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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Issue 250, 21 Sept 2011

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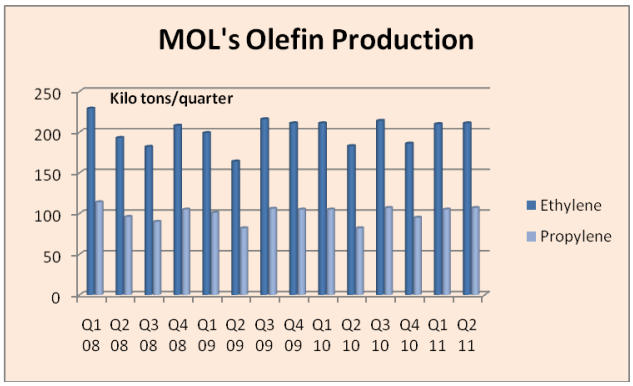
CENTRAL & SOUTH EAST EUROPE

Petrochemicals



MOL Group, first half 2011

For the first half of 2011 MOL's olefin and polymer production volumes increased by 6% and 13% respectively against the same period in 2010, largely due to the absence of turnarounds either at TVK or Slovnaft. In the first half of this year, olefin and polymer sales increased by 41% and 11% respectively vs. 2010. Ethylene volumes sold to BorsodChem for VCM production rose in price by 19-26% against last year. However, gains in ethylene prices were offset by feedstock margins in that naphtha went up by 36% to an average $921/ton.

Second quarter performance was not as good for MOL as in the first quarter. For the polymer group a comparison of Q2 2011 to Q1 2011 shows a drop of 5% in average LDPE prices, whilst HDPE and polypropylene prices fluctuated in a range of plus or minus 1%. The integrated petrochemical margin fell by 8% in euro terms in April-June compared to the previous quarter. Furthermore, polymer demand dropped in Q2 compared to the previous quarter mainly due to high polymer prices. This has left the group with high inventory levels despite the fact that olefin and polymer production dropped in the second quarter by 3% and 4% respectively against to Q1. The proportion of monomer production increased by 2%, while Slovnaft reduced the purchase of propylene. Olefin sales for MOL increased by 2% compared to the previous quarter due mostly to an increase of 8,800 tons of ethylene shipments to BorsodChem.

TVK's Sales' Revenues (Ft million)		
Exports	***Jan-Jun 11***	***Jan-Jun 10***
Olefin	8,499	6,203
LDPE	8,190	6,919
HDPE	63,920	51,224
PP	27,954	19,094
Domestic	***Jan-Jun 11***	***Jan-Jun 10***
Olefin	69,030	50,479
LDPE	2,571	5,059
HDPE	3,003	5,462
PP	5,713	17,704
Total Sales	***Jan-Jun 11***	***Jan-Jun 10***
Olefin	77,529	56,682
LDPE	10,761	11,978
HDPE	66,923	56,686
PP	33,667	36,798
Total	188,880	162,144

Compared against the same period last year olefin and polymer production increased by 13% and 22%, respectively in Q2 2011, while olefin and polymer sales volumes increased by 37% and 18%. In the first half of 2011, the total TVK Group level operating income hiked by 25% compared to the same period of in 2010 and totalled Ft 217,567 million. However, the other operating income dived by Ft 1,183 million to Ft 336 million due to several factors including exchange rates, less income from the CO2 quota sale, etc.

MOL's main polymer producer TVK increased net sales to Ft 217,231 million which is Ft 44,673 million more than in the first six months of 2010. This was due to the higher prices and sales quantities, although slightly offset by exchange rate fluctuations. The integrated petrochemical margin in Q2 2011 increased for TVK against Q2 2010 by 1%, but dropped by 8% against Q1 this year.

TVK's monomer and polymer production both increased in the second quarter against the same period last year, by 19% and 41% respectively. This large increase was due to continued operations in 2011 and the turnaround that was performed in Q2 2010. Overall, for the first half of 2011 TVK's monomer production increased by 11% and polymer production increased by 26% against the same period last year.

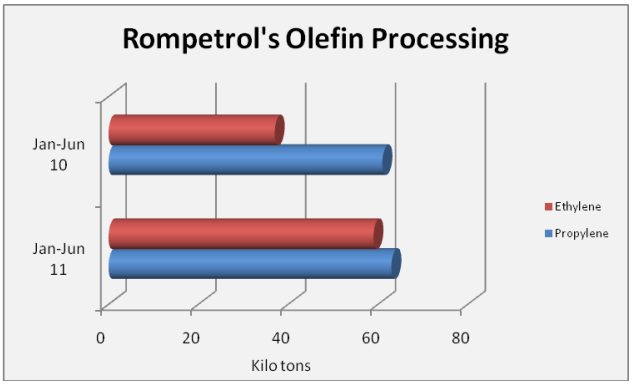
Slovnaft increased refinery sales on the domestic market in Q2 2011 against the same period in 2010 due to higher sales volumes of motor diesel by 14,000 tons (9% higher than Q2 2010). Conversely, sales of heavy fuel oil and bitumen decreased. Revenues from refinery product sales for Slovnaft on the domestic market rose in the second quarter by 31% against last year. Total refinery products volume sold for export in Q2 2011 was higher by 24% in comparison with Q2 2010.

In the petrochemical division, Slovnaft recently closed its phenol and acetone plants at Bratislava which had respective capacities of 40,000 tpa and 25,000 tpa. Polymer sales for Slovnaft in Q2 2011 were above the Q2 2010 level by 35%. Similarly to TVK, the reason behind the increase was the turnaround that took place in the second quarter last year which impacted on 2010 figures. In the first half of this year polymer sales increased by

23% compared to the same period of the last year. Export polymer sales fell in by 1% in the second quarter against the first quarter this year, whilst domestic sales dropped by 20%. Overall for the first half of 2011 exports dropped by 4% on the domestic market whilst exports rose 29%.

Slovnaft-new polypropylene grades

Slovnaft plans to start producing four new PP grades earmarked for the European market based on Dow Chemical's Unipol technology. The new grades are claimed not only to raise processing efficiency, while maintaining or even increasing the finished product's performance, but also reportedly cut polymer consumption. Another new addition to Slovnaft's portfolio is the new high-impact Tatren IM 75 25 block copolymer, characterised by exceptional strength and stiffness. Ideal applications include thick-walled products, including storage and transport containers, garden machinery, disposable medical waste containers as well as technical parts.



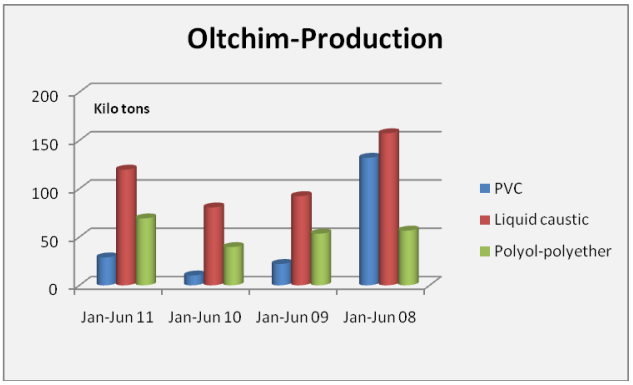
Unipetrol-Litvinov shutdown

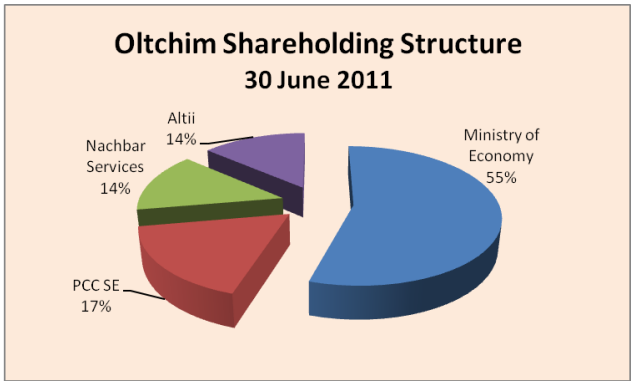
Unipetrol started a scheduled shutdown at the Litvinov refinery on 1 September, with production targeted to re-start on 8 October. The reasons for shutdown include periodic maintenance of the facilities and implementation of a number of investment schemes that can only be undertaken when the facilities are out of operation.

Rompetrol, Jan-Jun 2011

Rompetrol's financial results improved in the first half of 2011 due to positive margins from petrochemical products, in addition to the diversification of its product portfolio and streamlining of the company's activity. The increase in the volume of raw materials processed in the first six months was due to the HDPE unit restart, which commenced operations in November 2010. The HDPE unit restart resulted in a 15% increase in the first half of 2011 against the same period last year. This year the modernisation programme will allow an increase in operating rates and a reduction in processing costs. Other goals include a further diversification of the range of products provided, in addition to spending money on operating safety.

Following the closure of the Arpechim plant at Pitesti, Rompetrol Petrochemicals is the sole polyolefin producer in Romania. One of the advantages claimed by the company is its proximity to its customers and coastal location. Rompetrol Petrochemicals plans to increase polymer plant capacity to 80,000 tpa of polypropylene from 65,000 tpa, and for polyethylene up to 70,000 tpa from 52,000 tpa. In the long term, the company plans to increase the production of polypropylene up to 100,000 tpa.



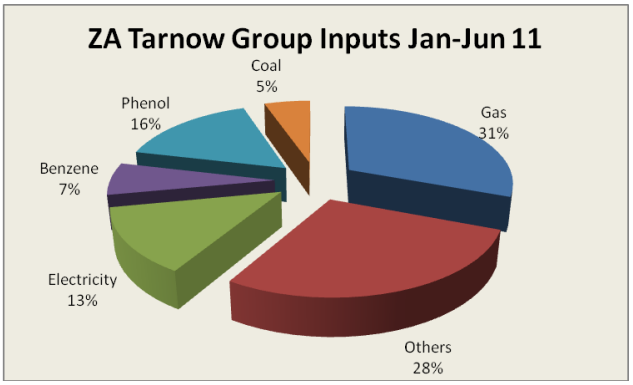


Oltchim reduces production activity despite better first half of 2011

Oltchim has been forced to reduce operating rates in September similarly to August due to a lack of working capital shortages of raw materials. Employees will continue to remain into technical unemployment for the following 30 days and will receive 80% of salaries. A number of 1161 persons, who make up approximately a third of total employees, will be affected by this measure. Oltchim has been engaged this year in the modernisation of a number of facilities including polyols and propylene oxide. Other plants have included the PVC1 and PVC11 plants. Financial results achieved in the first half of 2011 are claimed by the company to be much better than in the same period last year. Capacity utilisation rose from 37% to 54%. At the same time the

company faces huge debts. The government is keen to privatise Oltchim and has selected legal consultancy support for the process, but has not yet set a deadline.

Chemicals



Polish supply and sales contracts

Anwil has been forced to purchase ammonia on the open market for a short period, due to the failure of one of its ammonia units. The plant is not expected to restart until the middle of October. According to the company the failure of the ammonia plant will not affect the production and sales of nitrogen fertilisers.

ZA Tarnow is sourcing phenol, which it uses for caprolactam production, through agreements this year with Brenntag, Mitsui Deutschland and PKN Orlen. With Orlen, the raw material agreements for both phenol and benzene have been agreed to run up to 2015. ZAK has a similar agreement for orthoxylene supply from Orlen, which it uses for the production of phthalic anhydride.

ZA Puławy has signed a contrcact with Czech company SC Agro for the sale of urea and ammonium nitrate with an estimated value of zl 185 million. The agreement was concluded for a period up to 2016. Synthos Kralupy and Synthos Dwory have signed an agreement to buy 6,000 tons of styrene from Lyondell Chemie Nederland, the estimated value of which is zl 28 million. Synthos reported that the total value of contracts between companies of the group Synthos and Lyondell Chemie Nederland is about zl 131 million.

