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MONTHLY NEWS

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

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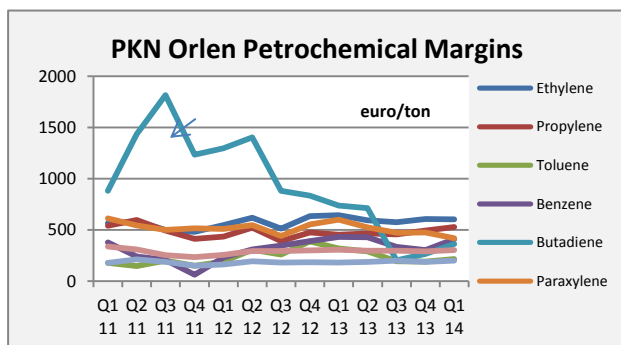
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CENTRAL & SOUTH EAST EUROPE

Petrochemicals



PKN Orlen, Q1 2014

PKN Orlen's operating profit amounted to zł 953 million in the first quarter which was higher by zł 43 million over the same period in 2013. The group encountered low refining margins although there was a slight improvement whilst results were helped partly by higher sales in petrochemicals. The EBITDA of the Orlen Group for the first quarter amounted to zł 776 million compared to zł 857 million in the same quarter in 2013.

Petrochemical margins improved slightly for most petrochemicals, aside small falls for ethylene and

paraxylene. Butadiene margins improved over Q4 in 2013, but as indicated in the graphic above still remain significantly down from the peaks achieved in 2011.

PKN Orlen's EBITDA (zł million)		
	Q1 14	Q1 13
EBITDA Total	776	857
Refining	112	207
Retail	234	123
Petrochemicals	532	672
Upstream	31	-6
Corporate functions	-133	-139

In the first quarter the EBITDA of the refining division amounted to zł 112 million against zł 207 million in the same period in 2013. Lower sales were partially compensated by higher sales on the Czech market after the acquisition of 16.3% shares in Ceska Rafinerska from Shell. The division's capital expenditures in the first quarter amounted to zł 271 million.

Orlen-refining

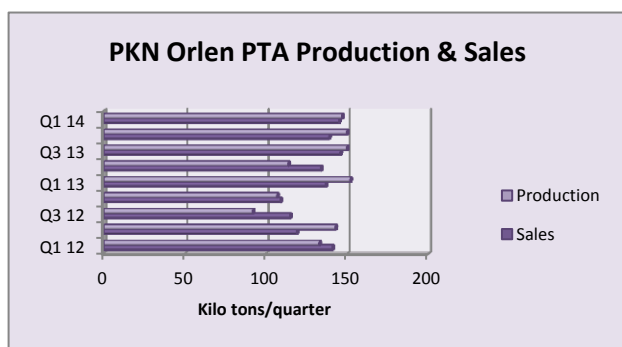
PKN Orlen is looking to give more sense to its Czech operations by taking control of state-owned oil pipeline company MERO and fuel distribution, fuel storage, and petrol station network owner ČEPRO. Ownership of the pipeline, storage, and distribution assets could make the margins on Česká Rafinérská's current loss-making Czech refinery look a bit better.

Orlen Group Refining Volumes (million tons)		
Producer	Q1 14	Q1 13
PKN Orlen	3.503	3.504
Orlen Lietuva	1.467	2.501
Unipetrol	1.125	0.896
Total	6.095	6.901

PKN Orlen is in talks to buy ENI's 32.4% stake in Ceska Rafinerska, which would give it full ownership after it also bought a 16% stake from Shell earlier this year for \$27 million. Last month PKN Orlen signed an annex with Rosneft to the agreement in June 2013 for crude oil deliveries to Unipetrol RPA. The annex provides an increase in the monthly supply of 50,000 tons of crude oil, effective from 1 April 2014 to 30 June 2016.

For the Orlen Lietuva refinery, which processed of crude over a million tons less in the first quarter this year the Lithuanian government has agreed to support the construction of a product pipeline from to the port of Klaipeda. Outstanding issues over rail rates, and the modernisation of railway lines have been resolved. PKN Orlen bought the Mazeikiu refinery in 2006, and now owns 100%.

The company uses three sales channels of fuel products, which are Lithuanian local market, exports land in



Latvia and Ukraine and the Polish and Estonia, as well as by sea to West Europe and the USA using the terminal Klaipedos Nafta. The refinery's imports from the Druzhba connection were stopped a few years ago and the pipeline remains unprofitable to be modernised.

PKN Orlen, chemical division Q1 2014

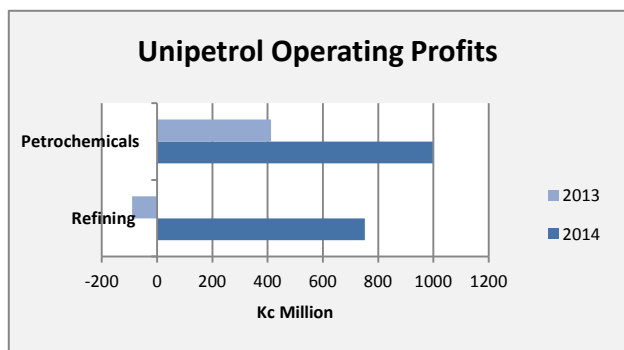
In the petrochemical sector PKN Orlen's EBITDA amounted to zł 532 million in the first three months compared to zł 672 million in the first quarter in 2013.

Higher sales on the Czech market and increased sales of fertilisers, PVC and PTA in Poland improved division's EBITDA by zł 50 million. Chemical sales increased by 4% in the first quarter, including 2% in Poland and 8% in Czech Republic. In Poland the sales increase came mainly in fertilisers which rose by 13% and PTA which rose by 6%. In the Czech market sales of polyolefins rose by 18% due to better market conditions. The PTA plant at Plock ran at 90% of capacity in the first quarter, and sales were more profitable due to the better margins on paraxylene.

In the first quarter capital expenditures in the petrochemical division amounted to zł 78 million. The most significant investments in this period comprised the modernisation of the furnace in the olefin unit II at Plock and design works related to the construction of the polyethylene III unit at Litvinov. The project for the construction of the gas power plant at Wloclawek has also been started.

Unipetrol's Petrochemical Sales (unit-kilo tons)

Product	Q1 14	Q1 13
Ethylene	44	38
Propylene	10	10
Benzene	55	53
Ammonia	60	55
Butadiene	16	16
HDPE	73	59
PP	68	61
C4	22	20



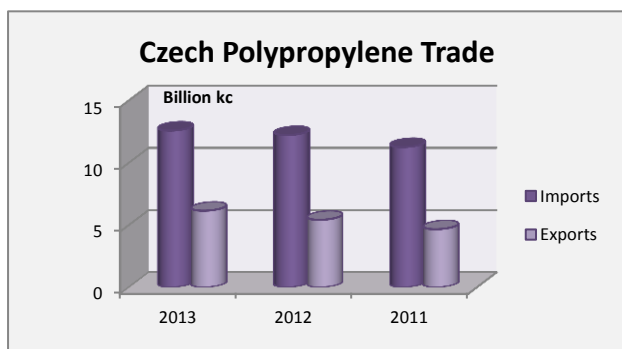
Unipetrol, Q1 2014

Unipetrol's refining division recorded an operating profit of Kc 752 million in the first quarter, whilst the petrochemical division again showed better results recording an operating profit of Kc 997 million. Unipetrol has reported net losses for the past three years including impairments on its refining assets, hurt by the overcapacity in Europe's refining sector. It plans to become profitable by investing \$1 billion in the coming years in plant upgrades and new projects that would more closely integrate its refining and petrochemical businesses.

Czech Monomer Exports (unit-kc million)

Product	Jan-Feb 14	Jan-Feb 13
Ethylene	240.483	117.53
Propylene	49.196	104.517
Butadiene	27.435	26.872

Unipetrol increased oil refining by 5% in the first quarter after capacity utilisation was increased to 83%. However, the company encountered worse refining margins compared to the first quarter in 2013. Higher utilisation of steam-cracker and polyolefin units facilitated an increase in monomer sales. The acquisition of Shell's 16.335% stake in Česká Rafinerska at the end of January was in line with Unipetrol's group strategy for the period 2013-2017 aimed at increasing the security of petrochemical feedstock supplies, and strengthening long-term presence on the Czech market.



Unipetrol-polypropylene

Despite the presence of polypropylene facilities at Litvinov, imports have been rising in recent years to meet internal demand particularly for grades which are not produced domestically. Unipetrol has been striving to introduce new grades to meet the demands of the packaging sector, but imports continue to rise. Last year the company launched a new product Mosten FT005, which significantly increases the processing performance of thermoformed rigid packaging, such as beverage cups, yoghurt pots and trays. Mosten FT005 is the result of intensive co-operation between

Unipetrol, its R&D centre Polymer Institute Brno (PIB) and Milliken.

Synthos not interested in investing in Lotos-Azoty project

Synthos has stated that it is not interested in participating in the Lotos-Azoty proposed petrochemical project as an investor, but would be interested in buying raw materials as a consumer. The Synthos Group is shareholder and the sole recipient of butadiene produced at Butadiene Kralupy in the Czech Republic. Unipetrol buys the raffinate produced by Butadiene Kralupy.

Synthos also buys C4s from SABIC from the Netherlands for usage at Oswiecim. The group also produces a new type of rubber PBR Nd (neodymium polybutadiene rubber), with a production capacity planned at 80,000 tpa. The most important use of PBR is tyres, mainly the tread and sidewalls, which account for 70% of global consumption.

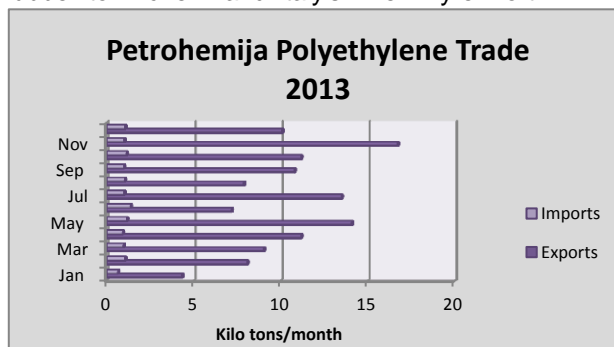
Synthos signed a conditional 20-year deal with Michelin, under which Michelin would grant a licence for the production of synthetic rubber and transfer the related know-how to Synthos. The purchase of Michelin's licence and know-how will lead to an increase in the group's capacity in terms of butadiene-based synthetic rubbers.

Synthos-Brazil

Synthos is planning a synthetic rubber plant in Brazil, based on Michelin technology that would use raw materials supplied by Braskem. Synthos also said that it had signed a conditional 15-year deal with Braskem worth around zł 4.5 billion (\$1.49 billion) for the supply of butadiene to the planned plant. The Polish company signed conditional multi-year deals for the delivery of synthetic rubber to Michelin and Italy's Pirelli Tyre worth zł 1.15 billion zlotys and zł 1.55 billion respectively. All the deals are conditional on Braskem securing long-term contracts for the supply of crude oil to its plants. Synthos has said that the deals would become void if this condition is not met by 30 June 2014.

Petrohemija, gas supplies

Talks on ongoing between the Serbian gas supplier Srbijagas and HIP-Petrohemija to find a solution for continuation of natural gas deliveries. After the reorganisation of its production HIP Petrohemija hopes to settle the problem of unpaid debts with the state-owned natural gas supplier Srbijagas and to avoid bankruptcy.



Natural gas supply to the synthetic rubber plant at Elemir was interrupted in February, and in addition to HIP-Petrohemija's plants at Pancevo. As Petrohemija is one of the biggest debtors for gas deliveries and since it is in a very difficult financial situation its management's opinion is that the issue should be solved by joint efforts of both companies as well as of the competent ministries and Serbian government. In 2013 Petrohemija exported 124,200 tons of polyethylene, most of which was sold to the EU.

