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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FEATURES FROM THIS ISSUE

CENTRAL & SOUTH EAST EUROPE

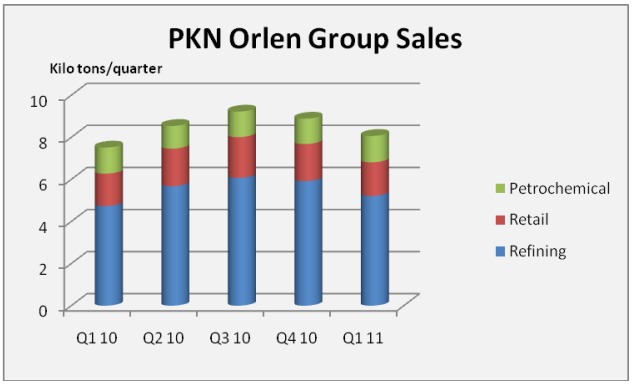
Petrochemicals

PKN Orlen-upstream concessions and strategy

The Department of Geology and Geological Concessions, at the Polish Ministry of Environment, has issued a decision granting PKN Orlen another concession for searching and determining the size of earth gas reserves in the Lublin Region. The area covered by the concession, tentatively called Hrubieszów, covers an area of 414.5 square kilometres and is located within the south-east part of the Lublin coal basin. The Department of Environment has granted a concession for a period of five years during which Orlen Upstream plans to implement three stages of geological works.

Due to the concessions held, the Orlen Group may become an important natural gas producer in Poland. In order to prospect and then to manage the deposit, PKN Orlen intends to commence co-operation with an experienced business partner which possesses the necessary know-how and the capital. In 2010, four exploration and extraction activities projects were conducted: in the Latvian zone of the Baltic Sea shelf in co-operation with Kuwait Energy Company, near Sierakow with PGNiG and two other implemented independently in the Lublin region.

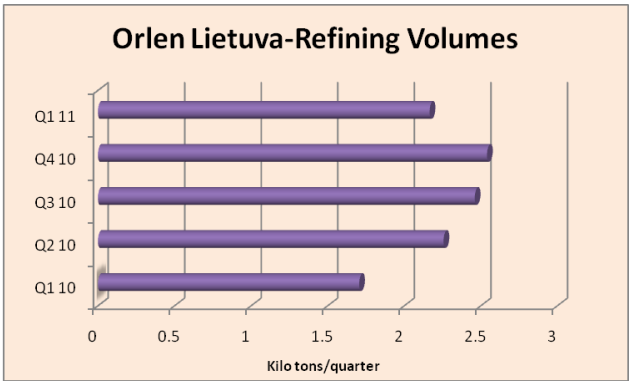
The main goal of the Orlen Group's strategy is to create an integrated, multi-segment fuel and energy entity, with the diversified structure of assets. The main development investments are focused on new types of business activity for exploration and extraction of hydrocarbons and electricity production.



PKN Orlen Q1 2011

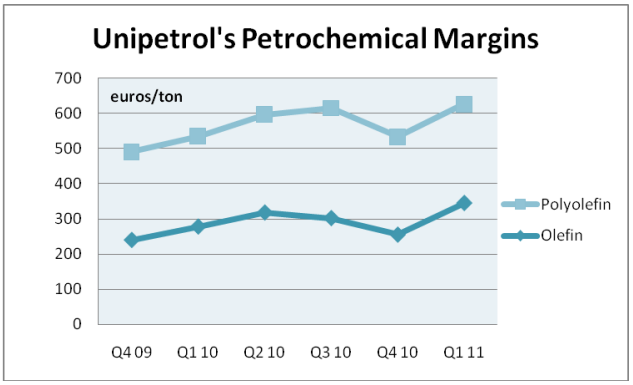
PKN Orlen has provisionally recorded a zl 1.3 billion operating profit in the first quarter in 2011, representing growth of around three times against last year. The growth is partially the result of the situation on the global oil market where prices grew by an average of 22%. Orlen has noted an increase of the throughput of crude oil, mainly the operations of its plant in Lithuania against the same period last year, whilst Unipetrol recorded a decline due an unplanned outage at Litvinov.

Overall, physical sales were marginally above last year with refining volumes down at Plock and refinery utilisation running at only 87% of capacity. Petrochemical volumes increased in the first quarter to 1.253 million tons against 1.239 million tons in the same period in 2010. Petrochemical revenues for the Orlen group overall for 2010 increased by 4.2% in 2010 owing mainly to sales of polyolefins which were higher by 5.6% and of fertilisers which were higher by 8.6%. This was despite the extended outage at Anwil resulting in 16.4% lower sales of PVC against 2009. Lower volume sales of other petrochemical products, i.e. benzene by 12.3%, toluene by 6.6% and glycols by 5.9%, were partly compensated by increase of sales of butadiene and acetone respectively by 10.5% and 9.5%.



PKN Orlen-Lithuanian refinery

PKN Orlen restarted its Lithuanian refinery, the second-largest it owns, on 11 April after a planned two-week turnaround. The 197,000 barrels per day Orlen Lietuva refinery was shut for maintenance on March 26 for inspection and modernisation of some of the units. The maintenance included the modernisation of the catalytic cracking unit and visbreaker to help avoid interruptions through the year. A new cooling system for the vacuum distillation unit was also installed. The refinery processed 2.166 million tons in the first quarter in 2011 against 1.706 million tons in the same period last year. Capacity utilisation ran at 85% in Q1.



Unipetrol Q1 2011

Unipetrol expects to report better operating profits in the first quarter than it reported in the same period in 2009. The main factors that influenced the quarter-on-quarter performance of the petrochemical division in were higher olefin margins by 35%, and flat polyolefin margins. Physical sales were similar overall, although C4 volumes dropped from 42,000 tons to 20,000 tons. Difficulties on the ammonia unit installation in January are estimated to have cost approximately Kc 15 million affecting the EBIT. Other factors reducing the operating profit include a two-week temporary reduction of processing capacity at the Litvinov refinery towards the end of February. This was due to technical issues on the hydrocracking unit, and is estimated to have had a negative EBIT impact of approximately Kc 110 million in the first quarter in 2011.

Unipetrol's Petrochemical Sales (unit-kilo tons)

Product	*Jan-Mar 11*	*Jan-Mar 2010*
Ethylene	44	39
Propylene	11	8
Benzene	58	53
Urea	52	49
Ammonia	36	43
HDPE	68	66
PP	58	65
C4	20	42

PKN Orlen-Unipetrol

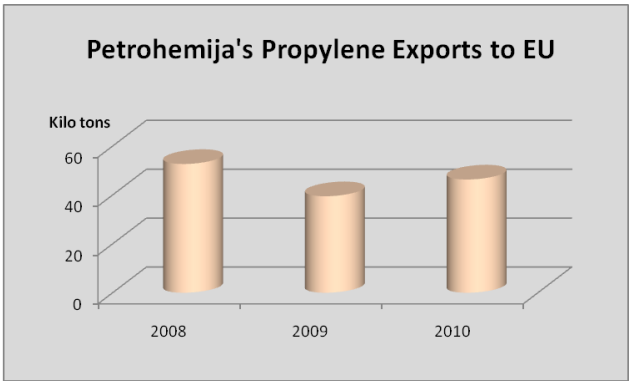
PKN Orlen has stated that it has long-term intentions for Unipetrol and wants to make further investments. PKN Orlen became Unipetrol's majority owner in 2005 and has to date invested Kc 19 billion in the group. The major new plant added in the past few years was the butadiene unit at Kralupy, which was constructed on a jv basis with Synthos and completed in the middle of 2010. Other investment tasks have included the modernisation of existing units at Litvinov, such as the cracker and polyolefin facilities.

HIP-Petrohemija-Srbijagas

Serbian gas producer Srbijagas is considering the purchase of part in HIP Petrohemija from the government, which would allow it to jointly own the company with NIS. Despite the considerable improvement over 2009, Petrohemija last year the company recorded a loss largely a consequence of disparities in prices of raw materials and finished products. The company is now looking for a loan of €20 million to ease liquidity problems. The state now owns 80% of the company capital, while 20% belongs to NIS.

The petrochemical producer could benefit significantly from a new investor as it is unable itself to finance investments. Petrohemija lost around a third of its capacity during the NATO bombing campaign in 1998, and most of that has destroyed or damaged capacity not been renewed. The company lost long term ethylene partners Solventul in Romania for ethylene supplies, and combined with the destruction of the VCM-PVC plant at Pancevo in the bombing campaign, and this resulted in a reduction in ethylene demand and production. Large volumes of propylene are exported to the EU economic region, in addition to supplying the sole Serbian polypropylene producer Hipol.

One of the main problems facing the company has been the government's objective that Petrohemija should develop synergies with NIS. The technology is linked between the two complexes, but the actual businesses remain separate culminating in little or no benefit to either division.



During the period 2000-2010, Petrohemija received hardly any investment despite regular government pledges. This year the investment process has finally started involving SNC Lavalin in the revamp and expansion of the cracker derivative capacities at Pancevo. The government ownership of the petrochemical company has been a major stumbling block in the investment strategy. Possibly another and even more important factor has been that petrochemicals produced at Pancevo are considered around 14 times more expensive than the same products sourced from countries in the Middle East.

Thus, it has been advocated by parts of the management that Petrohemija needs to be integrated with suppliers of raw materials and associated closer with distributors. It is strongly suggested that Petrohemija should invest in polyethylene and polypropylene, and then integrate its production with the customer. Should Srbijagas be allowed to purchase part of Petrohemija, it would help to reduce energy and gas costs and provide a better base for the development of chemical industry in the whole of Serbia.

Gazprom Neft-NIS

Gazprom Neft, which owns a controlling stake in NIS, has endorsed its long-term development strategy for the Serbian company envisaging an expansion of processing to 75% over 2010 levels by 2020. NIS owns two refineries in Serbia, at Pancevo and Novi Sad with a total capacity of 7.3 million tpa. NIS produces about 1.5 million tpa of oil equivalent working on the territory of Serbia, Angola, Bosnia and Herzegovina. Gazprom Neft purchased a 51% stake in NIS in 2009 by acquiring shares from the Republic of Serbia, which was the only shareholder. For a controlling stake Gazprom Neft has around €400 million, and reached agreement with the government to invest at least €500 million in modernising NIS's businesses by 2012. This modernisation will bring the quality of its oil products into line with common European standards (Euro 5) and improve the environmental security of its production processes.

Romanian governement to aim to take control of Arpechim

The Romanian state is interested in acquiring the Arpechim refinery and hopes to strike the deal under acceptable terms. The government's aim is to restore the raw material supply chain of Oltchim. Petrom's Supervisory Board decided on 24 March to permanently close the Arpechim refinery. According to the oil company, the closure decision was taken as part of Petrom's strategy to maximise benefits and increase efficiency. Oltchim has been unable to restart the Arpechim cracker due to a lack of working capital, but if the refinery is not able to provide the necessary petrochemical feedstocks there would appear no incentive in even trying to revive ethylene and propylene production at Pitesti.

Chemicals & Polymers

Oltchim-new minority shareholders

British Carlson Fund International Ventures has increased its share in Oltchim to 12% and could enter the race for the privatization of the company. Carlson Ventures took about 9.2% of the shares in Oltchim through a company registered in Cyprus, Nachbar Services. Oltchim is seen as an investment that suits the profile of Carlson, in that it has run up debts of 658 million lei (over €150 million), due to reduced activity following the closure of Arpechim in 2008.

Oltchim bought Arpechim's petrochemical facilities from Petrom in late 2009, but last year kept it closed for repairs and upgrades and has lacked the working capital to restart the plant. The company late last year was valued with a negative equity of 675 million lei (€165 million), while the total debt amounted to 2.29 billion lei (over €550 million). The government has committed to initiate the privatisation of the plant, at the request of the IMF. Carson could be a competitor for PCC which owns 12% of Oltchim and has made efforts to challenge the company's management and board over strategy and product-focus.

