Chemical Information Resources for East Europe and CIS

# CIREC MONTHLY NEWS

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

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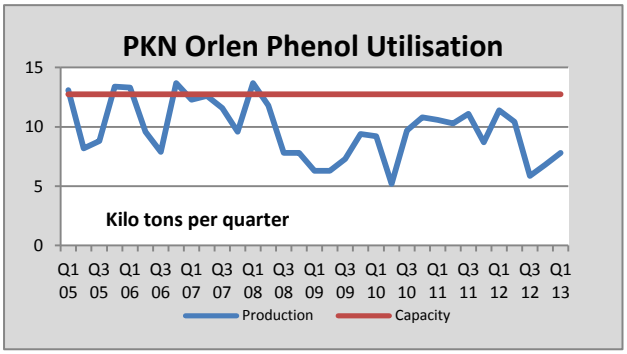
# CENTRAL & SOUTH EAST EUROPE

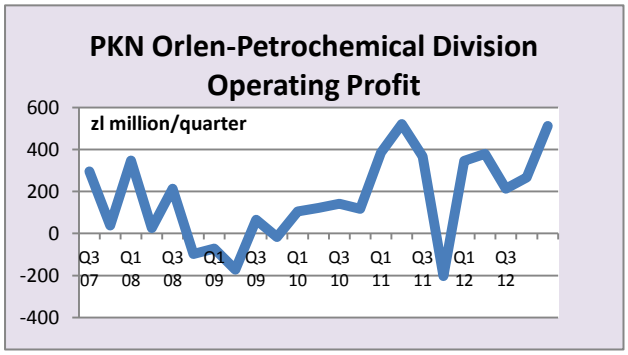
## Petrochemicals




### PKN Orlen considering phenol expansion

PKN Orlen is examining prospects to increase the production of phenol from 50,000 tpa to 200,000 tpa. It also wants to increase the production of propylene quite significantly and is considering technical options, as well as the production of polypropylene. The phenol plant was constructed at Plock in the 1970s and has been running at less than full capacity in recent years due largely to technical issues rather than demand.

The company has started to collect bids for the purchase of licenses for potential new installations. Regarding the production of polyolefins, the only current facilities in Poland are managed by Basell Orlen Polyolefins (BOP) in which PKN Orlen and Basell Europe have a 50% interest. The phenol and polypropylene projects are still in the preparatory phase, and the company will collect bids and necessary data before deciding whether to progress to the investment stage.




### PKN Orlen Q1 2013

The Orlen Group's total sales volumes increased by 4% in the first quarter, driven primarily by growth in the refining division and to some extent improving petrochemical margins as reflected opposite. Despite the rise in petrochemical margins there were some difficulties in shipping polymers due to a drop in the sales volumes of those products, as customers optimised their stocks. Weather conditions stifled demand for fertilisers in the first quarter this year from Orlen's subsidiary Anwil but this was then partly offset by a growth in PVC volumes. Orlen's refining divisional EBIDTA for Q1 2013 was recorded at zl 276 million, down 11%.

**PKN Orlen Group Sales (unit-kilo tons)**

| *Product* | *Jan-Mar 13* | *Jan-Mar 12* |
|---|---|---|
| Monomers | 122 | 129 |
| Polymers | 224 | 201 |
| Aromatics | 101 | 100 |
| Fertilisers | 293 | 291 |
| Plastics | 107 | 114 |
| PTA | 152 | 133 |
| Other | 562 | 372 |
| Total | 1,561 | 1,344 |

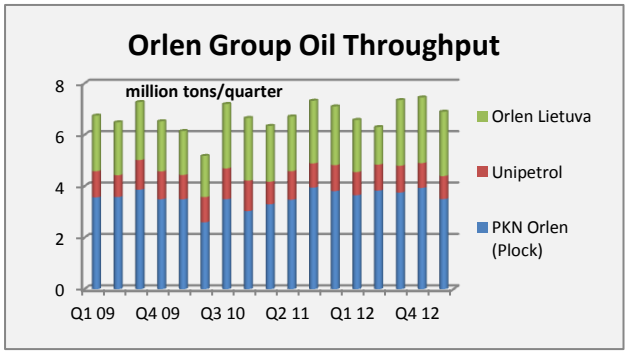
In the first quarter preparatory work on the construction of a power unit in Wloclawek was completed, and construction work commenced. Other projects involving capital expenditures included the ammonia unit at Anwil which is being modernised, whilst work on the olefin and sulphuric acid units at Płock is ongoing. Purchases of technology licences for phenol and metathesis units have commenced, and efforts are being made to reduce the energy intensity of the olefin and PX/PTA units.

In the hydrocarbon sector PKN Orlen is pursuing a number of projects and is preparing to drill further exploratory wells in Q2 and Q3 this year. In the first quarter the company also completed its sixth borehole into unconventional reservoirs, and is preparing the next two. This year, PKN Orlen also has plans focusing on conventional exploration for natural gas and crude oil in the Polish Lowlands and the Latvian shelf.

In the first quarter this year Orlen's petrochemical division recorded a profit of zl 512 million which was up by zl 166 million on the same period last year. The impact of valuation of inventories in the first quarter in 2013 reduced the operating result by zl 38 million. Physical sales of products remained fairly similar to last year for monomers and polymers, but up in other areas. PTA sales rose from 133,000 tons in Q1 2012 to 152,000 tons in the same period this year. PTA sales from the Wloclawek plant are directed to a number of customers including Mitsubishi in Germany and Alko-Naphtha in Russia. Last year PKN Orlen shipped at total of 128,000 tons of PTA to Germany as part of the agreement with Mitsubishi International.

### Orlen's gas fired plant at Wloclawek

PKN Orlen has started construction on a gas-fired, 470 megawatt heat-and-electricity co-generation plant at Wloclawek. The zl 1.4 billion ($444 million) plant, scheduled to go on-line by the end of 2015, will provide electricity for PKN Orlen and will meet the full electricity demands of Anwil. Capacity is far greater than consumption levels and the plant intends to sell about half of its power output to external customers. General Electric and SNC-Lavalin Group have been commissioned to build the plant.




### Orlen's refinery division, Q1 2013

PKN Orlen's refinery division recorded a loss of zl 34 million in the first quarter, down by zl 766 million against the same quarter last year. Production volumes at the three divisions in Poland, Czech Republic and Lithuania remained at constant levels.

Orlen Lietuva has recently opened a new plant for desulphurisation and sulphur granulation at Mazeikiu in Lithuania. It is the largest environmental project to be undertaken in the refinery for many years. It will increase the production of granulated sulphur by 40% up to 350 tons per day with the possibility of the development of production in the future to 450 tons per day. The new system reduces the content of hydrogen sulphide in liquid sulphur from 400 mg/kg to less than 10 mg/kg.

PKN Orlen continues to insist it's not interested in selling its Czech assets, but it appears to have several decent motivations to do so should the price be right. The Czech government currently is in talks to acquire a minority stake in Ceska Rafinerska from Shell. Unipetrol and Eni have pre-emptive rights on the stake, holding 51% and 32.4% respectively. An acquisition of Shell's stake by the Czech state would be logical only if it fell into the structure of a future state-run petroleum holding company.

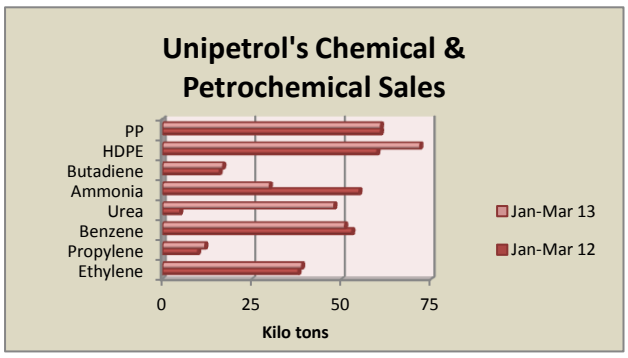
**Unipetrol's Operating Results by Division (Kc Mil)**

| *Division* | *Q1 13* | *Q1 12* |
|---|---|---|
| Refinery | -455.2 | 149.5 |
| Petrochemical | 426.7 | -263.9 |
| Retail | -34.1 | 50.5 |
| Total | -28.6 | -64.0 |

### Unipetrol Q1 2013

Unipetrol achieved a positive EBITDA of Kc 540 million in the first quarter, whilst the petrochemical division has now generated a positive EBITDA in three consecutive quarters. The operating loss for the Unipetrol Group amounted to Kc 28.6 million in Q1 2013 against Kc 64 million in Q1 2012. The major change inside the group has been the swing of the refinery division from operating profit to loss whilst the petrochemical division has transformed a loss of Kc 263.9 million into an operating profit of Kc 426.7 million.

Total revenues for the group, including the three divisions consisting of refinery, petrochemical and retail declined 3% to 24.776 billion. Crude processing totalled 896,000 tons in the first quarter, a similar volume to last year. Growing imports from grey zones has been identified as one factor affecting the refinery division. Effectively, Czech market oversupply has resulted from growing imports within grey zone. Nominal utilisation in the refinery division amounted to increased to 80% in Q1 against 71% last year. The refinery division recorded an EBIT of Kc -455 in Q1 2013, mainly due to weak winter seasonality affecting refinery margins and sales, Group sales of refinery products fell by 2% to 737,000 tons.




Due to challenging market conditions across the European refining sector Unipetrol Group took the decision to stop crude oil processing in the underperforming Pardubice refinery in May 2012. The production at the Litvinov and Kralupy sites of Ceska rafinerska, in which Unipetrol currently holds a 51.22% stake, is continuing.

Unipetrol's EBIT in the petrochemical division amounted to Kc 426.7 million in the first quarter, mainly due to a good level of petrochemical margins and results of internal optimisation projects. Even so, group sales of

petrochemical products dropped by 8% to 403,000 tons, mainly due to weak demand for polymers. Over-stocking by many clients at the end of 2012 led to lower sales in the first quarter. Polypropylene sales remained constant in Q1 at 61,000 tons, whilst polyethylene was lower by 17% to 60,000 tons. The urea plant at Litvinov was closed at the start of January, as in line with the group plan as of 1st January 2013.

### Unpetrol strategy 2013

Unipetrol is carefully monitoring market trends from global and local perspective, as well as steps taken by peers' in regards to development programmes. Unipetrol's main strategic target in 2013 will be the continuation of efficiency improvements across the value chain and cost optimisation. The petrochemical division is regarded as a core business for Unipetrol, and as such is being targeted for further development in the terms of value creation. Polyolefin sales are seen as an area of growth, whilst the group is concentrating on the continuous optimisation and integration of olefin production together with the refining division.

Development of new capacities in polyolefins is part of the mid-term strategy for Unipetrol, and it might be possible to build a new polyethylene plant at some stage. At the same time, urea installation, operating obsolete technology, was permanently shut down in January 2013. Further integration of refining production with a petrochemical division is expected.

## Chemicals

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

| *Product* | *Jan-Mar 13* | *Jan-Mar 12* |
|---|---|---|
| Caustic Soda Liquid | 81.9 | 71.7 |
| Caustic Soda Solid | 24.1 | 15.2 |
| Soda Ash | 257.5 | 267.2 |
| Ethylene | 130.1 | 136.9 |
| Propylene | 88.3 | 93.2 |
| Butadiene | 13.0 | 15.7 |
| Toluene | 3.7 | 5.9 |
| Phenol | 7.8 | 11.4 |
| Caprolactam | 43.6 | 42.9 |
| Acetic Acid | 2.3 | 1.5 |
| Polyethylene | 93.5 | 97.0 |
| Polystyrene | 14.5 | 19.4 |
| EPS | 19.5 | 5.2 |
| PVC | 75.4 | 74.9 |
| Polypropylene | 66.0 | 69.0 |
| Synthetic Rubber | 48.6 | 50.0 |
| Ammonia (Gaseous) | 339.0 | 348.0 |
| Ammonia (Liquid) | 364.0 | 348.0 |
| Pesticides | 6.9 | 7.1 |
| Nitric Acid | 626.0 | 643.0 |
| Nitrogen Fertilisers | 527.0 | 512.8 |
| Phosphate Fertilisers | 87.9 | 116.0 |
| Potassium Fertilisers | 68.4 | 94.9 |

### Grupa Azoty integration

The EBRD has acquired a 5.75% stake in Grupa Azoty for zl 296.4 million (equivalent of €72.1 million). The investment follows the Polish government's decision to continue the privatisation of the company and reduce its own stake. Concern has arisen in Warsaw over the designs of Russian company Akron on the Azoty group, and by selling a stake to the EBRD is hoped to protect the assets over tactical share purchases. Akron managed to gather around 7% of shares on the open market last year, and was looking to increase the percentage to 12.75% until the intervention of the EBRD.

