Agidol. These products are used in oil refineries, in the production of synthetic rubber, rubber, plastics, fibres and other polymeric materials, as well as in the feed, food

and cosmetic industries. By purity Agidol-1, produced by Sterlitamak Petrochemical Plant meets quality standards of foreign counterparts.

The capacity for the production of Agidol-1 was expanded from 18,000 tpa to 25,000 tpa in 2013. Aside Sterlitamak Petrochemical Plant, Khimprom at Novocheboksarsk is the other main Russian producer of synthetic antioxidants. Demand for antioxidants for plastics depends on the increase in the production of plastics.

Nizhnekamsk Carbon Plant (unit-kilo tons)			
	2013	**Plan 2014**	**Actual 2014**
Production	108.916	112.217	120.502
Sales	109.143	112.217	120.503

Russian carbon black expansions

Nizhnekamsk Carbon Plant (part of Tatneft-Neftekhim) aims to increase capacity to 136,500 tpa in 2016 against 120,500 tpa in 2014. Nizhnekamsk Carbon competes with such companies Omsk Carbon, Yaroslavl Carbon and Volgograd Carbon Black Plant.

Russian Chemical Commodity Exports				
	Jan-May 15	***Jan-May 14***	***Jan-May 15***	***Jan-May 14***
Product	***Kilo tons***	***USD Mil***	***Kilo tons***	***USD Mil***
Ammonia	1,199	520	1,531	600
Methanol	531	146	729	310
Nitrogen Fertilisers	4,156	1,059	5,080	1,381
Potash	5,929	1,587	4,127	1,078
Mixed Fertilisers	3,715	1,377	3,532	1,267
Synthetic Rubber	406	603	361	803

The largest carbon black producer in Russia, Omsk Carbon Group expects to increase in the next two years due to the introduction of the production line capacity of 40,000 tpa and further modernisation of the Volgograd Carbon Black Plant. The total capacity of the plant by the end of 2015 will amount to 200,000 tpa.

Methanol

Russian methanol, Jan-Jun 2015

Russian methanol production dropped 8% in May against April to 262,000 tons, due principally to under-utilized capacity by Tomet at Togliatti and maintenance at Shchekinoazot. Metafrax, Sibmetakhim and Tomet accounted for 79% of production in May. Tomet reduced production by 20% in May to 33,000 tons, whilst Metafrax and Sibmetakhim both increased production by 3% to 93,000 tons and 81,000 tons respectively. Azot at Novomoskovsk also increased production by 3% over April to 28,500 tons, whilst Azot at Nevinnomyssk produced 12,000 tons which was almost double against April. In June, Tomet continued to operate at lower than full capacity whilst Shchekinoazot was down for maintenance for the whole month and will not restart until mid-July.

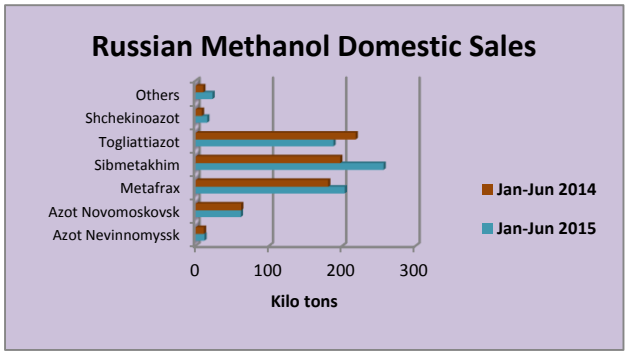
Russian Methanol Production (unit-kilo tons)		
Producer	***Jan-May 15***	***Jan-May 14***
Shchekinoazot	157.1	199.9
Sibmetakhim	371.8	370.9
Metafrax	449.0	444.0
Akron	42.2	32.1
Azot, Novomoskovsk	140.0	140.7
Angarsk Petrochemical	4.6	1.7
Azot, Nevinnomyssk	45.8	47.8
Togliattiazot	262.7	332.9
Totals	1473.1	1570.1

Russian methanol sales, Jan-Jun 2015

Methanol shipments to the domestic market increased 5% in June over May to 130,000 tons. Metafrax, Sibmetakhim and Tomet accounted for about 90% of the total sales in the Russian market in June. Although small in the overall balance of the market, Shchekinoazot saw the largest rise in June after completing maintenance in May by three-fold to 3,700 tons.

Tomet shipped 40,500 tons in June, 42% up on May and 31% of total Russian sales. Sibmetakhim in June stabilized volumes sold in the domestic market, shipping 38,500 tons against 38,400 tons in May. Metafrax slightly reduced sales volumes

by 5% in June to 36,000 tons. Azot at Novomoskovsk reduced sales in June, almost twice-fold less than May and this was due to maintenance.