Chemicals

Polish Chemical Production (unit-kilo tons)

Product	Q1 14	Q1 13
Caustic Soda Liquid	77.5	81.9
Caustic Soda Solid	22.3	24.1
Soda Ash	255.0	257.5
Ethylene	131.9	130.1
Propylene	93.0	88.3
Butadiene	14.3	13.0
Toluene	4.3	3.7
Phenol	6.7	7.8
Caprolactam	40.8	43.6
Acetic Acid	1.7	2.3
Polyethylene	94.1	93.5
Polystyrene	14.7	14.5
EPS	13.9	19.5
PVC	80.5	75.4
Polypropylene	60.4	66.0
Synthetic Rubber	48.1	48.6
Ammonia (Gaseous)	343.0	339.0
Ammonia (Liquid)	350.0	364.0
Pesticides	10.2	6.9
Nitric Acid	608.0	626.0
Nitrogen Fertilisers	491.0	527.0
Phosphate Fertilisers	74.6	87.9
Potassium Fertilisers	54.3	68.4

Grupa Azoty Police-Senegal

Grupa Azoty Police is studying options for investment in Senegal in numerous chemical projects. Last year Grupa Azoty Police acquired 55% of the Senegalese African Investment Group, allowing access to the Senegalese phosphate deposits. The Senegalese African Investment Group (AIG) company possesses a license to access the ilmenite sand deposits of Sud Saint Louis and allows the exploration of deposits of calcium phosphate in the areas of Lam and Kebemer (about 100 km north of Dakar). Not only does the agreement provide access to raw materials but it also will allow Grupa Azoty to expand into other markets in Africa.

Following this transaction, the Group Azoty Police is the first Polish chemical company to possess their own resources which could save around zł 30 million per annum. The estimated reserves stand around 56 million tons of phosphate rock and a half million tons of ilmenite sands. Plans for the next phase of the project could include the production of phosphoric acid.

Ciech soda ash investment plans

Ciech plans to invest zł 1.0 billion over the next five years in the soda ash division. The only problem might be the company's high level of debt which could affect further investment plans. Last year, the company's revenue slightly exceeded zł 3.5 billion against zł 4.4 billion in 2012.

Despite lower revenues Ciech recorded a profit of zł 140 million against a loss of zł 198 million in 2012 due largely to restructuring and divestment. The company is still responsible for around zł 3 billion of expenditure to eradicate the environmental damage from the closure of Zachem.

Ciech Revenues-Organic Division (zł million)		
Product	Jan-Dec 2013	Jan-Dec 2012
TDI	49.5	553.9
Resins	388.8	467.5
Polyurethane foams	207.5	193.0
Plastics	42.7	42.2
EPI	1.7	57.4
Total	690.2	1314.0
Ciech Revenues-Soda Division (zł thousand)		
Product	Jan-Dec 2013	Jan-Dec 2012
Soda Ash Heavy	1103.0	1094.6
Soda Ash Light	333.2	252.4
Salt	162.3	116.3
Sodium Bicarbonate	127.2	88.9
Calcium Chloride	19.5	11.5
Total	1745.3	1563.7

Sales revenues of the Ciech Group for 2013 amounted to zł 3.501 billion in 2013, dropping 20% against 2012. The changes were mainly due to the termination of production of TDI and epichlorohydrin by Zachem, in addition to other factors such as the lower demand for unsaturated polyester resins (sales down 6,800 tons) and epoxy resins. The sale of Alwernia in July 2013 also impacted on revenues.

The activity of the Ciech Group in 2013 concentrated on four main business sectors: soda organic agrochemical and silicates and glass. These sectors generated approximately 98% of group sales revenues. The highest share in revenues for 2013 was attributed to sales of soda ash, accounting for 58.4%.

Ciech's combined production capacities of soda ash at Inowrocław and Janikowo amount to 1.2 million tpa. The other two plants of the Group, located in Germany and Romania, possess capacities of 570,000 tpa and 430,000 tpa respectively. The Group's share of the soda ash market in Poland is nearly

100%, whilst in Europe it stands at around 15% about 4% globally. Sodium bicarbonate capacity for Ciech comprises 142,000 tpa making it the second largest producer in Europe.

PCC Rokita, IPO & coal poweed plant

PCC Rokita hopes that the Financial Supervision Commission (FSC) in May approves the prospectus of the company, allowing the IPO to take place in June. The company's investment programme for the next three years totals around zł 400 million including projects outside of Poland including India, Thailand, Russia and Belarus. One of the major projects being undertaken in Poland is the modernisation of the chlorine production facilities.

PCC Rokita is close to settling the tender for equipment, which will significantly reduce emissions from the company's power plant. The company uses coal for its energy sources, and has considered gas but prices are less predictable and Russian foreign policy has made companies wary of converting to gas. Currently PCC Rokita burns about 200,000 tpa of coal based on installed capacity of 22.2 MW and 160.5 MW.

Grupa Azoty-investments

Grupa Azoty Tarnow is close to deciding upon two investment projects worth zł 450 million, including polyamide and plastics. The group is concerned about caprolactam margins in Asia and is looking to process more product in a special economic area of Tarnow. The concept of building a caprolactam plant in Asia has been shelved by Azoty, but the group will continue to promote caprolactam technology in China and India.

Azoty Kedzierzyn has developed a new type of oxoplast which can be used in the medical sector. The product, phthalate based, has already passed the certification and represents an important investment for the company. The company estimates that in the near future several thousand tons of this compound and talks are underway with potential buyers.

The value of the investment is expected to amount to about zł 180 million. The new oxoplast is part of the large-scale investments being undertaken by Grupa Azoty Kedzierzyn. The construction of a new plant is a top priority which should be decided in the first part of 2014. Not only does it allow entry into new markets but it also means that the division can remain fully employed despite the demand for certain plasticizers starting to fall.

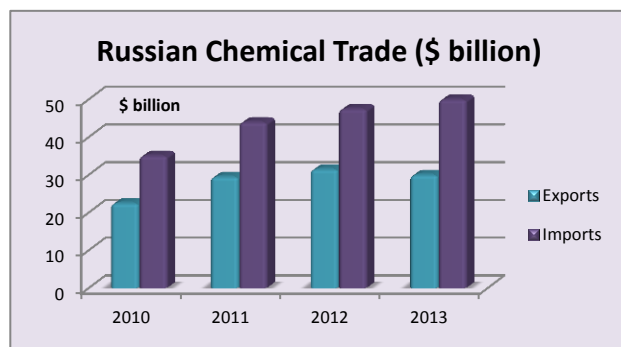
Grupa Azoty-polyglycerine project

Tauron Group and the Grupa Azoty intend to re-examine the possibility of building a polyglycerine plant at Kedzierzyn-Kozle based on coal gasification. If the analysis is passed successfully, it will be possible to apply for EU funds for the project.

Spolchemie-glycerine project

In 2014 Spolchemie is to construct a new plant for glycerine, for usage in the production of epichlorohydrin. The investment of around Kc 20 million is aimed at reducing costs and negative effects on the environment. The current technology is outdated and harmful. The new plant is expected to be completed in January 2015.

RUSSIA



Russian chemical trade 2013 & Q1 2014

Russia's imports in chemicals and chemical products in 2013 rose in value by 5.1% over 2012 to \$50.130 billion whilst exports declined 3.9% to \$30.7 billion. The products exported from Russia and the products imported mostly differ significantly, with exports comprising mostly bulk low value products such as fertilisers whilst imports comprise pharmaceuticals, personal care products, speciality chemicals, etc.

As a result of supply-side investments the Ministry of Economic Development has forecast that exports will

rise at a faster rate than imports in the next few years. However, these estimates are conditional on foreign policy strategy and isolation, coupled with the devaluation of the rouble.

Russian Petrochemical Exports (unit-kilo tons)

Product	Q1 14	Q1 13
Propylene	1.0	10.8
Orthoxylene	13.1	12.4
Paraxylene	29.1	19.8
Methanol	458.8	357.1
Butanols	8.2	25.6
Isobutanols	11.4	22.6
Styrene	8.8	25.8
Phthalic Anhydride	5.8	19.6
Phenol	3.5	6.1
Caprolactam	18.8	20.1
Vinyl Acetate	5.5	3.1

For 2013 exports of potassium fertilisers fell by almost 30%. However, exports of nitrogen fertilisers increased by 5.6%, whilst mixed fertilisers rose by 4.8%. Methanol exports dropped by 5% in volume in 2013, but increased by 17% in value. For 2013, the average export price for methanol increased 24% to \$362.02 per ton from \$291.8 per ton in 2012. The opposite applied to synthetic rubber exports where the global market has been under extreme pressure.

For 2014, export revenues are expected overall to increase mainly due to the devaluation of the rouble but not all chemicals will show rises. A factor expected to help exports of potassium fertilisers is the change in trade policy by Uralkali. Products likely to rise are those where Russia has a feedstock cost advantage. Already in the first quarter this year methanol exports rose substantially. As for imports, the currency devaluation should have the opposite effect to exports; in the first two months in 2014 chemical industry

imports dropped almost 10% against 2013.

Russian petrochemical projects

Irkutsk Oil Company-attracting capital

Irkutsk Oil Company (INK) is in talks with Chinese investors regarding support of plans to construct a new gas processing plant in East Siberia. INK is also hoping to attract Japanese companies such as JOGMEC and Inpex already both operating in Russia. In the new few years INK wants to build two gas processing plants with a total

Irkutsk Oil Company (INK) Investment Outline	
Project	Capacity/Length
2 Gas Processing Plants	7 billion cubic metres per annum
Product Pipelines	500 km
Polyethylene	650,000 tpa

processing capacity of more than 7 billion cubic metres of gas per annum, about 500 km of product pipelines, a gas fractionation plant, and a station for the shipment of liquefied gases.

During the period 2016-2019 the company hopes to build a petrochemical chemical complex. The cost of construction is

estimated at 120-130 billion roubles. The capacity of the polyolefin plants under planning comprise 650,000 tpa in the first phase, before a possible second phase extension of up to 1 million tpa.

The first stage of the project involves the production of propane-butane based on the Ust Kut deposits, and will later be extended to include ethane. Prospects for building a polyethylene plant are in the balance at present and may depend on other projects. However, the EBRD has already advanced loans to the company, based on environmental benefits that may result from investment at Ust-Kut. INK holds licenses for 19 areas of hydrocarbons in the Irkutsk Region and Yakutia and ranks among the twenty largest Russian companies hydrocarbon reserves. Proven reserves amount to more than 160 million tons of oil and 150 billion cubic metres of gas. Investments in infrastructure are a key part of the planned investments by INK.

Russian Chemical Production (unit-kilo tons)

Product	Q1 14	Q1 13
Caustic Soda	258.2	276.4
Soda Ash	658.0	663.0
Ethylene	675.0	710.6
Propylene	327.2	321.7
Benzene	313.0	312.0
Xylenes	137.2	127.2
Styrene	169.2	158.7
Phenol	69.5	74.5
Ammonia	3,900.0	3,422.0
Nitrogen Fertilisers	2,300.0	2,192.0
Phosphate Fertilisers	900.0	795.0
Potash Fertilisers	2,100.0	1,542.0
Plastics in Bulk	1,584.0	1,472.0
Polyethylene	453.0	451.0
Polystyrene	130.1	105.8
PVC	165.1	170.8
Polypropylene	218.6	192.3
Polyamide	36.7	33.8
Synthetic Rubber	349.0	417.0
Synthetic Fibres	33.1	31.5

VNKH Nakhodka

Numerous concerns have emerged over the construction of the refinery-petrochemical facilities for the Eastern Petrochemical Company (VNKH) at Nakhodka, including financial costs coupled with doubts over feedstock supply.