Grupa Azoty reported total revenues of zl 7.1 billion in 2012, with an EBIT of zl 372 million. Following the merger with Zakłady Azotowe Puławy pro-forma sales are now expected to exceed zl 10 billion this year.

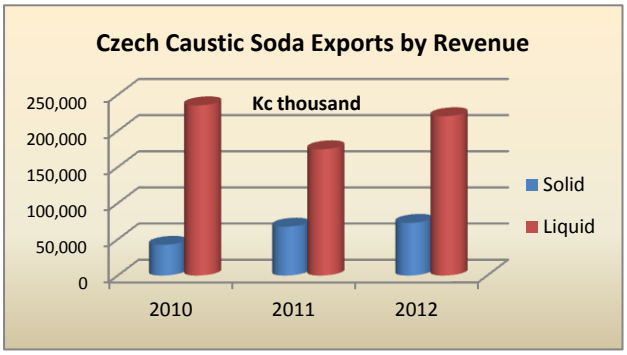
Integration options cover a wide range of possibilities for the Grupa Azoty and it will take some time to identify some of the main strategy decisions that need to be taken. The consolidation of ZCh Police and ZAK into Tarnow has been undertaken on a gradual step by step basis, which is not yet fully completed, and perhaps the absorption of the Pulawy group may even be a more complicated process.

Finding savings is the goal of the fourteen teams of employees belonging to the Group Azoty. A multitude of steps are required in bringing Polish chemical companies into one company, such as logistics, packaging, etc. The lion's share of the Group's raw materials is imported and this provides the major challenge to the group. Another perspective in the lack of integration of domestic chemical production, and the opportunities that might offer. Logistics also represent an area that features high in the list of priorities.

In 2012 Grupa Azoty reported significant growth in revenue from licensed transport operations, which increased by a factor of 3.4 in comparison with 2011. A total of 1,123 rail trips took place in 2012, carrying a total of 287 000 tons of cargo. The introduction of new rolling stock maintenance solutions led to a notable increase in operational efficiency and reduction in costs. Due to investment projects implemented last year at Grupa Azoty Koltar the company became practically self-sufficient in the maintenance of goods wagons.

### Grupa Azoty-ZAK investment plans

ZAK has allocated around zl 200 million this year for repairs and investments at Kedzierzyn. Of this amount, zl 109 million is intended to be spent on repairs and zl 90 million will be directed towards investment. One of the most important issues involves the construction of a new power plant at Kedzierzyn. ZAK has announced the pre-selection procedure of candidates for the general contractor for the first stage of the new power project. ZAK also wants to modernise and expand the urea plant at Kedzierzyn, whilst considering the replacement of the plasticizer plant.




### Spolana opposes decision on chlorine conversion

Spolana has opposed the decision taken by regional authorities to insist on the conversion of chlorine production. In effect the company disputes the findings of the environmental groups that have provided information and data against the mercury production process at Neratovice. Spolana has used the current process since 1975.

Spolana fears that if permission for use of mercury is not extended to 2020, the company would be forced to release about 800 employees. Together with Spolchemie the company provides considerable export revenues from caustic soda exports in both liquid and solid form.

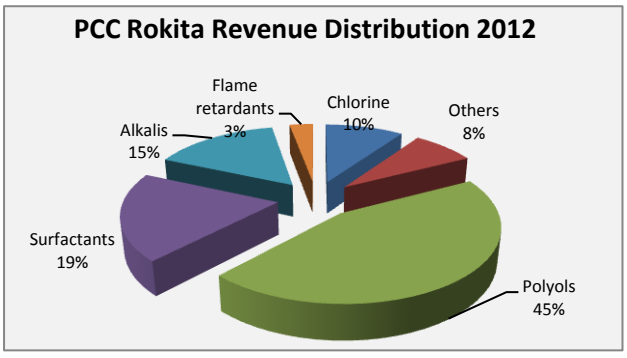
### Romanian Ministry of Economy grants loan to Chimcomplex

Chimcomplex has received grants from the Ministry of Economy for an investment of €63.7 million to finance the second to cogeneration plant for electricity and heat. The new cogeneration plant will have a production capacity of 7.4 MWh all, the first plant commissioned in combined in 2008. Chimcomplex is the largest consumer of electricity in the country since the steel mill in Galati. Electricity share in the cost of caustic soda product that works is 52%. The second cogeneration plant will use natural gas as a raw material, possibly utilising excess hydrogen in the process for sodium chloride electrolysis. The first project benefited from the EU-EBRD funds.

Authorisation for chlorine production based on mercury is currently valid until 2015, after which Spolana is required to produce chlorine using an environ tally safe method of production. The earliest date possible is 2016 according to Spolana. Environmentalists say that fish from the Elbe area around Spolana possess high concentrations of mercury and that mercury has had a negative effect on the health of organisms. Spolana is investing around Kc 90 billion in trying to manage environmental emissions and damage, but as pointed out that this money might better be served in the transition to membrane technology.

### PCC Rokita- agreement with ThyssenKrupp Uhde

PCC Rokita has signed an agreement to apply the second phase of membrane electrolysis used for the production of chlorine and caustic soda. The total investment for the project is estimated at approximately zl 270 million of which zl 120 million has already been invested in the first phase. The investment is a continuation launched in 2010 a project to convert the electrolysis plant membrane technology, with an increase of 10% chlorine plant capacity.




The most important consequence of the investment will be further significant reduction in energy consumption. Environmental criteria are also important. The first phase was completed in 2011, whilst the second phase (costing an estimated zl 150 million) is about to begin.

The agreement was signed with ThyssenKrupp Uhde and includes the supply of equipment, licensing and engineering services. Technology and key equipment in the process is provided by the Swiss company Bertrams Chemical Plants. Construction work will be undertaken by Polish companies.

After completion of the project in 2015, the chlorine plant at Brzeg Dolny will meet the requirements of the European document on Best Available Techniques (BAT). The project is a key component of PCC Rokita's strategy for sustainable development of products based on chlorine, fully balancing its internal consumption. The investment will be funded from the company's own resources and preferential loans. The PCC Rokita Group consists of 18 subsidiaries.

# RUSSIA

### Russian chemical production Q1 2013

Russian producers increased production of mineral and chemical fertilisers by 3% in the first quarter compared to the same period last year up to 4.5 million tons. Ammonia production rose 8.2% to 3.7 million tons, soda ash production fell by 8.9% to 662,000 tons and caustic soda rose by 0.8% to 281,000 tons. Sulphuric acid production dropped 10% to 2.6 million tons. The production of plastics rose by 14.3% to 1.5 million tons, whilst chemical fibres and yarns increased by 0.6% to 35,300 tons.

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

| *Product* | *Jan-Mar 13* | *Jan-Mar 2012* |
|---|---|---|
| Ammonia | 3,422.0 | 3,421.0 |
| Benzene | 314.0 | 309.1 |
| Butanols | 77.1 | 66.5 |
| Caustic Soda | 276.1 | 273.8 |
| Ethylene | 710.6 | 598.2 |
| Methanol | 914.7 | 861.2 |
| PET | 112.0 | 107.7 |
| Phenol | 74.5 | 72.0 |
| Phthalic Anhydride | 27.6 | 25.0 |
| Polyethylene | 451.6 | 371.7 |
| Polypropylene | 191.8 | 149.9 |
| Polystyrene | 105.8 | 83.0 |
| Propylene | 375.5 | 329.5 |
| PVC | 168.6 | 169.0 |
| Soda Ash | 662.0 | 726.7 |
| Styrene | 158.8 | 145.8 |
| Synthetic Rubber | 417.0 | 342.7 |

Polystyrene production rose 30.42% in Russia to 105,800 tons in the first quarter, whilst polypropylene increased by 29.9% to 191,800 tons. Polyethylene production increased by 22.2% up to 451,600 tons. At the same time, production of PVC decreased by 0.3% and amounted to 168,600 tons. Production of polyesters, polycarbonates, alkyd and epoxy resins in January reached 132,200 tons (up 2.8%), and polyamides 35,300 tons (up 19.1%).

Rises in petrochemical production were reported across the market spectrum due in part to restarted production facilities and in part new capacity. Production of synthetic rubber increased 6.3% in the first quarter to 417,000 tons. Ethylene production rose 18.9% to 710,600 tons and propylene by 12.8% to 312,700 tons. Benzene rose 5.4% to 312,000 tons, styrene by 15.7% to 158,800 tons and phenol by 2.7% to 74,500 tons.

The share of chemical products in the structure of Russian imports in January-March 2013 amounted to 17% against 16% in the same period in 2012. The value of imported materials has increased in comparison with 2012 by 16.7%. In terms of physical movements import shipments of inorganic chemicals increased by 15.9%, organic chemicals increased by 4.2%, and varnishes and paints rose 5.3%.

## Feedstock & Petrochemical Projects

### Rosneft and Mitsui sign agreement for petrochemical complex at Eastern Petrochemical Company

Rosneft and Mitsui have signed an agreement to jointly develop the olefin complex in the Primorsk region in the Russian Far East, for Rosneft's subsidiary Eastern Petrochemical Company. FEPCO, a subsidiary of Rosneft, is partly involved in the development of the project which comprises processing capacity of 3.4 million tpa of hydrocarbon feedstock, predominantly naphtha. The capacity of ethylene and propylene production unit is planned at 2 million tpa.

As part of the agreement, the parties plan to cooperate in engineering design in accordance with international best practices. Following the results of this cooperation, the final investment decision on construction will be made. Despite the project taking shape a state environmental review has yielded a negative assessment. The complex is intended to start production in 2017 and requires an estimated total investment of around $5 billion. In the first stage, the petrochemical complex will process naphtha and LPGs with feedstocks provided by the Komsomolsk refinery, Achinsk refinery and Angarsk Petrochemical Company.

### Yamal-Volga pipeline

Nizhnekamskneftekhim has approved the company's participation in the Yamal-Volga pipeline consortium taking a share of 33.4%. The pipeline represents a key factor in the development of petrochemicals in Volga region. Yamal-Volga was registered at the end of January this year with a total capital of 45 million roubles. Other participating members include the regional administrations of Bashkortostan, Tatarstan and the Yamal-Nenets Autonomous District. The project includes the industrial and commercial structure for the design, construction and operation of pipelines to deliver hydrocarbons from the Yamal region to the Volga region.

At the core of the consortium building product pipeline Yamal-Volga lies the task of addressing the shortage of raw materials for the development of oil-gas in the Volga region, which is estimated to be at least in the range of 1 million tpa. The estimated cost of the project is around $6-7 billion. The consortium Yamal-Volga apparently does not plan to attract private investors to build the gas liquid pipeline. The consortium plans to lay more than 2,000 km of pipeline over a period five years. Investments in the project are tentatively estimated at 300 billion roubles.

### Novy Urengoy Gas Chemical Complex-fifth ethylene furnace delivered

The VLS logistics group has completed the delivery of equipment for a fifth pyrolysis unit to the Novy Urengoy chemical complex. The new furnace pyrolysis provides increased production capacity of ethylene from ethane, and for the future expansion of primary production.