PCC Rokita signed agreements on 24 August with PKN Orlen for supply of ethylene oxide until further notice. At the same time its subsidiary PCC Exol signed an agreement with PCC Rokita governing the principle of resale and transport management of the product from the warehouses at Brzeg Dolny. Ethylene oxide is a key raw material for the PCC group, and in anticipation of increased consumption it has decided on longer term supply arrangements with Orlen.

In May 2011 PCC Rokita opened its new ethoxylation plant, after investing zl 62 million in the construction. The new plant has been built adjacent to PKN Orlen at Plock. This is in order to be capable of processing ethylene oxide on the spot, without having the complications of transporting it to PCC Rokita's main production site at Brzeg Dolny near Wroclaw.

ZA Tarnow-ZCh Police takeover

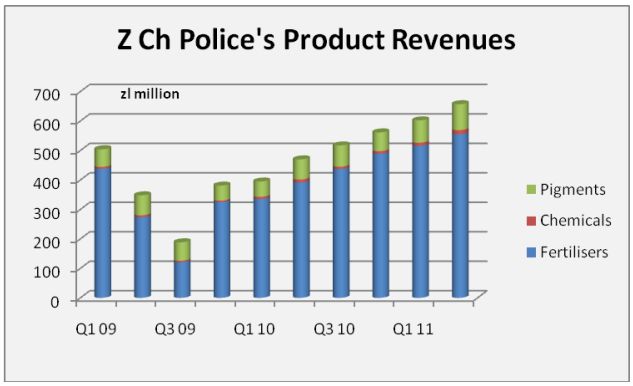
ZA Tarnow has recently approved the purchase of 74.92% in ZCh Police. The takeover of ZCh Police could facilitate the creation of a new entity. One of the first decisions to be taken for the Police plant includes the launch of a second installation for the production of ammonia, which will be used within the ZA Tarnow group. One of the biggest challenges facing the Group is to organise sales so that the respective companies are not competing with one another. Other aims include devising a common policy on fertiliser sales, and securing raw materials on a group basis leading to lower costs.

ZA Tarnow-ZAK share increase

The Polish Treasury estimates that it would be possible to sell its package of more than 40% in ZAK to ZA Tarnow before the end of October. A proposed figure of zl 187 million has been put forward for the 40% stake, although negotiations with ZA Tarnow are yet to be settled.

ZCh Police, Jan-Jun 2011

In the first half of 2011, ZCh Police improved its financial performance and achieved a net profit of zl 115 million. Revenues increased to zl 1.290 million due mostly to higher product prices and sales volumes. Higher raw material costs were offset by higher selling prices of products. Revenues from sales of titanium dioxide accounted for 13% of total revenues in the first half of the year, with 52% of the 20,000 tons production exported. Favourable market conditions enabled ZCh Police to raise prices of most fertilisers. Revenues from the sale of chemicals represent a small share in the total revenues of the company (2%), although volumes of AdBlue sales are rising. AdBlue sales accounted for 54% of chemical product sales in the first half of the year.



ZCh Police launched its second ammonia plant after modernisation raising capacity in total to 600,000 tpa. It consisted mainly of changes in its functioning so as to have higher efficiency and lower specific consumption of raw material. It has paid off, as the demand for both domestic and foreign ammonia has increased, and so sales do not represent a problem.

ZA Tarnow, Jan-Jun 11

ZA Tarnow achieved a consolidated net profit of zl 130 million in the first half of 2011 compared to zl 30 million in the same period last year. The company reported an operating profit of group of zl 238 million against zl 38 million in the same period. Further increases in profitability and revenues are expected for the remainder of 2011 and 2012 as synergies with ZAK and now ZCh Police start to take effect. ZA Tarnow expects to complete the expansion of the caprolactam plant at its main Tarnow site this year to 101,300 tpa. The group strategy focuses primarily on securing its position as of one of the leading producers of mineral fertilisers in the EU. It is also a manufacturer of engineering plastics and caprolactam, and through ZAK is now a major European producer of oxo alcohols and plasticizers.

ZAT Group Product Revenues (zl million)

Product	*Jan-Jun 11*	*Jan-Jun 10*
Fertilisers	591	213
PA6	443	253
Polyoxymethylene	38	36
Caprolactam	74	118
Oxo alcohols	357	0
Plasticizers	152	0
Cyclohexanone	38	8
Ammonia	25	0
Maleic anhydride	16	0
Nitric acid	6	2

ZAK, Jan-Jun 2011

ZAK's net income in the first half of 2011 amounted to zl 135 million, which was zl 125 million higher than in the first half last year. Revenues in the first half of 2011 amounted to zl 1105.7 million, with costs totalling zl 940.9 million. Revenues were distributed by 57% directed to the domestic market and 43% directed to exports. First half performance was influenced by financial management within the ZAT group, including synergies between ZAK and ZAT, and the completion of the nitric acid unit at Kedzierzyn.

Group sales have been merged so as to incorporate ZAK's product range. Oxo alcohols and plasticizers recorded good sales for ZAK in the first two quarters this year, whilst the small maleic anhydride plant at Kedzierzyn has been restarted.

Polish Chemical Production (unit-kilo tons)

Product	*Jan-Jul 11*	*Jan-Jul 10*
Caustic Soda Liquid	165.7	153.8
Caustic Soda Solid	29.8	35.9
Soda Ash	590.6	564.9
Ethylene	319.1	279.2
Propylene	213.9	181.7
Butadiene	37.7	33.6
Toluene	49.1	53.9
Phenol	24.6	17.5
Caprolactam	93.3	92.8
Polyethylene	213.0	200.7
Polystyrene	77.4	81.4
PVC	165.4	115.3
Polypropylene	143.4	126.8
Synthetic Rubber	109.7	92.6
Pesticides	13.3	13.6

Nitrogen fertilisers for the group have been faced by a surplus of demand over supply. One of the two main activities for ZAK is the production of oxo alcohols, with the company recently celebrating 25 years since start-up. Oxo alcohol sales generate more revenue than ZAK's other main field of interest which is fertilisers. The original license for oxo technology was purchased from Union Carbide and the plant has been since upgraded. A major project being considered for ZAK is the creation of a new power plant based on gas to replace the current coal-fired plant. The new plant is not expected to be operational until 2016.

ZA Pulawy-Azoty Adipol

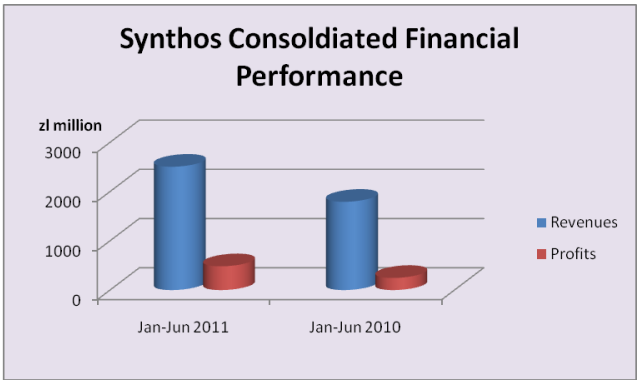
The Polish Treasury has decided to grant exclusivity to ZA Pulawy in negotiations to buy a majority stake in Azoty-Adipol at Chorzow. ZA Pulawy submitted a binding offer to acquire 2,550,000 shares (i.e. 85% of capital) in Azoty-Adipol at Chorzow. The term of exclusivity is 23 September 2011.

The Azoty-Adipol acquisition fits well with the strategy of ZA Pulawy in relation to providing new channels of distribution and bulk liquid fertilisers. It also helps with the optimisation of the logistics system through the infrastructure owned by Adipol. ZA Pulawy is focused on strengthening its market position to develop a leading manufacturer of nitrogen fertilisers and chemicals in Central Europe in a strong group of chemical fertiliser. Previously the company bought more than zl 100 million from Ciech Fosfory Gdansk.

Spolchemie-chlorine technology change delay

Spolchemie may be forced to delay the introduction of membrane technology for chlorine production due to finance, and will have to continue using its mercury process longer than planned. The original authorisation was granted in 2006 for a technology change by 2012, but the company has asked for a year extension. Spolchemie has recovered to some extent from the crisis in 2009 and survived due to an agreement with five creditor banks, to which it owed Kc 2.68 billion at the end of last year.

The company has significantly reduced costs in the past two years and reduced staff numbers. Last year it recorded a profit of Kc 154 million, whilst in the first half of 2011 Spolchemie recorded a profit of Kc 196 million which is the best result in the last five years. Sales rose to Kc 3.44 billion which is 41% higher than last year and 62 percent more than the same period in 2009. Despite the improvement in performance it is still unable to provide the necessary finance for the new electrolysis unit in accordance with the 2012 deadline. However, it has issued building permits and continues other measures such as preparing a substation for electrolysis and other warehouses for salt. The other chlorine producer in the Czech Republic Spolana is also faced by the necessity to convert from mercury to membrane which it aims to undertake in the next few years. The introduction of the membrane process at Neratovice is not scheduled to take place until October 2014, but even now it is not clear how the project will be financed.



Synthos, Jan-Jun 2011

The Synthos group achieved an operating profit of zl 482.820 million in the first half of 2011, against zl 246.240 in 2010. Group revenues amounted to zl 2,505.010 million against zl 1,792.980 million in 2010. Synthos is **a** vertically integrated group, although does not produce enough monomer to meet its full product demand and is forced to purchase additional feedstocks from other suppliers.

Ethylbenzene, styrene and butadiene are produced at Kralupy, but not at Oswiecim. Synthos Kralupy sells styrene and butadiene, over and above its internal needs, on the open market. In addition, the company offers raffinate 1, toluene and a benzene-toluene mixture, as by-products in the production of monomers. The production capacity of monomers at Kralupy is ethylbenzene 300,000 tpa, styrene 300,000 tpa and butadiene 130,000 tpa.

Production of synthetic rubber and synthetic latex is one of the main areas of business activity of the Synthos Group. The Group produces synthetic rubber using emulsion polymerisation of butadiene and other chemicals (styrene, acrylonitrile or appropriate organic acid). Total production capacity for synthetic rubber is 250,000 tpa.

Ethylene and benzene purchases for the production of ethylbenzene are conducted for Synthos Kralupy through Unipetrol. In 2010, purchases of ethylene and benzene were conducted on the basis of long-term agreements with Unipetrol, and based on suitable pricing formulas. Unipetrol accounted for over 10% of the total inputs into the Synthos group in 2010. From August 2010, C4 purchases from Unipetrol have been carried out by an affiliate of Butadiene Kralupy. These purchases were based on a pricing formula included in the above long-term agreement.

In 2010, Butadien Kralupy started its operations, representing a jv between Synthos and Unipetrol. In the past year subsidiary companies Synthos Kralupy and Synthos Dwory have concluded contracts with MOL and its respective subsidiaries Slovnaft and TVK, with a total value of approximately zl 114 million. The agreement with the highest value of these contracts was reached in April 2010 by Synthos Kralupy regarding the supply of C4 fraction. In November 2010, Synthos Dwory concluded an agreement for the supply of butadiene 1.3 from OMV Refining & Marketing for the period between 1 January 2011 and 31 December 2015.

In an effort to reduce the dependency on external suppliers of butadiene Synthos has entered into a strategic partnership with Global Bioenergies in France for the production of biological butadiene. The French group said that the partnership relates to a method for converting renewable resources into butadiene. The agreement also provides for a stake in the capital of Synthos Global Bioenergies up to €1.4 million.