Regarding applications, MTBE accounted for 36% of purchases. Other applications included gas companies (19%), rubber producers (12%), and formaldehyde and its derivatives (16%). Gas companies showed the largest fall against June of nearly 5% to 24,000 tons whilst manufacturers of oilfield chemical products recorded the largest increase of 25% to 2,300 tons. Domestic sales rose in the first half of 2015 to 760,000 against 688,300 tons in the same period last year. Sibmetakhim was the largest volume seller on the domestic market in the first half against Togliattiazot in January to June 2014.

Russian Methanol Consumption (unit-kilo tons)

Consumer	*Jan-Dec 14*	*Jan-Dec 13*
Nizhnekamskneftekhim	247.0	228.1
Togliattikaucuk	108.8	100.9
Uralorgsintez	67.7	65.9
SIBUR-Khimprom	13.2	10.9
Tobolsk-Neftekhim	50.0	41.4
Ektos-Volga	49.6	45.5
Omsk Kaucuk	74.2	77.4
Novokuibyshevsk NPZ	48.6	56.2
Uralkhimplast	26.4	25.6
Slavneft-Yanos	12.2	1.0
Others	703.5	678.8
Total	1401.4	1395.1

Russian methanol consumption

The share of the ten largest customers account for about 60% of the total consumption of marketable methanol. The main consumer is a Nizhnekamskneftekhim which purchased 247,000 tons in 2014. SIBUR group companies together purchased around 275,000 tons, principally for MTBE production. In terms of application formaldehyde accounted for 35% of Russian methanol consumption in 2014, MTBE 19%, gas industry 16% and isoprene 13.6%.

Exports of methanol from Russia in 2014 increased by almost 11% over 2013 to 1.5 million tons, accounting for 42% of total production. The main recipient country of the Russian methanol in 2014 was Finland (nearly 50%), from where it is sent to transit to other European countries. New markets include Romania where over the past four years it has increased purchases of Russian methanol from 19,000 tons to 145,000 tons. At the same time, Russia has reduced sales sharply to the Turkish market, which is now saturated with supplies from Egypt, Iran and Saudi Arabia.

Sibmetakhim is Russia's largest exporter, shipping 415,000 tons in 2014. The increase in exports last year was due to the reconstruction of Sibmetakhim's formaldehyde plant at Tomsk which resulted in lower captive processing. Other important exporters include Shchekinoazot and Metafrax. The key factor about new methanol projects, such as at Ust-Luga and Primorsk Kray, are that they are being constructed with the intention to export almost all of the production. The project for the seaport at Ust-Luga is entitled Methanol North, which is being constructed in the Kingisepp district. As a result of these projects the share of exports in production should rise significantly after these projects have been constructed.

Shchekinoazot-methanol & ammonia project

Haldor Topsoe (HTAS) has completed the basic engineering for the new methanol and ammonia plant at Shchekinoazot. Contracts have been signed for the supply of equipment by licensed HTAS and compressor equipment with Mitsubishi Corporation, and the steam reforming furnace through Kirchner Italia SpA. The general contractor of the project is Neftezavodmontazh from Volgograd.

SIBUR-MTBE expansion

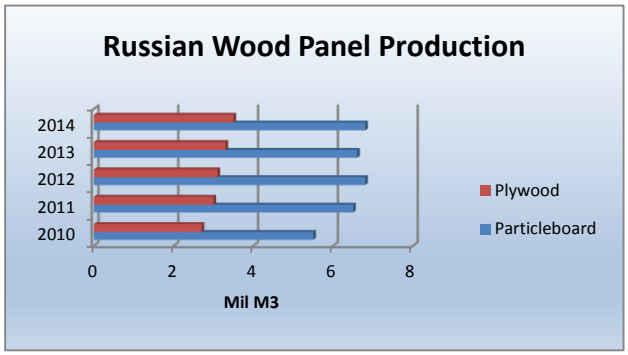
SIBUR intends to expand production capacity for MTBE at Togliattikaucuk to 135,000 tpa by constructing a new plant of 60,000 tpa. In order to guarantee feedstocks SIBUR intends to increase the production of isobutane-isobutylene fractions from 105,000 tpa to 130,000 tpa. The project will install 58 units of new equipment. To increase the efficiency and safety on the existing and new hardware will be implemented automated process control system.

SIBUR increased its capacity for the production of MTBE at Tobolsk in 2011 from 120,000 tpa to 150,000 tpa and then in 2012 at Uralorgsintez from 200,000 tpa to 220,000 tpa. Aside Togliattikaucuk, Tobolsk-Neftekhim and Uralorgsintez, SIBUR produces MTBE at SIBUR-Khimprom with total group capacity of 500,000 tpa. The launch of the new unit at Togliatti will bring the total capacity to 560,000 tpa.

Russian formaldehyde market

Russian methanol consumption in the production of formaldehyde resins totalled 750,000 tons in 2014. Russia produced 1.47 million tons of formaldehyde resins in 2014, the main area of consumption comprising the wood industry. The ten largest Russian producers account for almost 80% of production.