Rosneft recently stated that plans to start operation of the VNKH refinery complex at Nakhodka by the end of 2020, and the associated petrochemical plants by 2022. These dates have been pushed back from the original start-up date of 2017 due to immense difficulties in building the necessary infrastructure, and in particular the pipeline connections with the East Siberia Pacific Ocean (ESPO) which is managed by Transneft. Rosneft has stated that it is prepared to build a connection with the ESPO pipeline to the oil and petrochemical complex. In addition to pipeline supplies to VNKH Rosneft has also been examining the possibility of supplying raw materials by sea.

Questions have been raised about the economic viability of the third stage of investment, concerning petrochemicals and suggestions for its delay until 2025. One of the reasons argued is that sales of petrochemicals from the Russian Far East are likely to meet stiff competition in the Asia-Pacific markets, meaning possibly that production may need to be sold at low margins or even at a loss. By contrast, a phased implementation of the petrochemical project may allow for a more gradual strategy of breaking into these markets.

To recap, the project involves the construction of the VNKH petrochemical complex near Padi Elizarova Partizansk region of Primorsk Kray with a total refining capacity of 30 million tpa, of which 24 million tpa will come from oil and 6 million tpa of naphtha. The general designer of the complex is Angarskneftehimproekt. The project involves the construction of seaport terminals for reception and shipping of both oil and petroleum products. At the same time, Rosneft has asked Moscow to support the project through the construction of infrastructure: including oil and gas pipelines, railways, power lines, ports.

Russian petrochemical producers & markets

Gazprom Neftekhim Salavat Petrochemical Production (unit-kilo tons)

Product	2010	2011	2012	2013
Ammonia	429.9	496.4	427.9	480.1
Benzene	102.7	107	103.3	143.5
Butanol totals	137.6	82	129.3	87.2
Ethylbenzene	116.1	111.1	145.9	153.1
Ethylhexanol	44	50.6	46	39.7
Ethylene	229.9	259.9	205.5	268.8
HDPE	19.8	55.2	55.9	73.4
LDPE	40.6	26	26.4	36
Phthalic Anhydride	13.3	7.7	10.4	8.6
Propylene	79.2	97.8	89.2	112.8
Styrene	131.9	132.8	136.6	168.5

Gazprom neftekhim Salavat 2013

Gazprom neftekhim Salavat refined 7.4 million tons of crude in 2013, 10% more than in 2012. Gas condensate processing rose 35% to 2.5 million tons. Ammonia production increased by 4.1% to 480,180 tons and ethylene production by 25% to 277,148 tons. LDPE increased production by 4.9% to 36,087 tons, and HDPE by 52.2% to 73,412 tons. Production of petrochemicals has been aided by large-scale overhauls.

Gazprom neftekhim Salavat in 2013 increased its net profit 14.9 times over 2012 up to 1.892 billion roubles. Revenues rose 8.8% up to 167.222 billion roubles. The cost of sales increased by 7.6% to 119.552 billion roubles, whilst gross profit rose 12.2% to 47.669 billion roubles. Profit before tax amounted to 2.035 billion roubles, a 3.7 fold increase.

Gazprom neftekhim Salavat has commissioned a new pyrolysis furnace F-04 type SRT-VI of third generation supplied by ABB Lummus Global, as part of the modernisation of ethylene-propylene production facilities. This furnace possesses a high efficiency (91-92%), and differs from the existing furnaces used by Gazprom neftekhim Salavat which are SRT-I with an efficiency of 73%. The new furnace operates on two types of feedstock materials, including NGLs and naphtha. The maximum loading for NGLs is 34 tons per hour, and naphtha feedstock is 36 tons per hour.

Due to the commissioning of a new furnace the company is now capable of processing 100 tons per hour of raw materials of all types. Gazprom neftekhim Salavat aims to produce 310,000 tons of ethylene in 2014, representing a 23% increase over 2012. In addition to increasing production the new F-04 furnace uses less fuel thus decreasing emissions of flue gases into the atmosphere.

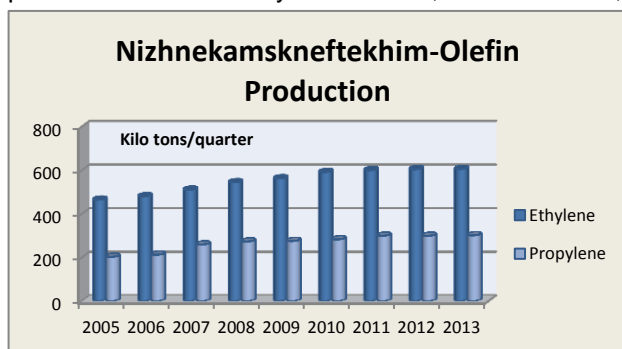
Nizhnekamskneftekhim Petrochemical Production (unit-kilo tons)				
Product	2010	2011	2012	2013
Ethylene	592.0	601.0	605.2	605.7
Propylene	283.4	299.9	299.6	301.6
Polystyrene	184.4	187.0	191.5	211.1
Polypropylene	200.0	210.8	210.0	208.7
Polyethylene	160.0	195.0	201.8	183.8
Styrene	201.0	198.7	200.9	248.6

Nizhnekamskneftekhim 2013

Nizhnekamskneftekhim reduced turnover by 4.3% in 2013 against 2012 to 119.826 billion roubles. By contrast, total costs rose 1.4% to 98.1 billion roubles. As a result the net profit fell 2.8 times to 6.089 billion roubles. The problems in the global synthetic rubber market were the main cause behind the weaker results for Nizhnekamskneftekhim in 2013.

The company stated that the main reduction in turnover resulted from lower prices in the domestic market where the revenues dropped 7.4% to 57.5 billion roubles. Export revenues for Nizhnekamskneftekhim dropped 1.9% to 59.9 billion roubles.

The production of plastics or Nizhnekamskneftekhim increased from 605,300 tons in 2012 to 646,500 tons in 2013, largely the result of increasing the production of polystyrene and ABS by 28.2%. For 2013, polyethylene production decreased by 6.2% to 201,500 tons to 189,000 tons. Polypropylene production fell by 0.5% to 209,000



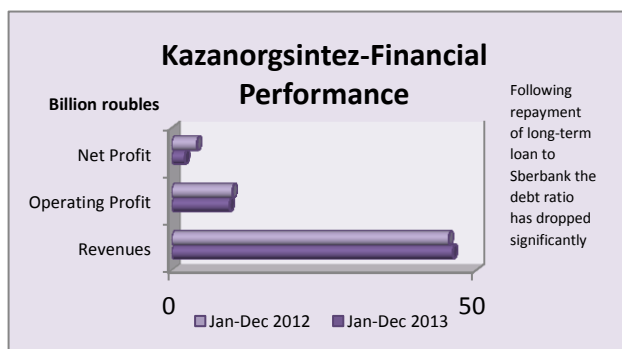
tons. The production of other plastics fell by 6.9% to 982,200 tons. Ethylene production ran at full capacity, yielding 605,700 tons. The company produced surpassed 15 million tons of ethylene production in April this year since the inception of the plant. Effectively production has now peaked for ethylene and propylene production, reflecting the importance of the one million tpa cracker planned for 2017.

This year Nizhnekamskneftekhim expects energy and naphtha prices to fall, although the company is unable to estimate whether this will prove beneficial overall.

Naphtha prices are forecast to drop to \$900.3/ton by the fourth quarter. On average, 2014 prices for Brent and naphtha are forecast to fall 4.1% and 3.1% respectively. In 2014 the company is completing investment projects for modernisation of the alpha-olefin unit and the fourth polystyrene production line with a capacity of 50,000 tpa.

Kazanorgsintez 2013

The net profit of Kazanorgsintez fell by 34% in 2013 and amounted to 2.157 billion roubles. Revenue grew by 1.5% up to 46.134 billion roubles, whilst the gross profit dropped 5% to 9.5 billion roubles. Kazanorgsintez approved the budget financing of capital investments for 2014 in the amount of 3.199 billion roubles, 1.8 times higher than in 2013. Despite the freeze in relations between Moscow and Kiev Kazanorgsintez does not intend to reduce sales to Ukraine, a market which accounts for almost half of its total exports.



Kazanorgsintez started a new investment programme last year covering the period 2013-2016, at an estimated cost of 6 billion roubles. The programme envisages the construction of a new kiln using ethane feedstock after signing a contract with Technip in 2013.

The two-chamber furnace pyrolysis unit will be applied to the Ethylene-200 plant. Kazanorgsintez also plans to create a new hydrogen plant, and to modernise the installation of desalinated water used in the production of ethylene.

The company aims for modernisation of ethylene production capacity are to increase production by around 50,000 tpa, from 560,000 tpa at present. In addition, the investment programme provides stabilisation of polyethylene and polycarbonate, improving the reliability of power supply and expansion of raw material supply.

SIBUR, LPGs-Ukrainian ports

SIBUR reduced the shipment of LPG through Ukrainian ports in the first quarter by twice to 158,900 tons. In the first quarter in 2013 SIBUR shipped 320,700 tons through the Ukrainian ports of Odessa, Illychevsk and Kerch. SIBUR explained that the decline in shipments of raw materials was due to the redistribution of volumes on the new port at Ust-Luga and to the recent developments in Ukraine. The SIBUR terminal in Ust-Luga was opened in 2012, including a capacity of 1.5 million tpa of LPG and 2.5 million tpa of light oil. The terminal is designed to receive product by rail, storage and loading into marine gas ships and tankers.

Russian Ethylene Production (unit-kilo tons)		
Producer	Q1 14	Q1 13
Angarsk Polymer Plant	54.6	58.4
Kazanorgsintez	140.4	142.1
Stavrolen	53.6	81.6
Nizhnekamskneftekhim	160.5	158.6
SANORS	19.9	20.3
Gazprom N Salavat	83.4	76.4
SIBUR-Kstovo	47.8	63.0
SIBUR-Khimprom	12.9	12.9
Tomskneftekhim	69.4	66.1
Ufaorgsintez	33.2	31.2
Total	675.7	710.6

17,300 tons, whilst Lukoil-NNOS increased production 16% to 15,700 tons. Kazanorgsintez also showed an increase by 23% to 4,700 tons and Gazprom neftekhim Salavat and Tomskneftekhim both 16% to 9,900 tons and 13,400 tons respectively. Stavrolen was idle due to the accident at the end of February.

Russian Propylene Purchases by Consumer (unit-kilo tons)		
Consumer	Q1 14	Q1 13
Ufaorgsintez	5.6	5.3
Omsk Kaucuk	15.1	2.7
Samaraorgsintez	0.0	1.8
SIBUR-Khimprom	16.5	18.8
Volzhskiy Orgsintez	3.2	2.7
Khimprom Kemerovo	0.5	0.5
Saratovorgsintez	34.0	39.4
Zavod of Isopropanol	1.0	0.0
Nizhnekamskneftekhim	0.5	0.0
Kazanorgsintez	0.0	0.9
Akrlit	17.2	5.0
Tobolsk-Polymer	0.0	0.0
Tomskneftekhim	0.0	0.8
Total	93.6	77.9

Russian sales of propane-propylene fractions in domestic market amounted to 10,300 tons in March, 28% less than in February. The reduced supply of product to domestic consumers was due primarily to downtime at Slavneft-Yanos due to a planned overhaul. For the first three months in 2014 sales of propane-propylene fractions totalled 44,000 tons, 15% up on 2013.

Russian Styrene Production (unit-kilo tons)		
Producer	Q1 14	Q1 13
Nizhnekamskneftekhim	67.2	58.7
Angarsk Polymer Plant	9.0	8.8
SIBUR-Khimprom	31.9	26.7
Gazprom Neftekhim Salavat	46.4	48.2
Plastik, Uzlovaya	14.4	16.5
Total	168.9	158.8

increased shipments 7.7 times to 3,700 tons. Also in March, SIBUR-Khimprom increased shipments by 16% to 3,800 tons. Domestic sales totalled 18,700 tons in the first quarter, 22% less than in 2013.