The original project comprised the installation with four pyrolysis furnaces with the capacity to produce 340,000 tons of ethylene. The construction of this installation is still in progress. To increase production capacity to 420,000 tpa and a further modernisation of production, it was decided to install a fifth furnace. The new project also provides conversion of existing columns, vessels, heat exchangers, pumps, and supply of additional equipment. Ethylene produced at the modernised, will be used for the production of LDPE.

Equipment for the fifth furnace has been supplied by Linde. For delivery of large equipment VLS had to develop a special logistics scheme, in the first stage delivering by sea from Hamburg to St. Petersburg. The second stage involved delivering the column by 49 trucks cargo to Novy Urengoy. Work on installation of the furnace will begin in July this year and will last at around 12 months.

### SIBUR-Ust Luga

In May and June 2013 two new terminals are to be launched at the Ust Luga port on the Baltic coast involving SIBUR's export-oriented complex for the transhipment of LPG, and the complex owned by Novatek for handling stable gas condensate (berths number 6 and number 7). Novatek's complex at Ust-Luga includes transhipment capacity and fractionation of stable gas condensate which is delivered from the Purovsky Plant in West Siberia. The complex is capable of processing 6 million tpa of condensate and will produce light and heavy naphtha, diesel fuel, jet fuel and heating oil. The company is currently commissioning work at the facilities in the first phase of the complex with a capacity of 3 million tpa.

From May to September this year SIBUR will try out test shipments of LPG in small vessels of 2.5-3 tons at the Ust Luga port. Two of the ships being leased by SIBUR have come from Navigator Gas.

In total the port of Ust-Luga in 2013 plans to increase turnover to 65-67 million tons from 46.6 million tons in 2012 by doubling the capacity of the oil terminal. Transhipment of petroleum products in the terminal owned by Gunvor in 2013 is expected to exceed 18 million tons primarily due to the start of exports for light products.

## Feedstocks & Petrochemical Producers

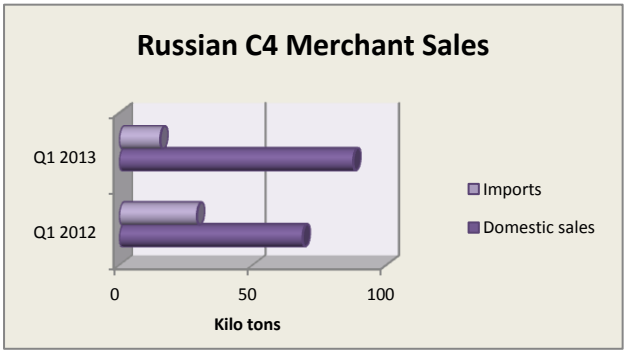
**Russian LPG Export Duty Calculator**

| Price ($) | Duty Range ($/ton) |
|---|---|
| >490 | Zero |
| 490-640 | 0.5-75 |
| 640-740 | 75.6-135 |
| <740 | 135 & higher |

### Russian LPG export prices

In the first quarter Russian LPG production totalled 3.14 million tons, 4% higher than the same period last year. The Russian government has transferred authority for monitoring LPG prices and calculating the rates of export customs duties from the Ministry of Energy to the Ministry of Economic Development.

Accordingly, the price point for the calculation of export duties on LPG is based on Argus quotes for a mixture of propane and butane on the border with Poland (DAF Brest). To calculate the cost of the average quotation is taken from the 15th day of each calendar month to the 14th day of the following calendar month. The government in December 2010 introduced a legislated mechanism for calculating the export duty on LPG. The decree also fixed the export duty for the oil price. If the average price is up to $490 per ton, a zero export duty is applied. At the higher end of the price quotes, $740 and above, the duty ranges from $135 per ton and higher.

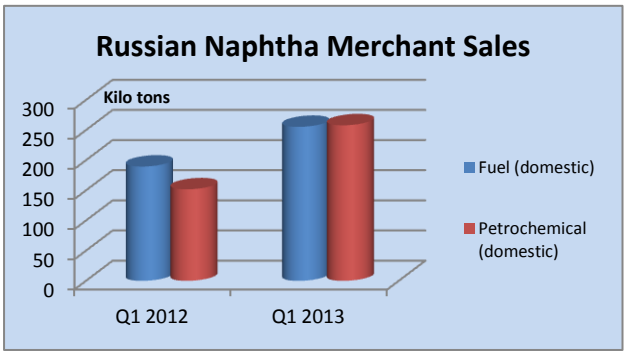



### Russian petrochemical feedstocks, Q1 2013

In the first three months in 2013 Russia imported 15,400 tons of C4s which was 48% less than in the same period of 2012. The main reason for a significant reduction in imports was the resumption of shipments from Stavrolen. In the first quarter this 85% of imports were sourced from Belarus. A total of 88,300 tons of C4s was sold by

Russian producers on the domestic market in the first quarter, 28% up on the same period in 2012.

Russian C4 sales on the domestic market totalled 29,800 tons in March, 9% more than in February. Tomskneftekhim increased sales of C4s by 1.5 times to 6,900 tons, and this increase was enabled by the higher usage of naphtha in March as opposed to LPGs. All of the C4s sold by Tomskneftekhim in March were delivered to Togliattikaucuk. Angarsk Polymer Plant also increased domestic sales by 13% to 6,900 tons. Despite the overall increases in Russian domestic sales Ufaorgsintez reduced shipments by 14% to 2,600 tons.




Nizhnekamskneftekhim imported 1,800 tons of C4s in March, 29% less than in February, whilst Omsk Kaucuk increased its imports of product by 20% to 2,400 tons.

In the first quarter in 2013 a total of 514,000 tons of naphtha was shipped to the domestic market, 46% up on the same period in 2012. The increase in supply has been stimulated by revived production of olefins at Stavrolen. Naphtha exports from Russia in the first quarter totalled 2.535 million tons against 2.380 million tons in 2012.

Naphtha sales on the domestic market amounted to 173,000 tons in March, which is 3% more than in February. Of the 87,300 tons bought by petrochemical companies 35,000 tons was purchased by Stavrolen or 46% less than in February. The decline was due to the presence of purchases of stocks formed in February, as well as natural gas liquids used at the pyrolysis unit. Tomskneftekhim, on the contrary, increased processing volumes of naphtha by reducing purchases of natural gas liquids. In March, the Tomsk plant bought 45,300 tons of naphtha, against 20,200 tons in February.

**SIBUR's Petrochemical Production (unit-kilo tons)**

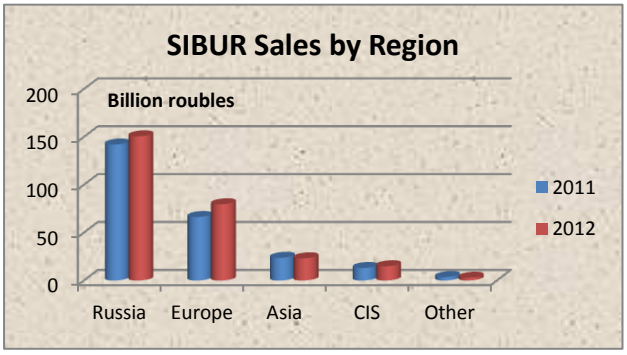
| *Product* | *2012* | *2011* |
|---|---|---|
| Benzene | 134.9 | 149.0 |
| Styrene | 161.5 | 122.7 |
| PTA | 252.1 | 44.1 |
| Propylene | 328.0 | 327.4 |
| Ethylene Oxide | 80.7 | 85.7 |
| Butadiene | 212.1 | 226.6 |
| Isobutylene | 37.4 | 38.9 |
| Ethylene | 540.4 | 535.1 |
| Other Intermediates | 918.7 | 851.8 |
| Other Chemicals | 765.6 | 755.8 |
| Purchases from 3rd parties | 13.1 | 69.7 |

## SIBUR 2012

SIBUR Holding's operating profit declined in 2012 from 78.453 billion roubles against 71.712 billion roubles despite an increase in revenues by 9.1% from 248.660 billion roubles to 271.330 billion roubles. The EBITDA amounted to 82.291 million roubles, a decline of 5.1% from 86.669 billion roubles in 2011. The largest part of SIBUR's sales strategy is focused on the domestic market where 64.1% of total sales were conducted in 2012, although exports comprise an important part of the group's strategy.

SIBUR's revenue growth in 2012 was driven primarily by energy products involving higher production and sales volumes for majority of the products, helped by indexation of regulated natural gas prices and the Russian rouble depreciation against the US dollar. Sales from the energy division, including MTBE, represent over half of product revenues.

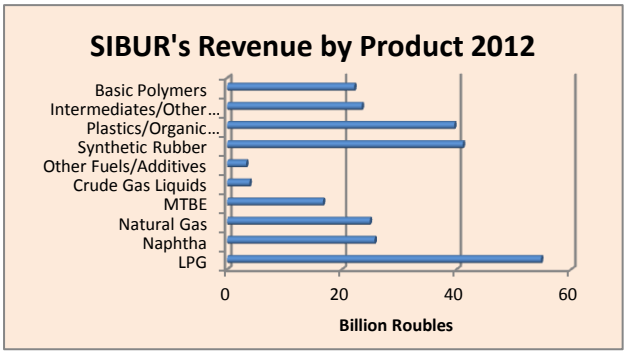
Revenues from chemicals increased partly due to new facilities, such as the EPS plant at Perm, but also due to the integration of assets from producers such as Akrilat, Polief and Biaksplen. These producers added revenues for acrylates, PET and BOPP respectively.




The net profit margin for SIBUR in 2012 was 22.1% compared with 25.3% in 2011. The decline in the EBITDA resulted from lower margins and narrowing price corridors between the prices of raw materials bought and prices of petrochemicals sold. As of 31 December 2012 the total debt for SIBUR amounted to 96 billion roubles, 15.8% up on 2011. This increase was due mainly to investments as part of the group's strategic programme.

The EBITDA margin totalled 30.3% in 2012 compared

to 34.9% in 2011, when margins reached their historical highs. The fall in EBITDA and EBITDA margin is primarily explained by tighter spreads between feedstock and petrochemical prices, particularly in the synthetic rubber product group.




In 2012, SIBUR's gas plants increased processing of associated gas by 3.8% to 18.7 billion cubic metres. It also produced 4.2 million tons of natural gas liquids (NGLs), which is 1.0% higher than in 2012. Natural gas sales volumes for SIBUR rose last year by 15.6% compared to 2011 and amounted to 10.6 billion cubic metres. Sales of petrochemical products reached 2.3 million tons, an increase of 4.9% compared with 2011.

### Russian ethylene market, Q1 2013

Russian ethylene production rose by 16% to 710,600 tons in the first quarter this year against 2012, due largely to the restart of the Stavrolen's cracker at Budyennovsk. Other plants reported minor increases Stavrolen plans to process 954,000 tons of raw materials this year, 8.4% up on 2011. Ethylene production at Budyennovsk is expected to total around 300,000 tons in 2013 in addition to 120,000 tons of polypropylene. The complex is expected to work at 100% capacity this year assuming no unplanned outages. In the second half of 2013 Stavrolen plans to start producing high-impact polypropylene in three grades that are not produced at present.