ZA Pulawy, new ammonia-urea project officially unveiled

ZA Pulawy officially opened its new ammonia-urea plant on 21 April, involving the construction of a new oxygen plant provided by Air Liquide. The investment will increase the urea production by over 250,000 tpa. Additional benefits include an increase in ammonia production capacity by approximately 170,000 tpa (on top of 955,000 tpa) and caprolactam by about 5 000 tpa from 65 000 tpa. The project will reduce the rates of consumption of natural gas in the ammonia plants by about 5.4% and the ammonia urea plant by more than 3.5%. Initially, the investment was to be completed in 2010 but due to financial crisis and the downturn in the chemical market investments shifted the project schedule. ZA Pulawy last year received co-financing of from the EU for zl 20 million, allocated to the construction of a flue gas desulphurisation unit. Total investments in the project comprise zl 200 million.

ZU Pulawy, contracts and industrial parks

PROZAP, which is owned by ZA Puławy, has signed a contract with SABIC to construct a new fertiliser plant at Al-Jubail in Saudi Arabia. ZA Puławy owns 85% of PROZAP shares. Vattenfall has decided not to build a coal based power plants with ZA Pulawy. Instead, ZA Pulawy may use natural gas in a planned 1,400-megawatt power plant. The company is in talks with a new partner for the facility, the outcome of which may be known in the next couple of months.

ZA Pulawy has obtained the approval for a third investment project in the Starachowice special economic zone. The company will spend around zl 96 million on a new plant. The construction of Science and Technology Park at Pulawy has been started, which aims to help in the development of innovative business. The contractor responsible for the project is Polimex, with 85% of the investment being financed through EU funds. The Park is to be created over an area of over 12,000 square feet and will closely aligned with ZA Pulawy, where intermediates and raw materials will be provided for further processing.

Polish Chemical Production (unit-kilo tons)

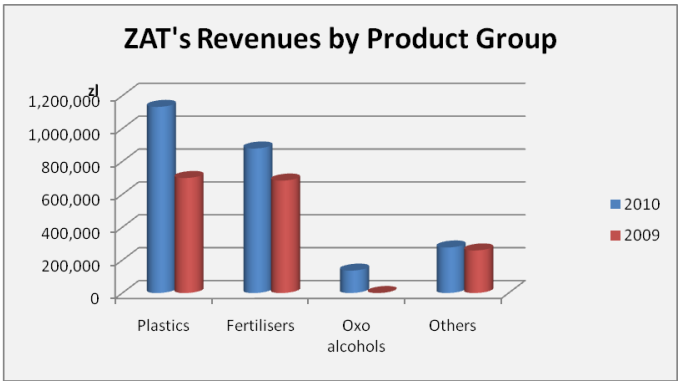
Product	*Jan-Feb 11*	*Jan-Feb 10*
Caustic Soda Liquid	43.7	52.8
Caustic Soda Solid	7.4	14.3
Soda Ash	153.6	153.4
Ethylene	93.7	93.1
Propylene	61.9	60.9
Butadiene	12.0	11.1
Toluene	26.4	22.0
Phenol	7.1	5.5
Caprolactam	28.3	27.1
Polyethylene	66.0	61.2
Polystyrene	20.9	20.0
PVC	37.5	42.2
Polypropylene	38.4	41.6
Synthetic Rubber	30.3	27.0
Pesticides	4.5	4.9

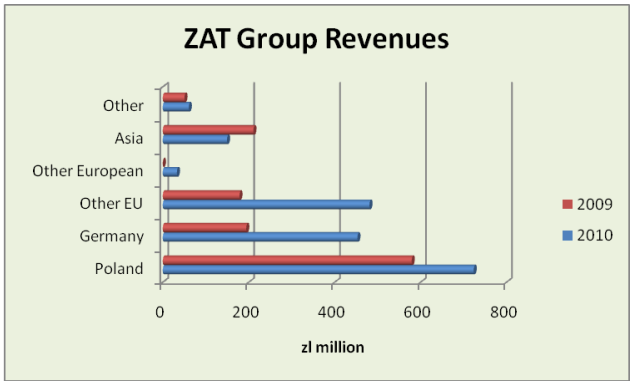
ZCh Police-cause of financial problems

ZCh Police recorded a net profit of zl 27.43 million in 2010 against a loss of zl 422.87 million in 2009. The operating profit at amounted to Zl 5.43 million against a loss of zl 409.40 million a year earlier. Revenues rose from zl 1486.61 million to zl 2022.64 million.

Despite the improvement last year, the company still faces major challenges in relation to the debts owed to PGNiG for gas supplies and the restructuring programme in ZCh Police required by the European Commission. The financial problems of ZCh Police could be attributed to wrong decisions made by the management combined with the adverse market situation in 2008-09.

The company's net profit in 2008 was zl 30 million, but this was followed by losses of zl 427 million in 2009. Exports fell 70% in 2009 and thus in addition to the market situation poor decisions by the management culminated in a decline of the company's financial status. ZCh Police faces debts of zl 700 million, including zl 104 million for gas from PGNiG, and is now in the process of restructuring. Turkish company Nurol has shown interest in the assets of ZCh Police.





ZA Tarnow 2010-2011

ZA Tarnow expects financial performance to improve again this year after a relatively successful 12 month period in 2010. The net income in the fourth quarter in 2010 amounted to zl 357.8 million and was significantly higher than predictions. The full year net profit amounted to zl 400.8 million. This year ZA Tarnow expects to receive better profits from the synergies created with ZAK and resulting benefits. Investments in 2011 will amount to more than zl 300 million, with emphasis on the new hydrogen unit and the expansion of the caprolactam facilities.

Consolidated revenues last year exceeded zl 1.9 billion, which were 57% higher than in 2009. Good results are the result of both macroeconomic and favourable changes in the markets, and also acquisitions and mergers with ATT Polymers (formerly Unylon Polymers) in Germany and ZAK. The acquisitions have increased the asset value of the group, doubling the fertiliser production facilities and adding oxo alcohols to the range of products. ZAK is the leading oxo alcohol producer in Central and South East Europe. ZAT now holds 52.62% of the shareholding in ZAK, with 47.38% owned attributed to non-controlling interests.

Net financial results for the ZAT group last year amounted to zl 400.76 million against a net loss amounted in 2009 of zl 3.74 million. The company wants this year to carry out investments for building a new

hydrogen plant, modernisation and capacity increase of caprolactam plant and production line of modified plastics.

Karsai Plastic Holding

Hungarian plastics processor Karsai Plastic Holding is forecasting its profits will more than double this year, reflecting its strong recovery following the global recession of 2008 and 2009.

The Székesfehérvár-based group is projecting a 2011 pre-tax profit of around €3.6 million against a figure of €1.6 million achieved last year. The seven-company group is targeting a 15% rise in sales for 2011 to top €33.6 million.

Karsai group companies plan to make investments worth €4.5 million during 2011. Projects include an injection of €2.2 million to upgrade the Kunsplast-Karsai auto parts plant at Kiskunfélegyháza, Hungary. That will enable it to provide components to the new Daimler group Mercedes car assembly plant in nearby Kecskemet.

Kunsplast-Karsai injection moulds polyolefin, polystyrene and technical plastics vehicle parts for manufacturers such as Suzuki and General Motors. Components include interior parts, wire-chase and exterior and interior lighting covers.

Another group subsidiary, Karsai Alba is expanding. It is spending nearly €1.5 million to build a 1,800m2 production hall at its plant at Székesfehérvár which is due for completion this spring.

Alba concentrates on the production of packaging containers and caps for the pharmaceutical, cosmetics and food industries. It injection moulds and blow moulds products including phials, flasks, tablet dispensers, spray containers and PET bottles.

Uflex

Uflex, an Indian manufacturer of plastic packaging, plans to set up a production plant in Poland in Września, near Poznań.

Production is scheduled to start 2012, with a capacity of 30,000 tpa of plastic packaging, primarily for Russian and European customers. Uflex will employ up to 260 people in Września

Uflex has facilities in India, the United Arab Emirates, Egypt and Mexico, among others, producing BOPET, BOPP and CPP films for packaging.

ZAK examines prospects for new power plant

ZA Tarnow has been examining prospects for energy at Kedzierzyn as ZAK needs to renovate its power plant. The group is set to decide on a new gas plant in the next few weeks. The most likely option seems to be a gas-fired power plant with a capacity of 110 MW.

ZA Tarnow-benzene & phenol contracts

ZA Tarnow concluded a long-term cooperation agreement with PKN Orlen for the purchase of phenol and benzene from Plock. The estimated value of the agreement has been placed at zl 1.1 billion over a period of five years. ZA Tarnow recorded a net profit of zl 390.95 million in 2010 against a loss of zl 4.25 million in 2009. Consolidated revenues amounted to zl 1901.78 million in 2010 against zł 1214.64 million a year earlier.

ZA Tarnow-nitric acid

An air compressor broke down at ZA Tarnow's nitric acid plant in January, which halted the production of nitrogen fertilisers before restarting on 20 January. Nitric acid supplies are being supplemented to Tarnow from ZAK's new plant, whilst the nitric acid plant belonging to ZA Tarnow could be operational again by May 2012 if technical renovation proves possible. However, in the immediate term the technical problems have meant that the production of nitrogen fertilisers was down by about 5% in the first quarter. As part of the new synergy between ZAK and ZA Tarnow, up to 6,000 tons of nitric acid per month is possible for delivery from Kedzierzyn to Tarnow. These supplies may influence ZA Tarnow not to invest in a new plant of its own but a decision is not expected at least until 2012.

Synthos 2010

Synthos recorded an operating profit of zl 565.66 million in 2010 against zl 178.22 million in 2009. Consolidated revenues amounted to zl 3860.70 million against zł 2600.95 million the previous year. One of the group's major projects includes the construction of a new production line for polybutadiene at Kralupy which is based on the Michelin license acquired by the Group in 2007. The rubber and styrene divisions in the Synthos Group showed the largest increases in 2010. Rubber and latex sales are not normally affected by seasonal factors but are more related to general economic trends in the in the automotive sector combined with the fluctuations in the butadiene market. The seasonal nature of polystyrene sales is evident in areas related to the building industry, mostly in regard to the polystyrene used for foaming and polystyrene used in insulation boards. The earthquake in Japan has culminated in major disruptions to market trends and so at least for the latter part of the first quarter the market has been down.

The Synthos Group concluded an agreement with Shell Chemicals Europe in April for the supply of styrene to Oswiecim and Kralupy. The recipients of styrene include Synthos Dwory and Synthos Kralupy. Shell Chemicals Europe will provide its styrene in the period from 1 April 2011 to 31 March 2012. The estimated contract value is approximately $63 million, which is about zl 178 million according to the average exchange rate.