Russian ethylene market, Q1 2014

In Russia in March ethylene price declined by about 6% against February due largely to lower prices of natural gas liquids. Ethylene production in the first quarter totalled 675,700 tons against 710,600 tons in the same period last year. Most plants produced similar quantities, aside SIBUR-Kstovo which encountered an unexpected shutdown in January and Stavrolen which stopped production at the end of February. The length of time required to revamp the Stavrolen cracker has been estimated up to twelve months and thus Russian ethylene may drop slightly this year. Gazprom neftekhim Salavat is the producer most likely to record an increase in 2014.

Russian propylene market, Q1 2014

Russian producer increased propylene production in March by 4% to 131,500 tons. Titan at Omsk raised output 1.6 times to 42,300 tons in March despite the enforced outage at Stavrolen. Shipments of propylene from the Angarsk Polymer Plant to domestic consumers decreased by 11% to 6,300 tons and from Gazprom neftekhim Salavat 9% to 2,900 tons. At the same time, Lukoil-NNOS increased its supply of monomer by 16% to 15,700 tons. From the beginning of 2014 Russian domestic sales totalled 108,500 tons, 27% more than in 2013. Propylene prices tend to be rising due to market shortages, partly influenced by the forced outage at Stavrolen.

Propylene sales amounted to 42,300 tons in March despite the enforced outage at Stavrolen. Shipments of propylene from the Angarsk Polymer Plant to domestic consumers decreased by 11% to 6,300 tons and from Gazprom neftekhim Salavat 9% to 2,900 tons. At the same time, Lukoil-NNOS increased its supply of monomer by 16% to 15,700 tons. From the beginning of 2014 Russian domestic sales totalled 108,500 tons, 27% more than in 2013. Propylene prices tend to be rising due to market shortages, partly influenced by the forced outage at Stavrolen.

Volzhskiy Orgsintez imported 134 tons of propylene in March, the first inward shipment since August last year. The monomer was bought from Azerkhiymya in Azerbaijan. In 2013 Russia imported 6,500 tons of propylene from Azerkhiymya. SIBUR-Kstovo was the sole exporter in March, shipping 997 tons.

Russian styrene, Q1 2014

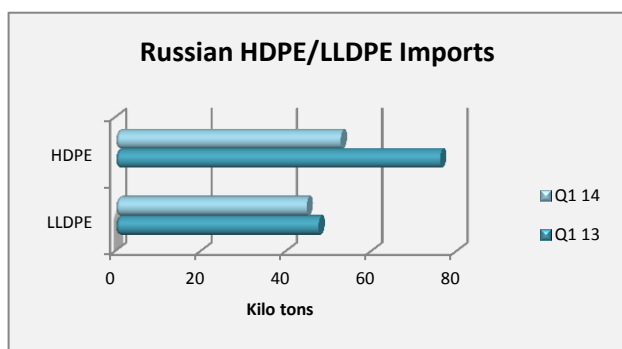
Russia increased styrene production by 12% in March to 58,800 tons. For the first quarter production totalled 169,200 tons which was 7% up on 2013. Styrene sales increased two-fold in March over February to 8,000 tons after Gazprom neftekhim Salavat

Russian exports of styrene decreased by 19% to 10,800 tons in March. Angarsk Polymer Plant did not ship material after exporting 1,200 tons in February, whilst Gazprom neftekhim Salavat neftekhim reduced exports 11% in March to 10,700 tons. For the first quarter Russian styrene exports totalled 37,500 tons which was 45% up on 2013.

Bulk Polymers

Russian HDPE, Q1 14

Russian HDPE production amounted to 245,200 tons in the first quarter in 2014, against 264,000 tons in 2013. Production dropped 28.5% in March to 61,600 tons due mainly to the outage at Stavrolen which took place at the end of February. Production at Budyennovsk is expected to be down for an extended period. Nizhnekamskneftekhim also reduced its production to 38,300 tons in the first quarter against 51,000 tons in the same period last year. This reduction was due to the focus on LLDPE output at Nizhnekamsk in the first two months.



Kazanorgsintez increased production of HDPE to 132,400 tons in the first quarter, 7% higher, whilst Gazprom neftekhim Salavat increased by 41% to 26,600 tons. Due to increased ethylene supply Gazprom neftekhim Salavat could increase HDPE production this year by around 27% to 100,000 tons.

Russian HDPE imports declined 31% in the first quarter, dropping from 76,200 tons in the same period in 2013 to 52,900 tons. The devaluation of the rouble has made import prices very expensive whilst demand has also been lacklustre.

Russian LLDPE, Q1 14

LLDPE imports totalled 44,900 tons in the first quarter in 2014 against 47,700 tons in 2013. March saw an increase in imports to 20,300 tons against 12,800 tons in the same period last year. The decline for the first quarter was attributed to the weakness of the rouble and the presence of domestically produced product at Nizhnekamskneftekhim. From the imports in the first quarter 40,500 tons comprised LLDPE film against 43,500 tons last year.

Country	2012	2011
Ukraine	20	25
China	16	14
Germany	4	9
Belarus	4	4
Czech	4	4
Turkey	3	3
Poland	3	2
Kazakhstan	34	28
Others	12	11
Total	100	100

Kazanorgsintez-Ukraine

Kazanorgsintez exported about 100,000 tons of polymers and chemicals to Ukraine in 2013, which is second in significance after Kazakhstan. A full breakdown for 2013 is not available but 2012 data shows sales to the Kazakh market on the increase.

This year the company does not intend to reduce shipments despite the complication of political relations between the two countries. This year Kazanorgsintez aims to export about 240,000 tons of products in total, which would represent around 24% of total production.

Producer	Q1 14	Q1 13
Ufaorgsintez	32.7	32.6
Stavrolen	18.0	35.6
Moscow NPZ	29.4	27.0
Nizhnekamskneftekhim	51.9	46.5
Polyom	31.3	6.0
SIBUR-Holding	32.9	31.1
Tobolsk-Polymer	38.9	0.0
Total	235.1	178.8

Russian polypropylene, Q1 2014

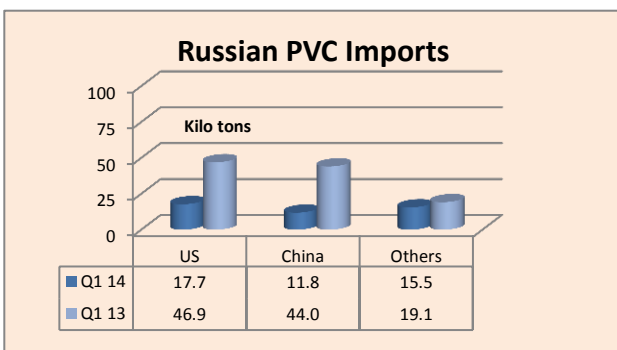
Production of polypropylene in Russia increased by 22% in the first quarter due to 235,100 tons. Increased utilisation from the new plants at Tobolsk-Polymer and Polyom were offset by the outage at Stavrolen at the end of February. Polyom produced 31,300 tons of polypropylene in the first quarter and Tobolsk-Polymer produced 38,900 tons. Stavrolen produced about 18,000 tons of polypropylene in the first two months in the year, but did not produce in March.

Despite non-activity at Budyennovsk in March Russian production of polypropylene rose to 82,200 tons from 71,400 tons in

February. Nizhnekamskneftekhim and Neftekhimya (Kapotnya) produced 51,900 tons and 29,400 tons respectively in the first quarter. Tomskneftekhim and Ufaorgsintez' production of polypropylene totalled 32,900 tons and 32,700 tons respectively in the first quarter of 2014. Polypropylene imports dropped 27% in the first quarter to 42,800 tons.

Russian PVC, Q1 2014

Imports of PVC into Russia for the first quarter comprised 45,000 tons against 110,000 tons for the same period in 2013. Besides low demand, the devaluation of the rouble has affected purchases. Imports from the US dropped

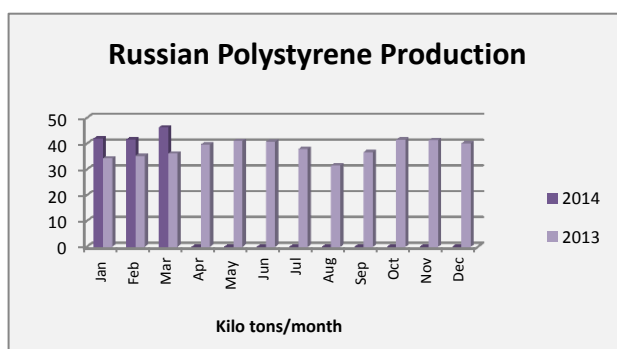


68% to 17,700 tons whilst shipments from China dropped from 44,200 tons to 11,800 tons in the first quarter this year. PVC imports from Europe rose from 6,900 tons to 10,200 tons.

In the first quarter of 2014 the production of PVC in Russia decreased by 5% to 157,800 tons. Khimprom at Volgograd, the sole producer of emulsion grade PVC, produced 4,400 tons in the first quarter against 5,700 tons in 2013. The plant is expected to close next year if not before. Of the suspension grade producers Sayanskkhimplast was the largest with 72,100 tons

against 72,600 tons in the same period last year.

The RusVinyl PVC and caustic soda complex could start production in September 2014, which represents a key



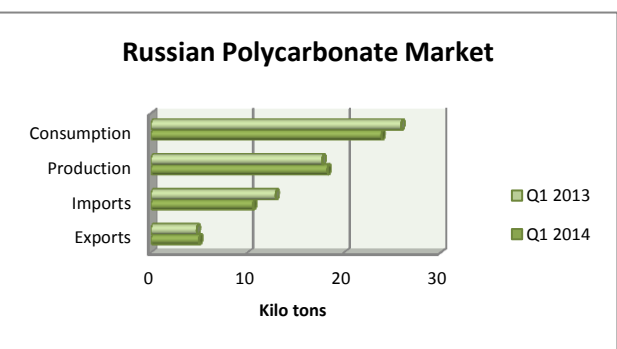
turning point for the market. Investment in the project has cost 2 billion roubles more than originally scheduled and will cost in its entirety more than 50 billion roubles. The production facilities of RusVinyl include 330,000 tpa of PVC and 225,000 tpa of caustic soda.

Russian polystyrene market Q1 2014

Russian polystyrene exports almost doubled in the first quarter to 22,000 tons, as production increased from 130,100 tons to 105,800 tons. The most significant increase was recorded in the export of HIPS, rising from 4,800 tons to 12,200 tons. Exports have been

substantially increased in countries such as Turkey, Egypt, Belarus and Lithuania. Shipments of expandable polystyrene (EPS-S) have also showed a downward trend. ABS exports fell by 84% due to growth in domestic consumption and amounted to 147 tons.

In 2013, the Russian domestic market for polystyrene increased by 8%, from 456,500 tons to 491,300 tons. Due to rising domestic production a sharp decline in imports of GPPS and HIPS took place in 2013, dropping from 156,900 tons in 2012 to 129,800 tons. The largest importer for GPPS and HIPS remains Styrolution, whilst EPS imports are led by Loyal Group.



Nizhnekamskneftekhim opens fourth polystyrene line

Nizhnekamskneftekhim opened its fourth polystyrene line on 14 April 2014. Construction of the line was launched in the first quarter of 2013 and has been designed to produce 13 brands of polystyrene, including 7 major and 6 additional for processing by casting, extrusion, fabrication of foam products. Production is based on technology supplied by Toyo-Mitsui.

Russian polycarbonate, Q1 2014

The Russian market of polycarbonate in the first quarter of this year decreased by 9% to 23,600 tons. In the first

three months Kazanorgsintez produced 18,300 tons of polycarbonate, 3% higher than last year. Extrusion grade accounted for 12,800 tons of production. The company exported 4,000 tons in the first quarter, most of which went to China and was 19% down on last year. Exports of polycarbonate to China accounted for almost 80% of Russian shipments in 2013, or in real terms 38,600 tons. Imports dropped 22% in the first quarter to 10,600 tons.