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

| *Producer* | *Q1 13* | *Q1 12* |
|---|---|---|
| Angarsk Polymer Plant | 58.4 | 52.2 |
| Kazanorgsintez | 142.1 | 136.8 |
| Stavrolen | 81.6 | 0.0 |
| Nizhnekamskneftekhim | 158.6 | 159.9 |
| SANORS | 20.3 | 19.8 |
| Gazprom N Salavat | 76.4 | 61.5 |
| SIBUR-Neftekhim | 63.0 | 67.1 |
| SIBUR-Khimprom | 12.9 | 13.3 |
| Tomskneftekhim | 66.1 | 64.8 |
| Ufaorgsintez | 31.2 | 22.7 |
| Total | 710.6 | 598.2 |

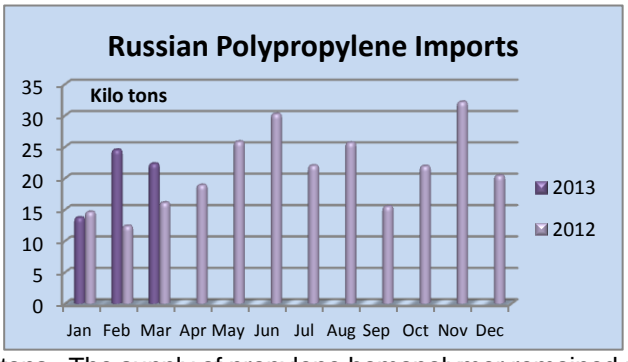
The Federal Antimonopoly Service (FAS Russia) has been examining the Russian ethylene market and how to prevent violations of prices charged by ethylene producers attached to the Volga-Urals ethylene pipeline system. The issue has come under scrutiny due to the concerns over the long term supply/demand balance for ethylene in the Volga region, and in view of previous disputes between producers and consumers. In the case of further disputes taking place for the supply of ethylene, market participants may be entitled to apply to the competition authorities or to the relevant courts for protection of their interests.

### Russian propylene, Q1 2013

Russian propylene production totalled 375,500 tons in the first quarter this year against 329,500 tons in the same period last year. The increase was due to the same factors influencing ethylene.

In the first three months in 2013 Russia sold 86,300 tons of propylene domestically, 5% lower than in the same period in 2012.ales of propylene to the domestic market amounted to 29,300 tons in March, 7% more than in February. In the first quarter in 2013 exports totalled 12,500 tons, 52% of which went to Poland and 33% to Belarus. Russian exports of propylene increased by 31% in March to 3,500 tons. SIBUR-Neftekhim increased exports 2.9 times over February to 1,500 tons, and Angarsk Polymer Plant by 1.8 times to 1,000 tons.

## Bulk Polymers




### Russian polypropylene, Q1 2013

Polypropylene imports to Russia in March amounted to 22,300 tons, 9% less than in February but 32.7% more than in March of last year. Imports of homopolymer fell by 15.8% to 11,200 tons due to the reduction of supply from Turkmenistan. Supplies of block copolymers of propylene rose 5% in March up to 4,900 tons.

Total imports of polypropylene increased 16% in the first quarter this year to 60,400 tons. Imports of copolymers of propylene increased in particular by 37% to 30,900 tons. The supply of propylene homopolymer remained unchanged as last year at 29,600 tons.

**South Korean Polymer Exports to Russia (unit-kilo tons)**

| *Product* | *Q1 13* | *Q1 12* |
|---|---|---|
| PET | 13.4 | 15.7 |
| PVC | 3.3 | 3..0 |
| Exp PS | 5.4 | 5.6 |
| Polystyrene | 4.5 | 5.3 |
| HDPE | 20.5 | 17.0 |
| LDPE | 11.25 | 8.4 |
| PP | 4.5 | 3.8 |
| Polycarbonate | 1.1 | 2.1 |
| ABS | 5.9 | 5.6 |
| Total | 69.9 | 66.6 |

Polyom at Omsk is now shipping out around 600-700 tons of polypropylene per day. At present production is being sold partly to domestic processors and partly in exports to China. The new Polyom plant will form a key part of the proposed Omsk petrochemical cluster in future providing opportunities for processors to establish facilities close to the site. The next new capacity for polypropylene production in Russia consists of the Tobolsk-Polymer plant which will be capable of producing up to 500,000 tpa.

### Nizhnekamskneftekhim starts ABS plant

Nizhnekamskneftekhim staged its opening ceremony on 18 April for the commissioning of two new production lines. This included a line for polybutadiene rubber on lithium catalyst (SKD-L) and the line for the production of ABS plastics.

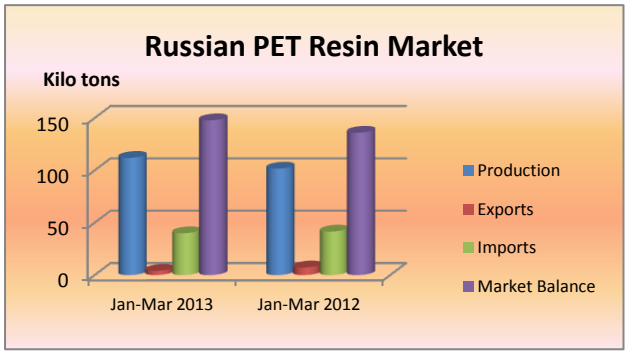
The capacity of the new ABS-plastics plant is 60,000 tpa, which has been working in test mode since November 2012. Full start-up was delayed by Nizhnekamskneftekhim due to demand factors. The company has started to produce seven brands of ABS. The products are used in the manufacture of refrigeration and consumer electronics, plumbing, toys, as well as the automotive, packaging and furniture industries.

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

| *Company* | *2012* | *2011* |
|---|---|---|
| Styrolution | 4.8 | 4.5 |
| Styron | 2.2 | 1.9 |
| LG Chem | 12.4 | 10.8 |
| Cheil Industries | 12.4 | 9.8 |
| Kumho | 2.9 | 3.6 |
| IRPC | 1.3 | 0.9 |

Consumption of ABS is rising in Russia, but slower than might be expected in an emerging market. In 2012, the Russian market for ABS increased by 5%. Most of the increase in 2012 was fuelled by imports, reflecting a 12% increase, while domestic production at the sole plant at fell by 12%. The share of imports in total Russian consumption increased to 79% in 2012 from 74% in 2011.

Asian imports dominated supply particularly from LG Chem and Cheil Industries (45% of total imports from Korea) and Kumho Petrochemical (10%). Nizhnekamskneftekhim may seek to challenge these imports in the second half of the year. The sole producer in Russia is Plastik at Uzlovaya, which has been undergoing modernisation; the company reduced production by 5% in 2012.




### Russian PET, Q1 2013

Russian PET production rose 20% in March over February to 41,300 tons. Production totalled 112,000 tons in the first quarter in 2013, 1.8% up on the same period in 2012. Imports of PET into Russia fell by 4% in the first quarter in 2013 to 40,000 tons. Reduced import purchases of PET from Asia resulted largely from lower domestic prices made available to consumers.

In 2012 revenues from SIBUR's PET sales increased by 152.3% over 2011 to 11.488 billion roubles from 4,553 million in 2011. PET sales' volumes increased by 169.9% due largely to the integration of Polief into SIBUR and also the sale of inventories in 2012 from the previous year. In 2012, domestic sales accounted for 99.5% of SIBUR's total PET revenue, while 0.5% was attributable to export sales.

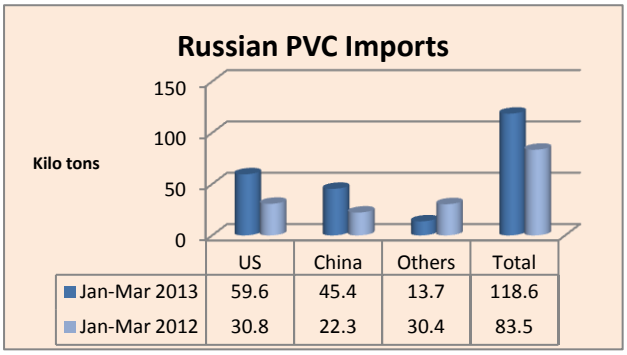
### Ethan-PET project construction to start in June

Ethan expects construction of the new PET facilities in the Kabardino-Balkaria region to begin in June. Start-up of the plant has been delayed until 2015 from the original date of 2013. Construction is scheduled to be implemented in three phases, with the final capacity amounting to 486,000 tpa. The plant will produce PET food and textile grade PET.

The cost of the project, according to the government of the republic, is estimated at around 15.7 billion roubles. Another 1.3 billion roubles has been targeted on developing the infrastructure from the Investment Fund of the Russian Federation, and more than 150 million from the national budget. Asphalt has been prepared to develop 8 km of new roads, whilst 8 km high pressure gas pipeline s being constructed. Investments in the infrastructure will be completed in September this year

The main problem for Ethan is the question of logistics, delivering raw materials to Nalchik from Novorossiysk such as PTA, MEG and acetic acid. At full capacity Ethan would need to require in the range of 165,000 tpa of MEG, which would have to be accessed from non-Russian sources. Another challenge to the project is the weak development of industrial construction in the region, which could lead to an increase in capital expenditure.

The Ethan project is intended to focus on the Russian market. Last year, Ethan received from the government of the Kabardino-Balkaria guarantees for the project which will ultimately posses a capacity of 486,000 tpa at a total cost of 12.3 billion roubles. The first phase comprises 162,000 tpa, followed by the second stage rising to 288,000 tpa and finally an increase to 486,000 tpa. At full capacity Ethan aims to produce 340,000 tpa of food grade PET and 146,000 tpa of PET fibre. Prospects for the latter in Russia are still in infant stages with consumption estimated at 20-25,000 tpa.




### Russian PVC, Q1 2013

Russian PVC imports totalled 58,000 tons in March, a record month for inward shipments. Volumes from the USA totalled 25,000 tons in March, 52% up on February. Chinese imports of acetylene PVC increased to 28,700 tons despite the border delays at Dostyk-Alashankou. In the first quarter in 2013, the total volume of imports of PVC in Russia amounted to 118,600 which was 42% higher than last year. March also saw increased deliveries from South Korea and Europe.

Overall for 2012, imports accounted for 44.8% of Russian PVC consumption. The USA was the largest supplier, shipping 46% of total imports, followed by China with 34% and Ukraine 16.7%. Germany provided the main supply of emulsion PVC. Until the RusVinyl project is completed and production starts the dependency on imported PVC is expected to rise.

## Aromatics & derivatives

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

| *Producer* | *Q1 13* | *Q1 12* |
|---|---|---|
| Altay-Koks | 0.0 | 10.2 |
| Angarsk Polymer Plant | 23.5 | 23.0 |
| Chelyabinsk MK | 3.3 | 5.2 |
| Gazprom Neft | 38.6 | 29.0 |
| Koks | 0.0 | 7.3 |
| LUKoil-Neftekhim | 0.0 | 0.0 |
| LUKoil-Permnefteorgsintez | 12.1 | 12.2 |
| Magnitogorsk MK | 15.5 | 17.1 |
| Nizhnekamskneftekhim | 52.1 | 47.2 |
| Novolipetsk MK | 7.3 | 4.6 |
| Gazprom Neftekhim Salavat | 32.0 | 19.1 |
| Severstal | 9.2 | 9.5 |
| SIBUR Kstovo | 23.0 | 16.3 |
| Slavneft-Yaroslavlorgsintez | 16.6 | 16.7 |
| Surgutneftegaz | 16.9 | 16.3 |
| TNK-BP | 7.7 | 9.8 |
| Ufaneftekhim | 20.2 | 21.0 |
| Ural Steel | 0.7 | 2.9 |
| Uralorgsintez | 17.7 | 19.0 |
| Zapsib | 14.3 | 16.7 |
| Others | 3.4 | 6.1 |
| Total | 314.0 | 309.1 |

### Russian benzene market, Q1 2013

Russian benzene production totalled 106,500 tons in March, 6% up on February whilst totalling 314.000 tons in the first quarter, 6% up on the same period in 2012.

In March, ArselorMittalTemirtau in Kazakhstan sold 420 tons of benzene on the Russian market of 420 tons, 4.2 times more than in February. Kuibyshevazot bought 239 tons of benzene from ArselorMittalTemirtau and another 181 tons was sold to Kazanorgsintez. In the first quarter in 2013 the Kazakh producer shipped a total of 773 tons of benzene to Russia.

Russian benzene producers reduced sales on the domestic market by 6% in March to 61,800 tons. Angarsk Polymer Plant cut supplies to domestic consumers by 18% to 4,700 tons, and Gazprom Neft by 7%, to 8,400 tons. In addition, shipments from SIBUR-Neftekhim amounted to 6,600 tons, 17% less don against February. At the same time, Uralorgsintez increased sales by 11% to 6,700 tons. Kirishinefteorgsintez increased shipments of benzene by 18% to 5,900 tons. In the first quarter Russian domestic sales of benzene totalled 196,900 tons, 3% down on 2012.