RUSSIA

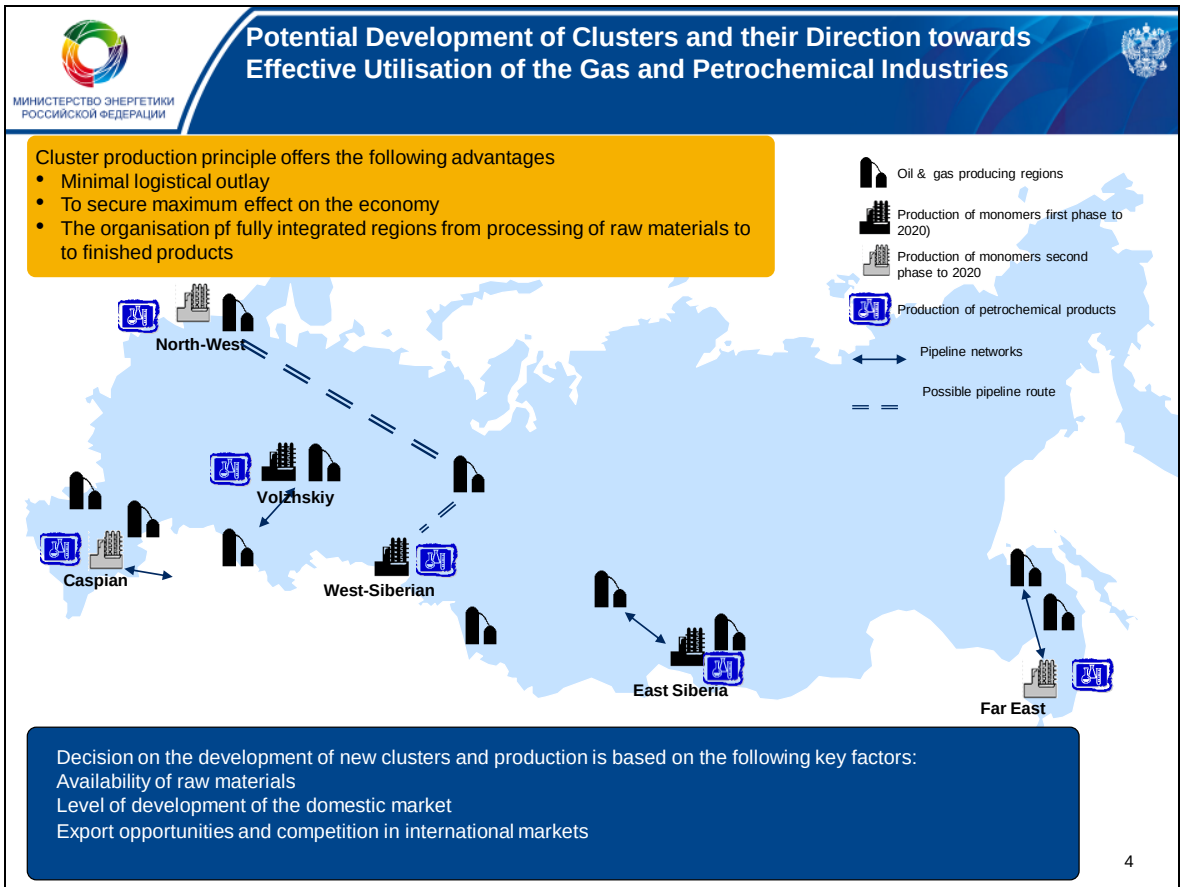
Russian chemical industry long tern view

The Russian government is contemplating the various options of its chemical industry programme as far as 2030 covering in particular the development of gas deposits and feedstock transportation. The amount of work and investment required to develop the feedstock base and related infrastructure is considered to be of such a scale that it is likely to require a couple of decades to complete.

The general aims of the strategy include the construction of new pipelines and the modernisation of existing feedstock links, in addition to measures being introduced for the scientific and educational support of the industry. The Ministry of Energy is to take responsibility for the construction of projects for pipeline transportation of hydrocarbons to existing and new oil-and gas-chemical complexes.

The Ministry of Industry has taken responsibility for the formation of regional clusters, which are intended to promote domestic consumption by the formation of industrial parks and special economic zones. Russia estimates that it consumes petrochemicals around three times less per capita than in the developed world, whilst imports account for around 40% of plastics consumption. As a result, both huge opportunities exist for the increase in domestic consumption and production. The government target is to improve the level of integration in the Russian chemical and petrochemical industry. The major challenges lie in the transportation of gas liquids and other petrochemical feedstocks to the petrochemical plants.

Russia's potential for LPG exports may be constricted by competition from the Middle East, and thus the domestic petrochemical sector may provide an important outlet for LPG producers. The main question that arises that if the petrochemical industry could provide the locomotive to growth in the Russian economy why is progress so slow. The main factors include finance and the provision of foreign loans for the construction of new facilities at relatively low revenue.



The above map illustrates the six main clusters identified by the Ministry to provide the basis for chemical industry development. These regions include the Volga, the Caspian, North-West, West Siberia, East Siberia and the Far East. The Ministry of Energy states that these clusters will not only provide the outlet for

the raw material potential which is yet to be monetised whilst also contributing significantly towards GDP growth and the creation of new jobs.

Russian chemical production & trade

Russian fertiliser production increased 9.9% in the first quarter in 2011 over the same period in 2010 and reached 4.8 million tons. Domestic sales amounted to 545,000 tons which was similar to last year. Production of ammonia increased by 12.4% to 3.7 million tons, whilst soda ash increased 8.4% to 677,000 tons. Synthetic rubber production increased by 9.7% to 377,000 tons and plastics in primary forms by 7.3% to 1.3 million tons.

Russian Chemical Production (unit-kilo tons)

Product	*Jan-Mar 2011*	*Jan-Mar 2010*
Acetic Acid	42.0	43.8
Ammonia	3,677.9	2,922.6
C Black	175.5	143.5
Ethylene	622.3	639.1
Methanol	704.4	811.4
PET	67.4	73.3
Phenol	63.1	58.5
Phthalic Anhydride	29.2	25.4
Polyethylene	421.5	437.8
Polypropylene	168.0	165.4
Polystyrene	75.9	67.1
Propylene	319.3	212.0
PVC	144.7	152.2
Soda Ash	676.8	624.0
Synthetic Rubber	316.5	281.2

Caustic soda production dropped 6% in the first three months of 2011 due to reduced chlorine consumption at Kaustik at Sterlitamak. Fibre production rose 32.3%, including textile yarns which increased by 4.4%, industrial yarns by 39.2%, cord yarn by 91.4%, and staple fibre production by 41.4%. Polyethylene production rose 6.5% in the first three months in 2010, partly helped by additional production from the new HDPE plant at Salavat. PVC production dropped 1.4% due largely to ethylene restrictions, but polystyrene rose 32.3%.

Russia reduced the export of petrochemical products by 16% in the first two months in 2011 over the same period last year down to 339,490 tons. In value terms, exports fell by 14% to $260.7 billion. LDPE exports dropped 2.8 times to 19,260 tons and in value down two fold to $29.8 million. Exports of HDPE fell five-fold to 6,540 tons and four-fold in value down to $9.75 million. Exports of polypropylene totalled only 561 tons against 18,704 tons in 2010, with producers focusing on the domestic market. Exports of methanol increased by 13% to 192,059 tons in the first two months and by value 35% to $52.341 million.

Feedstocks & petrochemicals

SIBUR-associated gas targets

SIBUR aims to process 18 billion cubic metres of gas in 2011 against 17.4 billion cubic metres in 2010. By 2015, the group hopes to increase processing to 20-21 billion cubic metres per annum. By 2015, the company intends to supply 85% of associated gas on long-term contracts and jvs measured against 54% in 2010.

SIBUR and TNK-BP are negotiating to extend the jv Yugragazpererabotka until 2025 from 2016, and the inclusion of a gas processing facilities. Yugragazpererabotka was founded SIBUR and TNK-BP in 2006 for a term of 10 years. TNK-BP owns 49% of the jv and SIBUR 51%. The venture includes the Nizhnevartovsk and Belozern gas processing plants and pipeline infrastructure. This year SIBUR and TNK-BP signed an agreement to expand the jv by including the gas processing facilities at Nyagangazpererabotka, which is owned by SIBUR. TNK-BP owns the Zaykinsky GPP which it plans to upgrade and expand capacity of from 1.1 to 2.2 billion cubic metres per annum.

SIBUR-investment plans 2011

SIBUR expects to invest around a total 55 billion roubles in all projects in 2011, after investing 45 billion roubles in 2010. About 40-45% of investment is intended to be used in new projects with the specific focus on purchasing equipment. The group imports more advanced equipment, whilst sourcing basic equipment largely from domestic companies. Only around 15% of equipment purchased for the Tobolsk polypropylene project has been sourced from domestic users, which according to SIBUR is due principally to quality issues. Some of the investment targets this year are concentrated on West Siberia, including the reconstruction of the gas processing facilities for the possibility of separating ethane fraction, the construction of a new product pipeline for natural gas liquids, and ongoing construction of the second gas fractionating plant at Tobolsk. The RusVinyl PVC and Tobolsk polypropylene projects represent the main petrochemical investments that will receive investments.

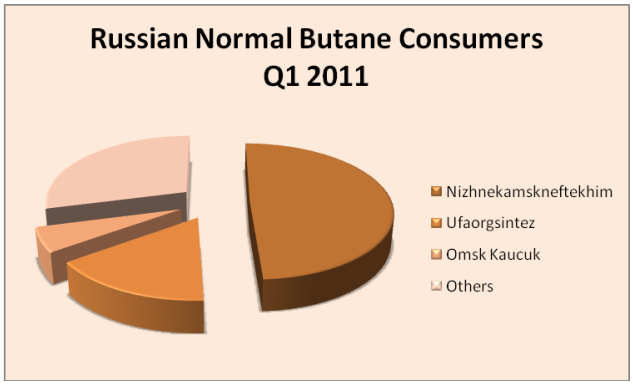
SIBUR-new pipeline from Gubkinsky

SIBUR has started tests on the new NGL pipeline stemming from the Gubkinsky Gas Processing Complex and linking with other gas plants in the region. Currently, natural gas liquids from the Gubkinsky gas plant

are delivered to the regional gas condensate pipeline, owned by Gazprom, and delivered to Surgut. The new product pipeline totals 127 km in length and links the Gubkinsky and Muravlenkovsky plants. After the completion of the loading rack at Noyabrsk last year, it now signifies that all of the gas processing plants belonging to SIBUR in the Yamal region have been interconnected through pipelines and rail links.

Russian petrochemical feedstocks 2011

Tobolsk-Neftekhim increased processing of SHFLU (NGLs) by 4.3% in the first three months of 2011 up to 940,340 tons. Butadiene production increased by 9.2% to 52,400 tons of MTBE by 0.3%, to 30,400 tons. Tobolsk-Neftekhim specialises in the processing of hydrocarbon raw materials, including liquefied gases (propane, butane, hexane, isopentane), monomers, and high-octane additives for gasoline.



In March, the supply of normal butane to the domestic market in Russia increased by 8% against February to 108,000 tons. In the first quarter, a total of 317,300 tons of normal butane was delivered to the domestic market which was 12% less than last year. Reduced consumption of LPG in the domestic market is due to high export activity of producers.

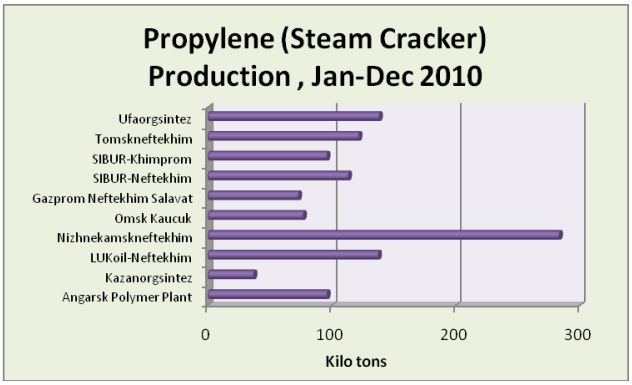
The main suppliers of butane on the Russian market include the Surgut Gas Condensate Plant, Orenburg Gas Processing Plant and Pur ZPK (owned by Novatek). These producers provide 75% of gross supply. The largest consumers in Russia include Nizhnekamskneftekhim (161,000 tons in Q1 2011), Uralorgsintez (51,000 tons) and Omsk Kaucuk (19,000 tons).