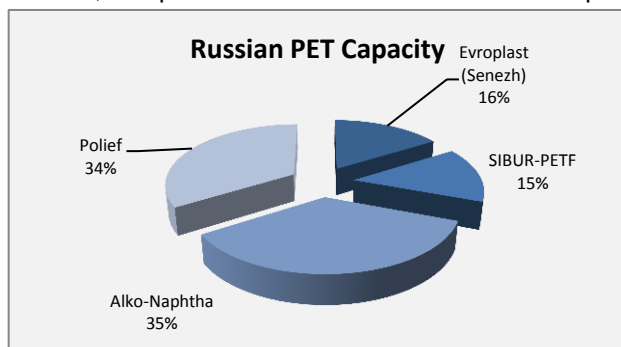
The main importer of extrusion polycarbonate to the Russian market is SABIC Innovative Plastics, accounting for over 90% of shipments.

The main buyer of Russian polycarbonate in China remains a Swiss company Ameropa. The main reason for the decline was the decrease of the market imports due to the fall of the rouble and rising domestic prices. In the first quarter the market for extrusion grades amounted to 19,000 tons, down 11% against the same period last year.

PTA/PET Chain

Polief completes expansion of PET plant

Polief completed its expansion of the PET plant at Blagoveshchensk on 16 April, raising capacity from 120,000 tpa to 210,000 tpa. It also increases SIBURs total capacity for PET to 285,000 tpa. The cost of the modernisation of the PET plant totalled 1.9 billion roubles, according to the company.



Polief, which is 825% owned by SIBUR, recorded a loss of 1.3 billion roubles in 2013 against a loss of 1.1 billion roubles in 2012. Revenues from PTA and PET decreased by 9.3% to 10.9 billion roubles, whilst costs rose 12% to 9.9 billion roubles. The company increased revenues from the supply of products to CIS countries from 1.1 million to 337 million roubles. The company's sales in the Russian market comprised 10.6 billion roubles against 12.1 billion roubles in 2012.

Polief has completed a programme aimed at improving energy efficiency and increasing the level of management. The new equipment installed will use excess steam production of PTA and lead to a reduction in electricity consumption. The idea of the project on the use of excess steam heated by the production of PTA was proposed by employees of the company in 2011.

SIBUR considering conversion of PET plant at Tver

SIBUR is considering the possibility of conversion of the PET facilities at Tver into PET fibre. Plans were in place to expand the PET capacity from 75,000 to 105,000 tpa, but this expansion has been put on hold due partly to the build-up of other Russian PET plants in Russia. PET fibre is not produced in Russia at present, and demand is relatively low. This would provide a new opportunity for SIBUR which would not require excessive investment.

Russian PET Production (unit-kilo tons)		
Producer	Q1 14	Q1 13
Evroplast (Senezh)	20.6	22.7
SIBUR-PETF	22.2	20.5
Alko-Naphtha	32.9	34.9
Polief	30.5	34.0
Total	106.2	112.0

Russian PET imports, Q1 2014

In the first quarter imports of PET into Russia increased by 38% to 55,000 tons. The largest imported was a Chinese producer Shanghai Hengyi Polyester (total import 13,000 tons). The share of Chinese imports in the first quarter rose to 70% against 57% for the same period in 2013.

Etana completes first stage of PET project

Etana has completed the first phase of construction of complex for the production of PET in the Kabardino-Balkaria region. To date, plant infrastructure has been completed including sewage treatment plants, electrical substations, facilities and water supply systems. In February, an agreement was signed with Vnesheconombank to conduct a comprehensive examination of the project for financial support. Also Etana has signed a declaration on the establishment of the Agroindustrial park in Kabardino-Balkaria, where 30 international companies will be located. Initially, the project was estimated at 12.3 billion roubles, including three stages of 162,000 tpa, 288,000 tpa and 486,000 tpa. ThyssenKrupp is undertaking the project.

Alko-Naphtha

Alko-Naphtha produced 145,000 tons of PET in 2013 and hopes to produce 180,000 tons in 2014. Almost all of the production is sold in the Russian domestic market. The European partner of Alko-Naphtha received approval for exemption from import duty (outward processing relief OPR) for the supply of PET in Europe. OPR provides a partial exemption from import duty on PET, which was produced using European materials outside the European Union. Consequently Alko-Naphtha's import duty was reduced from 6.5% (effective from 1 January duties for the Russian producers of PET) to 1%.

Aromatics & derivatives

Russian Benzene Production (unit-kilo tons)

Producer	Q1 14	Q1 13
Altay-Koks	0.0	3.4
Angarsk Polymer Plant	24.3	23.5
Chelyabinsk MK	3.5	3.3
Gazprom Neft	24.0	38.6
Stavrolen	12.7	0.0
LUKoil-Permnefteorgsintez	11.5	12.1
Magnitogorsk MK	15.8	15.5
Nizhnekamskneftekhim	51.7	52.1
Novolipetsk MK	7.2	7.3
Gazprom Neftekhim Salavat	42.5	32.0
Severstal	7.7	9.2
SIBUR-Holding	9.6	23.0
Slavneft-Yaroslavlorgsintez	16.4	16.6
Surgutneftegaz	16.0	16.9
TNK-BP	6.5	7.7
Ufaneftekhim	22.1	20.2
Ural Steel	2.7	0.7
Uralorgsintez	22.3	17.7
Zapsib	15.0	14.3
SANORS	8.4	0.0
Total	319.8	314.0

Russian benzene production, Q1 2014

Russian production of benzene for synthesis and nitration was unchanged in March and totalled 98,300 tons. Amongst the producers the Ryazan refinery increased production by 44% to 2,500 tons after encountering problems in February. Severstal also increased production by 36% to 3,100 tons and Uralorgsintez increased by 26% to 8,200 tons. Slavneft-Yanos reduced production 13% to 4,700 tons. In the first quarter Russian benzene production totalled 319,800 tons against 314,000 tons in the same period in 2013.

Domestic plants sold 49,900 tons in March, 3% more than in February. After an accident in the previous month the Ryazan Refinery increased shipments 2.4 times to 2,600 tons. Also in March, SIBUR-Kstovo boosted shipments to domestic customers 1.7 times to 4,400 tons and Kirishinefteorgsintez 1.5 times to 4,600 tons. Stavrolen supplied 116 tons from inventory but will now be idle for up to a year in order to complete repairs after the accident in late February. Gazprom Neft from the Omsk refinery reduced benzene shipments by 15% in March to 5,800 tons due to the enforced shutdown of the phenol and acetone unit at Omsk Kaucuk.

For the first three months in 2014 Russian plants shipped 196,900 tons of benzene to the domestic market, slightly less than in 2013. The major buyers included Kuibyshevazot, Azot at Kemerovo and SIBUR-Khimprom. On 14 April Shchekinoazot

suffered a fire in the shop for cyclohexane oxidation, but caprolactam production was unaffected.

Russian Benzene Domestic Purchases (unit-kilo tons)

Consumer	Q1 14	Q1 13
Kuibyshevazot	31.7	28.5
Azot Kemerovo	26.7	32.4
Shchekinoazot	16.7	11.9
Kazanorgsintez	18.6	20.1
Nizhnekamskneftekhim	5.4	0.0
Uralorgsintez	16.6	15.1
Omsk Kaucuk	7.6	17.8
Chelyabinsk MK	2.0	0.4
Samaraorgsintez	6.2	15.4
West Siberian MK	10.5	10.5
SIBUR-Khimprom	21.2	24.1
Gazprom neftekhim Salavat	10.9	7.3
Promsintez	5.6	4.2
Zavod im Ya M Sverdlov	5.4	5.2
Novolipetsk MK	2.2	3.3
Tumazi Carbon Plant	1.5	0.4
Ufaneftekhim	2.1	0.0
Others	6.2	0.3
Total	196.9	197.0

Russian benzene exports increased by 1.9 times in March to 3,800 tons. Russia imported 290 tons of benzene from ArselorMittalTemirtau in Kazakhstan in March, 2.4 times more than in February. Last month, Kuibyshevazot resumed purchases of Kazakh benzene; buying 119 tons of product. Furthermore, Kazanorgsintez imported 171 tons of benzene from ArselorMittalTemirtau. For the first quarter Russian imports of benzene totalled 769 tons, unchanged from last year. Russian exports of benzene amounted to 26,933 tons in the first quarter in 2014, against 8,237 tons in same period in 2013.

Russian phenol, Q1 2014

Russian phenol production amounted to 20,800 tons in March, 10% down on February due to the outage at Omsk Kaucuk. To cover the loss of one plant other plants increased production, the largest of which Samaraorgsintez produced 7,000 tons or by 15%. Less significant increases were recorded for Kazanorgsintez (11%) and Ufaorgsintez (13%). Omsk Kaucuk produced only 530 tons of phenol. Samaraorgsintez will soon bring production volumes up to 8,000 tons per month.

The phenol market underwent changes in March following the forced shutdown at Omsk Kaucuk, whilst the remaining producers needed to meet the needs of domestic consumers. Samaraorgsintez sold 4,200

tons of phenol, two times higher than in February, whilst Ufaorgsintez increased domestic shipments by 90% to 2,700 tons. Kazanorgsintez sold 1,400 tons to domestic consumers in March, 22% more than in February. Prior to the accident at the start of the month Omsk Kaucuk had shipped 800 tons to the domestic market. Phenol exports rose 15% in March to 962 tons, of which 85% were sold by Samaraorgsintez. Turkey was the main destination for Russian phenol.

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

Supplier Source	Q1 14	Q1 13
Omsk Kaucuk	10.9	13.9
Samaraorgsintez	9.9	8.0
Kazanorgsintez	3.3	2.7
Ufaorgsintez	5.9	5.3
Neftekhimya	0.0	0.2
Sterlitamak NPZ	0.0	0.0
LUKoil-VNPZ	0.0	0.0
Total	29.98	30.02

The largest volumes of phenol (81%) were bought domestic phenol-formaldehyde producers. About 12% was bought by Kuibyshevazot. The remaining volume of production fell to domestic producers of small tonnage phenol derivatives, in particular antioxidants. The sole domestic producer of alkylphenols, Nizhnekamskneftekhim, did not resume purchases of phenol in March.

Omsk Kaucuk is not expected to resume production prior to October at least. The accident caused several weeks ago, halting both the production of phenol and acetone, was due to a depressurized pipe. The market is expected to remain quite tight whilst repairs at Omsk are underway, particularly as demand is relatively strong at present.

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

Producer	Q1 14	Q1 13
Gazprom Neft	16.2	16.2
Ufaneftekhim	11.0	4.8
Kinef, Kirishi	10.2	10.5
Total	37.4	31.5

Russian orthoxylene, Q1 2014

Orthoxylene exports from Russia amounted to 4,000 tons in March, which is 3.2 times more than in February and 13% more than month in 2013. Ufaneftekhim and Kirishinefteorgsintez each exported 2,000 tons, all of which went to Finland. For the first quarter Russian orthoxylene exports totalled 13,100 tons, 30% more than the same period of 2013.

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

Producer	Q1 14	Q1 13
Gazprom Neft	17.0	10.9
Ufaneftekhim	25.8	29.9
Total	42.8	40.8

The production of phthalic anhydride in Russia amounted to 11,710 tons in March which was 7% less than in February and 15% lower than in March 2013. Kamteks Khimprom accounted for 94% or 11,010 tons of production in March. For the first quarter Russian production of phthalic anhydride totalled 38,000 tons against 37,850 tons in 2013.