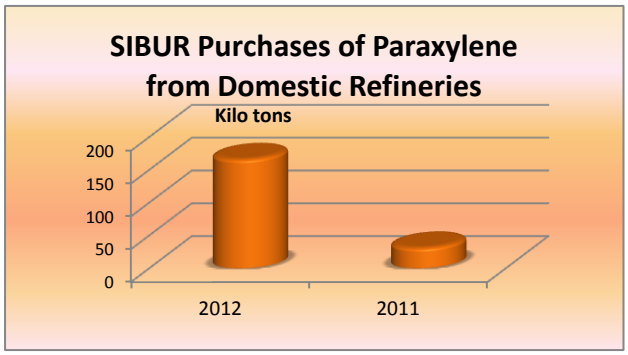
Several benzene plants started scheduled maintenance shutdowns in April, including Ryazan and Slavneft-YANOS at Yaroslavl. In addition, repairs began in late April at Uralorgsintez. For these producers the average monthly production of benzene at Ryazan stands at around 2,700 tons, Yaroslavl 5,500 tons, and Uralorgsintez 5,700 tons.

| Russian Xylene Exports 2013 (unit-kilo tons) | | | |
|---|---|---|---|
| | *Jan* | *Feb* | *Mar* |
| **Orthoxylene Total** | **3.5** | **3.0** | 3.6 |
| Gazprom Neft | **0.0** | **0.0** | 1.1 |
| Ufaneftekhim | 2.0 | 2.0 | 3.6 |
| Kirishinefteorgsintez | 1.5 | 1.0 | 1.1 |
| **Paraxylene Total** | **5.5** | **5.2** | **9.1** |
| Gazprom Neft | **0.0** | **0.0** | 8.8 |
| Kirishinefteorgsintez | 4.1 | 4.0 | 0.0 |
| Ufaneftekhim | 1.5 | 1.2 | **0.4** |

## Russian xylene sales and exports, Q1 2013

Domestic merchant sales of orthoxylene amounted to 11,320 tons in March, 14% up on February but 11% less than in March 2012. Total orthoxylene sales for the first quarter this year totalled 30,950 tons against 35,414 tons in the same period in 2012. Although phthalic anhydride provides the main outlet for orthoxylene, demand from paint manufacturers inside Russia is rising gradually in line with rises in coatings production.

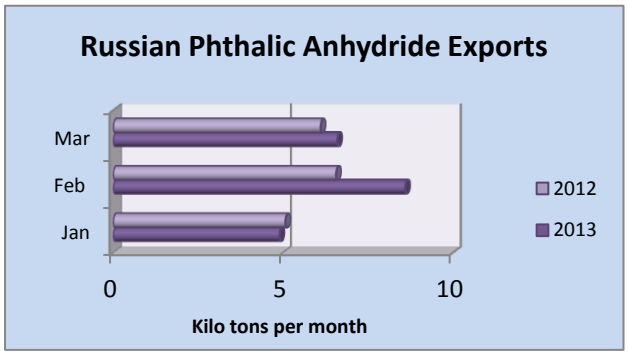
Paraxylene sales on the Russian domestic market are directed to one customer Polief which is now part of SIBUR. Around 45,000 tons of paraxylene was sold in the first quarter, mostly from Ufaneftekhim and Gazprom Neft at Omsk. SIBUR's full acquisition and integration of Polief took place in November 2011, and thus 2012 was the first full year for paraxylene purchases (shown in graphic below). Volumes purchased by SIBUR amounted to 166,000 tons in 2012 against 30,000 tons in 2011.




Orthoxylene exports from Russia totalled 10,070 tons in the first quarter, which was 1% less than in the same period last year. Gazprom Neft at Omsk did not export either orthoxylene or paraxylene in the first two months of 2013, but exported 8,800 tons of paraxylene in March. Practically all of orthoxylene in the first quarter was shipped to Finland.

## Russian toluene, Q1 2013

Domestic rail sales of toluene amounted to 10,850 tons in March which was 19% less than in February and 25% lower than in March 2012. The main consumer of toluene in Russia in March 2013 was the Zagorsk paint factory, which purchased 980 tons (9% of gross deliveries). In addition, 630 tons were bought by Obninsk Oil & Gas' (using toluene as the high-octane additive for motor fuels) and 600 tons by Biysk Oleum Plant. In the first quarter in 2013, total rail deliveries to domestic consumers accounted for 29,990 tons which is 16% down on 2012. In the first quarter this year Russian toluene production totalled 83,710 tons against 87,700 tons in 2012.



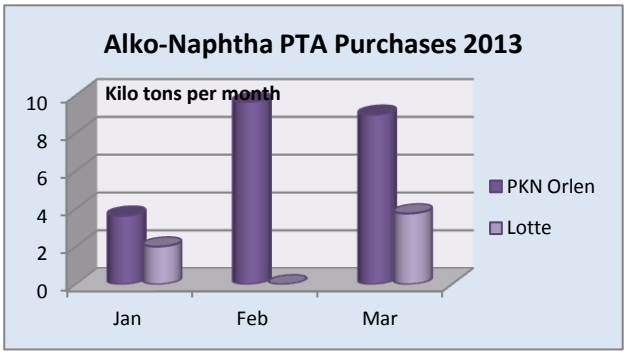

## Russian phthalic anhydride, Q1 2013

Russian phthalic anhydride exports rose 13% in the first quarter to 20,100 tons from total production of 27,600 tons. Lower sales of phthalic anhydride on the domestic market due to contractual complications allowed Kamteks-Khimprom to export more product. China was the main destination of Russian exports.

Volumes of production of phthalic anhydride in Russia in March amounted to 10,160 tons which was 26% up on February. The increase in production was due to a seasonal increase in demand. Kamteks-Khimprom produced 9,040 tons in the first quarter whilst Gazprom Neftekhim Salavat produced 1,120 tons.

## PTA duties-Russia, Belarus and Kazakhstan

The Council of the Eurasian Economic Commission for Europe (ECE), which controls export/import duties for Russia, Belarus and Kazakhstan, has decided to establish the rate of customs duty for PTA and its salts at 0% from 1 May 2013 to 30 April 2014 inclusive. The main importer of PTA into the Eurasian Economic Area is Alko-Naphtha at Kaliningrad. Thus far this year the company has purchased most of its PTA requirements from PKN Orlen. Other PTA importers affected the Senezh polymer plant near Moscow, and also Mogilevkhimvolokno in Belarus.



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

| *Producer* | *Jan-Mar 13* | *Jan-Mar 12* |
|---|---|---|
| Ufaorgsintez | 18.9 | 18.8 |
| Kazanorgsintez | 18.3 | 17.8 |
| Samara | 21.3 | 18.4 |
| Omsk Kaucuk | 16.1 | 17.0 |
| Total | 74.5 | 72.0 |

### Russian phenol, Q1 2013

Russian producers of phenol sold 11,200 tons in March, almost 20% higher than February. The maximum increase in production in March took place at Samaraorgsintez, rising 15% to 7,300 tons. The company also signed a significant contract for acetone in March.

Russian phenol production rose 3% in the first quarter to 74,500 tons. Of this total Samaraorgsintez produced 21,300 tons, up 16% against last year and helped by export activity. Of the other producers only Omsk Kaucuk reduced production.

## Synthetic Rubber

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

| **Domestic** | **2011** | **2012** |
|---|---|---|
| Commodity Rubber | 17.7 | 12.9 |
| Speciality Rubber | 2.2 | 1.5 |
| Thermoplastic elastomers | 2.4 | 2.5 |
| Total | 22.3 | 16.9 |
| **Exports** | **2011** | **2012** |
| Commodity Rubber | 19.8 | 16.6 |
| Speciality Rubber | 8.5 | 7.1 |
| Thermoplastic elastomers | 0.4 | 0.5 |
| Total | 28.6 | 24.3 |

### SIBUR rubber division 2012

SIBUR's revenues in 2012 from synthetic rubber sales dropped 19.3% 41.134 billion roubles after totalling 50.971 billion roubles in 2011. Domestic sales accounted for 41.0% of total synthetic rubber revenues by SIBUR in 2012, with the 59.0% export share being divided amongst a wide range of destinations.

The decline in performance was caused primarily by lower revenues from sales of commodity rubbers which account for the largest proportion of group sales. Revenues for commodities were affected by a number of factors, including the stagnation in demand on key markets and the price correction for the majority of synthetic rubber grades. Prices for natural rubber, which is a benchmark for several grades of synthetic rubber, declined on average by more than 30% in 2012. In 2012, the effective average selling price for commodity rubbers fell by 10.7% against 2011. The decrease was attributable to stagnant demand from tyre producers, a decrease in prices for butadiene.

In addition to the above factors SIBUR reported a decline in synthetic rubber sales due to feedstock shortages, partly affected by Togliattikaucuk's unscheduled shutdown in April-May. For commodity rubbers domestic sales accounted for 43.7% of total commodity rubber revenue, while 56.3% was attributable to export sales. Commodity rubbers were mostly affected by the downturn, with revenues dropping 21.5% to 29.473 billion roubles. Sales volumes of commodity rubbers dropped by 12.0% in 2012 while production declined by 1.0%. At the end of 2012 SIBUR reported higher commodity rubber inventories at our regional warehouses on expectations that the market environment would improve in 2013.

**Krasnoyarsk Synthetic Rubber Plant 2012**

Krasnoyarsk Synthetic Rubber Plant, the country's largest producer of butadiene-nitrile rubbers and a member of SIBUR, achieved a net profit of 6.53 million roubles in 2013, against a loss of 35.570 million roubles in 2012. The company's revenue last year grew by 14% to 1.346 billion roubles. The increase was due to an increase in production. Krasnoyarsk Synthetic Rubber Plant delivered 40 tons of nitrile rubber to Yong Thai Rubber in January.

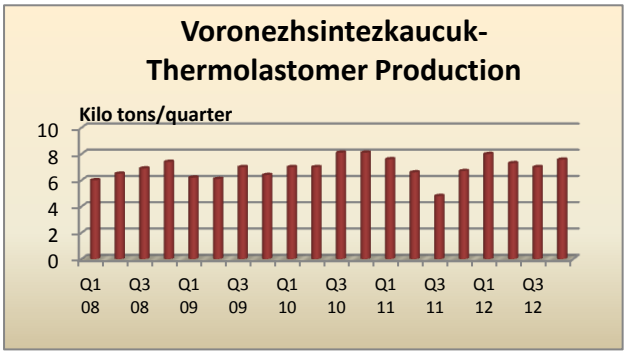
SIBUR discontinued a product swap arrangement in 2012, where it used third-party capacity to produce polyisoprene rubbers from the group's own isoprene. This decision was taken due to tight spreads between feedstock and end-product prices reduced the scheme's economic rationale. The Russian domestic market experienced a shortage of certain types of commodity rubbers in 2012 that SIBUR previously bought for resale. This was attributable to an undersupply of butadiene-based feedstock as a result of the long-term unscheduled shutdown at Stavrolen.

### SIBUR-specialty rubbers 2012

In addition to commodity rubbers SIBUR's revenues from specialty rubber sales dropped in 2012, falling by 18.6% to 8,677 roubles from 10.664 billion roubles in 2011. This fall was primarily due to lower average selling prices and to a smaller extent lower sales volumes. The effective average selling price for specialty rubbers declined by 15.2% in 2012 driven by market prices for butyl rubber and nitrile-butadiene rubber on key export markets in China and other Asian countries.

In terms of sales volumes SIBUR's specialty rubber sales volumes fell 4.0% in 2012, production declined by 2.0% whilst higher inventories were recorded at the end of the year due to higher balances of goods-in-transit on the

way to China. The decline in production was primarily attributable to lower butyl rubber production as a result of the unscheduled shutdown at the Togliatti site in April 2012. However, the expansion of nitrile-butadiene rubber production at the Krasnoyarsk plant did help compensate for lower butyl rubber. SIBUR's domestic-export ratio for speciality rubbers leans heavily towards exports; in 2012 82.3% of specialty rubber revenues were derived from exports.