Gazprom Neftekhim Salavat-Kaustik ethylene agreement

Gazprom Neftekhim Salavat and Kaustik reached agreement on 20 April on the long-term conditions of supply of ethylene. The companies plan to sign a contract soon for a period of five years, with the possibility of extension under the same conditions for an additional term. The parties reached a final agreement on key points: the period, the volume and price. In accordance with the contract, the delivery of ethylene will amount to no less than 95,000 tpa while Gazprom Neftekhim Salavat will make efforts to supply up to 100,000 tpa to Kaustik. The price of ethylene will be calculated on the basis of the previously proposed formula by Gazprom Neftekhim Salavat minus 5%. The final stage of the protracted negotiation process will be long-term contracts supply of ethylene. The previous five-year contract between Kaustik and Gazprom Neftekhim Salavat expired at the end of 2009 and comprised 82-84,000 tpa.

Russian propylene market, Jan-Mar 2011

A total of 29,000 tons of propylene was sold to Russian domestic consumers in March, which was 20% more than February. This is due mainly to increased consumption of propylene by Saratovorgsintez. Total merchant sales comprised 81,600 tons in the first quarter in 2011, a 31% increase against the same period last year. The new plant at Kstovo, managed by LUKoil, has led to an increase in availability adding to other merchant suppliers SIBUR-Neftekhim and Angarsk Polymer Plant.



In February 2011 Russia exported 7,100 tons of monomer, five times more than in January. Although LUKoil's new plant at Kstovo has impacted on domestic prices, it has not been the main source of exports which has been taken by Stavrolen and Omsk Kaucuk accounting for 38% and 55% respectively. For the first two months in 2011, Russia exported 8,600 tons of propylene, which was 2.5 times more than in 2010. The main directions of export comprised Romania (53%), Poland (28%) and Belarus (18%).

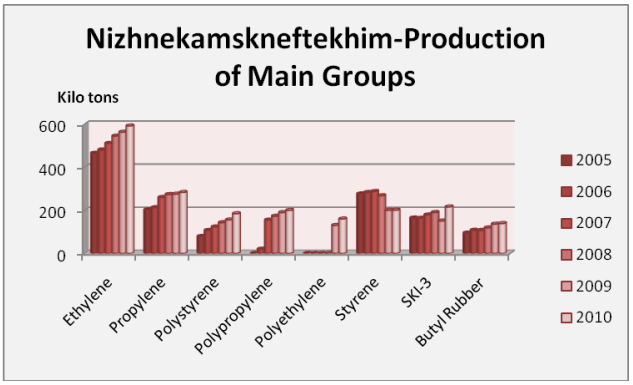
Crackers account for around 70% of propylene production in Russia. Capacity has hardly increased in the past two decades due to the lack of interest in naphtha based ethylene expansions. Demand for propylene derivatives is rising and the main possibility for providing the additional propylene appears to be based on refinery produced propylene, as a by-product of catalytic cracking. In 2001, Russia produced 317,000 of

propane-propylene fractions of which about 240,000 tons was used as a petrochemical feedstock, and the rest was burned as a fuel. By 2010, production of propane-propylene fractions had exceeded 530,000 tons, nearly all of which was used in petrochemical production.

LUKoil-refinery plans and propylene expansion

LUKoil is considering large-scale plans to construct a catalytic cracking unit at its Volgograd refinery, which could include 1.5 million tpa of propylene with the view towards both domestic sales and exports. The first phase of investment programme includes the planned construction of a hydrocracking unit with a vacuum gas oil capacity of 3.5 million tpa. In the second phase construction of a propylene plant is planned with a capacity of 1.5 million tpa in addition to a sulphuric acid alkylation unit and MTBE unit.

At Kstovo, LUKoil plans construction of a hydrocracker with a capacity of 2.2 million tpa in the period 2014-2019. Propylene obtained through catalytic cracking will be sent for processing to Saratovorgsintez. Some of the feedstocks will be sent to nearby SIBUR-Neftekhim. At Perm, LUKoil plans the construction of a catalytic cracking plant in the 2013-2017 period at the refinery with a capacity of 1.8 million tpa. However, no propylene capacity is expected to be added at Perm.



Nizhnekamskneftekhim-2010

Nizhnekamskneftekhim has set a target for net profit in 2011 of more than 7 billion roubles, after achieving net profit of 7.2 billion roubles in 2009. Revenues from sales in 2011 has been forecast at around 114 billion roubles against 94.4 million roubles in 2010. Nizhnekamskneftekhim recorded a net profit of 878.337 million roubles in the fourth quarter in 2010, taking the total for the year to 7.174 billion roubles. This was 17 times greater than results achieved in 2009.

Nizhnekamskneftekhim increased the production of marketable products in 2010 by 13.8% to 90.5 billion roubles. In physical terms, ethylene production increased by 5.3% to 592,800, propylene by 2.9% to 283,400 tons, and styrene by 1% to 202,600 tons. For bulk polymers, polystyrene production rose 18.4% to 184,400 tons, polypropylene rose by 5.5% to 200,000 tons, and HDPE rose by 22.6% to 160,000 tons. In the rubber division, isoprene rubber production increased 43.9% against 2009 to 216,800 tons, and butyl rubber by 2.2% to 138,900 tons. Over the past few years, ethylene production has increased year on year, whilst bulk polymers has risen as a share in the company's overall revenue structure. Styrene production has tended to stagnate in the past two years, whilst isoprene rubber rose again in 2010 after a decline in 2009.

Export sales by Nizhnekamskneftekhim totalled $1.55 billion in 2010, 57% up on 2009. In physical terms, exports remained at the same level as in the previous year, but rising prices led to a substantial increase in revenues. The main end-destinations for petrochemical exports from Nizhnekamskneftekhim included China with 15% of shipments, Poland with 12% and Latvia 11%. Synthetic rubber exports accounted for 76% of the company's export earnings. Some of the main consumers include Michelin, Goodyear, Pirelli and Continental.

Bulk Polymers

Russian Polymer Production (unit-kilo tons)

Product	*Jan-Mar 2011*	*Jan-Mar 2010*
LDPE	172.6	176.9
HDPE	225.9	247.4
LLDPE	20.5	13.5
PVC	144.7	152.2
Polystyrene	75.9	67.1
Polypropylene	168.0	165.4

Russian polypropylene production

Russian production of polypropylene increased 11% in March against February and amounted to 58,600 tons, which is similar to the same period of 2010. All domestic producers, except Ufaorgsintez, increased the production of polypropylene in March. Total production for the first quarter was 3% up on last year at 168,000 tons. Exports have been higher this year due to an excess of polypropylene in the Russian market, resulting from low seasonal demand and high production rates at domestic plants.

Polypropylene exports from Russia increased by 19% in February against January and amounted to 3,720 tons. The main consumer of Russian polypropylene remains in Belarus, accounting for 69% of exports in the first two months of the year, which totalled 6,830 tons and was 33% less than for the comparable period of 2010.

Nizhnekamskneftekhim-polypropylene grades

Nizhnekamskneftekhim has started the production of three new grades of polypropylene, including RR7445LM, RR8334SM and RR4445S. The new grades are being tested running tests by customers. The polypropylene division at Nizhnekamsk produces homopolymers, random copolymers and block copolymers. Polypropylene grade RR1362R is already being used in the Nizhnekamsk industrial districts by consumers Polymatiz and Elastik. To date, the polyolefin facilities at Nizhnekamskneftekhim has mastered the production of 44 brands of polypropylene and 29 grades of polyethylene.

Russian PVC supply, Jan-Mar 2011

Russian PVC producers produced 48,560 tons of PVC in March which was 16% more than in February, but 9% lower than in the same month last year. Aside Kaustik at Sterlitamak, all producers showed an increase but Kaustik only ran at 56% of capacity and produced only 9,340 tons. The company was unable to achieve a higher utilisation rate due to the ongoing ethylene dispute with Gazprom Neftekhim Salavat. This dispute now appears to have been resolved.

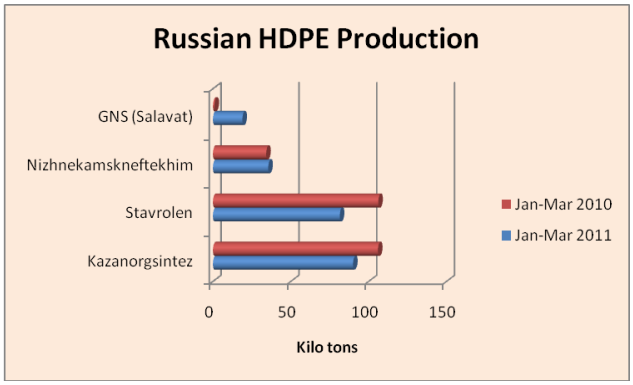
Sayanskkhimplast increased production in March by 26% to 25,400 tons in an effort to build up inventory prior to a planned outage in May. Plastkard is planning to stop for preventive maintenance in May at the same time as Sayanskkhimplast. Shortages in the Russian market are not anticipated whilst these two plants are down for maintenance, as processors and traders have purchased in advance either from domestic or imported sources. Overall for the first quarter in 2011 Russia produced 145,300 tons of PVC which is 5% lower than in the same period in 2010 and 12% higher than in 2009.

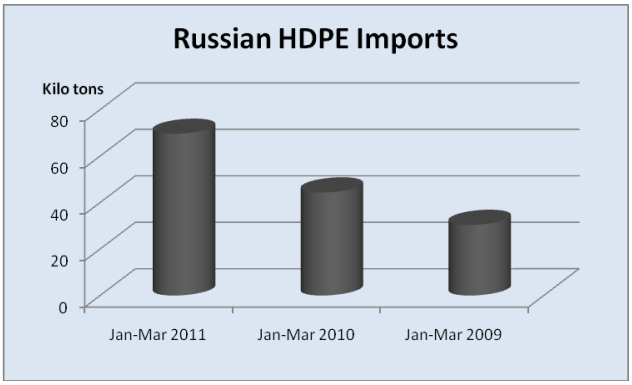
SIBUR's Polymer Division to include following producers

Company	*Location*	*Main Products*
NPP Petrochemicals	Moscow	Polypropylene
RusVinyl	Kstovo	PVC
SIBUR-PETF	Tver	PET
Tobolsk-Polymer	Tobolsk	Polypropylene
Tomskneftekhim	Tomsk	Polyolefins

SIBUR-new polymer division

SIBUR has created a new division for the management of base polymers. The division will focus on operational and production activities, marketing and sales and business development in polyethylene and polypropylene. In addition, the division will include some of the responsibilities attached to the jv RusVinyl and take charge of the Tobolsk-Polymer polypropylene plant when completed. Other plants to be managed by the polymer division include Tomskneftekhim and NPP Petrochemicals at Moscow. In recent years, SIBUR's polymer production facilities have increased due to expansions and acquisitions. The new polypropylene and PVC plants under construction at Tobolsk and Kstovo mean moreover that polymers will take on a more important role for the SIBUR group. As a result, the division has been created in which one of the main aims is to improve operational efficiency and identify a coordinated strategy of development.





Russian HDPE market

Russian HDPE production amounted to 73,900 tons in February, 4% down on January but then increased to 75,093 tons in March. Total Russian production for the first quarter amounted to 225,934 tons. Kazanorgsintez increased HDPE production by 19% in March against February, rising to 32,000 tons from 27,000 tons. The fall in February was due largely to a shortage of ethylene. For the first quarter in 2011, Kazanorgsintez produced a

total of 90,500 tons which was 15% down on 2010. Kazanorgsintez stopped HDPE production for maintenance on 17 April which will run through to 16 May. Despite the temporary suspension, shortages are not expected due to high inventory.