The wood industry in Russia includes the production of wood-based panels, particleboard, MDF and plywood, intended for the production of furniture and building board materials. In 2014 the production of plywood totalled 3.5 million cubic metres, a new high, whilst the production of chipboard and fibreboard increased by 3%.



The main trend in the wood industry last year was the closure of low-profit and inefficient production facilities, which ultimately led to the withdrawal from the market of a number of small players and set the ground for the further consolidation of the industry. At the same time the launch of new Turkish facilities in the Alabuga SEZ, with a capacity of 1.8 million cubic metres per annum, has been a major investment for Russia.

Amongst the formaldehyde producers Sibmetakhim at Tomsk halted production of formaldehyde and urea-formaldehyde resins in January 2014 for plant reconstruction. The project involves the reconstruction of the plant for urea-formaldehyde resins with a capacity of 75,000 tpa, urea-formaldehyde concentrate with a capacity of 85,000 tpa and low methanol formaldehyde 55% with a capacity of 120,000 tpa. The costs associated with reconstruction have been estimated at 167.6 million roubles, and the project is expected to be completed in late 2015. Sibmetakhim accounts for about 7% of the gross production of formaldehyde and about 3-5% of urea-formaldehyde resins.

Uralkali, Jan-Jun 2015

Uralkali produced 5.7 million tons of potassium chloride in the first half of 2015, 5% down on the same period in 2014. In the second quarter production amounted to 3 million tons, 3.2% down on last year. In 2014 Uralkali produced 12.1 million tons and prior to the start of this year forecast that production would drop to between 10.4-10.8 million tons. By 2020 the company aims to increase capacity to 14.4 million tpa by investing in their development to $4.5 billion.

Organic Chemicals

Russian Butanol Production (unit-kilo tons)

N-Butanol		
Producer	***Jan-May 15***	***Jan-May 14***
Angarsk Petrochemical	18.0	19.5
Evrokhim	7.6	7.8
Gazprom n Salavat	24.9	24.7
SIBUR-Khimprom	12.7	13.4
Total	63.2	65.4
Isobutanol		
Producer	***Jan-May 15***	***Jan-May 14***
Angarsk Petrochemical	6.3	9.7
Gazprom n Salavat	18.3	13.7
SIBUR-Khimprom	17.7	22.3
Total	42.4	45.6

Russian butanol production, Jan-May 2015

Butanol production in Russia amounted to 16,130 tons in May, 30% down on April and 13% lower than in May 2014. The decline in output in May was due to a stoppage for repairs at Gazprom neftekhim Salavat which lasted until mid-June. Production at Salavat dropped 6.7 times against April to 1,760 tons, whilst SIBUR-Khimprom produced 6,930 tons in May, Angarsk Petrochemical 5,220 tons and Azot Nevinnomyssk 2,210 tons.

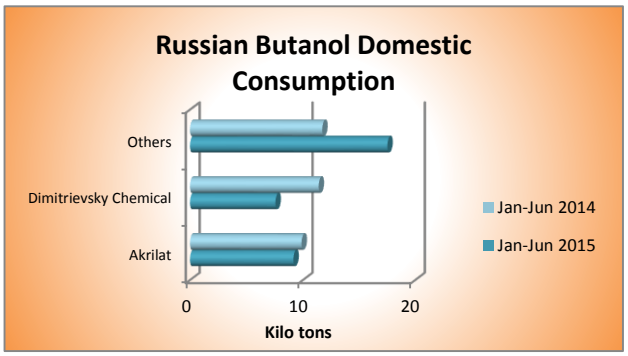
Production of butanols totalled 104,240 tons in the first five months in 2015, 15% more than in the same period last year. The proportion of n-butanol in gross production was 61%, and isobutanol 39%.

Russian butanol domestic sales, May-June 2015

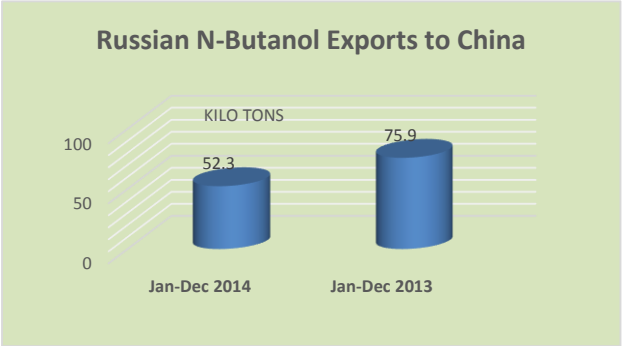
Domestic butanol sales amounted to 5,610 tons in May, 6% less than in April and 18% lower than in May 2014. The proportion of n-butanol in the gross sales volume in May 2015 was of 79%, and isobutanol 21%. SIBUR-Khimprom shipped 3,680 tons (66% of Russia's domestic sales) Gazprom neftekhim Salavat 1,400 tons (25%), Azot Nevinnomyssk 360 tons (6%) and Angarsk Petrochemical 160 tons (3%). Regarding buyers, Akrilat

purchased 2,150 tons in May (40% higher than in April), Dmitrievsky Chemical Plant 1,300 tons (43% lower) and Volzhskiy Orgsintez 590 tons (11% higher).