### New thermoplastic elastomer plant close to start-up

SIBUR hopes to start the new thermoplastic elastomer plant at Voronezhsintezkaucuk in the near future, although this is more likely to be June rather than May. The project was about 99% complete at the end of April and equipment tests have already been made. Previously the company planned to start production in the first quarter this year, but delays have been met in the commissioning and start-up stages.

The capacity of the new plant stands at 50,000 tpa and increases the total capacity of Voronezhsintezkaucuk to 85,000 tons. The value of the investment is $3.9 billion. The increase in capacity will allow SIBUR to take a strong position in the domestic market whilst also being capable of exporting part of the output.

**Russian Chemical Exports to China (unit-kilo tons)**

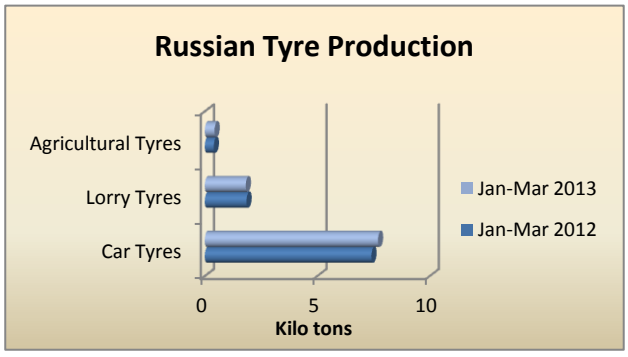
| *Product* | *Jan-Mar 13* | *Jan-Mar 12* |
|---|---|---|
| HDPE | 0.8 | 0.0 |
| LDPE | 14.9 | 34.7 |
| n-butanol | 22.6 | 22.3 |
| iso-butanols | 17.8 | 19.3 |
| Phthalic Anhydride | 6.1 | 4.4 |
| 2-EH | 1.1 | 3.3 |
| PP | 2.0 | 5.7 |
| Acrylonitrile | 0.0 | 6.0 |
| Caprolactam | 28.8 | 52.1 |
| Polycarbonate | 6.1 | 6.3 |
| Styrene | 1.3 | 3.3 |
| Orthoxylene | 0.0 | 1.4 |
| Acetone | 4.4 | 3.3 |
| Epichlorohydrin | 0.0 | 0.0 |
| Bisphenol A | 7.5 | 9.6 |
| Polyamide | 8.9 | 9.5 |

Voronezhsintezkaucuk produces more than 30 kinds of rubber, and is one of Russia's largest producers. TEP sales volumes grew by 5.1% in 2012 following an increase in production by 6.8%, which was partially offset by inventory accumulation. The growth in production volumes was primarily attributable to higher capacity utilisation rates on the back of favourable market environment. The effective average selling price for TEP increased by 2.0% due to stronger demand from end-customer industries in Russia and better selling terms achieved on long-term contracts. In 2012, domestic sales accounted for 82.7% of total TEP revenues.

Domestic demand for TEP is expected to rise rapidly in the next decade. The Russian government has recently emphasised the application of polymer-bitumen binders (PBB) on federal roads. In order to meet demand, Gazprom-Neft plans to increase the production of bituminous materials to 2.5 million tpa and aims to take about 30% of the Russian market. Gazprom Neft, which produces polymer binders at the Omsk refinery, is developing a similar plant at the Moscow refinery in partnership with Total. Other producers of polymer binders are considering investments in this sector including Rosneft and TNK-BP.

### Russian tyre news

Bridgestone plans to build a plant for the production of tyres for passenger cars worth 12.5 billion roubles in the industrial zone Volga in the Ulyanovsk region. Bridgestone has signed an investment agreement with a co-investor Mitsubishi, and with the government of the Ulyanovsk region and Ulyanovsk Region Development Corporation. Production is scheduled to start in the first half of 2016. It is estimated that production should reach 12,000 tyres per day by the second half of 2018.




Tatneft in January-March 2013 produced 3.233 million tyres, which is 7.2% more than in the first quarter last year. Production was broken down into 2.176 million passenger car tyres (up 7.1%), 817,600 truck tyres (down 4.5%), 55,700 agricultural tyres (13% increase). Production of truck tyres increased by 2.4 times to 180,500 pieces. In 2013, Tatneft plans to produce 14.9 million tyres, which would amount to around 15% higher than last year.

Methanol & related chemicals

| Russian Methanol Production (unit-kilo tons) | | |
|---|---|---|
| ***Producer*** | ***Q1 13*** | ***Q1 12*** |
| Shchekinoazot | 97.2 | 97.2 |
| Sibmetakhim | 221.2 | 196.3 |
| Metafrax | 269.0 | 266.0 |
| Akron | 21.7 | 18.5 |
| Azot, Novomoskovsk | 73.2 | 78.9 |
| Angarsk Petrochemical | 1.8 | 6.8 |
| Azot, Nevinomyssk | 33.6 | 35.4 |
| Togliattiazot | 197.0 | 162.1 |
| Totals | 914.7 | 861.2 |

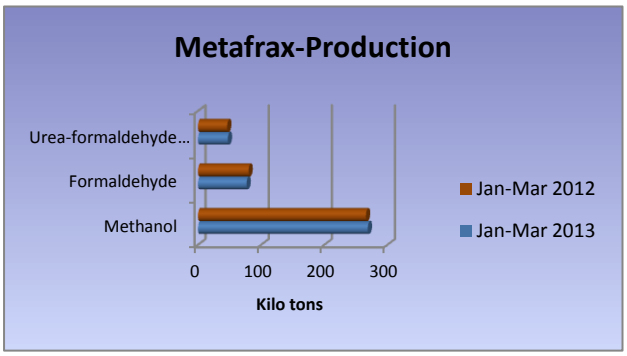
### Russian methanol market, Q1 2013

Production of methanol in Russia rose from 861,200 tons in the first quarter last year to 914,700 tons in 2013. Domestic demand has been stable overall, although producers have cited unfavourable weather conditions in Russia and in Europe as a factor affecting sales in the first quarter.

Production rose only 3% in March over February to 307,000 tons, but would traditionally be expected to be higher in March under normal conditions. Growth in consumer activity in the second half of April was seen in the formaldehyde sector although this was partially offset by a reduction in the consumption of methanol by gas companies.

High international prices helped increase demand for Russian methanol in March, with exports rising 14% over February to a total of 125,600 tons. Metafrax, Sibmetakhim, Shchekinoazot, and TOMET (Togliattiazot's methanol division) accounted for about 90% of exports in the first quarter. Finland remains the main market outlet for Russian methanol exports, followed by Poland and Slovakia. In April TOMET exported 11,000 tons of methanol from Togliatti through the Odessa terminal to Turkey, 990 tons to Romania and 4,000 tons in Israel.

Shchekinoazot's methanol plant is operating normally after some maintenance in the first quarter. There was a short maintenance outage in order to check the condition of the lining of the reactor and the secondary reforming catalyst recovery. In January there was an unscheduled process unit shutdown which affected output slightly. The 450,000 tpa methanol plant was launched in October 2011 replacing the outdated 365,000 tpa plant. Production by Shchekinoazot totalled 38,528 tons in March against 34,854 tons in February.




### Metafrax, Q1 2013

Metafrax increased revenues from sales by 37% in the first quarter this year to 3.661 billion roubles. Increased revenues were attributed mainly to higher product prices. In physical terms methanol production grew by 1.1% and amounted to 269,000 tons. Formaldehyde fell by 4.1% to 76,900 tons whilst the production of urea formaldehyde concentrate rose 2.3% to 47,300 tons. In the first quarter Metafrax produced 5,900 tons of pentaerythritol which is 4% lower than in 2012.

The share of exports in total sales for Metafrax comprised 40.3% in the first quarter compared to 38.5% last year. The first quarter net profit totalled 813 million roubles, an increase of 1.7 times over 2011. Profits benefited from full utilisation and stable demand for products, whilst some gains were achieved from foreign exchange activity.

| Russian Methanol Domestic Sales 2013 (unit-kilo tons) | | | |
|---|---|---|---|
| ***Producer*** | ***Jan*** | ***Feb*** | ***Mar*** |
| Shchekinoazot | 2.5 | 4.5 | 5.7 |
| Sibmetakhim | 38.7 | 40.5 | 41.0 |
| Azot Novomoskovsk | 9.6 | 9.9 | 9.0 |
| Azot Nevinomyssk | 3.1 | 2.5 | 1.7 |
| Togliattiazot | 37.9 | 33.0 | 26.5 |
| Shchekinoazot | 2.5 | 4.5 | 5.7 |
| Others | 2.0 | 1.4 | 1.6 |
| Total | 128.4 | 122.9 | 120.3 |

In the next few years, Metafrax plans to introduce additional facilities for the production of urea-formaldehyde concentrate, and to expand its units for formaldehyde production its two sites at MetaDynea and Orekhovo. Metafrax last year consolidated 100% of MetaDynea in the Perm region and Karbodin in the Moscow region, buying shares from its partner Dynea Chemicals Oy. In future, Karbodin is expected to be merged with MetaDynea.

Aside a urea project which is still under review the main investment focus of the company is on methanol and expanding the capacity by about 10%. Metafrax also wants to reconstruction of the production of pentaerythritol. For 2012 Metafrax increased its net profit by 1.8 times to 2.09 billion roubles. Revenues increased by 20.5% over 2011 to 11 billion roubles, with exports rising 18% to 4.23 billion roubles, and domestic sales rising 24% to 6.57 billion roubles. Revenue from sales of methanol comprised 52%. Cost of sales increased by 8% to 6.84 billion roubles. Metafrax is 66.05% owned by Lipanet Ltd in Cyprus and 19.46% by MIRBAS Group in Panama.

### Ammonium methanol project

Another $190 million is to be required for the Ammonium project at Mendeleevsk in addition to the $140 million already loaned by the VEB bank. The extra funds are required to meet rising costs, and partly will be used to construct buildings and communications. Although product prices for ammonia, urea and methanol are favourable the high capital costs involved in construction will mean that payback is unlikely before eight to ten years.

The VEB state bank is financing the construction of the complex in conjunction with foreign banks, including Sumitomo Mitsui Banking Corporation, the Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Corporate Bank, Ltd., JP Morgan Limited and Citi. A corresponding loan agreement for a period of five years at $500 million was signed in September 2011. Another $1 billion to 14.5 years for equipment was provided Japan Bank for International Cooperation (JBIC).

**Ammonium Chemical Project, Mendeleevsk**
***(unit-kilo tons per annum)***

| *Product* | *Option 1* | *Option 2* |
|---|---|---|
| *Ammonia* | *717.5* | *455* |
| *Methanol* | *0* | *238* |
| *Urea* | *717.5* | *717.5* |

Soyuzkhimproekt is the general foreign contractor for the project on behalf of the Japanese consortium including Mitsubishi Heavy Industries (MHI), Sojitz Corporation and China National Chemical Engineering Corporation (CNCEC). In addition to Soyuzkhimproekt, another Russian company OAO NIIK (Research and Design Institute of urea and organic synthesis products at Dzerzhinsk) is engaged in engineering design.

Construction of the plant at Mendeleevsk began in October 2011. Production is scheduled to start in the fourth quarter of 2015, but may easily be delayed. The complex comprises a combined unit for the production of ammonia and methanol with a capacity of 717,500 tpa of ammonia (without methanol) or 455,000 tpa of ammonia and 238,000 tpa of methanol. A urea plant with a capacity of 717,500 tpa will also be launched.

### Fosagro Q1 2013

Fosagro's production of fertilisers in Q1 2013 increased by 17.6% over the same period last year whilst the group's total sales rose by 24.7%. From its Cherepovets location sales of phosphate fertilisers and feed phosphates increased in the first quarter by 21.3%, while production increased by only 9.2%.