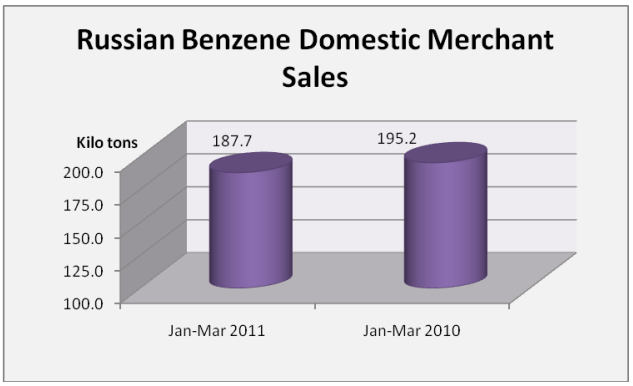
Gazprom Neftekhim Salavat produced 6,470 tons of HDPE in March, 32% more than in February. Capacity utilisation of the plant in March was still only 65%, and thus further increases in volume are expected throughout the year. For the first quarter, the company produced 18,400 tons of HDPE with pipe grade production recently started.

Overall, imports of HDPE into Russia averaged 23,300 tons per month. In March, imports of HDPE amounted to 23,200 tons which was similar to February which was 23,800 tons. Low demand and higher domestic availability continue to limit imports in certain sectors of consumption. In March, imports were reduced by a number of HDPE sectors including injection, and film and HDPE pipe. In April, imports of HDPE pipe were expected from Asia, as well as polyethylene for extrusion coating of steel pipes.

Aromatics & derivatives

Russian benzene market March 2011

Russian benzene sales in the domestic market totalled 62,500 tons in March, 9% less than the same period in 2010. The main reason for the reduction of supply is the stoppage of production at ZSMK, the coal based producer in West Siberia, and technical problems at Stavrolen at Budyennovsk. These two plants provide around 10-12,000 tons of benzene per month to the domestic market and by being idle at the same time has resulted in a sharp increase in imports. In total, benzene sales in the domestic market totalled 187,700 tons in the first quarter which is 4% lower than in the same period last year. Angarsk Polymer Plant shipped 17,100 tons of benzene in the first quarter which was 1.8 times more than in 2010, whilst Nizhnekamskneftekhim increased shipments five-fold to 5,400 tons.



Russian benzene market seeks imports

Russian benzene production increased 7% to 1.196 million tons in 2010, but in spite of higher volumes the market has remained tight at certain periods and the first quarter in 2011 has been particularly affected. Benzene from Russian refineries totalled 309,000 tons in 2010, 15% or 40,000 tons more than in 2009, whilst petrochemical plants increased output by 5% or 27,000 tons to 608,000 tons. SIBUR-Neftekhim and Uralorgsintez together increased their production from 68,000 tons to 102,000 tons, with the aim of providing additional benzene for SIBUR-Khimprom for ethylbenzene production.

Whilst production rose 7% in 2010, benzene consumption increased by only 4% to 1.172 million tons. Exports totalled 31,000 tons in 2010, most of which was sent to Azot at Grodno to support the benzene supplies from the Belarussian refineries. This trend has increased this year as the Belarussian refineries have been hindered by Russian duties on oil shipments, and thus Azot at Grodno has been forced to buy benzene from Russian traders.

Russian Benzene Market (unit-kilo tons)

	Q1 11	Q1 10	2010	2009
Production	312.0	318.4	1196.5	1118.2
Exports	5.8	4.9	31.0	0.0
Imports	5.2	4.3	6.8	11.9
Market Balance	311.4	317.8	1172.3	1130.2

At the same time, shortages have been witnessed in the Russian market. One of the main coal based producers ZSMK in West Siberia, which traditionally delivers to the merchant market in the range of 5-6,000 tons per month, has shut recently for long term maintenance. The main customers of ZSAMK are Kemerovo Azot, Kuibyshevazot and Samaraorgsintez. In February, due to lack of raw materials for production of caprolactam, Kuibyshevazot started to buy benzene in Ukraine and Kazakhstan. In March Samaraorgsintez started to feel the effects of the deficit.

Imports totalled 5,200 tons for the first quarter against 6,800 tons for the whole of 2010. Taking into account

that Samaraorgsintez and SIBUR-Khimprom are interested in increasing the production of phenol and styrene, the demand for benzene should grow. ZSMK is not able to resume production of aromatics until August 2011 which means that the deficit will continue over the next few months.

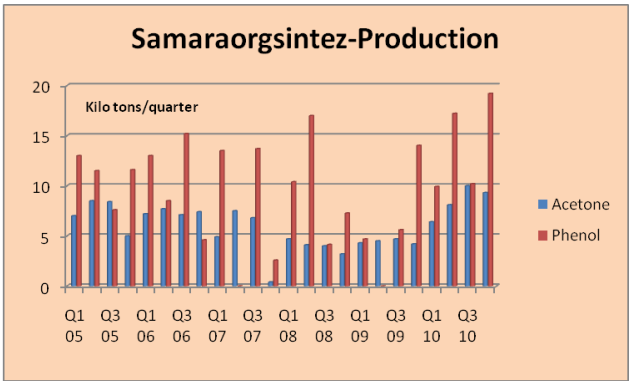
Benzene plans for Samara region

Rosneft and the Samara administration have reached agreement over the possibility to produce benzene in the region based on the local refineries at Novokuibyshevsk, Kuibyshev and Syzran. The aim is to supply benzene to local consumers Kuibyshevazot, Promsintez and Samaraorgsintez, which together consume around 300,000 tpa in the application of derivatives.

Samaraorgsintez and Neftekhimya could be remerged

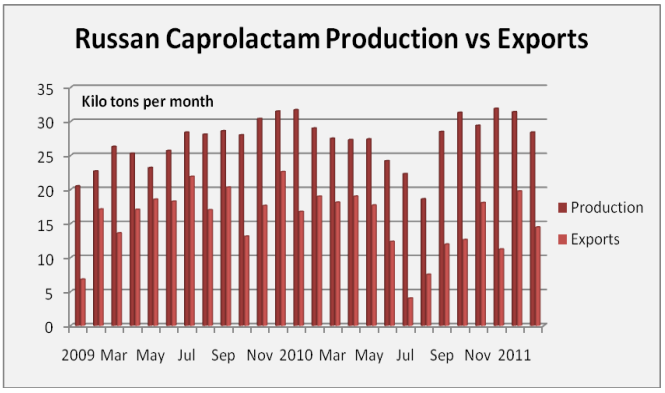
Samaraorgsintez has changed its ownership after 80% of shares were sold by SC Energy Standard to former managers Igor Soglaev and Roman Spiridono, both of whom now have been in talks with Renova-Orgsintez to take over the olefin producer Neftekhimya. Around $100 million was paid for the stake in Samaraorgsintez, taking into account the company's debt to Sberbank for approximately $60 million. This has now been followed up by the sale of Novokuibyshevsk Petrochemical Company by SIBUR to Igor Soglaev and Roman Spiridono, which is helping to provide a base for a fledgling chemical holding in the Samara region. SIBUR decided to sell the plant as it does not fit into the group's production chain due to its location and distance from raw material base.

The new owners plan to reconstruct Novokuibyshevsk Petrochemical Company and may revive the production of isoprene. Butadiene production is also being considered. The main problem facing the plant is raw materials. Last year difficulties emerged in feedstock supplies to Novokuibyshevsk Petrochemical Company due to changes at TNK-BP's gas processing facilities at Zainsk. TNK-BP is using the raw materials for its own processing and conversion to NGLs. The Novokuibyshevsk Petrochemical Company includes three main production divisions; fractionation of NGLs, catalyst production and the production of butylphenols.



Kuibyshev Synthetic Alcohol Plant was built and commissioned in the period 1957-1961 at Novokuibyshevsk. After the privatisation and bankruptcy in 2001, the complex was divided subsequently into ZAO Neftekhimya (ethylene and ethanol) and Samaraorgsintez (phenol and acetone). The engineering and transport infrastructure was taken over by Neftekhimya which caused a number of corporate conflicts between the owners of the plants. In early 2007, Neftekhimya was bought by Renova Orgsintez and the group planned substantial investments in the petrochemical plant before abandoning the plans in 2009.

In April this year, Samaraorgsintez reached preliminary agreement with Renova Orgsintez over integration with Neftekhimya in the next few months. The aim is to restructure both companies and then the site will be managed as a single production complex as previously operated. Ultimately the two plants may be merged into the same equity holding. However, the deal is complicated by the conflict regarding Neftekhimya and the $40 million borrowed by Renova Orgsintez from the Petrocommerce bank. During the financial crisis Neftekhimya was not able to service its debt to the bank and this debt remains outstanding.



Russian caprolactam market, Jan-Feb 2011

Caprolactam exports from Russia have started to show signs of softening in the past year, due primarily to increased captive consumption by Kuibyshevazot. Exports accounted for 64% of Russian caprolactam sales in 2009, but dropped to a total of 51% in 2010. Captive consumption increased by 45% in 2010 to 145,000 tons. The main outlet for the processing of caprolactam in Russia is the production of polyamide, which is used as feedstock for engineering plastics and polyamide fibres. Captive consumption accounts

for around 90% of domestic processing of caprolactam.

The main consumer of caprolactam in Russia is Kuibyshevazot, which has introduced several projects for polyamide production since 2003. The main consumer market for caprolactam remains Kurskkhimvolokno owned by Kuibyshevazot, accounting for 93% of open market purchases in January-February 2011 and totalling 2,400 tons. The remaining 7% was sold to Metafrax at Gubakha for polyamide. In January and February this year, exports of Russian caprolactam amounted to 34,000 tons which was 4% less than in the same period in 2010. The share of exports in total Russian production of caprolactam in Russia for the first two months of this year amounted to about 57%.

Russian Caprolactam Market (unit-kilo tons)

	J-F 11	J-F 10	2010	2009
Production	59.9	60.4	329.1	319.5
Exports	34.2	35.6	168.3	202.7
Imports	0.02	0.01	0.34	0.19
Market Balance	25.6	24.8	161.2	116.9

The largest supplier of caprolactam to the export markets is Azot at Kemerovo, accounting for almost half of all shipments. Shchekinoazot is the other main exporter, with Kuibyshevazot hardly exporting any volume. China accounts for around 75% of exports shipped from Russia, followed by Taiwan with about 15%. Other destination countries include Malaysia, Indonesia and India, accounting for 11% of shipments in the first two months of the year. Demand for engineering plastics and polyamide fibres in both domestic and foreign markets is expected to help increase domestic processing of caprolactam and slowly impact on the export ratio.

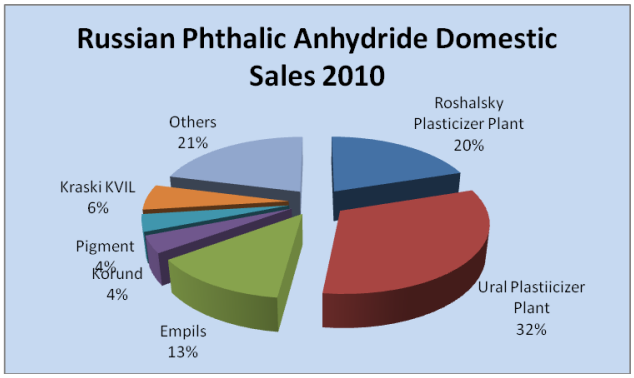
Russian Paraxylene Market (unit-kilo tons)

	2010	2009	2008
Production	324.4	326.3	323.1
Exports	160.4	179.2	186.7
Market Balance	164	147.1	136.4

Russian paraxylene market

The Russian paraxylene market is benefiting from rising domestic demand from PTA production at the Polief plant, which is impacting on the production of orthoxylene. Paraxylene exports from Russia have been in decline in the past two years as Polief has increased its PTA production at Blagoveshchensk. Polief consumed 147,100 tons of PTA in 2009 and this rose 12% to 164,000 tons in 2010. In 2011, Polief plans to boost production capacity of PTA to 250,000 tpa.

Export prices for paraxylene are higher than export prices for orthoxylene, and thus refineries prefer to produce paraxylene. In 2010, the production of xylenes in Russia fell slightly against 2009, with orthoxylene falling 8% to 193,600 tons and paraxylene falling only 1% to 324,400 tons. In 2009, paraxylene accounted for 61% of xylene sales but this rose to 63% in 2010.