Domestic butanol sales in June amounted to 4,940 tons, 12% less than in May but 7% higher than in June 2014. The proportion of n-butanol in June was 82%, and isobutanol 18%. SIBUR-Khimprom sold 3,480 tons in June, Gazprom neftekhim Salavat 840 tons, Azot at Nevinnomyssk 450 tons and the Angarsk refinery 170 tons. SIBUR-Khimprom is scheduled for a maintenance shutdown starting in the second half of July. This factor is not expected to affect the market dynamics in the short term.

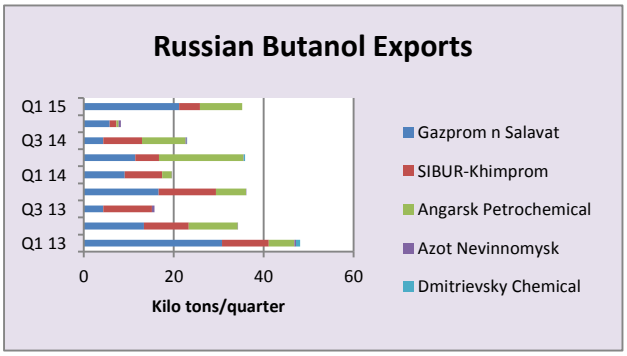


Regarding consumers in June, the Akrilat division of SIBUR-Neftekhim at Dzerzhinsk increased purchases by 22% over May to 2,620 tons. This accounted for 53% of total purchases. Dmitrievsky Chemical Plant reduced its purchases by 59% in June against May to 530 tons, 11% of shipments. Other consumers included the Plant of Synthetic Alcohol at Orsk in the South Urals, which bought 580 tons, and Volzhskiy Orgsintez which bought 550 tons. For the first six months in 2015 butanol shipments on the domestic market increased 4% over last year to 34,250 tons.



Russian butanols, exports versus domestic

China represents Russia's main outlet for butanol exports, but imported quantities could be decreasing in the near future as China is becoming more self-sufficient in iso-butanol. Russian butanol exports declined by 20% in 2014 due in part to lower demand from China where domestic capacity has started to affect inward shipments. Russian producers have been examining possibilities to develop processing of butanols, for instance Gazprom neftekhim Salavat is currently in the planning stages for its acrylic acid and acrylate ester project including 80,000 tpa of butyl acrylate and 35,000 tpa of glacial acrylic acid.



Amongst domestic consumers Akrilat increased purchases of butanols by 12% in 2014 to 24,500 tons whilst Dmitrievsky Chemical Plant increased purchases by 29% to 20,700 tons. Around half of butanols production is now consumed captively by producers. Azot at Nevinnomyssk consumes around 75% of production in butyl acetate, whilst SIBUR utilises around 75% of butanols produced at Perm in the production of butyl acrylate at group company Akrilat at Dzerzhinsk. If Gazprom neftekhim Salavat is able to complete the acrylate project it should be capable of processing up to 43% of the n-butanol based on a full load of planned capacity for the production of butyl acrylate.

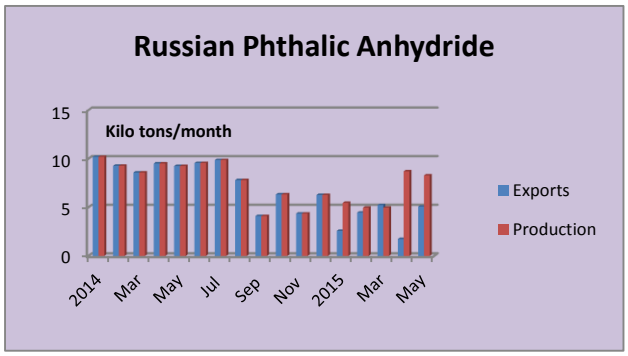
Angarsk Petrochemical Company is the sole Russian producer dependent purely on the merchant market, particularly exports to China where 98% of production was exported in 2014. If the demand from the Chinese market for imported raw materials continues to decline, the Angarsk plant may be forced to reduce production.

Russian DOP, Jan-May 2015

Russian imports of DOP declined in May to 148 tons against 500 tons in April, and against zero in May 2014. Boryszew supplied 126 tons, or 85% of supply in May, and Grupa Azoty 22 tons, or 15%. In the first five months in 2015 DOP Imports into Russia amounted to 1,543 tons against 23 tons in 2014. In June and July Russian availability was affected by the planned outage at Gazprom neftekhim Salavat, with the restart postponed several times. Prices have risen in response by around 5% to 95 000-97 000 roubles per ton including VAT.