RUSSIA

Russian Chemical Production (unit-kilo tons)		
Product	***Jan-Jul 11***	***Jan-Jul 10***
Ammonia	8,229.2	7,652.7
Benzene	643.5	616.1
Butanols	105.9	154.8
C Black	421.9	370.0
Ethylene	1,447.9	1,425.4
Methanol	1,858.2	1,750.9
PET	197.4	173.5
Phenol	155.5	131.5
Phthalic Anhydride	61.7	60.0
Polyethylene	987.6	959.1
Polypropylene	400.5	366.0
Polystyrene	173.8	157.2
Propylene	739.6	605.3
PVC	314.0	345.0
PVC plasticizers	18.3	73.7
Soda Ash	1,621.4	1,534.1
Styrene	280.1	276.1
Synthetic Rubber	718.7	648.5
Urea	3,507.7	3,308.0

Russian production trends and strategies

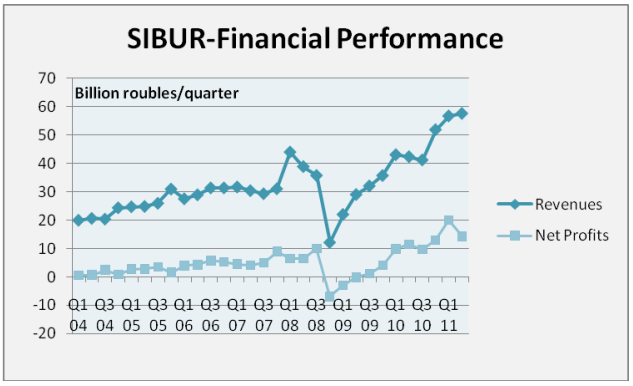
The index of chemical production for Russia in the first seven months of 2011 rose 7.1% compared with the same period in 2010. This year Russia has witnessed increases in the production of mineral fertilisers, polyolefins and polystyrene. Increases in these product areas were, however, offset by lower production for such products as VCM and caustic soda GDP rose 3.9% in the first half of the year, which may be disappointing taking into account Russia's overall position and assumed potential for economic expansion.

Downstream production of rubber and plastic products rose 15.9% in the first seven months, although by contrast paints and varnishes rose only 1.6%. Production of polyethylene rose slightly in January-July of 2011 due to higher volumes coming out of Salavat, whilst polypropylene production amounted to 400,500 tons which was 14% up on 2010. Polypropylene production is expected to see a further jump in the fourth quarter after the start-up of the 180,000 tpa new plant at Omsk. PVC production in Russia amounted to 314,000 tons in the first seven months in 2011 which was down 6.5% on volumes achieved in January-July 2010. The main cause was lower production by Kaustik at Sterlitamak as a result of less ethylene availability. Polystyrene production was up 16% to 195,100 ton due to the start of the new unit at SIBUR-Khimprom.

The Russian government has approved a list of energy efficient technologies, investments that will facilitate chemical producers to receive tax credits for products such as ammonia, synthetic rubber, etc. This is designed to support producers in these product areas, particularly as they are geared to some extent towards exports and represent important sources of inward revenue.

The Ministry of Energy continues to focus on plans for investments required in the Russian petrochemical industry over the next decade, which have been estimated to require in the range of around 150 billion roubles or $5.3 billion in current prices. The basis of the plan devised by the Ministry of Energy comprises six clusters where one million ton crackers are intended to be constructed in each. However, these proposed clusters can best be defined as amorphous. The main common and defining point about petrochemical producers in Russia is the aim to develop industrial zones and chemical parks in the close proximity of these complexes, thus providing marketing outlets. It is this main principle that the Ministry of Energy is attempting to emphasise as part of project investments and its strategic programme for the industry.

Feedstocks & petrochemicals



SIBUR-Holding, Jan-Jun 2011

SIBUR Holding increased its profits in the first half of 2011 by 1.6 times to 34.3 billion roubles. Revenue from product sales from within the group increased by 1.3 times and amounted to 114.1 billion roubles. LPG sales accounted for 30% of SIBUR's revenues, ammonia and ammonium nitrate 12%, and caprolactam 30%. Revenues have been rising quicker than profits which have been restricted by increases in feedstock and energy costs.

In relation to domestic production, SIBUR provided 14.4% of Russian isoprene production in the first six months in 2011, 50.2% of polybutadiene rubber, and 64.8% of MEG. The proportion of SIBUR in styrene production of styrene amounted to 26.4%, whilst for LDPE the share was 38.6% and polypropylene 19.7%.

SIBUR is focused on a wide range of petrochemical projects at Tobolsk, Tomsk, Ust Luga and Kstovo. Investment in the reconstruction of SIBUR-Kstovo's ethylene plant in the 2010-2013 period is expected to amount to 8.8 billion roubles, with reconstruction of the EP-300 cracker ultimately leading to an increase in capacity to 430,000 tpa of ethylene. Regarding the construction of a complex for transhipment of LPG at Ust-Luga SIBUR is active in developing the project which should be ready by the end of 2012.

If SIBUR is succeeds in influencing the government to spend money on the proposed Chord LPG pipeline, starting from West Siberia and eventually reaching the Baltic coast via Cherepovets then this could be the stimulus to some large scale investments in the 2016-2020 timeframe. The main opposition to this proposal has emanated from the Volga-Urals (Privolzhskiy) region, where there has been support for a former LPG pipeline to be revived and rebuilt, but local governments in Bashkortostan and Tatarstan have virtually conceded defeat. SIBUR's overriding argument has been that feedstock supply in the Privolzhskiy region is sufficient for current needs of the local petrochemical industry and further investments. It is probably justifiable by SIBUR to claim that the 90-110 billion roubles of budget money required for pipeline construction to the Privolzhskiy region could be spent much more effectively, for example, to address the issue of associated gas utilisation and output of raw materials in East Siberia, the creation of petrochemical capacity in the Far East, Caspian, etc.

LUKoil to start foundations for new Stavrolen complex

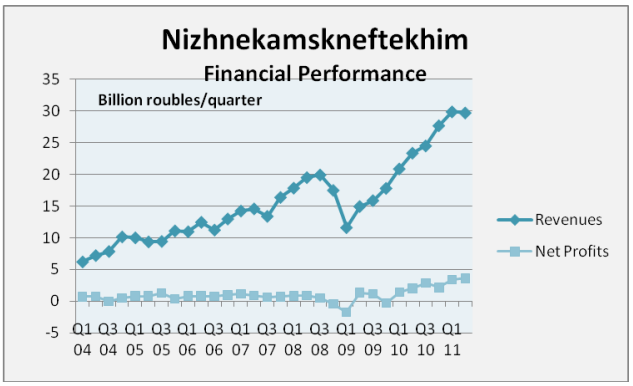
LUKoil plans to lay the first stone in October for the new petrochemical complex at Budyennovsk in the Stavropol region worth nearly $3 billion. The complex will process gas from offshore fields in the North Caspian Sea. The complex is expected to start production in the 2015-2016 period and will comprise 600,000 tpa of ethylene.

LUKoil-Stavropolenergo is planning a project to build a combined cycle plant at Stavrolen based on dry stripped gas extracted from the North Caspian Sea. The cost of its implementation will exceed 7.7 billion roubles. The project will not only ensure a reliable supply of electricity and thermal energy to Stavrolen at present and in future based on expanded capacities. According to the schedule, the project will be introduced before the end of the 2013.

Nizhnekamskneftekhim-Sberbank finance to support new cracker project

Nizhnekamskneftekhim is seeking to attract funds from Russian state bank Sberbank to support the concept of a one million tpa ethylene cracker project, which has been under review for some considerable time. The feedstock source for the proposed cracker remains unclarified. Although naphtha supply may be adequate the company is seeking cheaper alternatives. The broad aims of Nizhnekamskneftekhim are focused on the development of its raw material production base and development of capacities for production of products with high added value.

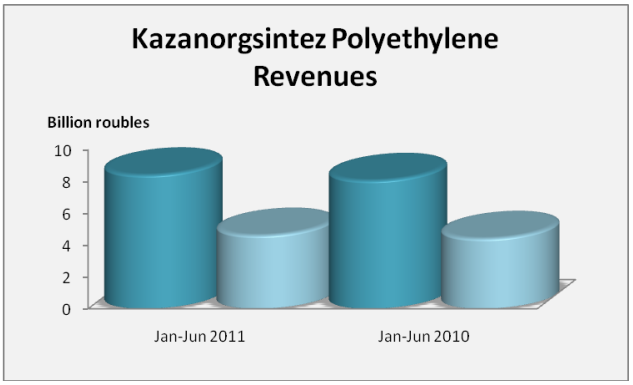
Nizhnekamskneftekhim will look to submit a plan to the government of Tatarstan and the Tatneftekhiminvest holding for a feasibility study for the construction of the new ethylene complex. For the project Nizhnekamskneftekhim needs to find about $3 billion from its own sources and borrowed funds. The company is actively negotiating with banks ING, HSBS, Sberbank and Gazprombank. ABB Lummus Global is expected to be the main contractor in the project, having previously been engaged at Nizhnekamsk, whilst after construction the company's total capacity will be raised to 1.6 million tpa of ethylene.



Nizhnekamskneftekhim, Jan-Jun 2011

Nizhnekamskneftekhim increased revenues in the first half of 2011 by 35% compared to the same period last year up to 59.644 billion roubles. The growth in revenues from sales of primary products has occurred mainly due to rising prices for synthetic isoprene rubber (SKI-3) by 55% for synthetic cis-butadiene rubber (SKDN) 25% for polypropylene 23%, polyethylene 15% and polystyrene by 19%.

The net income for Nizhnekamskneftekhim doubled up to 7.019 billion roubles due to the rise in prices. The company plans to end 2011 with a net profit of 9-10 billion roubles compared to 7.174 billion roubles in 2010 from revenues of 94.4 billion roubles. Similarly to SIBUR, increases in net profits have been proportionally lower than the increases in revenues due to higher costs for raw materials and energy. Nizhnekamskneftekhim increased in production in the January-August 2011 period by 6.3% over 2010 in terms of revenue to 64.9 billion roubles. Turnover rose 33.4% to 78.9 billion roubles.



Kazanorgsintez, Jan-Jun 2011

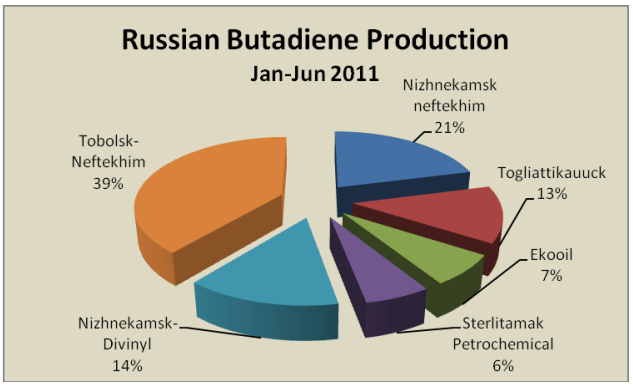
Kazanorgsintez increased revenues by 5% to 18.563 billion roubles in the first half of 2011, although profits were down 30% on the same period in 2010 due to exchange rate factors and the cost of raw materials. The net profit amounted to 655.875 billion roubles in the first half of 2011. Product revenues increased for Kazanorgsintez for most products; polycarbonate for example rose 25% to 2.894 billion roubles mainly due to prices but also higher volume sales.