The share of exports in the gross amount of paraxylene output each year is therefore falling, i.e., 58% in 2008, 56% in 2009 and 49% in 2010. Gazprom Neft at Omsk accounted for 60% of exports last year, whilst Kirishinefteorgsintez accounted for 38%, and Ufaneftekhim for 2%. Ufaneftekhim supplies Polief, whilst Kirishinefteorgsintez exported its production in full.

Russian phthalic anhydride market

Kamteks-Khimprom is the main Russian exporter of phthalic anhydride, whilst the other producer Gazprom Neftekhim Salavat uses all of its production captively for plasticizers. Imports into Russia come mainly from Belarus, although the volumes are small. About 65% of shipments of phthalic anhydride are delivered under direct contracts, with the main consumers including the Ural Plant of plasticizers and Roshalsky Plasticizer Plant, and the alkyd paint producer Empils.

Russian Phthalic Anhydride Market (unit-kilo tons)

	2010	2009
Production	96.8	95.8
Exports	52.6	56.2
Imports	6.13	7.48
Market Balance	50.3	47.1

In 2010, 51% of the gross consumption of phthalic anhydride in Russia was accounted for by the production of plasticizers, 47% to produce paints, and only 2% for tyres and rubber products. Up to 30% of Russia's consumption of phthalic anhydride is sold on the open market. Exports of phthalic anhydride to China have declined this year, partly due to domestic shipments increasing and partly to exchange rate factors which have made sales less profitable. Domestic demand is expected to rise as

this year progresses at the expense of export activity.

Shchekinoazot-cyclohexanone unit reconstruction
Shchekinoazot plans to invest about 500 million roubles in reconstruction of the cyclohexanone unit at Shchekino, which is intended to start mid-2011 and to be completed in August 2012. The project will facilitate economies in benzene consumption and ensure profitability of the production of cyclohexanone. The payback period for the project is estimated at around four years. The reconstruction has been designed by a Slovak company and the GIAP institute at Grodno in Belarus. New pumps will be installed whilst the oxidation shop will be stopped for up to three months.

Methanol & related chemicals

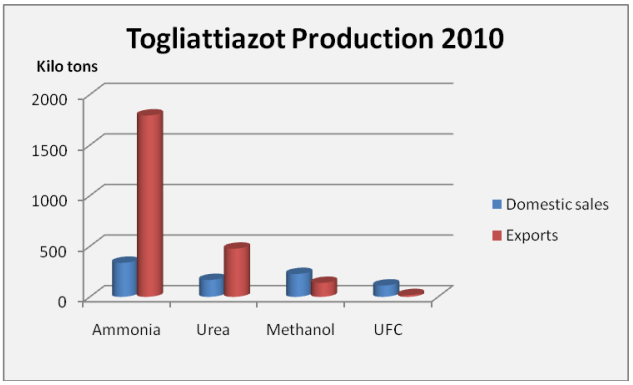
Akron-seeks to become vertically integrated company
Akron is seeking to expand its portfolio of production activities and through the process of acquisitions the aim is to become a vertically integrated holding. Target purchases include SIBUR-Mineral Fertilisers, Uralchem, and Metakhim. Akron is exploring different transactions with the aim to develop the vertical chain of production, that might include gas assets or apatite concentrate which is a major raw material for the group.

Akron produced 1.482 million tons in the first quarter in 2011, up to 10% higher than in the same period last year. Ammonia production rose by 5%, and fertilisers by 11% compared to the first quarter of 2010. Akron increased its output of organic synthesis by 4% in the first quarter due to growth in the production of formaldehyde and urea-formaldehyde resins. Production of inorganic products rose 13% based on calcium carbonate, porous and technical ammonium nitrate and liquid carbon dioxide.

Shchekinoazot-methanol plant delay
Shchekinoazot expects to start operations at its new methanol plant possibly in May-June. The 450,000 tpa plant, which has cost €150 million to construct, was planned originally to start in the fourth quarter in 2010. Delays have been incurred in completing parts of the project but the plant is now preparing for pre-commissioning operations. The main objective is to complete the connection of the two compressors and installation of pipelines in the department of natural compression and syngas. The company hoped to start the commissioning of the equipment by latter part of April. The project started construction in 2007 and is based on technology supplied by Haldor Topsoe.

Shchekinoazot-concentrated formaldehyde jv
Shchekinoazot has agreed to produce concentrated formaldehyde in a jv with Momentive Specialty Chemicals, in order to ensure supplies of raw materials for the production of phenol formaldehyde resins. After commissioning the production of phenol formaldehyde resin in the jv with Momentive Specialty Chemicals (formerly Hexion) Shchekinoazot now wants to create another jv for concentrated formaldehyde with low methanol content. Currently, formaldehyde of required quality is produced at the urea-formaldehyde. It has been decided to reequip the formaldehyde and hexamine units to produce concentrated formaldehyde with low methanol content, meeting production requirements of phenol-formaldehyde resins.

Momentive Specialty Chemicals has experience in technical upgrading of such facilities and owns modern production technologies for concentrated formaldehyde. At present, the company is undertaking basic engineering, planned for completion in October-November this year. The start of production is scheduled for the second quarter of 2012. This will reduce consumption of methanol by around 20% and emissions by around 30%. As a result of technical re-equipping the plant will produce concentrated 52% formaldehyde in methanol content.

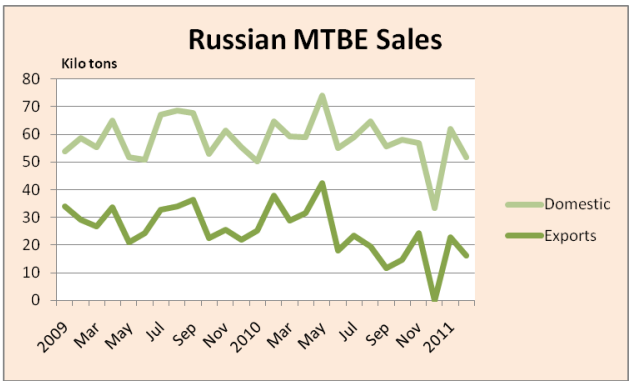


Togliattiazot 2010
Togliattiazot recorded a net profit of 1.76 billion roubles in 2010 against a loss of 733 million roubles in 2009. The company's revenue grew by 33.2% to 19.74 billion roubles and the gross profit by 1.7 times to 6.67 billion roubles. Revenues from exports totalled 13.38 billion roubles which was 68% of total revenues. Production increased in total by 39.6% in 2010 against 2009, and included 2.13 million tons of

ammonia, 643,700 tons of methanol and 366,000 tons of methanol. Exports play a key part of the company's marketing strategy, whilst domestic sales are focused on Bashkortostan, Tatarstan, Samara and Moscow regions. The company's plans for 2011 include commissioning of melamine production capacity of 60 tons per day. Traders are already trying to secure product supply for domestic and export sales. Other key projects for Togliattiazot this year include the completion of the port on the Taman peninsula, which will concentrate mostly on ammonia shipments.

Russian MTBE market

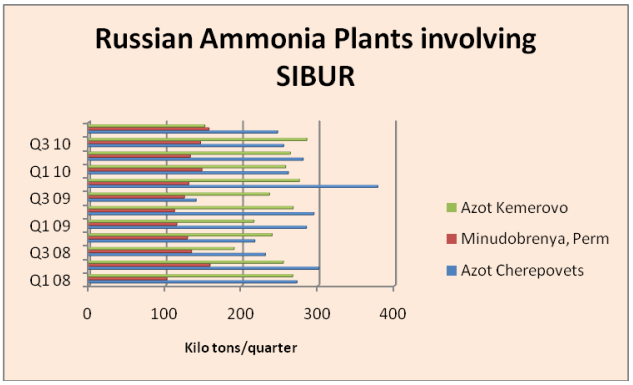
Russian exports and domestic sales of MTBE were closely balanced up until last year, but since then exports have tended to fall as domestic shipments have increased. In the first two months of 2011, MTBE exports were 38% down on the same period as last year dropping to around 40,000 tons. The main end-destinations for Russian MTBE include Ukraine and Spain. The main exporters of MTBE include Omsk Kaucuk, which accounted for 30% of shipments in the first two months in 2011, followed by Tobolsk-Neftekhim and Uralorgsintez. During January and February, Tobolsk-Neftekhim exported 13,000 tons of MTBE, which is 36% more than in the same period last year.



Titan at Omsk, in conjunction with Rosnano, is currently involved in building a 330,000 tpa ETBE plant that will replace the existing MTBE plant. Start-up planned of the project is planned for Q1 2012, although delays may be incurred. Rosnano is involved from the technical side, and will ensure that the ETBE will be based on green chemistry.

SIBUR-Azot Cherepovets

SIBUR has reached an agreement for the acquisition of a 26.3% stake in Azot at Cherepovets from a group of investors. The acquisition is aimed at improving the current capitalisation of SIBUR's business in relation to the production of mineral fertilisers. SIBUR's strategy to phase out the non-core lines of the business through their sale or merger with other producers of nitrogen fertilisers remains unchanged.



Synthetic Rubber

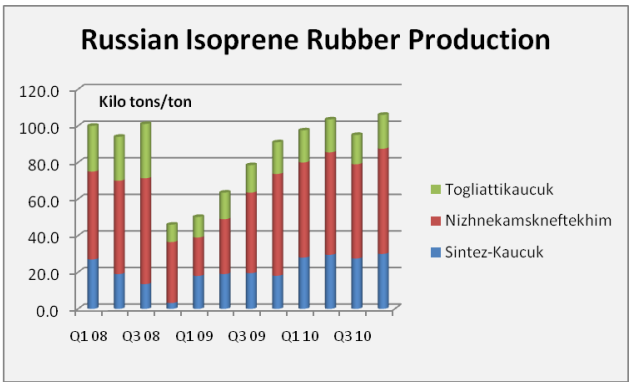
Voronezhsintezkaucuk-new polybutadiene grades

Voronezhsintezkaucuk produced its first experimental-industrial batch of 100 tons of a new polybutadiene brand, developed by the company's Science and Technology Centre. The product being shipped to processors for testing, which is intended for use in the production of car and truck tyres. Besides Voronezhsintezkaucuk, the other two Russian producers of polybutadiene rubber (SKD include Nizhnekamskneftekhim and Efremov Synthetic Rubber Plant. Polybutadiene accounts for around half of all Russian synthetic rubber production.

Isoprene rubber news

Sintez-Kaucuk at Sterlitamak has produced an experimental batch of isoprene rubber with a low content of stabilizer Agidol-1 crystal by applying a new anti-oxidant. Its quality is fully consistent with the specifications and the most important advantage of new technology is the reduced environmental effects. Based on the results of industrial tests in the near future, the company plans to start production of rubber grades SKI-5PM with a low content of antioxidant Agidol-1 for food and medical products.

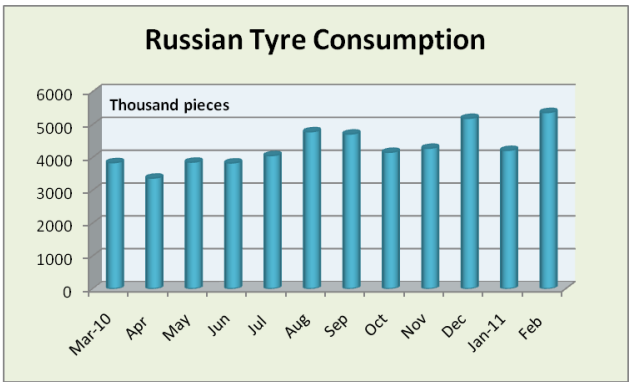
Togliattikaucuk has developed new grades of rubber SKMS-30 and ARKM-15, which will shortly be sent for laboratory tests on eight companies for rubber and tyres. Togliattikaucuk produces three types of rubber: including butyl rubber, copolymer and isoprene rubber, as well as monomers, fractions, and high-octane gasoline additives. Up to 80% of the output from Togliattikaucuk goes into for export.