Russian phthalic anhydride market

Phthalic anhydride production amounted to 8,290 tons in May, 17% less than in April and 10% lower than in May 2014. Kamteks-Khimprom accounted for 8,070 tons in May 2015) and Gazprom neftekhim Salavat 220 tons. Maintenance at Salavat in the first part of May affected production over the month. Dropping five times against April. For the first five months of 2015 the production of phthalic anhydride in Russia amounted to 37,350 tons which is 20% lower than in 2014.



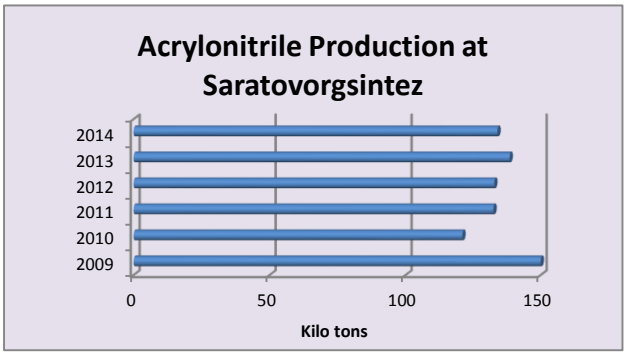
Organic pigments in Russia expected to fall in 2015

The Russian market of organic pigments could witness a fall in consumption of around 10% in 2015 due to weak performance in the paint industry, which accounts for about 70% of the consumption of raw materials. Due to the rouble's instability in the past year many Russian paint manufacturers have been forced to try and replace imported raw components for products produced in Russia. NPP Spectrum decided to go even further to build its own plant for the production of silicone-acrylic polymers. The Russian market for silicone-acrylic polymers is currently dominated by Dow Corning (USA), Wacker (Germany), and Hempel (Germany). NPP Spectrum has now constructed a plant with a capacity of 4,400 tpa, comprising 400 tpa of acrylic-silicone copolymers and 4,000 tpa of enamels.

Russian Paints Market Domestic Producer Share %		
	2015	2014
Total Russian Paints	62	49
Acrylic dispersions	60-70	12-17

Zagorsk LKZ (ZLKZ) has restructured much of its structure in the past few months and abandoned the production of low-margin products. The company has taken full control of the entire process chain for service quality, which includes developers and coatings. The main clients of ZLKZ have traditionally been the defence industry, having started in 1965.

In the first half of 2015 Russian paint production Russian paint producers increased market share to 62% of total consumption against 49% in 2014. The weakness of the rouble has significantly affected import prices for dispersions in the Russian market, and where possible consumers have switched to domestic producers even if quality is sometimes lower. Certain products are not produced domestically such as styrene-butadiene dispersions and vinyl acetate dispersions, so it is not possible to replace imports, whilst the only product area where import substitution is easily available is acrylic based dispersions. Even in this product area not all Russian production can replace imports, but the market share has jumped from only 12-17% in 2014 to 60-70% in 2015. Importers have tried to regain market share through price initiatives, but this is proving difficult due to the volatility of the rouble.



Saratovorgsintez-logistics

Saratovorgsintez has transferred 95% of its transportation of acrylonitrile from tanks to tank containers, allowing a reduction in costs of transport in access to the markets of Europe and China. Transportation by tank container accounts for 5-7% of Russian cargo trade against 45% in Europe and 60% in the US. Saratovorgsintez would need around 50 tanks in order to export acrylonitrile. The company produces 150,000 tpa of acrylonitrile and 18,000 tpa of sodium cyanide.

Promsintez Product Sales (unit-kilo tons)		
Product	***2014***	***2013***
Trotyl	7.692	8.271
Nitrobenzene merchant	20.358	19.742
Nitrobenzene captive	3.125	9.461
Explosive products	28.513	30.602

Other Products

Promsintez & Russian explosives market

Industrial explosive manufacturer Promsintez, at Chapayevsk in the Samara region, reduced its net profit by 12.9 million roubles in 2014 to 9.014 million roubles, against 21.9 million in 2013. Revenues were virtually unchanged in 2014 totalling 2.044 billion

roubles against 2.043 billion roubles in 2013. The main activities of Promsintez include the production and sale of industrial explosives, particularly nitrobenzene.

Promsintez purchased 19,300 tons of benzene in 2014 and 1,649 tons of toluene. Purchases of toluene have been falling as the Russian market for industrial explosives is undergoing a gradual transition to advanced technologies. Demand for toluene based trotyl explosives, as a result, has been falling against competition and replacement by emulsion explosives.

Emulsion explosives are considered superior to trotyl explosives based on characteristics as safety, environmental friendliness and lower cost. TNT can still be used in Russia and the CIS, although it has been banned in most countries for use in industrial applications in most countries. The decline in trotyl explosives is almost unavoidable, however, and Promsintez believes its share of total explosive production will have dropped to 8-10% by 2020. The main competitors of Promsintez include Biysk Oleum Plant, the Sverdlov Plant, and the Kalinowski Chemical Plant.