Russian toluene, Q1 2014

Russian toluene production amounted to 25,100 tons, 0.5% more than in February but 14% down on March 2013. Gazprom Neft produced the

largest volume of 6,910 tons, accounting for 28% of production. Production totalled 82,000 tons in the first quarter, 6% less than the same period last year.

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

Producer	Q1 14	Q1 13
Novolipetsk MK	0.623	0.398
Slavneft-Yanos	7.872	6.232
Severstal	1.529	1.608
LUKoil-NNOS	8.572	9
Gazprom Neft	8.409	4.343
Zapsib	1.1	1.209
Kinef, Kirishi	2.766	6.808
Gazprom Neftekhim Salavat	0	0.466
Others	0.091	0.041
Total	30.962	30.105

In the first quarter of 2014 domestic shipments of toluene on the Russian domestic market totalled 30.400 tons, 1% over the same period in 2013. In March, the supply of Russian toluene by rail to domestic consumers totalled 10,920 tons, 25% more than in February. Consumer activity in the Russian toluene market increased in April, due mainly to the increase in demand from the paint industry.

Synthetic Rubber

Russian C4s, Q1 2014

Russian sales of C4s on the domestic market amounted to 26,000 in March, 7% less than in February. Following the accident in February Stavrolen was forced to sell product from inventory in March and reduced its shipments by 12.2 times to 430 tons. Ufaorgsintez increased shipments by 26% to 2,700 tons, whilst Tomskneftekhim

and the Angarsk Polymer Plant by 10% up to 7,000 tons and 6,900 tons respectively. In the first quarter sales from domestic plants totalled 81,300 tons, almost the same as in 2013.

C4 imports amounted to 7,100 tons in February, 6% less than January. The Sterlitamak plant reduced imports 2.4 times to 480 tons whilst Nizhnekamskneftekhim reduced import purchases by 20% to 4,200 tons. Russia imported 14,600 tons of C4s in the first quarter, 47% more than in the first two months of 2013.

Russian C4 imports dropped 4% in March to 6,800 tons. Omsk Kaucuk reduced demand for imports of C4s by 17% to 2,000 tons. At the same time, Nizhnekamskneftekhim increased the import of C4s by 6% to 4,500

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

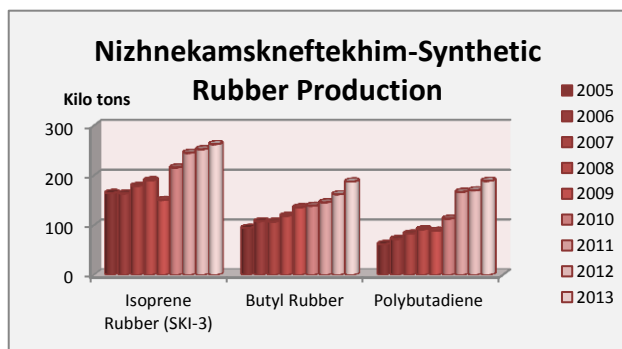
Consumer	Q1 14	Q1 13
Omsk Kaucuk	20.7	17.6
Nizhnekamskneftekhim	39.4	35.0
Togliattikaucuk	36.5	45.7
Sterlitamak Petrochemical	4.5	1.2
Total	101.0	99.6

tons. Russia imported 21,400 tons in the first quarter, 39% more than in 2013. Naftan in Belarus is the main source of imports, accounting for 15,000 tons in the first quarter. One reason for the revival of imports was due to purchases made by Sterlitamak Petrochemical Plant.

Nizhnekamskneftekhim butyl rubber

Synthetic rubber production for Nizhnekamskneftekhim increased by 8.6% in 2013 to 639,800 tons, including a 15.5% rise in butyl and halobutyl rubber to 187,800 tons. For polybutadiene rubber the company produced 189,000 tons, and polyisoprene rubber 262,800 tons, an increase of 11.1% and 4% respectively over 2012. Production of ethylene-propylene rubber in 2013 did not take place.

Halobutyl (HBR) production at Nizhnekamskneftekhim started in March 2004, and over the past decade the company has produced 590,000 tons of HBR, including 163,300 tons of chlorobutyl and 426,700 tons of bromobutyl. Currently Nizhnekamskneftekhim remains the first and only producer of halobutyl rubber in Russia.

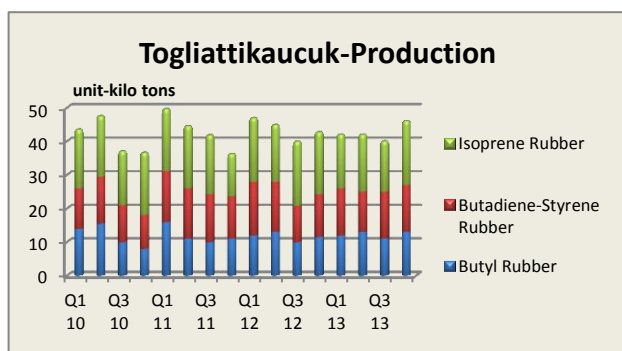


The butyl rubber plant at Nizhnekamskneftekhim has recently completed pilot tests for automatic briquetting. The robotic arm takes briquette of rubber from conveyor belt, and then places them in containers that are transported by trucks.

On 8 April Nizhnekamskneftekhim produced its millionth ton of neodymium polybutadiene rubber catalyst (SKD-N). Last year 98% of neodymium polybutadiene of production was exported. On 14 April Nizhnekamskneftekhim completed production of 3 million tons of isoprene, of which 1.3 million tons have been produced using the one step method involving isobutylene and formaldehyde. The one step method has been in place since 2006 that allows the company to obtain high polymerisation monomer with a purity of 99%.

SIBUR's rubber production

Following cut-backs in production due to weak demand plant personnel at Voronezhskintezkavuk have returned to full time. Some improvement has been noted in rubber markets, although prices remain very low. Togliattikavuk produced 170,000 tons of synthetic rubber in 2013, 5% up on 2012. Isoprene rubber production increased by 12% to 67,000 tons, and butyl rubber by 11% up to 50,000 tons. Butadiene rose 9% to 60,000 tons and isoprene by 3% to 78,000 tons.



SIBUR's sale of 25% plus one share in Krasnoyarsk Synthetic Rubber Plant (KZSK) to Sinopec was worth \$13.3 million. With the acquisition of shares in KZSK Sinopec enters the board of directors of the JV with a

blocking stake. KZSK is Russia's largest producer of nitrile rubber with a share of 78% production. Last year 68% of the company's exports were directed to China

SIBUR-Reliance butyl rubber expansion

SIBUR and Reliance Industries have increased the planned capacity of butyl rubber production plant currently under construction in India from 100,000 tpa to 120,000 tpa. The project at Jamnagar in India is currently in the design stage. To implement the project the parties established a joint venture Reliance SIBUR Elastomers in which Reliance Industries will provide the necessary infrastructure and SIBUR will provide the raw materials. Commissioning of the plant is tentatively scheduled for 2015.

Sintez-Kaucuk 2013

Sintez-Kaucuk at Sterlitamak recorded a net loss of 359 million roubles against 124.8 million roubles of profit in 2012. The company's revenue decreased by 20% to 11.4 billion roubles due to the difficulties in the global synthetic rubber market. The cost of sales amounted to 11.2 billion roubles, which is lower than in 2012 by 16%. The gross profit decreased by 4.4 times to 202.3 million roubles. Sintez-Kaucuk is part of TAU Neftekhim which also includes Sterlitamak Petrochemical Plant (SPP). TAU Neftekhim has owned both plants since 2008 and

have gradually integrated their assets both commercially and technologically. In 2011 the shareholders decided to formalise the asset integration, with the new company called TAU Neftekhim.

Russian Tyre Production (unit-mil pieces)		
Product	Q1 14	Q1 13
Car Tyres	8.1	8.3
Motorcycle Tyres	0.1	0.1
Lorry tyres	1.6	1.8
Agricultural tyres	1.4	1.5
Total	11.2	11.7

Russian tyre news

Bridgestone officially commenced construction of its new tyre plant at the start of April in the industrial area Zavolzhie in the Ulyanovsk region. Total investment in the project will be about 12.5 billion roubles. The Bridgestone plant construction is based on the investment agreement between Bridgestone, Mitsubishi, the administration of the Ulyanovsk region and Ulyanovsk Region Development Corporation, from 12 April 2013.

Bridgestone will own 90% of the capital of the new company, while the share of Mitsubishi will be 10%. The plant opening is scheduled for the first half of 2016. By the second half 2018 performance of the new company will reach its maximum capacity of 12,000 tyres per day (more than 4 million tyres per annum).

Methanol

Russian Methanol Consumption (unit-kilo tons)		
Consumer	Q1 14	Q1 13
Nizhnekamskneftekhim	58.1	65.4
Togliattikaucuk	25.3	29.5
Uralorgsintez	19.1	19.6
SIBUR-Khimprom	2.5	3.5
Tobolsk-Neftekhim	12.6	10.3
Ektos-Volga	10.7	12.5
Omsk Kaucuk	17.6	26.2
Novokuibyshevsk NPZ	11.6	17.8
Uralkhimplast	7.0	5.6
Slavneft-Yanos	2.1	0.0
Others	185.7	181.2
Total	352.2	371.6

Russian methanol, Q1 2014

Methanol production amounted to 313,000 tons in March, 6% more than in February. Metafrax, Sibmetakhim and Tomet accounted for 72% of production in March. Metafrax produced 91,500 tons, 12% more than in February whilst Sibmetakhim increased production 1% to 70,900 tons. Tomet produced 63,900 tons of methanol, whilst Shchekinoazot increased production 11% to 40,800 tons.

Sales of methanol on the Russian merchant market amounted to 117,000 tons in March, 5% more than in February. Tomet recorded the largest increase, rising 20% to 36,500 tons, whilst Azot at Novomoskovsk reduced shipments by 20% to 10,200 tons. In March Metafrax sold 31,700 tons to domestic consumers and Sibmetakhim 34,500 tons, increasing by 5%.

The largest consumers of methanol in March were Russian gas companies and MTBE producers, accounting for 28% and 27% of total sales or 32,400 tons and 31,300 tons. Smaller amounts of methanol in March were bought by domestic producers of formaldehyde and its derivatives (16% or 18,200 tons) and rubber (14% or 17,000 tons). Manufacturers of lubricants and additives purchased 8,800 tons of methanol, i.e. almost 75% more than in February.

Russian methanol exports, Q1 2014

Russian producers exported 130,600 tons of methanol in March, 3% more than in February. Azot at Novomoskovsk achieved a 33% rise in exports to 13,800 tons, whilst Metafrax reduced shipments by 15% to 22,000 tons. The largest importer of Russian methanol remains Finland, accounting for 65,700 tons in March. Less significant shares in the total exports of methanol from Russia in March included Poland (12%), Slovakia (12%), Turkey (12%) and Romania (8%).

Russian Methanol Domestic Sales (unit-kilo tons)		
Producer	Q1 14	Q1 13
Azot Nevinomyssk	4.3	7.3
Azot Novomoskovsk	35.7	28.6
Metafrax	91.2	100.5
Sibmetakhim	107.6	120.2
Togliattiazot	105.4	97.3
Shchekinoazot	3.2	12.7
Others	4.8	5.0
Total	352.2	371.6

Russian methanol producers planned to export 16,100 tons in April through the Odessa ICC, against 20,700 tons in March. Volumes have been in decline following the deterioration in relations between Kiev and Moscow. Only Tomet used the Odessa ICC in April in order to supply Turkey, Israel and Romania.