Nizhnekamskneftekhim has stated that it intends to invest around 3.5 billion roubles over the next few years in the modernisation of the company's synthetic rubber facilities. Project targets include an expansion of isoprene rubber from 150,000 tpa to 280,000 tpa and polybutadiene capacity from 90,000 tpa to 150,000 tpa. The company is also aiming for an increase in butyl rubber capacity to 140,000 tpa. By the end of 2015, production capacity for synthetic rubber has been forecast by Nizhnekamskneftekhim to reach a total of 734,000 tpa which would make it the largest producer in Russia.

Russian isoprene monomer exports may fall or be eliminated in full in 2011 as domestic demand for rubber rises. Both SIBUR and Nizhnekamskneftekhim are reducing isoprene monomer sales abroad. Nizhnekamskneftekhim has recently commissioned its sixth reactor at the plant for the production of isoprene monomer. The new rector has a number of design features which will not only increase the production of isoprene, but also give greater reliability and flexibility of process technology. By introducing the single stage process for the production of isoprene monomer, Nizhnekamskneftekhim has complied with the requirements of the Kyoto protocol in reducing CO2 emissions.

The result of the project is to reduce consumption of steam and fuel gas per ton of isoprene, which will lead to a reduction in greenhouse gases caused by burning of fossil fuels. The single stage technology developed by Nizhnekamskneftekhim replaces the traditional two-step synthesis from isobutylene and formaldehyde by dehydrogenation of isopentane.



Russian tyre news

Nokian Tyres plans to build a second plant in Russia for production of tyres, which is to be located next to the existing plant at Vsevolozhsk. The capacity of the new plant is being designed at 6.5 million car tyres per annum, planned for launch in 2012 and to be followed by further increases in capacity by 2014. Nokian Tyres is also considering entering additional production capacity for the production of industrial tyres. Imports of tyres into Russia still comprise an important part of the market balance, and outstrip exports two-fold, and so further investments in the sector are expected to take place in the next few years.

Nizhnekamskshina partially suspended production from 5 to 18 April, with employees sent on an unscheduled vacation. Shortages in synthetic rubber, which is produced at Nizhnekamskneftekhim, restricted production due to an outage. Nizhnekamskshina in January-March 2011 produced 2.801 million tyres, which is 13% higher than the same period last year. Production comprised 941,000 truck tyres tires (up 27%), 1,795,000 passenger tyres (+6%), 60,000 agricultural tyres (+15%). The company aims to produce 11.911 million tyres in 2011.

Organic chemicals & plastics

Plasticizer alcohols, Jan-Feb 2011

Russian imports of plasticizer alcohols increased 54% in the first two months of 2011 and amounted to 6,600 tons. This is due to increased consumption of DINP and DOP. DINP shipments to Russia increased by 19% in January-February and amounted to 4,500 tons. The import of DOP totalled 1,300 tons in the first two months of the year, with demand rising from increased construction activity.

Russia exported 14% less phthalic anhydride in the first two months in 2011, down to 9,400 tons. The reduction of shipments abroad has been due to the build-up in the supply of these products on the domestic market. China is the main destination for Russian phthalic anhydride exports, accounting for 41% of shipments in the first two months in 2011.

Russian butanol production
Russian production of butanols totalled 80,100 tons in the first quarter in 2011, 6% higher than in the same period last year. The share of n-butanol in the total output mix comprised 64% and isobutanol 36%. Gazprom Neftekhim Salavat produced around 50% of total output, followed by SIBUR-Khimprom with 24%, Angarsk Petrochemical Company 19%, and Azot Nevinomyssk 7%.

Russian coatings market, Jan-Feb 2011
The Russian coatings market has been improving in 2011, with 15% more production in the first two months of the year than in 2010 reaching a total of 112,660 tons. Last year production of coatings rose 44% in 2010 against 2009 but still remained lower than in 2008.

Some products are already performing better than in 2008, such as water dispersions for which production totalled 40,600 tons and was 14% higher than the same period three years ago. By contrast the production of coatings focused on condensation resins and phenol-formaldehyde varnishes have declined quite sharply. Moreover, the production of alkyd paints was 10% lower in the first two months of 2011 against the same period in 2008, whilst semi-finished lacquer production showed a dramatic fall of 47%. The major coating producers in Russia include Tikkurila and Empils with 14% and 13% respectively of total output in the first two months of 2011.

In the first two months in 2011 imports of paints increased 25% against the same period last year and totalled 23,000 tons. This year imports have witnessed by an increase in the supply of coatings for industrial applications. Despite the fact that the supply of coatings to Russia early this year have grown, they have not yet reached pre-crisis period, and indicators are still lower than at the beginning of 2008.

Russian polycarbonate, Jan-Feb 2011
Kazanorgsintez produced 11,300 tons of polycarbonate in 2011 which was 10% higher than in the same period in 2010. Domestic sales have increased this year, but exports to China still account for more than half of production. Imports were down 17% in the first two months of the year down to 6,220 tons. Imports accounted for 38% of domestic market share in 2011 against 66% last year. The main source of imports is from the Netherlands with 31%, Germany 22% and Spain 17%.

Russian Polycarbonate Market (unit-kilo tons)

	J-F 11	J-F 10	2010	2009
Production	11.3	10.3	58.2	35.5
Exports	1.1	0.9	31.5	32.1
Imports	6.2	5.3	42.5	30.4
Market Balance	16.4	14.6	69.2	33.7

Russian consumption of polycarbonate more than doubled in 2010 against 2009, with Kazanorgsintez increasing its share of the domestic market. For 2010, Kazanorgsintez produced 58,000 tons of polymer which is 64% more than in 2009. The low price of domestic product relative to imported polycarbonate, in addition to good quality characteristics, have contributed to the increased share of Kazanorgsintez in the market, but imports still accounted for 40% of sales. Imports are sourced largely from Europe, with Korean material having lost its share of 11% in 2009 to 4% in 2010.

Chlorine/soda

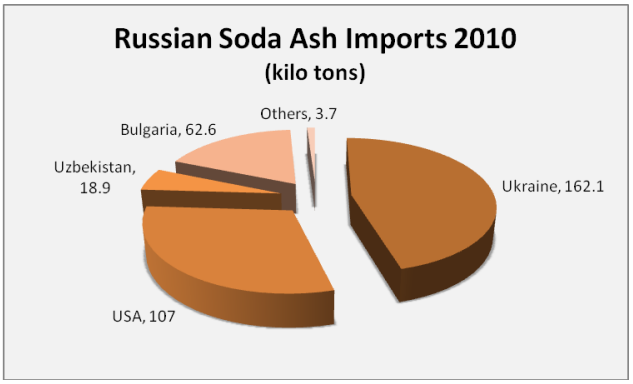
Khimprom-methylene chloride expansion
Khimprom at Volgograd has increased capacity of methylene chloride, after successfully obtaining the product by the hydrochlorination of methanol. Launching the hydrochlorination of methanol has increased the capacity for methylene chloride from 1,200 tons per month to 1,400 tons per month, and this eventually could be expanded to 1,600 tons per month. Khimprom notes that the expenditure on chlorine using the new route is around two-fold cheaper than the previous methane chlorination technology.

Methylene chloride production started initially at Volgograd in the 1960s based on the chlorination of methane. The major upgrade at the station for the hydrochlorination of methanol in the past year has made use of modern equipment, with around 50% of the old unit replaced.

Bashkhim seeks rise in import duties
Bashkhim has applied to the Russian Ministry of Economic Development to raise import duties on soda ash from 5% to 15%. Bashkhim justifies the proposed increase due to strong competition from abroad which is affecting prices. The Bashkhim group was created in January 2005 and now comprises Kaustik at Sterlitamak, Soda at Sterlitamak and Berezniki Soda Plant, as well as the transportation company Transneftekhim in Moscow.

Russian Soda Ash Market (unit-kilo tons)				
	2010	2009	J-F 11	J-F 10
Production	2,705	2,332	450	398
Exports	474	376	97	73
Imports	354	295	56	35
Market Balance	2,585	2,251	410	360

In 2010, soda ash imports into Russia increased by 20% to 354,000 tons. The increase was due largely to the location of Russian producers which are all located some distance from the main consumers, thus making it more profitable to import rather than purchase from domestic sources. The increase in duty rates could slow the trend of imports according to Bashkhim. The main problem is that the higher duties would not apply to Ukraine and Uzbekistan, which accounted for 46% and 5% respectively of imports in 2010. The primary sources to be subjected to a 15% duty would be from the US and Bulgaria, which accounted for 30% and 18% respectively of imports in 2010.



Importers regard these measures as an attempt by Bashhkim to monopolise the market for soda ash in Russia and thus reduce the competitiveness of their products. Already Bashkhim controls around 70% of the domestic market through its plants Soda at Sterlitamak and Soda at Berezniki. The only other two plants are the Achinsk Linoleum Plant and Metakhim, both of which are smaller. In 2010 Russia imported 106,960 tons of soda ash from the US and 62,580 tons from Bulgaria. Bashkhim shipped 1.171 million tons to the domestic market but importantly it does not produce the grades that are imported from the US and Bulgaria.

Russian chlorine cartel investigation

The Russian Federal Antimonopoly Service (FAS) issued an instruction to eight Russian chlorine companies to stop operating under cartel conditions. This includes Kaustik at Volgograd, Khimprom Kemerovo, Khimprom Cheboksary, Khimprom Volgograd, and Bekborn, Chloraktiv, RusTreyd TD Khimprom (Kemerovo). Previously reported that FAS had also included SIBUR-Neftekhim in the investigation, but the case against them was later dismissed. The FAS alleges cartel members controlled prices in 2010 which contradicts the federal law on protection of competition. Producers and traders entered into a cartel agreement which resulted in the 2010 price of chlorine rising about three times against the previous year.

Belarus

Belarussian Chemical Output (unit-kilo tons)		
Fertilisers	***Jan-Dec 10***	***Jan-Dec 09***
Potassium Fertilisers	5222.7	2485.4
Nitrogen Fertilisers	760.2	727.4
Phosphate Fertilisers	192.4	177.2
Ammonia	1607.2	1008.5
Sulphuric Acid	826.9	833.4
Petrochemicals	***Jan-Dec 10***	***Jan-Dec 09***
Ethylene	137.7	142.8
Benzene	90.5	106.4
Caprolactam	127.8	115.1
Phthalic Anhydride	18.7	16.1
Polyethylene	134.5	136.1
PET	200.7	196.9

Mogilevkhimvolokno to construct new PET plant

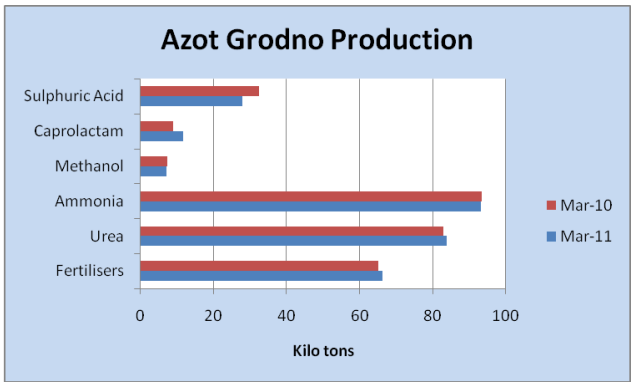
In February 2011 Mogilevkhimvolokno reduced PET production 11% compared with January. Production amounted to 14,600 tons in February, 9% less than in February 2010. The reduction was due primarily to a shortage of PTA. In the first two months the company produced 30,970 tons of PET which was 2% lower than in 2010. Belarus is planning to build a new production line for PET at Mogilev by 2014, with a capacity of 140,000 tpa. Mogilevkhimvolokno is currently looking for an investor to raise the necessary funds in the range of €56 million. The new plant is intended to PET bottle grade, as well as fibre. In addition, the company aims to upgrade the existing polycondensation line.