Promsintez faces a number of challenges including the high competition in the market of industrial explosive materials, reduced demand for industrial explosives in the mining industry, and the lack of working capital. Promsintez is one of two producers of nitrobenzene in Russia, and uses n-methylaniline (MMA) as a feedstock from Volzhskiy Orgsintez, which in turn is the main consumer for nitrobenzene. Shipment of nitrobenzene was carried out on the direct supply agreement.

Nefis Cosmetics Sales by Volume and Revenues

	2013		*2014*	
Product	***Tons***	***Bil roubles***	***Tons***	***Bil roubles***
Synthetic detergents	89,302	4.771	89,369	4.842
Liquid detergents	67,611	3.183,	75 729	3.753
Dry cleaning products	8,566	0.342	9 781	0.380
Toilet soap	8,380	0.748	6 596	0.648
Laundry soap	140	0.006	190	0.010
Candles	74	0.007	68	0.007
Technical acids	21,083	0.919	17,846	0.801
Total	**195,156**	**9.969**	**199 578**	**10.441**

Nefis Cosmetics 2014

Product sales and revenues were very similar for Nefis Cosmetics in 2014 against 2013, with liquid detergents showing the largest rise of around 13%. Nefis Cosmetics is the only Russian producer of household chemicals that can compete with large multinational companies such as Procter & Gamble, Henkel, etc. In 2014, Nefis Cosmetics produced about 300 kinds of products of household chemicals and cosmetics products, including brands and trademarks BiMax, Sorti, Biolan, Forest clearing, etc. The company also produces technical acid (stearic and oleic) and glycerine.

The main emphasis of the marketing policy in 2014 was the balanced development of sales in Russia and the CIS countries; using flexible pricing policies and instruments to promote sales. Nefis Cosmetics accounted for 10.9% of synthetic detergent sales in Russia in 2014, the largest of the Russian manufacturers and third in the total market behind Procter & Gamble and Henkel. For dishwashing detergents Nefis occupied 26.9% of the Russian market in 2014, only second to Procter & Gamble. Sales of liquid detergents from Nefis occupied only 4.7% of the Russian market in 2014 but still the largest of the Russian manufacturers. For soap, Nefis took 9.5% of the Russian market in 2014. Technical acids, which are used in the Russian petrochemical, light, paint, paper and other industries is the one product area where Nefis dominates the market taking 70% in 2014.

Production of synthetic detergents, liquid detergents and technological products represent the priority areas of the company. In 2014, Nefis Cosmetics increased the capacity for liquid detergents up to 12,000 tons per month in order to meet rising demand. Liquid detergents accounted for 35.9% of sales in 2014, surpassed only by synthetic detergents at 46.4%. The overall increase in sales in 2014 to 2013 in real terms was 2.3%, while there was an increase in value terms of total sales by 4.7%.

New projects for Nefis Cosmetics include the production of high quality shampoos and hair care products, with the capacity of the new unit designed to produce 22,000 tpa. Other projects planned include the increase in capacity for the production of ZHMS to 12,000 tons per month and an increase in the production capacity of liquid detergent

Kaustik Volgograd-magnesium oxide plant opens

Nikokhim officially opened its new plant in July for the production of nanostructured magnesium hydroxide at Volgograd within the subsidiary NikoMag. The investment project was undertaken with the participation of strategic partners Sberbank and Rosnano. The capacities for the new facilities include 25,000 tpa for nanostructured magnesium hydroxide and 30,000 tpa of magnesium oxide. Most of the high-purity magnesium hydroxide is used as an effective and environmentally-retardant filler in the production of polymer compounds. Magnesium oxide is mainly used in the production of rubber goods, the food and pharmaceutical industry and production of chemicals.

to 150,000 tpa. The production facilities of Nefis Cosmetics are located in the centre of Kazan in close proximity to the Kaban Lake, which means that the company is required to conduct a stringent environmental policy.

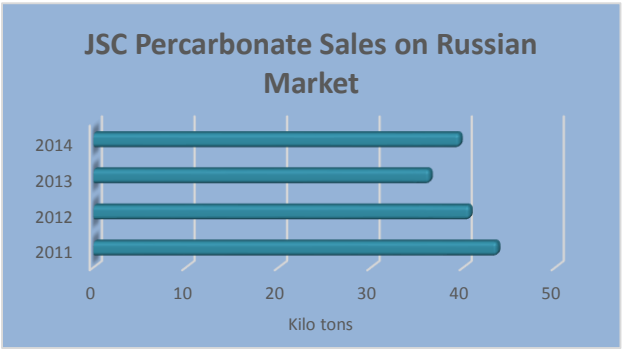
Polyplastik-new composite line

Polyplastik has launched a new line for the compounding of polymer composite materials at its Engels plant in the Saratov region. The planned capacity of the new line up to 1.3 tons per hour. A fully load line will allow the company to increase the capacity of the plant for the production of composites by 10,000 tpa to 60,000 tpa. The company notes that with the launch of a new line, the company will become one of the largest in Russia in the production of polymer composite materials. Polyplastik also produces composites at Togliatti, where the capacity is 20,000 tpa, and Moscow where capacity is 10,000 tpa.