Metafrax 2013

Metafrax achieved domestic sales of 7.2 billion roubles in 2013, 22% more than in 2012. Exports rose 17% to 5.06 billion roubles. Major sales have fallen for methanol-7 billion roubles, which exceeds the 2012 result by 20%. From the sale of formalin, the company earned 920 million roubles, which is 3% more than in 2012. Sales of urea-formaldehyde concentrate (UFC) has improved from 2.1 to 2.2 billion roubles. The share of exports in total sales

Russian Methanol Production (unit-kilo tons)		
Producer	Q1 14	Q1 13
Shchekinoazot	117.8	97.2
Sibmetakhim	217.8	221.2
Metafrax	265.5	269.0
Akron	20.9	21.7
Azot, Novomoskovsk	84.9	73.2
Angarsk Petrochemical	1.6	1.8
Azot, Nevnomysk	29.9	33.6
Togliattiazot	199.0	197.0
Totals	937.3	914.7

of finished products increased from 39 to 41%. For 2014 Metafrax expects to receive 2.526 billion roubles of net profit and revenue of 12.2 billion roubles.

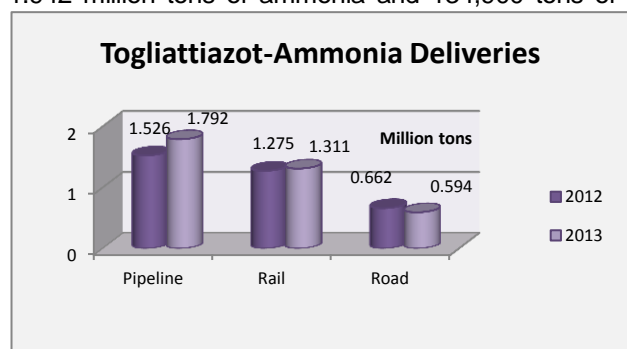
Togliattiazot 2014

Togliattiazot increased its net profit by 1.5% in 2013 compared to 2012, up to 9.259 billion roubles. Revenue grew by 7.3% to 37.716 billion roubles, and costs by 25.8% to 18.312 billion roubles. The gross profit decreased by 5.8% to 19.404 billion roubles. Togliattiazot produced 725,000 tons of methanol in 2013 against 582,000 tons in 2012.

Togliattiazot increased production by 8.5% compared with 2012. Ammonia production increased by 13.3%, amounting to 2.63 million tons, while urea output remained unchanged at 348,000 tons. The production of urea-

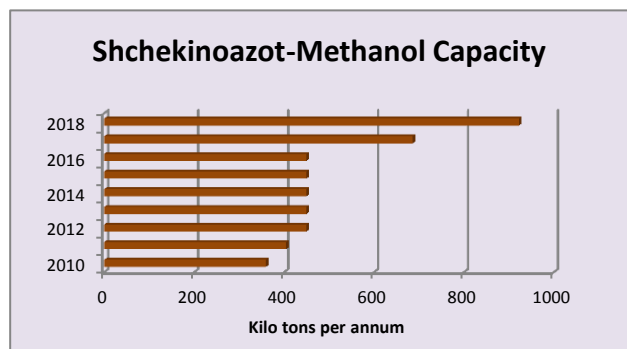
formaldehyde concentrate increased from 136.600 tons to 138.100 tons.

Total revenue last year reached 37.716 billion roubles, an increase of 6.8% over 2012. The company delivered 1.942 million tons of ammonia and 134,900 tons of urea to foreign markets, which is 14.3% and 1.5% more



compared to 2012. Currently ammonia is exported to Ukraine, Latvia and Lithuania, and urea to Ukraine and Slovakia. In the domestic market, Togliattiazot sold 434.600 tons of ammonia, 171.300 tons of urea and 117.100 tons of urea-formaldehyde concentrate.

Production capacity of Togliattiazot is capable of producing over 3 million tpa of ammonia from seven separate units and 960,000 tpa of urea based on two units. Other products include urea-formaldehyde concentrate and urea-formaldehyde resins with respective capacities of 197,000 tpa and 17,800 tpa.



Shchekinoazot-new methanol project

Shchekinoazot has decommissioned the old methanol plant in preparation for construction of the new methanol and ammonia plant. Construction is expected to start in the middle of May. Shchekinoazot has already selected Orgkhim at Severodonetsk in eastern Ukraine as the general designer of the combined methanol and ammonia project. The total investment in the project is expected to total €270 million. Plant capacity will be 1.35 tons/day of methanol and 415 tons/day of ammonia. A completion date of mid-2017 has been scheduled. Shchekinoazot is reconstructing its sulphuric

acid, raising capacity to 520,000 tpa.

Fosagro Production (unit-kilo tons)		
Product	Q1 14	Q1 13
Ammonia	296.4	263.7
Urea	252.4	233.5
Phosphate fertilisers	1,229.3	1,178.6
Nitrogen fertilisers	374.8	346.3
Ammonium nitrate	122.4	118.7
Aluminium fluoride	7.2	7.0
Phosphoric acid	470.9	439.8
Sulphuric acid	1,103.4	1,102.0
Sodium Tripolyphosphate	33.0	33.7

Fosagro Q1 2014

Fosagro increased production of mineral fertilisers by 5.2% in the first quarter of 2014. The company produced a total of 1.64 million tons, 0.6% up and producing almost at full capacity. Nitrogen fertiliser production increased by 8.2% to 374,800 tons whilst sales rose by 26.3% to 425,300 tons. The production of phosphate fertilisers and feed phosphates increased by 4.31% to 1.23 million tons, although sales dropped by 6.1% to 1.22 million tons.

Organic Chemicals

Russian butanols, Q1 2014

Russian production of butanols amounted to 18,160 tons in March, 10% up on February but 26% down against March 2013. SIBUR-Khimprom

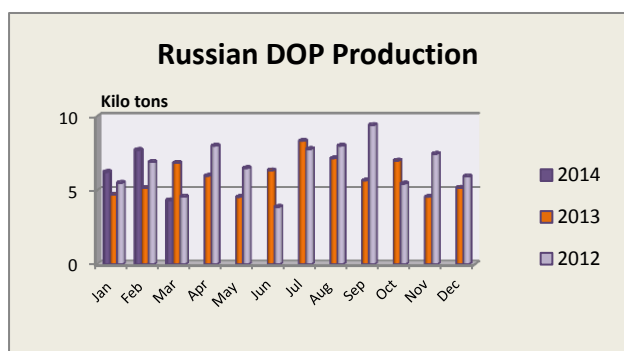
produced 7,260 tons or 40% of production, followed by Angarsk Petrochemical with 5,250 tons and Gazprom neftekhim Salavat with 4,230 tons. For the first quarter in 2014 production of butanols in Russia totalled 53,590 tons, 30% less than in 2013.

Russian Butanol Production (unit-kilo tons)		
<i>N-Butanol</i>		
Producer	Q1 14	Q1 13
Angarsk Petrochemical	9.1	9.5
Evrokhim	4.1	3.7
Gazprom neftekhim Salavat	11.1	28.4
SIBUR-Khimprom	7.0	6.5
Total	31.4	48.1
<i>Isobutanol</i>		
Producer	Q1 14	Q1 13
Angarsk Petrochemical	4.5	3.6
Gazprom neftekhim Salavat	7.8	8.1
SIBUR-Khimprom	11.7	7.7
Total	24.0	19.5

Domestic sales of butanols amounted to 5,300 tons in March, 6% lower than in February. The share of n-butanol sales comprised 73% in March. SIBUR-Khimprom supplied 3,540 tons to the market or 66% of total shipments), Gazprom neftekhim Salavat 1,100 tons (21%), Angarsk Petrochemical Company 510 tons (10%), and Azot Nevinomyssk 170 tons (3%).

The largest consumer of butanol in March 2014 was Aktilat, which uses n-butanol as a raw material in the production of butyl acrylate 2,370 tons (44% of Russia's consumption). Dmitrievsky Chemical Plant uses butanol for the production of butyl acetate, as well as supplying them for export on behalf of Gazprom neftekhim Salavat, bought 910 tons (17%). Among other major consumers of butanol Kamenskvolokno bought 240 tons, or 5%, as well as Volzhskiy Orgsintez 230 tons, or 4%) and

Sredneuralsky smelter (190 tons, or 4%). For the first quarter 2014 shipments of domestic butanol to the Russian market totalled 15,900 tons. This is 15% less than in the same period in 2013. The proportion of n-butanol was 79%.



Russian plasticizer alcohols, Q1 2014

DOP exports totalled 834 tons in the first quarter, 3% up on the same period in 2013. Most of the exports were directed towards Ukraine. Production of DOP increased 10% in the first quarter to 18,270 tons.

Exports of DOP dropped 10% in March and amounted to 236 tons. The decrease in supply due to reduced production at the Roshalsky Plant of Plasticizers which in February was a major exporter. As a result, the company only shipped 10 tons of DOP. Exports from Kamteks-Khimprom increased from 85 tons in February

to 226 tons in March.

Domestic demand for phthalic anhydride in Russia is slightly weak with traders offering deferred payment conditions. At the same time imports from Belarus are priced lower than domestic product, i.e., 62,000 roubles per ton against 64,000 roubles. March exports of phthalic anhydride from Russia amounted to 4,720 tons, 35% less than in February and 29% lower than in March 2013. The reduction in exports was due to low demand for these products in Europe and Asia. Maximum amounts of phthalic anhydride in March 2014 Russia exported from India (32% of Russia's total supply), China (22%), Turkey (11%) and Finland (10%). Kamteks Khimprom exported 18,810 tons of phthalic anhydride in the first quarter, 6% less than the same period last year.

Other Products

Kaustik-Rosnano flame retardant production starts

Kaustik at Volgograd and Rosnano have combined resources to construct a plant for flame-retardant additives. The production of nanostructured hydroxide and magnesium oxide, which will employ approximately 200 people, is scheduled for May-June this year. Investment in the project is estimated at more than 3 billion roubles.

Kaustik Volgograd Financial Performance (unit-billion roubles)		
	2013	2012
Revenues	11.9	11.4
Gross Profit	3.3	3.1
Net Profit	0.5	0.4

The new plant involves manufacturing a flame retardant, as well as bromine and magnesium chloride. The other important project for Kaustik involves

the modernisation of the mercury cells used in chlorine production. The company is investing 470 million roubles in replacing cells.

Khimprom-Volgograd and closure

The closure of the Khimprom chemical plant at Volgograd by 2015 looks very unlikely to be prevented in view of the combined problems associated with outdated and obsolete equipment, energy costs and raw material problems. However, it is possible that some new businesses could be created on the most profitable and successful units left by Khimprom. Plant protection agents for example are one product area that could be preserved in some format.

Energy and the inability to pay the local electricity supplier Volgogradenergosbyt is one of the main causes of Khimprom's pending bankruptcy. In terms of raw materials for Khimprom, brine is extracted from a well located about 30 km from Khimprom, which is supplied by pipeline. Two pressure substations help to deliver the brine via pipeline, but in January neighbouring plant Kaustik stopped using one station in order to save money. The effects of this are to prevent brine from reaching Khimprom which means that the company is using stocks. This may have been the final straw for Rostec which concluded that if the chlorine plant were forced to stop then it would be very expensive to restart production. The company has set up contracts for caustic soda supply this year, accounting for 5,300 tons of caustic soda.

A similar scenario has faced the carbide division where coke supply has been a problem. The company has been forced to conclude a rush contract with a supplier from Kemerovo on 100% pre-payment. At the same time, Khimprom has reduced the load carbide furnace to pre-emergency levels, and periodically stopped her work to stretch the use of existing stocks of coke for 10-11 days.

SIBUR sells Oka-Polymer Industrial Park

SIBUR recently closed the sale of the 100% stake in Oka-Polymer Industrial Park located at Dzerzhinsk to Tosol Sintez, a resident of the park. The Oka-Polymer industrial park was launched in June 2012 as a service company to develop the production site of the former Kaprolactam plant in Dzerzhinsk's Eastern Industrial Zone. The park covers an area of 300 hectares, offering its tenants over 500,000 square metres of existing facilities to lease or purchase. The park's benefits include an advantageous geographical location, availability of resources and quick production launch capability. Currently, the park provides production facilities to 26 tenants.