Mogilevkhimvolokno completed the registration process for DMT by December 2010 in accordance with the rules of REACH. Due to cross-subsidisation of the Belarusian petrochemical companies, Naftan annually loses up to 10-12 million euros. Without the subsidy, the Belarusian petrochemical producers such as Mogilevkhimvolokno could not operate effectively.

Azot & Khimvolokno at Grodno to merge

Grodno chemical producers Azot and Khimvolokno could be merged into one company. Azot produces fertilisers, methanol and caprolactam; the latter product is used for the production of fibres by nearby Khimvolokno. Khimvolokno is a producer of polyamide and polyester yarns and fibres, and polyamide-6

(PA-6) and composite materials. The company was founded in 1971 and was transformed into an open joint stock company in 2002.



In February 2011 Azot at Grodno produced marketable products for a total of 173.881 billion roubles, or 17.1% less than the same period of 2010. In March the same trend continued with a 10.5% reduction in revenues against March 2010 down to 196.832 billion roubles.

Khimvolokno Grodno, expansion projects

Khimvolokno at Grodno aims to complete the reconstruction of its polyamide industrial and cord yarns in 2012. The project comprises three sub-projects, which by introducing high-tech equipment will increase the efficiency of PA-6 yarns for technical purposes and cord fabric. Completion of the first sub-project is planned for the third quarter this year. This involves the production of pellets of polyamide-6 used in the production of textured polyamide BCF yarns, polymeric thermoplastic composite materials, and yarns for technical purposes used for tyre cord and industrial fabrics, fishing gear and ropes.

Ukraine

Ukrainian Chemical Production (unit-kilo tons)

Product	Jan-Feb 2011	Jan-Feb 2010
Acetic Acid	28.0	6.3
Adipic Acid	0.0	0.0
Ammonia	870.8	595.2
Benzene (-95%)	15.4	32.5
Benzene (+95%)	27.0	15.2
Caprolactam	5.7	0.0
Caustic Soda	7.7	7.0
Ethylene	33.2	0.0
Formaldehyde	4.1	7.0
Methanol	26.0	0.0
Polyethylene	0.0	0.0
Polypropylene	17.5	16.3
Polystyrene	3.0	1.5
Polyvinyl Acetate	0.4	0.5
Propylene (merchant)	15.4	0.0
Soda Ash	61.5	98.1
Titanium Dioxide	25.0	18.4
Toluene	0.6	0.8

Karpatneftekhim-PVC delay

Karpatneftekhim expects to start its PVC plant at Kalush in May after being delayed from March due to commissioning problems. When in operation, the company expects to create new processing plants for the production of profiles and other finished products. From its PVC plant, Karpatneftekhim has set outline targets for selling around 150,000 tpa to Russia, roughly around 100,000 tpa in the domestic Ukrainian market and the remainder to East Europe and Turkey. LUKoil is also building in Kalush polyethylene pipe plant with capacity of 20,000 tpa, which will be used for water supply and sanitation.

The PVC plant at Kalush will be the most modern in the CIS, or at least until the Kstovo plant in Russia is launched. Aside the potential for consumption, both in the domestic Ukrainian and export markets, the plant was designed in view of the need to balance the production capacity of ethylene and polyethylene, chlorine and VCM.

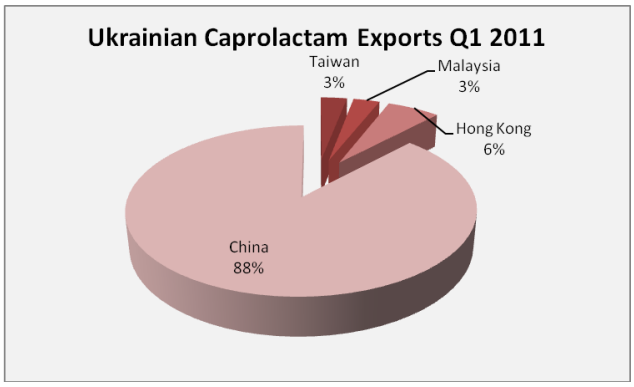
Ukrainian organic chemicals

Ukraine produced 3,400 tons of ethyl acetate, which is 16% less than the same period last year. The reduction in output is due to the scarcity and high cost of raw materials, in particular acetic acid. About 81% of the gross volume of production was produced at Perechinsky LHK, and 19% by the Kirovograd plant. Acetic acid exports have been rising this year from Severodonetsk, as shown in the graphic opposite. Azot at Severodonetsk has recently invested in repairs of the acetylene and vinyl acetate plants. In February, the Group DF Firtash announced its purchase of the plant from the parent company Worldwide Chemical LLC.

Ukrainian polystyrene market

Stirol increased its exports of polystyrene in March, shipping 758 tons which was 26% more than in

February. Due to low demand for Stirol's polystyrene in the domestic market, the company rapidly is expanding its sales abroad. Exports totalled 2,100 tons in the first quarter which was 63% more than in the same period last year. Exports comprised 51% of total production, with Russia and Belarus the main destinations. Whilst Stirol increases exports imports into Ukraine have also been rising with the first quarter recording 8,940 tons of shipments which was 46% up on 2010. The main import sources include Russia, South Korea and China.



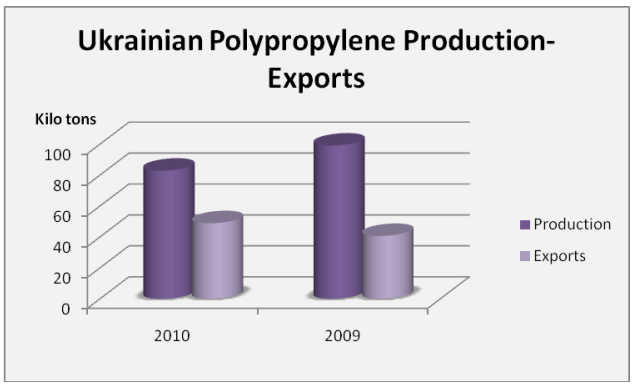
Ukrainian caprolactam market

Caprolactam production in Ukraine rose in 2010 on the back of strong export activity. All of the caprolactam produced at Cherkassy was exported to Asia, and this trend is expected to continue this year. In the first quarter of 2011, Azot increased production by 27% over 2010. The only domestic consumer is Khimvolokno at Cherkassy which is currently idle. In the first quarter in 2011 exports totalled 17,000 tons which was 25% up on last year. China is the main end-destination for Ukrainian caprolactam.

Ukrainian polypropylene market

Ukrainian consumption of polypropylene recovered in 2010 from the declines in 2009 and demand is expected to continue rising in 2011. Consumption fell 5% in 2009 against 2008, but then responded in 2010 with a 13% increase to reach a total 98,900 tons. In the first two months of 2011, consumption increased 45% against 2009 to 18,800 tons. The solvency of consumers rebounding to pre-crisis levels is cited as one of the main factors behind the increase.

For the sole Ukrainian producer of polypropylene LINIK, last year was a difficult period with the plant operating intermittently. The company undertook routine maintenance from May to June which was followed by a power outage. Other problems were then encountered in July and November, and for the whole year utilisation comprised only 83% against 99% in 2009.



More than half of the polypropylene produced at Lisichansk was previously exported despite strong demand from the domestic market. Last year sales to domestic customers rose and accounted for 59% of sales against 41% in 2009. Russia is the main export market for Ukrainian polypropylene, accounting for 55% of gross exports followed by Turkey with 23% and Uzbekistan 4%.

Regarding imports, Ukrainian consumption comprised 51% in 2010 with Russia providing the largest source of imports. Other suppliers included Poland with 15%, Slovakia 14% and Germany 12%. As domestic production now takes up a significant proportion of the Ukrainian market, traders supplying Russian products are forced to sell it at the same price range as Linik or a little cheaper to stay competitive. The cost of European products is always higher than the price of Russian and Ukrainian polypropylene.

The most important political question regarding polypropylene production in Ukraine is whether the country will join the customs union of Russia, Belarus and Kazakhstan. If it does, it will have a major effect on Linik in that Russian imports would be allowed into the country free of duty. However, at this stage interest by Ukraine to participate in the customs union is under review. The outcome is that it is most likely to be rejected which will be of benefit to Linik.

Ukrainian plasticizers-2010

The Ukrainian market for plasticizers increased 16% in 2010 to 22,300 tons, and most of the increase was supplied from domestic production. The consumption of plasticizers in Ukraine is dependent on the production of PVC and vinyl wallpaper, for which steady growth was seen in the second half of last year. In the second half of last year, Lizinvest resumed DOP production at Rubezhnoye plasticizer based on imported raw materials. The phthalic anhydride plant belonging to Lizinvest has remains idle although it is expected to resume in the near

future. Lizinvest produced 2,800 tons of DOP in 2010 from a total of 7,600 tons, 66% up on 2009. Imports of plasticizers totalled 15,600 tons, 4% more than in 2009. DOP imports rose 19% to 8,500 tons and DINP rose 12% to 6,700 tons. The main consumers of DINP in Ukraine are manufacturers of vinyl wallpaper and imported DOP was purchased for the production of PVC-PVC or trading companies.

The consumption of plasticizers in Ukraine has yet to reach levels seen in 2007. Ukrainian producers intend to maximise the share of domestic products in the domestic market. In 2011, Polikem is planning to purchase large amounts of raw materials for the production of DOP, and this is expected to be 2.5 times more than in 2010. The other producer Lizinvest resumed production of phthalic anhydride in April, which will reduce the production cost of DOP.

Central Asia & Kazakhstan

SOCAR-increased chemical exports

Export of chemical production by SOCAR in January-February amounted to $10.608 million, an increase of 60.2% over the same period of last year. Whilst export revenues remain very small the group aims to expand activity significantly over the next two to three years. SOCAR intends to supply dry gas to the ethylene-propylene plant at Azerkimya, produced at the refinery Heydar Aliyev. The length of new pipeline is 60 km and will supply around 92,000 tpa of dry gas to the ethylene-propylene plant. SOCAR commissioned the surfactants plant at Sumgait in April after repairs. The plant's work was suspended in January for repair of electrolysis baths for caustic soda and chlorine production.

Kazakh gas and chemical complex in the Atyrau region to be built in two phases

Kazakhstan is waiting for assurances for more substantial funds from foreign investors to be able to finance the second phase of the petrochemical project at Atyrau. The first phase of the project is estimated around $1.9 billion, of which $1.4 million has been provided by the Export-Import Bank of China. The second phase is valued about $4 billion, of which around $2.5 billion is intended to be sourced from financial institutions. The government is currently negotiating with a Dubai-based International Petroleum Investment Company and LG Chem, and is determined to resolve the financial issues in the next few months.

Kazakhstan Petrochemical Industries (KPI) includes the Kazakh industrial group of SAT & Company with a share of 49% and Kazakh oil company KMG with 51%. Completion of the entire complex will require a payback period of 12-15 years. In the first phase, a plant is to be constructed for processing gas from the Tengiz oilfield, whilst the second phase involves a plant for processing gas from the Kashagan field. The final stage involves a connection to the Karachaganak field.

Regarding the first phase of the olefin complex, KPI hopes to finish the design work and procurement of equipment this year and construction should start in early 2012. This will be Kazakhstan's first integrated gas chemical complex, in which the overall capacity will comprise 1.25 million tpa of polyolefins. The project is being constructed by Sinopec Engineering. The nearby aromatics complex at Atyrau is already under construction also by Sinopec Engineering, including 496,000 tpa of paraxylene and 133,000 tpa of benzene.

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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