**Fosagro Production (unit-kilo tons)**

| *Product* | *Q1 13* | *Q1 12* |
|---|---|---|
| Ammonia | 263.7 | 255.4 |
| Urea | 233.5 | 120.6 |
| Phosphate fertilisers | 1178.6 | 1079.4 |
| Nitrogen fertilisers | 346.3 | 216.9 |
| Ammonium nitrate | 118.7 | 91.8 |
| Aluminium fluoride | 7 | 6.6 |
| Phosphoric acid | 439.8 | 408 |
| Sulphuric acid | 1102 | 1128 |
| Sodium tripolyphosphate | 33.7 | 0 |

Urea production rose almost twice due to the higher utilisation of the new plant introduced last year at Cherepovets, whilst the group has restarted the production of sodium tripolyphosphate. In 2012 FosAgro increased its net profit by 9% to 24.5 billion roubles. Revenue rose 5% to 105.3 billion roubles, whilst the EBITDA margin was 33% compared with 35% in 2011. Commissioning the new complex for the production of urea at Cherepovets increased sales volumes and allowed the group to increase sales of urea by nearly a quarter. Group revenues from urea rose 68% in 2012 to 8.394 billion roubles.

**Akron Production (unit-kilo tons)**

| *Product* | *Q1 13* | *Q1 12* |
|---|---|---|
| Ammonia | 482 | 475 |
| Urea | 152.0 | 125.3 |
| Methanol | 21.6 | 18.5 |
| Formaldehyde | 34.1 | 32.5 |
| Urea-formaldehyde resins | 42.6 | 39.4 |
| Calcium carbonate | 52.0 | 78.6 |
| Hydrochloric acid | 36.5 | 35.7 |

### Akron Q1 2013

Akron, based at Novgorod in north west Russia, increased production of nitrogen fertilisers by 9% in the first quarter to 752,600 tons. Output of urea increased by 21% up to 152,000 tons whist ammonia production increased by 2% to 482,400 tons. Net profit for Akron in the first quarter of 2013 fell by 12 times to 209.5 million roubles, attributed to higher gas prices. Revenues rose 3% to 9.1 billion roubles. Operating profit was 2.75 billion roubles, which is 16% less than the same period last year. The reason for the decline was the increase in the cost of sales by 15.5% to 4.92 billion roubles.

## Organic chemicals

### Russian butanols, Q1 2013

Russian butanol exports amounted to 10,700 tons in March, 70% lower than February 2013 and 11% lower than in March 2012. The share of normal butanols comprised 42% in March and isobutanol 58%. The main supplier of butanols was Gazprom Neftekhim Salavat, accounting for 73% of gross exports. SIBUR-Khimprom accounted for 27% of exports.

| Russian Butanol Production (unit-kilo tons) | | |
|---|---|---|
| ***N-Butanol*** | | |
| ***Producer*** | ***Q1 13*** | ***Q1 12*** |
| Angarsk Petrochemical | 9.5 | 8.5 |
| Evrokhim | 3.7 | 5.2 |
| Gazprom Neftekhim Salavat | 28.4 | 19.5 |
| SIBUR-Holding | 6.5 | 8.2 |
| Total | 48.1 | 41.4 |
| | | |
| ***Isobutanol*** | | |
| ***Producer*** | ***Q1 13*** | ***Q1 12*** |
| Angarsk Petrochemical | 5.2 | 4.3 |
| Gazprom Neftekhim Salavat | 11.9 | 8.7 |
| SIBUR-Holding | 11.9 | 12.1 |
| Total | 29.0 | 25.0 |

For the first quarter in 2013 Russian exports totalled 53,100 tons which is 51% up on 2011. The increase was due to the high demand for butanols and increased production in Russia.

Russian DOP production increased 11% in the first quarter this year to 16,670 tons. The reason for the increase was due to the extended idle time at Gazprom Neftekhim Salavat in the early part of 2012. Whilst Gazprom Neftekhim Salavat and Kamteks-Khimprom increased production in March the Roshalsky Plasticizer Plant reduced output by 33% due to a lack of phthalic anhydride. Production capacity for DOP at the Ural factory of Plasticizers remained idle.

In late April, Gazprom Neftekhim Salavat stopped DOP production for scheduled maintenance. The expected downtime for maintenance will last for around a month. In late April, Gazprom Neftekhim Salavat also stopped for scheduled maintenance of the plants for butanols and phthalic anhydride, similarly lasting for about a month.

### Russian MEG Q1 2013

MEG imports into Russia rose to 4,000 tons in March against only 60 tons in February due to the resumption of imports by Alko-Naphtha at Kaliningrad. At the same time exports of MEG from amounted to 5,700 tons in March which is almost 20% down on February. The main direction of Russian MEG export shipments remains Belarus and the CIS whilst the main suppliers remain SIBUR-Neftekhim and Nizhnekamskneftekhim. In March SIBUR-Neftekhim sold 4,000 tons on foreign markets accounting for about 70% of gross exports. The remaining 30% was sold by Nizhnekamskneftekhim. Belarusian consumers purchased 5,300 tons of product delivered from Russia. Kazakh consumers purchased 174 tons in March reducing purchases relative to February by 75%.

### Gazprom Neftekhim Salavat-acrylic acid plant starts construction

Construction of the acrylic acid and acrylates plant at Salavat has entered the stage of detailed design. To date preparations have been completed for extended basic engineering, project documentation, and a master plan for the construction site. The technology has been supplied by Mitsubishi Chemical Corporation (MCC). The new facility will allow Gazprom Neftekhim Salavat to produce raw materials for superabsorbent acrylic dispersions, acrylic paints, etc. It will include the unit for production of crude acrylic acid capacity of 80,000 tpa, butyl acrylate with a capacity of 80,000 tpa and glacial acrylic acid capacity of 35,000 tpa.

The local populace in the Salavat area have started collecting signatures against the construction of the complex. Environmentalists believe that the company was required to assess the potential damage and to hold public hearings on the issue, neither of which has taken place. The start of the production complex is targeted for the fourth quarter of 2015.

## Other products

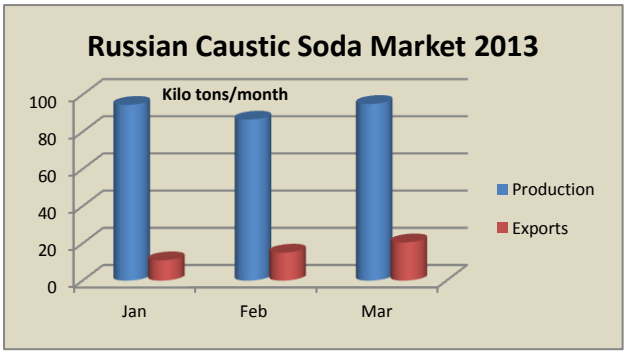
| SIBUR-Neftekhim-Chlorine Division | |
|---|---|
| Product | Capacity (ktpa) |
| Caustic Soda | 82 |
| Caustic Soda Solid | 1.7 |
| Liquid Chlorine | 105.3 |
| Sodium Hypochlorite | 18.7 |
| EDC | 96 |
| VCM | 36.4 |
| PVC | 41.8 |
| | |

### SIBUR closes chlorine division at Dzerzhinsk

SIBUR-Neftekhim has completed its cessation of production activities at the Kaprolaktam division at Dzerzhinsk. Design capacities of the closed units are shown opposite, although it should be emphasised that most of these plants have not run at full utilisation levels for many years.

The plant for the production of ethylene chlorohydrin (with a design capacity of 22,400 tpa), and the plant for coolants and brake fluids (with a design capacity of 46,000 tpa and 22,800 tpa respectively) were transferred to new owners Kazan Synthetic Rubber Plant and Antifreeze-Synthesis. These plants will operate within the perimeter of the industrial park Oka-Polymer, created at the site of the former Kaprolaktam division at Dzerzhinsk.

The process for eliminating hazardous facilities will be started by SIBUR between April and June. After that it will be possible to dismantle equipment, pipelines, buildings and structures. The main technological chlorine production plant was built initially in the 1930's and was redeveloped by the early 1970's. The transition to the industrial park Oka-Polymer was started in mid-2012.




### Russian caustic soda cartel decision under review

The Arbitration Court of Appeal will review complaints made by major Russian chemical companies and groups to address the conclusions of the Federal Antimonopoly Service (FAS) regarding a cartel on caustic soda. A number of companies are involved including the Galopolymer group, SIBUR, Sayanskkhimplast, Nikokhim and Evrokhim. In December 2011, FAS found these companies guilty of collusion for the market of caustic soda. In court, the defendants' lawyers said that the company's actions are explained solely by economic and market factors rather than price fixing.

Russian caustic soda production totalled 276,100 tons in the first quarter this year against 273,800 tons in the same period last year. The volume of export shipments of caustic soda from Russia in March rose to 20,540 tons, equivalent to a quarter of domestic production. Around a quarter of exports consist of solid caustic. The largest exporter of caustic soda from Russia remains Kaustik at Volgograd, part of the Nikokhim group.

### Knauf-Tyumen

Knauf in the Tyumen region is completing the expansion of its plastics plant to 45,000 tpa from 20,000 tpa, and this should be completed in mid-2013. The plant will produce insulating materials based on staple fibre. Raw materials are largely being imported for production, whilst product from the plant will be sold to markets in Kazakhstan and Central Asia. The new plant is being built on the site of the former enterprise Tisma, which was acquired in 2011. Between 120 to 150 jobs will be created from the investment. At present, the international group Knauf manages 14 manufacturing plants in Russia, producing more than 150 types of materials, including flame retardants.

### Renova-bipolymers

A subsidiary of Russian holding company Renova, entitled Rotek, has signed an agreement to develop a project for biopolymers in Russia with Purac, a biochemical subsidiary of Dutch holding CSM. The agreement involves the study of the possibility of a Russian production of biopolymers lactic acid (with capacity of 100,000 tpa) followed by processing into biodegradable plastics. The estimated investment in the project is expected to exceed 16 billion roubles.

### Kuibyshevazot-Linde jv

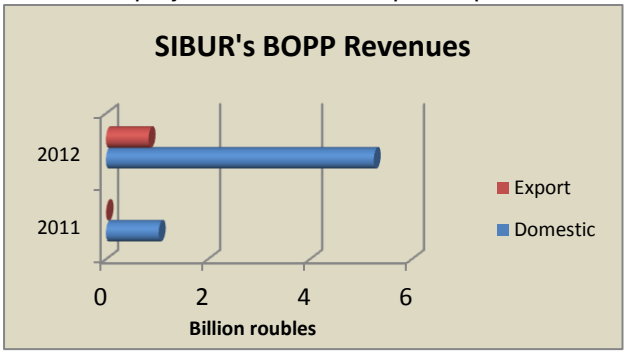
The Board of Kuibyshevazot has approved the creation of a jv for the production of ammonia and hydrogen with Commercium Immobilien und Beteiligungs-GmbH (part of the Linde Group). The jv will be entitled Linde Togliatti Azot. Kuibyshevazot will receive 50% of the jv with nominal value of 1 million roubles, and the possible further increase in the nominal value of shares to 1.5 billion roubles. The new plant is expected to be commissioned in 2016.

### SIBUR-BOPP plant at Tomsk to start this year

SIBUR expects to start the new BOPP film plant at Tomsk this summer. The construction of the new BOPP plant at Tomskneftekhim is being undertaken at the same time as Biaksplen is constructing new plant at Novokuibyshevsk. This will add 68,500 tpa of capacity for BOPP from the two plants. With the introduction of new facilities at Tomsk and Novokuibyshevsk, polymer films in Russia may enter a state of surplus.

Last year Biaksplen (part of SIBUR Holding) completed the reorganisation by merger of Biaksplen NK (Novokuibyshevsk), Biaksplen K (Kursk), Biaksplen M and Rostrubplast (both Moscow Region). Total capacity of the combined company for the production of BOPP films is currently 111,000 tpa.