Kaustik Volgograd 2013

Kaustik at Volgograd (managed by Nikokhim) increased its net profit by 21.4% compared with 2013 up to 510.967 million roubles. Costs grew by 3.2% to 10.4 billion roubles, and revenue from sales by 4.6% to 11.902 billion roubles. The gross profit for Kaustik increased by 10.3% to 3.343 billion roubles.

Consolidation of business units of Nikokhim, including Kaustik and Plastkard, into a single technological and business structure. This is the main reason behind the company's improved results for 2013.

Kazan-silicon project

Vnesheconombank is considering participation in the financing of the support of construction of methylchlorosilane facilities in Tatarstan. The project will allow Russia to independently produce a wide range of silicone base materials to create their own high-grade raw material base for the development of basic industries in Russia.

Preliminary stages for construction have recently started, with the total costs estimated at 9.8 billion roubles. The company has received all necessary licenses and purchased equipment, investing in the project to date 1.65 billion roubles. Negotiations are underway with Vnesheconombank and Sberbank for another 7.8 billion roubles. Should construction go to schedule the plant will be operational in late 2015. Methylchlorosilane is used as chemical components in a large number of industries, from household chemicals and cosmetics to lubricants for rubber products, water-repellent components of drilling fluids, various sealants. Currently, these chemical components are fully imported from abroad. The Russian market demand for methylchlorosilanes is estimated at 50,000 tpa, and globally 4 million tpa.

SIBUR to ask for prepayment for BOPP

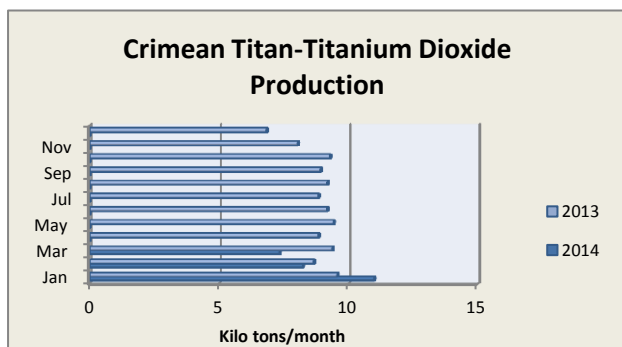
SIBUR has stopped shipment of BOPP film to Ukraine on deferred payment due to country risk, and transferred all shipments on a 100% advance payment. Direct sales to Ukraine in 2013 for SIBUR amounted to slightly less than 2% of revenues. All volumes of products that will not be shipped to Ukraine will be directed to the local market.

Khimprom Novocheboksarsk project investments

Group Orgsintez is considering a project for the production of MDI with a capacity of 100,000 tpa. The project also includes 100,000 tpa of nitrobenzene, 75,000 tpa of aniline and 40,000 tpa of formaldehyde.

The total amount of investment required is estimated more than half a billion dollars, of which investments in the production of MDI amount to more than \$280 million. Another important project at Novocheboksarsk the 50,000 tpa hydrogen peroxide plant under construction at Novocheboksarsk is based on the anthraquinone

process licenses provided by Swedish company Chematur Engineering. The plant is scheduled to start in June 2014 with commissioning scheduled for 2015.



underway for the a new unit for the production of sulphuric acid with a capacity of 660,000 tpa in order to provide the raw materials for producing 120,000 tpa of TiO₂.

The main suppliers of raw materials to Crimean Titan, consisting of ilmenite concentrate, are located in the Irshansky mine in the Zhytomyr region and Volnogorsky MMC in the Dnipropetrovsk region. Due to the ongoing political crisis in Ukraine Crimean Titan is threatened by raw material problems, although the position is yet to be clarified on deliveries from mainland Ukraine to Armyansk in Crimea. An alternative feedstock source could be to source ilmenite from Mezhdurechensk in the Kemerovo region, but this is a project in planning only and the logistics would make it impractical.

Crimean Soda Sales (unit-kilo tons)		
Product	Q1 14	Q1 13
Soda Ash A	53.687	50.832
Soda Ash B	8.958	9.042
Sodium Bicarbonate	3.809	0

Crimean Titan employs about 4,900 people. About 80% of the products are exported, including countries China, South Korea, Taiwan, Singapore, as well as Turkey, Italy, Germany, Iran, Brazil, Canada and Mexico. Crimean Titan accounts for about 30% of the Russian market of titanium dioxide.

Crimean Soda, Q1 2014

In the first quarter Crimean Soda sold 62,845 tons against 59,874 tons in the same period in 2013. The company increased sales of A grade by 5.6% from 50,832 to 53,687 tons. At the same time, soda ash B grade fell by 0.9% from 9,042 tons to 8,958 tons. Sales have increased due to better demand from manufacturers of glass containers and also partly to the political situation, which has resulted in consumers stockpiling product in case of more serious problems. Another factor helping sales from Crimean Soda is the weakness of the currency which reduced the demand for imported product.

Sales of sodium bicarbonate amounted to 3,809 tons in the first quarter, 18% more than planned. The production of sodium bicarbonate by Crimean Soda was launched in August 2013. Ukraine consumes about 25,000 tpa of sodium bicarbonate.

Ukraine

Ukrainian chemical market

Market conditions are quite abnormal in the current political atmosphere; the forthcoming elections on 25 May if allowed to proceed could mark an important turning point for the country. Chemical consumers in Ukraine are naturally buying raw materials very carefully due to exchange rate fluctuations, which could result in losses, and concerns over security in the country. The devaluation of the Ukrainian currency has affected demand for chemical products effectively since the start of the year. Due to the falling hryvnia prices for coal based benzene increased in April from 12,500 per ton to 13,000-13,500 per ton including VAT. Due to the significant price fluctuations over a very short period of time the sales of Russian butanols in the Ukrainian market dropped significantly.

Following the rise in Russian gas prices from the start of April Ukrainian fertiliser plants may stop production in the near future. Lukoil still maintains hope that it can restart the Kalush cracker by coming to some sort of agreement with the interim government in Kiev, even if it is not recognised by the Kremlin. The production of ethylene, polyethylene, VCM, caustic soda, chlorine and PVC at Karpatneftekhim was stopped in September 2012 due to an unfavourable market situation and was restarted temporarily at the end of last year. Lukoil was seeking a 20%

reduction in state-regulated tariffs for the railway transportation of raw materials and also import duties on PVC. Karpatneftekhim is the sole petrochemical plant in Ukraine and needs to be working as soon as possible.

Sumyhimprom Production (unit-kilo tons)		
Product	Q1 14	Q1 13
Titanium Dioxide	8.6	10.0
Complex Fertilisers	23.1	14.2
Ferrous Sulphate	6.6	4.5
Sulphuric Acid	61.8	58.9

Sumykhimprom Q1 2014

Sumyhimprom increased the production of complex fertilisers in the first quarter by 63% over 2013 up to 23,100 tons and titanium dioxide by 18.7%, to 8,600 tons. The production of ferrous sulphate rose 47% up to 8,600 tons. At the same time the company reduced the production of sulphuric acid at 5% up to 61,800 tons. Lower demand was recorded for phosphorus fertilisers. Sumykhimprom specialises in the production of titanium dioxide, sulphuric acid, yellow and red iron oxide pigments, complex fertilisers and coagulant for water purification.

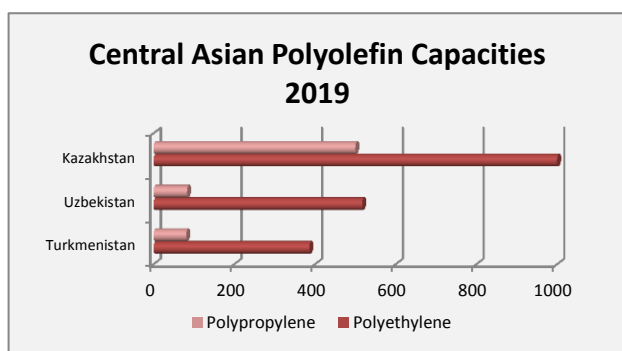
Sumyhimprom is 100% state-owned. UkrLandFarming, which is one of the largest agricultural holdings, had intended to acquire 92.75% stake in Sumyhimprom but the interim government has placed a moratorium on any sell-offs for the time being. Sumyhimprom specialises in the production of titanium dioxide, sulphuric acid, yellow and red iron oxide pigments. The company reduced the production of titanium dioxide by 17% in 2013 to 32,600 tons and mineral fertilisers by 45.7% to 206,600 tons. The net loss of Sumyhimprom in 2013 decreased by 4.4% to 200.625 million hryvnia, whilst reducing net income by 32.5% to 1.415 billion hryvnia.

Ukrainian methanol market, Q1 2014

Methanol sales on the Ukrainian domestic market dropped 40% in March to 2,700 tons. The main consumers of methanol from Azot at Severodonetsk remain the Ukrainian gas companies which accounted for 64% of products sold, or 1,700 tons. Domestic gas companies reduced the amount of purchases of methanol compared with February almost 2 times. The remaining 36% (or 975 tons) of purchases in March was made by Stirol at Gorlovka. Sales volumes of methanol by Azot at Severodonetsk are likely to continue to show a downward trend. This is due to a significant increase in the cost of products shipped by sufficiently low solvency of domestic consumers.

Gas companies accounted for 82% of purchases in February, or 3,660 tons. Another 705 tons or 16% of total deliveries were delivered to Stirol at Gorlovka, and the remaining 2% or 105 tons was procured by fertiliser producers Dniproazot and Azot at Cherkassy.

Caucasus-Central Asia



386,000 tpa of polyethylene.

Turkmenistan polyolefin project

Turkmenistan is preparing to lay the foundations for the construction of a complex for the production of polyethylene and polypropylene. The project could be undertaken with the participation of a consortium of Japanese and South Korean companies, with completion targeted for 2019. Construction of the facility is designed to diversify the usage of natural gas reserves, as well as large-scale plans to diversify the national fuel and energy complex. The production capacity of the new complex could provisionally be designed to produce 81,000 tpa of polypropylene and

Ustyurt-UzKorGasChemical

Uzbekistan expects to launch the Ustyurt Gas-Chemical Complex by the end of 2016, which will produce 387,000 tpa of polyethylene and 83,000 tpa of polypropylene. Other products include C4s (105,000 tpa) and pyrolysis resin (8,600 tpa). The total number of licenses for the project agreed include 21 grades of HDPE and 47 grades of polypropylene. The construction work is scheduled to be completed by the end of 2015, with commissioning taking place in 2016.

UzKorGasChemical selected 90 hectares for the construction of the complex near Akchalak Kyrkkyz and 115 km from Surgil field. The gas-chemical complex is being designed to produce 3.2 billion cubic metres of gas per annum, of which 3 billion cubic metres will be used by UzKorGasChemical. The complex gas will be processed with the production of ethane, liquefied gases and marketable natural gas (3.8 billion cubic metres), from which

ethane and LPG will be sent for pyrolysis. There will also be guided and gas condensate in the amount of 162,000 tpa. Contracts have been placed with Lotte Chemical, Samsung C & T Corp and Uzbekneftegaz.

The Ustyurt Gas Chemical Complex will ensure processing of 4.5 billion cubic metres of gas and produce 400,000 tpa of polyethylene and 100,000 tpa of polypropylene, as well as 110,000 tpa of pyrolyzed petroleum. The complex will export products to Europe, East and South-East Asia. It is expected that Ustyurt Gas Chemical Complex will be commissioned in early 2016.

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

The project cost is \$3.9 billion. The project Construction of Ustyurt gas chemical complex at the base of Surgil complex was developed in cooperation between Uzbekistan and South Korea. The project is endorsed by the governments of two states. The project participants will allow \$1.4 billion and attract \$2.5 billion from financial institutions to implement the project.

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

Relevant Currencies

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

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