Sales of LDPE decreased by 4% to 4.414 billion roubles, whilst HDPE sales rose 4% to 8.407 billion roubles. Notwithstanding increases in revenues Kazanorgsintez was faced by rising raw material costs. In the second quarter compared to the same period in 2010 the price of ethane increased by 15%, ethylene by 33.7%, propane and butane by 35%, and benzene by 26%. The main suppliers of raw materials the company during the first half of 2011 included Gazprom (21.5%), Tatneft (7%), Nizhnekamskneftekhim (30.4%), and SIBUR-Holding 9%. Nizhnekamskneftekhim provided large volumes of ethylene to counterbalance the lack of ethane supplied to Kazanorgsintez from Orenburg and Minnibayevo. The main lender to Kazanorgsintez is Sberbank to which the company owes 25.7 billion roubles.

Russian butadiene market, Jan-Jun 2011

Butadiene supply for the merchant market in Russia is expected to tighten in the next few months, due partly to increased captive consumption by producers and partly to higher demand from non-integrated producers for the production of synthetic rubber. Polybutadiene (SKD) production from January to June this year increased almost 19% over 2010, and methyl-styrene rubber (SKMS) rose almost 13%. The overall market for butadiene consumption increased by 16% in the first half of the year.

The major producers of butadiene in Russia are also major players in the production of synthetic rubber, which to a large extent explains the lack of available product for the merchant market. SIBUR, for example, was responsible for producing 60% of Russian butadiene output in the first half of the year, but was also responsible for 35% of polybutadiene rubber and almost 60% of butadiene rubber. Unlike other butadiene and synthetic rubber producers, SIBUR also produces tyres and accounted for 47% of output in the first half of 2011.



Nearly half of butadiene consumption in Russia is through captive processing, with 52% used through merchant sales based on consumption data in the first half of 2011. At the end of the first half year sales in the domestic market amounted to 140,000 tons and increased by 17% relative to the same period last year. Intra-processing from January to June showed only 12% of second growth compared with the rate laid down in the first half of last year, and was about 126,000 tons. From January to June, almost 82% sold on the domestic Russian market of butadiene were purchased by enterprises that are part of the SIBUR group.

In the first half of 2011 Voronezhsintezkaucuk and Togliattikaucuk slightly reduced the operating time of rubber by 3% and 1%, respectively, thus reducing the amount of processing and butadiene. Efremov Synthetic Rubber Plant by contrast increased the production of rubber almost 3.4 times against 2010, while the company's consumption of butadiene rose 3.7 times.

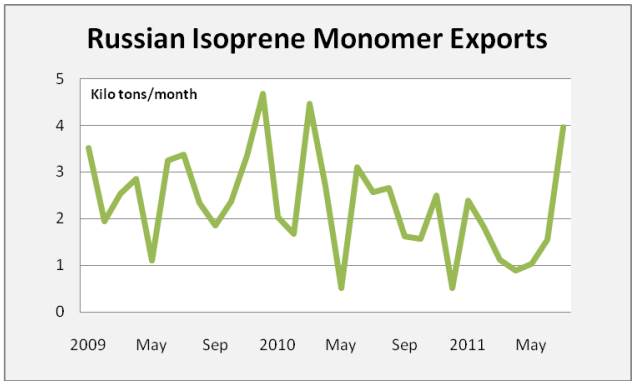
For the first half of this year, butadiene production grew by 15%. It should be noted that the production capacity of butadiene have improved virtually all domestic manufacturers. The exception was Togliattikaucuk: where butadiene volumes from January to June were unchanged from 2010. The leader in the domestic production of butadiene remains Tobolsk-Neftekhim, which accounted for 40% in the first half year.

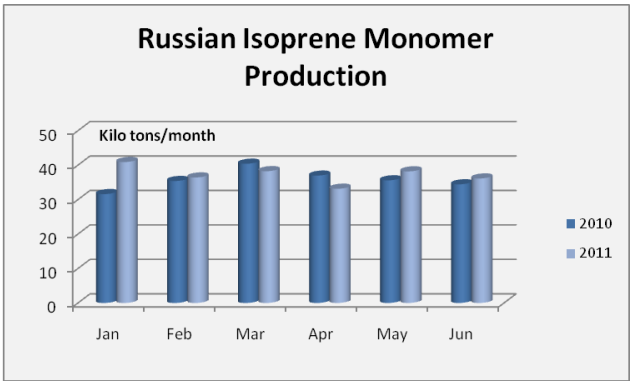
The major problem has been supply; for example last year there was not enough butadiene to meet the

needs of Omsk Kaucuk Efremov Synthetic Rubber Plant, Kazan Plant of Synthetic Rubber, and Sterlitamak Petrochemical Plant. Imports are purchased occasionally but less so in 2011 against 2010. The main supplier of imported butadiene is Arya SGS Quality Services Company and Omsk Kaucuk is the main purchaser. Imports are expected to rise in the latter part of the year in response to higher demand for synthetic rubber production.

Russian isoprene market

Isoprene monomer demand in Russia has been rising quicker than production this year due to higher production





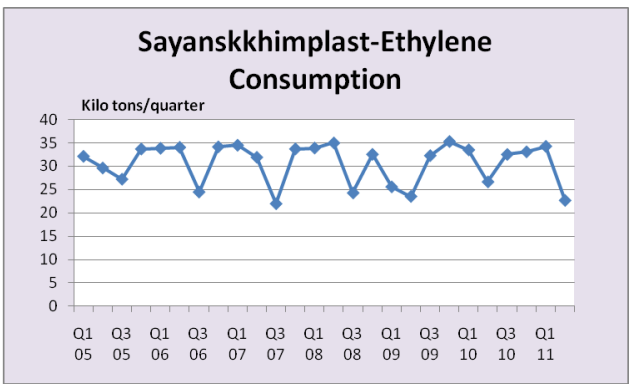
of isoprene rubber which rose 5% in the first half of 2011. Overall the market for isoprene rubber rose 7% in the first half year to 214,000 tons. Almost all growth came from captive processing with the remainder of isoprene monomer exported. Production increased 4% in the first half of 2011 to 223,000 tons. Nizhnekamskneftekhim is the only producer to increase production this year, exceeding volumes from 2010 by 15%. At the same time Togliattikaucuk and Sintez-Kaucuk reduced production by 11% and 6%, respectively. Nizhnekamskneftekhim is the only producer in Russia, which uses one-stage method for release of isoprene.

Export volumes of isoprene monomer are relatively small and aside June this year have been trending downwards in the past twelve months. Exports accounted for 4% of production in the period January-June 2011. The main exporters of isoprene include Nizhnekamskneftekhim and Togliattikaucuk, with the main destinations including Latvia and Finland before further transhipment to other markets. The expected further increases in the demand for isoprene in the domestic market could affect future export volumes. Growth rates are however much lower than for butadiene based rubbers which possess a wider range of applications.

Bulk Polymers

Kaustik, Jan-Jun 11

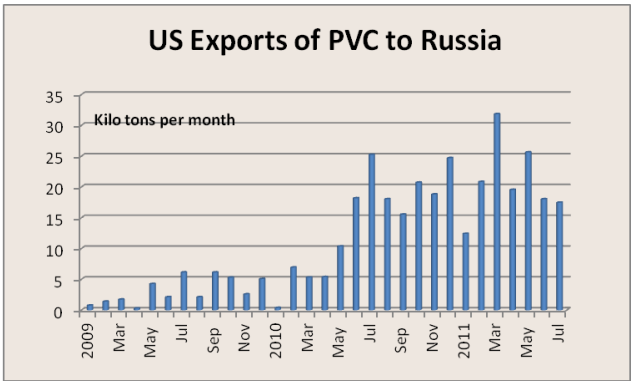
Kaustik at Sterlitamak reduced the production of PVC by 19% in the first half of the year to 78,300 tons. Production of caustic soda by Kaustik also fell by 8% and amounted to 65,100 tons. The company attributed the decrease in production of PVC due to the lack of ethylene and ongoing dispute with Gazprom Neftekhim Salavat. In terms of caustic soda sales Kaustik sold 91,380 tons on the domestic market in the first eight months in 2011 against 109,164 tons in the same period last year. The largest buyers of caustic soda from Kaustik at Sterlitamak include Volzhskiy Orgsintez and Nizhnekamskneftekhim.



Sayanskkhimplast-Rosneft ethylene dispute

Sayanskkhimplast and the Russian Federal Antimonopoly Service (FAS) in the Irkutsk region have challenged the court's decision in the case of the supply of ethylene with Rosneft, which has been an ongoing problem for an extended period. The FAS in August 2010 acknowledged that Rosneft had violated the Law on Protection of Competition with respect to ethylene supplies to Sayanskkhimplast. According to the FAS, this resulted in unjustified deviation from the contract with Sayanskkhimplast in supplies of ethylene, which badly affected interests of consumers. Rosneft also issued an order prohibiting actions that could lead to restriction of competition, in particular in the presence of economic possibilities of production and supply of ethylene. This effectively means that Rosneft is opposed to the idea of constructing an ethylene cracker at

Sayanskkhimplast based on gas supply from Kovytka. By establishing its own source of ethylene the Angarsk Polymer Plant, which is part of Rosneft, would be forced to reduce production rates at its cracker which is connected by pipeline to Sayansk. In reality, Rosneft cannot prevent such a cracker being constructed and partly as a result is examining ethylene derivative plans for Angarsk for development in the next few years.



Russian PVC imports

PVC imports slowed in July and August due to lower demand as traders found warehouses too full that would allow them to make further purchases. However, consumption levels have improved in September and imports from the USA, China and Ukraine are all playing an important part in the Russian PVC market. In the first seven months of this year imports into Russia totalled 339,600 tons which is 1.6 times higher than the same period in 2010.

The Russian association of chlorine industry has appealed to the subcommittee on customs-tariff regulation for the Russian government to re-request for increased duties on imported PVC. At present the duty on import of PVC is 10% of customs value, but the call is to raise this level to 15%. Accordingly, the measure would give Russian producers of PVC greater scope for expanding production capacity, although ethylene is the chief problem. The issue of increasing rates of import duty on PVC was considered by the CIS Customs Union Commission (CCC) in December 2010, but Belarus rejected the proposal. The association includes Kaustik at Volgograd, Kaustik at Sterlitamak, Sayanskkhimplast, and Khimprom at Kemerovo, Usolyekhimprom, and Azot at Novomoskovsk.

Russian Polystyrene Market (unit-kilo tons)

	Jan-Jun 11	*Jan-Jun 10*
Production	144.6	138.0
Exports	20.3	30.0
Imports	61.3	57.4
s/d balance	98.5	70.6

Russian polystyrene market Jan-Jun 2011

Production and imports of polystyrene have both risen this year. Gazprom Neftekhim Salavat resumed production of HIPS and general purpose polystyrene on 17 August after stopping in June for maintenance.

SIBUR-Khimprom has significantly increased production of EPS at Perm since the start of 2011. Production was launched on 9 November 2010 based on Sunpor technology with a capacity of 50,000 tpa. SIBUR-Khimprom plans in spring 2012 to commission the second stage of the production of EPS also with a capacity of 50,000 tpa. The building is already standing, with equipment mostly mounted and expected to be completed by December this year. The commissioning is being planned for the second quarter in 2012.

From the first line for EPS there has been strong interest from consumers in West Siberia. Consumers in the northern regions of Siberia are actively interested in EPS due principally to the requirements for insulation. Demand for EPS in Russia is estimated currently at around 120,000 tpa with the market growing overall at 6-10% per annum. Shipment of the first instalment of Alphapor EPS from SIBUR-Khimprom was sent in April this year to a consumer Eco-Prom in the Yamal-Nenets region in West Siberia.