In the first quarter this year Polyplastik increased sales of composites by 6% to 15,940 tons against 14,980 tons in 2014. The company notes that growth is due to a complex of measures taken in the middle of last year: planning and cost optimisation, and restructuring of production. The largest consuming sector of composites from Polyplastik is the automotive industry, accounting for 38% of shipments in the first quarter this year. Another 24% went to the construction industry and 18% for household appliances. For the full year of 2015 Polyplastik hopes to sell around 80,000 tons of composites on the Russian market.

JSC Percarbonate 2014

JSC Percarbonate at Novocheboksarsk (a subsidiary of Khimprom at Novocheboksarsk) holds around an 80% share of the market for sodium percarbonate in Russia and CIS countries. Production totalled 40,300 tons in 2014 compared against 15,000 tons in 2000. The rise in production over the past 15 years has been in response to higher demand for sustainable products in the CMC power market in Russia and the CIS.



In 2014 JSC Percarbonate, largely due to currency deprecation, increased revenues by 11% over 2013 to 955.220 million roubles. Average prices rose from 23,767 roubles per ton in 2013 to 24,118 million roubles in 2014, although in dollar/euro terms prices were slightly lower last year. The company increased the volume of finished products from 36,353 tons in 2013 to 39,606 tons in 2014. Net profit for 2014 stood at 15.9 million roubles.

Belarussian Polymer Imports (unit-kilo tons)

Product	*Jan-Apr 15*	*Jan-Apr 14*
PVC	13.4	13.6
Polypropylene	26.1	24.8
LDPE	11.0	13.7
HDPE	20.6	14.4
Polystyrene	3.2	5.5

Belarus

Belarussian chemical industry

Belarussian LDPE production totalled 61,000 tons in the first half of 2015, against 63,000 tons in the same period last year. Production was down slightly due to maintenance started in June, which saw production drop to 7,950 tons against 11,300 tons in May. LDPE capacity at Polymir is 130,000 tpa which was exceeded in 2014 when the company produced a total of 136,000 tons.

Belarussian Organic Chemical Exports (unit-kilo tons)

Product	*Jan-Apr 15*	*Jan-Apr 14*
Acrylonitrile	8.2	11.8
Caprolactam	12.7	17.0
Phthalic anhydride	10.9	5.6
Methanol	26.6	20.2

Regarding polymer imports, HDPE shipments into Belarus increased in the first four months to 20,600 tons from 14,400 tons whilst LDPE imports dropped from 13,700 tons to 11,000 tons. LDPE exports rose from 34,380 tons in the first four months in 2014 to 44,500 tons in 2015 whilst HDPE exports rose to 2,201 tons from 1,315 tons. PET exports totalled 15,400 tons in the first four months in 2015, over half of which was sent to Russia. Exports of organic chemicals from Belarus showed declines for acrylonitrile and caprolactam in January to June 2015, whilst increases were seen for phthalic anhydride and methanol.

Azot increased methanol exports to 26,600 tons in the first four months in 2015 against 20,200 tons in the same period last year. The average price per ton in 2015 amounted to $377/ton against $507/ton in 2014. Ukraine replaced Poland in 2015 as the major destination for methanol exports from Belarus.

Belarussian Methanol Exports (unit-kilo tons)

Country	*Jan-Apr 15*	*Jan-Apr 14*
Russia	1.6	0.0
Ukraine	13.1	0.0
Poland	4.0	12.9
Lithuania	8.0	6.5
Czech Republic	0.0	0.7
Estonia	0.0	0.1
Total	26.6	20.2

Belaruskali

Belarus reduced exports of potash fertilisers by 6.2% in the first four months in 2015 to 1.778 million tons. Belaruskali exported 81% of its production in the period January to April 2015 against 91% of 2.066 million tons in 2014. Despite lower volume exports in 2015 revenues totalled $875.6 million against $859.4 million in the first four months last year, with the unit price rising from $453/ton to $492/ton.

Earlier this year Belaruskali added a new membrane unit to its production facilities to enable processing of chlorine-containing mineral raw materials. Construction started in 2012 and was managed by Chemieanlagenbau Chemnitz. Equipment was supplied by industry leaders from Japan, Germany, and Switzerland.

Products produced by Belaruskali's new membrane electrolysis division are expected to sell well on foreign markets. The membrane electrolysis division is designed to produce 10,000 tpa of potassium hydroxide, 17,000 tpa of 35% hydrochloric acid (4,000 tpa Belaruskali's needs and 13,000 tpa for selling on the home market) and 4,200 tpa of 15% sodium hypochlorite water solution. The product is increasingly used by Belarusian enterprises to disinfect water and was previously imported. Belaruskali accounts for one-seventh of the world's output of potassium fertilisers and exports to over 70 countries. The enterprise operates four mining departments and several auxiliary and service subdivisions.