Biaksplen also produces non-oriented three-layer coextruded polypropylene (CPP), stretch, twist, and polyethylene film. The Novokuibyshevsk branch of Biaksplen produces dressing materials to protect steel pipes oil and gas industry and polyethylene pipes. This area may be reduced after start-up of the new BOPP plant. After the project has been completed production capacity for BOPP film for Biaksplen and SIBUR will rise to 179,000 tpa, providing an important outlet for domestic polypropylene consumption.




### BASF completes modernisation of Pololsk plant

BASF has announced the completion of the modernisation of the main line for the production of dry building mixtures at Podolsk. BASF Building Systems is a subsidiary of the concern for the production of construction chemicals in Russia and the CIS. The main line was launched in operation in 2008. Mixing and dosing of binders, fillers and special additives for the production of compounds is carried out automatically.

BASF plans to further expand its presence in the market, investing in local production of construction chemicals. The company plans to launch a second production of chemical additives in the concrete in the Volga Federal District.

### Alabuga SEZ

The Special Economic Zone (SEZ) of Alabuga has accepted a resident application from masterbatch producer Gabriel-Chemie from Austria. The company intends to launch the production of masterbatches and additive in the Alabuga SEZ. As of early 2013, the Alabuga SEZ had registered a total of 33 residents with declared investments of 85.600 billion roubles. Priority product lines include the production of cars and car parts, petrochemicals, instrumentation, consumer goods. Some of the residents include 3M, Saint-Gobain, Air Liquide, Rockwool, Preiss-Daimler Group, etc.

Air Liquide is an important player in the Alabuga SEZ, having launched the plant for the production of liquid oxygen and nitrogen in 2010. The capacity of this plant is 40 tons per day of gaseous oxygen, which are supplied by pipeline on the same site to Price-Daimler-Tatneft Alabuga Glass. In May 2012, Air Liquide launched a plant for the production of liquid oxygen and nitrogen with a capacity of 200 tons of liquid oxygen and nitrogen per day.

Other new projects being undertaken at Alabuga include the construction of a plant for the production of high modulus carbon fibre. The plant's products will be used in the nuclear industry. Austrian company Gabriel-Chemie plans to create a production unit for masterbatches and additives. These products are used for colouring or making special properties of plastic products in the manufacture of packaging for food and beverage, general purpose plastic packaging and other products.

## Ukraine

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

| *Product* | *Jan-Mar 2013* | *Jan-Mar 2012* |
|---|---|---|
| Benzene (-95%) | 35.4 | 38.3 |
| Caustic Soda | 10.6 | 40.1 |
| Ethylene | 0.0 | 53.2 |
| Methanol | 43.7 | 46.3 |
| Polyethylene | 0.0 | 27.5 |
| Polypropylene | 0.0 | 20.8 |
| Polystyrene | 1.0 | 1.2 |
| PVC | 0.0 | 44.1 |
| Propylene | 0.0 | 21.3 |
| Soda Ash | 127.0 | 128.4 |
| Titanium Dioxide | 33.9 | 37.7 |
| Toluene | 1.7 | 1.7 |

### Karpatneftekhim-VAT and outstanding debts

The Ukrainian cabinet has approved a memorandum with LUKoil to resume work at Karpatneftekhim in the near future, although as yet there is no precise date. Karpatneftekhim's entire production chain has been idle since last September due primarily to a dispute over VAT repayments from the Ukrainian government. The government is reported to have resolved the issue of 980 million hryvnia in VAT and at the same time introduced duties on PVC which LUKoil had been requesting.

The Ukrainian Cabinet of Ministers has approved a decision to set quotas on imports of light and heavy distillates to produce olefins to Karpatneftehim. As a result in 2013, the company will be able to import up to 255,000 tons of light distillates without paying customs taxes. The quota on heavy distillates has been set at 170,000 tons.

### Ukrainian PVC market

LUKoil has asked the Ukrainian government to establish import duties on PVC in order to make production at Kalush profitable. Last year the Ukrainian market for PVC contracted after the many of the projects associated with the Euro 2012 football championships had been completed in 2011. PVC profile production in Ukraine showed an increase in 2012 of 2.3%, but the production of PVC pipes and other products recorded declines. Consumption of PVC in Ukraine decreased in 2012 by 13% to 129,600 tons, and imports dropped by 18% to 93,000 tons. On the one hand, this is due to the presence on the market of domestic producers, on the other a decrease in processing of end applications. Deliveries of E-PVC increased by 5%, but microsuspension decreased by as much as 10-fold.

**Ukrainian PVC Market (unit-kilo tons)**

| | *2012* | *2011* |
|---|---|---|
| Production | 121.1 | 82.9 |
| Exports | 85.3 | 47.4 |
| Imports | 93.8 | 114.4 |
| Market Balance | 129.6 | 149.9 |

Last year, imports from BorsodChem rose by 39% to 21,190 tons. The main volumes imported into Ukraine from BorsodChem went to companies such as Nafta-Him and Prominvest Plastic, 9,750 tons and 5,580 tons respectively. Oxy Vinyls increased imports by 15% to 14,840 tons, and Shintech by twice up to 1,400 tons. Galich Cable imported 12,000 tons of PVC from Anwil and Spolana in 2012. In January 2013 the S-PVC from abroad rose to 9.5 tons, which is 2.5 times more than in the same period of 2012. Despite the fact that

### Ukrainian phthalic anhydride

Phthalic anhydride imports into Ukraine amounted to 780 tons in March, 2.3 times higher than the same period last year and 18% higher than in March 2012. The largest buyers Lizinvest (34% of total imports), a trading company Impress (26%), and a manufacturer of plasticizers Polikem (16%). Other buyers included paint producer Impulse (15%) and trading company KHIMTEKS-trade (8%). The main suppliers of phthalic anhydride included Kamteks Khimprom in Russia (73% of total imports) and Lakokraska at Lida (26%). Imports totalled 1,640 tons in the first quarter this year, 24% more than in the same period of 2012.

### Ukrainian methanol market

The introduction of the excise tax on the purchase of methanol in Ukraine continues to limit purchases by domestic product processors. In March, Ukraine imported only 443 tons of Russian methanol, 62 tons less than February. Consumers of Russian methanol in Ukraine remain methanol largely gas companies, in particular, Ukrtatnafta. The only Russian supplier of methanol to Ukraine remains Evrokhim which is not required to pay an anti-dumping duty on shipments into Ukraine.

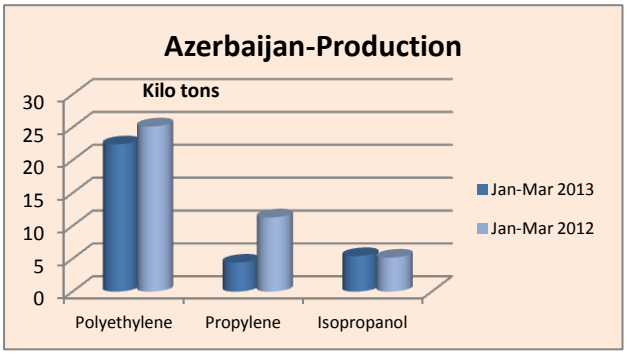
Karpatneftekhim idle from September 2012, stocks of PVC from Kalush were still being sold in January of this year.

### Ukrainian titanium dioxide expansion

Crimean Titan will receive around $300 million from its holding owner Group DF to upgrade and expand its titanium dioxide plant. A feasibility study is underway to create additional capacity, consisting of 240,000 tpa of titanium dioxide. This would comprise about 4% of the world market. In the first two months in 2013 Ukraine exported 22,170 tons of titanium dioxide against 23,400 tons in the same period last year. Exports currently account for around 80% of Crimean Titan's sales.

The Ukrainian government is in discussions to sell a 92.75% stake in the second titanium dioxide domestic producer Sumykhimprom for a price of $368.7 million. The potential buyer is the Group DF, which already owns Crimean Titan. Group DF has long sought to acquire Sumykhimprom, already owning the raw material base in the Irshansky Volnogorsky mining companies. Sumykhimprom is 100% owned by the state.

## Central Asia

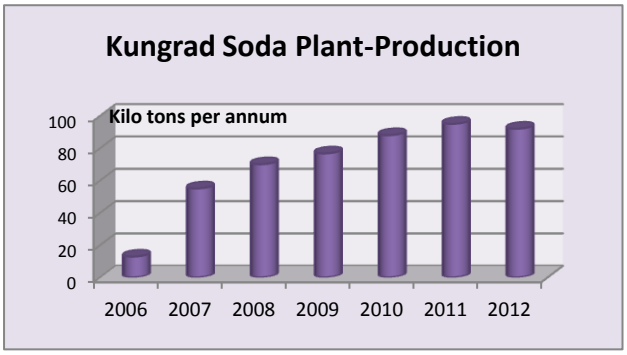



### Azerbaijan-chemical prodcution Q1 2013

Azerkhimya produced 11,300 tons of propylene in the first quarter and 7,200 tons of C4s, most of which was delivered to Russia. Overall chemical production in Azerbaijan rose 0.6% in the first quarter. In other product areas aluminium sulphate rose 65.6% to 18,900 tons, and isopropanol rose 4.9% to 5,400 tons. However, polyethylene production dropped 12.2% to 22,400 tons, whilst paints production dropped by 13.6% to 732,300 tons.

### SOCAR-urea project

SOCAR is evaluating plans to build a urea plant in Georgia after reaching agreement with South Korean company Samsung Engineering. The contract is worth €500 million, and adds to the project planned by SOCAR for Azerbaijan. With the launch of the two plants, Azerbaijan will become the largest exporter of urea and ammonia not only in the Black Sea, but also in the Mediterranean basin. The plant in Georgia will be different from the Azeri counterpart in that the final product will be ammonia.




### Uzbek soda ash capacity to increase

Uzbek state holding Uzkimesanoat, which controls Kungrad, has agreed with the Chinese company Citic to increase the capacity of the soda ash plant at Kungrad from 100,000 tpa to 200,000 tpa. The project construction period is intended to last two years into 2015, with the Chinese bank Eximbank providing finance of $77 million and the Fund for Reconstruction and Development of Uzbekistan providing $14.4 million.

The Kungrad Soda plant produced 92,000 tons of soda ash in 2012. Production started in 2006 when the plant produced 12,810 tons in that year. The Kungrad soda ash plant is the only plant for the production of soda ash in the Central Asian region. The Kungrad soda ash plant utilises local salt deposits Barsakelmes and Dzhamansaysk. The Barsakelmes salt deposits are is located 53 km from Kungrad and limestone deposits from

Dzhamansaysk are 250 km. Geological surveys have shown that proven reserves of these raw materials are sufficient to ensure the needs of the plant for more than 100 years.

### Uzbek examines prospects for methanol to olefins plant

Uzkhimprom continues to assess the prospects for constructing a methanol to olefins plant in the Bukhara region in Uzbekistan, after Honeywell considered the project possibilities in 2012. Around $1 billion would be required to invest in the construction of the complex, which would comprise 500,000 tpa of methanol and 190,000-200,000 tpa of light olefins. Other projects that might be added to these plans include 150,000 tpa of PVC and 90,000 tpa of caustic soda. Funding for the project will be funded by foreign loans and investment loans of the Fund for Reconstruction and Development of Uzbekistan and the Uzbek equity.

*Relevant Currencies*

*Czech crown. Kc. $1= 20.753. €1 = 25.833: Hungarian Forint. Ft. $1 = 229.448. €1 = 288.154: Polish zloty. zl. $1=3.414. €1 =4.280: Bulgarian leva: $1 = 1.5956. €1= 1.557: Romanian Lei. $1 = 3.555. €1= 4.463: Croatian Kuna HRK. $1 = 5.998. €1= 7.530: Ukrainian hryvnia. $1 = 8.07. €1 = 10.140: Rus rouble. $1 = 33.192. €1= 41.867*

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