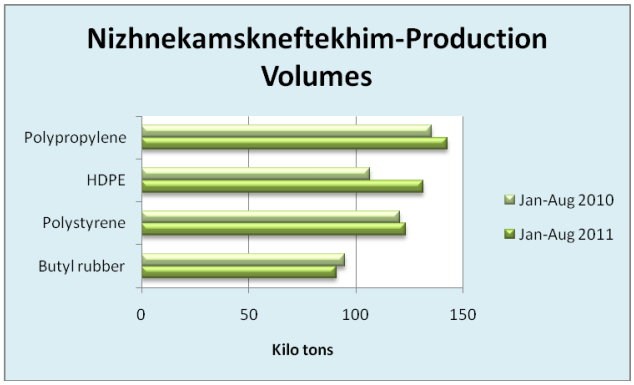
SIBUR is considering building new businesses on the basis of SIBUR-Khimprom after the dismantling of the old ethylbenzene unit. In November 2010 SIBUR-Khimprom put into operation three interrelated production ethylbenzene with a capacity of 220,000 tpa, styrene with a capacity of 35,000 tpa and the first unit for EPS with a capacity of 50,000 tpa. The cost of the second EPS line is estimated at 1.7 billion roubles.

Russian ABS Market (unit-kilo tons)

	Jan-Jul 11	*Jan-Jul 10*
Production	7.8	9.2
Exports	1.0	0.0
Imports	20.7	19.2
Market Balance	27.5	28.4

Russian ABS market

In 2010 the capacity of Russian market for ABS-plastics increased against over 2009 by 64%. Growth has inevitably slowed this year, partly affected by ABS prices which have been driven upwards from higher butadiene prices. The solitary producer of ABS in Russia Plastik has a capacity of 23,000 tpa but it is not loaded at 100% and only accounts for around 25% of the total domestic market. Import volumes will grow until the end of September: as the ABS market will enter the offseason in October.



Russian polyethylene market

Russian HDPE supply has tightened since the start of September, largely in connection with the planned outages starting at Kazan, Salavat and Budyennovsk. Nizhnekamskneftekhim started a 10 day shutdown for its HDPE plant, to coincide with the ethylene outage from 10 September. Kazanorgsintez stopped one HDPE reactor on 7 September, from which it aims to increase the capacity of the reactor by 10-15 tons per hour. Production at Kazan will resume at the end of October. The other two reactors stopped for maintenance from 15 September to mid-October.

In August, the Gazprom Neftekhim Salavat produced 2,800 tons of HDPE, which is 13% higher than in July. For the first eight months of 2011 the company produced 24,700 tons of HDPE which was 12% lower than in the same period of 2010. The 120,000 tpa plant is not running at full capacity due to strong competition for HDPE in the domestic market coupled with the good prices available for ethylene monomer sales to customers Kazanorgsintez and Kaustik.

HDPE exports rose in July by 1.9 times against June due to lower domestic demand in Russia. The main direction of deliveries abroad was Kazakhstan. The main exporter of HDPE is Kazanorgsintez which has accounted for around two thirds of Russian HDPE exports in 2011 which totalled 67,700 tons in the first seven months. Kazanorgsintez produced 28,000 tons of HDPE in August, which was 7% less than in July. The main reason for reducing polyethylene production has been inadequate ethylene supply, due to tightness in both ethane shipments and ethylene deliveries.

In the LDPE sector, Ufaorgsintez stopped production for a short period in the latter part of August. Tomskneftekhim accounted for 57% of LDPE exports in the first seven months in 2011, followed by Kazanorgsintez with 23% and Angarsk Polymer Plant with 10%. Total LDPE exports amounted to 105,700 tons in the period January-July this year. From January to July in 2011 Russia produced 380,300 tons of LDPE, which was 5% less than during the same period in 2010.

Astrakhan polyethylene project

The Astrakhan region has signalled intentions to raise 55 billion roubles of investment to construct a plant to produce polyethylene with a capacity of 500,000 tpa. Astrakhan is one of several Russian locations which possess the feedstock potential to build facilities for the production of polymers, and may ultimately see plans reach fruition but date schedules remain unsurprisingly vague. The project concept involves the creation of facilities for the allocation of ethane, ethylene, polyethylene, and the storage and other auxiliary facilities. The project was initiated by the authorities in the region, based on the Astrakhan gas condensate field, following talks over a period of time with Gazprom and SIBUR which are aiming to add value to ethane, propane and butane.

Russian polypropylene projects

Titan at Omsk is aiming to start polypropylene production at its new Polyom plant In October. By mid-September all of the equipment was reported to have been installed. LyondellBasell had shipped the extrusion additives and equipment necessary for running the extruder lines and test lines for packaging and palletising the finished product. BASF and Sud Chemie have also supplied necessary materials for plant-start-up. The capacity of the new plant is 180,000 tpa which will produce 78 grades of this polymer. At the first stage Titan will produce homopolymers and the second stage the plant will produce block copolymers.

The introduction of the polypropylene plant at Omsk will not only increase Russian production significantly but also will reduce the shares of other producers. Nizhnekamskneftekhim has accounted for around 30% of production in 2011, but this will be reduced to 25% in 2012 and further again after the start-up of the Tobolsk polypropylene plant in 2013.

The priority direction of Polyom is to compete against imported polypropylene which accounts for around 20% of Russian consumption. On the Russian market the company will sell mainly homopolymer polypropylene, which is supplied to Russia from Ukraine and Turkmenistan. However, it should be noted that the full import substitution of polypropylene is impossible due to the absence of certain grades which are not available in Russia. The Polyom plant will form the basis of a polymer and chemical cluster in the Omsk area, including several businesses in the packaging and construction industries.

More equipment was delivered in August to the port of Tobolsk delivered for the new polypropylene project and propane dehydrogenation complex. Total transactions in 2011 involved three vessels of river-sea and four barges via Arkhangelsk.

Aromatics & derivatives

Russian paraxylene market, Jan-Jul 2011

Paraxylene consumption in Russia continues to develop as Polief gradually increases its PTA production. Paraxylene meanwhile has expanded its share of the total xylene isomer production mix, with refineries preferring para over orthoxylene. This situation is due to high demand and high prices as a paraxylene and PTA on the world market.

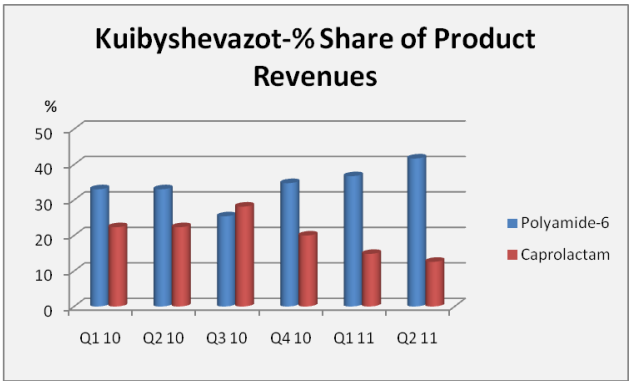
Russian Paraxylene Market (unit-kilo tons)

	Jan-Jul 11	*Jan-Jul 10*	*Jan-Dec 10*	*Jan-Dec 09*
Production	204.1	183.9	324.4	327.7
Exports	99.8	86.8	160.4	180.2
Market Balance	104.3	97.1	164.0	147.5

From January to July 2011 xylene production rose 6% against 2010. Orthoxylene rose 2% to 107,200 tons and paraxylene increased by 11% to 204,100 tons. Paraxylene accounted for 66% of total isomer production compared to 63% in the same period last year. Exports of paraxylene fell in 2010 whilst the supply to domestic consumer (Polief) has increased accordingly. In the first seven months this year though Russian producers have been able to increase sales on the domestic market and to increase exports at the same time due to higher production volumes. The share of exports in paraxylene production in the first seven months this year amounted to 49% against 47% last year.

Ufaneftekhim sold all of its paraxylene production to Polief, whilst Kirishinefteorgsintez exported all of its production. Gazprom-Neft at Omsk combined export activity with domestic sales, and accounted for 59% of external trade.

In 2010, the consumption of paraxylene in Russia increased by 12% over 2009 levels to 164,000 tons, whilst in the first seven months a 7% increase was recorded for Polief amounting to 104,300 tons. However, there are limitations to how much Polief can increase its paraxylene purchases, as capacity is not planned for further expansion beyond the current level of 250,000 tpa which is already close to full utilisation. At the same time PET production in Russia is increasing, and so PTA imports have risen this year following the start-up of the Alko-Naphtha plant at Kaliningrad.



Kuibyshevazot Jan-Jun 2011

Kuibyshevazot increased polyamide production in the first six months this year to 72,800 tons against 52,400 tons in 2010, resulting in a substantial increase in revenues. At the same time revenues from caprolactam sales have declined as the company focuses on added value production. Other investments that have been carried out this year have included the commissioning of a new installation in the production of oxidative cyclohexanone. The application of this equipment is capable of reducing consumption of caustic soda by up to 40% used in the process.

Kuibyshevazot-Production (unit-kilo tons)

Product	*Jan-Jun 11*	*Jan-Jun 10*
Polyamide-6	72.8	52.4
High Tenacity Tech Yarns	6.7	3.9
Tyre Cord Fabric	3.1	3.2
Caprolactam	95.3	83.6
Ammonia	318.7	148.0
Urea	176.4	155.4
Ammonium Nitrate	279.8	266.0
Ammonium Sulphate	234.4	213.5

Although profitability increased for Kuibyshevazot in the first half of 2011, raw material and feedstock costs undermined the ratio of profitability. Measured against the second quarter in 2010 year benzene costs were 355% higher, phenol 39% and oleum by 70%. At the same time natural gas dropped by 21%, although the reasons for this are not clear.

Kuibyshevazot exported 63% of production in the first half of 2011, with distribution focused on Northeast and Southeast Asia, the Middle East, West and East Europe. At the same

time ,the geography of sales to the Russian market is far reaching, particularly for fertilisers in regions such as Krasnodar and Stavropol, Rostov, Volgograd, Samara, Saratov, etc. Consumers of PA-6 in the Russian market include manufacturers of engineering plastics and films, fibres and filaments, located in Moscow, Samara, Kursk, Volgograd, Tula, Rostov and Sverdlovsk regions. Nylon cord fabric is supplied to the Russian tyre plants in Tatarstan and Altai Krai.

Kuibyshevazot-Product Revenues (Billion roubles)

Product	*Jan-Jun 11*	*Jan-Jun 10*
Polyamide-6	6.1	3.4
Caprolactam	1.8	2.3
Urea	1.8	1.1
Ammonium Nitrate	1.8	1.5

Russian Phthalic Anhydride Market

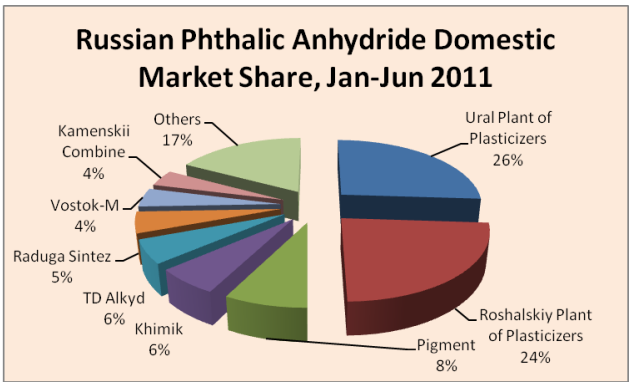
	Jan-Jun 11	*Jan-Jun 10*
Production	54.3	50.7
Exports	29.8	33.1
Imports	4.8	3.0
Market Balance	29.3	20.6

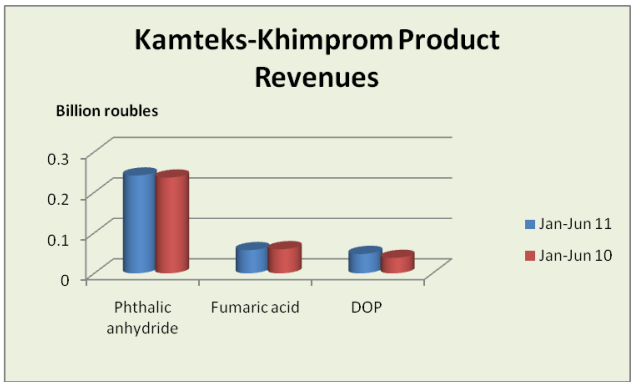
Kuibyshevazot-cyclohexanone unit

Kuibyshevazot has begun design work on the construction of the cyclohexanone unit, for which the license has been provided by DSM. The company aims to start production in 2014-2015. Kuibyshevazot established and started two jvs with DSM this year involving cyclohexanone and engineering plastics.