Ukraine

Ukrainian PVC imports drop a third

PVC imports dropped by 33% in the first half of 2015 to 31,700 tons against 47,400 tons in 2014. Imports amounted to 3,700 tons in June against 4,100 tons in May. Demand has fallen this year due to transitional changes taking place in Ukraine, combined with the effects of the military conflict in the Donbass. Manufacturers of window profiles and plasticized compositions have reduced purchases significantly. The demand for the resin in the moulding sector declined by 38% compared to last year and amounted to 21,400 tons in the first half of 2015. Demand for suspension PVC from the manufacturers of plasticized compositions decreased by 12% to 6,700 tons.

In terms of import sources, shipments from North America amounted to 8,400 tons in the first half of 2015 against 25,600 tons in the same period last year. European shipments dropped to 17,800 tons against 20,600 tons in 2014.

Ukrainian plasticizer alcohols, Jan-May 2015

Ukraine imported 67 tons of DOP in May against 174 tons in April and against 149 tons in May 2014. Imports totalled 552 tons in the first five months in 2015, 3.5 times less than in 2014. The main suppliers of DOP in 2015 included: the Polish company Boryszew (56% of total supply) and the Czech company Deza.

Phthalic anhydride imports into Ukraine amounted to 333 tons in May, 2.1 times less than in April and 38% lower than in May 2014. Belarus accounted for 213 tons of shipments into Ukraine, and Russia the remaining 120 tons. In the first five months in 2015, imports of phthalic anhydride in Ukraine totalled 2,340 tons, 14% lower than in the same period last year.

Central Asia

Atyrau aromatics complex starts production

The Atyrau refinery produced its first small batch of benzene in July from the new aromatics complex, and was shipped to China. The capacity of the benzene unit in the aromatics complex is 133,000 tpa. The paraxylene plant is expected to start production in August. The aromatics complex has cost around $1.4 billion and has been constructed by the Chinese company Sinopec Engineering. The complex will employ around 277 people permanently.

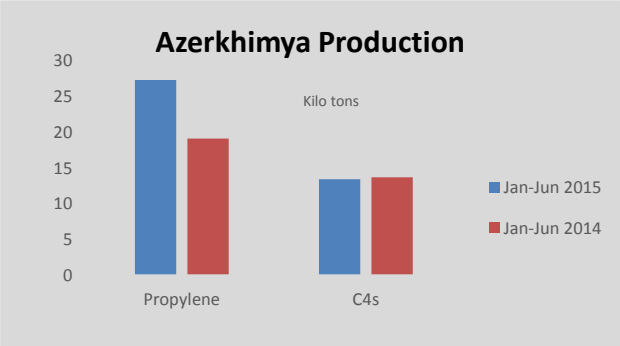
Uzbekneftegaz-chemical projects

Uzbekneftegaz is considering potential projects for the production of polycarbonate, polystyrene and ABS with a total cost of $700 million. Furthermore, Uzbekneftegaz, IRED (South Korea) and CNPC (China) are working over a project for the production of butanediol from gas and methanol. The project design plan should be completed by the end of 2014. The project cost is estimated at $400 million and envisages the production of spandex on the base of Uzkimyosanoat.

Kazakh polymer imports, Jan-May 2015

HDPE imports into Kazakhstan increased 37% in the first five months in 2015 to 34,500 tons. More than 85% of the total accounted for polyethylene pipe. The second largest consuming application is the film sector, its share is about 10%. Russia accounted for 81% of imports in the first five months in 2015, followed by South Korea and Uzbekistan.

Polypropylene imports into Kazakhstan amounted to 6,000 tons in January to May this year, unchanged from 2014, whilst exports dropped 43% to 6,300 tons. Russia accounted for 67% of imports into Kazakhstan, followed by South Korea. Russia is also the main destination for Kazakh exports. PVC imports into Kazakhstan for the period January to May 2015 amounted to 13,000 tons, 48% lower than in 2015. The reason for the lower imports was due to reimport of resin into Russia.



SOCAR Polymer-Gazprombank

SOCAR has signed an agreement with Gazprombank on providing a loan facility for construction of SOCAR Polymer polypropylene and high-density polyethylene plants in Azerbaijan. The investment committee of Gazprombank has approved a $489 loan facility for SOCAR Polymer with a ten-year term. Azerkhimya produced 27,300 tons of propylene in the first six months in 2015, 13% more than in 2014. By contrast C4 sales dropped 30% in the first half year to 13,700 tons.

Relevant Currencies

Ukrainian hryvnia. $1 = 16.98. €1 = 19.7: Rus rouble. $1 =51.5 €1= 56.5

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