Russian phthalic anhydride market

Orthoxylene supply has been tighter this year in Russia for phthalic anhydride production, as refineries focus more on paraxylene for PTA and exports. Consumption of phthalic anhydride in the domestic market rose 42% in the first half of 2011, which has meant less product available for exports. The main reason for higher growth in the domestic market this year has been due to higher demand from the plasticizer sector. During the first half of 2011 Russian exports of phthalic anhydride totalled 29.800 tons, which is 10% less than in the same period in last year. For the first half in 2011 Russian sales on the domestic market amounted to 24.600 tons which represented a 38% increase over the same period last year. Imports rise 4,800 tons in the first half of 2011, 62% up on the same period last year and sourced mainly from Belarus.





Kamteks-Khimprom, Jan-Jun 2011

Turnover changed little for Kamteks-Khimprom in the first six months of 2011 against the same period in 2001. Fumaric acid revenues dropped slightly, but both phthalic anhydride and DOP both recorded minor increases. Higher costs for the main feedstock orthoxylene tended to be the main factor behind the drop in profitability combined with energy costs and product prices which did not account for the rises. In the first six months in 2011 Kamteks-Khimprom produced 48,356 tons of phthalic anhydride against 45,122 tons in the same period last year.

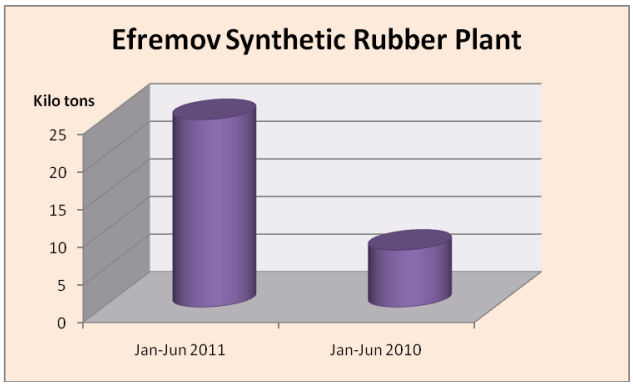
Synthetic Rubber

Russian synthetic rubber market

Competition in the Russian market this year has been stronger this year with imports rising 52% in the period January to July. The main source of imports is China accounting for 35% of total shipments, followed by Germany with 16% and Poland 7%. For the first seven months of 2011 shipments from China have risen by 68% over 2010 (25,760 tons), from Germany 4% (11,490 tons), and from Poland 16% (5,180 tons). Despite the increase in imports domestic production accounts for the major share of domestic consumption.

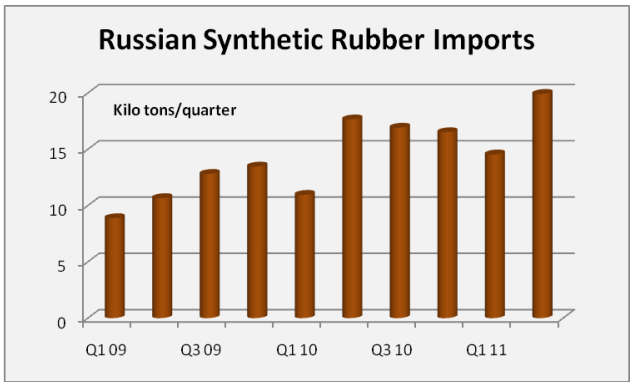
Efremov Synthetic Rubber Plant, Jan-Jun 2011

The net profit for Efremov Synthetic Rubber Plant in the Tula region increased 3.3 times in the first half year to 345 million roubles. Revenues from product sales increased by 2.1 times to 3.2 billion roubles, although the cost of sales also rose by 2.2 times to 2.48 billion roubles. The company has achieved significant growth in profits



and revenues from rubber production in response to rising demand for tyre and industrial rubber products in the domestic and international markets. Regarding ownership, Efremov Synthetic Rubber Plant was taken over from Tatneft on 1 July 2011 by Matrix from Snezhinsk in the Chelyabinsk region.

For Efremov Synthetic Rubber Plant the major factor influencing the production security is butadiene supply which the company sources from SIBUR-Holding and Nizhnekamskneftekhim. The Efremov plant produced 11,700 tons of synthetic rubber in the second quarter in 2011 which is almost equal to the first quarter, and 12 times more than during the same period of 2010. The growth of rubber production is due to the increased demand for tyre and rubber products both in Russia and abroad. Butadiene supply to the Efremov plant has also been made available from SIBUR in exchange for polybutadiene for its tyre plants.

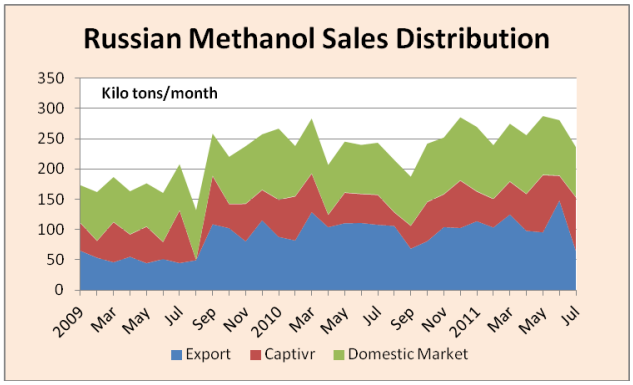


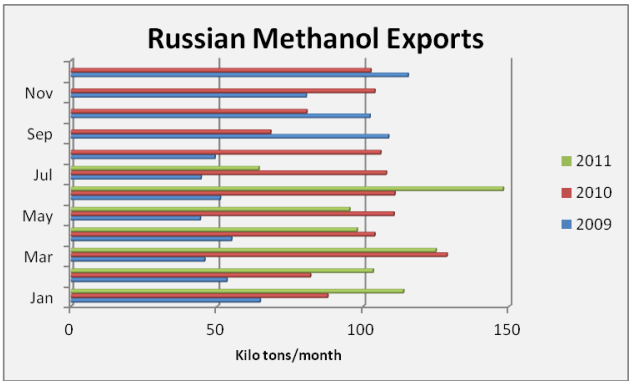
Sterlitamak Petrochemical Plant, Jan-Jun 2011

Sterlitamak Petrochemical Plant increased revenues in the period January-June 2011 by 45.7% to 3.8 billion roubles compared with the same period last year. Production totalled 69,400 tons which is 7.4% up on the same period last year. The production of antioxidants was down 10% to 8,900 tons, MTBE rose 17.2% 17.2% to 15,400 tons, and synthetic rubber by 14% to 24,100 tons.

Sterlitamak Petrochemical Plant has received experimental batches of new products of emulsion styrene butadiene rubber SKS-1739. This grade is similar to SBR-1739, which is used in foreign markets. Samples of rubber have been transferred to the tyre companies in Russia, Ukraine, and Belarus for examination.

Methanol & related chemicals

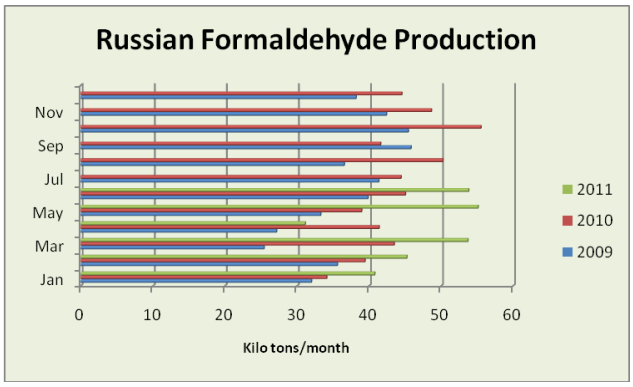




Russian methanol consumption, Jan-Jul 2011

Rises in captive consumption amongst Russian methanol producers has led in recent months to periodic disruptions of product shipments both to domestic and foreign markets. Exports of Russian methanol showed a rapid decline in July this year dropping to 64,000 tons against 147,000 tons in June. Overall for the first seven months exports totalled 747,500 tons against 732,800 tons in 2010, but the trend in the second half of 2011 appears to be less volume available for export.

The main direction of export shipments remains Finland, which still accounts for more than half of Russian methanol. The largest exporters in the first seven months this year remained Metafrax and Sibmetahim, which together accounted for 55% of total Russian exports. Sibmetahim sells about half its production from Tomsk to markets overseas and Metafrax about 25%.



Russian methanol consumption rose overall 13% in the first seven months in 2011, whilst captive processing recorded a 19% increase against 2010. Formaldehyde represents the main outlet for captive processing, with consumption rising 24% in the first seven months this year influenced to an extent by the production of phenol formaldehyde resins. The demand for resins has been accelerating in recent years due to the assumed quality advantages compared over urea-formaldehyde resins. Formaldehyde production totalled around 300,000 tons in the first half of 2011,

Metafrax continues to be the largest producer of formaldehyde in Russia, followed by Akron and Shchekinoazot. The only company to reduce production has been Karbolit which reduced production by 12% against the same period last year.

Russian Methanol Market (unit-kilo tons)

	Jan-Jul 11	*Jan-Jul 10*	*Jan-Dec 10*	*Jan-Dec 09*
Production	1862.4	1724.4	2926.6	2341.3
Exports	747.5	732.8	1193.1	811.7
Market Balance	1114.9	991.6	1733.5	1529.7

Metafrax-hexamine

Metafrax will open a new production line for hexamine in October with a capacity of 20,000 tpa. The project cost amounted to more than €15 million. More than 70% of the production is intended for exports to Europe, Brazil, Argentina and other countries. Eventually the company aims to increase capacity to 35,000 tpa.

Metafrax restarted methanol production in September after 25 days of planned maintenance. After 2011 the company is moving to a two-year overhaul cycle from the current one-year. In 2011 the company has set a forecast for producing 950,000 tons which would be 7% less than in 2010. It is expected that as a result of the maintenance programme undertaken this year gas consumption per ton of methanol will be reduced to 15 cubic metres.

Exports of chemical products for Metafrax in the second quarter in 2011 amounted to 43.5% of total commodity output. Methanol is exported to Kazakhstan, Finland, and Ukraine. Hexamine is sold mainly to markets in Austria, Germany, Italy, China, Netherlands, Poland, etc.

Fosagro-new chemical complex

The Fosagro group is considering plans to build a large gas-chemical complex in the Vologda region, based at Azot at Cherepovets. The project involves the construction of new large ammonia plants and other units. The aim is to integrate the new complex with the existing facilities at Azot and Ammofos at Cherepovets, including such goals as a reduction in consumption of gas and electricity.

The new ammonia plant would require in the range of one billion cubic of natural gas per annum; talks are currently underway with Gazprom and Novatek over supply agreements. At a later stage, investments could possibly be widened to include processing of hydrocarbon raw materials. One of the goals that have been under examination is to create a gas chemical cluster in the Cherepovets region. This would be consistent with the general government strategy towards the chemical industry.

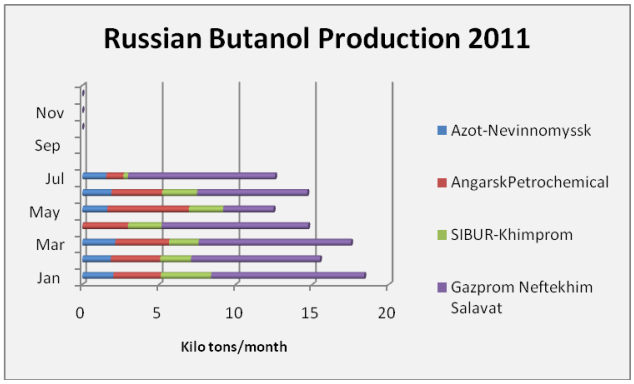
Organic chemicals & plastics

Oxygenated solvents

Russian exports of acetone totalled 33,500 tons in the first seven months in 2011, 37% up on the same period last year. The main suppliers of acetone on foreign markets include Omsk Kaucuk and Samaraorgsintez which accounted for 40% and 43% of gross shipments respectively. Large consignments of commercial product from January to July 2011 were exported to Belarus (34%), Finland (32%) and Turkey (13%).

Ethyl acetate has been in short supply in Russia this year leading to rising prices. Asha at Chelyabinsk ceased production of ethyl acetate in January this year due to a lack of working capital, affecting its ability to purchase acetic acid. Acetic acid has also been in short supply for other producers of ethyl acetate in Russia due to a

significant increase in the production of VAM. Due to the raw material supply disruptions to other companies within the industry, ethyl acetate production declined 37% in the first half of 2011.



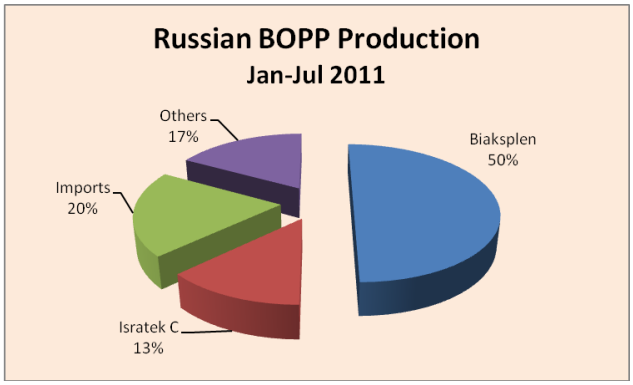
Russian butanols market, Jan-Jul 2011

SIBUR-Khimprom and Angarsk Petrochemical Company underwent shutdowns in July affecting production of butanols. From January to July 2011 Russian plants produced a total of 162.400 tons, 64% of which comprised normal butanol and 36% isobutanol. The largest domestic producer is Gazprom Neftekhim Salavat, which accounted for 50% of total production. This was followed by shares of SIBUR-Khimprom at 24%, Angarsk Petrochemical Company at 19%, and Azot at Nevinomyssk 7%. Production dropped slightly in the second quarter due to less export shipments being directed to China.

Russian PE films market

The market for polyethylene films in the Russian Federation increased 6.1% in the first half of 2011 to 184.100 tons. Production reached 136.400 tons, up 4%, imports 48.500 tons, or 10.2% up, while exports declined by 50.8% to 0.800 tons. The increase in sales of polyethylene films is due mainly to capacity purchase divisions of stretch film production, construction, and to a lesser degree shrinkable. The main consumers of these products include glass factories, and manufacturers of building materials.

Consumption for polypropylene films in the first half of 2011 totalled 90,600 tons, or 15.6% higher than the same period of 2010. Production amounted to 77,300 tons, 0.7% up, whilst exports fell 60.8% to 4,200 tons. Consequently, in the first six months of 2011 the market has expanded mainly due to increased imports. However, the growth rates have been made to look better by the fact that warehouses are overstocked and prices have been under some pressure in the past couple of months.



Russian BOPP market

The consumption of BOPP films in Russia for the first seven months in 2011 amounted to 102,640 tons, a 10.9% increase over the same period in 2010. However, according to market players the warehouses are overstocked and thus actual consumption is less than apparent. Consequently, for seven months of 2011 the share of imports in consumption has increased to 19%, compared to 15% for the same period of 2010.

From January to July this year Russia produced 82,250 tons, 4.2% less than in 2010. The reason for reduced production was the increase of competitiveness of imported film products against the high cost of domestic product. Imports totalled 18,780 tons in the first seven months in 2011 which represented a 55.8% increase over the same period in 2010. Consequently, the BOPP market is expanding based on imports. Russian exports fell by 55% in January to July 2011 and totalled 5,100 tons.

Tomskneftekhim launched a new brand of polypropylene PP H035BF for the production of BOPP film. The new copolymer has been developed in the laboratory of plastics synthesis at Tomsk. It was found that the BOPP film based on the new grade of polypropylene have greater transparency, tensile strength, and barrier properties compared to products of traditional polymers. In the near future, Tomskneftekhim plans to conduct extensive tests of the new polymer and proceed towards industrial production.

Other products

Bashneft-Goldovsky

Bashneft has confirmed that it has created a jv with Petrochemical Holding in Austria, owned by SIBUR's former president Yakov Goldovsky, which has been entitled United Petrochemical Holding. Financial group

AFK System will hold 75% of the jv and Petrochemical Holding in Austria 25%. The jv has been created to conduct research and analysis of and investment attractiveness of Russian petrochemical industry. It is possible that United Petrochemical Holding could develop a vertical chain of production involving plants owned by Goldovsky in the Dzerzhinsk region and the petrochemical plants owned by Bashneft in Bashkortostan.

In the long term the jv could produce 200,000 tpa of propylene oxide and diisocyanates such as MDI, as well as polyurethanes up to 400,000 tpa. In addition, the project involves the creation of pyrolysis production capacity of 300,000 tpa of ethylene.

Soda-Sterlitamak

Soda at Sterlitamak has approved the acquisition of Berezniki Soda Zavod, including 99% of ordinary shares and 74.7% of preferred shares for a value of 6.05 billion roubles. Soda has appealed to the government to allow mining of limestone in the mountains at Tra-Tau Tau Jurack in Bashkortostan. Currently, raw material base for production is mined in the mountains of Shah-field Tau, but 90% of limestone reserves in this region are already exhausted and it is estimated that the field will be fully exhausted by 2017. The Tra-Tau Tau Jurack region is subject to strict e environmental control which may prevent Soda from developing the deposit. In 2010, Soda produced 1.56 million tons of soda ash which accounted for 58% of total Russian production.

Volgograd companies Plastkard and Kaustik could merge

Plastkard and Kaustik at Volgograd, part of the Nikokhim group, could be merged into one company form a much stronger chlorine group producer, including PVC and caustic soda. Shareholders are considering further share issues. Both companies are part of the Nikokhim group and are not only located close to one another but also utilise the same industrial facilities. Kaustik's shareholders have proposed to increase the charter capital to enable the merger to go through. Kaustik is Russia's second largest producer of caustic soda, and was created in 1992 after transformation from a state owned company. Currently, the Nikokhim group includes six chemical plants, of which Kaustik and Plastkard are the largest.

Belarus

Belarussian feedstock costs

Belneftekhim increased prices for naphtha by 5% in September and paraxylene by 95%, the latter increase particularly harmful for Mogilevkhimvolokno. This follows measures in July by the government to impose a 31.4% increase on import duties on naphtha and aromatic hydrocarbons. These increases are the result of serious economic difficulties in the country and affect benzene, orthoxylene and paraxylene supplies. Mogilevkhimvolokno and Polymir expect to see costs rise for polyester and ethylene production respectively.

Belarussian PET Supply/Demand Balance (unit-kilo tons)

	Jan-Jun 11	*Jan-Jun 10*
Production	98.6	110.8
Export	17.5	30.2
Import	4.1	4.7
Market Balance	90.0	73.8

Belarussian PET market

Raw material shortages have affected PET production at Mogilevkhimvolokno this year, with volumes down 11% in the first half of 2011. PTA and MEG difficulties from Russia were the main causes of the raw material shortages.

Mogilevkhimvolokno is capable of producing both food pellets and fibres, but lower production this year has resulted in lower export activity for PET. This has been partly influenced by cheaper Asian product being made available, thereby affecting competitiveness of Belarussian product. Exports totalled 17,500 tons in the first half of 2011, 42% down on the same period in 2010. Most of the exports from Belarus are directed towards the Russian market. In addition to Asian product, Mogilevkhimvolokno is now faced with additional competition from Alko-Naphtha from the new Kaliningrad plant not only in the Russian market but also the domestic Belarussian market. As Russian imports are duty free into Belarus, as a result of the customs union, Alko-Naphtha is well placed to compete on the Belarussian market.

Belarussian chemical projects

Mogilevkhimvolokno is in the latter stages of constructing a plant for methyl esters of fatty acids with a capacity of 50,000 tpa. The plant is to be constructed on free areas and adjacent vacant land, and should be completed in 2012. Feedstock for MEZHK is vegetable (rapeseed) oil and methanol, whilst the catalyst to be used is potassium hydroxide. The MEZHK plant is to be integrated into the Mogilevkhimvolokno site as part of the organic division.

ATEC Company, which controls several companies in the Belarusian glass industry, has begun building Soda Plant Mozyr in Belarus. Partners in the new project include state-owned enterprises Gomelglass, Grodnosteklo, and the Chinese company CNEC. CNEC signed an agreement in 2010 on the participation in the construction of the plant to produce soda. The company plans to provide technology and equipment, and also partially finance the project.

The production capacity of the new plant is to be designed at 300,000 tpa of soda ash, which based on current consumption levels should meet the needs of the domestic market of the country (about 120,000 tpa), as well allowing export activity. The plant for the production of soda ash is planned to be built in the industrial zone of Mozyr. Currently Belarusian consumers use imported products either from Ukraine or Russia.

Ukraine

Ukrainian Chemical Production (unit-kilo tons)

Product	*Jan-Jul 11*	*Jan-Jul 10*
Acetic Acid	82.9	34.3
Ammonia	2984.7	2299.3
Benzene (-95%)	104.3	122.5
Benzene (+95%)	78.0	64.2
Caprolactam	35.4	0.0
Ethylene	117.1	0.0
Formaldehyde	19.1	32.0
Methanol	72.7	33.7
Polyethylene	63.4	0.0
Polypropylene	56.6	42.8
Polystyrene	10.4	10.2
Polyvinyl Acetate	3.1	3.9
Propylene (merchant)	54.0	0.0
Soda Ash	451.5	390.7
Titanium Dioxide	90.7	72.7
Toluene	3.1	3.1

Ukrainian polymer market

In the first seven months in 2011 Karpatneftehim exported 55,300 tons of HDPE, accounting for 87% of production at the kalush plant. Despite the restart of Karpatneftekhim's plant imports of polyethylene in Ukraine in the first seven months amounted to 177.500 tons which is 13% more than the same period in 2010.

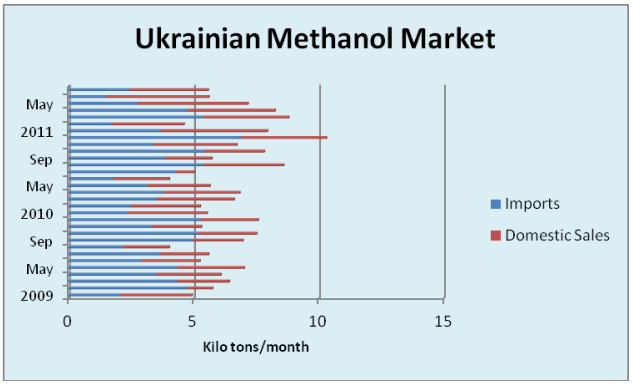
From its new PVC plant Karpatneftehim produced 16,380 tons in August, which was 6% more than in July. The increase in production is due to two factors. Firstly, some Ukrainian consumers have already tested products from Kalush plant, based on Vinnolit technology, and have approved purchases. Secondly, Karpatneftekhim is gradually increasing capacity utilisation, and has now reached 66% against a level of 62% in July. In the period June to August Karpatneftekhim had produced 38,020 tons of PVC.

Since the restart of the Kalush HDPE plant last year not only has Ukraine been able to export polyethylene, but it has also impacted on the domestic production of polyethylene film. Thus, in the first half of 2011 Ukrainian production of polyethylene films rose 14% to 54,800 tons. PVC film production has also been helped by the availability of PVC resin from Kalush and has risen 23.5% to 4,600 tons in the first half of 2011. The main producer to increase polyethylene film production was Sirius Extrusion which achieved 34.3% more production over the same period in 2010 to 19,000 tons. Whilst polyethylene and PVC film production has risen this year polypropylene films have fallen this year by 14.6% to 5,200 tons.

Ukraine does not produce LDPE, with the only unit at Severodonetsk idle since the mid-1990s due to the lack of ethylene. Imports of LDPE are thus sourced from Russia, Belarus and West Europe. Tomskneftekhim has been the largest supplier to the Ukrainian market this year, followed by Polymir at Novopolotsk in Belarus. Azerkimya also supplies product to the Ukrainian market, having shipped 8,100 tons in the period January to July 2011.

Ukrainian methanol market

Despite declines over the summer period both methanol consumption and production in Ukraine have increased this year, recovering to pre-crisis volumes. Consumption has been driven by the increase in acetic acid production, whilst formaldehyde production has been lower this year. Imports were slightly higher in the first seven months, all sourced from Russia. Azot at Severodonetsk has increased production this year and has accounted for a large part of the increase in consumption. The share of captive processing in Azot's production of methanol amounts to 75-80%, and Azot itself accounts for around 70% of methanol consumption in Ukraine. In the merchant sector 72% of sales in the first seven months this year went to the



Ukrainian Methanol Market (unit-kilo tons)				
	Jan-Jul 11	*Jan-Jul 10*	*Jan-Dec 10*	*Jan-Dec 09*
Production	85.8	38.5	94.2	94.2
Imports	22.2	21.4	46.3	46.8
Market Balance	108.0	59.8	140.6	141.0

gas industry, 23% to formaldehyde and 5% to MTBE. The main focus of processing of imported methanol is the production of MTBE

The main supplier of Russian methanol to the Ukrainian market is Shchekinoazot, accounting for 80% of shipments to date this year. However, Azot at Novomoskovsk does not provide methanol at cheaper prices. The average price of methanol, imported to Ukraine from Russia, has been $320/ton DAF Ukrainian border which marks a 25% increase over 2010. Even so the rise in Russian methanol prices has been less than the rise in Russian natural gas prices which has risen around 30% this year.

Ukrainian organic chemicals

In the first half of the year Ukraine produced 11,200 tons of ethyl acetate which is 3% less than during the same period in 2010. A total of 81% of the gross volume of production was produced by Perechinsky LKhK, and the remaining 19% by Kirovograd Rayagropostavschik. The producers have encountered problems with the acquisition of raw materials, particularly ethanol. Kirovograd Raiagrosnab had to suspend production in the first half of June.

In the caprolactam market Azot at Cherkassy increased production by 20% in the first half of 2011 to 30,000 tons. Ukrainian caprolactam production is sold exclusively abroad, mainly in to Asia. More than half of domestic caprolactam production is based on imported benzene.

Ukrainian Hydrochloric Acid Market (unit-kilo tons)				
	Jan-Jul 11	*Jan-Jul 10*	*Jan-Dec 10*	*Jan-Dec 09*
Production	36.5	38.0	71.0	55.8
Exports	6.7	7.2	13.6	12.4
Imports	0.1	0.0	1.0	0.1
Market Balance	29.9	30.9	59.3	47.7

Ukrainian hydrochloric acid market

Hydrochloric acid sales in Ukraine have fallen slightly this year after staging a major recovery in 2010. Last year domestic producers achieved 71,980 tons of production which was 29% higher than in 2009.

Despite the increase in the volume of sales in 2010, production did still not reach the level of 2008. This year's production fell 4% in the first seven months against last year. One reason is that the high demand for chlorine has prevented the increase in the production of hydrochloric acid. The largest company to produce hydrochloric acid in Ukraine is Dneproazot which accounted for 79% in the first seven months in 2011. Exports accounted for 18% of sales in the period January-July 2011, mainly going to Belarus. The export value of hydrochloric acid has varied in the range of $80-90/ton.

Kazakhstan-Azerbaijan

SOCAR-gas and petrochemical complex to start construction in 2013

SOCAR plans to begin construction of new oil and gas processing and petrochemical complex at Garadag in 2013. To date, the feasibility study for the project has been completed and detailed engineering has been started. After the execution of detailed engineering SOCAR will begin a lengthy process for the selection of equipment and other licensors, with work intended to start on the complex in 2013 with start-up intended for 2018-2020. It is assumed that in the first place a gas processing plant with a capacity of 10 billion cubic metres of gas will be put into operation.

This plant will use gas produced by SOCAR's own fields, particularly Azeri-Chirag-Guneshli, and, if necessary, the gas from the Shah-Deniz field. In the second phase the petrochemical complex will be commissioned followed with an oil refinery with a capacity of 10 million tpa. The feasibility study was undertaken with the participation of companies such as Technip, Foster Wheeler AG, and UOP. SOCAR is also undertaking a project to build a nitrogen fertiliser plant at Sumgait. The plant's capacity is being designed to comprise 2,000 tons per day. The plant will consist of the production of ammonia, urea, and urea granules.

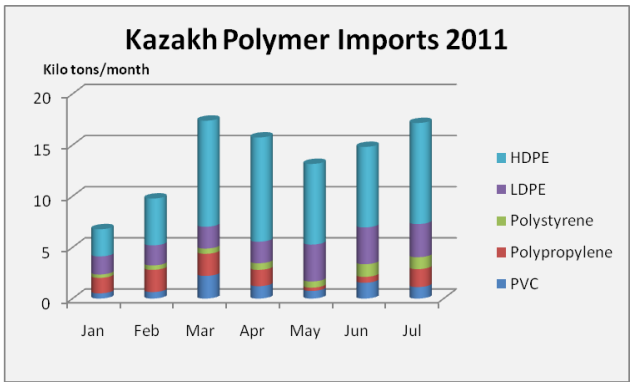
Kungrad Soda Plant increases soda ash production

The Kungrad Soda Plant in Uzbekistan produced 52,000 tons of soda ash in the first half of 2011 which was 10.9% more than the same period last year. The target for 2011 is 95,000 tons based on a 100,000 tpa capacity. Uzkimesanoat controls Kungrad Soda Plant and intends to increase capacity to 150,000 tpa by around 2015. The expansion of the capacity at the Kungrad Soda Plant is to be facilitated by increasing the extraction of

limestone at the Dzhamansaysk salt deposit in the Republic of Karakalpakstan. The deposit provides the main raw material base for the plant with annual demand for limestone standing at 153,000 tons.

Asian Development Bank-UzKorGasChemical

Asian Development Bank (ADB) has agreed to provide the Uzbek-Korean joint venture UzKorGasChemical credit and guarantees for commercial risks totalling $400 million. The funds will be used for the construction of Ustyurt Gas Chemical Complex in the north-west of Uzbekistan. Construction of the Ustyurt Gas Chemical Complex was officially initiated on 24 August, although construction will not physically start until 2012. The complex is based on the Surgil field and is worth $2.6 million, with construction being undertaken by the South Korean companies GS Engineering and Construction, Samsung Engineering and Hyundai Engineering.



Annual capacity of the complex includes 4.0 billion cubic metres of natural gas and 362,000 tons of polyethylene, 83,000 tons of polypropylene and 3.7 billion cubic metres of marketable natural gas. The Surgil deposit was discovered in March 2006 and is currently being developed jointly by Uzbekneftegaz and the Uzbek-Korean jv UzKorGasChemical. The deposit's reserves are estimated to comprise about 120 billion cubic metres and contain a large amount of valuable components, including ethane of 4.8%.

Asian Development Bank (ADB) plans to the end of 2011 to join the consortium lenders of the project by providing a loan of $125 million and risk guarantees for commercial financing in the amount of $275 million. Previously it was reported that UzKorGasChemical plans to raise funds from international financial institutions of up to $3 billion for construction of Ustyurt MCC. It is expected that a consortium of lenders will also include BNP-Paribas, Deutsche Bank, UniCredit Group, Korea Eximbank and the Korea Development Bank. Risks to the commercial portion of funding, in addition to ADB, will be insured by the Eximbank and the Korea Export Insurance Corp (KEIC, Korea Export Insurance Corporation). It is expected that the consortium is fully formed before the end of 2011 and funding can be opened in early 2012.

According to the preliminary schedule, construction will begin in 2012 and completed in 2014. This will be the second petrochemical complex in Uzbekistan following the Shurtan complex which was introduced in 2001.

Kazakh Polymer Imports

The share of Russian LDPE in the Kazakh market amounted to 91% in the first seven months in 2011, with imports totalling 18,402 tons. This was 1.9 times higher than the same period of 2010. For HDPE imports totalled 53,397 tons in the period January to July 2011. Overall polyethylene imports totalled 73,700 tons which was 45% up on 2010. PVC imports totalled 8,000 tons in the first seven months in 2011, 5% less than in the same period last year. China represented the main source of product into the country. In the polypropylene sector, Kazakh imports totalled 10,100 tons in the period January-July 2011 which was 1.6 times more than in 2010. The main suppliers of polypropylene are Russia and Korea.

Foster Wheeler agrees contract with KPI for hydrogen unit at Atyrau

Foster Wheeler has been awarded a contract through a subsidiary for the basic engineering design of a new hydrogen production unit at Atyrau. Omskneftekhimproekt awarded the contract to Foster Wheeler as part of a major revamp and modernisation of the Atyrau refinery. The main purpose of this project is to increase the oil conversion rate and production of all types of motor fuels to meet Euro IV and Euro V standards. The new hydrogen unit, which will use high olefinic LPG as the main feedstock and natural gas as the alternate feedstock, will be designed to produce 24,000 normal cubic meters per hour (Nm(3)/h) of pure hydrogen. The basic design package is scheduled for completion during the third quarter of 2011.

LG Chem-Atyrau

LG Chem has announced plans to build a $4 billion ethylene and polyethylene complex at Atyrau, in partnership with Kazakhstan Petrochemical Industries (KPI). The companies have formed a 50/50 jv to implement the project, which will use ethane feedstock to produce 840,000 tpa of ethylene and 800,000 tpa of polyethylene. KPI will supply the ethane feedstock for the project, which is expected to start commercial production in 2016. With this investment, LG Chem has now secured an important production site based on low-cost petrochemical

resources, to allow the company to compete with the Middle East in the future. KPI is currently in the early stages of building an integrated chemical complex at Atyrau. This project is geared to be introduced in several stages, and in addition to 800,000 tpa of polyethylene the company is building a polypropylene unit based on PDH with a capacity of 500,000 tpa.

Relevant Currencies

Czech crown. Kc. $1= 20.85. €1 = 25.5671: Hungarian Forint. Ft. $1 = 223.5. €1 = 274.065: Polish zloty. zl. $1=3.1135. €1 =4.065: Bulgarian leva: $1 = 1.5956. €1= 1.9596: Romanian Lei. $1 = 3.4151. €1= 4.187: Croatian Kuna HRK. $1 = 5.9239. €1= 7.2641: Ukrainian hryvnia. $1 = 7.931. €1 = 9.7253: Rus rouble. $1 = 31.022. €1= 38.0405

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